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# September 2012 Tankan Survey

## Treading water but worsening confined to expectations

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### Summary

- **Treading water confirmed:** In the BOJ September Tankan survey of corporate sentiment, the business sentiment of large manufacturers worsened for the first time in three quarters, confirming that the economy began stagnating. However, the degree of aggravation was not worse than market expectations and thus the September survey does not warrant an overly pessimistic view. Indeed, BOJ softened its view on the economy following the September monetary policy meeting, but did not hint at any further downgrade. Thus, we believe BOJ's view on the economy will have a limited impact on monetary policy. The impact of anti-Japan demonstrations in China is unlikely to have been reflected in the September survey given the early deadline for replies.
- **Current DI for large manufacturers saw first decline in three quarters:** The current business condition DI for large manufacturers was  $-3$  points, worsening from the previous survey ( $-1$ ) but slightly better than the market consensus ( $-4$ ). The current DI for supply and demand conditions for products worsened for both overseas and domestic markets, pulling down the business condition DI.
- **Capex projection firm:** The FY12 capex projection (incl. investment in properties but excl. that in software; all industries, large companies) was  $+6.4\%$  y/y (revision rate from previous survey:  $+0.2\%$ ), better than the market consensus of  $+5.0\%$  y/y. While manufacturers saw a downgrade from the previous survey, the upgrade for non-manufacturers pushed up the overall capex projection. Despite concerns over a downswing in capex due to persistent deceleration in exports and production, the capex projection was firm.

## Treading Water Confirmed

In the BOJ September Tankan survey of corporate sentiment, the business sentiment of large manufacturers worsened for the first time in three quarters, confirming that the economy began stagnating. However, the degree of aggravation was not worse than market expectations and thus the September survey does not warrant an overly pessimistic view. Indeed, BOJ softened its view on the economy to “the pickup in Japan’s economic activity has come to a pause” in the *September Monthly Report of Recent Economic and Financial Developments*, released following the September monetary policy meeting, but did not hint at any further downgrade. Thus, we believe BOJ’s view on the economy will have a limited impact on monetary policy. The impact of anti-Japan demonstrations in China is unlikely to have been reflected in the September survey given the 11 September deadline for replies, while the survey period was assumed to be from 28 August to 28 September.

## Current DI for Large Manufacturers Saw First Decline in Three Quarters

The current business condition DI for large manufacturers was  $-3$  points, worsening from the previous survey ( $-1$ ) but slightly better than the market consensus ( $-4$ ). The current DI for supply and demand conditions for products worsened for both overseas and domestic markets, pulling down the business condition DI. Among assemblers, the business condition DI saw a prominent plunge for automakers, amid sputtering of automobile sales following a playing out of benefits of eco-car subsidies. In contrast, the DI remained low but improved from the previous survey for the electrical machinery makers, supported by firm demand for smartphones, putting a brake on aggravation of business sentiment. Among materials makers, the DI worsened for iron/steel and nonferrous metal makers, reflecting a slowdown in exports amid a deterioration of overseas economies. However, the DI improved substantially for petroleum/coal product makers, benefited by higher prices for resources. Thus, the worsening of the DI was limited for materials makers as a whole.

The current business condition DI for large non-manufacturers was  $+8$  points, flat from the previous survey, but better than the market consensus ( $+6$ ). DIs for retailers and personal service providers softened from a firm trend, while DIs for construction and real estate industries remained firm on the back of post-disaster reconstruction demand.

## Non-manufacturing Outlook Worsened

The future DI for large manufacturers’ business conditions was  $-3$  points, flat from the current DI. The DI plunged for automakers, factoring in an expected drop in auto sales accompanying the end to the eco-car subsidy program. However, the DI firmed up for materials makers (oil/coal products, iron/steel, metal products), holding up the overall DI for large manufacturers. However, the future DI for supply/demand conditions for products worsened for the domestic market but improved for the overseas market, an optimistic scenario. If overseas economies deteriorate further and exports continue to decline, the business condition DI is likely to see a downswing.

Meanwhile, the future DI for large non-manufacturers was  $+5$  points, declining 3 points from the current DI. The personal service industry projects further deterioration from the current DI and the restaurants/accommodation industry anticipates deterioration, raising concerns about a downswing in personal consumption. Moreover, the construction industry, whose business sentiment has trended steady factoring in post-disaster reconstruction demand, anticipates a deterioration going forward.

## Downgrade to FY12 Sales, Profit Projections Prominent for Manufacturers

FY12 sales and recurring profit projections (all industries, large companies) saw downgrades to an advance of 2.3% y/y (revision rate from previous survey:  $-1.0\%$ ) and a gain of 0.0% ( $-3.0\%$ ),

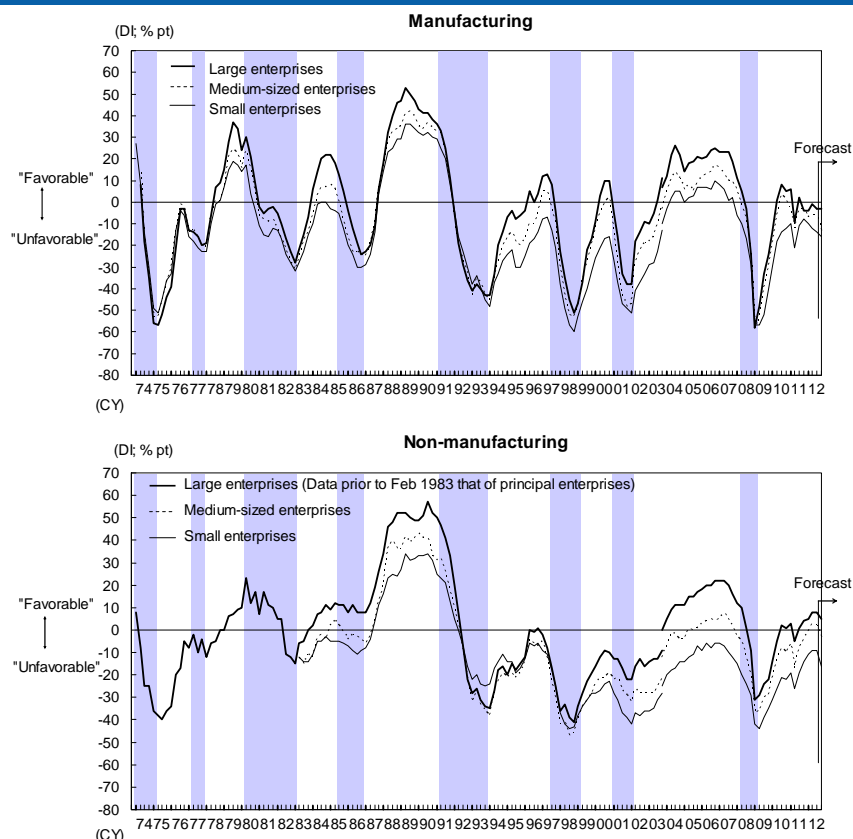
respectively. Sales and profit projections are usually unchanged on a yearly basis—to enable this, projections generally see an upgrade/downgrade for the first half and then the opposite for the second half. Thus, the September 2012 survey illustrated the cautious attitude of companies. As for the non-manufacturing industry, the recurring profit projection saw a downgrade (−1.6%) for 1H but an upgrade (+0.4%) for 2H, the usual pattern and resulting in a minor downgrade for the fiscal year (−0.5%). However, in case of the materials industry, it made an upgrade (+1.1%) for 2H but faced a substantial downgrade (−19.9%) for 1H, resulting in a substantial downgrade for the fiscal year (−9.1%). In case of the assembly industry, there were downgrades for both 1H (−2.8%) and 2H (−5.7%). The forex projection for 2H was Y78.97/\$ (large manufacturers), almost on par with the previous survey (Y78.93/\$) but a slightly weaker yen than the current market rate. We should thus bear in mind that if the yen follows the current market trend, there is a possibility for sales and recurring profit to undershoot the current projections.

## Capex Projection Firm

The FY12 capex projection (incl. investment in properties but excl. that in software; all industries, large companies) was +6.4% y/y (revision rate from previous survey: +0.2%), better than the market consensus of +5.0% y/y. While manufacturers saw a downgrade from the previous survey, the upgrade for non-manufacturers pushed up the overall capex projection. Despite concerns over a downswing in capex due to persistent deceleration in exports and production, the capex projection was firm. Nevertheless, while capex posted a y/y gain of 15.5% for 1H, it is projected to see a slide of 0.6% for 2H. Thus, capex will gain little momentum in 2H. The DI for production capacity increased 1 point from the previous survey to +6 points, meaning that corporate sentiment on production capacity remains on the excessive side and almost flat. Thus, domestic investment will likely remain at a low level, centering on replacement demand.

## Business Condition DIs

Chart 1



Source: Bank of Japan. DI = "Favorable" minus "Unfavorable"; % pt.

Shaded areas denote economic down turns.

	Large Enterprises						Small Enterprises					
	Jun 2012 Survey		Sep 2012 Survey				Jun 2012 Survey		Sep 2012 Survey			
	Actual	Forecast	Actual	Change*	Forecast	Change**	Actual	Forecast	Actual	Change*	Forecast	Change**
<b>Manufacturing</b>	-1	1	-3	-2	-3	0	-12	-15	-14	-2	-16	-2
Textiles	-13	-10	-13	0	-10	3	-24	-24	-26	-2	-25	1
Lumber & wood products	4	13	22	18	18	-4	-26	-26	-29	-3	-24	5
Pulp & Paper	-6	-3	-4	2	-17	-13	-24	-14	-27	-3	-27	0
Chemicals	-3	-1	-4	-1	0	4	-2	-1	1	3	0	-1
Petroleum & coal products	-33	-13	-13	20	7	20	-13	-25	-8	5	-6	2
Ceramics, glass, cement	-7	-2	-2	5	-2	0	-22	-21	-15	7	-11	4
Iron & steel	-17	-4	-28	-11	-12	16	-15	-16	-19	-4	-27	-8
Nonferrous metals	11	0	0	-11	0	0	-20	-9	-23	-3	-19	4
Food & beverages	1	4	8	7	0	-8	5	5	-1	-6	1	2
Metal products	-16	-9	-23	-7	-7	16	-16	-21	-12	4	-13	-1
General-purpose machinery	13	13	9	-4	7	-2	-11	-17	-11	0	-26	-15
Production machinery	1	8	-11	-12	-1	10	-4	-17	-3	1	-18	-15
Business-oriented machinery	-6	-2	6	12	4	-2	-9	-7	-18	-9	-17	1
Electrical machinery	-14	-4	-13	1	-7	6	-18	-22	-18	0	-20	-2
Shipbuilding & heavy machinery	-7	-16	-14	-7	-14	0	-9	-16	-13	-4	-13	0
Motor vehicles	32	15	19	-13	-5	-24	16	-8	4	-12	-18	-22
Materials	-6	-2	-7	-1	-3	4	-19	-17	-19	0	-19	0
Assembling	1	2	-2	-3	-3	-1	-7	-15	-10	-3	-15	-5
<b>Non-manufacturing</b>	8	6	8	0	5	-3	-9	-15	-9	0	-16	-7
Construction	-1	-4	1	2	-3	-4	-16	-25	-13	3	-23	-10
Real estate	5	5	8	3	11	3	-2	-9	1	3	-5	-6
Leasing	21	12	21	0	15	-6	0	0	3	3	-2	-5
Wholesaling	0	2	0	0	-2	-2	-10	-14	-14	-4	-16	-2
Retailing	8	6	3	-5	5	2	-7	-15	-10	-3	-21	-11
Transportation	5	1	4	-1	-3	-7	-14	-17	-16	-2	-20	-4
Communications	52	44	48	-4	44	-4	8	8	14	6	17	3
Information services	7	5	7	0	10	3	-6	-6	-10	-4	-7	3
Electric & gas utilities	-7	-5	-5	2	-10	-5	5	2	0	-5	7	7
Services for businesses	21	10	29	8	21	-8	1	-7	3	2	-5	-8
Services for individuals	25	20	23	-2	15	-8	-5	-12	-10	-5	-14	-4
Restaurants & accommodations	3	-5	6	3	-4	-10	-19	-23	-19	0	-24	-5
All industries	3	3	2	-1	1	-1	-10	-15	-11	-1	-15	-4

Source: Bank of Japan. DI = "Favorable" minus "Unfavorable"; % pt.

\* Change from previous survey; % pt. \*\* Change from actual figure in the current survey; % pt.

## Tankan Sales and Recurring Profit Projections (y/y %)

Chart 2

## Sales Projections (y/y %)

		FY11	FY12		1H FY11	2H FY11	1H FY12		2H FY12	
			(Forecast)	Revision rate			(Forecast)	Revision rate	(Forecast)	Revision rate
Large enterprises	Manufacturing	0.4	3.3	-1.7	-2.3	3.0	3.6	-2.0	3.0	-1.5
	Domestic Sales	2.3	1.9	-2.0	-1.4	5.9	3.7	-2.0	0.2	-2.1
	Exports	-4.7	7.2	-0.9	-4.7	-4.6	3.4	-2.0	11.0	0.1
	Non-manufacturing	3.5	1.6	-0.5	2.3	4.7	2.6	-0.4	0.8	-0.5
	All industries	2.3	2.3	-1.0	0.5	4.0	3.0	-1.0	1.7	-0.9
Medium-sized enterprises	Manufacturing	2.3	0.8	-1.1	0.3	4.3	2.3	-0.9	-0.6	-1.3
	Non-manufacturing	2.8	2.3	-0.6	1.1	4.5	3.2	-0.8	1.5	-0.4
	All industries	2.7	1.9	-0.7	0.9	4.4	3.0	-0.8	0.9	-0.6
Small enterprises	Manufacturing	1.2	-0.2	-0.7	-0.1	2.5	0.7	-0.4	-1.0	-1.0
	Non-manufacturing	1.6	0.3	0.5	-0.9	3.9	2.3	0.6	-1.5	0.4
	All industries	1.5	0.2	0.2	-0.7	3.6	2.0	0.4	-1.4	0.1
All Enterprises	Manufacturing	0.8	2.3	-1.5	-1.5	3.1	2.9	-1.6	1.8	-1.4
	Non-manufacturing	2.8	1.4	-0.2	1.1	4.4	2.6	-0.2	0.3	-0.3
	All industries	2.2	1.7	-0.6	0.2	4.0	2.7	-0.7	0.8	-0.6

## Profit Projections (y/y %)

		FY11	FY12		1H FY11	2H FY11	1H FY12		2H FY12	
			(Forecast)	Revision rate			(Forecast)	Revision rate	(Forecast)	Revision rate
Large enterprises	Manufacturing	-11.7	3.2	-6.2	-8.5	-15.3	-18.9	-9.8	30.2	-3.3
	Basic materials	1.6	-20.9	-9.1	28.3	-26.3	-47.3	-19.9	27.1	1.1
	Processing	-21.1	25.3	-4.5	-33.1	-6.8	17.3	-2.8	32.1	-5.7
	Non-manufacturing	-7.2	-2.3	-0.5	-7.2	-7.2	-10.3	-1.6	5.8	0.4
	All industries	-9.1	0.0	-3.0	-7.8	-10.5	-14.0	-5.1	15.3	-1.2
Medium-sized enterprises	Manufacturing	-3.6	-3.7	-6.9	-1.5	-5.7	-14.0	-6.2	6.7	-7.4
	Non-manufacturing	11.9	0.9	2.2	9.5	13.8	2.0	5.8	0.0	-0.5
	All industries	6.2	-0.7	-0.9	5.2	7.1	-3.9	1.5	2.0	-2.8
Small enterprises	Manufacturing	1.7	6.6	-4.5	-10.7	15.2	8.5	-1.6	4.9	-6.9
	Non-manufacturing	17.5	4.3	-1.3	8.6	24.7	11.6	0.6	-0.8	-2.8
	All industries	12.7	4.9	-2.2	2.1	22.1	10.7	0.0	0.7	-3.9
All Enterprises	Manufacturing	-8.9	2.6	-6.1	-7.8	-10.0	-14.9	-8.1	22.3	-4.4
	Non-manufacturing	0.5	-0.3	-0.2	-2.0	2.8	-4.1	0.2	3.1	-0.5
	All industries	-3.2	0.8	-2.5	-4.4	-2.0	-8.4	-3.1	9.7	-2.0

Source: Bank of Japan.

Revision rate: % change from previous survey.

## Tankan Capex Projections (incl. property investment; excl. software investment; y/y %)

Chart 3

		FY11	FY12		1H FY11	2H FY11	1H FY12		2H FY12	
			(Forecast)	Revision rate			(Forecast)	Revision rate	(Forecast)	Revision rate
Large enterprises	Manufacturing	-0.7	12.3	-0.1	-5.8	3.6	26.0	-2.4	1.8	2.3
	Non-manufacturing	-1.5	3.3	0.3	-5.5	1.6	10.1	-0.7	-1.8	1.1
	All industries	-1.3	6.4	0.2	-5.6	2.3	15.5	-1.3	-0.6	1.5
Medium-sized enterprises	Manufacturing	20.4	7.6	0.4	14.2	25.5	22.4	-8.4	-3.3	10.3
	Non-manufacturing	2.5	9.4	7.0	-10.0	13.8	28.8	6.1	-4.5	7.8
	All industries	9.0	8.7	4.3	-1.5	18.2	26.2	-0.1	-4.0	8.8
Small enterprises	Manufacturing	11.3	-10.3	4.7	6.7	14.8	9.8	-2.4	-24.0	12.8
	Non-manufacturing	-10.1	6.7	8.5	-13.5	-7.3	22.8	4.4	-5.6	12.9
	All industries	-2.7	0.0	7.1	-6.9	0.5	17.9	1.9	-13.1	12.9
All enterprises	Manufacturing	4.3	7.9	0.6	-1.1	8.7	22.9	-3.5	-3.4	4.9
	Non-manufacturing	-2.3	4.7	2.3	-7.3	1.9	14.4	1.1	-2.7	3.5
	All industries	0.0	5.8	1.7	-5.2	4.2	17.4	-0.7	-3.0	4.0

Source: Bank of Japan.

Revision rate: % change from previous survey.