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# BOJ December 2013 Tankan Survey

## Improved over broad range of industries, entrenching economic recovery

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**Summary**

- In the BOJ December Tankan survey of corporate sentiment, business sentiment was better than the market consensus in general. A broad range of manufacturing and non-manufacturing industries saw improvement. The sentiment also improved among midsize and small companies. As a whole, the survey confirmed that the base of economic recovery is widening, a favorable result.

- The DI of current business conditions for large manufacturers was +16 points, improving from the previous survey (+12) and overshooting the market consensus (+15). As for supply and demand conditions for products, while DIs improved for overseas and domestic conditions, those on domestic conditions marked a significant improvement, meaning firm domestic demand drove the overall business condition DI.

- FY13 recurring profit is projected to increase 23.4% y/y (all industries, large companies). Revision rates of projections saw upgrades from the previous survey for manufacturers (to +8.6%) and non-manufacturers (to +8.1%). Breaking down the revision rates by first and second half, manufacturers and non-manufacturers saw substantial upgrades for 1H. The overshoot to industry projections led to upgrades for FY13 projections. Meanwhile, manufacturers and non-manufacturers downgraded 2H projections, exhibiting their cautious attitude going forward. However, the possibility of upgrades to 2H projections has not been ruled out, considering past patterns where companies often responded to 1H overshoots by lowering 2H projections, so that they can remain close to annual projections.

- The FY13 capex projection (incl. investment in properties but excl. that in software; all industries, large companies) was downgraded to +4.6% y/y from the previous survey (+5.1%), undershooting the market consensus (+5.5%). This was somewhat unfavorable, considering the past patterns in December surveys. The downgrade to the manufacturing projection dragged down the overall projection, indicating that manufacturers still remain cautious on capex due to persistent lower capacity utilization rates. Even so, the current production capacity DI for manufacturers saw a minor improvement from the previous survey and the future DI is projected to improve, which is somewhat favorable.

## Fourth consecutive improvement for large manufacturers

In the BOJ December Tankan survey of corporate sentiment, business sentiment was better than the market consensus in general. Improvement was seen over a broad range of industries, whether manufacturing or non-manufacturing. The sentiment also improved among midsize and small companies. As a whole, the survey confirmed the base of economic recovery is widening, a favorable result.

The DI of current business conditions for large manufacturers was +16 points, improving from the previous survey (+12) and overshooting the market consensus (+15). Among assemblers, except for shipbuilders/heavy machinery makers, the DI improved across the board. Specifically, prominent improvements were seen for metal product makers, supported by buoyant housing-related demand, and general machinery makers, a capex-related industry. Among materials makers, except for the two industries of petroleum/coal products and iron/steel, the DI improved across the board. Specifically, lumber/wood product makers and ceramics/stone/clay makers saw significant advances. Behind this are firm housing investment supported by a demand surge in advance of consumption tax hike scheduled in April 2014, and increases in public investments, thanks to government stimulus packages. Looking at supply and demand conditions for products, while DIs improved for both overseas and domestic conditions; those on domestic conditions marked a significant improvement, meaning firm domestic demand pushed up the overall business condition DI. As for price conditions, output price DIs declined, resulting in a minor deterioration in terms of trade from the previous survey.

The DI of current business conditions for large non-manufacturers was +20 points, improving substantially from the previous survey (+14) and better than the market consensus (+15). Except for personal service providers, the DI improved across the board, a good result in general. Among business-related sectors, prominent improvement was seen for leasing and transportation/postal service industries. The DI also improved for electric/gas utilities, reflecting improvement in earnings of eclectic power companies, following hikes in electricity prices. Among household-related sectors, while the DI saw a minor decline for personal service providers, it saw a substantial improvement for restaurant/accommodation industries, and it continued to improve for retailers, a favorable result. The DI continued to improve for the construction and real estate industries on the back of growing public works projects and stable demand for housing.

The future DI for large manufacturers' business conditions was +14 points, projected to worsen by two points from the current DI. Among materials makers, lumber/wood product makers projected the DI to worsen from the current steady sentiment. Chemicals makers and pulp/paper product makers also anticipated the DI worsening. Among assemblers, automakers, the industry which has currently seen strong sales, projected the DI to deteriorate substantially. The future DI for large non-manufacturers was +17, projected to worsen by three points. Retailers projected it to continue improving, factoring in a final demand surge in advance of the April 2014 consumption tax hike, while other industries anticipated it worsening in general. The future DI worsened from the current DI for both manufacturing and non-manufacturing industries. However, current DIs are at higher levels compared to the previous survey. In other words, sentiment over the current business conditions is very strong. Thus, an overly pessimistic is not warranted on worsening of future DIs.

## Upgrade to FY13 sales/profit projections

FY13 sales are projected to increase 4.0% y/y (all industries, large companies). Both large manufacturers and non-manufacturers projected advances, up 5.7% and up 2.9%, respectively. Breaking down the manufacturers' projection, both domestic and overseas sales are projected to advance, up 3.8% and up 10.9%. Thus, the strong growth projection for overseas sales drove the projection.

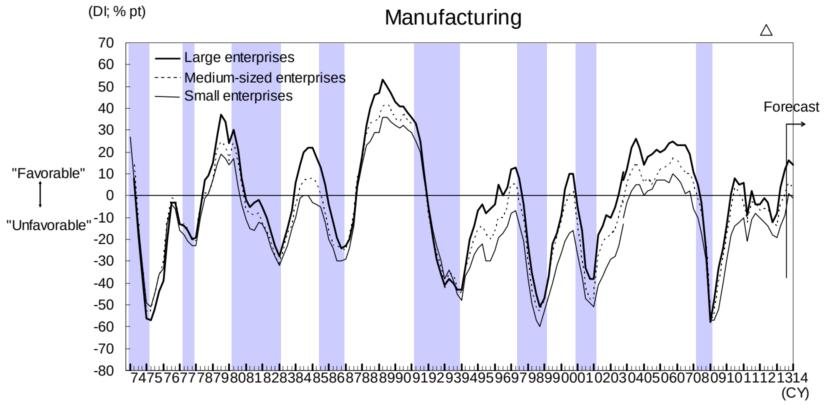
FY13 recurring profit is projected to increase 23.4% y/y (all industries, large companies). Both manufacturers and non-manufacturers projected increases, up 34.7% and up 14.9%, respectively. The higher growth projection by manufacturers, specifically assemblers, drove the overall projection. Revision rates of projections were +8.6% and +8.1% for manufacturers and non-manufacturers, respectively, upgraded from the previous survey. 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. Meanwhile, both manufacturers and non-manufacturers downgraded 2H projections, exhibiting their cautious attitude going forward. However, the possibility of upgrades in 2H projections cannot be ruled out, considering past patterns where companies often responded to 1H overshoots by lowering 2H projections, so that they can close to annual projections. In the current survey, the FY13 forex rate is projected at Y96.78/$ (large manufacturers), revised to a weaker yen from the previous survey (Y94.45/$). However, the projection is still for a stronger yen compared to the recent forex rate. As for 2H FY13, the projection is Y95.97/$, also strong compared to the recent forex rate. Therefore, there is ample space to overshoot current projections, especially for export-driven manufacturers.

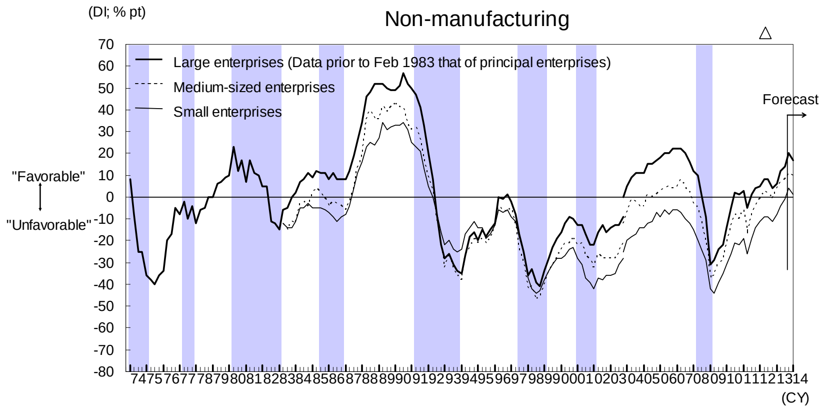
## Downgrade to manufacturers' sentiment on capex

The FY13 capex projection (incl. investment in properties but excl. that in software; all industries, large companies) was downgraded to +4.6% y/y from the previous survey (+5.1%), undershooting the market consensus (+5.5%). This was somewhat unfavorable, considering the past patterns in December surveys. The downgrade to the manufacturing capex projection dragged down the overall projection, indicating that manufacturers still remain cautious on capex due to persistent lower capacity utilization rates. Even so, the current production capacity DI for manufacturers saw a minor improvement from the previous survey and the future DI is projected to improve, which is somewhat favorable. On an all-industry and all-company basis, the current production capacity DI declined (improved) by one point from the previous survey to +2 points, and the employment conditions DI declined (improved) by 5 points to –10 points. This means that the supply-demand gap in terms of production capacity and employment has improved.

## 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 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sep survey | | Dec survey | | | | Sep survey | | Dec survey | | | |
| | Actual | Forecast | Actual | Change* | Forecast | Change** | Actual | Forecast | Actual | Change* | Forecast | Change** |
| Manufacturing | 12 | 11 | 16 | 4 | 14 | -2 | -9 | -5 | 1 | 10 | -1 | -2 |
| Textiles | 0 | 2 | 5 | 5 | 5 | 0 | -29 | -27 | -16 | 13 | -18 | -2 |
| Lumber/wood products | 48 | 52 | 65 | 17 | 57 | -8 | 2 | 5 | 12 | 10 | 10 | -2 |
| Pulp & paper | 0 | 0 | 0 | 0 | -3 | -3 | -32 | -23 | -17 | 15 | -14 | 3 |
| Chemicals | 8 | 7 | 12 | 4 | 7 | -5 | -4 | -2 | 6 | 10 | 1 | -5 |
| Petroleum/coal products | 6 | 13 | 0 | -6 | 6 | 6 | 2 | -2 | 12 | 10 | 0 | -12 |
| Ceramics/stone/clay | 29 | 29 | 44 | 15 | 44 | 0 | -6 | 2 | 10 | 16 | 14 | 4 |
| Iron/steel | 2 | 12 | 0 | -2 | 5 | 5 | 4 | 7 | 19 | 15 | 15 | -4 |
| Nonferrous metals | 18 | 3 | 20 | 2 | 17 | -3 | -9 | -8 | 6 | 15 | 5 | -1 |
| Food/beverages | 11 | 9 | 11 | 0 | 8 | -3 | 3 | 0 | 0 | -3 | 1 | 1 |
| Processed metals | -5 | 4 | 11 | 16 | 17 | 6 | -10 | -3 | 10 | 20 | 1 | -9 |
| General-purpose machinery | 15 | 19 | 27 | 12 | 29 | 2 | -18 | -8 | -7 | 11 | -13 | -6 |
| Production machinery | 7 | 20 | 12 | 5 | 22 | 10 | -6 | 4 | 4 | 10 | 3 | -1 |
| Business-oriented machinery | 8 | 17 | 10 | 2 | 12 | 2 | -12 | -2 | 5 | 17 | -6 | -11 |
| Electrical machinery | 9 | 9 | 11 | 2 | 9 | -2 | -15 | -6 | -5 | 10 | -7 | -2 |
| Shipbuilding/heavy machinery | -4 | -7 | -11 | -7 | -3 | 8 | -9 | -3 | -3 | 6 | 0 | 3 |
| Motor vehicles | 27 | 13 | 31 | 4 | 23 | -8 | 17 | 8 | 22 | 5 | 22 | 0 |
| Materials | 12 | 12 | 17 | 5 | 15 | -2 | -10 | -7 | 4 | 14 | 1 | -3 |
| Assembling | 12 | 12 | 15 | 3 | 14 | -1 | -10 | -4 | -2 | 8 | -3 | -1 |
| Non-manufacturing | 14 | 14 | 20 | 6 | 17 | -3 | -1 | -2 | 4 | 5 | 1 | -3 |
| Construction | 20 | 14 | 27 | 7 | 21 | -6 | 7 | 3 | 17 | 10 | 8 | -9 |
| Real estate | 24 | 24 | 29 | 5 | 25 | -4 | 7 | 4 | 7 | 0 | 1 | -6 |
| Leasing | 31 | 31 | 50 | 19 | 35 | -15 | 13 | 12 | 14 | 1 | 16 | 2 |
| Wholesaling | 11 | 9 | 16 | 5 | 11 | -5 | -6 | -4 | 1 | 7 | 1 | 0 |
| Retailing | 8 | 13 | 11 | 3 | 19 | 8 | -8 | -8 | -2 | 6 | -2 | 0 |
| Transportation/postal services | -2 | 6 | 12 | 14 | 13 | 1 | -13 | -12 | -8 | 5 | -7 | 1 |
| Communications | 32 | 24 | 32 | 0 | 28 | -4 | 17 | 20 | 17 | 0 | 11 | -6 |
| Information services | 24 | 20 | 29 | 5 | 21 | -8 | 8 | 8 | 11 | 3 | 10 | -1 |
| Electric/gas utilities | -18 | -3 | -2 | 16 | -8 | -6 | 7 | 3 | 12 | 5 | 7 | -5 |
| Services for businesses | 28 | 26 | 28 | 0 | 30 | 2 | 6 | 0 | 7 | 1 | 1 | -6 |
| Services for individuals | 25 | 22 | 22 | -3 | 14 | -8 | -10 | -9 | -8 | 2 | -13 | -5 |
| Restaurants/accommodation | 5 | 10 | 15 | 10 | 10 | -5 | -10 | -11 | -10 | 0 | -18 | -8 |
| All industries | 13 | 13 | 18 | 5 | 16 | -2 | -4 | -3 | 3 | 7 | 0 | -3 |

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 | | | | Revision rate | (Forecast) | Revision rate |
| Large enterprises | Manufacturing | -0.4 | 5.7 | 0.7 | 1.8 | -2.5 | 3.8 | 0.5 | 7.6 | 0.9 |
| | Domestic dales | -0.5 | 3.8 | -0.6 | 3.0 | -3.6 | 1.0 | -1.6 | 6.5 | 0.4 |
| | Exports | -0.3 | 10.9 | 4.0 | -1.3 | 0.7 | 11.0 | 5.9 | 10.8 | 2.3 |
| | Non-manufacturing | 0.5 | 2.9 | -0.3 | 1.4 | -0.3 | 3.4 | 0.5 | 2.3 | -1.0 |
| | All industries | 0.1 | 4.0 | 0.1 | 1.5 | -1.2 | 3.6 | 0.5 | 4.4 | -0.3 |
| Medium-sized enterprises | Manufacturing | -1.9 | 3.0 | 0.9 | 1.4 | -5.0 | 0.3 | 0.6 | 5.7 | 1.2 |
| | Non-manufacturing | 2.4 | 2.8 | 0.4 | 3.3 | 1.6 | 1.8 | 0.6 | 3.7 | 0.3 |
| | All industries | 1.2 | 2.8 | 0.6 | 2.8 | -0.2 | 1.4 | 0.6 | 4.2 | 0.5 |
| Small enterprises | Manufacturing | -1.5 | 3.1 | 1.6 | 0.6 | -3.5 | 0.6 | 1.3 | 5.6 | 1.9 |
| | Non-manufacturing | 2.1 | 2.4 | 1.5 | 2.7 | 1.6 | 3.1 | 1.6 | 1.7 | 1.4 |
| | All industries | 1.3 | 2.5 | 1.5 | 2.2 | 0.5 | 2.5 | 1.5 | 2.5 | 1.5 |
| All enterprises | Manufacturing | -0.8 | 4.9 | 0.9 | 1.5 | -3.1 | 2.7 | 0.6 | 7.0 | 1.1 |
| | Non-manufacturing | 1.3 | 2.7 | 0.4 | 2.1 | 0.6 | 3.0 | 0.8 | 2.4 | 0.0 |
| | All industries | 0.6 | 3.4 | 0.5 | 1.9 | -0.6 | 2.9 | 0.8 | 3.9 | 0.3 |

### Profit Projections (y/y %)

| | | FY12 | FY13 | | 1H FY12 | 2H FY12 | 1H FY13 | | 2H FY13 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | (Forecast) | Revision rate | | | | Revision rate | (Forecast) | Revision rate |
| Large enterprises | Manufacturing | 12.4 | 34.7 | 8.6 | -15.2 | 46.1 | 79.2 | 24.1 | 3.1 | -5.9 |
| | Materials | -22.4 | 19.0 | 8.0 | -50.5 | 28.9 | 55.6 | 16.7 | -6.6 | -0.7 |
| | Assembling | 44.2 | 42.4 | 8.9 | 29.9 | 56.5 | 90.7 | 27.3 | 7.9 | -8.0 |
| | Non-manufacturing | 2.3 | 14.9 | 8.1 | 0.9 | 3.6 | 25.0 | 16.6 | 4.8 | -0.5 |
| | All industries | 6.4 | 23.4 | 8.3 | -6.0 | 20.0 | 46.1 | 20.1 | 4.0 | -3.1 |
| Medium-sized enterprises | Manufacturing | 1.2 | 15.8 | 8.6 | -8.1 | 10.6 | 29.4 | 21.6 | 4.4 | -2.3 |
| | Non-manufacturing | 11.0 | 1.4 | 4.8 | 13.2 | 9.3 | 8.6 | 15.3 | -4.2 | -3.1 |
| | All industries | 7.7 | 5.9 | 6.1 | 5.4 | 9.7 | 15.3 | 17.5 | -1.6 | -2.8 |
| Small enterprises | Manufacturing | 5.9 | 10.5 | 7.0 | 9.3 | 3.0 | 5.9 | 12.1 | 14.7 | 3.0 |
| | Non-manufacturing | 10.7 | 6.0 | 4.8 | 13.5 | 8.8 | 13.7 | 8.2 | 0.4 | 2.2 |
| | All industries | 9.4 | 7.2 | 5.4 | 12.3 | 7.3 | 11.5 | 9.2 | 3.9 | 2.4 |
| All enterprises | Manufacturing | 9.7 | 28.8 | 8.4 | -11.2 | 33.5 | 60.8 | 22.5 | 4.7 | -4.3 |
| | Non-manufacturing | 5.7 | 10.3 | 6.8 | 5.4 | 6.0 | 19.7 | 14.7 | 1.9 | -0.4 |
| | All industries | 7.2 | 17.3 | 7.5 | -1.2 | 15.4 | 34.5 | 17.9 | 3.0 | -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

| | | FY12 | FY13 | | 1H FY12 | 2H FY12 | 1H FY13 | | 2H FY13 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | (Forecast) | Revision rate | | | | Revision rate | (Forecast) | Revision rate |
| Large enterprises | Manufacturing | 1.6 | 4.9 | -1.7 | 12.4 | -6.7 | -8.6 | -13.0 | 17.3 | 8.5 |
| | Non-manufacturing | 2.6 | 4.4 | 0.0 | 1.9 | 3.1 | 4.9 | -6.2 | 4.0 | 5.3 |
| | All industries | 2.2 | 4.6 | -0.5 | 5.5 | -0.2 | 0.0 | -8.5 | 8.2 | 6.4 |
| Medium-sized enterprises | Manufacturing | 2.8 | 1.3 | -0.7 | 16.0 | -7.0 | -7.5 | -9.8 | 9.4 | 7.9 |
| | Non-manufacturing | 14.4 | 0.6 | 3.2 | 26.1 | 5.9 | 6.6 | 4.0 | -4.6 | 2.4 |
| | All industries | 9.7 | 0.8 | 1.7 | 22.0 | 0.8 | 1.1 | -1.3 | 0.6 | 4.6 |
| Small enterprises | Manufacturing | -4.5 | 11.7 | -2.2 | 6.1 | -11.7 | 21.5 | -4.0 | 3.7 | -0.5 |
| | Non-manufacturing | 26.7 | 6.0 | 15.1 | 29.1 | 24.8 | 26.6 | 19.4 | -10.5 | 10.7 |
| | All industries | 14.4 | 7.9 | 8.6 | 20.4 | 9.9 | 24.9 | 10.7 | -5.9 | 6.4 |
| All enterprises | Manufacturing | 0.8 | 5.3 | -1.6 | 12.1 | -7.6 | -4.1 | -10.9 | 13.8 | 7.0 |
| | Non-manufacturing | 7.6 | 4.1 | 2.7 | 9.0 | 6.4 | 8.7 | -0.6 | 0.5 | 5.6 |
| | All industries | 5.2 | 4.5 | 1.2 | 10.1 | 1.4 | 4.1 | -4.3 | 4.8 | 6.1 |

Source: Bank of Japan.

Revision rate: % change from previous survey.