Will Japanese Households Invest in Risky Assets More Aggressively?

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Financial assets in households below 1400 trillion yen
The Flow of Funds Accounts released on June 16 by the Bank of Japan shows that outstanding financial assets in the household sector at the end of fiscal 2002 were 1378 trillion yen. Financial assets in the household sector have continued to decrease for 3 years in a row, and the rate of decrease at the end of fiscal 2002 was the largest ever. If we break down financial assets in the household sector, the share of safe assets such as currency and deposits is 56.2% and is the largest ever, and the share of risky assets such as other equities and securities is 5.9%, the lowest ever.

Return from risky assets remains low while the risk is high.
Some people argue that Japanese households should take more risk, and should invest in risky assets more aggressively. But if we look at Figure 1, we can see that since the collapse of Japan's...
economic bubble at the start of the 1990s, the risk premium of risky assets remains low, but the risk remains high, and that describes the lowest share of risky assets in the assets of households at the end of fiscal 2002.

![Figure 1 Risk Premium and Risk](image)


**Research focused on the socio-economic system intensify**

Most existing research on the household asset has focused on the degree of risk aversion as part of the Japanese national character such as ‘Japanese prefer deposits rather than risky assets’ other than the risk premium and risk of the risky assets. But the latest research focuses on the relationship with the socio-economic system such as the lifetime employment system, borrowing constraints and own house-orientation. Most of this new research
uses micro data, though the existing research uses macro data and examines each household as an aggregate sector. But the composition of the assets of each household differs and the analysis by micro data is suitable for the analysis rather than by macro data as to why the Japanese prefer safe assets, because from micro data we can get more information such as composition of households and house ownership data.

Standard economic theory explains that households decide their portfolio choices when the risk premium and the risk meet acquire maximum utility. So we must analyze household portfolio choices using panel data which can explain each household’s decision over time. But in Japan, no panel data about household assets exist, and the existing research is about cross-section analysis and has a serious weakness in that this research did not analyze either risk premium or risk.

Figure 2 describes the share of the Japanese household’s risky assets and The Tokyo Stock Price Index (TOPIX). We can see that both the share and the TOPIX describe the same shape with the late 80’s at the top. So there is a possibility those Japanese households invest their assets to see the price of stock. So when we analyze the Japanese households’ portfolio choices, we must include risk premium and risk in the model.
Our findings by panel data analysis

We perceive household asset data by region of Family Saving Survey (Statistics Bureau of Management and Coordination Agency, Government of Japan) to panel data because data by region is aggregate data but can be analyzed over time and we can add regional data to our model. We succeeded in including the risk premium and the risk to our econometrical model by analyzing the socio-economic system.

Our main conclusions are as follows,

1) If risk premium of risky assets rise, the demand for risky assets also rise: to encourage household to invest in risky assets it is necessary that corporate performance will improve...
and stock prices will increase.

2) Development of mortgage loans or consumer loans socially has a favorable effect on demand for risky assets by household: depth of the money market for household to be able to borrow money.

3) Income has a minus effect and asset has a plus effect on demand for risky assets: Older households have more risky assets than younger households and their income is less than younger ones\(^1\), which is the reason why income has a minus effect.

To encourage Japanese household to invest in more risky assets, namely household have to take more risk, it is necessary that corporate performance will improve and stock prices will increase and that money market for households will be developed more freely. The Japanese government should push bad-loan disposal more aggressively, let the Japanese economy recover, activate financial and capital markets and set clearly-stated rules of self-choice and self-responsibility for households.

(Reference)

K. Matsuura, S. Shiraishi, ‘Japanese Household Portfolio Choice

\(^1\) Ownership ratio of risky asset by head of a household’s age are 20’s 2.7%, 40’s 3.7%, 50’s 5.0%, 60’s 5.3%, 70’s 7.8% (Statistics Bureau of Management and coordination agency, Government of Japan).