Improving Household Expectations and Implications for Renewed Growth of the Japanese Economy

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I. Introduction: Three-pronged strategy of “Abenomics”

II. How market and confidence have reacted so far

III. Impact of confidence on household expenditure
   A) Theoretical background
   B) New empirical study

IV. Conclusion: Implication for renewed growth of Japanese economy
Market Reaction: Stock Price Development

(2012/11/01=100)

Monetary easing (Sept 19)

Dissolution of the Lower House (Nov 15-16)

Lower House Election (Dec 16)

Economic stimulus package (Jan 11)

Monetary easing, Inflation targeting Jan 22

Monetary easing (Oct 30)

Launch of Abe administration (Dec 26)

Monetary easing (Dec 20)

G20 Communique (Feb 16)

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Event Study on Stock Price Change

(Note) The following equation is estimate by OLS:

\[ \text{Nikkei}_t = \beta_0 + \beta_1 \text{Dow}_t + \beta_2 \text{Dummy}_{(a)} + \beta_3 \text{Dummy}_{(b)} + \beta_4 \text{Dummy}_{(c)} + \beta_5 \text{Dummy}_{(d)} + \beta_6 \text{Dummy}_{(e)} + \epsilon_t \]

(**) indicates 5% significance, and (***)) 1% significance. The coefficients on dummy (a) and (c) are not statistically significant.
Business and Consumer Sentiment
-Comparison between present and early 2000s-

Business (Tankan survey)

Household

(2010=100)
Effects of Consumer Expectations on Expenditure

(Abenomics)
Three-pronged strategy

(Financial markets)
- Surge in share price
- Depreciation in exchange rates

(Consumer sentiment)
Turnaround in confidence of future income growth

(Realization of income growth)
Recovery of firms’ earnings → Wages, bonuses, employment
- Increase in consumption expenditure

Wealth Effect
3-4 months’ lag
Estimation Results and Implications

\[ \Delta \ln C_t = \alpha + \beta \Delta \ln YD_t + \gamma \Delta \ln NW_{t-1} + \varepsilon_t \]

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<tr>
<th></th>
<th>( \beta )</th>
<th>( \gamma )</th>
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<tr>
<td></td>
<td>0.523</td>
<td>0.241</td>
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<tr>
<td>S.E.</td>
<td>0.281</td>
<td>0.063</td>
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1. Estimation period: 2001Q1-2012Q1
2. Based on the model by Campbell and Mankiw (1989)

Estimates: Possible effects of consumer sentiment on consumption (2013, annual basis)

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<th>Case (a)</th>
<th>Case (b)</th>
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<td>2.6%</td>
<td>2.9%</td>
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Conclusions

* “Abenomics” has been leading to a clear change in people’s expectations.
* When an expectation is strengthened through its realization, it would have a sustainable pushing effect on the real economy (“Confidence multiplier effect”).
* For example, if the expectation is supported by a constant increase in income, it is estimated to increase household consumption by around 3% in 2013.
* The virtuous circle of economic growth from business to the household sector is necessary for economic revitalization.