

Analysis of Changes in the Symmetric response of Household Consumption to the business cycle during the Pre-/ Post-Crisis Periods

Households' consumption served to narrow the range of fluctuations in GDP before the Asian Financial Crisis, but after the crisis, it exhibited wider changes than GDP and acted to enlarge the scale of fluctuations in activity.

In this paper, taking into account the possibility that changes in households' consumption may be related with the phases of the business cycle, an analysis is conducted of how household consumption responds to the upturns and downturns in business activity, the degree to which its response has changed since the financial crisis and the reasons for such change.

According to the empirical analysis, household consumption showed movements that were relatively asymmetrical to the business cycle and acted to reduce fluctuations in activity during the pre-crisis period. After the crisis, however, movements in household consumption exhibited stronger symmetry with the business cycle and served rather to widen the range of fluctuations in activity.

This rise in the symmetry of household consumption is seemingly attributable to the following factors. First, households' capacity to smoothen fluctuations in activity has declined as consumption has shown a faster pace of slowdown during contraction phases, affected by the sharply reduced pace of the growth in households' disposable income as a result of their mounting debt burden taken on since the crisis. Second, the

influence of asset prices, especially stock and housing prices, on consumption has grown and changes in asset prices depending on phases of the business cycle have grown larger. Third, the share of discretionary goods, whose consumption can be easily adjusted depending on the income situation, to total household consumption has widened. In addition, the accumulation of household savings, which allows households to consume during an economic contraction, has declined sharply.

The following efforts need to be made in order to reduce fluctuations in household consumption in future.

First, real estate prices need to be stabilized in a bid to slow down the sharply accelerated growth of household loans. Second, the saving ratio needs to be raised by improving the income situation of households through active job creation. Third, the social safety net for the less-privileged, including low-income groups and the elderly, needs to be strengthened to counter the sharp contraction of household consumption during economic downturns.