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March 2013 Tankan Survey

Large manufacturer DI improved but undershot expectations

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Summary

- In the Bank of Japan (BOJ) March Tankan survey of corporate sentiment, business sentiment improved in a broad range of industries, confirming a turning around of the economy. However, some worrisome developments were seen—the margin of improvement undershot the market consensus in general, sentiment unexpectedly worsened for small manufacturers, and the capex projection fell short of expectations.
- The DI of current business conditions for large manufacturers was –8 points, improving from the previous survey (–12) but short of consensus expectations (–7). The current DI of supply and demand conditions for products improved for both domestic and overseas markets, boosting the business condition DI.
- The DI of current business conditions for large non-manufacturers was +6 points, improving from the previous survey (+4) but short of consensus expectations (+8). DIs improved for business-related sectors (leasing, business services), benefitted by a turning around of manufacturer DIs. DIs were mixed for household-related industries—improvement in retailers and restaurants/accommodations, vs. deterioration in personal service providers.
- FY13 sales and recurring profit were projected to increase 1.1% and 6.4% y/y (all industries, large companies). Higher growth projections by manufacturers drove overall projections. The FY13 forex rate is projected to be ¥85.22/\$ (large manufacturers), a stronger yen than the recent rate. Therefore, overseas sales could overshoot current projections, leading to an upgrade in recurring profit projections going forward.
- The FY13 capex projection (incl. investment in properties but excl. that in software; all industries, large companies) was –2.0% y/y. Both manufacturers and non-manufacturers projected slides, down 0.7% and down 2.6%, respectively. The current production capacity DI was +6 points (all industries, all companies), flat from the previous survey, and the future DI was projected to improve (decline) to +4 points. The limited improvement means that corporate sentiment regarding production capacity remains on the cautious side.

First improvement in three quarters for large manufacturers

In the Bank of Japan (BOJ) March Tankan survey of corporate sentiment, business sentiment improved in a broad range of industries, confirming a turning around of the economy. However, some worrisome developments were seen—the margin of improvement undershot the market consensus in general, sentiment unexpectedly worsened for small manufacturers, and the capex projection fell short of expectations.

The DI of current business conditions for large manufacturers was -8 points, improving from the previous survey (-12) but short of consensus expectations (-7). The current DI of supply and demand conditions for products improved for both domestic (previous survey: -25 ; current survey: -22) and overseas (-17 ; -15) markets, boosting the business condition DI. Among assemblers, automakers saw a prominent improvement in the business condition DI, reflecting the swift recovery in auto sales from the plunge accompanying the end to the eco-car subsidy program in the domestic market, as well as the improvement in profit margins for exports amid a weaker yen trend. DIs also improved for general-purpose and business-oriented machinery makers. However, DIs were sputtering for electrical machinery and shipbuilding/heavy machinery makers, remaining flat from the previous survey, and the DI worsened from the previous survey for production machinery makers. With regards to materials makers, improvements were seen for a wide range of industries. Petroleum/coal product makers, ceramics/glass/cement makers, and lumber/wood product makers saw significant improvements. Among materials makers, while improvements in supply-demand condition DIs were limited compared to assemblers, output price DIs improved substantially from the previous survey, leading to better profit margins, which, in turn, contributed to boost the DIs.

The future DI for large manufacturers' business conditions was -1 point, projected to improve by 7 points from the current DI. Both materials and assembling industries projected improvements in supply/demand conditions for products for both domestic and overseas markets going forward, while materials industries projected higher output prices going forward. By industry, future DIs improved for iron/steel, production machinery, and electrical machinery makers, industries that failed to show improvement in current DIs. Meanwhile, automakers saw a boost in the current DI but projected a plunge for the future DI, a worrisome development worth monitoring.

Broad range of improvement for non-manufacturers

The DI of current business conditions for large non-manufacturers was $+6$ points, improving from the previous survey ($+4$) but short of consensus expectations ($+8$). DIs improved for business-related sectors (leasing, business services), benefitted by a turning around of manufacturer DIs. They were mixed for household-related industries—improvement in retailers and restaurants/accommodations, vs. deterioration in personal service providers. Meanwhile, DIs remained firm for the construction industry on the back of growing public works projects, while they continued to be stable for the real estate industry mirroring growing expectations for higher land prices and likely front-loaded demand prior to implementation of the consumption tax hike.

The future DI for large non-manufacturers was $+9$ points, projected to improve by 3 points from the current DI. The DI improved in a broad range of industries for both business- and household-related sectors.

Manufacturers drove FY13 sales/profit projections

FY13 sales were projected to increase 1.1% y/y (all industries, large companies). Both large manufacturers and non-manufacturers projected advances, up 1.7% and up 0.7%, respectively. The higher growth projection by manufacturers pushed up the overall projection. Breaking down the

manufacturers' projection, both domestic and overseas sales are projected to gain, up 1.2% and up 3.1%, respectively. In other words, overseas sales drove the projection.

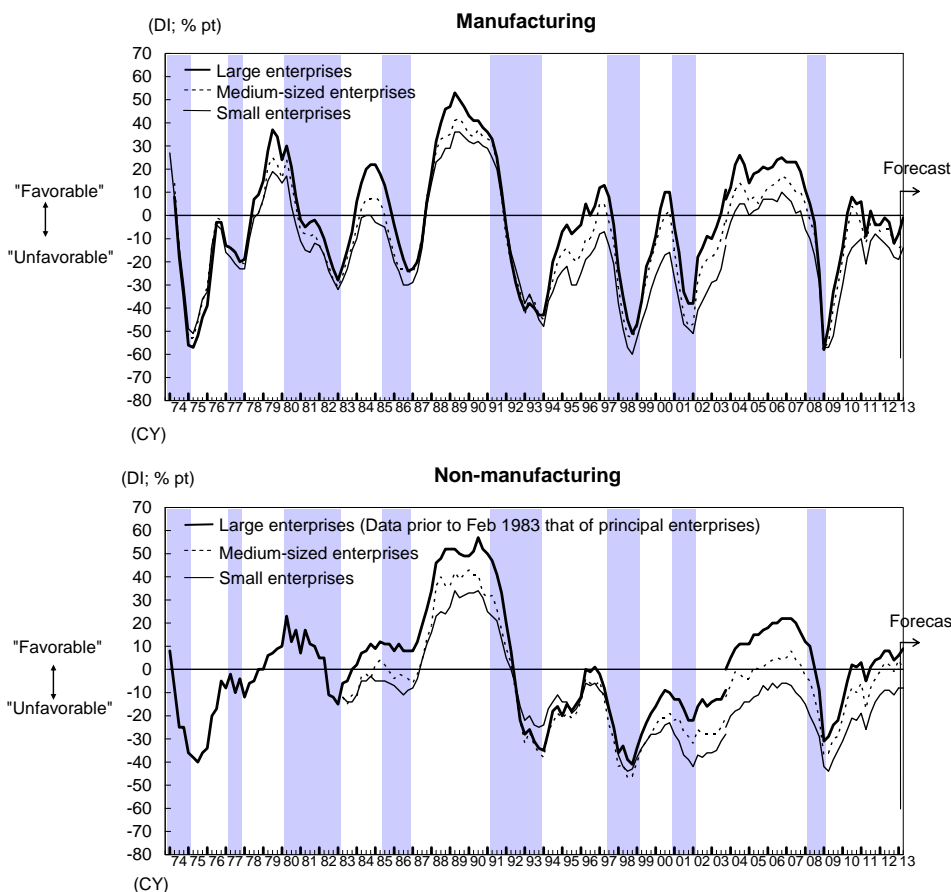
FY13 recurring profit is projected to increase 6.4% y/y (all industries, large companies). Both manufacturers and non-manufacturers projected increases, up 10.9% and up 3.3%, respectively. The higher growth projection by manufacturers drove the overall projection, as was the case with sales.

In the current survey, the FY13 forex rate is projected to be Y85.22/\$ (large manufacturers), which is a stronger yen compared to the recent forex rate. Therefore, overseas sales could overshoot current projections, leading to an upgrade in recurring profit projections going forward.

Capex projection cautious

The FY13 capex projection (incl. investment in properties but excl. that in software; all industries, large companies) was -2.0% y/y. Both manufacturers and non-manufacturers projected slides, down 0.7% and down 2.6%, respectively. The current production capacity DI was +6 points (all industries, all companies), flat from the previous survey, and the future DI was projected to improve (decline) to +4 points. The limited improvement means that corporate sentiment regarding production capacity remains on the cautious side. Meanwhile, the employment conditions DI also improved (declined) slightly from the previous survey (zero points) to -1 point (all industries; all companies). Thus, the supply-demand gap in terms of production capacity and employment has improved only slightly.

Business Condition DIs Chart 1



Source: Bank of Japan. DI = "Favorable" minus "Unfavorable"; % pt. Shaded areas denote economic downturns.

	Large enterprises						Small enterprises					
	Dec 2012 survey		Mar 2013 survey				Dec 2012 survey		Mar 2013 Survey			
	Actual	Forecast	Actual	Change*	Forecast	Change**	Actual	Forecast	Actual	Change*	Forecast	Change**
Manufacturing	-12	-10	-8	4	-1	7	-18	-26	-19	-1	-14	5
Textiles	-13	-10	-15	-2	2	17	-25	-33	-30	-5	-27	3
Lumber & wood products	13	18	30	17	21	-9	-13	-23	-19	-6	-14	5
Pulp & Paper	-10	-10	-7	3	-13	-6	-28	-28	-29	-1	-22	7
Chemicals	-10	-7	-7	3	-4	3	-2	-11	-5	-3	-6	-1
Petroleum & coal products	0	0	13	13	0	-13	-3	-20	-11	-8	-12	-1
Ceramics, stone & clay	-8	-6	4	12	2	-2	-8	-18	-10	-2	-3	7
Iron & steel	-28	-30	-38	-10	-13	25	-31	-40	-28	3	-14	14
Nonferrous metals	-13	-19	-8	5	-3	5	-23	-26	-28	-5	-8	20
Food & beverages	0	4	0	0	8	8	-5	-4	-8	-3	-3	5
Processed metals	-14	-9	-9	5	-5	4	-18	-26	-17	1	-6	11
General-purpose machinery	-4	-11	3	7	3	0	-21	-32	-29	-8	-17	12
Production machinery	-18	-15	-21	-3	3	24	-12	-30	-17	-5	-13	4
Business-oriented machinery	-11	-2	-4	7	2	6	-29	-28	-21	8	-5	16
Electrical machinery	-17	-13	-17	0	-3	14	-26	-34	-25	1	-24	1
Shipbuilding & heavy machinery	-25	-25	-25	0	-28	-3	-20	-22	-18	2	-19	-1
Motor vehicles	-9	-16	10	19	-2	-12	-16	-33	-16	0	-20	-4
Materials	-11	-9	-7	4	-2	5	-18	-26	-21	-3	-13	8
Assembling	-12	-10	-9	3	0	9	-19	-26	-19	0	-14	5
Non-manufacturing	4	3	6	2	9	3	-11	-19	-8	3	-8	0
Construction	0	0	5	5	8	3	-10	-20	-5	5	-6	-1
Real estate	13	13	16	3	18	2	-1	-11	-1	0	-1	0
Leasing	19	16	24	5	24	0	9	0	11	2	8	-3
Wholesaling	-6	-1	-4	2	1	5	-16	-22	-14	2	-12	2
Retailing	1	3	6	5	9	3	-23	-27	-11	12	-12	-1
Transportation	-2	-5	-10	-8	-3	7	-15	-24	-20	-5	-16	4
Communications	40	28	40	0	32	-8	13	8	7	-6	10	3
Information services	12	10	13	1	17	4	-11	-12	1	12	5	4
Electric & gas utilities	-5	-20	-8	-3	-8	0	0	0	7	7	5	-2
Services for businesses	14	11	22	8	19	-3	0	-13	-2	-2	-9	-7
Services for individuals	20	20	19	-1	19	0	-13	-16	-7	6	-6	1
Restaurants & accommodations	-10	-14	-8	2	-3	5	-21	-28	-22	-1	-18	4
All industries	-3	-3	-1	2	4	5	-14	-22	-12	2	-11	1

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 %)

		FY12		FY13	1H FY12	2H FY12		1H FY13	2H FY13
		(Forecast)	Revision rate	(Forecast)		(Forecast)	Revision rate	(Forecast)	(Forecast)
Large enterprises	Manufacturing	0.0	-1.2	1.7	1.5	-1.5	-2.1	1.1	2.2
	Domestic sales	-0.3	-1.3	1.2	2.3	-2.7	-1.9	0.8	1.5
	Exports	0.7	-1.1	3.1	-0.5	1.8	-2.7	1.9	4.3
	Non-manufacturing	0.8	-0.2	0.7	1.3	0.3	-0.5	0.6	0.8
	All industries	0.5	-0.6	1.1	1.4	-0.4	-1.1	0.8	1.3
Medium-sized enterprises	Manufacturing	-1.5	-1.0	0.1	1.5	-4.2	-2.2	-1.9	2.0
	Non-manufacturing	2.6	0.4	1.7	3.4	1.7	0.4	0.4	3.0
	All industries	1.5	0.0	1.3	2.9	0.2	-0.3	-0.2	2.8
Small enterprises	Manufacturing	-1.3	-0.5	0.0	1.0	-3.4	-1.2	-1.8	1.7
	Non-manufacturing	1.3	0.6	0.6	2.9	-0.2	1.0	0.4	0.8
	All industries	0.7	0.4	0.4	2.4	-0.9	0.5	-0.1	1.0
All enterprises	Manufacturing	-0.5	-1.1	1.2	1.4	-2.3	-1.9	0.1	2.1
	Non-manufacturing	1.3	0.2	0.9	2.2	0.5	0.1	0.5	1.2
	All industries	0.7	-0.2	1.0	1.9	-0.4	-0.5	0.4	1.5

Profit Projections (y/y %)

		FY12		FY13	1H FY12	2H FY12		1H FY13	2H FY13
		(Forecast)	Revision rate	(Forecast)		(Forecast)	Revision rate	(Forecast)	(Forecast)
Large enterprises	Manufacturing	-1.4	2.1	10.9	-16.9	17.5	4.6	12.5	9.4
	Materials	-30.9	-4.0	10.6	-50.9	5.8	-5.2	17.0	5.3
	Assembly	25.5	5.4	11.0	26.5	24.6	10.4	10.3	11.6
	Non-manufacturing	0.0	1.4	3.3	0.9	-0.8	0.3	3.2	3.5
	All industries	-0.6	1.7	6.4	-6.8	6.2	2.1	6.8	6.0
Medium-sized enterprises	Manufacturing	-7.2	0.3	1.9	-8.4	-6.0	-0.9	-9.6	13.3
	Non-manufacturing	5.4	3.2	3.3	12.5	0.1	5.2	-4.5	9.9
	All industries	1.2	2.3	2.9	4.8	-1.7	3.4	-6.2	10.9
Small enterprises	Manufacturing	-0.8	-1.2	10.6	8.5	-8.8	-3.5	-1.2	22.7
	Non-manufacturing	4.2	0.7	5.8	13.4	-2.4	0.8	5.2	6.4
	All industries	2.8	0.2	7.1	12.0	-4.0	-0.3	3.3	10.4
All enterprises	Manufacturing	-2.3	1.4	9.5	-12.6	9.5	2.6	7.0	11.7
	Non-manufacturing	1.9	1.6	3.9	5.2	-1.0	1.4	2.2	5.5
	All industries	0.4	1.5	5.9	-1.9	2.6	1.8	3.9	7.8

Source: Bank of Japan.

Revision rate: % change from previous survey.

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

Chart 3

		FY12		FY13	1H FY12	2H FY12		1H FY13	2H FY13
		(Forecast)	Revision rate	(Forecast)		(Forecast)	Revision rate	(Forecast)	(Forecast)
Large enterprises	Manufacturing	5.7	-4.8	-0.7	12.9	0.2	-8.1	7.2	-7.4
	Non-manufacturing	4.9	0.3	-2.6	3.3	6.1	2.5	6.8	-9.6
	All industries	5.2	-1.5	-2.0	6.5	4.1	-1.2	6.9	-8.9
Medium-sized enterprises	Manufacturing	2.6	-2.7	-1.4	15.1	-6.8	-4.2	11.2	-13.0
	Non-manufacturing	11.4	-0.8	-6.4	26.1	0.7	-0.5	-0.2	-12.0
	All industries	7.8	-1.5	-4.5	21.7	-2.2	-1.9	4.2	-12.4
Small enterprises	Manufacturing	-6.0	0.4	-3.2	6.1	-14.1	2.6	6.8	-11.6
	Non-manufacturing	17.2	2.6	-16.8	27.8	9.1	7.4	-4.9	-27.6
	All industries	8.1	1.8	-12.1	19.6	-0.4	5.7	-1.0	-22.0
All enterprises	Manufacturing	3.3	-3.7	-1.2	12.2	-3.4	-6.0	7.8	-9.0
	Non-manufacturing	7.5	0.4	-5.3	9.8	5.7	2.7	3.8	-12.4
	All industries	6.0	-1.1	-3.9	10.7	2.5	-0.4	5.2	-11.3

Source: Bank of Japan.

Revision rate: % change from previous survey.