

“FY2014 Corporate Earnings - Aftermath of the Consumption Tax Hike”

Apr.-Jun. Business Progress Slower than the Previous Year

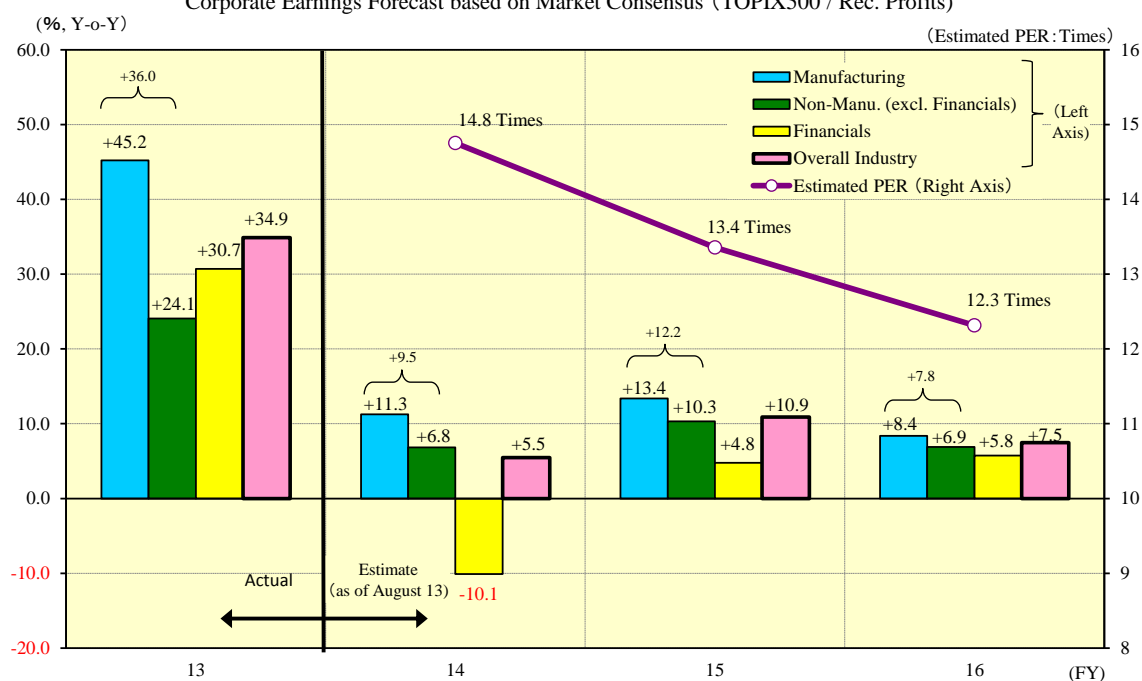
The announcements by Japanese corporations of the full fiscal year business results as of 2014 March end are almost over. According to the latest announcements of Apr.-Jun. results made by the companies comprising TOPIX 500 index (hereafter “major companies”), the recurring profit declined 4.6% y-o-y. It reached 24.2% of the estimated full fiscal year’s profit, slightly less than 26.8% reached in the same quarter last year, due to the negative impact of the consumption tax hike. Taking a close look into industry sectors, you will find sectors such as machinery, electric appliances and transportation equipments contributed positively, whereas sectors such as banks, securities & commodities futures and information & communication contributed negatively. It is noted that overall machinery sectors performed well thanks to a positive impact of the JPY depreciation, overseas orders and the domestic infrastructure projects. On the other hand, banks and securities & commodities futures sectors performed poorly as the revenue from the trading fees and the brokerage commission decreased due to inactive financial market transactions.

FY2014 Corporate Earnings - Slightly Revised Down but Outlook Unchanged

I touched upon the FY2014 earnings forecast of the Japanese corporations (market consensus) in the report “SMAM Japan Insights (No.003)” back in May 9, 2014. According to the report, the recurring profit of the major companies (all industries) was +7.9% y-o-y but it was slightly revised down to +5.5% on August 13. This was mainly due to the downward revisions in non-manufacturing sectors such as financials (-4.8%⇒-10.1%), non-manufacturing excluding financials (+10.0%⇒+6.8%), whereas manufacturing sectors were almost unchanged (+11.8%⇒+11.3). Sectors classified in non-manufacturing as a whole, except few sectors such as trading houses, were revised down due to a negative impact of the tax hike to the domestic consumption and the rising cost, caused by the JPY depreciation and the surge in energy prices. Although I have a little concern if the Government could implement proactive policies to sustain the recovery, I still maintain my view that the Japanese corporate earnings will gradually improve from Jul.-Sep. quarter, unless a serious external shock pulls down the whole economy.



Corporate Earnings Forecast based on Market Consensus (TOPIX500 / Rec. Profits)



(Notes) Data horizon is from FY2013 to FY2016. Beyond FY2014 are estimated figures. For FY2014, the earnings of the corporations whose fiscal year end falls into the period from April 2014 to June 2014 are actual.

(Source) SMAM, based on Bloomberg data

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