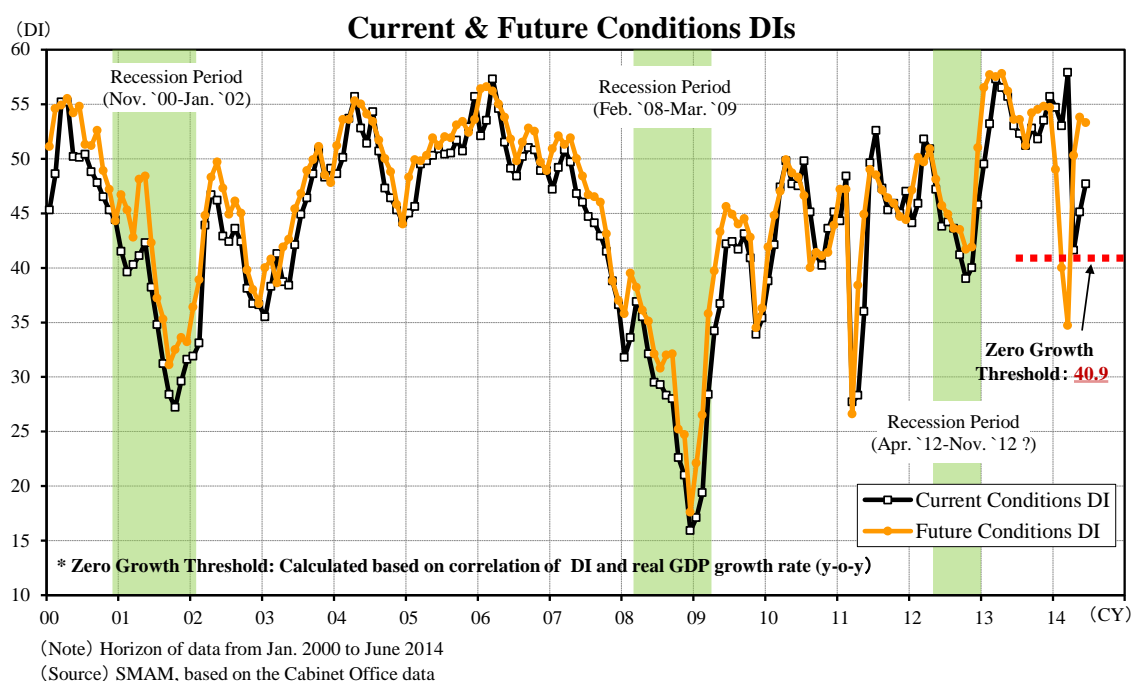


June Economy Watchers Survey - Impact of Consumption Tax Hike Fading Away

June Economy Watchers Survey

On July 8, the Cabinet Office announced its May Economy Watchers Survey. The current conditions DI (indicating the direction of business environment) rose 2.6 points m-o-m to 47.7, while the future conditions DI fell 0.5 points m-o-m to 53.3. The current conditions DI rose for two months in a row after sharp fall in April. The future conditions DI, while keeping 50+ level, marginally fell for the first time in three months since its sharp fall in March.

Amongst the activity-related DIs, the household activity-related DI rose 3.0 points m-o-m, the corporate activity-related DI rose 2.9 points m-o-m while the employment related fell 1.4 points. Among the household activity-related DIs, all the items rose m-o-m in May except leisure facility operator which fell 4.5 points m-o-m. For the future conditions DIs, the household activity-related DI marginally fell 0.8 points m-o-m. Breaking it down by industries, you will find those DIs that are significantly affected by the pullback of rush demand ahead of consumption tax hike such as Department Store, Supermarket, Clothing Shop, Electrical appliance retail and Automobile made little progress.



* Zero growth threshold is used as an indicator to judge whether the Japanese economy is growing or stagnant.
If DIs are above this threshold (40.9), it indicates that the economy is or will be strong



Future Outlook & Focus

The current conditions DI is moderately recovering as its aggregated m-o-m change rate of May and June was + 6.1 points. I think that the retail business sentiment can be judged to be gradually recovering back to its normal situation as the current conditions DI has again surpassed 45.8 points, the figure that was marked when the Abe administration was launched in December 2012. However, I can also see that retailers are still cautious, watching carefully and cool headed, the timing of the impact of the pullback of rush demand to fade away, as the speed of DI's recovery is slow.

Situation is similar for the future conditions DI. I can see that the people in the business front would not be so optimistic on the business environment unless their business really starts to pick up in the circumstances that mass media is broadcasting the pullback effect of rush demand is limited "within expectation" or "negligible". The reason why they are sensitive on the cost increase such as gasoline hike can be attributed to such mindset. Nevertheless, I can observe that the private consumption related data indicates the pullback of rush demand was gradually fading away from June. I, therefore, will not change my view that the demand will pick up in this summer so long as no big external shock, to the extent that is considerably detrimental to the Japanese economy, takes place.

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