

International Business Report 2007

Country focus

Grant Thornton 

Japan



The Grant Thornton International Business Report (IBR) 2007 examines the attitudes, plans and trends of 7,200 businesses in 32 countries across six continents. IBR builds on data collected in previous surveys* and boasts 15-year trend data for EU countries and 5-year trend data for international participants.

This year's survey reveals that businesses in most countries remain optimistic about economic prospects for the year ahead. For the fourth consecutive year, India tops the league table as the most optimistic country with an optimism/pessimism balance** of +97%, whilst Japan is at the bottom this year with a balance of -5%. Meanwhile, businesses in the UK are significantly more optimistic about 2007 (+43%) than they were about 2006 (+8%).

Businesses in East Asia*** are more optimistic than in any other global region, and although levels of optimism do vary throughout the East Asian countries/territories, overall optimism has risen significantly. This year over half of all East Asian businesses are positive about their country's economy (+54%) compared to a balance of +42% in 2006. East Asia continues to present a very mixed picture however, with optimism/pessimism balances ranging from +88% in the Philippines to -5% in Japan.

Japan's economy posted growth at 2.2% in 2006, marking a third successive year of improved activity following many years of anaemic performance. Strong business investment, up by 7.6%, and improving exports, underpinned the upturn as consumer spending remained weak. Household demand hit a soft patch in mid 2006, restricting growth for the year to just 0.8%, the weakest since 2003. Strengthening overall activity boosted job creation and the unemployment rate fell to 4.1%. The year also marked an end to the deflation that has plagued the economy for most of the past decade, although the increase in prices at 0.2% was marginal.

* the European Business Survey (EBS) charted the views and trends of privately held businesses in Europe between 1993 and 2002. This was followed by the International Business Owners Survey (IBOS) which ran from 2003 to 2006.

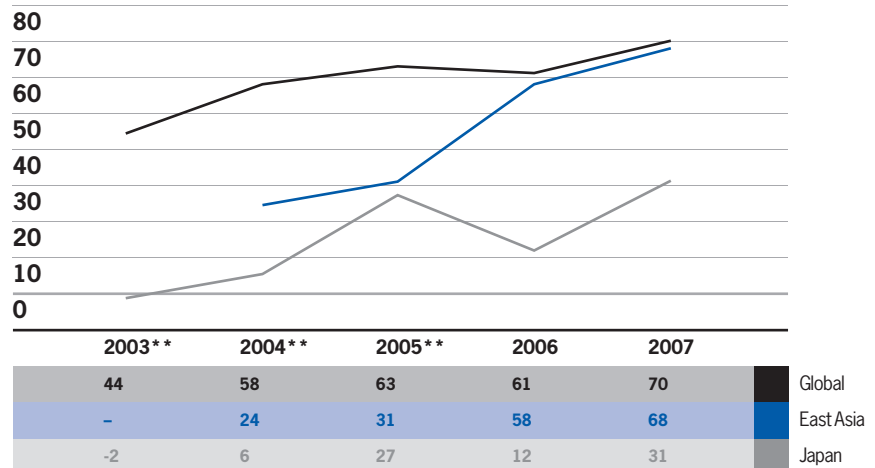
** the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

*** for the purposes of IBR, the term 'East Asia' refers to those East Asian economies covered by IBR – mainland China, Hong Kong, Japan, Malaysia, the Philippines, Singapore, Taiwan and Thailand.

Business expectations/turnover

- Businesses in Japan are more optimistic about turnover (revenue) prospects (+31%) than they were in 2006 (+12%).
- Despite this increase, optimism in Japan regarding turnover performance is still the lowest in East Asia and globally.
- Optimism surrounding selling prices (-6%), exports (+4%) and profitability (+2%) are also the lowest globally.

Turnover expectations (% balance *)



* the balance is the proportion of companies reporting that they are optimistic less those reporting that they are pessimistic

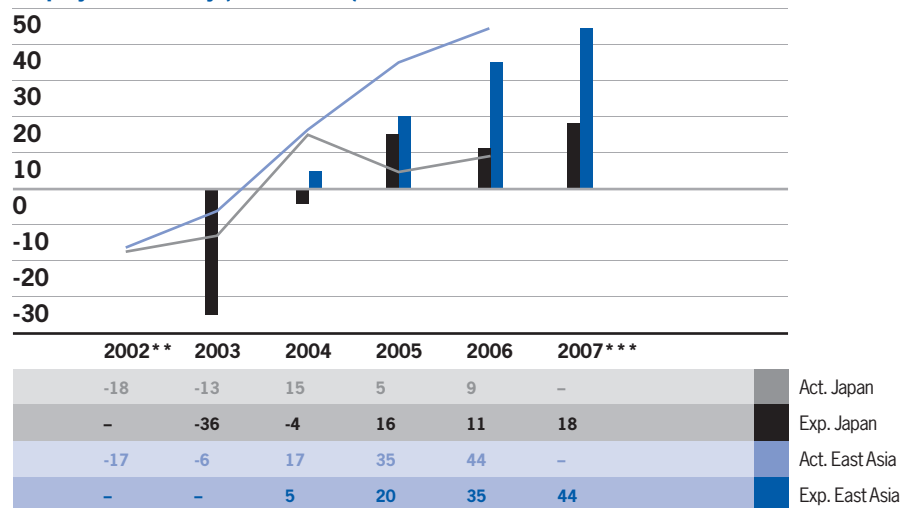
** East Asia and global figures exclude mainland China for these years

Source: Grant Thornton International Business Report 2007

Employment

- More Japanese businesses expect employment to increase this year than in 2006 (+18% compared to +11%).
- 44% of businesses in East Asia, on average, expect employment to increase next year, 26% more than Japan.
- Actual reported employment growth in Japan has risen from +5% in 2005 to +9% in 2006, well below the East Asian average (+44%).

Employment history (% balance *)



* the balance is the difference between the proportion of businesses indicating an increase and those indicating a decrease

** 2002 expected data not available

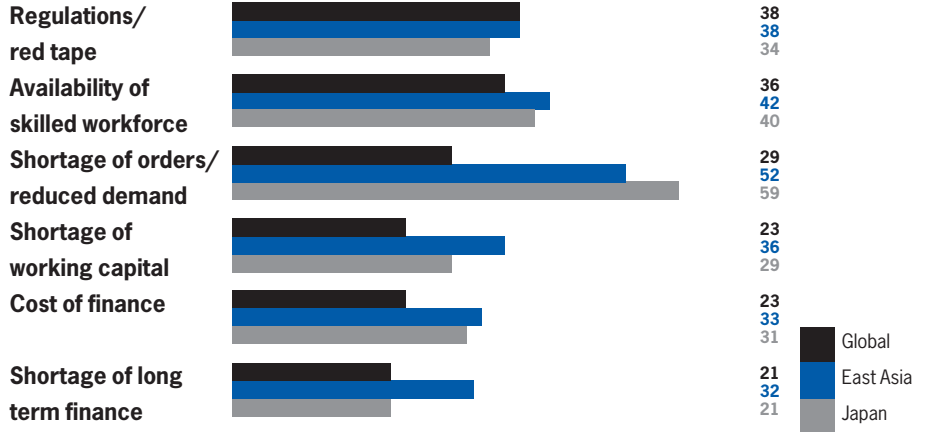
*** 2007 actual data will be documented in IBR 2008

Source: Grant Thornton International Business Report 2007

Constraints

- Shortage of orders/reduced demand is the most restricting constraint on expansion for businesses in Japan.
- 59% of Japanese businesses see this as a major constraint, 7% more than businesses across East Asia and 30% more than businesses globally.
- All remaining factors are more constraining on expansion for businesses in the rest of East Asia than for businesses in Japan.

Constraints (%*)



* % companies rating constraint 4 or 5 on a scale of 1 to 5, when 1 is not a constraint and 5 is a major constraint

Source: Grant Thornton International Business Report 2007

Stress levels

- The proportion of business owners in Japan reporting an increase in stress levels has fallen by 10% since 2006.
- One in two businesses in Japan reported a rise in stress levels last year, significantly fewer businesses than in East Asia as a whole (73%).
- In order to gain insight into how business owners manage stress, we also asked about how many hours they work a week. On average, business owners in Japan work 50 hours per week, less than the global average of 53 hours.

Rise in stress levels (%*)



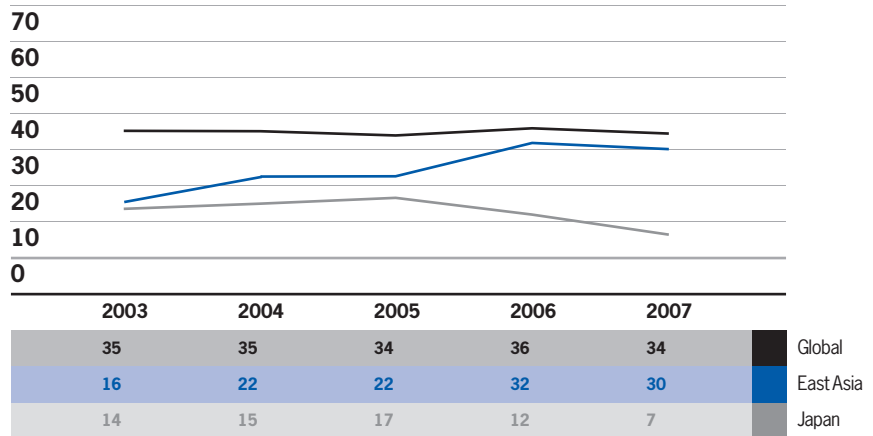
* % of respondents indicating that stress levels had increased or increased significantly over the past year

Source: Grant Thornton International Business Report 2007

International trade

- The proportion of Japanese companies exporting has decreased further in the last year. 7% of Japanese companies now export, 5% less than last year.
- 30% of businesses in East Asia on average currently export, 23% more than Japan.
- Japan has the lowest proportion of businesses exporting than anywhere else in the world.

Proportion of businesses exporting (%)



Source: Grant Thornton International Business Report 2007

Globalisation

- Japanese businesses are more likely to see globalisation as an opportunity than a threat to their business, with 22% viewing it as an opportunity and just 10% viewing it as a threat.
- Businesses in the East Asia as a whole are more likely to see globalisation as a threat (17%) compared to Japanese businesses.
- However, globally, Japan has the fewest businesses who view globalisation as an opportunity – 35% below the global average.

Impact of Globalisation (%)

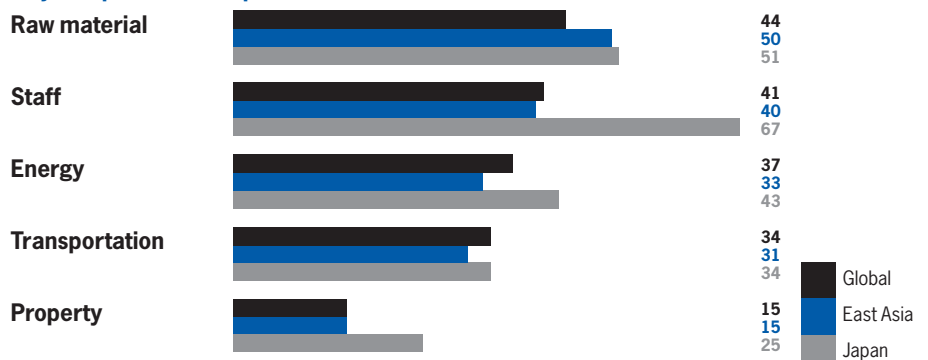


Source: Grant Thornton International Business Report 2007

Impact on cost pressures

- Staff costs are expected to have the largest impact on cost pressures in Japan, with 67% of businesses citing this factor.
- A quarter of businesses in Japan also consider property costs a major cost pressure, 10% more than the rest of East Asia on average.
- With regards to raw material and transportation costs, Japan's figures are similar to the East Asian and global averages.

Major impacts on cost pressures



Source: Grant Thornton International Business Report 2007

Japan's GDP growth for 2007 is forecast at 2.2% as consumer spending picks up. The first quarter of the year saw household spending increase by a healthy 3.2% annualised, underpinning expectations that for the year as whole, spending will show growth of 1.7%, the strongest increase in over a decade. Business investment continues to grow strongly, although easing after two years of expansion at around 7%. Meanwhile export growth remains brisk. Against this solid background, unemployment is set to fall below 4% for the first time this decade.

To find out more about the Grant Thornton International Business Report (IBR) and to obtain copies of topical supplements, including focuses on emerging markets, energy and environmental issues and European business, please visit www.internationalbusinessreport.com.

Summaries are also available for each of the 32 participating countries, as well as regional and global summaries. You can also complete the questionnaire online and benchmark your answers against those of businesses around the world.

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Participating countries/territories

Argentina	Ireland	Russia
Armenia	Italy	Singapore
Australia	Japan	South Africa
Botswana	Luxembourg	Spain
Brazil	Mainland China	Sweden
Canada	Malaysia	Taiwan
France	Mexico	Thailand
Germany	The Netherlands	Turkey
Greece	New Zealand	UK
Hong Kong	Philippines	US
India	Poland	

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