

“Annual Survey of Corporate Behavior”, improving business confidence

“Annual Survey of Corporate Behavior” is one of the surveys which captures corporations’ outlook of economy and business demand, and is released by the Cabinet Office, Japan annually. The survey contains useful information such as break-even exchange rates and overseas production ratios to research the corporation’s activities. For the latest survey, 982 public companies participated in the survey.

Point 1

Upbeat overseas production continues

To capture vigorous local demand in overseas market

- “Annual Survey of Corporate Behavior as of January 2015” was released by the Cabinet Office on 3rd March. The research shows the average overseas production ratio of Japanese manufacturing companies marginally rose from + 22.3% in FY2013 to + 22.9% in FY2014 (estimate basis) and is forecasted to further increase to + 26.2% in FY2019 (estimate basis) despite Yen depreciation.
- Of the answers for motivation of building production bases abroad, “Advantage of location, having production base close to the consumption area” (40.3%) comes first. And the 2nd most replied reason was “Taking advantage of lower labor costs” (24.4%). The production shift to overseas countries is deemed to continue growing in order to meet vigorous local demand in overseas market although Yen has been weakened significantly for a few years.
- Corporation’s capital investment (CAPEX) plan has slightly retreated. The companies that plan to increase CAPEX over the next three years account for 64.5% of all the respondent, which somewhat decreased from 66.4% on the survey in the previous year. This shows retreating business confidence for CAPEX as more companies answered to reduce CAPEX than in the previous year.

Point 2

Many companies anticipate current exchange rate level to remain

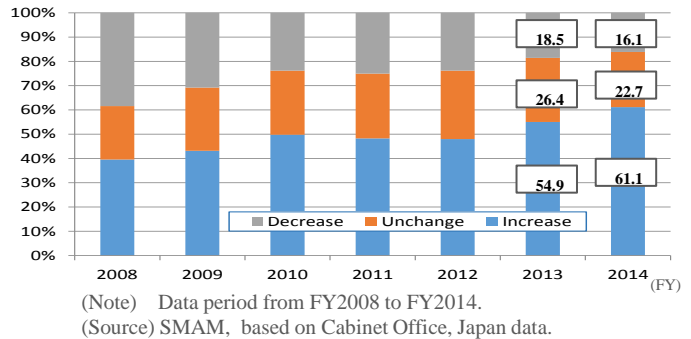
Earnings of exporters are improving

- Many corporations forecast current level of exchange rate remains for a year period. The average forecast of USD/JPY rate in a year time (around Jan. 2016) by the companies of all industry is 119.50, which got stronger by about 14 yen from 105.7 on the survey conducted in the previous year.
- The break-even USD/JPY rate was 99.0 yen on average for exporters, which got stronger by about 7 yen from 92.9 yen on the survey in the previous year deteriorated the exporter’s profitability. However, the profits are expected to expand if the exchange rate remain at the current level.

■ More corporations plan to increase employees

The number of the corporations that answered to increase employees over the next three years accounted for 61.1%, which rose from 54.9% on the survey in the previous year. Also, the number of corporations that increase full-time workers accounted for 60.0%, which rose from 53.5% a year ago. It seems to reflect current tightening labour market.

Proportion of corporations by their employment plan (Over the next three years)



■ Government measures to promote domestic capital investment is awaited

The growth strategy of Abe’s administration aims to thrive regional economy and promote productive investment by corporations. On the latest survey, we could observe corporations’ intention to increase the number of employees, while positive behavior to increase CAPEX is yet to be materialised and the overseas production shift is likely to continue rising. Further penetration of government’s supportive measures to promote the CAPEX investment is expected.

■ Disclaimer

Please read this disclaimer carefully.

- This material is for non-Japanese institutional investors only.
- The research and analysis included in this report, and those opinions or judgments as outcomes thereof, are intended to introduce or demonstrate capabilities and expertise of Sumitomo Mitsui Asset Management Company, Ltd. (hereinafter “SMAM”), or to provide information on investment strategies and opportunities. Therefore this material is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.
- The expected returns or risks in this report are calculated based upon historical data and/or estimated upon the economic outlook at present, and should be construed no warrant of future returns and risks.
- Past performance is not necessarily indicative of future results.
- The simulated data or returns in this report besides the fund historical returns do not include/reflect any investment management fees, transaction costs, or re-balancing costs, etc.
- The investment products or strategies do not guarantee future results nor guarantee the principal of investments. The investments may suffer losses and the results of investments, including such losses, belong to the client.
- The recipient of this report must make its own independent decisions regarding investments.
- The opinions, outlooks and estimates in this report do not guarantee future trends or results. They constitute SMAM’s judgment as of the date of this material and are subject to change without notice.
- The awards included in this report are based on past achievements and do not guarantee future results.
- The intellectual property and all rights of the benchmarks/indices belong to the publisher and the authorized entities/individuals.
- This material has been prepared by obtaining data from sources which are believed to be reliable but SMAM can not and does not guarantee its completeness or accuracy.
- All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMAM, except as otherwise stated. It is strictly prohibited from using this material for investments, reproducing/copying this material without SMAM’s authorization, or from disclosing this material to a third party.