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# December 2012 Tankan Survey

## Sentiment deteriorates significantly for large manufacturers

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### Summary

- The DI of current business conditions for large manufacturers was -12 points, substantially worsening from the previous survey (-3) and short of consensus expectations (-10). The current DI of supply and demand conditions for products worsened for both overseas and domestic markets, pulling down the business condition DI.
- The DI of current business conditions for large non-manufacturers was +4 points, worsening from the previous survey (+8) and short of consensus expectations (+5). DIs for business service providers and wholesalers worsened amid a slowdown in exports and production. DIs softened from a firm trend for household-related industries.
- The FY12 capex projection (incl. investment in properties but excl. that in software; all industries, large companies) was +6.8% y/y (revision rate from previous survey: +0.4%), contrasting to consensus expectations of a downgrade to +5.4% 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 a persistent deceleration in exports and production, the capex projection was firm.

## DI worsened for large manufacturers for second quarter in a row

In the Bank of Japan (BOJ) December Tankan survey of corporate sentiment, the business sentiment of large manufacturers deteriorated significantly, confirming an economic setback.

The DI of current business conditions for large manufacturers was –12 points, substantially worsening from the previous survey (–3) and short of consensus expectations (–10). The current DI of 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, reflecting the sputtering of auto sales accompanying the end to the eco-car subsidy program in the domestic market and a plunge in auto sales in the Chinese market amid the worsening of Japan-China relations. DIs also plunged for general-purpose and production machinery makers, industries facing a slowdown in exports amid a deterioration in overseas economies. Among materials makers, DIs worsened for nonferrous metal and chemical makers, while DIs improved for petroleum/coal product makers (which benefited from higher prices for resources) and metal product makers (due to reconstruction demand). Thus, the worsening of the DI was limited for materials makers as a whole.

The future DI for large manufacturers' business conditions was –10 points, projected to improve by 2 points from the current DI. Excluding automakers, nonferrous metal makers, and general-purpose machinery makers, industries that saw plunges in current DIs and that expect business conditions to continue to worsen going forward, future DIs improved for a wide range of industries. Behind this are (a) an improvement in the future DI of supply/demand conditions for products for both domestic and overseas markets and (b) the yen has been trading at a weaker level than the forex projection for 2H (¥78.73/\$).

## Among non-manufacturers, worsening of DI spilled over to household-related industries

The DI of current business conditions for large non-manufacturers was +4 points, worsening from the previous survey (+8) and short of consensus expectations (+5). DIs for business service providers and wholesalers worsened amid a slowdown in exports and production. DIs softened from a firm trend for retailers (impacted by slackening automobile sales), personal service providers, and other household-related industries. Meanwhile, DIs for construction and real estate industries remained firm on the back of post-disaster reconstruction demand.

Meanwhile, the future DI for large non-manufacturers was +3 points, projected to worsen by 1 point from the current DI. The DI worsened significantly for electric and gas utilities, mirroring higher fuel costs amid nuclear power plant operation halts.

## Downgrade to FY12 sales, profit projections for manufacturers

FY12 sales and recurring profit projections (all industries, large companies) saw downgrades to an advance of 1.1% y/y (revision rate from previous survey: –1.2%) and a slide of 2.2% (–2.2%), 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. Indeed, in the December survey the usual pattern was the case—the recurring profit projection saw an upgrade (+7.1%) for 1H but a downgrade (–9.7%) for 2H. As for non-manufacturing industry, the recurring profit projection saw an upgrade (+9.8%) for 1H but a downgrade (–6.6%) for 2H, resulting in an upgrade for the fiscal year (+1.0%). Among manufacturing industries, the materials industry posted downgrades for both 1H and 2H, resulting in a substantial downgrade for the fiscal

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year (-8.9%). Meanwhile, the assembly industry saw an upgrade for 1H (+7.5%) but a substantial downgrade for 2H (-14.5%), resulting in a downgrade for the fiscal year.

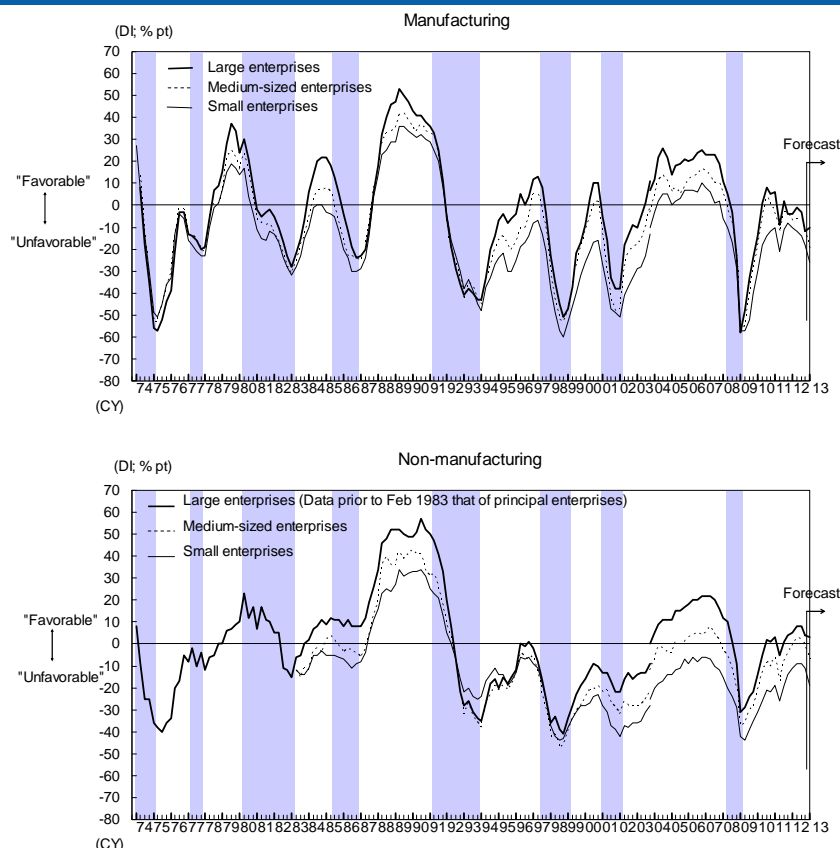
However, recurring profit is projected to see a slide of 7.9% y/y for 1H but a gain of 4.1% for 2H (all industries, large companies). Manufacturers expect recurring profit to see a y/y turnaround in 2H following a substantial slide in 1H. Meanwhile, non-manufacturers expect the ongoing slide in recurring profit to continue but the margin of decline to narrow toward 2H.

## **Capex projection saw an unexpected upgrade**

The FY12 capex projection (incl. investment in properties but excl. that in software; all industries, large companies) was +6.8% y/y (revision rate from previous survey: +0.4%), contrasting to consensus expectations of a downgrade to +5.4% 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 a persistent deceleration in exports and production, the capex projection was firm. The production capacity DI increased 1 point from the previous survey to +6 points, meaning that corporate sentiment regarding production capacity remains on the excessive side and that this feeling has slightly intensified (all industries; all companies). Thus, domestic investment will likely remain at a low level, centering on replacement demand. Meanwhile, the employment conditions DI declined from the previous survey (+1 point) to zero points, meaning that corporate sentiment on employment has eased slightly (all industries; all companies). Nevertheless, the supply-demand gap in terms of production capacity and employment has remained flat overall.

## Business Condition DIs

## Chart 1



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

Shaded areas denote economic down turns.

	Large enterprises						Small enterprises					
	Sep 2012 survey		Dec 2012 survey				Sep 2012 survey		Dec 2012 survey			
	Actual	Forecast	Actual	Forecast		Change*	Actual	Forecast	Actual	Forecast		Change**
				Change*	Change**					Change*	Change**	
<b>Manufacturing</b>	-3	-3	-12	-9	-10	2	-14	-16	-18	-4	-26	-8
Textiles	-13	-10	-13	0	-10	3	-26	-25	-25	1	-33	-8
Lumber & wood products	22	18	13	-9	18	5	-29	-24	-13	16	-23	-10
Pulp & Paper	-4	-17	-10	-6	-10	0	-27	-27	-28	-1	-28	0
Chemicals	-4	0	-10	-6	-7	3	1	0	-2	-3	-11	-9
Petroleum & coal products	-13	7	0	13	0	0	-8	-6	-3	5	-20	-17
Ceramics, stone & clay	-2	-2	-8	-6	-6	2	-15	-11	-8	7	-18	-10
Iron & steel	-28	-12	-28	0	-30	-2	-19	-27	-31	-12	-40	-9
Nonferrous metals	0	0	-13	-13	-19	-6	-23	-19	-23	0	-26	-3
Food & beverages	8	0	0	-8	4	4	-1	1	-5	-4	-4	1
Processed metals	-23	-7	-14	9	-9	5	-12	-13	-18	-6	-26	-8
General-purpose machinery	9	7	-4	-13	-11	-7	-11	-26	-21	-10	-32	-11
Production machinery	-11	-1	-18	-7	-15	3	-3	-18	-12	-9	-30	-18
Business-oriented machinery	6	4	-11	-17	-2	9	-18	-17	-29	-11	-28	1
Electrical machinery	-13	-7	-17	-4	-13	4	-18	-20	-26	-8	-34	-8
Shipbuilding & heavy machinery	-14	-14	-25	-11	-25	0	-13	-13	-20	-7	-22	-2
Motor vehicles	19	-5	-9	-28	-16	-7	4	-18	-16	-20	-33	-17
Materials	-7	-3	-11	-4	-9	2	-19	-19	-18	1	-26	-8
Assembling	-2	-3	-12	-10	-10	2	-10	-15	-19	-9	-26	-7
<b>Non-manufacturing</b>	8	5	4	-4	3	-1	-9	-16	-11	-2	-19	-8
Construction	1	-3	0	-1	0	0	-13	-23	-10	3	-20	-10
Real estate	8	11	13	5	13	0	1	-5	-1	-2	-11	-10
Leasing	21	15	19	-2	16	-3	3	-2	9	6	0	-9
Wholesaling	0	-2	-6	-6	-1	5	-14	-16	-16	-2	-22	-6
Retailing	3	5	1	-2	3	2	-10	-21	-23	-13	-27	-4
Transportation	4	-3	-2	-6	-5	-3	-16	-20	-15	1	-24	-9
Communications	48	44	40	-8	28	-12	14	17	13	-1	8	-5
Information services	7	10	12	5	10	-2	-10	-7	-11	-1	-12	-1
Electric & gas utilities	-5	-10	-5	0	-20	-15	0	7	0	0	0	0
Services for businesses	29	21	14	-15	11	-3	3	-5	0	-3	-13	-13
Services for individuals	23	15	20	-3	20	0	-10	-14	-13	-3	-16	-3
Restaurants & accommodations	6	-4	-10	-16	-14	-4	-19	-24	-21	-2	-28	-7
<b>All industries</b>	2	1	-3	-5	-3	0	-11	-15	-14	-3	-22	-8

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				Revision rate	(Forecast)	Revision rate
Large enterprises	Manufacturing	0.4	1.2	-2.0	-2.3	3.0	1.8	-1.7	0.6	-2.4
	Domestic sales	2.3	1.0	-0.9	-1.4	5.9	3.0	-0.7	-0.8	-1.1
	Exports	-4.7	1.8	-5.1	-4.7	-4.6	-1.1	-4.3	4.6	-5.7
	Non-manufacturing	3.5	1.0	-0.6	2.3	4.7	1.2	-1.3	0.8	0.0
	All industries	2.3	1.1	-1.2	0.5	4.0	1.5	-1.5	0.7	-0.9
Medium-sized enterprises	Manufacturing	2.3	-0.5	-1.3	0.3	4.3	1.2	-1.1	-2.1	-1.5
	Non-manufacturing	2.8	2.2	-0.2	1.1	4.5	3.0	-0.3	1.4	-0.1
	All industries	2.7	1.4	-0.5	0.9	4.4	2.5	-0.5	0.5	-0.4
Small enterprises	Manufacturing	1.2	-0.8	-0.6	-0.1	2.5	0.8	0.1	-2.3	-1.3
	Non-manufacturing	1.6	0.7	0.3	-0.9	3.9	2.7	0.4	-1.2	0.3
	All industries	1.5	0.3	0.1	-0.7	3.6	2.3	0.3	-1.4	-0.1
All enterprises	Manufacturing	0.8	0.6	-1.7	-1.5	3.1	1.6	-1.3	-0.3	-2.1
	Non-manufacturing	2.8	1.1	-0.3	1.1	4.4	2.0	-0.6	0.3	0.1
	All industries	2.2	1.0	-0.7	0.2	4.0	1.9	-0.8	0.1	-0.6

## Profit Projections (y/y %)

		FY11	FY12		1H FY11	2H FY11	1H FY12		2H FY12	
			(Forecast)	Revision rate				Revision rate	(Forecast)	Revision rate
Large enterprises	Manufacturing	-11.7	-3.5	-6.4	-8.5	-15.3	-16.4	3.1	12.4	-13.7
	Materials	1.6	-28.0	-8.9	28.3	-26.3	-49.7	-4.6	11.5	-12.3
	Assembly	-21.1	19.0	-5.0	-33.1	-6.8	26.1	7.5	12.9	-14.5
	Non-manufacturing	-7.2	-1.3	1.0	-7.2	-7.2	-1.5	9.8	-1.2	-6.6
	All industries	-9.1	-2.2	-2.2	-7.8	-10.5	-7.9	7.1	4.1	-9.7
Medium-sized enterprises	Manufacturing	-3.6	-7.5	-3.9	-1.5	-5.7	-9.8	4.8	-5.1	-11.0
	Non-manufacturing	11.9	2.2	1.3	9.5	13.8	11.6	9.4	-4.9	-4.8
	All industries	6.2	-1.0	-0.4	5.2	7.1	3.7	7.9	-4.9	-6.8
Small enterprises	Manufacturing	1.7	0.4	-5.8	-10.7	15.2	7.3	-1.2	-5.5	-9.8
	Non-manufacturing	17.5	3.4	-0.9	8.6	24.7	12.6	0.9	-3.1	-2.4
	All industries	12.7	2.6	-2.3	2.1	22.1	11.0	0.3	-3.7	-4.4
All enterprises	Manufacturing	-8.9	-3.6	-6.0	-7.8	-10.0	-12.6	2.7	6.7	-12.8
	Non-manufacturing	0.5	0.3	0.6	-2.0	2.8	3.4	7.8	-2.4	-5.3
	All industries	-3.2	-1.1	-1.9	-4.4	-2.0	-3.0	5.9	0.7	-8.2

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				Revision rate	(Forecast)	Revision rate
Large enterprises	Manufacturing	-0.7	11.1	-1.1	-5.8	3.6	13.7	-9.7	9.1	7.2
	Non-manufacturing	-1.5	4.6	1.2	-5.5	1.6	6.1	-3.6	3.5	5.4
	All industries	-1.3	6.8	0.4	-5.6	2.3	8.7	-5.9	5.4	6.0
Medium-sized enterprises	Manufacturing	20.4	5.4	-2.0	14.2	25.5	16.3	-5.0	-2.6	0.7
	Non-manufacturing	2.5	12.3	2.6	-10.0	13.8	27.7	-0.9	1.2	6.0
	All industries	9.0	9.5	0.8	-1.5	18.2	23.0	-2.5	-0.3	3.9
Small enterprises	Manufacturing	11.3	-6.3	4.5	6.7	14.8	8.4	-1.3	-16.3	10.2
	Non-manufacturing	-10.1	14.2	7.0	-13.5	-7.3	30.7	6.5	1.5	7.6
	All industries	-2.7	6.2	6.1	-6.9	0.5	22.3	3.8	-5.7	8.5
All enterprises	Manufacturing	4.3	7.3	-0.5	-1.1	8.7	13.3	-7.8	2.8	6.4
	Non-manufacturing	-2.3	7.0	2.3	-7.3	1.9	12.5	-1.7	2.9	5.8
	All industries	0.0	7.1	1.3	-5.2	4.2	12.8	-4.0	2.9	6.0

Source: Bank of Japan.

Revision rate: % change from previous survey.