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Regional Economic Report
—— Annex ——

Results of the *Survey regarding Corporate Behavior since the Mid-1990s*:

Economic Activity, Prices, and Monetary Policy
over the Past 25 Years from Firms' Perspective

Bank of Japan

Contents

About the *Regional Economic Report Annex Series*

The Bank of Japan's *Regional Economic Report* -- compiled on every occasion of the meeting of general managers of its branches -- is a summary of information on economic and financial developments across Japan, by region, gathered mainly from interviews with firms by the Bank's Head Office, branches, and local offices.

The *Regional Economic Report Annex Series* provides the findings of research focusing on specific topics such as long-term challenges facing regional economies, serving as a supplement to the *Regional Economic Report*, which covers latest developments in the respective region's economic conditions.

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Results of the *Survey regarding Corporate Behavior since the Mid-1990s*:

Economic Activity, Prices, and Monetary Policy over the Past 25 Years from Firms' Perspective

— Summary —

As part of a "review of monetary policy from a broad perspective," the Bank of Japan carried out the *Survey regarding Corporate Behavior since the Mid-1990s*, covering around 2,500 nonfinancial corporations nationwide of varying industries and sizes. Through the survey, the Bank aimed to deepen its understanding of the features of corporate behavior since the mid-1990s and the impact this behavior has had on Japan's economic developments and the formation mechanism of wages and prices.

The findings of the survey suggest that factors that led to persistent sluggishness in Japan's business fixed investment, prices, and wages may be summarized into the following four points. First, having experienced prolonged economic adjustments in the wake of the bubble burst and ensuing financial crisis, followed by repeated substantial shocks (the Global Financial Crisis, etc.), firms reined in their active risk-taking, such as through fixed investment, and instead prioritized improving their financial soundness and accumulating cash and deposits for future contingencies. Second, in the wake of the bubble burst and ensuing financial crisis, many firms that faced severe price competition found it difficult to pass on higher costs to their prices as both consumers' preference for lower prices and their clients' cost-cutting stance intensified rapidly. Third, because firms had long been able to secure workforce even without having to raise wages, many of them came to curb wages in order to maintain low prices, creating a vicious cycle that led to entrenchment of consumers' preference for lower prices. Fourth, the declining and aging population, which has intensified over the past 25 years, also contributed to curbing business fixed investment and wage hikes through declining growth expectations and a heavier social security burden.

At present, many firms remain concerned about the adverse impact of the declining and aging population and about potential rises in fixed costs in the case of a rise in base pay. That said, many responded that they are no longer able to secure enough workforce if they curb wages. Moreover, given the success in the pass-through of the rise in import prices to selling prices, a growing number of firms are passing on higher personnel expenses as well.

Responses to questions regarding prices and business environment revealed that many firms, regardless of industry and firm size, consider that, in terms of their business activities, a state in which both prices and wages rise moderately is preferable to one in which they hardly change.

It was confirmed that the Bank's monetary easing over the past 25 years has supported the business activities and forward-looking investments of a wide range of firms by means of a decline in borrowing rates from financial institutions and improvement in availability of funding. In contrast, as perceived side effects of monetary easing, firms pointed to difficulties in securing workforce and intensified price competition, both brought about by sluggish corporate metabolism.

I. Introduction

Since the late 1990s, when Japan's economy fell into deflation, achieving price stability has been a challenge faced by the Bank of Japan for a long period of 25 years. The Bank has been conducting a review of monetary policy from a broad perspective since 2023, to deepen its understanding of the various monetary easing measures that it implemented during those 25 years, in the context of the interaction of these measures with developments in economic activity and prices, and to gain insights that will be useful for future policy conduct. As part of this effort, the Bank carried out the *Survey regarding Corporate Behavior since the Mid-1990s* with the cooperation of many firms, to gain insights into the features of corporate behavior over the past 25 years and the impact this behavior has had on Japan's economic developments and the formation mechanisms of wages and prices.

The survey was conducted from November 2023 to February 2024, covering 2,509 nonfinancial corporations nationwide, from a wide range of industries and from large firms to small and micro firms.[1] Responses were received from as many as 2,256 firms, answering in person, by mail, or online.[2] More than half of these firms were also interviewed by staff from the Bank's Head Office, branches, and local offices in Japan. Given the survey objective of focusing on overall business issues over the past 25 years, it was requested that, as far as possible, the survey and interviews be answered by corporate managers or executives. The Bank expresses its sincere gratitude to those who took the time to participate and share their observations.

In light of the survey objective, the Bank asked questions covering the period since the mid-1990s on topics including the following: business policies regarding fixed investment and price and wage setting and the background to these policies; firms' views on price

[1] The survey covered corporations outside the finance and insurance industries, including associations and sole proprietors. The selection of firms to be surveyed took into account the value-added of Japanese firms by size and by sector (manufacturing or nonmanufacturing).

[2] The breakdown of the 2,256 respondents by firm size was as follows: 529 large firms (capital of 1 billion yen or more); 393 medium-sized firms (capital of 100 million yen to less than 1 billion yen); 782 small firms (capital of 20 million yen to less than 100 million yen); and 552 micro firms (capital of less than 20 million yen). By sector, these respondents comprised 638 manufacturers and 1,618 nonmanufacturers.

developments and the business environment; and firms' perceptions of the positive and side effects of monetary easing. For a list of the survey questions, see pages 44-52. To examine changes in corporate behavior over the past 25 years or so since the mid-1990s, firms were asked to respond to some questions by dividing this period into three phases, namely, (1) the "first" phase, defined as the period from the mid-1990s to the 2000s, (2) the "second" phase, defined as the 2010s, and (3) the "current" phase, defined as the period over the past one year.[3]

This report outlines corporate behavior and firms' views on the Bank's monetary easing during the specified period, focusing on points that drew particularly many responses or opinions, by presenting aggregate answers for each survey question and the responses obtained from firms via face-to-face or telephone interviews. The complete aggregate results are in the table on pages 53-55 and in the Excel file released separately on the Bank's website.

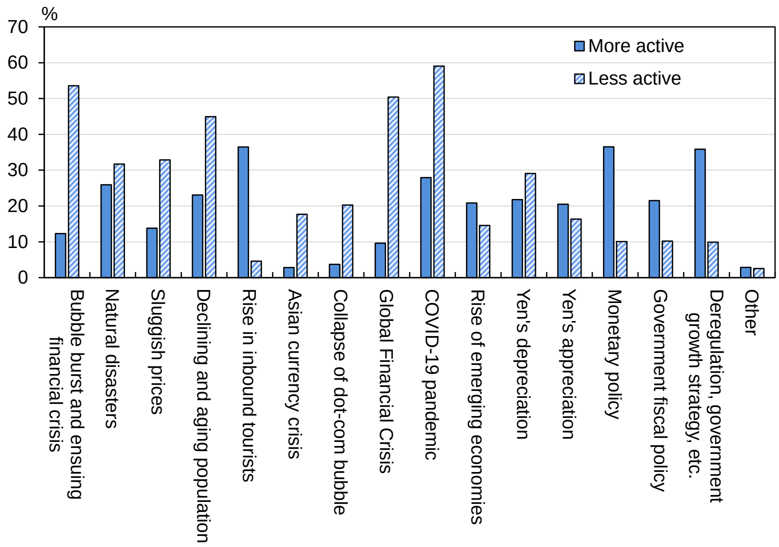
[3] The period covered by each phase was defined broadly, so that firms could respond to questions more easily depending on their circumstances; for example, by dividing the first and second phases into the periods before and after the Global Financial Crisis.

II. Firms' Business Policies

A. Events and Factors That Led to Firms' Domestic Businesses Being More Active or Less Active

The first question of the survey asked firms to choose all major events and factors that had affected their stance toward domestic businesses (Chart 1).[4] Frequently selected items that led to a more active stance were "rise in inbound tourists," "monetary policy," and "deregulation, government growth strategy, etc." On the other hand, as factors that led to a less active stance, more than 50 percent of respondents chose "bubble burst and ensuing financial crisis," "Global Financial Crisis," and "COVID-19 pandemic" -- evidence that the kind of substantial shocks that led to more than half the respondents taking a less active stance occurred once every decade. As other negative contributing factors, more than 30 percent of respondents raised such chronic stresses as "declining and aging population" and "sluggish prices." Regarding the latter, anecdotal information revealed that many firms had experienced difficulties passing on higher costs to prices, which in turn led their domestic businesses to be less active (Table 1).

Chart 1: Events and Factors That Led to Firms' Domestic Businesses Being More Active or Less Active



Note: All applicable options were allowed.

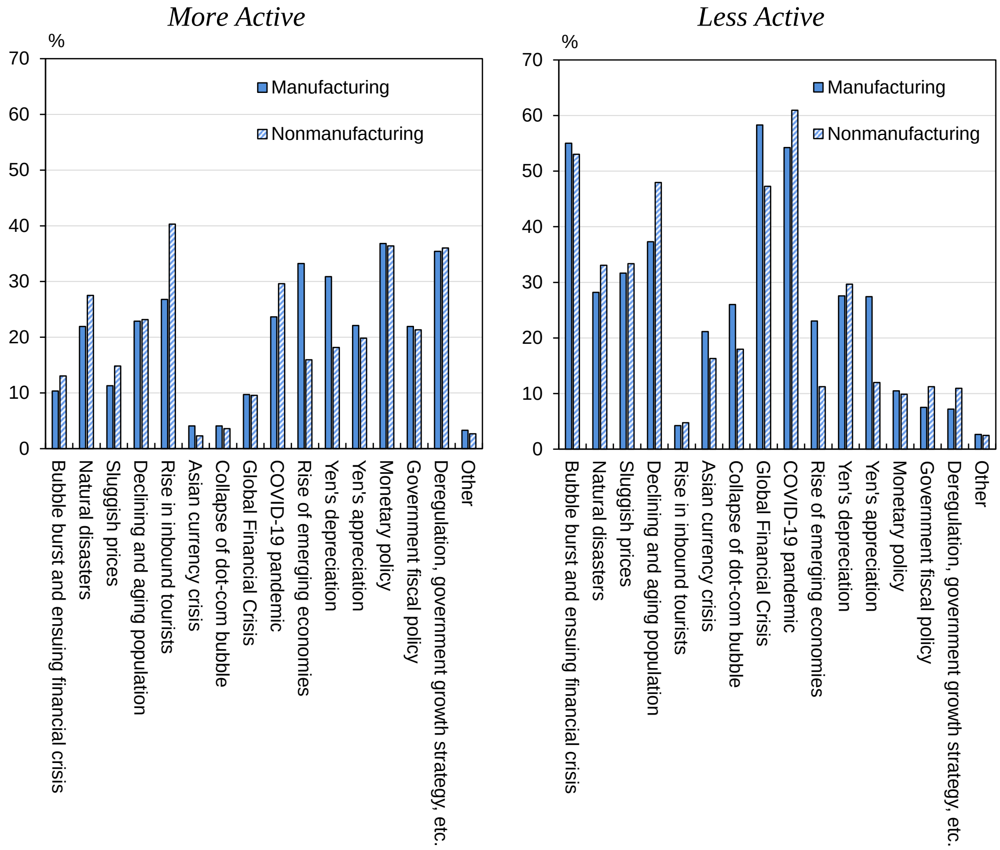
[4] Unless otherwise stated, the vertical axes in the charts in this report represent the ratio to the number of firms that provided valid responses to respective questions.

Table 1: Interview Responses by Firms That Cited "Sluggish Prices" as a Contributing Factor to Their Less Active Stance toward Domestic Businesses

No.	Industry (Firm size)	Anecdotal observations from firms
1	Pulp & paper (Large)	With the idea that "cheap is best" taking root in Japan, we have narrowed our efforts on the means of manufacturing low-priced products rather than high value-added, high-priced products.
2	Retailing (Micro)	Since price hikes have long been widely considered as unfavorable on a societal level, we have not been able to pass on higher raw material prices to selling prices; instead, we have sought to cut costs, primarily personnel expenses, by replacing regular workers with non-regular workers.
3	Retailing (Small)	Instead of considering whether the price of a product is appropriate based on its value-added, consumers have increasingly found low-price products valuable, simply because of their low price. In response, we retailers have had no choice but to resort to price competition.
4	Iron & steel (Large)	Our business policy has become less active due to increased pressure to make price cuts from major clients, such as automakers, that faced intense competition in overseas markets and the yen's appreciation.
5	Wholesaling (Small)	Falling or sluggish prices have led to requests for price cuts from clients. As a result, it has become difficult to secure reasonable profits and we have been forced to rein in new investments.

A look at events and factors that led firms' domestic businesses to be either more active or less active by industry reveals only a few items with significant differences between manufacturers and nonmanufacturers (Chart 2). However, a detailed examination reveals that, in terms of the positive contributing factors, a relatively larger proportion of nonmanufacturers had received benefits from the rise in inbound tourists, whereas a greater proportion of manufacturers had taken advantage of the rise of emerging economies -- or expansion in the market size of those economies -- and the yen's depreciation. In terms of negative contributing factors, while nonmanufacturers had been burdened by the declining and aging population and the COVID-19 pandemic to a larger extent, a greater proportion of manufacturers had been affected by the Global Financial Crisis, the rise of emerging economies -- and the resultant competition with imports -- and the yen's appreciation.

Chart 2: Events and Factors That Led to Firms' Domestic Businesses Being More Active or Less Active (by Sector)



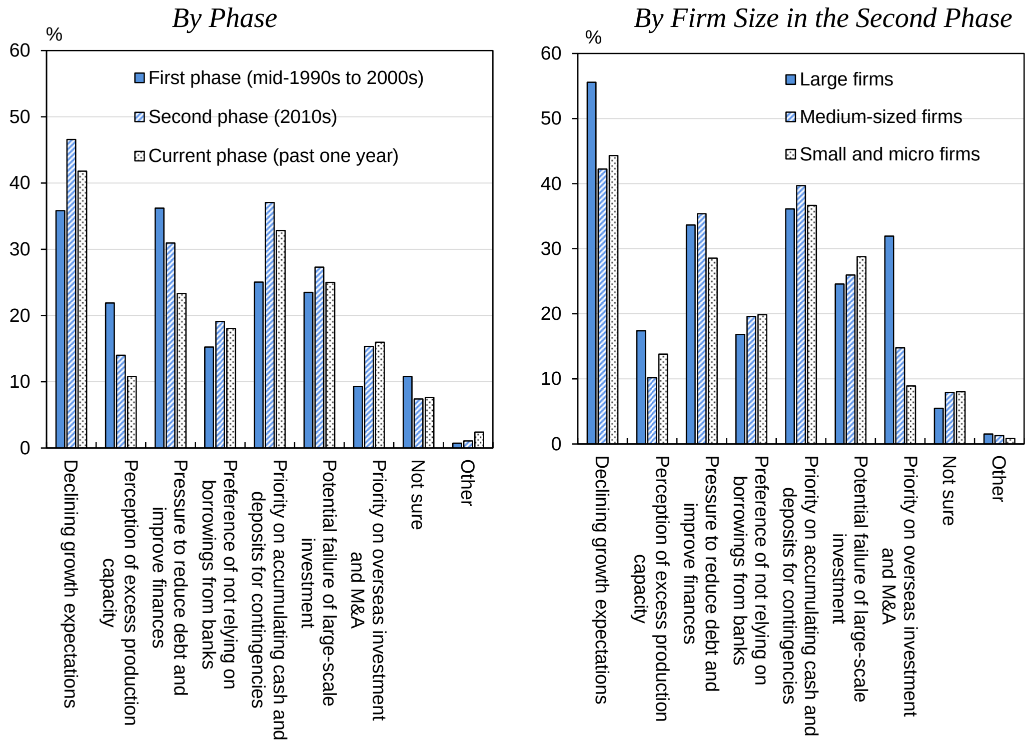
Note: All applicable options were allowed.

B. Reasons for the Pace of Increase in Domestic Business Fixed Investment Having Remained Moderate Relative to That of Improvement in Firms' Cash Flow

When firms were asked why the pace of increase in domestic business fixed investment had remained moderate relative to that of improvement in cash flow of Japanese firms as a whole over the past 25 years, many chose the following reasons for all three phases: "declining growth expectations," "pressure to reduce debt and improve finances," "priority on accumulating cash and deposits for contingencies," and "potential failure of large-scale investment" (left panel of Chart 3). A closer look at the differences in each phase confirms the following: in the first phase, firms reined in new fixed investment, reflecting their perception of excess production capacity, and highly prioritized improving their financial soundness; from the second phase onward, they prioritized accumulating cash and deposits for future contingencies. Many firms commented that, in both the first and second phases, due to declining growth expectations at home and the experience after the financial crises of having been burdened with financial institutions' reluctance to lend, or forcible withdrawal of outstanding loans, they had put priority on securing the soundness of their financial conditions rather than making fixed investments. In addition, it was revealed that Japanese firms -- having encountered repeated substantial shocks, as mentioned above -- had tended to prioritize accumulating cash and deposits and become more hesitant to implement large-scale investments (Table 2).

Meanwhile, responses by firm size reveal that, "priority on overseas investment and M&A" was raised by many large firms, which had seen particularly improved profits during the second phase (right panel of Chart 3). Taking into account relevant interview responses by firms, stagnant growth in large firms' domestic business fixed investment may be partly attributable to progress in shifts to overseas investment on the back of declining growth expectations in Japan, and to a growing tendency among them to favor expanding businesses through M&A with the use of ample cash reserves, instead of developing businesses from scratch through fixed investment (Table 3).

Chart 3: Reasons for Restrained Business Fixed Investments



Note: Up to three reasons were allowed.

Table 2: Interview Responses regarding Restrained Business Fixed Investments

No.	Industry (Firm size)	Anecdotal observations from firms
6	Construction (Small)	The experience of forcible withdrawal by financial institutions of outstanding loans brought about a sense of fear and distrust. Having witnessed the failure of redundant investment projects during the bubble period, we fell into a "wait-and-see" mode until the situation calmed down. The myth of growth was shattered and we felt insecure about the future.
7	Services for individuals (Micro)	After having encountered repeated economic shocks, such as the bubble burst, the Global Financial Crisis, and the Great East Japan Earthquake, we have restrained business fixed investments due to "pressure to reduce debt and improve finances" and "priority on accumulating cash and deposits for contingencies." As micro firms' presidents, we experienced financial institutions' reluctance to lend and a deterioration in our own cash flow, and are therefore anxious with regard to whether they will assist us in times of need.
8	Other manufacturing (Small)	The bubble burst and the Global Financial Crisis (and resultant layoffs and financial institutions' reluctance to lend) were major triggers for our fear of "potential failure of large-scale investment." These substantial shocks created an atmosphere and corporate culture that discouraged us from making fixed investments worth hundreds of millions of yen.
9	Electrical machinery (Large)	Considering the outcomes of large-scale investments by many domestic machinery makers in the past, we are keenly aware of the difficulty of implementing such sizeable investments, especially in Japan. Therefore, even if funding conditions are favorable, we should be cautious about making investments.

Table 3: Interview Responses regarding Overseas Investment and M&A (Large Firms)

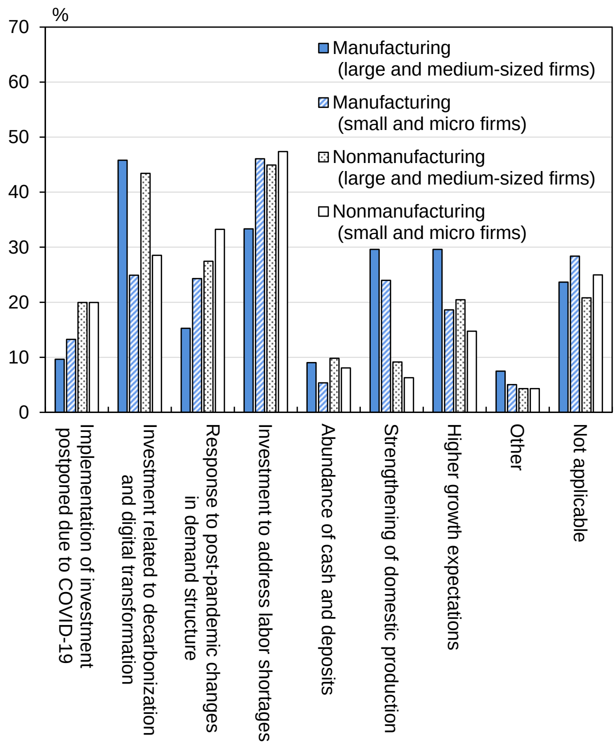
No.	Industry (Firm size)	Anecdotal observations from firms
10	Eating & drinking (Large)	As we recognize that large-scale domestic investment entails a high degree of risk due to the gradual decline in growth expectations at home amid the situation of the declining and aging population, we have been placing "priority on overseas investment."
11	Services for individuals (Large)	In the second and current phases, as we have started to be aware of the downtrend in medium- to long-term demand amid the situation of the declining population, we have increasingly opted to place "priority on overseas investment and M&A" in view of "declining growth expectations" in Japan.

12	Processed metals (Large)	After our domestic businesses gained traction in the first phase, we embarked on expanding businesses overseas in the second phase. Instead of doing so from scratch, we have decided to "buy time" through M&A.

C. Reasons for Undertaking More Active Domestic Business Fixed Investment in the Current Phase

When firms were asked about their stance on domestic business fixed investment in the current phase, the share of those responding that they had not more actively made such investment accounted for less than 30 percent, which means over 70 percent responded that they had undertaken somewhat more active investment than in the past (Chart 4). Frequently chosen reasons for this majority response were "investment to address labor shortages" and "investment related to decarbonization and digital transformation," with large firms in particular selecting the latter. A certain share of firms also raised "higher growth expectations" in view of post-pandemic recovery and expectations for a recovery in demand unique to each industry (Table 4). Of other options, nonmanufacturers in particular raised "response to post-pandemic changes in demand structure," while some manufacturers, especially large ones, chose "strengthening of domestic production" on the back of a surge in geopolitical risks.

Chart 4: Reasons for Undertaking More Active Domestic Business Fixed Investment



Note: Up to three reasons were allowed.

Table 4: Interview Responses regarding Firms' More Active Business Fixed Investment Stance

No.	Industry (Firm size)	Anecdotal observations from firms
13	Retailing (Small)	With the COVID-19 pandemic subsiding and economic activity revitalizing, we now have a favorable business environment that encourages us to take on new challenges. Given this, we selected "higher growth expectations."
14	Electrical machinery (Small)	We selected "higher growth expectations" due to the recovery in demand for semiconductors.
15	Real estate (Large)	We selected "response to post-pandemic changes in demand structure." Given growing demand for real estate to accommodate changes in housing needs and working styles in the wake of the pandemic, we have clarified adoption of a growth strategy for the domestic business despite the declining population.

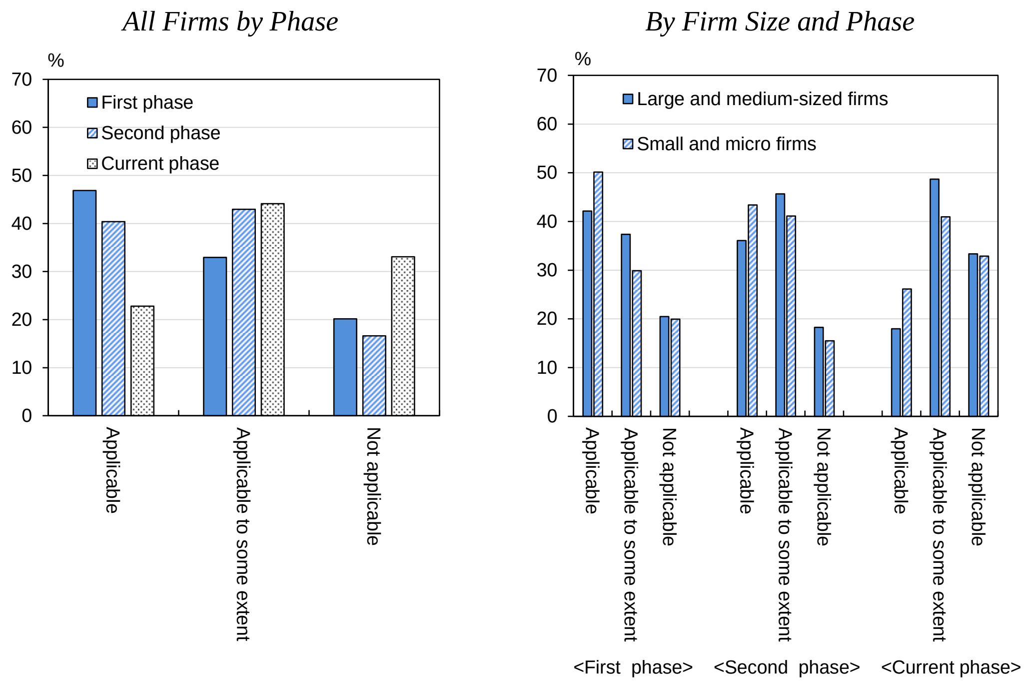
16	Motor vehicles (Large)	We selected "strengthening of domestic production" and "higher growth expectations." During past phases, we explored new profit opportunities overseas with our automobile-related products, based on existing in-house technologies. In contrast, we have recently seen an expansion in investments in the domestic market where our "mother factory" is located. This is because we are currently focusing our investment on new areas -- namely, electric vehicle-related products.
17	Electrical machinery (Small)	We are transferring our production sites back home from China, etc., due mainly to rises in local wages, the yen's depreciation, and differences in local business practices with those in Japan.
18	Production machinery (Large)	As we are beginning to gain a sense of growth in Japan's economy, there is a trend, partly from an economic security perspective, toward returning to domestic production, including at our firm.

III. Firms' Price Setting

A. Difficulties in Passing on Higher Costs to Prices

When firms were asked about the difficulties in passing on higher costs to prices, responses showed that such difficulties had eased as the current phase drew nearer (left panel of Chart 5). With respect to the current phase, the proportion of firms answering "applicable" in Q4-(1) decreased significantly, while the proportion of those answering "not applicable" -- that is, that they did not have such difficulties -- increased accordingly, accounting for about 30 percent. Looking at the differences in responses by firm size, the proportion of firms that answered "applicable," or that they had such difficulties, is somewhat smaller at large firms -- which generally are likely to have strong pricing power -- than firms of other sizes, irrespective of the time frame; that said, the disparity in the proportions of those choosing "applicable" is not that large across firm sizes, suggesting that the difficulties in passing on higher costs to prices were sensed by firms of all sizes, including large ones (right panel of Chart 5).

Chart 5: Difficulties in Passing on Higher Costs to Prices



Note: Firms responded "applicable" if they had difficulties passing on higher costs to prices.

In relation to Q4-(1), many firms were asked about what first triggered the difficulties in passing on higher costs to prices -- in other words, the decline in the inflation rate to around 0 percent in the 1990s. A large number of firms commented that this was because, in response to the bubble burst and concern over financial system stability, (1) consumers had a stronger preference for lower prices and accordingly tended to buy only low-priced products and (2) firms had rapidly become more inclined to reduce costs (Table 5).

Table 5: Interview Responses regarding What Triggered Stagnant Inflation in the 1990s

No.	Industry (Firm size)	Anecdotal observations from firms
19	Nonferrous metals (Medium)	Until the bubble burst, we automatically reflected increased input prices in our estimates, and this was accepted as reasonable by our clients. After the bubble burst, however, the clients' stance toward price hikes became severe as the overall economy worsened. By the second half of the 1990s, when the economy was at its worst due to the collapse of a number of financial institutions, the very idea of passing on higher costs to prices had disappeared. During this period, we constantly absorbed cost increases internally by making unremitting efforts to reduce costs, rather than passing on the higher costs to prices.
20	Other manufacturing (Large)	Our firm makes motor vehicle-related parts, and it became extremely difficult for us to pass on higher costs to prices around 2000, when our major clients switched to drastic cost-cutting strategies. At that time, we also faced intense pressure to reduce costs, and since then we have always been under price-cutting pressure, which shows a change in our industry's norm.
21	Food & beverages (Large)	Deflation in the food services industry began to accelerate in the early 2000s, when a major fast-food chain made headlines by drastically cutting prices of its flagship products amid sluggish private consumption. It consequently came to dominate the market, so other major firms followed suit, leading to a price collapse in the whole food services industry. As the media popularized the idea that "cheap is good," it seems that by the 2000s there were no longer any consumers who prioritized quality over prices.
22	Eating & drinking (Large)	In the 1990s, economic activity in Japan deteriorated rapidly in the wake of the bubble burst and ensuing financial crisis. Consumer sentiment cooled, and the food services industry experienced a rapid decline in demand for the kind of high-end restaurants seen during the bubble period. In this situation, our Japanese-style fast-food

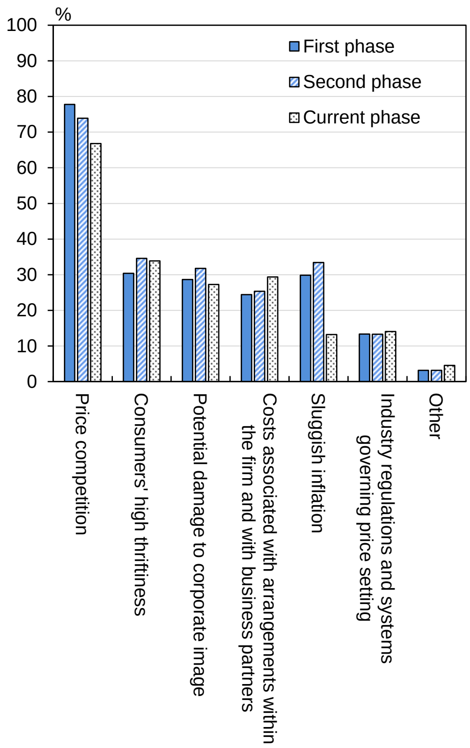
		business aligned with consumers' preference for lower prices, and we were able to expand our business after the post-bubble financial crisis.
23	Retailing (Large)	Before the 1990s, clothes were expensive items that had to be tailored or purchased at department stores. However, by establishing a business model of mass-producing clothes in countries with low personnel expenses and selling them at low prices, we could take market share from department stores and expand our business. This has enriched people's lives in the sense that they can now afford the clothes they want to wear.
24	Retailing (Small)	In the first half of the 1990s, there was a tendency of being criticized for buying expensive items due to concerns about the future caused by the bubble burst. As a result, even those who were not that adversely affected by the bubble burst preferred lower prices because of social peer pressure, and customers who previously purchased confectioneries at high-end stores started coming to us, boosting our business performance.
25	Wholesaling (Micro)	The yen's appreciation in the first half of the 1990s contributed significantly to stagnant inflation. As input prices declined, reflecting the yen's appreciation, we did not need to raise prices and therefore kept them at the same level for a long time. Even when we suffered from high costs later on, we could not raise prices for fear of consumers' reactions.

B. Reasons for the Difficulties in Passing on Higher Costs to Prices

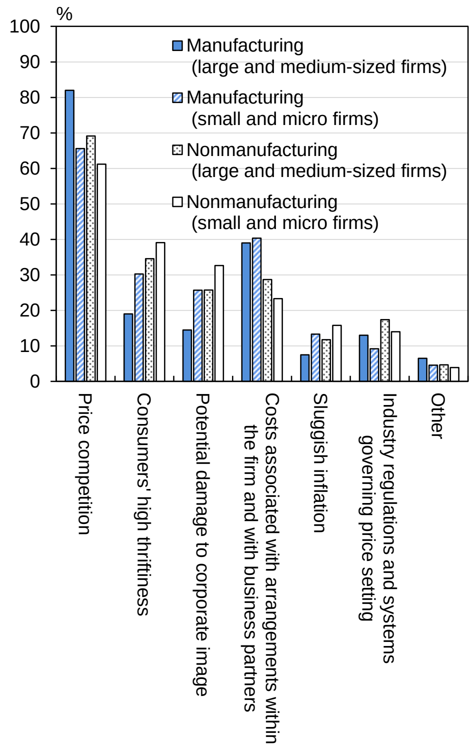
In Q4-(2), firms that responded in Q4-(1) that they had difficulties or had some difficulties in passing on higher costs to prices -- shown in Chart 5 -- were asked for their reasons (Chart 6). A vast majority of firms cited "price competition" irrespective of the time frame. Some also chose other reasons. That is, relatively speaking, "consumers' high thriftiness" and "potential damage to corporate image" were raised by a large proportion of nonmanufacturers -- which in many cases sell their products or services directly to consumers -- particularly small and micro firms, while "costs associated with arrangements within the firm and with business partners" was cited by a significant proportion of manufacturers, whose transaction structures are multilayered, involving supply chains, main contractors, and subcontractors.

Chart 6: Reasons for the Difficulties in Passing on Higher Costs to Prices

By Phase



By Firm Size in the Current Phase



Note: Figures are shares of firms that responded "applicable" or "applicable to some extent" in Chart 5. Up to three reasons were allowed.

Table 6: Interview Responses regarding Difficulties in Passing on Higher Costs to Prices

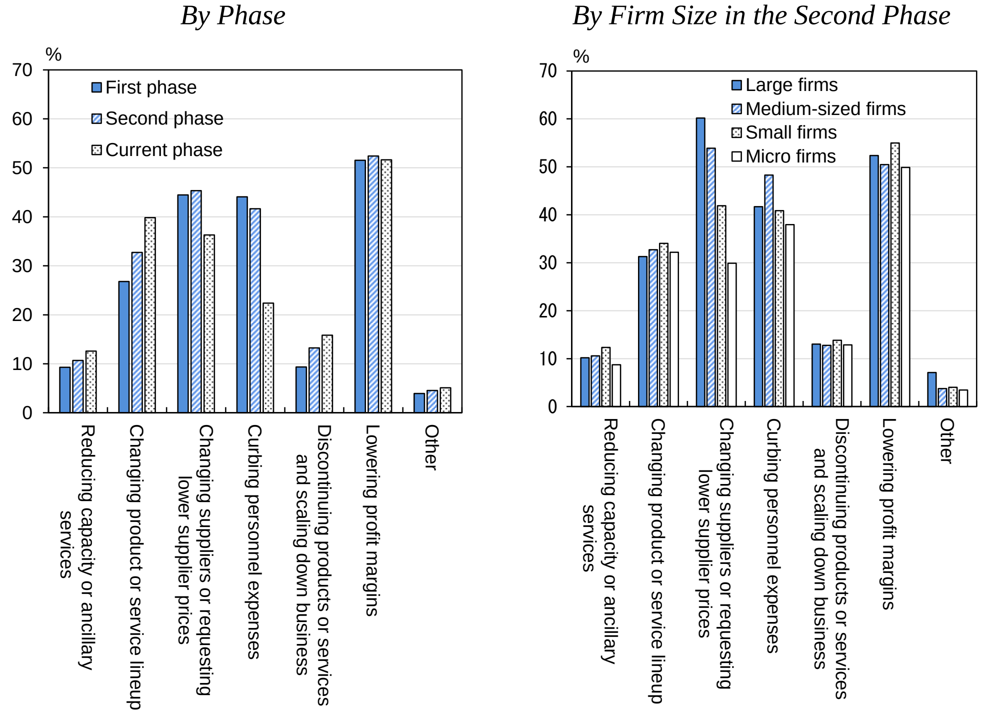
No.	Industry (Firm size)	Anecdotal observations from firms
26	Retailing (Large)	With consumers' high thriftiness, we are competing with supermarkets and discount stores that actively hold sales, and recently also with drugstores. We are therefore concerned that if we alone raise prices, our sales will fall.
27	Accommodation services (Micro)	Until the 2010s, we were forced to lower prices due to price competition and the widespread deflationary mindset. At that time, we reduced prices through cost cuts. We now rather raise our prices considerably, partly because of the growing social trend of price hikes.
28	Motor vehicles (Large)	We have always been on the margins of profitability as we have had to overcome competitors to receive orders from automakers. Since our competitors have recently been raising their prices, it has become easier for us to pass on higher costs to prices.

29	Pulp & paper (Large)	With the rise of Chinese manufacturers amid diminishing demand due to everything going paperless, competition intensified in the first and second phases. As price hikes would lead to customer defections, we maintained profitability by cutting costs such as personnel expenses.
30	Services for individuals (Small)	Consumers are becoming thriftier with wages remaining stagnant, and this tendency is particularly pronounced in the current high inflationary environment. They tend to prioritize daily living expenses due to high inflation, to the extent that they curb spending on their children's education -- a pattern that is widely seen among middle- and lower-income groups.
31	Food & beverages (Medium)	When we raised prices during the economic downturn after the Global Financial Crisis, sales fell and the corporate image deteriorated, with many customers saying that our products' prices were no longer wallet-friendly. Thereafter, when we lowered prices, sales recovered.
32	Retailing (Large)	It was difficult to make the necessary arrangements within the firm to raise retail prices due to strong internal concerns over a resulting decline in demand. It also required considerable effort to negotiate with our business partners to raise prices of private-label products.
33	Electrical machinery (Small)	Substantial time and effort is involved in persuading clients in negotiations for price hikes, including collecting data (such as breakdown of costs and source data for estimates) and compiling explanatory materials. Small firms do not have staff skilled in these tasks, resulting in a heavy administrative burden, which poses a high hurdle to achieving price hikes.

C. Measures to Address Cost Increases

In Q4-(3), firms that responded in Q4-(1) that they had difficulties or had some difficulties in passing on higher costs to prices -- shown in Chart 5 -- were asked how they addressed cost increases (Chart 7). The most frequently selected measure for absorbing cost increases was "lowering profit margins." In the first and second phases, firms retained their prices by "curbing personnel expenses," which likely was one factor that led to prolonged wage stagnation. However, fewer respondents chose this option for the current phase, in which firms have been forced to raise wages to secure workforce. Furthermore, mainly for the first and second phases, many firms chose "changing suppliers or requesting lower supplier prices." This suggests that, when firms were unable to pass on higher costs to their prices, they also did not accept such a pass-through by their suppliers, implying a kind of deflationary pressure exerted by large firms on small and micro firms -- or from downstream to upstream.

Chart 7: Measures Adopted to Address Cost Increases



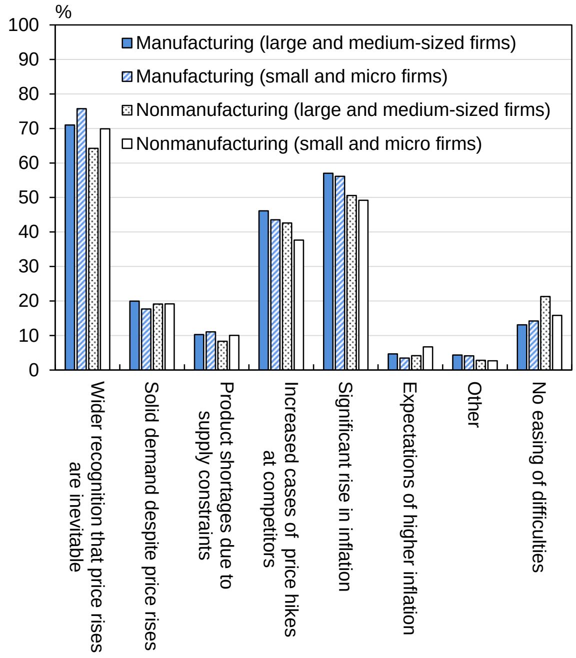
Note: Figures are shares of firms that responded "applicable" or "applicable to some extent" in Chart 5. Up to three measures were allowed.

D. Reasons for the Easing of Difficulties in Passing on Higher Costs to Prices

When firms were asked about their situation when it came to the difficulties in passing on higher costs to prices in the current phase, responses showed that fewer than 20 percent of them answered that the difficulties have not eased, which means more than 80 percent felt that the difficulties have eased, at least to some extent (Chart 8). Regardless of industry and firm size, the most frequent reason for this easing of difficulties was "wider recognition that price rises are inevitable." This was followed by "significant rise in inflation" and "increased cases of price hikes at competitors." These reasons raised by firms were all due to upward pressure on costs resulting from a substantial rise in import prices (Table 7). In relation to this, to examine whether price hikes reflecting an increase in personnel expenses have likewise been accepted, firms were asked about how the difficulty in the pass-through of raw material costs differed from that in passing on higher personnel expenses. Many firms voiced the opinion that it remained relatively difficult to pass on higher personnel expenses to prices.

However, interview responses from mainly the accommodations industry and major construction firms suggest that this tendency has been changing recently (Table 8).

Chart 8: Reasons for the Easing of Difficulties in Passing on Higher Costs to Prices



Note: Up to three reasons were allowed.

Table 7: Interview Responses regarding the Easing of Difficulties in Passing on Higher Costs to Prices

No.	Industry (Firm size)	Anecdotal observations from firms
34	Retailing (Small)	A "wider recognition that price rises are inevitable" is due to television and newspaper reports about a surge in raw material costs.
35	Retailing (Large)	A surge in raw material prices has led to a "wider recognition that price rises are inevitable." If our firm alone raises prices, there is a risk of losing price competition due to consumers' high thriftiness. However, with many firms now raising prices, we are less likely to lose demand to our competitors even if we raise prices.
36	Processed metals (Micro)	A "wider recognition that price rises are inevitable" is a response to a substantial rise in raw material costs. Moreover, the current situation of a "significant rise in inflation" makes it less likely for demand to switch to competitors even if we raise prices. High inflation can also be used as a reason for negotiating price hikes with clients.

Table 8: Differences in the Difficulties in Passing on Raw Material Costs and Personnel Expenses

No.	Industry (Firm size)	Anecdotal observations from firms
37	Motor vehicles (Large)	Although we have been passing on higher raw material and energy costs to prices, we do not do so with respect to personnel expenses because we do not consider this an option.
38	Motor vehicles (Small)	While price hikes due to higher raw material costs can be explained by market developments, increased personnel expenses are generally expected to be absorbed by boosting productivity, making it difficult to pass them on. This applies to both when we pass on cost increases to our prices and when our suppliers want to raise their prices.
39	Electrical machinery (Large)	Even our firm, with no competitors, does not pass on increased personnel expenses in an obvious manner, but rather raises prices as part of overall price revisions conducted annually. When we raise wages, our clients in Japan negotiate for price cuts given the leeway for wage hikes.
40	Processed metals (Small)	Passing on higher personnel expenses to prices is difficult. Given that there are competitors that accept work at lower personnel expenses, it is hard for such price pass-through to be accepted. Making industry-wide attempts to push for the pass-through would also be difficult if some continue to secretly accept orders at low prices.
41	Production machinery (Micro)	It is relatively easy to negotiate for price hikes due to high raw material costs. However, price hikes reflecting increased personnel expenses are unwelcomed in most cases, being requested instead to absorb the higher expenses through other equivalent cost cuts.
42	Food & beverages (Large)	It is possible that an increase in personnel expenses cannot be passed on to prices in the same way as raw material costs. That said, major retailers are gradually accepting the need for this pass-through, although they strongly resisted until recently, because they themselves are now facing wage increases.
43	Motor vehicles (Large)	We formerly did not accept our suppliers passing on higher personnel expenses to their prices, but we are now open to negotiations for accepting such price pass-through. This reflects a general tendency to attempt passing on wage increases throughout the supply chain and to consumers, and guidance from the Small and Medium Enterprise Agency and the Japan Fair Trade Commission.
44	Retailing	Although we can gain the consumers' understanding of price hikes due to higher raw material costs since these costs are beyond a firm's

	(Micro)	control, this is difficult in the case of personnel expenses. Therefore, we attribute our price hikes to higher raw material costs, while incorporating higher personnel expenses.
45	Other nonmanufacturing (Micro)	We feel that price hikes due to higher raw material costs are easier to explain to clients and consumers. However, passing on increased personnel expenses to prices has become less challenging and there is a gradually growing tendency to accept such pass-through, albeit belatedly relative to raw material costs.
46	Construction (Large)	With few firms entering the construction industry and the "2024 problem" looming, firms are raising prices to cover higher personnel expenses due to serious labor shortages.[5] Our clients are beginning to understand and accept this situation, as they will otherwise not be able to secure contractors.
47	Accommodation services (Medium)	In the hotel industry today, personnel expenses are passed on in the same way as other costs. If a hotel can provide high-value services, cost increases can be reflected in its charges, regardless of the type of cost, partly because hotel ratings nowadays are always visible through customer reviews.
48	Accommodation services (Micro)	Since the accommodations industry has a widely shared image of acute labor shortages, it is relatively easy to raise prices to reflect wage hikes. Especially now that the media are covering labor shortages and high inflation, there appears to be a growing acceptance of passing on increased personnel expenses to prices.

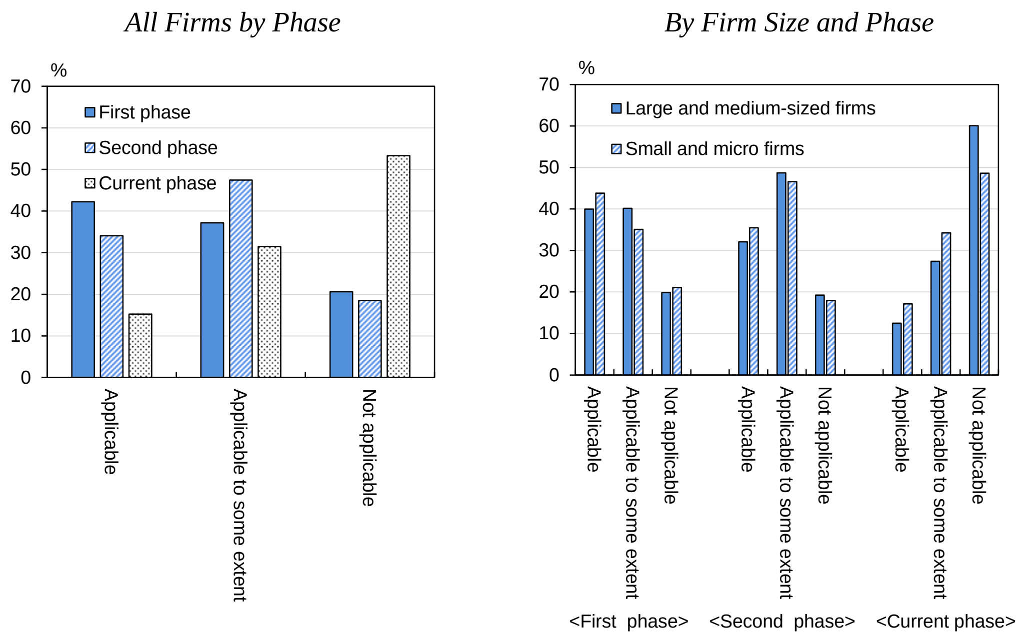
[5] The "2024 problem" refers to various issues arising from a reduction in the regulatory upper limit on annual overtime, introduced in April 2024.

IV. Firms' Wage Setting

A. Sluggish Wage Growth: Curbing Base Pay Increases

Next, when firms were asked about their wage-setting stance, particularly toward raising regular workers' basic wages, or base pay, it was revealed that the trend of curbing base pay increases had moderated as the current phase drew nearer (Chart 9). In the current phase in particular, the share of firms that responded "not applicable" for sluggishness in basic wages in Q6-(1) -- suggesting an active stance toward base pay increases -- rose considerably, regardless of size. Looking at the difference in the stance toward base pay increases by firm size in the current phase, that of large and medium-sized firms became more active relative to small and micro firms.

Chart 9: Sluggish Growth in Regular Workers' Basic Wages

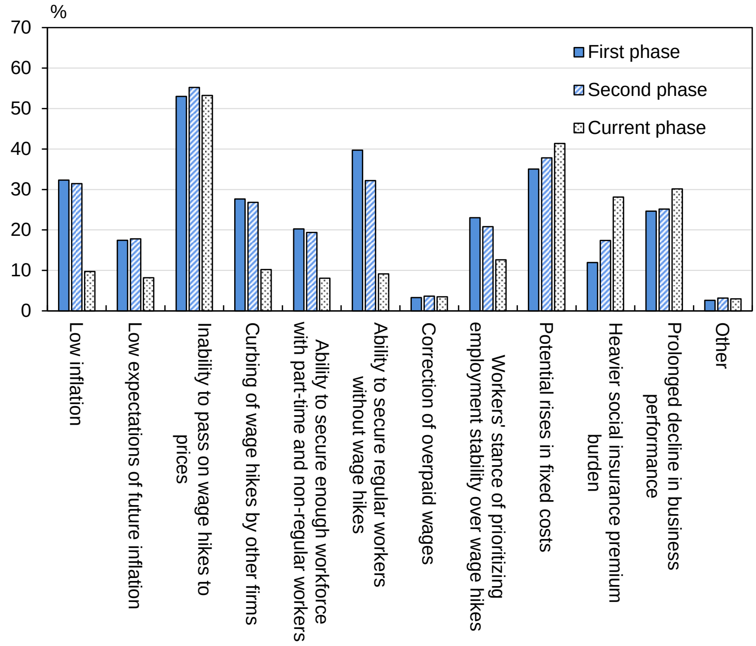


Note: Firms responded "applicable" if their regular workers' basic wages were sluggish.

B. Reasons for Sluggish Wage Growth or Curbing Base Pay Increases

Regarding firms' reasons for responding in Q6-(1) that they had curbed base pay increases or had curbed such increases to some extent, a wide range of factors were raised for the first and second phases (Chart 10); in particular, many referred to "inability to pass on wage hikes to prices," "ability to secure regular workers without wage hikes," and "potential rises in fixed costs." On the other hand, in the current phase, the situation in which firms had been able to "secure regular workers without wage hikes" had mostly receded, due mainly to intensified labor shortages, whereas the two other factors raised above continued to inhibit wage hikes. Yet, the actual number of firms that pointed to those two as factors curbing wage hikes had decreased in the current phase. This is because the share of firms that stated in Q6-(1) that they had curbed base pay increases or had curbed such increases to some extent for the current phase fell by around 30 percent from past phases.

Chart 10: Reasons for Curbing Base Pay Increases



Note: Figures are shares of firms that responded "applicable" or "applicable to some extent" in Chart 9. Up to five reasons were allowed.

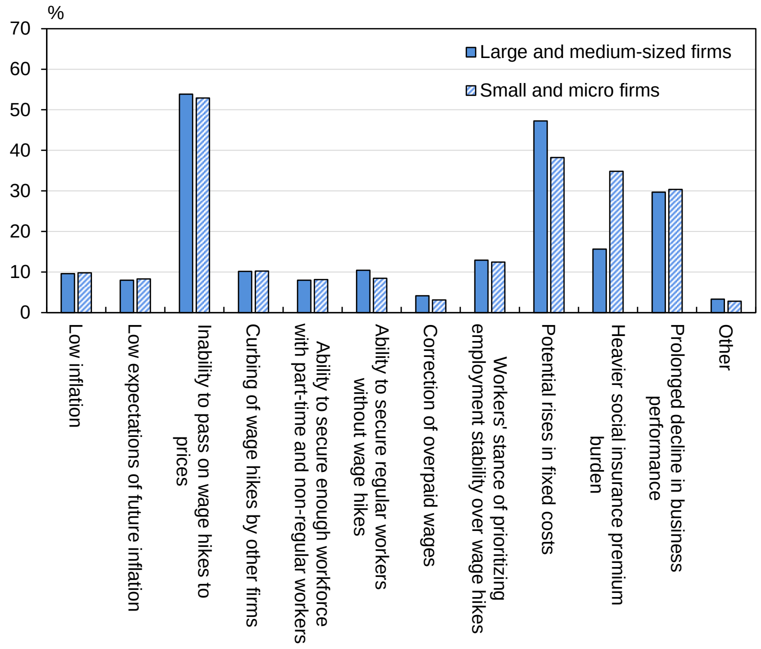
Table 9: Interview Responses regarding the Reasons for Curbing Base Pay Increases

No.	Industry (Firm size)	Anecdotal observations from firms
49	Ceramics, stone & clay (Large)	We selected "inability to pass on wage hikes to prices." We are aware that prices of products are determined by raw material prices and supply-demand conditions, and we have no intention to pass on increases in personnel expenses to prices.
50	Construction (Large)	As the construction industry faced intense price competition during the first and second phases, it would have been difficult to pass on higher wages to prices even if we had raised them. This presumably is one of the reasons why wages stagnated.
51	Eating & drinking	We have not raised wages of regular workers to date because we have been able to secure enough workforce with part-time and non-regular workers. When our business performance was solid, we passed on

	(Micro)	the gains to our workers in the form of bonus payments, rather than base pay increases.
52	Services for individuals (Medium)	During the first and second phases, labor market conditions remained slack due to the prolonged economic slowdown. Given the popularity of the travel industry, we were able to recruit and retain both regular and non-regular workers without having to raise wages.
53	Other manufacturing (Medium)	What followed the bubble burst was the "employment ice age," which enabled us to recruit and retain workers easily. As workers facing such employment difficulties prioritized stable employment over higher wages, we were able to secure sufficient workforce without raising wages.
54	Services for businesses (Large)	It was difficult for us to raise base pay for regular workers because we prioritized maintaining employment during the economic downturn and because we were concerned that an increase in base pay might lead to a rise in fixed costs, since it is not easy to reduce base pay and lay off workers.
55	Electrical machinery (Large)	Both institutionally and in terms of social norms, layoffs and cuts to basic wages are difficult to implement in Japan, even when business performance deteriorates. Protecting the employment and livelihood of workers has become practically the most important duty of firms, and under these circumstances, it is difficult to raise base pay, which would lead to higher fixed costs.
56	Production machinery (Micro)	In order to respond smoothly to any increases in orders, the semiconductor industry -- where business conditions tend to be considerably volatile -- has strived to avoid layoffs even when its business performance has deteriorated. Given that fixed costs are incurred when performance deteriorates, inevitably we have to curb base pay increases.

Regarding reasons for curbing base pay increases or curbing such increases to some extent in the current phase by firm size, differences were only marginal for most items. That said, "heavier social insurance premium burden" was selected by a remarkable share of small and micro firms with relatively low profitability (Chart 11). Given that the expansion of the social insurance premium is intended to secure the financial resources necessary to cover pension and insurance benefits for medical care and elderly care amid the declining and aging population, such expansion, together with higher personnel expenses reflecting regular seniority-based wage increases, may be interpreted as one of the channels through which demographic changes in Japan have curbed base pay increases.

Chart 11: Reasons for Curbing Base Pay Increases by Firm Size in the Current Phase



Note: Figures are shares of firms that responded "applicable" or "applicable to some extent" in Chart 9. Up to five reasons were allowed.

Table 10: Interview Responses regarding the Curbing of Base Pay Increases in Relation to Social Insurance Premiums and the Aging of Firms' Workforce

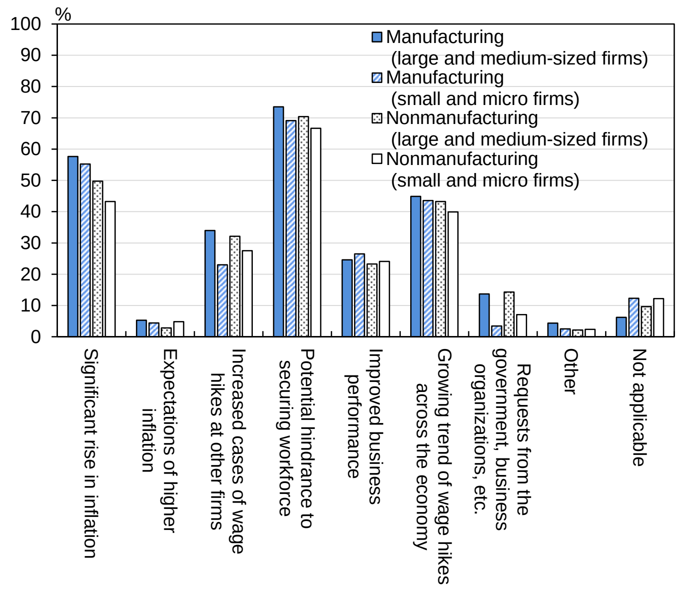
No.	Industry (Firm size)	Anecdotal observations from firms
57	Retailing (Medium)	We have long been only marginally increasing the wages of our regular workers. A strong motive for this has been that, with the burden of employer social insurance contributions increasing year after year, we wished to minimize the rise in personnel expenses as far as possible.
58	Accommodation services (Micro)	Raising wages is one form of personnel investment; however, as a portion of that rise is absorbed into social insurance contributions, it has not resulted in improving net salary. So, any increase in wages seems not to be worthwhile, and this has hindered us from raising wages to some extent.
59	Wholesaling (Micro)	With the aging of our workers, personnel expenses have been rising automatically, primarily reflecting increases in regular seniority-based wages. Due mainly to concerns over "potential rises in fixed costs" that are difficult to cut, we have been trying to curb increases in base pay.

60	Retailing (Small)	The reason for concerns over "potential rises in fixed costs" that are difficult to cut is that, as our workers continue to age, the proportion of older staff with higher salaries is increasing, thereby automatically leading to a rise in personnel expenses.

C. Reasons for Shifts in Firms' Stance toward Raising Wages

When asked about their stance toward raising wages in the current phase, the share of firms responding that they had not made such a shift only accounted for around 10 percent, which means that the remaining 90 percent had somewhat shifted their stance toward raising wages (Chart 12). Regardless of industry and firm size, the most frequent reason for this majority response was "potential hindrance to securing workforce," followed by "significant rise in inflation" and the "growing trend of wage hikes across the economy." With respect to recruitment and retention of workers, many firms interviewed pointed to the growing difficulty in recruiting new graduates and an increase in job changing, primarily among the younger generation (Table 11). In addition, interview responses also suggested that the "growing trend of wage hikes across the economy" and "increased cases of wage hikes at other firms" stemmed mainly from concerns over securing workforce.

Chart 12: Reasons for Shifts in Firms' Stance toward Raising Wages



Note: Up to three reasons were allowed.

Table 11: Interview Responses regarding the Reasons for Shifts in Firms' Stance toward Raising Wages

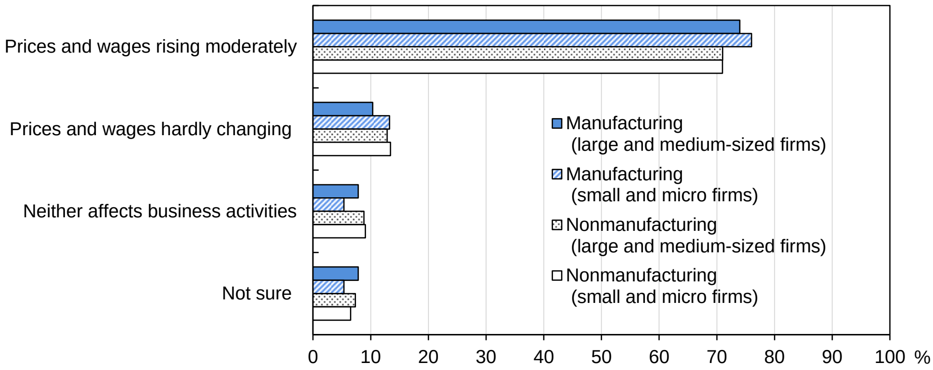
No.	Industry (Firm size)	Anecdotal observations from firms
61	Electric & gas utilities (Large)	As a stable infrastructure firm, we were able to recruit enough new graduates before the COVID-19 pandemic. More recently, however, we have been having difficulty recruiting them unless we promise a certain wage level.
62	Retailing (Large)	Due to the declining and aging population and the favorable market for job changers, competition for top talent has intensified not only within the same industry but also with other industries. We have therefore decided to conduct relatively large increases in base pay, as we did last year.
63	Food & beverages (Large)	Not only has there been an increase in cases of job changing, but recruiting new graduates and foreign workers has also become increasingly difficult. During the pre-pandemic period, there were many Chinese and Vietnamese workers, but the ongoing depreciation of the yen has led to an increased inflow of workers from countries with relatively low wage levels.
64	Wholesaling (Micro)	With increasing difficulty in securing workforce year after year, we have decided to raise wages. We have recently been facing growing difficulty in recruiting workers: for example, there have been cases where we end up with no applicants when we extend job offers; in addition, even if we desperately seek help from recruitment agencies, in some cases, the referred candidate unfortunately does not meet our expected criteria.
65	Services for businesses (Small)	Amid "increased cases of wage hikes at other firms" and the "growing trend of wage hikes across the economy," in order to secure workforce, we are rapidly reviewing our salary and human resource systems with an eye on wage hikes at other firms.
66	Chemicals (Large)	Amid "increased cases of wage hikes at other firms," we intend to retain our workers, who are struggling with high inflation, by motivating them with wage hikes and preventing them from leaving to other firms that have likewise raised wages.
67	Accommodation services (Micro)	If only our firm is passive about raising wages amid "increased cases of wage hikes at other firms" and the "growing trend of wage hikes across the economy," there are concerns over a decline in the motivation of our workers and in recruitment competitiveness.

V. Prices and Business Environment

A. Perception of Rises in Prices and Wages

Firms were asked which state they considered to be preferable for their business activities: one in which both prices and wages rise moderately or another in which they hardly change (Chart 13). The result showed that many firms, regardless of industry and firm size, chose the former.

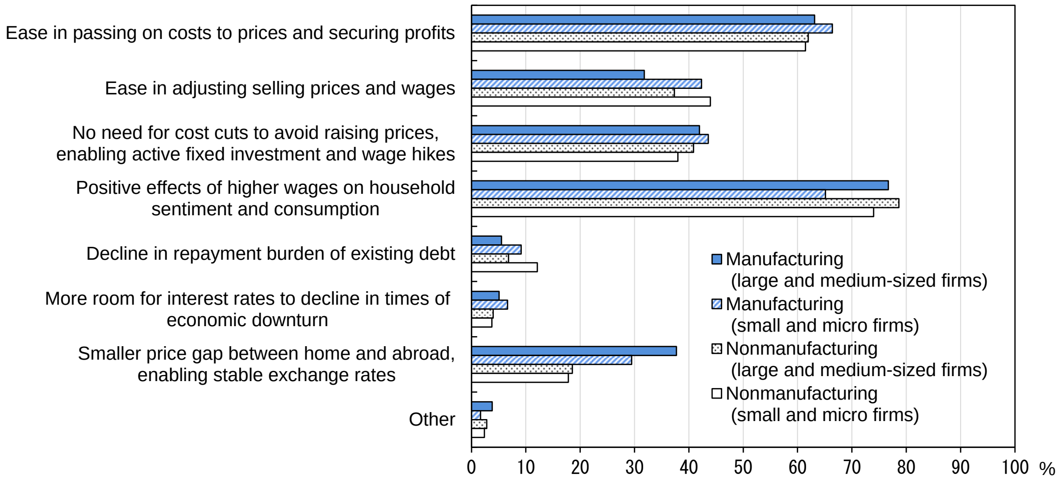
Chart 13: Preferred State for Firms' Business Activities



B. Reasons for Preferring Rises in Prices and Wages

Regarding firms' reasons for preferring a moderate rise in prices and wages, "positive effects of higher wages on household sentiment and consumption" and "ease in passing on costs to prices and securing profits" were chosen most often (Chart 14). A fair proportion of firms raised other reasons, including "ease in adjusting selling prices and wages" and "no need for cost cuts to avoid raising prices, enabling active fixed investment and wage hikes." In particular, a relatively large proportion of manufacturers chose "smaller price gap between home and abroad, enabling stable exchange rates."

Chart 14: Reasons for Preferring a State in Which Prices and Wages Rise Moderately



Note: Figures are shares of firms that responded that a state of both "prices and wages rising moderately" is preferable in Chart 13. All applicable reasons were allowed.

Table 12: Interview Responses by Firms That Preferred a Moderate Rise in Prices and Wages

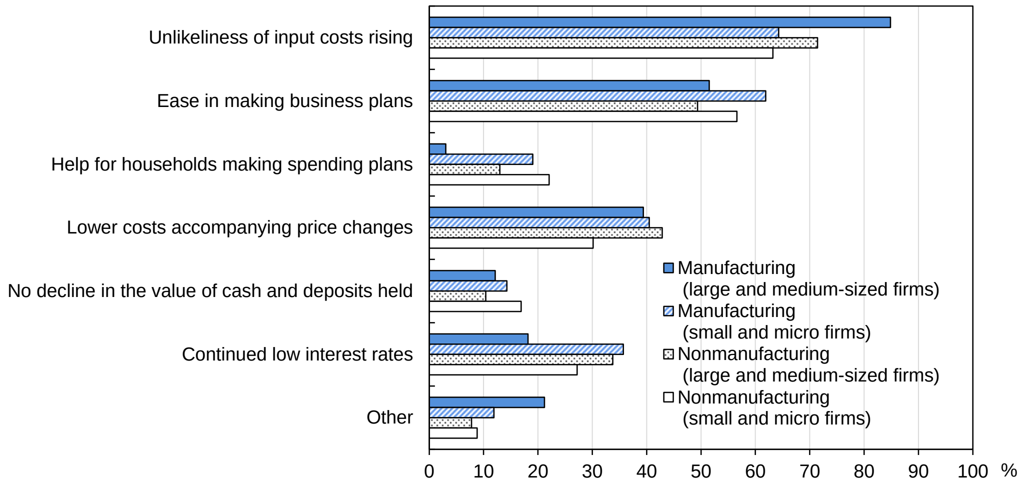
No.	Industry (Firm size)	Anecdotal observations from firms
68	Retailing (Small)	If we are in a state in which both prices and wages rise, it will be easier for us to raise prices, making it easier to pass on higher costs to prices and secure profits.
69	Transport (Small)	A desirable business environment is a state in which both prices and wages rise moderately, because we need to be certain that an appropriate pass-through of higher costs to prices is achievable. With such pass-through, it has recently been easier to secure profits and raise wages, gradually giving rise to expectations for a virtuous cycle between prices, profits, and wages.
70	Services for businesses (Large)	Under zero inflation, it is difficult to take such proactive steps as business reforms; however, if we are able to adjust prices and wages dynamically, there is more room for strategic arrangements, thereby allowing for proactive business activities.
71	Other manufacturing (Large)	The downward rigidity in wages under zero inflation likely exacerbated our losses when our business performance deteriorated. In an environment where both prices and wages rise moderately, when we face a business downturn, we can probably moderate the decline in profits through arrangements such as restraining wage increases.

72	Services for businesses (Large)	We are currently suffering from highly volatile input prices of parts and components due to foreign exchange rate fluctuations and supply constraints. It would be desirable if selling prices could be adjusted more easily as this would help to reduce the deficit risk incurred by soaring prices for parts and components.
73	Retailing (Small)	We selected the first three reasons for preferring rises in both prices and wages -- namely, "ease in passing on costs to prices and securing profits," "ease in adjusting selling prices and wages," and "no need for cost cuts to avoid raising prices, enabling active fixed investment and wage hikes." Under zero inflation, we inevitably set selling prices rigidly. Under mild inflation, however, consumers will find it natural for goods prices to move up and down, enabling us to easily implement price hikes among other measures. As a consequence, in order to secure the resources needed for raising wages, we could choose to raise prices, rather than just cut costs.
74	Chemicals (Large)	As it is difficult to raise prices under zero inflation, we tend to fall into cost-cutting-oriented management, and consequently our initiatives for developing competitive products become inactive.
75	Food & beverages (Large)	The greatest cost of zero inflation is the emphasis on cost-cutting over development of products offering added value. Looking back on product development meetings, we recall that discussions were mostly about how to provide products at a lower cost.
76	Motor vehicles (Large)	Under moderate inflation, there is less need to consider cutting costs to keep prices down. It also becomes possible to provide incentives to workers, fostering a positive spirit and motivation to create new value.
77	Eating & drinking (Large)	Even if real wages are unchanged, workers generally feel satisfied when their wages rise in nominal terms, and, at least in the short term, consumption may increase. Experience also shows that sales tend to grow when nominal wages rise.
78	Real estate (Large)	Even if real wages remain the same, a rise in nominal wages stimulates consumption activity, thereby exerting significant positive effects on our retail real estate business (hotels, shopping malls, condominiums, etc.).
79	Accommodation services (Micro)	We consider that a state in which both prices and wages rise allows for normal economic activity in that it exerts positive effects on household sentiment and consumption.

C. Reasons for Not Preferring Rises in Prices and Wages

Although they were few in number, a fair proportion of firms that responded that a state in which both prices and wages hardly change was preferable pointed to concern over a rise in input costs as a reason (Chart 15).

Chart 15: Reasons for Preferring a State in Which Prices and Wages Hardly Change



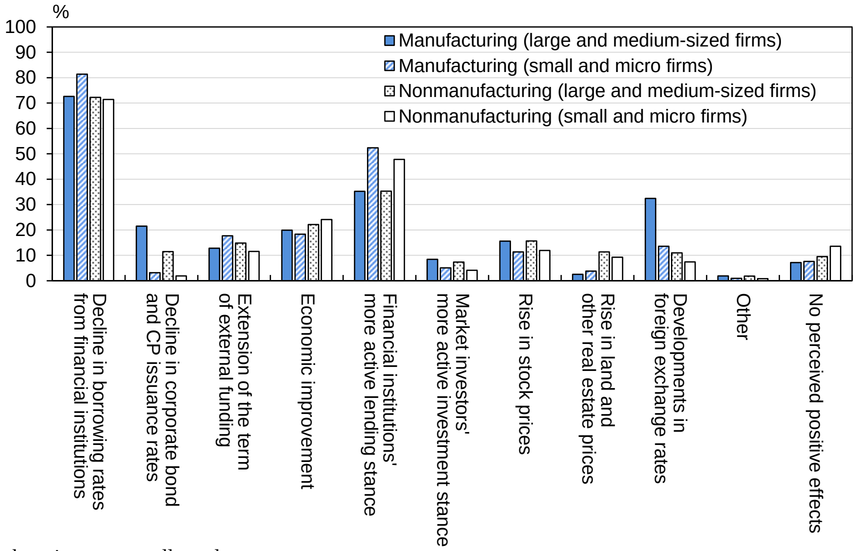
Note: Figures are shares of firms that responded that a state of both "prices and wages hardly changing" is preferable in Chart 13. All applicable reasons were allowed.

VI. Perception of Monetary Easing over the Past 25 Years

A. Perception of the Positive Effects of Monetary Easing on Firms

When firms were asked about their perception of the positive effects they had felt from monetary easing over the past 25 years, around 10 percent responded that they had not sensed such effects; therefore, the remaining 90 percent had sensed them (Chart 16). Among specific perceived positive effects, those via lending channels were raised in particular; regardless of industry and firm size, the most frequent response was a "decline in borrowing rates from financial institutions," followed by "financial institutions' more active lending stance." In addition, a closer look revealed that "financial institutions' more active lending stance" had been perceived to a greater degree by relatively small-sized firms. Meanwhile, among large manufacturers, many pointed to "developments in foreign exchange rates" as the positive effects of monetary easing.

Chart 16: Perception of the Positive Effects of Monetary Easing on Firms



Note: Up to three items were allowed.

As for relevant interview responses by firms, many of those across a wide range of industries and firm sizes voiced the opinion that a decline in funding costs, as represented by a fall in borrowing rates, had supported their business activities and promoted their forward-looking investments (Table 13). Many also acknowledged improvement in availability of funding, such as financial institutions' increasingly active lending stance (Table 14). In this regard, some relatively small-sized firms pointed to financial institutions' increased provision of follow-up support as a positive effect of monetary easing. It should be noted that large firms and manufacturers in particular had a positive view on enhancements in export competitiveness and increases in profits made overseas in yen terms, mainly due to the reversal of the substantial appreciation of the yen observed during the first half of the 2010s (Table 15). Small firms and nonmanufacturers also commented that growth in inbound tourism demand owing to the yen's depreciation was a favorable development for them.

Table 13: Interview Responses regarding the Declines in Borrowing Rates and Issuance Rates for Corporate Bonds and CP

No.	Industry (Firm size)	Anecdotal observations from firms
80	Iron & steel (Large)	We were able to increase the ratio of long-term borrowings with a maturity of over ten years, partly because funding costs have been low under continued large-scale monetary easing. This also led to a stable financial position and forward-looking fixed investments.
81	Wholesaling (Small)	We strongly feel that prolonged monetary easing has financially supported small firms' business activities under deflation. Low borrowing rates also encouraged us to diversify business areas.
82	Eating & drinking (Micro)	The decline in borrowing rates has helped us greatly. We did not have difficulties in bank borrowing because financial institutions had a more active lending stance.
83	Motor vehicles (Large)	Under the large-scale monetary easing over the past decade, the funding environment has been favorable, mainly in terms of CP and corporate bond issuance and bank borrowing.

Table 14: Interview Responses regarding the More Active Stance toward Lending by Financial Institutions and Investment by Market Investors

No.	Industry (Firm size)	Anecdotal observations from firms
84	Wholesaling (Small)	In financing for M&A, we felt that financial institutions had eased their lending stance.
85	Business oriented machinery (Small)	We could invest aggressively overseas, strongly encouraged by the decline in borrowing rates and banks' more active lending stance, both brought about by monetary easing.

86	Retailing (Micro)	With limited room to lower lending rates, financial institutions made loan proposals that took more account of their clients' needs, such as by drawing up business strategies for them. We think that this is one of the positive effects of monetary easing.
87	Electric & gas utilities (Large)	As we make long-term investments given our business structure, we always have a great need to extend the average maturity of our debt. We were able to do this because investors in corporate bonds in particular were eager to provide funds with long maturities under monetary easing.

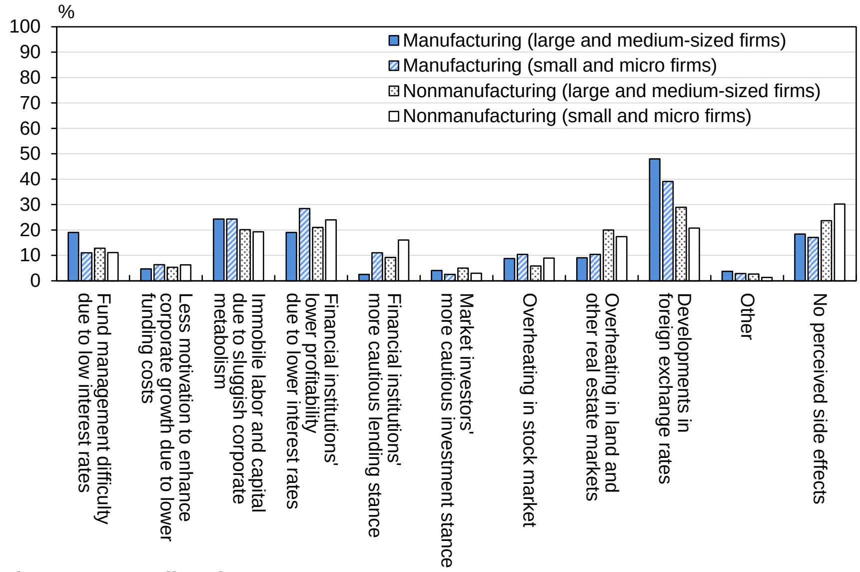
Table 15: Interview Responses regarding the Positive Effects of Foreign Exchange Developments

No.	Industry (Firm size)	Anecdotal observations from firms
88	Motor vehicles (Large)	We hold a positive view on the economic expansion under monetary easing. Particularly during the Abenomics period, exporters like us had a strong feeling that the economy was expanding, mainly owing to the yen's depreciation.
89	Food & beverages (Large)	As we sell our products globally, the yen's depreciation has led to increases in profits made overseas in yen terms.
90	Retailing (Small)	The yen's depreciation has stimulated inbound tourism demand.

B. Perception of the Side Effects of Monetary Easing on Firms

When firms were asked about their perception of the side effects they had felt from monetary easing over the past 25 years, over 20 percent responded that they had not sensed such effects, whereas over 70 percent pointed to various side effects (Chart 17). Among specific perceived side effects, while responses varied widely, many pointed to "sluggish corporate metabolism" and "financial institutions' lower profitability," regardless of industry and firm size. Meanwhile, in terms of industry and firm size, a greater proportion of manufacturers and large firms cited "developments in foreign exchange rates."

Chart 17: Perception of the Side Effects of Monetary Easing on Firms



Note: Up to three items were allowed.

Among relevant interview responses by firms, some pointed to growing difficulties in securing workforce and intensified price competition as the perceived adverse effects of sluggish corporate metabolism brought about by monetary easing (Table 16). Some firms also pointed out that this corporate metabolism was attributed to such factors as the financial support by the government, in addition to low interest rates under monetary easing. Meanwhile, some firms took the view that the subsiding pressure to expand profits due to low interest rates had lessened the motivation to enhance their growth. As adverse effects of financial institutions' lower profitability stemming from lower interest rates, some firms pointed to such factors as weakened relationships with financial institutions and a rise in fees and commissions, as financial institutions had expanded their fee- and commission-based business with the aim of diversifying their profit sources (Table 17). In addition, as side effects of monetary easing via foreign exchange markets, some pointed out that the yen's depreciation and significant swings in exchange rates in recent years have led to increases in raw material costs while also negatively affecting firms' formulation of business plans and their recruitment of foreign workers (Table 18).

Table 16: Interview Responses regarding the Background to Sluggish Corporate Metabolism and Its Effects

No.	Industry (Firm size)	Anecdotal observations from firms
91	Information services (Medium)	Firms with poor business performance have avoided bankruptcies by borrowing funds at low interest rates, resulting in immobile labor. Firms aiming at debt-free management, including us, therefore suffered from labor shortages.
92	Services for businesses (Large)	Firms were actively rescued through economic and monetary policies in the wake of economic shocks in the mid-1990s and onward, leading to the survival of otherwise nonviable industries and firms. Labor immobility has impeded a workforce shift to growing industries.
93	Iron & steel (Small)	Even firms whose main businesses were in the red avoided bankruptcies due to low interest rates and financial institutions' more active lending stance. Policy initiatives such as the so-called zero-zero loans and the SME Financing Facilitation Act also resulted in the survival of otherwise nonviable competitors, causing excessive price competition.[6]
94	Food & beverages (Large)	In our industry, market prices have remained under strong downward pressure because many firms were continuously in deficit, with a large number of competitors and retailers' high pricing power. These deficit firms were able to survive mainly with the help of subsidies, but the effects of the continued low interest rate environment due to prolonged monetary easing cannot be ignored.
95	Wholesaling (Large)	Looking back, we think that low funding costs made us lose our urge to recover costs, which accordingly lessened our motivation to enhance corporate growth.

Table 17: Interview Responses regarding the Adverse Effects of Financial Institutions' Lower Profitability

No.	Industry (Firm size)	Anecdotal observations from firms
96	Chemicals (Large)	We felt a strong sense of connection with and trust in our main bank, as it used to provide us with loans directly. Currently, however, our main bank acts more like a broker, as it has increased proposals for syndicated loans and other fee- and commission-based business. We

[6] Zero-zero loans refers to effectively interest-free and unsecured loans, introduced as part of measures in response to the COVID-19 pandemic.

		are worried whether we can actually borrow from it when we are in need of funds.
97	Construction (Small)	As financial institutions pursued cost cutting in response to reduced profitability due to lower interest rates, the number of workers at their branches and visits to firms located in our prefecture decreased. As firms had fewer opportunities to obtain other firms' information within and outside the prefecture, we have the impression that the invigoration of industries in the prefecture has been impeded.
98	Electrical machinery (Small)	Due to financial institutions' lower profitability, we feel that the quality of financial services has declined, as seen in increased fees and commissions.

Table 18: Interview Responses regarding the Side Effects of Foreign Exchange Developments

No.	Industry (Firm size)	Anecdotal observations from firms
99	Iron & steel (Medium)	While monetary easing was effective to some extent in correcting the excessive appreciation of the yen, prolonged easing generated drawbacks such as entrenchment of the yen's depreciation and a rise in import prices as yield differentials between Japan and other economies widened.
100	Retailing (Micro)	To avoid volatility in input prices, we prefer stable foreign exchange rates.
101	Food & beverages (Large)	Fluctuations in foreign exchange rates were often observed in response to monetary policy decisions. In particular, significant short-term swings in exchange rates have impeded the formulation of our business plans.
102	Electric & gas utilities (Large)	The yen's depreciation trend led to an increase in initial costs when we made more active investment overseas.
103	Transport (Small)	The yen's depreciation brought about an increase in raw material costs and difficulty in recruiting foreign workers.

C. Other Observations Collected from Open-Ended Comments

In the open-ended question, firms -- in addition to the points raised above -- left broad-perspective comments in relation to the Bank of Japan's conduct of monetary policy over the past 25 years, and these comments were not limited to the impact of the Bank's policies on their business (Table 19).

Table 19: Firms' Observations Collected from Open-Ended Comments

No.	Industry (Firm size)	Anecdotal observations from firms
104	Eating & drinking (Micro)	Economic stimulus measures seemed to be driven solely by monetary easing, but there was a limit to how far this alone could buoy up the economy. Prolonged economic downturn was the result of weak demand, and for the measures to be effective, monetary easing should have been coupled with other policy initiatives such as fiscal policy and deregulation.
105	Services for businesses (Small)	Considering that some firms have been passive toward payouts to workers and investment for the future, thereby accumulating internal reserves, we have mixed feelings as to who has benefited from the Bank's low interest rate policy. There needs to be monetary and economic policies that encourage a change in the patterns of behavior of such firms.
106	Retailing (Medium)	Monetary easing often led to extending the lifespan of existing inefficient industries rather than developing new industries and enhancing infrastructures that will support Japan's economy into the future. As a result, monetary easing was not effective enough in terms of generating growth.
107	Ceramics, stone & clay (Small)	We feel that the monetary easing policy has led to an increase in the issuance of government bonds. When monetary accommodation is reduced, the government's interest payment costs increase, potentially making it difficult to achieve fiscal consolidation.
108	Motor vehicles (Large)	As our firm expands business globally, the large difference between domestic and overseas monetary policies made it somewhat difficult for us to implement a uniform financial policy.
109	Transport (Medium)	Low interest rates are not necessarily better; an appropriate interest rate environment will likely ensure deposit protection and promote investments in high value-added businesses.

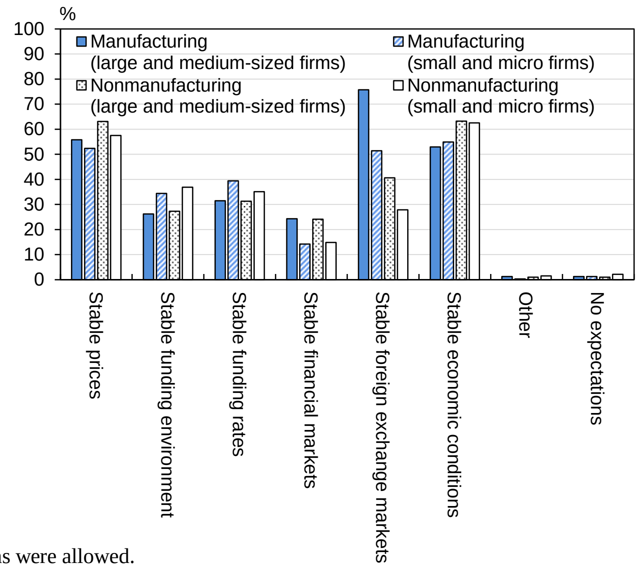
110	Processed metals (Small)	Virtually zero deposit rates make it difficult for pensioners to make ends meet. The Bank has not yet been able to achieve the inflation target probably because of the rigidity of monetary policy.
111	Food & beverages (Large)	Considering the stagnation of Japan's economy from the 1990s, monetary easing was a necessary measure. However, it should have been tightened a little earlier to address the yen's ongoing depreciation and the accompanying surge in import prices.
112	Iron & steel (Medium)	Monetary easing has been effective to a certain extent, whereas prolonged easing has generated demerits. If the Bank revises its accommodative monetary policy, it should do so carefully by taking into consideration the impact of the revision on the economy.
113	Construction (Micro)	If the Bank changes course toward taking a "high interest rate policy" in the current situation where the economy is on its way to recovery from the COVID-19 pandemic and faces the impact of high inflation, business conditions of small and micro firms with vulnerable financial bases are highly likely to be under stress. We hope that policy interest rate hikes will be conducted along with the government's comprehensive growth policies aimed at supporting financing and stimulating economic activity.
114	Real estate (Large)	We feel that the Bank barely conducted monetary easing until the early 2010s. It did not take easing measures during the Global Financial Crisis, and this led to excessive appreciation of the yen, the decline in major industries, and mounting deflation.
115	Wholesaling (Micro)	The news media and academics have been critical of the low interest rate policy, pointing out that monetary easing has side effects; however, we would have definitely gone bankrupt in the absence of such a policy. We hope that the Bank will acknowledge these criticisms and clearly express its opinions.

VII. Awareness of Price Stability

A. Expectations on Monetary Policy

When firms were asked what they expect from monetary policy, a notable proportion, regardless of industry and firm size, raised "stable prices" and "stable economic conditions" (Chart 18). As for large manufacturers, the most frequent response was "stable foreign exchange markets."

Chart 18: Expectations on Monetary Policy

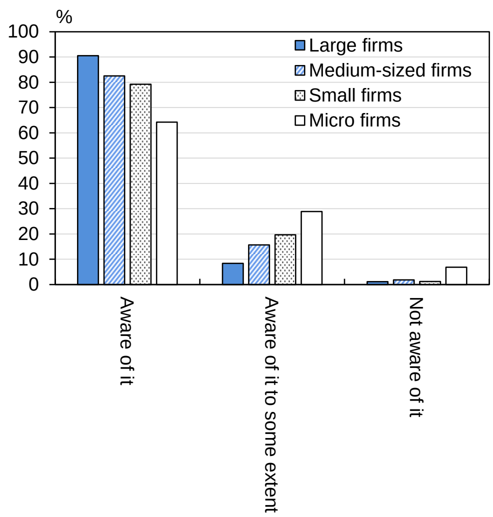


Note: Up to three options were allowed.

B. Awareness of the Bank of Japan's Price Stability Target of 2 Percent

With respect to firms' awareness of the Bank's price stability target of 2 percent, the proportion of firms selecting "aware of it" was at a high level on the whole, although the smaller the firm size, the lower the proportion (Chart 19).

Chart 19: Awareness of the Bank's Price Stability Target of 2 Percent



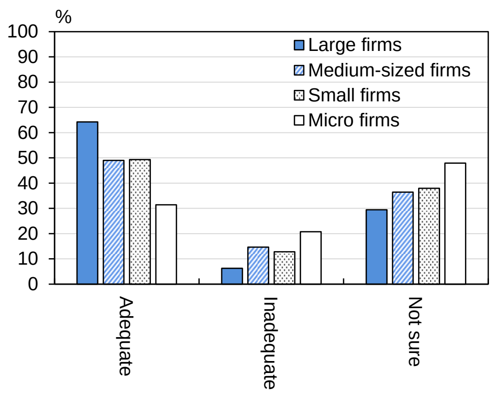
VIII. Assessment of the Bank of Japan's Communication

When firms were asked about their assessment of the Bank's external communication, the proportions of those that chose "adequate" and those that chose "inadequate" or "not sure" were roughly the same for all industries and firm sizes (left panel of Chart 20). A closer look shows that the proportion of firms responding that the Bank's communication was "adequate" declined as firm size became smaller.

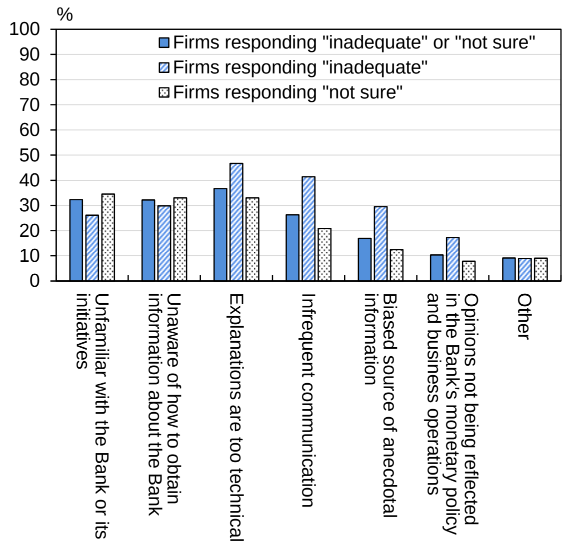
In terms of reasons why the Bank's communication was not "adequate" -- comprised of the responses "inadequate" and "not sure" -- many firms raised the point that its "explanations are too technical," while also pointing to factors that arose from the lack of contact with information released by the Bank, such as the fact that they had been "unfamiliar with the Bank or its initiatives" or "unaware of how to obtain information about the Bank" (right panel of Chart 20 and Table 20). Furthermore, reasons cited by firms responding that the Bank's communication was "inadequate" implied their perception that opinions from firms of smaller sizes were not sufficiently reflected.

Chart 20: Assessment of the Bank's External Communication

Assessment by Firm Size



Reasons for Responding Not "Adequate"



Note: Figures are shares of firms that responded "inadequate" or "not sure." Up to three reasons were allowed.

Table 20: Interview Responses regarding the Reasons for Not Assessing the Bank's External Communication as Being Adequate

No.	Industry (Firm size)	Anecdotal observations from firms
116	Electric & gas utilities (Large)	With the exception of our treasurer, we do not much understand what is being communicated by the Bank as its terms and explanations are too technical. While we recipients need to enhance our own literacy, we expect the Bank, as the disseminator, to communicate more concisely, using plain language; this should help attract our interest.
117	Retailing (Medium)	An awareness that the Bank's website provides easy-to-understand explanations should be developed. At present, our only chance of getting to know about the Bank is through media reports, and we are not motivated to visit its website.
118	Food & beverages (Medium)	We acknowledge that the Bank has been engaged in dialogues through various channels at both the regional and the city level across Japan. However, we have the impression that the Bank's source of anecdotal information tends to be biased toward very large firms.
119	Retailing (Micro)	We think that the Bank's interview mainly covers relatively large firms and the Bank has few opportunities to interview micro firms like us. We expect the Bank to listen more earnestly to the opinions of micro firms to analyze Japan's economy from a broad perspective.

IX. Conclusion

The Bank of Japan has gained useful insights into firms' views on economic and price developments and monetary policy over the past 25 years through the findings of the *Survey regarding Corporate Behavior since the Mid-1990s,* which covers firms of varying industries and sizes. The results of the survey and follow-up interviews are summarized as follows.

Factors that led to persistent sluggishness in Japan's business fixed investment, prices, and wages may be summarized into the following four points. First, having experienced prolonged economic adjustments in the wake of the bubble burst and ensuing financial crisis, followed by repeated substantial shocks (the Global Financial Crisis, etc.), firms reined in their active risk-taking, such as through fixed investment, and instead prioritized improving their financial soundness and accumulating cash and deposits for future contingencies. Second, in the wake of the bubble burst and ensuing financial crisis, many firms that faced severe price competition found it difficult to pass on higher costs to their prices as both consumers' preference for lower prices and their clients' cost-cutting stance intensified rapidly. Third, because firms had long been able to secure workforce even without having to raise wages, many of them came to curb wages in order to maintain low prices, creating a vicious cycle that led to entrenchment of consumers' preference for lower prices. Fourth, the declining and aging population, which has intensified over the past 25 years, also contributed to curbing business fixed investment and wage hikes through declining growth expectations and a heavier social security burden.

At present, many firms remain concerned about the adverse impact of the declining and aging population and about potential rises in fixed costs in the case of a rise in base pay. That said, many responded that they are no longer able to secure enough workforce if they curb wages. Moreover, given the success in the pass-through of the rise in import prices to selling prices, a growing number of firms are passing on higher personnel expenses as well.

Responses to questions regarding prices and business environment revealed that many firms, regardless of industry and firm size, consider that, in terms of their business activities, a state in which both prices and wages rise moderately is preferable to one in which they hardly change.

It was confirmed that the Bank's monetary easing over the past 25 years has supported the business activities and forward-looking investments of a wide range of firms by means of a decline in borrowing rates from financial institutions and improvement in availability of funding. In contrast, as perceived side effects of monetary easing, firms pointed to difficulties in securing workforce and intensified price competition, both brought about by sluggish corporate metabolism.

These findings could be taken to suggest that a major shift in Japan's corporate behavior is currently in progress, away from the long-entrenched behavior observed since the bubble burst and ensuing financial crisis. The key to predicting future economic and price developments is whether this shift will spread across a wider range of firms and whether the renewed corporate behavior will take hold and be sustainable. The Bank will continue to thoroughly analyze changes in corporate behavior and the impact these changes have on Japan's economic developments and the formation mechanisms of wages and prices into the future, taking into account various economic data and interview responses by firms across Japan, including those in regional areas. The Bank will continue with the review of monetary policy from a broad perspective while incorporating various observations from the survey and follow-up interviews and giving due consideration to objectivity and transparency.

X. Survey Questions[7]

Firms' Business Policies

Q1

An array of events and factors both at home and abroad since the 1990s have affected the business environment, sentiment, and activities of numerous firms. Among the domestic and international events and factors listed below, choose all the applicable options that have led your firm's domestic business policy to become either more active or less active.

(a) Bubble burst and ensuing financial crisis

(b) Natural disasters

(c) Sluggish prices

(d) Declining and aging population

(e) Rise in inbound tourists

(f) Asian currency crisis

(g) Collapse of dot-com bubble

(h) Global Financial Crisis

(i) COVID-19 pandemic

(j) Rise of emerging economies (China, etc.)

(k) Yen's depreciation

(l) Yen's appreciation

(m) Monetary policy

(n) Government fiscal policy

(o) Deregulation, government growth strategy, etc.

(p) Other (please specify):

[7] Firms were asked to respond to some questions by dividing the past 25 years since the mid-1990s into three phases, namely, (1) the "first" phase, defined as the period from the mid-1990s to the 2000s, (2) the "second" phase, defined as the 2010s, and (3) the "current" phase, defined as the period over the past one year.

Q2

Since the mid-1990s, the pace of increase in domestic business fixed investment has remained moderate relative to that of improvement in firms' cash flow. To what do you attribute this trend among Japanese firms as a whole? Based on your firm's experience, choose up to three of the most applicable reasons for this trend for each relevant phase.

(a) Declining growth expectations (lack of investment opportunities at home)

(b) Perception of excess production capacity

(c) Pressure to reduce debt and improve finances

(d) Preference of not relying on borrowings from banks

(e) Priority on accumulating cash and deposits for contingencies

(f) Potential failure of large-scale investment

(g) Priority on overseas investment and M&A

(h) Not sure

(i) Other (please specify):

Q3

Have you undertaken somewhat more active domestic business fixed investment in the current phase? If so, choose up to three of the most applicable reasons for this. If your firm has not made such investment more actively than in the past, choose option (i).

(a) Implementation of investment postponed due to COVID-19

(b) Investment related to decarbonization and digital transformation

(c) Response to post-pandemic changes in demand structure

(d) Investment to address labor shortages

(e) Abundance of cash and deposits

(f) Strengthening of domestic production

(g) Higher growth expectations

(h) Other (please specify):

(i) Not applicable

Firms' Price Setting

Q4-(1)

It is pointed out that Japanese firms have had difficulties in passing on higher costs to prices since the mid-1990s. Does this situation apply to your firm? Choose the applicable option for each of the three phases. If your firm has experienced almost no cost increases, choose option (c).

(a) Applicable

(b) Applicable to some extent

(c) Not applicable

Q4-(2): this question is for those that chose (a) or (b) in Q4-(1) for any one of the three phases.

For each relevant phase, choose up to three of the most applicable reasons why your firm has had difficulties in raising prices.

(a) Price competition

(b) Consumers' high thriftiness

(c) Potential damage to corporate image

(d) Costs associated with arrangements within the firm and with business partners

(e) Sluggish inflation

(f) Industry regulations and systems governing price setting

(g) Other (please specify):

Q4-(3): this question is for those that chose (a) or (b) in Q4-(1) for any one of the three phases.

When faced with limits to absorbing costs through efforts such as boosting productivity or cutting expenses, how has your firm addressed cost increases? For each relevant phase, choose up to three of the most applicable measures your firm has adopted.

(a) Reducing capacity or ancillary services

(b) Changing product or service lineup

(c) Changing suppliers or requesting lower supplier prices

(d) Curbing personnel expenses

(e) Discontinuing products or services and scaling down business

(f) Lowering profit margins

(g) Other (please specify):

Q5

Do you sense that the difficulties in passing on higher costs to prices have eased in the current phase? If so, choose up to three of the most applicable reasons. If you find that the difficulties have not eased, choose option (h).

(a) Wider recognition that price rises are inevitable

(b) Solid demand despite price rises

(c) Product shortages due to supply constraints

(d) Increased cases of price hikes at competitors

(e) Significant rise in inflation

(f) Expectations of higher inflation

(g) Other (please specify):

(h) No easing of difficulties

Firms' Wage Setting

Q6-(1)

Basic wages of full-time regular workers have remained sluggish since the mid-1990s, particularly regarding base pay excluding regular seniority-based wages. Does this situation apply to your firm? Choose the applicable option for each of the three phases.

(a) Applicable

(b) Applicable to some extent

(c) Not applicable

Q6-(2): this question is for those that chose (a) or (b) in Q6-(1) for any one of the three phases.

For each relevant phase, choose up to five of the most applicable reasons why wage growth for regular workers at your firm has been sluggish.

(a) Low inflation

(b) Low expectations of future inflation

(c) Inability to pass on wage hikes to prices

(d) Curbing of wage hikes by other firms

(e) Ability to secure enough workforce with part-time and non-regular workers

(f) Ability to secure regular workers without wage hikes

(g) Correction of overpaid wages

(h) Workers' stance of prioritizing employment stability over wage hikes

(i) Potential rises in fixed costs

(j) Heavier social insurance premium burden

(k) Prolonged decline in business performance

(l) Other (please specify):

Q7

Have you somewhat shifted your stance toward raising wages in the current phase? If so, choose up to three reasons that are most applicable to this shift. If you have not taken a more active stance toward wage increases than in the past, choose option (i).

(a) Significant rise in inflation

(b) Expectations of higher inflation

(c) Increased cases of wage hikes at other firms

(d) Potential hindrance to securing workforce

(e) Improved business performance

(f) Growing trend of wage hikes across the economy

(g) Requests from the government, business organizations, etc.

(h) Other (please specify):

(i) Not applicable

Prices and Business Environment

Q8-(1)

Which do you consider to be preferable for your firm's business activities: a state in which both prices and wages rise moderately or one in which they hardly change? Choose the option that is closest to your view.

(a) Prices and wages rising moderately

(b) Prices and wages hardly changing

(c) Neither affects business activities

(d) Not sure

Q8-(2): this question is for those that chose (a) in Q8-(1).

Choose all the reasons that are applicable to your view that "a state in which both prices and wages rise moderately" is preferable.

(a) Ease in passing on costs to prices and securing profits

(b) Ease in adjusting selling prices and wages

(c) No need for cost cuts to avoid raising prices, enabling active fixed investment and wage hikes

(d) Positive effects of higher wages on household sentiment and consumption

(e) Decline in repayment burden of existing debt

(f) More room for interest rates to decline in times of economic downturn

(g) Smaller price gap between home and abroad, enabling stable exchange rates

(h) Other (please specify):

Q8-(3): this question is for those that chose (b) in Q8-(1).

Choose all the reasons that are applicable to your view that "a state in which both prices and wages hardly change" is preferable.

(a) Unlikeliness of input costs rising

(b) Ease in making business plans

(c) Help for households making spending plans

(d) Lower costs accompanying price changes

(e) No decline in the value of cash and deposits held

(f) Continued low interest rates

(g) Other (please specify):

Perception of Monetary Easing over the Past 25 Years

Q9

Monetary easing is considered to have the effect of pushing up economic activity and prices by improving the funding environment through lower interest rates and by making positive changes in the sentiment and expectations of various economic entities. Choose up to three items, when looking back at the past 25 years, that most apply to your firm's perception of the positive effects of monetary easing.

(a) Decline in borrowing rates from financial institutions

(b) Decline in corporate bond and CP issuance rates

(c) Extension of the term of external funding

(d) Economic improvement

(e) Financial institutions' more active lending stance

(f) Market investors' more active investment stance

(g) Rise in stock prices

(h) Rise in land and other real estate prices

(i) Developments in foreign exchange rates

(j) No perceived positive effects

(k) Other (please specify):

Q10

It is pointed out that monetary easing has side effects, in addition to positive effects. Choose up to three items, when looking back at the past 25 years, that most apply to your firm's perception of the side effects of monetary easing.

(a) Fund management difficulty due to low interest rates

(b) Less motivation to enhance corporate growth due to lower funding costs

(c) Immobile labor and capital due to sluggish corporate metabolism

(d) Financial institutions' lower profitability due to lower interest rates

(e) Financial institutions' more cautious lending stance

(f) Market investors' more cautious investment stance

(g) Overheating in stock market

(h) Overheating in land and other real estate markets

(i) Developments in foreign exchange rates

(j) No perceived side effects

(k) Other (please specify):

Q11

Please share any other observations you have regarding the positive and side effects of monetary easing.

Awareness of Price Stability

Q12

Choose up to three of the most applicable options that your firm expects from monetary policy.

(a) Stable prices

(b) Stable funding environment

(c) Stable funding rates

(d) Stable financial markets

(e) Stable foreign exchange markets

(f) Stable economic conditions

(g) No expectations

(h) Other (please specify):

Q13

Choose the option that best applies to your firm's awareness of the Bank of Japan's price stability target of 2 percent in terms of the year-on-year rate of change in the CPI.

(a) Aware of it

(b) Aware of it to some extent

(c) Not aware of it

Assessment of the Bank of Japan's Communication

Q14-(1)

Choose the option that best applies to your firm's assessment of the Bank of Japan's external communication.

(a) Adequate

(b) Inadequate

(c) Not sure

Q14-(2): this question is for those that chose (b) or (c) in Q14-(1).

Choose up to three of the most applicable reasons for such assessment of the Bank of Japan's external communication.

(a) Unfamiliar with the Bank or its initiatives

(b) Unaware of how to obtain information about the Bank

(c) Explanations are too technical

(d) Infrequent communication

(e) Biased source of anecdotal information

(f) Opinions not being reflected in the Bank's monetary policy and business operations

(g) Other (please specify):

XI. Aggregate Survey Results

The aggregate results below are also available in Excel format on the Bank's website.[8]

share of firms, %

		Sector:	Manu-facturing	Nonmanu-facturing	All sectors	Manufacturing		Nonmanufacturing		All sectors		All sectors			
		Firm size:	All sizes			Large and medium-sized firms	Small and micro firms	Large and medium-sized firms	Small and micro firms	Large and medium-sized firms	Small and micro firms	Large firms	Medium-sized firms	Small firms	Micro firms
		Number of firms:	638	1,618	2,256	321	317	601	1,017	922	1,334	529	393	782	552
<Firms' Business Policies>															
Q1	More active	Bubble burst and ensuing financial crisis	10	13	12	6	15	11	14	9	14	10	9	13	16
		Natural disasters	22	28	26	21	22	32	25	29	24	30	26	27	20
		Sluggish prices	11	15	14	8	15	14	15	12	15	10	14	15	16
		Declining and aging population	23	23	23	21	25	23	23	23	23	24	20	25	22
		Rise in inbound tourists	27	40	36	26	28	44	38	37	36	35	41	36	35
		Asian currency crisis	4	2	3	3	5	1	3	2	3	3	1	4	3
		Collapse of dot-com bubble	4	4	4	4	4	3	4	3	4	3	3	4	4
		Global Financial Crisis	10	10	10	7	13	9	10	8	11	7	9	11	11
		COVID-19 pandemic	24	30	28	25	23	31	29	29	27	32	25	27	27
		Rise of emerging economies	33	16	21	40	26	19	14	26	17	32	19	20	14
		Yen's depreciation	31	18	22	32	29	17	19	23	21	25	19	23	19
		Yen's appreciation	22	20	20	18	26	21	19	20	21	19	21	25	15
		Monetary policy	37	36	37	29	44	34	38	33	39	29	38	42	35
		Government fiscal policy	22	21	21	19	25	20	22	20	23	19	20	25	19
		Deregulation, government growth strategy, etc.	35	36	36	34	37	40	34	38	34	42	32	38	29
		Other	3	3	3	4	2	2	3	3	3	3	3	2	4
	Less active	Bubble burst and ensuing financial crisis	55	53	54	52	58	55	52	54	53	51	58	54	52
		Natural disasters	28	33	32	28	28	30	35	29	33	29	30	33	34
		Sluggish prices	32	33	33	28	35	28	36	28	36	25	32	37	35
		Declining and aging population	37	48	45	39	36	47	49	44	46	40	49	47	44
		Rise in inbound tourists	4	5	5	2	6	2	6	2	6	2	3	5	7
		Asian currency crisis	21	16	18	24	19	16	16	19	17	21	16	16	17
		Collapse of dot-com bubble	26	18	20	25	27	18	18	20	20	22	18	20	20
		Global Financial Crisis	58	47	50	58	58	52	44	54	48	54	55	51	43
		COVID-19 pandemic	54	61	59	52	56	61	61	58	60	54	62	59	61
		Rise of emerging economies	23	11	15	23	23	9	12	14	15	16	12	15	14
		Yen's depreciation	28	30	29	23	32	31	29	28	30	23	34	32	26
		Yen's appreciation	27	12	16	31	24	10	13	18	16	20	14	16	15
		Monetary policy	11	10	10	7	14	7	12	7	12	6	8	12	13
		Government fiscal policy	8	11	10	5	10	9	13	7	12	6	10	10	14
		Deregulation, government growth strategy, etc.	7	11	10	5	9	9	12	8	11	5	11	10	13
		Other	3	2	3	3	2	1	3	2	3	2	2	2	4
Q2	First phase	Declining growth expectations	43	33	36	47	38	35	32	39	34	40	38	37	28
		Perception of excess production capacity	25	21	22	29	21	23	19	25	20	26	25	23	15
		Pressure to reduce debt and improve finances	35	37	36	41	29	45	32	44	31	46	41	35	26
		Preference of not relying on borrowings from banks	13	16	15	14	13	16	16	16	15	17	14	14	16
		Priority on accumulating cash and deposits for contingencies	22	26	25	23	22	29	25	27	24	27	25	23	25
		Potential failure of large-scale investment	21	24	23	19	24	26	23	24	23	22	26	25	20
		Priority on overseas investment and M&A	18	6	9	23	13	7	5	13	7	16	8	7	6
		Not sure	8	12	11	6	9	12	12	10	12	9	11	10	14
		Other	1	1	1	1	1	1	0	1	1	1	1	1	0
	Second phase	Declining growth expectations	55	43	47	56	54	46	41	50	44	56	42	49	37
		Perception of excess production capacity	18	12	14	19	18	12	13	14	14	17	10	14	14
		Pressure to reduce debt and improve finances	28	32	31	30	27	37	29	34	29	34	35	32	24
		Preference of not relying on borrowings from banks	17	20	19	15	19	20	20	18	20	17	20	21	18
		Priority on accumulating cash and deposits for contingencies	34	38	37	34	34	40	38	38	37	36	40	38	35
		Potential failure of large-scale investment	25	28	27	21	30	27	28	25	29	25	26	29	28
		Priority on overseas investment and M&A	26	11	15	39	12	17	8	25	9	32	15	11	6
		Not sure	4	9	7	3	6	8	9	7	8	5	8	6	10
		Other	2	1	1	2	2	1	1	1	1	2	1	1	1
	Current phase	Declining growth expectations	49	39	42	51	47	43	37	46	39	50	40	43	34
		Perception of excess production capacity	15	9	11	17	13	10	9	12	10	14	11	11	8
		Pressure to reduce debt and improve finances	19	25	23	19	19	24	25	23	24	21	25	25	22
		Preference of not relying on borrowings from banks	16	19	18	11	21	15	21	13	21	13	15	20	22
		Priority on accumulating cash and deposits for contingencies	26	35	33	24	29	34	36	31	34	25	39	33	36
		Potential failure of large-scale investment	24	25	25	20	28	27	24	25	25	23	27	27	23
		Priority on overseas investment and M&A	24	13	16	33	14	21	8	25	10	33	15	11	8
		Not sure	5	9	8	5	4	7	10	6	8	6	7	6	12
		Other	3	2	2	3	2	3	2	3	2	3	4	2	1
Q3		Implementation of investment postponed due to COVID-19	11	20	18	10	13	20	20	16	18	15	19	19	18
		Investment related to decarbonization and digital transformation	35	34	34	46	25	43	29	44	28	51	35	32	21
		Response to post-pandemic changes in demand structure	20	31	28	15	24	27	33	23	31	21	26	30	33
		Investment to address labor shortages	40	46	45	33	46	45	47	41	47	39	44	49	44
		Abundance of cash and deposits	7	9	8	9	5	10	8	10	7	10	9	8	7
		Strengthening of domestic production	27	7	13	30	24	9	6	16	10	18	14	12	9
		Higher growth expectations	24	17	19	30	19	20	15	24	16	26	20	17	14
		Other	6	4	5	7	5	4	4	5	4	5	6	4	5
		Not applicable	26	23	24	24	28	21	25	22	26	20	24	25	27

[8] Figures for Q4-(2) and 4-(3) are the shares of firms that responded "applicable" or "applicable to some extent" in Q4-(1). Figures for Q6-(2) are the shares of firms that responded "applicable" or "applicable to some extent" in Q6-(1). Figures for Q8-(2) and 8-(3) are the shares of firms that selected "prices and wages rising moderately" and "prices and wages hardly changing" in Q8-(1), respectively. Figures for Q14-(2) are the shares of firms that responded "inadequate" or "not sure" in Q14-(1). Figures other than the above are the ratio to the number of firms that provided valid responses to respective questions.

share of firms, %

			Sector:	Manu-facturing	Nonmanu-facturing	All sectors	Manufacturing		Nonmanufacturing		All sectors		All sectors			
			Firm size:	All sizes			Large and medium-sized firms	Small and micro firms	Large and medium-sized firms	Small and micro firms	Large and medium-sized firms	Small and micro firms	Large firms	Medium-sized firms	Small firms	Micro firms
<Firms' Price Setting>																
Q4	(1)	First phase	Applicable	51	45	47	47	56	40	48	42	50	39	47	51	49
			Applicable to some extent	36	32	33	38	33	37	29	37	30	40	33	31	28
			Not applicable	13	23	20	15	11	23	23	20	20	21	20	17	24
		Second phase	Applicable	43	39	40	40	46	34	43	36	43	32	41	43	44
			Applicable to some extent	44	43	43	44	43	46	40	46	41	49	42	44	37
			Not applicable	13	18	17	15	11	20	17	18	15	19	17	13	19
		Current phase	Applicable	19	24	23	14	23	20	27	18	26	14	24	24	30
			Applicable to some extent	48	43	44	49	47	49	39	49	41	50	46	44	36
			Not applicable	34	33	33	37	30	31	34	33	33	36	30	32	34
	(2)	First phase	Price competition	88	73	78	92	83	77	71	83	74	83	82	78	68
			Consumers' high thriftiness	20	35	30	18	22	35	35	29	31	31	26	30	34
			Potential damage to corporate image	26	30	29	21	30	29	31	26	31	25	27	31	31
			Costs associated with arrangements within the firm and with business partners	36	19	24	37	34	23	17	28	22	30	26	26	15
			Sluggish inflation	27	31	30	29	25	33	30	32	29	34	29	27	31
			Industry regulations and systems governing price setting	11	14	13	12	10	14	14	13	13	10	18	13	14
			Other	5	2	3	6	4	2	3	4	3	4	3	3	3
		Second phase	Price competition	81	71	74	89	74	75	68	80	70	84	75	74	63
			Consumers' high thriftiness	23	39	35	21	25	39	40	32	36	32	33	35	38
			Potential damage to corporate image	29	33	32	22	35	32	34	29	34	27	30	33	35
			Costs associated with arrangements within the firm and with business partners	37	20	25	38	36	24	18	29	23	29	29	28	15
			Sluggish inflation	33	34	33	34	31	36	32	35	32	35	36	31	34
			Industry regulations and systems governing price setting	11	14	13	12	11	15	14	14	13	11	17	14	12
			Other	4	3	3	5	3	3	3	4	3	4	3	3	3
		Current phase	Price competition	73	64	67	82	66	69	61	73	62	77	68	69	52
			Consumers' high thriftiness	25	37	34	19	30	35	39	29	37	28	31	34	42
			Potential damage to corporate image	20	30	27	15	26	26	33	22	31	19	26	29	34
			Costs associated with arrangements within the firm and with business partners	40	25	29	39	40	29	23	32	28	33	31	31	23
			Sluggish inflation	11	14	13	8	13	12	16	10	15	10	10	13	18
			Industry regulations and systems governing price setting	11	15	14	13	9	17	14	16	13	14	18	13	13
			Other	6	4	5	7	5	5	4	5	4	6	5	4	4
	(3)	First phase	Reducing capacity or ancillary services	8	10	9	8	9	8	11	8	10	8	8	10	11
			Changing product or service lineup	27	27	27	28	26	24	28	26	28	26	25	29	25
			Changing suppliers or requesting lower supplier prices	52	41	44	61	44	51	35	55	37	58	51	43	28
			Curbing personnel expenses	43	45	44	46	39	47	43	47	42	46	48	43	41
			Discontinuing products or services and scaling down business	9	10	9	10	7	10	9	10	9	10	11	9	8
			Lowering profit margins	55	50	52	52	58	49	50	50	52	51	49	54	50
			Other	6	3	4	8	4	3	3	5	3	7	3	3	3
		Second phase	Reducing capacity or ancillary services	9	11	11	9	8	11	12	10	11	10	11	12	9
			Changing product or service lineup	33	33	33	33	32	31	34	32	33	31	33	34	32
			Changing suppliers or requesting lower supplier prices	53	42	45	63	43	54	35	57	37	60	54	42	30
			Curbing personnel expenses	39	43	42	40	38	47	40	45	40	42	48	41	38
			Discontinuing products or services and scaling down business	13	13	13	13	12	13	14	13	13	13	13	14	13
			Lowering profit margins	57	50	52	58	56	48	52	52	53	52	50	55	50
			Other	6	4	5	7	5	5	3	6	4	7	4	4	3
		Current phase	Reducing capacity or ancillary services	8	14	13	9	8	12	15	11	14	12	11	13	15
			Changing product or service lineup	42	39	40	44	40	36	41	39	41	41	35	44	36
			Changing suppliers or requesting lower supplier prices	40	35	36	47	35	41	31	43	32	46	39	36	25
			Curbing personnel expenses	15	25	22	12	18	29	23	23	22	19	28	19	25
			Discontinuing products or services and scaling down business	16	16	16	18	14	14	17	15	16	13	18	16	17
			Lowering profit margins	52	52	52	48	55	50	53	49	53	47	52	52	56
			Other	8	4	5	9	7	5	3	6	4	8	4	6	2
Q5			Wider recognition that price rises are inevitable	73	68	69	71	76	64	70	67	71	65	68	74	68
			Solid demand despite price rises	19	19	19	20	18	19	19	19	19	21	17	20	18
			Product shortages due to supply constraints	11	9	10	10	11	8	10	9	10	9	9	12	8
			Increased cases of price hikes at competitors	45	39	41	46	44	43	38	44	39	43	44	42	34
			Significant rise in inflation	57	50	52	57	56	51	49	53	51	54	51	54	47
			Expectations of higher inflation	4	6	5	5	3	4	7	4	6	4	4	6	6
			Other	4	3	3	4	4	3	3	3	3	4	3	3	3
			No easing of difficulties	14	18	17	13	14	21	16	18	15	18	20	14	18
<Firms' Wage Setting>																
Q6	(1)	First phase	Applicable	42	42	42	40	44	40	44	40	44	37	44	47	39
			Applicable to some extent	41	36	37	45	37	38	34	40	35	42	38	36	34
			Not applicable	17	22	21	15	19	22	22	20	21	21	18	17	27
		Second phase	Applicable	33	35	34	31	34	32	36	32	35	28	38	38	32
			Applicable to some extent	50	46	47	52	48	47	46	49	47	51	45	47	45
			Not applicable	17	19	18	17	17	20	18	19	18	21	17	15	22
		Current phase	Applicable	11	17	15	7	15	15	18	13	17	7	19	15	20
			Applicable to some extent	29	32	31	26	32	28	35	27	34	25	30	33	36
			Not applicable	60	51	53	66	53	57	47	60	49	67	50	52	44
	(2)	First phase	Low inflation	39	30	32	41	37	30	29	34	31	39	28	35	25
			Low expectations of future inflation	20	16	17	18	22	15	17	16	18	18	14	18	18
			Inability to pass on wage hikes to prices	59	50	53	55	64	50	51	52	54	48	57	55	52
			Curbing of wage hikes by other firms	32	26	28	37	27	31	23	33	24	34	32	26	20
			Ability to secure enough workforce with part-time and non-regular workers	18	21	20	16	21	21	21	19	21	18	21	23	18
			Ability to secure regular workers without wage hikes	39	40	40	42	37	41	39	41	39	41	42	41	35
			Correction of overpaid wages	2	4	3	2	2	5	3	4	3	3	5	4	2
			Workers' stance of prioritizing employment stability over wage hikes	28	21	23	37	19	23	20	28	20	30	25	21	17
			Potential rises in fixed costs	41	33	35	48	34	40	28	43	30	50	33	32	26
			Heavier social insurance premium burden	9	13	12	6	12	8	17	7	15	6	8	14	17
			Prolonged decline in business performance	23	25	25	22	24	28	24	26	24	24	29	22	26
			Other	3	2	3	4	2	3	2	3	2	3	3	2	2
		Second phase	Low inflation	39	28	31	44	35	31	27	36	29	38	33	31	25
			Low expectations of future inflation	21	17	18	19	22	16	17	17	18	19	14	19	17
			Inability to pass on wage hikes to prices	60	53	55	55	65	52	54	53	57	50	58	58	54
			Curbing of wage hikes by other firms	31	25	27	34	27	31	22	32	23	33	31	26	18
			Ability to secure enough workforce with part-time and non-regular workers	19	19	19	18	21	20	19	19	20	17	22	19	20
			Ability to secure regular workers without wage hikes	33	32	32	39	27	36	29	37	29	39	35	31	25
			Correction of overpaid wages	2	4	4	2	3	5	4	4	4	3	4	3	4
			Workers' stance of prioritizing employment stability over wage hikes	26	19	21	33	18	19	19	24	19	26	21	20	17
			Potential rises in fixed costs	43	36	38	49	36	42	32	45	33	51	36	35	30
			Heavier social insurance premium burden	13	19	17	6	21	12	23	10	23	8	11	22	25
			Prolonged decline in business performance	23	26	25	19	27	25	27	23	27	20	27	26	28
			Other	4	3	3	5	3	3	2	4	3	5	2	2	3
		Current phase	Low inflation	13	9	10	12	13	9	9	10	10	9	10	10	9
			Low expectations of future inflation	8	8	8	8	8	8	8	8	8	9	7	7	10
			Inability to pass on wage hikes to prices	57	52	53	58	57	52	52	54	53	51	56	54	51
			Curbing of wage hikes by other firms	12	10	10	10	13	10	9	10	10	13	8	10	10
			Ability to secure enough workforce with part-time and non-regular workers	8	8	8	7	10	9	8	8	8	9	7	7	10
			Ability to secure regular workers without wage hikes	9	9	9	7	10	12	8	10	8	12	9	7	10
			Correction of overpaid wages	2	4	3	3	1	5	4	4	3	4	5	3	4
			Workers' stance of prioritizing employment stability over wage hikes	13	13	13	20	7	10	14	13	12	16	10	12	13
			Potential rises in fixed costs	49	39	41	53	46	45	36	47	38	50	45	41	35
			Heavier social insurance premium burden	23	30	28	13	30	17	36	16	35	15	16	34	36
			Prolonged decline in business performance	29	30	30	23	34	33	29	30	30	20	38	32	28
			Other	4	3	3	6	3	2	3	3	3	4	3	3	2
Q7			Significant rise in inflation	56	46	49	58	55	50	43	52	46	53	51	50	40
			Expectations of higher inflation	5	4	4	5	4	3	5	4	5	4	3	4	6
			Increased cases of wage hikes at other firms	29	29	29	34	23	32	28	33	26	33	32	30	21
			Potential hindrance to securing workforce	71	68	69	74	69	70	67	71	67	71	73	73	59
			Improved business performance	26	24	24	25	26	23	24	24	25	23	24	25	24
			Growing trend of wage hikes across the economy	44	41	42	45	44	43	40	44	41	45	42	43	37
			Requests from the government, business organizations, etc.	9	10	9	14	3	14	7	14	6	18	9	7	6
			Other	3	2	3	4	3	2	2	3	2	3	2	2	3
			Not applicable	9	11	11	6	12	10	12	8	12	7	10	10	15

share of firms, %

		Sector:	Manu-facturing	Nonmanu-facturing	All sectors	Manufacturing		Nonmanufacturing		All sectors		All sectors			
		Firm size:	All sizes			Large and medium-sized firms	Small and micro firms	Large and medium-sized firms	Small and micro firms	Large and medium-sized firms	Small and micro firms	Large firms	Medium-sized firms	Small firms	Micro firms
<Prices and Business Environment>															
Q8	(1)	Prices and wages rising moderately	75	71	72	74	76	71	71	72	72	75	68	76	66
		Prices and wages hardly changing	12	13	13	10	13	13	13	12	13	9	16	12	15
		Neither affects business activities	7	9	8	8	5	9	9	8	8	9	8	6	11
		Not sure	7	7	7	8	5	7	7	8	6	8	7	5	8
	(2)	Ease in passing on costs to prices and securing profits	65	62	63	63	66	62	61	62	63	62	63	61	65
		Ease in adjusting selling prices and wages	37	41	40	32	42	37	44	35	44	33	39	42	46
		No need for cost cuts to avoid raising prices, enabling active fixed investment and wage hikes	43	39	40	42	44	41	38	41	39	43	38	40	38
		Positive effects of higher wages on household sentiment and consumption	71	76	74	77	65	79	74	78	72	78	78	74	69
		Decline in repayment burden of existing debt	7	10	9	6	9	7	12	6	11	5	8	10	14
		More room for interest rates to decline in times of economic downturn	6	4	4	5	7	4	4	4	4	5	4	4	6
		Smaller price gap between home and abroad, enabling stable exchange rates	34	18	23	38	29	19	18	25	21	26	25	21	20
		Other	3	3	3	4	2	3	2	3	2	4	2	2	2
	(3)	Unlikeliness of input costs rising	73	66	68	85	64	71	63	75	63	79	73	70	56
		Ease in making business plans	57	54	55	52	62	49	57	50	58	48	52	62	54
		Help for households making spending plans	12	19	17	3	19	13	22	10	21	13	8	19	24
		Lower costs accompanying price changes	40	35	36	39	40	43	30	42	33	46	39	34	31
		No decline in the value of cash and deposits held	13	15	14	12	14	10	17	11	16	10	11	16	17
		Continued low interest rates	28	30	29	18	36	34	27	29	29	23	34	37	20
		Other	16	8	10	21	12	8	9	12	10	15	10	12	7
<Perception of Monetary Easing over the Past 25 Years>															
Q9		Decline in borrowing rates from financial institutions	77	72	73	73	81	72	71	72	74	72	73	80	65
		Decline in corporate bond and CP issuance rates	12	5	7	21	3	11	2	15	2	24	3	3	2
		Extension of the term of external funding	15	13	13	13	18	15	12	14	13	13	16	14	12
		Economic improvement	19	23	22	20	18	22	24	21	23	19	24	23	22
		Financial institutions' more active lending stance	44	43	43	35	52	35	48	35	49	29	43	55	41
		Market investors' more active investment stance	7	5	6	8	5	7	4	8	4	10	4	5	4
		Rise in stock prices	13	13	13	16	11	16	12	16	12	18	13	12	12
		Rise in land and other real estate prices	3	10	8	2	4	11	9	8	8	7	10	7	9
		Developments in foreign exchange rates	23	9	13	32	14	11	7	18	9	23	12	10	8
		No perceived positive effects	7	12	11	7	8	9	14	9	12	7	11	9	16
		Other	1	1	1	2	1	2	1	2	1	1	3	1	1
Q10		Fund management difficulty due to low interest rates	15	12	13	19	11	13	11	15	11	18	11	12	11
		Less motivation to enhance corporate growth due to lower funding costs	5	6	6	5	6	5	6	5	6	5	5	6	6
		Immobile labor and capital due to sluggish corporate metabolism	24	20	21	24	24	20	19	22	20	21	23	23	18
		Financial institutions' lower profitability due to lower interest rates	24	23	23	19	28	21	24	20	25	17	25	27	22
		Financial institutions' more cautious lending stance	7	13	12	2	11	9	16	7	15	6	8	13	18
		Market investors' more cautious investment stance	3	4	4	4	3	5	3	5	3	5	4	3	3
		Overheating in stock market	10	8	8	9	10	6	9	7	9	8	6	9	9
		Overheating in land and other real estate markets	10	18	16	9	10	20	17	16	16	16	17	15	16
		Developments in foreign exchange rates	44	24	29	48	39	29	21	36	25	40	29	28	20
		No perceived side effects	18	28	25	18	17	24	30	22	27	21	23	25	29
		Other	3	2	2	4	3	3	1	3	2	3	3	2	1
Q11		Open-ended comments	—	—	—	—	—	—	—	—	—	—	—	—	—
<Awareness of Price Stability>															
Q12		Stable prices	54	60	58	56	52	63	58	61	56	61	60	55	59
		Stable funding environment	30	33	32	26	34	27	37	27	36	28	26	38	34
		Stable funding rates	35	34	34	31	39	31	35	31	36	28	36	39	32
		Stable financial markets	19	18	19	24	14	24	15	24	15	26	21	15	15
		Stable foreign exchange markets	64	33	41	76	51	41	28	53	33	60	43	38	27
		Stable economic conditions	54	63	60	53	55	63	63	60	61	59	61	58	64
		No expectations	1	2	2	1	1	1	2	1	2	1	1	1	3
		Other	1	1	1	1	0	1	1	1	1	1	1	1	1
Q13		Aware of it	87	76	79	92	82	84	70	87	73	90	83	79	64
		Aware of it to some extent	12	21	19	7	16	14	26	11	23	8	16	20	29
		Not aware of it	1	3	3	1	2	2	4	1	4	1	2	1	7
<Assessment of the Bank of Japan's Communication>															
Q14	(1)	Adequate	53	46	48	62	45	56	41	58	42	64	49	49	31
		Inadequate	12	14	14	8	16	11	16	10	16	6	15	13	21
		Not sure	34	40	38	30	39	34	43	32	42	29	36	38	48
	(2)	Unfamiliar with the Bank or its initiatives	30	33	32	28	32	29	35	28	34	27	30	28	41
		Unaware of how to obtain information about the Bank	29	33	32	24	32	25	37	25	36	27	24	35	36
		Explanations are too technical	33	38	37	27	37	35	39	32	39	30	34	39	39
		Infrequent communication	28	26	26	24	31	28	25	27	26	22	31	24	28
		Biased source of anecdotal information	16	17	17	15	17	13	19	14	18	11	17	16	21
		Opinions not being reflected in the Bank's monetary policy and business operations	9	11	10	13	7	9	11	10	10	10	11	10	11
		Other	9	9	9	14	6	11	8	12	8	17	8	10	5