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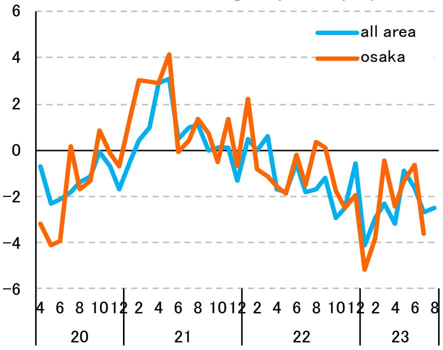
Economic Short Comment (13 Nov 2023)

The pace of decline in real wages is comparable to that after the consumption tax hike
～ The utmost caution is required for the outlook of consumption ～

● Decline in real wages

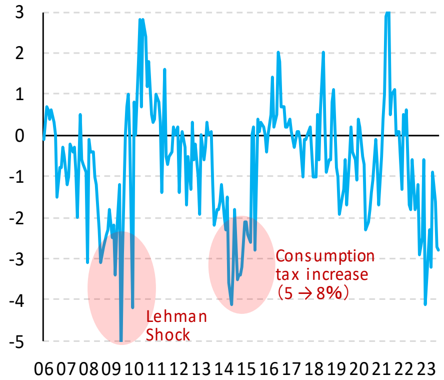
Real wages continue to decline (Figure 1). Although nominal wages are increasing, they quickly turn negative when subtracted from the rise in prices. In other words, the current situation is one where the pace of price increases exceeds the pace of wage increases. The trend of real wages greatly affects consumers' perception of their income. The rate of decline in the early part of this year was over 4% at one point, a level that has not been experienced in recent years. If real wages decline this much, the negative impact on consumption is inevitable. Looking back, the current pace of decline in real wages is comparable to that of the consumption tax hike in 2014 (from 5% to 8%) (Figure 2). At that time, the impact of the tax hike lasted for several years, causing serious damage to the economy.

【Figure 1】
(%) Trends in real wages (per employee)



(Source) Ministry of Health,Labour and Welfare「Monthly Labour Surbey」

【Figure 2】
(%) Trends in real wages (all area)

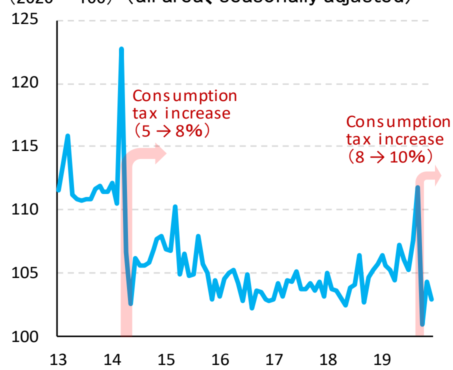


(Source) Ministry of Health,Labour and Welfare「Monthly Labour Surbey」

● Assessment of current consumption

On the other hand, there are not a few optimistic views on the evaluation of current consumption. Positive factors such as the effect of wage increases this spring, the normalization of the economy due to the end of the corona crisis, and the continuation of the stock market rally are leading to optimistic evaluations in some quarters. In addition, the fact that sales by industry include purchases by inbound visitors also supports the bullish view. However, it is not easy to reconcile the decline in real wages and the robust consumption. As households become more conscious of saving, price-cutting pressure increases at stores, which can also trigger deflation. Considering the slump in consumption in 2014, caution is essential for the negative impact this time as well. Looking back at 2014, consumption did not return to its previous level even after more than five years from the tax hike, and it was in the form of welcoming the rush demand associated with the next 8% to 10% tax hike (Figure 3).

【Figure 3】 Trends in real consumption
(2020 ＝100) (all area、seasonally adjusted)



(Source) MIC「Family Income and Expenditure Surbey」

● Caution for the outlook of consumption

Given that the current income environment is close to that of the consumption tax hike, the utmost caution is required for the outlook of consumption. Already among consumers, there is a growing tendency to save on necessities such as food, and demand for low-priced products is increasing. As a result, it is becoming increasingly difficult to raise prices at stores. Not only that, but there are also signs of price cuts in some areas such as eating out. In the future, sales in industries such as department stores and hotels are expected to remain strong due to the increase in inbound visitors, but as for domestic consumption, it is hard to expect a steady trend as real wages decline. After the consumption tax hike in 2014, several economic measures were implemented to stimulate consumption. Following that, it should be considered that similar measures are necessary this time as well. Even looking at the recently announced economic measures, the income tax cut, which is the prime minister's pet project, is in June next year, and it does not directly lead to stimulating consumption at the moment. Measures with immediate effects are required.

（Reference）
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