

1 October 2013 (No. of pages: 5)

Japanese report: 1 Oct 2013

September 2013 Tankan Survey

Large manufacturers' business sentiment improved substantially

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Summary

- In the BOJ September Tankan survey of corporate sentiment, business sentiment improved substantially as a whole and over a broad range of industries, confirming the continuing improvement in the economy. While Prime Minister Shinzo Abe remarked that the September Tankan results would be the last cornerstone for his decision on raising the consumption tax as scheduled, the Tankan suggests an April 2014 hike is very likely.
- The DI of current business conditions for large manufacturers was +12 points, improving substantially from the previous survey (+4) and overshooting market expectations (+7). Except for processed metal makers, DIs improved across the board, a very good result. Looking at supply-demand conditions, while DIs on overseas conditions was flat, those on domestic conditions improved, meaning firm domestic demand pushed up the overall business condition DI. As for price conditions, while output price DIs increased, input price DIs declined, leading to better terms of trade. Thus, the price conditions also contributed to improving the overall business condition DI.
- FY13 sales are projected to increase 3.9% y/y (all industries, large companies). Both large manufacturers and non-manufacturers projected advances, up 5.0% and up 3.2%, respectively. Breaking down the manufacturers' projection, both domestic and overseas sales are projected to advance, up 4.4% and up 6.6%, respectively. Both domestic and overseas sales drove the projection. The FY13 forex rate is projected at Y94.45/\$ (large manufacturers), revised to a weaker yen from the previous survey (Y91.20/\$). However, the projection is still for a stronger yen compared to the recent forex rate. Thus, there is ample space for overseas sales and recurring profits to overshoot current projections.
- The FY13 capex projection (incl. investment in properties but excl. that in software; all industries, large companies) was downgraded to +5.1% y/y from the previous survey (+5.5%), undershooting market expectations (+6.0%). While this indicates that corporate sentiment on capex is slightly more cautious, it does not warrant an overly pessimistic view, as past patterns show that downgrades in September surveys are not unusual.

Third consecutive improvement for large manufacturers

In the BOJ September Tankan survey of corporate sentiment, business sentiment improved substantially as a whole and over a broad range of industries, confirming the continuing improvement in the economy. While Prime Minister Abe had made remarks that the September Tankan results would be the last cornerstone for his decision to raise the consumption tax as scheduled, the Tankan suggests an April 2014 hike is very likely.

The DI of current business conditions for large manufacturers was +12 points, improving substantially from the previous survey (+4) and overshooting market expectations (+7). Except for processed metal makers, DIs improved across the board, a very good result. Among assemblers, electrical machinery, production machinery, and automobile makers saw prominent improvement, driven by higher earnings accompanying a weaker yen. Among materials makers, ceramics/stone/clay and petroleum/coal product makers saw substantial improvement. Looking at supply and demand conditions for products, while DIs on overseas conditions was flat, those on domestic conditions improved, meaning firm domestic demand pushed up the overall business condition DI. As for price conditions, while output price DIs increased, input price DIs declined, leading to better terms of trade. Thus, the price conditions also contributed to improving the overall business condition DI.

The future DI for large manufacturers' business conditions was +11 points, projected to worsen by one point from the current DI. Manufacturers projected improvements in supply-demand conditions for both domestic and overseas markets going forward. However, nonferrous metal and automobile makers projected worsening of DIs going forward, pulling down the overall future DI.

The DI of current business conditions for large non-manufacturers was +14 points, improving from the previous survey (+12), which was on par with market expectations (+14). The DI continued to improve for the construction industry on the back of growing public works projects and stable demand for housing. Among household-related sectors, the DI was firm in general—it improved for retailers and personal service providers. Among business-related sectors, leasing and wholesaling industries saw prominent improvement in DIs.

The future DI for large non-manufacturers was +14 points, projected to be flat from the current DI. While future DIs exhibited an advance or retreat depending on industry, overall they remain at a high level.

Upgrade to FY13 sales/profit projections

FY13 sales are projected to increase 3.9% y/y (all industries, large companies). Both large manufacturers and non-manufacturers projected advances, up 5.0% and up 3.2%, respectively. Breaking down the manufacturers' projection, both domestic and overseas sales are projected to advance, up 4.4% and up 6.6%. Thus, both domestic and overseas sales drove the projection.

FY13 recurring profit is projected to increase 13.9% y/y (all industries, large companies). Both manufacturers and non-manufacturers projected increases, up 24.0% and up 6.2%, respectively. The higher growth projection by manufacturers, specifically assemblers, drove the overall projection. Revision rates of projections saw upgrades from the previous survey for both manufacturers (to +8.2%) and non-manufacturers (to +2.5%). Breaking down the revision rates by first and second half, both manufacturers and non-manufacturers saw substantial upgrades for 1H. This means that recurring profits have dramatically overshot industries' projections so far, which in turn led to upgrades for FY13 projections. However, non-manufacturers and material makers downgraded 2H projections, leading to somewhat limited FY13 projections. In contrast, assemblers upgraded projections for 2H, evidencing their upbeat stance regarding the future.

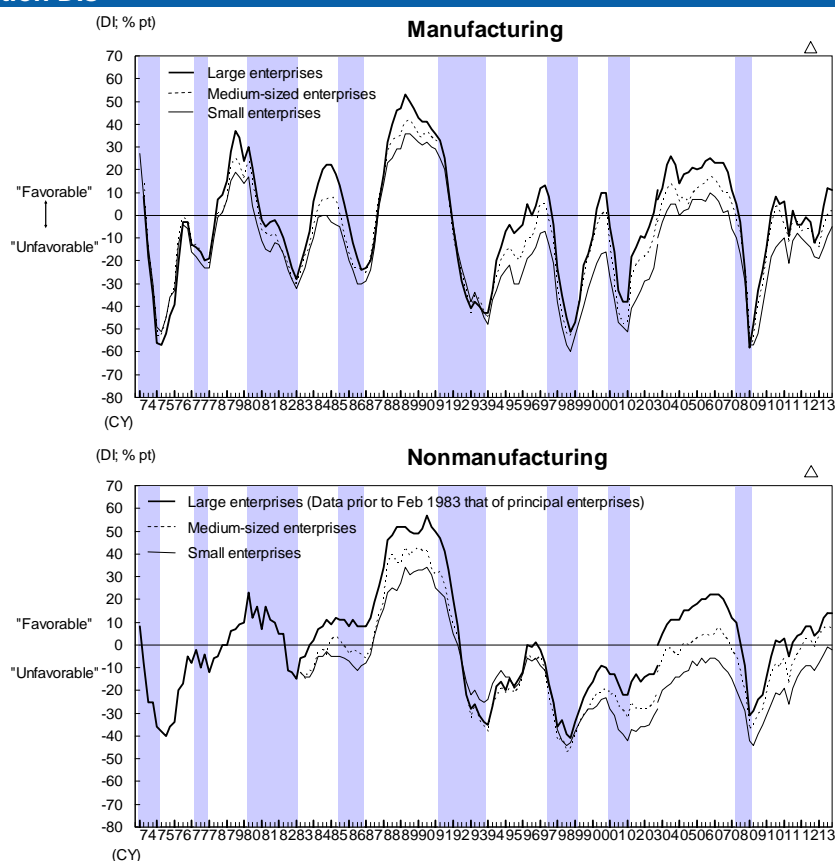
In the current survey, the FY13 forex rate is projected at Y94.45/\$ (large manufacturers), revised to a weaker yen from the previous survey (Y91.20/\$). However, the projection is still for a stronger yen compared to the recent forex rate. Therefore, there is ample space for overseas sales and recurring profits to overshoot current projections.

Large companies' sentiment on capex cautious

The FY13 capex projection (incl. investment in properties but excl. that in software; all industries, large companies) was downgraded to +5.1% y/y from the previous survey (+5.5%), undershooting market expectations (+6.0%). While this indicates that corporate sentiment on capex is more cautious, it does not warrant an overly pessimistic view, as past patterns show that downgrades in September surveys are not unusual. The current production capacity DI declined (improved) by 2 points from the previous survey to +3 points (all industries, all companies) and the future DI is projected to decline (improve), centering on manufacturers, confirming that corporate sentiment regarding production capacity is gradually recovering. Meanwhile, the employment conditions DI declined (improved) from the previous survey by 4 points to -5 points (all industries; all companies). This means that the supply-demand gap in terms of production capacity and employment continues to improve.

Business Condition DIs

Chart 1



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

Note: Triangles denote the latest business cycle peak (Apr 2012); shaded areas denote economic down turns.

	Large enterprises						Small enterprises					
	Jun survey		Sep survey				Jun survey		Sep survey			
	Actual	Forecast	Actual	Change*	Forecast	Change**	Actual	Forecast	Actual	Change*	Forecast	Change**
Manufacturing	4	10	12	8	11	-1	-14	-7	-9	5	-5	4
Textiles	-2	-3	0	2	2	2	-27	-28	-29	-2	-27	2
Lumber/wood products	39	22	48	9	52	4	-11	-7	2	13	5	3
Pulp & paper	0	0	0	0	0	0	-24	-19	-32	-8	-23	9
Chemicals	-1	4	8	9	7	-1	-2	1	-4	-2	-2	2
Petroleum/coal products	-6	0	6	12	13	7	-6	-5	2	8	-2	-4
Ceramics/stone/clay	15	14	29	14	29	0	-8	-1	-6	2	2	8
Iron/steel	-2	2	2	4	12	10	-10	5	4	14	7	3
Nonferrous metals	9	11	18	9	3	-15	-20	-4	-9	11	-8	1
Food/beverages	10	9	11	1	9	-2	-3	-2	3	6	0	-3
Processed metals	4	9	-5	-9	4	9	-12	-8	-10	2	-3	7
General-purpose machinery	15	13	15	0	19	4	-17	-12	-18	-1	-8	10
Production machinery	-4	19	7	11	20	13	-11	-3	-6	5	4	10
Business-oriented machinery	8	12	8	0	17	9	-15	2	-12	3	-2	10
Electrical machinery	-4	12	9	13	9	0	-23	-7	-15	8	-6	9
Shipbuilding/heavy machinery	-14	-21	-4	10	-7	-3	-17	-13	-9	8	-3	6
Motor vehicles	16	14	27	11	13	-14	-1	0	17	18	8	-9
Materials	4	5	12	8	12	0	-14	-7	-10	4	-7	3
Assembling	4	12	12	8	12	0	-14	-7	-10	4	-4	6
Non-manufacturing	12	12	14	2	14	0	-4	-4	-1	3	-2	-1
Construction	14	13	20	6	14	-6	-1	-2	7	8	3	-4
Real estate	25	25	24	-1	24	0	9	6	7	-2	4	-3
Leasing	20	20	31	11	31	0	8	10	13	5	12	-1
Wholesaling	6	7	11	5	9	-2	-9	-7	-6	3	-4	2
Retailing	6	11	8	2	13	5	-12	-9	-8	4	-8	0
Transportation/postal services	0	3	-2	-2	6	8	-13	-11	-13	0	-12	1
Communications	32	24	32	0	24	-8	17	14	17	0	20	3
Information services	20	20	24	4	20	-4	1	4	8	7	8	0
Electric/gas utilities	-18	-16	-18	0	-3	15	5	2	7	2	3	-4
Services for businesses	26	23	28	2	26	-2	0	-4	6	6	0	-6
Services for individuals	23	23	25	2	22	-3	-8	-7	-10	-2	-9	1
Restaurants/accommodation	8	4	5	-3	10	5	-12	-14	-10	2	-11	-1
All industries	8	11	13	5	13	0	-8	-5	-4	4	-3	1

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

* Change from previous survey; % pt. ** Difference 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)	Revision rate	(Forecast)	Revision rate
Large enterprises	Manufacturing	-0.4	5.0	0.9	1.8	-2.5	3.3	0.8	6.7	0.9
	Domestic sales	-0.5	4.4	1.0	3.0	-3.6	2.7	0.9	6.1	1.1
	Exports	-0.3	6.6	0.4	-1.3	0.7	4.9	0.5	8.3	0.4
	Non-manufacturing	0.5	3.2	0.6	1.4	-0.3	2.9	0.8	3.4	0.4
	All industries	0.1	3.9	0.7	1.5	-1.2	3.1	0.8	4.6	0.6
Medium-sized enterprises	Manufacturing	-1.9	2.1	0.7	1.4	-5.0	-0.3	0.9	4.5	0.4
	Non-manufacturing	2.4	2.3	0.5	3.3	1.6	1.2	0.6	3.4	0.3
	All industries	1.2	2.3	0.5	2.8	-0.2	0.8	0.7	3.6	0.4
Small enterprises	Manufacturing	-1.5	1.5	0.8	0.6	-3.5	-0.7	0.8	3.7	0.8
	Non-manufacturing	2.1	0.9	0.7	2.7	1.6	1.5	0.7	0.3	0.7
	All industries	1.3	1.0	0.7	2.2	0.5	1.0	0.8	1.0	0.7
All enterprises	Manufacturing	-0.8	4.0	0.8	1.5	-3.1	2.0	0.8	5.8	0.8
	Non-manufacturing	1.3	2.3	0.6	2.1	0.6	2.2	0.8	2.5	0.5
	All industries	0.6	2.9	0.7	1.9	-0.6	2.1	0.8	3.5	0.6

Profit Projections (y/y %)

		FY12	FY13		1H FY12	2H FY12	1H FY13		2H FY13	
			(Forecast)	Revision rate			(Forecast)	Revision rate	(Forecast)	Revision rate
Large enterprises	Manufacturing	12.4	24.0	8.2	-15.2	46.1	44.4	15.1	9.5	2.5
	Materials	-22.4	10.2	4.0	-50.5	28.9	33.3	10.4	-6.0	-1.7
	Assembling	44.2	30.8	10.1	29.9	56.5	49.8	17.3	17.3	4.2
	Non-manufacturing	2.3	6.2	2.5	0.9	3.6	7.2	5.5	5.3	-0.5
	All industries	6.4	13.9	5.1	-6.0	20.0	21.7	9.8	7.3	0.9
Medium-sized enterprises	Manufacturing	1.2	6.6	3.1	-8.1	10.6	6.5	10.8	6.8	-2.6
	Non-manufacturing	11.0	-3.2	1.0	13.2	9.3	-5.8	5.0	-1.1	-1.8
	All industries	7.7	-0.1	1.7	5.4	9.7	-1.9	7.0	1.3	-2.1
Small enterprises	Manufacturing	5.9	3.3	-2.6	9.3	3.0	-5.5	-5.1	11.4	-0.6
	Non-manufacturing	10.7	1.1	2.0	13.5	8.8	5.1	2.4	-1.8	1.6
	All industries	9.4	1.7	0.7	12.3	7.3	2.1	0.3	1.4	1.0
All enterprises	Manufacturing	9.7	18.8	6.2	-11.2	33.5	31.3	12.1	9.4	1.4
	Non-manufacturing	5.7	3.3	2.1	5.4	6.0	4.4	4.8	2.2	-0.3
	All industries	7.2	9.2	3.7	-1.2	15.4	14.0	7.7	5.1	0.4

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)	Revision rate	(Forecast)	Revision rate
Large enterprises	Manufacturing	1.6	6.6	-0.1	12.4	-6.7	5.0	-3.4	8.2	3.1
	Non-manufacturing	2.6	4.4	-0.5	1.9	3.1	11.8	0.2	-1.2	-1.1
	All industries	2.2	5.1	-0.3	5.5	-0.2	9.3	-1.1	1.7	0.3
Medium-sized enterprises	Manufacturing	2.8	1.9	0.4	16.0	-7.0	2.6	-6.7	1.3	8.0
	Non-manufacturing	14.4	-2.5	3.2	26.1	5.9	2.4	-3.4	-6.8	10.2
	All industries	9.7	-0.9	2.1	22.0	0.8	2.5	-4.7	-3.8	9.4
Small enterprises	Manufacturing	-4.5	14.2	3.4	6.1	-11.7	26.5	1.6	4.2	5.3
	Non-manufacturing	26.7	-8.0	11.0	29.1	24.8	6.0	6.8	-19.1	15.8
	All industries	14.4	-0.7	8.0	20.4	9.9	12.8	4.8	-11.5	11.5
All enterprises	Manufacturing	0.8	7.0	0.6	12.1	-7.6	7.7	-3.1	6.3	4.2
	Non-manufacturing	7.6	1.3	1.6	9.0	6.4	9.4	0.6	-4.9	2.4
	All industries	5.2	3.3	1.2	10.1	1.4	8.7	-0.7	-1.2	3.1

Source: Bank of Japan.

Revision rate: % change from previous survey.