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Household Asset Allocation During the COVID-19 Crisis

Introduction

Spread of COVID-19 in Japan

The year 2020 has been a most difficult and trying year, with the worldwide spread of the novel coronavirus pandemic (hereinafter referred to as COVID-19) restricting economic activities and greatly affecting people's lives. Japan recorded its first COVID-19 infections early in the year, and the government, companies, and households have been battling to prevent the spread of infections ever since. The key government actions and policies since the pandemic's outbreak are as follows.

On January 16, the government announced it had confirmed Japan's first domestic infection.

On February 13, the government announced emergency measures after confirming the first COVID-19 death in Japan.

On February 16, the government held the first meeting of a panel of experts for coronavirus countermeasures.

On February 25, the government announced its first Basic Policies for Novel Coronavirus Disease Control, calling on companies to allow their employees to take leaves of absence, promote telework, and stagger commuting hours.

On February 26, Prime Minister Shinzo Abe requested the cancellation or postponement of large-scale events.

On February 27, Prime Minister Abe requested the closure of all elementary, junior and senior high schools in Japan.

On March 24, the prime minister announced the postponement of the 2020 Tokyo Olympics and Paralympics.

Despite these actions by the government in the early stages of the pandemic, infections continued to increase. In an effort to stem the spread of COVID-19, the government declared a state of emergency for seven of the hardest hit prefectures on April 7 and then on April 16 extended the declaration to cover all 47 prefectures. The state of emergency declaration placed various restrictions on people's movement and activities, and the number of new infections began to decrease thereafter. The government therefore lifted the state of emergency for 39 prefectures on May 14, for three more on May 21, and for the remaining five on May 25. The request for people to refrain from going out was gradually relaxed after lifting of the state of emergency, and the restrictions on cross-prefecture movement were completely removed on June 19.

Although new infections decreased temporarily, they later began to increase with the start of a second wave in the summer, and now again from November with a third wave, and the number of newly infected people recently exceeded the levels seen when the state of emergency was declared in spring and continues to rise.

Economic policy, monetary policy and equity markets during the COVID-19 crisis

The Japanese government and the Bank of Japan (BoJ) have responded to the COVID-19 crisis by implementing a number of economic and monetary measures in rapid succession since early 2020. The main economic and monetary measures implemented and equity market reactions are summarized in the next three sections.

• Economic policies

The Japanese government's Novel Coronavirus Response Headquarters, headed by Prime Minister Shinzo Abe, announced the First Novel Coronavirus Disease (COVID-19) Emergency Response Package on February 13, 2020, and soon followed up with the Second Novel COVID-19 Emergency Response Package on March 10. In addition, the Headquarters decided on the "Emergency Measures for Those Who Are Worried about Their Daily Lives with People's Concerns" on March 18.

Shortly thereafter, the Cabinet Office decided on the "Emergency Economic Measures to Cope with COVID-19" on April 7 (amended on April 20). On April 30, the government enacted its first

FY2020 supplementary budget, with support for emergency economic measures totaling JPY117 trillion, including a special fixed-sum cash subsidy for households.[1] The Emergency Economic Measures were divided into two phases. The first is an "Emergency Support Phase" for measures to support the economy and people's lives until the coronavirus is contained. The second is a "V-shaped Recovery Phase" with measures targeting a strong post-pandemic economic recovery. The Emergency Support Phase prioritizes measures "protecting employment and keeping business viable." It includes various measures, including subsidies to help sustain small and medium-sized enterprises (SMEs) and sole proprietors and an increase in the ceiling for employment adjustment subsidies.

A second supplementary budget, which was approved by the Cabinet on May 27 and passed by the National Diet on June 12, includes additional economic measures amounting to another JPY117 trillion in total spending to strengthen businesses' access to cash and increase support for Japan's health care system.

The Japanese government has since established various policies to prevent the spread of COVID-19, facilitate companies' access to needed capital, and maintain employment and expand economic activity. However, not all of its policies are pointed in the same direction, making policy guidance a difficult task for the government.

- **Monetary policy**

Responding to the COVID-19 crisis' impact on Japan's financial markets, the BoJ decided to strengthen its monetary easing at a monetary policy meeting held ahead of schedule on March 16, 2020. Specifically, the central bank decided to (1) provide a more ample supply of funds, (2) facilitate corporate financing, including through the introduction of a new lending operation, and (3) conduct more active purchases of exchange traded funds (ETFs) and Japan real estate investment trusts (J-REITs).

At its April 27 monetary policy meeting, the BoJ further expanded the scale of these measures.

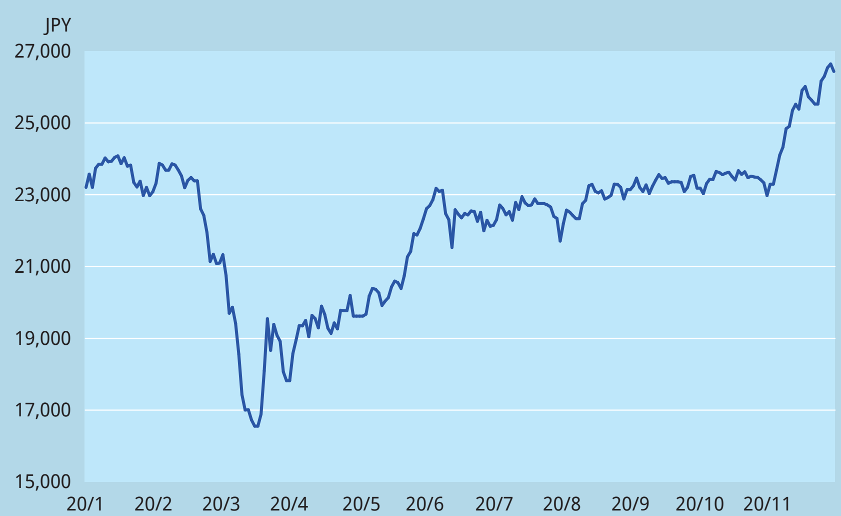
At its May 22 meeting, it decided to introduce a new fund-provisioning measure with a scale of about JPY30 trillion in support of SMEs and other cash-strapped firms.

The central bank continues to carry out these measures.

- **Equity markets**

At the start of 2020, the U.S. Dow Jones Industrial Average continued to set new highs, and global stock prices, including Japanese stocks, continued to rise. However, stock prices plummeted when the spread of the novel coronavirus shook the global financial markets from the latter half of February, and the Nikkei Stock Average was no exception (Figure 1). Thereafter, the Nikkei Stock Average bottomed out on March 19 and began to rebound gradually, supported by monetary easing measures implemented by financial authorities in Japan and other countries. By June 8, the Nikkei Stock Average had recovered to the 23,000 level, and it continued its gradual upward rebound in the following months, supported by continued global monetary easing measures, the BoJ's purchases of ETFs, and investor expectations for economic policies from Japan's new Prime Minister Yoshihide Suga. The Nikkei began a sharper upward climb toward the end of October as uncertainties due to the U.S. presidential election receded and expectations for a COVID-19 vaccine increased. On November 11, 2020, the key Japan stock index closed above 25,000 for the first time in 29 years, or since 1991.

Figure 1: Nikkei Stock Average in 2020



Note: Graph shows the index's movement from January 6 to November 30, 2020.
Source: Bloomberg, NICMR

Changes in Household Activity/Behavior During the COVID-19 Crisis

Among the various measures launched by the government in response to COVID-19 was the declaration of a state of emergency aimed at containing the spread of infections. The declaration included a request for people to refrain from activities outside their homes, which is thought to have affected household behavior, including household spending.

For example, a Cabinet Office public opinion poll released in June 2020 indicated that people's satisfaction with their quality of life as a whole was declining, with responses about satisfaction levels for "enjoyment of life" and "connection with society" showing particularly large declines.[2] The survey found that even under the difficult circumstances imposed by the pandemic, more than half of respondents were taking on new challenges, such as new daily life activities they could not do before (28.4% of respondents), posting content online (e.g., YouTube) and socializing online (e.g., Zoom) (13.2%), taking online educational courses (in new fields, technology, language, etc.) (11.7%), and engaging in business-related studies (e.g., qualification acquisition, skill improvement, and collecting job change information) (8.8%). The survey thus indicated many people were using the request to stay at home as an opportunity to learn and acquire new knowledge or skills.

People were able to take on these new challenges because they had more free time as working hours became shorter during the period of self-restraint and teleworking from home eliminated time spent commuting. The survey found that 34.6% of all respondents and 48.9% of those in the Tokyo metropolitan area had experienced telework during the period covered by the survey.

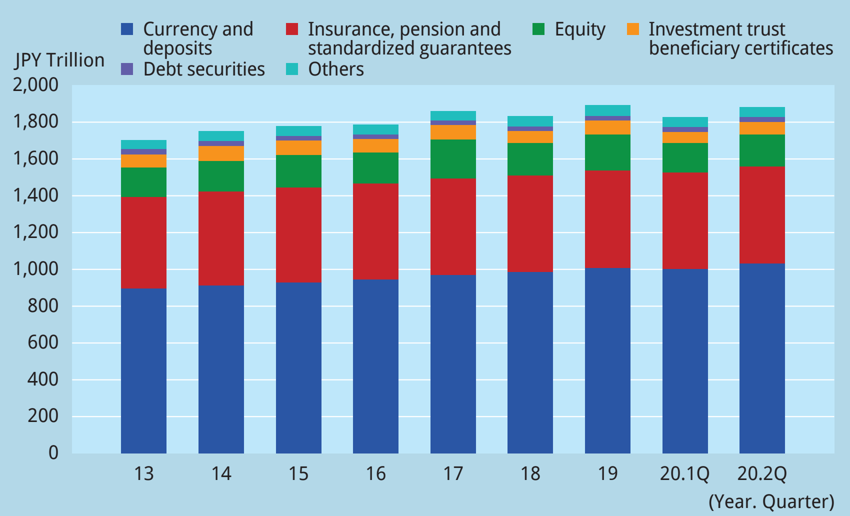
Household Asset Allocation During the COVID-19 Crisis

Japanese households' financial assets

Next, let's look at how the COVID-19 crisis has affected Japanese household's selection of financial assets. According to the most recent BoJ statistics, the outstanding balance (stock) of household financial assets as of the end of June 2020 amounted to JPY1,882.75 trillion. This is the second largest outstanding balance on record, after the total outstanding as of the end of December 2019.

Looking at the composition of households' assets, the largest share is the 54.7% held in currency or bank deposits. Next is insurance, pensions, and standardized guarantees at 28.1% and then 9.2% in equities, and 3.6% in investment trusts.

Figure 2: Japanese Households' Financial Assets



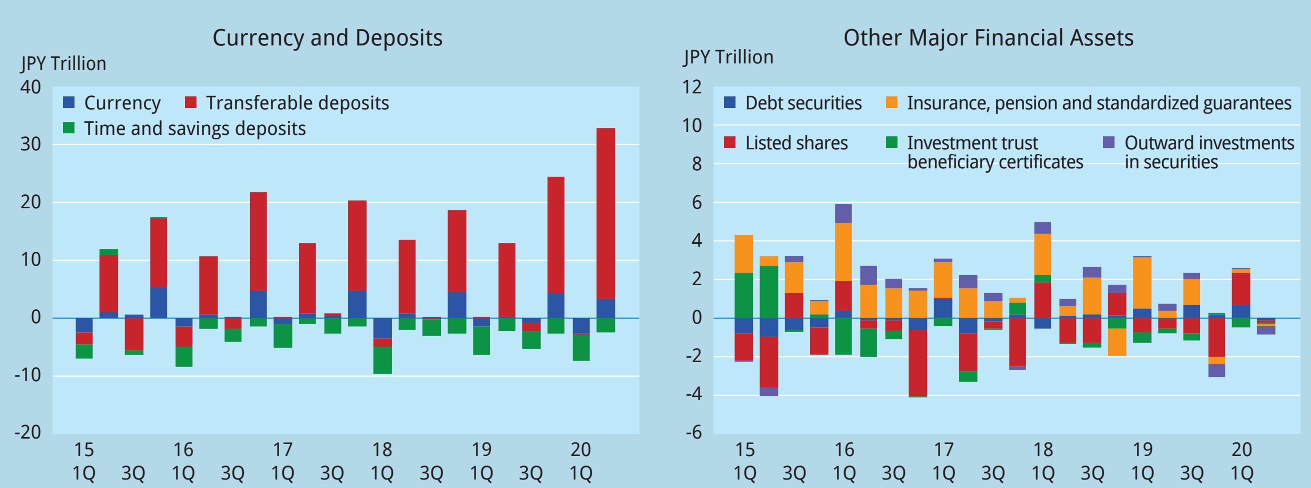
Note: Data for 2013–2019 are yearend values.
Source: BOJ, NICMR

Changes in household financial asset allocation

Next, let's examine the movements or flows in Japanese households' financial assets (Figure 3). In the first quarter of 2020, amid the financial market turmoil caused by the spread of the novel coronavirus, household fund flows underwent a significant change as households sought to generate greater returns. The main net inflows were into listed stocks, investment trusts, bonds, insurance/pensions/standardized guarantees, and foreign securities. In the second quarter, with financial market turmoil subsiding and stock prices gradually rising, the main net inflows were into currency and deposits.

These fund flows indicate that many people responded swiftly to market fluctuations while securing liquidity in their currency and deposit positions out of caution for the impact of COVID-19. The flow of household funds in the first half of 2020

Figure 3: Net Inflows/Outflows of Household Funds for the Major Financial Asset Classes (Quarterly Basis)



Source: BOJ, NICMR

shows the largest net inflows were in currency/deposits and listed shares. These net inflows are examined more closely below.

• Currency and deposits

The currency and deposits portion of household financial assets generally swings back and forth between net inflows and net outflows every quarter. In a typical year, the first quarter results in a net outflow while the second quarter produces a net inflow. In the second quarter of 2020, the net inflow was greater than in a normal year, and currency and deposits at the end of the quarter reached an all-time high of JPY1,031 trillion. This figure reflects the impact of suppressed consumer spending during the pandemic and the government's distribution of the special fixed-sum cash subsidy to households. Despite Japan's negative interest rate policy essentially eliminating bank deposit interest rates, Japanese households have continued to channel funds into transferable bank deposits in an effort to secure liquid financial positions.

• Listed shares

Looking at households' activity in the equity markets, trading value has been increasing since March 2020 as individual investors have been actively trading stocks. As a result, households' share of equity market trading value since April 2020 has consistently exceeded the 20% level seen in 2019, raising the presence of the household sector in the equity markets.

Individual investors with a long track record of investment experience have been the main drivers of the increased trading activity by households. Households' trading value for the six months from April 2020 to September 2020 expanded 18% over the previous six-month period (October 2019 to March 2020), with margin transactions (up 24%) increasing more than cash transactions (up 9%).

Moreover, the changes in households' stock trading value indicate a general tendency to be contrarian investors. Since the start of 2020, when share prices have fallen, individual investors (i.e., households) have been net buyers. After share prices have bottomed out and begun to move back upwards, individuals have tended to be net sellers. Through such trading, households have been able to generate profits and enjoy the fruits of their investment activity, which is facilitating the creation of a virtuous cycle that sees them reinvesting those profits.

Meanwhile, initial public offerings (IPOs) were temporarily suspended due to deterioration in companies' earnings performance and the market turmoil caused by COVID-19. The IPO market reopened on June 24, 2020, after a two and a half month hiatus, and companies that postponed listings back in March have been restarting their listing efforts after receiving re-approval. With their funds available for investment increased by the stock market rebound, households have been investing in new IPOs and IT-related stocks on the Tokyo Mothers market, driving up trading activity on that emerging companies market.

Increase in Securities Accounts and Factors Supporting the Increase

Increase in securities accounts

Many people have opened first-time securities accounts since the start of the COVID-19 crisis, and many of these new accounts were probably opened by people who saw the pandemic-induced stock market plunge as an investment opportunity. In addition, it probably became easier for people, including working people, to take time to learn and practice investment as they were spending more time at home owing to the government request to refrain from going out in order to contain the spread of the coronavirus.

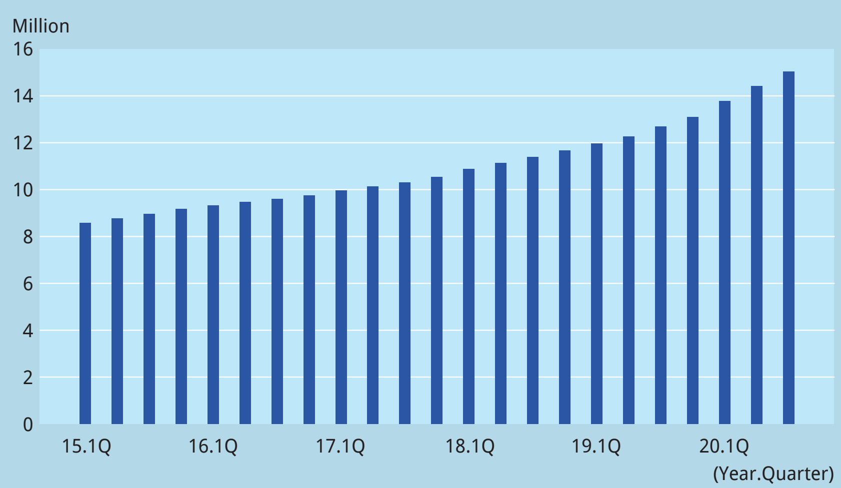
In particular, the number of accounts at Japan's leading online brokerages has increased rapidly, with the total number of accounts at the five major online brokers reaching 15.05 million as of the end of September 2020, an increase of 15% since the end of December 2019 (Figure 4). Rakuten Securities reported a single-month record of 164,011 new account openings in March 2020, with 72% of the new account holders being investment beginners.[3]

The use of the NISA (Nippon Individual Savings Accounts) tax-exempt small-scale investment system by inexperienced investors also is increasing. According to Japan Securities Dealers Association statistics, the number of general NISA accounts at securities companies as of the end of June 2020 was 4.8% higher than at the end of December 2019, with the number of accounts opened by inexperienced investors increasing by 12.5%.[4] In addition, the number of Tsumitate NISA (an installment savings version) increased by 38.7%, with new accounts opened by inexperienced investors increasing by 51.5%.

Environment for starting online trading was already in place

This increase in online accounts was made possible by an environment

Figure 4: Number of Accounts at Japan's Five Major Online Brokerages



Note: Graph shows the trend in the total number of accounts at au Kabucom Securities, SBI Securities, Matsui Securities, Monex Securities, and Rakuten Securities.
Source: NICMR, based on company materials.

conducive to starting online trading being in place long before the COVID-19 crisis. The following four points in particular merit mention.

First, the number of people active in online trading had already been increasing. According to a 2019 survey by Japan's Ministry of Internal Affairs and Communications, information and communications technology (ICT) equipment is quite prevalent in Japanese households, with 83.4% having at least one smartphone, 69.1% a personal computer, and 69.0% a fixed-line telephone.[5] The survey also found that 89.8% of people used the internet in their homes, with that proportion over 90% for all age groups from teenagers to people in their 60s.

Second, the number of companies providing investment services over the internet was increasing, with online brokerages the core providers of such services. In recent years, the number of fintech companies entering the market, including through alliances with companies from other industries, has increased. Since 2018, a rather steady stream of non-financial companies, including IT companies and retailers, have entered the online securities market. Aiming to attract new customers, especially younger people, these new players in the market have introduced services that make it easier for people to invest with small amounts of money. For example, they allow investment in investment trusts from JPY100 and sell Japanese and US stocks to their customers in units as small as one share.

Third, the traditional financial institutions also are focusing on online trading in an effort to make it easier for households to invest. They have introduced smartphone-based asset investment services to supplement traditional in-branch and PC-based services, and in so doing have strengthened their approach to working people who may not have time to visit a branch office of a securities company.

Fourth, the number of investment services that award points to customers making cashless payments is increasing, creating an environment that makes it easier for first-timers to invest in securities. The ability to make investments with these points awarded as a bonus for using some other service instead of using cash on hand lowers the psychological hurdle to investing for people with little or no previous investment experience. These new types of services make it easier for new and inexperienced investors to learn about investing and then take their first steps into the world of securities investment.

Investing costs have been reduced

The increase in online securities accounts also has been fueled by online brokerages' recent moves to eliminate commissions on equity and investment trust transactions, which have lowered the cost hurdle for individuals wanting to invest. In November–December 2019, one after the other of Japan's five major online brokerages announced that they would eliminate sales commissions on investment trusts as well as some commissions on margin transactions and all commissions on cash equity trades. In addition to eliminating sales commissions on investment trusts, the online brokerages also have begun to lower management fees (trust fees) on these products. This trend appears to have been triggered in part by Japan's Financial Services Agency (FSA) demand for greater transparency in investment fees charged by financial institutions.

Increasing awareness of need for asset formation among households

An FSA report released in 2019 said elderly couples would need to supplement their pension benefits with savings of as much as JPY20 million to cover their cost of living during retirement. The FSA report evidently raised the awareness among many people of the need to save for retirement and not rely solely on public pensions. The FSA report was preceded by the presentation of a report on asset formation and management in an aging society at a meeting of the Financial System Council's Working Group on Financial Markets on May 22, 2019. This report estimated that non-working elderly couple households with a husband 65 or older and a wife 60 or over would, on average, incur a monthly deficit of JPY50,000 if they relied only on pension benefits to meet their living costs. If they live another 20–30 years, the total deficit would amount to JPY13–20 million, according to the report's simple calculation. The report's pointing out the need for people to recognize the importance of planning for long-term asset formation and management over the course of their lifetime was widely reported by some media. Japan's opposition parties took issue with the FSA report and used it to criticize the government's pension policy in discussions in the National Diet. However, these reports evidently have succeeded in generating renewed consideration by households of the funds they will need in their senior years. Indeed, Tsumitate NISA accounts increased by 616,042 and individual defined contribution pension (iDeCo) subscribers increased by 255,450 from the end of March 2019, prior to the reports' release, to the end of December 2019, after their release. It therefore seems that the reports and following discussion have made households more aware of the need for asset formation in preparation for their senior years.

However, the amounts being invested by beginner investors are rather limited. Nonetheless, the accumulation of investing experience by a greater number of households and the resulting gradual increased flow of their personal financial assets into long-term investments can, from a long-term perspective, be considered a positive for Japan's financial and capital markets.

Conclusion

The movement of household financial assets during the COVID-19 pandemic has been affected not only by the sudden fluctuation in the financial markets but also by the government's declaration of a state of emergency and request that people refrain from going out in order to prevent the spread of the coronavirus. Financial institutions' restraining of face-to-face sales activities probably also has had an impact. It will be interesting to see if the recent changes in household behavior will continue even after economic activity resumes and returns to normal. It also will be necessary to monitor uncertainties related to COVID-19's impact on domestic and overseas economies as well as its impact on financial and capital markets and household and corporate sentiment.

Despite the changes prompted by the pandemic, currency and deposits still account for the largest portion of households' financial assets. In particular, liquid assets (cash and transferable deposits) have continued to increase, accounting for an all-time high of 32.5% of household financial assets as of the end of June 2020. Households' reluctance to shift their assets into longer-term time and savings deposits probably reflects their preference to keep their money in easy-to-access,

readily available forms, such as currency and deposits.

On the other hand, risk assets (equity shares and investment trusts) account for only 12.8% of household financial assets. The aging of existing investors is a structural factor deterring a sustainable inflow of household funds into risk assets. In addition, while shareholder benefits have been one reason for households to invest in certain stocks, some companies whose earnings are deteriorating during the COVID-19 crisis are eliminating or reducing the benefits they provide to shareholders.[6] Such actions could be an ominous signal of future earnings performance that could also affect households' investment behavior.

Thus far during the COVID-19 crisis, we have not seen household behavior shift to full-fledged investment of liquid reserve funds. Until now, financial institutions have fretted over the limited opportunities to expand business with existing customers and have stepped up efforts to develop new customers. These efforts have begun to include a diverse range of new tactics, including attempts to reach new customers through tie-ups with non-financial companies. Diversification of the methods and channels used to gain access to households interested in investing their liquid financial assets remains a key challenge for Japan's financial institutions.

Note

1. The special fixed-sum cash subsidy was set at JPY100,000 per person for individuals registered in the Basic Resident Registration System as of April 27, 2020.
2. "Survey on changes in people's mindset and behavior caused by the novel coronavirus pandemic," June 21, 2020, Cabinet Office. (unofficial translation, available in Japanese only)
3. "New industry record for monthly account openings! More than 160,000 accounts opened in March," Rakuten Securities press release, April 3, 2020. (unofficial translation, available in Japanese only)
4. "Results of Survey on NISA Account Openings and Usage (as of June 30, 2020)," September 16, 2020, Japan Securities Dealers Association. (unofficial translation, available in Japanese only)
5. 2020 White Paper on Information and Communications in Japan, Ministry of Internal Affairs and Communications.
6. Shareholder benefits refer to benefits provided by companies in the form of their products or services to shareholders who hold a certain minimum number of the company's shares as of a specified rights confirmation date.

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