

SURVEY ON ASSET PRICE CHANGES AND ECONOMIC CONDITIONS

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From April 22 to 26, Hyundai Research Institute conducted a telephone survey of 539 married men and women in Korea regarding their perceptions on asset price changes and current economic conditions. The survey had a reliability of 95% with a maximum permissible error of $\pm 4.2\%$.

Relationship between Asset Prices and Consumption

Stock Prices and Consumption

The effect of rising stock prices on household consumption was smaller than in the previous year. Only 22.3% of households that owned stocks said that a change in stock prices affected their consumption spending. Compared to March 2001, the number of households investing in stocks decreased and the correlation between stock prices and consumption was weaker.

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— Table 1. Relation between Stock Prices and Consumption (%) —

	Household owns stocks		Relation between stock prices and consumption spending (if the household owns stocks)		
	Yes 17.4(20.9)	No 82.6(79.1)	Very High 4.3(14.6)	Moderate 18.3(19.9)	No Relation 77.4(65.5)
Total					
Monthly Income (won)					
Less than 700 thousand	7.0	93.0	33.3	33.3	33.3
710 thousand to 1 million	4.4	95.6	0.0	0.0	100.0
1.01 million to 1.5 million	12.5	87.5	10.0	20.0	70.0
1.51 million to 2 million	14.2	85.8	5.9	17.6	76.5
2.01 million to 3 million	21.1	78.9	0.0	23.1	76.9
Over 3.01 million	31.4	68.6	0.0	15.6	84.4

note: figures in parentheses indicate results of March 2001 survey

Real Estate Prices and Consumption

Changes in real estate prices were found to have a minimal effect on consumption.

Changes in real estate prices were found to have a minimal effect on consumption. 84.5% of respondents stated that changes in real estate prices had no effect on consumption. The effect of real estate prices on consumption was small regardless of the respondent's age, type of job, and income level. Compared to in March 2001, the number of real estate owners decreased, while the relation between real estate prices and consumption was similar.

The higher a household's income, the more likely it was to maintain current saving levels even if real estate prices rose.

Most households that did not own real estate said they would maintain their current savings level even if housing prices continue to rise. 21.9% of respondents stated that they would increase savings towards buying a home, while 67.5% said they would maintain their current savings level. Only 3.1% said they would buy a home even if they had to go into debt, while 7.5% stated that they would give up their home-buying effort and increase consumption instead. The higher a household's income, the more likely it was to maintain current saving levels even if real estate prices rose, while lower-income households were more likely to give up their attempt to buy a home.

Table 2. Consumption and Saving Patterns during a Real Estate Price Uptrend (respondents did not own real estate, %)

	Increase Savings	Maintain Current Savings Level	Buy a House even if Difficult	Give up Home buying Plans, Increase Consumption	Total
Total	17.4(20.9)	82.6(79.1)	4.3(14.6)	18.3(19.9)	7.4(65.5)
Monthly Income (won)					
Less than 700 thousand	6.3	50.0	0.0	43.8	100.0
710 thousand to 1 million	13.6	68.2	9.1	9.1	100.0
1.01 million to 1.5 million	25.6	71.8	0.0	2.6	100.0
1.51 million to 2 million	29.2	60.0	7.7	3.1	100.0
2.01 million to 3 million	18.5	74.1	0.0	7.4	100.0
Over 3.01	19.2	76.9	0.0	3.8	100.0

The survey found that when interest rates rise, consumption decreases noticeably.

The survey found that when interest rates rise, consumption decreases noticeably. While 14.5% of respondents said that they would consume more because their interest income increased, 28.4% said they would curb consumption because the interest burden on their debt would increase. In general, respondents with higher

incomes stated they would increase consumption, while those with lower incomes stated they would decrease consumption.

Table 3. Effect of Interest Rate Increase on Consumption (%)

	Higher Consumption due to Increased Interest Income	Interest Income Increased but Consumption unchanged	Lower Consumption due to Greater Interest Burden	Greater Interest Burden but Consumption Unchanged	No Relation between Interest Rates and Consumption/Don't Know	Total
Total	14.5	28.4	25.4	9.8	21.9	100.0
Monthly Income (won)						
Less than 700 thousand	4.7	18.6	18.6	7.0	51.2	100.0
710 thousand to 1 million	8.9	17.8	33.3	8.9	31.1	100.0
1.01 million to 1.5 million	11.3	21.3	37.5	3.8	26.3	100.0
1.51 million to 2 million	19.2	30.0	23.3	10.8	16.7	100.0
2.01 million to 3 million	18.0	36.7	21.9	8.6	14.9	100.0
Over 3.01 million	14.7	34.3	22.5	15.7	12.8	100.0

Current Purchasing Power and Variables in Future Consumption

Current Purchasing Power

If taxes and debt are excluded, the number of households stating that their purchasing power have increased far outnumbered those whose who said purchasing power have decreased. 35.1% of respondents stated that their purchasing power have increased, while 17.0% said their purchasing power have decreased. Purchasing power was higher with youth and high income levels.

The number of households stating that their purchasing power increased far outnumbered those whose who said purchasing power decreased.

**Table 4. Purchasing Power compared to Previous Year
(excluding taxes and debt, %)**

	Greatly Increased	Somewhat Increased	No Change	Somewhat Decreased	Greatly Decreased	Total
Total	2.6	32.5	47.9	13.2	3.8	100.0
Age Group						
20s	5.4	45.9	43.2	5.4	0.0	100.0
30s	4.0	38.7	44.7	12.0	0.7	100.0
40s	2.4	34.5	45.8	13.7	3.6	100.0
50s and over	1.1	22.6	53.7	15.3	7.3	100.0
Monthly Income (won)						
Less than 700 thousand	2.3	25.6	37.2	20.9	14.0	100.0
710 thousand to 1 million	0.0	24.4	42.2	22.2	11.1	100.0
1.01 million to 1.5 million	2.5	25.0	43.8	23.8	5.0	100.0
1.51 million to 2 million	5.9	35.6	48.3	7.6	2.5	100.0
2.01 million to 3 million	1.6	34.4	56.8	6.4	0.8	100.0
Over 3.01	2.0	43.0	44.0	10.0	1.0	100.0

Variables in Future Consumption

The variables with the greatest effect on household consumption and consumption sentiment were changes in monthly fixed income and real estate prices.

Household Perception of Economic Conditions

Chances of Overheating Economy

15.6% of surveyed households thought the economy was very overheated, while 43.0% thought it was somewhat overheated.

15.6% of surveyed households thought the economy was very overheated, while 43.0% thought it was somewhat overheated. 23.2% did not think the economy was overheated, while 7.4% thought the economy was actually stagnant. The lower the income of a household, the more likely it was to perceive the economy as stagnant.

Table 6. Perception of Current Economic Situation (%)

	Highly Overheated	Somewhat Overheated	No Overheated	Stagnant	Don't Know	Total
Total	15.6	43.0	23.2	7.4	10.8	100.0
Monthly Income (won)						
Less than 700 thousand	4.7	30.2	23.3	14.0	27.9	100.0
710 thousand to 1 million	11.1	44.4	17.8	15.6	11.1	100.0
1.01 million to 1.5 million	20.0	50.0	13.8	6.3	10.0	100.0
1.51 million to 2 million	15.0	45.0	25.8	6.7	7.5	100.0
2.01 million to 3 million	13.3	49.2	26.6	6.3	4.7	100.0
Over 3.01	21.6	36.3	26.5	5.9	9.8	100.0

Perception of Price Levels

Overall, current price levels were seen as very high. 47.7% of surveyed households stated that prices have risen greatly, while, 33.2% stated that prices have risen somewhat but are not too high compared to last year.

Perception of Employment Conditions

While some anxiety about employment conditions existed, sentiment was favorable compared to last year. Only 30.9% of those surveyed said that anxiety about unemployment was worse than last year, and lower income households felt relatively more anxious.

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Discussion

Ownership of the major types of assets is becoming increasingly concentrated. Despite the continued supply expansion in the stock market and real estate market, the proportion of households that owned these assets fell from last year. These assets are becoming concentrated in high-income households. This concentration of asset ownership, along with the overall trend of income concentration, may cause a social instability.

Except for stock prices, changes in asset prices did not clearly affect consumption, and the variable with the greatest effect on consumption was fixed monthly income. In the case of a rise in real estate prices, about 8.8% of households stated they would increase consumption, while about 9.5% stated they would decrease consumption. In addition, more respondents said they would decrease rather than increase consumption if interest rates rose.

The respondents who said they would increase consumption if interest rates or financial asset prices rose were mostly high-income earners, while those who said they would decrease consumption were low-income earners. The net effect of a change in asset prices in society on consumption was not clear. **VIP**