Summary of the Results of the 92nd Bank of Kyoto Quarterly Survey
(Survey on Assessment of Business Conditions by Companies in Kyoto)

February 2016 Survey

(Outline)

The diffusion index (DI) of the current business conditions for companies in Kyoto fell back 6 points for the first drop in four quarters, indicating that the recovery has come to a sudden halt.

The DI for the manufacturing industry plunged 10 points, led by a drop for the machinery sector, while the DI for the nonmanufacturing industry remained almost flat.

Since the beginning of this year, the business conditions have rapidly become stagnant in the absence of growth drivers in terms of both domestic and overseas demand.

(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 fell 6 points from minus 3 to minus 9. This decline, the first in four quarters, indicates that the business conditions for companies in Kyoto, which have until now been recovering at a relatively steady pace, have rapidly become stagnant since the beginning of this year. In particular, the DI for the manufacturing industry (from minus 2 to minus 12), which continued to recover steadily, fell steeply, led mainly by a drop in the machinery sector. In addition, the DI for the nonmanufacturing industry (from minus 5 to minus 6) remained almost flat. A lack of growth in exports due to the slowdown of the Chinese economy and the weakness of domestic personal consumption were notable. These factors, combined with volatile stock price and exchange rate movements, have exposed companies to rapid changes in their operating environment since the beginning of the year, and under these circumstances, the business conditions appear to be plunging into an adjustment phase because of a lack of growth drivers as well.

By industry, the DI for the manufacturing industry plummeted 10 points, from minus 2 to minus 12. The DI for the machinery sector (from plus 12 to minus 5) tumbled 17 points for the first drop in six quarters, led by steep drops for the electrical machinery sector (from minus 4 to minus 22) and the transport machinery sector (from plus 25 to minus 13). The DI also declined sharply, albeit in the plus column, for the food sector (from plus 24 to plus 4) and the chemicals sector (from plus 25 to plus 15). The DI continued to decline or fell back for 9 of the 14 sectors of the manufacturing industry.

Meanwhile, the DI for the nonmanufacturing industry dropped one point, from minus 5 to minus 6, representing the stalling of the rapid recovery that was seen in the previous report. The DI improved for the services sector (from plus 11 to plus 14), which includes tourism-related activities, the real estate sector (from plus 7 to plus 13) and the food wholesale sector (from 0 to

plus 50). However, the DI for the nonmanufacturing industry as a whole remained almost flat as the DI deteriorated for many other sectors, including the retail sector (from minus 3 to minus 13), which recorded a sharp fall, and the machinery and appliance wholesale sector (from 0 to minus 14) and the transportation and warehousing sector (from plus 5 to minus 4), which sank into the minus column.

By company size, the DI fell for all large enterprises (from 0 to minus 19), medium-sized enterprises (from minus 9 to minus 19) and small enterprises (from minus 2 to minus 6). The decline was steep particularly for large and medium-sized enterprises.

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)	2015			2016		
		May	August	November	February	(previous forecast)	May (forecast)
All industries	461	-8	-8	-3	-9	(-4)	(-10)
Manufacturing	226	-4	-3	-2	-12	(-1)	(-11)
Non-manufacturing	235	-13	-12	-5	-6	(-7)	(-8)
Large Enterprises	16	-9	7	0	-19	(0)	(-20)
Medium-sized Enterprises	103	-10	-10	-9	-19	(-5)	(-10)
Small Enterprises	342	-8	-8	-2	-6	(-4)	(-9)

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 fell one point, from minus 9 to minus 10, suggesting a further spreading of the cautious view that the stagnant conditions will continue for a while. While a slight improvement is expected for the manufacturing industry (from minus 12 to minus 11), a 2-point decline is projected for the nonmanufacturing industry (from minus 6 to minus 8).

(3) Conditions of Corporate Activities

As for specific corporate activities, a renewed weakness of the output price trend, which came amid the sharp deterioration of sentiment on sales in response to the worsening of the conditions of order receipts and demand, halted the improvement on sentiment on profit, thereby aggravating sentiment on the overall business conditions.

The product order receipt and demand DI (from minus 10 to minus 13) on an all-industry basis declined 3 points in a renewed downturn. As the DI declined for a broad range of sectors of the manufacturing industry, including the export-dependent machinery sector, the DI for the manufacturing industry (from minus 7 to minus 13) as a whole fell 6 points. The DI for the nonmanufacturing industry (from minus 12 to minus 14) declined 2 points as weakness spread to a broad range of sectors. The operating ratio DI (calculated only for the manufacturing industry; from plus 4 to minus 3) dropped 7 points and slipped into the minus column for the

first time in four quarters, indicating that companies are somewhat shifting emphasis to production adjustment amid stagnant demand. The inventory DI (from plus 6 to plus 3) dropped 3 points, indicating easing of excess inventory. Inventory management is being conducted mostly appropriately in both the manufacturing industry (from plus 4 to plus 3) and the nonmanufacturing industry (plus 8 to plus 4) due to production adjustments made in response to declines in order receipts and demand.

The input price DI (from plus 18 to plus 12) dropped 6 points while remaining in the plus column. The DI dropped for both the manufacturing industry (from plus 16 to plus 9) and the nonmanufacturing industry (from plus 20 to plus 15), meaning that the uptrend in input prices is becoming moderate. The output price DI (from minus 2 to minus 6) fell 4 points, indicating that the downtrend in output prices is continuing. Output prices continued to fall in the manufacturing industry (from minus 9 to minus 12), reflecting the difficulty of raising output prices (passing the rise in input prices onto output prices). In addition, output prices somewhat weakened in the nonmanufacturing industry (from plus 5 to 0), in which the move to pass the rise in input prices on to output prices was previously making progress.

The sales DI (from minus 9 to minus 17) plummeted 8 points. In response to declines in order receipts and demand, the moderate recovery in the sales DI came to a sudden halt for both the manufacturing industry (from minus 10 to minus 17) and the nonmanufacturing industry (from minus 7 to minus 17), underscoring the weakness of sales. The profit DI (from minus 12 to minus 15) fell for the first time in four quarters. While the DI remained flat for the nonmanufacturing industry (unchanged at minus 11), it fell 6 points for the manufacturing industry (from minus 13 to minus 19), in which sales are declining and the move to pass the rise in input prices onto output prices is making no progress.

The employment DI (unchanged at minus 22) remained deep in the minus column, indicating that a significant labor shortage as a trend is continuing. Both the manufacturing industry (from minus 17 to minus 19) and the nonmanufacturing industry (unchanged at minus 26) face a prolonged labor shortage. The fixed investment DI (unchanged at minus 15) stayed deep in the minus column. Although companies in the nonmanufacturing industry (from minus 19 to minus 16) became somewhat less cautious about investment, those in the manufacturing industry (from minus 11 to minus 14) grew more cautious.

The financial position DI (from plus 5 to plus 7) rose 2 points, indicating that companies continued to feel relaxed about the financial position. The borrowing DI (from minus 12 to minus 10) rose 2 points while remaining in the minus column, meaning that companies are making persistent efforts to reduce borrowings.