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# BOJ March 2018 Tankan Survey

## Corporate business sentiment transitioning from “sunny” to “cloudy”

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### Summary

- In the BOJ March 2018 Tankan survey of corporate sentiment, the current trend in business sentiment for large corporations in all industries worsened somewhat, causing concern. However, looking at business conditions DI in a comprehensive manner, corporate business sentiment in Japan is generally maintaining a positive tone. We see Japan's economy continuing moderate growth and the March BOJ Tankan survey moves along the same lines as our evaluation.
- The business conditions DI for large manufacturers worsened at +24%pt in comparison with last survey's +26%pt based on the new sampling method, while market consensus fell just slightly at +25%pt. This is the first time in eight quarters for large manufacturers to turn toward the negative side in business sentiment. Business conditions DI for large non-manufacturing industries also worsened at +23%pt (compared to +25%pt on the previous survey). Performance dropped slightly below market consensus at +24%pt.
- The FY 2017 capex projection for all enterprises in all industries (incl. investment in properties, but not investment in software or research & development) is +4.0% y/y. Based on the pattern of revision in capex plans seen on a yearly basis, there is a chance that a downward revision will appear on the June survey results. However, with favorable winds provided by the high level of corporate earnings and renovation & renewal investment, firm results exceeding +3.0% y/y now appear achievable.
- Employment conditions DI for corporations of all sizes in both manufacturing and non-manufacturing declined (supply/demand becoming tighter). The sense of a shortage of manpower is increasing amongst corporations. Employment conditions DI are expected to grow slightly in the future for manufacturing, but non-manufacturing is expected to see further declines (supply/demand will become even tighter). Both industries are expected to see a continuation of considerably negative numbers centering on small and medium-size corporations. Although the tight labor market is a reflection of a good economy, the other side of this situation is that some industries are seen facing difficulties in acquiring the employees they need in the near future. Constraints in the supply of labor may become a drag on economic recovery in the future.

## **While positive tone retained overall, uncertainty appears regarding the future**

In the BOJ March 2018 Tankan survey of corporate sentiment, the current trend in business sentiment for large corporations in all industries worsened somewhat, causing concern. However, looking at business conditions DI in a comprehensive manner, corporate business sentiment in Japan is generally maintaining a positive tone. We see Japan's economy continuing moderate growth and the March BOJ Tankan survey moves along the same lines as our evaluation. The BOJ Tankan supports the central bank's economic assessment of "moderate expansion". As for future monetary policy, the focus will be on prices as the inflation target of 2% has not yet been attained. On the other hand, we advise caution regarding the appearance of uncertainty regarding the future of business sentiment following the continued appreciation of the yen since the end of 2017, the lull in the growth trend in exports and production experienced up till now, and worsening terms of trade. It is also important to note that the March survey reflects a change in the selection of companies surveyed.

## **Uneven improvement in manufacturing industry**

The business conditions DI for large manufacturers worsened at +24%pt in comparison with last survey's +26%pt based on the new sampling method, while market consensus fell just slightly at +25%pt. This is the first time in eight quarters for large manufacturers to turn toward the negative side in business sentiment. Both the domestic and overseas economies have been positive, but reaction to the quick pace of growth up till now has worked in the negative direction, and both exports and production have weakened recently. Moreover, the stronger yen since the end of 2017 has weighed down business. Though at first glance results appear to be somewhat wanting, business conditions DI for large manufacturers positive overall if one ignores the reactionary decline in comparison to the last survey. Business conditions DI for large non-manufacturing industries also worsened at +23%pt (compared to +25%pt on the previous survey). Performance dropped slightly below market consensus at +24%pt. Performance was supported by continued favorability of demand from inbound tourism, though housing investment and public investment were weak, and growth in personnel and distribution expenses worked on the negative side.

Looking at the future outlook for business conditions DI, large enterprises in the manufacturing sector are expected to be at +20%pt (a worsening of -4%pt in comparison to the current survey), while large enterprises in the non-manufacturing sector are seen at +20%pt (worsening by -3%pt in comparison with the current survey). This shows that corporations remain cautious regarding the future. This is due to the recent tendency of the BOJ Tankan to announce cautious outlooks, as well as the appreciation of the yen, and disturbance in the global financial markets since the beginning of the year. Meanwhile, increasing costs have caused a deterioration of terms of trade, which puts further weight on corporate business sentiment. In either case, we advise caution regarding the possibility of a short-term softening of corporate business sentiment.

## **FY2017 capex expected to maintain underlying strength**

The FY 2017 capex projection for all enterprises in all industries (incl. investment in properties, but not investment in software or research & development) is +4.0% y/y. Based on the pattern of revision in capex plans seen on a yearly basis, there is a chance that a downward revision will appear on the June survey results. However, with favorable winds provided by the high level of corporate earnings and renovation & renewal investment, firm results exceeding +3.0% y/y now appear achievable. Looking at the performance of large enterprises by industry, we see that capex projections of manufacturers are up by +7.3% (market consensus at +7.0%), while large enterprises in non-manufacturing are at +4.0% (market consensus at +4.4%).

The FY 2018 capex projection for all enterprises in all industries (incl. investment in properties, but not investment in software or research & development) is -0.7% y/y, considerably exceeding market consensus (-4.3%). Capex projections on the March BOJ Tankan Survey in the average year often show a more than 1% decline. Considering this fact, the current projection can be considered on the positive side. Since most Japanese corporations announce their business results for the fiscal year in March, many businesses find it difficult to respond to questions regarding their outlook for the next fiscal year on the March BOJ Tankan Survey. It is therefore important to note that projections for FY2018 do not yet carry a lot of weight this early in the fiscal year.

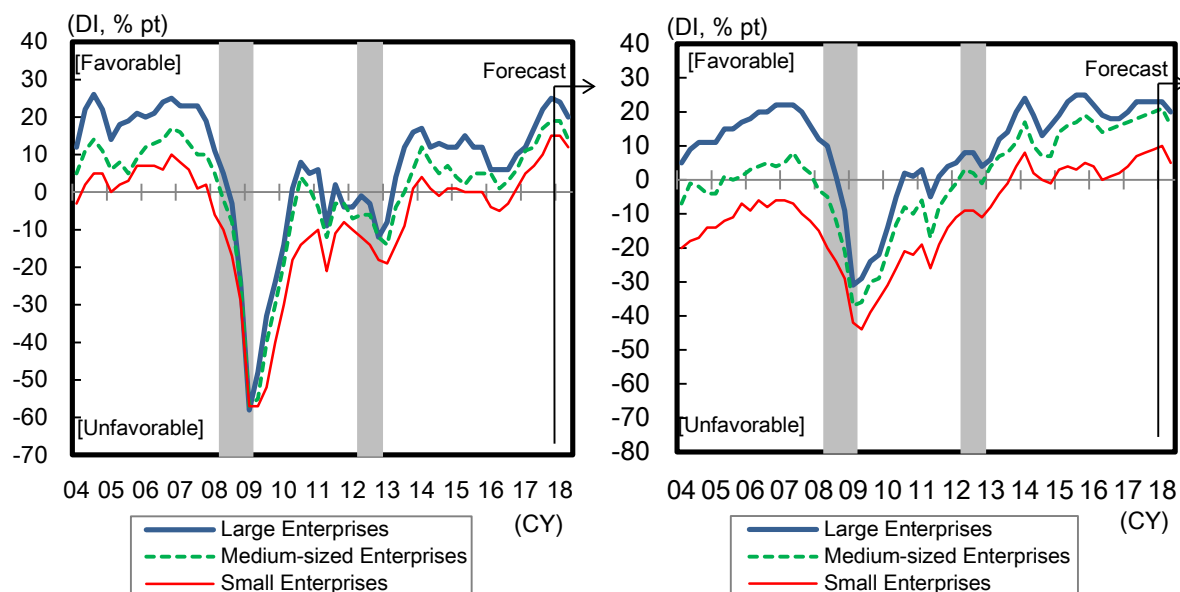
### **Increasingly stringent supply & demand on the labor market is a factor bringing upward pressure on wages during this year's spring labor offensive**

Employment conditions DI for corporations of all sizes in both manufacturing and non-manufacturing declined (supply/demand becoming tighter). The sense of a shortage of manpower is increasing amongst corporations. Employment conditions DI are expected to grow slightly (supply/demand will loosen up somewhat) in the future for manufacturing, but non-manufacturing is expected to see further declines (supply/demand will become even tighter). Both industries are expected to see a continuation of considerably negative numbers centering on small and medium-size corporations.

Although the tight labor market is a reflection of a good economy, the other side of this situation is that some industries are seen facing difficulties in acquiring the employees they need in the near future. Constraints in the supply of labor may become a drag on economic recovery in the future. Already we are seeing actual examples in the food service and retail industries where the shortage of manpower is being experienced especially intensely shortening hours and keeping controls on the pace of opening new branches. It is notable that Japan Post has begun to limit its redelivery service for its domestic parcel delivery in order to lighten the load on its carriers and reduce costs. Companies will likely be required to improve conditions for their employees, either in the form of accepting more as regular employees or by increasing wages. Investment in labor-saving systems and improvements in productivity will continue to be important.

The 2018 Spring Labor Offensive is expected to come up with a rate of wage increase and base salary increase exceeding that of the previous year, and the increasingly tight situation in the supply and demand of labor has been pointed out as being one of the factors leading to the wage hike. On the other hand, if corporations are unable to sufficiently carry out price pass-through regarding their sales prices to cover the increase in personnel expenses, it could become a negative factor for corporate earnings, especially for small business and labor-intensive industries. In regard to this factor, a close monitoring of terms of trade (change in output prices DI – change in input prices DI) is recommended.

Business Conditions DI Chart 1



Source: Bank of Japan, Cabinet Office; compiled by DIR.  
 Note: Shaded areas denote economic downturns.

	(DI, % pt)											
	Large Enterprises						Small Enterprises					
	Dec. 2017 Survey		March 2018 Survey				Dec. 2017 Survey		March 2018 Survey			
	Actual result	Forecast	Actual result	Changes	Forecast	Changes	Actual result	Forecast	Actual result	Changes	Forecast	Changes
Manufacturing	26	21	24	-2	20	-4	15	11	15	0	12	-3
Textiles	6	0	3	-3	6	3	-21	-27	-24	-3	-26	-2
Lumber & Wood products	24	12	24	0	12	-12	0	-3	-1	-1	-3	-2
Pulp & Paper	8	-4	4	-4	4	0	-1	-14	-9	-8	-12	-3
Chemicals	35	20	26	-9	17	-9	23	12	20	-3	13	-7
Petroleum & Coal products	44	31	44	0	19	-25	-4	-4	0	4	-4	-4
Ceramics, Stone & Clay	26	19	28	2	19	-9	8	16	14	6	20	6
Iron & Steel	19	15	10	-9	8	-2	43	39	42	-1	37	-5
Nonferrous metals	38	32	32	-6	18	-14	37	35	38	1	36	-2
Food & Beverages	19	15	16	-3	14	-2	7	7	2	-5	4	2
Processed metals	16	8	10	-6	13	3	23	23	26	3	25	-1
General-purpose machinery	37	41	44	7	43	-1	34	15	28	-6	16	-12
Production machinery	44	44	52	8	51	-1	27	22	28	1	30	2
Business oriented machinery	23	29	26	3	29	3	19	14	23	4	18	-5
Electrical machinery	28	25	24	-4	23	-1	14	14	14	0	10	-4
Shipbuilding & Heavy machinery, etc.	-4	-4	-4	0	-7	-3	17	12	16	-1	10	-6
Motor vehicles	20	15	22	2	13	-9	37	27	42	5	31	-11
Basic materials	27	16	22	-5	14	-8	12	8	12	0	9	-3
Processing	26	23	25	-1	23	-2	17	12	17	0	14	-3
Nonmanufacturing	25	20	23	-2	20	-3	9	4	10	1	5	-5
Construction	46	39	43	-3	37	-6	18	8	20	2	5	-15
Real estate	35	28	37	2	27	-10	16	8	17	1	10	-7
Goods rental & Leasing	27	21	18	-9	18	0	28	22	30	2	21	-9
Wholesaling	24	17	19	-5	16	-3	3	-1	4	1	1	-3
Retailing	11	16	11	0	10	-1	-8	-5	-5	3	-1	4
Transport & Postal activities	20	13	16	-4	14	-2	9	5	5	-4	3	-2
Communications	33	33	33	0	33	0	28	23	23	-5	23	0
Information services	28	25	29	1	28	-1	17	16	22	5	19	-3
Electric & Gas utilities	10	0	3	-7	-5	-8	17	20	30	13	17	-13
Services for businesses	42	37	44	2	35	-9	15	9	16	1	11	-5
Services for individuals	26	30	27	1	27	0	5	3	0	-5	-1	-1
Accommodations, Eating & Drinking services	5	5	3	-2	7	4	-4	-1	-4	0	4	8
All industries	26	21	23	-3	20	-3	11	7	11	0	7	-4

Source: Bank of Japan.

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

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

## Sales and Current Profits Projections

Chart 2

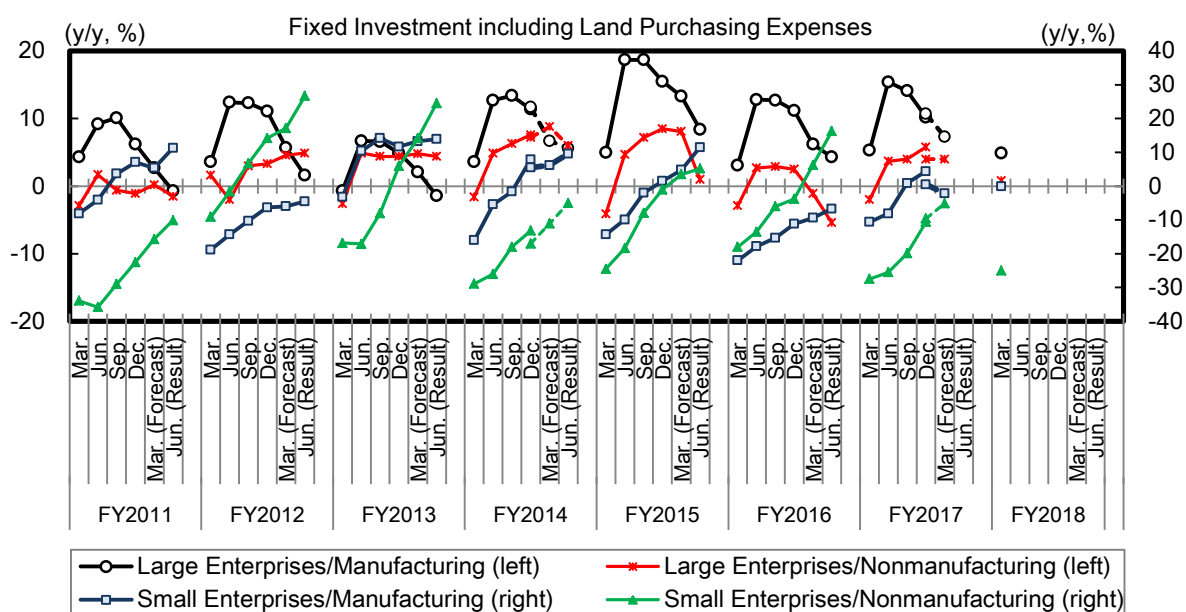
Sales		(Year-to-year % change)			Current Profits		(Year-to-year % change)		
		FY2017 (Forecast)	FY2018 (Forecast)	Revision rate			FY2017 (Forecast)	FY2018 (Forecast)	Revision rate
Large Enterprises	Manufacturing	4.7	1.4	-	Large Enterprises	Manufacturing	19.7	-3.2	-
	Domestic Sales	3.9	1.5	-	Large Enterprises	Basic materials	22.8	-3.1	-
	Exports	6.3	1.3	-	Large Enterprises	Processing	18.4	-3.2	-
	Nonmanufacturing	4.7	0.7	-	Large Enterprises	Nonmanufacturing	5.3	-1.2	-
	All industries	4.7	1.0	-	Large Enterprises	All industries	12.0	-2.2	-
Medium-sized Enterprises	Manufacturing	3.9	2.2	-	Medium-sized Enterprises	Manufacturing	0.8	-1.9	-
	Nonmanufacturing	2.2	2.1	-	Medium-sized Enterprises	Nonmanufacturing	0.5	0.5	-
	All industries	2.6	2.2	-	Medium-sized Enterprises	All industries	0.6	-0.3	-
Small Enterprises	Manufacturing	2.6	1.1	-	Small Enterprises	Manufacturing	4.9	0.5	-
	Nonmanufacturing	1.5	0.0	-	Small Enterprises	Nonmanufacturing	-7.8	-0.1	-
	All industries	1.8	0.2	-	Small Enterprises	All industries	-4.3	0.1	-
All Enterprises	Manufacturing	4.2	1.5	-	All Enterprises	Manufacturing	15.4	-2.6	-
	Nonmanufacturing	3.1	0.8	-	All Enterprises	Nonmanufacturing	1.4	-0.7	-
	All industries	3.5	1.0	-	All Enterprises	All industries	7.1	-1.5	-

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)		
		FY2017 (Forecast)	FY2018 (Forecast)	Revision rate			FY2017 (Forecast)	FY2018 (Forecast)	Revision rate
Large Enterprises	Manufacturing	7.3	4.9	-	Large Enterprises	Manufacturing	1.4	5.1	-
	Nonmanufacturing	4.0	0.8	-	Large Enterprises	Nonmanufacturing	4.1	5.6	-
	All industries	5.2	2.3	-	Large Enterprises	All industries	3.2	5.4	-
Medium-sized Enterprises	Manufacturing	12.8	15.6	-	Medium-sized Enterprises	Manufacturing	-4.5	23.2	-
	Nonmanufacturing	7.7	-1.7	-	Medium-sized Enterprises	Nonmanufacturing	11.8	27.2	-
	All industries	9.7	5.3	-	Medium-sized Enterprises	All industries	8.8	26.6	-
Small Enterprises	Manufacturing	-2.2	-0.1	-	Small Enterprises	Manufacturing	28.0	3.8	-
	Nonmanufacturing	-5.1	-25.0	-	Small Enterprises	Nonmanufacturing	-6.2	5.7	-
	All industries	-4.2	-16.8	-	Small Enterprises	All industries	1.6	5.1	-
All Enterprises	Manufacturing	6.5	6.0	-	All Enterprises	Manufacturing	2.7	6.3	-
	Nonmanufacturing	2.7	-4.5	-	All Enterprises	Nonmanufacturing	4.2	8.8	-
	All industries	4.0	-0.7	-	All Enterprises	All industries	3.7	8.1	-



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.