Has the Japanese Household Savings Rate Really Changed?

Much attention has been paid to the recent large decline in the Japanese household savings rate. It is true that, as Iizuka (Report No.10) pointed out, maturing of a large amount of postal savings was one of the reasons for the decline. An overall downward trend in the savings rate as observed in the national accounts (SNA) statistics, however, cannot be denied. The decline, together with a recent temporary shrink of the trade and services balance, gave rise to a concern that Japan’s overall current account may plunge into deficits. However, any conclusions drawn by looking only at the nominal household savings rate may be naïve. Nominal savings do not exactly correspond to changes in the stock value of assets, and are insufficient as a measure of macro economic impacts. In order to compensate for this, a real household savings rate which corresponds to changes in the real balance of assets\(^1\) will be presented. By showing this adjusted measure, I will argue that it is possible to say saving behavior of the Japanese households has not changed significantly in the last 30 years.

Let \( S \) denote household savings, \( A \) net household assets, and \( p \) general the price level. Real savings, generally defined as \( S/p \), do not match changes in real assets, \( A/p \). Letting \( \Delta \) mean taking differences, changes in real net assets can be approximated as

\[
\Delta (A/p) = \Delta A/p - (\Delta p/p) \cdot (A/p) = S/p - (\Delta p/p) \cdot (A/p). \quad (1)
\]

The expression to the right of the second equal sign means that real stock-consistent savings are defined by the general definition minus holding losses \((\Delta p/p) \cdot (A/p)\) caused by increases in the general price level. In order to calculate the savings rate with respect to nominal disposable income, real household savings are converted back to the nominal base as

\[
S - (\Delta p/p) \cdot A.
\]

Data is taken from the Annual Report on National Accounts. For years 1970-1990, 1968 SNA statistics are used, while those based on 1993 SNA are used for years after 1990. \( A \) is

\(^1\) In order to construct an accurate stock-consistent savings series, it is necessary to include not only other financial assets but non-financial assets. In this report, however, I assume rather myopic households, and limit household assets to cash-equivalent ones.

\(^2\) No changes in market asset prices are assumed because assets are limited to cash-equivalent ones.
the annual average balance of cash and deposits (the average of year-end values) \( p \) is the year-end value of the deflator of household final consumption expenditures (the average of the October-December and January-March figures).

The results are shown in the chart. Apart from a rise in 1990 due to the switch from 1968 SNA to 1993 SNA, the SNA household savings rate followed a steady downward trend since the mid 1970s. In contrast, the savings rate, adjusted for changes in the real balance of cash-equivalent assets due to changes in the general price level, does not exhibit any clear trends.

For the 6-year period of 1973-1978, the SNA savings rate rose above 20%. During the high-inflation period of 1973 and 1974, however, the price-adjusted savings rate fell dramatically to 2.5% and 4.5%, respectively. From 1975 to 1978, the price-adjusted savings rate also rose. It can be said that this was a result of household behavior to recover the ratio of cash-equivalent assets to disposable income, which had fallen during the high inflation period due to a large increase in nominal income.

The SNA savings rate looks accelerating its downward trend in the 1990s. The price-adjusted rate, however, seems to have reversed its trend upwards in the late 1990s. Given a huge amount of household cash-equivalent assets, even a small decrease in the general price level yields a substantial increase in the real balance, raising the price-adjusted savings rate.

The price-adjusted savings rate shows that there have hardly been any changes in saving behavior of the Japanese households in the last 30 years. The above findings may imply that it is not necessary to identify such structural factors as the aging of the Japanese population as the cause for the declining SNA savings rate.

Chart SNA Household Savings Rate and Price-Adjusted Savings Rate

(note) 1968 SNA for years up to 1990, 1993 SNA