

Today's Topic **Japanese Economic Analysis (Feb 2015)**

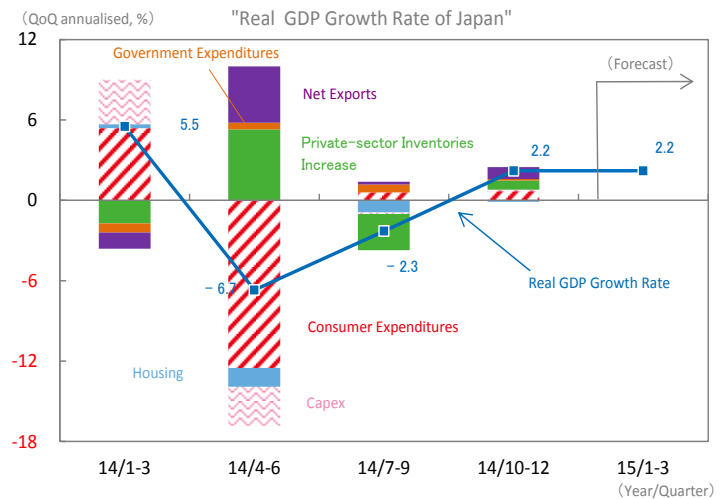
Recovery in consumption expected through real wage rise

Point 1

Positive GDP growth for the first time in three quarters after the impact of consumption tax hike

Strong export, but slower consumption

- Real GDP growth rate for Oct.-Dec. 2014 rose annualized 2.2% QoQ for the first time in three quarters as the impact of consumption tax hike faded away. Increased exports (+11.4% QoQ) contributed to the GDP growth (1.9% attribution) due to Yen depreciation.
- In contrast, personal consumption expenditures remained almost flat of only 1.1% increase from the previous quarter. Durable goods such as automobiles and furniture rose 3.0% QoQ, and turned positive for the first time in three quarters, however, the recovery was not yet strong enough after the tax hike. Non-durable goods such as daily goods also slowed growth to +0.5% QoQ.



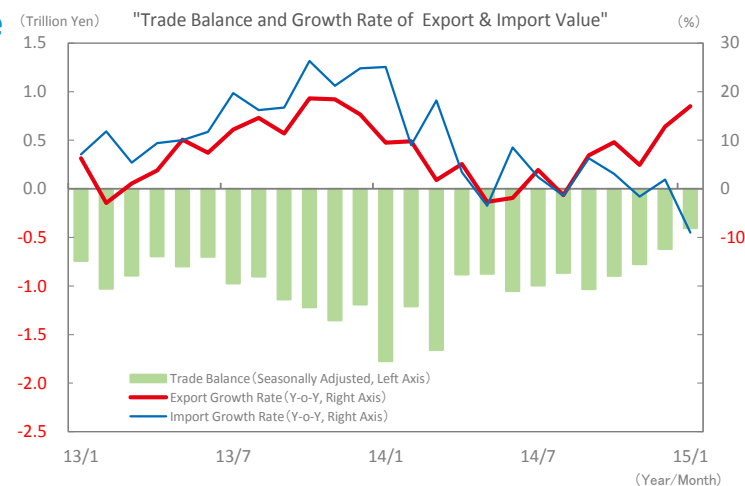
(Note) Data is from Jan.-Mar. 2014 to Jan.-Mar. 2015. Forecast is made by SMAM. Real GDP growth rate is quarter on quarter, annualised. Bar charts illustrate attribution to GDP.
 (Source) SMAM, based on Cabinet Office, Japan data.

Point 2

Low oil price Improved trade balance

Production recovered thanks to upbeat exports

- January Trade balance improved to narrow the deficit to JPY406billion (seasonally adjusted). The exports increased sharply due to Yen depreciation, while the imports decreased significantly due to fall in oil price. In the exports, automobiles & electronic parts showed a favorable growth.
- Industrial production index for January accelerated to +4.0% from +0.8% in the previous month. The production of machinery sector for general-purpose, production & business use as well as transport equipment sector has increased mainly led by robust export.



(Note) Data is from Jan. 2013 to Jan. 2015.
 (Source) SMAM, based on Bloomberg L.P. data.

Future Outlook

Real wage rise is likely to relight consumption

- Thanks to weakening Yen and falling oil price, corporate earnings for FY 2014 are expected to reach all time high. Expansion of rising wages is also expected at Spring Wage Negotiation as a result of increasing corporate earnings and tighter labour market underpinned by improving effective opening-to-application ratio.
- The decrease in real wages after excluding effect of inflation, has been weighing on the recovery in consumption. However, the real wages are expected to turn positive from April and help to boost the consumption because nominal wages are likely to be lifted and the impact of the consumption tax hike fades away.

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