

Daiwa's Economic View

Deep-rooted thriftiness

- High prices continue to drive selective spending and thriftiness
- Better price trends, income conditions key to better consumption

FICC Research Dept.

Kaori Ichikawa81-3-5555-8758
kaori.ichikawa@daiwa.co.jp**Kenji Yamamoto**81-3-5555-8784
kenji.yamamoto@daiwa.co.jp

Daiwa Securities Co. Ltd.

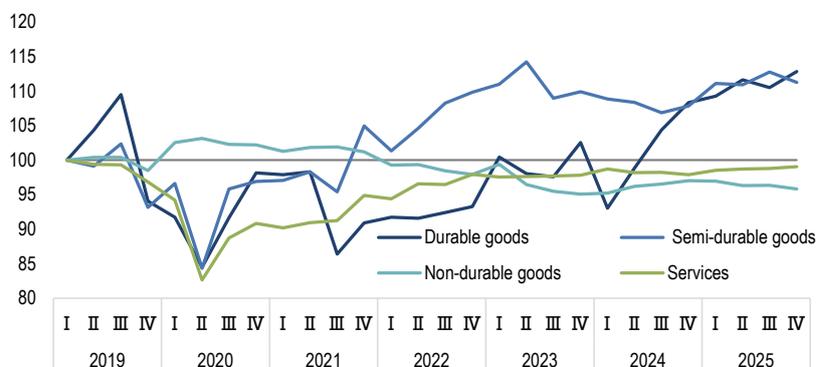
According to recently released data, Japan's GDP for Oct-Dec 2025 grew 0.1% q/q (up 0.2% annualized). Private consumption increased a modest 0.1% (up 0.4%). Consumption of durable goods and services increased, while consumption of semi-durable goods and non-durable goods decreased. Due to the impact of rising prices, private consumption has not yet recovered to levels exceeding those before the COVID-19 pandemic.

As for private consumption, the BOJ stated in its latest *Outlook Report* that, "While consumers' increased thriftiness regarding items such as daily necessities has been entrenched partly due to elevated food prices, spending has been firm in areas that consumers perceive as offering high value-added, supported by improvements for employment and income conditions and by the rise in stock prices. It appears that consumers have continued to be selective in their consumption on the whole."

The latest Economy Watchers Survey also included such opinions as, "A polarization is occurring between items purchased without regard to price and those bought after carefully considering the cost. For ready-to-eat items like prepared foods, more customers are purchasing them specifically for the discounts (supermarket, Southern Kanto region)" and "The impact of rising prices and yen depreciation is accelerating polarization. For individuals, while sales volumes are declining, sales of high-priced items are increasing. For corporations, overall numbers are decreasing, but companies with strong performances are increasingly allocating budgets toward employee incentives, travel, events, and other communication activities (travel agency, Kyushu)." It was confirmed that many households continue to practice selective spending.

Personal Consumption by Type

(Jan-Mar 2019=100, seasonally adjusted)

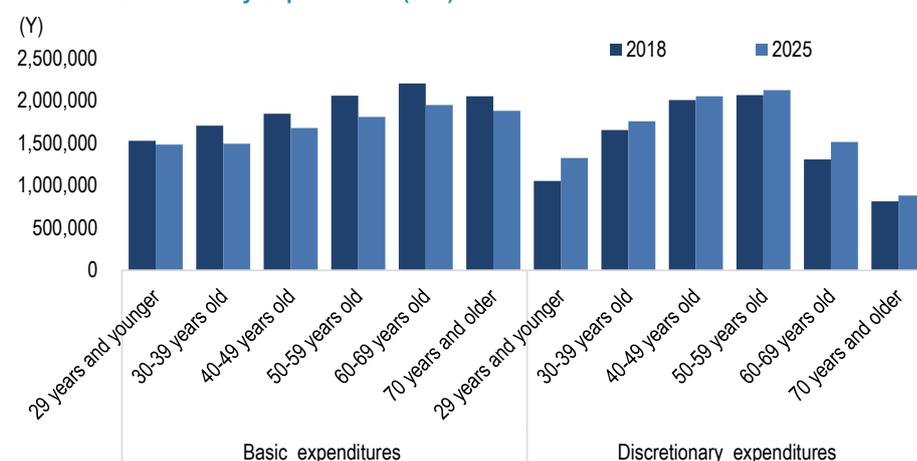


Source: Cabinet Office; compiled by Daiwa.

Other opinions included, “The impact of weather on demand for home-cooked meals and prepared meals is unpredictable, but we believe the tendency to save money remains strong and we expect the trend of less dining out to continue (supermarket, Hokuriku),” “Both the year-end shopping season and the New Year sales period saw consumers tending to hold back on purchases. Here, while large-scale product fairs focused on food items performed well, the mindset of protecting household finances remains strong, and consumption remains sluggish (department store, Northern Kanto),” and “Customers are holding back on purchases due to rising product prices caused by increased ingredient and logistics costs (convenience store, Shikoku).” These opinions suggest that households continue to have a strong tendency toward saving.

In fact, looking at basic and discretionary expenditures in the Survey of Household Economy, basic expenditures have decreased, while discretionary expenditures have increased, as compared to before the COVID-19 pandemic. The increase across all generations suggests that consumers of every age bracket are spending selectively. Amid prolonged high prices and while savings on daily necessities and groceries continue, there is also a trend in which consumers are willing to spend on items they personally value (against a backdrop of savings fatigue). This appears to be leading to a polarization in consumer behavior.

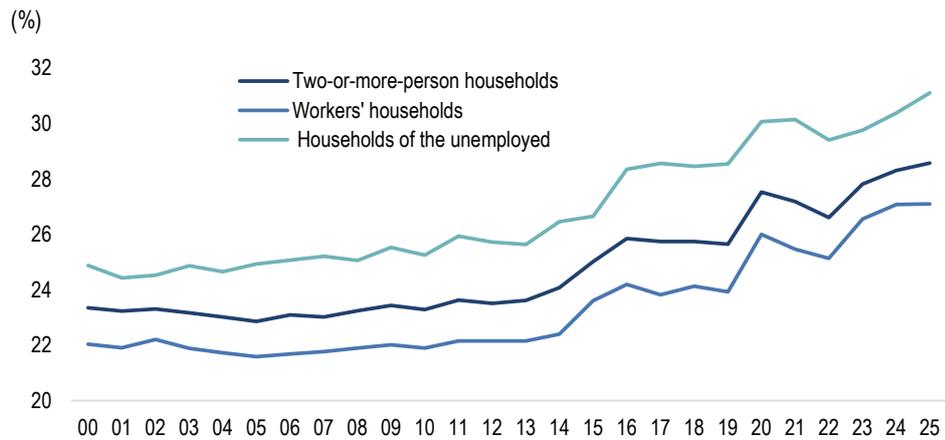
Basic and Discretionary Expenditures (real)



Source: Ministry of Internal Affairs and Communications (MIC); compiled by Daiwa.

This rising belt-tightening (savings) trend is largely driven by soaring food prices. The Engel's coefficient (proportion of a household's total budget spent on food) for 2025 stands at 28.6%, continuing its upward trend. Particularly for unemployed households, the Engel's coefficient has reached 31.1%, indicating significant financial burdens. Most unemployed households are composed of elderly individuals, which suggests increased financial burden for seniors. [The gap between households struggling with rising prices and those largely unaffected appears to be widening.](#) As Japan's declining birthrate and aging population progress, the proportion of elderly households is also increasing, meaning the burden is growing significantly even when viewed at the macro level.

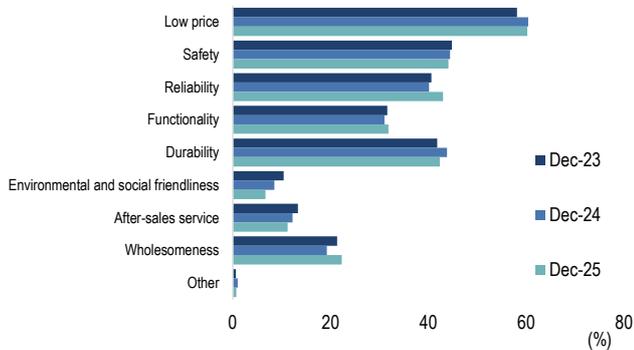
Engel's Coefficient



Source: MIC; compiled by Daiwa.

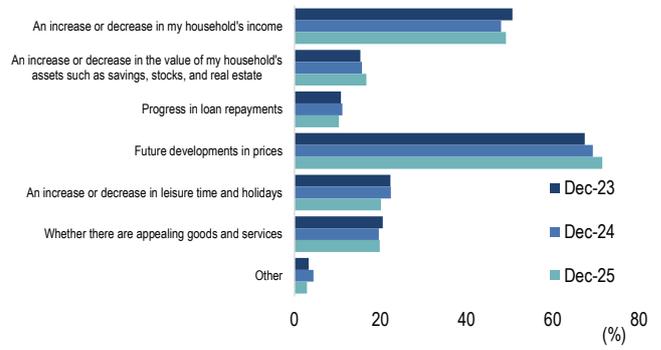
The current state of consumption is not necessarily pessimistic, but future developments will depend on both prices and income. According to the BOJ's Opinion Survey on the General Public's Views and Behavior, over 60% of households responded that they will place particular emphasis on "low price" when selecting goods and services over the next year. Meanwhile, consumers are also placing high importance on factors such as "reliability" and "wholesomeness." Their spending habits are selective. Specifically, they are willing to spend on high-quality products and health-related benefits. Also, many households are concerned about "future developments in prices" when considering their spending. So, it appears that consumption growth is largely influenced by "changes in income."

Major Factor(s) When Choosing Goods and Services on Which to Spend for the Year Ahead



Source: BOJ; compiled by Daiwa.
Note: Up to three answers were allowed.

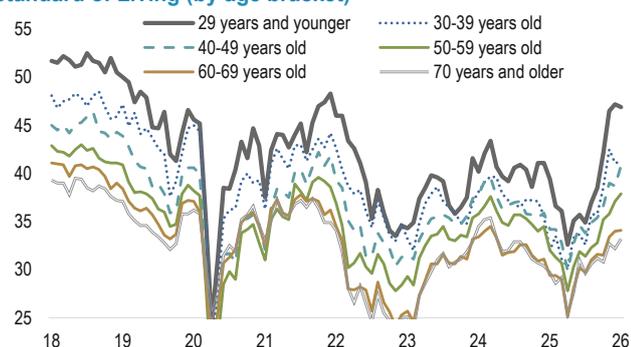
Major Factor(s) to Be Considered When Making Spending Decisions for the Year Ahead



Source: BOJ; compiled by Daiwa.
Note: Multiple answers were allowed.

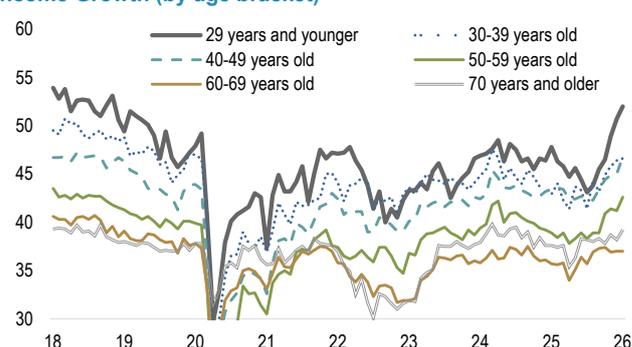
However, financial conditions for the elderly are not as favorable as those for younger generations and, with their livelihoods based mainly on pensions, income growth is limited. As such, rising food prices may become a burden on household finances, potentially leading to a continued reluctance to spend.

Standard of Living (by age bracket)



Source: Cabinet Office; compiled by Daiwa.

Income Growth (by age bracket)



Source: Cabinet Office; compiled by Daiwa.

As GDP for the Oct-Dec 2025 quarter suggests, private consumption has remained robust, but consumption of non-durable goods is weak, with impacts from rising prices. As prices, particularly for food items, stabilize going forward, downward pressure on private consumption is expected to gradually ease. However, consumption trends could differ at the micro level, so continued close monitoring is necessary.

In her 20 February policy speech, Prime Minister Sanae Takaichi announced her intention to accelerate consideration of various issues to realize a zero-consumption tax on food and beverages, including the timing for introducing the tax cut and how to secure funding. Debate over consumption tax cuts for food/beverages and refundable tax credits is expected to intensify in the national council through this summer.

Reducing the consumption tax on groceries will have only a limited effect on low-income individuals and elderly households, who feel the burden of high prices most acutely. As such, depending on the direction and content of the discussions, fiscal concerns and inflation worries could intensify, potentially accelerating yen depreciation once again. There is also the risk that rising food prices will increase household burdens and drive down consumption.

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