

“Street Business Sentiment” Ahead of Consumption Tax Hike, Current Conditions DI Marked Record High

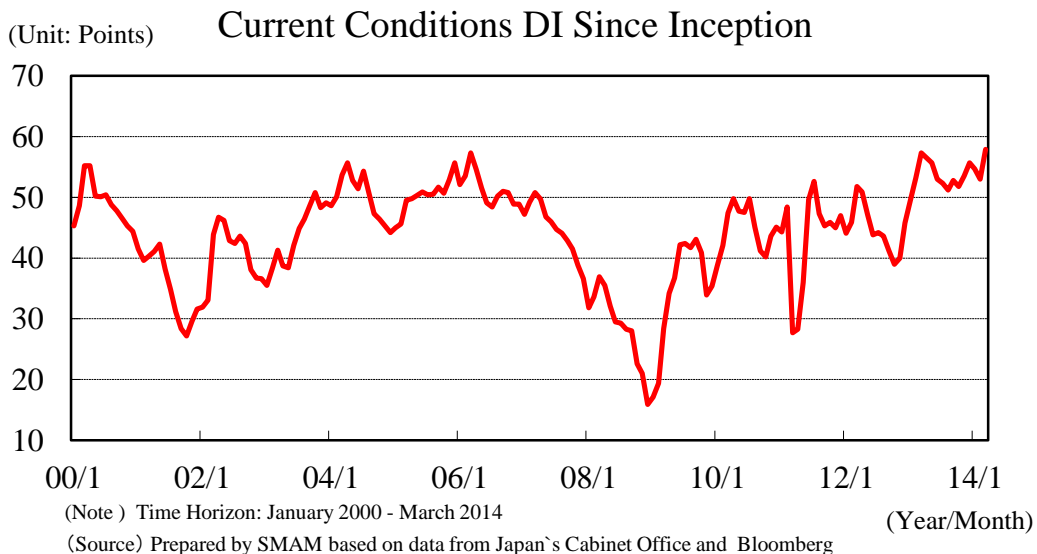
1. What is “Street Business Sentiment”?

It can be captured by “Economy Watchers Survey” conducted monthly by Japan’s Cabinet Office. This survey is also called “Street Business Sentiment Survey” covering approximately 2,000 workers called “Watchers” engaged in industries sensitive to the economic activities such as taxi driver, store manager of convenience store, restaurant operator etc. The neutral level of this index to determine whether the economic sentiment is good or bad is 50 points.

2. Latest Trend

According to the March “Economy Watchers Survey” (covered period from 25 March to 31 March), current conditions DI rose 4.9 points m-o-m to 57.9 points. Marked the record high since this survey started in January 2000. Although historically March figures tend to swing upward, the economic activities ahead of consumption tax hike seemed to be quite brisk.

Followings are the voices heard on the street, quote “Furniture, home appliances, carpets sold extremely well. Cosmetics, expensive clothes/sundries, work of art, jewelry, watches, eyeglasses were sold well, too. (according to one surveyed department store in Kyushu region)”, “Ahead of the consumption tax hike, volume of movement of goods increased month by month. (according to one surveyed transportation company in Tokai region)”, “Both number of customers visited and volume of sales have increased. Refrigerators, washing machines, air conditioners etc. sold well (according to one surveyed big-box electronics retailers in South Kanto region)”, unquote.



3. Future Outlook

“The future conditions DI”, which captures 2 to 3 months’ future economic sentiment, worsened dramatically by 5.3 points m-o-m to 34.7 points. The Japan’s Cabinet Office announced its base case analysis of the business activity as i) moderate recovery of economy, ii) rise of rush demand ahead of consumer tax hike and iii) possible impact of reaction caused by rush demand etc.

“The future conditions DI” is at its lowest level since the Great East Japan Earthquake struck. However, the dramatic fall can be explained as a reflection of a stronger-than-expected appetite of consumer spending in March. With this, we start to come across certain opinion saying that the impact of consumer tax hike would not be serious as was thought to be. For example, in the “ housing sector ”, the impact is expected to be much less as the amount of tax exemption of housing loan has been increased. Also, we have heard a voice saying that rush purchase of daily necessities were “ not that much, so the impact of the tax hike should be limited to a couple of months which is different from the case in the year 1997. (according to one surveyed supermarket in North Kanto region) “

Nevertheless, it is likely that the domestic consumption of April to May be stalled due to the reaction of rush demand ahead of consumption tax hike as well as an unfavorable order of days to take a longer holiday during Golden Week period this year. On the other hand, towards this summer, along with rise of wages and bonuses etc., people may experience a good cycle of receiving higher wages supported by the recovery of economy. We hope that the impact of the consumption tax hike should be short-lived and “ Street Business Sentiment “ will improve heading towards this summer.

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