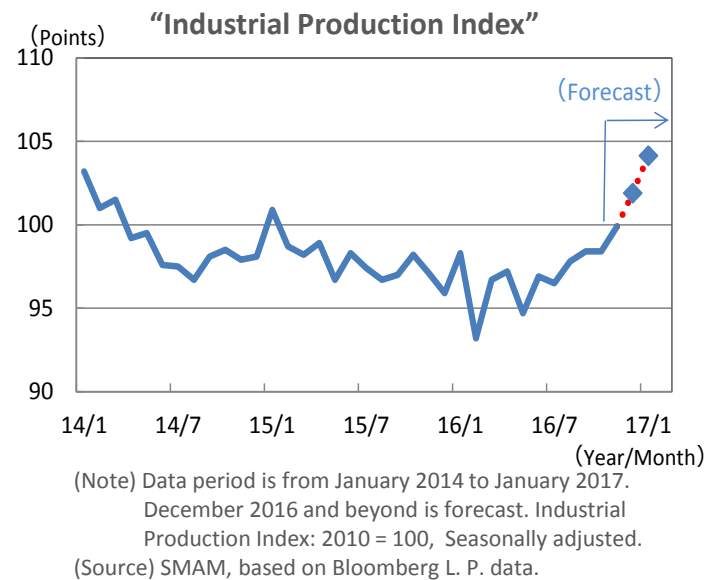


Today's Topic **Japanese Economic Analysis (January 2017)**

Ongoing recovery on solid tone in global economy and supportive policy measures

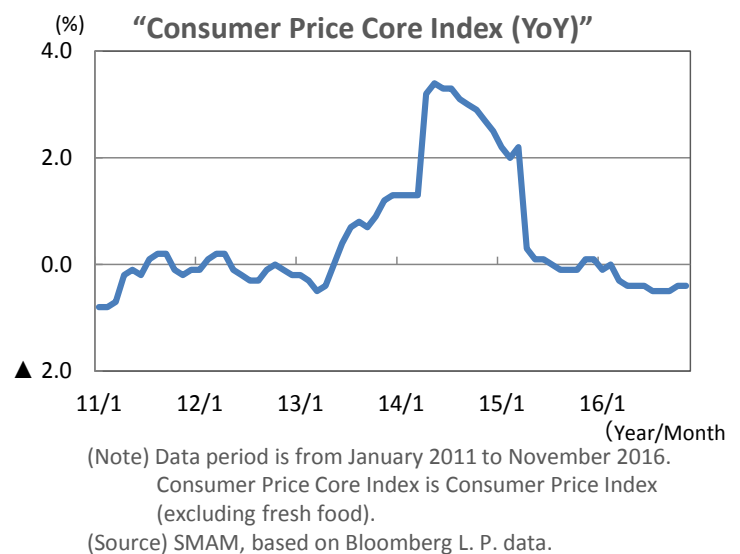
Point 1 Production sees a turnaround and is expected to increase

- Industrial production index for November rose + 1.5% MoM. Ministry of Economy, Trade and Industry revised its basic assessment to “some recovery”. Export from Japan to overseas is increasing due to (i) stabilization of Chinese economy, (ii) recovery of US economy and (iii) recovery of global IT cycle which contributed to the recovery of Japanese production.
- According to the Survey of Production Forecast, industrial production of December 2016 and January 2017 are expected to increase + 2.0% and + 2.2% (both MoM) respectively. We expect production to continue growing going forward.



Point 2 Consumer Price Index is falling
Subdued price trend persists if excluding crude oil price hike factor

- Consumer Price Index (excluding fresh foods, hereafter Core) for November 2016 was - 0.4% YoY which was less than market consensus (- 0.3% YoY) and stayed within same negative gap of the previous month. Energy continued to narrow its negative growth (- 7.9% in October ⇒ - 6.7% in November), while other items such as Communications, Education & Recreation, Clothing and Footwear saw either slowdown of rise or widening of negative growth. Price trend continues to be subdued except for crude oil price hike factor as Japanese corporates' pricing behavior is still cautious.



Future Outlook Japan will see a moderate economic recovery going forward, supported by solid tone in global economy and Japan's government's policy measures

- Japanese economic indicators released between the previous year end and the beginning of new year almost confirmed continuous economic recovery in October - December 2016. Japanese economy is expected to continue its recovery with some volatility time to time, as its recovery had started from July - September 2016 underpinned by recovery of global economy and economic measures put in place by the Japanese government. As for price, we expect consumer price core index to show higher rise around 1% YoY towards second half of FY2017, as Japanese economic growth is likely to surpass its growth potential.



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