

“Street Business Sentiment” shows increase in sales of summer goods

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

Point 1

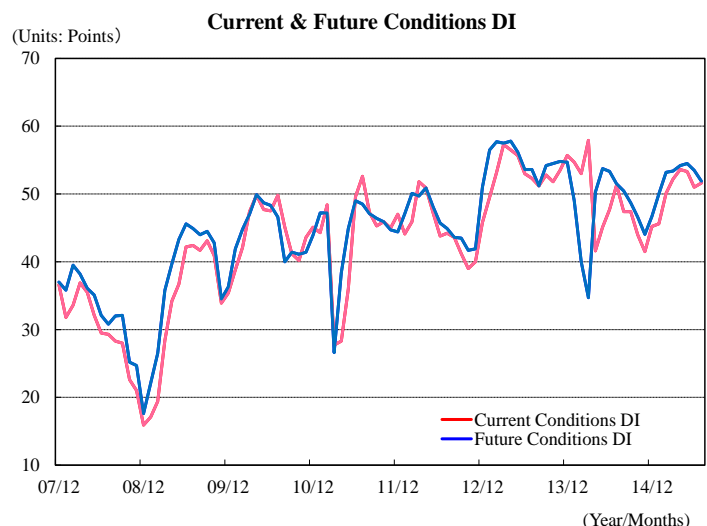
Current Conditions DI surpassed 50 points for six consecutive months Sales of summer goods are performing well

- According to the July “Economy Watchers Survey” (survey period: July 25th to July 31st) the “Current Conditions DI” rose 0.6 points from last month to 51.6 points. The index rose for the first time in three months and has continued to surpass the neutral level of 50 points for six months. In July, the weather recovered, supporting the sales of summer goods. Expansion of inbound tourism consumption and labour shortage has also underpinned the recovery in business sentiment.
- A staff of electronic retail store in Shikoku region said that “the hot weather continuing after the summer bonus payment has helped the recovery of sales volumes, and air-conditioners have been the main driver”.

Point 2

Future Conditions DI stayed at or above the neutral level for seven consecutive months Concern over possible price increase by weaker JPY

- The “Future Conditions DI”, the statistics indicating the perspectives in two to three months was 51.9 points, a drop of 1.6 points from the previous month. Weakening JPY has brought up worries of a rise in import prices, lowering the future economic sentiment. Still the level has stayed at or above 50 points for seven consecutive months, keeping a positive view of the business sentiment in the future.
- Another watcher (department store operator from the Kyushu region) answered in a positive way that “we are hoping more travelers visiting the Kyushu area during the special holidays in September (the “Silver Week” Holidays) and spend more. There are also long holidays in Korea called the “Mid-Autumn Festival” at the end of September and in China the “National Day (Guo-qing-jie)” in early October. Both are expected to bring more inbound tourism consumption”.



(Note) Time Horizon: December 2007 - July 2015

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

Corporate earnings to positively affect income and consumption, maintaining the favorable economic cycle and improving the economic sentiment

■ Anticipating full-scale recovery of consumption

According to a survey by the Nikkei Newspaper (Nihon Keizai Shimbun), the operating income of the Japanese companies which have released their Apr-Jun earnings by Aug. 7th, was better by 24% compared to last year's same period. In addition to the improvement in export related profitability due to a weaker JPY, domestic demand related corporations, such as non-manufacturing companies, have also shown stable profit growth. Corporate earnings growth is expected to bring a better economic cycle which will lead to wage growth and consumption expansion.

■ Future economic sentiment to also improve

The real GDP growth rate of the Apr-Jun period was negative due to weak domestic consumptions and decrease in exports mainly to China. We anticipate a rather moderate recovery from the Jul-Sep period and onward, due to recovery in the US economy, recovery of consumption through wage growth and increase in summer bonuses. Future economic sentiments are believed to continue to recover.

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