



Promising outlook for Japan

- ➔ Political stability
- ➔ Abenomics
- ➔ Global recovery
- ➔ Weaker Yen
- ➔ Improving outlook for capex and hiring
- ➔ Increasing pressure for wage growth

- ➔ Sep 2006-Dec 2012: 6 PMs (Abe, Fukuda, Aso, Hitoyama, Kan, Noda)
- ➔ Abe: control of both Houses
- ➔ Very high approval rating
- ➔ No meaningful elections until 2016

Abe could use this political capital to push some structural reforms, and seems likely to do so

→ Monetary easing

- 2% inflation target to be reached by early 2015
- Doubling monetary base by end 2014

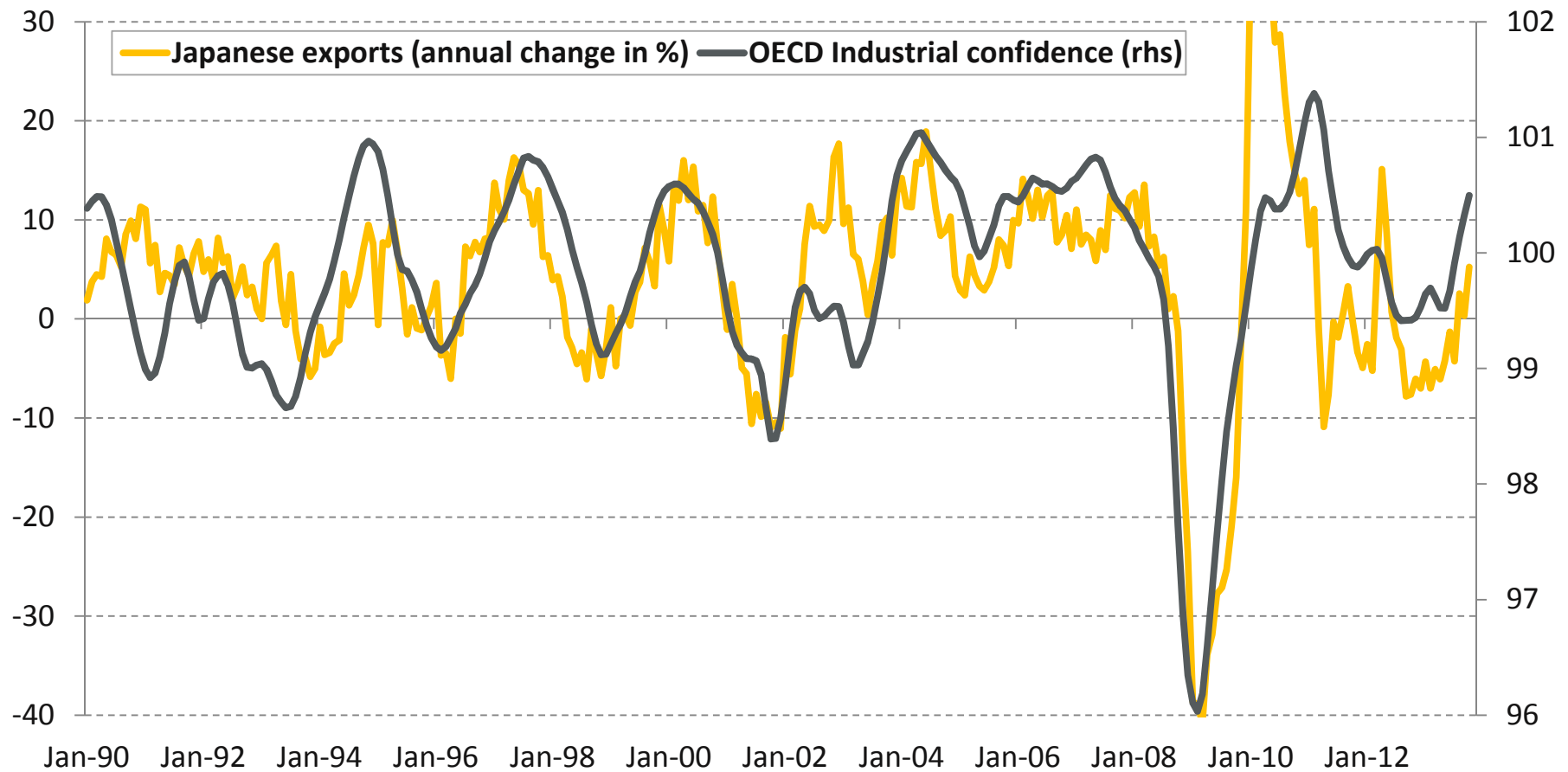
→ Fiscal stimulus

- 6trn JPY stimulus package for 2014 (1.2% of GDP)

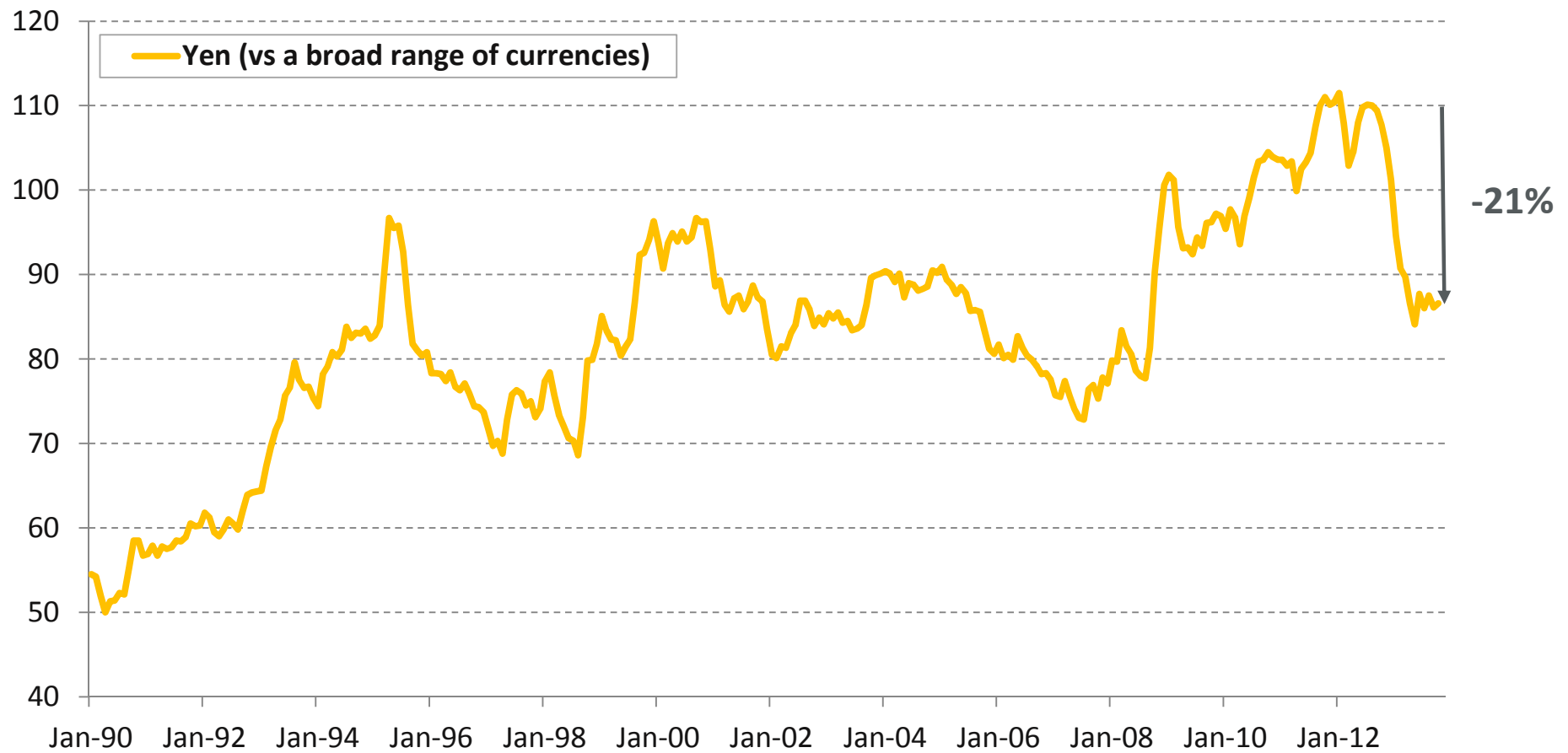
→ Growth strategies

- Corporate tax rate cut
- Employment reform
- Trade liberalisation

Japanese exports are very sensitive to global cycle

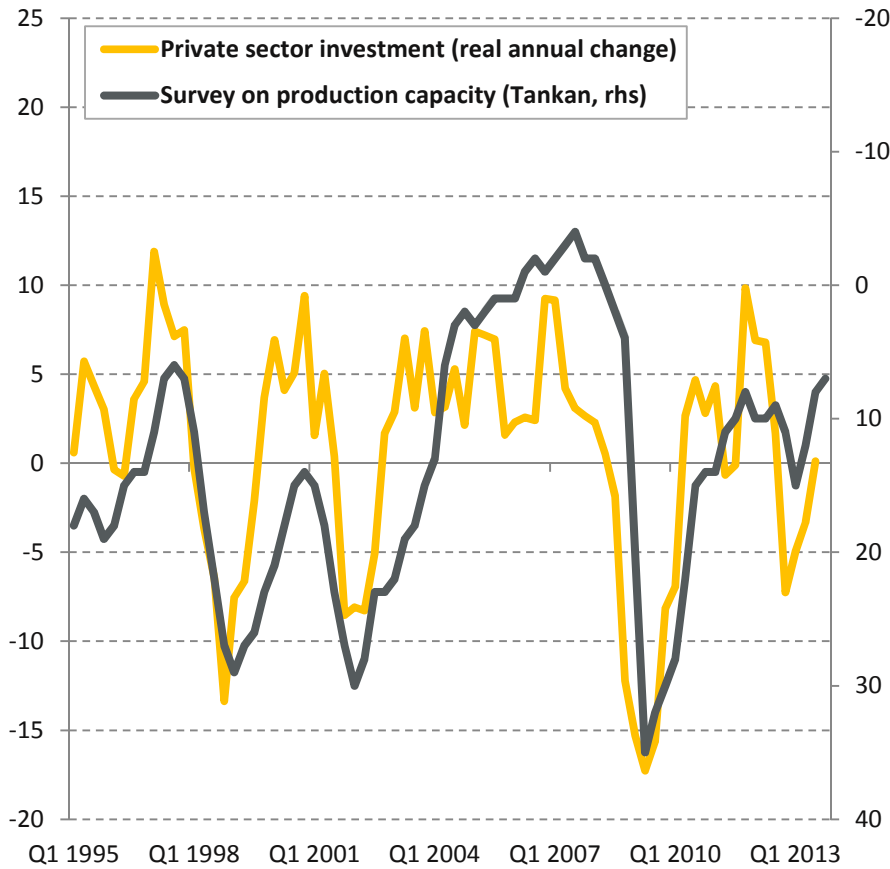


Some easing for very strong yen

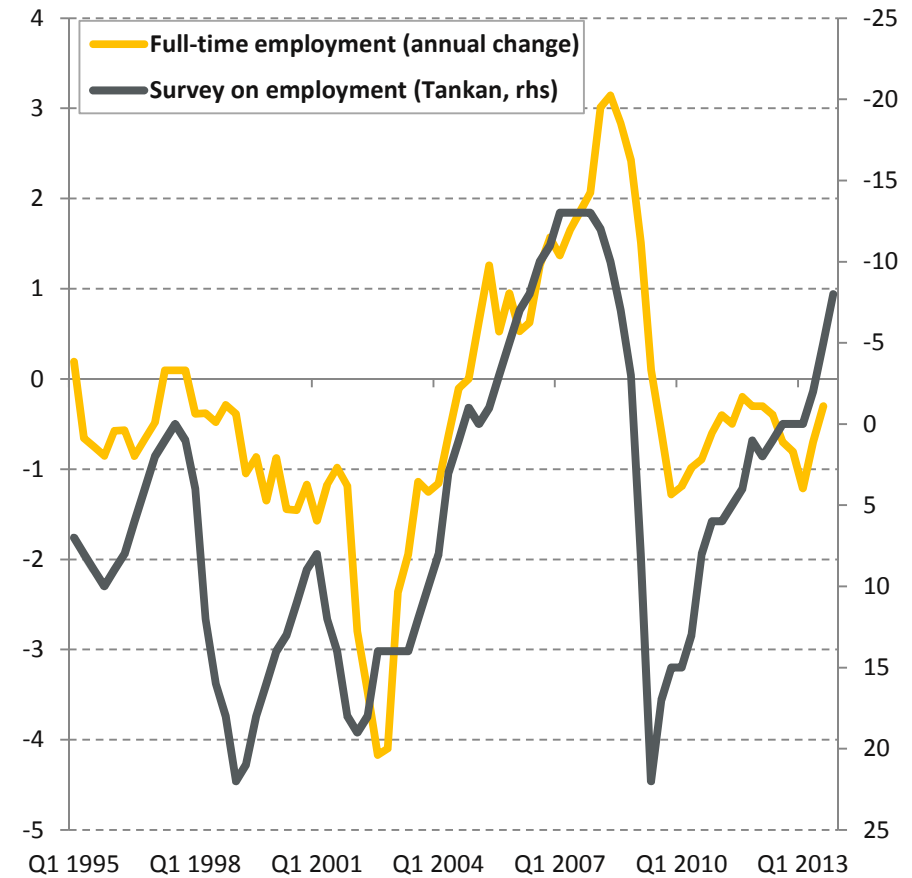


Japanese companies ready to invest and hire

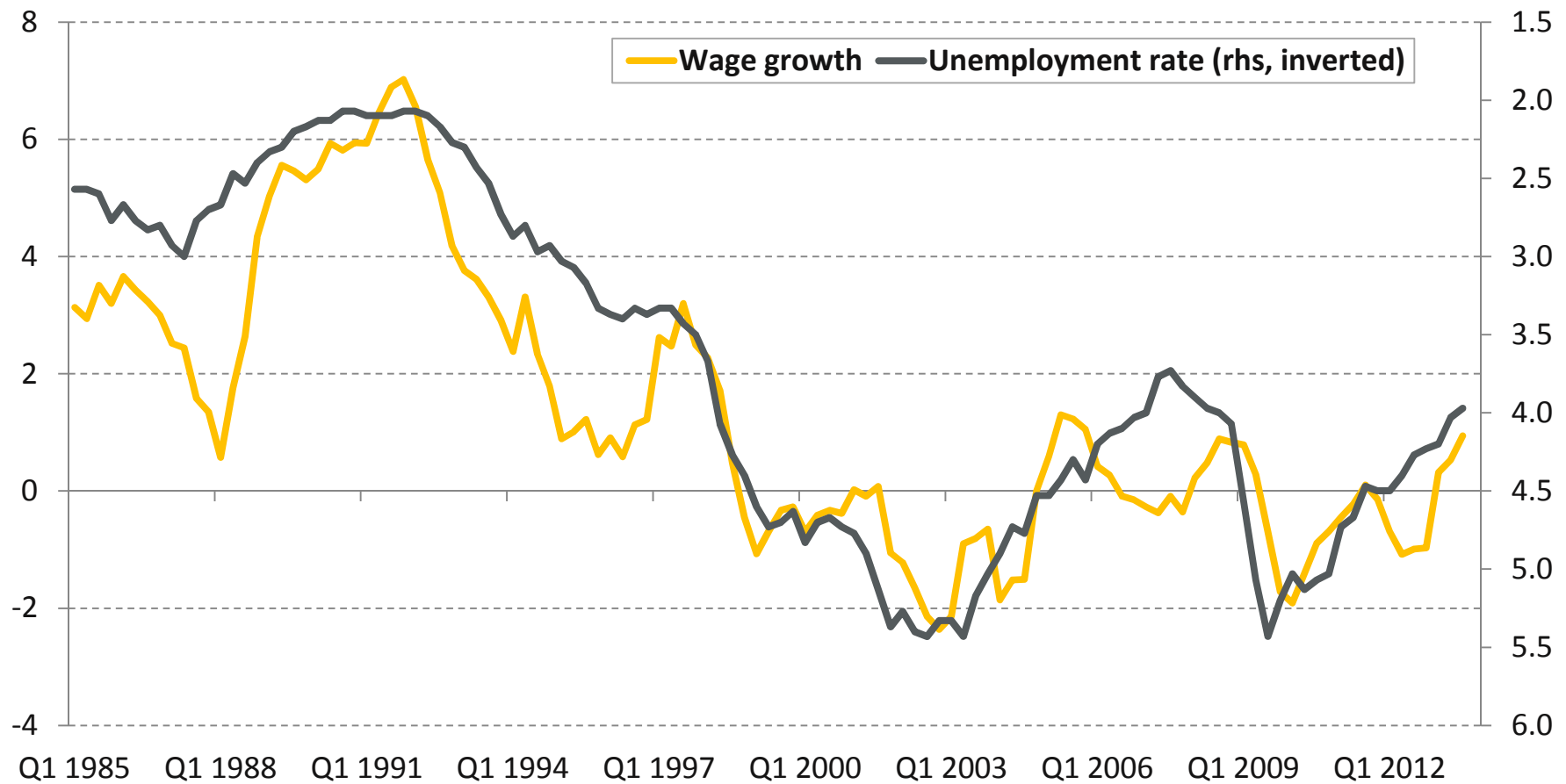
Capex



Employment



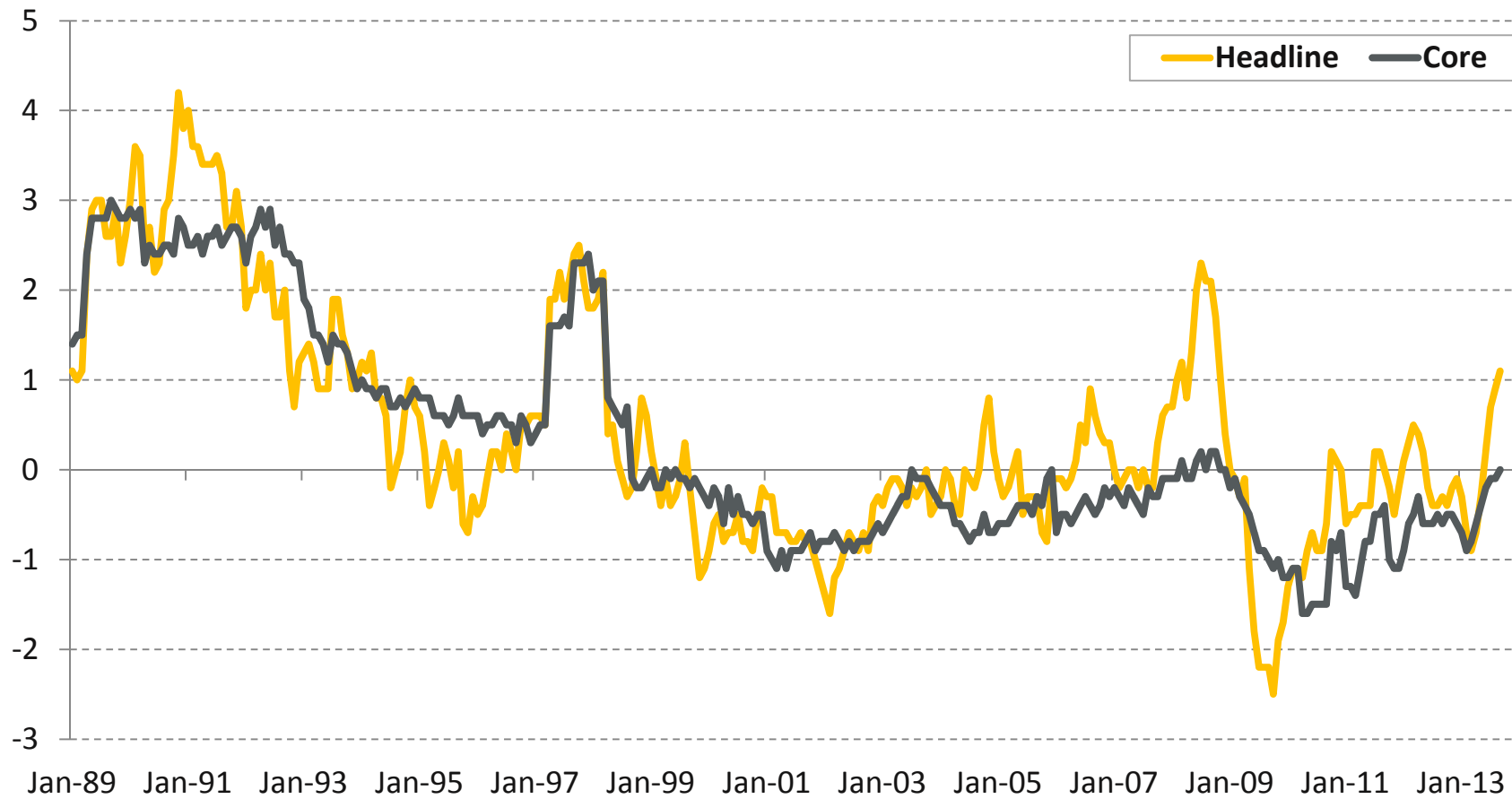
Wage growth picking up



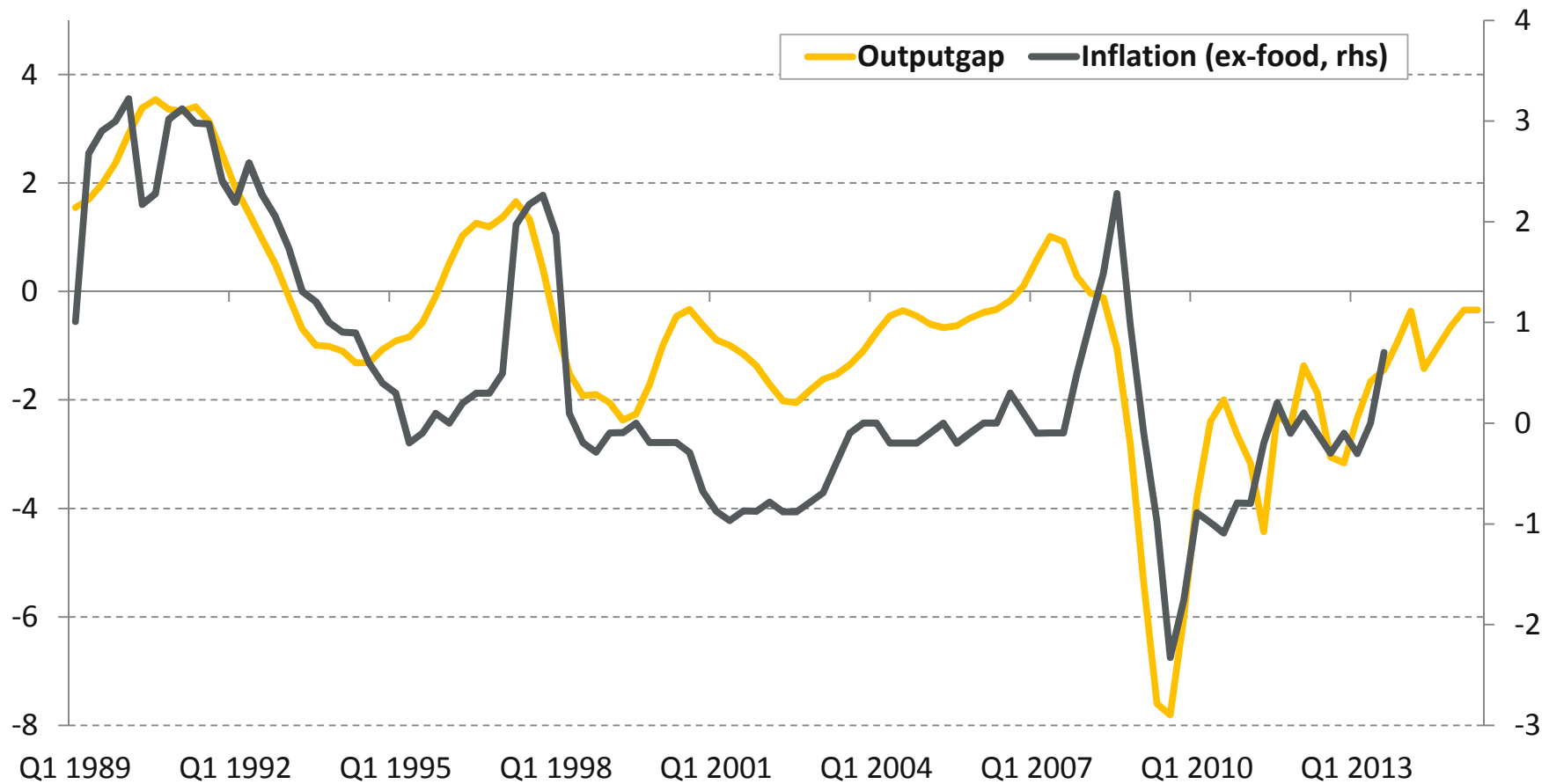
Challenges for Japan

- ➔ Exit out of deflation
- ➔ LT-outlook for public finances
- ➔ Interest rate risk
- ➔ Consumption tax hike
- ➔ Demographics

Weaker yen pushing up inflation

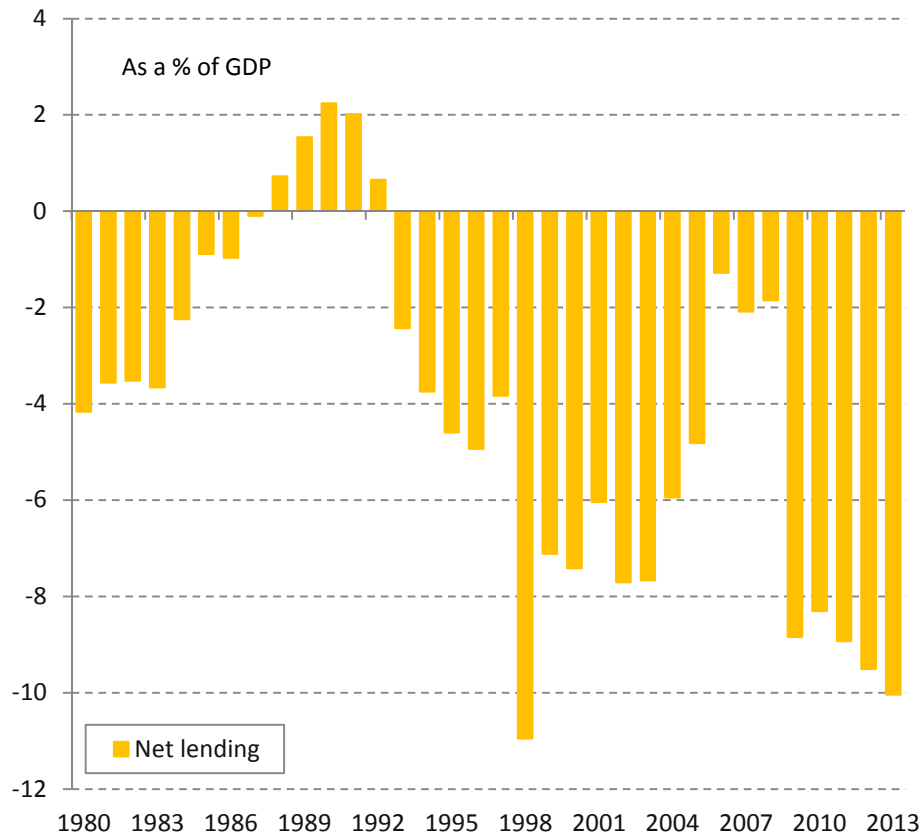


Inflation target is going to be difficult to reach

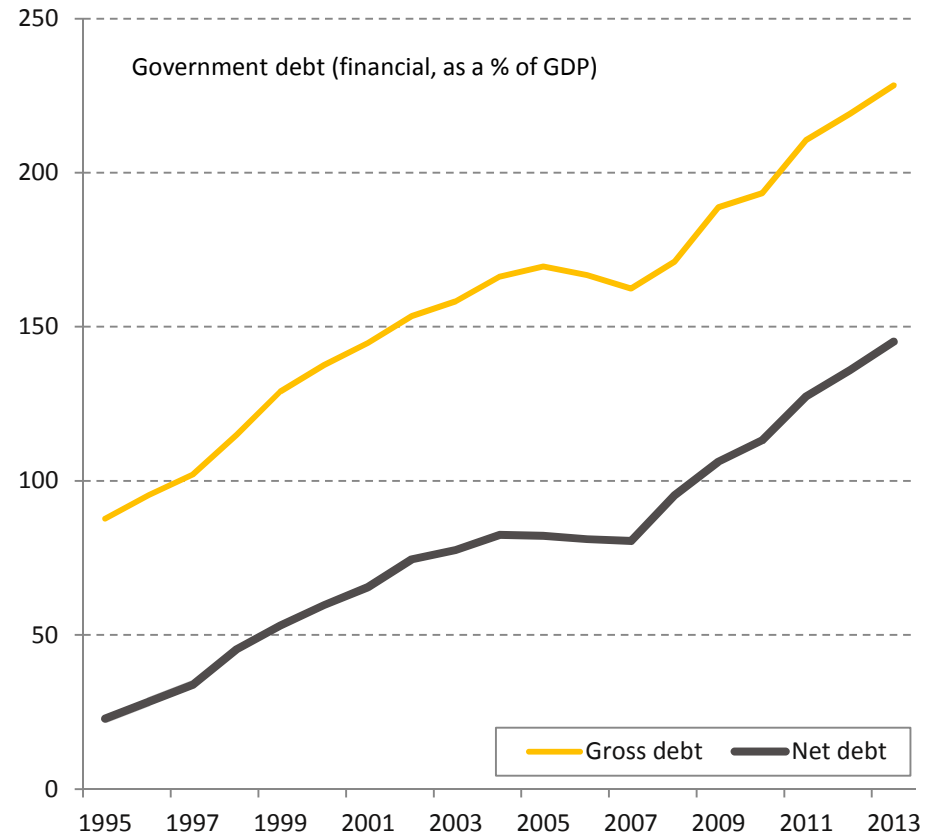


Public finances remain an issue

A huge government deficit

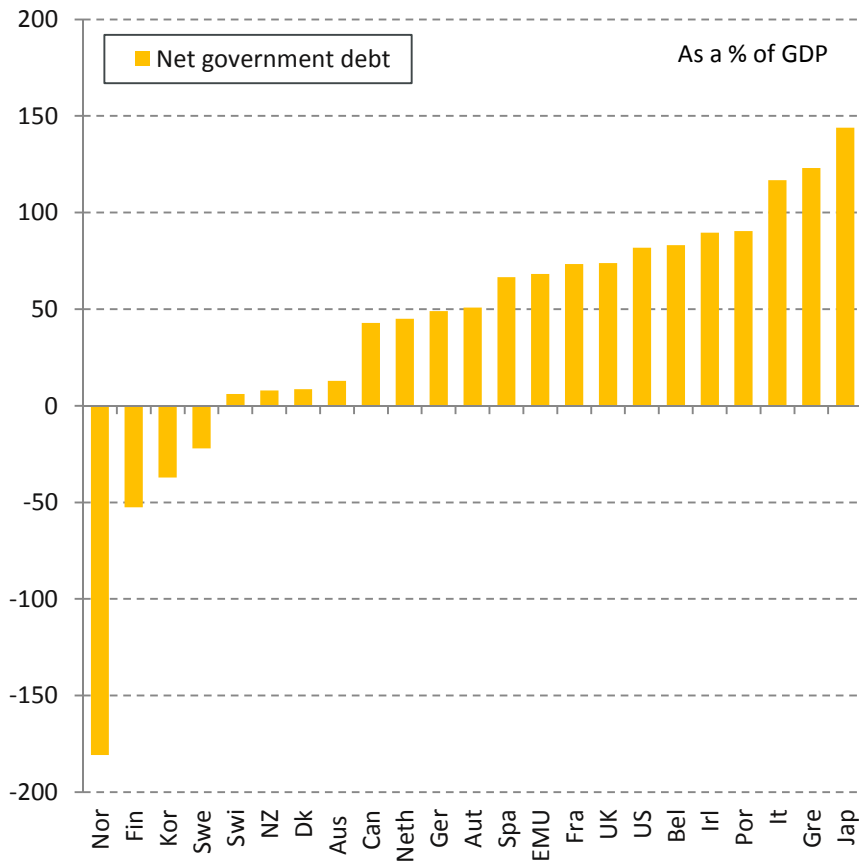


Huge government debt

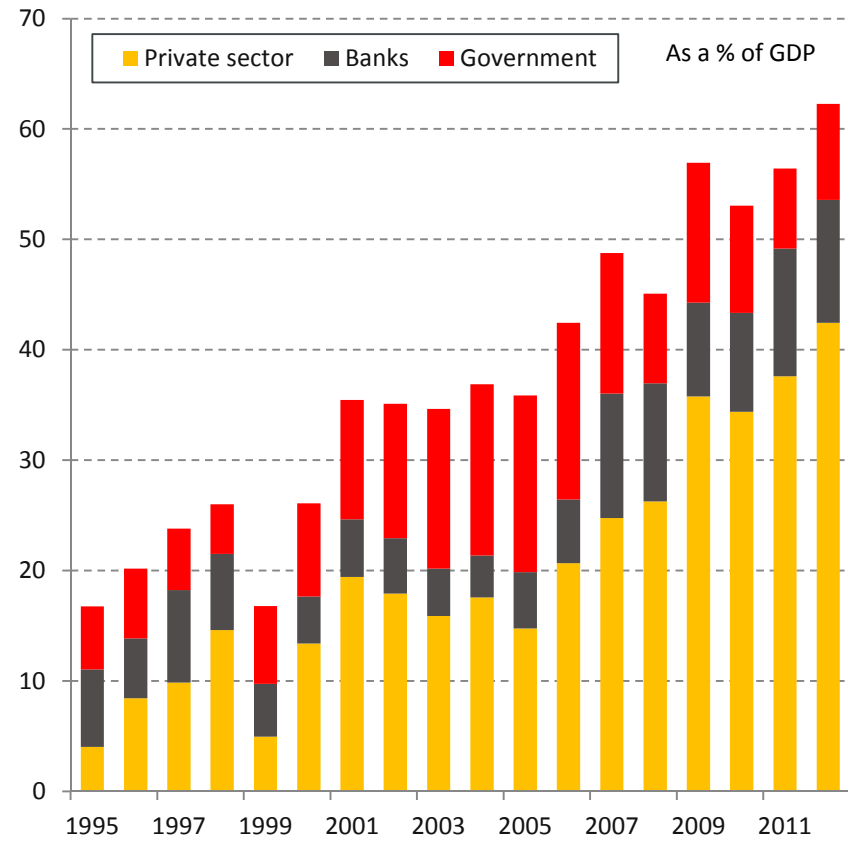


In spite of large public debt, Japan's financial position is strong

Net government debt

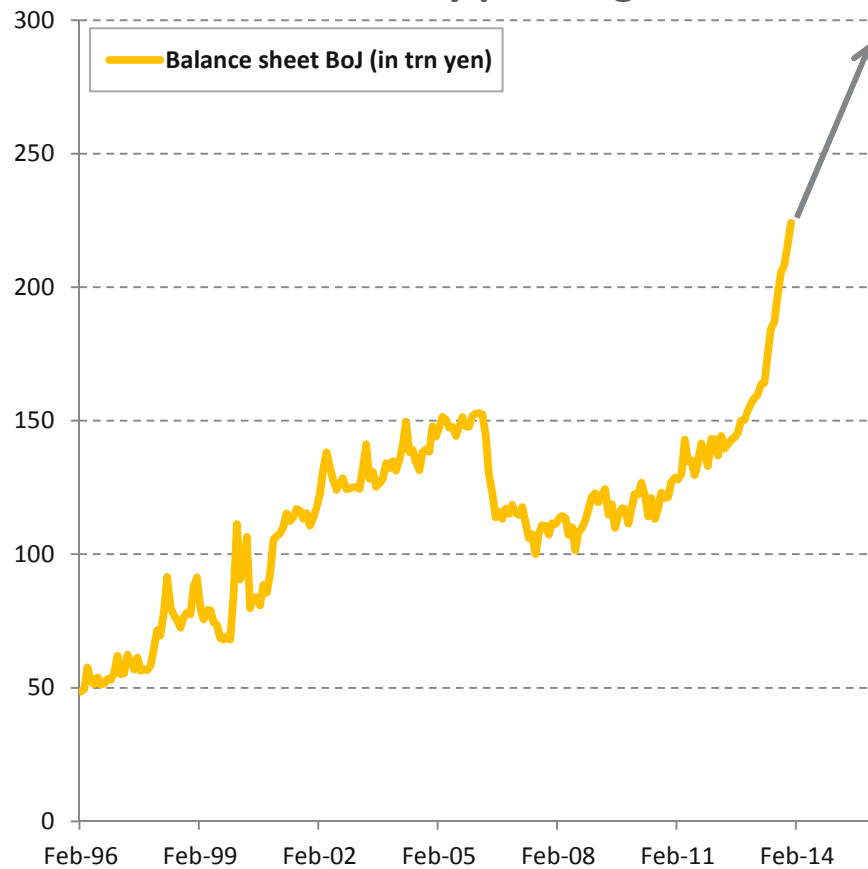


Net external assets

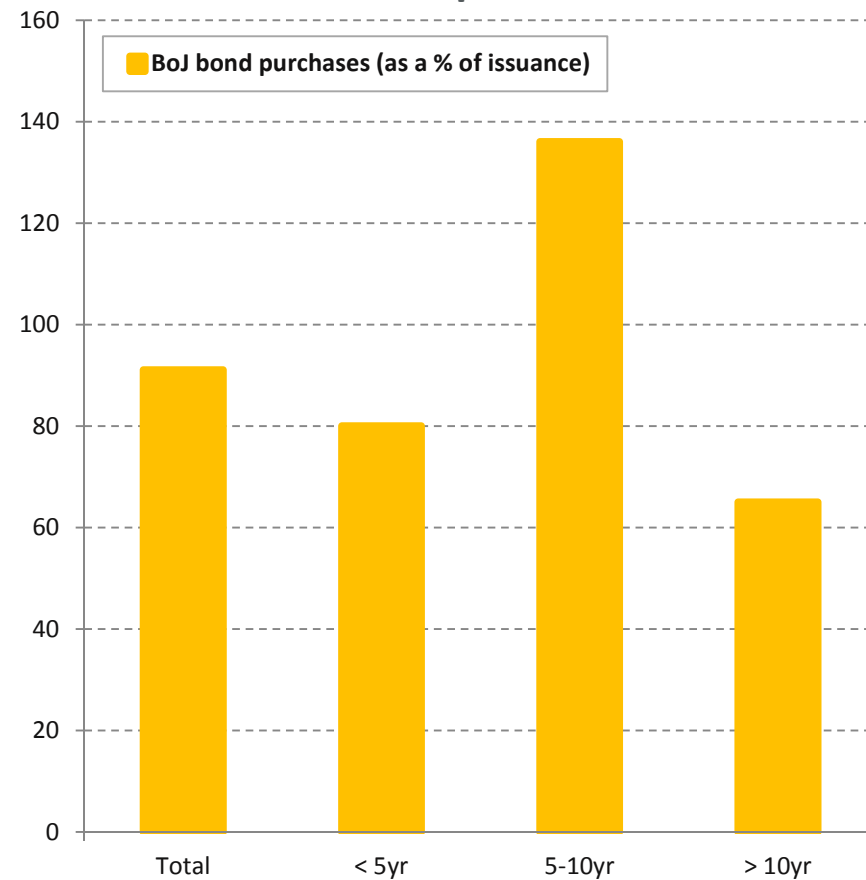


BoJ ready to buy more bonds (to keep rates under control)

Money printing

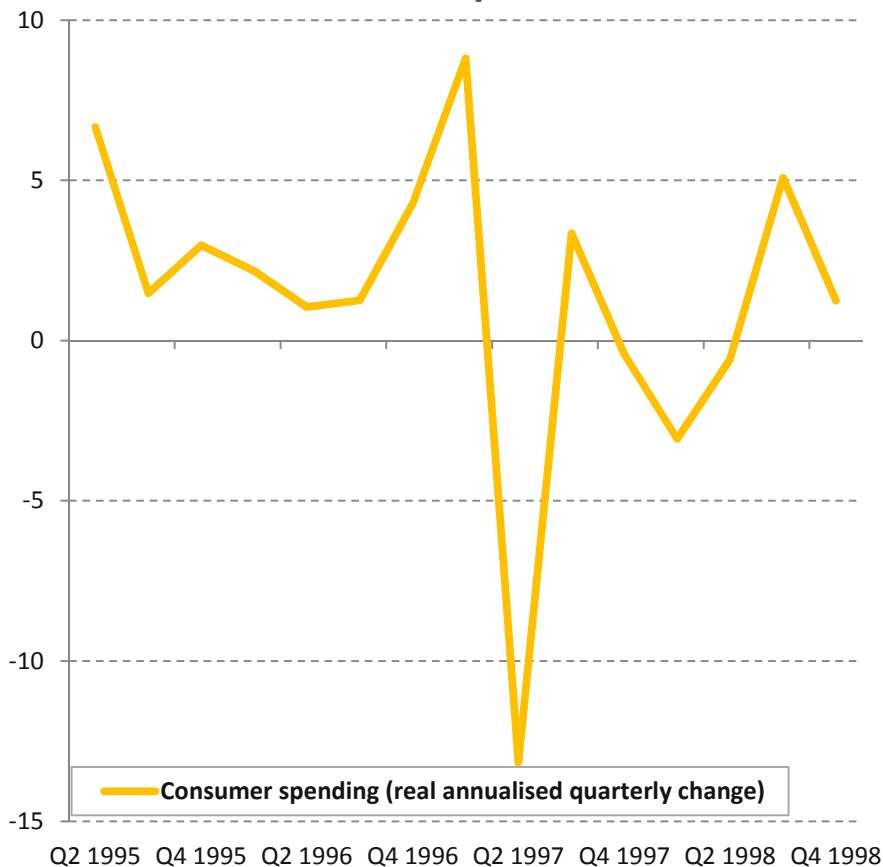


BoJ JGB purchases



2014 is not 1997

1997 consumption tax hike



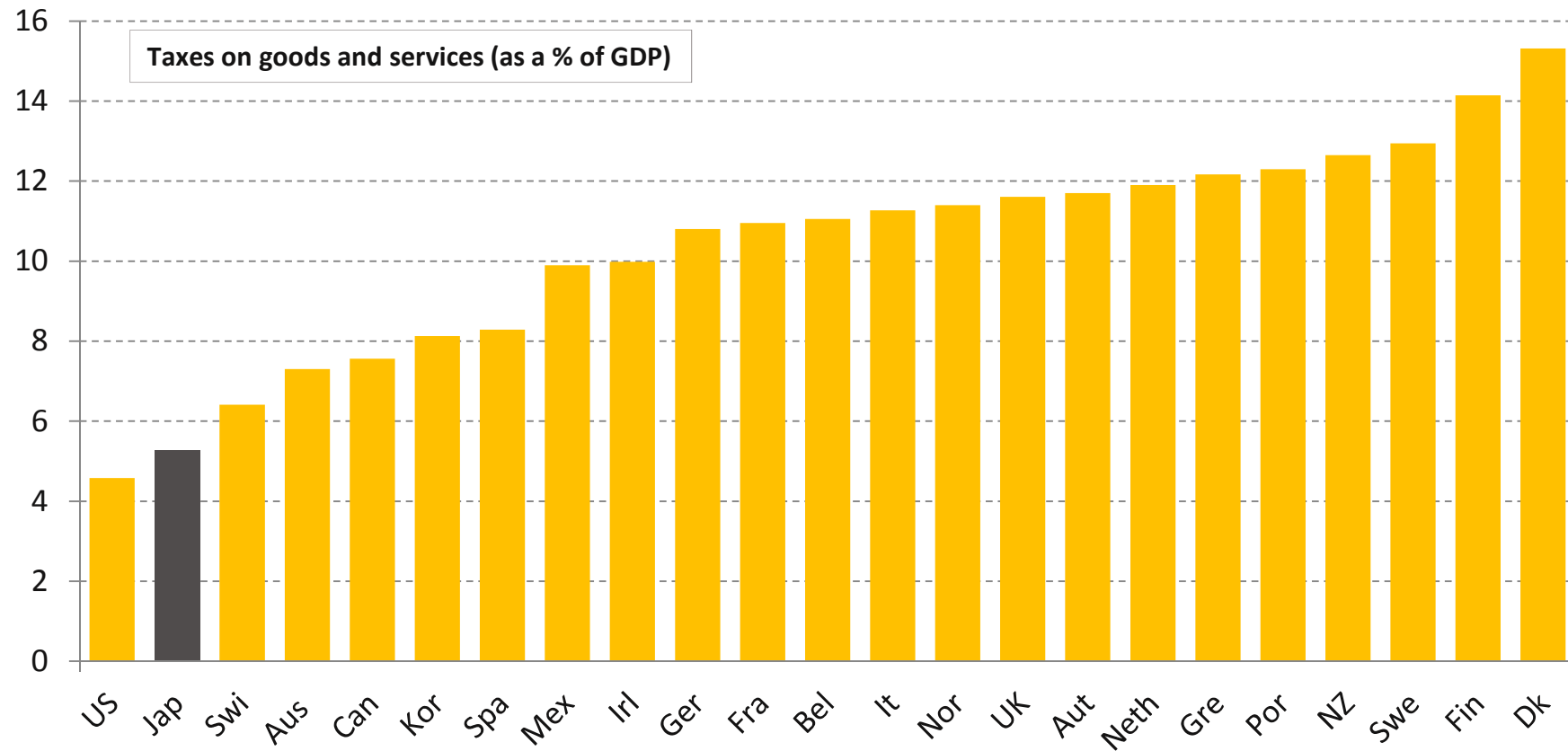
1997 consumption tax hike

- Significant hit to consumer spending
- Coinciding with severe domestic banking crisis
- East-Asia crisis

2014 ≠ 1997

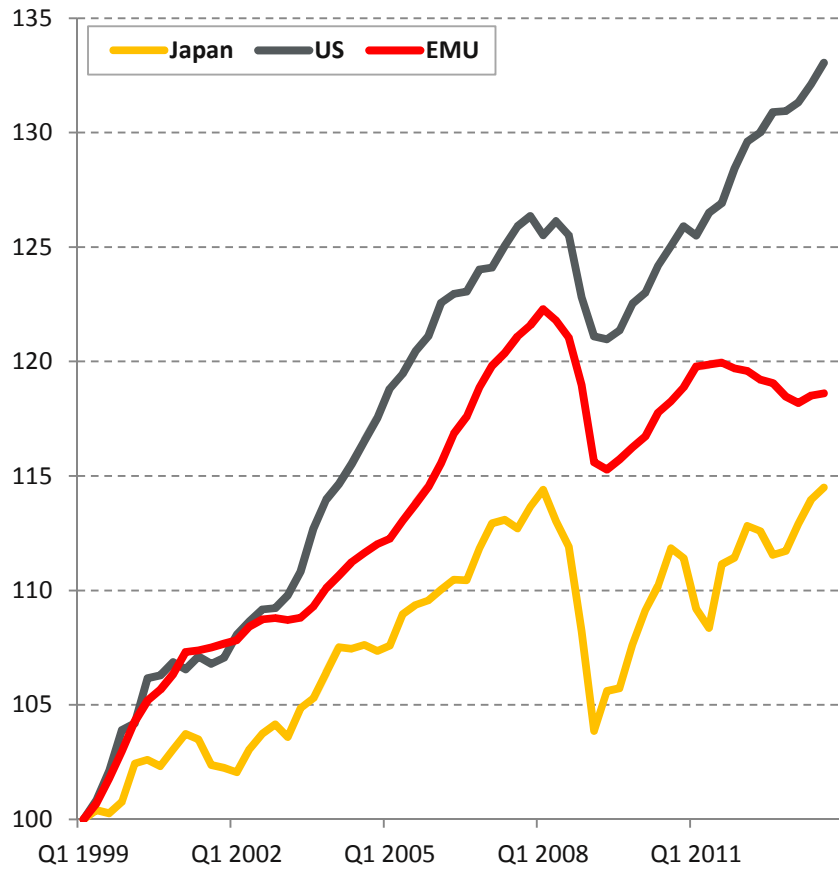
- April 2014 consumption tax hike (from 5 to 8%)
- Offsetting fiscal stimulus package of 6 tr yen
- No domestic banking or East Asia crisis this time

Very low taxes on consumption in Japan

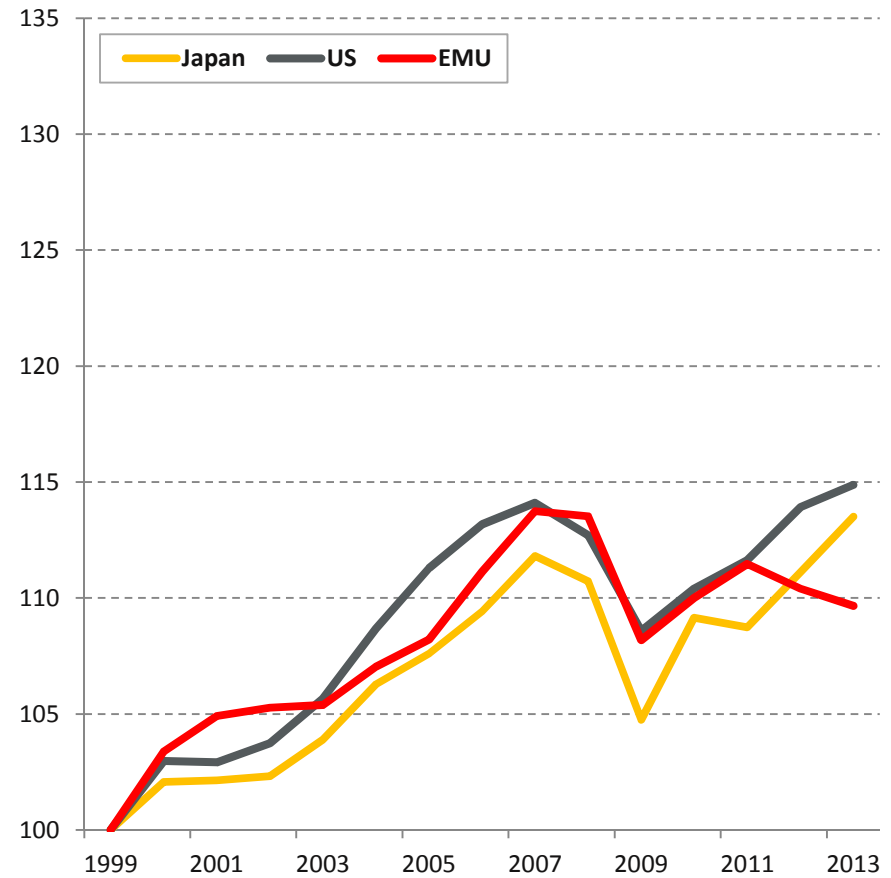


Japanese underperformance is entirely demographics

GDP



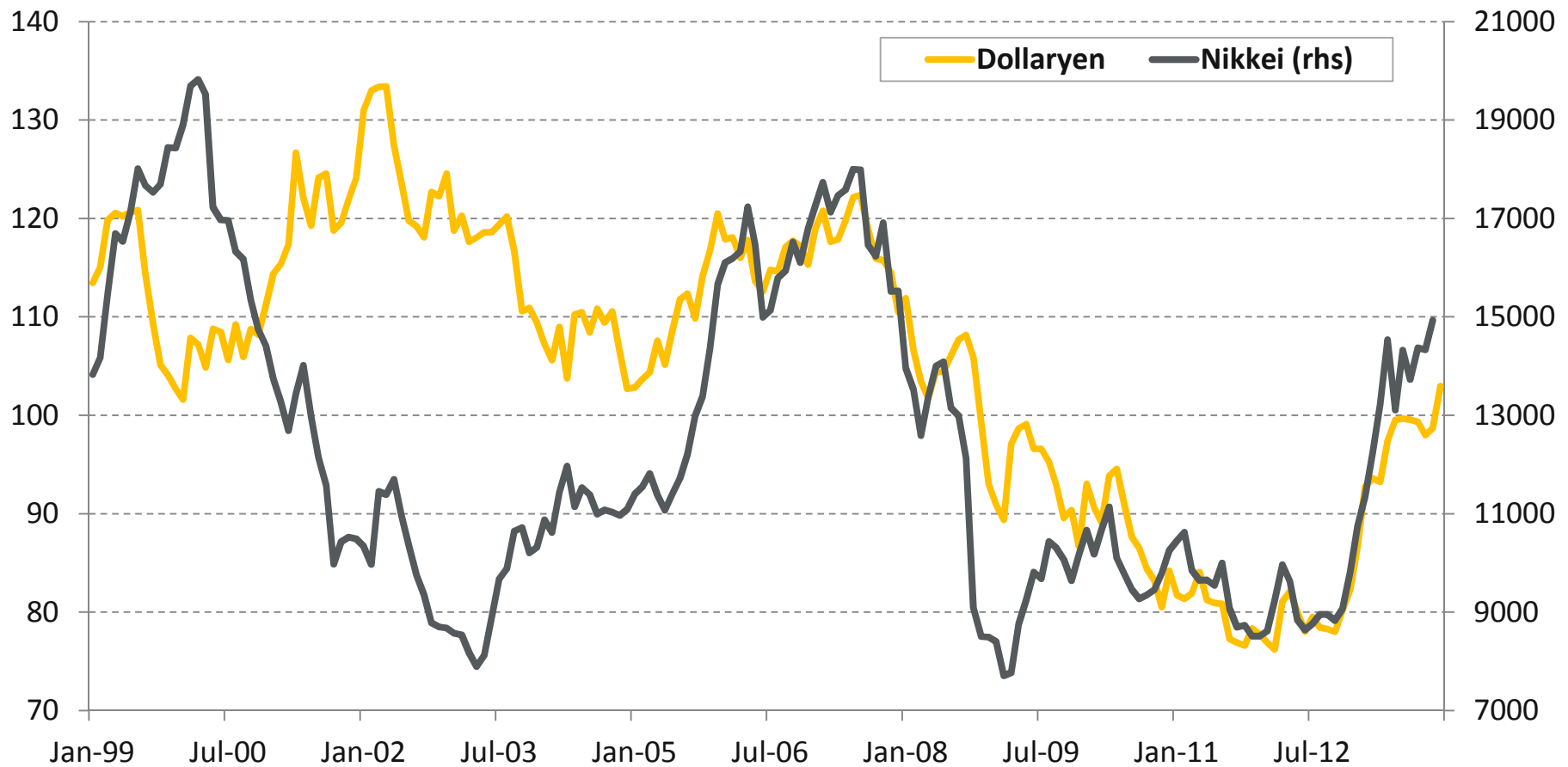
GDP per capita



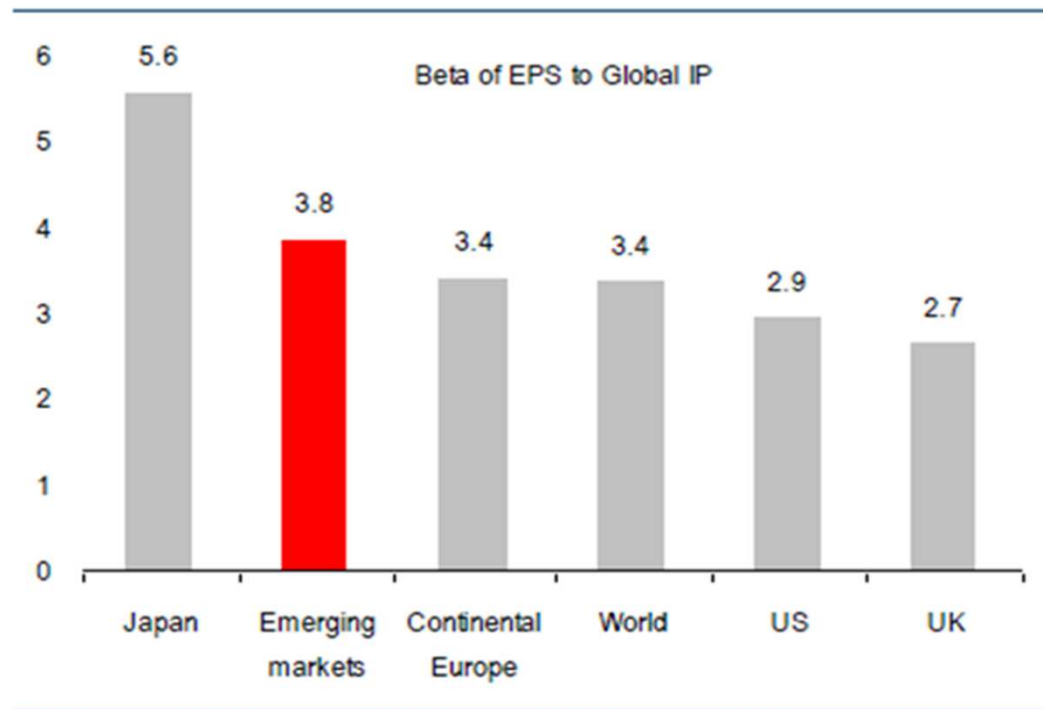
Promising outlook for Japan

- ➔ Positive cyclical outlook: global recovery + weaker yen should really help Japanese companies
- ➔ Capex and wage growth are key for domestic recovery: positive indications for both
- ➔ BoJ likely to push for further weakening of the yen
- ➔ Fiscal policy:
 - ➔ Government seems to be looking for growth first, fiscal cleanup second
 - ➔ Looking for a shift from corporate taxes to consumption tax
- ➔ Dealing with the structural issues will be difficult: almost impossible to compensate fully for demographic issue

Japanese equity has been moving in tandem with yen for 10 years



Japanese equity is very much geared to global recovery



Source: Thomson Reuters, Credit Suisse research