Impact of population aging on household savings and portfolio choice in Japan

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Abstract

We examine the impact of population aging on Japanese financial markets, particularly whether households have begun to dissave and reduce their asset holdings of risky assets, such as stocks, as a result. Our main finding is that there is currently no significant decline in stock holdings and that this trend will continue in the near future. While there is little doubt that Japanese household savings have decreased of late, we should view the sharp decline observed in the early 2000s as a deviation from the long-run trend associated with a large income shock. The true trend of savings without a negative income shock in the early 2000s would have been declining more smoothly and moderately, so that any abrupt portfolio shift associated with negative shocks to household savings is unlikely. As found in our previous work, the average share of risky assets in Japanese household portfolios increases with age and barely decreases, even for those aged 60 years and over. The decline in household stock holding will be slower than it could have been with comparable aging in other countries. According to our micro data (Nikkei Radar), the main sources of increasing household wealth are the increasing wealth of the elderly and the increasing proportion of the wealthier elderly population over the period 2000–14. Household portfolio shares have slowly moved from bank deposits to stocks; a change mostly explained by the increase in the proportion of elderly households holding stocks.

We also closely consider the effect of aging on the Japanese government bond (JGB) market in the new millennium. Household direct holdings of JGBs peaked around 2008–09. However, direct holdings of JGBs are very limited when compared with the total amount outstanding. Consequently, we expect that population aging will not exert a significant effect on the JGB market.