

November 15, 2013

Press Release

Nikko Asset Management Co., Ltd.

Japan's GDP understated as a result of declining inventories

Japan's GDP has been greatly understated, according to John F. Vail, Chief Global Strategist at Nikko Asset Management, because companies and distributors are not replenishing their inventories.

"Importantly, inventories declined less than the previous quarter, so under GDP accounting, this added to GDP growth," said Mr Vail. "But the fact that they declined at all remains a mystery to us, especially as companies stock up for the pre-VAT-hike demand. Notably, inventories have now decreased much more during this string of declines than after the Lehman shock."

Officially, Japan's GDP grew 1.9% quarter-on-quarter seasonally adjusted annual rate (SAAR) versus the 1.8% consensus estimate. But Nikko AM believes that GDP growth would have equalled 3.6% quarter-on-quarter SAAR, if inventories had not decreased. Thus, Nikko AM's house view is that either revisions (which are commonly large for inventories) will hike this year's 3rd quarter GDP, or that growth figures, being understated, will be even stronger in the 4th quarter.

In other data, personal consumption was relatively flat quarter-on-quarter, while capex proved much weaker than expected, barely increasing quarter-on-quarter. Government consumption rose mildly, but government capex surged much more than expected, driven by accelerated spending in Tohoku. Net exports subtracted from growth even more than expected, at a 1.8% subtraction.

"Assuming no revision to this year's 3rd quarter data, our estimates for Japan's GDP indicate that if inventories increase strongly in the 4th quarter, then GDP growth will be 5.5% quarter-on-quarter SAAR, leading to a 2.0% year-on-year growth rate for calendar year 2013," said Mr Vail. "So, in sum, we believe Japan's economic growth has been greatly understated and that surprisingly good GDP data lies ahead. GDP in the 2nd quarter 2014, post-VAT-hike, should decline. But we believe that it will be mild, at around -2% quarter-on-quarter SAAR supported by inventory growth, and will return to mild positive growth in the 3rd quarter 2014."

-ENDS-

This material has been prepared solely for the purposes of Nikko AM to communicate about the market environment, etc. It is not solicitation for a specific fund. Moreover, the information in this material will not effect Nikko AM's fund investment in any way. Mentions of individual stocks in these materials neither promise that the stocks will be incorporated nor constitute a recommendation to buy or sell. The information in these documents have been prepared from what is considered to be reliable information but the accuracy and integrity of the information is not guaranteed by the Company. Figures, charts, and other data in these materials are current as of the date of publication unless stated otherwise. In addition, opinions expressed in these materials are as of the date of publication unless stated otherwise. * The graphs, figures, etc., contained in these materials contain either past or back-dated data, and make no promise of future investment returns, etc. These documents make no guarantee whatsoever of future changes to the market environment, etc. Opinions expressed in these documents may contain opinions that are not Nikko AM's but the personal opinion of the author, and may be changed without notice. Forwarding or quoting from these materials without the advance permission of Nikko AM's corporate communications representative is strictly prohibited. Please contact Nikko AM's Corporate Communications at +81-(0)3-6447-6775 if you have any questions.

About Nikko Asset Management

Established in 1959, the Nikko Asset Management group (Nikko AM) has grown to become the largest regional asset management company headquartered in Asia, with total AUM of US\$156 billion* and one of the largest distributor networks across the Asia-Pacific region, comprising over 300 banks, brokers, IFAs and life insurance companies.

Nikko AM manages a wide range of Asian equity and Asian fixed income strategies for retail and institutional investors around the world. The company has been recognised by industry peers for outstanding performance, product innovation and market leadership across the Asia-Pacific region, winning a number of prestigious awards, including “Asia-Based Asset Manager of the Year” in 2012 and “Best Japan Onshore Fund Manager” in 2013, 2012 and 2011, both from *AsianInvestor*.

Nikko AM also offers specialist third-party expertise – currently from over 40 fund managers – through the World Series Fund Platform®, operating a “best-in-class” approach across a broad range of asset classes.

Nikko AM's senior management team has significant experience across Asian as well as global markets. The team combines local knowledge with internationally recognised standards of investment practice, transparency and corporate governance to achieve growth across the business. The company adopts a “multi local” approach – giving local management teams a high degree of autonomy to address local market conditions and client servicing needs.

Nikko AM's head office is in Tokyo and the firm has an extensive footprint across the Asia-Pacific region that includes offices in Singapore, Hong Kong, Sydney, Melbourne, Brisbane and Auckland. Offices in New York and London with full service teams provide support to investors in the US, Europe and the Middle East.

Nikko AM's strong Asian presence is cemented with stakes in several joint venture companies. Rongtong Fund Management is one of the largest Sino-foreign joint venture fund management firms in China, while Hwang Investment Management Berhad and Asian Islamic Investment Management Sdn. Bhd. are leading investment management firms in Malaysia. Recent additions Ambit Investment Advisory Private Limited in Mumbai and Ambit Mauritius Investment Management Private Limited provide Indian equity expertise to Nikko AM's global clients.

Nikko AM is an independently managed asset management company, majority owned by Sumitomo Mitsui Trust Holdings and with DBS Bank as the second largest shareholder.



For more information, please visit www.nikkoam.com/english

* Consolidated assets under management and advice of Nikko AM and its subsidiaries as at 30 June 2013. "Largest" based on AUM sourced from Asia, including Australia and New Zealand, using third party published AUM figures as of June 30, 2013. "Regional" excludes firms with more than 75% of AUM sourced from a single country.