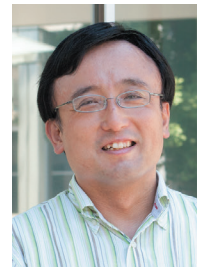


# Impact on Japanese Corporate Profits of Non-Domestic & Non-Core Business Becoming Stronger



Author Nobuo Iizuka

By Nobuo Iizuka

## Survey of Financial Statements Statistics of Corporations by Industry Unexpectedly Records Highest Profits for April-June 2022

According to the Quarterly Survey of Financial Statements Statistics of Corporations by Industry for the period April to June 2022, which was released by the Ministry of Finance on Sept. 1, 2022, ordinary profits for Japanese corporations (excluding the financial and insurance sectors) saw a record high. Ordinary profits were 24.6 trillion yen (seasonally adjusted value), and increased by 17.6% year-on-year.

This record-high profit was actually surprising. This is because the *Nihon-Keizai Shimbun (Nikkei)* reported on Aug. 17, 2022 that net profits for the period April to June 2022 of publicly listed corporations have declined by 26% year-on-year. While the article explained that this decline in profits was heavily impacted by the SoftBank Group recording substantial losses and that excluding this impact the increase in profits was approximately 10%, it still does

not match the increase in ordinary profits of the Quarterly Survey of Financial Statements Statistics of Corporations by Industry.

Moreover, in that quarterly survey also, operating profits, which show profits for core businesses, had not yet reached a record high. Operating profits were 17 trillion yen (seasonally adjusted value) but this is still short the 18.9 trillion yen (seasonally adjusted value) for the period January to March 2019 which was the highest recorded figure.

As such, the most recent profit status of Japanese corporations will vary according to which statistics or which profits are observed.

## Difference Between Operating Profits, Ordinary Profits & Net Profits

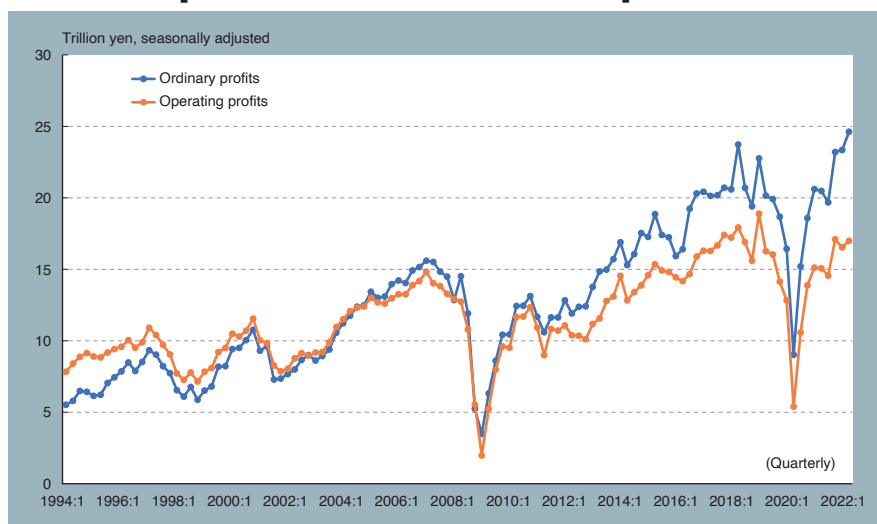
The Quarterly Survey of Financial Statements Statistics of Corporations by Industry surveys commercial corporations with capital, contributions, or funds of 10 million yen or over. It is not limited to publicly listed corporations like the *Nikkei* survey, and it

can be viewed as a survey with wider coverage. On the other hand, the corporate profits that are being surveyed are different. Currently, it is common for publicly listed companies to show the results of the consolidated financial statements, which includes the group corporations, when releasing financial statements, and the *Nikkei* survey also releases these results. In contrast, the Financial Statements Statistics of Corporations by Industry surveys the profits of each single corporation. Sales and operating profits are surveyed for those that have been earned domestically.

In the Financial Statements Statistics of Corporations by Industry, it is assumed that a portion of the profits earned by domestic and overseas group corporations are included in ordinary profits. This is because ordinary profits are operating profits plus non-operating income, minus non-operating

CHART 1

## Trends in profits of commercial corporations



Note: All Industries and Non-Manufacturing do not include Finance and Insurance.

Source: Financial Statements Statistics of Corporations by Industry quarterly survey, Ministry of Finance, Japan

expenses. Non-operating income includes interest, dividends, and sales profits and valuation profits on trading securities. Dividends from domestic and overseas group companies should be included here. Non-operating expenses include interest payments on corporate bonds and loans, and sales losses and valuation losses on trading securities.

As *Chart 1* indicates, looking at the Quarterly Survey of Financial Statements Statistics of Corporations by Industry, the difference between operating profits and ordinary profits has been widening and the rise in impact of “domestic” and “core business” on ordinary profits can be confirmed.

In addition, the *Nikkei* survey looks at net profits, and this is different from the ordinary profits which are closely watched in the quarterly survey. Net profits before taxes are special profits plus ordinary profits, minus extraordinary losses and further deductions such as corporate tax. Special profits include profits from sales of fixed assets, and extraordinary losses include losses on sales of fixed assets as well as losses on sales and evaluation of securities of affiliated corporations (for those whose market value has dropped significantly and thus deemed impossible to recover).

The Quarterly Survey of Financial Statements Statistics of Corporations by Industry only covers operating profits and ordinary profits, and so we cannot discover net profits from it. It is thought that if operating profits and ordinary profits were displayed in the *Nikkei* survey, the difference from the quarterly survey could be directly observed. But many publicly listed corporations use the US standard or International Financial Reporting Standards (IFRS), not the domestic accounting standard of Japan, in which case ordinary profits are not released.

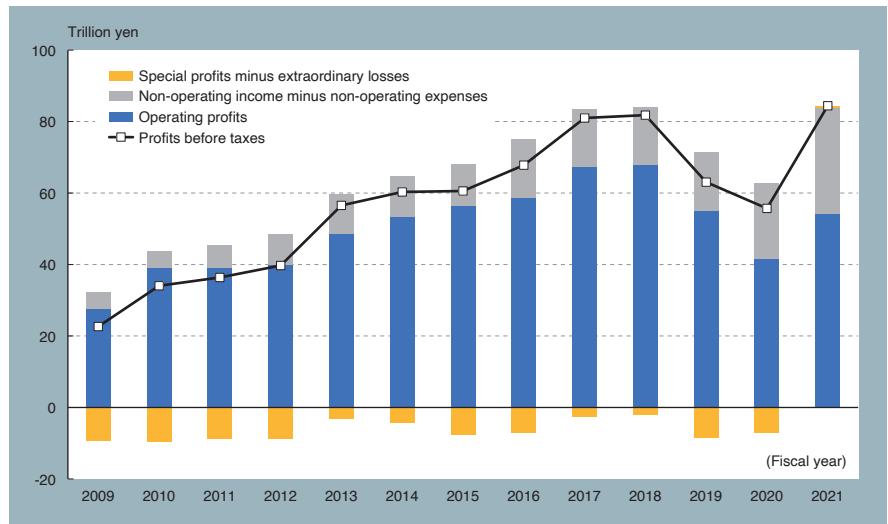
Further, financial statement documents for the SoftBank Group do not indicate operating profits either. The losses of the SoftBank Group are said to be due to the fall in the value of its stockholdings, and therefore they look to be primarily due to special losses. But unfortunately, it will be difficult to completely unravel the mystery of the difference in profit levels that was indicated at the beginning of this article.

### Deviation Between Operating Profits & Net Profits as Seen in the Annual Survey of Financial Statements Statistics of Corporations by Industry

There are also annual surveys for Financial Statements Statistics of Corporations by Industry. These target entire business

CHART 2

## Trends in profits of commercial corporations



Note: All Industries and Non-Manufacturing do not include Finance and Insurance.

Source: Financial Statements Statistics of Corporations by Industry annual survey, Ministry of Finance, Japan

corporations and in addition to operating profits and ordinary profits, a more detailed state of corporate profits such as net profits before and after taxes can be observed. Results of the annual survey for fiscal 2021 were released on Sept. 1, 2022, and now let us confirm the difference in operating profits, ordinary profits and net profits.

*Chart 2* indicates the trends in net profits before taxes for Japanese commercial corporations (excluding the finance and insurance sectors) since fiscal 2009. Net profits before taxes for fiscal 2021 were a record 84.4 trillion yen, 2.6 trillion yen more than the fiscal 2018 figure which was up until then the peak figure. On the other hand, operating profits for fiscal 2021 were 54.2 trillion yen, 13.2 trillion yen less than the 67.7 trillion yen for fiscal 2018 which was the historical peak. Each year, the difference in ordinary profits and operating profits (non-operating income minus non-operating expenses in *Chart 2*) is widening, and the negative width between net profits before taxes and ordinary profits (special profits minus extraordinary losses in *Chart 2*) shrinking, making the difference positive for fiscal 2021. In other words, special profits exceeding extraordinary losses have contributed to the historic high net profits before taxes.

Results of the annual survey for fiscal 2022 will be released in September 2023. At that point, it may be possible to solve the mystery stated at the beginning of this article.

**NOTE:** This article was based on available information as of Sept. 6, 2022. **JS**

Nobuo Iizuka is a professor of the Department of Economics at Kanagawa University and research director at the Tokyo Foundation for Policy Research. He worked for the *Nihon Keizai Shimbun (Nikkei)* and the Japan Center for Economic Research for more than 20 years, and is one of the most highly-regarded commentators on Japanese business and the economy.

Calendar year, Quarter and Month	Real GDP		Nominal GDP		IIP rate of increase over previous year/term (month) (%)	CPI (All terms, less fresh food) rate of increase over previous year/the same term (month) of the previous year (%)
	Amount (trillion yen)	Rate of increase over previous year/term (%)	Amount (trillion yen)	Rate of increase over previous year/term (%)		
2014	529.8	0.3	518.8	2.0	2.0	2.6
2015	538.1	1.6	538.0	3.7	-1.2	0.5
2016	542.1	0.8	544.4	1.2	0.0	-0.3
2017	551.2	1.7	553.1	1.6	3.1	0.5
2018	554.8	0.6	556.6	0.6	1.1	0.9
2019	552.8	-0.4	558.2	0.3	-3.0	0.6
2020	527.3	-4.6	537.2	-3.7	-10.4	-0.2
2021	536.0	1.7	541.4	0.8	5.6	-0.2
2021/3rd Qtr.	534.0	-0.4	539.5	-0.4	-1.9	-0.0
4th Qtr.	539.1	1.0	541.9	0.4	0.2	0.4
2022/1st Qtr.	539.4	0.1	544.1	0.4	0.8	0.6
2nd Qtr.	544.0	0.9	547.5	0.6	-2.7	2.1
2022/Jan.	—	—	—	—	-2.4	0.2
Feb.	—	—	—	—	2.0	0.6
March	—	—	—	—	0.3	0.8
April	—	—	—	—	-1.5	2.1
May	—	—	—	—	-7.5	2.1
June	—	—	—	—	9.2	2.2
July	—	—	—	—	0.8	2.4
Aug.	—	—	—	—	3.4	2.8
Sources	"SNA (National Accounts of Japan)", Cabinet Office				"Indices of Industrial Production", Ministry of Economy, Trade and Industry	"Consumer Price Index", Statistics Bureau, Ministry of Internal Affairs and Communications

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Exports amount (trillion yen)	Exports rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount (trillion yen)	Imports rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to US (trillion yen)	Exports to US rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from US (trillion yen)	Imports from US rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to EU (trillion yen)	Exports to EU rate of increase over previous year/ the same term (month) of the previous year (%)
2014	73.1	4.8	85.9	5.7	13.6	5.6	7.5	10.7	6.4	8.2
2015	75.6	3.4	78.4	-8.7	15.2	11.5	8.1	6.9	6.7	4.4
2016	70.0	-7.4	66.0	-15.8	14.1	-7.1	7.3	-9.2	6.5	-2.8
2017	78.3	11.8	75.4	14.1	15.1	6.9	8.1	10.5	7.1	9.5
2018	81.5	4.1	82.7	9.7	15.5	2.4	9.0	11.4	7.7	7.8
2019	76.9	-5.6	78.6	-5.0	15.3	-1.4	8.6	-4.2	7.4	-3.0
2020	68.4	-11.1	68.0	-13.5	12.6	-17.3	7.5	-13.7	6.3	-15.1
2021	83.1	21.5	84.8	24.6	14.8	17.6	8.9	19.4	7.7	21.4
2021/3rd Qtr.	20.8	24.9	21.7	36.9	3.7	14.5	2.2	31.1	1.9	28.0
4th Qtr.	22.4	15.7	24.1	37.4	4.1	10.6	2.4	33.7	2.0	12.6
2022/1st Qtr.	22.0	14.5	25.3	34.7	3.9	17.6	2.6	29.1	2.1	14.0
2nd Qtr.	23.9	15.9	28.6	41.0	4.3	15.7	2.7	21.7	2.3	17.4
2022/Jan.	6.3	9.6	8.5	38.8	1.1	11.5	0.8	33.1	0.6	16.1
Feb.	7.2	19.1	7.9	34.2	1.3	16.0	0.9	39.0	0.6	8.8
March	8.5	14.7	8.9	31.4	1.5	23.8	0.9	18.5	0.8	16.8
April	8.1	12.5	8.9	28.4	1.5	17.5	0.9	15.4	0.8	19.2
May	7.3	15.8	9.6	49.0	1.3	13.6	0.9	24.3	0.7	10.5
June	8.6	19.3	10.0	46.2	1.6	15.7	1.0	25.3	0.8	22.2
July	8.8	19.0	10.2	47.4	1.6	14.1	1.1	46.9	0.8	31.7
Aug.	8.1	22.0	10.9	49.9	1.5	33.8	1.1	40.6	0.7	16.7
Sources	"Trade Statistics of Japan", Ministry of Finance									

Calendar year, Quarter and Month	Cash salary amount rate of increase over previous year/the same term (month) of the previous year (%)	Active job openings-to-applicants ratio (time(s))	Unemployment rate (%)	M2 rate of increase over previous year/ the same term (month) of the previous year (%)	Balance of payments		Yen/\$ rate (averaged during the term)
					Trade balance (trillion yen)	Current balance (trillion yen)	
2014	0.5	1.09	3.6	3.4	-10.5	3.9	105.8
2015	0.1	1.20	3.4	3.6	-0.9	16.5	121.0
2016	0.6	1.36	3.1	3.4	5.5	21.4	108.8
2017	0.4	1.50	2.8	4.0	4.9	22.8	112.2
2018	1.4	1.61	2.4	2.9	1.1	19.5	110.4
2019	-0.4	1.60	2.4	2.4	0.2	19.3	109.0
2020	-1.2	1.18	2.8	6.5	2.8	15.7	106.8
2021	0.3	1.13	2.8	6.4	1.7	15.5	109.8
2021/3rd Qtr.	0.5	1.15	2.8	4.7	-0.0	4.2	110.1
4th Qtr.	0.0	1.17	2.7	4.0	-0.6	1.7	113.7
2022/1st Qtr.	1.5	1.21	2.7	3.5	-1.9	3.0	116.2
2nd Qtr.	1.5	1.25	2.6	3.3	-3.8	0.5	129.6
2022/Jan.	1.1	1.20	2.8	3.6	-1.6	-1.2	114.8
Feb.	1.2	1.21	2.7	3.6	-0.2	1.6	115.2
March	2.0	1.22	2.6	3.5	-0.1	2.6	118.5
April	1.3	1.23	2.5	3.4	-0.7	0.5	126.1
May	1.0	1.24	2.6	3.1	-2.0	0.1	128.7
June	2.0	1.27	2.6	3.3	-1.1	-0.1	133.9
July	1.3	1.29	2.6	3.4	-1.2	0.2	136.7
Aug.	1.7	1.32	2.5	3.4	-2.5	0.1	135.3
Sources	"Monthly Labour Survey", Ministry of Health, Labour and Welfare	"Employment Referrals for General Workers", Ministry of Health, Labour and Welfare	"Labour Force Survey", Statistics Bureau, Ministry of Internal Affairs and Communications	"Money Stock", Bank of Japan	"Balance of Payments", Ministry of Finance		Bank of Japan

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Imports amount from EU (trillion yen)	Imports from EU rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to Asia (excluding China) (trillion yen)	Exports to Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from Asia (excluding China) (trillion yen)	Imports from Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to China (trillion yen)	Exports to China rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from China (trillion yen)	Imports from China rate of increase over previous year/ the same term (month) of the previous year (%)
2014	7.5	6.9	26.1	3.5	19.4	6.2	13.4	6.0	19.2	8.6
2015	7.8	4.6	27.1	3.7	18.9	-2.6	13.2	-1.2	19.4	1.3
2016	7.4	-5.0	24.7	-8.7	16.2	-14.5	12.4	-6.5	17.0	-12.4
2017	8.0	7.0	28.0	13.3	18.6	14.8	14.9	20.5	18.5	8.5
2018	8.8	10.6	28.8	2.9	20.0	7.8	15.9	6.8	19.2	4.0
2019	8.8	0.3	26.6	-7.6	19.0	-5.3	14.7	-7.6	18.5	-3.9
2020	7.8	-12.1	24.1	-9.4	17.2	-9.4	15.1	2.7	17.5	-5.1
2021	9.4	21.4	30.2	25.0	20.7	20.6	18.0	19.2	20.4	16.4
2021/3rd Qtr.	2.4	29.1	7.7	35.1	5.2	30.6	4.5	13.9	5.0	19.8
4th Qtr.	2.5	24.5	8.2	22.9	5.7	28.8	4.9	12.0	5.6	16.5
2022/1st Qtr.	2.6	24.5	8.2	18.8	6.2	29.1	4.3	7.0	5.5	16.6
2nd Qtr.	2.9	21.1	9.2	24.7	6.9	39.3	4.6	0.5	5.8	17.3
2022/Jan.	0.9	26.2	2.4	13.0	2.1	35.0	1.2	-5.4	2.1	23.4
Feb.	0.8	32.4	2.7	24.8	1.9	27.3	1.5	25.8	1.5	5.9
March	0.9	16.8	3.1	18.4	2.2	25.6	1.7	2.9	1.9	19.1
April	1.0	26.0	3.1	20.3	2.2	27.8	1.5	-5.9	1.7	-5.5
May	1.0	19.0	2.9	28.6	2.3	52.7	1.4	-0.2	2.0	25.8
June	0.9	18.5	3.2	25.9	2.3	38.9	1.7	7.4	2.2	33.3
July	0.8	7.5	3.3	26.1	2.5	42.3	1.8	12.8	2.2	34.7
Aug.	0.9	-1.2	3.0	20.9	2.6	49.5	1.6	13.4	2.2	34.2
Sources	"Trade Statistics of Japan", Ministry of Finance									