Summary of the Results of the 93rd Bank of Kyoto Quarterly Survey
(Survey on Assessment of Business Conditions by Companies in Kyoto)
May 2016 Survey

(Outline)

The diffusion index (DI) of the current business conditions for companies in Kyoto fell slightly (from minus 9 to minus 10) for the second straight drop, indicating that the business conditions remained stagnant.

The DI for the manufacturing industry remained unchanged, but the DI for the machinery sector continued to fall.

The DI for the nonmanufacturing industry declined for the second consecutive quarter, while the forecast DI indicated increased cautiousness over the future outlook.

(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 declined one point from the previous survey in February to minus 10, marking the second straight drop. Although the recovery continued until late last year, it has been stalling since the beginning of this year. With no sector strong enough to lead the recovery, business sentiment among companies in Kyoto has remained weak.

By industry, the DI for the manufacturing industry remained unchanged at minus 12. However, the DI for the machinery sector (from minus 5 to minus 9) deteriorated for the third straight quarter although the performance varied from sector to sector, dragging down the DI for the entire manufacturing industry. Specifically, the DI remained in the positive column for the precision machinery sector (from 0 to plus 6) but declined steeply for the general machinery sector (from plus 9 to minus 6) and the transportation machinery (from minus 13 to minus 40) The DI also remained in the minus column for the electric machinery sector (from minus 22 to minus 15).

As for other sectors, the DI continued to steadily improve for the chemicals sector (from plus 15 to plus 31). While the DI improved to the neutral level for the ceramics, stone and clay sector (from minus 17 to 0) and the metal product sector (minus 4 to 0), it was deep in the minus column for the lumber and wooden product sector (from 0 to minus 29) and the paper processing and printing sector (from minus 47 to minus 40).

Meanwhile, the DI for the nonmanufacturing industry fell slightly, by 2 points from minus 6 to minus 8, marking the second consecutive decline and indicating continued sluggishness. The DI declined further for the retail sector (from minus 13 to minus 18). In addition, the DI remained deep in the minus column for the entire wholesale sector (from minus 19 to minus 20), except for the machinery wholesale sector (from minus 14 to 0). The DI declined somewhat for the services sector (from plus 14 to plus 9) and the real estate sector (from plus 13 to plus 7) despite remaining in the plus column.

By company size, the DI improved somewhat for large enterprises (minus 19 to minus 7), it remained deep in the minus column for medium-sized enterprises (minus 19 to minus 18) and deteriorated somewhat for small enterprises (from minus 6 to minus 8).

**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 | | | |
|---|---|---|---|---|---|---|---|
| | | August | November | February | May | (previous forecast) | August (forecast) |
| All industries | 449 | -8 | -3 | -9 | -10 | ( -10 ) | ( -14 ) |
| Manufacturing | 222 | -3 | -2 | -12 | -12 | ( -11 ) | ( -11 ) |
| Non-manufacturing | 227 | -12 | -5 | -6 | -8 | ( -8 ) | ( -17 ) |
| Large Enterprises | 14 | 7 | 0 | -19 | -7 | ( -20 ) | ( -7 ) |
| Medium-sized Enterprises | 99 | -10 | -9 | -19 | -18 | ( -10 ) | ( -19 ) |
| Small Enterprises | 336 | -8 | -2 | -6 | -8 | ( -9 ) | ( -13 ) |

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 declined 4 points from minus 10 to minus 14, indicating an increasingly cautious sentiment on the future outlook. The forecast DI improved one point (from minus 12 to minus 11) for the manufacturing industry, indicating expectations of little change. However, the forecast DI fell steeply, 9 points (from minus 8 to minus 17), for the nonmanufacturing industry.

(3) Conditions of Corporate Activities

As for specific corporate activities, sales growth remained sluggish amid the weakness of sentiment on order receipt and demand. As the move to raise output prices stalled, the profit DI remained in the minus column, preventing an improvement in the overall DI. Regarding inventories, there was some inventory buildup due to the weakness of order receipt and demand.

The product order receipt and demand DI (from minus 13 to minus 14) declined slightly in the minus column, falling by one point on an all-industry basis, with no sign of improvement. The DI remained unchanged in the minus column for both the manufacturing industry (unchanged at minus 13) and the nonmanufacturing industry (unchanged at minus 14). The operating ratio DI (calculated only for the manufacturing industry; from minus 3 to minus 2) stayed in the minus column for the second straight quarter despite improving one point. The inventory DI (from plus 3 to plus 10) rose 7 points, signaling an increased perception of excess inventory. For both the manufacturing industry (from plus 3 to plus 10) and the nonmanufacturing industry (from plus 4 to plus 9), the perception of excess inventory grew in contrast to the stability of the inventory DI that has been observed until recently, indicating sluggish demand.

The input price DI (from plus 12 to plus 11) fell one point in the plus column. While the DI for the nonmanufacturing industry (unchanged at plus 15) remained unchanged, the DI for the manufacturing industry (from plus 9 to plus 8) improved slightly, by one point, indicating that the rise in input prices is gradually coming to a halt as an overall trend. The output price DI (from minus 6 to minus 8) dropped 2 points, meaning that output prices still remain on a downtrend. The DI for the manufacturing industry (from minus 12 to minus 11) remained in the minus column despite improving one point, indicating that output prices continued to fall. The DI for the nonmanufacturing industry (from 0 to minus 6) fell back into the minus column, suggesting that the previous move to raise prices is stalling.

The sales DI (from minus 17 to minus 16) improved one point but remained deep in the minus column. The DI remained flat for both the manufacturing industry (from minus 17 to minus 16) and the nonmanufacturing industry (unchanged at minus 17), reflecting sluggish sales. The profit DI (from minus 15 to minus 12) improved 3 points, after repeating ups and downs in recent quarters. Although the DI for the nonmanufacturing industry (unchanged at minus 11) remained unchanged, the DI for the manufacturing industry (from minus 19 to minus 12) improved 7 points, as the rise in input prices is gradually coming to a halt.

The employment DI (from minus 22 to minus 20) improved slightly, by 2 points, but remained deep in the minus column, meaning that a significant labor shortage continued. The DI improved somewhat for both the manufacturing industry (from minus 19 to minus 17) and the nonmanufacturing industry (from minus 26 to minus 23), but both industries have continued to face a tight labor supply-demand condition for a long period of time. The fixed investment DI (unchanged at minus 15) stayed in the minus column, with no change observed in companies' cautious stance on investment. The DI remained in the minus column for both the manufacturing industry (from minus 14 to minus 13) and the nonmanufacturing industry (from minus 16 to minus 17).

The financial position DI (from plus 7 to plus 6) declined slightly, by one point, but companies continued to feel relatively relaxed about the financial position. The borrowing DI (from minus 10 to minus 11) fell one point in the minus column, indicating that companies are making persistent efforts to reduce borrowings.