

The New Era of Negative Household Savings Rate

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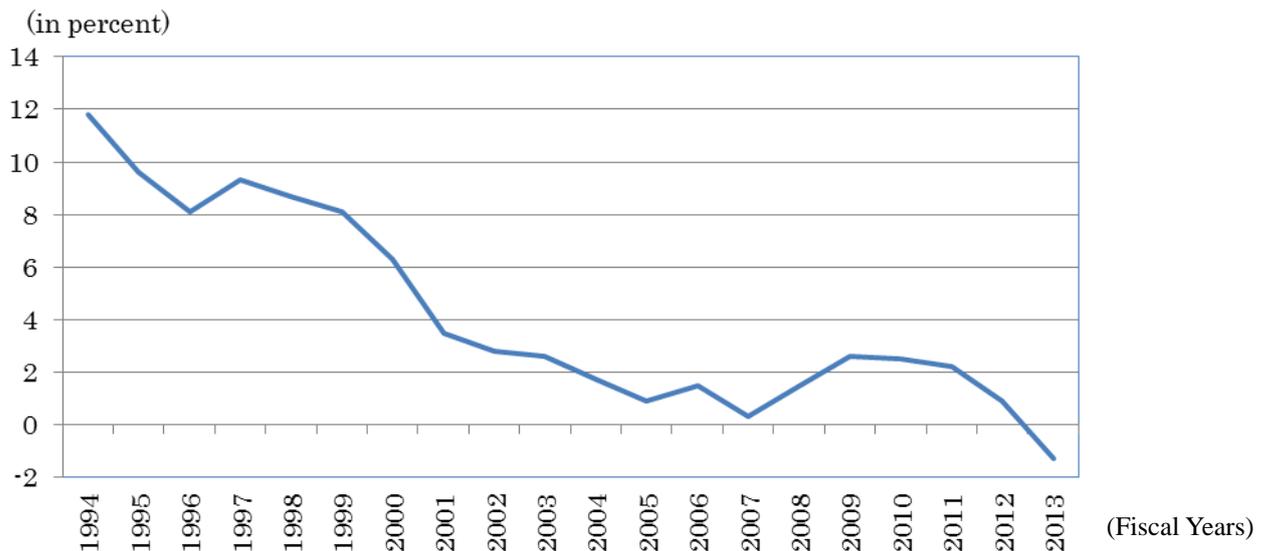
January 5, 2015

Household savings rate turned negative in 2013

The 2015 Annual Report on the System of National Accounts was released by the Cabinet Office on 25 December 2014. One of the striking facts revealed by the Report, which made available SNA figures on flow series up to 2013, was that the savings rate of Japanese household had turned negative in 2013.

The Japanese household savings rate has been falling since mid-1970s when it reached the peak of more than 23 percent. As Figure 1 shows, it almost fell below zero in late 2000s before it was temporarily overturned by the global financial and economic crisis. However, the declining trend resumed in 2010 and fell to -1.3 percent in FY2013 (-0.2 percent in CY2013). It is the first time in the history of modern SNA in Japan, which can be traced back at least to 1955, that household savings rate in Japan turned negative. It is a significant change from the times when analyzing the reasons why Japanese savings rate was so high was a subject of numerous academic papers.

Figure 1: Household Savings Rate



(Data Source) Cabinet Office, Economic and Social Research Institute

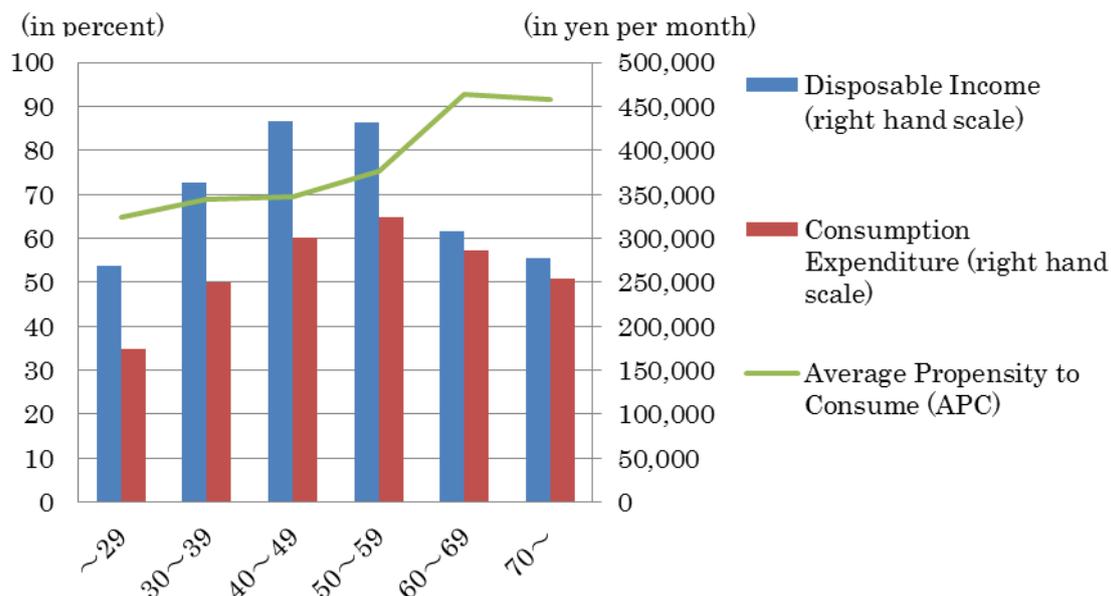
The factor behind the negative savings rate: the aging of the population

One of the factors behind the negative savings rate is, of course, the aging of the population in Japan. Supporting evidence can be found in the data provided by the Family Income and Expenditure Survey, which collects data on revenue and spending from about 9000 households every month.

(a) Aged working households have lower savings rate

For example, average propensity to consume (APC) of households whose heads are workers can be obtained, including those for the households grouped by the age of their household heads. As Figure 2 shows, APC rises as the household head gets older. It reflects the fact that, while incomes of households reach their peak when their household heads are in their 40s and 50s and falls significantly in their 60s, expenditures in 60s and 70s falls less significantly. It seems to be consistent with the life cycle-permanent income hypothesis which predicts that consumption is more stable than income.

Figure 2: Average propensity to Consume of Working Households (CY2013)



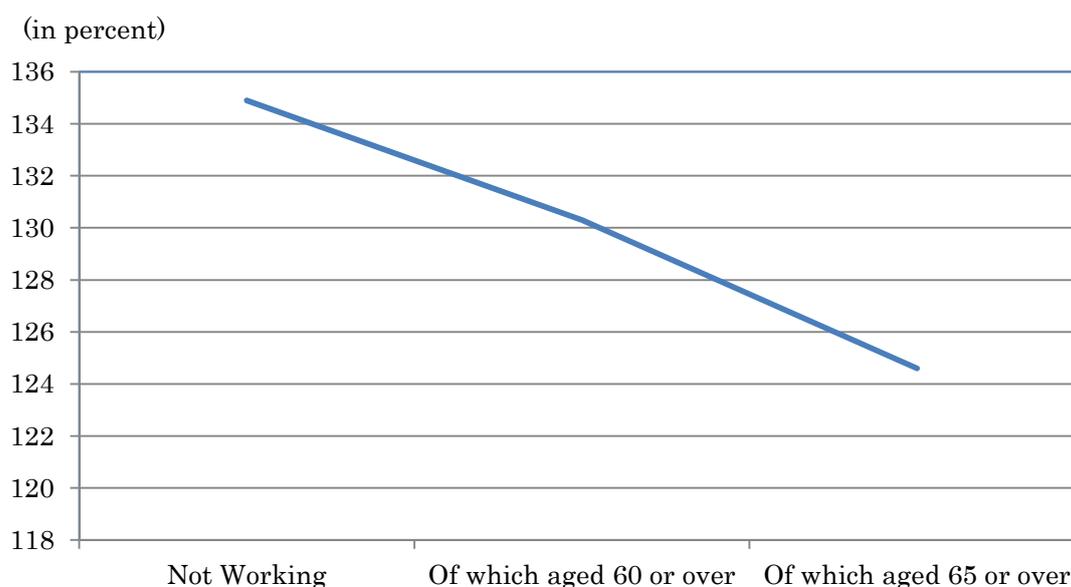
(Data Source) Ministry of Internal Affairs and Communications, Statistics Bureau

(b) Retired households have negative savings rate

However, above data cover only incomes and expenditures of households whose heads are still working. They do not include data of households whose heads have retired from work, and are supporting their lives by incomes other than wages; *inter alia* pension benefits.

The data on the large segment of these households can be seen in Figure 3, which shows APC of households which consists of only a single person who does not work. The Figure also provides APC of those households included in the same category but whose heads are aged 60 or over as well as those whose heads are aged 65 or over. It shows that the APCs of these households are higher than those of the working households and in fact is above 100 percent, again consistent with the life cycle-permanent income hypothesis. (One thing that needs further investigation may be the fact that APC for those households whose head is aged 65 or over is lower than that for those whose head is aged 60 or over. The reason for this may be because, according to the Survey, households whose head is aged more than 65 receive more pension benefits than those aged more than 60. The difference in pension benefits received could be explainable by the gradual shift of the age eligible to receive public pension benefits from 60 to 65.)

Figure 3: Average Propensity to Consume: Retired Households
(CY2013)

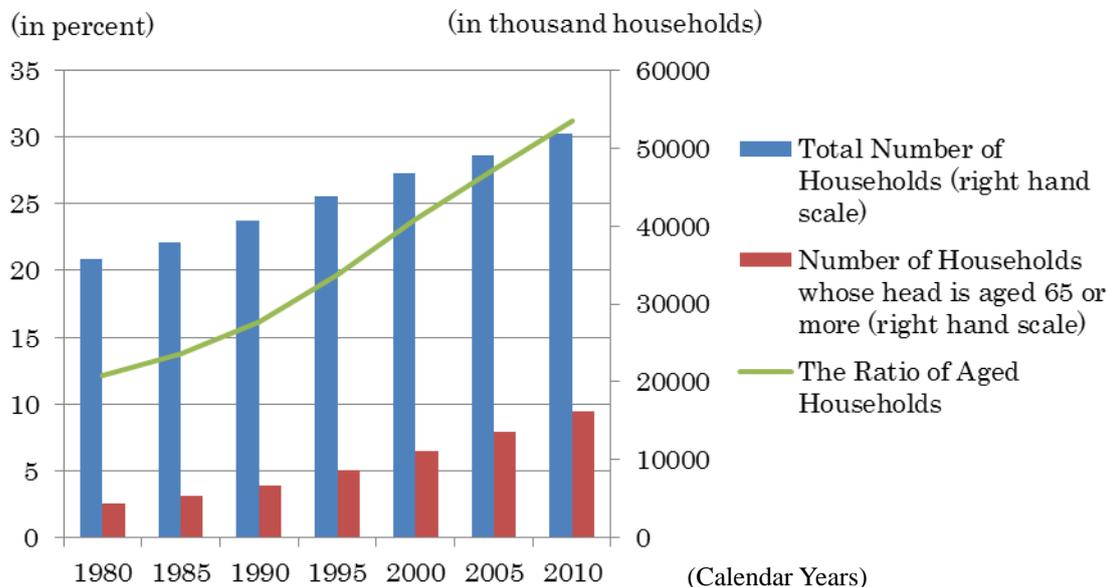


(Data Source) Ministry of Internal Affairs and Communications, Statistics Bureau

(c) Share of aged households is increasing

The tendency of households whose head is older to have higher and even above-100 percent APC (or lower and even negative savings rate), can have a significant impact on the macro-household savings rate if combined with the rapid aging of the population. Figure 4 shows that aging of households with heads aged 65 or over is increasing rapidly. For instance, the ratio of aged households to total households has risen from 23.8 percent in 2000 to 31.2 percent in 2010.

Figure 4: Share of Aged Households



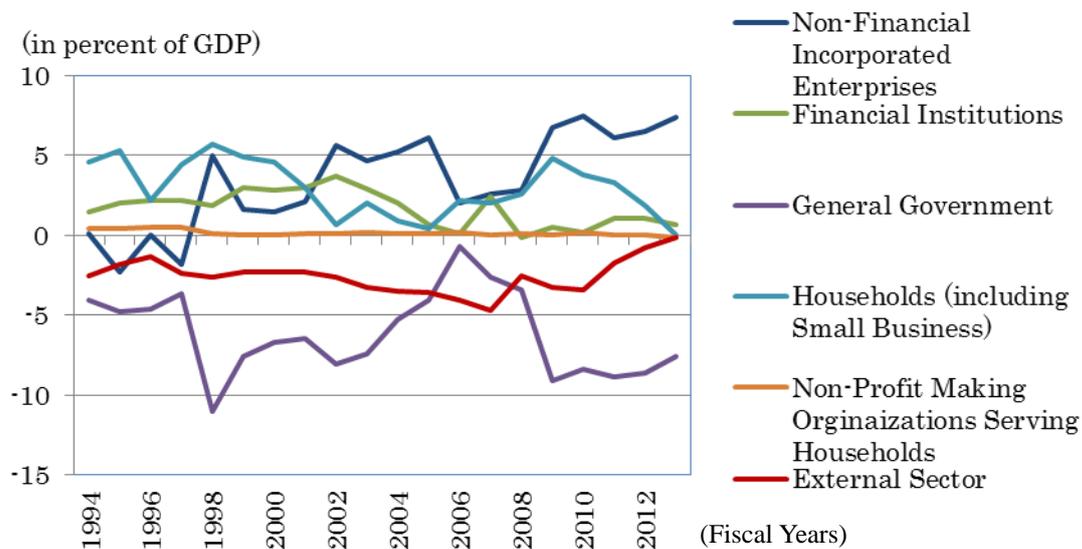
(Data Source) National Institute of Population and Social Security Research

Should be mindful of the drastic shifts it may bring

Since aging of the population is still expected to continue for a long period of time (e.g. old-aged dependency ratio is expected to keep rising until the 2070s), the negative savings rate is also expected to be with us for a long time. In this sense, 2013 should be remembered as the year opening up a new era of negative household savings rate, which Japan has never experienced in the past.

The new development may have implications on a wide range of aspects of the Japanese economy: One important area that may see a drastic change is the external balance. Another of the striking facts revealed by the 2015 SNA Annual Report is that, as Figure 5 shows, the net borrowing of the external sector (roughly equivalent to the current account surplus with a reversed sign) had become almost zero in 2013; i.e. -0.1 percent of GDP in FY2013 (or -0.5 percent of GDP in CY2013).

Figure 5: Net Lending/ Borrowing by Sectors



(Data Source) Cabinet Office, Economic and Social Research Institute

Since household savings had been the most important factor behind the large current account surplus recorded in the past, negative savings rate should have influenced the reduction in the current account surplus. If that is the case, current account balance may also have entered a new era of a negative balance. It would mean a drastic change in the external relationship of the Japanese economy. We should be mindful of the changes that it may invite. In particular, what should be kept in mind is the larger dependence on foreign savings: It may bring a change to the relatively stable financial environment Japanese government debt were able to enjoy until now.