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

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In this paper, 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 is in fact 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. As a result, the decline in household stock holding will be slower than it could have been with comparable aging in other countries. In fact, according to our micro data (Nikkei Radar), the main sources of increasing household wealth are the increasing wealth of the elderly (those aged in their 50s and over 60) 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.

In our future research, we need to explore some important aspects of Japanese household savings and portfolio choice more thoroughly. There is a need for more comprehensive analysis of savings and portfolio behavior in older households, because most existing household surveys include relatively few observations for more elderly. The relationship between household savings and corporate savings is another important issue. When household savings declined in the early 2000s, corporate savings increased, thereby keeping private sector savings as a share of GDP largely unchanged. Since then, corporate savings have been extremely high, even compared with the post-Great Recession in the US. If this trend decreases in the near future, household savings increase or not will become an important question.