



SMAM

“Street Business Sentiment (October 2014)”

It can be captured by “Economy Watchers Survey” conducted monthly by Japan’s Cabinet Office. This survey is also called “Street Business Sentiment Survey” covering approximately 2,000 workers called “Watchers” engaged in industries sensitive to the economic activities such as taxi driver, store manager of convenience store, restaurant operator etc. The neutral level of this index to judge whether the economic sentiment is good or bad is 50 points.

Point 1

Current conditions DI declined due to bad weather

DIs of household activities, corporate activities and employment declined

- According to the October “Economy Watchers Survey” (covered period from 25 to 31 October), the current conditions DI (Diffusion Index) declined 3.4 points m-o-m to 44.0 points stayed below the neutral level of 50 points for three consecutive months. The household activity-related DI declined sharply by 4.4 points m-o-m, the corporate activity-related DI declined by 1.7 points m-o-m and the employment-related DI declined by 1.2 points m-o-m.
- One of voices heard on the street was, quote “This month, the number of shopping customers substantially declined due to two strong typhoons over two consecutive weekends usually crowded with many visitors (according to a surveyed supermarket in South Kanto region)”, unquote. Many similar voices were heard complaining of the impact of bad weather on their business.

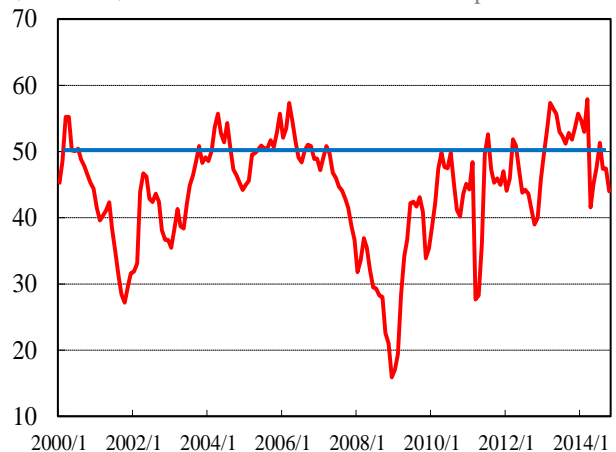
Point 2

Future conditions DI stayed below the neutral level for two months

Concern over the next consumption tax hike and the energy price hike

- “The future conditions DI”, which indicates two to three months’ future economic sentiment declined by 2.1 points m-o-m for five consecutive months to 46.6 points, stayed below the neutral level of 50 points for two consecutive months. All of the categories (household, corporate and employment) of the future conditions DIs worsened this time.
- At the survey, voices of expressing anxiety over the possible tax hike and expensive energies were heard on the street, quoting “We would find customers save spending due to anxiety over further consumption tax hike to 10%, concerns over price hike of daily necessities and higher kerosene price in winter (according to a surveyed supermarket in Tohoku region)”. On the other hand, positive voice was also heard, quoting “Car Sales increase can be expected because of a new model launch and model changes (according to a surveyed car dealer in Shikoku region)”.

(Unit: Points) Current Conditions DI Since Inception



(Year/Month)

(Note) Time Horizon: January 2000 - October 2014

(Source) Prepared by SMAM based on data from Japan’s Cabinet Office and Bloomberg



Improving consumers' sentiment brought by a BOJ's action will make a positive impact on the Japanese stock market

■ Expectation for consumer sentiments' improvement by a surge of stock market

The stock and currency markets dramatically moved after the BOJ's unexpected announcement on additional expansion of Quantitative & Qualitative Easing on October 31. Responding to the BOJ's action, Nikkei 225 index surged strongly beyond JPY17,000 for the first time in about seven years. This movement will contribute to improving the lackluster consumer's sentiment, offsetting the negative impact of the bad weather.

■ Rising expectation for further upward revision of corporate earnings as a result of progress of JPY depreciation

The US\$/JPY FX rate also moved dramatically as JPY weakened beyond 115 yen level for the first time in about seven years. In general, the weakening of yen is deemed to give positive impacts on the Japanese corporate earnings. Expectation for the upward revision of the corporate earnings will be enhanced if the US\$ /JPY FX rate keeps staying at the current level, which is approx.10 yen cheaper than 105 yen, the rate many Japanese corporations currently use for their guidance of earnings forecasts for the second half of FY2014. The upward revision of corporate earnings will contribute to increasing wages and consumption recovery, putting the Japanese economy on a virtuous cycle.

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