

## “Street Business Sentiment” Current Conditions DI Improved

“Economy Watchers Survey” is a business sentiment survey conducted by Japan’s Cabinet Office every month, also known as the “Street Business Sentiment” survey. Approximately 2,000 observers, called “Watchers”, who engage in economic sensitive businesses such as taxi drivers, convenience store managers, restaurant operators, etc., participate in this survey. The survey examines economic sentiment at the time of survey in comparison with that of three months ago and that of two to three months in the future. The neutral level of this index, to judge whether the economic sentiment is favorable or not, is 50 points.

### Point 1

#### Current Conditions DI rose after one-month dip

Business sentiment improved sector wide except for manufacturers

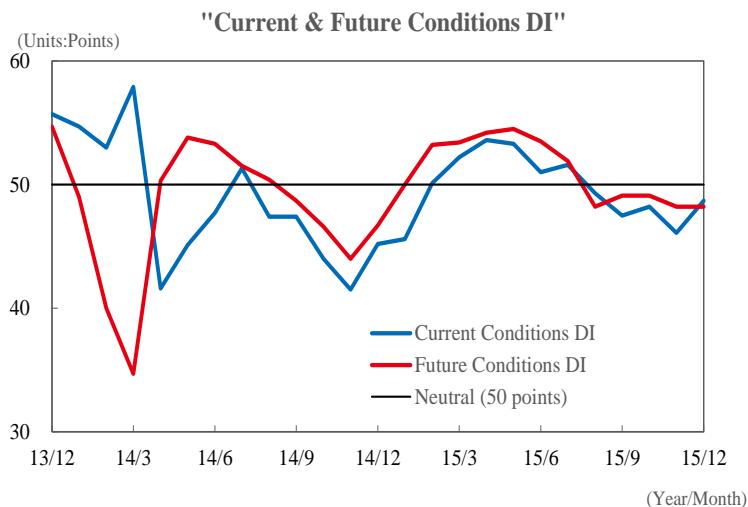
- According to the December “Economy Watchers Survey” (survey period: Dec. 25th to Dec. 31st), the “Current Conditions DI” rose 2.6 points from last month to 48.7 points. All of the three DIs, namely Household-related DI, Corporate Activity DI and Employment-related DI, saw improvement. Food and services sectors of Household-related DI and non-manufacturers of Corporate activity DI improved and surpassed the neutral level of 50 points, while manufacturers deteriorated from the previous month.
- An electronics retail store operator in Chugoku region said that “number of customers are increasing towards year end which is the bonus payment season”. On the other hand, some concerns were heard over poor sales of winter clothing due to warm winter (supermarket operator of Shikoku region).

### Point 2

#### Future Conditions DI remained flat

Household expenditure seems to be tight

- The “Future Conditions DI”, the statistics indicating the perspectives in two to three months remained the same as last month (flat at 48.2 points). The rise in Corporate activity and Employment related DIs was offset by the drop in food and services of Household-related DI.
- A watcher (resort hotel operator in Okinawa prefecture) answered that “reservations including those from foreign visitors are robust”. On the other hand, some concerns were heard over sustainability of private consumption as “we might see tightening of consumption ... after the New Year holidays” by owner of exclusive restaurant in Hokkaido prefecture.



(Note) Data period is from December 2013 to December 2015.

(Source) SMAM, based on Bloomberg L. P. data.

# Moderate improvement of business sentiment, wage hike is a key to accelerate pace of recovery

### ■ Negatively affected by concern over China's slowdown and warm winter

According to this period's survey, we can witness moderate economic recovery, while negative impact of concerns over China's slowdown and a warm winter were still heard. Even for the future outlook, we can observe expectations on increase in tourism demand, increase in orders and improvements in employment conditions.

### ■ Expectation on Capex increase and wage growth due to labor shortage

Among the three DIs, Employment-related DI continued to keep the highest level as both Current and Future conditions have improved from the previous month at 55.1 points and 55.2 points respectively, surpassing the neutral level of 50 points. Acceleration of the pace of economic recovery is expected if expansion of Capex and wage growth were to be materialized alongside the progression of labor shortage.

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