

Recent Trends in Consumption in the G7 Countries

Charles Yuji Horioka

(Institute of Social and Economic Research,
Osaka University, and National Bureau of
Economic Research)

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Purpose of This Analysis

To analyze the determinants of recent trends in consumption in the Group of Seven (G7) countries.

Looking at trends in consumption will allow us to see if growth has been inclusive in the sense of (1) the household sector being able to reap the benefits of growth and (2) *all* households being able to reap the benefits of growth.

Sample of Countries

I focus on the G7 countries (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States) because of their importance in the world economy and because of their comparability to Japan.

I focus on the 2002-2007 period because it was a relatively prosperous period between the Asian financial crisis and the Lehman shock.

Trends in Consumption

- Consumption increased the fastest in Canada during the 2002-07 period (3.7%), relatively fast in the United States (3.0%), the United Kingdom (2.4%), and France (2.1%), and relatively slowly in Japan (1.3%), Italy (1.1%), and Germany (0.3%).
- What are the reasons for these substantial differences among the G7 countries?

Growth Rate of GDP and Consumption

	2002- 2007			2007- 2009	
	GDP	Net Household Disposable Income	Consumption	GDP	Consumption
Canada	2.61	3.52	3.74	- 0.98	1.67
France	2.00	1.94	2.09	- 1.41	0.21
Germany	1.55	0.40	0.33	- 1.91	0.27
Italy	1.14	0.51	1.05	- 3.29	- 1.30
Japan	2.10	1.00	1.30	- 3.76	- 1.33
U.K.	2.68	1.14	2.44	- 2.50	- 1.38
U.S.	2.75	2.61	2.98	- 1.35	- 0.73

Determinants of Consumption

Growth: (1) GDP Growth

- GDP growth is an important determinant of consumption growth but not the only determinant because consumption growth roughly equals GDP growth in some economies (France, Italy, the United Kingdom, and the United States), exceeds GDP in some economies (Canada), and falls short of GDP growth in some economies (Germany and Japan).

Determinants of Consumption Growth: (2) Household Income

- The fact that consumption growth is higher than GDP growth in Canada can be explained by the fact that household income growth is higher than GDP growth in Canada (i.e., the labor share of income increased).
- The fact that consumption growth is lower than GDP growth in Germany and Japan can be explained by the fact that household income growth is lower than GDP growth in Germany and Japan (i.e., the labor share of income declined).

Determinants of Consumption Growth: (3) Household Saving

- Consumption growth will exceed household income growth if the household saving rate declines and conversely.
- Consumption growth exceeded household income growth in Italy and the United Kingdom because their household saving rates declined sharply.
- This factor was not so important in Japan because the decline in her household saving rate was not so sharp.

Household Saving Rate

	2002	2003	2004	2005	2006	2007	Change
Canada	3.53	2.70	3.24	2.18	3.63	2.57	- 0.96
France	13.66	12.46	12.36	11.37	11.44	11.87	- 1.79
Germany	10.06	10.41	10.55	10.63	10.71	10.92	0.87
Italy	11.36	10.34	10.30	9.96	9.19	8.22	- 3.14
Japan	5.09	3.88	3.63	3.85	3.65	3.78	- 1.31
U.K.	- 0.05	0.43	- 1.70	- 1.26	- 2.95	- 4.27	- 4.21
U.S.	3.65	3.76	3.37	1.48	2.47	1.73	- 1.93
Mean	6.76	6.28	5.96	5.46	5.45	4.97	- 1.78

Determinants of Consumption Growth: (4) Household Wealth

- Consumption growth will also be influenced by household wealth.
- Household wealth increased sharply in France and the U.K., moderately in Italy, the U.S., and Germany, and least sharply in Japan and Canada.
- Thus, the sharp increase in household wealth can explain the strong consumption growth in the U.K., whereas the stagnation of household wealth can explain the weak consumption growth in Japan.

Ratio of Net Household Wealth to Household Income			
	2002	2007	2002- 2007
Canada	5.127	5.485	0.358
France	5.713	8.063	2.350
Germany	5.336	6.276	0.940
Italy	7.475	8.570	1.095
Japan	7.194	7.353	0.159
U.K.	7.156	9.008	1.852
U.S.	5.143	6.157	1.014
Mean	6.163	7.273	1.110

Determinants of Consumption Growth: Conclusion (1)

- Thus, consumption growth is determined by trends in GDP growth, household income growth, household saving rates, and household wealth.
- The stagnation of consumption in Japan was due primarily to the stagnation of household income (or to put it another way, the decline in the labor share of income or the stagnation of wages) and the stagnation of household wealth.
- The stagnation of GDP and the decline in the household saving rate were not so important in Japan.

Determinants of Consumption Growth: Conclusion (2)

- By contrast, the strong growth of consumption in the United States was due to the strong growth of GDP, the sharp decline in the household saving rate, and the moderate growth of household wealth.

Policy Implications (1)

- (1) Household income/wages have been stagnant in Japan, and thus increasing household income/wages (in other words, increasing the labor share of income) is a highly effective and desirable way of stimulating consumption. Possible ways: Create jobs (especially for young workers), provide vocational training, increase the share of regular workers, improve the wages and other benefits of temporary workers, etc.

Policy Implications (2)

- (2) Household saving rates have been relatively stable in Japan. Improving social safety nets and improve access to consumer credit would reduce precautionary saving and boost consumption.

Thank you very much for your kind
attention.

Please send any questions or
comments to [horioka@iser.osaka-
u.ac.jp](mailto:horioka@iser.osaka-
u.ac.jp)

Determinants of Consumption

$$dC = (dC/dYD) * (dYD/dGDP) * dGDP$$

Employee Compensation to GDP Ratio

	2002	2003	2004	2005	2006	2007	Change
Canada	51.46	51.19	50.91	50.59	51.25	51.31	- 0.15
France	53.27	53.22	52.83	52.75	52.55	52.07	- 1.20
Germany	52.65	52.32	51.43	50.39	49.39	48.55	- 4.10
Italy	39.77	40.07	39.90	40.68	40.97	40.83	1.06
Japan	52.75	52.65	52.31	51.89	52.56	52.17	- 0.58
U.K.	54.62	54.13	53.69	53.97	53.26	53.08	- 1.54
U.S.	57.70	57.56	56.66	56.16	56.07	56.14	- 1.56
Mean	51.75	51.59	51.11	50.92	50.86	50.59	- 1.15

Personal Taxes to GDP Ratio

	2002	2003	2004	2005	2006	2007	Change
Canada	17.00	16.59	16.54	16.77	16.71	17.08	0.08
France	29.29	29.53	29.25	29.45	29.33	28.71	- 0.57
Germany	30.47	30.29	29.28	28.91	28.93	28.42	- 2.05
Italy	26.00	26.01	25.82	26.17	26.56	27.11	1.10
Japan	19.49	18.87	18.00	18.00	18.46	18.68	- 0.81
U.K.	25.99	26.11	26.35	27.70	27.96	27.69	1.70
U.S.	17.01	16.04	15.87	16.54	17.05	17.51	0.49
Mean	23.61	23.35	23.02	23.36	23.57	23.60	- 0.01

Ratio of Household Liabilities to Household Income			
Canada	1.117	1.373	0.256
France	0.756	1.003	0.247
Germany	1.121	1.017	- 0.104
Italy	0.602	0.829	0.227
Japan	1.336	1.274	- 0.062
U.K.	1.340	1.836	0.496
U.S.	1.099	1.378	0.279
Mean	1.053	1.244	0.191

Unemployment Rates			
	2002	2007	2002- 2007
Canada	7.7	6.0	- 1.7
France	7.9	8.0	0.1
Germany	8.3	8.3	0.0
Italy	8.7	6.1	- 2.6
Japan	5.4	3.8	- 1.6
U.K.	5.2	5.4	0.2
U.S.	5.8	4.6	- 1.2
Mean	7.0	6.0	- 1.0