

March 29, 2019

Economic and Social Research Institute

FY2018 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) 7,672 enterprises (randomly selected from the establishment frame database)
Responding companies	2,972 (1,343 in manufacturing industries, 1,629 in non-manufacturing industries)
Response rate	38.7%
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, prices, 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 2019 (Questionnaire deadline: January 15) (Note) The survey of Medium-sized and SMEs started in FY2016.

1. Japan's Economic Growth Rate

- The real economic growth rate forecast (all industries, actual value average) for the “next fiscal year” (FY2019) was 1.2%, higher than the previous year's survey result (1.1%).
- The nominal economic growth rate forecast (1.5%) was higher than the real rate forecast (1.2%), suggesting that future price increase has been taken into consideration.

Note: “Actual value average” is simple average.

(Reference: FY2018 Annual Survey, I. Listed Companies [the same shall apply hereinafter])

The real and nominal economic growth rate forecasts for the “next fiscal year” were 1.1% 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 (all industries, actual value average) for the “next fiscal year” (FY2019) was 1.0%, forecasting positive growth. The figures for the manufacturing industries and non-manufacturing industries were 1.0% and 1.1%, respectively.
- The medium-term forecasts for the “next 3 years” and the “next 5 years” were 1.0% and 0.9%, respectively.
- In terms of the forecasts for the “next fiscal year” by sector, the growth rate forecast of the manufacturing industries was high in “Electric Appliances” (1.5%) and “Precision Instruments” (1.5%), and that of the non-manufacturing industries was high in “Insurance” (1.6%) and “Information & Communication” (1.3%).

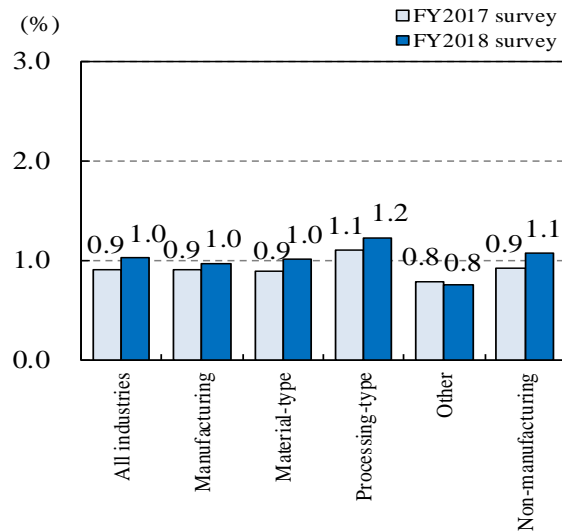
(Reference: I. Listed Companies)

The real growth rate forecast for the “next fiscal year” was 1.2% (1.2% both for manufacturing industries and non-manufacturing industries), and the forecasts for the real growth rate for the “next 3 years” and the “next 5 years” were 1.2% and 1.1% respectively.

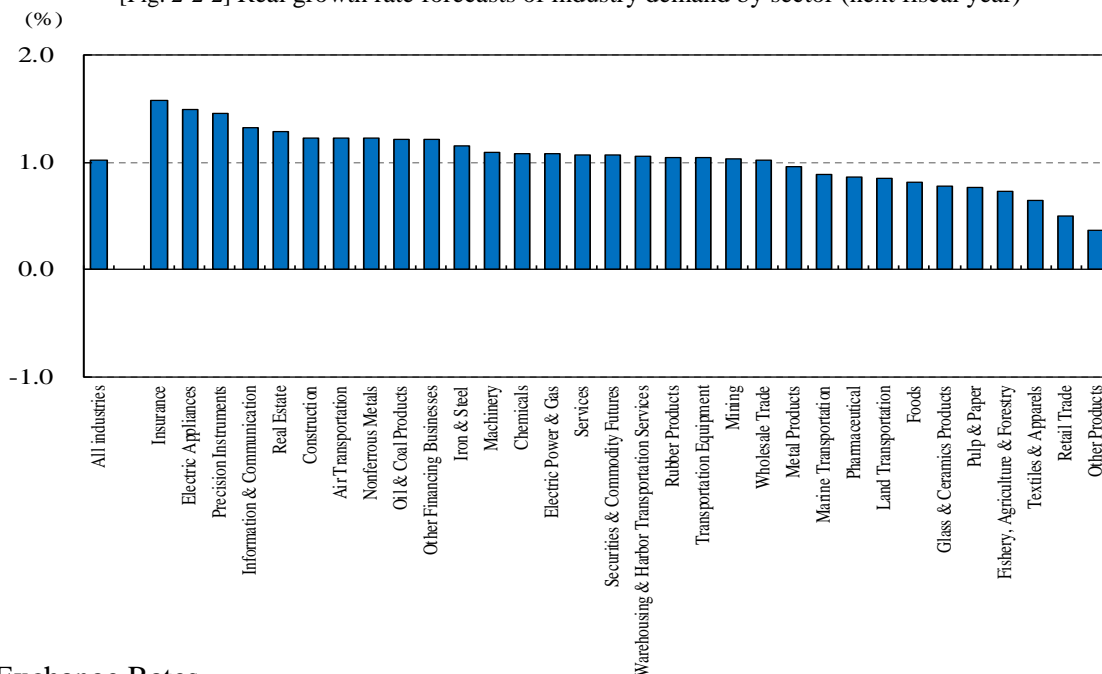
<Contact Information>

Department of Business Statistics, Economic and Social Research Institute, Cabinet Office
(Survey page: https://www.esri.cao.go.jp/jp/stat/ank/menu_ank.html)

[Fig. 2-2-1] Real growth rate forecasts of industry demand by industry compared to the previous year's results (next fiscal year)



[Fig. 2-2-2] 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 2020) for Medium-sized and SMEs (all industries, class value average) was 111.7 yen/dollar. This was a 2.1 yen appreciation compared with the previous year's survey result (113.9 yen/dollar).
- Compared with the yen-dollar rate for the month immediately before the survey (112.5 yen/dollar in December 2018), the forecast appreciated by 0.7 yen.

Note: "Class value average" is simple average of the median value of each class selected from among the choices.

(Reference: I. Listed Companies)

The forecast yen-dollar rate after 1 year was 111.2 yen/dollar. Compared with the yen-dollar rate for the month immediately before the survey (112.5 yen/dollar), the forecast appreciated by 1.3 yen.

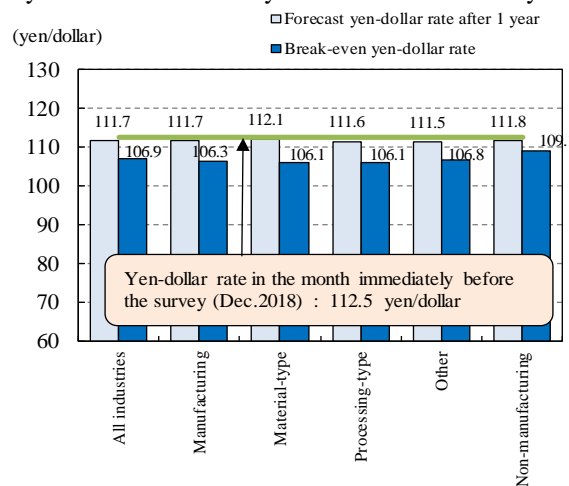
(2) Break-even yen-dollar rate

- The break-even yen-dollar rate of exporting Medium-sized and SMEs (all industries, actual value average) was 106.9 yen/dollar. This was a 0.6 yen depreciation compared with the previous year's survey result (106.4 yen/dollar).
- In terms of the break-even yen-dollar rate by industry, the rates of the manufacturing industries and the non-manufacturing industries were 106.3 yen/dollar and 109.1 yen/dollar, respectively. Compared with the yen-dollar rate for the month immediately before the survey, the rate for both the manufacturing industries and non-manufacturing industries appreciated by 6.2 yen and 3.4 yen, respectively.
- In terms of the break-even yen-dollar rate by sector, compared with the all industries average, sectors such as "Electric Power & Gas" (115.3 yen/dollar) and "Land Transportation" (114.0 yen/dollar) set weaker break-even rates, while sectors such as "Pharmaceutical" (101.2 yen/dollar) and "Retail Trade" (101.9 yen/dollar) set stronger rates.

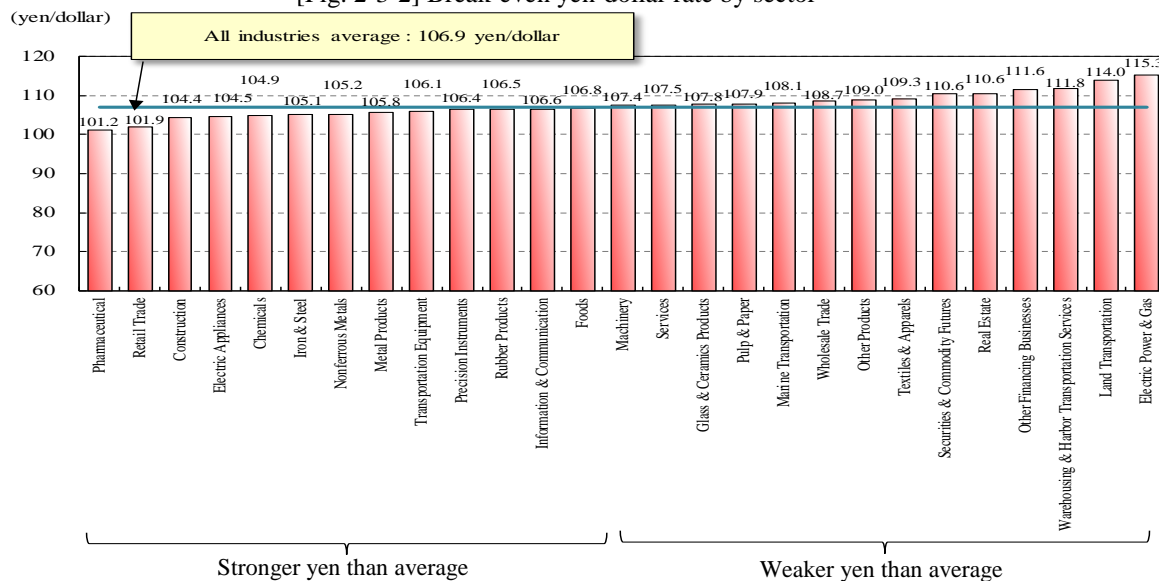
(Reference: I. Listed Companies)

The break-even yen-dollar rate of exporting companies was 99.8 yen/dollar (98.9 yen/dollar for manufacturing industries, and 104.6 yen/dollar for non-manufacturing industries). Compared with the yen-dollar rate for the month immediately before the survey, the rates of manufacturing industries and non-manufacturing industries appreciated by 13.6 yen and 7.9 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 3.3% (while the previous year's survey result was 3.2%).
- Average sales prices after 1 year for Medium-sized and SMEs (all industries, class value average) increased by 1.8% (while the previous year's survey result was 1.6%).
- Purchase price increases surpassed sales price increases for Medium-sized and SMEs, and terms of trade (all industries) were forecast to worsen by 1.5 percentage points.

(Reference: I. Listed Companies)

The average purchase price after 1 year increased by 2.5%, and the average sales price after 1 year increased by 1.5%. The terms of trade were forecast to worsen by 1.0 percentage point.

[Table 2-4-1] Terms of trade by industry

(%, %points)

		Average purchase price		Average sales price		Terms of trade	
		FY2018 survey	FY2017 survey	FY2018 survey	FY2017 survey	FY2018 survey	FY2017 survey
All industries		3.3	3.2	1.8	1.6	-1.5	-1.6
Industry	Manufacturing	3.6	3.5	1.7	1.6	-1.9	-2.0
	Material-type	3.7	3.9	2.4	2.2	-1.3	-1.7
	Processing-type	3.2	2.8	0.9	0.8	-2.3	-2.0
	Other	3.8	3.7	1.8	1.6	-2.0	-2.2
	Non-manufacturing	3.0	2.8	1.9	1.7	-1.2	-1.1

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 FY2018 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.

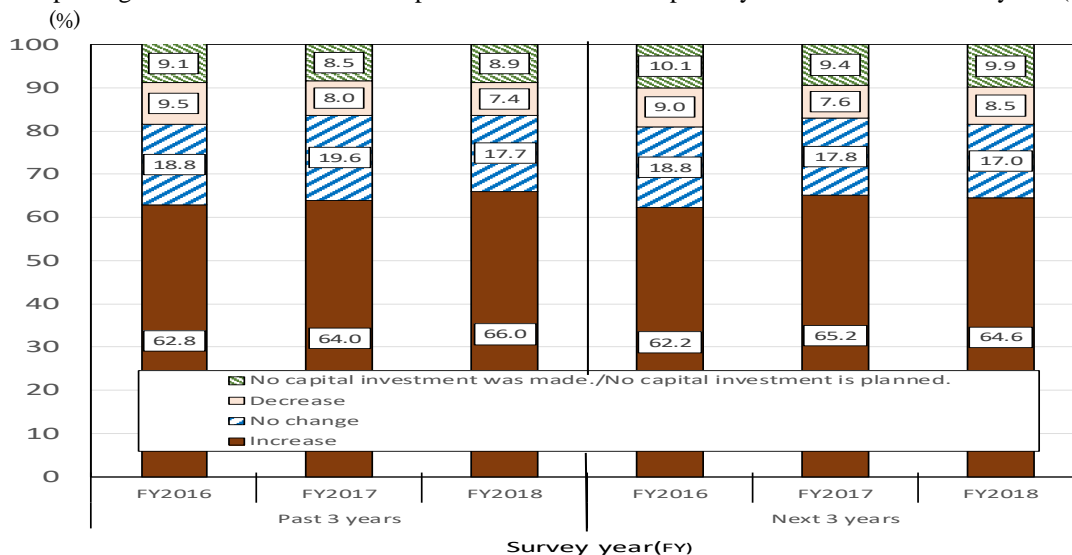
5. Change in Capital Investment

- The percentage of Medium-sized and SMEs (all industries) that increased capital investment for the “past 3 years” (average of FY2016-FY2018) was 66.0%, which was higher than the previous year's survey result (64.0%).
- The percentage of Medium-sized and SMEs (all industries) expecting to increase capital investment over the “next 3 years” (average of FY2019–FY2021) was 64.6%, which was lower than the previous year's survey result (65.2%).

(Reference: I. Listed Companies)

77.0% for the “past 3 years” (average of FY2016–FY2018), and 69.2% for the “next 3 years” (average of FY2019–FY2021).

[Fig. 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 FY2016 to FY2018.
 Note 3) The “next 3 years” means the period from FY2019 to FY2021.

6. Change in the Number of Employees

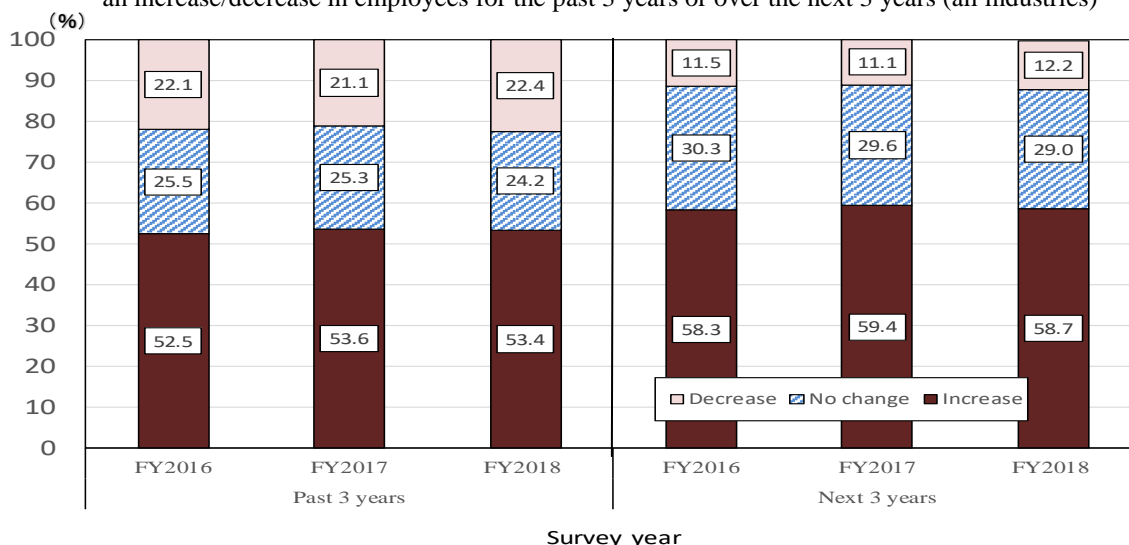
(1) Number of employees

- The percentage of Medium-sized and SMEs (all industries) that increased employees for the “past 3 years” (average of FY2016–FY2018) was 53.4%, which was lower than the previous year’s survey result (53.6%).
- The percentage of Medium-sized and SMEs (all industries) expecting to increase employees over the “next 3 years” (average of FY2019–FY2021) was 58.7%, which was lower than the previous year’s survey result (59.4%).

(Reference: I. Listed Companies)

69.5% for the “past 3 years” (average of FY2016–FY2018), and 69.3% for the “next 3 years” (average of FY2019–FY2021).

[Fig. 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 FY2016 to FY2018.
 Note 3) The “next 3 years” means the period from FY2019 to FY2021.

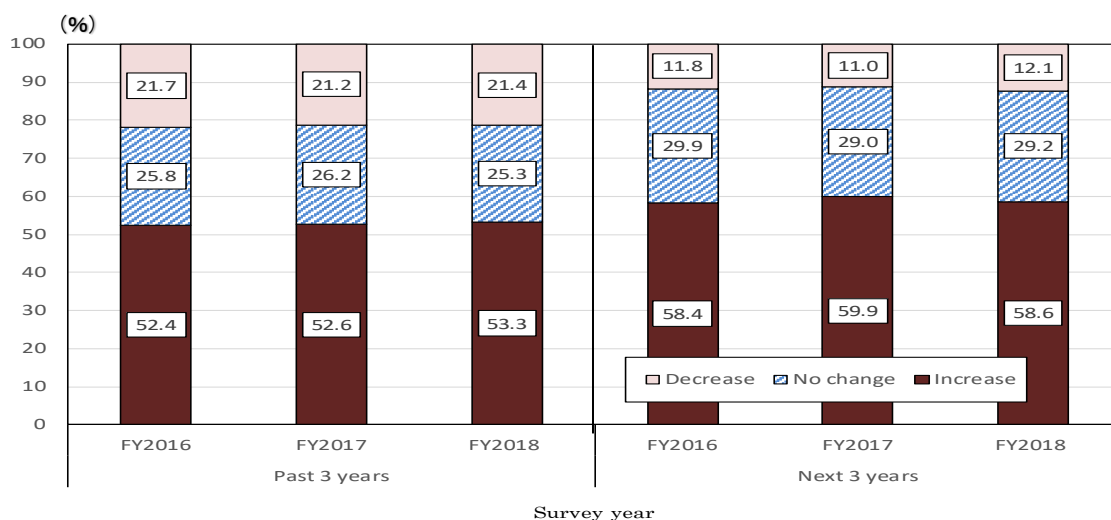
(2) Number of full-time employees

- The percentage of Medium-sized and SMEs (all industries) that increased the number of full-time employees among all employees for the “past 3 years” (average of FY2016-FY2018) was 53.3%, which was higher than the previous year’s result (52.6%).
- The percentage of Medium-sized and SMEs (all industries) expecting to increase full-time employees among all employees over the “next 3 years” (average of FY2019-FY2021) was 58.6%, which was lower than the previous year’s result (59.9%).

(Reference: I. Listed Companies)

68.4% for the “past 3 years” (average of FY2016–FY2018), and 68.8% for the “next 3 years” (average of FY2019–FY2021).

[Fig. 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 FY2016 to FY2018.
- Note 3) The “next 3 years” means the period from FY2019 to FY2021.

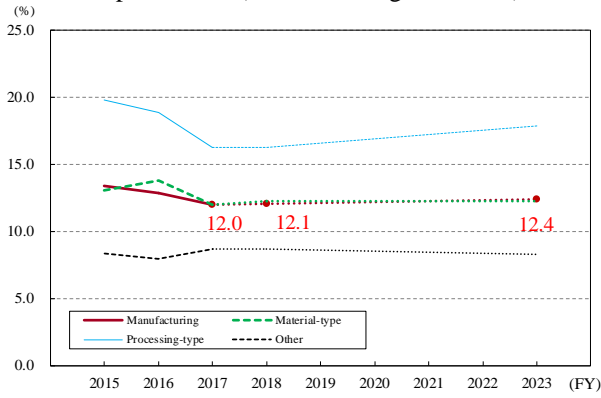
7. Overseas Production Ratio (Manufacturing Industries)

- The “FY2017 actual figures” for the percentage of Medium-sized and SMEs conducting overseas production was 12.0%, a 0.9 percentage point decrease from the previous year’s survey result (12.9%). The “FY2018 estimate” was 12.1%. The “FY2023 forecast” was 12.4%.
- The “FY2017 actual figures, actual value average” for the overseas production ratio of Medium-sized and SMEs was 3.7%, a decrease from the previous year’s survey result (3.9%). The “FY2018 estimate” was 3.7% and the “FY2023 forecast” was 4.1%.
- 7.5% of the companies expected the increase in overseas production ratio in the “FY2023 forecast” compared to the “FY2018 estimate” (the previous year’s survey result, 8.7%.)

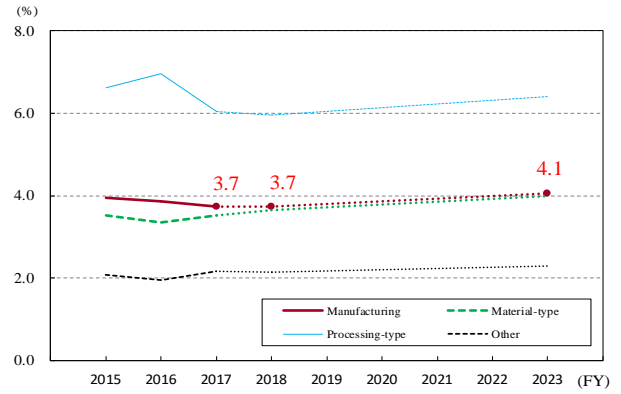
(Reference: I. Listed Companies)

The percentages of companies conducting overseas production: 68.3% for FY2017 actual figures, 67.7% for the FY2018 estimate, and 65.2% for the FY2023 forecast.
 The overseas production ratio: 22.9% for FY2017 actual figures, 22.7% for the FY2018 estimate, and 23.8% for the FY2023 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)

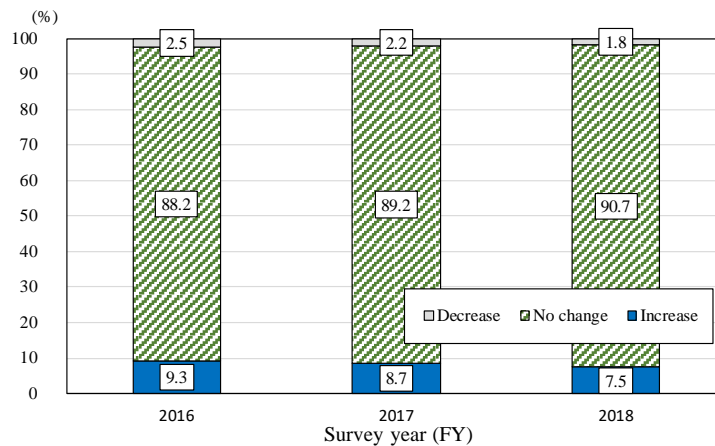


Note 1) Overseas production ratio = Volume of overseas production / (Volume of domestic production + Volume of overseas production)

Note 2) Figure 2-7-1 and Figure 2-7-2 show the FY2018 estimate and FY2023 forecast. For other years, actual result of the previous year in next year's survey are shown. (For example, the value for FY2017 is the value for "FY2017 actual result" in the FY2018 survey.)

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

[Fig. 2-7-3] The percentage of companies expecting an increase or a decrease in overseas production ratio (manufacturing industries)



Note) Increase: "Forecast" - "Estimate" > 0, No change: "Forecast" - "Estimate" = 0, Decrease: "Forecast" - "Estimate" < 0.

(In FY2018, if the values after subtracting "FY2018 estimate" from "FY2023 forecast" of each responding company are plus, equal, and minus, it is "Increase," "No change," and "Decrease.")

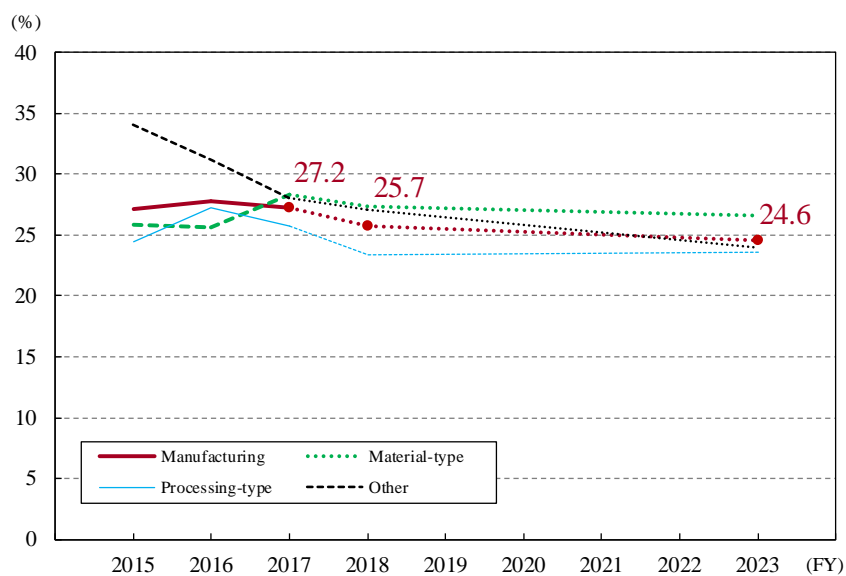
8. Reverse Imports Ratio (Manufacturing Industries)

- The “FY2017 actual figures, actual value average” for the reverse imports ratio of Medium-sized and SMEs was 27.2%, a decrease from the previous year’s survey result (27.8%).
- The “FY2018 estimate” was 25.7%, and the “FY2023 forecast” was 24.6%.

(Reference: I. Listed Companies)

17.7% for the FY2017 actual figures, 17.7% for the FY2018 estimate, and 17.3% for FY2023 forecast.

[Fig. 2-8-1] Transition of the ratio of reverse imports (manufacturing industries)



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

Note 2) FY2018 represents the estimate of the actual, FY2023 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 FY2017 is the value for “FY2017 actual result” in the FY2018 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. Reasons for Having an Overseas Production Base (Manufacturing Industries)

- When combining the “main reasons” for having an overseas production base with “other relevant reasons” for Medium-sized and SMEs, the top reason was “Labor costs are low” (53.4%). 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” (46.0%).

(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 (70.8%), and “We can cater effectively to overseas users’ needs” was the second top reason (48.6%).

[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	53.4 (61.8)	④ Strong demand exists, or demand is forecast to expand, for our products in the local market(s) and markets in neighboring countries	50.0 (54.8)	① Labor costs are low	58.7 (68.8)	④ Strong demand exists, or demand is forecast to expand, for our products in the local market(s) and markets in neighboring countries	55.1 (51.0)
④ Strong demand exists, or demand is forecast to expand, for our products in the local market(s) and markets in neighboring countries	46.0 (46.1)	① Labor costs are low	48.1 (50.0)	⑦ We have entered the overseas market(s) following entry by our parent enterprise or customer(s) and so on	46.7 (46.3)	① Labor costs are low	51.0 (65.3)
⑦ We have entered the overseas market(s) following entry by our parent enterprise or customer(s) and so on	42.6 (41.9)	⑤ We can cater effectively to overseas users’ needs	44.2 (35.5)	④ Strong demand exists, or demand is forecast to expand, for our products in the local market(s) and markets in neighboring countries	37.3 (36.3)	⑦ We have entered the overseas market(s) following entry by our parent enterprise or customer(s) and so on	40.8 (40.8)
⑤ We can cater effectively to overseas users’ needs	33.5 (33.0)	⑦ We have entered the overseas market(s) following entry by our parent enterprise or customer(s) and so on	38.5 (37.1)	⑤ We can cater effectively to overseas users’ needs	33.3 (35.0)	③ We can enjoy low costs of materials, overall production processes, distributions, and land/buildings	26.5 (26.5)
③ We can enjoy low costs of materials, overall production processes, distributions, and land/buildings	27.8 (30.4)	③ We can enjoy low costs of materials, overall production processes, distributions, and land/buildings	26.9 (32.3)	③ We can enjoy low costs of materials, overall production processes, distributions, and land/buildings	29.3 (31.3)	⑤ We can cater effectively to overseas users’ needs	22.4 (26.5)

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

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

Note 3) () shows the previous year's survey results.