

## May Economy Watchers Survey– Important to Secure Consumption Power

### May Economy Watchers Survey

On June 9, the Cabinet Office announced its May Economy Watchers Survey. The current conditions DI (on the direction of business environment) rose 3.5 points m-o-m to 45.1, while the future conditions DI rose 3.5 points m-o-m to 53.8. The current conditions DI, which fell significantly (-16.3 points) in April due to pullback of rush demand before the consumption tax hike, rebounded in May partly supported by the strong consumer demand during the “Golden Week Holidays”. The future conditions DI rose 3.5 points m-o-m for the second straight month which re-confirmed that the economy would recover from this summer.

Amongst the activity-related DIs, the household activity-related DI rose 4.9 points m-o-m, the corporate activity-related DI fell 1.1 points m-o-m and the employment related rose 3.4 points. The corporate activity-related DI seems to have fallen as the corporate owners’ sentiment in May remained weak probably because in April it was not as weak as that of household. Among the household activity-related DIs, food & beverage and housing fell 4.4 points and 1.3 points, respectively in May as they did not deteriorate so much in April. On the contrary, retail which had fallen significantly in April rose substantially by 7.3 points m-o-m in May.

The future conditions DIs have improved across the broad range of sectors without outstanding deterioration (only convenience store and other retail fell m-o-m). I am relatively optimistic on the consumption behavior after this summer as the future conditions DIs rose steadily in the sectors which were hit by pullback of rush demand such as department store, electric appliance retail and automobile etc.

### ◇ Economy Watchers Survey (M-o-M Change of DIs)

(Unit : Points)

	Current conditions DI					Future conditions DI				
	Mar. 2014	Apr.	May	Mar.⇒Apr.	Apr.⇒May	Mar. 2014	Apr.	May	Mar.⇒Apr.	Apr.⇒May
<b>Total</b>	<b>57.9</b>	<b>41.6</b>	<b>45.1</b>	<b>-16.3</b>	<b>+3.5</b>	<b>34.7</b>	<b>50.3</b>	<b>53.8</b>	<b>+15.6</b>	<b>+3.5</b>
<b>Household activity-related</b>	<b>57.0</b>	<b>37.2</b>	<b>42.1</b>	<b>-19.8</b>	<b>+4.9</b>	<b>31.3</b>	<b>49.8</b>	<b>53.1</b>	<b>+18.5</b>	<b>+3.3</b>
Retail	60.7	31.9	39.2	-28.8	+7.3	25.6	50.1	54.1	+24.5	+4.0
Shopping area, High street shop	53.7	37.2	40.6	-16.5	+3.4	27.5	42.9	47.8	+15.4	+4.9
Department Store	77.0	23.9	37.1	-53.1	+13.2	18.5	58.9	61.2	+40.4	+2.3
Supermarket	65.0	33.8	42.0	-31.2	+8.2	26.8	51.6	56.0	+24.8	+4.4
Convenience Store	56.3	37.5	48.2	-18.8	+10.7	35.3	55.2	52.7	+19.9	-2.5
Clothing Shop	50.8	34.4	39.3	-16.4	+4.9	26.2	43.4	47.5	+17.2	+4.1
Electrical appliance retail	86.5	22.4	27.0	-64.1	+4.6	12.2	48.7	66.2	+36.5	+17.5
Automobile	47.0	21.6	31.2	-25.4	+9.6	22.0	48.3	56.5	+26.3	+8.2
Other retail	61.6	37.6	40.9	-24.0	+3.3	30.7	52.8	52.3	+22.1	-0.5
Food & beverage	48.8	48.1	43.7	-0.7	-4.4	32.2	46.8	48.2	+14.6	+1.4
Services	52.5	44.1	47.7	-8.4	+3.6	41.2	50.7	53.5	+9.5	+2.8
Travel, transportation	51.2	43.3	46.6	-7.9	+3.3	41.6	52.8	54.6	+11.2	+1.8
Telecom company	57.9	45.5	50.4	-12.4	+4.9	39.7	50.0	54.6	+10.3	+4.6
Leisure facility operator	49.6	48.0	50.8	-1.6	+2.8	44.3	52.3	52.3	+8.0	+0.0
Other services	52.5	40.3	44.0	-12.2	+3.7	38.8	44.8	50.8	+6.0	+6.0
Housing	50.3	44.7	43.4	-5.6	-1.3	39.5	46.2	47.8	+6.7	+1.6
<b>Corporate activity-related</b>	<b>58.4</b>	<b>48.5</b>	<b>47.4</b>	<b>-9.9</b>	<b>-1.1</b>	<b>39.0</b>	<b>49.9</b>	<b>53.5</b>	<b>+10.9</b>	<b>+3.6</b>
Manufacturing	57.0	50.0	47.9	-7.0	-2.1	40.2	50.4	52.1	+10.2	+1.7
Non manufacturing	59.6	47.5	46.9	-12.1	-0.6	38.1	49.7	55.0	+11.6	+5.3
<b>Employment related</b>	<b>62.8</b>	<b>55.9</b>	<b>59.3</b>	<b>-6.9</b>	<b>+3.4</b>	<b>47.1</b>	<b>54.4</b>	<b>58.6</b>	<b>+7.3</b>	<b>+4.2</b>

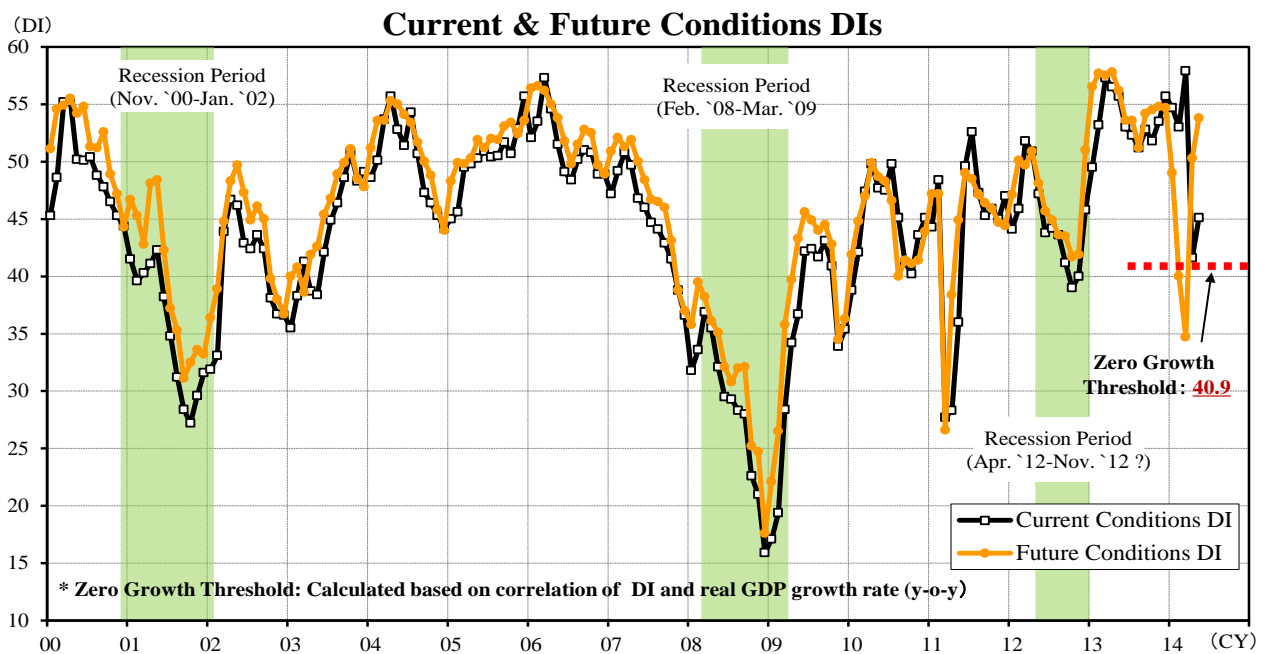
(Source) SMAM, based on the Cabinet Office data



## Future Outlook & Focus

My concern over the consumer spending in future is a possible substantial decline of the real income caused by the rise of both prices and consumption tax. According to the GDP data, real employees' compensation of Jan.-Mar. 2014 was -0.6% y-o-y. After this quarter, it is expected to further decline by around 2% reflecting the consumption tax hike. At the previous consumption tax hike in April 1997, the real employees' compensation did not decline (Apr.-Jun. 1997 was +1.1% y-o-y). Currently, while the consumer spending sentiment remains strong, the consumption power is not that ample.

We must by all means avoid the deterioration of consumer sentiment that would lead to a contraction of consumer spending. With this in mind, I hold a view that in addition to the condition that the external shock, considerably detrimental to the economy, should not happen, it is necessary that the current Japanese government must continue to put its priority on the policy to revitalize the Japanese economy.



(Note) Horizon of data from Jan. 2000 to May 2014

(Source) SMAM, based on the Cabinet Office data

\* Zero growth threshold is used as an indicator to judge whether the Japanese economy is growing or stagnant. If DIs are above this threshold (40.9), it indicates that the economy is or will be strong



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