

Today's

Topic

Japanese Economic Analysis (July 2015)

Economy is expected to modestly recover after a brief weakening

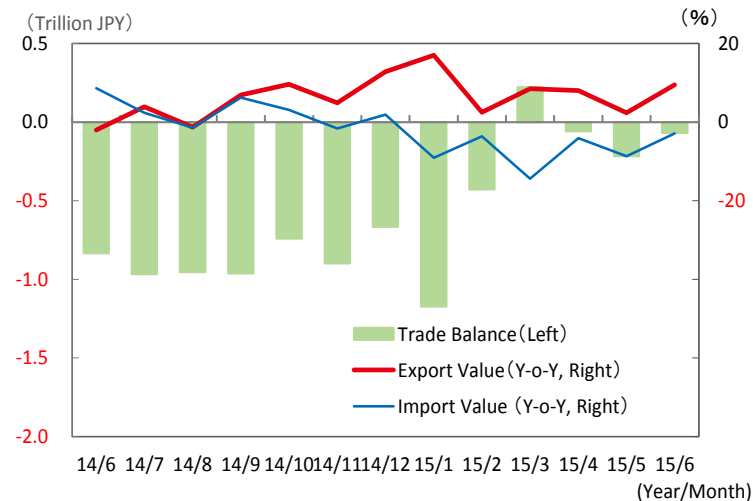
Point 1

Export volumes were flat

Business sentiment improved by weak JPY

- The value of exports in June increased 9.5% y-o-y inflated by weak JPY as export volumes were flat. By region, increase in export volumes to EU and Asia excluding China was offset by decreases to the US and China. Imports decreased 2.9% y-o-y due to the fall in price of crude oil and volume. Hence, trade balance improved significantly compared to the previous year to a deficit of JPY69billion. However, contribution of net export to the economy is likely to remain limited for now.
- Business sentiment is improving owing to a weaker JPY despite the decrease in export volumes. According to BOJ's Tankan surveyed in June, current business conditions of Large enterprises for both manufacturing and non-manufacturing showed improvement.

"Trade Balance and Growth Rate of Export & Import"



(Note) Data is from Jun. 2014 to Jun. 2015.
(Source) SMAM, based on Bloomberg L.P. data.

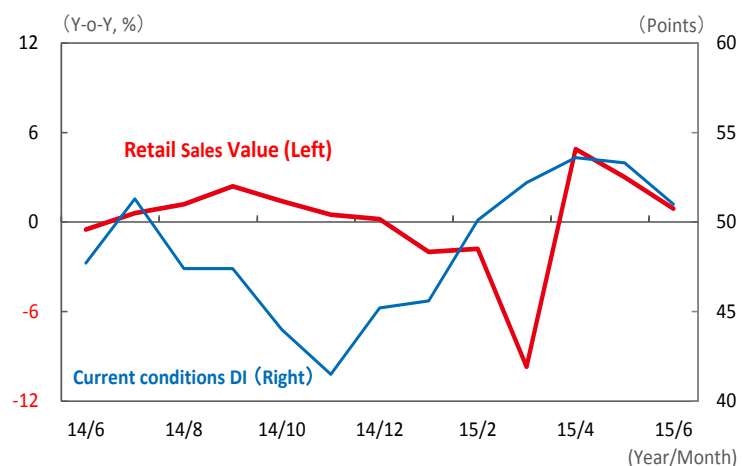
Point 2

Poor consumption due to bad weather and price hike

Street business sentiment above neutral level for 5 consecutive months

- June retail sales value increased 0.9% y-o-y, but slowed down from the previous month. The weak sales seemed to be due to slower sales of summer clothing by bad weather and rising price especially in food.
- Also, "Current Conditions DI" of "June Economy Watchers Survey" decreased to 51.0 points for two consecutive months. There were concerns on price hikes of imported goods. However, positive business sentiment is in tact, as Current Conditions DI was above neutral level of 50 points for 5 consecutive months.

"Retail Sales Value and Current Conditions DI"



(Note) Data is from Jun. 2014 to Jun. 2015. Current conditions DI is based on "Economy Watcher Survey".
(Source) SMAM, based on Bloomberg L.P. data.

Future Outlook

Economy is expected to gradually accelerate from Jul. – Sep. quarter

- Real GDP growth rate of Apr.-Jun. quarter is expected to slowdown as exports to China and the US weakened and a standstill in the consumption recovery. Concern over Chinese economic downturn seems to be limited due to ample room for policy aid such as additional monetary easing and stimulus measures.
- We expect GDP growth rate to gradually accelerate led by consumption recovery due to pick up of export to the US and further wages growth from Jul. –Sep. quarter.

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