

(Box 2) Overview of Corporate Savings in Recent Years

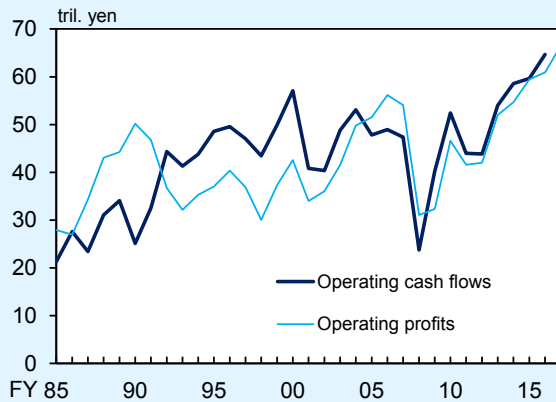
Even though corporate profits have reached record levels, firms' cautious stance toward fixed investment and wage increases has been unchanged, and thus some have argued that corporate savings may have increased to an excessive level. Leaving aside whether corporate savings are excessive or not, this box seeks to provide an overview about the level of corporate savings from a longer-term perspective.

With operating profits setting record highs, operating cash flows also have increased, exceeding the past peak level (Chart B2-1).

On the other hand, firms' cautious expenditure stance seems to be unchanged on the whole. Although the fixed investment ratio using "operating cash flows + personnel expenses" as the denominator has been rising recently, it basically remains within the range observed since the mid-1990s (thick line in Chart B2-2). The personnel expenses ratio has fallen in recent years, reflecting the limited increases in wages, especially of full-time employees.³³ Meanwhile, the dividends ratio has been rising, partly owing to the strengthening of corporate governance, although the pace has remained modest (Chart B2-3).

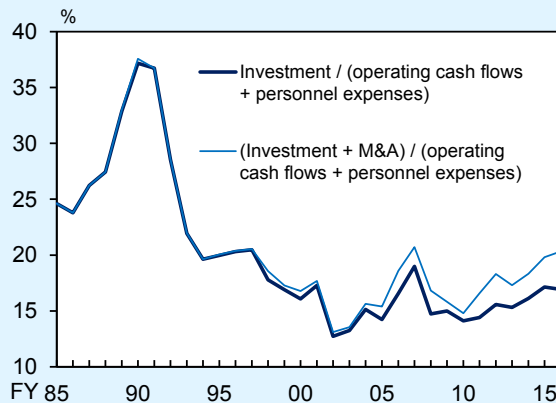
³³ For a description and analysis of the fact that, even though the labor market has tightened by as much as during the bubble period, the pace of wage increases of late has remained weaker than during that period, see Boxes 1 and 2 of the July 2017 Outlook Report.

Chart B2-1: Cash Flows and Profits



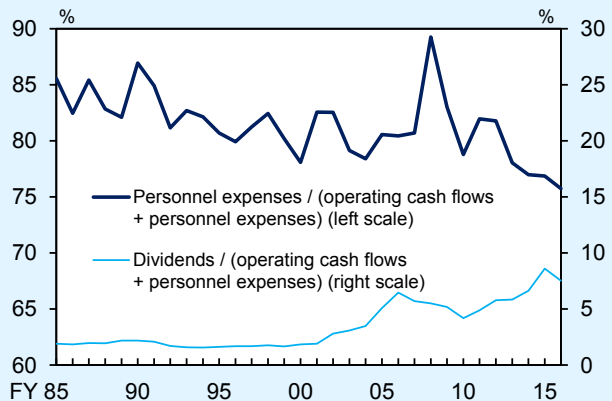
Source: Ministry of Finance.
 Notes: 1. Figures for operating cash flows are based on the "Financial Statements Statistics of Corporations by Industry, Annually." Figures for operating profits are based on the "Financial Statements Statistics of Corporations by Industry, Quarterly." Excluding "finance and insurance."
 2. Operating cash flows are defined as follows:
 Operating cash flows = net income - dividends + depreciation expenses + provisions - Δinventories - Δtrade credits - Δnet amount of other current assets.
 3. The figure for fiscal 2017 is the annualized value for the first half of fiscal 2017 on a seasonally adjusted basis.

Chart B2-2: Investment



Source: Ministry of Finance; Bloomberg.
 Notes: 1. Figures for "operating cash flows," "personnel expenses," and "investment" are based on the "Financial Statements Statistics of Corporations by Industry, Annually." Excluding "finance and insurance."
 2. The definition of operating cash flows is the same as in Chart B2-1.
 3. Investment includes land purchasing expenses and excludes software and R&D investment. M&A is the total amount of cases in which the acquirer is a Japanese company and the target company is a foreign company.

Chart B2-3: Personnel Expenses and Dividends

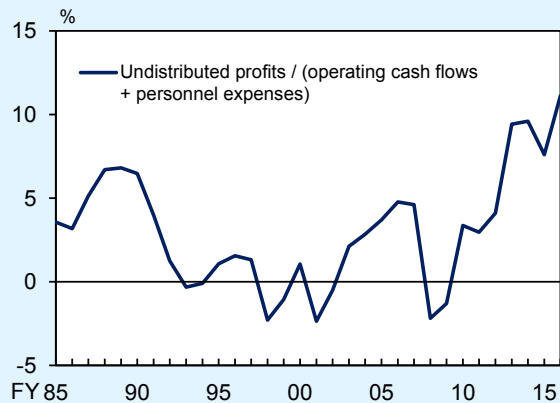


Source: Ministry of Finance.
 Notes: 1. Based on the "Financial Statements Statistics of Corporations by Industry, Annually." Excluding "finance and insurance."
 2. The definition of operating cash flows is the same as in Chart B2-1.

Consequently, corporate savings have risen to historically high levels. While there are several indicators of corporate savings, the ratio of "undistributed profits" (net income - dividends), which correspond to the change in internal reserves, to "operating cash flows + personnel expenses" has increased to a record level (Chart B2-4).³⁴

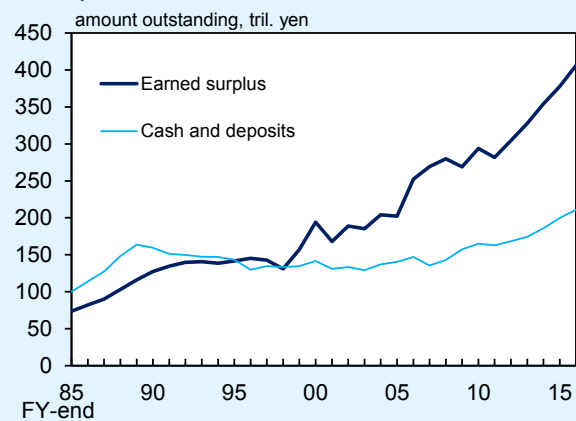
As a result of the accumulation of these flows, the "earned surplus," which corresponds to internal reserves on a stock basis, has started to increase rapidly in recent years; similarly, an uptrend in "cash and deposits" has become evident recently, although the pace of increase has been moderate compared to that in the "earned surplus" (Charts B2-5 and B2-6).

Chart B2-4: Undistributed Profits



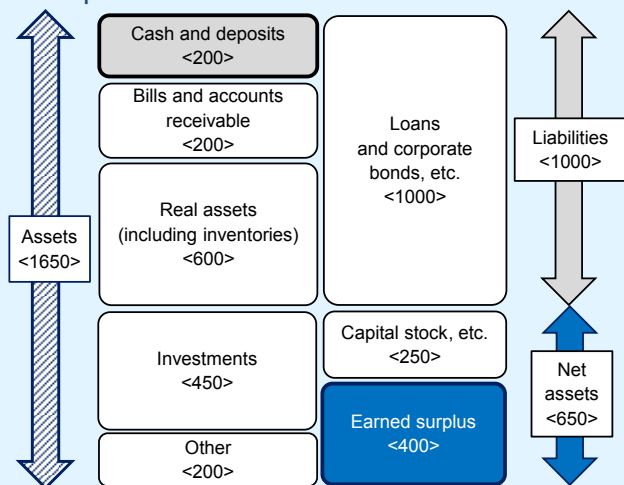
Source: Ministry of Finance.
 Notes: 1. Based on the "Financial Statements Statistics of Corporations by Industry, Annually," Excluding "finance and insurance."
 2. Undistributed profits = net income - dividends. In order to adjust changes in the accounting standards, bonuses for directors are additionally excluded from figures for undistributed profits up through fiscal 2006.
 3. The definition of operating cash flows is the same as in Chart B2-1.

Chart B2-5: Earned Surplus and Cash and Deposits



Source: Ministry of Finance.
 Note: Based on the "Financial Statements Statistics of Corporations by Industry, Annually," Excluding "finance and insurance."

Chart B2-6: Balance Sheet of Nonfinancial Corporations



Source: Ministry of Finance.
 Notes: 1. Based on the "Financial Statements Statistics of Corporations by Industry, Annually," Excluding "finance and insurance."
 2. Figures in angular brackets are the amount outstanding of each component at the end of fiscal 2016 (trillion yen, approximation).

³⁴ An example of other indicators representing corporate savings is the saving-investment balance, which looks at the relationship between saving and investment in the real economy. This also indicates that corporate savings are on an uptrend.