

Today's Topic **FY2015 Japanese economic outlook**

The economy to recover with the fading impact of consumption tax hike

Point 1

FY2014 is about to see a negative economic growth for the first time in 5 years

The consumption tax hike had a significant impact

- FY2014 GDP growth rate is expected to fall 0.6% y-o-y for the first time in 5 years. The recovery of consumption has been sluggish since the tax hike and the recovery of Capex seems to be moderate. The Japanese economy experienced negative growth for two consecutive quarters since the tax hike, however, showing recovery in recent days thanks to the stronger external demands.
- Decision of the additional easing by the BOJ and the postponement of further consumption tax hike for one and a half year were made as the Japanese economy slowed its growing pace

Point 2

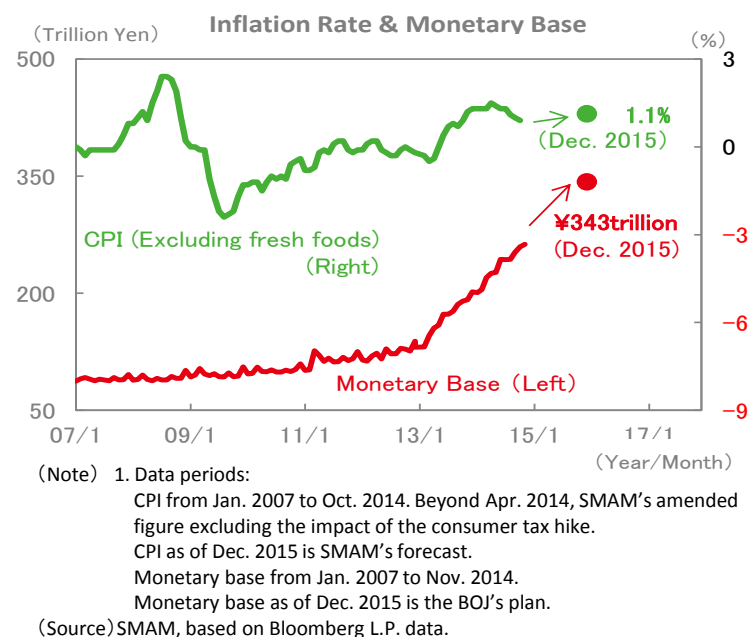
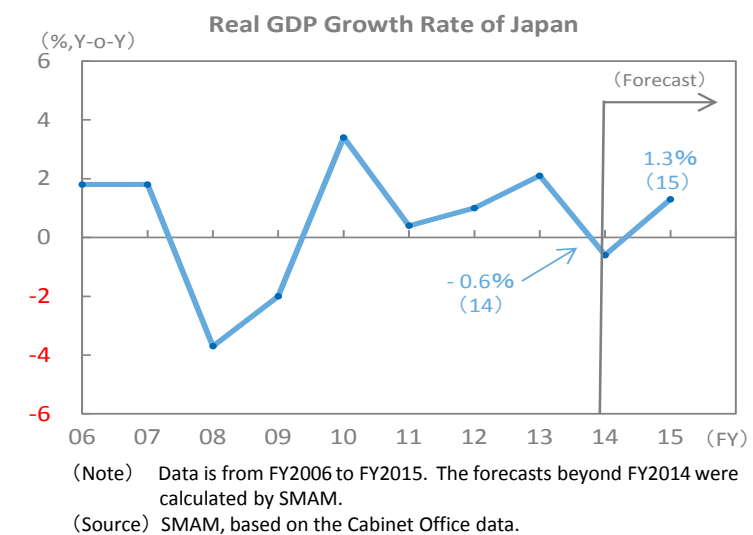
Recovery in FY2015 is expected Economy to recover led by the external demands

- The manufacturing sector is expected to lead the economic growth, supported by the increasing external demands, as the weak yen contributed to the price competitiveness. The Capex is supposed to recover moderately mainly on the replacement investment. Consumption is also about to recover due to improving consumer sentiment by the postponement of another tax hike and the rising wage.
- The inflation is forecasted to remain around 1% despite the price rise of imported goods due to JPY depreciation, as the crude oil price fell sharply.

Future Outlook

Positive cycle between the expansion of business activities and the consumption recovery is expected

- The BOJ continues its unprecedented monetary easing by increasing annual monetary base (amount of fund supply) by 80 trillion yen. The expectation for another easing is mounting as the inflationary pressure is weak due to the falling crude oil price. While, the USD's strength against JPY will persist, as the FED is expected to consider the timing to hike interest rate.



- The weaker yen would benefit the earnings of Japanese corporations. The falling crude oil price would also lower the cost for corporations. Positive cycle between the expansion of business activities and the consumption recovery by the salary increase is expected.

Disclaimer

Please read this disclaimer carefully.

- This material is for non-Japanese institutional investors only.
- The research and analysis included in this report, and those opinions or judgments as outcomes thereof, are intended to introduce or demonstrate capabilities and expertise of Sumitomo Mitsui Asset Management Company, Ltd. (hereinafter “SMAM”), or to provide information on investment strategies and opportunities. Therefore this material is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.
- The expected returns or risks in this report are calculated based upon historical data and/or estimated upon the economic outlook at present, and should be construed no warrant of future returns and risks.
- Past performance is not necessarily indicative of future results.
- The simulated data or returns in this report besides the fund historical returns do not include/reflect any investment management fees, transaction costs, or re-balancing costs, etc.
- The investment products or strategies do not guarantee future results nor guarantee the principal of investments. The investments may suffer losses and the results of investments, including such losses, belong to the client.
- The recipient of this report must make its own independent decisions regarding investments.
- The opinions, outlooks and estimates in this report do not guarantee future trends or results. They constitute SMAM’s judgment as of the date of this material and are subject to change without notice.
- The awards included in this report are based on past achievements and do not guarantee future results.
- The intellectual property and all rights of the benchmarks/indices belong to the publisher and the authorized entities/individuals.
- This material has been prepared by obtaining data from sources which are believed to be reliable but SMAM can not and does not guarantee its completeness or accuracy.
- All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMAM, except as otherwise stated. It is strictly prohibited from using this material for investments, reproducing/copying this material without SMAM’s authorization, or from disclosing this material to a third party.

Registered Number: Kanto Local Finance Bureau (KINSHO) No.399

Member of Japan Investment Advisers Association, The Investment Trusts Association, Japan and Type II Financial Instruments Firms Association

© Sumitomo Mitsui Asset Management Company, Limited