

Today's Topic **Japanese Economic Analysis (Mar 2015)**

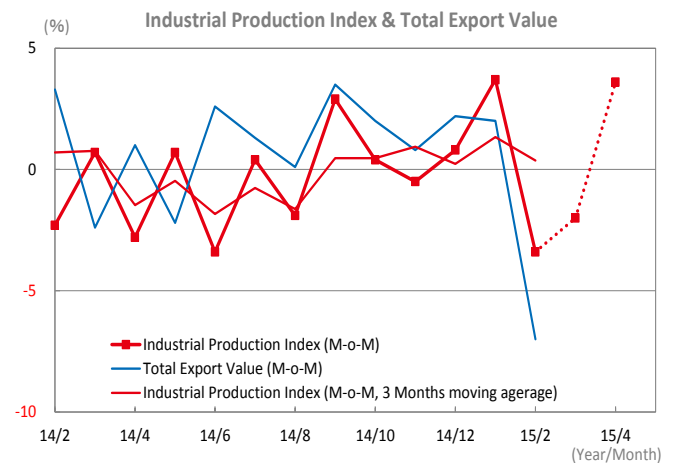
“Solid recovery of industrial production continuing”

Point 1

February production fell as the respite after sharp rise in January

Steady growth in export to the US & Europe

- Industrial production (IP) index for February decreased by 3.4% m-o-m for the first time in three months. Of the 15 sectors, 12 sectors such as General-purpose, Production & Business use machinery and Electronic parts & devices sectors decreased m-o-m. The soggy February production was due to the respite after sharp rise in January. This is just a temporary pause because of a technical reaction from the previous month as Industrial Production Forecast data shows continuous recovery going forward as the forecast index gains 3.6% in April from 2.0% fall in March. The IP in 3month moving average is expected to keep a growing trend at a moderate pace.
- The total exports value for February decreased by 7.0% m-o-m for the first time in nine months. The exports to the US and Europe kept robust growth for six and three consecutive months respectively in y-o-y basis, while those to China decreased sharply by 17.3% y-o-y. This is due to the seasonal standstill in Chinese New Year, which could be a temporary factor.

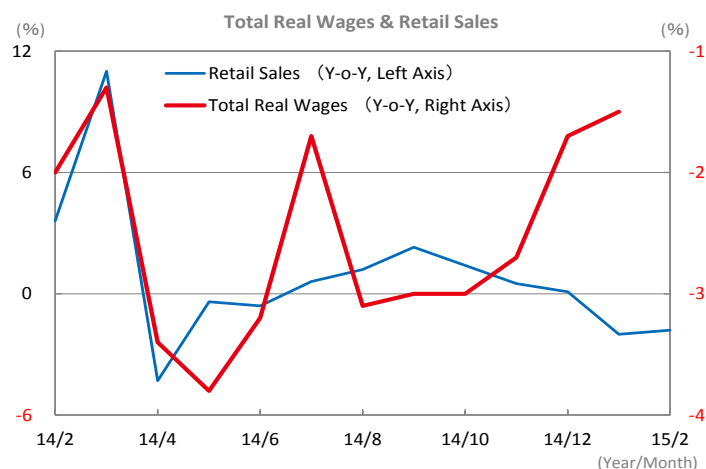


(Note) Data is from Feb. 2014 to Feb. 2015. The dotted line is based on the Industrial Production Forecast index for Mar. and Apr., 2015.
(Source) SMAM, based on Bloomberg L.P. data.

Point 2

Sluggish auto sales this month While real wages heading for a positive growth

- Retail sales for February decreased by 1.8% y-o-y. While sales of clothes and food are strong, the total retail sales were dragged by the falling petrol price due to lower crude oil price and the sluggish automobile sales.
- The total real wages for February fell by 1.5% y-o-y for nineteen consecutive months, however, the rate of decline has been narrowing from the bottom of - 3.8% y-o-y in May 2014.



(Note) Data is from Feb. 2014 to Feb. 2015. Data of total real wages is till Jan. 2015.
(Source) SMAM, based on Bloomberg L.P. data.

Future Outlook Improvement of consumer sentiment through wage rise is expected

- Corporate earnings for FY 2014 and FY 2015 are expected to renew historical highs supported by strong exports by weaker yen and declining energy cost by lower crude oil price.
- Higher wage rise is expected this year than the previous year due to robust corporate earnings.

Also, real wages are expected to increase as the inflation rate decreases from April leaving the consumption tax hike impact behind. Going forward, the economy is likely to recover at a moderate pace alongside the mild recovery in consumption due to the improvement of consumer sentiment buoyed by the higher real wage gain.

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