

【Fundamentals Navigator】**BoJ Tankan survey (Sep 2020): Business conditions DI for large enterprises improves, but weaker than market expectations**

(original Japanese report issued on October 1, 2020)

Higher material prices weigh on manufacturers, but outlook improving; non-manufacturers taking a cautious outlook

The "actual" business conditions DI for large manufacturing enterprises in the September BoJ Tankan rose 7pt from the June survey to -27. Compared to the market forecast for -24, the improvement was modest. The reading improved 8pt for processing but was unchanged for materials due partly to higher raw material prices. The forecast DI for Dec rose 10pt vs. the forecast for Sep, with expectations for improvement both for processing and for materials. The DI for large non-manufacturers improved 5pt vs. June to -12 in Sep, but not as good as the market forecast (-9). Expectations for improvement are limited for services for individuals following a marked deterioration in the June survey. The forecast for Dec improved 1pt vs. the forecast for Sep, suggesting cautious sentiment. Expectations for a boost from the "Go To" campaign is apparently outweighed by concerns about the dropout of the special cash payout.

(1) Manufacturing sector: The business conditions DI for large enterprises (favorable less unfavorable) in the September BoJ Tankan rose 7pt from the June survey to -27. Compared to the market forecast for -24, the improvement was modest. The DI improved 8pt to -27 for processing. Improvement of more than 10pt was recorded for motor vehicles (+11pt to -61) and electrical machinery (+13pt to -15). The reading remained flat at -29 for basic materials, as the change in input prices showed a significantly smaller decline (+12pt to -1; the change in output prices: +5pt) due to a rise in prices for iron ore and other materials, which was apparently viewed as negative for profitability. For manufacturers, the forecast DI for Dec rose 10pt vs. the forecast for Sep to -17. The readings for processing (+10pt) and basic materials (+9pt) also suggest clear improvement.

(2) Non-manufacturing sector: The large enterprises business conditions DI rose 5pt vs. June to -12 in Sep, indicating improvement in sentiment, but not as good as market forecast (-9). The reading for retailing improved by a double-digit pace (+16pt to +18), but improvement was limited for services for individuals (+5pt to -65; -64pt in the June survey) and accommodations, eating & drinking services (+4pt to -87; -32pt in the June survey) following a marked deterioration in the June survey. For non-manufacturers, the forecast for Dec improved 1pt vs. the forecast for Sep to -11, suggesting cautious sentiment. There are expectations for a boost from the "Go To" campaign as shown in the reading for services for individuals (+27pt to -38), but this is apparently outweighed by the reading for retailing (-18pt to 0) reflecting the cloudy outlook for

Sep 2020 survey results

1) Business conditions DI (large manufacturers)
Result: -27; +7pt vs. prev. survey
(market forecast: -24)
Forecast: -17; +10pt vs. prev. forecast
(market forecast: -16)

2) Business conditions DI (large non-manufacturers)
Result: -12; +5pt vs. prev. survey
(market forecast: -9)
Forecast: -11; +1pt vs. prev. forecast
(market forecast: -7)

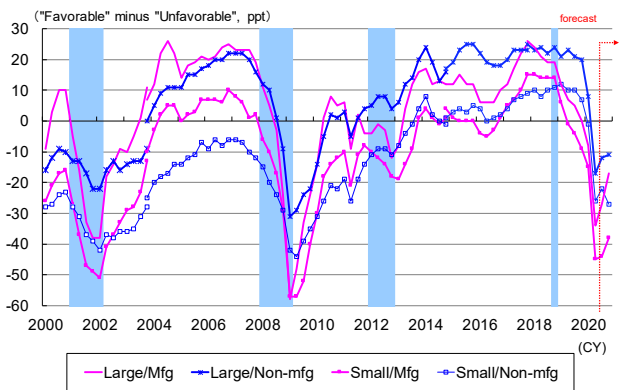
3) Capex (large enterprises, all industries)
FY20: +1.4%
(market forecast +0.5%)

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household income including the dropout of a boost from the special cash payout.

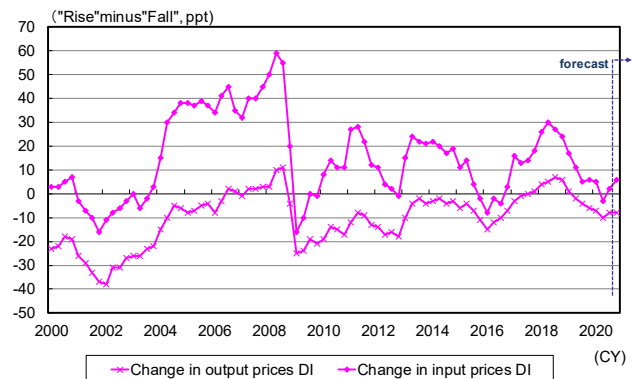
- (3) **Medium-sized/small firms:** "Actual" business conditions DI readings improved modestly vs. June for both manufacturers (+1pt to -44) and non-manufacturers (+4pt to -22). "Forecast" readings for December improved 6pt vs. the forecast for Sep for manufactures but declined 5pt for non-manufacturers, suggesting a cautious view on the latter.
- (4) **Corporate finance:** The worst is over thanks to policy initiatives. The financial position DI ("easy"- "tight") of all enterprises, all industries improved modestly, rising 2pt vs. June to +5 (-10pt in the June survey). The lending attitude of financial institutions ("accommodative" - "severe") was unchanged from June at +19. The flat reading was the first in three quarters (-1pt in the June survey).
- (5) **Fixed investment plans:** Planned FY20 capex for large enterprises, all industries (incl. land purchasing; excl. software and R&D investment) calls for a +1.4% YoY increase (revision rate: -1.8%). The revision rate is deep in native territory for September (vs. the average of 0.0% for 2011-19), suggesting cautious stance on capacity expansion. In contrast, software investment plans were raised (+6.7% YoY; revision rate: +3.6%) as companies are proactively investing in efficiency improvement.
- (6) **Inflation outlook:** The inflation outlook (proxy for CPI) for all enterprises, all industries (one year ahead) is +0.3%, unchanged from the June survey. Core CPI remains in negative territory due partly to policy factors, but the decline in corporate inflation expectations is narrowing somewhat on the back of a rebound in the economy and the resulting improvement in the outlook for selling prices..

Figure 1. Business conditions DI



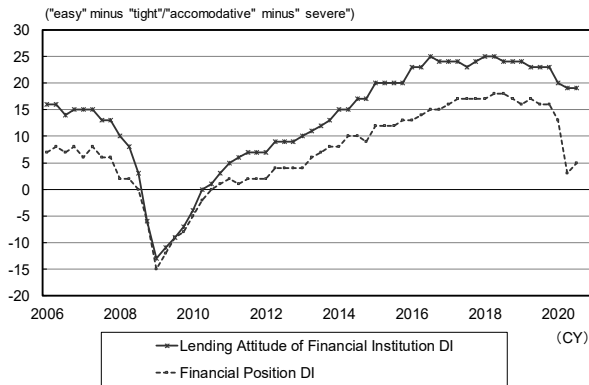
Source: MUMSS, from Bank of Japan "Short-Term Economic Survey of Enterprises in Japan"

Figure 2. Supply & demand conditions DI (manufacturing, large enterprises)



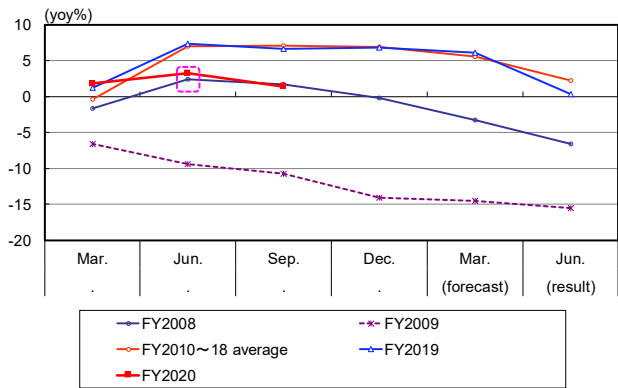
Source: MUMSS, from Bank of Japan "Short-Term Economic Survey of Enterprises in Japan"

Figure 3. Corporate finance DI
(All industries, all enterprises)



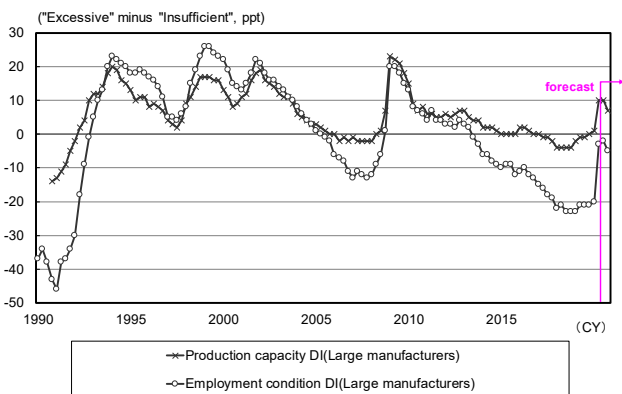
Source: MUMSS, from Bank of Japan "Short-Term Economic Survey of Enterprises in Japan"

Figure 4. Fixed investment plans
(All industries, large enterprises, % YoY)



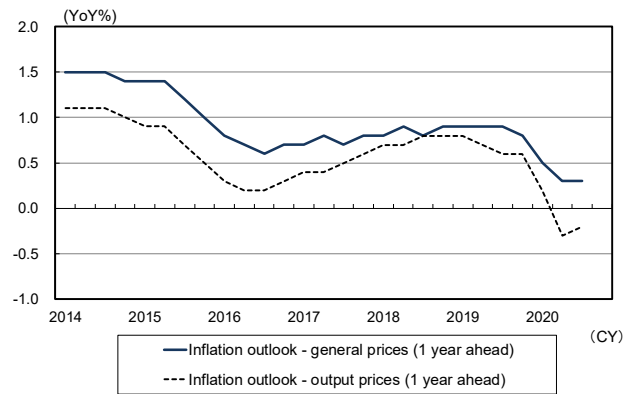
Note: Incl. land purchasing; excl. software and R&D investment
Source: MUMSS, from Bank of Japan "Short-Term Economic Survey of Enterprises in Japan"

Figure 5. Production capacity and employment DI
(All industries, large enterprises)



Source: MUMSS, from Bank of Japan "Short-Term Economic Survey of Enterprises in Japan"

Figure 6. Inflation outlook of enterprises
(All industries, all enterprises)



Source: MUMSS, from Bank of Japan "Short-Term Economic Survey of Enterprises in Japan"

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Appendix A

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