



JRI news release

**Consumer Spending: the Underpinning Role of Retired Households and the
Impact of the Rise in the Household Burden**

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Overview

A series of systemic changes that will increase the burden on household finances, including the raising of pension insurance contributions, are planned for fiscal 2004 and 2005, and some observers have expressed concern over the potential impact on the economy. This article examines the state of consumer spending today and considers the impact of a rise in the household burden.

A survey of consumer spending by type of household reveals that, among working households, expenditure has fallen by approximately 10% over the past five years, reflecting the fall in disposable incomes. Among retired households, by contrast, the relative stability of incomes and the rise in the effective purchasing power of financial assets due to deflation have increased the propensity to consume and consumer spending is holding firm.

The firmness of consumer spending among retired households, together with the rise in the number of retired households, is underpinning consumer spending in Japan as a whole. However, as this will induce a rise in the macro propensity to consume, there is a risk, in the medium-to-long term, that the resulting savings shortage will trigger a rise in interest rates and have a negative impact on the Japanese economy.

In addition to the discontinuation of the deduction for a spouse and the raising of employment insurance contributions, the systemic changes under the fiscal 2004 government budget proposal and the tax reform proposals are set to increase the household burden through a rise in pension insurance contributions, etc. The

increase in the household burden will be of the order of ¥500 billion in fiscal 2004 and more than ¥1 trillion in fiscal 2005.

Although the downward pressure of the systemic changes described above cannot be ignored, the following circumstances suggest that consumer spending is likely to avoid a further slump in fiscal 2004.

(i) The "net" increase in payments (household payments minus household burden) continues.

(ii) The rise in the effective purchasing power of financial assets due to deflation will continue to underpin consumption.

(iii) The slowing of the deterioration of employment and income conditions will relieve the reluctance to consume among worker households.

However, it should be noted that there is a possibility that other measures, currently under consideration, that will lead to an increase in the burden on the finances of ordinary households will be implemented in fiscal 2005 and increase the risk of an economic recession.

To achieve continued growth of consumer spending, it will be necessary (i) to make steady progress in the creation of a sustainable social security system and restore faith in the system, and (ii) to bring about a rise in household incomes among worker households through a revitalization of the economy. In particular, if there is to be a rise in household incomes it is essential that the macro decline in the savings rate be slowed and that consumption should be expanded.