

(Box 5) Wealth Effects on Private Consumption

Wealth effects refers to increases in the value of assets such as stocks having positive effects on private consumption (vice versa). The effects normally are measured in terms of the marginal propensity to consume; that is, the yen change in private consumption in response to the 100 yen change in households' financial assets due to stock price fluctuations.

Existing studies that estimate wealth effects of households' financial assets in Japan suggest that a 100 yen change in the asset value leads to about a 2-4 yen change in private consumption (Box Chart 5 [1]). These results make it possible to roughly evaluate wealth effects due to changes in stock prices. For example, if stock prices fell by about 10 percent and the amount outstanding of stocks and investment trusts (195 trillion yen as of end-December 2015) declined by about 20 trillion yen, private consumption would fall by about 400-800 billion yen (private consumption per year is about 280-290 trillion yen) (Box Chart 5 [2]).

Wealth Effects on Private Consumption

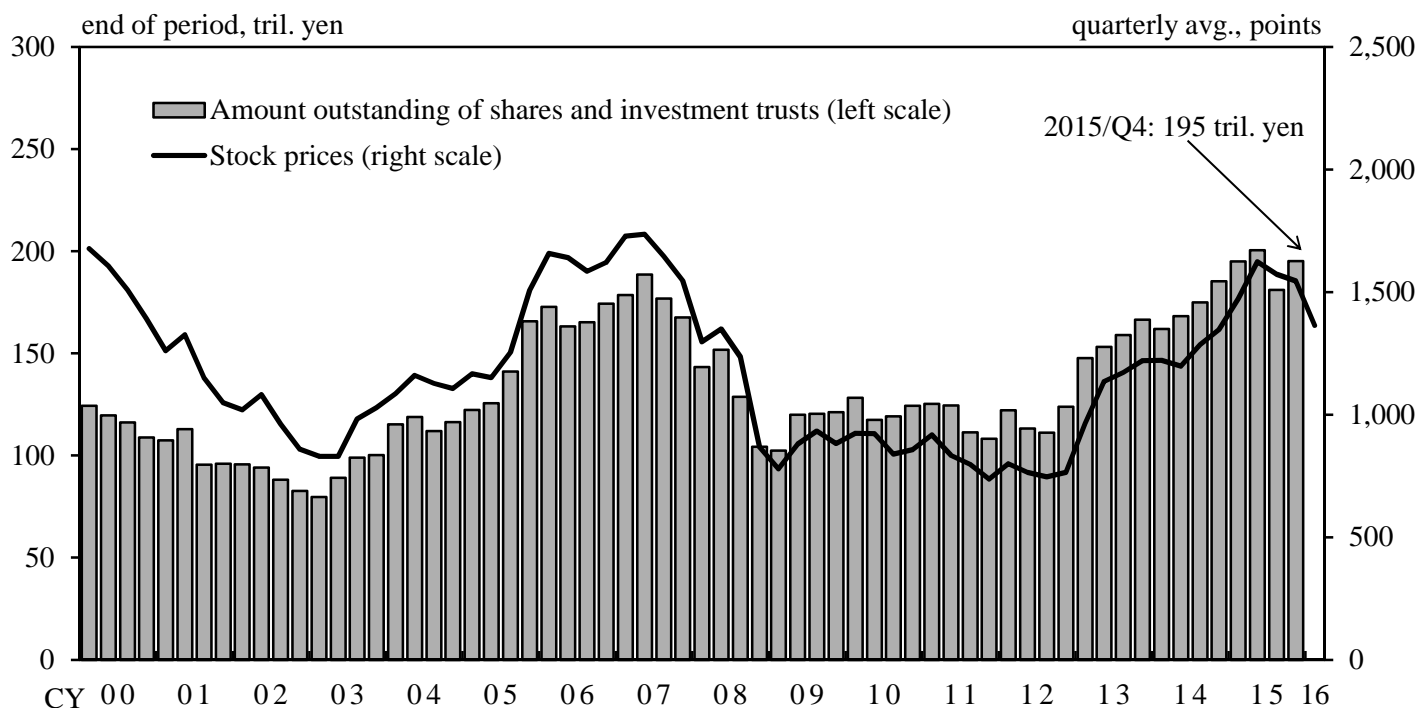
(1) Studies on Financial Wealth Effects in Japan

	Estimation period	Financial wealth effect
Mutoh, Kawai and Sano (1993)	1955-1991	0.0
Horioka (1996)	1955-1993	2.9
Boone, Giorno and Richardson (1998)	1979/Q1-1996/Q2	3.8
Ogawa and Kitasaka (1998)	1980, 1985, 1990	4.9
Ludwig and Slok (2002)	1960/Q1-1999/Q4	4.0
Cabinet Office (2009)	1980-2006	3.5
Unayama and Komura (2014)	November 2012-May 2013	2.2

Notes: 1. The figures for the financial wealth effect show the change in yen in private consumption as a result of a 100-yen change in the value of financial assets held by households.

2. In some of the studies, the wealth effect is calculated using the reported asset price elasticity multiplied by the ratio of private consumption to the value of financial assets held by households.

(2) Stock Prices (TOPIX) and Amount Outstanding of Shares and Investment Trusts Held by Households



Note: Shares and investment trusts = listed shares + investment trust beneficiary certificates ("Flow of Funds" basis)

Sources: Mutoh, Kawai and Sano (1993) "Private Consumption and Negative Wealth Effects" (available in Japanese only); Ogawa and Kitasaka (1998) "Asset Markets and Business Cycle Fluctuations" (available in Japanese only); Cabinet Office (2009) "Annual Report on the Japanese Economy and Public Finance 2009;" Unayama and Komura (2014) "Impact of Stock Price Changes on Private Consumption: Measuring Wealth Effects During the Abenomics Period" (available in Japanese only); Horioka (1996) "Capital Gains in Japan: Their Magnitude and Impact on Consumption;" Boone, Giorno and Richardson (1998) "Stock Market Fluctuations and Consumption Behaviour: Some Recent Evidence;" Ludwig and Slok (2002) "The Impact of Changes in Stock Prices and House Prices on Consumption in OECD Countries;" Bloomberg; Bank of Japan.