

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

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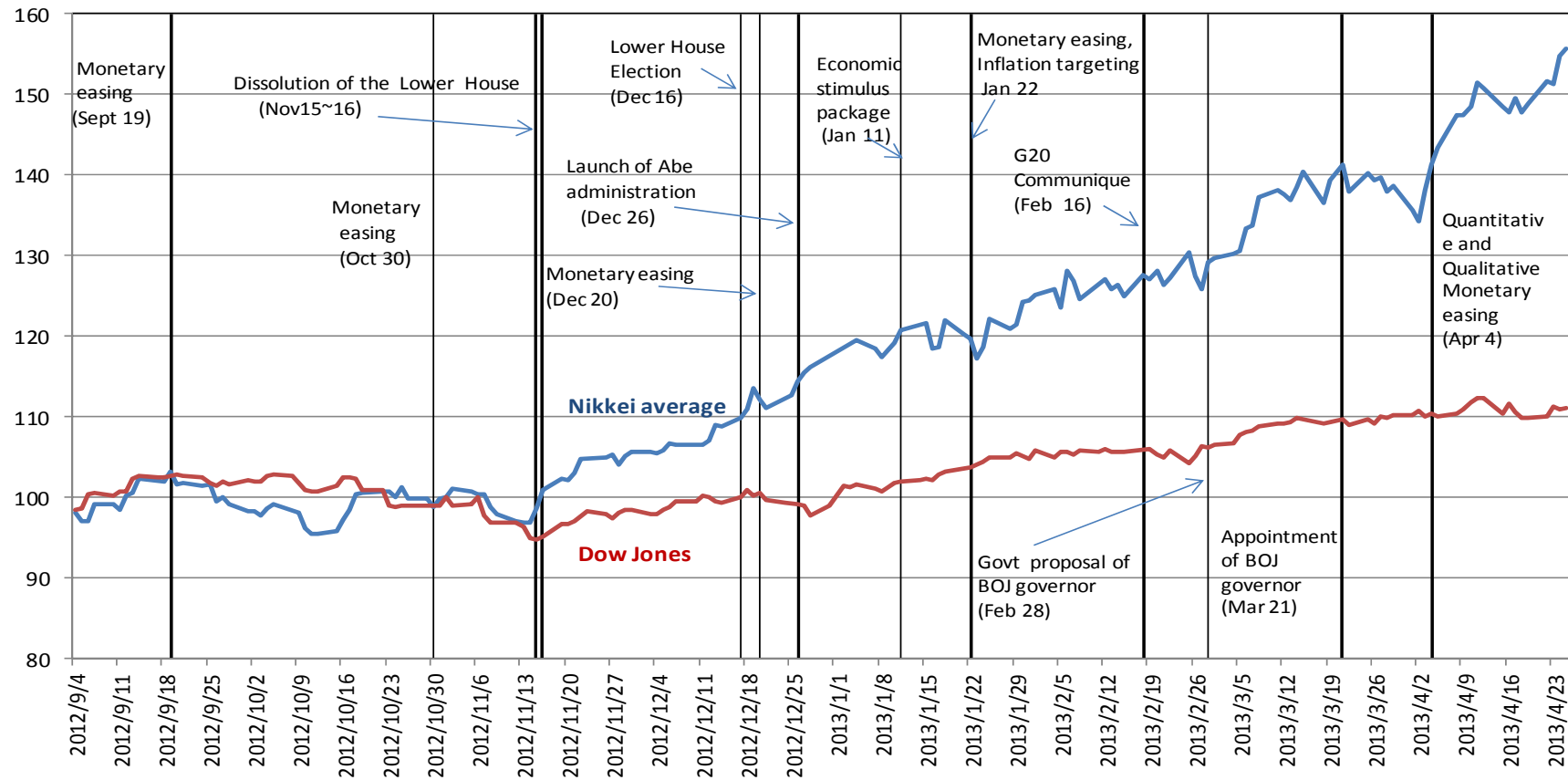
ESRI International Conference, Tokyo

Outline of the Presentation

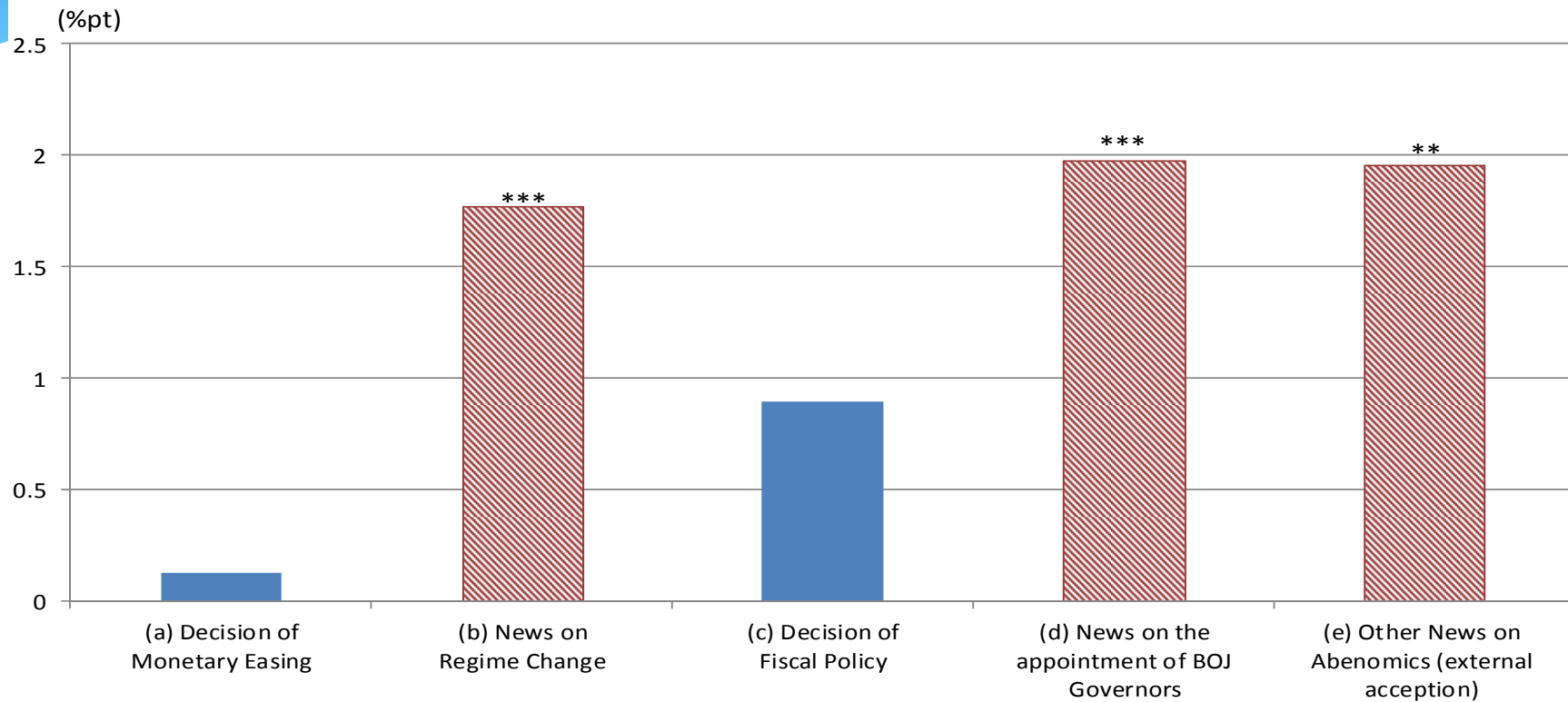
- I. Introduction: Three-pronged strategy of “Abenomics”
- II. How market and confidence have reacted so far
- III. Impact of confidence on household expenditure
 - A) Theoretical background
 - B) New empirical study
- IV. Conclusion: Implication for renewed growth of Japanese economy

Market Reaction: Stock Price Development

(2012/11/01=100)



Event Study on Stock Price Change



(Note) The following equation is estimate by OLS;

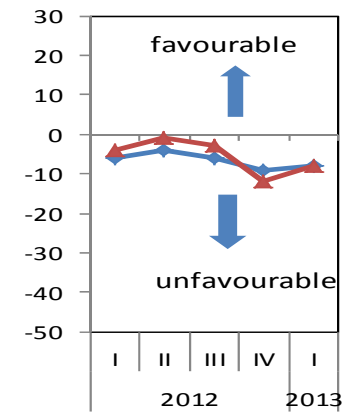
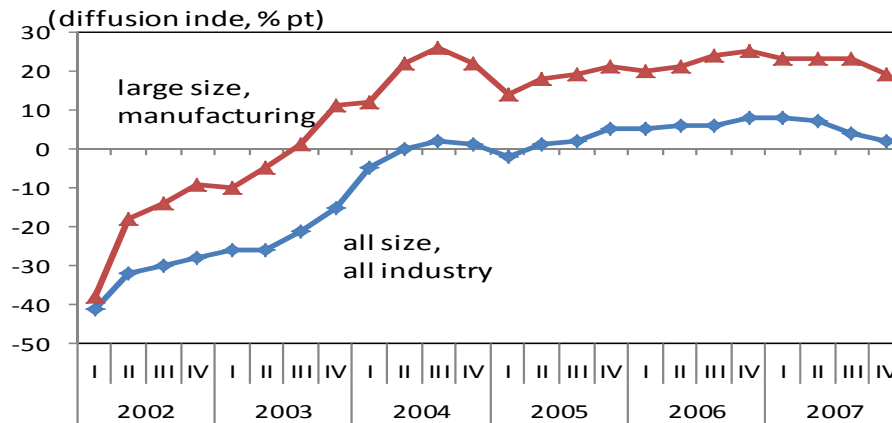
$$Nikkei_t = \beta_0 + \beta_1 Dow_t + \beta_2 Dummy_{(a)} + \beta_3 Dummy_{(b)} + \beta_4 Dummy_{(c)} + \beta_5 Dummy_{(d)} + \beta_6 Dummy_{(e)} + \varepsilon_t$$

(**) indicates 5% significance, and (***) 1% significance. The coefficients on dummy (a) and (c) are not statistically significant.

Business and Consumer Sentiment

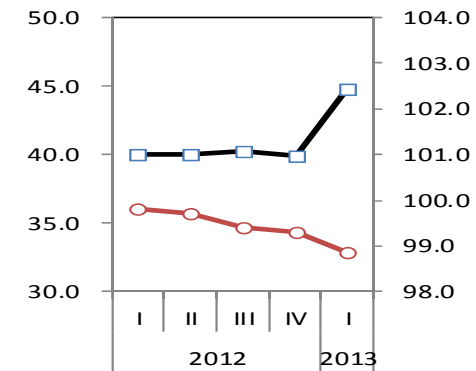
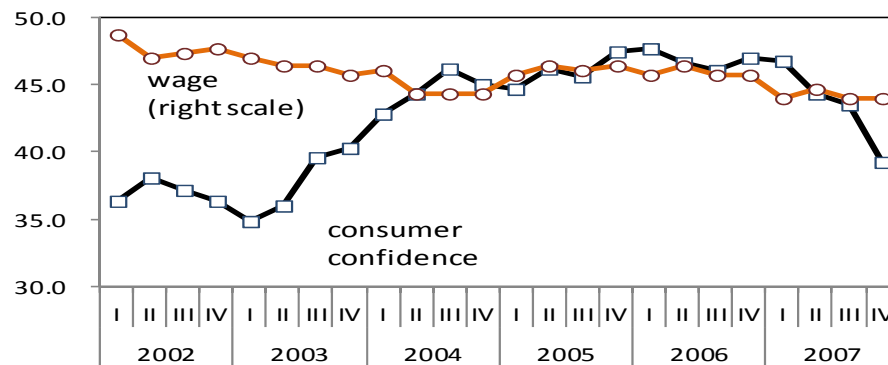
-Comparison between present and early 2000s-

Business (Tankan survey)

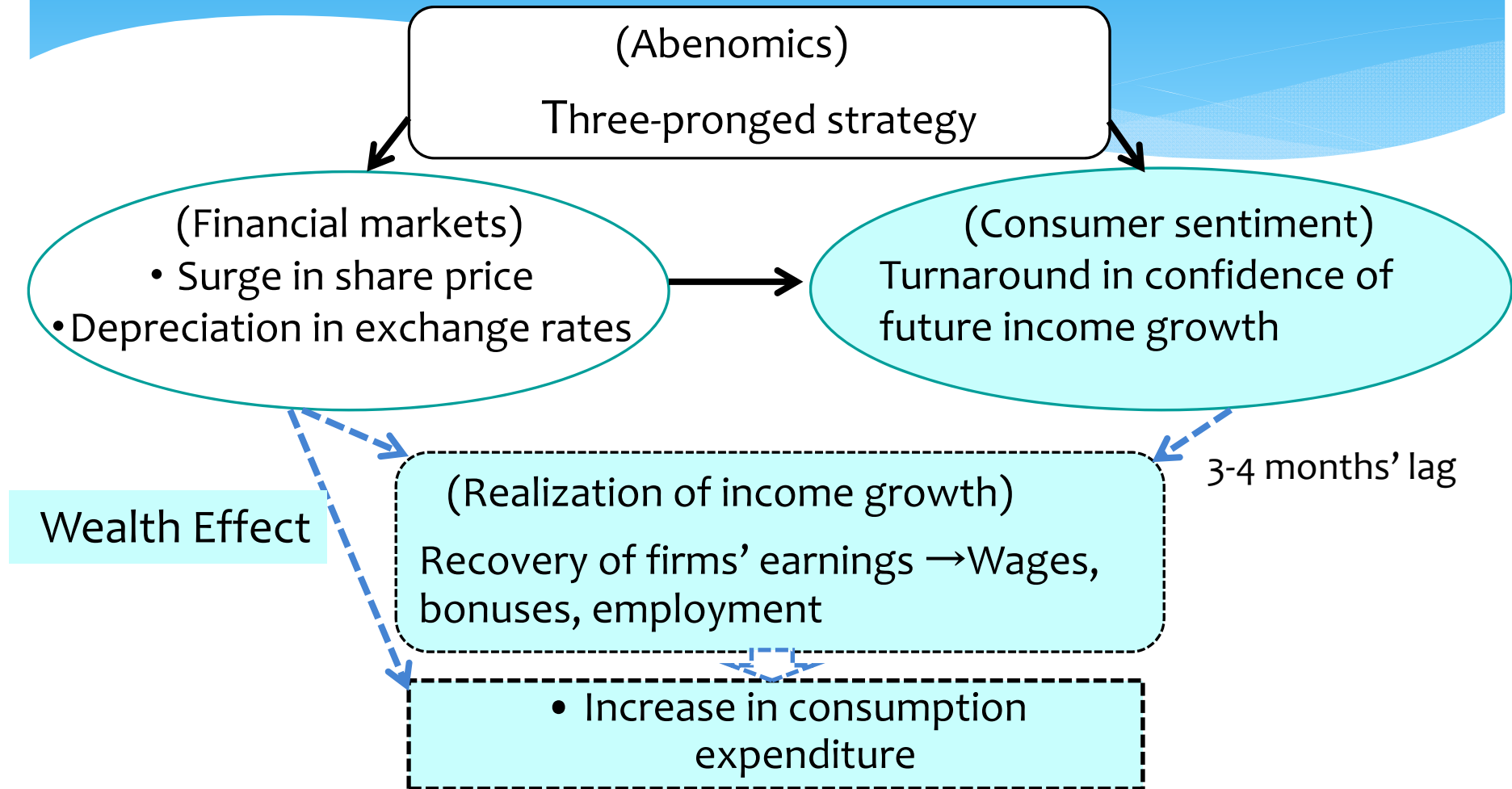


Household

(2010=100)



Effects of Consumer Expectations on Expenditure



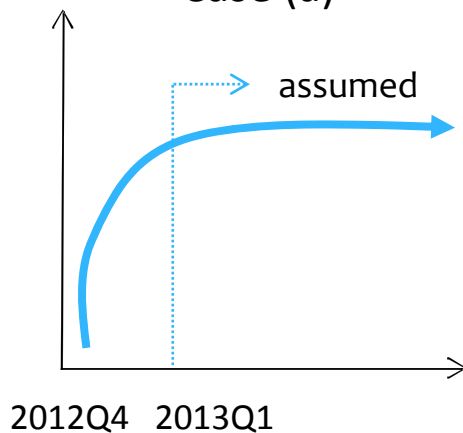
Estimation Results and Implications

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

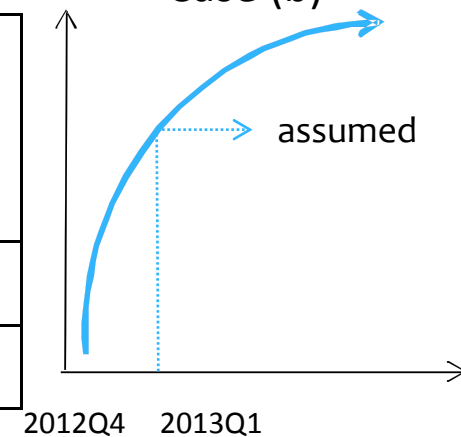
β	γ
0.523	0.241
S.E. 0.281	S.E. 0.063

1. Estimation period: 2001Q1-2012Q1
2. Based on the model by Campbell and Mankiw (1989)

Case (a)



Case (b)



Estimates: Possible effects of consumer sentiment on consumption (2013, annual basis)	
Case (a)	Case (b)
2.6%	2.9%

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.