

Today's

Topic

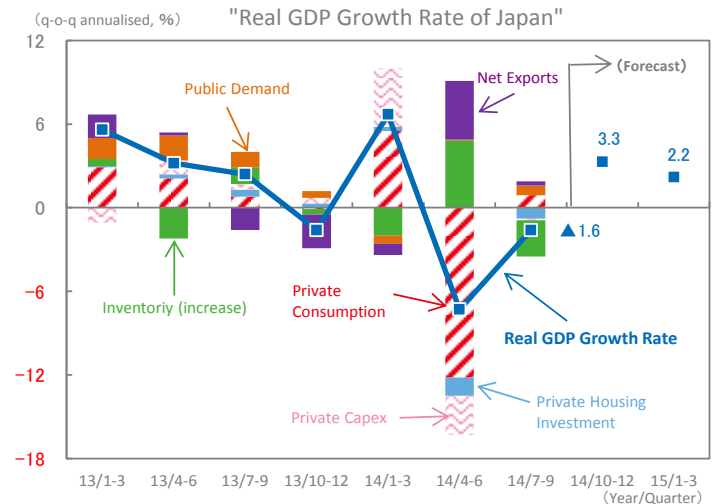
## Analysis on Latest Japanese Economic Indicators (November 2014)

### Toward exit from negative growth by moderate recovery of consumption

#### Point 1

#### Negative Jul-Sep GDP growth for two consecutive quarters Slow recovery of domestic demand

- Jul-Sep 2014 First Preliminary GDP Estimates was  $-1.6\%$  q-o-q, declined for two consecutive quarters. While private consumption marginally turned to positive, the GDP recovery was still sluggish substantially affected by inventory adjustment and the impact of consumption tax hike implemented from April.
- For other items, private housing investment and Capex were down q-o-q. We can observe the domestic demand as a whole was sluggish. Such negative GDP growth was taken by the market with a surprise as the market consensus was  $+2.2\%$  q-o-q according to the Bloomberg survey.

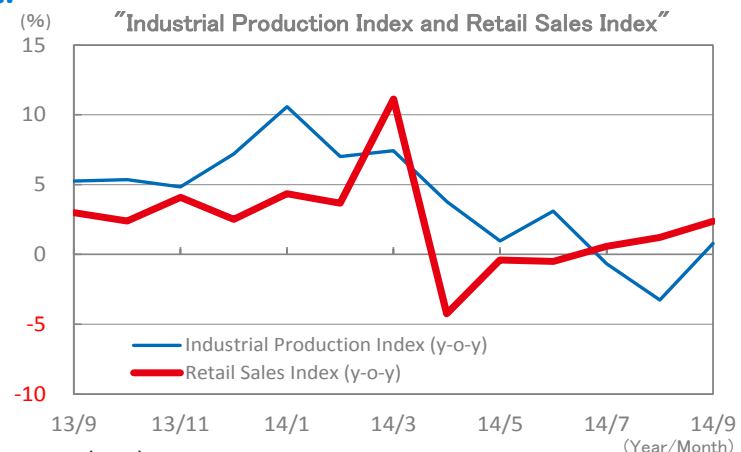


(Note) 1. Data is from Jan-Mar 2013 to Jan-Mar 2015. The forecast was calculated by SMAM.  
2. The Real GDP growth rate is q-o-q, annualised, other items are attribution rates.  
(Source) SMAM, based on Bloomberg L.P. data.

#### Point 2

#### Tax hike still affecting auto sales etc. Moderate production recovery due to inventory adjustment

- Retail sales index in September rose  $2.3\%$  m-o-m for three consecutive months. Sales of daily life necessities such as clothing were relatively strong, however, auto sales were still affected by the consumption tax hike.
- Industrial production index in September rose  $0.8\%$  for the first time in three months yet marginal. Inventory index rose  $4.0\%$  y-o-y for five consecutive months, however, declined  $3.6\%$  m-o-m. This shows corporations seemed to be reducing their inventory level as the pace of consumption recovery was still slow.



(Note) Data is from Sep. 2013 to Sep. 2014.  
(Source) SMAM, based on Bloomberg L.P. data.

#### Future Outlook

#### Expectations for recovery of consumption as consumer sentiment improves

- On November 18, PM Abe officially announced postponing the additional consumption tax hike for a year and a half and also declared the dissolution of Lower House for a general election. Consumption demand increase as a result of improvement in consumer sentiment can be expected by the postponement of the tax hike whereas progress of improving the government fiscal balance will be delayed.
- Good news is, Japan is keeping healthy employment environment conditions and trend of wage increase. Currently, the government is making a plan to present an further economic package within this year mainly focusing on stimulating consumption for ensuring sustainable economic recovery. For these reasons, we can expect an increase in consumption followed by the recovery of production.

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