

Reading Consumption through Trends in Consumer Activity

By Sano Michiko

The economy is said to be making its way through recovery, though recovery in strong personal consumption continues to lag behind. According to the Statistics Bureau, Management and Coordination Agency's Family Income and Expenditure Survey, previous year growth rate consumer spending shows continued deficits in 1994 and 1995. Conversely, the Consumption Forecasting Indicator (CFI by Nikkei Research Institute of Industry and Markets, an organ that forecasts consumption based on trends in consumer consciousness), finds a slight rising trend in consumer consciousness is continuing and that consumer enthusiasm has been gradually improving since 1994.

So why is it that consumer spending has not improved in spite of improved consumer enthusiasm? Analyzing Consumer Consciousness and Activity Survey, consumption incentives depend on consumers' consciousness about the economy, family budget and living situation, both of which sway one's circumstances, while the state of household finances is particularly influential in regulating consumer incentive. This inclination is most notably true of high income groups. Taking a look at the CFI composition factors gives the impression of a recovered economic condition, however, this view of household income is in no way an indication of recovery. The increased CFI is mainly dependent on the impression of the improved economic condition. As such, the comparative rise in consumer consciousness is thought to be a slow recovery in consumption.

Here, the consumption activity structure will be analyzed and an attempt at forecasting future consumption trends will be made.

Recent consumption trends

A look at the Family Income and Expenditure Survey on recent consumption expenditure activity shows that since 1993, consumption expenditure of all households nationwide shows a continuing loss over previous year actual rate of increase. Private final consumption expenditure of national economic accounting shows that the actual rate of increase remained in the black. Still, the growth rate has stayed extremely low at the 1% mark since 1993.¹ Business profits have begun to recover, liquidation of bad debts is progressing and investment in equipment is coming about positively. Nevertheless, because the burden of labor costs remains a pressing issue, a cautious posture has been taken so as not to damage employment. Though there was a recovery of corporate profits that boosted household income through wages and bonuses, the increased consumption expenditures mechanism does not seem to be functioning.

But previous year growth rate in overtime hours (Labor Ministry) shifted up to 4.2% in 1995, and the Family Income and Expenditure Survey also showed a shift in employers of working households revenue nationally up to, albeit a slight 0.8% in 1995. More,

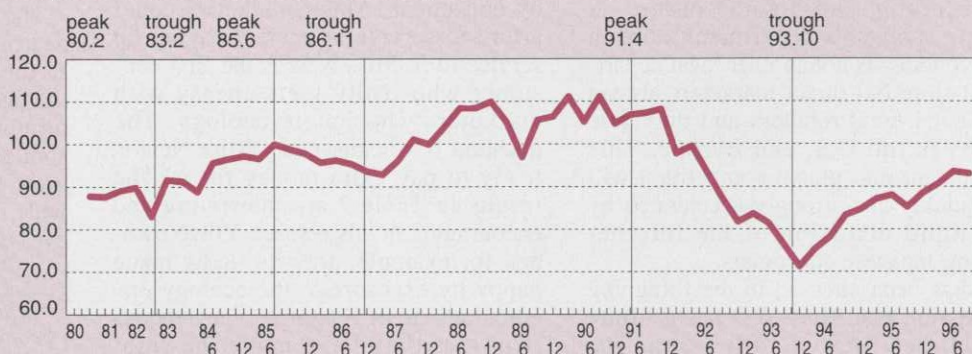
employers revenue in 1996 shifted up to 1.8% in the January to March period and 1.1% in the April to June period. Consumption expenditures have continued to be positive in comparative fiscal quarters—2.5% in the January to March period and 1.5% in the April to June period, in 1996. And, private final consumption expenditure of the national economic accounting has also risen respectively to 4.8% and 3.0%, a high growth rate. It seems that recovery in private consumption has become conspicuous since the start of 1996.

Trends in consumer consciousness

Then it would seem that private consumption is swayed by income. However, as regards the degree of free discretion of high selective spending in consumption expenditure, expenditure is greatly swayed by the fluctuation in consumption enthusiasm. Today, selective spending has surpassed necessity spending and this consumption enthusiasm is thought to have come to greatly sway consumer spending.

Nikkei Research Institute of Industry and Markets, in conducting the quarterly consumer survey,² the results of which have been drawn up as CFI, has tried to grasp consumer trends from changes in consumer consciousness.

Graph 1. Fluctuations in the Consumption Forecasting Indicator (CFI)



The answers to CFI's seven question items are predetermined (items include: "ease in securing employment," "ease in securing employment," "employer's profit outlook," "means to increase household income," "consumer enthusiasm about purchases of household furniture, electrical appliances and other consumer durables," "consumer will about travel and leisure expenditure," "culture (hobbies, creative work, art appreciation, etc.) expenditure enthusiasm").³ For each question, there are multiple choice answers, but these answers are made in such a way that optimistic answers are scored higher to make consumption activity appear positive. The CFI value is based on the standardization in the June 1985 survey scoring the seven survey items at 100 points.⁴ The survey includes numerous question items other than these seven, like about consumers' economic condition and living situation judgments, but by using the results of panel research (respondents to the June survey, conducted yearly, are posed the same questions half a year later, in January, and they are questioned about their consumption during the past half year), high-consciousness items for strong forecasts are squeezed into the seven items that make up the CFI.

Recent activity shows a humble upward transition in December 1993 CFI (Graph 1). But, even comparing with the dramatic fall in the CFI during the recession following the burst of the bubble economy, it still remains low in comparison to the bubble period.

CFI is a basic underlying condition of recovery, and consumer consciousness has brightened in comparison to the grave 1993 recession period. But looking at the transition in the categorically structured items of the CFI, we cannot say that there has been a complete recovery trend. The most notable of the items are those dealing with perception of business activity including "current prices" and

"ease in securing employment." In particular, viewpoints in regard to price fluctuations haven't been dealt with other than optimistically. It must include a look at the progress in the price revolution situation following deregulation and the high yen of 1993 and 1994, and the large price drops that came about. The Consumer Price Index reached a low of 0.7% in 1994 over the previous year, and the rate of increase

in 1995 was negative.

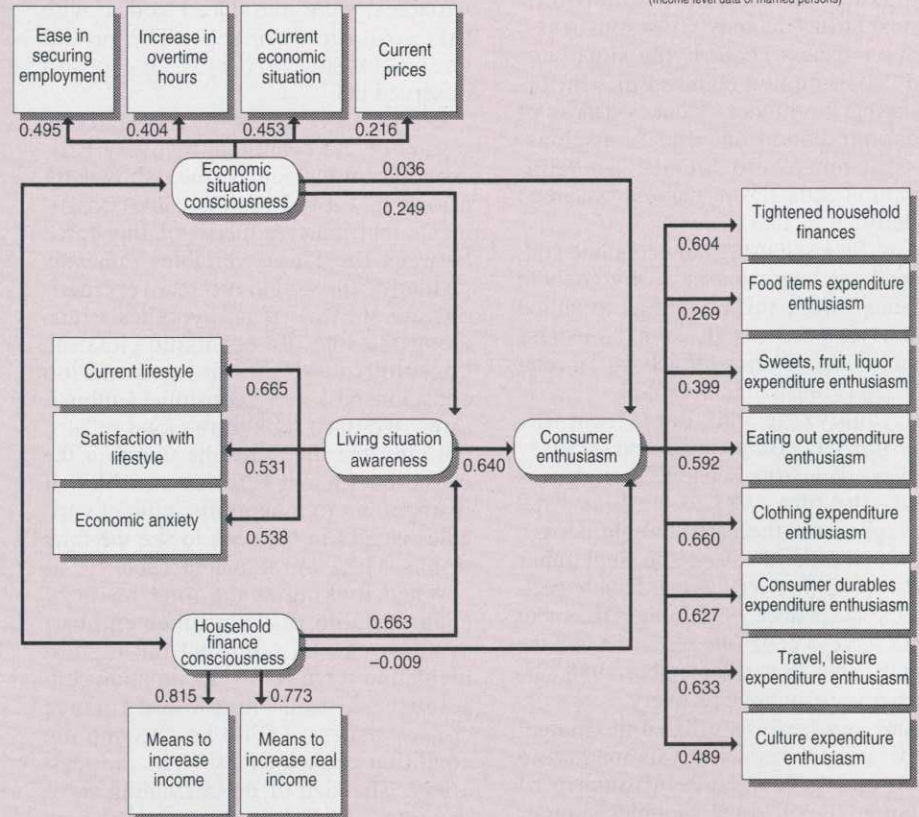
Moreover, in regard to "ease in securing employment," there has been an increase in part-time and other jobs through employment magazines, a medium in which the unemployment rate never really falls, so consumers who judge that "securing employment has become easier" have increased.

This is the "means to increase household income." The low standard has

Table 1. Causal Model (economic recovery since March 1994)

Total results	Economic situation consciousness	Household finance consciousness	Economic situation consciousness	Household finance consciousness	Living situation awareness
	Living situation awareness	Living situation awareness	Consumer enthusiasm	Consumer enthusiasm	Consumer enthusiasm
All	0.334	0.541	0.238	0.308	0.581
Income					
1st level	0.361	0.562	0.330	0.248	0.435
2nd level	0.242	0.618	0.247	0.305	0.513
3rd level	0.410	0.490	0.298	0.215	0.463
4th level	0.341	0.453	0.241	0.265	0.761
5th level	0.184	0.544	0.187	0.367	0.631

(Income level data of married persons)



remained level since the June 1993 survey. In regard to "employer's profit outlook" we see a slight trend toward improvement, but it does not, in the least, brighten the household income situation.

Because we cannot see any trend toward improvement in the forecast of household income, an improvement in the desire to spend does not make progress either. Because the principal factor forcing the continued loose rise in CFI is improvement in economic condition attitudes, it has become problematic to connect consumer spending with improved economic condition.

The structure of consumer enthusiasm

Here we should take a look at provisions made to see the underlying factors in mentality of consumer enthusiasm.

To explore the structure of consumer will, I first treated a causal model based on four hypothetical variables—"consciousness of economic condition," "household finances consciousness," "consciousness about living situation," and "consumption enthusiasm." In formulating the model, "consciousness of economic condition" and "consciousness of household finance" in "consumption enthusiasm" serve as assumed underlying factors.

And, "consciousness of economic condition" and "consciousness of household finance" were formulated as assumed underlying factors in "consciousness about living situation." Each causal relationship is illustrated in Table 1.

In analyzing the data from the Consumer Consciousness and Activity Survey, data from separate periods was used—the June 1987 to the June 1989 surveys cover the early bubble period, the September 1989 to the September 1991 surveys cover the late bubble period, the December 1991 to the December 1993 surveys cover the recession and the March 1994 to the September 1996 surveys cover economic recovery.

And, this analysis utilized the mutual dispersal structural analysis method to examine the causal relationship of imported hypothetical variables in order

Table 2. Differences in regulating forces of good/bad economic times

Total results	Economic situation consciousness	Household finance consciousness	Economic situation consciousness	Household finance consciousness	Living situation awareness
	▼	▼	▼	▼	▼
	Living situation awareness	Living situation awareness	Consumer enthusiasm	Consumer enthusiasm	Consumer enthusiasm
Early bubble (6/87-6/89)	0.340	0.536	0.223	0.269	0.506
Late bubble (9/89-9/91)	0.523	0.512	0.358	0.277	0.529
Recession (12/91-12/93)	0.201	0.571	0.187	0.281	0.580
Recovery (3/94-)	0.334	0.541	0.238	0.308	0.581

to manage the numerous causal effects among the variables in the analysis. Measurable variables (observed variables⁵) in the survey have similar mutual aspects and there is a high correlation behind the variables which assume the structural concept of the common origins that influence these variables.

Hypothetical variables (called latent variables) were introduced to deal with this structural concept. The model shows latent variables in \square and observed in \square .

Let us first focus on the analysis results of the economic recovery period.⁶ The numerical values shown by arrows in Table 1 are the causal coefficients that indicate the regulating force between the causal variables (analysis results of the economic recovery periods are shown). If an hypothesis runs along the line of "economic situation consciousness" → "living situation consciousness" → "consumer enthusiasm," we must look at the total results, not only the direct results found in the causal coefficient between variables. It is important to look at the indirect variables caught in between to see the total results. These are shown in Table 1.

When looking at the total result of each variable of "consumer enthusiasm," it can be seen that the highest regulating force is "living situation consciousness" and "household finance consciousness," follows. "Economic condition consciousness" has the least effect. The size of the regulating force is a ratio of 6:3:2. It indicates that even

if economic condition consciousness is improved, consumer enthusiasm will be improved only when uneasiness over living condition has faded. Rather, consumer enthusiasm will be improved only when people feel improvement in their living condition effected by an increase in household income, though consciousness about increased household income is easier to connect with improvement in consumer enthusiasm than to improved economic condition consciousness. In this connection, rather than "economic situation consciousness," the regulating force of "living condition consciousness" in "household finance consciousness" is higher.

Differences in causality factors between income brackets

Causal factors differ according to income level. If the yearly household income levels are ranked into five samples and compared, the factor of "economic condition consciousness" to "consumer enthusiasm" is high at first and third, and "household finance consciousness" is at a remarkable fifth. In the first and third, the "economic situation consciousness" factor is higher than the "household finances factor." In other income brackets, the "household finance" factor is more significant, particularly in the fifth level. The degree to which lower and middle income brackets go back and forth between a feeling

of prosperity and hard times is great, so it is thought that high income brackets as well are more complex about whether salary has, in reality, increased, than the mood of the high income bracket.

And, in regard to the factors of "consumer enthusiasm"—"living situation consciousness" is greater than "economic situation consciousness" and "household finance consciousness," but the difference becomes more significant higher up the income ladder.

Differing factors during periods of economic prosperity and recession

The causal factors during periods of prosperity and recession differ as well. Let's take a look at a comparison between the early bubble period, late bubble period, the recession period and the recent recovery period (Table 2).

Looking at causal regulating factors, "economic condition consciousness" seems to be the least characteristic of "consumer enthusiasm" in the recession period. The most characteristic was the late bubble period, and the current economic recovery is parallel to the early bubble period. In times of economic prosperity, an optimistic mood lifts consumer activity, but during the recession period, disproportionately, a pessimistic mood resulting from recession does not estrange consumer enthusiasm. What is most evident though is that of all the four periods, only in the late bubble period does economic situation consciousness surpass that of household finance consciousness. The late bubble period is the only period to show greater income than the early bubble period, but whether or not income increased or not, we can say that the bubble mood raised consumer enthusiasm.

"Economic situation consciousness" as a factor of "living situation consciousness" is smallest during the recession period and highest during the late bubble period. And, comparing the "household finances consciousness" factor of "lifestyle consciousness," only



Good products at low prices. The burst of the bubble sees a change in Japanese consumer activity.

the late bubble period's "economic condition consciousness" albeit small, exceeded the "household finance consciousness" factor. Views on living condition were greatly swayed by the bubble mood during the late bubble period.

On the other hand, there is no great alteration between "household finances consciousness" and "consumer enthusiasm" in times of prosperity or recession, but a greater gradual change came about beginning with the pre-bubble period following to each successive period. Conversely, the "living condition consciousness" regulating force, "household finance consciousness" is more significant in the recession period and smallest in the late bubble period. The current economic recovery period is at the same level as the pre-bubble period, smaller than during the recession, bigger than the post-bubble period. More than how the recession period was viewed as an economic condition, of more significance is whether or not household income is increasing or decreasing which is the cause of the sway in viewing living condition. This is contrary to the extent to which mood sways during good economic times. The "living condition consciousness" factor of the "consumption enthusiasm" surpasses the "economic condition consciousness" factor and the "household

finance consciousness" factor of all four periods. Only the factor of the bursting of the bubble is growing. If the causal regulating forces of each of the four periods is equally compared in each income category.

"Household finance consciousness" factor most greatly swayed the "consumption enthusiasm" factor in the fifth income category in all four periods. And, with the exception of the post-bubble period, it is considerably greater than the "economic condition consciousness" factor in the fifth bracket. The "economic situation consciousness" factor of the post-bubble period is extremely high, not only higher than any other income level, but far exceeds the "household finance consciousness" factor. The brisk consumer enthusiasm of the post-bubble period, touched upon previously, was swayed by the mood of prosperity more than consciousness of increased or decreased household income. This tendency again is particularly true of the fifth income bracket.

Consumer enthusiasm and spending plan—the connection in practice

Improvement in current consumer activity is largely maintained by the

highly emotion-charged economic recession so that household finance level activity has a feel of fragility to it. The connection between consumer enthusiasm and planned spending and the connection between planned spending and spending in practice are more strengthened since the recession period, so little by little there is improvement, but particularly at the free spending high income level, other income brackets, rather than this mood, are swayed by consciousness about household finance level so that anxiety over greater income obstructs a recovery in consumption.

From here on out, wages and bonuses will improve, and consumption will see an unhurried pace of recovery. Particularly, the January-March period is expected to see a rush in demand due to the consumption tax hike in April, increasing consumer spending. However, it is difficult to believe that income will see a sudden rise in the near future, and reaction to supplying demand in advance of necessity and a recurring fall in consumer spending is likely after April. Prices are also expected to rise after the consumption tax goes up so there is anxiety that the economic situation, which was the sole leader of consumer enthusiasm, will worsen. On top of that, there will be anxiety that "household finance consciousness" will decrease because of a loss in real income. However, a positive response is expected as fluctuations in consumers' real income does not pose a serious threat. Whatever the case, from April's higher consumption tax and the removal of the special low tax will likely hamper a satisfactory recovery in individual consumption.

Notes:

¹ Family budget final consumption expenditures and family budget national non-profit organizations final consumption expenditure make up private final consumption expenditure.

Family budget final consumption expenditures is consumption expenditures on the Family Income and Expenditure Survey multiplied by the number of households plus households

in the agricultural, forestry, or fisheries industries or single households' consumption expenditure and equals 99% of the total.

Converted rent and medical expenses not included in the family budget survey expenses paid by National Health Insurance, etc., and actual cash expenditures not calculated are sometimes figured into consumption expenditures.

As such, national economic accounting's consumption expenditure and Family Income and Expenditure Survey consumption expenditures may show different trends.

² The survey was conducted on adult men and women residing within a 30km radius of metropolitan areas selected from a standard list of residents with a two-part random sample of 1,500. The survey began in June 1980 and was taken twice a year, in June and December, until 1983, but since 1984 it has been conducted four times a year, in March, June, September and December. There are approximately 1,000 responses per survey.

³ The multiple choice answers to each question are as follows:

1. In comparison to this time last year, do you think "employment has become easier to obtain (have positions increased)? 'Has become easy;' 'Same;' 'Difficult to obtain employment'

2. Do you think that in the next year your (or head of household's) place of employment will be more profitable than ever? 'More profitable than ever;' 'Same;' 'Less profitable;' 'Not employed.'

3. How do you feel about recent prices? 'Abrupt rise;' 'Slow rise;' 'Same.'

4. How much has your household income increased over last year? 'Has increased past needs;' 'Has met our needs;' 'Has decreased.'

5. Has your household considered or decided to abstain from any of the following items? 'Abstain;' 'Do not particularly abstain from;' 'Will purchase.'

⁴ The higher the numerical value of

CFI, the stronger consumer enthusiasm is, and forecasts are made based on comparisons in changes in consumption expenditures in the three to six month period since the previous period.

⁵ Seventeen observed variables were used in analysis questions and multiple-choice responses. The variables not dealt with in ³ and ⁴ are below.

1. In a word, do you think the current economic situation is good or bad? 'Good;' 'Average;' 'Bad.'

2. Do you believe the number of overtime hours worked at your place of employment has increased in comparison to the same time last year? 'Increased;' 'Same;' 'Decreased.'

3. Do you believe your family's living condition has improved since last year? 'Better;' 'No change;' 'Worse.'

4. How satisfied are you with your current living condition? 'Very satisfied;' 'Fairly satisfied;' 'Not very satisfied;' 'Not satisfied.'

5. Have you felt any recent economic anxiety? 'Strong anxiety;' 'Slight anxiety;' 'No anxiety.'

6. Do you feel your income has risen above higher prices in comparison to last year (when your income has remained fixed and prices fall, does your income still exceed prices)? 'Increased;' 'Increased a little;' 'Remained constant with price fluctuations;' 'Decreased a little;' 'Decreased.'

⁶ The overall valuation of the model is shown by a GFI (Goodness of Fit Index) at a high value of 0.95. The model formulated here explains all the data at 95% indicating that the model is appropriate. The other three periods were also at a GFI of 0.95. ■

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