Summary of the Results of the 99th Bank of Kyoto Quarterly Survey

(Survey on Assessment of Business Conditions by Companies in Kyoto)

November 2017

(Outline)

The diffusion index (DI) of the current business conditions for companies in Kyoto rose again, by 1 point, on an all-industry basis and stayed in the plus column for the second consecutive quarter, indicating a continued recovery.

—The DI for the manufacturing industry stayed in the plus column although its rise came to a halt. The DI for the nonmanufacturing industry improved for the third straight quarter, as the recovery gained momentum. In addition, the DI for small enterprises shifted to the plus column. On the whole, the results were robust.

(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 one point from plus 1 in the previous survey in August to plus 2. This represented the fifth consecutive quarterly improvement and the second consecutive positive figure, indicating that the recovery in business sentiment among companies in Kyoto is strengthening. The DI for the manufacturing industry stayed in the plus column (from plus 6 to plus 5) although its rise came to a halt. The DI for the nonmanufacturing industry improved for the third consecutive quarter, recovering to a level within an easy reach of the plus column (from minus 5 to minus 1). In addition, the DI for small enterprises, which account for more than 70% of the companies covered by the survey, swung to the plus column (from minus 1 to plus 2) for the first time in three years and nine months, suggesting that the recovery is spreading wide. Although the pace of rise in the overall DI showed signs of a slowdown, the results improved on the whole.

By industry, the DI for the manufacturing industry declined one point from plus 6 to plus 5, snapping its rising streak, but remained stable in the plus column. The DI for the four machinery sectors stayed high in the plus column (from plus 27 to plus 25), acting as the driving force for the entire industry. The DI for the plastic product sector rebounded steeply (from minus 14 to plus 13), while the DI for the food sector exited the minus column (from minus 4 to 0). The DI recovered significantly despite remaining in the minus column for the kimono textile sector (from minus 38 to minus 22), the lumber and wooden product sector (from minus 43 to minus 29) and the other textile sector (from minus 36 to minus 20).

Meanwhile, the DI for the nonmanufacturing industry improved 4 points from minus 5 to minus 1 for the third consecutive quarterly improvement, indicating a strengthening recovery. By sector, the DI fell somewhat for the services sector (from minus 9 to minus 14) and the retail sector (from minus 13 to minus 16). However, as the DI rose high in the plus column for the machinery wholesale sector (from plus 8 to plus 23), the food wholesale sector (from 0 to plus 17) and the other wholesale sector (from 0 to plus 11), the DI for the whole of the five wholesale sectors (from minus 7 to plus 3) moved into the plus column. In addition, the DI for the construction sector turned positive (from minus 6 to plus 6). These results mean that the recovery is spreading wide.

By company size, the DI for medium-sized enterprises fell into the minus column (from plus 3 to minus 1). However, the DI for large enterprises rose further in the plus column (from plus 13 to plus 21), while the DI for small enterprises climbed into the plus column (from minus 1 to plus 2) for the first time in three years and nine months, indicating that the recovery is spreading across various sizes of 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)	2017					2018
		February	May	August	November	(previous forecast)	February (Forecast)
All industries	446	-9	-3	1	2	(1)	3
Manufacturing	224	-5	4	6	5	(7)	6
Nonmanufacturing	222	-14	-10	-5	-1	(-5)	0
Large enterprises	14	18	12	13	21	(20)	21
Medium-sized enterprises	101	-10	-2	3	-1	(-4)	-3
Small enterprises	331	-11	-4	-1	2	(1)	4

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 rose slightly in the plus column, from plus 2 to plus 3. The forecast DI for the manufacturing industry stayed steady with a 1-point rise (from plus 5 to plus 6), and the DI for the nonmanufacturing industry exited the minus column (from minus 1 to 0).

(3) Conditions of Corporate Activities

As for specific corporate activities, although input prices continued to rise on an all-industry basis, sentiment on sales and profits improved due to the recovery in order receipts, demand and the operating ratio, contributing to the pickup in overall business sentiment.

First, the product order receipt and demand DI (from minus 2 to 0) rose two points to the neutral level, representing a steady improvement. Although the DI for the manufacturing industry declined one point (from plus 5 to plus 4), it remained in the plus column. The DI for the nonmanufacturing industry improved 5 points (from minus 10 to minus 5). The operating ratio DI (calculated only for the manufacturing industry) improved 3 points (from plus 8 to plus 11) and stayed in the plus column for the third consecutive quarter due to the improvement in order receipts and demand. The inventory DI remained flat (unchanged at plus 3), reflecting a generally appropriate inventory level in both the manufacturing industry (from plus 3 to plus 4) and the nonmanufacturing industry (from plus 2 to plus 3). However, there is a sense of inventory shortage in some sectors.

The input price DI rose 5 points (from plus 25 to plus 30) on an all-industry basis. Although the DI for the manufacturing industry rose only 1 point (from plus 26 to plus 27), the DI for the nonmanufacturing industry climbed 10 points (from plus 23 to plus 33).

The output price DI moved into the plus column (from minus 1 to plus 3) for the first time since May 2014, when there was an impact of the consumption tax hike. The DI for the manufacturing industry improved 3 points (from minus 5 to minus 2) despite remaining in the minus column, and the DI for the nonmanufacturing industry rose 6 points in the plus column (from plus 3 to plus 9).

The sales DI went up 9 points to the neutral level (from minus 9 to 0) for the fifth consecutive quarterly improvement. The DI for the manufacturing industry improved 9 points (from minus 3 to plus 6), swinging into the plus column, and the DI for the nonmanufacturing industry also recorded a 9-point improvement in the minus column (from minus 15 to minus 6).

The profit DI improved 2 points (from minus 6 to minus 4) for the fifth consecutive quarterly improvement. The DI for the manufacturing industry remained at the neutral level (unchanged at 0), while the DI for the nonmanufacturing industry improved slightly, by 2 points (from minus 11 to minus 9). The improvement was modest partly because of the effects of the rise in input prices.

The employment DI declined 9 points in the minus column (from minus 33 to minus 42), indicating a growing sense of labor shortage. For the moment, there is no sector in which the sense of labor shortage is apparently leading to a deterioration in business sentiment, but there remain concerns over the shortage as a factor that 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 33 to minus 42) and the nonmanufacturing industry (from minus 34 to minus 42), signaling that the tight labor supply-demand condition has been prolonged.

The fixed investment DI remained in the minus column but rose 1 point (from minus 9 to minus 8). There are signs of an improvement as the DI for the nonmanufacturing industry rose 3 points (from minus 4 to minus 1) although the DI for the nonmanufacturing industry fell 1 point (from minus 13 to minus 14). However, as far as can be seen from a survey on the amount of investments by small and medium-size enterprises, investments are planned to be reduced in fiscal 2017, and there is little notable indication of improvement.

The financial position DI rose 2 points (from plus 9 to plus 11), suggesting that companies' financial position remained easy. The borrowing DI improved 4 points in the minus column (from minus 12 to minus 8), but companies were still making persistent efforts to reduce borrowing.