Reaction After Increase in Consumption Tax Rate

【Analysis Point 1】
~ Looking at the mining and manufacturing industry as a whole, compared to the phase after the increase in consumption tax rate in 1997, in this current phase, a momentum where production and shipments are becoming weaker, and inventory expanding is becoming stronger ~

Comparison of Industrial Production Index with Previous Increase in Consumption Tax
(April 1997, April 2014 = 100, seasonally adjusted)

Source: Created based on “Indices of Industrial Production”

【Analysis Point 2】
~ Although the inventory level after an increase in consumption tax rate is higher in 1997, the inventory rate index (ratio of inventory in relation to shipment) is higher in this current phase ~

Comparison of Inventory Index and Inventory Rate Index with Previous Increase in Consumption Tax
(2010 = 100, seasonally adjusted)

Source: Created based on “Indices of Industrial Production.”
In 1997, during the third quarter of 1997 about six months after the increase in consumption tax rate, there was a shift from “inventory accumulation stage” to “expanding inventory stage.”

This time, as of the first quarter of 2014, there was a shift from “inventory accumulation stage” to “expanding inventory stage.”

It is thought that the state is one in which the momentum of shipments is weak and it is difficult to decrease inventory.

~ When looking at the inventory cycle graph, inventory changed to “expanding inventory stage” in the first quarter of 2014 ~

【Characteristics】
- In 1997, during the third quarter of 1997 about six months after the increase in consumption tax rate, there was a shift from “inventory accumulation stage” to “expanding inventory stage.”
- This time, as of the first quarter of 2014, there was a shift from “inventory accumulation stage” to “expanding inventory stage.”
- It is thought that the state is one in which the momentum of shipments is weak and it is difficult to decrease inventory.

Source: Created based on “Indices of Industrial Production”

【Analysis Point 4】
~ The weakness of exports is a factor behind the weak moment of shipment in this current phase ~

【Characteristic】
- When looking at changes in the contribution ratio of shipments for domestic use and shipments for exports in relation to the growth rate of shipments, shipments for exports contributed in a positive way through the period before and after the increase in consumption tax in 1997. However, after the fourth quarter of 2014, shipments for exports are contributing in a negative manner.

Source: Created based on “The Indices of Industrial Domestic Shipments and Exports.”
【Analysis Point 5】
～In this current phase, shipment of durable consumer goods decreased greatly, and inventory increased significantly～

【Characteristics】
• Compared to the phase after the increase in consumption tax rate in 1997, the current phase is characterized by a large decrease in shipment of durable consumer goods, and a large increase in inventory.
• Compared to 1997, in 2014, non-durable consumer goods are also demonstrating a larger width of increase in production and shipment before the rise in consumption tax and a larger width of decrease at the time of rise in consumption tax (April).

Comparison of Consumer Good Index with Previous Increase in Consumption Tax Rate
(April 1997, April 2014 = 100, seasonally adjusted)

Source: Created based on “The Indices of Industrial Production.”
【Analysis Point 6】
~ Inventory of “Cars and motorcycles” increased significantly, amidst a slowdown of production and shipment ~

【Characteristics】
- In 1997, production and shipment of “Cars and motorcycles”, which accounts for approximately 70% of the weight of “durable consumer goods”, increased even in the phase after the increase in consumption tax rate, to May and June, respectively. Since the momentum for shipment was weak compared to production, inventory expanded after March.
- In this current phase, inventory is increasing significantly amidst a slowdown in production and shipment, demonstrating a different movement than in 1997.
- “For culture and amusement”, which makes up approximately 20% of the weight of “durable consumer goods”, is slowing down in this current phase. The decrease in production of “For culture and amusement” is impacted greatly by the decrease in desktop computers and notebook computers, and the decrease in shipment is greatly affected by a decrease in flat-screen televisions, etc.

Comparison of “Cars and motorcycles” and “For culture and amusement” with the Previous Increase in Consumption Tax Rate
(April 1997, April 2014 = 100, seasonally adjusted)

Source: Created based on “The Indices of Industrial Production.”

【Analysis Point 7】
~ The momentum for recovery of tertiary industry activity is becoming weaker in this current phase ~

Comparison of Indices of Tertiary Industry Activity with Previous Increase in Consumption Tax Rate
(April 1997, April 2014 = 100, seasonally adjusted)

Source: Created based on “Indices of Tertiary Industry Activity.”
In this current phase, production and shipment are weak and the momentum for recovery of tertiary industry activity is weak as compared to the phase after the increase in consumption tax rate in 1997. Expansion of inventory is becoming stronger, and there is also the possibility that recovery of demand is not directly linked on a short-term basis to recovery of domestic production. An eye should be kept on future trends as well.