

How Price Fluctuations Are Felt and How This Impacts Consumption

Despite being mocked as government-led *shunto* spring wage negotiations, wages somehow increased for five consecutive years, and against the backdrop of an unprecedented labor shortage, the momentum of wage rises is currently spreading from part-time workers to regular employees. In line with that development, favorable signs have begun to appear among indicators relating to consumer spending. As an example, gross domestic product (GDP) statistics show that consumer spending in the most recent April–June quarter rose at an annualized rate of 2.9% from the preceding quarter, becoming the second largest contributor following capital investment. The crucial factor here, however, is whether or not that momentum will take hold and become the precursor of a definite uptrend.

Opinions vary as to why, hitherto, consumer spending has not risen proportionately to this continuous increase in wages, as could have been expected. Typical views include the conjectures that, because prices have also been at a corresponding rate, real wages have not risen as much as expected, and people—particularly the young—tend to channel their wage increases into savings out of concern for the future. Amid this, an argument has been published and grabbed attention for suggesting that differences between age strata with regard to how people feel the burden of price rises are also having an impact. The argument states that if we examine the weighted averages of the price-increase rates for individual expenditure items, the average increases have grown higher for elderly people—individuals who consume larger volumes of items with prices rising at high rates, such as foodstuffs and costs of repairs to their owner-occupied dwellings—and it is possible that those people feel the burden very strongly. What is certainly true is that the majority of elderly people have only their pensions to live on, so we can at least conclude that those

people will not have derived any benefit from the recent wage increases, and that if prices rise, the amounts of their real net incomes from their pensions will decline commensurately. What is more, if the sense of burden from price rises is heavier than average, it is quite possible that that would act as a drag on consumer spending. In light of this, it seems that some are starting to assert that it is necessary to give further policy support to stimulate consumption by the elderly.

In this regard there are also many people who feel that the elderly receive more favorable treatment than people of working age, particularly in the sphere of social security, for example with regard to pensions and medical expenses, as reflected in the establishment of the term “silver democracy.” It is essential that careful thought be given to deciding which stratum of people should be supported in each generation.

The figure is a graphic representation, broken down by age stratum, of people’s awareness when choosing goods and services, based on the *Basic Survey on Consumer Life* conducted by the Japanese Consumer Affairs Agency. From this a trend can be seen that as far as goods prices are concerned, the proportion of people who, when selecting goods to buy, have awareness about how high or low their prices are, declines from around the age of 65. If we take the example of mobile phones, which it would be no exaggeration to say fall into the category of daily necessities nowadays, young people are accomplished users of low-cost mobile phones and have grown accustomed to having free telephone apps and other such extras, and as a result are steadily distancing themselves from the mobile phones of the three major carriers, with their high charges. Elderly people, however, tend to have difficulty in understanding concepts such as “SIM Free” and thus shy away from using free telephone apps in

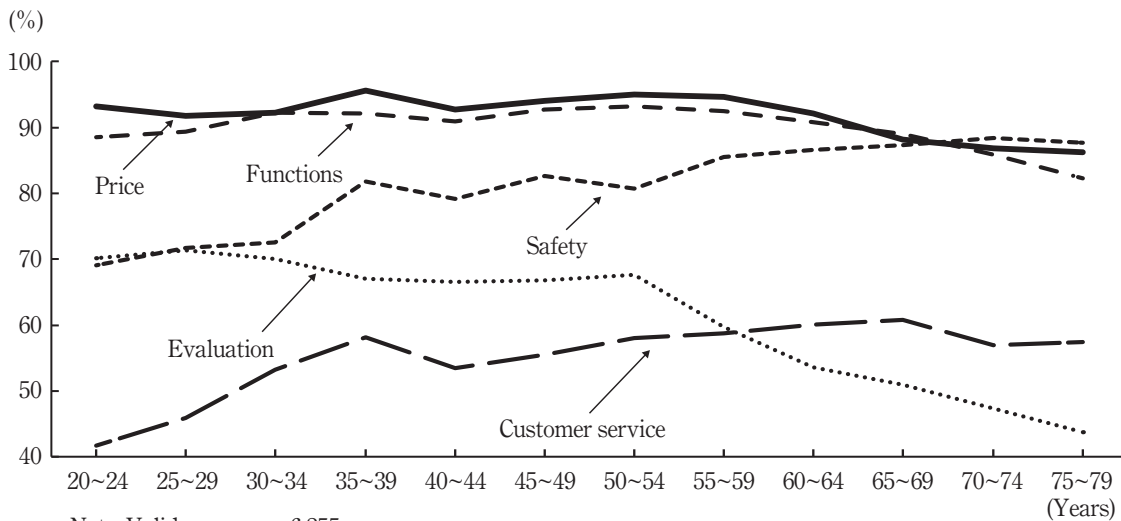
many cases. In consequence, it appears that in many cases they “buy peace of mind” by paying the full regular charges for the major carriers’ mobile services, even though they are comparatively high. And with regard to the prices of medical services, as people grow older there will likely be more occasions on which more complex medical-care services are required, but even though unit costs of services will increase as a result, it is unlikely that large numbers of elderly people will stop consulting their doctors.

What these facts reveal about the elderly is that even if to some extent they have a sense of burden about prices, if other factors that they place importance on, such as safety and customer service, are satisfactory, they have no qualms about going ahead with the purchase. Part of the reason behind this is likely to

be that elderly people tend to have more financial assets than other generations. That being the case, a “support the elderly” schema may not necessarily make sense.

When examining consumption trends it is of fundamental importance to pay attention to price fluctuations in addition to nominal incomes. During Japan’s current economic-recovery phase, at least nominal incomes have risen appreciably. If, in spite of this, consumer spending fails to gain momentum, various aspects of the impact of price fluctuations on consumption will have to be analyzed. In that process, I believe it will be necessary to factor in the differences between different age strata with regard to their price sensitivity: the ways in which they perceive prices.

What people are conscious of when selecting goods and services



Note: Valid responses: 6,255
 Source: *Basic Survey on Consumer Life* by Consumer Affairs Agency (Nov. 2017)