

## Tankan Survey and the Japanese Stock Market

The Bank of Japan (BOJ) released the Short-term Economic Survey of Enterprises in Japan (Tankan Survey) as of March on April 1. The Business Condition Diffusion Index for large manufacturers remained at +12 from the previous quarter but fell short of median of the market consensus of +14. The Tokyo stock market reacted to this disappointing data by sell off from the opening in the morning session. Now, I am going to examine how the Tankan Survey result influences the Japanese stock market for the time being.

**Both manufacturers and non-manufacturers maintained cautious economic outlook**

Chart 1 : BOJ's Business Condition Diffusion

(Diffusion index of "Favorable" minus "Unfavorable," % points)

	Large Companies						Medium-sized Companies						Small-sized Companies					
	Dec. 2014 Survey		Mar. 2015 Survey				Dec. 2014 Survey		Mar. 2015 Survey				Dec. 2014 Survey		Mar. 2015 Survey			
	Actual Result	Forecast	Actual Result	Changes	Forecast	Changes	Actual Result	Forecast	Actual Result	Changes	Forecast	Changes	Actual Result	Forecast	Actual Result	Changes	Forecast	Changes
Manufacturer	12	9	12	0	10	-2	7	1	4	-3	3	-1	4	-3	1	-3	0	-1
Non-manufacturer	17	16	19	2	17	-2	10	7	14	4	10	-4	1	-2	3	2	-1	-4
All Industries	14	12	16	2	14	-2	9	5	10	1	7	-3	3	-2	2	-1	0	-2

(Source) SMAM, based on BOJ data.

The "Current Business Condition DIs" (hereafter Current DI) for manufacturers showed slight deterioration from the previous research in December 2014 such as +12→+12 for large manufacturers, +7→+4 for medium sized manufacturers and +4→+1 for small sized manufacturers. However, the latest business confidence improved from the business outlook at the previous survey as the "Current DIs" for all of the three company groups were better than the "Future Business Condition DIs" (hereafter Future DI) that each company group forecasted at +9, +1 and -3 respectively three month ago. On the other hand, the "Future DIs" for all the three company groups showed softer outlook than the "Current DIs" such as +10 for large manufacturers, +3 for medium sized manufacturers and 0 for small sized manufacturers at this time.

To be the same as manufacturers, for non-manufacturers, the "Current DIs" of all the three company sized groups improved from the previous survey such as +17→+19 for large companies, +10→+14 for medium sized companies, +1→+3 for small sized companies, and beat the previous "Future DIs" such as +16 for large companies, +7 medium companies and -2 for small companies. However the latest "Future DIs" for all the three company groups showed conservative outlook such as +17 for large companies, +10 medium sized companies and -1 for small sized companies, compared with those of the "Current DIs".

As a result, the Tankan Survey suggests slightly weak business confidence for manufacturers but improving for non-manufacturers at this moment. Stabilised yen after rapid depreciation and lower crude

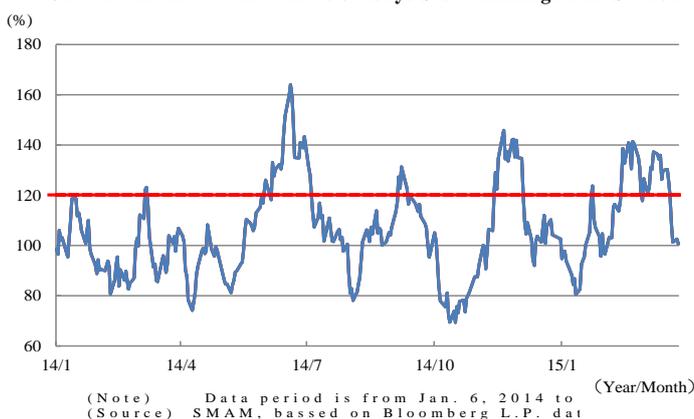
oil price seem to be a tailwind for non-manufacturers, however, both manufacturers and non-manufacturers maintain their cautious business outlook for the time being. The planned capital expenditures of all size/industries for the new fiscal year of 2015 were down by -5.0% y-o-y.

**The impact of latest Tankan Survey to the Japanese stock market is likely limited**

Just after the release of Tankan Survey, Nikkei 225 index fell below 19,000 yen to the lowest of 18,927.95 yen during the day due to the weaker than expected business confidence in the survey. Indeed, the latest survey result suggests conservative future business outlook and soft capital expenditure plan for companies. However, the latest Tankan Survey does not include pessimistic content on the following reasons: i) the business confidence continues improving as the latest “Current DIs” for all size/industries advanced to +7, ii) job market is tightening as the “Employment Condition DI” continues favourably negative (showing a sign of labour shortage), and iii) upward revision of corporate earnings can be expected for many of high foreign sales manufacturers as the average projected USD/JPY rate of FY2015 (first half: 111.54 yen, second half: 112.07) is much weaker (or stronger JPY) than the prevailing exchange rate.

Nikkei 225 index closed recovering 19,000 yen from the bottom of the day on April 1. The stock market is anticipated to discount negative impact of the Tankan Survey result in the short run and is more likely to be affected by the upcoming events such as scheduled data of Japanese economy, BOJ’s Monetary Policy Meetings (7<sup>th</sup>, 8<sup>th</sup> and 30<sup>th</sup> of April), BOJ’s “Outlook for Economic Activity & Prices” (30<sup>th</sup> of April), US FOMC (28<sup>th</sup> and 29<sup>th</sup> of April), fiscal reform plans of Greece (submitted by 30<sup>th</sup> of April).

Chart 2 : Advance-decline Ratio of Tokyo Stock Exchange First Section



The Japanese stock market already showed a sign of overbought as Nikkei 225 index had sharply climbed in March. I therefore do not think it would be a good idea to take further cautious view unnecessarily even if the market went to further correction as the cooling down of such an overheated market is just normal. I believe Japanese stock market still remains in favourable environment as the favourable

supply-demand balance continues as large money inflow comes into the Japanese equity market by raising net exposures of the stocks for pension funds and as more companies are highly likely to take positive corporate action to raise future growth and profitability by spending their cash on hand rather than retaining. The current market seems to have peaked out of the overbought as “Advance-decline ratio”

(25 days moving average base) of Tokyo Stock Exchange First Section which is calculated by the number of gainers divided by that of losers shows 100.6% as of March 31, which is already far below the overbought level of 120% (Please refer to Chart 2). I foresee the equity index is likely to move higher to 20,000 yen soon, as many investors believe that now is the buy opportunity in the respite from the overheated market after the rapid rally.

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