

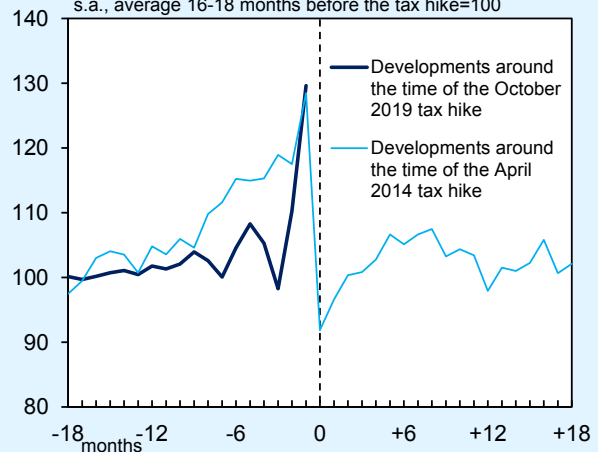
(Box 6) Developments in Household Spending prior to the Consumption Tax Hike

While Japan's economic growth rate is pushed up before a consumption tax hike through an increase in demand led mainly by household spending, it is then pushed down after the tax hike as a result of a reactionary decline to the increase in demand and of a decrease in households' real disposable income due to price rises. With regard to the effects of the tax hike conducted in October 2019, this box examines fluctuations in demand for (1) durable goods, (2) nondurable goods, and (3) housing starts observed prior to the tax hike by comparing them with those seen before the previous tax hike in April 2014.

Starting with developments in durable goods, the increase in demand was observed mainly in September, which was just before the tax hike, and taking account of developments during several months before September, the overall increase has been limited compared to that of the previous tax hike (Chart B6-1[1]). Taking a more detailed look, automobile sales have accelerated their growth pace recently, but the increase in demand this time was constrained compared to that of the previous tax hike (Chart B6-1[2]). This seems attributable mainly to the following: (1) policy responses, such as the abolishment of the automobile acquisition tax and the reduction in automobile tax, and (2) automakers' sales strategy to introduce new car models from October. With regard to sales of household electrical appliances, an increase in demand -- mainly for televisions and personal computers -- was observed in September, which was just before the tax hike. However, the degree of

Chart B6-1: Consumption Activity Index (CAI, Real)

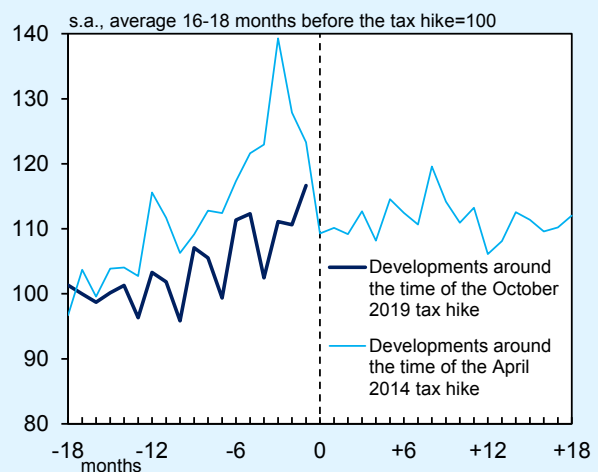
1. Durable Goods (Automobiles + Household Electrical Appliances)
s.a., average 16-18 months before the tax hike=100



Sources: Bank of Japan, etc.

Note: Month 0 is the month in which the consumption tax rate was raised -- namely, April 2014 or October 2019. Regarding developments around the time of the October 2019 tax hike, the latest figure is for September 2019. The CAI is based on staff calculations (as of October 30).

2. Automobiles



Sources: Bank of Japan, etc.

Note: Month 0 is the month in which the consumption tax rate was raised -- namely, April 2014 or October 2019. Regarding developments around the time of the October 2019 tax hike, the latest figure is for September 2019. The CAI is based on staff calculations (as of October 30).

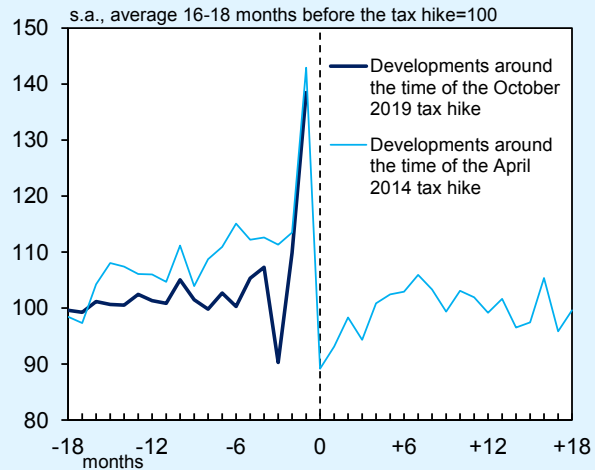
overall increase appears to have remained small compared to that of the previous tax hike, since sales of air conditioners fell in July due to irregular weather (Chart B6-1[3]).

With regard to nondurable goods, a significant increase in demand was observed, mainly in high-end products (cosmetics and luxury goods), goods related to daily necessities, and alcohol (Chart B6-1[4]). Monthly developments show that there was no remarkable increase in demand through August, but there seems to have been a significant increase in demand through end-September, which was just before the tax hike.

Next, looking at the number of housing starts, which is a leading indicator of housing investment, owned houses and detached houses built for sale increased through around June due to the effects of the increase in demand prior to the tax hike, but there already has been a reactionary decline to the increase in demand recently (Chart B6-2[2]).³⁷ However, an increase in demand prior to the tax hike was not observed in the overall number because housing for rent, which saw a substantial increase prior to the previous tax hike, has continued on a declining trend this time, reflecting waning demand for tax saving and asset management as well as cautious lending attitudes of financial institutions compared to a while ago

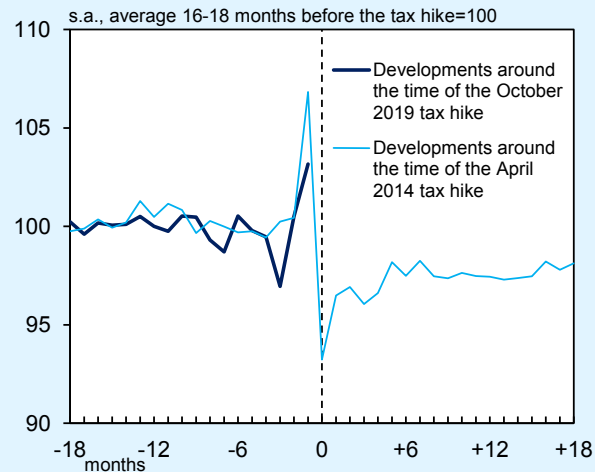
³⁷ For housing, the old consumption tax rate of 8 percent was applied to contracts made before end-March 2019, even if the handover of the property is after the start of October. For this reason, regarding orders received by housing developers, there was a rush to make contracts through March, and a reactionary decline to the increase has been observed since April. Such developments in orders have been reflected in housing starts with some time lag.

3. Household Electrical Appliances



Sources: Bank of Japan, etc.
Note: Month 0 is the month in which the consumption tax rate was raised -- namely, April 2014 or October 2019. Regarding developments around the time of the October 2019 tax hike, the latest figure is for September 2019. The CAI is based on staff calculations (as of October 30).

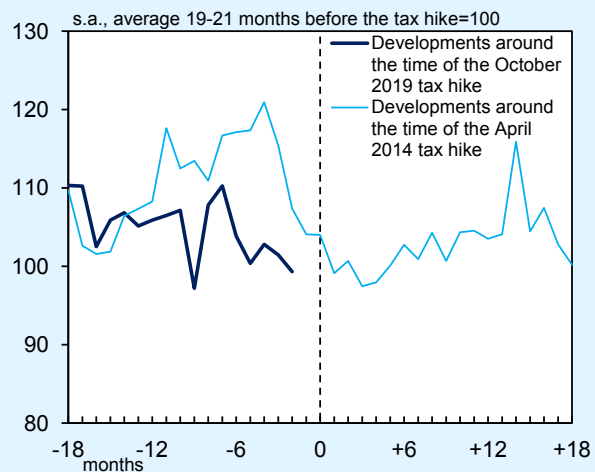
4. Nondurable Goods



Sources: Bank of Japan, etc.
Notes: 1. Month 0 is the month in which the consumption tax rate was raised -- namely, April 2014 or October 2019. Regarding developments around the time of the October 2019 tax hike, the latest figure is for September 2019. The CAI is based on staff calculations (as of October 30).
2. Nondurable goods include goods classified as "semi-durable goods" in the SNA.

Chart B6-2: Housing Starts

1. Overall



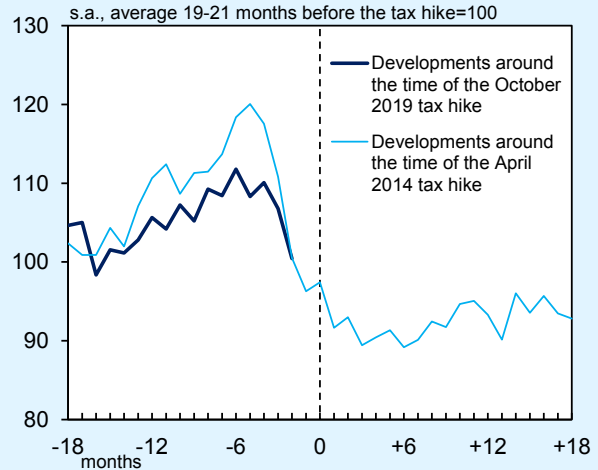
Source: Ministry of Land, Infrastructure, Transport and Tourism.
Note: Month 0 is the month in which the consumption tax rate was raised -- namely, April 2014 or October 2019. Regarding developments around the time of the October 2019 tax hike, the latest figure is for August 2019.

(Chart B6-2[1]).

With regard to the outlook, nondurable goods, which experienced an increase in demand prior to the tax hike to a substantial degree, are expected to see a relatively large decline in the short run. However, given that such goods have low durability, the declining phase will likely be temporary. In addition, taking into account that durable goods and housing, both of which have a long replacement cycle, have seen a small increase in demand prior to the tax hike, downward pressure stemming from a reactionary decline is expected to be limited compared with that of the previous tax hike.

However, regarding the expected decline in private consumption, it is difficult to distinguish in real time the effects of the reactionary decline to the increase in demand prior to the tax hike from those of a decrease in real income, and consumption developments are greatly affected by household sentiment at the time. Thus, uncertainties regarding the outlook for private consumption are significant, and it is necessary to continue to carefully examine developments, including anecdotal evidence.

2. Owned Houses + Detached Houses Built for Sale



Source: Ministry of Land, Infrastructure, Transport and Tourism.
 Notes: 1. Month 0 is the month in which the consumption tax rate was raised -- namely, April 2014 or October 2019. Regarding developments around the time of the October 2019 tax hike, the latest figure is for August 2019.
 2. Figures for detached houses built for sale are based on staff calculations.