Economic Short Comment (28 Aug 2024)

Impact on Households Due to Rising Interest Rates
～ There are significant differences by age group ～

● Interest Rate Hike by the Bank of Japan

At the end of July, the Bank of Japan (BOJ) decided to raise interest rates. This move caught the market by surprise and contributed to subsequent rapid changes in the financial market. While there are predictions that the next rate hike might occur in December, it is essential first to assess the impact of the current hike.

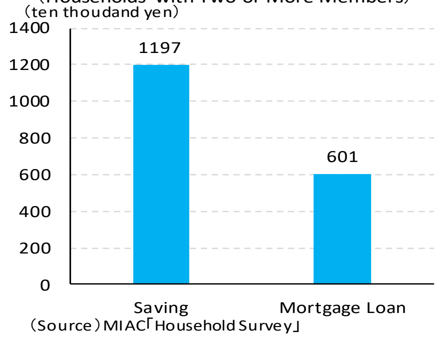
Meanwhile, the BOJ Governor's press conference during this rate hike drew significant attention. Regarding the current situation, he confirmed a "virtuous cycle of prices and wages" and recognized the trend in personal consumption as "steady."

Additionally, his statement that "the impact of the rate hike on households as a whole is positive" garnered considerable attention. This perspective mainly considers the difference between deposit balances and housing loan balances, with household deposit balances significantly exceeding housing loans (Figure 1).

However, it cannot be conclusively said that the impact of the rate hike on consumption behavior is also positive based on this relationship. The notable point is the difference in distribution across generations. While deposits are concentrated among the elderly, housing loans are concentrated among the younger generation.

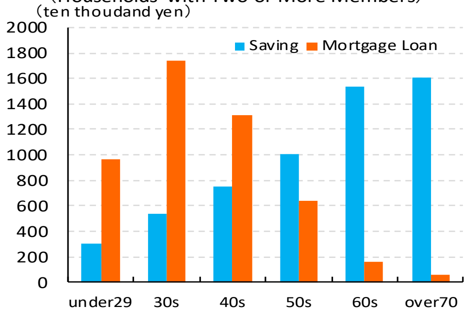
Given these trends, it is inevitable that the impact on consumption will vary significantly by generation. The image of widespread benefits across all households should be viewed as different from reality.

【Figure 1】
Average Saving and Mortgage Amount (2023)
(Households with Two or More Members)
(ten thoudand yen)



(Source) MIAC「Household Survey」

【Figure 2】
Average Saving and Mortgage Amount (2023)
(Households with Two or More Members)
(ten thoudand yen)



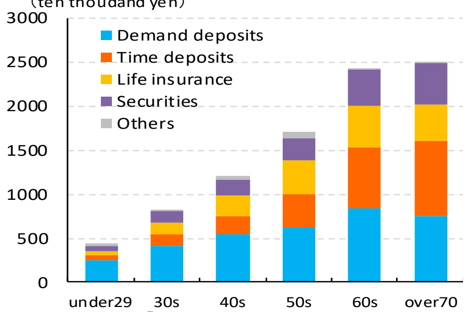
(Source) MIAC「Household Survey」

● Deposit and Housing Loan Holdings by Age Group

Based on the Ministry of Internal Affairs and Communications' Household Survey (Savings and Liabilities Edition), the average holdings of deposits and housing loans by households with two or more members show clear characteristics by age group (Figure 2). Deposits exceed 15 million yen per household for those in their 60s and above, while housing loans are more common among relatively younger age groups such as those in their 30s and 40s. As a result, savings exceed housing loans only for households in their 50s and above.

In Figure 2, savings refer to the total of demand deposits and time deposits. Although life insurance and securities are also included as shown in Figure 3, the focus here is on the portion benefiting from the rise in deposit interest rates due to the recent rate hike.

【Figure 3】
Average Saving Amount (By Age Ggroup)
(ten thoudand yen)



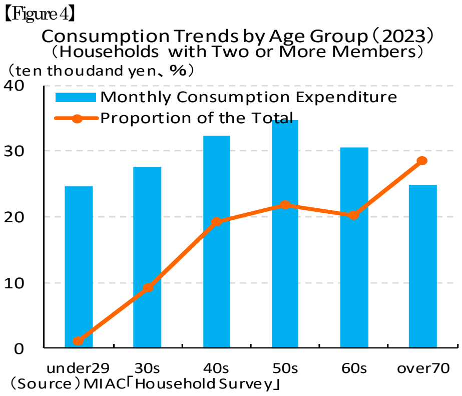
(Source) MIAC「Household Survey」

● **Breakdown of Consumption by Age Group**

On the other hand, the breakdown of personal consumption by age group is shown in Figure 4. While deposit balances clearly exceed housing loan balances for those in their 50s and above, they account for 60% of consumption share. This might suggest a potential consumption effect from deposits, but this is not necessarily the case. The content of consumption varies significantly by age group.

For example, items such as dining out and travel, where demand is expected to grow with increased income, are not in high demand among the elderly. When looking at the breakdown of consumption by item and age group, the ratio of dining out and travel is high among the younger generation, while the elderly have higher ratios for items such as utility bills and medical expenses. Given these trends, even if the positive effect on consumption from rising deposit interest rates becomes apparent, it is likely to be somewhat skewed.

【Figure 4】



（Source）MIAC「Household Survey」

On the other hand, if the rise in housing loan interest rates suppresses consumption, particularly among the younger generation, caution is needed regarding the impact on dining out and travel. In practice, the impact will likely be felt when the rise in variable interest rates is reflected in existing loan contracts.

Given that the recent rate hike was implemented amid already weak demand, its impact cannot be viewed optimistically. Before considering the timing of the next rate hike, it is crucial to focus on assessing the impact of the current one.

(Reference)
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