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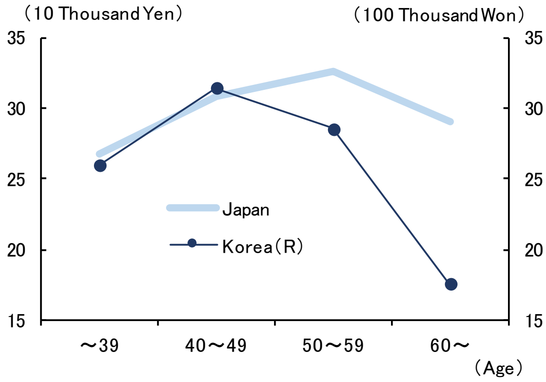
Topics Personal consumption by elderly Koreans has decreased

Personal spending among the elderly generation is sluggish in Korea, against the backdrop of concerns over public pension payments in the future. As the baby boom generation has entered their 60s, it will be difficult to achieve growth led by domestic demand unless the issue of ailing personal consumption by the elderly is addressed.

■ Consumer spending by the elderly has cooled

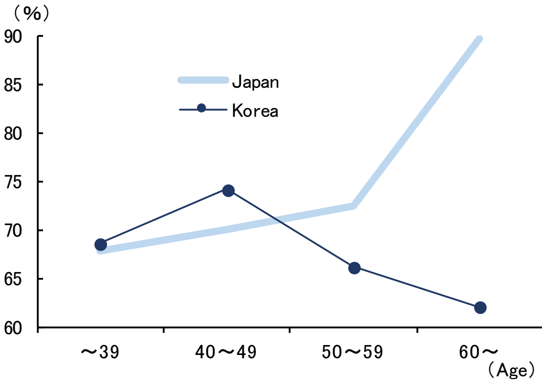
Korea is facing serious deterioration in personal spending by the elderly generation (people aged 60 years and over). Looking at the comparison of consumption expenditures by workers' households based on Japan's "Family Income and Expenditure Survey" and Korea's "Survey on Household Income & Expenditure Trends," the level of consumer spending declines more with age in Korea. In particular, consumption expenditures have significantly deteriorated where the head of household is aged 60 years or older. Consumption expenditures are affected by two factors: disposable income and consumption propensity. Firstly, the structure of disposable income is virtually identical between Japan and Korea. The graph indicates that disposable income peaks for households which have a head in their 50s and then significantly drops for those with a head aged 60 or older. Meanwhile, the consumption propensity of heads of households aged 60 years or older differs significantly between Japan and Korea. While it is much higher than that of younger generations in Japan, it is lower compared to that of younger generations in Korea. Based on the above, we can see that the significant decline in consumption expenditures by the elderly in Korea is attributable mainly to their extremely low consumption propensity. Generally speaking, the smaller dispensable income is, the higher consumption propensity becomes, as it is difficult to reduce basic expenditures such as food and utility expenses. Given this, Korea's situation where consumption propensity is lower among the elderly generations with smaller disposable income is exceptional.

＜Consumption Expenditures by Age Group of Household Heads(Workers' Household with Two-or-more Person/2016)＞



Source:Ministry of Internal Affairs and Communications, Statistics Korea
Note:As for Japan, Age ~39 is 30~39, 60~ is 60~69.

＜Consumption Propensity by Age Group of Household Heads(Workers' Household with Two-or-more Person/2016)＞



Source:Ministry of Internal Affairs and Communications, Statistics Korea
Note:As for Japan, Age ~39 is 30~39, 60~ is 60~69.

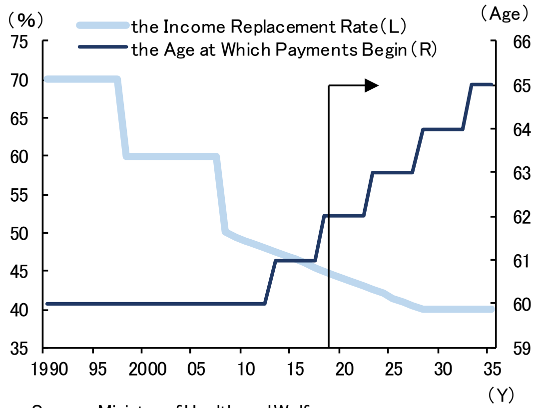
■ Concerns over public pension payments

The main reason behind the lower consumption propensity among workers' households in Korea seems to be concerns over public pension payments which will support their livelihoods after retirement. In Japan, the public pension system is structured in two layers, and general workers (salaried workers) can receive a welfare pension in addition to the national pension. Average monthly pension payments for fiscal 2016 were 148,000 yen and 55,000 yen, respectively, which means they can receive 203,000 yen in total. On the other hand, Korea's public pension system has only one layer comprising national pension in principle, and average monthly pension payments are merely 320,000 won (approximately, 32,000 yen). As Korea also has a basic pension system aimed at supporting low-income elderly people, up to 300,000 won is paid to those elderly people with lower income. However, even with these additional payments, their income is not enough to sustain even a minimum standard of living. This is why elderly workers have been trying to cut down their spending and save as much money as possible for their livelihood after impending retirement.

There are three reasons behind the smaller public pension payments in Korea. Firstly, the rate of pension premiums while in employment is lower. While the premium rate for Japan's welfare pension is 18.3% of income, Korea's national pension calls for 9%. Secondly, there is no tax injection into the national pension fund in Korea. In Japan, a half of its national pension fund is raised from taxpayers' money. Thirdly, since Korea established its national pension system quite late, many pension recipients cannot receive their pension payments in full, as the vesting period is too short. Korea's current public pension scheme for the entire nation was established in 1999. Pension recipients have to be enrolled in the plan for at least 40 years in order to receive national pension payments in full. However, only 20 years have passed since the establishment of the public pension scheme covering the entire nation. As just mentioned, since Korea's public pension system has not been functioning as livelihood security for people after retirement, the serious social problem of poverty among the elderly has resulted. In fact, the relative poverty rate and the suicide rate among the elderly in Korea have been high internationally. This is also a cause of extremely low consumption propensity of elderly workers' households in Korea.

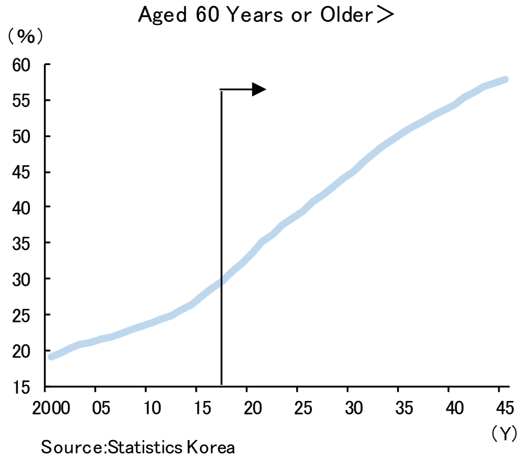
To make things worse, concerns over income after retirement seem to be further increasing. In light of the rapidly aging society, the income replacement rate for the national pension has been lowered, and the age at which national pension payments begin has been raised. In addition, it has become difficult to expect financial support from children as a result of changes in social customs and the declining birth rate. Consequently, the consumption propensity of elderly workers' households in Korea has been declining in terms of not only the current level, but also in its direction.

＜The Income Replacement Rate and the Age at Which Payments Begin of the Korean National Pension＞



Source:Ministry of Health and Welfare

＜Ratio of Households with a Head Aged 60 Years or Older＞



Source:Statistics Korea
Note:The prediction was made at April 2017.

■ What will happen in the future?

As the sluggish personal spending of elderly workers' households is so prominent, it has a significant impact on Korea's economy that cannot be ignored. If the consumption propensity of Korea's elderly workers' households had been as high as that in Japan, Korea's macro personal consumption in 2016 could have been 3.3% higher. Furthermore, downward pressure on private consumption will likely strengthen due to changes in demography. As the baby boom generation (people born between 1955 and 1963) has entered their 60s, the number of households with a head aged 60 years or older has been rapidly increasing. For this reason, even if the decline in consumption propensity of elderly workers' households is halted, private consumption in 2030 will likely be pushed down by 1.1% compared with the current level due purely to the aforementioned effect of the aging society. In cases where stagnant consumption by the elderly generation aged 60 years or older cannot be improved, downward pressure on macro consumer spending will further strengthen.

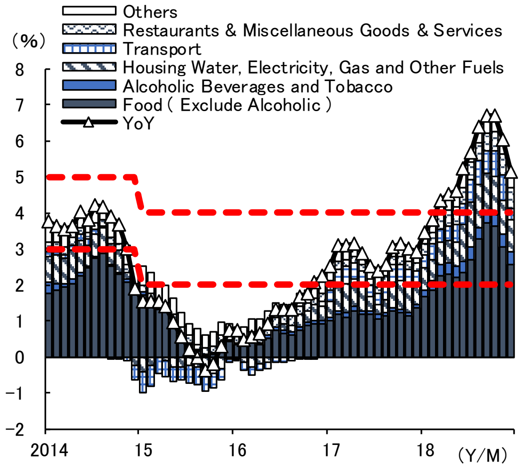
The Moon administration aims to correct the trajectory from export-driven growth led by conglomerates to domestic demand-driven growth originating from an increase in household income. However, there is little prospect of Korea being able to achieve domestic demand-driven growth as long as the number of elderly people who are concerned about their income after retirement continues to rise rapidly. In order for the Korean government to achieve domestic demand-driven growth in an aging society, it is mandatory to consider enhancing social security through the expansion of public spending as an option.

(Michinori Naruse)

Philippines Economic slowdown in the beginning of 2019

■ Inflation rate peaked out at the end of 2018

The Philippines' inflation rate recorded historically high levels under the current statistical standards, but has started to decline after peaking out in October 2018. In December 2018, the consumer price index increased by 5.1%, dropping to the level of seven months earlier.



Source : PSA

The following two factors can be raised as possible causes for the decline in inflation rate. The first is lower crude oil prices. The crude oil price (Dubai), which was around the 78 dollars/barrel range in October 2018, started to decline thereafter and dropped to the 56 dollars/barrel range in December against the backdrop of concerns over the slowdown of the global economy. The decline in fuel prices affected public transportation fares including Jeepneys (omnibuses in the Philippines). It also impacted transportation costs for various goods, significantly pushing down the prices of goods on the whole. The second is that soaring food prices came to a halt. The pace of rises in food prices accelerated in September and October 2018 due to supply shortages mainly for rice, reflecting the damage from summer typhoons. The harvest period for crops started thereafter and the government increased food imports, easing food supply and demand. Accordingly, the pace of rises in food product prices substantially slowed down.

In the future outlook, the inflation rate is expected to converge to the central bank's inflation target range within the first half of 2019. This is because the inflation rate is likely to be pushed down due to the end of the effects of the rise in excise duties in January 2018, and also the setback of imported inflationary pressure as the depreciation of the Philippine peso ran its course in line with the slowdown of rate hikes in the United States. In addition, the aforementioned two factors will continue to place downward pressure.

■ Delay in infrastructure budget implementation will weigh down the economy

Real disposable income is anticipated to increase in line with weakened inflationary pressure for the near future as discussed above. Therefore, private consumption, which accounts for approximately 70% of real GDP, will likely pick up going forward. Meanwhile, the Philippine economy will be forced to decelerate for the January to March period of 2019, reflecting the slowdown in investments, which had been supporting the economy. This is attributable to the fact that the budget for fiscal 2019 could not be adopted within 2018.

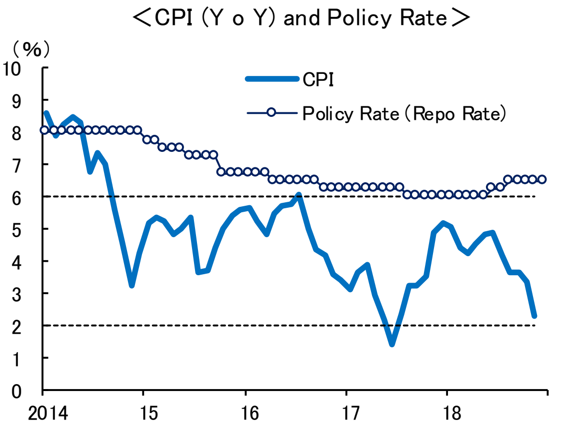
The budget for fiscal 2019 was proposed to both the Senate and the House of Representatives by President Duterte in July 2018. However, there were concerns that cabinet ministers had been granting favors to their relatives. The discussions on the proposed budget fell into disorder in the House of Representatives, and the House's adoption of the budget was delayed until November. At that point, deliberation by the Senate and coordination by a joint committee of both the Senate and the House of Representatives were still required for the finalization of the budget. The Department of Budget and Management presented an outlook in mid-December 2018 which predicted that the finalization of the budget for fiscal 2019 would be delayed until mid-February 2019. In the Philippines, when a budget proposal is carried over, the previous year's budget will be adopted tentatively. While a government shutdown as in the United States will not happen, actual budget implementation in terms of infrastructure investment, which is a driver that boosts economy, will be suspended because the same projects cannot be executed twice.

The Congress of the Philippines resumed on January 14, 2019. However, attention must be paid to risks of the delay in budget finalization and a prolonged economic downturn if deliberation in the Senate and coordination by the joint committee of both the Senate and the House of Representatives should be disrupted.

(Yuta Tsukada)

India Declining crude oil prices act as a tailwind for the economy

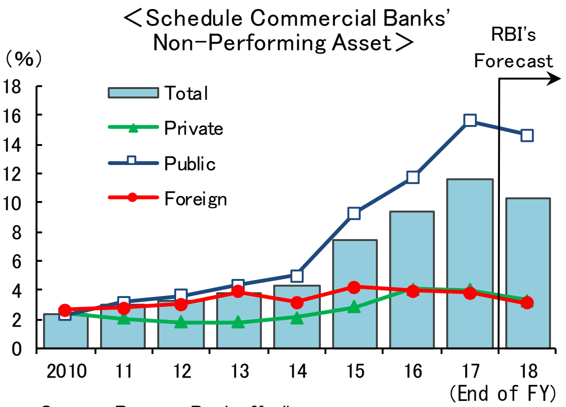
■ Inflationary pressure has eased



Source: Reserve Bank of India

Inflationary pressure was increasing in mid-2018 in India against the backdrop of higher oil prices, the weaker rupee, and a sharp increase in the MSP (Minimum Support Price) for purchases of agricultural products by the government. In response, the Reserve Bank of India tightened its monetary policy in order to guard against inflation. This resulted in a total increase in the policy rate (repo rate) of 0.5 percentage points in June and August 2018. However, inflationary pressure has been diminishing in light of a sharp decline in oil prices since October 2018, so monetary policy is also shifting towards an accommodating stance. Amid a sharp drop in crude oil prices to the 40 dollars/barrel level at the end of 2018, the consumer prices index has stagnated at the lowest end of the target range (+4±2% year on year) set by the Reserve Bank of India. As a decline in oil prices contributes to easing pressure for the depreciation of the rupee through the reduction of current account deficit, the trend of the higher rupee has continued in foreign exchange market since around October 2018 when the crude oil prices started to peak out. The Reserve Bank of India maintained its policy rate at the Monetary Policy Committee held in December 2018 in order to scrutinize the trend of coordinated production cuts by oil-producing countries and the effect of outflows of funds in response to U.S. rate hikes. Having said that, if oil prices continue to hover around the current level, it will increase the possibility that the Reserve Bank will increase its policy rate by 0.25 percentage points at the Monetary Policy Committee in February or April 2019. In such a case, consumption of durable goods and investments will accelerate further due to the slowdown of inflation and monetary easing.

■ The ratio of non-performing loans has shown signs of decline



Source: Reserve Bank of India
Note: Data before FY 2016: Statistical Tables Relating to Banks in India, Data after FY 2017: Financial Stability Report.

India's economy faces downward risks in 2019, including the risk of financing restrictions resulting from the non-performing asset ratio of commercial banks exceeding 10%, in addition to risks associated with soaring crude oil prices. However, signs of a decline in the non-performing asset ratio have been witnessed against the backdrop of a decrease in new non-performing asset in line with economic recovery and the advance in disposal of bad debt. According to the Financial Stability Report announced by the Reserve Bank of India at the end of December 2018, the non-performing asset ratio of commercial banks decreased in September 2018 for the first since March 2015 when Asset Quality Review (AQR), an asset review for commercial banks aimed at enhancing the stabilization of the financial system, was conducted. The Reserve Bank has also forecasts that the non-performing asset ratio will maintain its mild declining trend towards March 2019. In addition to the large-scale public capital injection scheduled between 2018 and 2019 targeting public banks with concerns over shortages of capital, it was decided in December 2018 to delay the application of Basel III (a new capital adequacy rule initially scheduled to be adopted in March 2019) by one year. Given the above, it can be judged that the risk of an economic downturn caused by non-performing asset is diminishing.

(Shotaro Kumagai)

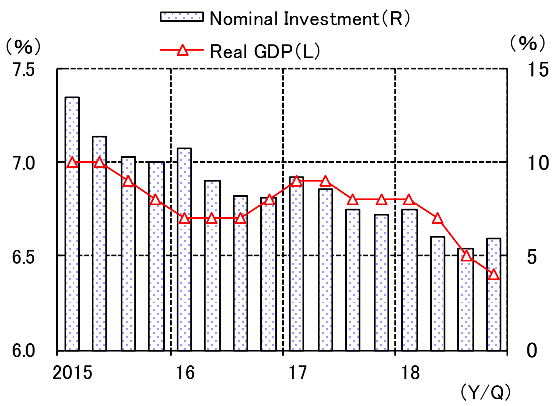
China Growth slowed slightly during October to December 2018

■ Economic slowdown trend became apparent

China's real GDP growth in the October to December quarter of 2018 decreased to 6.4% from the same period of the previous year, declining by 0.1 percentage point from the preceding quarter. Looking at 2018 on the whole, the trend toward an economic downturn became more apparent.

Firstly, the driving force of overseas demand diminished. Intensifying trade frictions with the United States, the slowdown of the global economy, and the end of rush demand caused the growth of exports to significantly diminish in November and then turn negative in December, to minus 4.4% on a year-on-year basis.

<Real GDP, Fixed Assets Investment (Y o Y)>



Source: National Bureau of Statistics
Note: Investment figures excluding rural households are year-to-date.

In terms of domestic demand, the slowdown of consumer spending also became apparent. Looking at nominal retail sales, while the growth rate remained around 9% year-on-year until September, the growth has been hovering around 8% since October. It seems that lower stock prices and the heightened concern over the economic outlook resulted in a decline in purchasing intention. A decline in automobile sales has been apparent in particular. Since the sales volume saw a year-on-year fall in July, the decline rate has been increasing. Another negative factor is a slowdown in buoyant online sales, which had driven the expansion of consumption. As a result of this slowdown in consumption and other factors, the growth of imports in December declined to minus 7.6% year-on-year, which exceeded that of exports.

Meanwhile, positive effects of economic stimulus measures by the government have become apparent in some areas. The Chinese government gradually shifted the focus of its economic management from the control of excessive investment and debt to economic stabilization since the latter half of 2018. As a result, the declining trend of the growth in infrastructure investment and private-sector investment came to a halt. In fact, the growth of nominal fixed asset investment (excluding rural households) has picked up after bottoming out around summer. Such recovery in investment may have mitigated the degree of economic downturn to a certain extent.

■ Economic slowdown will be prevented through a domestic demand stimulus package

The future outlook calls for the following two factors to likely underpin China's economy.

Firstly, positive effects of a domestic demand stimulus package will gradually start to appear. At the Central Economic Work Conference held in December 2018, the Chinese government made its commitment to economic stimulus even clearer against the backdrop of an increase in unemployment resulting from deteriorated economic conditions and increasing concerns over social unrest. On the financial front, the Chinese government announced and gradually implemented a series of measures including 1) the introduction of special deductions in individual income taxes for education expenses and interest on housing loans, and 2) front-loaded issuance of special local government bonds aimed at infrastructure development. On the monetary front, the reductions in the deposit reserve ratio on January 15 and 25 were announced at the beginning of the year. The People's Bank of China also strengthened its support for corporate bond issuance aimed at eliminating financial difficulties faced by private companies.

Secondly, the conflict between China and the United States will likely be mitigated. If U.S.-China trade frictions are further intensified, the increasing risk of a downturn in exports in line with additional retaliatory tariffs will be unavoidable. In order to prevent such a situation, the Xi Jinping administration is anticipated to present further improvement measures, including the reduction of China's trade surplus with the United States and the protection of intellectual property rights while compromising in the review of the subsidy program with preferential treatments for specific industries in terms of its industrial vision "Made in China 2025." Due to these factors, it is presumed that a situation where China's economy will unilaterally decelerate is likely to be avoided.

(Junya Sano)