

“Street Business Sentiment” showed a solid recovery sign

“Economy Watchers Survey” is a business sentiment survey conducted by Japan’s Cabinet Office every month. The so-called “Street Business Sentiment Survey” is the research by approximately 2,000 observers called “Watchers” who are engaged in economic sensitive business such as taxi drivers, convenience store managers, restaurant operators and so on. The survey examines economic sentiment at this time in comparison with that of three months ago and that of two to three months later. The neutral level of this index to judge whether the economic sentiment is favorable or not is 50 points.

Point 1

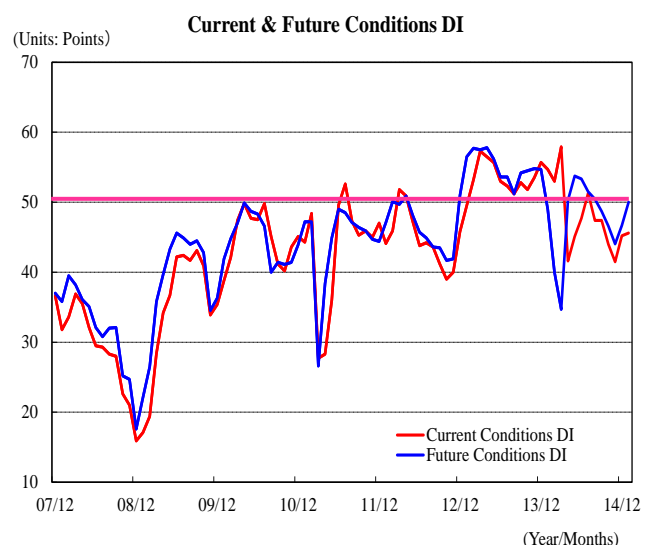
Current conditions DI improved for two consecutive months DIs of employment surpassed 50 points for the first time in three months

- According to the January “Economy Watchers Survey” (period from 25 to 31 January), the current conditions DI (Diffusion Index) improved by 0.4 points m-o-m to 45.6 points for two consecutive months. The household activity-related DI worsened due to decrease in sub category of eating-out, however, the employment DI contributed positively improved by 5.8 points m-o-m to 54.8 points surpassed 50 points for the first time in three months. The corporate activity-related DI has improved moderately.
- One of watchers quotes “New job offer this month has started to recover again after a respite last month. Particularly, the number of available jobs for full-time employee is increasing. (by a public job placement officer in Southern Kanto region)”, unquote.

Point 2

Future conditions DI surpassed 50 points for the first time in five months DIs of employment and corporate activities led recovery

- “The future conditions DI”, which indicates two to three months’ future economic sentiment improved by 3.3 points m-o-m for the first time in five months to the neutral level of 50 points. Although the household activity-related DI did not reach the neutral of 50, that of employment related and corporate related surpassed 50 points for two consecutive months and for the first time in five months, respectively.
- One of watchers quotes “Because of JPY depreciation, more manufacturers are likely to shift their production back to Japan and may expand their CAPEX here (by a metal fabrication company in Kyushu region)”. Another watcher expecting future increase in consumption quotes “Rise of base salary is expected across industries broadly this year too as the tax hike was postponed (by a supermarket store keeper in Kinki region)”.



(Note) Time Horizon: December 2007 - January 2014

(Source) Prepared by SMAM based on data from Japan’s Cabinet Office and Bloomberg

Business sentiment is expected to improve by expanding corporate earnings and heightening possibility of wage rise

■ Further improvement in business sentiment supported by strong corporate earnings

By January 6, almost 70% of the companies (public companies with fiscal year ending in March, excluding financials and electric power companies) announced the third quarter business results, many of which posted their strong performance. In FY2014 ending in coming March, further improvement of business sentiment is expected as corporate earnings are likely to renew their highest profits record achieved in FY2007, just before the global financial crises in 2008, as a result of weakening yen and increasing export thanks to the global economic recovery.

■ Expectation on recovery of consumer expenditure spurred by increase in real wages

The Real Wages Index of December 2014 declined 1.4% y-o-y, however, the rate of decline has narrowed sharply compared to the figure of - 3.8% y-o-y for May 2014, a month after the consumption tax was raised. The consumer expenditure is expected to recover by the increase in real wages as the negative impact of the tax hike will fade away after coming April and the possibility of wage rise is heightening mainly in large-scaled companies with upbeat corporate earnings.

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