Summary of the Results of the 100th Bank of Kyoto Quarterly Survey
(Survey on Assessment of Business Conditions by Companies in Kyoto)
February 2018

(Outline)

The diffusion index (DI) of the current business conditions for companies in Kyoto rose again, by 3 points to plus 5, on an all industry basis, marking the sixth consecutive quarterly improvement.

The DI for the manufacturing industry gained increased recovery momentum, recording a 4-point rise, while the DI for the nonmanufacturing industry also improved 2 points and moved into the plus column for the first time in four years. By company size, the DI recorded positive figures for both small and medium-sized enterprises, an indication of the strength of the survey results.

(1) Notable Features of the Assessment of Business Conditions (current conditions) by companies in Kyoto

The diffusion index (DI) of the current business conditions (the percentage of companies that described the conditions as favorable minus the percentage of companies that described the conditions as unfavorable) for companies in Kyoto rose again, by 3 points from plus 2 in the previous survey in November to plus 5. This figure, which represented the sixth consecutive quarterly rise, is close to the highest level since the Lehman shock (plus 7 in November 2013), indicating the strength of recovery in the business sentiment of companies in Kyoto. The DI for the manufacturing industry rose 4 points (from plus 5 to plus 9), gaining increased recovery momentum. The DI for the nonmanufacturing industry rose 2 points (from minus 1 to plus 1) for the fourth consecutive quarterly improvement, representing the first return to the plus column in four years. By company size, the DI recorded positive figures for both small enterprises (from plus 2 to plus 5) and for medium-sized enterprises (from minus 1 to plus 5), suggesting that the recovery was steadily spreading and growing in strength.

By industry, the DI for the manufacturing industry rose 4 points from plus 5 in the previous survey to plus 9, gaining increased recovery momentum. The DI for the machinery industry remained high (from plus 25 to plus 28), and the strength of the DIs for other industries also supported the overall results. For example, the DI rose steeply for the metal product sector (from plus 9 to plus 24) and the chemicals sector (from plus 20 to plus 36). The DIs for 9 of the 14 sectors of the manufacturing industry either improved or continued to rise. The DI remained relatively firm for most of the five sectors for which the DI declined. For example, the precision machinery sector recorded a 1-point drop but remained at a high level (from plus 41 to plus 40), while the plastic product sector (from plus 13 to 0) and the ceramics, stone and clay sector (from plus 20 to 0) were at the neutral level although they recorded a decline.

The DI for the nonmanufacturing industry improved 2 points from minus 1 to plus 1 for the fourth consecutive quarterly improvement, returning to the plus column for the first time in four years. By sector, the DI was somewhat weak for the food wholesale sector (from minus 17 to 0) and the retail sector (from minus 16 to minus 15), However, the DI improved for four sectors, remained flat for five sectors and declined for only one sector. The DI rose steadily in the plus column for the real estate sector (from plus 14 to plus 29) and remained in the plus sector for the overall wholesale industry (comprised of five sectors) (unchanged at plus 3) and the construction sector (unchanged at plus 6). The DI improved for the services sector (from minus 14 to minus 8). The firm results for these sectors helped to raise the overall DI into the plus column.

By company size, the DI dropped back to the neutral level for large enterprises (from plus 21 to 0). However, the DI recorded positive figures for both medium-sized enterprises and small enterprises. The DI turned positive for medium-sized enterprises (from minus 1 to plus 5) and rose in the plus column for small enterprises (from plus 2 to plus 5). These results indicated that the recovery was spreading more widely than before and growing in strength.

Changes in the business conditions DI (the percentage of companies that described the conditions as favorable minus the percentage of companies that described the conditions as unfavorable)

	(Number of companies)	2017			2018		
		May	August	November	February	(Previous forecast)	May (Forecast)
All industries	449	-3	1	2	5	(3)	6
Manufacturing	222	4	6	5	9	(6)	11
Nonmanufacturing	227	-10	-5	-1	1	(0)	1
Large enterprises	12	12	13	21	0	(21)	0
Medium-sized enterprises	101	-2	3	-1	5	(-3)	1
Small enterprises	336	-4	-1	2	5	(4)	8

Note: Large enterprises are those which employ 500 or more workers, medium-sized enterprises are those which employ 100 to 499 workers, and small enterprises are those which employ 99 or fewer workers.

(2) Forecast of Future Business Conditions (three months later)

The forecast DI (forecast of conditions three months later) for all industries stayed firm in the positive column as it edged up 1 point from plus 5 to plus 6. The forecast DI for the manufacturing industry rose 2 points (from plus 9 to plus 11) to a double-digit positive figure, while the forecast DI for the nonmanufacturing industry remained firm in the plus column (unchanged at plus 1).

(3) Conditions of Corporate Activities

As for specific corporate activities, there were some differences in the results between the manufacturing and nonmanufacturing industries. In the manufacturing industry, order receipts further increased and the operating ratio remained at a high level. Although the gap between input and output prices was large, the sales and profit DIs remained firm due to volume effect. On the other hand, in the nonmanufacturing industry, as the product order receipt and demand DI remained weak, volume effect is unlikely to be realized despite an improvement in output prices. As a result, the sales and profit DIs also remained somewhat weak.

First, the product order receipt and demand DI declined 1 point (from 0 to minus 1) on an all-industry basis. However, the DI for the manufacturing industry rose 3 points in the plus column (from plus 4 to plus 7), while the DI for the nonmanufacturing industry dropped 4 points (from minus 5 to minus 9). Although the operating ratio DI ((calculated only for the manufacturing industry) declined 1 point (from plus 11 to plus 10), it remained at a high level against the backdrop of the improvement in order receipts and demand. The inventory DI fell 2 points (from plus 3 to plus 1). Although the inventory level remained at an appropriate level in both the manufacturing and nonmanufacturing industries, there was a sense of inventory shortage in some sectors.

The input price gained 7 points (from plus 30 to plus 37) on an all-industry basis. The DI for the nonmanufacturing industry rose steeply (from plus 27 to plus 41), by 14 points, while the DI for the nonmanufacturing industry remained at a high level in the positive column (from plus 33 to plus 34), reflecting the growing momentum of the input price increase.

The output price DI rose 3 points (from plus 3 to plus 6) and remained in the positive column for the second consecutive quarter. The DI for the manufacturing industry improved 4 points (from minus 2 to plus 2), climbing into the plus column, and the DI for the nonmanufacturing industry continued to rise in the plus column (from plus 9 to plus 11), reflecting gradual price increases.

The sales DI declined slightly (from 0 to minus 2), representing the first drop in six quarters. While the DI for the manufacturing industry remained flat (unchanged at plus 6), the DI for the nonmanufacturing industry fell 3 points in the minus column (from minus 6 to minus 9).

The profit DI remained flat (unchanged at minus 4). The DI for the manufacturing industry stayed flat at the neutral level (unchanged at 0), but the DI for the nonmanufacturing industry remained unchanged in the minus column (unchanged at minus 9).

The employment DI declined 3 points in the minus column (from minus 42 to minus 45), indicating a growing sense of labor shortage. For the moment, there is no sector in which the sense of labor shortage is directly leading to a deterioration in business sentiment, but there remain concerns that the shortage, coupled with rising input prices, may put downward pressure on business management in the future. The DI remained deep in the minus column for both the manufacturing industry (from minus 42 to minus 45) and the nonmanufacturing industry (from minus 42 to minus 46), signaling that the tight labor supply-demand condition has been prolonged.

The fixed investment DI remained flat in the minus column (unchanged at minus 8), reflecting that companies maintained a cautious stance on fixed investment. The DI declined 2 points for the manufacturing industry (from minus 1 to minus 3) but remained flat for the nonmanufacturing industry (unchanged at minus 14). However, there is a glimmer of hope for improvement. For example, according to a survey on the amount of investments by small and medium-size enterprises, although the amount of investments in fiscal 2017 is expected to record a decline, new fixed investment plans for 2018 show the first year-on-year increase in two years.

The financial position DI remained at a sound level (from plus 11 to plus 12), suggesting that companies' financial positions remained easy. The borrowing DI declined 5 points in the minus column (from minus 8 to minus 13), meaning that companies were still making persistent efforts to reduce borrowing.