

“ Japanese SME Business Conditions Survey”

The Shoko Chukin Bank publishes a monthly survey on the business conditions of SMEs (Small and Mid sized Enterprises). The survey covers 450 companies in manufacturing sector and 550 companies in non-manufacturing sector to calculate “Business Sentiment Indices” (current month actual data & following month estimates) in the form of “Improved”, “Unchanged” and “Worsen”, based on responses from them. Diffusion Indices (DI) of sales, sales/purchase prices, profit margins, financing situations, product inventories, production equipment and employment environment are also disclosed.

Point 1

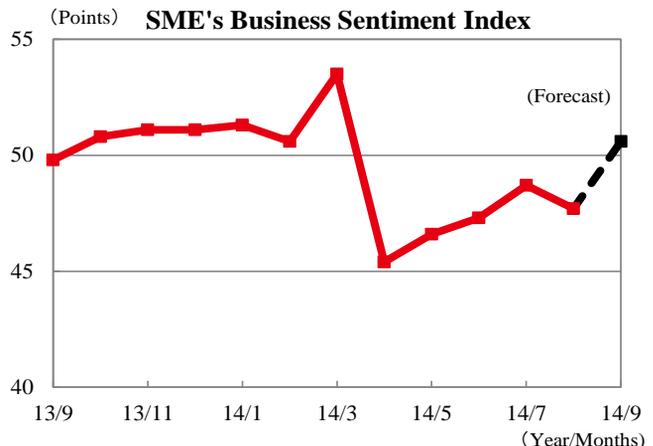
August Business Sentiment Index declined first time in four months
However, September index (estimates) is above 50 points, first time in six months

- “August Business Sentiment Index” announced on August 26 declined 1.0 points m-o-m first time in four months to 47.7. Its recovery pace seemed to have slowed down from a constant recovery trend after a substantial decline of 45.4 points in April due to the consumption tax hike.
- However, we can expect a recovery of the index in the future, as September index (estimates) rose 3.9 points to 50.6, first time in six months, which is above 50, the neutral point level of the Business Sentiment Index

Point 2

Individual Diffusion Index items are on a recovery trend
Sales value is expected to gain its speed of growth

- Looking into individual DI items, it can be found that the profitability has improved as the pace of increase in sales price has accelerated, whereas that of purchase price has slowed down. Other items such as product inventories DI and the financing condition DI are also improving.
- The y-o-y sales value seems to gain its speed on increase, as after it slowed down in July to +1.0% from +3.3% of June, it is estimated to recover to +3.4% in August and to +3.7% in September. The weak business sentiment in August seems to be influenced by the slow down of the increase in sales value in July.



(Notes) Data is from Sep. 2013 to Sep. 2014. Sep. 2014 is a forecasted number.
 (Source) SMAM, based on Bloomberg L.P. data.

Recovery of Japanese economy is anticipated in the latter half of this year after overcoming the impact of the consumption tax hike

■ Slight delay in the recovery of private consumption

The pace of consumption recovery seems to have slowed down after the consumption tax hike. In July, the sales value of both supermarket and convenience store have declined four months in row by 2.1% and 0.7% y-o-y, respectively. However, the recovery in the future can be expected as the rate of decline is diminishing month by month.

■ Ripple effect of the improvement in the employment environment is anticipated

We think that the decline of business sentiment in August is a temporary phenomenon from the perspective of the sales value seems to be bright. We anticipate that the economy should recover in the latter half of this year because of the improvement in the employment environment, although the signs of the strong recovery in the major economic indices are yet to be identified.

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