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BOJ March 2014 Tankan Survey

Business conditions DI broadly improves, but major decline seen due to increase in consumption tax

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Summary

- In the BOJ March Tankan survey of corporate sentiment, business sentiment improved overall. A broad range of industries showed improvement, and this general sentiment appears to have spread to small to medium sized enterprises as well, hence confirming continued expansion of the economy. On the other hand, the outlook for the near future has met with a major downgrade. This is thought to be due to the reactionary decline following the increase in the consumption tax, and hence can be considered within the range of what had already been expected.
- FY 2014 sales projections of major corporations in all industries see growth of +1.1% y/y. On an industry by industry basis, manufacturing industries see +1.2%. While the non-manufacturing industries are expecting +1.0%. Meanwhile, FY 2014 recurring profit projections of major corporations in all industries report -2.3% y/y. Profit projections divided between first half and second half of the fiscal year have both manufacturing and non-manufacturing industries expecting declines in the first half, moving to profit growth in the second half. Profits are expected to temporarily fall due to the reactionary decline expected after the increase in consumption tax, but then in the second half, a rapid rebound is seen.
- The FY 2014 capex projection (incl. investment in properties but excl. that in software; all industries, large companies) was +0.1% y/y, in tune with market consensus (+0.0%). At the time of the March survey, it was the first time capex projections were positive since 2007. These numbers are more positive than those reported by the survey at the beginning of the fiscal year.

Fifth consecutive period of improvement for large manufacturers

In the BOJ March Tankan survey of corporate sentiment, business sentiment improved overall. A broad range of industries showed improvement, and this general sentiment appears to have spread to small to medium sized enterprises as well, hence confirming continued expansion of the economy. On the other hand, the outlook for the near future has met with a major downgrade. This is thought to be due to the reactionary decline following the increase in the consumption tax, and hence can be considered within the range of what had already been expected.

The business conditions DI for large manufacturers rose by 17%pt, an improvement over the previous report (+16%pt). The improvement was slight, and somewhat below that of market consensus (+19%pt). Performance by industry was as follows: In the processing industries, foods worsened since the last report, while general purpose machinery was flat. All other industries improved. Of these, industries related to capex activities, such as production machinery and equipment, were especially prominent in their improvement. Also scoring high were automobiles with favorable domestic sales due to last minute demand prior to the increase in consumption tax, and metallic products, which have benefitted from robust construction investment. In the materials industries, steel and lumber/wood products exhibited considerable improvement. Meanwhile, business sentiment worsened for ceramics/stone/clay products, petroleum/coal products, and chemicals, making the materials industries flat overall in comparison to the previous report.

Looking at supply and demand conditions for products of large manufacturers, we see domestic supply and demand conditions continue to improve. On the other hand, overseas supply and demand conditions were flat for the processing industries and worsened for the materials industries. The worsening of overseas supply and demand conditions pushed down the performance of the materials industries. Meanwhile, looking at price conditions, purchase price DI for the materials industries was down while sales price DI was up, indicating an improvement due to positive terms of trade. Meanwhile, purchase price DI rose for the processing industries, indicating a worsening of terms of trade. In nonferrous metals, both sales and purchase price conditions have risen, causing terms of business to remain flat. As a result, terms of business are flat in comparison to the previous survey for all industries. However, in macro terms, a change in terms of business does not have much effect on the business conditions of a corporation.

The business conditions DI for large non-manufacturing corporations was +24%pt, an improvement over the previous survey (+20%pt). Results were right in line with market consensus (+24%pt). Looking by industry, construction and real estate made major improvements with the help of robust growth in housing investment and public investment, helping to push overall numbers up in turn. Meanwhile, growth in sales due to last minute demand prior to the increase in consumption tax has brought major growth to the retail industry. As for personal services, this area is down just slightly from the previous survey, but it is improving with the help of the restaurants/accommodation industry. This has brought firm results to the personal sector. Meanwhile, communications has experienced a major decline, and electric/gas utilities have seen business condition DI worsen due to rising fuel prices.

Future outlook for business conditions DI of major manufacturers is +8%pt, down 9 points from the current period, with non-manufacturing also down by 11 points to +13%pt, a major worsening of conditions for both industries. By industry, only three areas within the manufacturing industry improved. These are petroleum/coal products, general purpose machinery, and shipbuilding/heavy machinery. Meanwhile, all sectors of the non-manufacturing industry saw results worsen. This is seen as being due mostly to the reactionary decline after the consumption tax hike goes into effect. Interesting to note that lumber/wood products, autos, and retail, the sectors with the most notable growth due to last minute demand, are also the areas whose declines are most severe. At the same time,

these declines are within the range of what had been thought possible in recent projections, and hence come as no surprise. The BOJ Tankan survey outlook for future business conditions just before the consumption tax hike of 1997 also experienced steep declines, but that did not mean necessarily that business conditions would deteriorate just after the tax hike. Ultimately, improvements were actually seen in the manufacturing industries. Hence, this survey's outlook for a major worsening of business conditions in the near future need not be taken overly pessimistically. While there is a negative outlook for domestic supply and demand conditions for manufactured goods, improvements are seen in overseas supply and demand, and growth in exports should provide a good foundation for business conditions for manufacturers.

Business conditions DI for small to medium sized businesses has also improved, with the same impending major deterioration in the near future as is seen for major corporations. As for the manufacturing industries, even more major improvements are seen in the future than there are for large corporations. Further economic expansion is therefore seen, including for small to medium size businesses.

FY 2014 sales/profit projections revised upwards

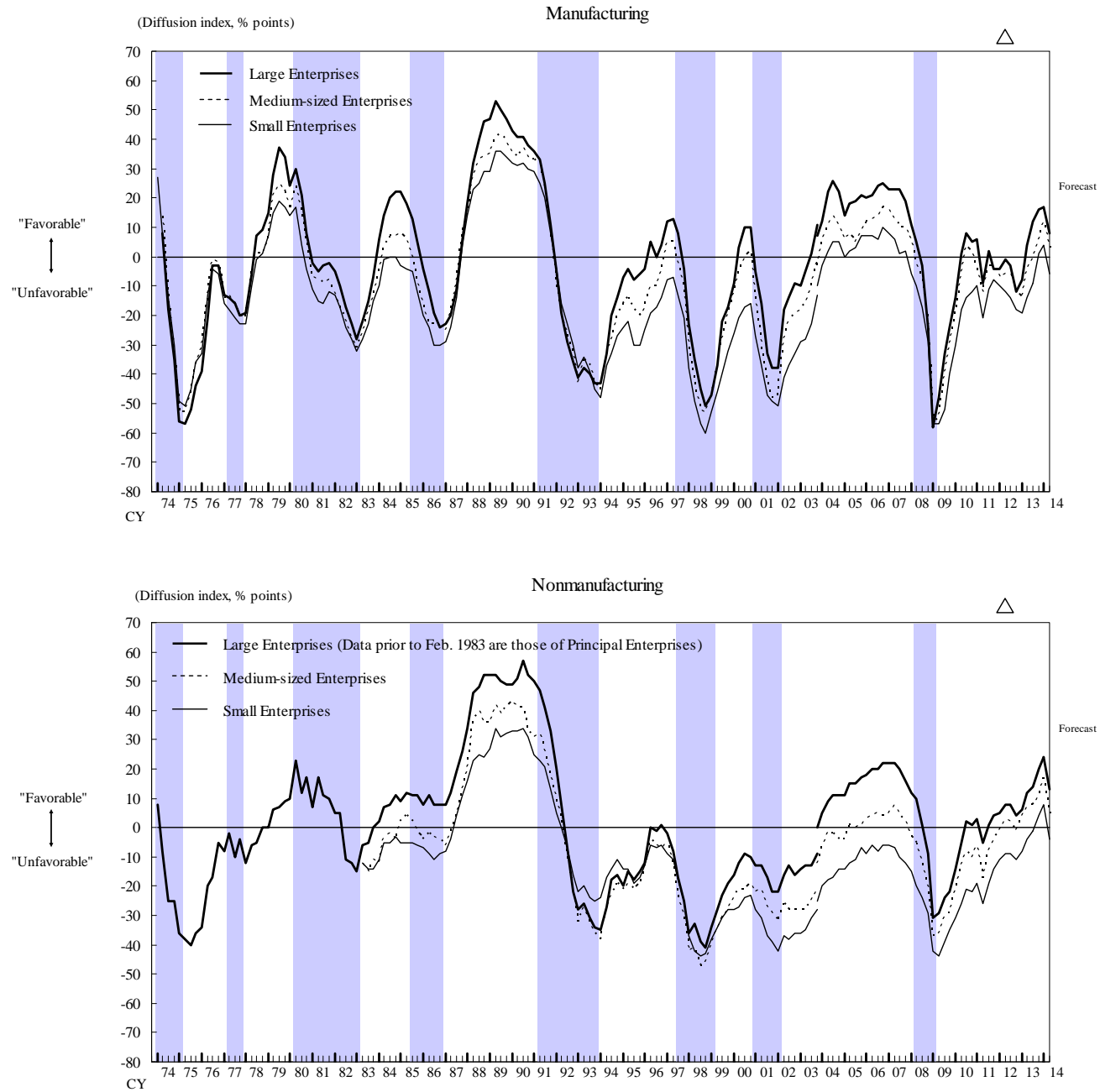
FY 2014 sales projections of major corporations in all industries see growth of +1.1% y/y. On an industry by industry basis, manufacturing industries see +1.2%. While the non-manufacturing industries are expecting +1.0%. Meanwhile, FY 2014 recurring profit projections of major corporations in all industries report -2.3% y/y. Profit projections divided between first half and second half of the fiscal year have both manufacturing and non-manufacturing industries expecting declines in the first half, moving to profit growth in the second half. Profits are expected to temporarily fall due to the reactionary decline expected after the increase in consumption tax, but then in the second half, a rapid rebound is seen.

The FY 2014 assumed exchange rate for large manufacturers was 99.48 yen to the dollar. Though the assumption here is a bit on the high yen side, compared to FY 2013, there is actually less of a divergence from the actual rate. In either case, the chances for increases in earnings due to the exchange rate are limited.

FY 2014 capex projections higher than usual at the beginning of a fiscal year

The FY 2014 capex projection (incl. investment in properties but excl. that in software; all industries, large companies) was +0.1% y/y, in tune with market consensus (+0.0%). At the time of the March survey, it was the first time capex projections were positive since 2007. These numbers are more positive than those usually reported by the survey at the beginning of a fiscal year. On an industry by industry basis, large manufacturers recorded +3.6%, while non-manufacturing was at -1.6%. The manufacturing industries had been lagging in improvement in this area and now it is confirmed that they have become more aggressive in capex. Production/management capex DI has declined by 2 points (an improvement), with large non-manufacturing corporations down by 1 point (an improvement). Meanwhile, production/management capex DI for companies of all sizes in all industries was 0%pt, down 2 points from the previous survey (an improvement). The number of employees DI (all sizes all industries) was at -12%pt, down 2 points from last survey (an improvement). The supply-demand gap in terms of production capacity and employment according to the BOJ Tankan continues to improve. Regarding number of employees DI, there is a growing sense of a labor shortage in companies of all sizes and all industries, but this is especially felt in small to medium businesses in the non-manufacturing industries.

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					
	Dec. 2013 Survey		March 2014 Survey				Dec. 2013 Survey		March 2014 Survey			
	Actual result	Forecast	Actual result	Forecast		Changes	Actual result	Forecast	Actual result	Forecast		Changes
				Changes	Changes					Changes	Changes	
Manufacturing	16	14	17	1	8	-9	1	-1	4	3	-6	-10
Textiles	5	5	8	3	0	-8	-16	-18	-19	-3	-27	-8
Lumber & Wood products	65	57	74	9	5	-69	12	10	32	20	-19	-51
Pulp & Paper	0	-3	0	0	-4	-4	-17	-14	-12	5	-14	-2
Chemicals	12	7	10	-2	5	-5	6	1	1	-5	-4	-5
Petroleum & Coal products	0	6	-6	-6	0	6	12	0	10	-2	-11	-21
Ceramics, Stone & Clay	44	44	29	-15	21	-8	10	14	22	12	12	-10
Iron & Steel	0	5	19	19	12	-7	19	15	19	0	9	-10
Nonferrous metals	20	17	22	2	8	-14	6	5	7	1	-3	-10
Food & Beverages	11	8	9	-2	7	-2	0	1	-5	-5	-6	-1
Processed metals	11	17	16	5	15	-1	10	1	10	0	6	-4
General-purpose machinery	27	29	27	0	33	-6	-7	-13	-4	3	0	4
Production machinery	12	22	25	13	18	-7	4	3	17	13	3	-14
Business oriented machinery	10	12	12	2	9	-3	5	-6	12	7	1	-11
Electrical machinery	11	9	12	1	8	-4	-5	-7	0	5	-13	-13
Shipbuilding & Heavy machinery, etc.	-11	-3	-3	8	3	6	-3	0	8	11	4	-4
Motor vehicles	31	23	36	5	-2	-38	22	22	25	3	0	-25
Basic materials	17	15	17	0	7	-10	4	1	7	3	-7	-14
Processing	15	14	17	2	9	-8	-2	-3	4	6	-5	-9
Nonmanufacturing	20	17	24	4	13	-11	4	1	8	4	-4	-12
Construction	27	21	37	10	26	-11	17	8	21	4	1	-20
Real estate	29	25	36	7	29	-7	7	1	6	-1	-3	-9
Goods rental & Leasing	50	35	55	5	42	-13	14	16	25	11	16	-9
Wholesaling	16	11	16	0	8	-8	1	1	7	6	-5	-12
Retailing	11	19	24	13	-5	-29	-2	-2	11	13	-25	-36
Transport & Postal activities	12	13	15	3	9	-6	-8	-7	-2	6	-6	-4
Communications	32	28	21	-11	17	-4	17	11	8	-9	14	6
Information services	29	21	28	-1	23	-5	11	10	13	2	10	-3
Electric & Gas utilities	-2	-8	-3	-1	-13	-10	12	7	-2	-14	0	2
Services for businesses	28	30	34	6	32	-2	7	1	11	4	2	-9
Services for individuals	22	14	20	-2	16	-4	-8	-13	-10	-2	-12	-2
Accommodations, Eating & Drinking services	15	10	19	4	2	-17	-10	-18	-13	-3	-15	-2
All industries	18	16	21	3	11	-10	3	0	7	4	-5	-12

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		(Year-to-year % change)			
		FY2013		FY2014	
		(Forecast)	Revision rate	(Forecast)	Revision rate
Large Enterprises	Manufacturing	5.4	-0.3	1.2	-
	Domestic Sales	3.1	-0.7	1.1	-
	Exports	11.6	0.6	1.4	-
	Nonmanufacturing	3.3	0.4	1.0	-
	All industries	4.1	0.1	1.1	-
Medium-sized Enterprises	Manufacturing	3.1	0.1	0.7	-
	Nonmanufacturing	2.4	-0.4	1.2	-
	All industries	2.6	-0.3	1.1	-
Small Enterprises	Manufacturing	3.9	0.7	0.9	-
	Nonmanufacturing	4.1	1.7	-0.9	-
	All industries	4.0	1.5	-0.5	-
All Enterprises	Manufacturing	4.8	-0.1	1.1	-
	Nonmanufacturing	3.3	0.6	0.5	-
	All industries	3.8	0.4	0.7	-

(Note) Revision rates are calculated as the percentage change of the figures between the current and the previous survey.

	(Year-to-year % change)							
	1H FY2013		2H FY2013		1H FY2014		2H FY2014	
	(Forecast)	Revision rate	(Forecast)	Revision rate	(Forecast)	Revision rate	(Forecast)	Revision rate
Large Enterprises	3.1	7.6	0.0	1.5	-	0.9	-	
	0.1	6.0	-0.4	1.5	-	0.8	-	
	11.2	12.0	1.1	1.6	-	1.2	-	
	3.2	3.4	1.1	1.1	-	1.0	-	
	3.1	5.0	0.6	1.3	-	1.0	-	
Medium-sized Enterprises	-0.1	6.3	0.5	1.2	-	0.3	-	
	0.7	3.9	0.3	2.2	-	0.3	-	
	0.5	4.5	0.3	1.9	-	0.3	-	
Small Enterprises	1.0	6.7	1.0	1.9	-	0.0	-	
	3.7	4.4	2.7	-0.4	-	-1.4	-	
	3.1	4.9	2.3	0.1	-	-1.1	-	
All Enterprises	2.2	7.3	0.2	1.6	-	0.7	-	
	2.8	3.8	1.3	0.9	-	0.1	-	
	2.6	4.9	1.0	1.1	-	0.3	-	

Current Profits		(Year-to-year % change)			
		FY2013		FY2014	
		(Forecast)	Revision rate	(Forecast)	Revision rate
Large Enterprises	Manufacturing	43.3	6.4	-1.5	-
	Basic materials	29.2	8.6	-3.2	-
	Processing	50.2	5.5	-0.8	-
	Nonmanufacturing	16.1	1.1	-3.1	-
	All industries	27.9	3.6	-2.3	-
Medium-sized Enterprises	Manufacturing	17.6	1.5	-7.0	-
	Nonmanufacturing	1.4	0.0	-2.1	-
	All industries	6.5	0.5	-3.8	-
Small Enterprises	Manufacturing	10.0	-0.5	2.7	-
	Nonmanufacturing	11.4	5.1	-1.1	-
	All industries	11.1	3.6	-0.1	-
All Enterprises	Manufacturing	35.2	5.0	-1.7	-
	Nonmanufacturing	12.2	1.7	-2.5	-
	All industries	20.9	3.1	-2.2	-

	(Year-to-year % change)							
	1H FY2013		2H FY2013		1H FY2014		2H FY2014	
	(Forecast)	Revision rate	(Forecast)	Revision rate	(Forecast)	Revision rate	(Forecast)	Revision rate
Large Enterprises	78.8	18.1	14.6	-5.3	-	2.6	-	
	56.7	10.0	17.8	-8.1	-	1.6	-	
	89.5	22.1	13.2	-4.2	-	3.0	-	
	24.5	7.7	2.8	-6.2	-	0.5	-	
	45.6	12.6	8.3	-5.8	-	1.5	-	
Medium-sized Enterprises	28.2	8.7	4.1	-14.4	-	0.5	-	
	7.8	-3.6	0.6	-10.0	-	4.9	-	
	14.4	0.2	1.8	-11.6	-	3.4	-	
Small Enterprises	8.0	11.8	-2.6	1.1	-	4.0	-	
	16.1	8.0	7.6	-2.6	-	0.1	-	
	13.8	9.0	4.9	-1.6	-	1.1	-	
All Enterprises	60.6	16.0	10.9	-5.8	-	2.5	-	
	19.8	5.5	3.5	-6.1	-	1.2	-	
	34.4	9.7	6.5	-6.0	-	1.7	-	

Source: Bank of Japan.

Revision rate: % change from previous survey.

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

Chart 3

		Fixed Investment including Land Purchasing Expenses*				(Year-to-year % change)				(Year-to-year % change)			
		FY2013		FY2014		1H FY2013		2H FY2013		1H FY2014		2H FY2014	
		(Forecast)	Revision rate	(Forecast)	Revision rate		(Forecast)	Revision rate	(Forecast)	Revision rate	(Forecast)	Revision rate	
Large Enterprises	Manufacturing	2.1	-2.6	3.6	-	-9.2	12.5	-4.1	17.6	-	-6.9	-	
	Nonmanufacturing	4.8	0.4	-1.6	-	5.2	4.6	0.5	6.1	-	-7.3	-	
	All industries	3.9	-0.6	0.1	-	0.0	7.1	-1.1	9.9	-	-7.2	-	
Medium-sized Enterprises	Manufacturing	-1.7	-2.9	8.7	-	-9.4	5.4	-3.6	27.6	-	-6.3	-	
	Nonmanufacturing	4.7	4.2	-5.4	-	9.8	0.4	5.3	-4.6	-	-6.2	-	
	All industries	2.3	1.5	-0.3	-	2.3	2.3	1.7	6.4	-	-6.2	-	
Small Enterprises	Manufacturing	13.3	1.4	-16.0	-	20.5	7.4	3.6	-2.8	-	-28.3	-	
	Nonmanufacturing	14.2	7.8	-28.9	-	30.2	1.4	13.3	-27.3	-	-30.6	-	
	All industries	13.9	5.6	-24.7	-	27.0	3.4	9.8	-19.5	-	-29.8	-	
All Enterprises	Manufacturing	3.1	-2.0	1.2	-	-5.0	10.4	-2.9	15.6	-	-10.1	-	
	Nonmanufacturing	6.3	2.2	-6.9	-	10.0	3.5	3.0	-2.1	-	-10.8	-	
	All industries	5.2	0.7	-4.2	-	4.6	5.7	0.9	3.7	-	-10.6	-	

Source: Bank of Japan.

Revision rate: % change from previous survey.