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# Revenge Consumption – Will It Finally Start to Move?

By Nobuo Iizuka

## Japan's GDP Struggling to Recover to "Pre-Coronavirus" Level

The real GDP growth rate for the period January to March 2022 which was released on June 8, 2022 was minus 0.1% quarter-to-quarter. It was lower by 2.6% compared to real GDP for the 2019 calendar year, before the coronavirus pandemic began. This is in marked contrast to the United States where real GDP for the period October to December 2020 was higher than real GDP for the 2019 calendar year.

One reason behind the slump in Japan's real GDP is the slump in private consumption. Real private consumption for the period January to March 2022 remained 2.6% lower than the 2019 calendar year. This article will investigate what is behind the slump in personal consumption and also consider whether so-called revenge consumption will finally start moving.

## Deviation Between Disposable Income & Consumption Continues

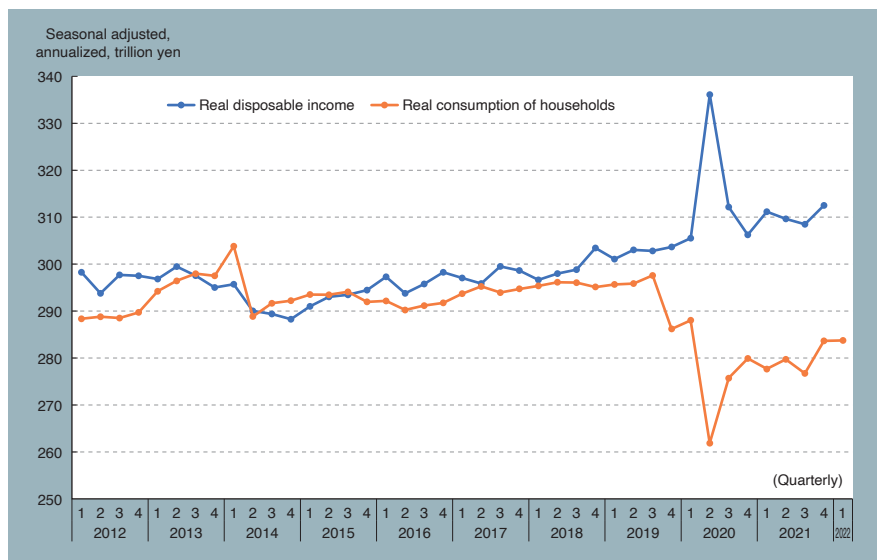
Movements in private consumption can be captured by two factors: disposable income which is money that households can use freely, and the sentiment of people on whether they are positive about consumption. *Chart 1* shows trends in real consumption of households and real disposable income. Both are seasonally adjusted annualized values, and show values on the assumption that consumption for each quarter continues for a year. Real private consumption is the sum of real consumption of households and final consumption expenditure of private non-profit institutions serving households, and real consumption of households makes up 97% (2021 calendar year) of real private consumption.

Until the period July to September 2019 which was right before the consumption tax rate was raised to 10%, the difference between the quarterly real consumption of households and real disposable income remained around plus or minus 10 trillion yen. But it began to widen after the consumption tax rate was raised to 10%, and expanded to 74.2 trillion yen for the period April to June 2020. With the State of Emergency being declared in April 2020 for the first time during the pandemic, the movements of people were restricted, resulting in real private consumption declining by 26.1 trillion yen from the period January to March 2020.

Further, the disposable income of households increased by 30.6 trillion yen from the period January to March 2020. This is because while employee compensation decreased with a decline in the number of employees and wages due to sharp deterioration in corporate earnings from the coronavirus pandemic, the government provided a special cash

CHART 1

## Trends in disposable income & consumption of households



Source: System of National Accounts (SNA), Japan

payment of 100,000 yen per person.

Hence, it is a deviation between real consumption of households and real disposable income caused by a temporary factor called the special cash payment, and while this deviation has shrunk a little, it is still on-going. The difference between the two for the period October to December 2020 was still at 28.9 trillion yen. This quarterly deviation is being accumulated as household savings.

### Deviation Also Between Consumer Sentiment & Consumption

What does the relationship look like for consumer sentiment and consumption? *Chart 2* looks at trends in the Consumption Activity Index which the Bank of Japan calculates every month to capture

movements in real private consumption, and the Consumer Confidence Index of the “Consumer Confidence Survey” which the Cabinet Office carries out every month. The Consumption Activity Index is an indexation of consumer decisions on overall livelihood, income growth, employment and willingness to buy durable goods.

After both indices plummeted in April 2020 with the State of Emergency being declared, both moved in a similar manner until January 2021. Once the State of Emergency declaration was lifted in May 2020, measures such as the “Go To Travel” campaign were implemented leading to signs of improvement in consumer sentiment along with a recovery in consumption.

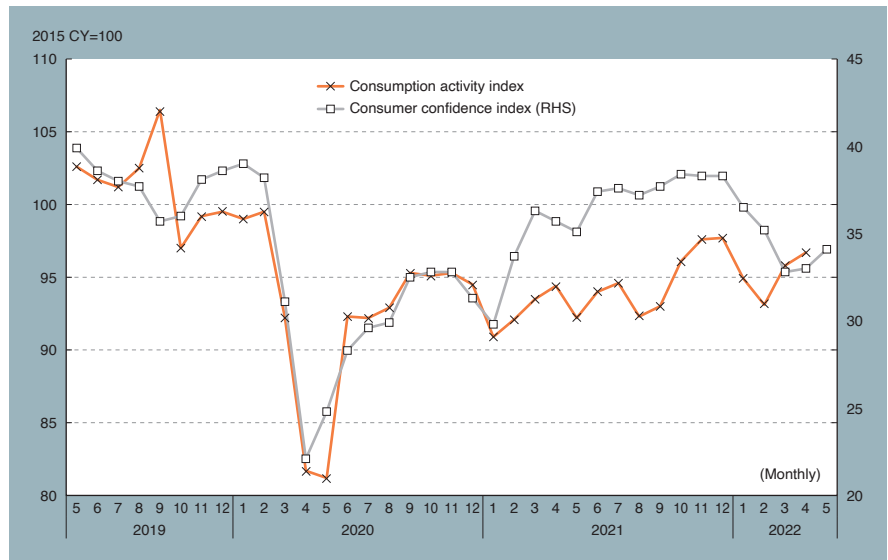
But since 2021, consumption has remained flat despite improvements in consumer sentiment. It may have been that the State of Emergency and Quasi-State of Emergency being declared one after the other became a constraint on expansion of consumption. Private consumption recovered with the Quasi-State of Emergency being temporarily lifted from October 2021, but private consumption it thought to have once again declined with the impact of a Quasi-State of Emergency being declared again from January to March 2022.

### Impact of Golden Week with No State of Emergency After 3 Years

The Quasi-State of Emergency ended in mid-March 2022, and this year’s Golden Week (a period of consecutive national holidays at the beginning of May each year) had no State of Emergency being declared after three years. In light of trends in private consumption since 2020, the lack of constraints from such measures as the State of Emergency should have had a positive impact on private

CHART 2

## Trends in consumption activity & consumer index



Source: “Consumption Activity Index”, Bank of Japan, “Consumer Confidence Survey”, Cabinet Office

consumption. Indeed, the April “Economy Watchers Survey” (Cabinet Office) which was released on May 12, 2022 shows the household activity-related DI for current conditions improving for two consecutive months. This survey covers people who are able to observe movements that are closely tied to regional business conditions such as at actual sites of consumption, and comments such as “discounts provided to prefectural citizens showed great growth towards Golden Week, and for the actual periods limited to Golden Week, demand came back by more than 70%” (travel agency in Tohoku region) have been shared. Savings that have thus far been accumulated may be starting to be directed towards private consumption.

On the other hand, the impact of the recent rise in prices triggered by the rise in resource prices such as crude oil is a concern. The rise in April consumer prices which was released on May 20, 2022 was 2.5%, significantly higher than the previous month. Unless the growth in disposable income catches up with the rise in prices, the deviation may shrink not because of an expansion in consumption, but from the decline in real disposable income. The Consumer Confidence Index worsening for three consecutive months since January 2022 is also of concern. A rise in prices may be impacting consumer sentiment.

**NOTE:** This article was based on available information as of June 8, 2022. **JS**

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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 (%)		
2014	529.8	0.3	518.8	2.0	2.0	2.6
2015	538.1	1.6	538.0	3.7	-1.2	0.5
2016	542.1	0.8	544.4	1.2	0.0	-0.3
2017	551.2	1.7	553.1	1.6	3.1	0.5
2018	554.4	0.6	556.3	0.6	1.1	0.9
2019	553.1	-0.2	558.5	0.4	-3.0	0.6
2020	528.1	-4.5	538.0	-3.7	-10.4	-0.2
2021	536.8	1.7	541.9	0.7	5.6	-0.2
2021/2nd Qtr.	538.5	0.6	545.1	0.4	0.2	-0.6
3rd Qtr.	534.2	-0.8	539.4	-1.1	-1.9	-0.0
4th Qtr.	539.4	1.0	541.2	0.3	0.2	0.4
2022/1st Qtr.	538.8	-0.1	542.0	0.2	0.8	0.6
2021/Sept.	—	—	—	—	-6.5	0.1
Oct.	—	—	—	—	2.1	0.1
Nov.	—	—	—	—	5.0	0.5
Dec.	—	—	—	—	0.2	0.5
2022/Jan.	—	—	—	—	-2.4	0.2
Feb.	—	—	—	—	2.0	0.6
March	—	—	—	—	0.3	0.8
April	—	—	—	—	-1.5	2.1
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 (%)
2014	73.1	4.8	85.9	5.7	13.6	5.6	7.5	10.7	6.4	8.2
2015	75.6	3.4	78.4	-8.7	15.2	11.5	8.1	6.9	6.7	4.4
2016	70.0	-7.4	66.0	-15.8	14.1	-7.1	7.3	-9.2	6.5	-2.8
2017	78.3	11.8	75.4	14.1	15.1	6.9	8.1	10.5	7.1	9.5
2018	81.5	4.1	82.7	9.7	15.5	2.4	9.0	11.4	7.7	7.8
2019	76.9	-5.6	78.6	-5.0	15.3	-1.4	8.6	-4.2	7.4	-3.0
2020	68.4	-11.1	68.0	-13.5	12.6	-17.3	7.5	-13.7	6.3	-15.1
2021	83.1	21.5	84.8	24.6	14.8	17.6	8.9	19.4	7.7	21.4
2021/2nd Qtr.	20.7	45.0	20.3	23.9	3.7	70.0	2.3	19.9	1.9	52.0
3rd Qtr.	20.8	24.9	21.7	36.9	3.7	14.5	2.2	31.1	1.9	28.0
4th Qtr.	22.4	15.7	24.1	37.4	4.1	10.6	2.4	33.7	2.0	12.6
2022/1st Qtr.	22.0	14.5	25.3	34.7	3.9	17.6	2.6	29.1	2.1	14.0
2021/Sept.	6.8	13.0	7.5	38.4	1.2	-3.3	0.8	36.0	0.6	12.1
Oct.	7.2	9.4	7.3	26.8	1.3	0.3	0.7	18.7	0.7	12.1
Nov.	7.4	20.5	8.3	43.8	1.3	10.0	0.9	43.1	0.7	16.4
Dec.	7.9	17.5	8.5	41.2	1.5	22.1	0.8	39.7	0.7	9.7
2022/Jan.	6.3	9.6	8.5	38.8	1.1	11.5	0.8	33.1	0.6	16.1
Feb.	7.2	19.1	7.9	34.2	1.3	16.0	0.9	39.0	0.6	8.8
March	8.5	14.7	8.9	31.4	1.5	23.8	0.9	18.5	0.8	16.8
April	8.1	12.5	8.9	28.3	1.5	17.5	0.9	15.4	0.8	19.2
Sources	"Trade Statistics of Japan", Ministry of Finance									

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)	
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	22.8	112.2
2018	1.4	1.61	2.4	2.9	1.1	19.5	110.4
2019	-0.4	1.60	2.4	2.4	0.2	19.3	109.0
2020	-1.2	1.18	2.8	6.5	2.8	15.7	106.8
2021	0.3	1.13	2.8	6.4	1.7	15.5	109.8
2021/2nd Qtr.	1.0	1.11	2.9	7.7	0.9	3.7	109.4
3rd Qtr.	0.5	1.15	2.8	4.7	-0.0	4.2	110.1
4th Qtr.	0.0	1.17	2.7	4.0	-0.6	1.7	113.7
2022/1st Qtr.	1.5	1.21	2.7	3.5	-1.9	3.0	116.2
2021/Sept.	0.2	1.15	2.8	4.2	-0.2	1.0	110.2
Oct.	0.2	1.16	2.7	4.2	0.2	1.1	113.1
Nov.	0.8	1.17	2.8	4.0	-0.4	0.9	114.0
Dec.	-0.4	1.17	2.7	3.7	-0.3	-0.3	113.9
2022/Jan.	1.1	1.20	2.8	3.6	-1.6	-1.2	114.8
Feb.	1.2	1.21	2.7	3.6	-0.2	1.6	115.2
March	2.0	1.22	2.6	3.5	-0.2	2.5	118.5
April	1.7	1.23	2.5	3.4	-0.7	0.5	126.1
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 (%)
2014	7.5	6.9	26.1	3.5	19.4	6.2	13.4	6.0	19.2	8.6
2015	7.8	4.6	27.1	3.7	18.9	-2.6	13.2	-1.2	19.4	1.3
2016	7.4	-5.0	24.7	-8.7	16.2	-14.5	12.4	-6.5	17.0	-12.4
2017	8.0	7.0	28.0	13.3	18.6	14.8	14.9	20.5	18.5	8.5
2018	8.8	10.6	28.8	2.9	20.0	7.8	15.9	6.8	19.2	4.0
2019	8.8	0.3	26.6	-7.6	19.0	-5.3	14.7	-7.6	18.5	-3.9
2020	7.8	-12.1	24.1	-9.4	17.2	-9.4	15.1	2.7	17.5	-5.1
2021	9.4	21.4	30.2	25.0	20.7	20.6	18.0	19.2	20.4	16.4
2021/2nd Qtr.	2.4	27.2	7.4	37.9	4.9	24.2	4.6	28.4	5.0	7.2
3rd Qtr.	2.4	29.1	7.7	35.1	5.2	30.6	4.5	13.9	5.0	19.8
4th Qtr.	2.5	24.5	8.2	22.9	5.7	28.8	4.9	12.0	5.6	16.5
2022/1st Qtr.	2.6	24.5	8.2	18.8	6.2	29.1	4.3	7.0	5.5	16.6
2021/Sept.	0.8	23.7	2.6	28.5	1.7	27.9	1.5	10.3	1.8	23.9
Oct.	0.8	18.9	2.6	18.5	1.8	18.3	1.6	9.6	1.7	11.5
Nov.	0.9	39.4	2.7	30.4	1.9	32.8	1.6	16.0	2.0	17.3
Dec.	0.8	16.3	2.8	20.5	2.0	35.3	1.7	10.8	1.9	20.5
2022/Jan.	0.9	26.2	2.4	13.0	2.1	35.0	1.2	-5.4	2.1	23.4
Feb.	0.8	32.4	2.7	24.8	1.9	27.3	1.5	25.8	1.5	5.9
March	0.9	16.8	3.1	18.4	2.2	25.6	1.7	2.9	1.9	19.1
April	1.0	26.0	3.1	20.3	2.2	27.6	1.5	-5.9	1.7	-5.5
Sources	"Trade Statistics of Japan", Ministry of Finance									