Labor cost is not a problem for Japanese large corporations, ROE keeps on improving but gap is widening with mid small size corporations
Japanese onshore equity holding institutionalization continues apace.

Labor cost gap is widening between Japanese large corporations and small companies.
For Q1(April June)we previously mentioned that labor productivity had been increasing for large Japanese companies hence reducing labor contribution rate but on the reverse a survey published by the Japan economic research center shows that labor contribution rate is increasing fast for smaller companies, specially in the services sector. The soaring costs explain the comparatively poor earnings performance registered for Q1. Labor productivity outcome remain key subject for Japanese GDP latent growth prospects as mid small size companies represent the core engine of Japanese economy.

Following template is labor contribution ratio (%)

Industrial sector	Mid small corporations	Large corporations
manufacturing	**74.2**	**49.2**
Chemicals	75.9	41.2
Steels	71.1	31.6
shipbuilding	69	56.9
Electrical/electronics	77.4	57.3
Autos and related	78.2	51
Services	**76.3**	**39.9**
Construction	85.3	74
Retail & Wholesale	76.7	55.8
Real estate	35.8	21.2
Services	76.3	27.3

Published by Japanese economy research Institute (Q1 in %)
The main reason for mid companies high labor costs are personnel expenses, such costs have been on a constant rise since 2003 and lack of available labor is becoming serious problem for Japanese mid size companies. The daiwa Institute of Research also stresses that contrary to Large Companies Japanese mid size companies never reduced employees number therefore personnel costs increase have neutralized profitability improvements. This is especially true within services sector. As you know I am positive for late cycle services sector companies but one must pay attention to such factors.

This also explain partly why large capitalization stocks have outperformed mid size stocks for the past 3 months.

Japanese mutual fund industry update

I shall soon update (for year 2006) the Japanese onshore fund industry presentation (Power Point Slide) loaded on this site in December 2005. However take notice that the Japanese mutual fund association published the 13th of September the latest available statistics: the net asset value of all Japanese onshore mutual funds rose +4.9 % to 61 trillion 518 billion Yen for the 16th month in a row, this is a new high since June 2000 (level was then 60 trillion 460 billion Yen). Regarding Onshore Japanese Investment Trust net Increment since 2000 Kiyoshi Kimura made his point in *Kimura Dreamvisor Newsletter 14th September 2006* loaded on site as usual.

Now what to buy?

(2121) Mixie IPO: the 'herd instinct' is alive and kicking.
In the newsletter dated 12th September I mentioned SNS specialist Mixie (2121) IPO on MOTHERS as strongly expected. Well a success it was obviously. ! It could not even be priced the first day of the IPO and was bid only at 2.43 million Yen which is 57 % above the official 1.55 million Yen offer price finally setting at 3.12 million Yen. That's herd instinct. With a market cap of 220 billion Yen Mixie becomes the MOTHERS number two capitalization. Hands off anyway! In a few months ahead it will be cheaper. Core 'new' Internet related stocks ranking is now as follows in Japan (published in Nikkei Newspaper 15th September edition):

stock	sector	Per	03/07(E) ordinary profit
Rakuten	On line shopping mall	29.7	45,000
Yahoo Japan	Gatekeeper	42.1	98,000
Mixie*	SNS	224.3	1,720
Drecom Co Ltd	Blog system dev	153.9	400
OK Wave		77.4	180
F@N Communica*	On line advertise.	71.4	980

* Non consolidated, based on 14th September closing, Mixie has not published estimates, this is Nikkei forecast.

* Ordinary profit figures in Million Yen.

Unfortunately contrary to expectations this has not revived new growth markets but rather sucked all available liquidity focused on a single play, typical Japanese herd instinct. Therefore for now trading focus will remain on large capitalizations.

Coming back to what I mentioned previously regarding the PEDY list published on 24th & 30th of June newsletters I have excluded and sold (at loss) (9364) Keika Express. The fact that the stock has been trading at near bankruptcy level for a while is explained by 1- half of the ordinary profit eaten by debt servicing 2- the parking lot new law impact on small size owner type trucking companies like Keika 3- Company's chairman and family have been selling their own stock holdings 4-Current cash flow negative for 2006.

Finally keep an eye on (7224) ShinMaywa I mentioned previously , it is reported the company has developed new technologies to double adherence ratio for silicon membranes reducing by half the silicon membranes production process.

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