

Respite from recovery in the “Tankan survey”

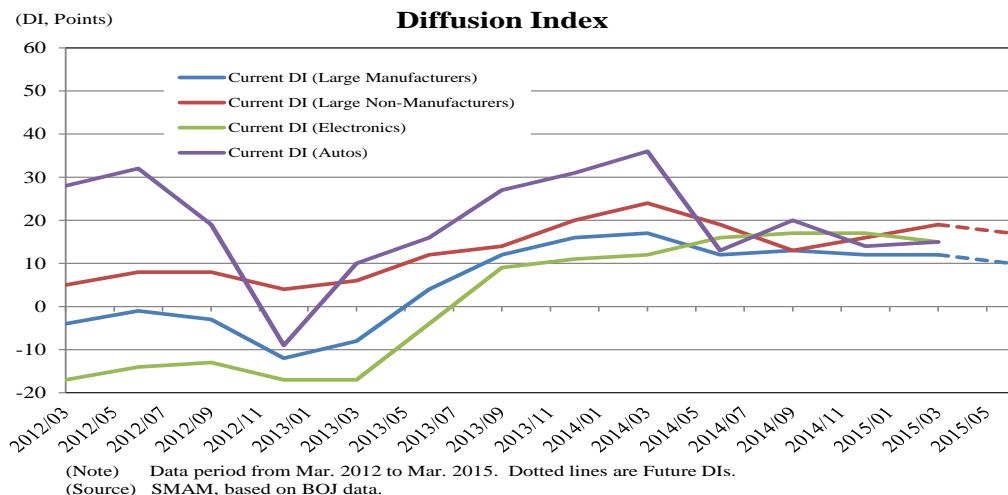
The “Short-Term Economic Survey of Enterprises in Japan” known as the “Tankan survey” is conducted by the Bank of Japan in quarterly basis used as a reference for their monetary policy decision making process based on the data from more than 10,000 companies. The economic data includes the annual projections of revenues, profits, capital expenditures (CAPEX) and employment as well as the business confidence of the companies. Of the survey, the current and future business confidence for large manufacturers are widely known as “Business Condition Diffusion Index” and “Future Business Condition Diffusion Index” as a key economic data in the financial markets. The latest statistic was surveyed from February 25 to March 31.

Point 1

Respite from recovery for high foreign sales manufacturers

Sharp improvement in future business sentiment for large retailers

- The Bank of Japan released “Tankan as of March 2015” on April 1. The latest “Business Condition Diffusion Index” for large manufacturers remained at +12 from the previous quarter, while that for large non-manufacturers rose by 2 points to +19. Of the manufacturers, the business sentiment of high foreign sales companies such as autos and electronics makers leveled off. Of the non-manufacturers, that of properties, retailers and other retail services shows sharp recovery from weak demand by the consumption tax hike.
- The “Future Business Condition Diffusion Index (Future DI)” lost 2 points for large manufacturers and non-manufacturers to +10 and +17 respectively. However, the “Favorable” business sentiment still exceeds the “Unfavorable” for both categories. The top performer was retailers in large non-manufacturers whose “Future DI” climbed by 8 points to +13 on the back of higher expectation for wage gain and the increase in inbound tourism consumption.



Point 2

Highly likely upward revision for pretax profits

Likely future upward revision for CAPEX

- The survey shows the pretax profits are expected to grow slightly by +1.3% y-o-y and +0.6% y-o-y for large manufacturers and all size/all industry in FY2015 respectively. However, the earnings forecasts of large manufacturers are highly likely to outperform the latest answer of the survey as their answers on the profit forecasts are based on the lower USD/JPY rate of on average 111.81 than the current exchange rate.

- Also, the FY2015 CAPEX (including software investment but excluding land investment) is expected to decrease by 2.4% y-o-y for all-size/all industry in the data. However, the CAPEX is likely to be revised upward as the investment plan tends to be understated prior to the new fiscal year term from April.

Future Outlook

Business confidence is improving alongside stabilizing global economy

■ Labor shortage

The “Current” and “Future employment survey” show tightened job market for all size/all industry, particularly in non-manufacturers. This is likely to raise wages higher in this year than in the previous year spurred by labor shortage as well as upbeat corporate earnings.

■ Unclear global growth might affect conservative sentiment

The business confidence took a respite from solid recovery for manufacturers at this moment due to the concern over the US and China’s slowdown and the increase in material costs under weak JPY. The sentiment on the business condition is anticipated to improve modestly underpinned by improving domestic demand alongside confirming stable global growth outlook.

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