

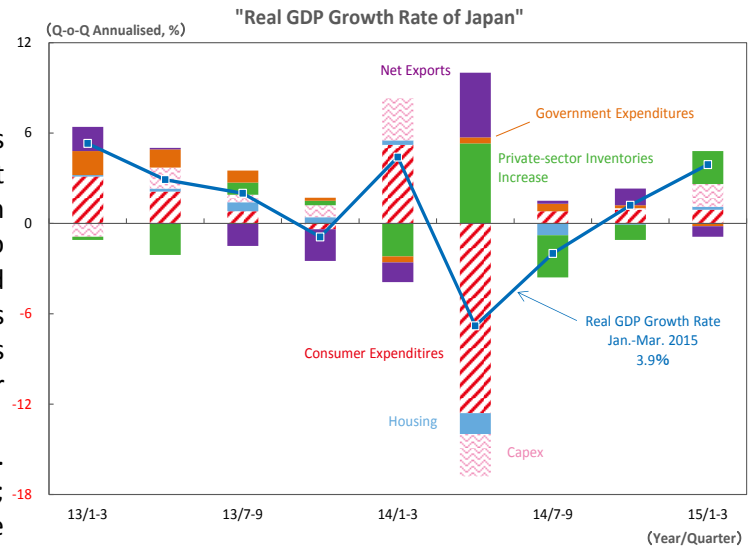
Today's Topic **Japanese Economic Analysis (June 2015)**

Economic data shows expanding domestic demand

Point 1 Jan.-Mar. 2015 GDP growth rate revised upward

Stronger than expected private capex

- The second preliminary Jan.-Mar. 2015 real GDP was revised upward to annualized +3.9% from its first preliminary number of +2.4%. The upbeat capex in private sector pushed the GDP data higher. According to Jan.-Mar. 2015 MOF Corporate Statistics, capex increased across the industry; export-related sectors such as transportation machinery and electronic machinery as well as whole sale & retail sales and services sector increased the capex.
- In terms of the contribution by components to Jan.-Mar. 2015 real GDP growth rate, domestic demand was +4.6%; inventories, capex and consumer expenditure in private sector contributed by +2.2%, +1.5% and +0.9% respectively. Inventories and capex in private sector contributed to the expansion of the economy.

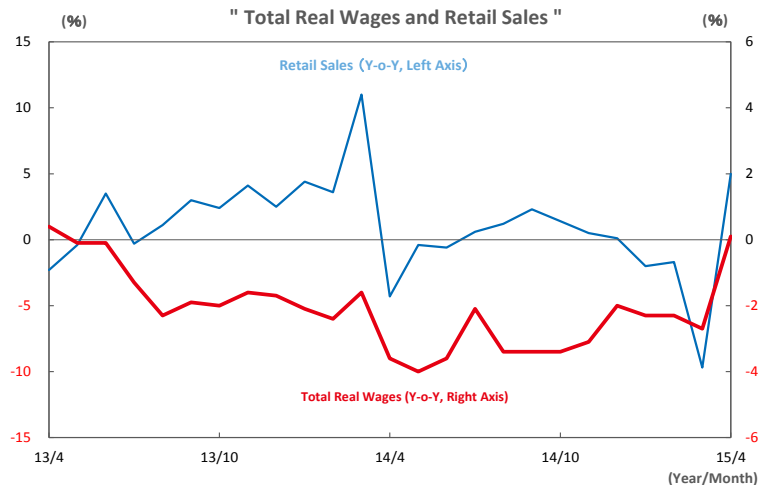


(Note) Data is from Jan.-Mar. 2013 to Jan.-Mar. 2015. Real GDP growth rate is quarter on quarter, annualised. Bar charts illustrate attribution to GDP.
(Source) SMAM, based on Cabinet Office, Japan data.

Point 2 Real wages turned positive for the first time in two years

Consumer sentiment improving

- According to April Monthly Labour Survey, real wages which exclude the effect of the increase in consumer prices have turned positive at +0.1% y-o-y for the first time in two years. This was mainly because the increase in prices affected by consumption tax hike has diminished and nominal wages were raised in many large companies.
- Retail sales for April turned positive after a respite for three months, increasing to +5.0% y-o-y. Even considering pullback effect of consumption tax hike in April 2014, consumer sentiment seems to be improving as all retailers except fuel retailers saw sales increase.



(Note) Data is from Apr. 2013 to Apr. 2015.
(Source) SMAM, based on Bloomberg L.P. data.

Future Outlook

Virtuous cycle of corporate earnings expansion leading to increase in consumption and capex is expected

- Recurring profits of public companies for fiscal year ending in March 2015 as of May 18th rose +6% y-o-y and those in March 2016 are expected to accelerate to +9% y-o-y to the record high of the company forecasts. Since the guidance of March 2016 assumes USD/JPY of on average 115, the recurring profits are expected to move higher if the exchange rate continues to stay at the current level.
- Upbeat corporate profits will push the confidence further higher to pick up wages and capex. Slow recovery in consumption after consumption tax hike seems to have regained its momentum in recent days. Expansion in domestic demand is expected to accelerate further expansion of economy and corporate earnings.

Disclaimer

Please read this disclaimer carefully.

- This material is for non-Japanese institutional investors only.
- The research and analysis included in this report, and those opinions or judgments as outcomes thereof, are intended to introduce or demonstrate capabilities and expertise of Sumitomo Mitsui Asset Management Company, Ltd. (hereinafter “SMAM”), or to provide information on investment strategies and opportunities. Therefore this material is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.
- The expected returns or risks in this report are calculated based upon historical data and/or estimated upon the economic outlook at present, and should be construed no warrant of future returns and risks.
- Past performance is not necessarily indicative of future results.
- The simulated data or returns in this report besides the fund historical returns do not include/reflect any investment management fees, transaction costs, or re-balancing costs, etc.
- The investment products or strategies do not guarantee future results nor guarantee the principal of investments. The investments may suffer losses and the results of investments, including such losses, belong to the client.
- The recipient of this report must make its own independent decisions regarding investments.
- The opinions, outlooks and estimates in this report do not guarantee future trends or results. They constitute SMAM’s judgment as of the date of this material and are subject to change without notice.
- The awards included in this report are based on past achievements and do not guarantee future results.
- The intellectual property and all rights of the benchmarks/indices belong to the publisher and the authorized entities/individuals.
- This material has been prepared by obtaining data from sources which are believed to be reliable but SMAM can not and does not guarantee its completeness or accuracy.
- All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMAM, except as otherwise stated. It is strictly prohibited from using this material for investments, reproducing/copying this material without SMAM’s authorization, or from disclosing this material to a third party.

Registered Number: Kanto Local Finance Bureau (KINSHO) No.399

Member of Japan Investment Advisers Association, The Investment Trusts Association, Japan and Type II Financial Instruments Firms Association

© Sumitomo Mitsui Asset Management Company, Limited
