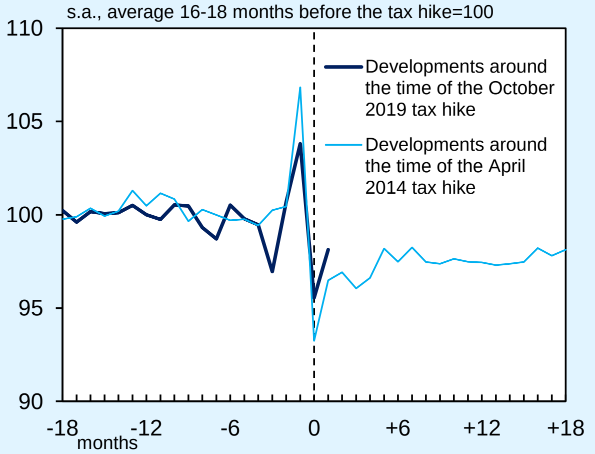
## (Box 4) Developments in Household Spending after the Consumption Tax Hike

While the economic growth rate is pushed up before a consumption tax hike through an increase in the front-loaded purchases ahead of selling price rises, 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 overall price rises. Based on developments in various indicators so far, it appears that (1) the increase in demand prior to the tax hike and the reactionary decline to the increase have been constrained compared to those of the previous tax hike in April 2014, and (2) consumer sentiment after the tax hike has been picking up.

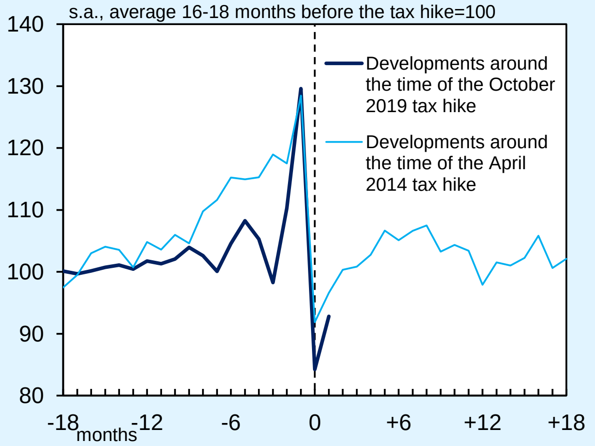
**Chart B4-1:** Consumption Activity Index (CAI, Real)

**1. 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 November 2019. The CAI is based on staff calculations.
2. Nondurable goods include goods classified as "semi-durable goods" in the SNA.

**2. Durable Goods (Automobiles + Household Electrical Appliances)**



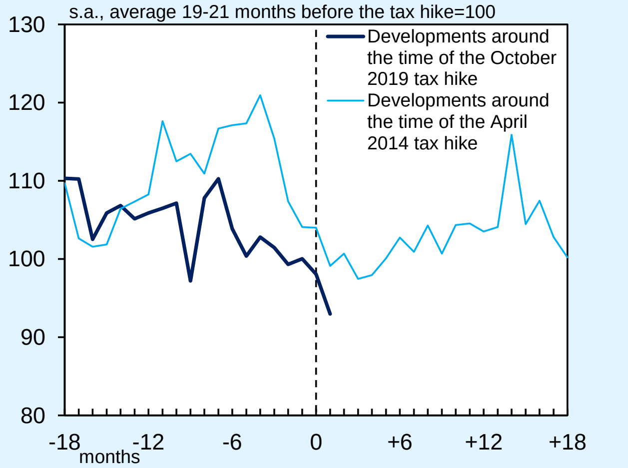

Sources: Bank of Japan, etc.
Note: Month 0 is the month in which the consumption tax rate was raised -- namely, April 2014 or October 2019. Regarding developments around the time of the October 2019 tax hike, the latest figure is for November 2019. The CAI is based on staff calculations.

Starting with developments in nondurable goods as a whole, these have been firm compared to at the time of the previous tax hike as the decline in consumption of these goods after the tax hike has been constrained, partly reflecting the effects of various support measures for households (such as the reduced tax rate and point reward program for cashless payments) (Chart B4-1[1]). Similarly, sales at supermarkets and convenience stores, which mainly handle nondurable goods, have been picking up to date, although they dropped temporarily right after the tax hike, also reflecting the impact of Typhoon No. 19.

On the other hand, looking at developments in durable goods as a whole, even though the increase in demand prior to the tax hike generally was constrained compared to that of the previous tax hike, the degree of decline since last October has been somewhat large (Chart B4-1[2]). The weakness in durable goods consumption is largely attributable to the decline in automobile sales since last October (Chart 33). However, as the decline in automobile sales has been affected to some extent by natural disasters and supply constraints caused by automakers, it is necessary to wait a little longer for more data to accumulate in order to make a judgement on whether there has been a change in the trend in demand for automobiles.

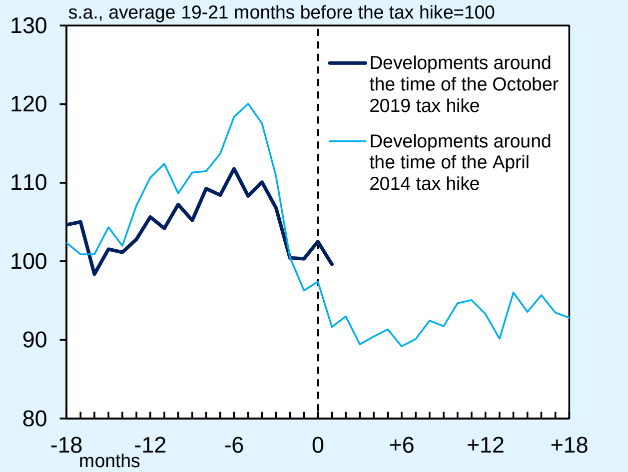
**Chart B4-2:** Housing Starts

**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 November 2019.

**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 November 2019.
2. Figures for detached houses built for sale are based on staff calculations.

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 last June due to the effects of the increase in demand prior to the tax hike, but there has been a reactionary decline to this increase in housing starts recently (Chart B4-2[2]).[27] However, the decline in housing starts after the tax hike has been constrained to a considerable degree compared to that of the previous tax hike, partly due to the effects of various housing-related support measures (such as the enhancement of housing loan tax deductions, the expansion of gift tax exemptions, and the introduction of the next-generation housing point reward program) (Chart B4-2[1]).

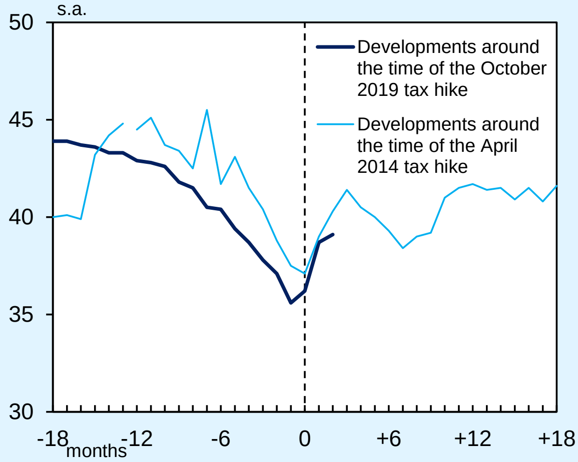
Unlike the reactionary decline to the increase in demand prior to the tax hike mentioned earlier,

[27] 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 was after the start of October 2019. 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.

the impact of the decline in real income is likely to materialize gradually over time. Therefore, it is necessary to wait a little longer until more data become available to examine this impact. That said, the Consumer Confidence Index makes it possible to capture households' spending attitudes relatively early. Comparing developments in the index before and after the latest tax hike with those of the previous tax hike, consumer sentiment continued to be somewhat weak before the tax hike this time, mainly affected by the slowdown in overseas economies; however, it has been picking up after the tax hike, led by the category of "overall livelihood" in the Consumer Confidence Index, through which people's perception of real income can be captured (Chart B4-3). This improvement in consumer sentiment as seen mainly in "overall livelihood" seems to be consistent with the fact that the increase in the net burden on households due to the tax hike has been greatly constrained compared to that of the previous tax hike through support measures such as the reduced tax rate and an increase in welfare benefits for pensioners.

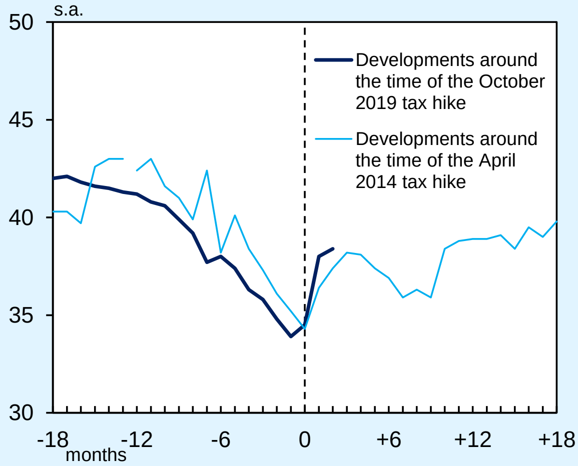
## **Chart B4-3:** Consumer Sentiment

### 1. Consumer Confidence Index




Source: Cabinet Office.
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 December 2019.
2. There is a discontinuity in the data in April 2013 due to a change in the survey method.

### 2. Overall Livelihood (Consumer Confidence Index)




Source: Cabinet Office.
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 December 2019.
2. There is a discontinuity in the data in April 2013 due to a change in the survey method.