

## “Summer Bonus” will grow for 3 consecutive years

The “Summer Bonus” payment of large companies can be captured by The Institute of Labour Administration reports titled “The summer bonus settlement survey of Tokyo Stock Exchange 1st section companies” in the mid-May every year. The summer bonus this year is expected to increase for 3 consecutive years supported by positive earnings growth. However, pace of increase seems to slow compared to + 3.0% of year 2015.

### Point 1

#### 1.7% YoY increase for the “Summer Bonus”

Recovering to the level just before the financial crises, however, growth slowed

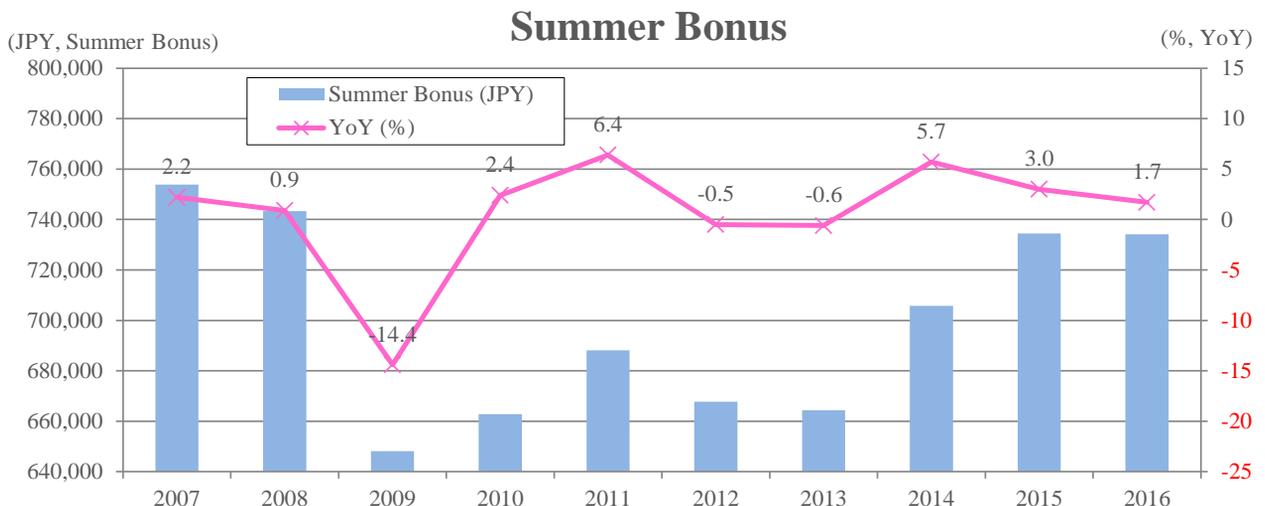
- The Institute of Labour Administration reported on 11<sup>th</sup> May the summer bonus payment of large 126 companies listed in Tokyo Stock Exchange. The survey shows the summer bonus grows on average 1.7% to JPY734,090 from the last summer.
- The bonus in summer season has risen for three consecutive years and is approaching to JPY743,380, the level just before the financial crisis in 2008. Also, this is a 13.3% recovery from the bottom of JPY648,149 in 2009. However, year on year growth will slow from + 5.7% of 2014 and + 3.0% of 2015.

### Point 2

#### Payment result may differ by industrial sectors

Construction and Electric Power increased, while Steel and Nonferrous decreased

- Manufacturers are expected to pay bonus 1.0% more than last summer, whereas Non-Manufacturers pay higher 3.6% more. For Manufacturers, industries across the board planned to increase summer bonus last year, however, Steel and Nonferrous sectors are expected to lower their summer bonus this year as their earnings declined due to fall in commodity prices.
- On the contrary, robust growth of more than 10% YoY is expected for Construction and Electric Power sectors. Other favorable sectors are Fishery & Foods, Chemicals and Glass & Ceramics.



(Source) SMAM, based on The Institute of Labour Administration data.

**■ Listed companies forecast their earnings to drop**

Increase in bonus is expected to contribute to the recovery of consumption in future, however, some uncertainties started to emerge for the future outlook. Almost all of the business results were announced by last week. FY2016 earnings forecast YoY made by companies seemed to have turned negative with a 3% decline in recurring profit. Main reason behind the decreasing profit was JPY appreciation.

**■ Possible change of growth trajectory but not in a big manner**

Usually Japanese companies tend to make conservative earnings forecast, so upward revision in their earnings guidance is likely. Bonus will be paid based on business result of previous year. Concern over significant drop of consumer spending seems to be limited, as we expect incoming bonus payment will reflect corporate earnings recovery supported by global economic expansion once pace of strengthening yen slows.

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