

Business confidence of SMEs marked a record high
 - Economic DI of 50.9, improvement for seven consecutive months -

(Companies researched: 23,113 ; Valid responses: 10,168; Response rate: 44.0%; Survey start date: May 2002)

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< Overview of December 2017: Expansion >

The economic diffusion index (DI) in December 2017 was 50.9, up 0.9 points from the previous month, and an improvement for seven consecutive months. Since February 2017, the DI has improved every month, except May in which the DI remained flat. With year-end demand in addition to a strong manufacturing industry, business confidence by industry and size was improved, and the domestic economy expanded.

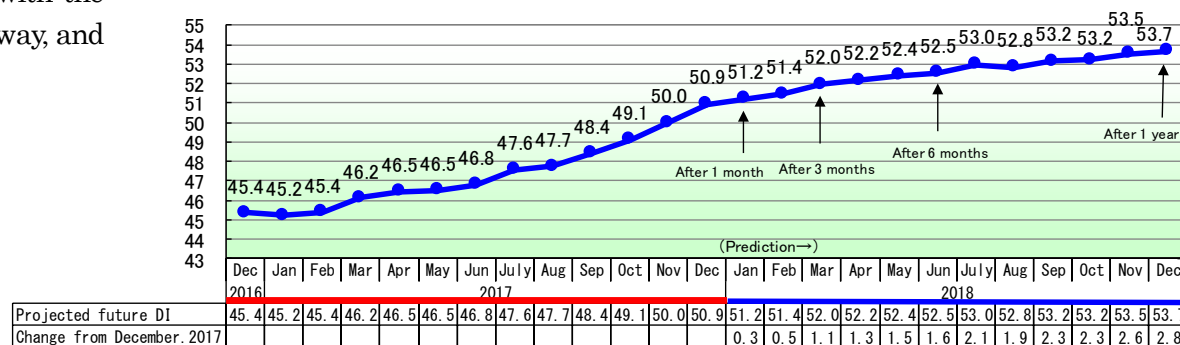
< Future outlook: Expansion continues >

The expansion in the domestic economy is expected to continue, with the corporate sector such as exports and capital investments leading the way, and is also supported by tax reform for domestic and foreign corporations.

By industry : Three industries such as "manufacturing" and "transportation and warehousing" marked a record high.

By size : Business confidence of "SMEs" and "small enterprises" marked a record high.

By region : Of the ten regions, six scored a DI of over 50, and the DI of "Kinki" went up to the 50s for the first time.



*: 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

	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Ratio to the PrFDious Month
Total	45.4	45.2	45.4	46.2	46.5	46.5	46.8	47.6	47.7	48.4	49.1	50.0	50.9	0.9
Large Firms	48.4	48.2	48.3	48.9	49.4	49.9	49.8	50.3	50.5	51.3	51.6	52.1	53.0	0.9
Small to Medium-sized Firms	44.5	44.4	44.6	45.4	45.7	45.6	46.0	46.8	47.0	47.7	48.5	49.4	50.4	1.0
Micro Firms	43.9	43.5	44.1	44.4	44.5	44.4	44.4	45.6	45.7	46.7	47.6	48.7	49.8	1.1

	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Ratio to the PrFDious Month	
Agriculture,Forestry,Fisheries	47.3	43.3	45.1	45.5	47.0	45.4	45.3	44.9	44.5	45.6	47.5	46.7	49.2	2.5	
Finance	45.9	46.4	45.5	45.6	46.0	46.4	46.3	47.2	46.8	48.0	47.9	49.0	48.9	▲ 0.1	
Construction	49.7	49.2	49.5	49.3	49.0	49.5	49.5	50.4	50.7	51.7	52.7	53.7	54.2	0.5	
Real Estate	48.7	49.3	49.9	49.4	49.7	50.7	49.4	49.6	49.3	49.9	50.9	50.3	51.3	1.0	
Manufacturing	Food,BEWerages,Livestock Feed	43.4	41.9	42.1	42.7	43.0	42.6	43.5	43.5	42.9	43.0	42.8	42.9	44.8	1.9
	Textile,Textile Products,Clothing	38.0	36.3	37.7	38.6	38.8	39.4	37.8	37.9	38.4	37.7	38.6	39.6	42.0	2.4
	Construction Materials,Furniture, Ceramics,Stone and Clay Products	43.5	43.3	42.8	43.2	42.4	43.4	43.4	45.9	45.6	47.0	46.8	48.0	1.2	
	Pulp, Paper and Paper Products	43.0	43.3	42.0	42.0	42.9	42.5	43.4	43.8	41.9	44.4	46.6	45.6	48.7	3.1
	Publishing,Printing	35.7	33.9	34.6	36.5	35.6	33.4	35.1	34.2	34.6	36.4	35.7	35.4	35.8	0.4
	Chemical	48.2	47.5	47.9	48.5	49.9	50.3	50.2	51.4	50.5	51.8	52.5	53.3	54.1	0.8
	Steel,Nonferrous Metals,Mining	45.7	45.9	46.2	47.0	47.5	47.3	49.6	51.1	51.6	53.0	54.3	56.6	56.3	▲ 0.3
	General Machinery	50.3	49.9	51.1	52.9	54.1	54.5	54.8	56.5	56.2	57.2	59.3	59.3	60.8	1.5
	Electrical Machinery	45.5	46.3	47.1	47.8	48.6	49.3	49.7	50.3	51.5	52.2	53.7	54.5	55.7	1.2
	Transportation Machinery,Equipment	48.6	49.5	49.3	52.5	50.3	52.0	52.7	52.2	54.7	54.8	54.2	58.6	56.9	▲ 1.7
	Precision Machinery, Medical Instruments and Equipment	46.3	46.7	49.4	48.1	50.0	51.7	51.5	50.4	51.8	51.5	53.2	55.1	54.7	▲ 0.4
Other	39.6	39.2	41.3	41.3	40.1	38.2	38.5	40.3	39.7	41.6	39.6	40.9	42.6	1.7	
Total	45.2	44.8	45.4	46.3	46.7	46.9	47.5	48.5	48.6	49.4	50.3	51.2	52.1	0.9	
Wholesale	Food,BEWerages	41.5	40.6	40.4	41.0	41.7	42.7	41.8	42.2	41.3	41.6	41.1	42.4	43.5	1.1
	Textile,Textile Products,Clothing	34.0	33.7	33.4	32.6	34.7	34.5	35.0	34.3	34.2	35.3	35.4	36.1	37.4	1.3
	Construction Materials, Furniture,Ceramics, Stone and Clay Products	43.2	42.1	42.6	42.8	41.8	43.2	42.8	43.0	43.8	44.0	44.2	45.1	46.7	1.6
	Paper Products,Stationery,Books	37.7	38.6	38.4	38.3	38.5	36.1	38.4	37.4	35.7	38.8	38.4	38.9	38.4	▲ 0.5
	Chemical	43.1	44.4	42.8	44.5	46.0	45.1	45.3	46.5	47.2	47.5	48.1	48.6	50.7	2.1
	Recycled Resources	49.5	49.1	50.0	54.9	49.5	49.0	51.8	49.5	55.4	52.4	51.6	57.8	58.3	0.5
	Steel,Nonferrous Metals, Mining Products	42.6	42.5	42.9	44.0	43.5	41.3	43.1	45.1	45.6	46.2	49.5	50.5	52.3	1.8
	Machinery,Equipment	44.2	44.8	44.3	45.8	46.3	46.1	46.6	48.0	48.2	48.5	49.3	50.9	52.1	1.2
	Other	39.9	40.1	39.2	39.9	41.1	42.0	41.4	42.1	41.3	42.0	42.0	42.7	43.7	1.0
Total	42.1	42.2	41.8	42.8	43.2	43.1	43.4	44.2	44.3	44.8	45.5	46.5	47.9	1.4	

Economic Diffusion Index (Economic DI)2/2

		Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Ratio to the PrFDious Month
Retail	Food,BEWerages	40.6	37.4	41.5	41.4	39.0	39.9	42.9	41.1	44.3	44.4	42.1	45.2	45.3	0.1
	Textile,Textile Products,Clothing	31.3	32.7	29.0	30.9	31.8	33.9	34.4	34.6	35.1	34.4	37.5	32.7	35.6	2.9
	Drugs,Sundries	42.0	43.5	46.0	44.3	46.0	46.4	44.4	43.8	46.8	44.2	44.9	46.2	44.4	▲ 1.8
	Furniture	30.0	33.3	38.1	33.3	35.7	35.7	40.7	39.6	37.5	41.7	40.9	45.0	40.7	▲ 4.3
	Electrical Household Appliances, Information Machinery and Equipment	38.6	40.5	39.9	43.0	41.7	38.1	41.9	41.7	44.6	40.2	43.9	43.9	47.7	3.8
	Motor Vehicles,Motor Vehicle Parts	41.0	43.5	46.3	47.7	41.9	41.5	44.4	44.4	45.5	46.2	45.3	45.6	44.2	▲ 1.4
	Special Merchandise	37.1	38.3	39.1	38.8	38.3	39.1	39.8	39.7	39.8	39.7	39.6	38.8	41.5	2.7
	Various Merchandise	44.6	42.0	45.3	44.6	44.3	45.0	48.7	46.5	45.8	45.7	46.3	45.7	46.4	0.7
	Other	46.7	45.8	45.8	40.0	40.0	41.7	41.7	38.9	44.4	46.7	46.7	43.3	50.0	6.7
	Total	39.1	39.4	40.9	41.1	39.8	40.2	42.1	41.5	42.7	42.2	42.4	42.4	43.4	1.0
Transportation,Warehousing		46.1	45.0	43.8	45.6	47.0	46.8	45.7	47.7	48.4	49.0	49.9	50.7	52.5	1.8
Service	Restaurants	37.5	42.3	39.0	45.1	45.0	41.1	43.0	43.9	41.9	45.2	45.1	42.9	44.9	2.0
	Postal,Telecommunications	46.2	55.1	52.8	58.3	54.2	51.3	56.9	55.6	54.2	59.1	54.5	57.7	56.4	▲ 1.3
	Electricity,Gas,Water,Heat	41.7	50.0	52.4	47.2	52.4	52.4	57.1	52.4	52.8	57.1	58.3	59.5	54.2	▲ 5.3
	Leasing,Rentals	48.9	47.9	48.2	50.1	48.9	50.2	50.0	50.6	49.7	52.0	54.2	54.9	55.9	1.0
	Lodging, Hotels	47.5	43.5	45.6	49.4	48.9	49.4	47.9	46.9	47.4	41.7	43.6	51.9	48.0	▲ 3.9
	Recreation	36.9	37.7	37.1	39.2	39.1	40.9	40.8	40.1	38.3	40.0	39.1	39.0	42.2	3.2
	Broadcasting	49.0	45.6	47.8	47.8	47.8	46.7	42.9	46.2	47.2	47.2	46.2	44.4	47.6	3.2
	Maintenance,Guarding,Testing	47.1	47.4	47.8	48.6	49.4	48.9	49.7	50.2	51.4	51.3	50.3	51.6	50.3	▲ 1.3
	Advertising	40.9	38.6	39.8	41.0	42.3	41.8	40.6	41.0	41.9	40.5	43.6	41.8	41.5	▲ 0.3
	Information	53.2	54.3	54.8	55.3	56.1	55.6	55.7	56.6	56.1	57.2	57.9	57.6	58.4	0.8
	Labor Dispatching	54.4	54.4	50.8	54.6	55.8	52.3	54.8	54.8	58.6	57.5	58.2	59.0	57.9	▲ 1.1
	Special Services	52.8	51.9	51.8	52.6	53.2	52.3	52.3	52.6	53.4	53.2	53.3	53.2	55.5	2.3
	Medical,Welfare,Public Health	44.0	43.6	44.7	46.4	47.7	47.9	48.3	45.2	46.1	47.4	44.1	47.9	48.3	0.4
	Education	43.7	46.7	44.4	43.7	41.1	43.5	42.1	42.5	42.5	41.7	41.0	40.5	42.4	1.9
	Other	47.9	47.1	49.6	50.1	50.0	49.3	50.8	50.2	50.5	50.7	50.6	53.9	52.6	▲ 1.3
Total	48.7	48.8	49.1	50.4	50.9	50.4	50.7	50.9	51.1	51.5	51.8	52.5	53.0	0.5	
Other		39.5	39.9	40.8	40.2	42.1	41.7	42.2	41.7	42.4	43.6	43.3	47.9	48.2	0.3

	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Ratio to the PrFDious Month
Hokkaido	42.6	42.2	43.2	43.9	44.3	46.1	45.7	48.4	48.8	48.6	48.6	48.6	48.4	▲ 0.2
Tohoku	44.6	44.2	43.6	44.7	45.2	45.4	45.4	45.7	45.4	45.9	45.9	47.2	47.9	0.7
kitakanto	45.0	44.9	44.2	45.4	46.6	46.4	47.0	48.3	47.8	49.1	50.2	51.2	52.9	1.7
minamikanto	46.1	46.3	46.5	47.1	47.4	47.3	47.7	48.2	48.2	49.1	49.7	50.5	51.3	0.8
Hokuriku	43.0	43.4	42.8	44.1	44.3	45.3	45.9	47.5	48.0	48.8	49.3	49.0	49.9	0.9
Tokai	46.4	45.7	45.9	46.6	46.8	46.4	47.3	48.1	48.8	49.2	50.0	51.2	52.5	1.3
Kinki	43.7	43.7	44.1	45.1	45.2	44.7	44.9	45.6	46.1	46.7	48.0	49.0	50.8	1.8
Chugoku	45.8	44.6	45.1	46.3	46.1	46.0	46.5	47.0	47.7	47.8	48.6	50.1	50.6	0.5
Shikoku	47.2	46.2	46.5	46.1	46.9	46.8	47.0	47.0	46.8	48.5	48.2	48.5	49.0	0.5
Kyushu	48.0	48.1	49.0	48.7	49.1	49.5	48.9	49.4	49.4	49.9	50.5	51.3	51.7	0.4

Survey of Corporate Attitude Toward Corporate Tax Reform

**30% of companies plan to implement pay raises,
and 20% plan to implement capital investment.**

**The higher the awareness of reform, the higher is the motivation for
pay raises and capital investment.**

Various countries have announced policies to support the improvement of corporate competitiveness through their tax systems, such as by lowering the corporate tax rate. For tax reform to promote work style reform and improve productivity, the government is considering a corporate tax system that may alleviate the burden on companies that have increased pay and investment in advanced technology, while considering a policy to review tax incentives for companies that have not been active in these respects. Under these circumstances, the ruling coalition officially announced their outline of the 2018 tax reform proposals on December 14, 2017.

Teikoku Databank has conducted a survey of corporate attitudes toward corporate tax reform. This survey was conducted in conjunction with the December 2017 TDB Trends Research.

*Survey period: December 18, 2017 - January 9, 2018; Companies Surveyed: 23,113; Valid Responses: 10,168 (Response Rate: 44.0%)

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

Survey Results (Summary)

1. With respect to the awareness of corporate tax reform, companies that "know about it, including the details" account for 4.9%. Combined with the 67.9% of companies that "know about the summary only," it is 72.8%, and over 70% of companies are at least aware of the outline of corporate tax reform.
2. In response to this corporate tax reform, 30.3% and 20.3% of companies responded "implement (including plan to implement)" pay raises and capital investment, respectively. Pay raises are expected in over 30% of companies with 6 to 100 employees, and capital investment is expected in over 20% of companies with 21-1000 employees. Although there is a difference in the intention to implement pay raises through capital funding, there is no such big difference in capital investment as in pay raises. However, the intention to implement differs according to awareness. In particular, 52.5% of companies whose capital funding is up to 100 million yen and that "know about it, including the details" plan to implement pay raises.
3. With respect to policies that companies would request of the government for corporate taxation system reform, the highest is "reduction in effective corporate tax rate" at 48.0%, followed by "reduction of corporate tax" (36.1%) in over 30%, "expansion of grants and subsidies" (28.2%), and "simplification of the tax system" (27.7%). On the other hand, "reduction in effective corporate tax rate," and "review of pro forma standard taxation" showed high percentages in large companies, and "reduction of corporate enterprise tax," "reduction of corporate inhabitant tax," "reduction of corporate tax" and "review of fixed assets tax" showed high percentages in small to medium-sized companies.
4. With respect to contribution to the revitalization of the Japanese economy through this corporate tax reform, 28.6% of companies responded "contribute," and 26.2% responded "not contribute," so opinions were almost polarized. However, up to almost half of companies, or 45.3%, responded "do not know," and this suggests many companies cannot fully determine the effect on the entire Japanese economy.

Appendix

1. Research Subjects (Companies Researched 23,113; Valid responses: 10,168 ; Response rate: 44.0%)

Appendix

1. Region

Hokkaido	524	Tokai	1,135
Tohoku	636	Kinki	1,727
kitaKanto	720	Chugoku	573
minamikanto	3,230	Shikoku	312
Hokuriku	563	Kyushu	748
		Total	10,168

2. Industry (10 Industries 51 Lines of business)

Agriculture, Forestry, Fisheries	59	
Finance	122	
Construction	1,482	
Real Estate	315	
Manufacturing 3,223	Food, Beverages, Livestock Feed	330
	Textile, Textile Products, Clothing	109
	Construction Materials, Furniture, Ceramics, Stone and Clay Products	226
	Pulp, Paper and Paper Products	103
	Publishing, Printing	185
	Chemical	419
	Steel, Nonferrous Metals, Mining	504
	General Machinery	446
	Electrical Machinery	342
	Transportation Machinery, Equipment	102
Wholesale 3,959	Precision Machinery, Medical Instruments and Equipment	75
	Others	86
	Food, Beverages	365
	Textile, Textile Products, Clothing	179
	Construction Materials, Furniture, Ceramics, Stone and Clay Products	327
	Paper Products, Stationery, Books	101
	Chemical	285
	Recycled Resources	32
	Steel, Nonferrous Metals, Mining Products	312
	Machinery, Equipment	914
Others	347	

3. Size

Large Firms	2,106	20.7%
Small to Medium-sized Firms	8,062	79.3%
micro Firms	2,660	26.2%
Total	10,168	100.0%

Retail 480	Food, Beverages	64
	Textile, Textile Products, Clothing	30
	Drugs, Sundries	24
	Furniture	9
	Electrical Household Appliances, Information Machinery and Equipment	37
	Motor Vehicles, Motor Vehicle Parts	60
	Special Merchandise	132
	Various Merchandise	46
Others	4	
Transportation, Warehousing		436
Service 1,384	Restaurants	39
	Telecommunications	13
	Electricity, Gas, Water, Heat	8
	Leasing, Rentals	110
	Lodging, Hotels	25
	Recreation	64
	Broadcasting	14
	Maintenance, Guarding, Testing	157
	Advertising	100
	Information	419
	Labor Dispatching	53
Special Services	241	
Medical, Welfare, Public Health	100	
Education	24	
Others	146	
Others	46	
Total		10,168

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 December 18 2017–January 9 2017

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.