

“April Economy Watchers Survey– Possible Recovery this Summer”

April Economy Watchers Survey

On May 12, the Cabinet Office announced its April Economy Watchers Survey. The current conditions DI (on the direction of business environment) fell 16.3 ppt m-o-m to 41.6, while the future conditions DI rose by 15.6 ppt m-o-m to 50.3. For the March survey, current conditions DI recorded historical high since inception (Jan. 2000) due to rush demand before the consumption tax hike and on the contrary, future conditions DI recorded the biggest decline of 20.0 ppt (from Dec. 2013 for 3 months) since inception due to the concern over subsequent pullback from the rush demand after April.

Amongst the activity-related DIs, the household activity-related DI exhibited the largest disparity between current and future conditions DI (herein after expressed as m-o-m (ppt): current→future) which was -19.8→+18.5. As to the household activity-related DI, the disparity was prominent especially in the retail with -28.8→+24.5 as they deal in the consumption of goods. Other than retail were; food & beverage +0.7→+14.6, services -8.4→+9.5 and housing -5.6→+6.7 all of which the disparity were relatively modest. From the beginning of this year, lots of positive news on the eating-out industry were heard which seemed to be reflected in the modest disparity of food & beverage DIs.

As to the remaining activity-related DIs, corporate activity-related DI was -9.9→+10.9. The manufacturing was -7.0→+10.2 and non-manufacturing was -12.1→+11.6. Although, non-manufacturing showed relatively large disparity, we think this is within the expectation since the corporations learned the lesson from consumption tax hike in 1997 not to be too opportunistic on the rush demand. Even the employment-related DI exhibited a modest disparity of -6.9→+7.3 which we think is the sign of favourable labor market environment being maintained.

April Economy Watchers Survey (M-o-M Change of DIs)

	Current conditions DI (A)	Future conditions DI (B)	Disparity (B)-(A)
Household activities-related	-19.8	+ 18.5	38
Retail	-28.8	+ 24.5	53
Department Store	-53.1	+ 40.4	94
Supermarket	-28.8	+ 24.8	54
Electrical appliance retail	-64.1	+ 36.5	101
Automobile	-25.1	+ 26.3	51
Food & beverage	+ 0.7	+ 14.6	14
Services	- 8.4	+ 9.5	18
Corporate activity-related	- 9.9	+ 10.9	21
Manufacturing	- 7.0	+ 10.2	17
Non-manufacturing	-12.1	+ 11.6	24
Employment related	- 6.9	+ 7.3	14

(Note) Conditions DIs are month on month percentage points change comparing Apr. to Mar.

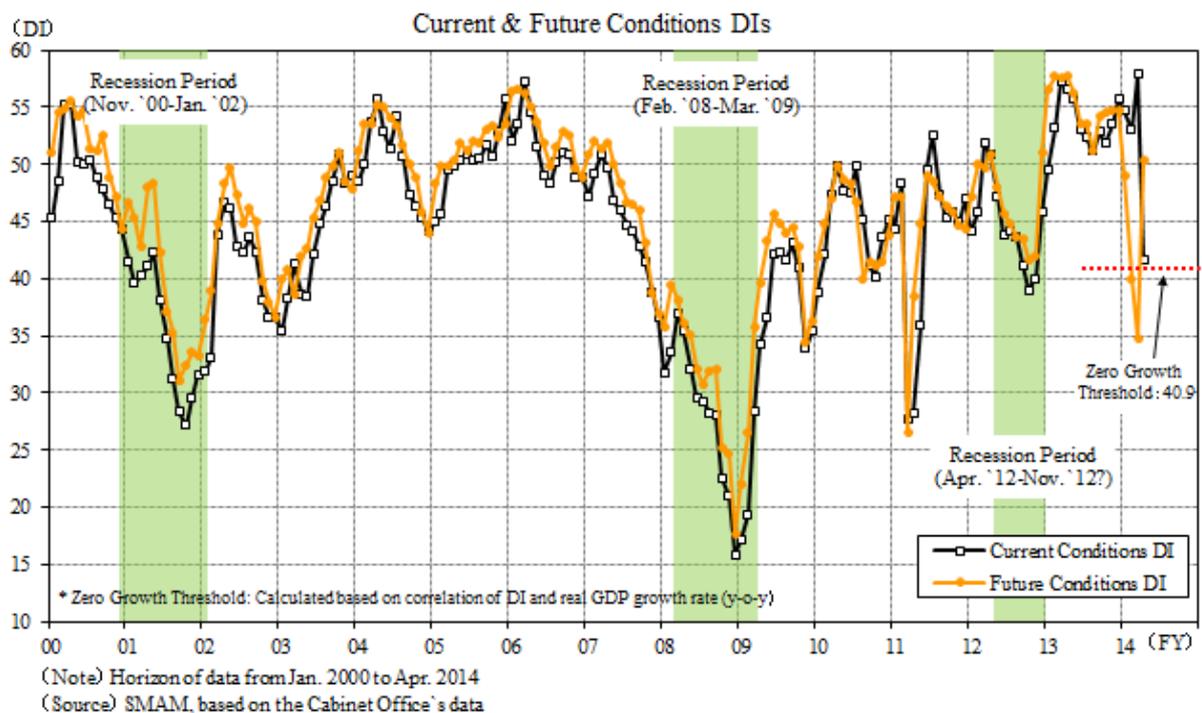
(Source) SMAM, based on the Cabinet Office's data



Future Outlook & Focus

This time, the focus was on the magnitude of future conditions DI's improvement. It turned out that the magnitude of improvement of future conditions DI was almost on a par to that of the dip of current conditions DI and future conditions DI also surpassed the 50 threshold. The background of this could be the respondents' high expectations on the return of economy back to its growth trajectory after this summer and also they were prepared composedly against the subsequent pullback from the rush demand right after the consumption tax hike. Such a magnitude of the improvement of future conditions DI was beyond my expectation.

The household income has not increased that much to cover both prices and tax hikes which remains as a risk to decelerate the pace of economic recovery. However, I expect that the subsequent pullback from the rush demand created by the consumption tax hike will almost play out before this summer and after that the economy will gradually recover in tandem with the modest recovery of consumer expenditures if external shock, considerably detrimental to the economy, will not happen. I expect that the real GDP growth y-o-y will turn into positive at the latest from the latter half of this fiscal year.



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/indexes 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 Regional Finance Bureau (KINSYO) No.399

Member of Japan Investment Advisers Association and the Investment Trusts Association, Japan

© Sumitomo Mitsui Asset Management Company, Limited



Sumitomo Mitsui Asset Management

SMAM