

Today's Topic

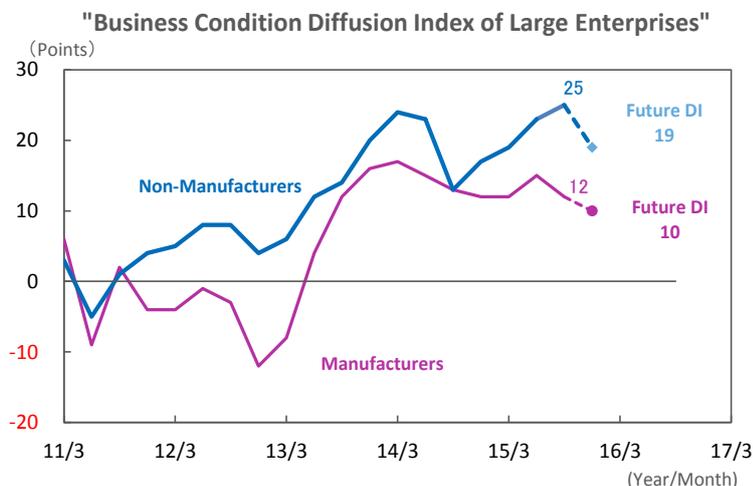
September "Tankan" Survey Saw Upward Revision of Capex

Point 1

Large Enterprises' Future DI worsened

Large non-manufacturers' current DI is improving

- The Bank of Japan released "Tankan as of September 2015" on October 1st. The latest "Business Condition Diffusion Index (Current DI)" for large manufacturers lost by 3 points to +12 from the previous time in June for the first time in three quarters. The "Future Business Condition Diffusion Index (Future DI)" also worsened to +10 points. Meanwhile, the Current DI for large non-manufacturers rose by 2 points to +25 for four consecutive quarters. The Future DI worsened to +19 points. Increase of uncertainty over external factors such as China's slowdown seem to have pushed the Future DIs of both large manufacturers and non-manufacturers down.



(Note) Data period is from March 2011 to December 2015 (quarterly basis). Data upto September 2015 is based on Current DIs and those of December 2015 are based on Future DIs as of September 2015.

(Source) SMAM, based on Bloomberg L.P. data.

Point 2

Full year corporate earnings forecast revised upward, but with conservative second half outlook

Capex plans are revised upward

- The recurring profits for large manufacturers for FY2015 (forecast) was revised upward. The First half of FY2015 (forecast) was revised positive from a negative outlook in the previous June survey. However, the second half of FY2015 (forecast) maintained a conservative tone.
- The Capex plan of All Industry (Large Enterprises) for FY2015 was revised upward to a double digit growth of +10.9% YoY from +9.3% YoY in the previous June survey. The full year forecast for large manufacturers did not turn negative and the second half forecast of large non-manufacturers was revised significantly upward, turning to positive. The willingness of corporations to spend on Capex seemed to maintain its momentum.

"Sales, Recurring Profits and Capex of Large Enterprises"

(Y-o-Y,%)

		FY2015		FY2015 (1st Half)		FY2015 (2nd Half)	
		(Forecast)	chg, %	(Forecast)	chg, %	(Forecast)	chg, %
Sales	Manufacturers	0.9	0.0	0.8	0.0	0.9	-0.1
	Non-Manufacturers	0.1	-0.2	-0.9	-0.9	1.1	0.5
	All Industry	0.4	-0.1	-0.2	-0.6	1.0	0.3
Recurring Profits	Manufacturers	3.8	3.0	7.0	7.6	0.9	-1.0
	Non-Manufacturers	5.6	4.1	7.5	8.0	3.5	-0.1
	All Industry	4.7	3.5	7.3	7.8	2.1	-0.6
Capex	Manufacturers	18.7	0.0	26.3	-2.4	12.7	2.1
	Non-Manufacturers	7.2	2.4	10.4	-0.9	4.7	5.2
	All Industry	10.9	1.5	15.7	-1.4	7.3	4.2

(Note) "chg, %" is changes between this time and previous survey. (Source) SMAM, based on Bank of Japan data.

Future Outlook

Expectations for additional monetary easing and economic measures

- The September survey confirmed the deterioration of business conditions toward the year end. However, it should be noted that the downward revision of recurring profits in the second half of 2015 would be marginal and Capex will remain robust.
- Focus should be on external factors such as the

condition of the Chinese economy and also the possibility of two consecutive quarters of negative GDP growth (when the Jul-Sep. quarter numbers are announced) in Japan. To maintain the corporations' willingness to spend on Capex, additional monetary easing and economic measures are expected.

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