

Improving “Street Business Sentiment”

“Economy Watchers Survey” is a business sentiment survey conducted by Japan’s Cabinet Office every month. The so-called “Street Business Sentiment Survey” is the research by approximately 2,000 observers called “Watchers” who engage in economic sensitive business such as taxi drivers, convenience store managers, restaurant operators and so on. The survey examines economic sentiment at this time in comparison with that of three months ago and that of two to three months later. The neutral level of this index to judge whether the economic sentiment is favorable or not is 50 points.

Current conditions DI surpassed 50 points for the first time in seven months

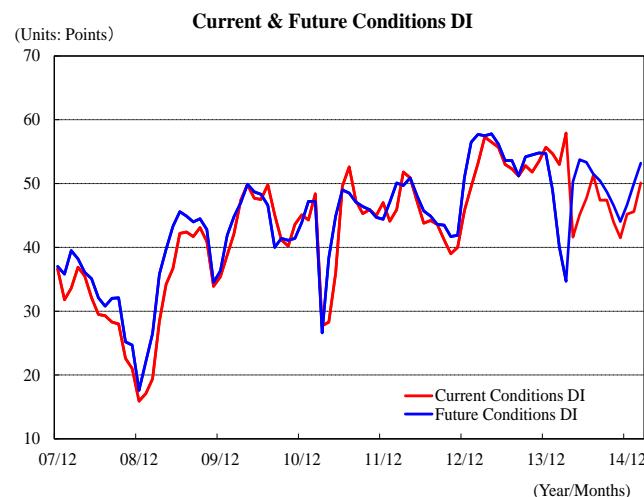
Point 1 Lower petrol price and upbeat inbound tourism consumption were likely to push the index higher

- According to the February “Economy Watchers Survey” (period from 25th to 28th February), the current conditions DI (Diffusion Index) improved by 4.5 points m-o-m to 50.1 points and surpassed the neutral point of 50 for the first time in seven months. All of the household activity-related DI, the corporate activity-related DI and the employment DI gained in this month. The employment DI and the corporate activity-related DI have remained at above the neutral of 50 since January and February respectively, while the household activity-related DI was still below 50 at 48.4 points.
- One of the watchers answered “Lower petrol price would help mitigate the rise in electricity cost and we can afford to do business favorably. (by a supermarket store owner in Hokkaido region)”, and another replied “Sales to foreign visitors increased substantially particularly in cosmetics and sundries at urbane stores (by a department store of Kinki region)”

Point 2 Future conditions DI is encouraging; All of household, corporate and employment sub-DIs surpassed 50 points

Heightening expectation on consumption recovery through wage rise

- “The future conditions DI”, which indicates future economic sentiment in two to three months later improved by 3.2 points m-o-m to 53.2 points and was at or above the neutral of 50 for two consecutive months. It was the first time in seven months that the household activity-related DI advanced over the neutral of 50 in particular. The household sentiment on eating-out saw significant improvement among the index’s components, all of which increased in the month.
- Another watcher expecting consumption recovery supported by wage rise, answered “As my region has a strong auto manufacture such as Toyota, and many parts providers, the workers’ disposable income is likely to increase at the Spring Wage Negotiation Round and consumption in the region is also expected to expand so long as the current strong business conditions continue. (by a supermarket store owner in Tokai region)”



(Note) Time Horizon: December 2007 - February 2015

(Source) SMAM, based on Japan's Cabinet Office and Bloomberg data.

Economic sentiment is expected to improve by upbeat corporate earnings and possible wage rise

■ Further improvement in economic sentiment supported by wage rise expectation

The February “Economy Watchers Survey” showed a bright sign of recovery in personal consumption expenditures which have been stagnated since the consumption tax hike in last April. Especially, as more watchers answered that their family budget has moderately improved thanks to low petrol price led by fall in crude oil price, the street business sentiment shows recovery.

■ Expectation on recovery of personal consumption expenditures spurred by wage gains

Corporate earnings for FY2014 are expected to renew the all-time high after seven years underpinned by weak Yen and low crude oil price. The business confidence seems to continue recovery as upbeat corporate earnings lead to wage gains for workers and then consumption recovery.

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