

Focus on: Japan

International Business Report 2010 – Country focus series

The recovery

Japan's economy began to contract in Q2 2008, posting quarterly declines of more than three per cent in Q4 2008 and Q1 2009 as its export-oriented economy suffered from a collapse in global demand, before emerging from recession in the second quarter of 2009. The recovery has been fuelled by a marked improvement in exports, which have rebounded robustly from a massive double-digit decline at the start of 2009, as well as increased levels of government expenditure and consumption.

The key indicators¹ are highlighted below:

- having emerged from recession in the second quarter of 2009, fears of a 'double-dip' were stoked by the flat performance of the economy in the third quarter; however, the economy grew by 1.1 per cent in the three months to December
- investment remains weak; gross fixed capital formation contracted for the seventh straight quarter in Q4, although the decline of 0.2 per cent was a marked improvement on the 3.1 per cent observed in the third quarter
- the export recovery slowed in the three months to December, from 8.4 per cent in Q3 to five per cent; import growth also slowed from 5.4 per cent to 1.3 per cent
- the unemployment rate dropped to 5.1 per cent in December, down from a peak of 5.7 per cent in July.

Impact on businesses

The Grant Thornton International Business Report (IBR) 2010 surveyed the views of over 7,400 privately held businesses (PHBs) in 36 economies around the world. This report focuses on Japan, the experiences and attitudes of its privately held businesses and how they have been affected by the economic crisis along with how they are dealing with recovery, as illustrated in figure 1.

The IBR survey tells us that businesses in Japan are slightly less pessimistic this year as regards the outlook for the economy over the next 12 months, although just a third expected to see an upturn in the global economy by the end of 2010. Business expectations for revenue and profitability are less downbeat than last year, but a lack of demand for products and services remains a major constraint on potential expansion.



¹ Source: International Monetary Fund, The Economist and Experian.

Looking ahead

Japan's export-led growth model took a serious hit from the worst global recession since World War II, but is expected to rebound to growth of 1.8 per cent this year, accelerating to two per cent in 2011. The recovery should be underpinned by increased levels of trade as global demand bounces back; current forecasts expect export growth of 10.8 per cent this year, slowing to 6.2 per cent, which should translate into higher business investment.

Government expenditure is forecast to grow by over around 2.3 per cent in 2010 and 2011, widening the deficit to 8.2 per cent of GDP this year, and 9.4 per cent next year. Meanwhile, levels of consumer sentiment are expected to continue their upward trend, with expenditure forecasts to rise by 1.2 per cent in each of the next two years.

Given the rapid drop in output and demand, deflationary pressures are forecasted to persist over the next two years, thus complicating the Bank of Japan's efforts at stimulating the economy. The unemployment rate is expected to remain stubbornly above the levels of 2005-2008 at around 5.5 per cent over the next 24 months.

As the economy exits recession, all businesses will need to face new challenges and take advantage of new opportunities to achieve consolidated growth and lead the way to recovery.

Figure 1: Key indicators for PHBs

Japan compared to the global average	2008 Japan	2009 Japan	2010 Japan	2010 Global
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	-49%	-85%	-72%	+24%
Change in employment levels				
Balance of PHBs expecting an increase over those expecting a reduction	+24%	+1%	+6%	+20%
Constraints on expansion				
Shortage of orders/reduced demand	60%	78%	79%	39%
Regulations/red tape	38%	35%	39%	32%

Source: Grant Thornton IBR 2010

Talk to us to find out how we can help you deal with the challenges of a new world economic order.

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International Business Report results

The Grant Thornton IBR 2010 reveals that privately held businesses in almost all countries are more optimistic about economic prospects for the year ahead. Businesses in Japan are less pessimistic about prospects for 2010; their optimism/pessimism balance² has risen 13 percentage points from -85 per cent in 2009 to -72 per cent in 2010.

For the first time in six years, India has been overtaken as the most optimistic country by Chile. Chile now tops the league table with a net balance of +85 per cent (-24 per cent in 2009), India comes in a very close second with +84 per cent, whilst Japan remains at the bottom with a balance of -72 per cent.

Overall optimism amongst businesses globally has risen from 2009; this year a balance of +24 per cent of businesses across all countries are positive about their country's economy – compared to a balance of -16 per cent in 2009.

Optimism/pessimism

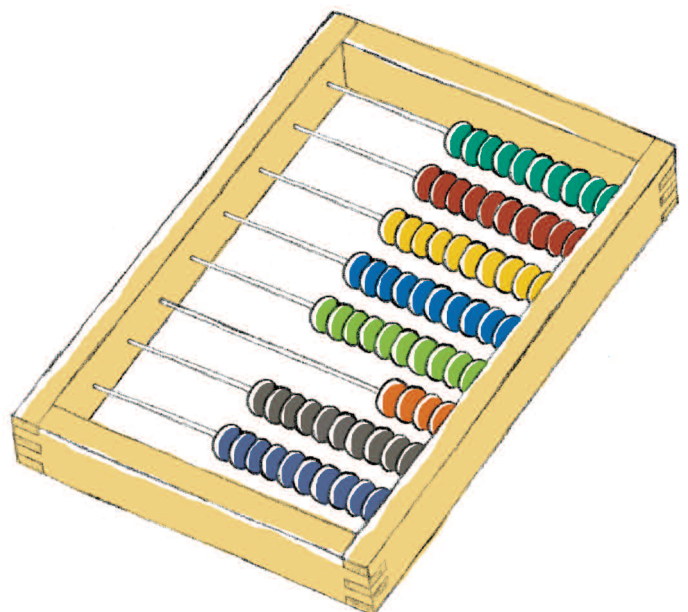
- businesses in Japan are less pessimistic about their economy this year (-72 per cent) compared with 2009 (-85 per cent)
- 58 per cent of pessimistic business owners cite shrinking domestic demand as the cause of their negative sentiment, whilst 41 per cent indicate dropping of selling price, just ahead of the uncertainty of Japanese politics (39 per cent)
- optimism amongst businesses globally has risen by 40 percentage points this year, from -16 per cent to +24 per cent
- businesses in Asia Pacific³ are more optimistic about their economy this year (+33 per cent) compared to 2009 (+2 per cent).

Figure 2: Outlook for the economy over the next 12 months: 2003-2010

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2010



² the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

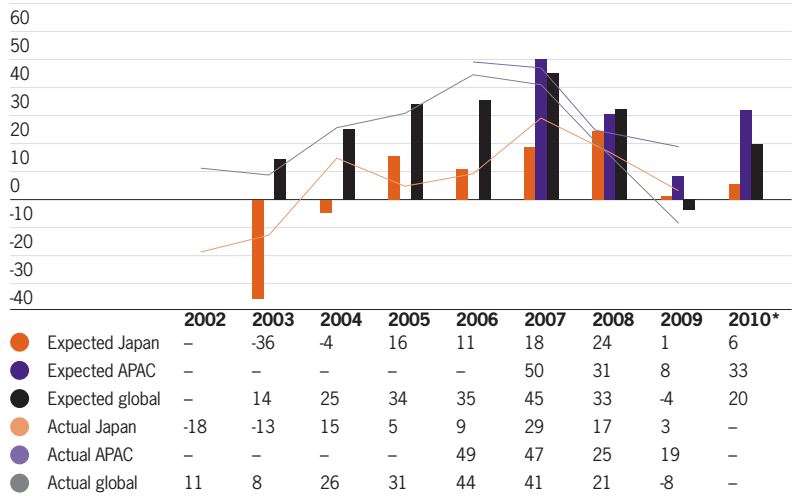
³ for the purposes of IBR, the term 'Asia Pacific' refers to those Asia Pacific economies covered by our survey – Australia, mainland China, Hong Kong, India, Japan, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand and Vietnam.

Employment

- a balance of +6 per cent of businesses in Japan expect employment to grow in 2010, compared with +20 per cent of businesses globally and +33 per cent in Asia Pacific
- actual employment growth reported by businesses in Japan for 2009 (+3 per cent) was slightly better than expected 12 months previously (+1 per cent).

Figure 3: Employment history: 2002-2010

Balance percentage of businesses



*actual 2010 data will be documented in IBR 2011

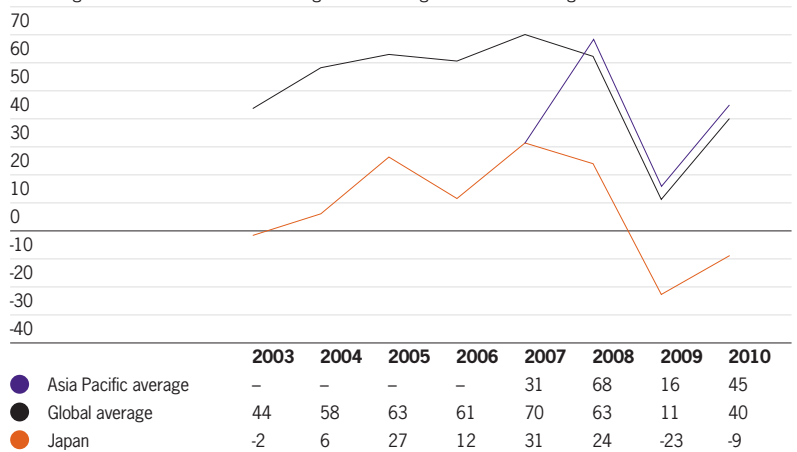
Source: Grant Thornton IBR 2010

Revenue expectations

- expectations for revenue prospects remain negative, but have risen by 14 percentage points this year to -9 per cent, up from -23 per cent in 2009
- the Asia Pacific average has risen by 29 per cent, from +16 per cent last year to +45 per cent this year
- the global average has risen by 29 per cent, from +11 per cent last year to +40 per cent this year.

Figure 4: Revenue expectations: 2003-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



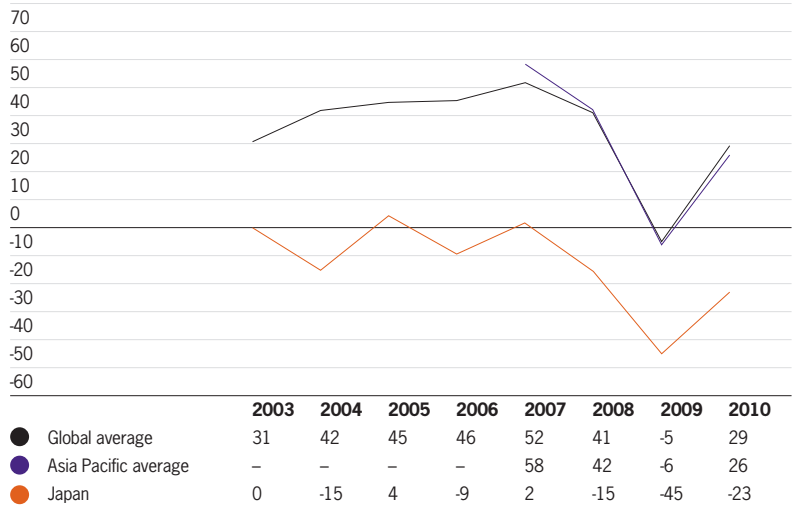
Source: Grant Thornton IBR 2010

Profitability expectations

- the balance of businesses expecting to increase profits in Japan also remains negative, but has risen from by more than 20 per cent, up from -45 per cent in 2009 to -23 per cent this year
- the Asia Pacific average has risen 32 percentage points, from -6 per cent last year to +26 per cent this year
- the global average has risen 34 percentage points and turned positive again, following last year's dip to -5 per cent.

Figure 5: Profitability expectations: 2003-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



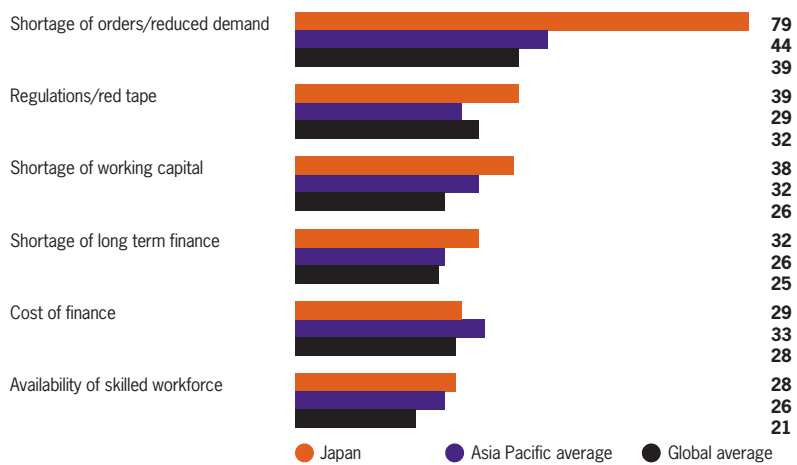
Source: Grant Thornton IBR 2010

Constraints

- a shortage of orders/reduced demand has been cited as the most pressing constraint on expansion by businesses in Japan since 2004; this year it is cited as a major constraint by 79 per cent of businesses, more than double the global average (39 per cent) and well above the Asia Pacific average (44 per cent)
- regulations/red tape (39 per cent) is cited as the second greatest constraint by businesses in Japan, compared with 32 per cent of businesses globally and 29 per cent across the Asia Pacific region.

Figure 6: Constraints on expansion

Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint

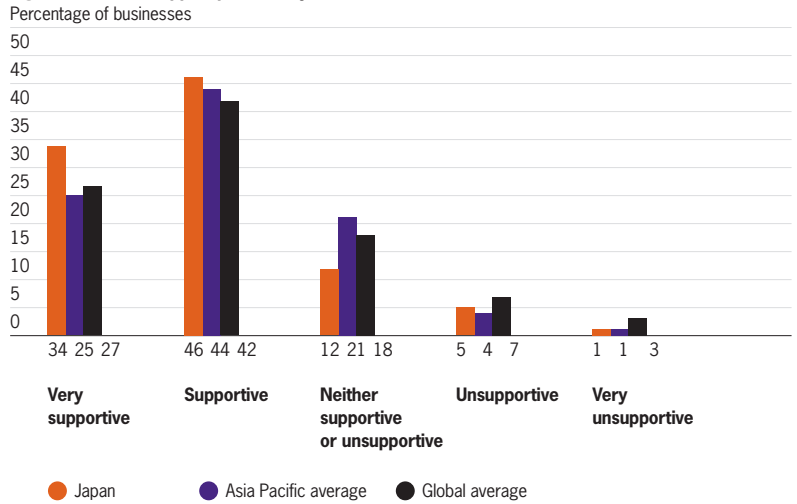


Source: Grant Thornton IBR 2010

Support of lender

- the majority of businesses in Japan are happy with the level of support provided by lenders; 80 per cent class lenders as supportive or very supportive towards their business
- this compares to just 69 per cent of both businesses globally and across the Asia Pacific region
- moreover, just six per cent of businesses in Japan believe that lenders are unsupportive or very unsupportive of their business, compared to the global average of ten per cent.

Figure 7: Level of support provided by lenders

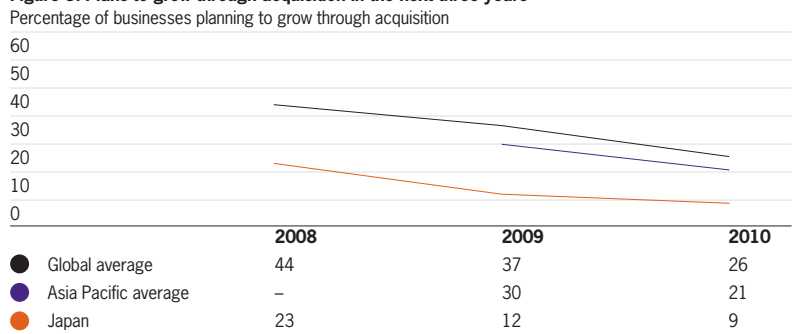


Source: Grant Thornton IBR 2010

Mergers & acquisitions

- the proportion of businesses in Japan planning to grow through acquisition this year has fallen again, from 12 per cent in 2009 to just nine per cent; this is less than half the proportion in 2008 (23 per cent)
- the Asia Pacific average has dropped by nine percentage points this year, from 30 per cent in 2009 to 21 per cent
- the global average also dropped this year, from 37 per cent in 2009 to 26 per cent, down from 44 per cent in 2008.

Figure 8: Plans to grow through acquisition in the next three years

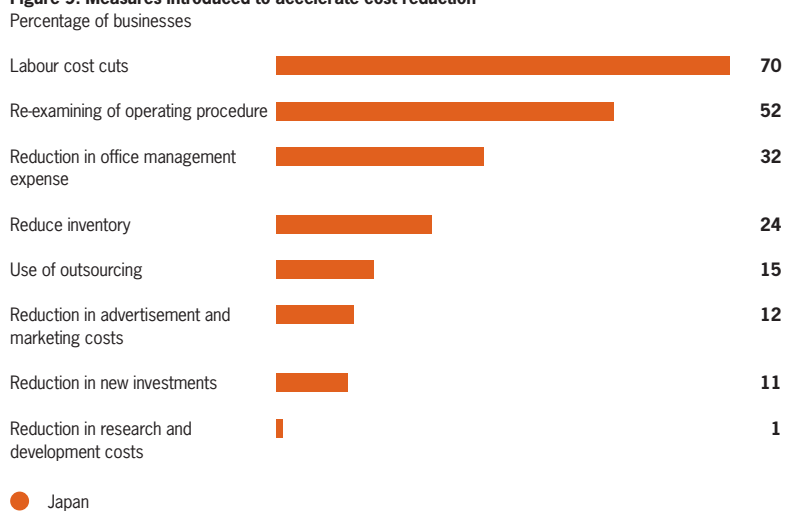


Source: Grant Thornton IBR 2010

Cost reduction

- the most popular measure of accelerating cost reduction by businesses in Japan has been labour cost cuts (70 per cent)
- re-examining operating procedure (52 per cent) is second, followed by reducing office management expense (32 per cent).

Figure 9: Measures introduced to accelerate cost reduction



Source: Grant Thornton IBR 2010

The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,400 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy. In Japan 298 businesses were surveyed across all industry sectors. These businesses ranged from medium to large in size with total employment of between 100 and 750.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina	Japan
Armeria	Malaysia
Australia	Mexico
Belgium	Netherlands
Botswana	New Zealand
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
Ireland	United States
Italy	Vietnam



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