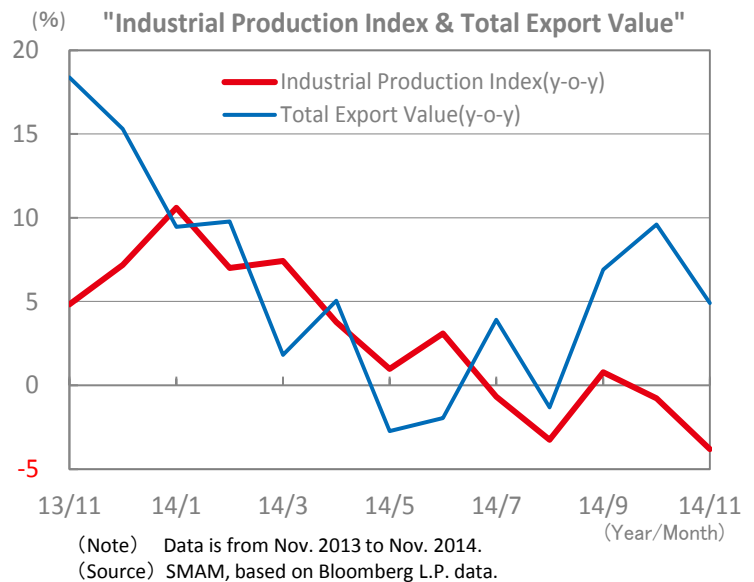


Today's Topic **Japanese Economic Analysis (Jan 2015)**

“Economy to recover after tax hike impact fades away”

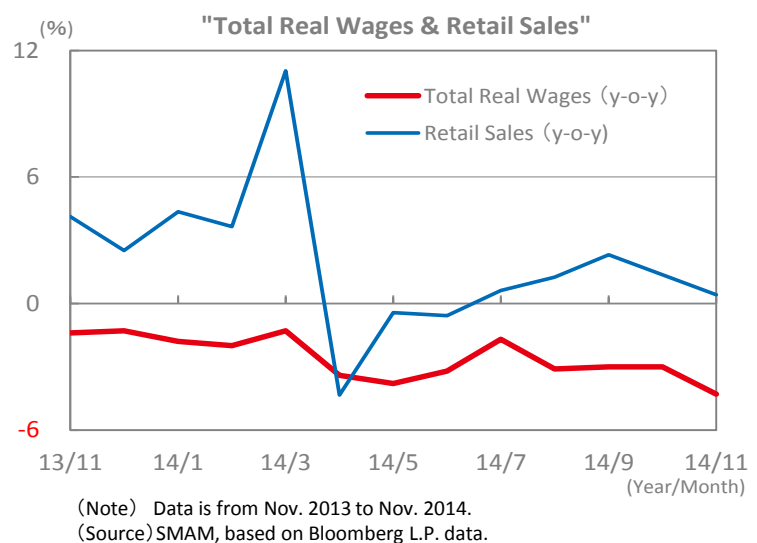
Point 1 The impact of consumption tax hike still affect production But Export recovers steadily

- Industrial production index for November declined by 3.8% y-o-y for two consecutive months. Of the 15 sectors, 12 sectors decreased y-o-y, while that of electronic parts & devises was favorable. Consumption tax hike still seems to negatively affect the recovery in the production of consumer durables such as automobiles.
- In contrast, the total exports value for November increased by 4.9% y-o-y for three consecutive months. The export of electronic parts such as semiconductors and scientific & optical equipment was favorable. Parts for smartphone might contribute to increase the export of this sector.



Point 2 Consumption recovery stagnated Real wages fell for seventeen consecutive months

- Retail sales for November increased by 0.4% y-o-y for five consecutive months. The sales recovery after the consumption tax hike seems to be weak although it continues slight y-o-y increase. The sales of daily necessities such as clothes and personal belongings are relatively firm, while those of big-ticket items such as automobiles were slow to recover due to the impact of tax hike.
- Decrease of inflation-adjusted wages (real wages) might result in the weak consumption. The total real wages for November fell by 4.3% y-o-y for seventeen consecutive months.



Future Outlook

Increase in exports, wages and stimulus package is likely to boost economy

- The impact of consumption tax increase to inflation would fade away after this April. In addition, inflation pressure is likely to weaken as the prices of gasoline and electricity are anticipated to fall due to drop of crude oil price. Furthermore, real wages are expected to bottom out and moderately rise in future hereafter thanks to the tax privilege plan by the government provided to the companies that would raise their wages.
- The export is expected to continue to increase steadily supported by strong US economy. In addition, we could anticipate to improve wages supported by corporate earnings expansion and the consumer confidence by postponement of consumption tax hike. Economic recovery is also expected through the JPY3.5 trillion emergency economic package which would aim to support consumption in child care and low-income family welfare and pick up regional economy.

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