

Summary of the Results of the 96th Bank of Kyoto Quarterly Survey  
(Survey on Assessment of Business Conditions by Companies in Kyoto)

February 2017

(Outline)

The diffusion index (DI) of the current business conditions for companies in Kyoto rose 2 points on an all-industry basis for the second consecutive quarterly improvement, indicating a moderate recovery.

—The DI for the manufacturing industry improved 6 points. Improvement was observed in many sectors, signaling that the recovery is accelerating. On the other hand, the DI for the nonmanufacturing industry deteriorated 3 points due to the effects of sluggish consumption, indicating that the recovery is stalling.—

(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 improved 2 points from the previous survey in November to minus 9. Although the improvement was small, it marked the second consecutive quarterly rise. This result confirmed that business confidence among companies in Kyoto has been on the path of moderate recovery since the DI hit bottom at minus 14 in the August survey last year. However, there was a significant divergence between the manufacturing and nonmanufacturing industries: while the DI improved steadily in many sectors in the manufacturing industry, an indication that the recovery is accelerating, the DI deteriorated in more than half of the sectors in the nonmanufacturing industry, suggesting the recovery is stalling due to the effects of sluggish consumption.

By industry, the DI for the manufacturing industry rose 6 points, from minus 11 to minus 5. The DI for the transportation machinery sector (from minus 25 to plus 14) swung into the positive column, and the DI for the electrical machinery sector (from minus 16 to minus 4) rose significantly despite remaining in the minus column. Among non-machinery sectors, the DI recovered to the neutral point for the lumber and wooden product sector (minus 43 to 0) and the food sector (from minus 10 to 0), while the DI turned into the plus column for the metal product sector (from 0 to plus 12). The DI for the chemicals sector (from plus 31 to plus 42) remained firm. The DI improved in 9 of the 14 sectors of the manufacturing industry, reflecting a broad, steady recovery.

The DI for the nonmanufacturing industry declined 3 points, from minus 11 to minus 14, representing the first drop in two quarters, an indication that the recovery is stalling. The DI turned into the plus column for the machinery and appliance wholesale sector (from minus 8 to plus 8) and improved to the neutral point for the construction sector (from minus 2 to 0). The DI remained in the plus column for the real estate sector (from plus 13 to plus 7). However, the DI deteriorated for the wholesale sector (from minus 21 to minus 29), including the food wholesale sector (from 0 to

minus 29), and the retail sector (from minus 19 to minus 25), indicating sluggish consumption. The DI also declined for the transportation and warehousing sector (from minus 5 to minus 14).

By company size, the DI remained in the plus column for large enterprises (from plus 6 to plus 18) and recovered significantly for medium-sized enterprises (from minus 22 to minus 10). However, the DI for small enterprises (from minus 8 to minus 11) dropped 3 points, suggesting that the recovery is stalling.

**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)	2016			2017		
		May	August	November	February	(previous forecast)	May (forecast)
All industries	451	-10	-14	( -11 )	( -9 )	( -10 )	( -6 )
Manufacturing	227	-12	-12	( -11 )	( -5 )	( -8 )	( 0 )
Nonmanufacturing	224	-8	-17	( -11 )	( -14 )	( -11 )	( -12 )
Large enterprises	17	-7	13	( 6 )	( 18 )	( 12 )	( 19 )
Medium-sized enterprises	103	-18	-27	( -22 )	( -10 )	( -14 )	( -6 )
Small enterprises	331	-8	-12	( -8 )	( -11 )	( -9 )	( -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 3 points, from minus 9 to minus 6 for the third consecutive quarterly improvement. The forecast DI for the manufacturing industry (from minus 5 to 0) continued to recover, rising by 5 points, and the forecast DI for the nonmanufacturing industry (from minus 14 to minus 12) also recorded a slight improvement, or 2 points.

(3) Conditions of Corporate Activities

As for specific corporate activities, the DIs for order receipt and demand, sales, and profit all improved slightly. However, there was a stark contrast in business confidence between the manufacturing and nonmanufacturing industries: whereas the DIs for many items in the manufacturing industry steadily improved, reflecting the ongoing recovery in business confidence, the DI for many items in the nonmanufacturing industry deteriorated or remained flat, a clear indication that the recovery in business confidence is lagging.

The product order receipt and demand DI (from minus 20 to minus 14) on an all-industry basis showed signs that sentiment may stop declining although it remained in the minus column. However, while the DI for the manufacturing industry (from minus 18 to minus 4) rose significantly, by 14 points, the DI for the nonmanufacturing industry (from minus 21 to minus 24) declined 3 points. The operating ratio DI for the manufacturing industry (unchanged at 0) remained flat at an appropriate level against the backdrop of the improvement in order receipts and demand. The inventory DI (from plus 8 to plus 4) fell 4 points. The DI for the manufacturing industry (from plus

6 to plus 4) declined 2 points, and the DI for the nonmanufacturing industry (from plus 10 to plus 4) dropped 6 points. The results indicate that appropriate inventory management has been maintained.

The input price DI (from plus 13 to plus 20) climbed 7 points on an all-industry basis. Both the DI for the manufacturing industry (from plus 9 to plus 16) and the DI for the nonmanufacturing industry (from plus 18 to plus 25) rose 7 points, suggesting that input prices are on an uptrend. On the other hand, the output price DI (from minus 5 to minus 1) improved 4 points despite remaining in the minus column. Although the DI for the manufacturing industry (from minus 8 to minus 5) rose 3 points, it stayed in the minus column. However, the DI for the nonmanufacturing industry (from 0 to plus 4) improved 4 points and turned into the plus column, signaling that price increases are starting to spread.

Although the sales DI (from minus 22 to minus 18) remained deep in the minus column, it rose 4 points for the second consecutive quarterly improvement. The DI declined 4 points for the nonmanufacturing industry (from minus 22 to minus 26) but rose 11 points for the manufacturing industry (from minus 22 to minus 11) despite remaining in the minus column. The profit DI (from minus 15 to minus 13) improved albeit slightly, by 2 points. The DI for the nonmanufacturing industry (from minus 18 to minus 17) remained in the minus column, whereas the DI for the manufacturing industry (from minus 13 to minus 8) improved 5 points, indicating a steady improvement in sentiment on profits.

The employment DI (from minus 27 to minus 28) declined 1 point in the minus column, reflecting a continued significant labor shortage. The DI remained deep in the minus column for both the manufacturing industry (from minus 25 to minus 27) and the nonmanufacturing industry (unchanged at minus 29), meaning that the tight labor supply-demand balance has become prolonged. The fixed investment DI (from minus 14 to minus 15) declined 1 point while remaining deep in the minus column, suggesting that there has been no change in the restrictive stance on investment. In particular, it is notable that the DI for the manufacturing industry (from minus 7 to minus 11), where business confidence is improving, indicated a more restrictive stance than in the previous survey (the DI for the nonmanufacturing industry remained unchanged at minus 20).

The financial position DI (unchanged at plus 7) remained flat, an indication that the fiscal position remained easy. The borrowing DI (from minus 12 to minus 10) did not change significantly, suggesting that companies continued to make persistent efforts to reduce borrowing.

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