

## <II. Medium-sized and SMEs><sup>8)</sup>

### 1 Business outlook and demand forecast

#### (1) Forecast of Japan's economic growth rate

- The real economic growth rate forecast for Medium-sized and SMEs (all industries, actual value average) for the “next fiscal year” (FY2017) was 1.0%. The forecasts for the “next 3 years” and the “next 5 years” were both 1.0%.
- The nominal economic growth rate forecasts for the “next fiscal year,” the “next 3 years,” and the “next 5 years” were all higher than the real rate forecasts.

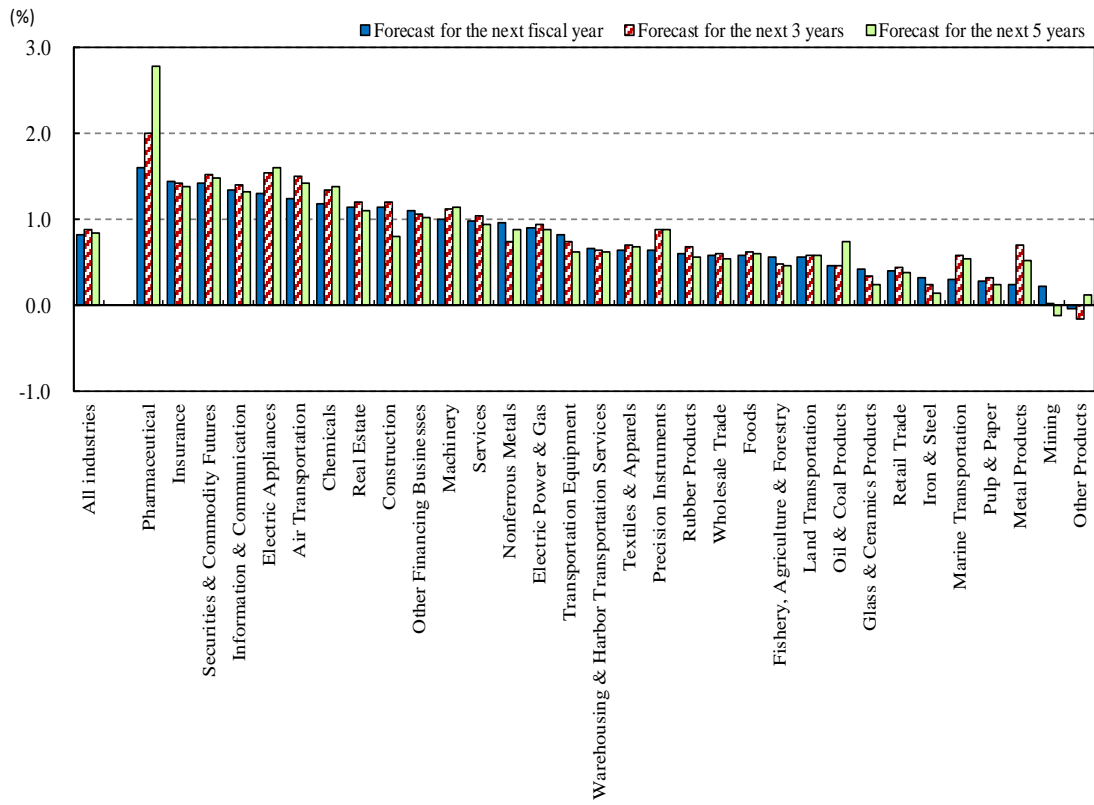
#### (2) Forecast of growth rate of industry demand

- 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).

---

<sup>8)</sup> Medium-sized and SMEs with a capital of 0.1 to 1 billion yen (not incl.) among enterprises all over Japan (excl. enterprises covered in I. Listed Companies) (hereinafter “Medium-sized and SMEs.”) The survey of Medium-sized and SMEs started in FY2016.

[Fig. 2-1-1] Real growth rate forecasts of industry demand by sector



Note 1) The “forecast for the next fiscal year” in the FY2016 survey refers to the forecast for FY2017; the “forecast for the next 3 years” refers to the forecast for FY2017 to FY2019; and the “forecast for the next 5 years” refers to the forecast for FY2017 to FY2021 (fiscal year average).

Note 2) Only sectors with 5 or more responding enterprises are included for all of the “forecast for the next fiscal year,” “forecast for the next 3 years” and “forecast for the next 5 years.”

## 2 Exchange rates

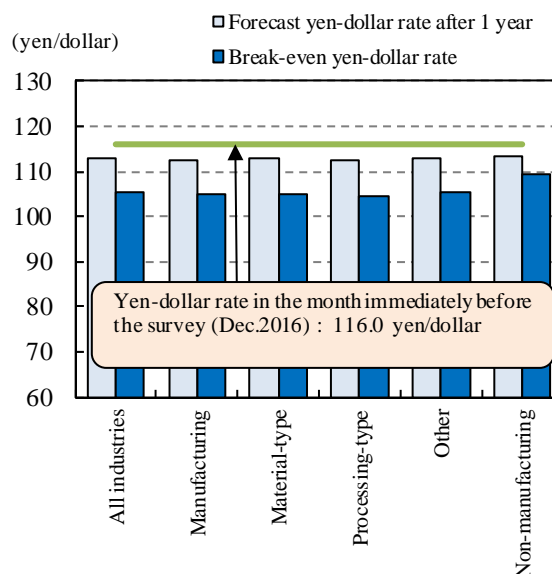
### (1) Forecast yen-dollar rate after 1 year

- 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.

### (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.

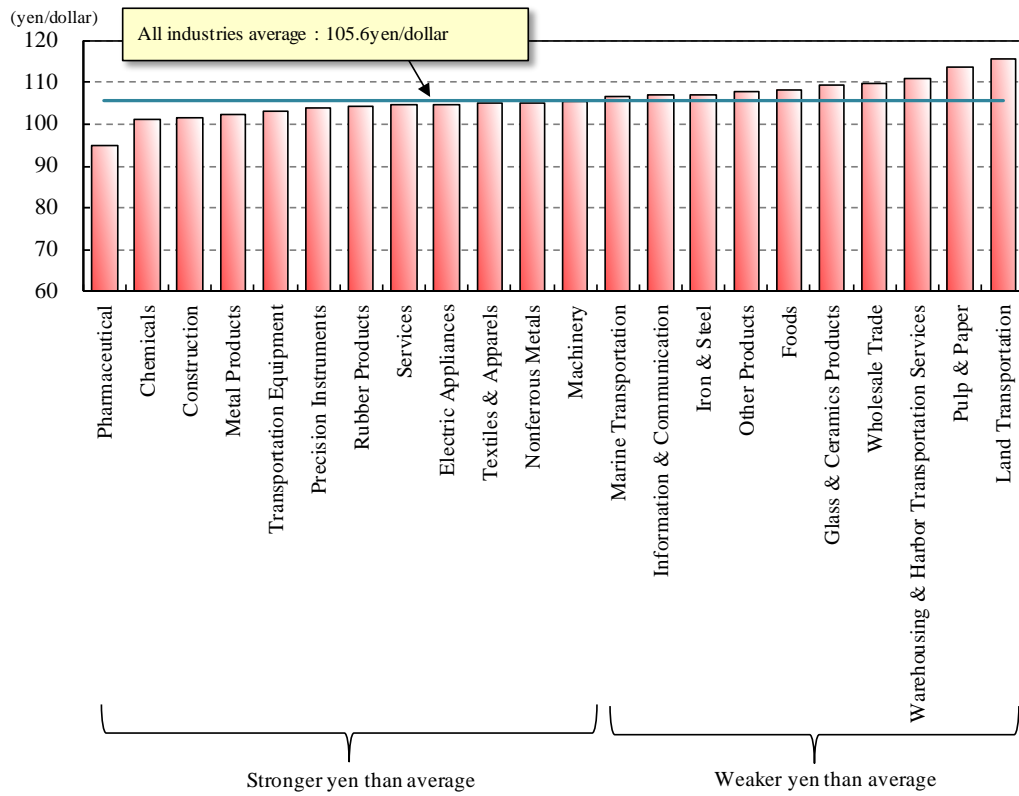
[Fig. 2-2-1] Forecast yen-dollar rate after 1 year and the break-even yen-dollar rate by industry



Note 1) “Forecast yen-dollar rate” is the average of the class values, while “break-even yen-dollar rate” is the average of the actual reported numbers.

Note 2) Calculation of “break-even yen-dollar rate” includes only enterprises that conduct exports.

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



Note 1) Calculation of “break-even yen-dollar rate” includes only enterprises that conduct exports (average of reported numbers).

Note 2) Only sectors with 5 or more responding enterprises are included.

### 3 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.

[Fig. 2-3-1] Forecast rates 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

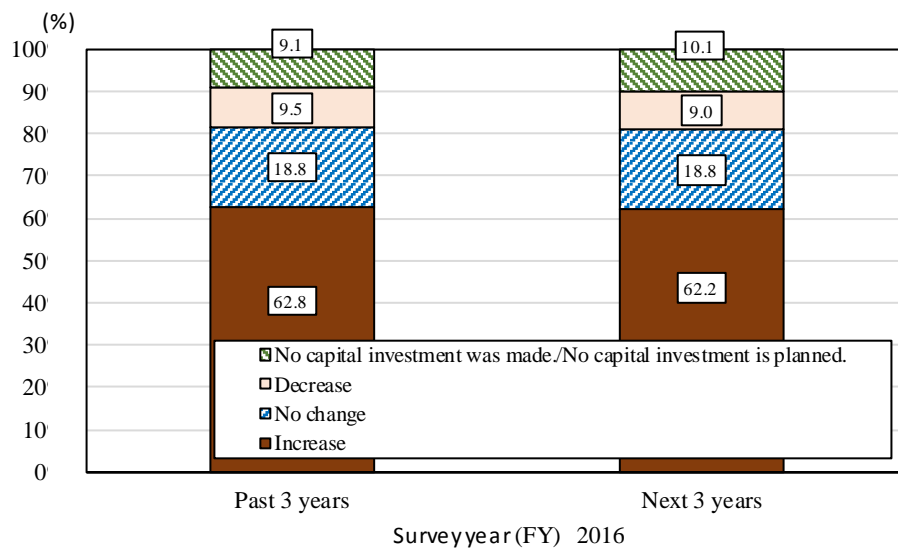
Note 1) Terms of Trade = Rate of change in average sales price – rate of change in average purchase price

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.

## 4 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%.
- The rate of change in capital investment over the “next 3 years” (average of FY2017–FY2019) increased by 4.6%. In terms of the rate of change in capital investment by sector, the increase rate was high in sectors such as “Pulp & Paper” and “Oil & Coal Products” (6.6% for both) in the manufacturing industries, and in sectors such as “Mining” (10.0%) and “Air Transportation” (8.1%) in the non-manufacturing industries.

[Fig. 2-4-1] 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)

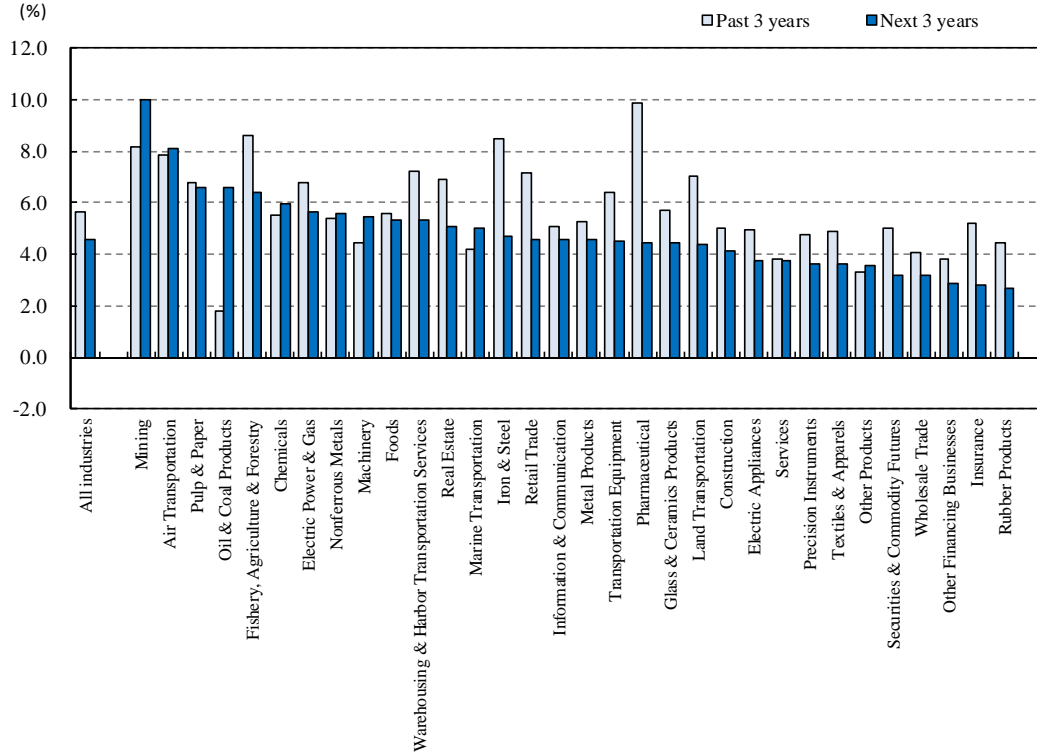


Note 1) Increase: Percentage of enterprises responding over 0%, No change: Percentage of enterprises responding 0%, Decrease: Percentage of enterprises responding less than 0%.

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.

[Fig. 2-4-2] Growth rate of capital investment by sector



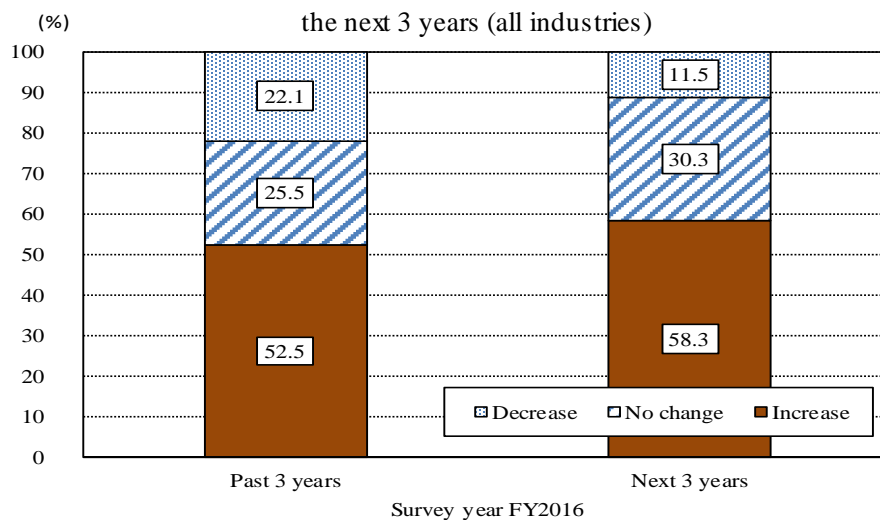
Note 1) The “Past 3 years” represents the growth rate from FY2014 to FY2016 (fiscal year average), and the “next 3 years” represents growth rate forecasts from FY2017 to FY2019 (fiscal year average).  
 Note 2) Sectors include only those with 5 or more responding enterprises for both “past 3 years” and “next 3 years.”

## 5 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%.

[Figure 2-5-1] Change 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.

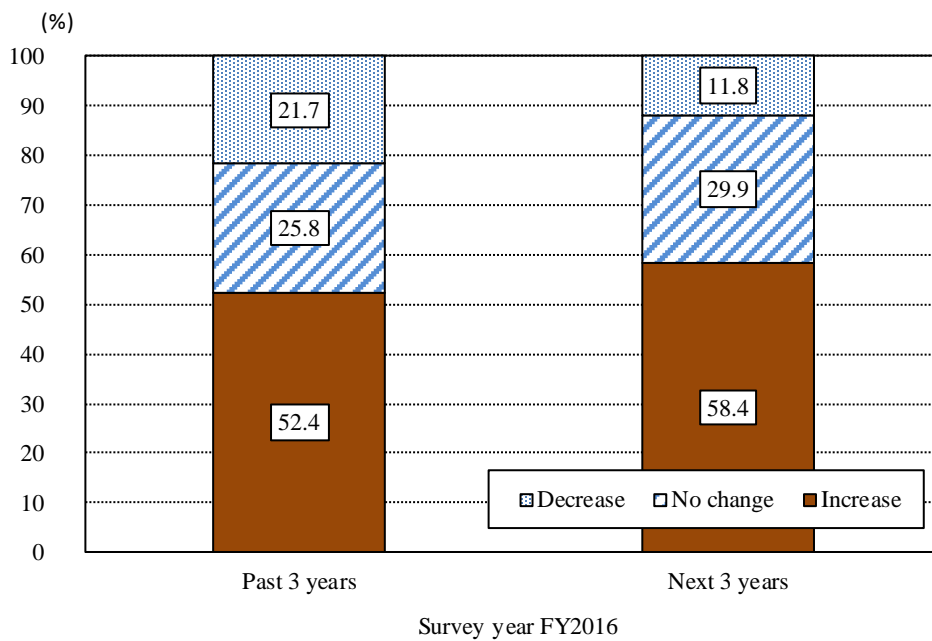
Note 3) The “next 3 years” means the period from FY2017 to FY2019.



(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%.

[Figure 2-5-2] 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.

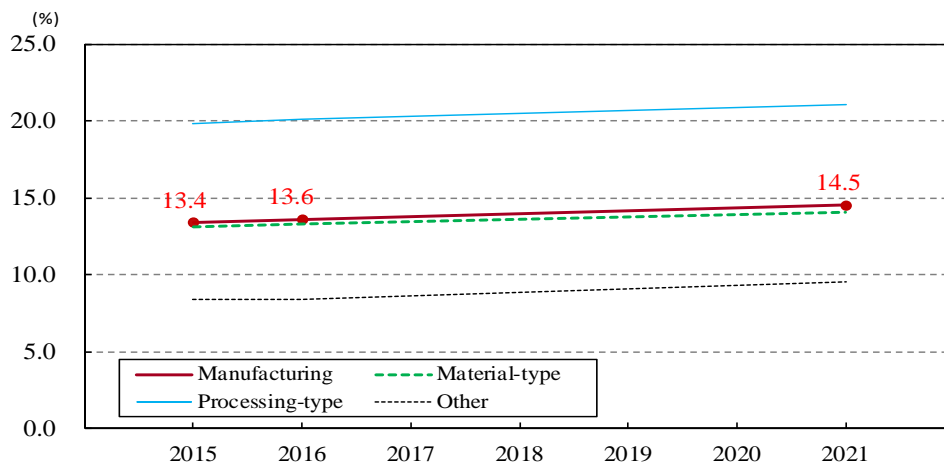
Note 3) The “next 3 years” means the period from FY2017 to FY2019.

## 6 Overseas production ratio and reverse imports ratio

(1) The ratio of enterprises conducting overseas production (manufacturing industries only)

○The “FY2015 actual result” 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%.

[Fig. 2-6-1] Ratio of companies that conduct overseas production (manufacturing industries)

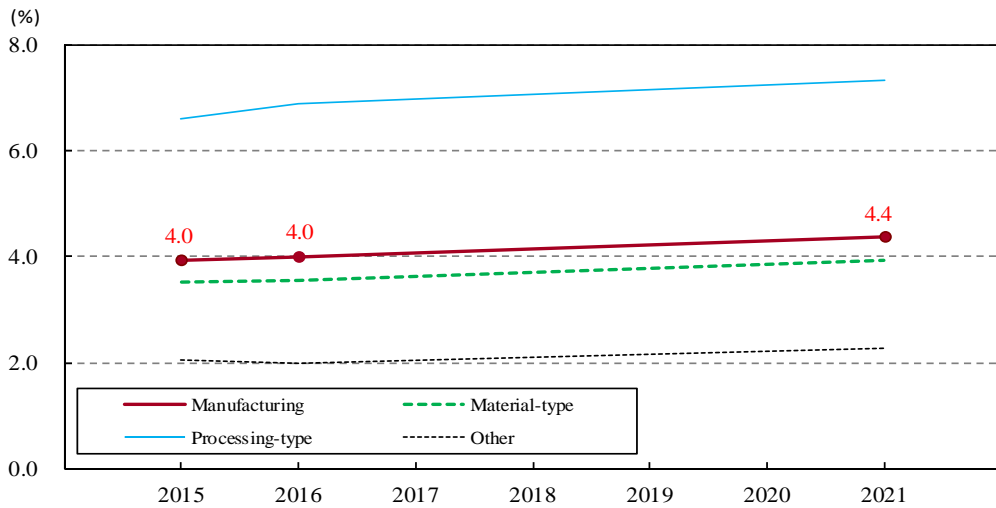


Note ) FY2015, FY2016, and FY2021 indicate actual result, estimate, and forecast, respectively.

(2) Overseas production ratio (manufacturing industries only)

- The “FY2015 actual result” 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.
- In terms of the “FY2021 forecast” by sector, the level was high in sectors such as “Textiles & Apparels” (11.7%) and “Precision Instruments” (10.0%), while it was low in sectors such as “Oil & Coal Products” (0.0%) and “Glass & Ceramics Products” (0.5%).

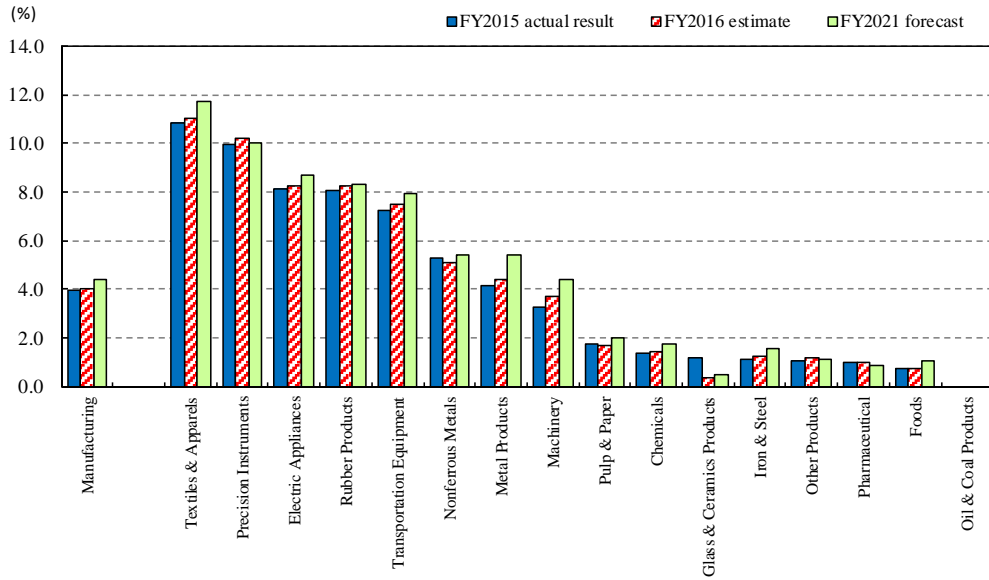
[Fig. 2-6-2] Transition of overseas production ratios (manufacturing industries)



Note 1) FY2015, FY2016, and FY2021 indicate actual result, estimate, and forecast, respectively.

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

[Fig. 2-6-3] Overseas production ratio by sector (manufacturing industries)



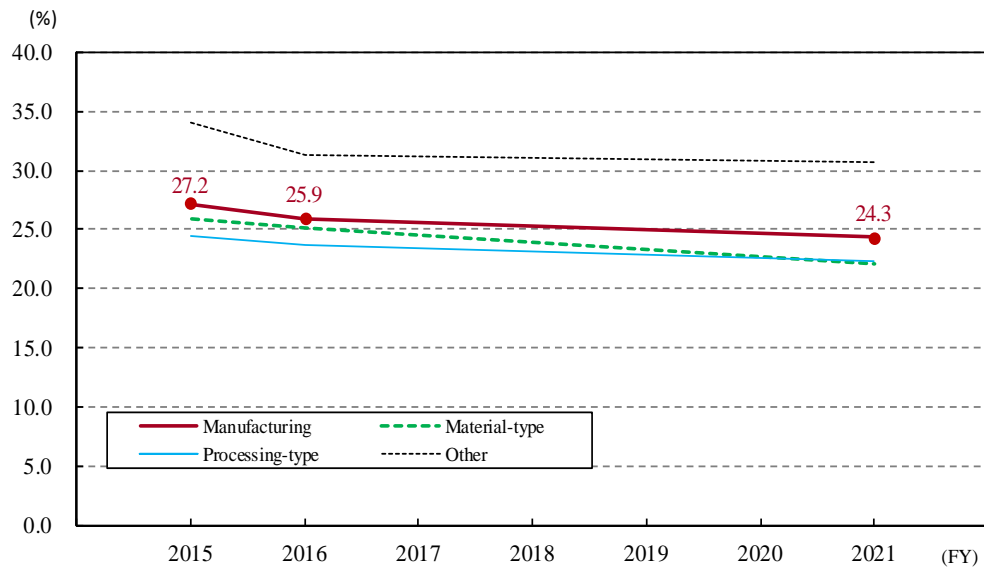
Note 1) Simple average of responding enterprises including those that reported 0.0% for the overseas production ratio.

Note 2) Sectors include only those with 5 or more responding enterprises in all of “FY2015 actual result,” “FY2016 estimate” and “FY2021 forecast.”

### (3) Reverse imports ratio (manufacturing industries only)

- The “FY2015 actual result” 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%.

[Fig. 2-6-4] Transition of the ratio of reverse imports (manufacturing industries)



Note 1) FY2015, FY2016, and FY2021 indicate actual result, estimate, and forecast, respectively.

Note 2) This is a simple average which excludes enterprises reporting 0.0% overseas production ratio, while it includes enterprises answering 0.0% reverse imports ratio.

(4) “Main reason” and “Other relevant reasons” for having an overseas production base  
(manufacturing industries only)

○ 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%).

[Table 1-6-5] Reason for having an overseas production base (Main reason + Other relevant reasons)  
Top 5 reasons (Manufacturing industries)

FY2016 survey

(%)

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.”