

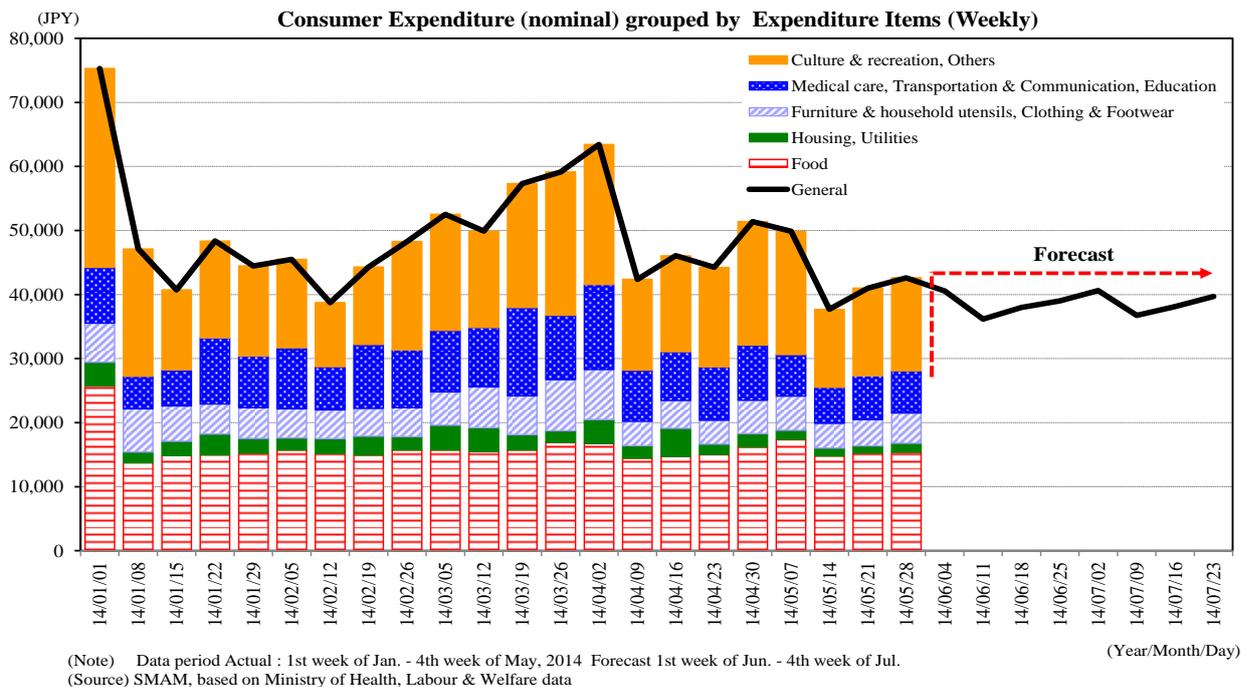
Personal Consumption - Hope of Recovery from Summer

Impact of rush demand and its pullback were the biggest ever

In this report, I would like to continue discussion on the future outlook of Japanese personal consumption further to my previous SMAM Market Insights report (No.016).

According to the Family Income & Expenditure Survey, “Consumption Expenditure Level” (adjusted by the distribution of household by number of household members and age group of household head) declined 5.7% m-o-m in May, declined sharply for two consecutive months after April (-12.1% m-o-m). This was the largest decline ever caused by the pullback of rush demand as compared to those in 1997, right after the consumption tax hike to 5%, (April: -6.5%, May: -1.4%, both m-o-m) and in 1989 when the consumption tax was newly introduced, (April: -5.6%, May: -0.6%, both m-o-m). On the other hand, Consumption Expenditure situation of previous month of the consumption tax hike were +10.6% m-o-m in March 2014, +2.3% m-o-m in March 1997 and +5.1% m-o-m in March 1989. The biggest impact of rush demand was seen in March 2014. In reality, the household strongly reacted against the tax hike this time. The severer income environment might have influenced the consumers’ behaviors.

Actually, the real wages environment before the tax hike was totally different in 2014 from the situations in 1997 and 1989. In 2014, the real wages were already declining y-o-y before the tax hike unlike in 1997 and 1989, when they were on rising y-o-y. This is the reason why I believe that stimulative economic policy is essential to maintain positive consumer sentiment.



Pullback of rush demand would fade away towards summer

Anyhow, it had been assumed from the beginning that there would be rush demand and its pullback to any extents. The important point is that the consumers' activities should be back to normal by overcoming the pullback of rush demand as soon as possible even if the negative effect is not small. Currently, it is widely expected that the consumption is likely to recover this summer as the amount of summer bonus increased due to the recovery of corporate earnings. For this report, I have calculated the forecast of consumption expenditure (in nominal base) till July this year based on various consumer confidence indices. My forecast is that weakened consumption expenditures will bottom out in June, and in July they would be stabilized and then would be gradually recovering going forward. Breaking down by expenditure items, you will find that the fundamental expenditure items such as "Food", "Housing", "Utilities" and "Medical care" would be relatively stable, while items which were impacted by the rush demand and its pullback such as Household electrical appliances ("Household utensils" and "Culture & recreation expenses"), "Clothing & footwear" and other services ("Other consumption expenditures") is expected to stop declining.

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