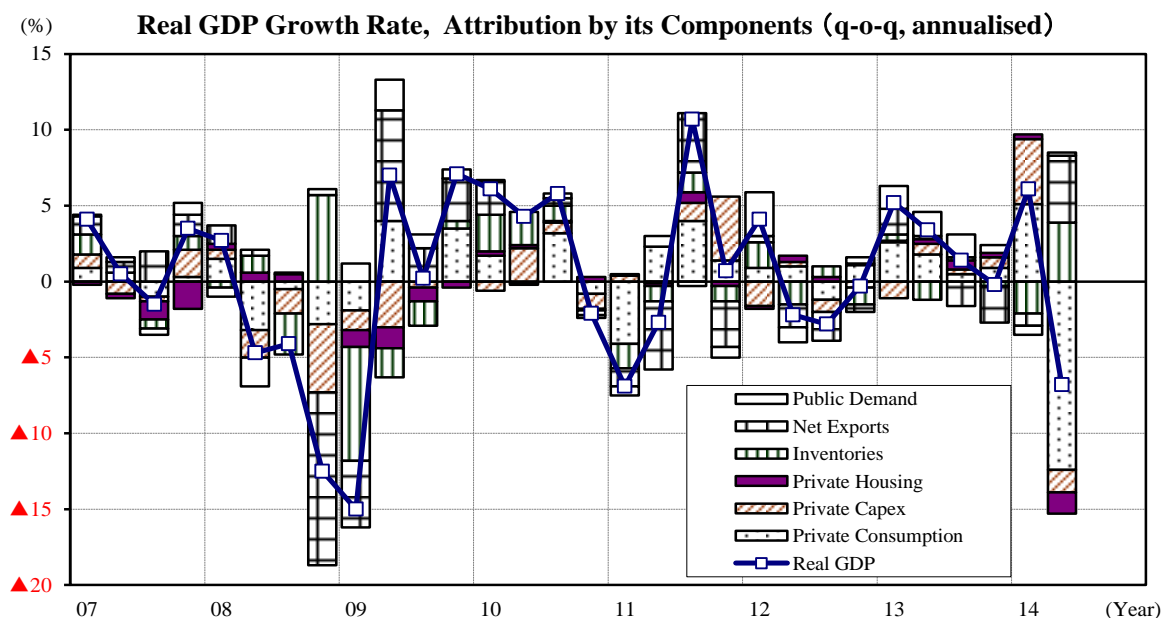


“Apr-Jun 2014 First Preliminary GDP Estimates Keep an Eye on Future Policy”

First Preliminary Apr. – Jun. GDP Estimates

On August 13, the Cabinet Office released Apr.-Jun. 2014 first preliminary GDP estimates. The data gathered attention of the market as they would show the conditions of the Japanese economy immediately after the consumption tax hike. The real GDP declined by 6.8% annualised q-o-q. The decline was larger than the rise in Jan.-Mar. quarter GDP (+6.1% for first and +6.7% for second preliminary GDP estimates, both annualised q-o-q) which was pushed up by the rush demand ahead of the consumption tax hike.

The real GDP growth rate of Apr.-Jun. 1997 (final figure), released immediately after the previous consumption tax hike, was a decline of 7.8% annualised q-o-q based on SNA68 Fixed-base Year Method (hereafter “former method”) and a decline of 3.5% based on SNA93 Chain-linking Method (hereafter “current method”). It is difficult to judge whether the impact this time was more substantial than that of the previous one. What we can say, however, is that for both cases, the impact of the pullback was larger than that of the rush demand itself, and the impact was significantly negative to the economy.



◇ Real GDP Growth Rate, Attribution by its Components (Unit: %)

| Year. Months of Qtr | | 13.1-3 | 13.4-6 | 13.7-9 | 13.10-12 | 14.1-3 | 14.4-6 |
|---------------------|---------------------|--------|--------|--------|----------|--------|--------|
| Real GDP | | +5.2 | +3.4 | +1.4 | ▲0.2 | +6.1 | -6.8 |
| Attribution | Private Consumption | +2.6 | +1.8 | +0.5 | +0.9 | +5.1 | -12.4 |
| | Private Capex | -1.1 | +0.7 | +0.3 | +0.7 | +4.3 | -1.5 |
| | Private Housing | +0.1 | +0.3 | +0.6 | +0.3 | +0.3 | -1.4 |
| | Inventories | +0.4 | -1.2 | +0.2 | -0.3 | -2.1 | +3.9 |
| | Net Exports | +1.7 | +0.2 | -1.6 | -2.4 | -0.8 | +4.4 |
| | Public Demand | +1.5 | +1.6 | +1.5 | +0.5 | -0.6 | +0.2 |

(Source) SMAM, based on the Cabinet Office data

The biggest factor of this sharp decline was the private consumption which declined by 18.7% annualised q-o-q. The attribution rate of this decline to the real GDP growth (hereafter “attribution rate”) was negative 12.4% points. This time, the private consumption seemed to have declined substantially as its negative attribution to the real GDP growth was much larger than that of Apr.-Jun. 1997 (former method : negative 10.6% points, current method: negative 7.8% points). Both of private capex and private housing contributed negatively this time. On the other hand, inventories contributed positively by substantial 3.9% points. Probably this was due to the increase in the inventory of finished goods which was also observed in the statistics of industrial production.

As to the net export, its attribution rate was +4.4% points. If you break it down into export and import, you will find that export attributed by negative 0.3% points and import attributed by positive 4.7% points. This means that export and import declined together. (The decline of import attributes positively to the GDP as import is a negative factor to the GDP). The net export compensated the substantially negative attribution of the domestic demand, this time.

Future Outlook & Focus

As the weak economic activities in Apr.-Jun. quarter was expected, my focus has been on Jul.-Sep. quarter activities, especially on the personal expenditure. I look forward to the increase of personal expenditure in summer thanks to the summer bonus hike. However, the environment around consumer expenditure is not that favourable as the real income declined 2.2% y-o-y, first time since Oct.-Dec. quarter in 1997. In order to maintain favourable consumer sentiment and to urge consumer expenditure whilst the real wage is declining, I think that the government should stimulate the economy by implementing an additional monetary easing as well as fiscal expenditures.

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/indexes 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 Regional Finance Bureau (KINSYO) No.399

Member of Japan Investment Advisers Association and the Investment Trusts Association, Japan

© Sumitomo Mitsui Asset Management Company, Limited



Sumitomo Mitsui Asset Management

SMAM