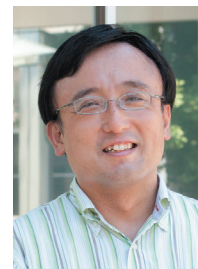


Rush in Private Consumption & Negative Repercussions: Was It Different This Time?



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By Nobuo Iizuka

It Was Weaker Than Last Time, But...

The second preliminary figures for the real GDP growth rate for the period July-September 2019, which were released on Dec. 9, 2019, showed an increase of 0.4% compared to the previous quarter. Compared to the quarter immediately before the last time the consumption tax rate was raised (January-March 2014) at a 1% quarter-on-quarter increase, this time was lower. In comparing the two, the difference in the contribution of private consumption is almost exactly the same as the difference between these two periods. This fact alone has led to the statement that the rush before the hike in consumption tax rate was weaker compared to the last time. But was the rush in consumption really smaller than the last time?

Focusing on the contribution of real domestic household consumption expenditure to the real GDP growth rate, it was 1.2 points for the period January-March 2014, the period right before the last time the consumption tax rate was raised, and this is large compared to 0.2 points for the period July-September 2019. There is thus a concern that depending on the magnitude of the negative repercussions, the rate of decline for the real GDP growth rate for the period October-December 2019 will be larger.

Boost in Durable Goods Consumption Unchanged

In identifying growth in consumption by breaking down the contribution of the domestic final consumption expenditure of households, durable goods remain at the center and this was also the case the last time the consumption tax rate was raised (*Chart 1*). Looking at the contribution to the real GDP growth rate, the domestic final consumption expenditure of households was 1.2 points the last time, and the contribution of durable goods was 0.6 points. This time, while the domestic final consumption expenditure of households was 0.2 points, the contribution of durable goods was up at 0.1 points. The contribution of non-durable goods

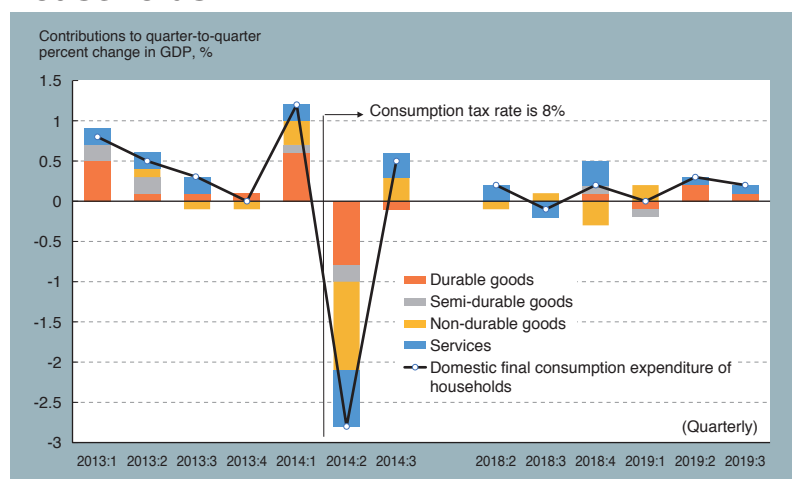
such as foods was zero point compared to 0.3 points the last time. Some view this as a result of the introduction of a reduced tax rate on foods, but it is likely more appropriate to view this as weakness in personal consumption. The contribution of services, for which a rush in consumption is difficult to estimate, was 0.1 points this time compared to 0.2 points the last time. The difference in environment surrounding employment and income may be behind this. Focusing on the period growth in compensation of employees, which shows the total amount of wages for all workers, it is minus 0.1% this time, and was 0.2% last time. But there is a difference that while growth in compensation of employees gradually expanded last time, growth for this time has slowed down. As a rush in the consumption of durable goods falls from hereon, the slowdown of growth in compensation of employees can be described as a concern for the Japanese economy.

What Is the Size of Negative Repercussions?

How big, then, will the negative repercussions be? According to the “Consumption Activity Index” published by the Bank of Japan,

CHART 1

Domestic final consumption expenditure of households



Source: SNA (National Accounts of Japan), Cabinet Office

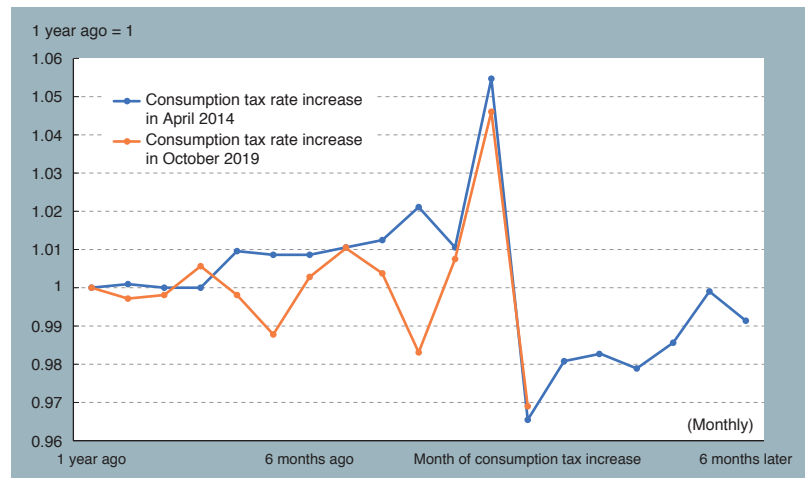
which identifies trends in private consumption on a monthly GDP basis, setting one year before a consumption tax rate hike at 1, the size for the immediate month before consumption tax rate hikes (March 2014 the last time and September 2019 this time) was roughly the same. The last time was 1.054, and this time was 1.046 (Chart 2). Looking at just durable goods, this time was 1.273, up from 1.225 the last time (Chart 3).

What about negative repercussions for the months when the consumption tax rate was raised? The last time, overall consumption was at 0.965, down 8.5% compared to the previous month, and durable goods' consumption at 0.876, down by 28.5% compared to the previous month. On the other hand, looking at the Consumption Activity Index for October 2019, which was released on Dec. 6, overall consumption for this time was 0.969, down 7.4% compared to the previous month, with durable goods at 0.825, down 35.2% compared to the previous month. The absolute level of the rush in consumption and negative repercussions is smaller than last time, but the impact on boosting or pushing down the real GDP growth rate looks to be the same. Future trends in private consumption require continued attention.

Note: This article was written based on available information as of Dec. 11, 2019

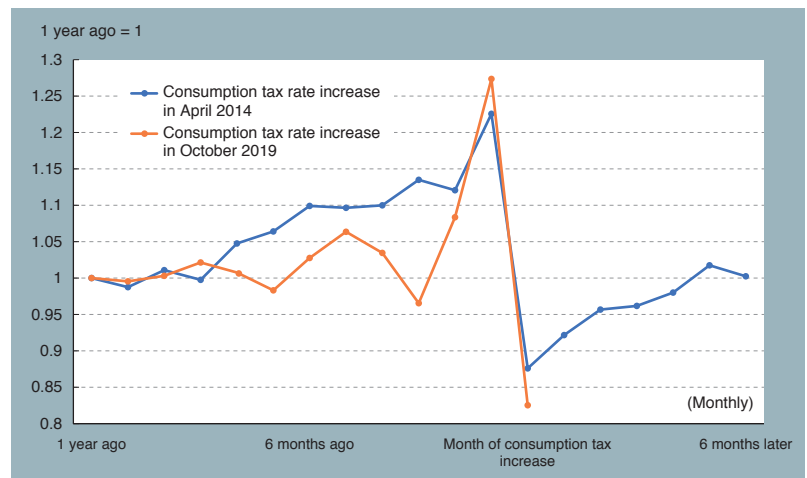
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CHART 2
Consumption activity index



Source: "Consumption Activity Index", Bank of Japan

CHART 3
Consumption activity index (durable goods)



Source: "Consumption Activity Index", Bank of Japan

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ECONOMIC INDICATORS FOR JAPAN

Calendar year, Quarter and Month	Real GDP		Nominal GDP		IIP rate of increase over previous year/term (month) (%)	CPI (All terms, less fresh food) rate of increase over previous year/the same term (month) of the previous year (%)
	Amount (trillion yen)	Rate of increase over previous year/term (%)	Amount (trillion yen)	Rate of increase over previous year/term (%)		
2010	492.0	4.2	500.4	2.2	15.6	-1.0
2011	491.5	-0.1	491.4	-1.8	-2.8	-0.3
2012	498.8	1.5	495.0	0.7	0.6	-0.1
2013	508.8	2.0	503.2	1.7	-0.3	0.4
2014	510.7	0.4	513.9	2.1	2.0	2.6
2015	516.9	1.2	531.3	3.4	-1.2	0.5
2016	519.6	0.5	535.5	0.8	0.0	-0.3
2017	530.9	2.2	545.9	1.9	3.1	0.5
2018	532.6	0.3	547.1	0.2	1.1	0.9
2018/4th Qtr.	532.9	0.3	545.9	0.0	1.4	0.9
2019/1st Qtr.	536.3	0.6	552.8	1.3	-2.5	0.8
2nd Qtr.	539.1	0.5	555.9	0.6	0.6	0.8
3rd Qtr.	541.5	0.4	559.2	0.6	-0.5	0.5
2019/March	—	—	—	—	-0.6	0.8
April	—	—	—	—	0.6	0.9
May	—	—	—	—	2.0	0.8
June	—	—	—	—	-3.3	0.6
July	—	—	—	—	1.3	0.6
Aug.	—	—	—	—	-1.2	0.5
Sept.	—	—	—	—	1.7	0.3
Oct.	—	—	—	—	-4.5	0.4
Sources	"SNA (National Accounts of Japan)", Cabinet Office				"Indices of Industrial Production", Ministry of Economy, Trade and Industry	"Consumer Price Index", Statistics Bureau, Ministry of Internal Affairs and Communications

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Exports amount (trillion yen)	Exports rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount (trillion yen)	Imports rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to US (trillion yen)	Exports to US rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from US (trillion yen)	Imports from US rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to EU (trillion yen)	Exports to EU rate of increase over previous year/ the same term (month) of the previous year (%)
2010	67.4	24.4	60.8	18.0	10.4	18.8	5.9	7.2	7.6	12.8
2011	65.5	-2.7	68.1	12.1	10.0	-3.4	5.9	0.3	7.6	0.0
2012	63.7	-2.7	70.7	3.8	11.2	11.7	6.1	2.5	6.5	-14.7
2013	69.8	9.5	81.2	14.9	12.9	15.6	6.8	12.0	7.0	7.7
2014	73.1	4.8	85.9	5.7	13.6	5.6	7.5	10.7	7.6	8.4
2015	75.6	3.4	78.4	-8.7	15.2	11.5	8.1	6.9	8.0	5.3
2016	70.0	-7.4	66.0	-15.8	14.1	-7.1	7.3	-9.2	8.0	-0.0
2017	78.3	11.8	75.4	14.1	15.1	6.9	8.1	10.5	8.7	8.5
2018	81.5	4.1	82.7	9.7	15.5	2.4	9.0	11.4	9.2	6.4
2018/4th Qtr.	21.2	1.3	22.4	11.2	4.3	4.8	2.5	21.7	2.4	5.1
2019/1st Qtr.	19.2	-3.9	19.7	-2.0	3.9	4.3	2.2	4.2	2.4	2.6
2nd Qtr.	19.1	-5.6	19.4	-0.1	4.0	6.0	2.2	-0.5	2.2	-5.4
3rd Qtr.	19.2	-5.0	19.7	-4.9	3.7	-1.4	2.1	-5.7	2.2	0.2
2019/March	7.2	-2.4	6.7	1.2	1.4	4.4	0.7	-0.1	0.9	7.3
April	6.7	-2.4	6.6	6.5	1.4	9.6	0.7	2.3	0.8	-2.6
May	5.8	-7.8	6.8	-1.4	1.2	3.3	0.8	-1.3	0.6	-7.1
June	6.6	-6.6	6.0	-5.2	1.4	4.9	0.7	-2.4	0.7	-6.7
July	6.6	-1.5	6.9	-1.1	1.4	8.4	0.8	3.5	0.8	2.2
Aug.	6.1	-8.2	6.3	-11.9	1.2	-4.4	0.7	-9.2	0.7	-1.3
Sept.	6.4	-5.2	6.5	-1.5	1.2	-7.9	0.6	-11.5	0.7	-0.5
Oct.	6.6	-9.2	6.6	-14.8	1.3	-11.4	0.7	-17.1	0.7	-8.4
Sources	"Trade Statistics of Japan", Ministry of Finance									

ECONOMIC INDICATORS FOR JAPAN

Calendar year, Quarter and Month	Cash salary amount rate of increase over previous year/ the same term (month) of the previous year (%)	Active job openings-to-applicants ratio (time(s))	Unemployment rate (%)	M2 rate of increase over previous year/ the same term (month) of the previous year (%)	Balance of payments		Yen/\$ rate (averaged during the term)
					Trade balance (trillion yen)	Current balance (trillion yen)	
2010	0.5	0.52	5.1	2.8	9.5	19.4	87.8
2011	-0.2	0.65	4.6	2.7	-0.3	10.4	79.8
2012	-0.9	0.80	4.3	2.5	-4.3	4.8	79.8
2013	-0.2	0.93	4.0	3.6	-8.8	4.5	97.6
2014	0.5	1.09	3.6	3.4	-10.5	3.9	105.8
2015	0.1	1.20	3.4	3.6	-0.9	16.5	121.0
2016	0.6	1.36	3.1	3.4	5.5	21.4	108.8
2017	0.4	1.50	2.8	4.0	4.9	22.6	112.2
2018	1.4	1.61	2.4	2.9	1.2	19.2	110.4
2018/4th Qtr.	1.5	1.62	2.4	2.5	-0.6	2.6	112.9
2019/1st Qtr.	-0.8	1.63	2.5	2.3	0.2	6.0	110.2
2nd Qtr.	-0.1	1.62	2.4	2.5	-0.0	4.6	109.8
3rd Qtr.	-0.3	1.58	2.3	2.4	-0.0	5.8	107.3
2019/March	-1.3	1.63	2.5	2.4	0.7	2.8	111.2
April	-0.3	1.63	2.4	2.5	-0.1	1.7	111.6
May	-0.5	1.62	2.4	2.6	-0.7	1.7	109.8
June	0.4	1.61	2.3	2.3	0.8	1.3	108.1
July	-1.0	1.59	2.2	2.3	-0.1	2.0	108.2
Aug.	-0.1	1.59	2.2	2.4	0.1	2.2	106.3
Sept.	0.5	1.57	2.4	2.4	0.0	1.6	107.4
Oct.	0.5	1.57	2.4	2.4	0.3	1.8	108.1
Sources	"Monthly Labour Survey", Ministry of Health, Labour and Welfare	"Employment Referrals for General Workers", Ministry of Health, Labour and Welfare	"Labour Force Survey", Statistics Bureau, Ministry of Internal Affairs and Communications	"Money Stock", Bank of Japan	"Balance of Payments", Ministry of Finance		Bank of Japan

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Imports amount from EU (trillion yen)	Imports from EU rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to Asia (excluding China) (trillion yen)	Exports to Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from Asia (excluding China) (trillion yen)	Imports from Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to China (trillion yen)	Exports to China rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from China (trillion yen)	Imports from China rate of increase over previous year/ the same term (month) of the previous year (%)
2010	5.8	5.5	24.7	29.5	14.1	22.0	13.1	27.8	13.4	17.3
2011	6.4	10.1	23.8	-3.9	15.7	11.7	12.9	-1.4	14.6	9.2
2012	6.6	3.6	23.3	-1.8	16.3	3.3	11.5	-10.8	15.0	2.7
2013	7.6	15.2	25.2	8.1	18.3	12.6	12.6	9.7	17.7	17.4
2014	8.2	6.8	26.1	3.5	19.4	6.2	13.4	6.0	19.2	8.6
2015	8.6	5.6	27.1	3.7	18.9	-2.6	13.2	-1.2	19.4	1.3
2016	8.2	-5.5	24.7	-8.7	16.2	-14.5	12.4	-6.5	17.0	-12.4
2017	8.8	7.4	28.0	13.3	18.6	14.8	14.9	20.5	18.5	8.5
2018	9.7	11.0	28.8	2.9	20.0	7.8	15.9	6.8	19.2	4.0
2018/4th Qtr.	2.6	9.1	7.4	-1.5	5.3	8.7	4.3	0.5	5.4	4.5
2019/1st Qtr.	2.4	-1.1	6.6	-6.3	4.9	-4.1	3.4	-7.5	4.6	0.2
2nd Qtr.	2.4	5.2	6.6	-7.4	4.6	-3.1	3.6	-8.7	4.5	-0.0
3rd Qtr.	2.5	1.8	6.6	-8.3	4.7	-3.5	3.6	-9.4	4.7	-2.1
2019/March	0.8	-0.5	2.5	-3.4	1.7	-1.6	1.3	-9.4	1.5	11.0
April	0.8	10.6	2.3	-1.6	1.5	4.0	1.2	-6.3	1.6	6.0
May	0.9	8.7	2.0	-13.4	1.6	-5.5	1.1	-9.7	1.5	-0.8
June	0.7	-3.7	2.3	-7.2	1.5	-7.0	1.2	-10.1	1.4	-5.3
July	0.9	-4.2	2.2	-7.7	1.7	-0.7	1.2	-9.3	1.6	2.9
Aug.	0.8	-2.3	2.1	-10.3	1.5	-11.3	1.2	-12.1	1.4	-8.5
Sept.	0.9	13.3	2.3	-8.3	1.6	1.8	1.2	-6.7	1.6	-0.9
Oct.	0.8	-10.8	2.2	-11.7	1.6	-12.5	1.3	-10.3	1.6	-15.4
Sources	"Trade Statistics of Japan", Ministry of Finance									