

AT A GLANCE | Japan

October 23, 2023

Recent Trends in Household Consumption

Economist: Junya Takemoto

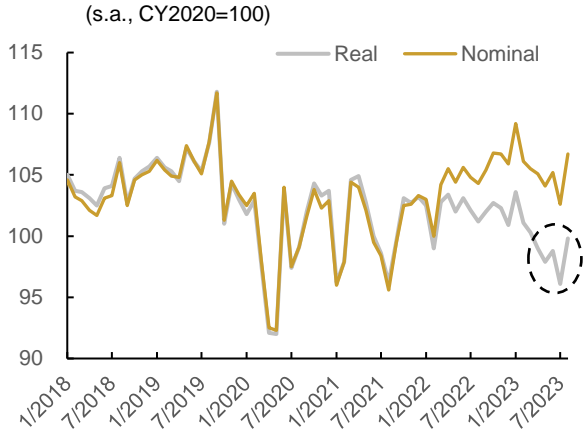
Japanese household savings accumulated during the pandemic had not yet been recovered, and some consumers appeared to be getting used to continued inflation, so from a macro perspective there was little risk of a slowdown in consumption. However, as prices continue to rise, there are some reports that consumers are more inclined to save money. On the supply side, some supermarkets are reducing the price of private-brand products, and some are trying to take in the demand for savings. For this reason, the trend of consumption remains one of the key issues to be watched. In this report, we would like to examine these consumption trends.

Recent Consumption Trends

First, let's review consumption trends. According to the household budget survey released by the Ministry of Internal Affairs and Communications on October 6, real consumer spending fell 2.5% in August from the previous year, down from 5% in the previous month but marking the sixth consecutive month of decline. Seasonally adjusted figures show that the level has not picked up significantly since the beginning of 2023 (Figure 1). On the other hand, "transportation and communication", which includes rail fares and airfares, and "educational entertainment", which includes package travel expenses, are steadily increasing, partly due to the recovery in travel demand, while "education", which includes food, tuition at preparatory schools and cram schools, and "furniture and household goods", which includes home appliances, are being reduced (Figure 2). From a bird's-eye perspective, there is a typical trend of "sharp consumption", in which consumers do not restrain their consumption of items that they perceive as valuable, but instead save on basic necessities and wait and see on purchases of non-essential durable goods.

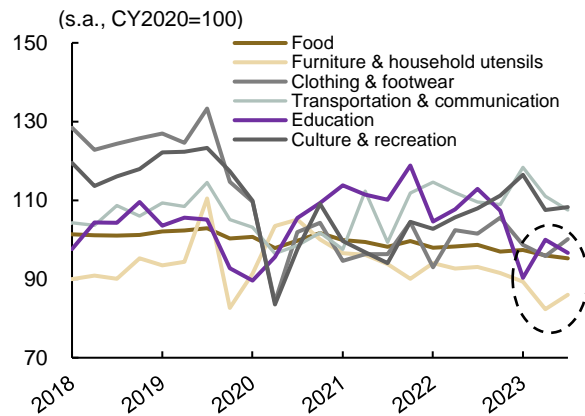
On the other hand, the consumption activity index (adjusted for travel balance) released by the Bank of Japan on August 6 showed an increase of 0.7% from the previous month, and the third quarter (July-August) also showed a solid increase of 0.3% from the previous quarter. In terms of levels, no significant deterioration has been observed (Figure 3). By breakdown, service consumption appears to have run its course in recovering from the COVID-19 pandemic, but on the other hand, durable goods consumption has been recovering significantly, and on the whole, it seems to have remained strong (Figure 4).

Figure 1: Household Consumption Expenditures



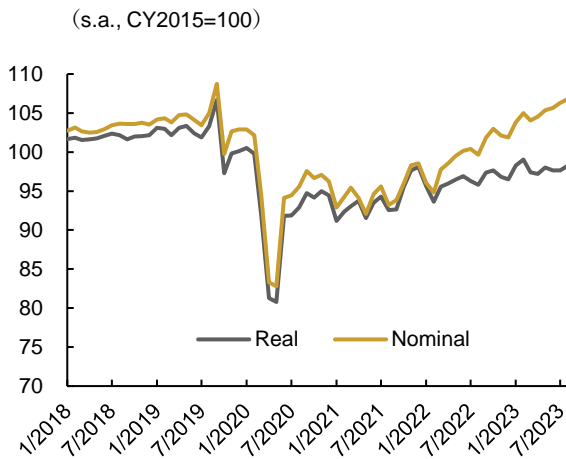
Source: Ministry of Internal Affairs and Communications

Figure 2: Breakdown of Real Consumption Expenditures



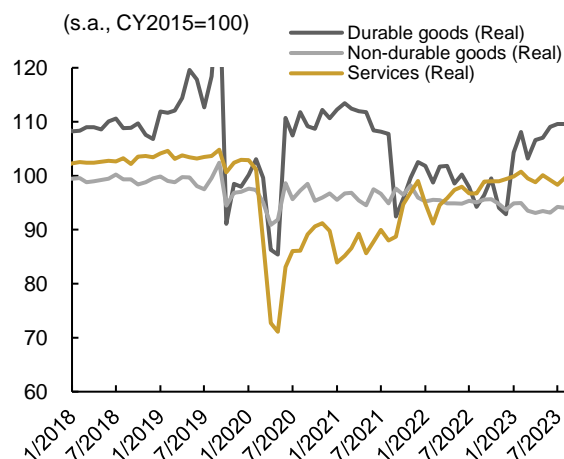
Source: Ministry of Internal Affairs and Communications

Figure 3: Consumption Activity Index



Source: Bank of Japan

Figure 4: Breakdown of Consumption Activity Index



Source: Bank of Japan

The simple difference between the two is whether the survey targets households or the supply side. However, the existence of bias due to the small sample size and the fluctuation of the survey results due to the purchase of high-priced items are often pointed out in the household budget survey, and some people offer the criticism that the survey does not accurately grasp the actual condition of consumption in the macro

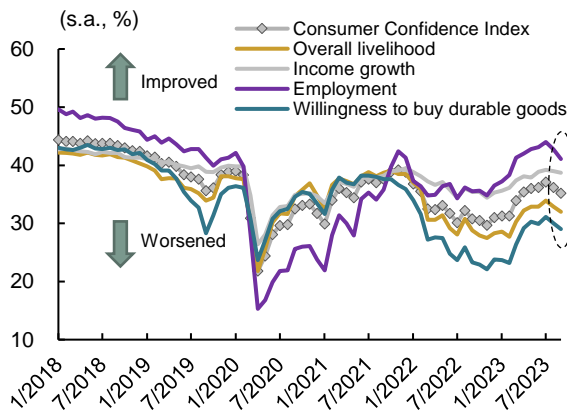
scale. It is difficult to judge whether the survey is representative of the macro movements of Japan as a whole, as it is known that the survey subjects have a heavy burden due to the details of the survey and that the acceptance rate is low, especially for single-person households. On the other hand, the consumption activity index is prepared based on sales and supply statistics, and it is said that the fluctuation of the statistics caused by the sample is small and the correlation with various mind indicators is high. Therefore, if these two statistics are to be interpreted in a comprehensive manner, it should be taken as a fact that some people are restraining consumption, but the consumption trend in the macro scale can still be evaluated as solid.

A Slight Deterioration in Consumer Sentiment

On the other hand, some sentiment indicators are showing a slight weakness. The consumer sentiment index has deteriorated for the second straight month. If we look at the breakdown, we note that the deterioration was driven by factors such as “living conditions” and “timing of purchases of durable consumer goods”, suggesting that the rise in gasoline prices as a result of the rise in crude oil prices may have triggered a renewed decline in sentiment due to higher prices. In addition, the employment environment is known to fluctuate the most from one economic phase to the next and has a strong cyclical element. The fact that some of the employment indicators have already shown signs of weakness was mentioned in our previous report (“The Bank of Japan May Advance Policy Revisions”, September 22), but we should continue to pay attention to whether these developments will be significant.

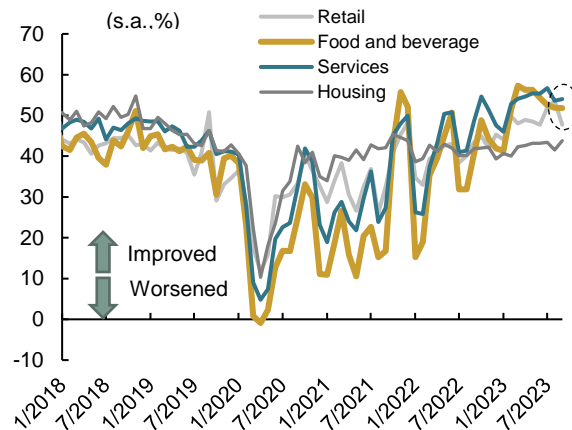
In addition, the “household trend-related” component in the economic watchers’ survey shows that while the overall level is high and strong, the trend is slightly weaker in retail and food and beverage. If we analyze the comments from the respondents, there are many who point out that the demand for tourists, especially inbound tourists, is strong, such as “a considerable increase in tourists including inbound tourists” (Shikoku, shopping district) and “[i]n addition to educational travel organizations, the needs of other organizations are emerging.” (North Kanto, travel agency). On the other hand, there are some who point out the impact of high prices, such as “[a]s prices continue to soar, customers are paying more than they should. Customers are more responsive to discounted products than before, which is another sign that customers are more sensitive to prices.” (Hokkaido, convenience stores) and “[i]t may have been due to the reactionary effects of the end of the coronavirus and the high price of gasoline.” (Koshinetsu, urban hotel).

Figure 5: Consumer Attitude Index



Source: Cabinet Office

Figure 6: Economic Watchers Survey (household trends)



Source: Cabinet Office

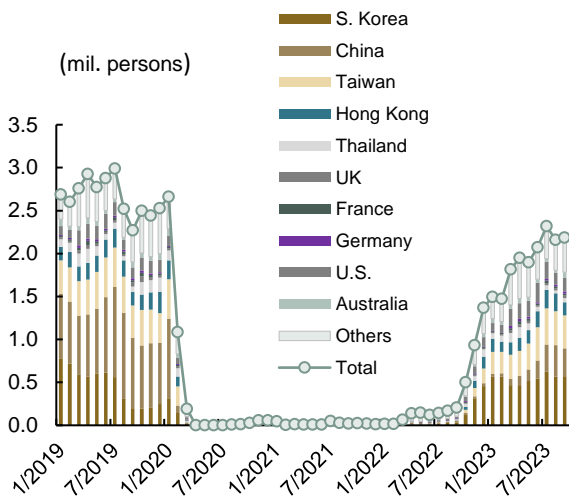
Risk Factors

Against this backdrop, future concerns include the risk of a further deterioration in consumer sentiment—which could dampen consumption—and the impact of a full rebound in inbound spending. In the monthly labor statistics released on October 6, nominal wages were up 1.1% year over year, but in real terms, they remain weak at down 2.5%. If prices continue to peak out, real wages may decline, but nominal wages are unlikely to rise significantly until next year’s spring wage-negotiation cycle, and are likely to remain negative during that time. If consumer sentiment deteriorates again as a result, spending restraint may finally spread in earnest.

In addition, the number of inbound visitors to Japan was 2.18 million in September, which was reported on October 18 (Figure 7). It should be taken with a grain of salt that the number of visitors to Japan has been sluggish in September and Chinese tourists have not recovered in earnest, but the pace of recovery will slow down as a backlash to the peak in the first half of this year.

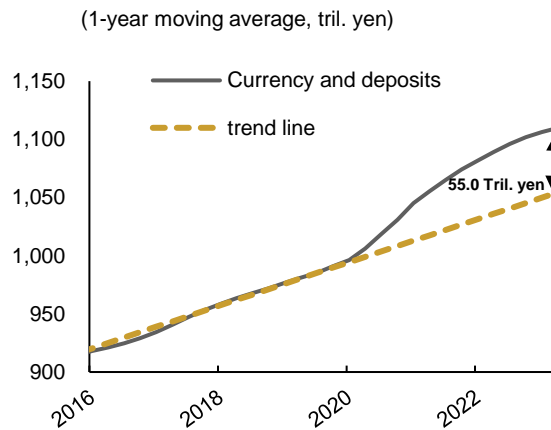
In light of the above, we believe that downside risks to consumer spending are higher than in the past. At present, it is difficult to assume that there will be an immediate downturn, partly because households still have sufficient excess savings (Figure 8). However, we would like to consider such a scenario in light of the risks discussed in this report.

Figure 7: Number of Visitors to Japan



Source: JNTO

Figure 8: Household Savings (as of the end of June)



Source: Bank of Japan

Economic Outlook: 2023-2024 Forecast

Figure 1: Forecasts for Economic Growth, Inflation, and Unemployment Rates

		2022			2023				2024				2021	2022	2023	2024
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
US	Real GDP	-0.6	2.7	2.6	2.2	2.1	2.5	1.2	0.6	1.0	1.2	1.7	5.9	2.1	2.1	1.2
	Inflation	5.2	5.2	5.1	4.8	4.6	4.0	3.6	3.0	2.7	2.6	2.5	3.6	5.2	4.3	2.7
	Unemployment	3.6	3.6	3.6	3.5	3.6	3.7	3.9	4.2	4.4	4.4	4.5	5.4	3.7	3.7	4.4
Euro Area	Real GDP	0.8	0.3	-0.1	0.1	0.1	0.0	0.1	0.2	0.3	0.3	0.4	5.6	3.4	0.5	0.8
	Inflation	8.0	9.3	10.0	8.0	6.2	5.1	3.2	3.3	3.2	3.0	2.8	2.6	8.4	5.6	3.1
	Unemployment	6.7	6.7	6.7	6.6	6.4	6.5	6.6	6.7	6.8	6.8	6.8	7.7	6.7	6.5	6.8
Japan	Real GDP	5.3	-1.2	0.2	3.2	4.8	0.9	0.8	0.9	0.9	1.1	1.1	2.2	1.0	1.5	1.0
	Inflation	2.1	2.7	3.8	3.5	3.2	2.9	2.5	2.9	2.8	2.5	2.1	-0.2	2.3	3.0	2.6
	Unemployment	2.6	2.5	2.5	2.6	2.5	2.4	2.4	2.3	2.3	2.3	2.3	2.8	2.6	2.4	2.3
China	Real GDP	0.4	3.9	2.9	4.5	6.3	4.9	5.2	4.0	4.7	4.7	5.0	8.4	3.0	5.2	4.6
	Inflation	2.2	2.8	1.8	1.3	0.2	0.0	0.6	1.1	1.5	1.8	2.0	0.8	1.7	0.5	1.6
	Unemployment	5.8	5.4	5.6	5.5	5.2	5.2	5.1	5.1	5.0	5.0	5.0	5.1	5.1	5.2	5.0

Real GDP growth is in QoQ annualized for U.S. and Japan, QoQ for euro area and YoY for China and India. Inflation rate is in YoY%. Inflation rate is YoY, % of core index (ex. fresh food) for Japan, YoY % of PCE deflator for U.S., and total YoY% for the rest.

Figure 2: Forecast for Rates

Interest rate		2022	2023				2024				2022	2023	2024
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
US	Policy rate	4.25	4.75	5.00	5.25	5.25	5.25	5.00	5.00	4.75	4.25	5.25	4.75
		~4.50	~5.00	~5.25	~5.50	~5.50	~5.50	~5.25	~5.25	~5.00	~4.50	~5.50	~5.00
	2yr	4.43	4.03	4.90	5.04	5.00	5.00	4.75	4.75	4.75	4.43	5.00	4.75
	10yr	3.87	3.47	3.84	4.57	4.20	4.00	3.90	4.00	4.00	3.87	4.20	4.00
Germany	Policy rate	2.50	3.50	4.00	4.50	4.50	4.50	4.50	4.25	4.00	2.50	4.50	4.00
	Deposit rate	2.00	3.00	3.50	4.00	4.00	4.00	4.00	3.75	3.50	2.00	4.00	3.50
	2yr	2.50	2.68	3.20	3.20	3.00	2.80	2.60	2.40	2.30	2.50	3.00	2.30
	10yr	2.20	2.29	2.39	2.84	2.50	2.30	2.20	2.10	2.10	2.20	2.50	2.10
Japan	Policy rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.10	0.10	0.10	-0.10	-0.10	0.10
	2yr	0.04	-0.06	-0.07	0.06	0.15	0.20	0.30	0.30	0.30	0.04	0.15	0.30
	10yr	0.42	0.35	0.40	0.77	0.75	0.80	0.90	0.90	0.90	0.42	0.75	0.90
China	Policy rate	2.75	2.75	2.65	2.50	2.50	2.50	2.50	2.50	2.50	2.75	2.50	2.50
	2yr	2.39	2.41	2.11	2.26	2.27	2.32	2.37	2.47	2.52	2.39	2.27	2.52
	10yr	2.83	2.85	2.64	2.67	2.62	2.67	2.72	2.77	2.82	2.83	2.62	2.82

Figure 3: Forecast for FX and Oil Price

		2022	2023				2024				2022	2023	2024
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
USD/JPY	Range	130.58	127.23	130.64	137.25	138.00	133.00	126.00	128.00	128.00	113.47	127.23	126.00
		~151.95	~137.91	~145.07	~149.71	~152.00	~147.00	~140.00	~142.00	~142.00	~151.95	~152.00	~147.00
	End of quarter	131.12	132.86	144.31	149.37	145.00	140.00	133.00	135.00	135.00	131.12	145.00	135.00
EUR/USD	Range	0.9633	1.0806	1.0635	1.0488	1.0100	1.0000	1.0100	1.0100	1.0200	0.9536	1.0100	1.0000
		~1.0735	~1.1033	~1.1095	~1.1276	~1.1100	~1.1000	~1.1100	~1.1100	~1.1200	~1.1495	~1.1276	~1.1200
	End of quarter	1.0705	1.0839	1.0909	1.0573	1.0500	1.0400	1.0500	1.0600	1.0600	1.0705	1.0500	1.0600
EUR/JPY	Range	138.81	124.40	142.55	151.42	148.00	141.00	135.00	135.00	136.00	124.40	137.39	135.00
		~148.40	~145.67	~158.00	~159.76	~162.00	~155.00	~149.00	~149.00	~150.00	~150.00	~162.00	~155.00
	End of quarter	140.41	144.01	157.43	157.93	152.25	145.60	139.65	143.10	143.10	140.41	152.25	143.10
Crude Oil Prices (WTI)		82.64	75.99	73.67	82.22	89.50	85.50	79.50	80.50	80.00	98.74	80.35	81.38

※ Crude oil prices are averages for each period. Source: SMBC.

Disclaimers

This document is provided by SMBC Group (including, collectively or individually, Sumitomo Mitsui Banking Corporation, SMBC Nikko Securities America, Inc., and their affiliates, as applicable) for informational purposes only. This document was prepared by SMBC Group's economist(s). The views statements, assumptions and forecasts expressed herein are those of the author(s) and do not reflect the judgment of any other person or of SMBC Group. It does not constitute an offer, or solicitation of the sale or purchase, of securities or other investments. The information contained herein is obtained or derived from sources believed to be reliable, but SMBC Group and the author(s) make no representations as to its accuracy or completeness. In some cases, such information may be incomplete or summarized. This document has been prepared based on assumptions and parameters determined by the economist(s) in good faith. The assumptions and parameters used are not the only ones that could have been selected, and therefore no guarantee is given as to the accuracy, completeness, or reasonableness of any such quotations, disclosures, or analyses. Past performance is not a reliable indicator of any future results.

This document has been prepared for and is directed at institutional investors and other market professionals, and is not intended for use by retail customers. It does not take into account any specific investment objective, financial situation, or particular need of any recipient. The information contained herein should, for whatever purpose, be used solely at the discretion and responsibility of the recipient. SMBC Group does not accept any liability or responsibility for any results in connection with the use of such information. Recipients are responsible for making final investment decisions and should do so at their own discretion after conducting a careful examination of all documentation delivered prior to execution, explanatory documents pertaining to listed securities, prospectuses, and other relevant documents, and their own independent analysis and assessment of the merits of any transaction. The financial instruments discussed may be speculative and may involve risks to principal and interest.

Conflicts of Interest Disclosures

The views statements, assumptions and forecasts expressed herein may differ from those expressed in globally branded research produced by SMBC Group. The trading desks of SMBC Group trade or may trade as principal in the financial instruments that are the subject of this material, and the author(s) of this document may have consulted with the trading desks while preparing this document. The proprietary interests of SMBC Group may conflict with those of the recipient. SMBC Group may seek to do business with the companies mentioned in this material and the trading desks may have accumulated, be in the process of accumulating, or accumulate long or short positions in the financial instruments mentioned and may have acquired them at prices no longer available. The trading desks may also have or take positions inconsistent with the views expressed in this document or may have already traded on those views.

This material is not a research report, and neither this material nor its author(s) is subject to policies and procedures that apply to the globally branded research reports and research analysts of SMBC Group or to legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research. This means that on the date of this document, SMBC Group, and its directors, representatives, or employees, may have a long or short position in any of the instruments mentioned in this document and may make a market or trade in instruments economically related to the securities, derivatives or other underlying assets mentioned herein, in each case either as principal or as agent.

No part of the author(s) compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed herein. The personal views of authors may differ from one another.

Distribution, possession or delivery of this document in, to or from certain jurisdictions may be restricted or prohibited by law. Recipients of this document are required to inform themselves of and comply with all such restrictions or prohibitions.

© 2023 SMBC Group. All rights reserved.