Summary of the Results of the 94th Bank of Kyoto Quarterly Survey
(Survey on Assessment of Business Conditions by Companies in Kyoto)
August 2016 Survey

(Outline)

The diffusion index (DI) of the current business conditions for companies in Kyoto fell 4 points, marking the third consecutive quarter of decline on an all-industry basis. As for the future outlook, the survey results indicated that there are expectations for improvement.

— The DI for the manufacturing industry showed signs of bottoming out, mainly for the machinery sector, but the DI for the nonmanufacturing industry fell 9 points, reflecting continued deterioration in the business conditions.

The DIs for order receipt and demand, sales, and profit were in a deep slump, dragging down the overall DI. —

(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 4 points from the previous survey in May to minus 14, marking the third straight drop. The business conditions for companies in Kyoto, which turned for the worse rapidly early this year, have recently shown signs of further deterioration. In particular, the DI for the nonmanufacturing industry (from minus 8 to minus 17) recorded a steep drop of 9 points amid the slumping consumption, among other factors, pushing down the overall DI. However, the DI for the manufacturing industry (unchanged at minus 12) remained flat for the first time in two quarters, indicating that the deterioration of the business conditions was arrested. In particular, the DI for the machinery sector (from minus 9 to minus 5) improved for the first time in four quarters. Signs of the deteriorating business conditions bottoming out emerged at last, with rays of hope appearing for some sectors of the manufacturing industry.

By industry, the DI for the manufacturing industry remained unchanged at minus 12, as it did in the previous survey. Improvements in the DI for the electric machinery sector (from minus 15 to minus 7) and in the DI for the transportation machinery sector (from minus 40 to minus 14) underpinned the DI for the manufacturing industry. On the other hand, the DI deteriorated significantly for the chemicals sector (from plus 31 to 0), the ceramics, stone and clay sector (from 0 to minus 20) and the plastics sector (from minus 13 to minus 25), showing that there is a polarization between well-performing sectors and poorly-performing ones.

Meanwhile, the DI for the nonmanufacturing industry fell from minus 8 to minus 17, marking the third straight quarter of decline, and the 9-point drop was the largest in the past one year. The further deterioration of the business conditions for the non-manufacturing industry was a considerable drag on the overall DI. Amid the slumping consumption, the DI declined across a wide range of sectors, including the retail sector (from minus 18 to minus 28), the services sector (from plus 9 to minus 16), and the wholesale sector (from minus 20 to minus 35). Nevertheless, there were some improvements albeit in a very small group of sectors, including the real estate sector (from plus 7 to plus 14) and transportation/warehousing sector (from minus 5 to plus 5). The reason for the improvements is presumed to be that these sectors have benefited from interest rate drops due to the Bank of Japan's negative interest rate policy.

By company size, the DI continued to improve for large enterprises (from minus 7 to plus 13), climbing back into the plus column. In contrast, the DI deteriorated further for medium-sized enterprises (from minus 18 to minus 27) and declined slightly for small enterprises (from minus 8 to minus 12).

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				
		November	February	May	August	(previous forecast)	November (forecast)
All industries	450	-3	-9	-10	-14	(-14)	(-8)
Manufacturing	226	-2	-12	-12	-12	(-11)	(-5)
Nonmanufacturing	224	-5	-6	-8	-17	(-17)	(-11)
Large enterprises	15	0	-19	-7	13	(-7)	(20)
Medium-sized enterprises	99	-9	-19	-18	-27	(-19)	(-13)
Small enterprises	336	-2	-6	-8	-12	(-13)	(-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 improved 6 points, from minus 14 to minus 8. Expectations for a bottoming-out of the deteriorating business conditions were observed in both the manufacturing industry (from minus 12 to minus 5) and the nonmanufacturing industry (from minus 17 to minus 11). Amid expectations for a large-scale economic package that may be implemented this autumn or later, there are signs of an uplift in the very cautious business sentiment that has so far been observed.

(3) Conditions of Corporate Activities

As for specific corporate activities, sentiment on order receipt and demand aggravated significantly. As a result, sentiment on sales slumped sharply and sentiment on profit also declined. Consequently, the overall DI declined. In particular, the deterioration in sentiment on profit was prominent, dragging down the overall DI considerably.

The product order receipt and demand DI (from minus 14 to minus 22) dropped sharply, by 8 points, on an all-industry basis. This represented the third straight quarter of decline, indicating a growing slump. Although there are signs of a bottoming-out in the manufacturing industry (from minus 13 to minus 14), the DI for the nonmanufacturing industry (from minus 14 to minus 30) plunged, signaling increasingly sluggish demand. The decline in the operating ratio DI (calculated only for the manufacturing industry; from minus 2 to minus 4) indicated that production adjustments are increasing somewhat due to the lack of growth in orders. The drop in the inventory DI (from plus 10 to plus 6) suggested that in both the manufacturing industry (from plus 10 to plus 8) and the nonmanufacturing industry (from plus 9 to plus 3), inventory control is being strengthened in order to cut back on surplus inventories due to the sluggish demand and sales.

The input price DI (unchanged at plus 11) generally remained flat. In both the manufacturing industry (from plus 8 to plus 7) and the nonmanufacturing industry (from plus 15 to plus 14), the rise in input prices is coming to a halt. However, the output price DI (from minus 8 to minus 7) remained in the minus column, indicating that the move to raise prices slowed down. Companies are still in a difficult situation due to the gap between their manufacturing and procurement costs and their sales prices.

The sales DI (from minus 16 to minus 28) registered a steep drop of 12 points, indicating that companies are having difficulty raising sales prices due to the sluggish demand (decline in sales volume) and that their sales remain weak. The sales DI was deep in the minus column for both the manufacturing industry (from minus 16 to minus 24) and the nonmanufacturing industry (from minus 17 to minus 33). Consequently, the profit DI also fell further in the minus column. The profit DI fell back for the manufacturing industry (from minus 12 to minus 17) after a temporary improvement in the previous survey, and it dropped further for the nonmanufacturing industry (from minus 11 to minus 18).

The employment DI (unchanged at minus 20) remained deep in the minus column for both the manufacturing industry (from minus 17 to minus 16) and the nonmanufacturing industry (from minus 23 to minus 24), suggesting that both industries continue to face a severe labor shortage. The fixed investment DI (unchanged at minus 15) also stayed in the minus column. Companies are strengthening inventory control, evidence of their increasingly defensive stance.

There was no significant change in either the financial position DI (unchanged at plus 6) or the borrowing DI (from minus 11 to minus 13), suggesting that companies are continuing efforts to reduce borrowings as their financial position is favorable.