



February 28, 2017

Economic and Social Research Institute

FY2016 Annual Survey of Corporate Behavior (Summary)

<II. Medium-sized and SMEs>

Coverage	Medium-sized and SMEs with a capital of 0.1 to 1 billion yen (not incl.) among private enterprises all over Japan (excl. enterprises covered in I. Listed Companies) 7,839 enterprises (randomly selected from the establishment frame database)
Responding companies	3,313 (1,491 in manufacturing industries, 1,822 in non-manufacturing industries)
Response rate	42.3%
Survey items	Forecast of Japan's economic growth rate, forecast of growth rate of industry demand, forecast yen dollar rate, break-even yen-dollar rate, growth rate of capital investment, change in the number of employees, overseas production ratio, etc. (Note) Consolidated basis except for the number of employees
Period of the survey	January 2017 (Questionnaire deadline: January 16) (Note) The survey of Medium-sized and SMEs started in FY2016.

1. Japan's economic growth rate

- The real economic growth rate forecast for the “next fiscal year” (FY2017) was 1.0%, and the rate was positive.
- The nominal economic growth rate forecast (1.7%) was higher than the real rate forecast (1.0%), suggesting that future price increase has been taken into consideration.

(Reference: FY2016 Annual Survey, I. Listed Companies (the same shall apply hereafter))

The real and the nominal economic growth rate forecasts for the “next fiscal year” were 1.0% and 1.6% respectively.

2. Growth rate of industry demand

- The forecast of the real growth rate of industry demand of Medium-sized and SMEs for the “next fiscal year” (FY2017) was 0.8%. The figures for the manufacturing and non-manufacturing industries were 0.7% and 0.9%, respectively.
- The medium-term forecasts for the “next 3 years” and the “next 5 years” were 0.9% and 0.8%, respectively.
- In terms of the forecasts for the “next fiscal year” by sector, the growth rate forecast of the manufacturing industries was high in “Pharmaceutical” (1.6%) and “Electric Appliances” (1.3%), and that of the non-manufacturing industries was high in “Insurance” and “Securities & Commodity Futures” (1.4% for both).

(Reference: I. Listed Companies)

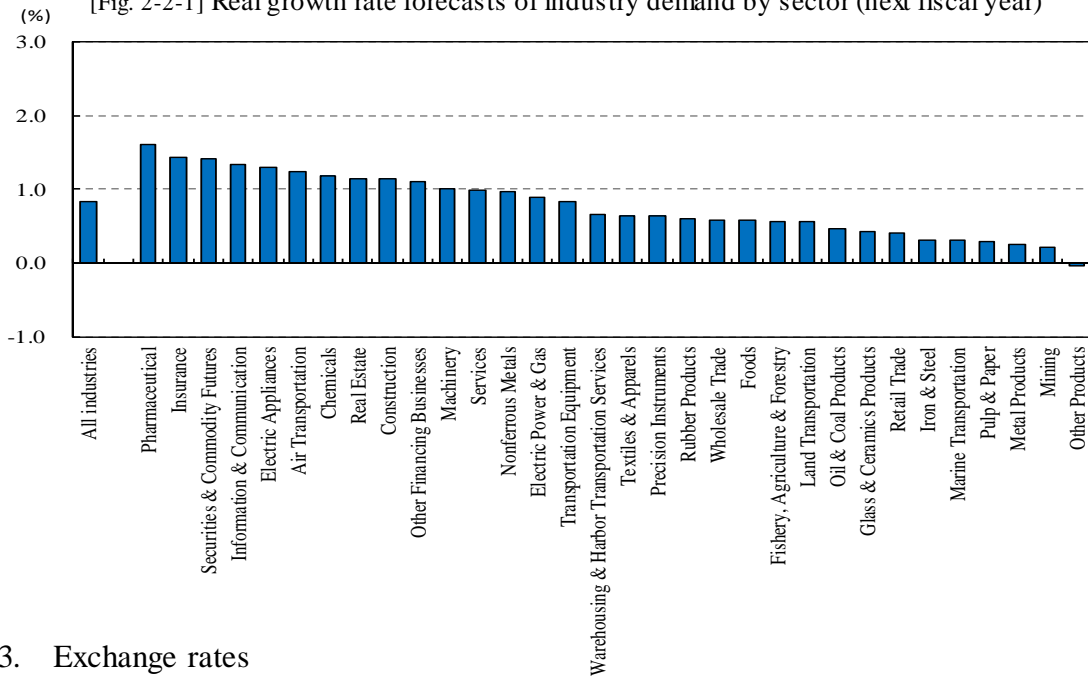
The real growth rate forecast for the “next fiscal year” was 0.9% (0.9% for the manufacturing industries, and 0.8% for the non-manufacturing industries), and the forecasts of real growth rate for the “next 3 years” and the “next 5 years” were 1.0% and 0.9%, respectively.

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<http://www.esri.cao.go.jp/en/stat/ank/ank-e.html>

[Fig. 2-2-1] Real growth rate forecasts of industry demand by sector (next fiscal year)



3. Exchange rates

(1) Forecast yen-dollar rate

- The forecast yen-dollar rate after 1 year (around January 2018) for Medium-sized and SMEs (all industries, class value average) was 113.1 yen/dollar.
- Compared with the yen-dollar rate for the month immediately before the survey (116.0 yen/dollar in December 2016), the forecast appreciated by 2.9 yen.

(Reference: I. Listed Companies)

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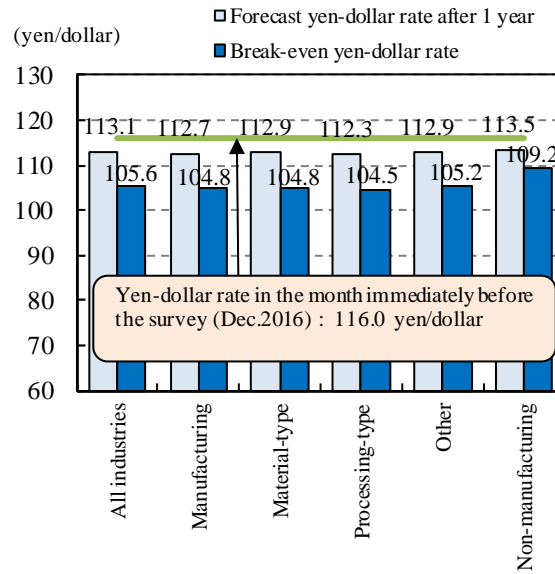
(2) Break-even yen-dollar rate

- The break-even yen-dollar rate of exporting Medium-sized and SMEs (all industries, actual value average) was 105.6 yen/dollar.
- In terms of the break-even yen-dollar rate by industry, the rates of the manufacturing and the non-manufacturing industries were 104.8 yen/dollar and 109.2 yen/dollar, respectively. Compared with the yen-dollar rate for the month immediately before the survey, the rates of the manufacturing and non-manufacturing industries appreciated by 11.2 yen and 6.8 yen, respectively.
- In terms of the break-even yen-dollar rate by sector, compared with the all industries average, sectors such as “Land Transportation” (115.6 yen/dollar) and “Pulp & Paper” (113.6 yen/dollar) set weaker break-even rates, while sectors such as “Pharmaceutical” (95.0 yen/dollar) and “Chemicals” (101.3 yen/dollar) set stronger rates.

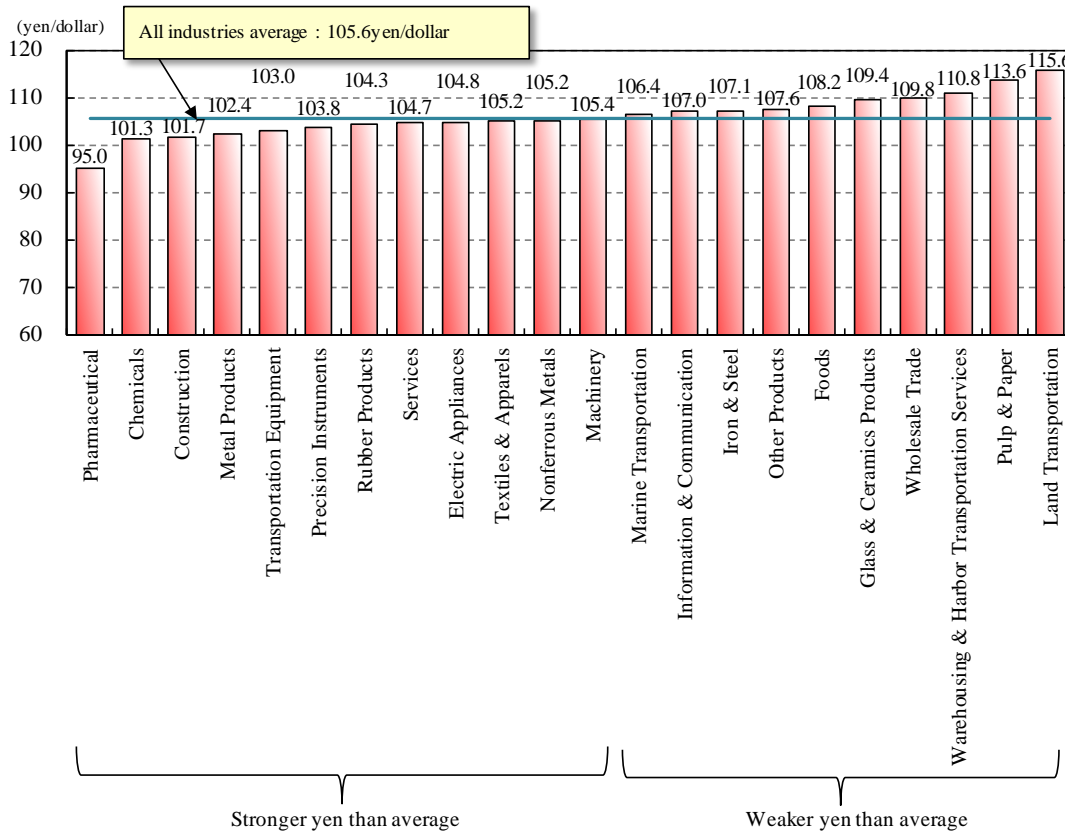
(Reference: I. Listed Companies)

The break-even yen-dollar rate of exporting companies was 100.5 yen/dollar (99.9 yen/dollar for the manufacturing industries, and 104.2 yen/dollar for the non-manufacturing industries). Compared with the yen-dollar rate for the month immediately before the survey, the rates of the manufacturing and non-manufacturing industries appreciated by 16.1 yen and 11.8 yen, respectively.

[Fig. 2-3-1] Forecast yen-dollar rate after 1 year and the break-even yen-dollar rate by industry



[Fig. 2-3-2] Break-even yen-dollar rate by sector



Note 1) "Forecast yen-dollar rate" refers to the class value average.
 Note 2) Calculation of "break-even yen-dollar rate" includes only enterprises that conduct exports.
 Note 3) Sectors include only those with 5 or more responding enterprises..

4. Prices

- Average purchase prices after 1 year for Medium-sized and SMEs (all industries, class value average) increased by 3.0%.
- Average sales prices after 1 year (all industries, class value average) increased by 1.4%.
- Purchase price increases surpassed sales price increases, and terms of trade (all industries) were forecast to worsen by 1.6 percentage points.

(Reference: I. Listed Companies)

Average purchase prices after 1 year increased by 2.3%, and average sales price after 1 year increased by 1.1%. Terms of trade were forecast to worsen by 1.2 percentage points.

[Table 2-4-1] Forecast rate of changes in average purchase and sales prices and the change in the terms of trade after 1 year by industry

		FY2016		
		Average purchase price	Average sales price	terms of trade
All industries		3.0	1.4	-1.6
Industry	Manufacturing	3.1	1.1	-2.1
	Material-type	3.9	1.8	-2.0
	Processing-type	2.4	0.4	-2.0
	Other	3.1	1.0	-2.2
	Non-manufacturing industries	2.9	1.7	-1.2

Note 1) Terms of Trade = Rate of change in average sales price – rate of change in average purchase price

Note 2) Terms of trade are derived from the rate of change of the average sales price and the rate of change of the average purchase price (Refer to FY2016 Statistical Tables <II. Medium-sized and SMEs> 3-1 and 3-2) that include two decimal points. Therefore, they may not always coincide with figures calculated from the rate of change in average sales prices and the rate of change in average purchase price in the table above due to rounding.

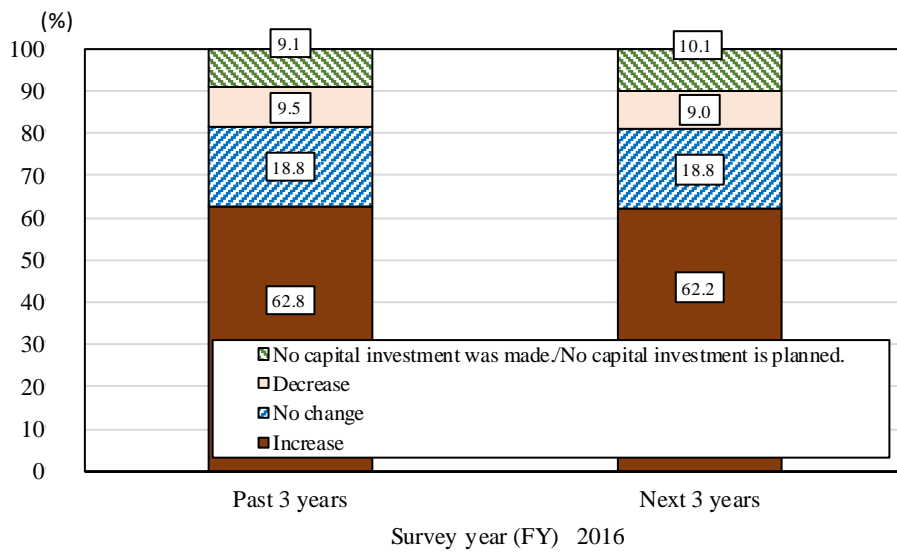
5. Change in capital investment

- The percentage of Medium-sized and SMEs that increased capital investment (all industries) for the “past 3 years” (average of FY2014–FY2016) was 62.8%.
- The percentage of enterprises expecting to increase capital investment (all industries) over the “next 3 years” (average of FY2017–FY2019) was 62.2%.

(Reference: I. Listed Companies)

73.6% for the “past 3 years” (average of FY2014–FY2016), and 68.9% for the “next 3 years” (average of FY2017–FY2019).

[Table 2-5-1] Change in the percentage of enterprises that increased/decreased capital investment or are expecting an increase/decrease in capital investment for the past 3 years or over the next 3 years (all industries)



Note 1) Increase: Percentage of enterprises responding over 0%, No change: Percentage of enterprises responding 0%, Decrease: Percentage of enterprises responding less than 0%.

Note 2) The “past 3 years” means the period from FY2014 to FY2016.

Note 3) The “next 3 years” means the period from FY2017 to FY2019.

6. Change in the number of employees

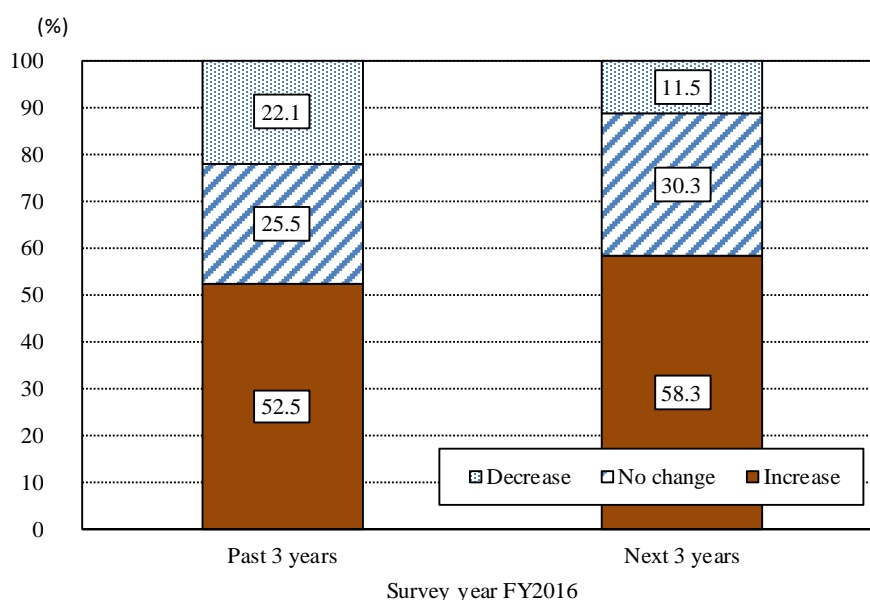
(1) Number of employees

- The percentage of Medium-sized and SMEs that increased employees (all industries) for the “past 3 years” (average of FY2014–FY2016) was 52.5%.
- The percentage of enterprises expecting to increase employees (all industries) over the “next 3 years” (average of FY2017–FY2019) was 58.3%.

(Reference: I. Listed Companies)

64.9% for the “past 3 years” (average of FY2014–FY2016), and 67.8% for the “next 3 years” (average of FY2017–FY2019).

[Table 2-6-1] Changes in the percentage of enterprises that increased/decreased employees or are expecting an increase/decrease in employees for the past 3 years or over the next 3 years (all industries)



Note 1) Increase: Percentage of enterprises responding over 0%, No change: Percentage of enterprises responding 0%, Decrease: Percentage of enterprises responding less than 0%.

Note 2) The “past 3 years” means the period from FY2014 to FY2016.

Note 3) The “next 3 years” means the period from FY2017 to FY2019.

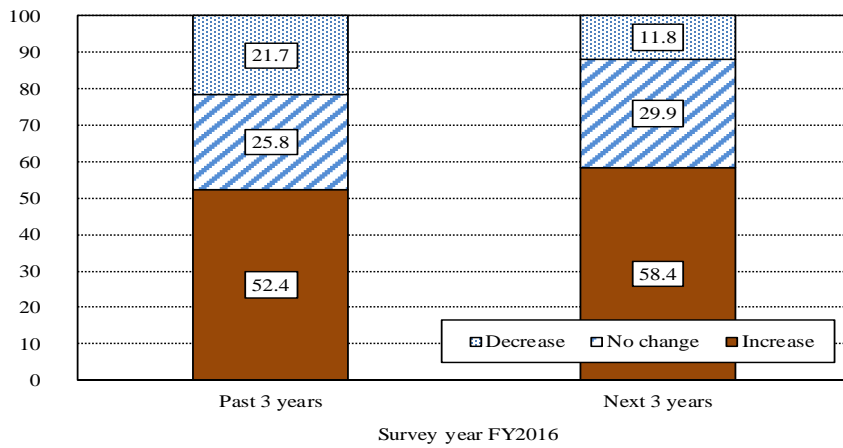
(2) Number of full-time employees

- The percentage of Medium-sized and SMEs that increased full-time employees (all industries) among their employees for the “past 3 years” (average of FY2014–FY2016) was 52.4%.
- The percentage of Medium-sized and SMEs expecting to increase full-time employees (all industries) among their employees over the “next 3 years” (average of FY2017–FY2019) was 58.4%.

(Reference: I. Listed Companies)

63.2% for the “past 3 years” (average of FY2014–FY2016), and 65.9% for the “next 3 years” (average of FY2017–FY2019).

[Table 2-6-2] Change in the percentage of enterprises that increased/decreased full-time employees or are expecting an increase/decrease in full-time employees among their employees for the past 3 years or over the next 3 years (all industries) (%)



Note 1) Increase: Percentage of enterprises responding over 0%, No change: Percentage of enterprises responding 0%, Decrease: Percentage of enterprises responding less than 0%.

Note 2) The “past 3 years” means the period from FY2014 to FY2016.

Note 3) The “next 3 years” means the period from FY2017 to FY2019.

Note 4) The item name “regular employees” was changed to “full-time employees” in FY2016.

7. Overseas production ratio (manufacturing industries)

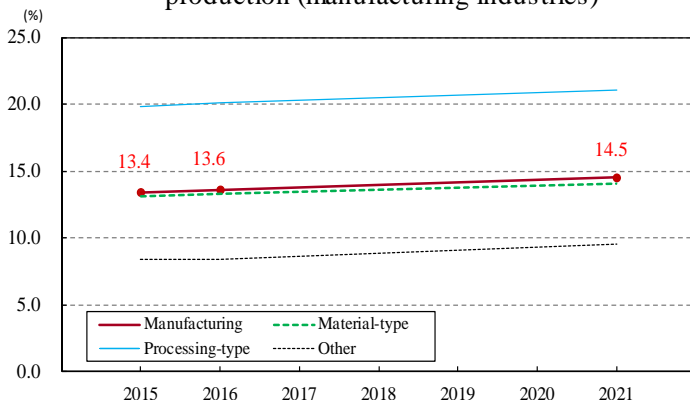
- The “FY2015 actual figures” for the percentage of Medium-sized and SMEs conducting overseas production was 13.4%. The “FY2016 estimate” was 13.6% and the “FY2021 forecast” was 14.5%.
- The “FY2015 actual figures” for the overseas production ratio of Medium-sized and SMEs was 4.0%. The “FY2016 estimate” was 4.0% and the “FY2021 forecast” was 4.4%.
- 9.3% of Medium-sized and SMEs expected an increase in overseas production ratio in the “FY2021 forecast” compared to the “FY2016 estimate,” 88.2% expected no change, and 2.5% expected a decrease.

(Reference: I. Listed Companies)

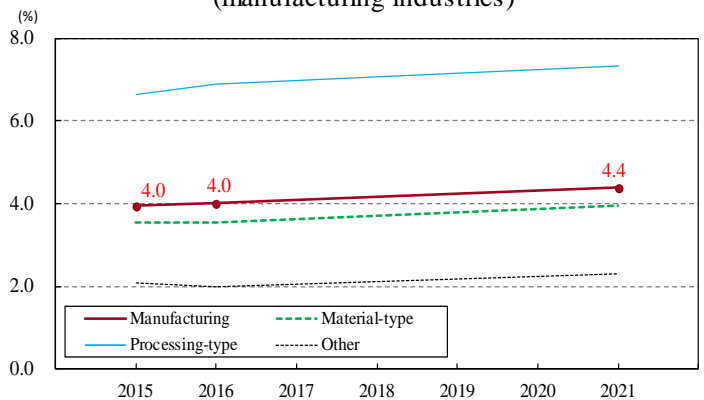
The percentages of companies conducting overseas production: 65.1% for the FY2015 actual figures, 64.7% for FY2016 estimate, and 64.6% for FY2021 forecast.

The overseas production ratio: 21.9% for the FY2015 actual figures, 21.4% for FY2016 estimate, and 23.5% for FY2021 forecast.

[Fig. 2-7-1] Ratio of companies that conduct overseas production (manufacturing industries)



[Fig. 2-7-2] Transition of overseas production ratios (manufacturing industries)



Note 1) Overseas production ratio = Volume of overseas production / (Volume of domestic production + Volume of overseas production)

Note 2) Figure 2-7-1 and Figure 2-7-2 show the FY2016 estimate and FY2021 forecast. For other years, actual result of the previous year in next year's survey are shown. (For example, the value for FY2015 is the value for “FY2015 actual result” in the FY2016 survey.)

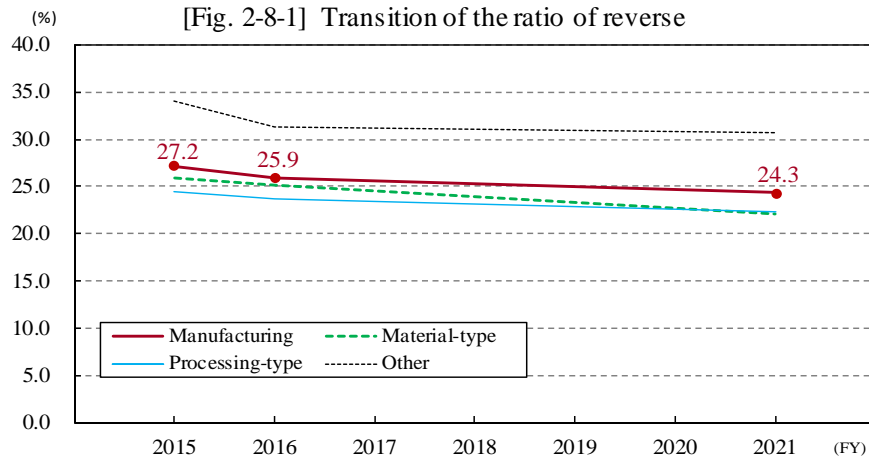
Note 3) Overseas production ratio of Figure 2-7-2 is a simple average including enterprises that responded 0.0%

8. Reverse imports ratio (manufacturing industries)

- The “FY2015 actual figures” for the reverse imports ratio of Medium-sized and SMEs was 27.2%.
- The “FY2016 estimate” was 25.9%, and the “FY2021 forecast” was 24.3%.

(Reference: I. Listed Companies)

19.5% for the FY2015 actual result, 19.5% for FY2016 estimate, and 19.4% for FY2021 forecast.



Note 1) Reverse imports ratio = Export volume to Japan / Volume of overseas local production

Note 2) FY2016 represents the estimate of the actual, FY2021 represents the forecast, and other years represent the actual result for the previous fiscal year in the survey for the following fiscal year. (For example, the value for FY2015 is the value for “FY2015 actual result” in the FY2016 survey.)

Note 3) This is a simple average which excludes companies reporting 0.0% overseas production ratio, while it includes enterprises answering 0.0% reverse imports ratio.

9. Reason for having an overseas production base (manufacturing industries)

- After combining the “main reason” for having an overseas production base with “other relevant reasons” for Medium-sized and SMEs, the top reason was “Labor costs are low” (61.0%), and the second top reason was “Strong demand exists, or demand is forecast to expand, for our products in the local market(s) and markets in neighboring countries” (49.1%).

(Reference: I. Listed Companies)

“Strong demand exists, or demand is forecast to expand for our products in the local market(s) and markets in neighboring countries” for the top reason (70.7%), and “We can cater effectively to overseas users’ needs” for the second top reason (47.0%)

[Table 2-9-1] Composition ratio of the reason for having an overseas production base
(Main reason + Other relevant reasons)

Manufacturing		Material-type		Processing-type		Other	
① Labor costs are low	61.0	④ Strong demand exists, or demand is forecast to expand, for our products in the local market(s) and markets in neighboring countries	54.5	① Labor costs are low	70.4	① Labor costs are low	57.4
④ Strong demand exists, or demand is forecast to expand, for our products in the local market(s) and markets in neighboring countries	49.1	① Labor costs are low	50.0	④ Strong demand exists, or demand is forecast to expand, for our products in the local market(s) and markets in neighboring countries	43.9	④ Strong demand exists, or demand is forecast to expand, for our products in the local market(s) and markets in neighboring countries	51.9
⑤ We can cater effectively to overseas users’ needs	35.8	⑤ We can cater effectively to overseas users’ needs	37.9	⑤ We can cater effectively to overseas users’ needs	37.8	⑦ We have entered the overseas market(s) following entry by our parent enterprise or customer(s) and so on	37.0
⑦ We have entered the overseas market(s) following entry by our parent enterprise or customer(s) and so on	34.4	⑦ We have entered the overseas market(s) following entry by our parent enterprise or customer(s) and so on	31.8	⑦ We have entered the overseas market(s) following entry by our parent enterprise or customer(s) and so on	34.7	③ We can enjoy low costs of materials, overall production processes, distributions, and land/buildings	31.5
③ We can enjoy low costs of materials, overall production processes, distributions, and land/buildings	27.1	③ We can enjoy low costs of materials, overall production processes, distributions, and land/buildings	25.8	③ We can enjoy low costs of materials, overall production processes, distributions, and land/buildings	25.5	⑤ We can cater effectively to overseas users’ needs	29.6

Note 1) The composition ratio of the “Main reason” and “Other relevant reasons” is based on the number of enterprises that responded.

Note 2) Responding enterprises can choose one “Main reason,” and up to two “Other relevant reasons.”