

Bout with Structural Problems Inevitable

Trends in personal spending do not instill a sense of strength. Although the beginning of the year had an air of recovery as negative influences from the Great Hanshin Earthquake waned, the summer's food poisoning scare threw consumption into a continued see-sawing decline. Ultimately, total real household expenditures (Monthly Report on the Family Income and Expenditure Survey) were -0.1% , making 1996 the fourth consecutive year with lower-than-previous-term rates.

A product category breakdown shows minus spending for daily essentials including clothing and foodstuffs, but raised spending in durable consumer goods for education and amusement including luxury brand products, computers, cellular phones, etc. Also, along with increased interest in concept-based imported furniture, for a more westernized lifestyle, a pre-consumption-tax-increase rush inspired greater consumer demand for large-scale items like automobiles and home-related products. Current consumption activity is hesitant in areas of daily consumption but leans toward "discriminating consumption" of luxury products.

Department stores are finally out of

the negative growth pattern that had continued since 1992. With a boost from larger stores' newly opened branches, total across-the-board sales in 1996 (based on Japan Department Store Association data) rose 3.2% . Furthermore, even results based only on sales at existing stores rose 1.8% . Imported luxury brands for women backed this recovery. In addition to down pricing from an appreciated yen, factors fueling this revival were rekindled consumer interest in brand items when investments in store redecoration toward enlarged sales space for fashion goods were made. However, department stores' structural problems, the crux of post-bubble sales drop-offs, are still unresolved.

The framework for product purchase and sales is one of the core problems. The purchase of goods by department stores is basically centered on consignment sales, and department stores take practically no risk. This, in addition to the fact that sales staff are employees of the apparel companies, leaves department stores unable to make timely evaluation of store sales. Through product management via advanced information systems, stores need to fulfill consumer needs in



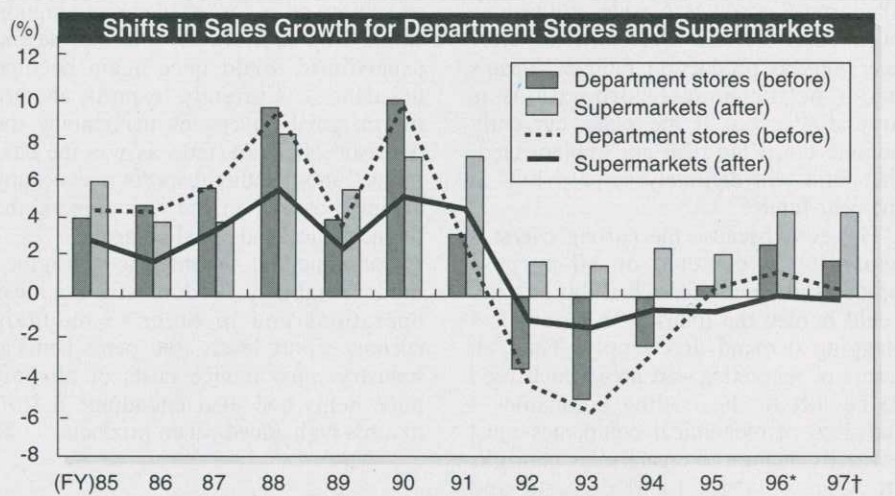
Increase in newly-opened businesses heats up competition. (Ito Yokado Tokyo's Kameari Branch opened in 1996.)

both store format and product mix.

Total supermarket sales (based on Japan Chain Store Association data) grew drastically from 1.6% in 1995 to a whopping 4.1% in 1996. In the aftermath of the Large-Scale Retail Store Law deregulation, and with positive results from newly opened branch stores, the total number of supermarkets was 7,923 in late December, 1996 (based on Japan Chain Store Association data) with a year-end total of 205 newly opened stores. However, data from pre-existing supermarkets alone went from a 1.4% drop in 1995 to a stalled 0.2% gain in 1996. All three chief product divisions within existing supermarkets showed minus growth rates with food at -0.1% , clothing at -2.6% , and household products at -1.2% . Although industry growth continues, individual store sales remain stalled due to heightened inter-supermarket competition. Hereafter, besides greater competition from further branch increases by domestic corporations, growing participation from foreign retailers is forecast. Within an atmosphere of restrained consumer spending for daily necessities, each corporation must react not only by lowering prices, but through efforts to differentiate specialties at individual stores.

The situation for large-scale retailers in 1997 is expected to backslide due to an increased burden on citizens from the raise in consumption tax and medical insurance system reform. The comparatively quick recovery following the introduction of the consumption tax in 1989 was bolstered by a healthy economy. Together with the weakened economic state and strong unease regarding future prospects, it is possible the coming downturn could prove severe. Within this rigorous environment, an earnest attack on structural problems by both department stores and supermarkets is inevitable. ■

(Kato Koji, senior economist)



* estimate / † forecast

Source: The Japan Department Store Association and the Japan Chain Store Association, segments from The Industrial Bank of Japan, Ltd.