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# BOJ March 2015 Tankan Survey

## Business sentiment improves in non-manufacturing, but caution remains

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### Summary

- In the BOJ March Tankan survey of corporate sentiment, the current trend in business sentiment has improved overall in comparison to the previous survey when it was marking time. Factors behind the improvement include moderate growth in personal consumption following a period of decline after the April 2014 increase in consumption tax. As for the future, corporations of all sizes reported forecasts worsening, and all reported being cautious as regards the future business environment. At the same time, it should be noted that the sampling of corporations surveyed was changed in the current report.
- The business conditions DI for large manufacturers (+12%pt, based on new sample) was the same as on the previous report, and fell below market consensus (+14%pt). Exports are now in a growth trend due to the recovery of the US economy, while the yen has weakened progressively since the end of October when the BOJ announced its decision to implement additional monetary easing measures. Expectations were that this would push up the business conditions DI for large manufacturers, but the effect was fairly limited.
- Business conditions DI for large non-manufacturing industries improved at +19%pt in comparison to the previous survey's (+17%pt) and exceeded market consensus (+17%pt). In performance by industry, we see an improvement in business conditions for the retailing and personal services due to moderate growth in personal consumption which had experienced a downtrend after the increase in consumption tax in April 2014, as well as an increase in consumption associated with inbound tourist traffic.
- Sales projections of large corporations (all industries) for FY2015 see an improvement of +0.7% y/y, with recurring profits expected up by +0.6% y/y. A modest improvement, but it represents growth in both earnings and profits. The projection for recurring profits on the March 2014 survey indicated a decline in earnings due to the effects of the increase in consumption tax. However, the current projection is for an increase in earnings due to the economy's recovery.
- The FY 2015 capex projection large corporations in all industries (incl. investment in properties but excl. that in software; all industries, large companies) is -1.2% y/y, and falls below market consensus (+0.5%). However, the March survey reflects a certain quirk in statistics due to the tendency of corporations to be conservative regarding capex projections for the following year. Considering this tendency, current capex projections are actually about the same as in most years, and should not be taken in the negative sense.

## Outlook for business conditions DI improves overall, especially in the non-manufacturing industries

In the BOJ March Tankan survey of corporate sentiment, the current trend in business sentiment has improved overall in comparison to the previous survey when it was marking time. Factors behind the improvement include moderate growth in personal consumption following a period of decline after the April 2014 increase in consumption tax. As for the future, corporations of all sizes reported forecasts worsening, and all reported being cautious as regards the future business environment. At the same time, it should be noted that the sampling of corporations surveyed was changed in the current report.

The business conditions DI for large manufacturers (+12%pt, based on new sample) was the same as on the previous report, and fell below market consensus (+14%pt). Exports are now in a growth trend due to the recovery of the US economy, while the yen has weakened progressively since the end of October when the BOJ announced its decision to implement additional monetary easing measures. Expectations were that this would push up the business conditions DI for large manufacturers, but the effect was fairly limited. Performance by industry was as follows: in the materials industry, the situation had been worsening for lumber and wood products due to the rising cost of raw materials associated with the weak yen, but the increase in prices took a breather in March, leading to a major improvement. Meanwhile, petroleum and coal products saw the extent of its losses shrink somewhat due to expectations that the price of crude oil may soon hit bottom. On the other hand, iron & steel marked time due to slow public investment despite expectations for improvements arising from expanding domestic production and the modest comeback in the number of housing starts. The business conditions DI of nonferrous metals and ceramics, stone & clay was much the same in that hopes of improvements were dashed when instead the situation worsened considerably. The relaxation of supply and demand is thought to be behind the poor performance. In the processing industries, the business conditions DI of general machinery continues to be firm with the help of capital investment related demand overseas as well as the weak yen. Automobiles marked time due to a decline in domestic sales (on a y/y basis). Meanwhile, electrical machinery where hopes were high for the effect of the weak yen marked time due to the lagging recovery in domestic demand, showing a slowdown in its former growth trend.

Business conditions DI for large non-manufacturing industries improved at +19%pt in comparison to the previous survey's (+17%pt) and exceeded market consensus (+17%pt). In performance by industry, we see an improvement in business conditions for the retailing and personal services due to moderate growth in personal consumption which had experienced a downtrend after the increase in consumption tax in April 2014, as well as an increase in consumption associated with inbound tourist traffic. Retailing is in the habit of producing rather optimistic forecasts for the future due to some quirks in industry statistics. However, the industry has been clearly improving along the lines of the December 2014 survey due to the recovery in personal consumption. Meanwhile, accommodations, eating & drinking services retain a strong undertone. There have been high expectations for this area due to its consumption related nature, but eating and drinking has been experiencing a slowdown. Hence the overall result was flat in comparison to the previous forecast. Housing starts, which experienced a downtrend after the increase in the consumption tax, appear to be making a comeback, while the office vacancy rate has been declining, bringing welcome improvements to the real estate industry. However, public investment has been sluggish and the shortage in manpower continues, causing the construction industry to mark time. Electric & gas utilities saw a small improvement in its business conditions DI thanks to the fall in imported energy prices. However, the cost of generating thermal power as a substitute has already brought downward pressure on earnings for some time now, so ultimately negative numbers were recorded for the sixteenth consecutive quarter.

## Corporations remain cautious regarding future

Looking at the future outlook for business conditions DI, large manufacturers are expected to see +10%pt (a drop in -2%pt in comparison to the current survey), while +17%pt is seen for major non-manufacturers (a decline of -2%pt in comparison to the current survey). Overall, corporations are taking a cautious view regarding the future, apparently lacking full confidence in the continued recovery of the economy. In the manufacturing industries, one matter of concern is that the auto industry is expected to worsen despite improvements in their earnings environment due to the weak yen and low price of crude oil. Meanwhile, the non-manufacturing industries expect further improvements in retailing and personal services due to the recovery in personal consumption, bringing a positive element into the mix. But real estate and construction are expected to worsen due to sluggish public investment and the shortage in manpower.

As for the business conditions DI of small enterprises, much like large corporations there were both bright and dark spots, with results varying in the manufacturing and non-manufacturing industries. The business conditions DI of small manufacturers overall was +1%pt, a decrease of -3%pt in comparison with the previous forecast. Looking at results by industry, a broad range of areas saw a worsening of business sentiment, with performance especially worsening in the materials industry, including ceramics, stone & clay, non-ferrous metals, and chemicals. However, small non-manufacturers saw an improvement at 3%pt in comparison with the previous report's +2%pt. Results more or less echoed those of the large non-manufacturers. While construction, with its shortage of manpower, worsened, improvements in retailing and other industries stood out, thanks to the recovery in personal consumption. As for the future, both small manufacturers and small non-manufacturers are expecting things to worsen, something which requires careful monitoring in the coming months.

## Noticeable improvement in outlook for supply & demand of overseas goods

Taking a look at large corporations' supply-demand conditions DI for domestic products and services, we see that the non-manufacturing industry gained a small improvement in comparison with the previous survey due to the recovery in the domestic economy. It should be noted that the materials industries took a turn for the worse, while the manufacturing industries remained flat. The supply and demand situation for overseas goods worsened recently, but with the recovery of the US economy and signs that the EU economy is also beginning to improve, the outlook for the future has become brighter. As for price conditions DI, the collapse in the price of crude oil during the latter half of 2014 has been helpful to both the manufacturing and non-manufacturing industries, bringing both industries a decline in their input price conditions DI. This has improved the terms of trade considerably (output price conditions DI – input price conditions DI). The result is that we should be able to expect improvements in corporate earnings in the future.

## Though modest, large corporations see both income and profits increasing in FY2015

Sales projections of large corporations (all industries) for FY2015 see an improvement of +0.7% y/y, with recurring profits expected up by +0.6% y/y. A modest improvement, but it represents growth in both earnings and profits. The projection for recurring profits on the March 2014 survey indicated a decline in earnings due to the effects of the increase in consumption tax. However, the current projection is for an increase in earnings due to the economy's recovery. On an industry by industry basis, both manufacturing and non-manufacturing see growth in earnings, while in the area of recurring profits, manufacturing expects growth while non-manufacturing expects to be flat. The assumed exchange rate in FY2015 for major manufacturers is 111.81 yen to the dollar. Considering the current yen exchange rate, manufacturers are being fairly conservative in their projections. This means

that if the yen rate remains at around its current level, there will likely be upward revisions in corporate earnings in the future, especially in export driven manufacturing industries.

## **Manufacturing exhibits confidence in FY2015 capex projection**

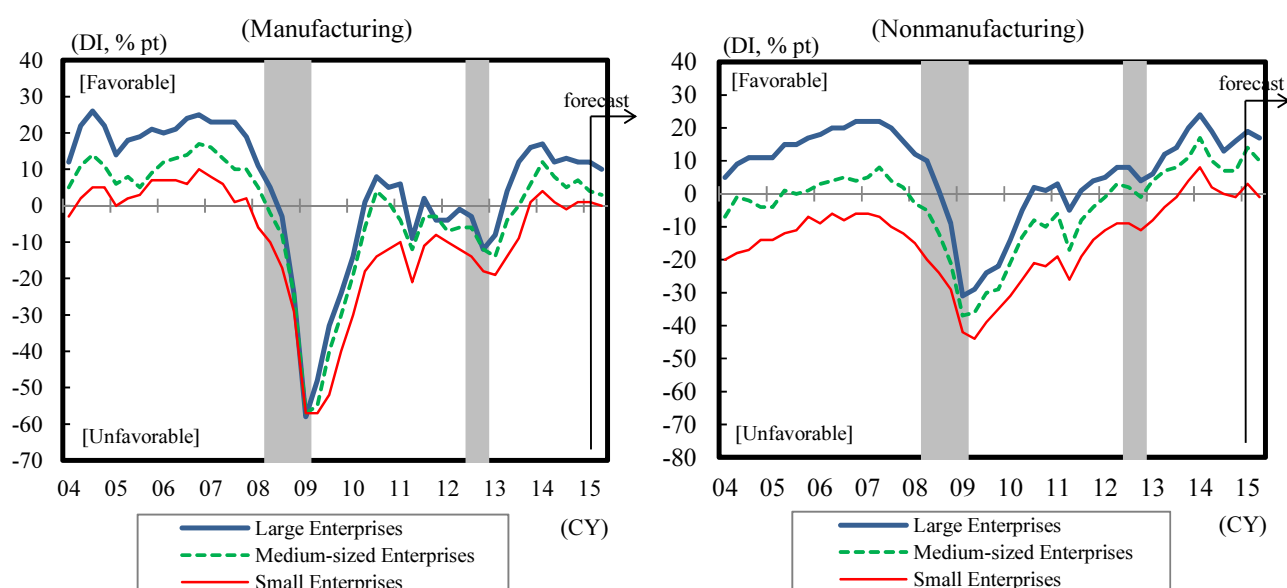
The FY 2015 capex projection large corporations in all industries (incl. investment in properties but excl. that in software; all industries, large companies) is -1.2% y/y, and falls below market consensus (+0.5%). However, the March survey reflects a certain quirk in statistics due to the tendency of corporations to be conservative regarding capex projections for the following year. Considering this tendency, current capex projections are actually about the same as in most years, and should not be taken in the negative sense<sup>1</sup>. On an industry by industry basis, large manufacturers revised projections by +5.0% y/y, while non-manufacturing revised projections downwards by -4.1%. Comparing with past tendencies, the manufacturing industry shows a strong propensity to invest in capex. This is most probably due to the increase in exports accompanying the progressively weak yen and the increase in production, which is expected to bring large manufacturers an improvement in earnings. Meanwhile, production capacity DI for major manufacturers was +3%pt, down by -1%pt from the previous survey, meaning that the excess in production capacity has decreased, and is a positive development. Meanwhile, major non-manufacturers were flat in comparison to the previous survey at -2%pt, continuing negative levels of capex (deficiency). These levels of production capacity DI and forecast DI should also provide support for future growth in capex.

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<sup>1</sup> Changes in samples used in the forecast may have influenced the correction pattern to a certain degree.

## Business Conditions DI

Chart 1



Source: Bank of Japan; compiled by DIR.

Note: 1. Shaded areas denote economic down turns.

2. Due to changes in samples used in the forecast, there is some discontinuity between the December 2015 and March 2015 results.

	Large Enterprises						Small Enterprises					
	Dec. 2014 Survey		March 2015 Survey				Dec. 2014 Survey		March 2015 Survey			
	Actual result	Forecast	Actual result	Forecast		Actual result	Forecast	Actual result	Forecast			
			Changes	Changes	Changes			Changes	Changes	Changes		
Manufacturing	12	9	12	0	10	-2	4	-3	1	-3	0	-1
Textiles	-6	-8	3	9	6	3	-15	-29	-18	-3	-23	-5
Lumber & Wood products	-19	-6	0	19	-12	-12	-11	-18	-16	-5	-19	-3
Pulp & Paper	-7	-18	-7	0	0	7	-20	-15	-16	4	-13	3
Chemicals	7	5	16	9	13	-3	10	1	2	-8	5	3
Petroleum & Coal products	-28	-16	-11	17	0	11	0	-2	-6	-6	-13	-7
Ceramics, Stone & Clay	13	13	2	-11	9	7	21	6	3	-18	-2	-5
Iron & Steel	14	10	14	0	5	-9	11	7	6	-5	7	1
Nonferrous metals	27	28	14	-13	8	-6	13	5	0	-13	8	8
Food & Beverages	12	2	10	-2	9	-1	-6	-8	-6	0	-3	3
Processed metals	-10	-2	0	10	-7	-7	11	2	4	-7	12	8
General-purpose machinery	20	20	25	5	16	-9	9	-3	15	6	11	-4
Production machinery	27	28	26	-1	25	-1	11	6	10	-1	11	1
Business oriented machinery	17	22	19	2	13	-6	12	3	13	1	7	-6
Electrical machinery	15	11	15	0	15	0	7	-4	8	1	3	-5
Shipbuilding & Heavy machinery, etc.	14	7	14	0	7	-7	23	16	23	0	19	-4
Motor vehicles	15	10	15	0	6	-9	25	13	18	-7	7	-11
Basic materials	6	4	8	2	7	-1	3	-6	-4	-7	-4	0
Processing	14	11	15	1	11	-4	6	0	5	-1	4	-1
Nonmanufacturing	17	16	19	2	17	-2	1	-2	3	2	-1	-4
Construction	36	31	36	0	26	-10	17	6	15	-2	2	-13
Real estate	22	22	33	11	29	-4	0	-2	7	7	4	-3
Goods rental & Leasing	31	25	28	-3	23	-5	18	13	16	-2	12	-4
Wholesaling	7	3	4	-3	7	3	-6	-7	-5	1	-5	0
Retailing	-2	8	5	7	13	8	-23	-19	-13	10	-14	-1
Transport & Postal activities	15	8	15	0	15	0	-4	-7	0	4	-2	-2
Communications	22	28	16	-6	22	6	22	21	18	-4	19	1
Information services	25	24	23	-2	22	-1	6	7	7	1	11	4
Electric & Gas utilities	-3	-3	-2	1	-2	0	10	15	15	5	12	-3
Services for businesses	31	31	27	-4	23	-4	3	-1	7	4	2	-5
Services for individuals	18	16	27	9	30	3	4	3	2	-2	-3	-5
Accommodations, Eating & Drinking services	17	9	17	0	13	-4	-7	-10	-7	0	-5	2
All industries	14	12	16	2	14	-2	3	-2	2	-1	0	-2

Note: 1. DI = "Favorable" minus "Unfavorable"; % pt.

2. Shaded areas denote economic down turns.

3. Changes in forecast = "Forecast of the current survey" minus "Actual result of the current survey"

Source: Bank of Japan.

## Sales and Current Profits Projections

Chart 2

Sales		(Year-to-year % change)			Current Profits		(Year-to-year % change)		
		FY2014 (Forecast)	FY2015 (Forecast)	Revision rate			FY2014 (Forecast)	FY2015 (Forecast)	Revision rate
Large Enterprises	Manufacturing	1.2	0.6	-	Large Enterprises	Manufacturing	5.1	1.3	-
	Domestic Sales	0.3	0.2	-		Basic materials	3.0	3.2	-
	Exports	3.5	1.6	-		Processing	6.0	0.5	-
	Nonmanufacturing	3.7	0.8	-		Nonmanufacturing	3.5	0.0	-
	All industries	2.7	0.7	-		All industries	4.3	0.6	-
Medium-sized Enterprises	Manufacturing	1.7	1.4	-	Medium-sized Enterprises	Manufacturing	4.4	1.6	-
	Nonmanufacturing	0.0	1.2	-		Nonmanufacturing	-4.4	1.1	-
	All industries	0.4	1.3	-		All industries	-1.8	1.2	-
Small Enterprises	Manufacturing	1.6	1.0	-	Small Enterprises	Manufacturing	4.8	3.3	-
	Nonmanufacturing	-1.0	-0.3	-		Nonmanufacturing	-5.7	-1.3	-
	All industries	-0.4	0.0	-		All industries	-3.2	-0.1	-
All Enterprises	Manufacturing	1.3	0.8	-	All Enterprises	Manufacturing	5.0	1.5	-
	Nonmanufacturing	1.4	0.5	-		Nonmanufacturing	-0.3	-0.1	-
	All industries	1.4	0.6	-		All industries	1.9	0.6	-

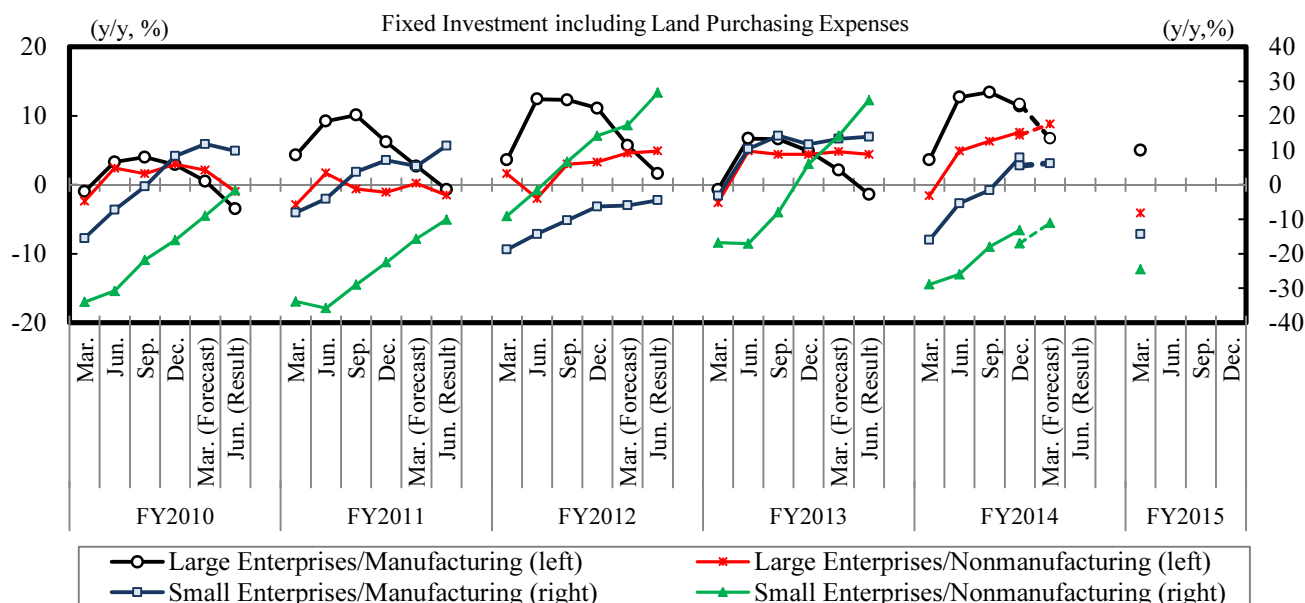
Note: Revision rates are calculated as the percentage change of the figures between the current and the previous survey.

Source: Bank of Japan.

## Developments of Fixed Investment including Land Purchasing Expenses (excl. software investment)

Chart 3

Fixed Investment including Land Purchasing Expenses		(Year-to-year % change)			Software Investment		(Year-to-year % change)		
		FY2014 (Forecast)	FY2015 (Forecast)	Revision rate			FY2014 (Forecast)	FY2015 (Forecast)	Revision rate
Large Enterprises	Manufacturing	6.7	5.0	-	Large Enterprises	Manufacturing	6.1	0.8	-
	Nonmanufacturing	8.8	-4.1	-		Nonmanufacturing	-2.2	0.5	-
	All industries	8.2	-1.2	-		All industries	0.5	0.6	-
Medium-sized Enterprises	Manufacturing	9.4	3.6	-	Medium-sized Enterprises	Manufacturing	3.9	5.4	-
	Nonmanufacturing	-1.5	-5.6	-		Nonmanufacturing	-2.2	-8.1	-
	All industries	2.2	-2.3	-		All industries	-1.3	-5.9	-
Small Enterprises	Manufacturing	6.2	-14.3	-	Small Enterprises	Manufacturing	2.8	-15.3	-
	Nonmanufacturing	-11.1	-24.5	-		Nonmanufacturing	30.3	-14.5	-
	All industries	-6.2	-21.2	-		All industries	20.6	-14.8	-
All Enterprises	Manufacturing	7.1	1.3	-	All Enterprises	Manufacturing	5.7	-0.1	-
	Nonmanufacturing	3.1	-8.0	-		Nonmanufacturing	-0.1	-2.1	-
	All industries	4.4	-5.0	-		All industries	1.6	-1.5	-



Note: 1. Revision rates are calculated as the percentage change of the figures between the current and the previous survey.

2. The graph indicates the revision pattern of fixed investment. Namely, the first survey for each fiscal year (March survey) is on the left, and the last survey (June survey of the following year; actual result) is on the right.

Source: Bank of Japan.