

Plenty of issues to tackle, strong earnings or not

Quarterly MOF data to be released; wages, reliance on weak yen need addressing

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Whether Japanese companies kept up strong business performance in the April-June period will be seen in the Financial Statements Statistics of Corporations by Industry for the quarter, to be released Sept. 3 by the Ministry of Finance. Their operating profit margin — the indicator of the profitability of their core businesses — was 4.1% in the January-March period, according to the previous quarterly statistics.

Japanese firms' operating profit margin stood at an average of 4.8% in

the 1960s. It has since been on a long-term decline, though it has improved in the past several years. This is mainly due to the fact that there are more companies with low profitability, including wholesalers and retailers, in Japan than overseas. There are still many companies that rely on business models based on the quantitative expansion that enabled Japanese firms to prosper in the postwar period. Seen objectively, Japanese companies have little reason to celebrate "the highest corporate earnings in history."

They should also be aware that as long as they count on a weak yen for growth in earnings, they run the risk of being heavily affected by changes in the financial markets.

As is often pointed out, strong corporate earnings have not fully been

reflected in individual incomes in the current recovery phase of the economy. If corporate employees produce high added value, their wages should be increased accordingly. Japanese companies have yet to acquire truly global competitiveness by attracting talented people and training them as capable employees.

Currently, a proposal to include financial and insurance companies in the MOF statistics is on the table for consideration. If the proposal is adopted, statistics on the actual state of earnings and investments for financial businesses — which are strategic services that produce high added value — will become available. In turn, this is expected to contribute to discussions on how to make the nation's economic policies for raising productivity more concrete.



Looking
Ahead