

Improvement of “Street Business Sentiment”, spreading gradually

“Economy Watchers Survey” is a business sentiment survey conducted by Japan’s Cabinet Office every month. The so-called “Street Business Sentiment Survey” is the research by approximately 2,000 observers called “Watchers” who engage in economic sensitive business such as taxi drivers, convenience store managers, restaurant operators and so on. The survey examines economic sentiment at this time in comparison with that of three months ago and that of two to three months later. The neutral level of this index to judge whether the economic sentiment is favorable or not is 50 points.

Point 1

Current conditions DI surpassed 50 points for four consecutive months

Rapid JPY depreciation lowered corporate activity-related DI

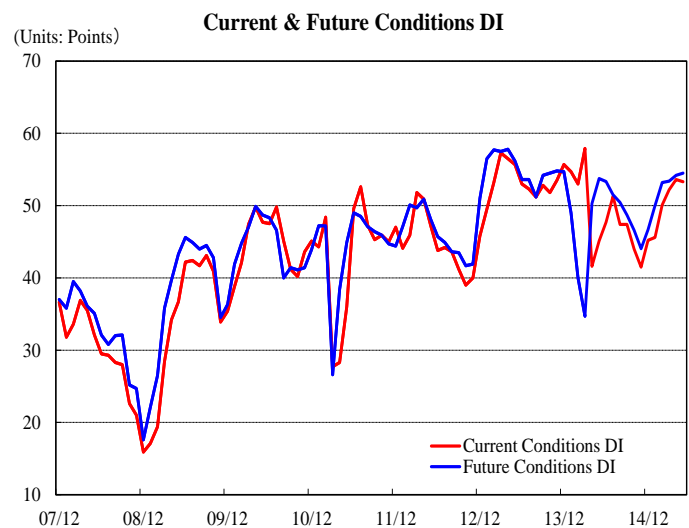
- According to the May “Economy Watchers Survey” (period from 25th to 31st May), the current conditions DI (Diffusion Index) lowered by 0.3 points m-o-m to 53.3 points, surpassing the neutral point of 50 for four consecutive months. The household activity-related DI and the employment DI increased, while corporate activity-related DI decreased due to a rapid JPY depreciation since midst of this May.
- A watcher of an electronic machinery manufacturer in Kinki region replied a favorable answer on JPY depreciation, “Although JPY depreciation impacts differently on importers and exporters, I sense it seems to encourage positive attitude for investment as weaker JPY and rising stock prices improved economic sentiment.”

Point 2

Future conditions DI also continued to improve

Expectation on positive effect of bonus increase and inbound tourism consumption

- “The future conditions DI”, which indicates future economic sentiment in two to three months later improved by 0.3 points m-o-m to 54.5 points for six consecutive months and stayed at or above the neutral point of 50 for five consecutive months. Both the household activity-related DI and the corporate DI increased in the month on expectation of positive effect of wage growth, summer bonus increase and upbeat foreign visitor consumption.
- Another watcher from a department store operator from Tokai region answered on consumer sentiment, “Sales will continue to expand thanks to more summer bonus than last year, wealth effect on higher stock market and upbeat inbound consumption”, expressed expectation on consumption increase.



(Note) Time Horizon: December 2007 - May 2015

(Source) SMAM, based on Japan’s Cabinet Office and Bloomberg data.

Corporate earnings expansion is expected to spread to increase in capex and consumption

■ Real GDP growth of Jan.-Mar. 2015 revised upward

The second preliminary Jan.-Mar. 2015 real GDP was released by Cabinet Office on June 8th, which was revised upward to +3.9% from its first preliminary number of +2.4%. The main reason was due to upward revision of capex in private sector. The improvement in confidence is expected to increase capex further.

■ Domestic demand expansion to lead the economy going forward

Corporate earnings expansion has spilled over to wage growth. April real wages (excluding inflation effect) turned positive y-o-y for the first time in two years as the effect of consumption tax hike has diminished. Upbeat consumption recovery is expected as real wages continue growing with subdued inflation.

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