



PERSPECTIVES

VALUE + ALPHA GROUP

May 2019

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What kind of era was Heisei?

Crown Prince Naruhito formally acceded to the Chrysanthemum Throne in early May and the event was marked by a change of era, from “Heisei” to “Reiwa”. What kind of era was Heisei? And what kind of era will Reiwa be? Many people ruminate on the past and speculate on the future at the turn of eras, ranging from small memories to bigger chapters in history. In this report, we would like look back on the Heisei era using the tertiary industry activity index.

Chart1 : Indices of Tertiary Industry Activity (Dec. 1988- Feb. 2018. 2010 Average=100)

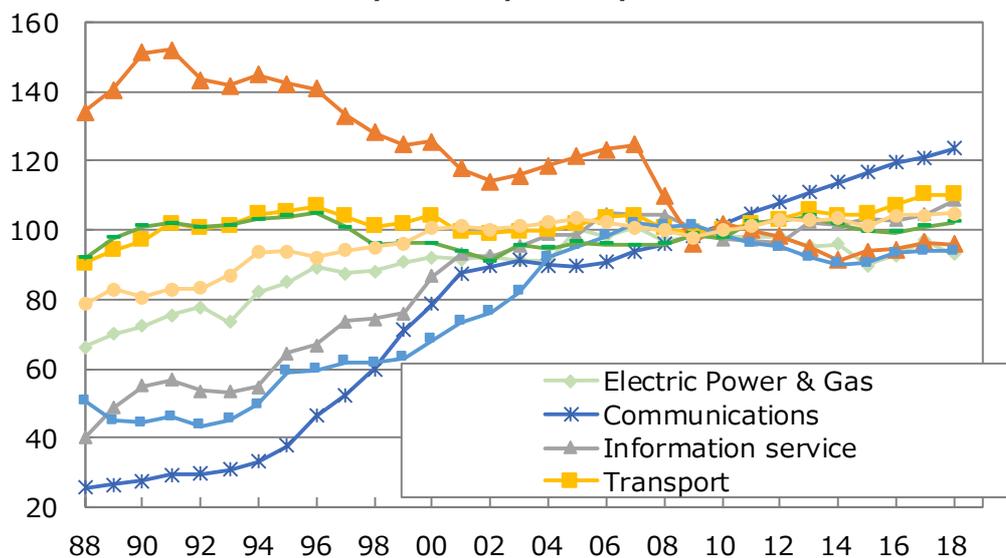
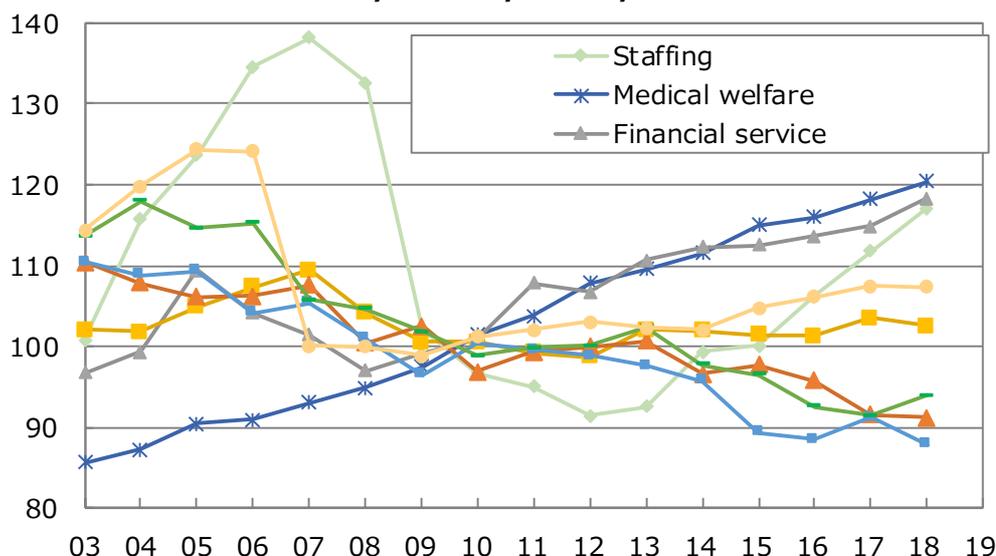


Chart2 : Indices of Tertiary Industry Activity (Dec. 2003- Feb. 2018. 2010 Average=100)



Source : Created by Sumitomo Mitsui DS Asset Management based on data of METI

*Seasonally adjusted, some industry names are abbreviated.

*Data of financial bokers is M3, so the index tends to be volatile.

The tertiary industry activity index was created by the Ministry of Economy, Trade and Industry (METI) to show production activities of the service sector. It is imperfect but nonetheless one of the few statistics available for the service industry. Chart 1 and 2 show a transition according to the type of business.

The trend we notice easily in Chart 1 is the emergence of the IT sector. The telecom industry grew with the increase of fixed-line and mobile phone subscribers, while the information service industry expanded. That said, contracted (customised) development of software stopped growing in 2010, which means performance was mixed in the sector. The emergence of IT also instigated a cut back in market size by eliminating wholesalers¹. On the other hand, the development of e-commerce boosted the transportation sector from 2010 onward through the surge of parcel deliveries².

We see an influence of the Great East Japan Earthquake in the electric power and gas sector. Believe it or not, the amount of power generated continued to increase from 1988 to 2005. After the power consumption per household peaked at around the turn of the century, the growth in the number of households compensated the decline. However, the consumption per household started to decline in the wake of the earthquake in 2011 as the anti-nuclear, power-saving and ecological trends spread. The sector is in the doldrums with sluggish growth in the number of households in recent years.

Another trend was an increase in social insurance premiums and a slowing growth in disposable earnings. As you can see in the Chart 2, discretionary spending services such as living-related/personal services (laundry, beauty and bath services, tourism and marriage) and amusement services continued to decline while the medical welfare industry kept on growing, unhindered by a slowdown or recession. We can infer from this that disposable earnings have lost traction amid increasing social insurance premiums with little growth in real income. Other industries were also impacted by an expansion of services for the elderly by administrative agencies. For example, the figure for the bus industry was 113.8 as of the end of December 2018, which seems to suggest a stronger growth than average growth for transportation services³.

There were various events in the Heisei period other than those mentioned above such as a slump in demand for the learning-support services in 2007 following the bankruptcy of the English conversation school “NOVA”; a peaking out of the goods rental and leasing business following changes in the leasing accounting system in 2007; a sharp slowdown in staffing needs including temporary staff following the global financial crisis and

an expansion of finance businesses following accommodative monetary policies by the Bank of Japan (BoJ). (Data of financial brokers is allocated in M3, so the index tends to be volatile.)

If we had predicted the growth trend of IT and medical welfare sectors in the first year of Heisei, we could have succeeded in investments. In which industry should we invest during the Reiwa era? You may find a sign in the tertiary industry activity index.

1. Retailers grew in size and increased direct dealings with manufacturers. Specialty store retailer of private label apparel (**SPA**) also triggered the contraction of wholesalers.
2. An increase of inbound tourists, the growth of air transportation thanks to an increase of flight slots, good showing of LCC, development of globalisation and so on, also contributed to the expansion of the sector.
3. An increase of inbound tourists contributed to the growth. In addition, the data was collected only in the metropolitan area.

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Note: Daiwa SB Investments Ltd. (DSBI) merged with Sumitomo Mitsui Asset Management Company, Limited (SMAM) on 1 April 2019.

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