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# BOJ March 2017 Tankan Survey

## Business sentiment has definitely improved, but sense of uncertainty regarding future remains

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**Summary**

- In the BOJ March 2017 Tankan survey of corporate sentiment, the current trend in business sentiment for the manufacturing sector has definitely improved. Our outlook for the Japanese economy sees a gradual improvement, and the March BOJ Tankan reflects that. Corporate sentiment regarding the future remains cautious, but considering recent improvements in the economic and financial environments, we believe there is no need for excessive concern.

- The business conditions DI for large manufacturers grew to +12%pt in comparison with last survey's +10%pt. With overseas economies moving toward a comeback, other business factors appear to have worked positively for major Japanese manufacturers, including the yen exchange rate, which has moved in the direction of a weaker yen since November 2016, and the recent rise in energy and materials prices. However, the exchange rate entered an adjustment period early in 2017 causing a drag on corporate performance, and this led to the business conditions DI for large manufacturers to fall below market consensus (+14%pt) on the March survey.

- Sales projections of large enterprises (all industries) for FY2017 grew by +1.4% y/y, with current profit projections down by -0.2% y/y. While sales projections were clearly positive, it is difficult for corporations to come up with a definite outlook for the next fiscal year since a large number of Japanese corporations do their yearly reporting at the end of March. This means that the BOJ March Tankan survey is published before corporations have announced their year-end financial reports, hence making the figures on the March Tankan more for referential purposes than anything else.

- The FY 2017 capex projection for all enterprises in all industries (incl. investment in properties but excl. that in software; all industries, all companies) has grown at +0.6% y/y, exceeding market consensus (-0.2%). Meanwhile, looking at production capacity conditions DI, we see that the manufacturing industry is flat in comparison to the previous survey at +1%pt, while non-manufacturing grew just slightly at -1%pt in comparison to the previous survey (-2%pt), representing a worsening of conditions. Overall, large enterprises do not appear to be showing an increase in the sense of overcapacity.

## Business sentiment has definitely improved, especially for manufacturing

In the BOJ March 2017 Tankan survey of corporate sentiment, the current trend in business sentiment for the manufacturing sector has definitely improved. Our outlook for the Japanese economy sees a gradual improvement, and the March BOJ Tankan reflects that. Corporate sentiment regarding the future remains cautious, but considering recent improvements in the economic and financial environments, we believe there is no need for excessive concern. There were no surprises in the current results, and with business conditions clearly improving, hopes and expectations of a government economic stimulus package or further monetary measures on the part of the BOJ are not likely to increase. Our basic scenario sees the BOJ maintaining its current monetary policy for the time being.

The business conditions DI for large manufacturers grew to +12%pt in comparison with last survey's +10%pt. With overseas economies moving toward a comeback, other business factors appear to have worked positively for major Japanese manufacturers, including the yen exchange rate, which has moved in the direction of a weaker yen since November 2016, and the recent rise in energy and materials prices. However, the exchange rate entered an adjustment period early in 2017 causing a drag on corporate performance, and this led to the business conditions DI for large manufacturers to fall below market consensus (+14%pt) on the March survey.

The basic materials industries improved at +12%pt in comparison to the previous survey's +8%pt in a continuation of the recovery trend. As for performance of individual industries, rising materials prices brought growth for ceramics, stone & clay, iron & steel, chemicals, and non-ferrous metals. On the other hand, petroleum & coal products and pulp & paper worsened. The recent adjustment in the price of crude oil is thought to have had a negative influence on petroleum & coal products. As for pulp & paper, input costs increased due to the rising cost of raw materials.

The processing industries saw improvement in business sentiment for the third consecutive quarter at +12%pt in comparison to the previous survey's +10%pt. As for performance by industry, business conditions improved for electrical machinery, automobiles, general-purpose machinery, and production machinery. As for electrical machinery, yen depreciation and the underlying strength of electronic parts exports to Asia were thought to have been a plus. In regard to electronic parts exports to Asia, orders oriented toward popular new model smartphones continued to be favorable, leading to growth in exports. As for automobiles, domestic new car sales volume moving toward a comeback were thought to have encouraged improvement, as well as the progressively weak yen. As for general-purpose machinery and production machinery, the business environment has been improving of late as can be seen in the growth in shipments of capital goods, and this has encouraged the positive tone. On the other hand, food & beverages and business oriented machinery worsened. In the case of food & beverages, this was thought to be the continuation of a reactionary decline following the high pace of improvement until this point, as well as the increase in the price of raw materials, bringing on a strong sense that the industry was about to peak out. As for business oriented machinery, the environment for orders received continues to be weak, and this caused a drag on performance.

Business conditions DI for large non-manufacturing industries improved at +20%pt in comparison to the previous survey at +18%pt, while exceeding market consensus as well at +19%pt. The non-manufacturing industries improved for the first time in six quarters due to the gradual improvement in the domestic economy and in addition, a rebound in response to the overly cautious results of the December 2016 BOJ Tankan survey.

Looking at performance by industry, improvement in business conditions DI was seen in construction and real estate, as well as retailing, personal services, and accommodations, eating & drinking services. Retailing was especially notable in its improvement, and appears to have bottomed out after a period of continued worsening. On the other hand, business conditions DI worsened for communications, goods rental & leasing, and services for businesses. Electric & gas utilities also worsened due to an increase in input costs.

## Cautious stance expected to continue in future, but no need for concern

Looking at the future outlook of business conditions DI, large enterprises in the manufacturing sector are expected to be at +11%pt (a worsening of -1%pt in comparison to the current survey), while large enterprises in the non-manufacturing sector are seen worsening by -4%pt in comparison with the current survey at +16%pt. This shows that corporations remain cautious regarding the future. This is due to the sense of uncertainty brought on by unknowns related to the policies of the Trump administration, as well as political risk in the EU and the adjustment phase which the foreign exchange market entered after the beginning of 2017. However, with recent improvements in the economic and financial environments, we do not think that there is reason for excessive anxiety in this regard.

## Overseas supply and demand for the manufacturing industry improving

Taking a look at supply-demand conditions DI in the areas of domestic products and services for large enterprises, we see that manufacturing improved slightly, while non-manufacturing worsened slightly. As for manufacturing, the recovery in domestic production is thought to have been a plus. Meanwhile, non-manufacturing continues to mark time. It appears that weak domestic consumption continues to be a drag on performance. As for large manufacturers' supply-demand conditions DI for overseas products and services, there was a slight improvement at -4%pt in comparison to the previous survey (-6%pt). Though still moving in the negative range, it is notable that there has been improvement for four consecutive quarters, reflecting improvement in the overseas economy.

Meanwhile, regarding price conditions, the output price conditions DI and the input price conditions DI for both large manufacturing and non-manufacturing enterprises grew due to the increase in the price of crude oil and the progressively weak yen. However, as for the manufacturing industry, since the extent of growth was larger for the input price conditions DI, this meant a worsening of terms of trade (output price conditions DI – input price conditions DI). This may work in the negative direction when it comes to future profits, hence caution is required.

## Large manufacturers' FY2017 current profit projections expected to rebound

Sales projections of large enterprises (all industries) for FY2016 fell by -4.3% y/y, with non-manufacturing down also due to stagnant domestic demand, thereby bringing downward pressure on overall results as well. On the other hand, current profit projections were revised upwards significantly at -7.4%. The comeback in exports and the increasingly cheap yen since November 2016 have led to major upward revisions in recurring profits for the manufacturing industry. The assumed exchange rate for the second half of FY2016 for large manufacturers is 108.01 yen to the dollar, revised downwards in comparison to the previous survey's 103.36 yen to the dollar. The current yen rate shows a significantly weaker yen than the assumed rate. Hence the current profit projections of export-driven manufacturers are likely higher than on the March BOJ Tankan.

Sales projections of large enterprises (all industries) for FY2017 are up by +1.4% y/y, with recurring profit projects at -0.2%. We can see that the sales projection has had a positive effect here. However, it is difficult for corporations to come up with a definite outlook for the next fiscal year since a large number of Japanese corporations do their yearly reporting at the end of March. This means that the BOJ March Tankan survey is published before corporations have announced their year-end financial reports, hence making the figures on the March Tankan more for referential purposes than anything else.

## Capital spending plans at about the same level as the average year

The FY 2016 capex projection for all enterprises in all industries (incl. investment in properties but excl. that in software; all industries, all companies) is +0.4% y/y, a downward revision from the previous report (+1.8%). Due to a statistical quirk, capex projections tend to be revised downwards on the March BOJ Tankan survey, especially in the case of large and middle-sized enterprises. The fact that the downward revision on the March Tankan survey is a bit lower in comparison to the average year is a point requiring some caution. The FY 2017 capex projection for large enterprises in all industries (incl. investment in properties but excl. that in software; all industries, all companies) is +0.6% y/y, representing growth. Moreover, the number exceeds market consensus (-0.2%). Looking at the performance of large enterprises by industry, we see that capex projections of manufacturers in FY2017 is +5.3%, while large enterprises in non-manufacturing are at -2.0%. This is more or less in accordance with expectations and is along the lines of past revisions. As was mentioned above, the March Tankan survey is published before corporations have announced their year-end financial reports, hence making the figures on the March Tankan more for referential purposes than anything else.

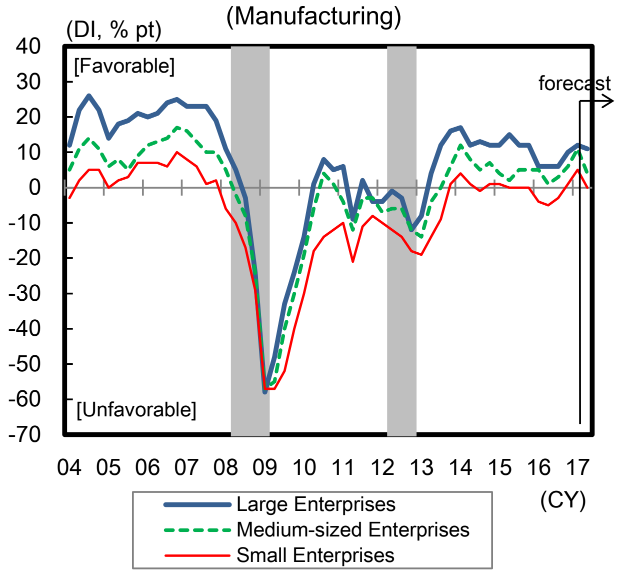
Looking at production capacity DI for large manufacturers, we see that it was at +1%pt, flat in comparison to the previous survey (+1%), while large non-manufacturers were at -1%pt, slightly up from the previous survey which was at -2%pt (this means a worsening). Both show future projections marking time. Overall, there are no signs of overcapacity for large enterprises.

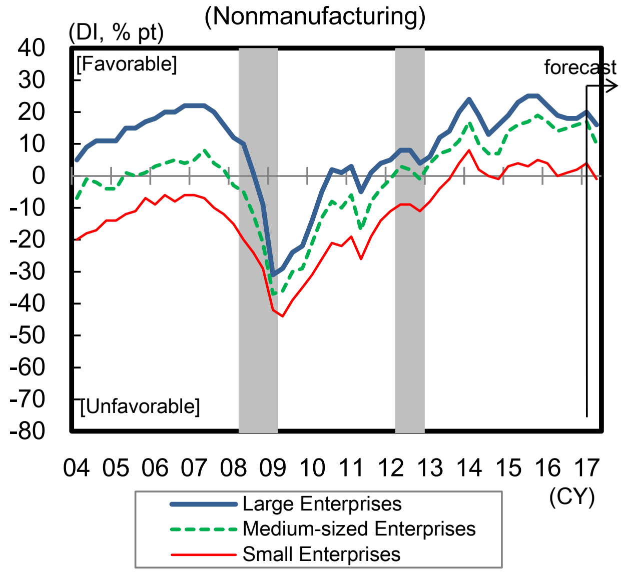
## Employment environment tightens

Employment conditions DI have declined (supply and demand tightens) for both the manufacturing and non-manufacturing industries. This indicates that the labor market is becoming even tighter than it has been in the past. The unemployment rate was at 2.8% in February 2017, the lowest it has been since June 1994 (22 years and eight months previous) and shows conformity with conditions at that time. Employment conditions DI are expected to either decline further or mark time in the future, with the condition of the labor market expected to remain tight.

Considering the fact that the number of employees in the macro sense is expected to peak out soon after having grown for some time, some industries are expected to run into difficulties acquiring the employees they need in the future. These industries will likely be required to improve conditions for their employees, either in the form of accepting more as regular employees or by increasing wages. This will lead to an increase in personnel expenses for corporations and could become a negative factor for the profits of corporations that are especially labor-intensive. This situation also requires careful monitoring in the future.

## Business Conditions DI — Chart 1




Source: Bank of Japan, Cabinet Office; 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 2014 and March 2015 results.

(DI, % pt)

| | Large Enterprises | | | | | | Small Enterprises | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec. 2016 Survey | | March 2017 Survey | | | | Dec. 2016 Survey | | March 2017 Survey | | | |
| | Actual result | Forecast | Actual result | Changes | Forecast | Changes | Actual result | Forecast | Actual result | Changes | Forecast | Changes |
| Manufacturing | 10 | 8 | 12 | 2 | 11 | -1 | 1 | -4 | 5 | 4 | 0 | -5 |
| Textiles | -3 | -3 | 0 | 3 | -3 | -3 | -23 | -32 | -27 | -4 | -29 | -2 |
| Lumber & Wood products | 41 | 29 | 47 | 6 | 24 | -23 | 6 | -7 | 0 | -6 | -9 | -9 |
| Pulp & Paper | 11 | 4 | 3 | -8 | -3 | -6 | -11 | -11 | -19 | -8 | -11 | 8 |
| Chemicals | 7 | 10 | 13 | 6 | 15 | 2 | 10 | 2 | 11 | 1 | -2 | -13 |
| Petroleum & Coal products | 22 | 11 | 6 | -16 | 12 | 6 | -5 | -16 | -4 | 1 | -7 | -3 |
| Ceramics, Stone & Clay | 6 | 12 | 13 | 7 | 18 | 5 | 3 | 2 | 4 | 1 | -6 | -10 |
| Iron & Steel | -7 | -5 | 0 | 7 | 7 | 7 | 4 | 1 | 20 | 16 | 14 | -6 |
| Nonferrous metals | 20 | 6 | 23 | 3 | 20 | -3 | 9 | 4 | 20 | 11 | 19 | -1 |
| Food & Beverages | 24 | 12 | 20 | -4 | 14 | -6 | 5 | 1 | 3 | -2 | 6 | 3 |
| Processed metals | 10 | 5 | 15 | 5 | 7 | -8 | -2 | -4 | 13 | 15 | 10 | -3 |
| General-purpose machinery | 14 | 12 | 25 | 11 | 20 | -5 | 1 | 0 | 5 | 4 | 7 | 2 |
| Production machinery | 10 | 10 | 17 | 7 | 21 | 4 | -3 | -9 | 16 | 19 | 8 | -8 |
| Business oriented machinery | 10 | 10 | 4 | -6 | 18 | 14 | 2 | 1 | 6 | 4 | 7 | 1 |
| Electrical machinery | 4 | 10 | 10 | 6 | 13 | 3 | 2 | -1 | 5 | 3 | 1 | -4 |
| Shipbuilding & Heavy machinery, etc. | -25 | -14 | -21 | 4 | -18 | 3 | 9 | 7 | 10 | 1 | -1 | -11 |
| Motor vehicles | 10 | 12 | 18 | 8 | 9 | -9 | 15 | 6 | 23 | 8 | 13 | -10 |
| Basic materials | 8 | 8 | 12 | 4 | 12 | 0 | 0 | -7 | 2 | 2 | -4 | -6 |
| Processing | 10 | 9 | 12 | 2 | 12 | 0 | 1 | -2 | 7 | 6 | 3 | -4 |
| Nonmanufacturing | 18 | 16 | 20 | 2 | 16 | -4 | 2 | -2 | 4 | 2 | -1 | -5 |
| Construction | 40 | 29 | 43 | 3 | 30 | -13 | 9 | 2 | 15 | 6 | 0 | -15 |
| Real estate | 33 | 27 | 35 | 2 | 28 | -7 | 13 | 7 | 15 | 2 | 10 | -5 |
| Goods rental & Leasing | 20 | 20 | 14 | -6 | 11 | -3 | 18 | 16 | 17 | -1 | 9 | -8 |
| Wholesaling | 9 | 8 | 11 | 2 | 7 | -4 | -7 | -11 | -6 | 1 | -6 | 0 |
| Retailing | 3 | 13 | 5 | 2 | 11 | 6 | -10 | -9 | -8 | 2 | -8 | 0 |
| Transport & Postal activities | 8 | 5 | 12 | 4 | 6 | -6 | 2 | -3 | 5 | 3 | -3 | -8 |
| Communications | 44 | 39 | 31 | -13 | 31 | 0 | 16 | 12 | 21 | 5 | 24 | 3 |
| Information services | 21 | 18 | 28 | 7 | 22 | -6 | 11 | 6 | 19 | 8 | 14 | -5 |
| Electric & Gas utilities | 8 | 5 | 5 | -3 | -3 | -8 | 3 | 5 | 10 | 7 | 10 | 0 |
| Services for businesses | 33 | 27 | 30 | -3 | 23 | -7 | 6 | 1 | 7 | 1 | 3 | -4 |
| Services for individuals | 23 | 18 | 30 | 7 | 27 | -3 | -7 | -4 | -2 | 5 | -5 | -3 |
| Accommodations, Eating & Drinking services | 9 | 11 | 17 | 8 | 11 | -6 | -2 | -8 | -6 | -4 | -6 | 0 |
| All industries | 14 | 13 | 16 | 2 | 14 | -2 | 2 | -3 | 5 | 3 | -1 | -6 |

Source: Bank of Japan.
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"

## Sales and Current Profits Projections — Chart 2

Sales (Year-to-year % change)

| | | FY2016 (Forecast) | FY2017 (Forecast) | Revision rate |
|---|---|---|---|---|
| Large Enterprises | Manufacturing | -3.4 | 1.4 | - |
| | Domestic Sales | -2.3 | 1.8 | - |
| | Exports | -5.8 | 0.6 | - |
| | Nonmanufacturing | -5.0 | 1.4 | - |
| | All industries | -4.3 | 1.4 | - |
| Medium-sized Enterprises | Manufacturing | -0.2 | 2.4 | - |
| | Nonmanufacturing | 0.4 | 2.6 | - |
| | All industries | 0.3 | 2.6 | - |
| Small Enterprises | Manufacturing | -0.8 | 1.3 | - |
| | Nonmanufacturing | -0.5 | -0.1 | - |
| | All industries | -0.5 | 0.2 | - |
| All Enterprises | Manufacturing | -2.4 | 1.6 | - |
| | Nonmanufacturing | -2.3 | 1.2 | - |
| | All industries | -2.4 | 1.3 | - |

Current Profits (Year-to-year % change)

| | | FY2016 (Forecast) | FY2017 (Forecast) | Revision rate |
|---|---|---|---|---|
| Large Enterprises | Manufacturing | -11.4 | -0.3 | - |
| | Basic materials | -4.0 | 0.0 | - |
| | Processing | -14.4 | -0.4 | - |
| | Nonmanufacturing | -3.7 | -0.1 | - |
| | All industries | -7.4 | -0.2 | - |
| Medium-sized Enterprises | Manufacturing | 0.1 | -0.2 | - |
| | Nonmanufacturing | 2.7 | -0.3 | - |
| | All industries | 1.9 | -0.3 | - |
| Small Enterprises | Manufacturing | 9.3 | 1.0 | - |
| | Nonmanufacturing | -0.6 | -6.5 | - |
| | All industries | 1.8 | -4.6 | - |
| All Enterprises | Manufacturing | -7.6 | -0.1 | - |
| | Nonmanufacturing | -1.8 | -1.8 | - |
| | All industries | -4.1 | -1.1 | - |

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

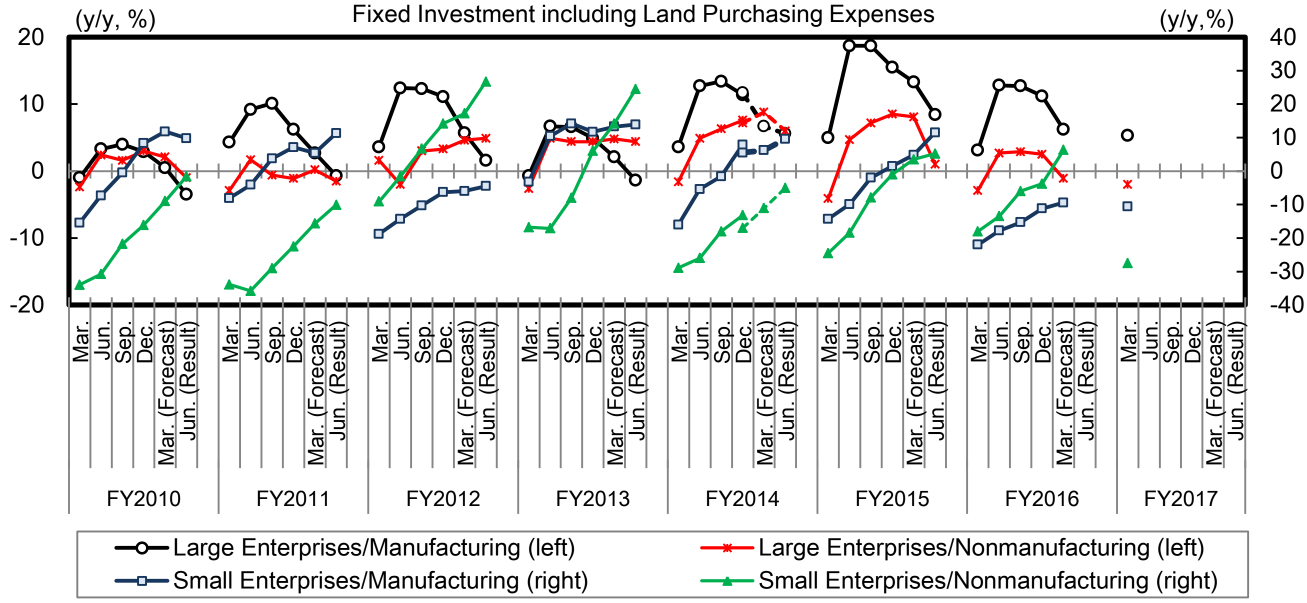
Fixed Investment including Land Purchasing Expenses (Year-to-year % change)

| | | FY2016 (Forecast) | FY2017 (Forecast) | Revision rate |
|---|---|---|---|---|
| Large Enterprises | Manufacturing | 6.2 | 5.3 | - |
| | Nonmanufacturing | -1.1 | -2.0 | - |
| | All industries | 1.4 | 0.6 | - |
| Medium-sized Enterprises | Manufacturing | -1.3 | 16.5 | - |
| | Nonmanufacturing | -6.4 | 18.1 | - |
| | All industries | -4.6 | 17.5 | - |
| Small Enterprises | Manufacturing | -9.4 | -10.6 | - |
| | Nonmanufacturing | 6.3 | -27.5 | - |
| | All industries | 1.1 | -22.6 | - |
| All Enterprises | Manufacturing | 2.1 | 4.4 | - |
| | Nonmanufacturing | -0.5 | -4.4 | - |
| | All industries | 0.4 | -1.3 | - |

Software Investment (Year-to-year % change)

| | | FY2016 (Forecast) | FY2017 (Forecast) | Revision rate |
|---|---|---|---|---|
| Large Enterprises | Manufacturing | -1.8 | 3.7 | - |
| | Nonmanufacturing | 5.9 | 0.7 | - |
| | All industries | 3.1 | 1.8 | - |
| Medium-sized Enterprises | Manufacturing | -7.4 | 25.6 | - |
| | Nonmanufacturing | -6.2 | 0.6 | - |
| | All industries | -6.4 | 4.3 | - |
| Small Enterprises | Manufacturing | 9.1 | 11.5 | - |
| | Nonmanufacturing | 10.0 | 15.2 | - |
| | All industries | 9.7 | 14.1 | - |
| All Enterprises | Manufacturing | -1.5 | 5.7 | - |
| | Nonmanufacturing | 4.0 | 1.9 | - |
| | All industries | 2.2 | 3.1 | - |

Fixed Investment including Land Purchasing Expenses




Source: Bank of Japan.
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.