



FCIJ

Foreign Chambers
in Japan



FCIJ Business Confidence Survey

Autumn 2004

Including commentary by Dr William Schrade, Ph.D. Economics, Temple University Japan

Survey idea and technical implementation by the Finnish Chamber of Commerce in Japan



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About the Foreign Chambers in Japan (FCIJ)

The Foreign Chambers in Japan (FCIJ) is an informal organization comprised of foreign chambers of commerce and business groups in Japan mainly for the purpose of information exchange develop the activities of the organizations.

The FCIJ (then FCIG – Foreign Chambers Information Group) conducted the first Business Confidence survey in April 2002, based on a format developed by the Finnish Chamber of Commerce in Japan. This is the sixth survey and the surveys are conducted twice a year to create a foreign companies business barometer.

The survey is headed by a task force consisting of representatives for the ACCJ, BCCJ, CCCJ, DIHKJ and FCCJ. The survey is run on behalf all the chambers by FCCJ which also compiles the results.

The FCIJ also conducted a Compensation Survey in September 2002 in cooperation with PricewaterhouseCoopers. This survey is planned to be remade in 2005.

Slowing
Down?

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About the Survey

Purpose of the survey

1. Provide chambers with better information on what their members think about the current state of the Japanese economy and their own businesses, and note problems and future plans in the Japanese market
2. Create a valid sentiment on how foreign companies view the Japanese market
3. Enable comparisons between the sentiments of participating chambers and between North American and European companies
4. Obtain reliable data on how foreign companies perform in Japan and how they feel about the business climate in Japan. This information can be used to counter the negative publicity about Japan in the home countries of the chamber members

Survey period *12 Oct. – 5 Nov., 2004*

Survey method *online only*

Survey population *ca 2,150 companies*

Survey questions *2 questions on economy*
4 on company performance
1 on reasons behind changes
1 on strategies in Japan
Free Comments
Company profile
Contact information

Notes

Some chambers had a shorter survey period.

The survey forms were made by FCCJ and all responses were submitted to the FCCJ web server.

Depending on chamber, survey was sent out to all members (individuals), only to companies or only to foreign affiliated.

One main objective with the form has been to make it simple to understand, and easy to complete.

The contact information was optional, to encourage as many as possible to submit the form, without privacy concerns. However, 66 % gave their contact information.

Although all questions were marked compulsory in the form, we did not apply any error checking not to discourage respondents with messages like " *You forgot to fill in question 2, please go back to the form*". Because of this, each question does not have same number of responses.

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Participating Organizations



The American Chamber of Commerce in Japan



The Australian-New Zealand Chamber of Commerce in Japan



The Austrian Business Council



The Belgian-Luxembourg Chamber of Commerce in Japan



The Brazilian Chamber of Commerce in Japan



The British Chamber of Commerce in Japan



The Canadian Chamber of Commerce in Japan



The Danish Chamber of Commerce in Japan



Enterprise Ireland



The Finnish Chamber of Commerce in Japan



The French Chamber of Commerce in Japan



The German Chamber of Commerce and Industry in Japan



The Italian Chamber of Commerce in Japan



The Netherlands Chamber of Commerce in Japan



The Norwegian Chamber of Commerce in Japan



The Swedish Chamber of Commerce and Industry in Japan



The Swiss Chamber of Commerce and Industry in Japan

Slowing Down?

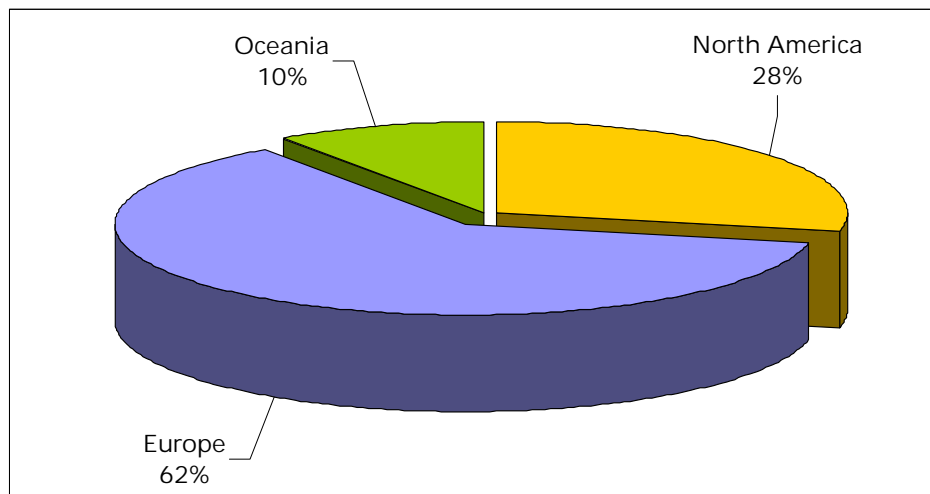
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Survey Responses

Total number of responses: 324

Response rate: 15.2 %

Shares of total responses - by Area



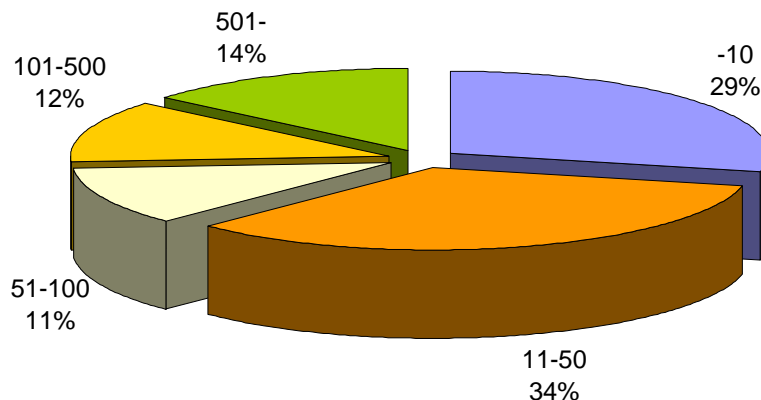
Largest number of responses

American Chamber	- 80	British Chamber	- 24
Swiss Chamber	- 37	Finnish Chamber	- 20
German Chamber	- 33	Norwegian Chamber	- 19
ANZ Chamber	- 31	Italian Chamber	- 18

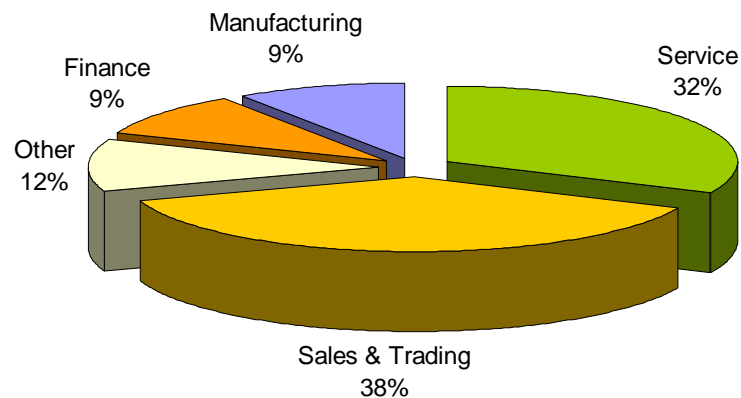
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Company Demographics

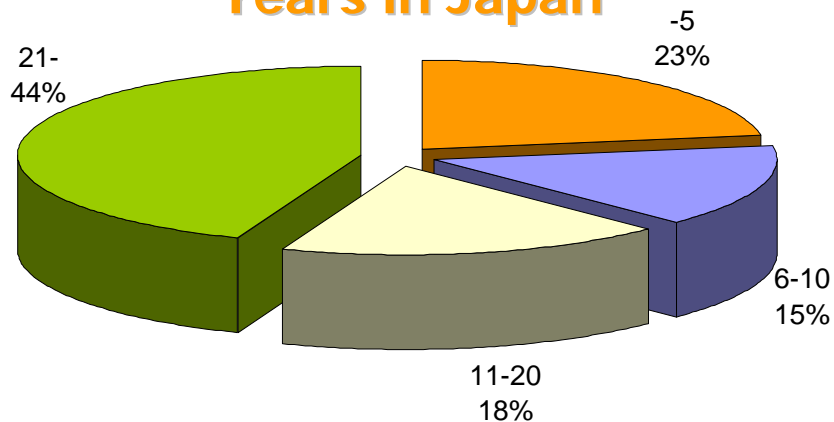
Number of employees



Type of business



Years in Japan



A typical respondent company:






Has been in Japan for 18 years, has 40 employees and is involved in trading, sales or service industry.

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Survey Analysis Methods

- 1.1. Japan's economic situation next **6** months
- 1.2. Japan's economic situation next **12** months
- 2.1. Sales during the **past** 6 months
- 2.2. Sales during the **next** 6 months
- 3.1. Profitability during the **past** 6 months
- 3.2. Profitability during the **next** 6 months

Legend

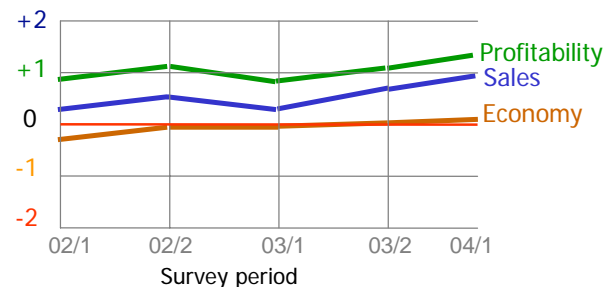
- A. Strong improvement = +2 
- B. Some improvement = +1 
- C. No change = 0 
- D. Some decline = -1 
- E. Strong decline = -2 

$$\text{INDEX} = (A_n * 2 + B_n * 1 + D_n * -1 + E_n * -2) / \text{TOTAL}$$

- 4. Reasons behind changes
- 5. Strategies in Japan
- 6. Comments

The index makes it possible to compare results from consecutive surveys and to create graphs on how the sentiments change over time.

EXAMPLE



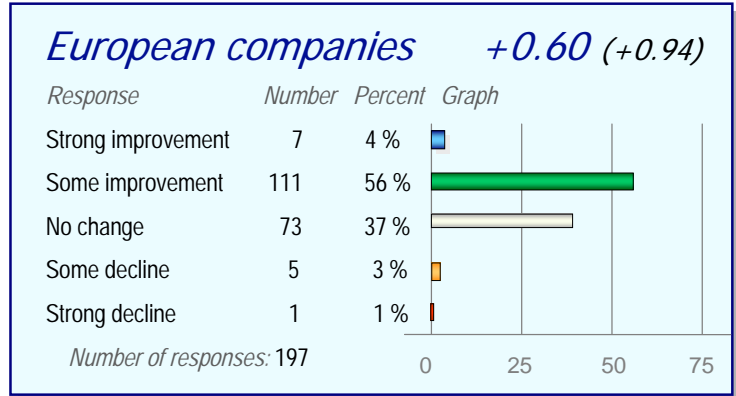
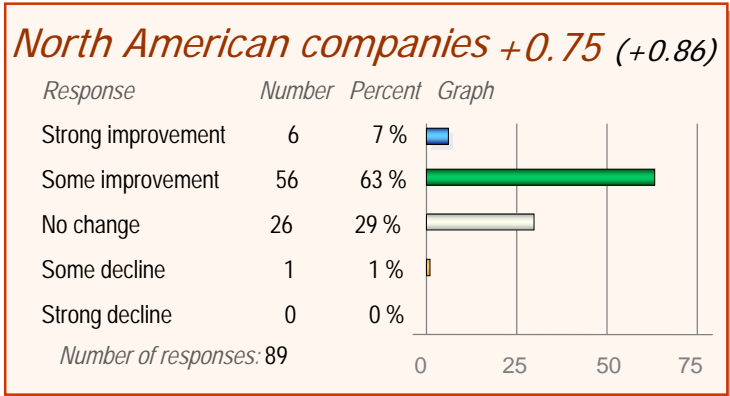
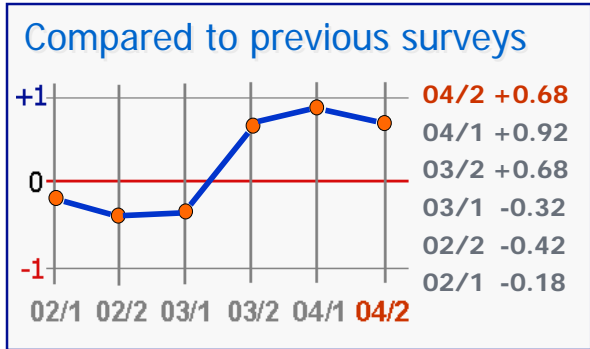
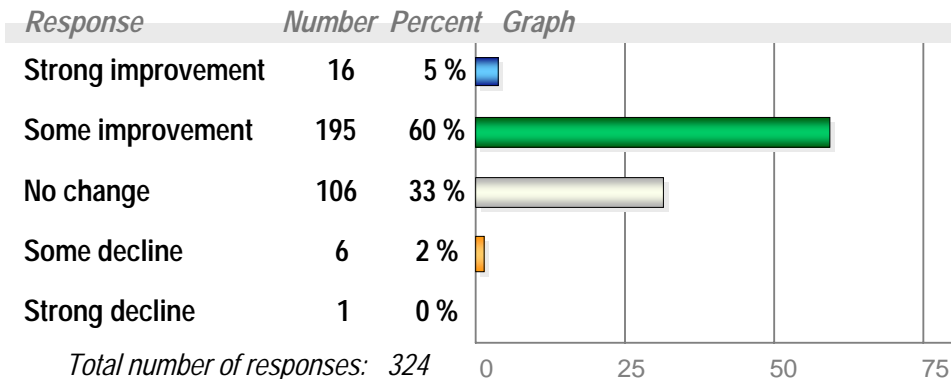
Slowing Down?

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1.1. Japan's economic situation for the next 6 months

TOTAL FOR SURVEY

INDEX +0.68 (previous survey +0.92)



Oceanian companies +0.81 (1.06)

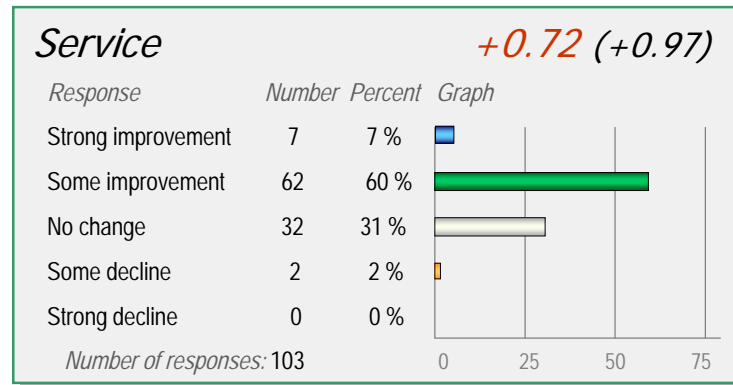
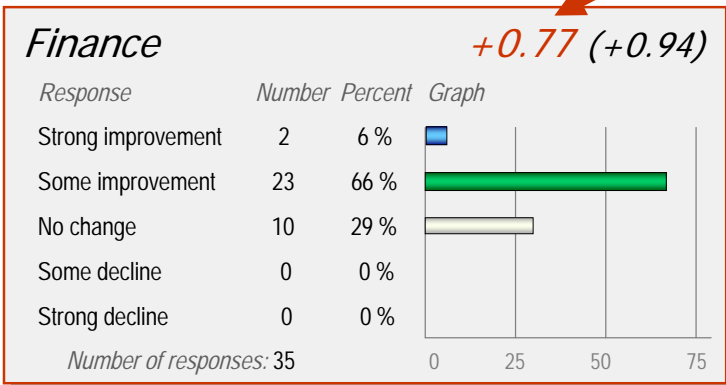
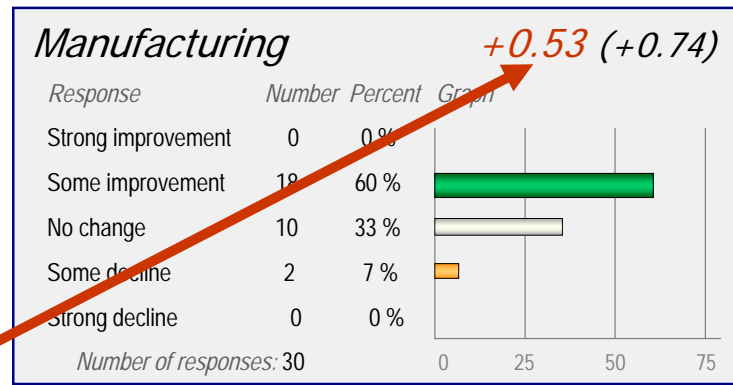
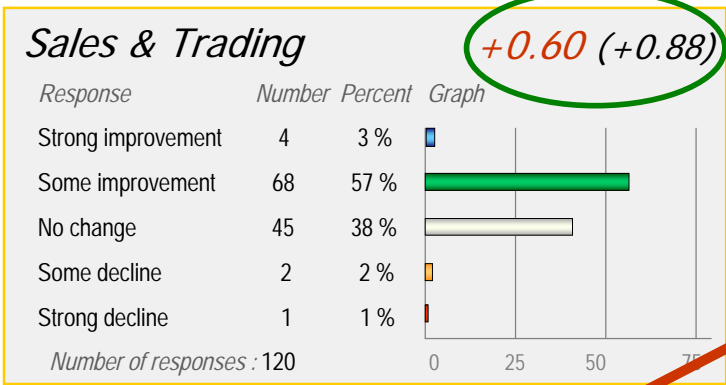
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1.1. Japan's economic situation for the next 6 months

By type of business

OVERALL INDEX **+0.68**



NOTES:



Notable changes



Highest-lowest

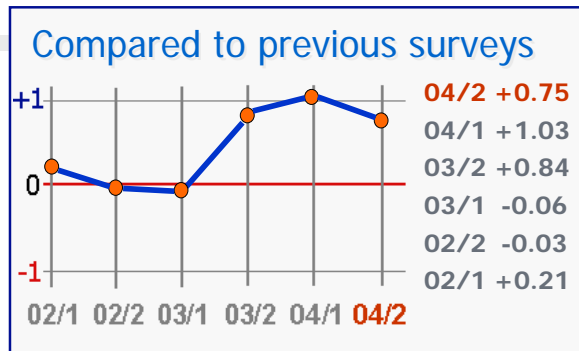
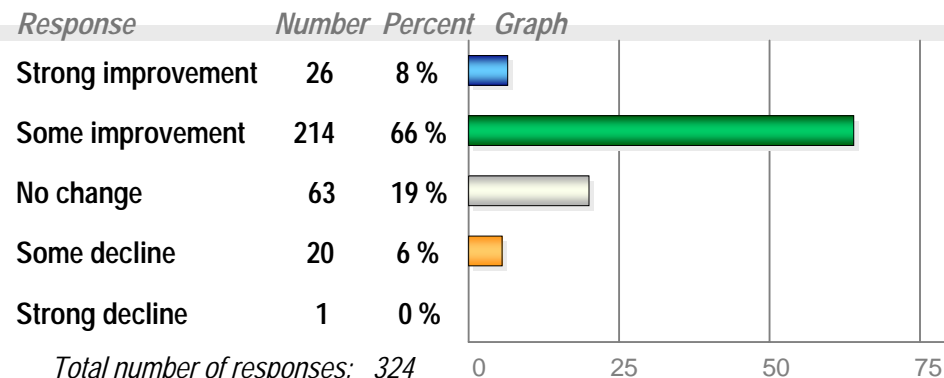
Slowing Down?

Business Confidence Survey – Autumn 2004

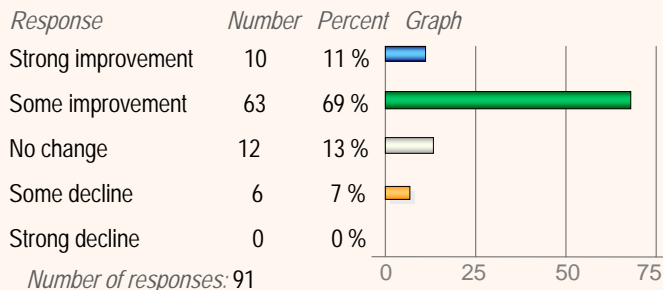
1.2. Japan's economic situation for the next 12 months

TOTAL FOR SURVEY

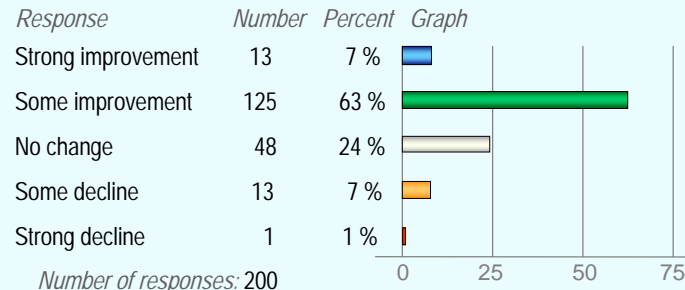
INDEX +0.75 (+1.03)



North American companies +0.85 (+1.06)



European companies +0.68 (+1.02)



Oceanian companies +0.94 (+1.00)

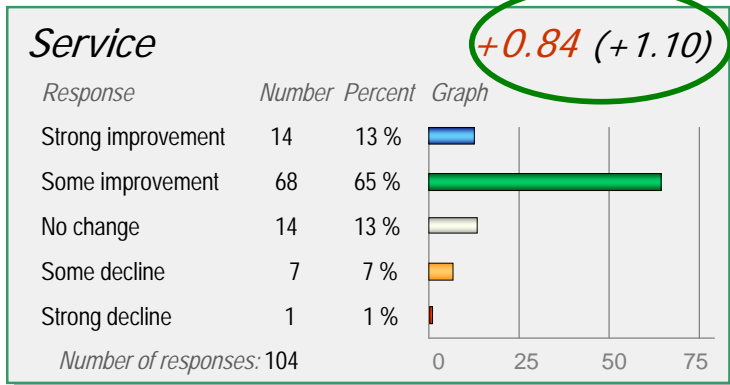
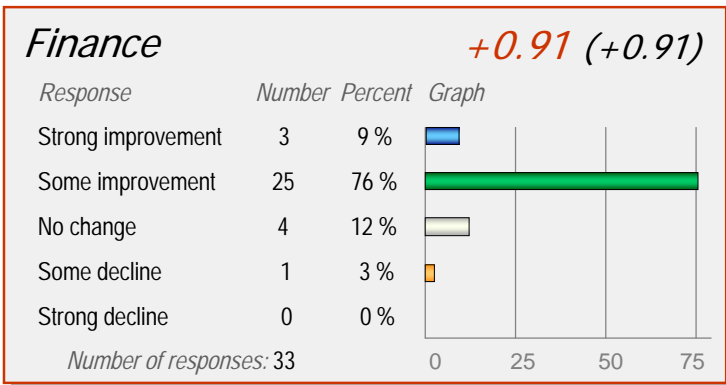
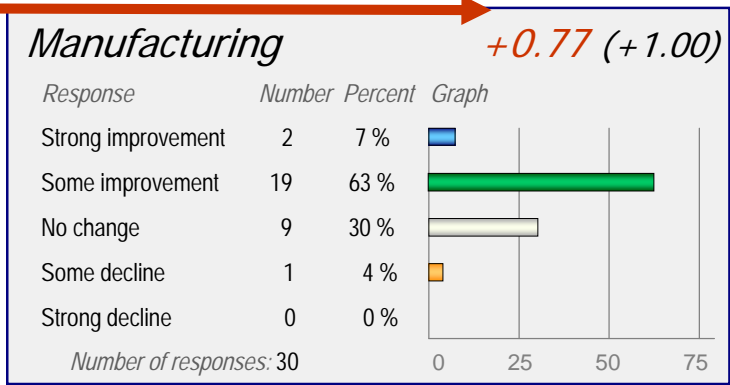
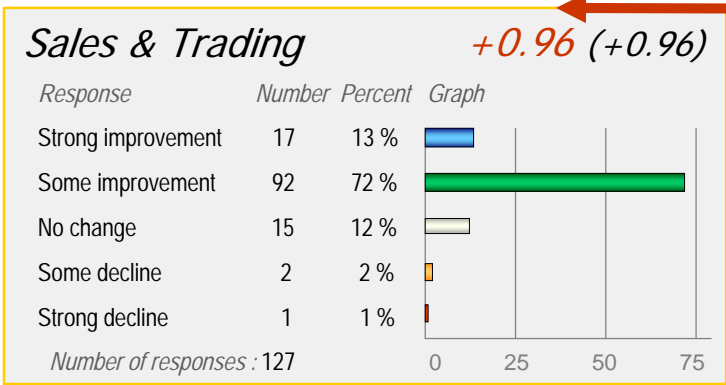
Slowing Down?

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1.2. Japan's economic situation for the next 12 months (2)

By type of business

OVERALL INDEX **+0.75**



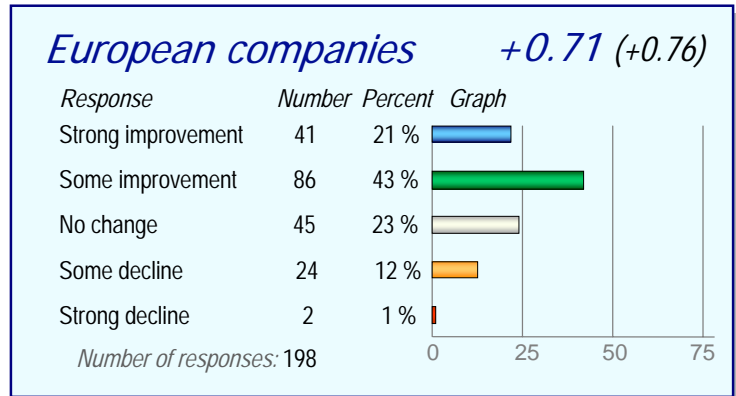
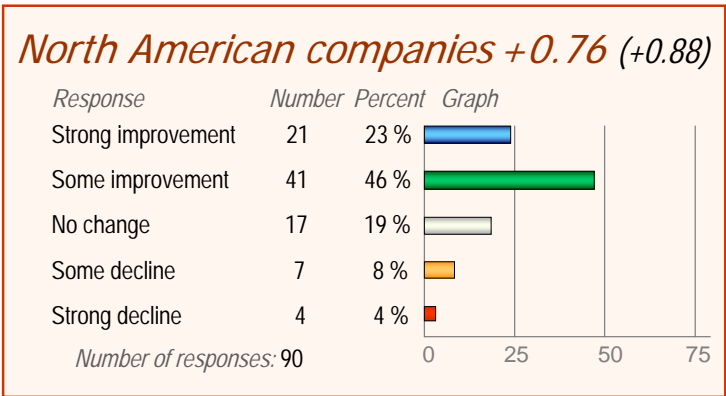
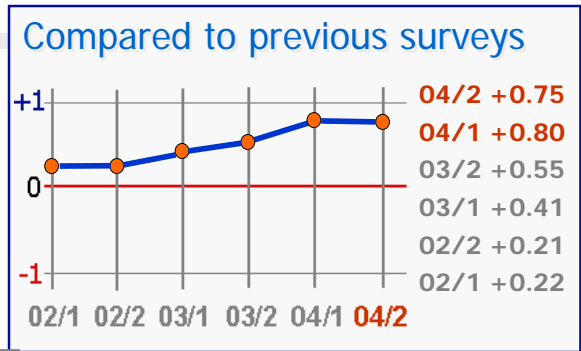
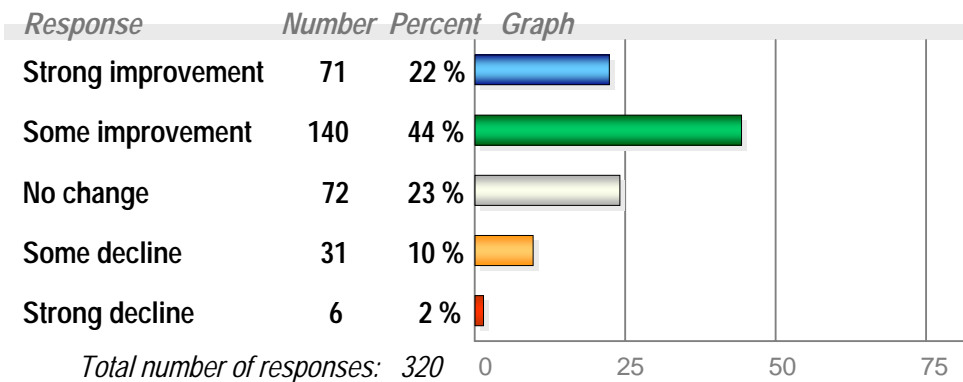
Slowing Down?

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2.1. Sales during the **past** 6 months

TOTAL FOR SURVEY

INDEX +0.75 (+0.80)



Oceanian companies +0.94 (+0.94)

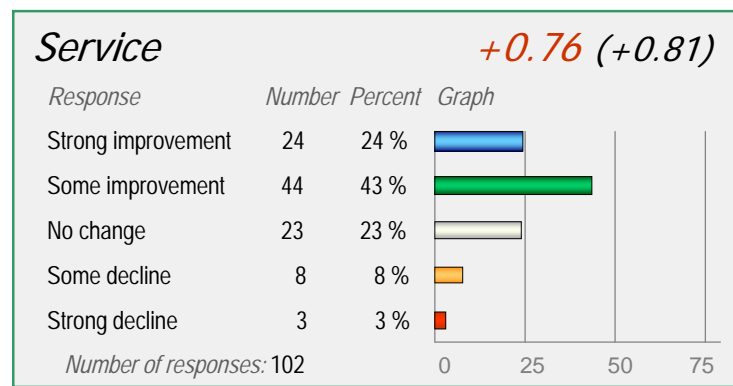
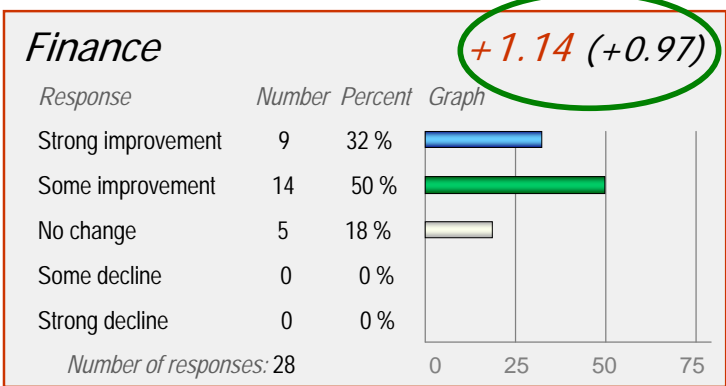
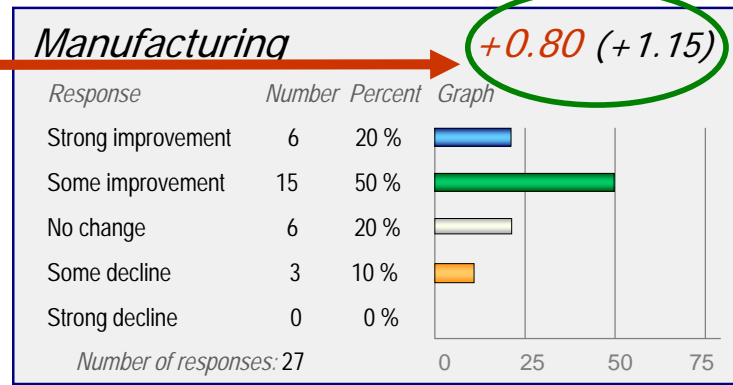
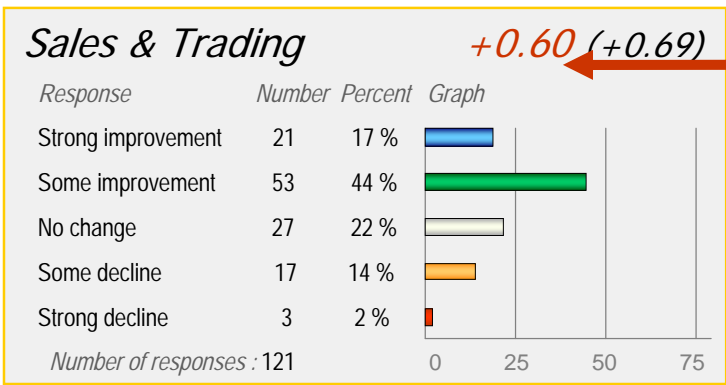
Slowing Down?

Business Confidence Survey – Autumn 2004

2.1. Sales during the **past** 6 months (2)

By type of business

OVERALL INDEX **+0.75**



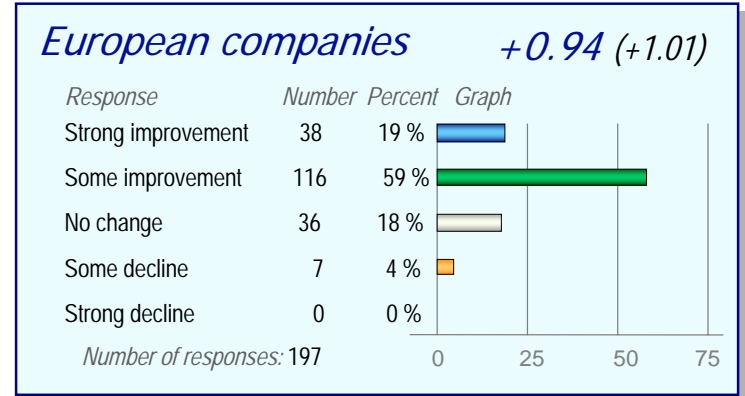
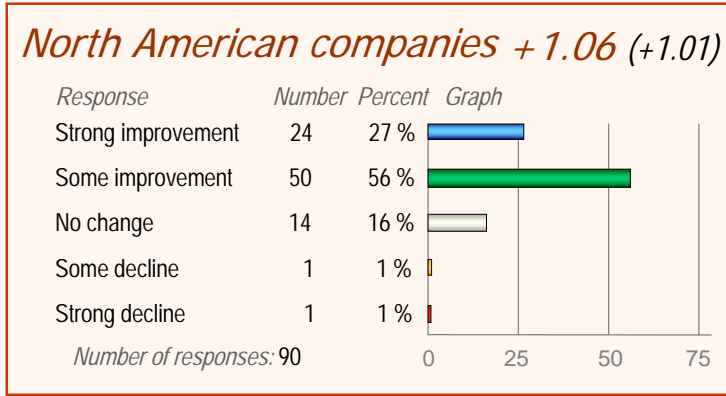
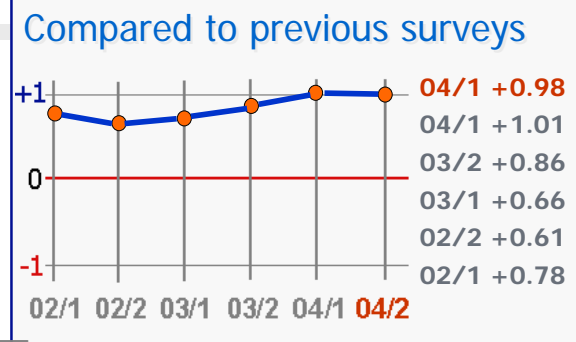
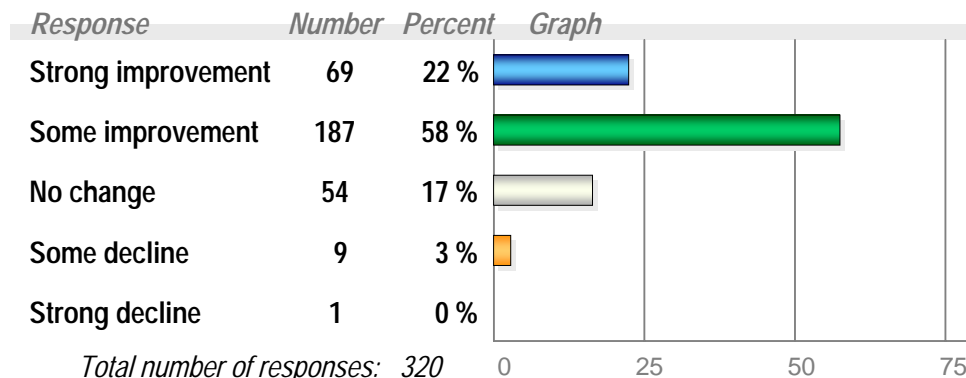
Slowing Down?

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2.2. Sales during the **next** 6 months

TOTAL FOR SURVEY

INDEX +0.98 (+1.01)



Oceanian companies +1.00 (+1.06)

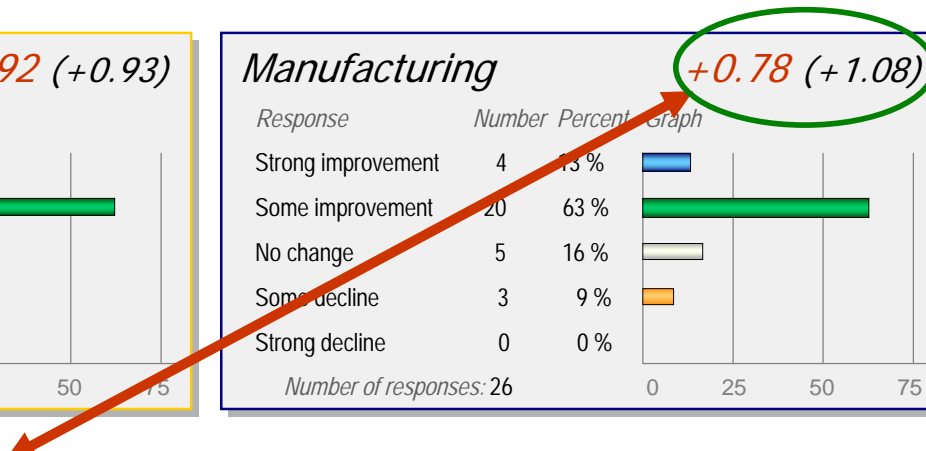
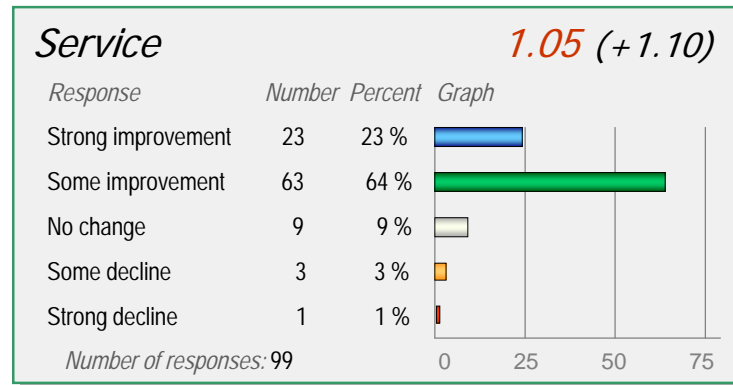
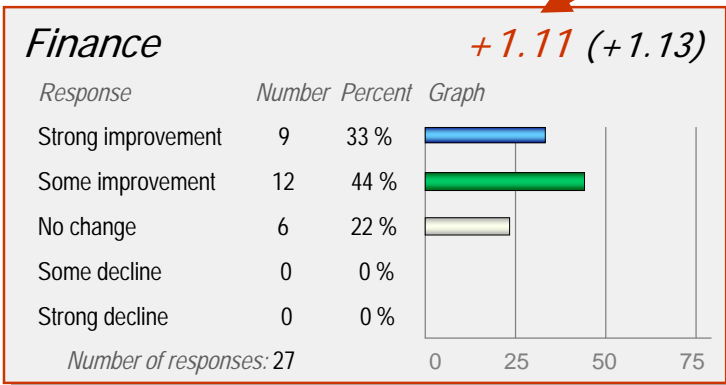
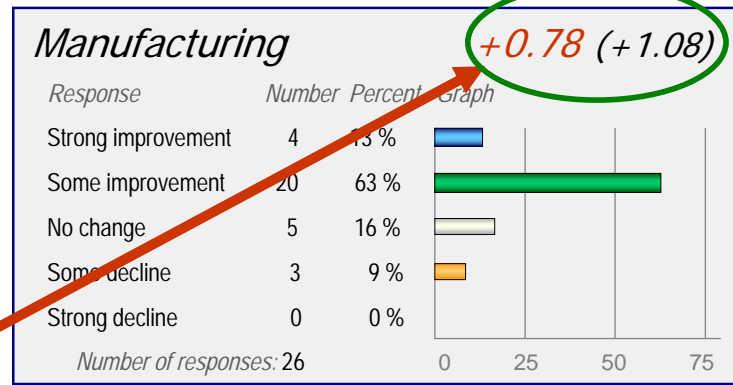
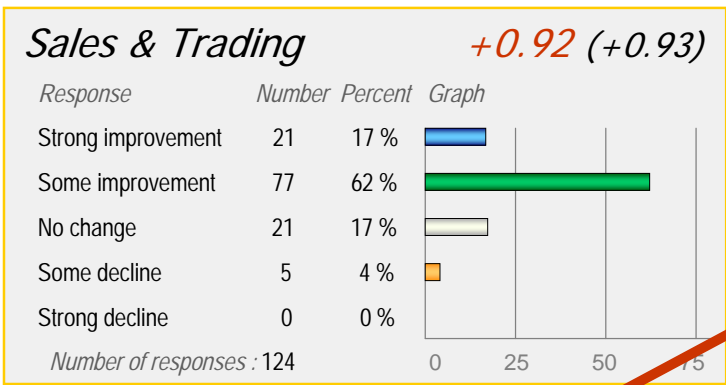
Slowing
Down?

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2.2. Sales during the **next** 6 months (2)

By type of business

OVERALL INDEX **+0.98**



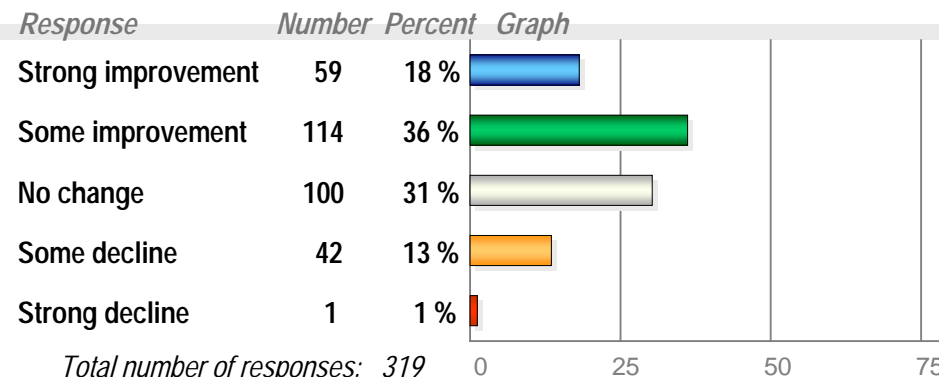
Slowing Down?

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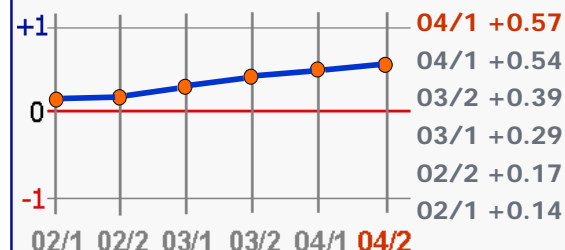
3.1. Profitability during the **past** 6 months

TOTAL FOR SURVEY

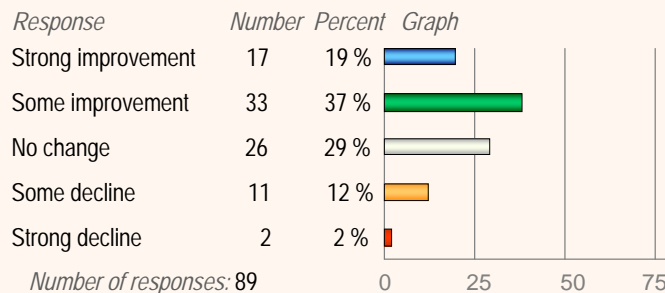
INDEX +0.57 (+0.54)



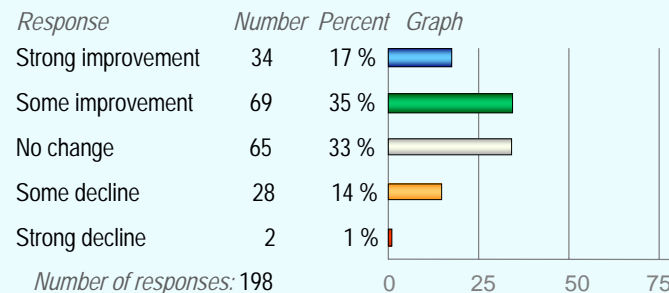
Compared to previous surveys



North American companies +0.58 (+0.60)



European companies +0.53 (+0.50)



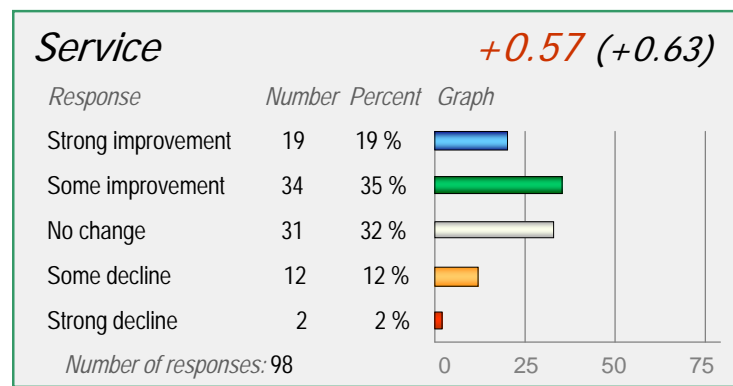
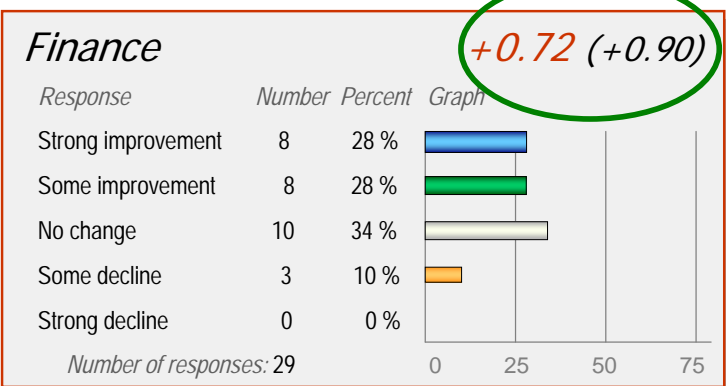
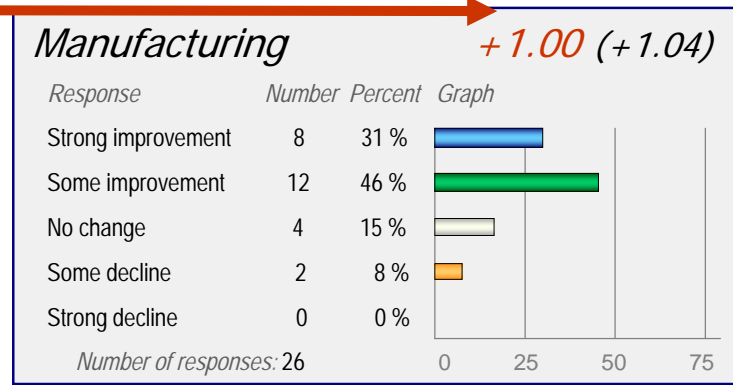
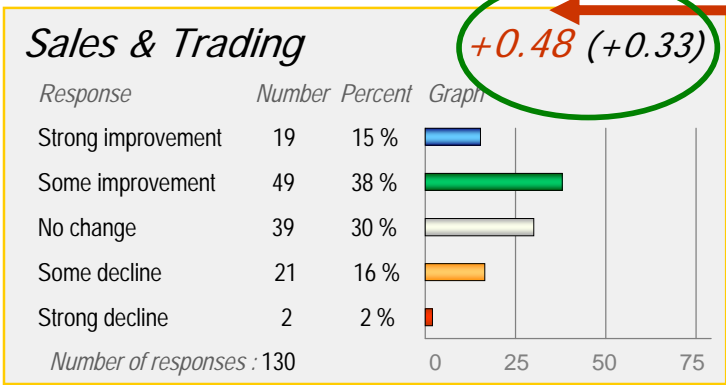
Oceanian companies +0.74 (+0.78)

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3.1. Profitability during the **past** 6 months (2)

By type of business

OVERALL INDEX **+0.57**



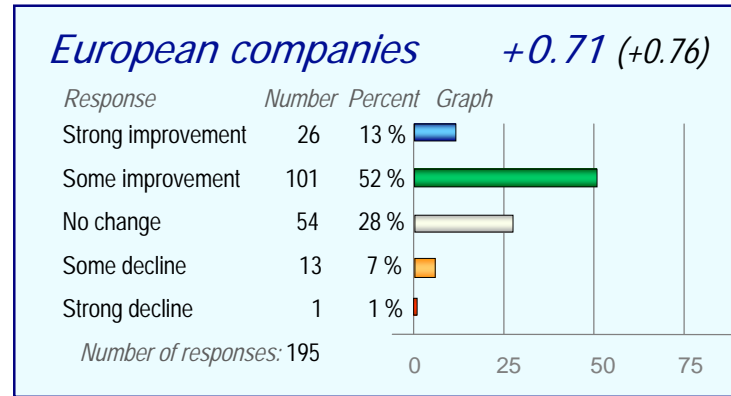
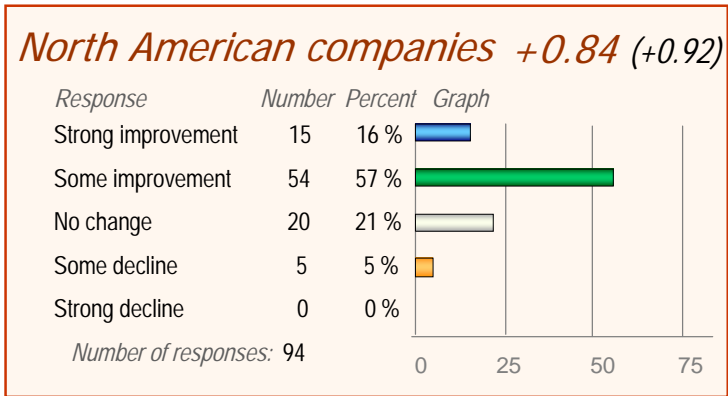
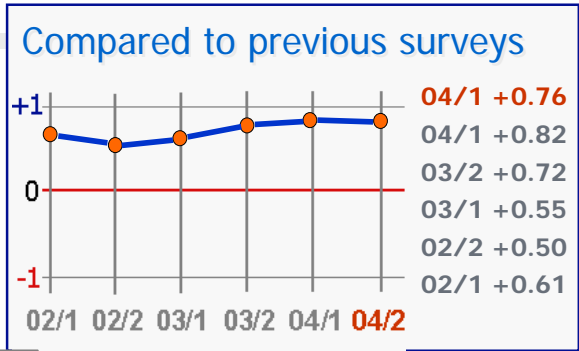
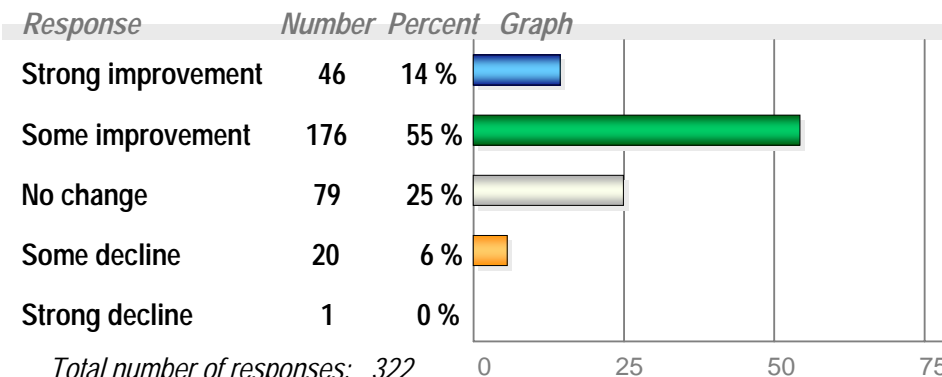
Slowing Down?

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3.2. Profitability during the **next** 6 months

TOTAL FOR SURVEY

INDEX +0.76 (+0.82)



Oceanian companies +0.84 (1.00)

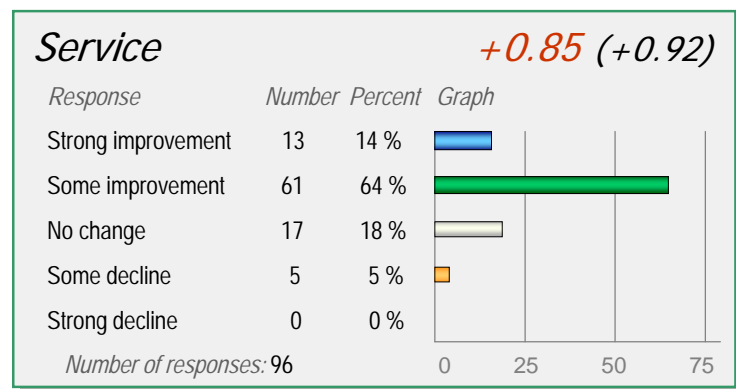
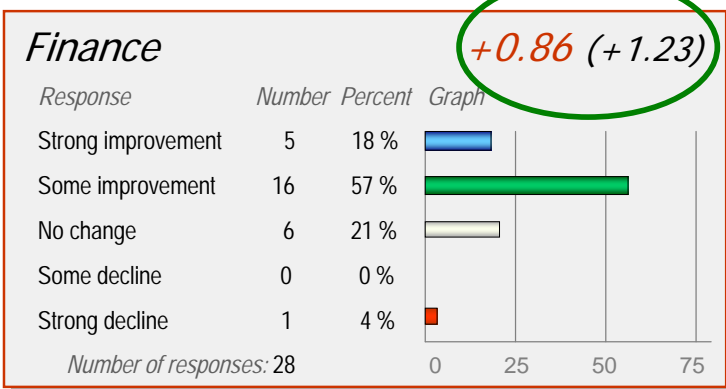
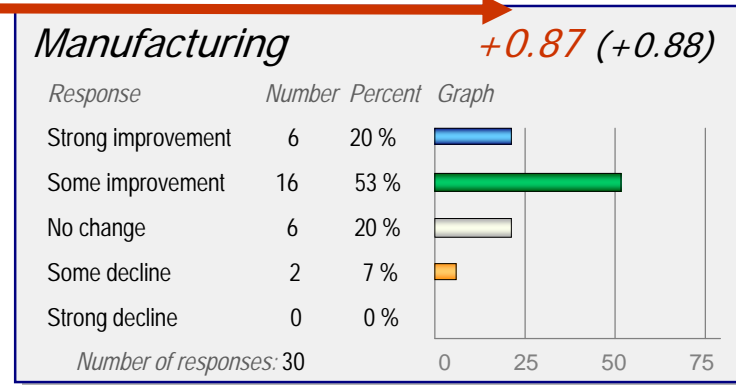
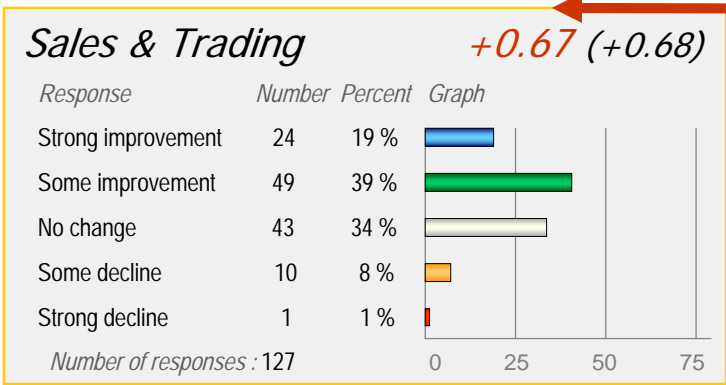
Slowing Down?

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3.2. Profitability during the **next** 6 months (2)

By type of business

OVERALL INDEX **+0.76**

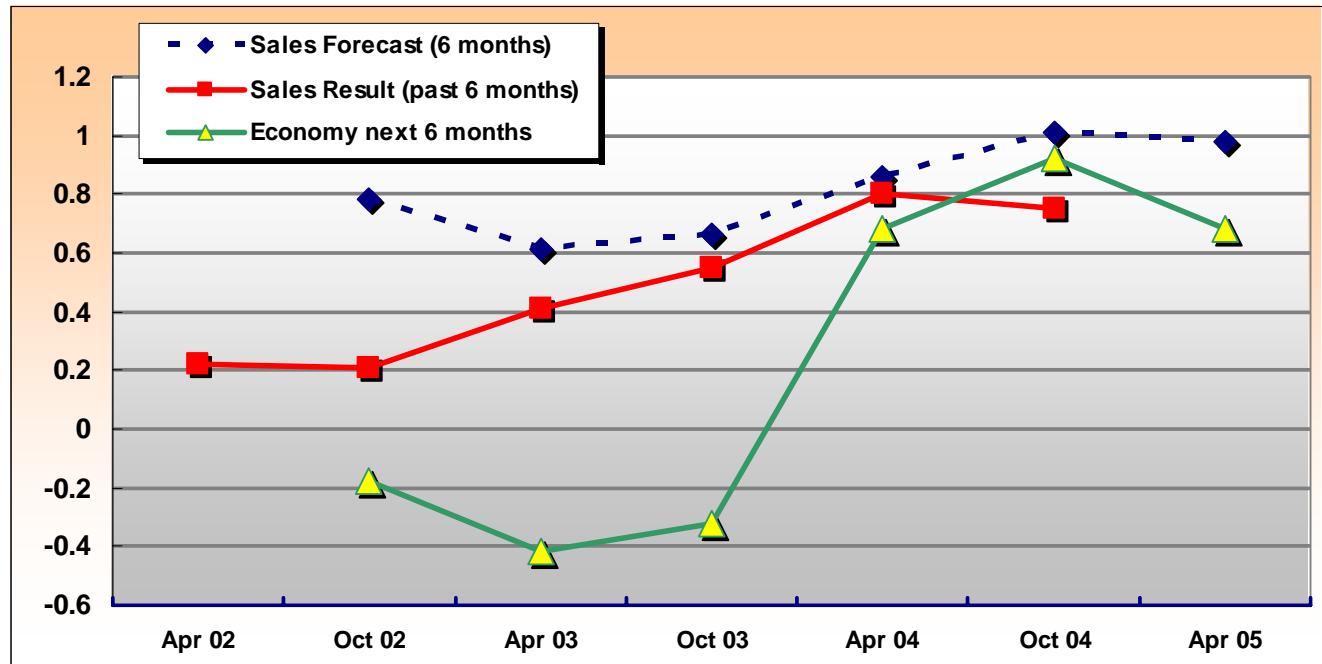


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A Comparison (1)

Sales and Economy



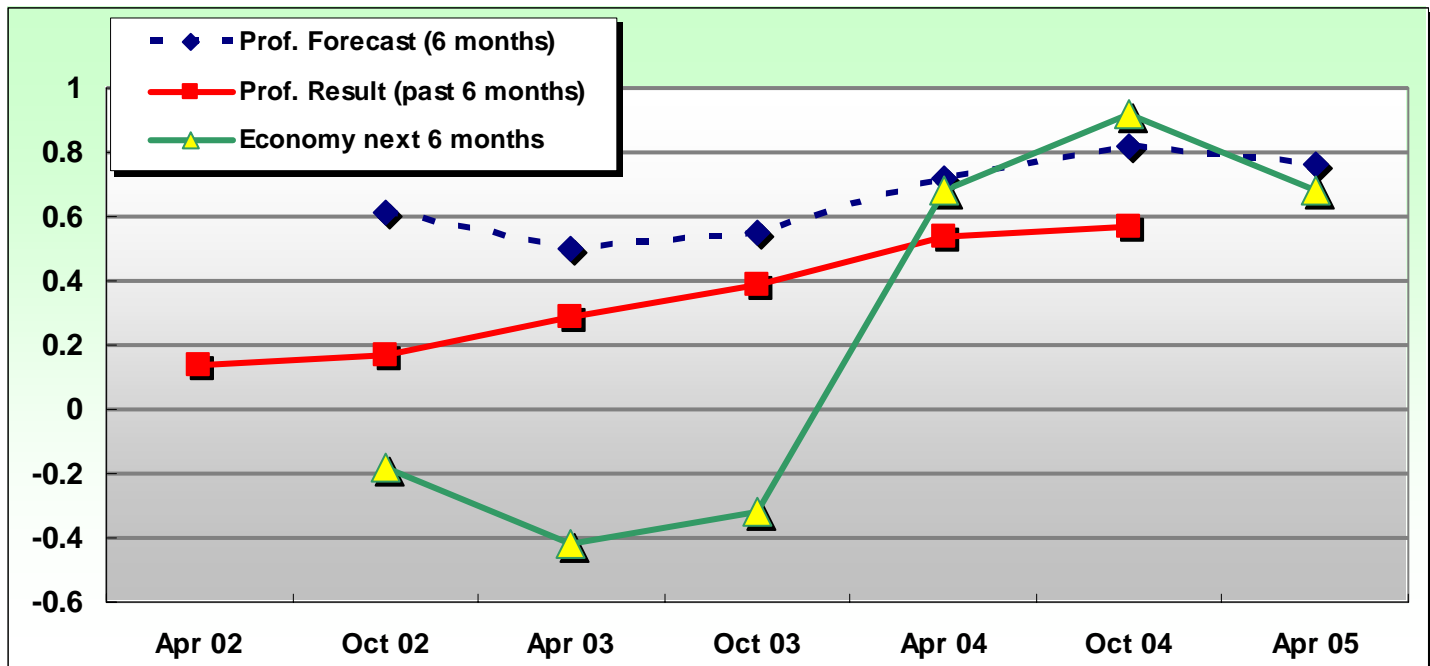
Conclusions:

- (1) The companies views on the economy and their sales forecasts go hand-in-hand
- (2) The sales result during the past 6 months **did not meet the forecast.**

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A Comparison (2)

Profitability and Economy



Conclusions:

- (1) Changes in profitability are smaller than changes in sales, and views on economy
- (2) The forecast of profitability tends to be slightly optimistic

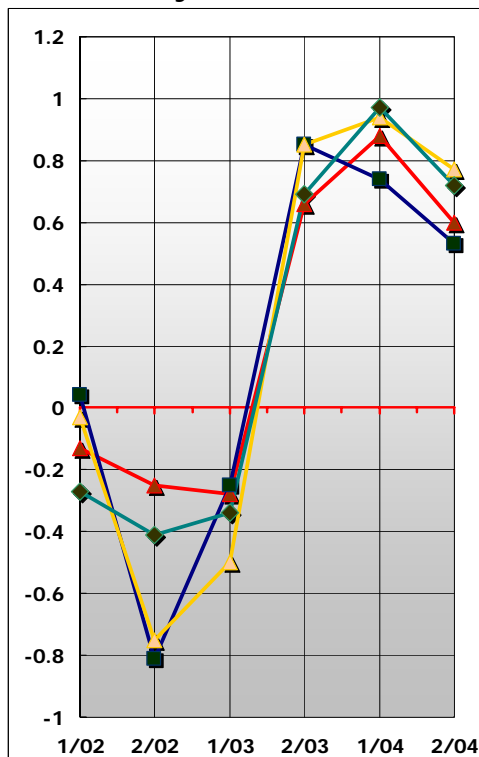
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A Comparison (3)

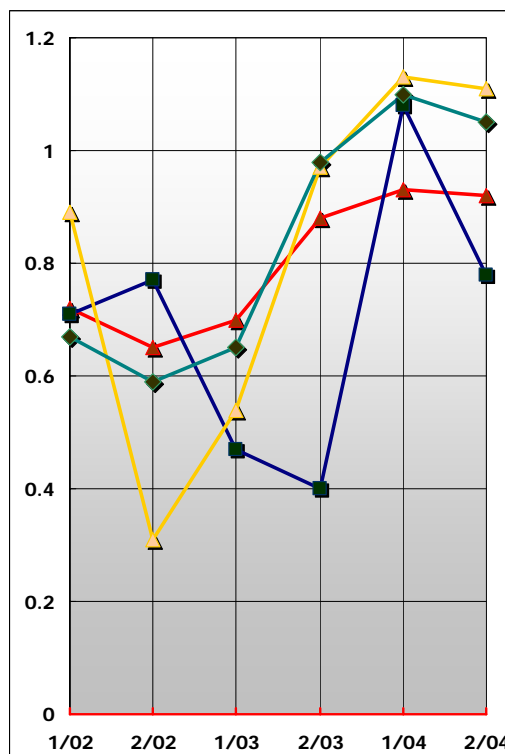
Economy, Sales and Profitability by business

▲ Sales & Trading ■ Manufacturing ▲ Finance ◆ Service

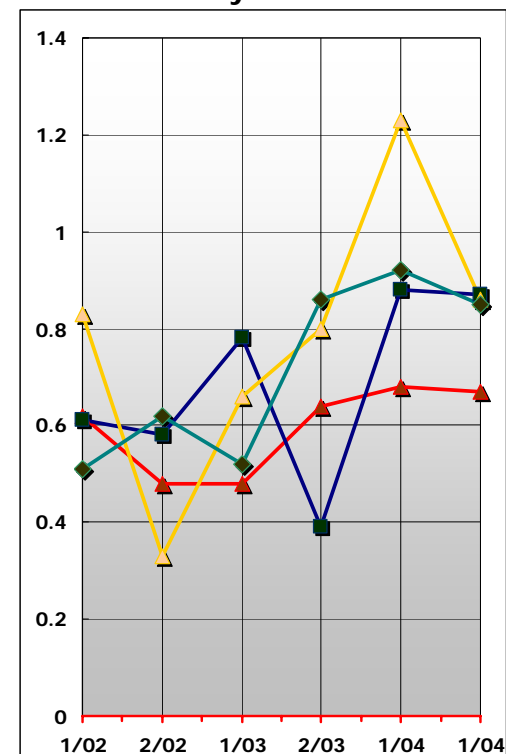
Economy next 6 months



Sales next 6 months



Profitability next 6 months

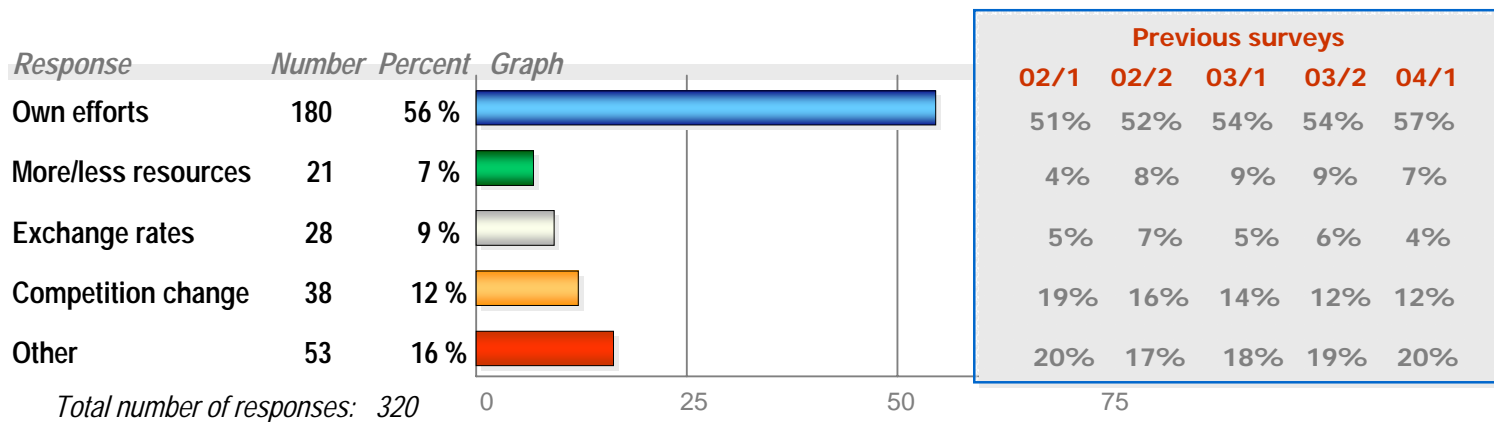


Surveys; 1/02=Spring 2002, 2/02=Autumn 2002, 1/03=Spring 2003, 2/03=Autumn 2003, 1/04=Spring 2004, 2/04=Autumn 2004(current)

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4. Reasons behind the changes in business performance



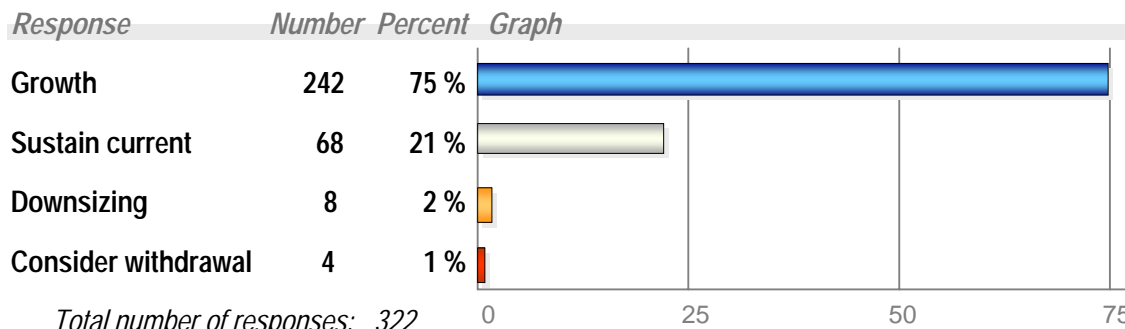
Some comments from respondents

- ✓ Able to secure more HQ resources based on perception of economic improvement.
- ✓ More focused effort and better cost due to production moved to China
- ✓ Maintaining high levels of customer service in a tight capacity situation is key
- ✓ Reaction to improving conditions in Chubu region.
- ✓ Local Japanese players are becoming increasingly aggressive on price
- ✓ Mature market, little growth, cost reduction key to value growth
- ✓ Infrastructure investment and strategic focus
- ✓ Cost saving programmes; focus on customer requirements
- ✓ Acquisition triples our revenue in Japan
- ✓ Strong Euro works against us
- ✓ As confidence returns, competition increases and therefore margins narrow.

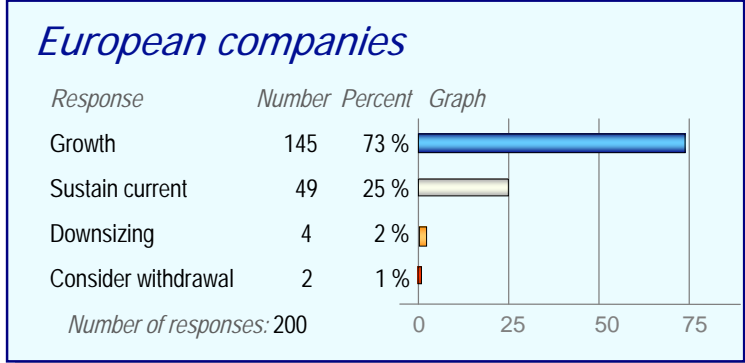
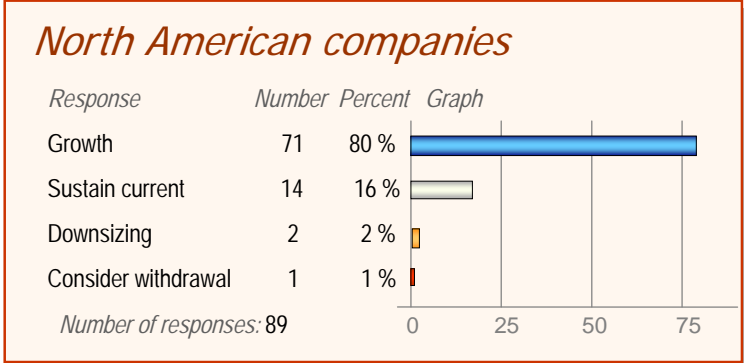
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5. Strategies in Japan

TOTAL FOR SURVEY



Previous surveys				
02/1	02/2	03/1	03/2	04/1
77%	72%	70%	72%	80%
20%	22%	26%	27%	20%
3%	5%	3%	2%	0%
0%	0%	0%	0%	0%



Oceanian companies: 81% growth, 13 % sustain current, 3 % downsize, 3 % consider withdrawal

Slowing Down?

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5. Strategies in Japan - Comments

- ✓ As an automotive parts supplier, we need to grow with the growing Japanese OEMs.
- ✓ Big growth opportunities thanks to our strong pipeline
- ✓ Deregulation and economic recovery creates opportunities
- ✓ Get into the new market segment with Japan original products.
- ✓ Growth is the key to establishing strong market presence
- ✓ Improving maturity in ability to provide services, growth in client base
- ✓ It is the right moment to grow, thanks to the improved (and improving) economy
- ✓ Japan is the major manufacturing/engineering country
- ✓ new product and more Japanese way of selling
- ✓ Many opportunities still ahead as long as we can staff up in the near future.
- ✓ Most advanced market in our industry
- ✓ The 2nd biggest global economy linked with worldwide growth
- ✓ We wish to be no 1 or 2 worldwide and need therefore to be no 1 or 2 in Japan
- ✓ We have still possibility to gain market shares or enter new market segments
- ✓ We can increase our market share to the level of our global share.
- ✓ Large market potential, and need to cover high fixed costs in Japan
- ✓ Just completed turnaround -- now looking for growth.
- ✓ Japan investment in R&D remain high --> many opportunity
- ✓ **There is no credit for just standing still.**

Slowing
Down?

Business Confidence Survey – Autumn 2004

General Comments

Further work is need by the Government to make labor-laws more flexible.

Labor market and labor laws need a major overhaul. These are centuries old and not appropriate for this day and age.

It is easier to hire staff. It is easier to interact with large Japanese companies.

Japanese government strategies still depend too much on importing and copying foreign technology rather than truly cultivating home grown innovation. Culturally entrenched and convoluted distribution hinders sales cost reductions. Large companies dominate and stifle innovation in new industry segments by small firms.

Health care budget under severe restrictions from the authorities. Hence, overall market unlikely to grow significantly.

Ingredient problem not in the food additive list => Japan uses a special formulation more expensive.

Japan is very slow in VOC control and still releasing/exposing a lot of volatile organic compounds to air, total 1.85 mio ton. Very slow to accept a foreign environmental friendly products, especially paint & coating industries.

Lack of enforcement of Japanese law over foreign companies' operations causes imbalance in fair economic playing field - e.g. many, many foreign firms outside of compliance on social insurance and pension laws, and no enforcement, creates unfair competitive environment for local and foreign firms who are in compliance. Outlandish policy management. Should be an uproar.

Main barriers for growth is finding good sales management that can combine the best of Europe and Japan. Also language skills are limited.

Minor problem but a questionable use of premium Australian resources in Japan: Australian Government trade promotion policies threatening to confuse the Japanese market by introducing poorly prepared new entrants from Australia

Business Confidence Survey – Autumn 2004

General Comments (2)

Our business should see positive growth for the following reasons. 1. No Life Long Employment in Japan 2. Reducing Bank guarantees from Apr05 3.Reducing Pension benefits. 4.More Japanese people are seeking Investment opportunities outside Japan.

Our biggest headache is that CHF still keeps very high against Japanese yen and so transfer prices of our products are very high and our product almost lose price competitiveness in Japanese market.

Regulatory environment is still unsatisfactory; however, progress in some areas significant. Still a long way to go in others.

Tariff is still very high, and safeguards are imposed if imports increase - inhibits further growth of product.

The Chinese marketing is growing more rapidly and will eventually flow into the Japanese market when demand in China ebbs but production remains high. As a raw material supplier - there is no growth potential in the current Japanese market.

The government shall put more focus on English capabilities - the TOIC test is not a good measuring tool !

The increasing optimism for economic recovery reduces the willingness of Japanese companies to further restructure the industry and/or co-operate with foreign companies.

There is still business "keiretsu" in Japanese corporations, which is barrier for Japan's de-regulations.

Too much regulations in batch control & new product registration delaying product introduction & logistic flow.

We operate in the oil sector and have a concern over future environmental legislation. There is a risk that Japan may implement legislation to curb emissions more from a political standpoint rather than cost effectiveness and sound science.

Will there be deregulation of the media industry - especially in terrestrial television?

Business Confidence Survey – Autumn 2004

Summary

Economy the next 6 months: a continued improvement

- ❑ This survey represents a further improvement in the sentiments on the Japanese economy, even though a lower growth is expected than in the previous survey (April 2004) – the index was now +0.68 compared +0.92 in the April survey.
- ❑ Only 2 % expects a slight decline, 0 % a strong decline.
- ❑ This time the North Americans showed more optimism than the Europeans, +0.75 to +0.60, and the Australia-New Zealand companies were most optimistic, +0.81.

Economy the next 12: further improvement expected

- ❑ The index for the next 12 months was +0.75 (compared to +1.03 in the previous survey), i.e. even though the growth estimates have been lowered, it still shows that a healthy development of the economy is expected.
- ❑ Also here, the North Americans see the economic development slightly more favorably than the Europeans and the Australia-New Zealand companies were most optimistic.
- ❑ By type of business, the Sales & Trading sector was now most optimistic. The manufacturing sector was least optimistic.

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Business Confidence Survey – Autumn 2004

Summary (2)

Sales Performance

Past 6 months...

- ❑ Index for April 2004 survey was + 0.80, this survey indicates + 0.75, i.e. no significant change and showing a continuous growth in sales performance.
- ❑ The Australia-New Zealand companies reported the best sales performance, index +0.91.
- ❑ By sector, the best increase in sales came from Finance, with an index of + 1.14. Sales & Trading reported the lowest increase at + 0.60.

Next 6 months...

- ❑ Looking ahead, respondents continued to forecast a further improvement in sales, index +0.98 compared to +1.01 in October 2003, i.e. almost unchanged.
- ❑ Here the differences between regions were very small, all with 0.08 index points.
- ❑ By sector, there was a range from Finance at +1.11 to Manufacturing at +0.78 (representing a fairly big drop from +1.08 in the previous survey).

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Business Confidence Survey – Autumn 2004

Summary (3)

Profitability, the past 6 months...

- ❑ The development in profitability improved from slightly the previous survey (+0.57 vs. +0.54).
- ❑ North Americans reported better performance than European respondents (+0.58 vs. +0.53) and the Australia-New Zealand highest at +0.74.
- ❑ By sector, Manufacturing had best improvement with +1.00, with Sales & Trading trailing at +0.48, although improved from +0.33 in the previous survey.

And the coming six months?

- ❑ Profitability is expected to improve at almost same rate as in the April survey (index +0.76 vs. +0.82 in October); only 6 % of the companies forecast some decline in profitability, none strong decline.
- ❑ Australia-New Zealand companies and North Americans (both +0.84) are more positive than European companies (+0.71).
- ❑ By sector, the differences were very small, only Sales & Trading had a lower forecast (+0.67) than the others, which were all in the +0.85-0.87 range.

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Business Confidence Survey – Autumn 2004

Summary (4)

Strategies in Japan

- ❑ Although the views on the Japanese economy are slightly less optimistic than in the April survey, the respondents continue to forecast positive development in the results (sales and profitability) for their own businesses.
- ❑ Foreign businesses continue to see Japan as a market with room to expand - 75% looking for further growth and 21% expecting to sustain their current level. 2 % reported that they plan to downsize and 1 % (4 companies) are considering to withdraw from the market.
- ❑ This survey is proving to be a valuable tool for foreign companies and is producing information that is reliable and useful.

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Comments by Dr William Schrade, Ph.D. Economics, Temple University Japan

Looking at the current survey from a purely statistically view point, it shows a statistically significance difference between confidence expressed in this survey about the Japanese economy and in the last. The survey's index shows a drop from +0.92 to +0.68 for the next 6 months and a drop from +1.03 to +0.75 for Japan's economic situation for the next 12 months. Both of these are beyond the range of pure chance and reflect a true change in perceived economic activity. At least to the survey respondents, the Japanese economy is slowing down!

The other 4 recurring survey questions, concerning firm's sales and profitability for the past 6 months and next 6 months, agree in terms of their falls or gains with this view that the Japanese economy forecast is slowing, but are statistically insignificant from the previously reported values for these categories. One can conjecture that this dichotomy is a reflection of the general response by many reporting firms that the reason for their profitability is mostly due to their own efforts.

Also interestingly, one sees a lag between actual economic performance and the forecast in past surveys. The forecast is either more optimistic or more pessimistic than real time economic performance. Given this track record, we can predict the economy slowing. By how much or at what speed, obviously the survey does not allow us to say. But the data fits macroeconomic theory. Changes in profitability and sales would help predict Gross Domestic Product (GDP). Sales is a proxy of GDP and profitability is an important determinant of investment. If the firms predictions and experiences in this survey reflect Japanese economic activity, then recent slowing of sales and profitability indicates the Japanese economy has slowed down.

Business Confidence Survey – Autumn 2004

The Survey Report is available in pdf format at:

<http://www.fcc.or.jp/fcij/confidence-survey.html>

Next survey will be conducted in April 2005

This survey has been supported by:



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