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Is the stock market rise boosting consumer spending and confidence in Japan?

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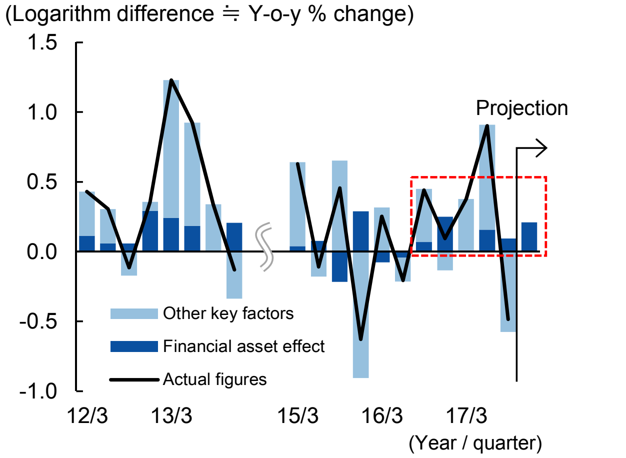
The Nikkei Average has been rising since the second half of 2016. In October 2017, the Nikkei Average recorded a historic 16-day bull run (day-on-day gains for 16 days in succession). In addition to the strong performance of the corporate sector, this reflects a succession of positive factors such as expectations of domestic political stability triggered by the ruling parties' victory in the House of Representatives election and the alleviation of geopolitical risk surrounding the North Korea crisis. Along with the stock market rise, sales at department stores, which had been slumping around mid-2016, started to pick up from the second half of 2016, providing reasons to believe that the stock market rise may have served to drive high-end consumption. However, some point out that this recovery in high-end consumption stems from rising inbound tourist demand accompanying the growing number of foreign visitors to Japan.

In view of the foregoing, let us examine to what extent fluctuations in financial assets (the wealth effect) have affected personal consumption. **Chart 1** breaks down real consumption expenditures into the effect of changes in financial assets, and other key factors. This chart reveals that the wealth effect served to some extent to push up personal consumption during the period when stock prices began climbing from the second half of 2016. Furthermore, an extrapolation of the course of real financial assets in the Oct-Dec quarter based upon the Nikkei Stock average up to the present indicates that we can expect the wealth effect to continue to have a positive impact on real consumption. However, partly because stock prices are not climbing at the same rate nor for the same length of time as they did at the initial stage of Abenomics (around the beginning of 2013), the degree of contribution (to consumption) is somewhat lower than the second half of 2016.

[Chart 1: Breakdown of the key factors behind real consumption expenditures]



Note: The wealth effect of financial assets for the Oct-Dec quarter of 2017 was projected using the Nikkei Average (monthly averages).

Source: Made by MHRI based on the Cabinet Office, *National Accounts*, the Bank of Japan, *Flow of Funds Accounts*, etc.

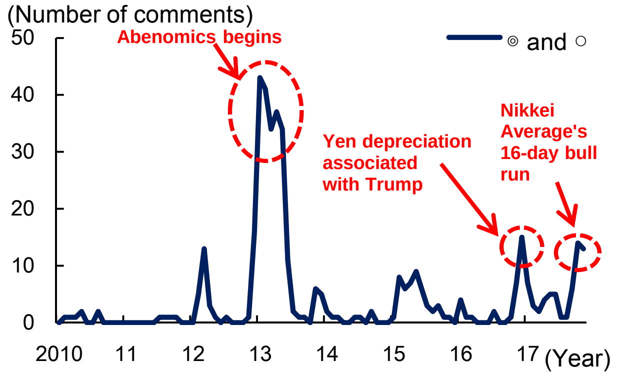
Let us take a closer look at the channel in which stock price gains ripples through to consumption. Here, let us use qualitative information to analyze the impact that stock price gains have on business sentiment. Of the comments on economic outlook in the Cabinet Office's *Economy Watchers Survey*, we focused on the comments concerning the "wealth effect". The number of comments that assessed the economy as ◎ (Good) and ○ (Slightly Good) added together are set forth in **Chart 2**. The chart shows that the number of such comments has continued to increase, suggesting that business sentiment is improving. However, note that it is the level of business sentiment that should be scrutinized.

Firstly, the number of comments representing a positive assessment is not increasing as much as it did during the initial stage of Abenomics in early 2013 when stock prices soared. This outcome may be viewed as consistent with the aforementioned analysis that the quantitative impact is not as strong as it was in the past. Furthermore, even though there have been two peaks since 2016, there are significant differences between them. Despite talk of a booming economy such as the "16-day bull run", it should be noted that the most recent peak is boosted not only by the stock market rise but also by inbound tourist demand. To provide evidence, we extracted phrases with a close relationship to the wealth effect, and analyzed phrases appearing in a similar pattern. The results reveal that there is a strong connection between phrases representing high-end consumption and "inbound" in the recent peak, as compared to the time of the so-called Trump stock rally. This suggests that the recent wave of high-end consumption is not only attributable to the Japanese, but to a certain extent to visitors to Japan. From the perspective of retailers such as department stores, the key to having a real sense of economic recovery is an improvement in high-end consumption attributable to Japanese consumers who account for a large proportion of their sales, and not just consumption by foreign visitors to Japan. At the moment, however, even though the Nikkei Average has recorded a 16-day bull run and returned to a level well above JPY20,000, high-end consumption by Japanese consumers is not gaining the sort of momentum that was seen during the initial stage of Abenomics. Furthermore, in view of the fact that the recent high-end consumption is driven partially by consumption by foreign visitors to Japan, this does not provide conclusive evidence that the retail industry is benefitting from the rise of the stock market.

One of the reasons behind the underwhelming effect of the stock market rise may stem from a change in how consumers react to higher stock prices – regardless of the momentum and length of the rise. Let us now examine the consumer confidence index by age group in the Cabinet Office's *Consumer Confidence Survey*. This reveals that while there has been a notable improvement (in confidence) among younger consumers (those under 40 years old), the improvement among middle-aged and elderly consumers (those 40 years old and above) has been sluggish (**Chart 3**). This phenomenon may stem from the fact that middle-aged and elderly consumers who have experienced the booming "bubble economy" are finding it difficult to identify with the current stock price gains. For consumers in the latter half of their 40s to the early 50s (the "bubble economy generation"), the current stock price level and pace of ascent may seem rather tepid. Furthermore, the traumatic experience of the stock market crash and implosion of the bubble economy among those in this generation may be causing a cautious outlook on the future course of the stock market.

According to the Ministry of Internal Affairs and Communications' *Family Income and Expenditure Survey,* it is the bubble economy generation aged in their 40s and older that owns a large quantity of shares on a value basis. Thus, it is this generation that reaps the greatest benefits from higher stock prices, such as unrealized capital gains. The fact that confidence in this age bracket has nevertheless been slower to improve than it has been among younger consumers suggests that the bubble economy generation is still being shackled by negative memories. Even if the pace of the stock price rise gathers more momentum, it is still possible that the bubble economy generation will still take a cautious stance for a while longer. We should not place excessive expectations upon the wealth effect in lifting consumption.

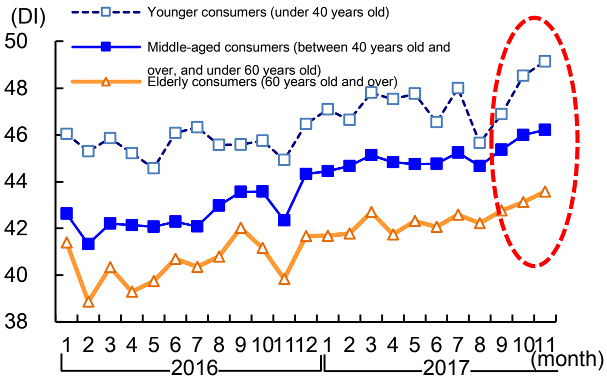
[Chart 2: Change in the number of comments]



Note: Of the comments concerning the wealth effect, comments that evaluated the current state of the economy as ◎ (Good) and ○ (Slightly Good) were counted.

Source: Made by MHRI based on the Cabinet Office, *Economy Watchers Survey*

[Chart 3: Consumer confidence index by age]



Source: Made by MHRI based on the Cabinet Office, *Consumer Confidence Survey*

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