

## Price hike strikes a heavier blow to low-income households

Slashed education expenses may widen the education gap even further

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### Consumers are feeling the impact of rising prices recently, undermining their purchase appetite and prompting a cutback on spending

Amid the ongoing commodity price surge and yen depreciation, import prices continue to rise. A wide variety of items, including petrochemical products, metals and lumber, have been subject to price increases, with the import price index (yen base) in November 2021 rising by +45.2% over the previous year, the highest jump since January 1981 when comparable data became available. This price hike is also impacting domestic consumer prices, and among the Consumer Price Index (CPI) components in December, energy prices (such as gasoline and electricity) rose by +16.4% and food (excluding fresh foods) by +1.1% year-on-year, showing that prices of daily necessities close to consumers are on the rise.

Consumers are increasingly feeling the impact of higher prices. According to the Bank of Japan's Opinion Survey on the General Public's Views and Behavior for December 2021, 77.4% of respondents answered that current prices have gone up, a significant increase from the previous September survey (61.5%). This figure marks the highest level since the consumption tax hike period from 2014 to 2015, and is strong proof that escalating prices are impacting households to a greater extent than before. Furthermore, when asked about rising prices, 82.7% selected "rather unfavorable" (September survey: 79.2%). This is the first time that more than 82% of respondents felt unfavorable price increases since December 2016 when 84.8% of respondents said price increases were unfavorable.

Also, the Economy Watchers Survey (December 2021 survey), which covers the actual voices of business people working close to consumers, carried numerous comments on the consumer trend to economize as prices rise for items such as gasoline and foods (**Chart 1**). As Sakai et al. (2018) pointed out, price increases actually felt by consumers prompt a cutback on spending and run the risk of tightening personal consumption. We can also confirm from the comments in **Chart 1** that consumers are actually cutting back on spending with fewer incentives to open their pocketbooks. If we look back on the household consumption trend in 2008 when commodity market prices skyrocketed, while spending on electricity and gas rose, outlays on non-necessities such as clothes and social expenses fell significantly and overall personal consumption tumbled (refer to Sakai et al., 2021).

**[ Chart 1: Economy Watchers Survey (December 2021 survey)  
Reasons for the assessment of the economy]**

Sector	Comments
Supermarkets	Gasoline and kerosene prices remain high with the rise in crude oil prices. As food prices continue to increase driven by <b><u>higher raw material prices</u></b> , consumers are becoming <b><u>more thrifty</u></b> in their daily lives.
Gas stations	<b><u>With crude oil prices expected to remain high</u></b> , gasoline prices may also stay high. Consumers are likely to <b><u>remain thrifty</u></b> with no recovery in sales volume expected.
Foods	<b><u>Rising raw material prices</u></b> have caused merchandise procurement prices and average unit prices to rise, but the sales volume declined from the previous year. With <b><u>consumers tightening their purse strings</u></b> in the face of an uncertain future, the sluggishness of the Japanese economy will only get worse.
City hotels	Hotel reservations at the yearend and new year were stagnant. There is concern that resurging coronavirus variants, as well as rising <b><u>fuel and food prices, will restrain spending on eating out, travel, and other leisure activities</u></b> .
Business consultants	<b><u>Increasing raw material and fuel prices</u></b> are causing prices to rise. With higher living expenses, the elderly in particular tend to <b><u>refrain from new purchases</u></b> .

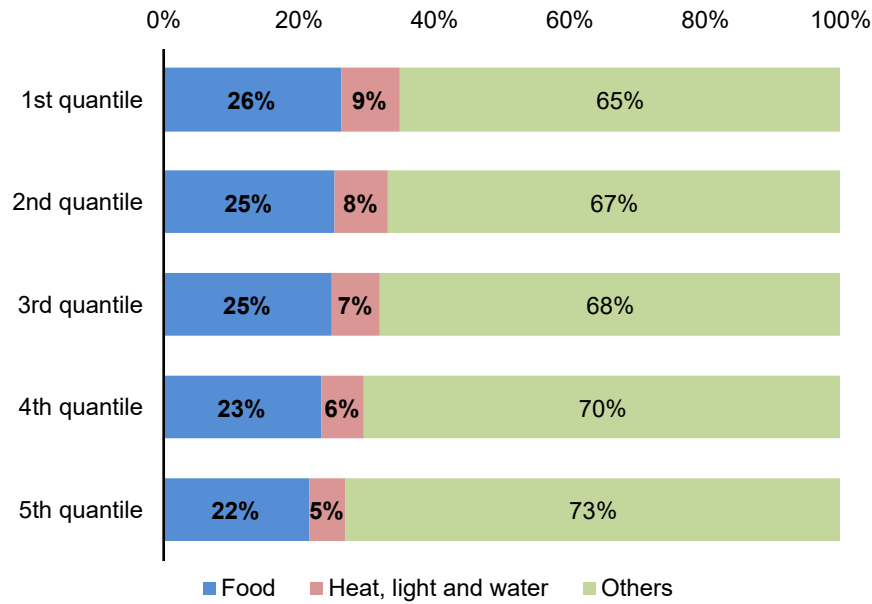
Source: Made by MHRT based on the Cabinet Office, *Economy Watchers Survey*.

### Impact of the price surge hits low-income households harder

As mentioned earlier, recent price hikes have mainly surfaced with the rising cost of energy and food items. If we examine the share of expenditures on food, heat, light and water charges in total consumption by annual income quantile group, the first quantile (the bottom 20% annual income households, hereinafter referred to as “low-income households”) saw 35% of its total consumption go to food and energy charges, whereas the fifth quantile (the top 20% annual income households, hereinafter “high-income households”) saw only 27% of its spending directed to these areas, showing that the share of food, heat, light and water expenses grows larger as household income drops (**Chart 2**). As low-income households are hit harder when the cost of daily necessities rises, they must be feeling the impact of higher prices more than high-income households.

In December 2021, WTI crude oil prices soared to new record highs for the first time in seven years, at \$87 per barrel. As confirmed by Minami (2021), since there is a one-to-nine-month time lag between crude oil price hikes and consumer price increases for such items as electricity, we expect the transfer of crude oil price hikes onto various energy prices will last at least until around September 2022. Likewise, the transfer of higher import food prices onto consumer prices is anticipated to emerge full scale from the first half of 2022. Thus, we expect rising prices to continue for a while centered on energy and food items, namely, daily necessities that are difficult to economize and more likely to put the living expenses of low-income households under pressure.

[ Chart 2: Share of expenditures by annual income quantile group ]



Note: The graph uses 2019 data of workers' households with two or more members by annual income quantile group.  
 Source: Made by MHRT based on the Ministry of Internal Affairs and Communications, *Family Income and Expenditure Survey*.

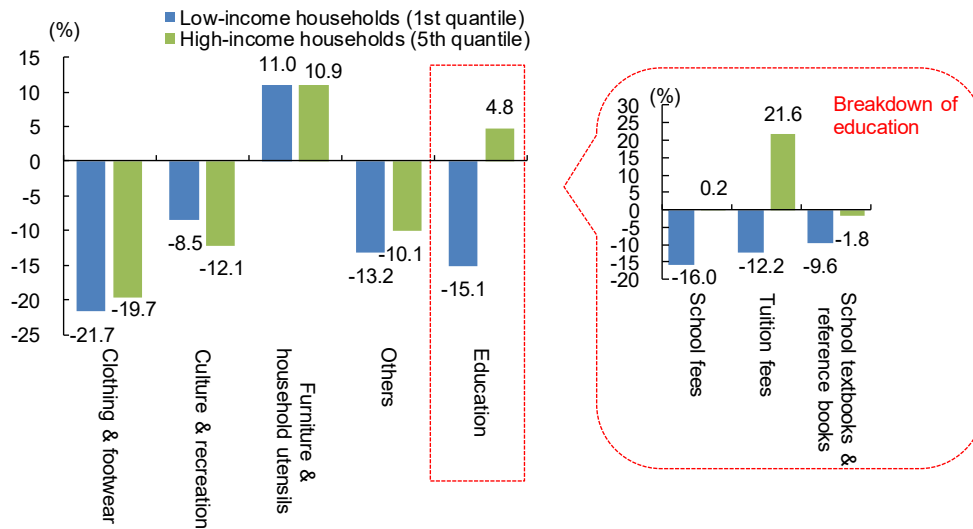
**Reduction in education expenses is most notable for low-income households**

The deteriorating financial condition of low-income households generates concern over reduced spending on education. With the pandemic worsening the employment situation, low-income households are compelled to restrain spending on a wide variety of items (**Chart 3**). In particular, the single spending item highlighting the disparity with high-income households is education expenses. If we compare education expenses in 2021 with the pre-coronavirus period of 2019, spending on education dropped by -15.1% for low-income households while increasing by +4.8% for high-income households. If we break down these expenses, spending on “tuition fees,” which include cram school and preparatory school tuition fees, fell substantially by -12.2% for low-income households, but jumped by +21.6% for high-income households, a growth rate surpassing the level recorded before the COVID-19 crisis. In fact, the Nippon Foundation et al. (2021) points to the possibility of higher income households steadily investing in education to recover the hours lost by temporary school closures due to the pandemic, since the rate of increase in study hours rose from January 2020 through May 2020 among high income earners.

Although the decline in “school fees” may partially reflect the impact of free early childhood education since October 2019 and virtually free tuition at private high schools since April 2020, we cannot ignore the sudden deterioration in household finances driven by the pandemic, making it difficult for some students to continue at school. According to a survey conducted by the Ministry of Education, Culture, Sports, Science and Technology, of the students who gave up school from April to August 2021, 5.9% left because of the COVID-19 situation (3.1% in 2020), and 8.7% applied for a leave of absence from school for the same reason (5.7% in 2020), and we can see that both ratios increased from the previous year.

In addition to the impact of the pandemic, the recent price surge in daily necessities may further widen the gap in education spending. If we study the trend of education expenditures in 2008, while spending on education by high-income households rose by +2.2%, spending fell by -8.2% for low-income households. Low-income households continuing to slash education expenses run the risk of exacerbating the disparity in education. Hence, we need to watch the trend of commodity market prices and the CPI going forward.

[ Chart 3: Comparison of spending by use (2021 against 2019) ]



Note: The graph compares data of the January to October period of 2021 and 2019. The graph uses data of workers' households with two or more members by annual income quantile group.

Source: Made by MHRT based on the Ministry of Internal Affairs and Communications, *Family Income and Expenditure Survey*.

**Reference**

**Refer to the original Japanese report by clicking the URL below for the reference material.**

<https://www.mizuho-ir.co.jp/publication/report/2022/pdf/express-jp220124.pdf>

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