Consumer Confidence

By Mariko Sugahara Bando

The Japanese economy moved into the 37th straight month of its most recent expansion in December—an expansion fueled by domestic demand in both personal consumption and capital investment to meet that consumer demand. Personal consumption, for example, now accounts for 56% of GNP and stands out as a major element of economic expansion.

Final private-sector consumption outlays have been growing vigorously, the 4.7% increase in fiscal 1988 exceeding even the 4.5% increase in fiscal 1987. In fiscal 1987, this consumption proclivity was concentrated in the non-salary household sector, while all sectors of the population were spending more in fiscal 1988, including both wage-earning households and non-salary households, without any appreciable differentiation by income level or area.

However, personal consumption has been on a roller-coaster ride in 1989, as seen in the dramatic changes in the month-to-month figures.

While upbeat economic conditions have continued unabated in 1989, employment has grown, and the spring wage offensive won 5.17% increases (more than in 1988); consumer behavior was significantly rattled by the abolition of excise taxes and the introduction of the new consumption tax in April, and the resulting turmoil in the price structure and shake-up in consumer prices.

Impact of tax

In looking at the impact of the consumption tax, it is instructive first to look at what happened to prices and consumption in fiscal 1989.

Consumer prices increased less than 1% for the three years prior to 1989—0.0% in fiscal 1986, 0.5% in fiscal 1987 and 0.8% in fiscal 1988. Despite the criticism that there is a gross disparity between Japanese and international prices, Japanese prices, while perhaps high, at least have the virtue of stability. Three reasons can be cited for this stability: (i) the fact that the yen's appreciation has pushed import prices down dramatically, (ii) the stable and in some cases declining prices of crude oil and other commodities, and (iii) the higher productivity that has resulted from industry efforts to streamline operations.

For the first three months of 1989, the consumer price index was up 1.1% over the same quarter of the previous year. However, even though consumer price levels jumped immediately following the introduction of the consumption tax in April, with the index up 2.4% in April and 2.9% in May, this was a short-lived trend and the indicators for the following three months, June, July and August, recorded decreases from the previous month. Although September prices were up 1% over August due to the impact of the inclement weather on fresh vegetable prices and the seasonal boost from fall clothing prices, this was clearly a seasonal blip, and the long-term stability remains unshaken, as shown by the fact that prices were up only 2.9% in October (Fig. 1).

All in all, the introduction of the consumption tax had only a temporary effect, and, except for some services such as restaurant prices, it did not spark a round of unwarranted price increases. The reasons for this are (i) the government kept a very close eye on price levels to head off any such opportunistic price hikes, (ii) there was no great need for industry to raise prices, as it has recently been enjoying fairly high profits from the economy's strength, and (iii) streamlining and capital investment yielded new productivity gains.

The introduction of the consumption tax was accompanied by the simultaneous and largely offsetting abolition of a number of indirect taxes such the excise tax, theater admission tax, electricity tax and gas tax. In addition, rates were lowered or altered on a number of other indirect taxes such as the liquor and tobacco taxes and the petroleum tax. The results of this reshuffling were mixed, with higher prices for some liquor items such as *shochu* and second-grade *sake*, and lower prices for others such as first- and special-grade *sake* and imported whiskey. Retail prices also went down for automobiles, household electrical appliances, audio equipment, word processors, personal computers, cameras and other consumer durables.

Return to stability

As might be expected, these tax reforms had a major impact on relative prices—including an unusual burst of price hikes—and hence consumption patterns. A recent survey of household behavior in September found that actual consumer outlays per household amounted to ¥276,885 ($1,910 at the rate of ¥145/$), a meager 0.2% increase over September 1988. While wage-earning households increased their outlays by 1.1%, non-salary households curtailed their outlays 2.1%, continuing a year of slow spending by this group that was interrupted only in March 1989.

In product terms, real outlays were

Fig. 1 **Nationwide Consumer Indexes** (1985=100)

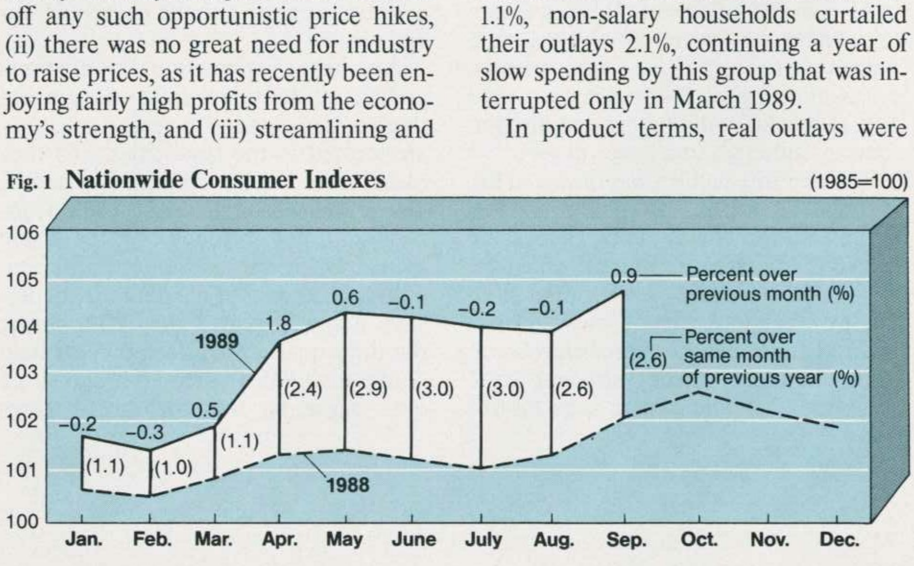

Table 1 Trends of Household Incomes and Spending (%)

	Real personal consumption for all households (percent up over previous year)	Wage-earning households			Consumption outlays for non-salary households (percent up over previous year)
		Real disposable income (percent up over previous year)	Real personal consumption (percent up over previous year)	Average consumption propensity (seasonally adjusted)	
CY 1986	0.8	1.2	1.0	77.4	0.2
CY 1987	1.9	2.3	1.0	76.4	4.3
CY 1988	3.1	4.3	3.3	75.7	2.2
1989 Jan.	1.1	0.7	2.6	77.3	−2.5
Feb.	−2.1	4.3	−1.1	73.5	−4.7
Mar.	6.3	1.7	5.1	80.5	8.1
Apr.	−0.8	−1.0	−1.2	75.6	−0.3
May	−2.9	2.9	−2.7	71.6	−3.3
June	0.7	3.6	2.8	75.2	−4.5
July	−0.2	0.3	1.1	76.7	−4.5
Aug.	−1.9	−0.8	−0.6	75.7	−4.9
Sep.	0.2	0.2	1.1	77.0	−2.1

down for housing, clothes, footwear and education; up for entertainment and utilities; and up strongly for furniture and household products.

These figures reflect a return to stability of household consumption in September after the monthly ups and downs in the first part of 1989. In February, consumption was down 2.1% from February 1988 as consumers shunned conspicuous consumption in deference to the late Emperor Showa, whose funeral was held that month, and also because the month was shorter than leap-year 1988. However, the figure shot up 6.3% in March as consumers rushed to stock up before the consumption tax was in place. After spending slowed in April and May in response to the jump in prices caused by the consumption tax, personal consumption was up a marginal 0.7% in June, down 0.2% in July, and down 1.9% in August (Table 1).

First-half 1989's roller-coaster ride was the direct result of the price restructuring induced by the various tax reforms that went into effect in April. For example, the 5% price increase for second-grade *sake* induced by the revision of the liquor tax had a major effect on sales of this class of *sake*. While sales were unusually high in March from pre-consumption tax stocking up, sales were down substantially through September after the tax was initiated, with the largest decreases in April (44.9%) and May (35.0%). The pattern was similar for *shochu*, which saw its prices go up 10.2% as a result of the tax changes.

Clothing sales were down 14.7%, also in response to prices that the consumer price index said were 5.8% higher on a year-to-year basis. The same higher-prices-meaning-lower-consumption pattern also held for dining out and interior fixtures, although to a lesser degree.

The opposite pattern was observed for automobiles, where the abolition of the excise tax meant lower prices. Here, sales lagged in March as consumers waited for the tax discount and then boomed after the tax break took effect. However, such is not to imply that the tax reform's lower prices inevitably meant stronger consumption. VCR and camera sales, for example, were down even though prices benefited from the tax reforms. The only thing that can be said with certainty is that the many and abrupt price changes have made consumers more wary.

The rush to buy goods in March before the consumption tax took effect produced first-quarter GNP growth figures that translate into 9.1% on an annualized basis, but the post-tax hesitation sapped this momentum in the April-June quarter and held GNP growth to 1.0%.

According to the household survey, household consumption continued to decline in July and August. In contrast, department store sales were 9.8% higher in third-quarter (July–September) 1989 than in the same quarter of 1988, indicating that sales have recovered from the second-quarter confusion. At the same time, the number of new vehicle registrations was up 21.9% in September on a year-on-year basis, continuing the better-than-20% growth recorded since April (Table 2). These gross indicators are thus at sharp variance with the household survey results.

Among the main reasons for the strong growth in department store sales are that these outlets handle up-scale items, they are located in the large cities, and they cater to a largely corporate clientele. Tending to substantiate this, sales (consumption tax included) at the chain stores, which are just as big as the department stores but handle more pedestrian items, increased only 2.7% during the third quarter, considerably less than department store sales. The figures are even worse for the small retail stores which dominate the distribution system and which are most indicative of household consumption. Here sales were very sluggish despite the seemingly booming economy.

Buying more cars

New vehicle registrations—one of the figures most often cited for large consumer durables—were also excellent. However, these numbers do not show up in household spending. For one thing, the very fact that these are large durables means that purchases are carefully considered and infrequent. At the same time, the fact that people trade in their old cars to offset part of the cost means that the full cost is not shown in household spending. In addition, many vehicles are actually purchased by companies for business purposes and are thus separate from the household account. Although the line between business use and private use is not very clear for non-salary households, it may be assumed that companies, enjoying some of their best profits ever, have been heavy buyers of company cars. The fact that today's passenger cars are bigger, more comfortable and higher-priced than in the past is another indicator that times are good.

In the same consumer durables category, shipments of microwave ovens, noise-free washing machines, large refrigerators and VCRs were very good in 1986 and 1987 but seem to have run their cycle, and shipments have either leveled off or slumped steeply in 1989.

The Japanese consumer is very sensi-

Table 2 Trends of Consumer-related Statistics (%)

	Department store sales	Chain store sales	New passenger car registrations	Turnover at 12 largest travel agents	
				Domestic	Overseas
CY 1986	5.4	2.0	1.4	4.3	7.6
CY 1987	5.5	2.6	4.1	5.3	18.9
CY 1988	7.6	4.6	13.5	1.7	20.0
1989 Jan.	7.7	4.6	−2.4	7.3	22.6
Feb.	6.3	5.3	−6.5	4.0	9.1
Mar.	34.2	9.7	−5.5	16.3	18.5
Apr.	−3.7	0.7	25.5	−5.6	12.6
May	5.0	1.4	34.4	3.1	11.7
June	7.7	2.3	26.4	6.6	9.8
July	9.5	2.7	23.9	3.5	13.6
Aug.	8.0	2.3	33.9	6.7	12.4
Sep.	11.8	3.1	21.9	6.6	13.3

Notes: 1. All the figures denote percentage change over previous year.
2. Department store sales figures are from the Ministry of International Trade and Industry.
3. The chain store sales figures are the outlet-adjusted figures from the Japan Chain Stores Association.
4. Figures for new car registrations are from the Japan Automobile Manufacturers Association.
5. The accounts handled by the 12 largest travel agents' figures are from a Tetsudo Ryokaku Kyokai survey.

tive to the appearance of new products, and this proclivity shortens the market lives of many products and demands constant innovation by business. One of the most recent market successes was the personal computer, lauded for being small, light and packed with advanced functions.

Sales figures at large travel agents, indicative of leisure spending, increased sharply, up 6.6% for domestic travel and 13.3% for overseas travel on a year-to-year basis. Again, this conflicts somewhat with the household spending survey results, in part because much of the increase is in business trips but even more so because of heavy trip-taking by young singles who do not show up in the household spending survey. Young men and women in their 20s are the most avid overseas travelers, and their travel outlays are a major pillar of the travel agents' sales.

This discrepancy is not limited to travel, as these young singles' other personal consumption does not appear in the statistics either, and this is clearly a major weakness in Japanese consumption statistics.

The household survey is as reliable as it can be under the circumstances, being based on monthly tabulations of the daily household account records (income, expenditures, and information on how much of what kind of items was purchased) kept by 8,000 housewives nationwide. It is, after all, the Japanese housewife who controls the family purse strings and is in the best position to track the family finances.

However, the traditional household in which the husband is the breadwinner and the wife manages the household accounts is dying out. More wives are working and earning money of their own. More children and old people are working part-time to earn their own spending money (supplemented by pensions for old people). More and more people are thinking of consumption not as a family affair but as a personal concern, and accounts are no longer consolidated. In short, Japanese consumption is being individualized.

Companies that have been able to anticipate and respond to this individualization have done well, while companies unable to customize and personalize their products have lost market share. For the successful companies—Japanese or not—this has meant formulating carefully tailored marketing strategies to identify and appeal to the many narrow niches that are emerging.

Company perks

Nor may companies expecting to succeed in Japan overlook the important part played by corporate consumption.

Japanese business entertainment is pegged at ¥4,200 billion ($29 billion) a year and is said to support a massive array of bars, restaurants, golf clubs and other service facilities. However, expense-account entertainment does not stop with wining and dining the client but extends to extensive gift-giving, including the midsummer *o-chugen* and year-end *o-seibo* delivered from the top department stores. Unlike the price-sensitive housewives' household spending, corporate expense-account spending is quality- and brand-sensitive with a strong tilt toward the high-price end.

While some observers have said that Japanese consumption is hesitant and lifestyles are impoverished, this fails to take account of the lavish perks afforded by company expense accounts. Corporate profits that would be siphoned off by shareholders and management in other countries trickle down to employees in Japan as expense-account perks. For the employee, this has the added advantage that it is tax-free. Since access is a function of position, this may be another factor tying the employee to his work and promoting corporate loyalty.

Yet despite these advantages, there is also considerable room for reform in light of the upward pressure this consumption puts on prices, the way it erodes the businessperson's individuality, and the threat it poses to personal ethics.

Japanese personal consumption has been somewhat erratic since the introduction of the consumption tax, and it is difficult to predict any great leap forward in 1990. On the other hand, given the fairly high income levels and the prevailing price stability, nor is any sudden collapse anticipated. Most likely, consumption will continue to grow steadily—an expectation further supported by the high quality of available goods and services.

Although it is difficult to win the Japanese consumer's affections, success in this courting, like success in the courting of a beautiful woman, yields immense gratification. Imports of consumer goods are surging, and many foreign companies are quietly aglow with success.

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