

Liquidity Constraints and Consumer Inventory: Evidence from Japan*

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April 17, 2017

Abstract

While stocks and small durables can buffer changes in consumption arising from negative income shocks, it has been unknown how these goods are accumulated. To this end, this paper uses Japan's consumption tax hike which is clean and suitable to observe the relationship between stockpiling behavior and liquidity constraints. Daily scanner data with household identifiers display substantial heterogeneity in inventory utilization. I construct an inventory model with liquidity constraints as well as storage and adjustment costs, and empirically test the relationship. A household-level analysis shows that liquidity constraints have significant influence on stockpiling behavior. JEL codes: E21, E32, E62, H31, D12, L81.

Keywords: Stockpiling, hand-to-mouth, regression kink model, Japan's consumption tax, scanner data.

*I would like to thank Tsutomu Watanabe for fruitful discussion. I am grateful to ID's Co., Ltd. for providing scanner data. I appreciate financial supports from Shinnihon Scholarship Foundation and from the Japan Society for the Promotion of Science (Grant-in-Aid for JSPS Fellows no. 16J09620). All errors are my own.

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