SMAM **Japan** News Letter

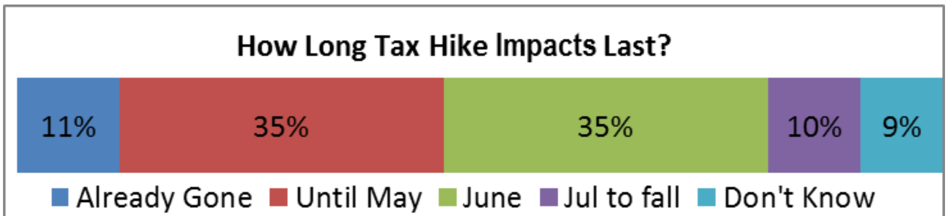
2 May 2014

Post-tax-hike Demand Better than Feared

Consumer demand has been recovering at a better-than-expected pace after dropping sharply earlier in April due to the sales tax hike, from 5% to 8%, implemented on 1st of April, revealed a Nikkei poll which in late April asked 100 major retailers including department stores, supermarkets and specialised shops.

The survey showed more than 70% of respondents think sales in April were “in line” with or “better” than their expectations, broadly regardless of sectors. Twenty-four percent said April sales were flat or higher year-on-year with particular strengths at supermarkets with a variety of daily dishes and apparel shops focusing on spring clothing. To the same question at the end of last year, only 4% expected flat to higher year-on-year sales for this April.

For the 1H of 2014 (Jan-Jun), nearly a half (48% excluding no reply) anticipates stronger sales than those a year earlier with rush demand in the first 3 months this year more than offsetting dented sales post the tax hike. Relatively weak were department stores highly dependent on high-ticket items, drugstores selling daily goods/cosmetics and DIY shops. More than 80% expect the negative tax impacts to disappear by end June.



Source: Nikkei (2 May 2014)

In the stock markets, clear divergence has been emerging depending on earnings results. Firms seen to have strong earnings power have been staging strong rallies after their earnings announcements. Printer maker EPSON soared 18%, machine tool vendor Okuma jumped 9% and electronic parts makers Murata and Nitto Denko both added 7%.

In stark contrasts are those disappointing investors’ expectations. Honda lost 5% after guiding lower profits citing emerging markets weaker currencies despite looking for stronger unit sales. Shiseido, down 4%, is suffering from weaker cosmetic sales post the tax hike and burdens from upfront investment overseas. On Thursday, Sony announced its third downward revisions for FY13 with a net loss of JPY130bn, or JPY20bn worse than its February guidance, due to wider one-time losses caused by its PC business divestment.

Separately, the Abe administration appears making one step forward towards long-waited corporate tax cuts. It reportedly mulling to stipulate “gradually cutting corporate taxes starting from FY2015” in policy guidance, dubbed “large-bone policies”, to be announced in June by the Council on Economic and Fiscal Policy, aiming to reduce the tax rate from around 36% (in Tokyo) to below 30% levels.

Notes: SMAM notes based on Nikkei reports

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