

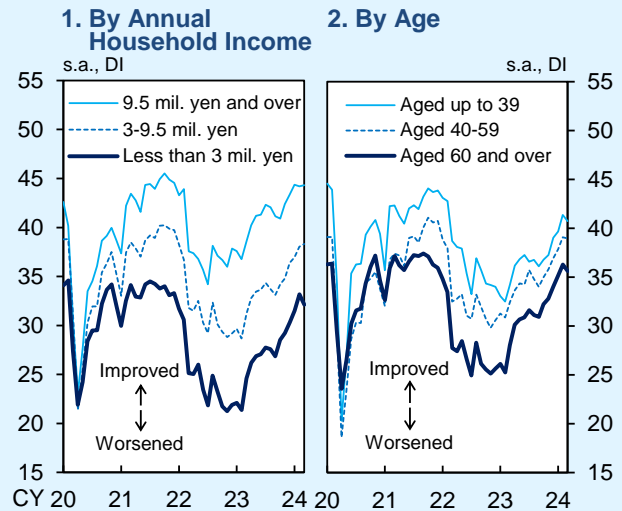
**(Box 1) Current Situation and Outlook for Private Consumption**

A look at recent developments in private consumption shows that, in addition to the impact of price rises, temporary factors such as a decline in automobile sales due to a suspension of shipment at some automakers have exerted downward pressure. In terms of the impact of price rises, as a decline in real income has become prolonged, households are gradually becoming more defensive in their spending. By type, sales of items including food (non-durable goods) have seen a gradual decline with a continued rise in their prices (Chart 28). While households' sentiment has been recovering moderately on the whole, partly due to expectations of an improvement in income, as described below, it has been relatively weak among low-income and senior households (Chart B1-1). Among the seniors, moves to restrain purchase quantities relative to the pre-pandemic period have been spreading (Chart B1-2).

Nevertheless, private consumption is expected to increase moderately in reflection of a couple of factors described below, in addition to a waning of temporary factors, such as a decline in automobile sales.

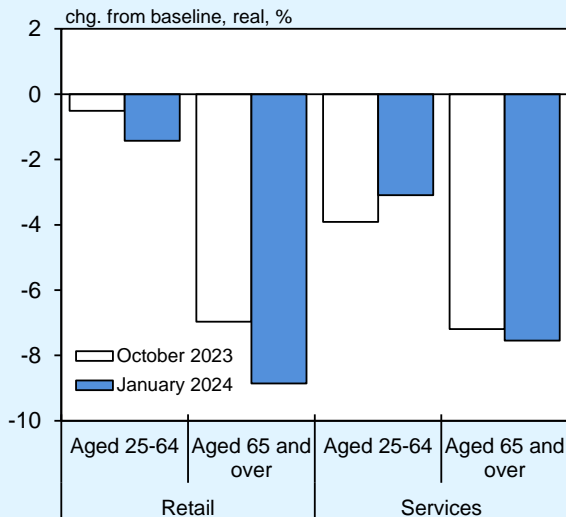
First, with regard to prices, the impact of cost-push pressure stemming from the past rise in import prices has been waning clearly. For the time being, the slowdown in the rate of increase in food prices is expected to continue steadily, and the downward pressure on consumption from this side is projected to ease, although attention

**Chart B1-1: Overall Livelihood**



Source: Cabinet Office.  
 Note: Figures show developments in the index of consumers' perceptions of their overall livelihoods for two-or-more-person households in the *Consumer Confidence Survey*. Figures are the weighted averages for each household income group and age of household head group using the number of households as weights.

**Chart B1-2: Consumption by Age**



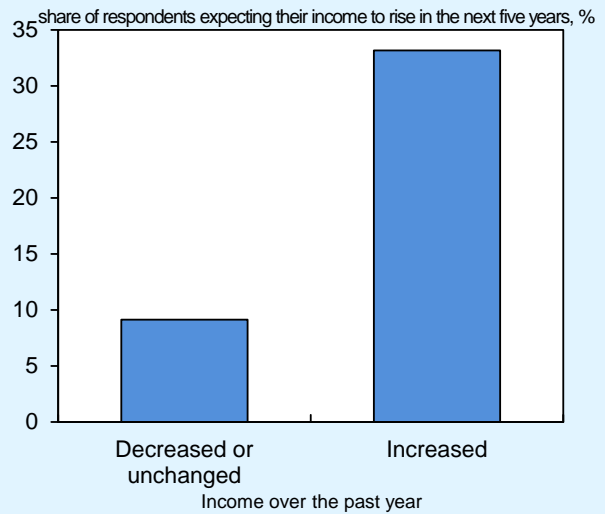
Sources: Ministry of Internal Affairs and Communications; Nowcast Inc./ JCB, Co., Ltd., "JCB Consumption NOW."  
 Notes: 1. The chart shows the consumption per person in *JCB Consumption NOW*. Real values are obtained using the corresponding CPIs.  
 2. The baseline is the average for the corresponding months for fiscal 2016 through fiscal 2018.

should be paid to the potential impact of the recent rise in crude oil prices.

Second, with regard to income, the results of this year's spring labor-management wage negotiations are expected to be reflected in workers' actual salary payments through the summer. Consequently, nominal wages are expected to rise clearly.<sup>24</sup> For pensioners, pensions for fiscal 2024 have been revised upward by 2.5-3.0 percent from last year. The cuts in income tax and inhabitant tax as part of the government's economic stimulus measures will also underpin households' disposable income.

Moreover, the prospect of two consecutive years of high-level base pay increases is expected to create an expectation among households of increasing permanent income -- that is, a perception that wages will continue to increase in the future, thereby supporting private consumption. In this context, an analysis of household survey microdata shows that a high percentage of households whose income has improved recently expect their income to increase in the future as well (Chart B1-3). Furthermore, estimation results show that, as the expectation of continued improvement in income grows, this exerts effects that push up current consumption (Chart B1-4). In addition, the recent substantial rise in stock prices is expected to push up private consumption through wealth effects (Chart B1-5).

**Chart B1-3: Wage Increases and Households' Income Outlook**



Source: JTUC Research Institute for Advancement of Living Standards.  
 Note: The vertical axis shows the share of respondents who answered that they expected their wages in five years to be considerably or somewhat higher than the current wages of those five years their senior in the same company. The bar labeled "increased" shows this share for respondents who replied that their income had increased over the past year, while the bar labeled "decreased or unchanged" shows the share for respondents who replied that their income had decreased or remained unchanged over the past year. Figures are based on the April 2023 survey.

<sup>24</sup> See also Box 2 of this report for details on the 2024 spring labor-management wage negotiations.

The pace and degree of such improvements in income will differ depending on households' attributes, such as their household type (working household, pensioner household, etc.), the level of increase in base pay at their place of work, and their financial asset holdings. It is necessary to continue to carefully examine developments in private consumption, taking into account the differences across household attributes.

**Chart B1-4: Positive Effects of Wage Increases on Consumption**

**1. Estimation Model**

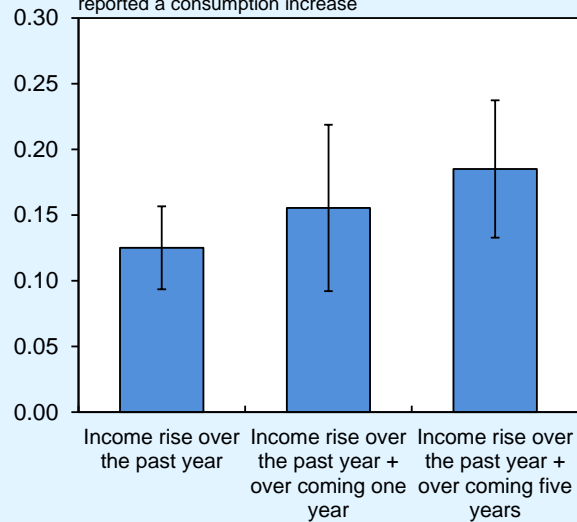
(Ordered Probit Model)

Dependent variable:  
Change in consumption over the past year

Explanatory variables:  
 (1) Income rise over the past year dummy  
 (2) Income rise over the past year dummy  
     × Income expected to rise over coming one year dummy  
 (3) Income rise over the past year dummy  
     × Income expected to rise over coming five years dummy

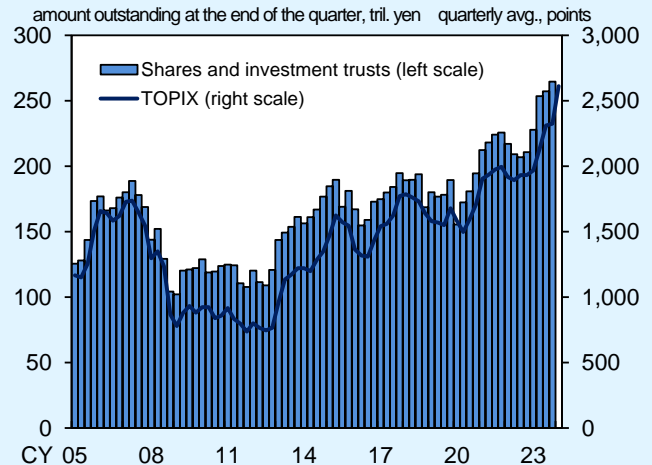
**2. Estimation Results**

marginal effects on the probability that respondents reported a consumption increase



Source: JTUC Research Institute for Advancement of Living Standards.  
 Notes: 1. The bands denote the 95 percent confidence intervals. The estimation period is from 2013 to 2023 (April surveys). The horizontal axis shows different combinations of the dummies for actual and expected rises in income used in the marginal effects estimation.  
 2. The dummy "over coming one year" takes a value of 1 if the respondent answered that they expected their wages to rise considerably or somewhat over the coming year. The dummy "over coming five years" takes a value of 1 if the respondent answered that they expected their wages in five years to be considerably or somewhat higher than the current wages of those five years their senior in the same company.  
 3. The estimations control for respondents' perceptions of and outlook for income, prices, and economic conditions, as well as their age group, income group, job status, etc.

**Chart B1-5: Stock Prices and Household Assets**



Sources: Bank of Japan; Bloomberg.  
 Note: Figures for shares and investment trusts are those for listed shares and investment trust beneficiary certificates held by households.