

MEDIA RELEASE

Julius Baer Group Ltd.

Julius Baer publishes second 'Wealth Report: Japan'

Julius Baer today released its second Wealth Report for Japan, which monitors the cost of living in luxury as well as the wealth creation in Japan. The report is optimistic about Japan's growth trajectory since the start of Abenomics two years ago. Furthermore, shifts in the composition of demand and supply will have beneficial effects on a number of sectors, most notably on the services industry.

Zurich/Tokyo, 9 November 2015 – Julius Baer has published the second edition of its 'Wealth Report: Japan'. The timing of the report coincides with the approximate two-year anniversary of the start of Abenomics, presenting an opportune moment to examine the progress made under this comprehensive new policy framework. In short, we find that successful implementation of anti-deflationary policies have set the Japanese economy and prospects for wealth creation onto an upwards trajectory. There are innumerable examples that demonstrate real change in Japan's economic and financial structures, opening up new opportunities and specifically addressing the country's demographic profile.

Dr Wolfgang Humbert-Droz, Market Head Japan of Bank Julius Baer, said: "The last two years have proven to be very tumultuous, with financial markets grappling with the slowdown in China, as well as with Europe's responses to deflation risks. What we find is that although more challenges lie ahead, the combination of bold policy action by the Bank of Japan and institutional changes on the ground is lifting Japan out of its deflationary period and enhancing its international competitiveness. Furthermore, unprecedented developments such as a boom in tourism, as well as rising labor force participation rates are reinforcing the idea that Japan's economy is indeed picking up."

The report starts by recognising the relative shift taking place in favour of services in Japan, supported by strong profit growth and productivity-enhancing measures. These steps appear to help address the impact of Japan's singular demographic profile, which has an inherently deflationary component. Furthermore, the report details how consumption patterns are changing as a consequence of these demographic trends, pointing to new opportunities of growth. An example of Japan's break with the past can be seen in housing prices. Since the launch of Abenomics, real estate values have stabilised and, in some areas, started to rise. That in turn reinforces a household wealth effect which, combined with rising wages, facilitates the transition to a post-deflationary environment.

Next, the report revisits a core element within the Julius Baer Wealth Report series, that of the Lifestyle Index. The Index tracks a basket of luxury goods and services, representing a measure of CPI that is more relevant to High Net Worth Individuals. 2015 is the second year that Julius Baer has collected this data in Tokyo. The report finds that 13 of 20 items covered had price increases that compensated for the decline in the yen over the relevant period. Notably the cost of jewellery and wedding banquets rose well ahead of general inflation.

Julius Baer Group Ltd.

Bahnhofstrasse 36, P.O. Box, 8010 Zurich, Switzerland

T +41 (0) 58 888 1111, F +41 (0) 58 888 5517

www.juliusbaer.com

Key highlights of the ‘2015 Julius Baer Wealth Report: Japan’ include:

Macro landscape

- Japan’s unique demographics are generally misunderstood as being unambiguously negative for growth. In reality, we find that there are shifts in the composition of demand that have beneficial impacts on a number of sectors, most notably on the services industry.
- Two years into Abenomics, there is classic evidence that bold monetary easing is helping to lift real assets, in particular housing prices. This in turn should reinforce rising inflation expectations, leaving behind Japan’s deflationary era.
- Japan is experiencing a renaissance in corporate profitability, whereby the service sector is doing especially well. While manufacturing remains a core part of Japan’s economy, the future is likely to see faster earnings growth being generated by factors not strictly tied to the weakening of the yen.
- We expect to see urbanisation accelerating even further, as this is arguably the most efficient way to deliver new and better services to the ageing population, thereby unlocking new sources of demand and growth. This challenges the notion that Japan’s urban landscape has reached its zenith.

The Julius Baer Lifestyle Index

- From the inception of the Julius Baer Lifestyle Index in the first Julius Baer Wealth Report on Asia in 2011, the analysts have tracked the cost of luxury goods for eleven cities in Asia. The index constituents are: luxury property, watches, ladies’ handbags, wedding banquets, wine, jewellery, men’s suits, facial aesthetics procedures, pianos, hotel suites, cars, tooth implants, hospitals, cigars, lawyer fees, golf club memberships, ladies’ shoes, business class flights, university fees, and boarding school fees.
- The Tokyo data for the Julius Baer Lifestyle Index points to Japan’s premium position within Asia’s luxury landscape, in particular in the area of services. For example, the data highlights that the cost of wedding banquets exceed those of Hong Kong and Shanghai in USD terms, and rose by 15% in yen terms. In a similar vein, high-end hotel rooms are among the priciest in Asia, perhaps a reflection of the strong increase in in-bound tourism.
- Relative to other cities in Asia, the Tokyo sub-index showed a high degree of variability in year-on-year price changes. We believe the coming years will continue in a similar fashion, as the economy adjusts faster to recent macro trends, competition in terms of the supply of luxury heats up and the yen is set to remain weak.

Conclusion

The record of the past two years creates significant room to be optimistic about Japan’s growth trajectory and the all-important transition from a deflationary to an inflationary environment. While manufacturing tends to garner the most attention, the greater role of services in Japan’s economy over the coming decades will likely be key to enabling growth and wealth creation, as the composition of both supply and demand in the economy change. The Julius Baer Lifestyle Index for Tokyo, now in its second year, demonstrates this dynamism being experienced on the ground.

The ‘2015 Julius Baer Wealth Report: Japan’ is available in English and Japanese on www.juliusbaer.com.

Contacts

Media Relations Asia, tel. +852 2899 4889

Media Relations Zurich, tel. +41 (0) 58 888 8888

Ashton Consulting, tel. +81 (0) 3 5425 7220, m.chuma@ashton.jp

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