

Japanese economy in a deadlock

Blurry outlook continues as both domestic and international economic situations carry potential risks

(Companies Researched: 23,051; Valid Responses: 10,620; Response Rate: 46.1%;
Survey Start Date: May 2002)

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<Overview of November 2015: A deadlock>

The Economic DI (Economic DI: 50 points is the threshold of assessment) in November 2015 stood at the equivalent level as last month at 44.8, as the economy remained flat.

While the economic burden for companies eased off due to decreasing fuel prices, China's economic slowdown became apparent mostly in 'manufacturing'. Large companies as well as small to medium-sized companies are leveling off alike, and the Japanese economy is in a deadlock.

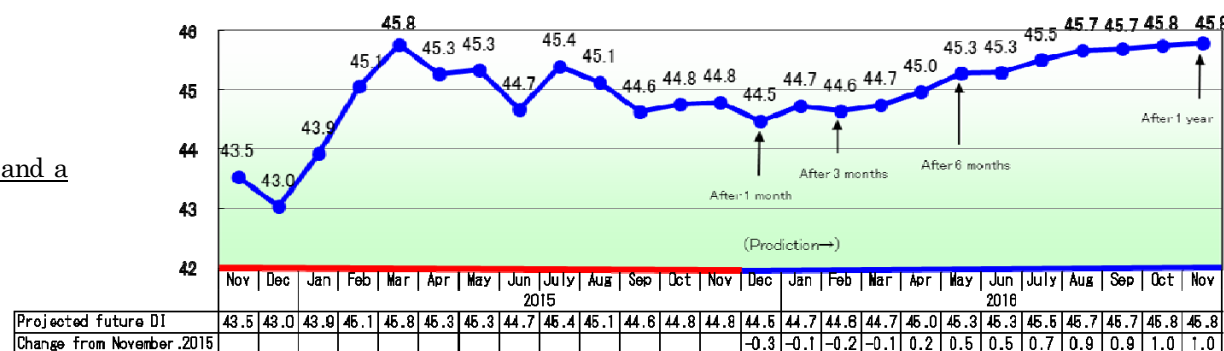
<Future Outlook: A seesaw affair>

Although company performance is steady, future outlook remains blurry and a seesaw economy is expected.

By industry: Economic improvement and downturn act as countervailing forces

By size : 'Large companies' and 'small to medium-sized companies' level off alike for the first time in 9 years and 9 months, showing a state of deadlock

By region: 5 out of 10 regions improve, while 'Kinki' region continues to worsen for 4 months in a row mostly due to weak consumption



*: Economic DIs are calculated based on the structural ARIMA model, in which economic statistics are incorporated to the ARIMA model.

Economic Diffusion Index (Economic DI)1/2

	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Ratio to the PrFDious Month
Total	43.5	43.0	43.9	45.1	45.8	45.3	45.3	44.7	45.4	45.1	44.6	44.8	44.8	0.0
Large Firms	46.9	46.6	47.1	48.0	48.6	48.9	49.2	48.4	48.8	48.9	48.2	48.4	48.4	0.0
Small to Medium-sized Firms	42.6	42.0	43.0	44.2	45.0	44.3	44.3	43.6	44.5	44.1	43.6	43.7	43.7	0.0
Micro Firms	42.1	41.6	42.3	43.4	44.3	43.1	43.2	43.1	43.4	43.2	43.2	43.1	43.1	▲ 0.1

		Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Ratio to the PrFDious Month
Agriculture,Forestry,Fisheries		38.6	39.5	41.3	40.0	44.0	43.7	45.0	41.9	42.9	44.7	44.7	44.6	45.2	0.6
Finance		45.3	45.2	45.1	44.7	48.0	48.1	47.4	49.2	48.1	46.5	46.3	47.3	46.6	▲ 0.7
Construction		51.0	50.3	50.4	50.4	50.8	49.3	48.6	47.7	48.6	48.8	49.1	49.5	49.6	0.1
Real Estate		43.6	44.1	45.1	47.2	48.8	48.8	49.6	49.1	49.8	48.4	48.7	48.7	48.9	0.2
Manufacturing	Food,BEWerages,Livestock Feed	36.8	37.5	37.2	39.8	43.1	42.1	44.3	43.1	43.4	43.0	43.6	44.3	44.5	0.2
	Textile,Textile Products,Clothing	36.8	38.1	36.8	39.7	37.6	40.2	41.7	39.4	39.4	40.2	38.8	39.8	39.4	▲ 0.4
	Construction Materials,Furniture, Ceramics,Stone and Clay Products	44.1	43.3	43.2	41.9	42.1	40.3	40.9	40.3	41.2	41.2	40.9	40.2	38.9	▲ 1.3
	Pulp, Paper and Paper Products	36.1	36.3	34.8	37.3	39.3	39.8	40.0	39.0	39.7	42.0	40.8	41.1	42.4	1.3
	Publishing,Printing	31.5	31.0	31.8	33.5	34.1	34.6	34.1	33.5	33.7	34.9	34.8	34.8	34.6	▲ 0.2
	Chemical	42.9	43.3	43.2	44.5	44.6	44.1	44.4	43.9	44.7	45.3	44.4	44.4	44.9	0.5
	Steel,Nonferrous Metals,Mining	44.4	42.8	44.8	46.8	45.2	43.9	43.0	42.9	43.6	42.8	41.7	41.4	41.8	0.4
	General Machinery	50.0	48.6	49.6	51.5	52.6	52.5	51.6	51.3	51.9	50.3	47.3	47.9	47.3	▲ 0.6
	Electrical Machinery	45.9	45.8	47.3	48.4	49.7	47.7	47.3	47.4	47.4	44.8	45.2	45.2	45.2	0.0
	Transportation Machinery,Equipment	48.0	47.7	47.4	50.3	50.4	51.1	47.8	49.7	50.9	50.8	48.3	46.3	47.0	0.7
	Precision Machinery, Medical Instruments and Equipment	45.4	45.0	47.9	48.9	49.2	47.8	49.8	49.4	50.4	51.2	47.9	48.6	47.9	▲ 0.7
	Other	38.4	35.2	35.4	38.7	38.7	37.1	40.7	37.8	39.2	37.7	40.0	39.8	40.0	0.2
Total		42.9	42.3	43.0	44.6	45.1	44.4	44.5	44.0	44.6	44.2	43.2	43.3	43.3	0.0
Wholesale	Food,BEWerages	37.1	37.6	38.3	39.7	40.6	42.6	42.9	43.0	44.1	42.7	43.6	43.0	43.1	0.1
	Textile,Textile Products,Clothing	30.7	30.2	31.1	32.2	33.3	35.5	37.0	34.8	34.4	34.7	36.5	37.8	34.4	▲ 3.4
	Construction Materials, Furniture,Ceramics, Stone and Clay Products	39.5	39.3	39.0	40.5	40.2	38.2	38.7	38.1	39.8	39.7	39.5	41.3	41.5	0.2
	Paper Products,Stationery,Books	33.5	31.8	33.2	35.1	37.7	37.3	38.1	34.5	37.1	36.5	36.8	36.8	37.4	0.6
	Chemical	40.0	37.8	38.9	41.2	41.8	42.5	43.0	43.1	43.9	42.6	42.3	42.5	42.8	0.3
	Recycled Resources	40.4	40.8	39.0	38.5	39.3	39.7	42.3	40.1	35.8	36.0	25.8	29.9	26.7	▲ 3.2
	Steel,Nonferrous Metals, Mining Products	43.8	42.1	43.9	43.5	43.2	41.2	40.3	39.3	40.4	40.3	38.5	38.8	39.4	0.6
	Machinery,Equipment	43.6	43.2	44.8	46.0	47.3	46.7	46.3	45.1	45.6	45.3	43.6	43.6	43.4	▲ 0.2
	Other	37.1	35.1	37.5	38.5	40.7	40.9	41.8	42.0	42.4	41.4	40.8	41.0	41.1	0.1
	Total		40.0	39.1	40.4	41.5	42.5	42.3	42.5	41.7	42.5	41.9	41.2	41.5	41.4

Economic Diffusion Index (Economic DI)2/2

		Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Ratio to the PrFDious Month
Retail	Food,BEWerages	34.7	34.5	36.8	38.2	39.4	39.3	41.6	42.7	45.0	44.0	44.5	44.6	41.4	▲ 3.2
	Textile,Textile Products,Clothing	32.0	30.8	30.7	32.3	34.8	38.0	40.2	37.0	38.6	38.7	36.9	40.1	36.8	▲ 3.3
	Drugs,Sundries	42.6	38.9	44.6	45.3	46.0	48.1	48.0	48.6	49.3	48.7	46.7	48.6	50.0	1.4
	Furniture	27.3	26.4	28.8	33.3	27.8	35.0	40.0	43.3	41.7	41.7	42.9	42.9	42.9	0.0
	Electrical Household Appliances, Information Machinery and Equipment	36.0	34.3	39.3	39.0	43.2	38.4	41.5	40.6	38.9	38.3	44.6	39.6	38.7	▲ 0.9
	Motor Vehicles,Motor Vehicle Parts	31.8	28.7	37.8	40.7	38.8	36.5	39.9	37.2	38.3	38.7	38.6	39.9	38.2	▲ 1.7
	Special Merchandise	36.0	39.2	41.4	43.7	42.3	39.4	40.5	38.0	39.9	41.6	40.7	39.2	39.8	0.6
	Various Merchandise	39.1	40.5	42.6	41.0	40.6	47.1	49.7	48.1	48.8	49.0	47.3	46.5	47.3	0.8
	Other	40.0	41.7	33.3	36.7	38.9	41.7	36.1	43.3	35.7	44.4	44.4	36.1	38.9	2.8
	Total	35.5	35.9	39.1	40.5	40.5	40.2	42.1	40.7	41.9	42.4	42.2	41.6	40.9	▲ 0.7
Transportation,Warehousing		44.8	43.8	43.7	44.8	44.9	44.8	44.8	42.6	44.4	44.9	45.1	44.7	45.4	0.7
Service	Restaurants	45.1	39.9	44.6	45.2	49.2	50.0	49.6	48.3	47.4	51.3	45.3	49.2	46.2	▲ 3.0
	Postal,Telecommunications	48.1	50.0	56.3	53.7	48.3	54.2	53.7	50.0	47.0	53.0	59.3	57.6	53.0	▲ 4.6
	Electricity,Gas,Water,Heat	43.8	44.4	50.0	50.0	48.3	55.0	53.7	53.0	50.0	51.9	56.7	55.0	55.0	0.0
	Leasing,Rentals	49.9	49.1	50.9	50.0	49.3	49.6	47.9	47.9	48.7	49.9	48.0	48.0	49.2	1.2
	Lodging, Hotels	47.0	47.6	47.7	49.5	48.6	51.4	53.1	54.2	59.2	59.0	58.3	61.4	59.1	▲ 2.3
	Recreation	36.4	36.5	34.4	40.0	45.6	38.7	40.2	37.9	37.3	38.0	37.9	38.0	38.0	0.0
	Broadcasting	43.3	41.7	44.4	40.0	45.6	47.9	45.6	46.1	49.1	46.1	41.7	45.1	46.9	1.8
	Maintenance,Guarding,Testing	43.1	42.6	44.6	46.9	47.2	47.8	48.1	47.4	47.6	47.4	46.0	46.1	47.1	1.0
	Advertising	38.7	38.8	38.8	39.3	42.1	42.2	41.1	41.0	39.8	40.7	40.8	40.7	40.3	▲ 0.4
	Information	51.6	52.2	53.5	54.6	56.3	56.3	55.3	55.4	56.4	55.8	55.5	56.0	54.9	▲ 1.1
	Labor Dispatching	53.9	54.0	55.7	57.5	56.7	55.5	56.2	56.3	54.4	55.0	54.2	54.7	52.5	▲ 2.2
	Special Services	50.7	50.3	50.8	51.4	53.0	51.0	51.7	50.9	52.0	51.4	51.5	49.0	50.3	1.3
	Medical,Welfare,Public Health	45.0	44.1	44.7	45.7	45.3	46.1	46.3	43.3	45.3	43.6	42.8	42.3	44.1	1.8
	Education	41.7	39.9	40.5	40.2	39.5	41.2	41.1	44.4	40.6	44.1	42.1	45.0	50.8	5.8
	Other	45.2	45.0	47.4	48.1	47.2	46.1	46.8	49.5	50.9	48.5	49.3	49.2	50.1	0.9
	Total	47.3	47.2	48.3	49.2	50.3	50.1	49.9	49.7	50.4	50.1	49.6	49.6	49.6	0.0
Other		37.7	41.5	37.3	41.7	42.0	43.2	40.2	41.9	42.6	40.7	41.4	42.3	41.9	▲ 0.4

		Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Ratio to the PrFDious Month
Hokkaido		41.5	40.1	39.1	39.9	40.0	40.8	41.6	40.9	41.8	41.8	41.8	39.3	39.8	0.5
Tohoku		45.6	44.5	45.4	46.0	46.5	46.0	44.9	45.0	46.3	46.1	45.9	45.8	45.9	0.1
kitakanto		43.4	43.2	44.1	45.3	46.2	45.4	45.2	44.8	45.0	45.2	42.6	43.3	43.8	0.5
minamikanto		43.8	43.6	44.7	46.0	46.8	46.2	46.5	46.1	46.8	46.1	45.4	45.8	45.8	0.0
Hokuriku		42.8	41.9	43.6	44.6	44.4	44.4	44.8	43.8	44.3	44.6	44.2	43.9	43.9	0.0
Tokai		44.4	43.4	45.0	46.3	46.4	45.6	46.5	45.3	46.9	46.5	46.0	46.0	45.9	▲ 0.1
Kinki		42.1	41.5	42.2	43.2	44.5	43.7	43.4	42.6	43.2	43.1	42.7	42.6	42.3	▲ 0.3
Chugoku		44.0	42.9	43.6	44.4	45.5	45.4	45.6	44.8	45.5	44.9	45.0	45.6	45.8	0.2
Shikoku		43.5	43.6	43.8	45.5	46.6	47.7	46.9	46.3	45.6	47.7	46.5	47.3	48.3	1.0
Kyushu		44.2	44.7	45.3	46.6	47.2	46.2	45.6	44.3	44.9	44.5	45.7	46.6	46.0	▲ 0.6

Corporate Attitudes toward the 2016 Economic Outlook

In 2016, 'Chinese Economy' will become the biggest concern

Corporate tax cuts and consumption-related topics are most significant among policies required for economic recovery

The second preliminary estimates for real GDP growth rate of July-September quarter released on December 8th, 2015 showed a 0.3% increase compared to the previous quarter (April-June) and a 1.0% increase in annualized rate, thereby exhibiting a positive growth for the first time in two quarters. While several indexes such as the number of new residential construction and job opening-to-application ratio continued to improve, public sector investment and consumer spending are at a standstill, resulting in varying business sentiments depending on industry and region.

Based on these developments, Teikoku Databank conducted a survey on corporate attitudes toward the 2015 economic trend as well as the 2016 economic outlook. This research was conducted in conjunction with the November 2015 TDB Trends Research. Survey on economic outlook has been conducted since November 2006. This marks the 10th survey.

*Survey Period: November 16 – 30, 2015; Companies Researched: 23,051; Valid Responses: 10,620 (Response Rate: 46.1%) .

*Details of this survey can be found on the dedicated Economic Trend Survey HP(<http://www.tdb-di.com/>).

Survey Results (Summary)

1. 7.5% of the companies viewed 2015 as the year of economic comeback, resulting in roughly the same as last year's economic trend. On the other hand, 54.8% of the companies mentioned the economy as marking time, surpassing 50% for the first time in nine years since 2006 (53.5%; November 2006 survey) .
2. 11.3% of the companies expected economic comeback for 2016, down 2.1 points from the 2015 outlook conducted in November 2014 survey. The expectation of a 'worsening' economy was higher among small companies compared to large companies by 9.8 points, showing a tougher outlook among companies of small size.
3. 'Chinese Economy' was mentioned as the biggest concern for 2016's economic outlook, up 33.3 points compared to the previous year. Regardless of their industry nor size, increasingly more companies are concerned of China's economic slowdown. In contrast, concerns over 'crude oil / raw material price hike' and 'exchange (weak yen)' decreased significantly; factors for economic worries have changed drastically in the last 12 months.
4. Top five policies necessary for an economic turnaround were as follows: 'Increased consumer spending,' 'income increase,' 'corporate tax cut,' 'individual tax cut,' 'solution to pension problems (solving problems of the future)'. Around 20% of the companies also mentioned 'childbirth/ child care support' and 'solution to nursing care problems (welfare for the aged, job loss due to nursing, etc.)' as being important policies.

Appendix

1.Research Subjects(Companies Researched: 23,051; Valid Responses: 10,620; Response Rate: 46.1%)

Appendix

1.Region

Hokkaido	578	Tokai	1,191
Tohoku	669	Kinki	1,779
kitaKanto	713	Chugoku	589
minamikanto	3,428	Shikoku	326
Hokuriku	580	Kyushu	767
Total		10,620	

2.Industry (10 Industries 51 Lines of business)

Agriculture,Forestry,Fisheries		56
Finance		136
Construction		1,531
Real Estate		291
Manufacturing 3,223	Food,Beverages,Livestock Feed	335
	Textile,Textile Products,Clothing	113
	Construction Materials,Furniture,Ceramics,Stone and Clay Products	238
	Pulp, Paper and Paper Products	114
	Publishing,Printing	200
	Chemical	435
	Steel,Nonferrous Metals,Mining	536
	General Machinery	448
	Electrical Machinery	360
	Transportation Machinery,Equipment	99
	Precision Machinery,Medical Instruments and Equipment	86
	Others	95
Wholesale 3,959	Food,Beverages	375
	Textile,Textile Products,Clothing	186
	Construction Materials,Furniture,Ceramics,Stone and Clay Products	376
	Paper Products,Stationery,Books	110
	Chemical	309
	Recycled Resources	40
	Steel,Nonferrous Metals,Mining Products	330
	Machinery,Equipment	958
	Others	358

Retail 480	Food,Beverages	68
	Textile,Textile Products,Clothing	39
	Drugs,Sundries	27
	Furniture	7
	Electrical Household Appliances,Information Machinery and Equipment	34
	Motor Vehicles,Motor Vehicle Parts	65
	Special Merchandise	150
	Various Merchandise	49
	Others	6
Transportation,Warehousing		453
Service 1,384	Restaurants	44
	Telecommunications	11
	Electricity,Gas,Water,Heat	10
	Leasing,Rentals	124
	Lodging, Hotels	33
	Recreation	57
	Broadcasting	16
	Maintenance,Guarding,Testing	166
	Advertising	132
	Information	442
	Labor Dispatching	54
	Special Services	211
	Medical,Welfare,Public Health	104
	Education	21
	Others	139
Others		43
Total		10,620

3.Size

Large Firms	2,341	22.0%
Small to Medium-sized Firms	8,279	78.0%
micro Firms	2,594	24.4%
Total	10,620	100.0%

2. Research Items

- *Business Confidence (current, in 3 months, in 6 months, in 1 year)
- *Business Conditions (sales, purchasing and selling unit price, inventory, capacity utilization ratio, number of employees, overtime work hours)

3. Research Period and Methodology

Internet-based survey conducted November 16 – 30 2015

The explanation of the Economic Diffusion Index

Research Purpose/Researched Terms

TDB Economic Trend Research (started from May 2002) is a monthly statistical survey conducted for over 20,000 nationwide corporations on their general business activities including the current condition and future outlook of the industry business performance and operating climate. The primary purpose of such a survey is to assess the current state of Japan's economy.

Selection of the Subject Corporations

Companies of all sizes in all domestic industries are eligible to participate in the survey.

DI Formula

The DI (Diffusion Index) is calculated by attaching a number (in parenthesis in the diagram below) to each of seven possible responses. Then multiplying the percentage of each response by the appropriate number, and adding the results.

Very Bad	Bad	Moderately Bad	Neither Good or Bad	Moderately Good	Good	Very Good
(0)	(1/6)	(2/6)	(3/6)	(4/6)	(5/6)	(6/6)
0	16.7	33.3	DI=50 Dividing point	66.7	83.3	100

A DI over 50 is in the range of “Good.” A score under 50 is “Bad.” The number 50 is the dividing point (“Neither Good or Bad”). All numbers are rounded off to the hundredth. It should be noted that no weight is given to a company's responses based on its size. Calculations are made according to a “one company, one vote” rule.

For example, all corporations rated ‘Very Good’.

$$DI = 6/6 \times 100(\%) = 100$$

All corporations rated ‘Neither Good nor Bad’.

$$DI = 3/6 \times 100(\%) = 50$$

Size Classification

Industry	Large Firms	Small to Medium-Sized Firms (Micro Firms included)	Micro Firms
Manufacturing and Other Industries*	Capital: More than 300 million yen and No. of Employee: Over 300	Capital: Below 300 million yen or No. of Employee: Below 300	No. of Employee: Below 20
Wholesale Trade	Capital: More than 100 million yen and No. of Employee: Over 100	Capital: Below 100 million yen or No. of Employee: Below 100	No. of Employee: Below 5
Retail Trade	Capital: More than 50 million yen and No. of Employee: Over 50	Capital: Below 50 million yen or No. of Employee: Below 50	No. of Employee: Below 5
Service**	Capital: More than 50 million yen and No. of Employee: Over 100	Capital: Below 50 million yen or No. of Employee: Below 100	No. of Employee: Below 5

Note1: Large Firms refer to companies that rank in the top 3% in terms of sales volume according to the type of business, among small to medium-sized corporations excluding micro firms, which are defined in Small and Medium Enterprises Basic Act.

Note2: Small to Medium-Sized Firms refer to companies that rank in the bottom 50% in terms of sales volume according to the type of business, among those not categorized as small to medium-sized corporations in Small to Medium-Sized Enterprises Basic Act.