

## While a rush of demand before the consumption tax hike may cause disruption, private consumption will remain firm

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### 1. The Real Economy

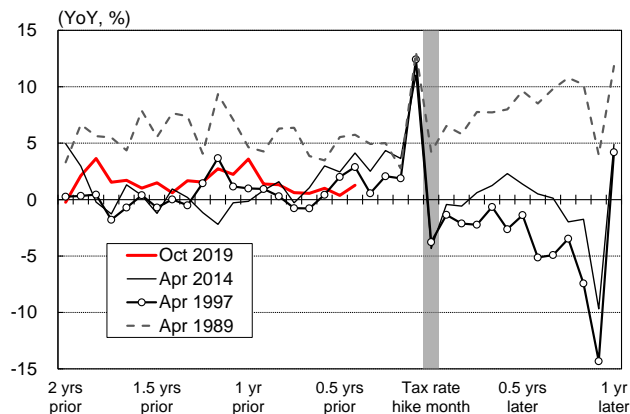
Two months remain before the consumption tax rate is raised to 10%. This time, it seems the impact on private consumption will remain limited compared with previous hikes as the size of the rate hike will be 2% points this time, smaller than the 3% points in 2014, and the government will introduce generous policies. On the other hand, there was a last-minute surge in demand and a subsequent fall during past consumption tax rate hikes and, were this to occur this time too, it could cause temporary disruption to the economy.

The sharp rise and subsequent fall in demand is expected to be concentrated in goods which can be used continuously or those which can be stockpiled, rather than the consumption of services. Looking back at retail sales at the time of previous consumption tax rate hikes, there was a rise in sales just before the hike. Afterwards, a reaction to the sharp rise in consumption and an increased financial burden on consumers in real terms put downward pressure on demand, resulting in its continued weak growth (Chart 1). It appears the surge in demand before the hike will be smaller this time due to the introduction of a reduced tax rate for food and other goods and the government's Point Reward Project. However, it is presumed there will be a certain amount of increased demand before the tax rate hike because of sales beforehand and an increased sense of caution about a rise in prices excluding tax which may accompany the tax hike.

There was a rise and fall in demand for automobiles – a good which has a high cost per unit – at the time of previous consumption tax rate hikes regardless of measures taken, such as the reduced vehicle excise tax for automobiles and a reduced tax for eco-friendly automobiles purchased after the tax hike. This time, however, there does not appear to be the same rise in demand 4-5 months before the consumption tax hike which there was before previous hikes despite the same measures, such as a reduced tax on automobiles (Chart 2). One of the reasons for this difference is another consumption rate hike to 10% was scheduled for October 2015, a year and a half after the previous hike, resulting in increased demand. The other reason is that, this time, it will be approximately 5 years since the last tax rate hike and it is unlikely the tax rate hike will spark demand for purchases of replacement cars.

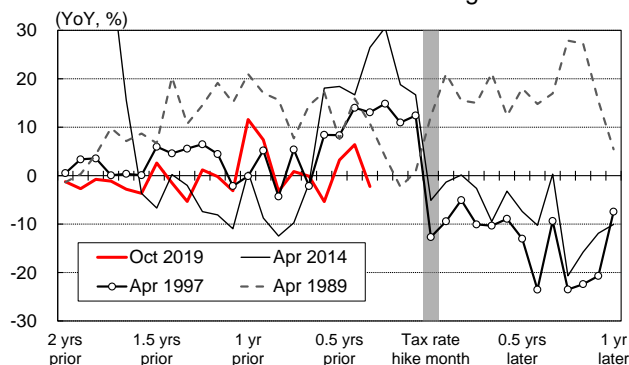
Currently, household income continues to improve on the back of a tight labour market and it seems solid income in the future will maintain its support of private consumption. While it is necessary to keep an eye on a build-up of risks, such as natural disasters and external shocks, the possibility that the consumption tax rate hike will spark a downturn in consumption is low, given that the scale of increased demand before the tax hike is likely to remain small.

Chart 1: Real Retail Sales



Note: Real values calculated by Economic Research Office  
Source: Ministry of Economy, Trade and Industry, MUFG Bank Economic Research Office

Chart 2: Number of New Vehicle Registrations



Note: "Number of new vehicle registrations" for Apr '89 and Apr '97 are total of ordinary and small passenger vehicles, ordinary and small goods vehicles, and buses. The total for Apr '14 and Oct '19 is a total of ordinary and small passenger vehicles and mini passenger vehicles.  
Source: Japan Automobile Dealers Association, Japan Mini Vehicles Association, MUFG Bank Economic Research Office

## 2. Prices and Financial Markets

### (1) Monetary Policy

The Bank of Japan (BoJ) decided to maintain its current monetary policy at its monetary policy meeting on 29<sup>th</sup> and 30<sup>th</sup> July. It added a sentence to its statement: “the Bank will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost”. Commenting about this sentence, Governor Kuroda said, “I can say we’ve become rather positive toward monetary easing”. It appears that the BoJ aims to prevent market instability by clarifying its stance on monetary easing as the European Central Bank suggests additional easing and the Federal Open Market Committee (FOMC) carried out a widely anticipated rate cut the following day.

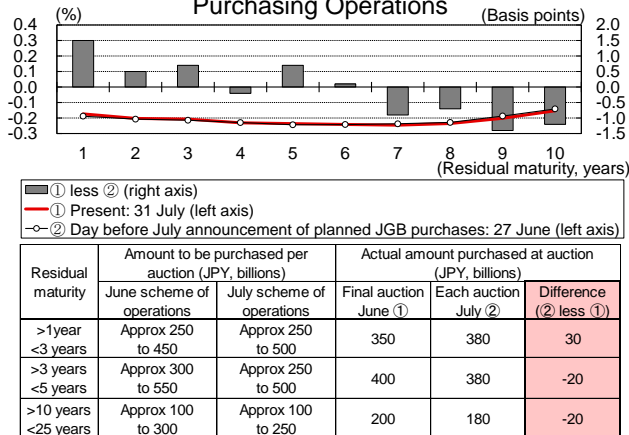
In addition, Governor Kuroda also expressed his views about the flattening of the yield curve saying, “a slightly steeper curve would be more normal”. The rationale for this statement was provided by the Bond Market Group who, at a meeting on 10<sup>th</sup> and 11<sup>th</sup> June, put forward reasons for the flattening of the yield curve: the heightening investment attractiveness of Japanese Government Bonds (JGBs) when taking into account currency-hedging costs; a tightening of the supply and demand of JGBs with a residual maturity of more than 3 years and up to 5 years due to the Bank of Japan’s continued large-scale monetary easing; and a shift of investors’ funds to super-long-term JGBs. It also appears the Group asked for adjustments to be made to the purchases of JGBs, for which supply and demand conditions are tight and deterioration of liquidity is evident. In fact, the BoJ raised the purchase amount of JGBs with a residual maturity of “more than 1 year and up to 3 years” per auction in its Outline of Outright Purchases of Japanese Government Securities announced on 28<sup>th</sup> June (Chart 3). On the other hand, it is lowering the amount of JGBs with a residual maturity of “more than 3 years

and up to 5 years” and “more than 10 years and up to 25 years”. It appears that this response takes into consideration a correction of the flattening yield curve as it put downward pressure on the yields of JGBs of which the BoJ increased its purchase amount and put upward pressure on the yields of JGBs of which the BoJ had decreased its purchase amount. Governor Kuroda’s statements suggest the Bank will announce its stance on monetary easing in the future while planning to correct the flattening of the yield curve again through continued adjustments to the amount of JGBs it purchases.

## (2) Exchange Rates

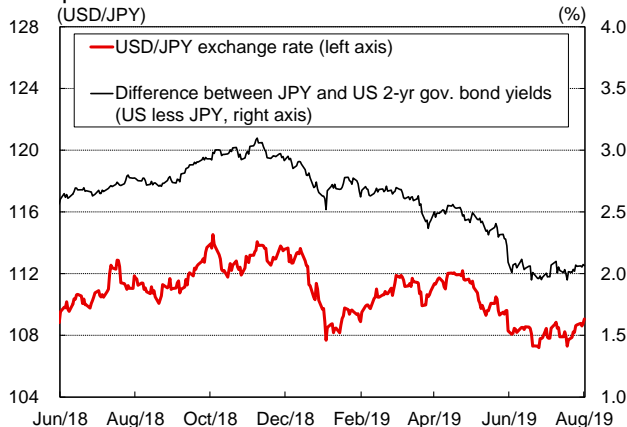
The JPY temporarily dipped below the USD107 per JPY mark in June as the Federal Reserve Board became more dovish. However, speculation about a series of rate hikes receded after the FOMC in July and the JPY has returned to around JPY109 per USD at present (Chart 4). Looking ahead, a trend towards risk aversion due to US trade policies and a decrease in US interest rates will put upward pressure on the JPY, yet the JPY is forecast to avoid sustained appreciation owing to the continued gap between Japanese and US interest rates and USD buying, which is expected to occur due to the relative strength of the US economy.

Chart 3: JGB Yields by Maturity and the BoJ's JGB Purchasing Operations



Source: Bloomberg, Bank of Japan, MUFG Bank Economic Research Office

Chart 4: USD/JPY Exchange Rate and the Difference in Japanese and US 2-Year Government Bond Yields



Source: Bloomberg, MUFG Bank Economic Research Office

(Translated by Elizabeth Foster)

## MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

### 1. Main Economic Indicators

As of Jul. 31, 2019

	Fiscal	Fiscal	2018		2019	2019				
	2017	2018	3Q	4Q	1Q	FEB	MAR	APR	MAY	JUN
Real GDP Growth Rate <% changes from previous period at SA annual rate>	1.9	0.7	-2.6 (0.1)	1.8 (0.3)	2.2 (0.9)	***	***	***	***	***
Index of All Industries Activity	1.8	0.8	-0.4 (0.4)	0.9 (1.4)	-0.5 (0.3)	-0.2 (0.3)	-0.4 (-0.5)	0.8 (0.7)	0.3 (0.0)	
Industrial Production Index	2.9	0.3	-0.7 (0.1)	1.4 (1.3)	-2.5 (-1.7)	0.7 (-1.1)	-0.6 (-4.3)	0.6 (-1.1)	2.0 (-2.1)	-3.6 (-4.1)
Production										
Shipments	2.2	0.2	-1.2 (-0.3)	1.0 (1.1)	-2.1 (-1.6)	1.6 (-0.3)	-1.3 (-4.0)	1.8 (-1.4)	1.3 (-1.8)	-3.3 (-4.2)
Inventory	5.1	0.2	0.4 (3.5)	0.9 (1.7)	0.9 (0.2)	0.4 (1.4)	1.4 (0.2)	0.0 (1.2)	0.5 (1.5)	0.3 (2.9)
Inventory/Shipments Ratio (2015=100)	101.9	105.0	105.0 [99.6]	105.6 [102.6]	105.9 [104.3]	105.5 [103.4]	107.2 [104.9]	104.6 [102.8]	106.4 [104.9]	109.4 [104.2]
Domestic Corporate Goods Price Index	2.7	2.2	0.9 (3.1)	0.1 (2.3)	-0.8 (0.9)	0.3 (0.9)	0.3 (1.3)	0.3 (1.2)	-0.1 (0.6)	-0.5 (-0.1)
Consumer Price Index(SA, total, excl.fresh foods)	0.7	0.8	0.2 (0.9)	0.4 (0.9)	-0.2 (0.8)	0.1 (0.7)	0.0 (0.8)	0.1 (0.9)	-0.1 (0.8)	-0.1 (0.6)
Index of Capacity Utilization (2015=100)	102.7	102.5	101.9 [102.5]	104.7 [103.8]	100.5 [102.2]	101.0 [102.8]	100.6 [103.7]	102.2 [104.3]	103.9 [104.0]	
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	-0.8	2.8	1.5 (4.8)	-3.2 (2.0)	-3.2 (-2.5)	1.8 (-5.5)	3.8 (-0.7)	5.2 (2.5)	-7.8 (-3.7)	
Manufacturing	9.2	3.8	-1.0 (8.5)	-4.1 (-0.6)	-7.7 (-8.0)	3.5 (-9.1)	-11.4 (-7.6)	16.3 (-8.2)	-7.4 (-10.5)	
Non-manufacturing	-7.8	2.1	3.4 (2.0)	-1.9 (4.5)	-0.3 (1.8)	-0.8 (-2.0)	13.4 (4.1)	1.2 (12.6)	-9.0 (3.0)	
Excl.Electric Power & Ship building										
Shipments of Capital Goods (Excl.Transport Equipment)	7.0	-0.3	-1.4 (1.6)	1.6 (1.3)	-7.4 (-6.9)	3.8 (-3.6)	-1.5 (-8.5)	0.7 (-9.3)	5.0 (-4.2)	-5.0 (-6.2)
Construction Orders	0.7	6.5								
Private	0.6	14.5								
Public	-5.4	-15.0								
Public Works Contracts	-4.3	1.1								
Housing Starts 10,000 units at Annual Rate, SA	94.6	95.3	95.0	95.5	94.2	96.7	98.9	93.1	90.0	92.2
Total floor	(-2.8)	(0.7)	(-0.2)	(0.6)	(5.1)	(4.2)	(10.0)	(-5.7)	(-8.7)	(0.3)
Sales at Retailers	1.9	1.6								
Real Consumption Expenditures of Households over 2 persons (SA)	0.3	0.0	1.5 (1.0)	0.2 (1.1)	-0.2 (2.0)	-2.0 (1.9)	0.1 (2.1)	-1.4 (1.3)	5.5 (6.0)	
Propensity to Consume (SA,%)	71.7	69.2	70.6 [70.6]	68.6 [71.6]	69.8 [71.0]	69.8 [69.3]	69.4 [70.6]	66.9 [69.9]	71.6 [70.6]	[66.1]
Overtime Hours Worked (All Industries, 5 employees or more)	0.5	-1.6	-2.6 (-2.5)	-0.1 (-2.3)	-0.7 (-2.1)	2.5 (-0.9)	-2.6 (-3.5)	1.3 (-1.8)	1.1 (-2.9)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	0.7	0.9								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	99	1	-34	-40	96	96	93	88	82	
Ratio of Job Offers to Applicants (SA,Times)	1.54	1.62	1.62 [1.52]	1.62 [1.56]	1.63 [1.59]	1.63 [1.59]	1.63 [1.59]	1.63 [1.60]	1.62 [1.61]	1.61 [1.61]
Unemployment Rate (SA,%)	2.7	2.4	2.4	2.4	2.4	2.3	2.5	2.4	2.4	2.3
Economy Watcher Survey (Judgment of the present condition D.I.%)	50.5	47.8	48.0 [50.4]	48.3 [52.3]	46.0 [49.5]	47.5 [49.0]	44.8 [49.6]	45.3 [49.5]	44.1 [47.9]	44.0 [48.8]
Bankruptcies (Number of cases)	8,367	8,111	2,017	2,070	1,917	589	662	645	695	734
	(-0.2)	(-3.1)	(-0.7)	(-1.7)	(-6.1)	(-4.5)	(-16.1)	(-0.8)	(-9.4)	(6.4)

(Notes)

Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable.

The figures in ( ) indicate % changes from previous year.

[ ] show the comparable figure of the previous year.

## 2. Balance of Payments

As of Jul. 31, 2019

	Fiscal	Fiscal	2018		2019	2019				
	2017	2018	3Q	4Q	1Q	FEB	MAR	APR	MAY	JUN
Customs Clearance (Exports in Yen Terms)	10.8	1.9	(2.9)	(1.3)	(-3.9)	(-1.2)	(-2.4)	(-2.4)	(-7.8)	(-6.6)
Value	5.5	2.5	(4.0)	(2.8)	(1.2)	(-0.6)	(3.4)	(2.0)	(1.2)	(-1.2)
Volumes	5.0	-0.6	(-1.1)	(-1.4)	(-5.0)	(-0.6)	(-5.6)	(-4.3)	(-8.9)	(-5.5)
Imports (In Yen terms)	13.7	7.2	(12.4)	(11.2)	(-2.0)	(-6.5)	(1.2)	(6.5)	(-1.4)	(-5.2)
Value	8.9	5.7	(10.2)	(6.9)	(-0.2)	(0.0)	(0.8)	(2.3)	(-0.2)	(-2.1)
Volumes	4.4	1.4	(2.0)	(4.0)	(-1.8)	(-6.5)	(0.4)	(4.1)	(-1.2)	(-3.2)
Current Account (100 mil. yen)	221,749	192,434	56,944	26,018	59,541	25,928	27,871	17,074	15,948	
Goods (100 mil. yen)	45,396	6,963	545	-6,423	2,141	4,881	6,960	-982	-6,509	
Services (100 mil. yen)	-4,567	-7,123	-1,658	-3,066	3,561	1,789	3,269	-3,127	1,372	
Financial Account (100 mil. yen)	206,805	212,310	44,864	27,016	88,169	23,473	37,742	-12,667	32,451	
Gold & Foreign Exchange Reserves (\$1mil.)	1,268,287	1,291,813	1,259,673	1,270,975	1,291,813	1,281,846	1,291,813	1,293,499	1,307,975	1,322,279
Exchange Rate (¥/\$)	110.80	110.88	111.44	112.87	110.17	110.36	111.21	111.66	109.83	108.06

## 3. Financial Market Indicators

	Fiscal	Fiscal	2018		2019	2019					
	2017	2018	3Q	4Q	1Q	FEB	MAR	APR	MAY	JUN	
Uncollateralized Overnight Call Rates	-0.050	-0.062	-0.063	-0.066	-0.054	-0.055	-0.044	-0.068	-0.050	-0.063	
			[-0.054]	[-0.042]	[-0.048]	[-0.042]	[-0.062]	[-0.063]	[-0.061]	-0.071	
Euro Yen TIBOR (3 Months)	0.065	0.062	0.077	0.050	0.037	0.030	0.050	0.050	0.049	0.049	
			[0.062]	[0.063]	[0.078]	[0.068]	[0.097]	[0.097]	[0.078]	[0.078]	
Newly Issued Japanese Government Bonds Yields (10 Years)	0.045	-0.095	0.125	-0.010	-0.095	-0.015	-0.095	-0.045	-0.095	-0.165	
			[0.060]	[0.045]	[0.045]	[0.045]	[0.045]	[0.050]	0.030	[0.030]	
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	0.817	0.751	0.775	0.759	0.751	0.758	0.751	0.751	0.753	0.749	
			(-0.014)	(-0.016)	(-0.008)	(-0.001)	(-0.007)	(0.000)	(0.002)	(-0.004)	
The Nikkei Stock Average (TSE 225 Issues)	21,454	21,206	24,120	20,015	21,206	21,385	21,206	22,259	20,601	21,276	
			[20,356]	[22,765]	[21,454]	[22,068]	[21,454]	[22,468]	[22,202]	[22,305]	
M2(Average)	(3.7)	(2.7)	(2.9)	(2.5)	(2.3)	(2.3)	(2.4)	(2.5)	(2.6)	(2.3)	
Broadly-defined Liquidity(Average)	(3.1)	(1.9)	(1.9)	(1.6)	(1.7)	(1.7)	(2.0)	(2.0)	(1.8)	(1.7)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin	(2.8)	(2.2)	(2.2)	(2.2)	(2.3)	(2.3)	(2.3)	(2.4)	(2.6)	(2.3)
	Banks	(2.8)	(2.2)	(2.2)	(2.3)	(2.4)	(2.4)	(2.5)	(2.5)	(2.8)	(2.4)
	City Banks etc.	(2.0)	(1.0)	(0.7)	(1.2)	(1.6)	(1.5)	(1.8)	(2.1)	(2.8)	(2.3)
	Regional Banks	(3.6)	(4.3)	(4.5)	(4.3)	(4.1)	(4.1)	(4.0)	(5.9)	(4.9)	(4.6)
	Regional Banks II	(3.0)	(-0.4)	(-0.5)	(-0.8)	(-0.8)	(-0.8)	(-0.8)	(-8.6)	(-5.6)	(-5.7)
	Shinkin	(2.7)	(2.1)	(2.2)	(2.0)	(1.7)	(1.7)	(1.6)	(1.5)	(1.5)	(1.3)
Deposits and CDs (Average)	Total(3 Business Condition)	(4.2)	(3.4)	(3.7)	(3.2)	(3.1)	(3.1)	(3.1)	(2.6)	(2.6)	(2.3)
	City Banks	(5.9)	(4.9)	(5.3)	(4.6)	(4.7)	(4.7)	(4.6)	(3.6)	(3.7)	(3.1)
	Regional Banks	(2.5)	(2.7)	(3.0)	(2.6)	(2.3)	(2.3)	(2.4)	(3.9)	(3.2)	(3.1)
	Regional Banks II	(2.1)	(-1.3)	(-1.3)	(-1.8)	(-2.0)	(-2.0)	(-1.9)	(-8.1)	(-5.2)	(-5.4)

(Notes)

Newly Issued Japanese Government Bonds Yields and Interest rates are averages. The Nikkei Stock Average is as of month-end. Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable. The figures in ( ) indicate % changes from previous year. [ ] show the comparable figure of the previous year.

(Sources)

Cabinet Office, National Accounts, Machinery Orders; METI, Indices of Tertiary Industry Activity, Industrial Production, Current Survey of Commerce; MOF, Trade Statistics, Balance of Payments; MPMHAPT, Consumer Price Index, Family Income and Expenditure Survey, Labour Force Survey; MHLW, Monthly Labour Survey; Ministry of Land, Infrastructure, and Transport, Economic Construction Statistics; BOJ, Corporate Price Index, Financial and Economic Statistics Monthly, etc.

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