FY2011

Annual Survey of Corporate Behavior

(Summary)

March 2012

Economic and Social Research Institute, Cabinet Office

Survey system

1 Objective of survey	The objective of this survey is to clarify the actual state of the Japanese economy from the aspect of corporate activities, by continuously conducting surveys on how companies forecast future trends in the business outlook and industrial demand.
2 Period of the research	January 2012
3 Survey items	Business outlook and demand forecast, exchange rates, price, The growth rate of capital investment, Change in the number of employees, Ratios of overseas production and reverse imports
4 Coverage	All companies listed in the First Section and Second Section of the Tokyo, Osaka, and Nagoya Stock Exchange (2,378 companies (as of November 1, 2011))
5 Survey method	Self-reporting mailing method using prescribed questionnaire
6 Number of responding companies	890 companies (461 in manufacturing industries, 429 in non-manufacturing industries)
7 Response rate	37.4 %

(Note) The sectors used in this survey are based on the classifications for securities codes.
The breakdown for manufacturing industries is as follows.

Material-type manufacturing industries:	Textiles and Apparels, Pulp and Paper, Chemicals, Iron and Steel, Nonferrous Metals
Processing-type manufacturing industries:	Machinery, Electric Appliances, Transportation Equipment, Precision Instruments
Other manufacturing industries:	Foods, Pharmaceutical, Oil and Coal Products, Rubber Products, Glass and Ceramics Products, Metal Products, Other Products

Summary of the Results

1 Business outlook and demand forecast

(1) Forecast for economic growth rate in Japan

○ The forecast for the real economic growth rate for the "next fiscal year" (FY2012) on an all industries basis (average of actual values[1)]) is 1.6%, which represents a forecast for positive growth. This is higher than the forecast in the survey from the previous fiscal year; among recent years, this forecast is of nearly of the same level as in the FY2007 survey (all industries basis; 1.9%).

○ In forecasts "over the next 3 years" and "over the next 5 years," the real economic growth rates are higher than those in the survey from last year for both, but were somewhat lower than the forecast rate for the "next fiscal year."

○ The forecasts for nominal economic growth rate for the "next fiscal year," "over the next 3 years," and "over the next 5 years" were lower than those for the real economic growth rate, implying that sustained deflation is anticipated.

[Table 1] Forecast for real economic growth rate in Japan (all industries basis)

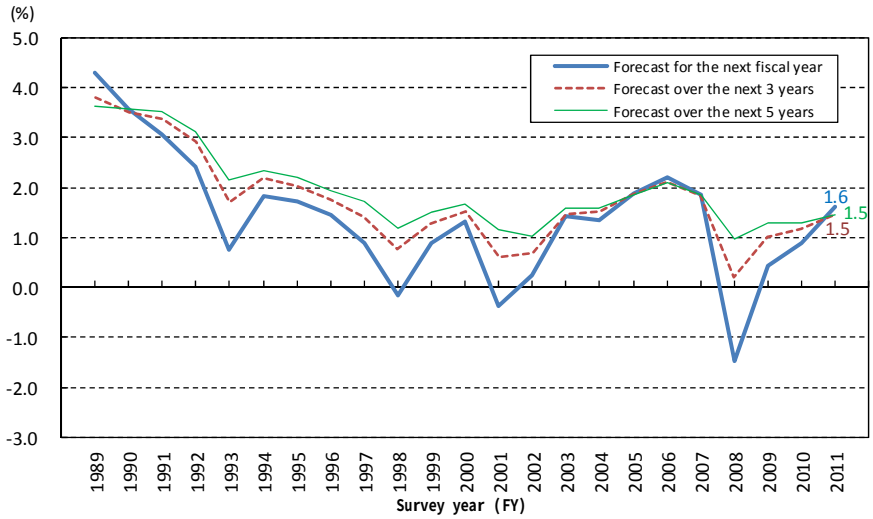
(%)

	Nominal economic growth rate		Real economic growth rate	
Next fiscal year (FY2012)	1.1	(0.3)	1.6	(0.9)
Next 3 years (Annual average: FY2012-2014)	1.1	(0.7)	1.5	(1.2)
Next 5 years (Annual average: FY2012-2016)	1.1	(1.0)	1.5	(1.3)

Note) Numbers in the parentheses are forecasts for "FY2011","FY2011-2013" and "FY2011-2015",respectively in the FY2010 survey.

[1)] The mean values in this survey are simple averages. The same applies hereinafter.

[Fig. 1] Trends in forecast real economic growth rate in Japan (all industries basis)



Note) With regard to the "forecast" for each fiscal year, for example, the "forecast for the next fiscal year" in the FY2011 survey refers to the forecast for FY2012; the "forecast over the next 3 years" refers to the forecast for FY2012 to FY2014; and the "forecast over the next 5 years" refers the forecast for FY2012 to FY2016 (fiscal year average).

(2) Forecast for industrial demand growth rate

○ The forecast for real growth rate (all industries basis, average of actual values) is 1.4% for the "next fiscal year," representing a forecast for positive growth.

○ Forecasts for the "next fiscal year," "over the next 3 years," and "over the next 5 years" all represent positive growth for both manufacturing industries and non-manufacturing industries.

○ When looking at the "next fiscal year" by sector, the growth rate forecast for "Transportation Equipment" is high among manufacturing industries, and "Information and Communication" is high for non-manufacturing industries.

○ Comparing this and the forecast for Japan's real economic growth rate (all industries basis), the forecasts for industrial demand growth rate are below Japan's real economic growth rate in each of the "next fiscal year," "over the next 3 years," and "over the next 5 years", and by industry, the forecast for industrial demand growth rate is below Japan's real economic growth rate in non-manufacturing industries.

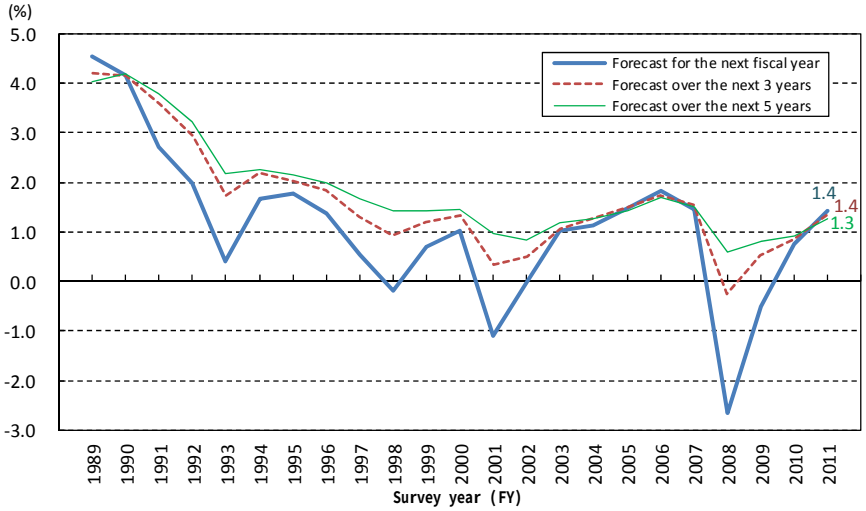
[Table 2] Forecasts for real growth rate for industrial demand

(%)

	All industries		Manufacturing		Non-manufacturing	
Next fiscal year (FY2012)	1.4	(0.8)	1.6	(1.2)	1.2	(0.3)
Next 3 years (Annual average: FY2012-2014)	1.4	(0.9)	1.6	(1.2)	1.1	(0.5)
Next 5 years (Annual average: FY2012-2016)	1.3	(0.9)	1.5	(1.1)	1.1	(0.6)

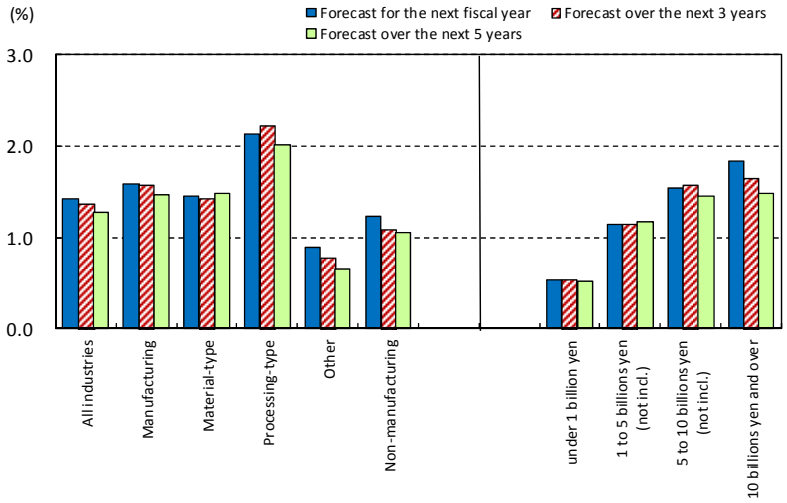
Note) Numbers in the parentheses are forecasts for "FY2011","FY2011-2013" and "FY2011-2015",respectively in the FY2010 survey.

[Fig. 2] Trends in real growth rate forecast for industrial demand (all industries basis)



Note) With regard to the "forecast" for each fiscal year, for example, the "forecast for the next fiscal year" in the FY2011 survey refers to the forecast for FY2012; the "forecast over the next 3 years" refers to the forecast for FY2012 to FY2014; and the "forecast over the next 5 years" refers the forecast for FY2012 to FY2016 (fiscal year average).

[Fig. 3] Real growth rate forecasts for industrial demand by industry and capital size



Note) "Forecast for the next fiscal year" in the FY2011 survey refers to the forecast for FY2012; the "forecast over the next 3 years" refers to the forecast for FY2012 to FY2014; and the "forecast over the next 5 years" refers the forecast for FY2012 to FY2016 (fiscal year average).

2 Exchange rates

(1) Forecast exchange rate after 1 year

○ The forecast exchange rate after 1 year (around January 2013) (all industries basis, average class value[2)]) is 80.3 yen per dollar, the highest since the beginning of the survey in FY1986.

○ For the manufacturing industry, the forecast exchange rate fell below 80 yen per dollar for the first time since the beginning of the survey, to 79.8 yen per dollar.

(2) Breakeven exchange rate

○ The breakeven exchange rate for exporting companies on an all industries basis (average of actual values) is 82.0 yen per dollar, which corresponds to a 4.3 yen appreciation of the yen compared to the previous year's result. This represents the highest yen appreciation since the beginning of the survey in FY1986.

○ However, the breakeven exchange rate is 4.1 yen weaker than the exchange rate in the month immediately before the survey (77.9 yen per dollar in December 2011) .

[Table 3] Forecast exchange rate after 1 year and the breakeven exchange rate (in relation to US dollar)

(Yen/US dollar)

	All industries		Manufacturing		Non-manufacturing	
Forecast exchange rate	80.3	(88.4)	79.8	(88.1)	80.8	(88.7)
Breakeven exchange rate	82.0	(86.3)	82.3	(86.7)	80.5	(83.7)

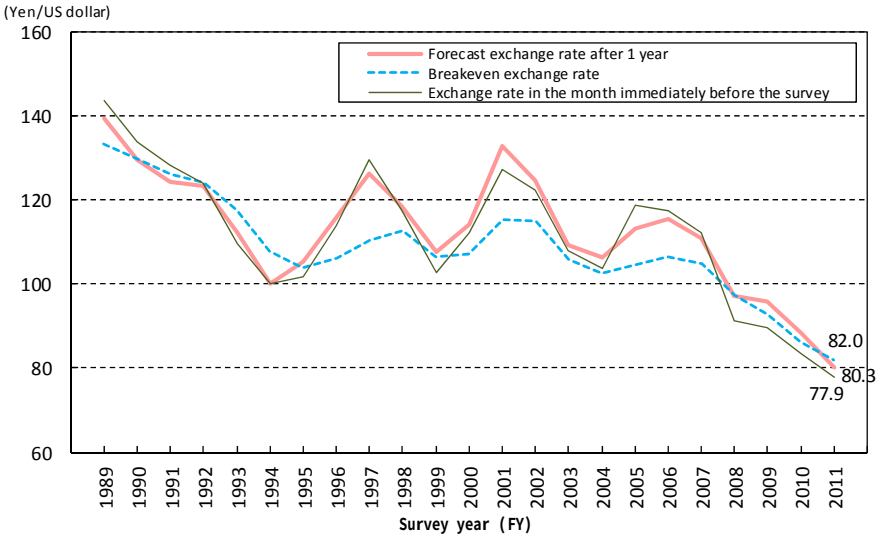
Note 1) "Forecast exchange rate" refers to the average class value, and "breakeven exchange rate" refers to the average of actual values.

Note 2) "Breakeven exchange rate" represents the value of only companies that are conducting exports.

Note 3) Numbers in the parentheses are the results in the FY2010 survey.

[2)] The average class value is an average value calculated using the median value of each class (for example, if the class chosen is "10%-20%(not incl.)", the average class value would be 15%). Note that average values for classes that have no upper limit are calculated using the lower limit (e.g. for the class "20% or more", the average value is 20%), and those for classes without lower limit using the upper limit (e.g. in "-20% and less", the average class value is -20%). The same applies hereinafter.

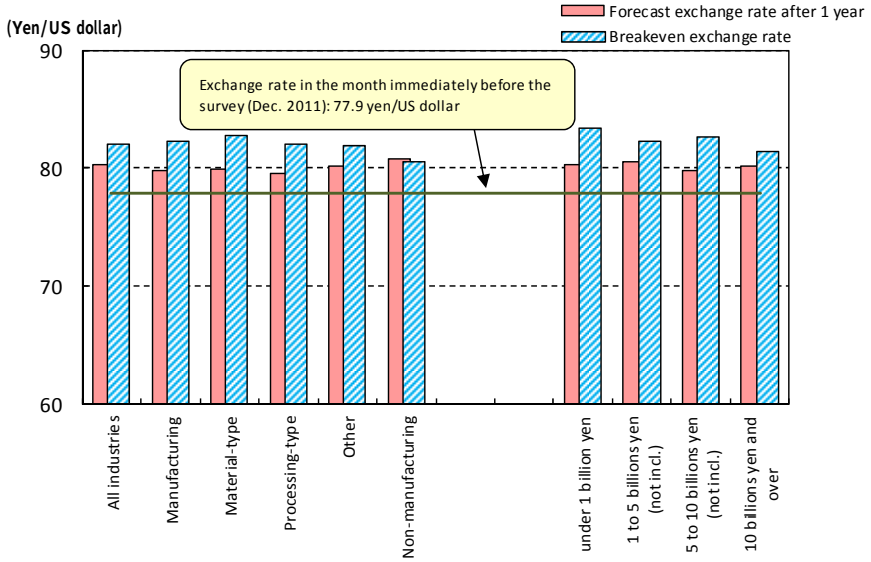
[Fig. 4] Trends in the forecast exchange rate after 1 year and the breakeven exchange rate (all industries basis)



Note 1) "Forecast exchange rate" refers to the average class value, and "breakeven exchange rate" refers to the average of actual values.

Note 2) "Breakeven exchange rate" represents the value of only companies that are conducting exports.

[Fig. 5] Forecast exchange rate after 1 year and the breakeven exchange rate by industry and capital size



Note 1) "Forecast exchange rate" refers to the average class value, and "breakeven exchange rate" refers to the average of actual values.

Note 2) "Breakeven exchange rate" represents the value of only companies that are conducting exports.

3 Price

○ The average purchase price after 1 year is forecast to rise by 1.3% on an all industries basis (average class value), indicating that the growth rate decelerated as compared to the previous year's survey.

○ By sector, the rate of increase is forecast to be high for the "Pulp and Paper" in manufacturing industries and "Electric Power and Gas" for the non-manufacturing industries.

○ The average sales price after 1 year on an all industries basis (average class value) is expected to fall by 0.3%, and the rate of decline is accelerated as compared to the previous year's survey.

○ By sector, the rate of decline is expected to be large for "Pharmaceutical," etc. for manufacturing industries and for "Information and Communication," etc. for non-manufacturing industries.

○ For both manufacturing industries and non-manufacturing industries, the rise in purchase prices will not be passed through to sales prices, and the terms of trade[3)] are likely to worsen.

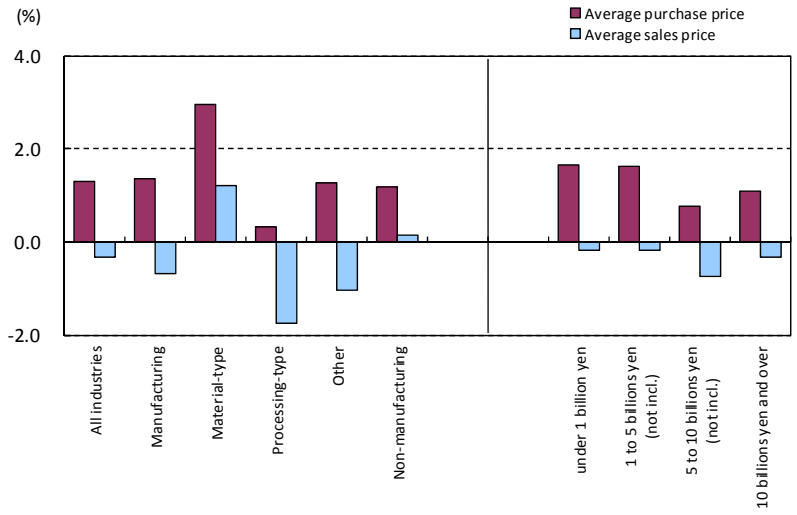
[Table 4] Rate of change in average purchase price and average sales price after 1 year

(%)

	All industries		Manufacturing		Non-manufacturing	
Average purchase price	1.3	(1.7)	1.4	(2.0)	1.2	(1.3)
Average sales price	-0.3	(-0.1)	-0.7	(-0.3)	0.2	(0.3)

Note) Numbers in the parentheses are the results in the FY2010 survey.

[Fig. 6] Rate of change in average purchase price and average sales price after 1 year by industry and capital size



[3)] Terms of trade as mentioned here represent the value obtained upon subtracting the rate of change in the average purchase price from the rate of change in the average sales price.

4 The growth rate of capital investment

○ Capital investment is forecast to grow by 4.1% “over the next 3 years” on an all industries basis (average class value). The growth rate is accelerated as compared to that of the previous year’s survey and among recent years, this is almost the same level as the survey from FY2007 (5.1%, all industries basis).

○ Both the manufacturing industries and non-manufacturing industries are expected to see an accelerated growth rate as compared to that of the previous year’s survey.

○ An increasing trend centering around the industries including “Precision Instruments” is anticipated to grow for the manufacturing industries, while an increasing trend centering around the industries including “Retail Trade” is anticipated to grow for the non-manufacturing industries.

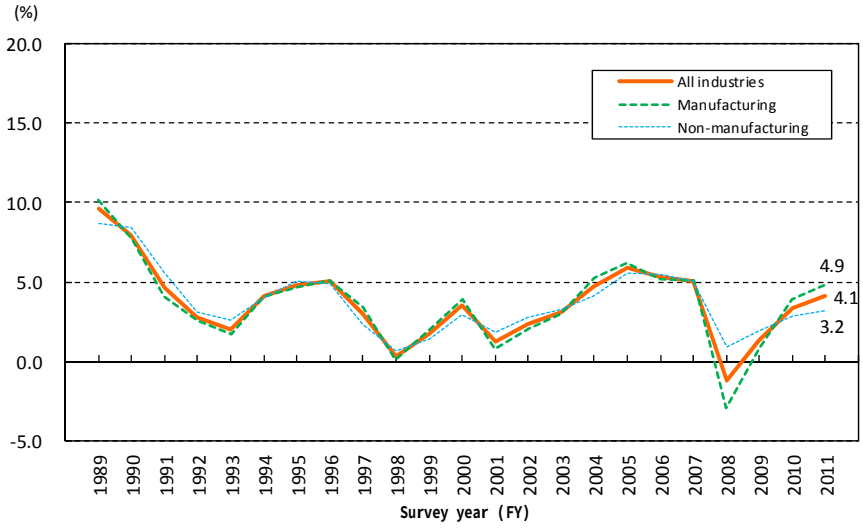
[Table 5] Forecast changes for capital investment over the next 3 years

(%)

	Next 3 years (average from FY2012 to FY2014)	
All industries	4.1	(3.4)
Manufacturing	4.9	(3.9)
Material-type	3.9	(4.0)
Processing-type	5.4	(4.3)
Other	5.1	(3.1)
Non-manufacturing	3.2	(2.8)

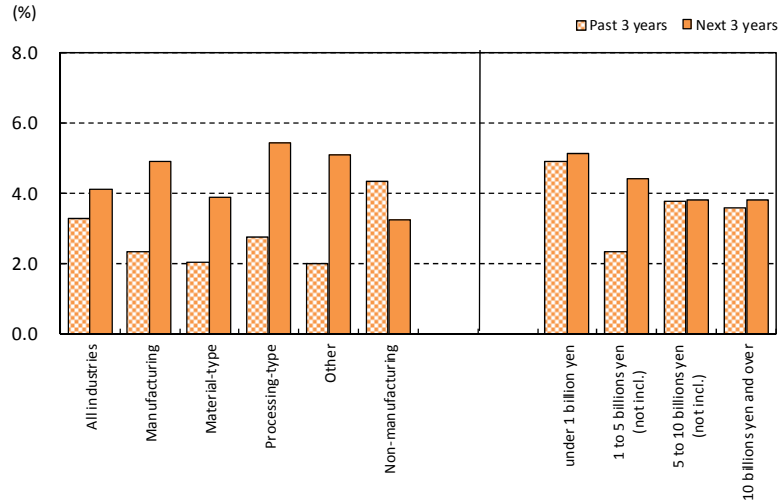
Note) Numbers in the parentheses are forecasts for “FY2011 to FY2013” in the FY2010 survey.

[Fig. 7] Trends in forecast changes for capital investment over the next 3 years by industry



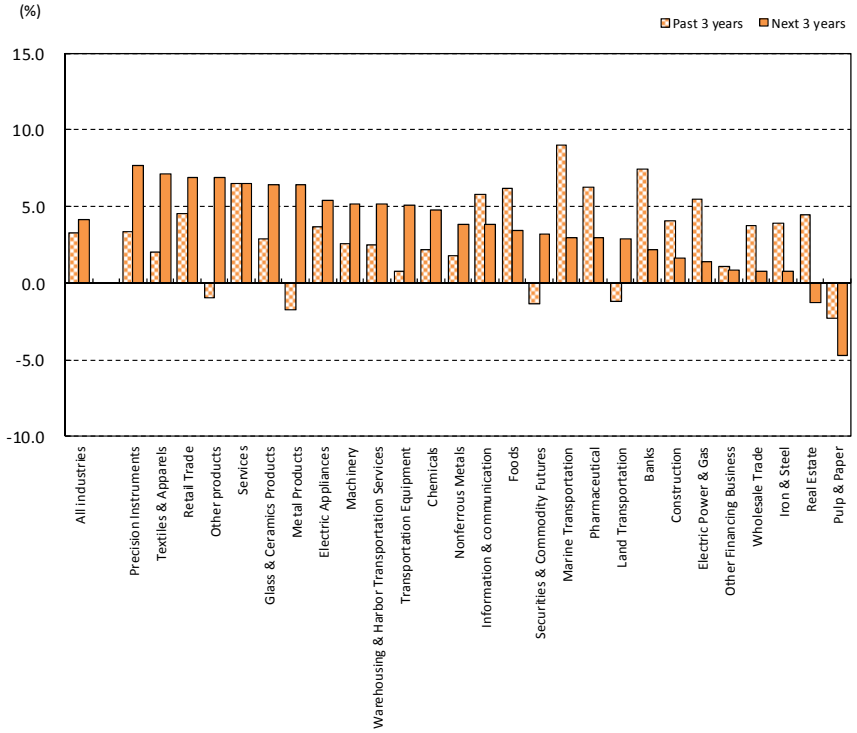
Note) With regard to “over the next 3 years,” for example, “over the next 3 years” in the FY2011 survey refers to the forecast changes from FY2012 to FY2014 (annual average).

[Fig. 8] Changes in capital investment by industry and capital size



Note) "Past 3 years" represents changes from FY2009 to FY2011 (annual average), and "Next 3 years" represents forecast changes from FY2012 to FY2014 (annual average).

[Fig. 9] Changes in capital investment by sector



Note 1) "Past 3 years" represents changes from FY2009 to FY2011 (annual average), and "Next 3 years" represents forecast changes from FY2012 to FY2014 (annual average).

Note 2) Individual sectors exclude those with less than 5 responding companies for both "Past 3 years" and "Next 3 years."

5 Change in the number of employees

(1) Number of employees over the next 3 years

○ The forecast change in the number of employees “over the next 3 years” on an all industries basis (average class value) is 1.0%.

○ The number of employees is forecast to increase for both manufacturing industries and non-manufacturing industries. Compared to the previous year’s survey, the growth rate for manufacturing industries is expected to decelerate, while the growth rate for non-manufacturing industries is expected to accelerate.

○ By sector, increases centering mainly on “Pharmaceutical,” etc. for manufacturing industries and “Real Estate,” etc. for non-manufacturing industries are forecast.

○ Compared with the rate of increase for the “past 3 years" (all industries basis, 0.5%), the growth “over the next 3 years” is anticipated to accelerate.

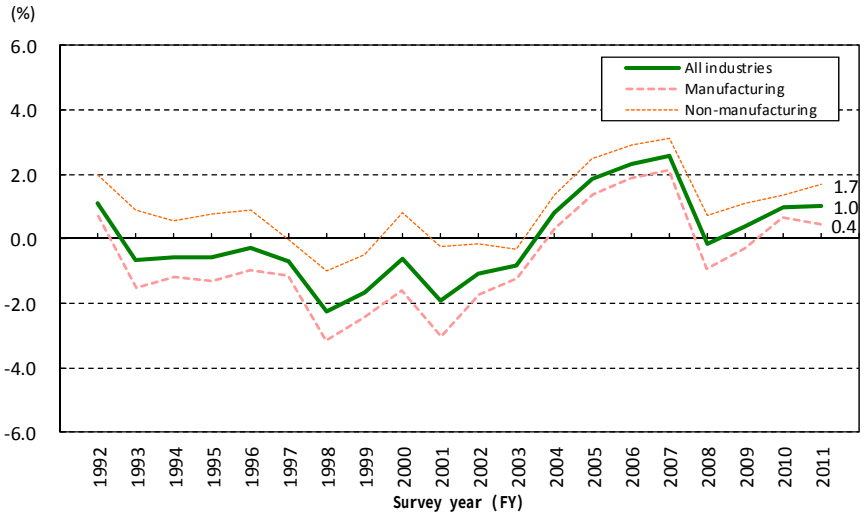
[Table 6] Forecast rates of change in the number of employees over the next 3 years

(%)

	All industries		Manufacturing		Non-manufacturing	
Number of employees	1.0	(1.0)	0.4	(0.7)	1.7	(1.4)
Regular employees	0.9	(0.8)	0.3	(0.5)	1.6	(1.1)

Note) Numbers in the parentheses are the results of the FY2010 survey.

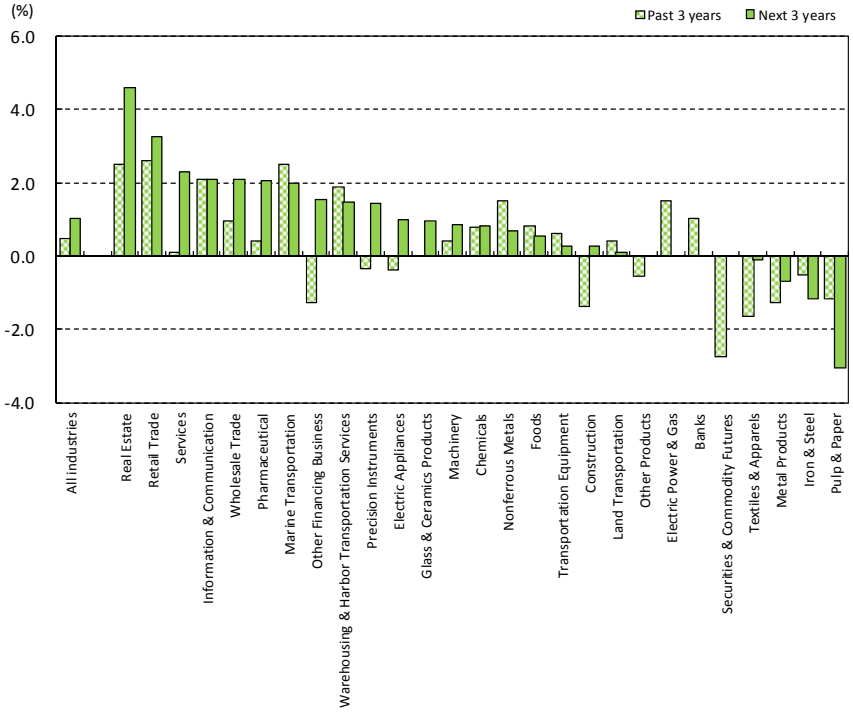
[Fig. 10] Trends in forecast rates of change in the number of employees over the next 3 years by industry



Note 1) With regard to “over the next 3 years,” for example, “over the next 3 years” in the FY2011 survey refers to the forecast changes from FY2012 to FY2014 (annual average).

Note 2) Only the FY2003 survey gives values for “regular employees” (In FY2003, “regular employees” and “part-timers, dispatched employees” were surveyed.)

[Fig. 11] Rate of change in the number of employees by sector



Note 1) "Past 3 years" represents changes from FY2009 to FY2011 (annual average), and "Next 3 years" represents forecast changes from FY2012 to FY2014 (annual average).

Note 2) Individual sectors exclude those with less than 5 responding companies for both "Past 3 years" and "Next 3 years."

(2) Regular employees from among the total number of employees over the next 3 years

○ The forecast rate of change "over the next 3 years" for regular employees, from among the total number of employees, on an all industries basis (average class value) is 0.9%, which is not as strong of an increasing trend as compared to the total number of employees.

○ Compared to the rate of change "over the last 3 years" (all industries basis: 0.2%, manufacturing industries: -0.2%, non-manufacturing industries: 0.5%), the rate of change "over the next 3 years" is expected to turn into an increase for manufacturing industries, and the growth rate is forecast to accelerate for non-manufacturing industries.

6 Ratios of overseas production and reverse imports

(1) Ratio of overseas production (responses only by manufacturing companies)

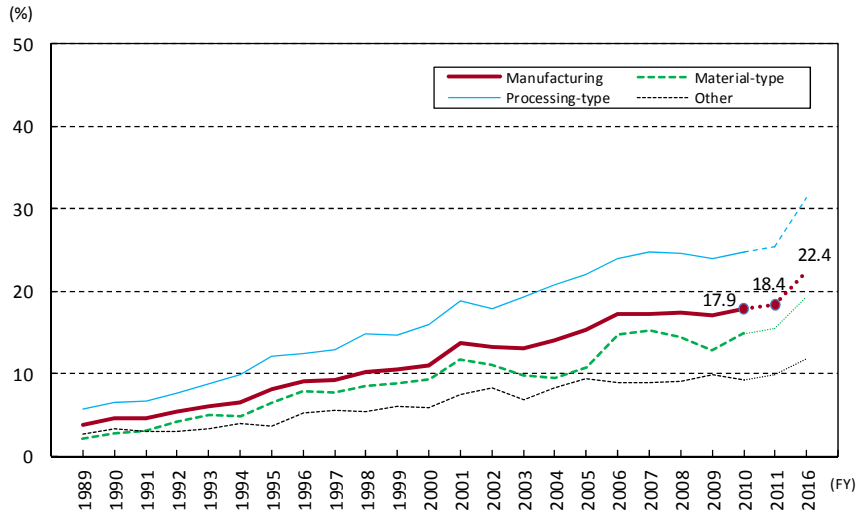
○ The overseas production ratio[4] (average of actual values) was 17.9% in actual performance for FY2010, representing an increase as compared to the survey from the previous year, as well as the highest level since the beginning of this survey in FY1987.

○ The "forecast for actual performance in FY2011" and "forecast for FY2016" are both expected to continue with the increasing trend.

○ By category for manufacturing industries, the level for "processing-type manufacturing industries" is high, and the rise is relatively high as well.

○ By sector, when looking at the "forecast for FY2016," the level for "Electric Appliances," etc. is high, and the level for "Pharmaceutical," etc. is low.

[Fig. 12] Trends in overseas production ratio (manufacturing industries)



Note 1) FY2011 represents the actual performance forecast, FY2016 represents the forecast, and other years represent the actual performance for the previous fiscal year in the survey for the following fiscal year. (For example, the value for FY2010 is the value for "actual performance for FY2010" in the FY2011 survey.)

Note 2) Simple average of responding companies including those that reported 0.0% for the overseas production ratio.

[4] Ratio of overseas production = output of overseas production / (output of domestic production + output of overseas production)
Simple average of responding companies including those not engaged in overseas production.

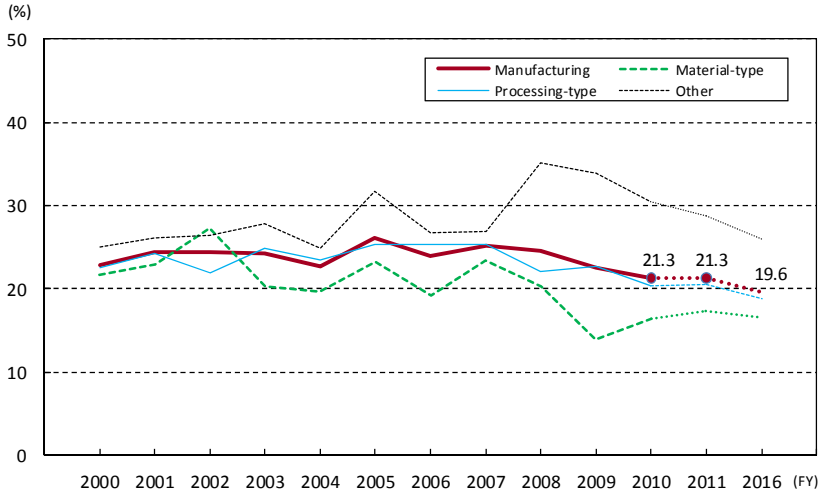
(2) Ratio of reverse imports (responses only by manufacturing companies)

○ In terms of the ratio of reverse imports[5] (average of actual values), the "actual performance for FY2010" is 21.3%, which is low as compared to the actual performance in the previous fiscal year. This is the lowest level since the beginning of the survey in FY2001.

○ The "forecast for FY2016" is a continuation of this declining trend.

○ When looking at the "forecast for FY2016," the level for "Textiles and Apparels," etc. is high, and the level for "Transportation Equipment," etc. is low.

[Fig. 13] Trends in the ratio of reverse imports (manufacturing industries)



Note 1) FY2011 represents the actual performance forecast, FY2016 represents the forecast, and other years represent the actual performance for the previous fiscal year in the survey for the following fiscal year. (For example, the value for FY2010 is the value for "actual performance for FY2010" in the FY2011 survey.)

Note 2) Excludes companies that reported 0.0% for the overseas production ratio.

Note 3) Simple average of responding companies including those that reported 0.0% for the ratio of reverse imports.

Note 4) Surveys regarding the ratio of reverse imports began in FY2001.

[5] Ratio of reverse imports = Exports to Japan / Output of overseas production
Excludes companies that reported 0.0% for their overseas production ratio.
Simple average of responding companies including those that reported 0.0% for their ratio of reverse imports.

[Table 7] Ratio of overseas production and reverse imports (manufacturing industries)

(%)

	Ratio of overseas production		Ratio of reverse imports	
Actual performance for FY2010	17.9	(17.1)	21.3	(22.6)
Forecast actual performance for FY2011	18.4	(18.0)	21.3	(22.0)
Forecast actual performance for FY2016	22.4	(21.4)	19.6	(20.6)

Note 1) Numbers in the parentheses for "Actual performance for FY2010" are the values for "actual performance for FY2009"; numbers in the parentheses for "Forecast actual performance for FY2011" are the values for "forecast actual performance for FY2010"; numbers in the parentheses for "Forecast for FY2016" are the values for "forecast for FY2015" in the FY2010 survey.

Note 2) "Ratio of overseas production" is the simple average of responding companies including those that reported 0.0% for the overseas production ratio.

Note 3) "Ratio of reverse imports" excludes companies that responded with 0.0% for the overseas production ratio.

Note 4) "Ratio of reverse imports" is the simple average of responding companies including those that reported 0.0% for the ratio of reverse imports.

(3) Reasons for setting up overseas production bases (responses by only manufacturing industries / single answer from among multiple choices)

○ The most commonly cited reason for setting up overseas production bases is "Demand is strong, or is forecast to expand, in local market(s) and markets in neighboring countries" (42.9%).

○ Compared to the previous year's survey, the composition ratio of reasons such as "Labor costs are low" and "Entered overseas market(s) following entry by parent company or customer(s)" is smaller, while the composition ratio of reasons such as "We can cater effectively to overseas users' needs" and "Low costs of materials, overall production processes, distribution, and land/buildings" has expanded.

[Table 8] Reasons for setting up overseas production bases (manufacturing industries)

(%)

	FY 2011 survey				FY 2010 survey
	Manufacturing	Material-type	Processing-type	Other	Manufacturing
Reasons for setting up overseas production bases	100.0	100.0	100.0	100.0	100.0
1 Labor costs are low	23.0	17.0	25.3	25.8	26.1
2 We can easily secure highly-qualified personnel (technical and research staff)	0.3	-	0.6	-	0.6
3 We can enjoy low costs of materials, overall production processes, distributions, and land/buildings	10.9	10.6	13.6	4.5	8.9
4 Strong demand exists, or demand is forecast to expand, for our products in the local market(s) and markets in neighboring countries	42.9	47.9	35.8	53.0	42.9
5 We can cater effectively to overseas users' needs	11.8	11.7	13.6	7.6	8.6
6 We have contracts with reliable suppliers of parts and/or raw materials to the local facilities in a stable manner	1.9	3.2	0.6	3.0	2.1
7 We have entered the overseas market(s) following entry by our parent company or customer(s) and so on	6.5	8.5	7.4	1.5	7.7
8 We take advantage of industrial development programs including favorable taxation and/or financing which are offered by the local government(s)	0.3	-	0.6	-	0.3
9 Inadequate infrastructure in the local country in question had prevented us from setting up operations there, but this issue has now been addressed	-	-	-	-	-
10 Other reasons	2.5	1.1	2.5	4.5	2.8

Note) The shaded areas represent the top 3 reasons for each fiscal year.

≪Inquiry≫

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