

## 【Fundamentals Navigator】

# BoJ Tankan survey (Mar 2021): Business conditions DI for large firms keeps improving, turns positive for manufacturers

(original Japanese report issued on April 1, 2021)

### Negative non-manufacturer reading shrinks; capex for large firms seen up +3.0% YoY in FY21

The business conditions DI for large manufacturing enterprises again improved by over 10pt in the BoJ March Tankan survey, with a 15pt improvement to +5. The reading avoided negative territory for the first time in six quarters. Although the forecast for June is for a modest decline (to +4), readings for capital goods-related industries are seen remaining on an uptrend thanks to a recovery in capex both inside and outside Japan. The DI for large nonmanufacturing enterprises grew less negative in March. While DIs for private consumption-related subcategories worsened due to the state of emergency, readings for other sectors largely improved. FY21 capital investment plans for large enterprises (all industries) call for +3.0% YoY growth, a relatively bullish forecast for a March survey. Although the growth partly reflects a bounce back from the decline forecast for FY20, we think it also suggests that capex may keep recovering during FY21.

**(1) Manufacturing sector:** The business condition DI (favorable minus unfavorable) in the BoJ's March Tankan survey rose 15pt over the Dec survey to +5 as readings improved for a third straight quarter (+17pt improvement for DI in previous Dec survey). The reading left negative territory for the first time in six quarters, dating back to the zero reading in the Dec 2019 survey. Marked improvement was seen in processing industries including production machinery (+29pt vs. Dec survey result to +8), motor vehicles (+23pt to +10), and electrical machinery (+19pt to +18; incl. electronic components), while for basic materials there was a distinct uptick for petroleum & coal products (+31pt to 19). Steady improvement in readings for both domestic supply/demand (+8pt to -13) and overseas supply/demand (+11pt to -6) lifted the business conditions DI. Rising commodity prices manifested themselves in a higher input prices reading (+10pt to +15; reading for output prices improved 4pt to -2), but there was no clear sign of adversely impacting the business conditions DI. The forecast business conditions DI for June calls for a 1pt decline vs. the March result, to +4. Despite concerns in the motor vehicle sector (-4pt to +6) about reduced production because of semiconductor supply shortages, the ongoing improvement in the DI for capital goods-related industries reflects expectations for a recovery in capex both inside and outside Japan. Concrete examples include general-purpose machinery (+9pt to +21) and production machinery (+3pt to +11).

**(2) Non-manufacturing sector:** While still quite some way from the pre-pandemic reading of +20 (Dec 2019 survey), the large non-manufacturer business condition DI improved 4pt to -1, for a third straight quarterly rise. The survey period for the March survey (25 Feb-31 Mar) coincided with the second state of emergency declaration, resulting in poorer readings for private consumption-related industries. Readings for services for individuals (-8pt to -51) and accommodations & eating/drinking services (-15pt to -81)

### Mar 2021 survey results

- 1) Business conditions DI (large manufacturers)  
Result: +5; +15pt vs. prev. survey  
(market forecast: -1)  
Forecast: +4; -1pt vs. Mar result  
(market forecast: 4)
- 2) Business conditions DI (large non-manufacturers)  
Result: -1; +4pt vs. prev. survey  
(market forecast: -4)  
Forecast: -1; no change vs. Mar result  
(market forecast: -1)
- 3) Capex (large enterprises, all industries)  
FY21: +3.0%

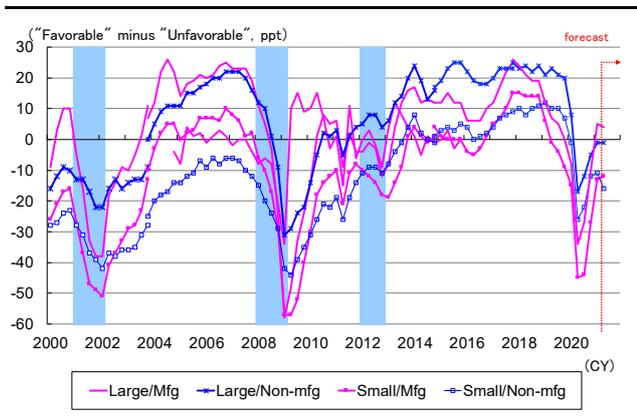
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headed deeper into negative territory for the first time in three quarters, while the retailing reading also worsened modestly (-4pt to +19). DIs for other categories, however, largely improved. Real estate (+19pt to +15) turned positive for the first time in four quarters, while goods rental & leasing grew stronger (+11pt to +14) on a recovery in capex. The forecast for June is for a DI of -1, on par with the March result. Despite large improvement expected for services for individuals (+26pt to -25) and for accommodation & eating/drinking services (+23pt to -58), uncertainty lingers.

**(3) Corporate finance-related DI:** The financial position DI ("easy" minus "tight") for all industries improved 2pt from the Dec result to +9, while the lending attitude of financial institutions ("accommodative" minus "severe") was flat vs. Dec at 18. The lack of meaningful improvement in non-manufacturer readings offers a glimpse into the impact of the recent state of emergency declaration, but the impact on overall figures appears to have been modest.

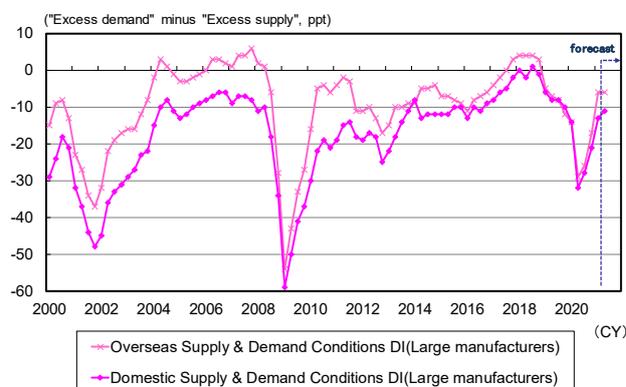
**(4) Capex plans:** Large enterprises (all industries) intend to boost capex (including land, excluding software and R&D) by 3.0% YoY in FY21, a somewhat sizable increase for a March survey (the average over FY10-20 is +0.0%; the forecast increase for FY20 in the March 2020 survey was +1.8%). Although the substantial growth partly reflects a recoil from the decline forecast for FY20 (-3.8%), we think the outlook also bakes in the rebound in capital spending since 2H FY20 and expectations for the recovery to continue into FY21. Software investment for all industries is seen growing 5.7% YoY in FY21 (vs. -0.4% growth forecast for FY20). Meanwhile, the yen is trading now at a weaker rate than the predicted exchange rates of all enterprises, all industries (USD/JPY of 106.07)

Figure 1. Business conditions DI



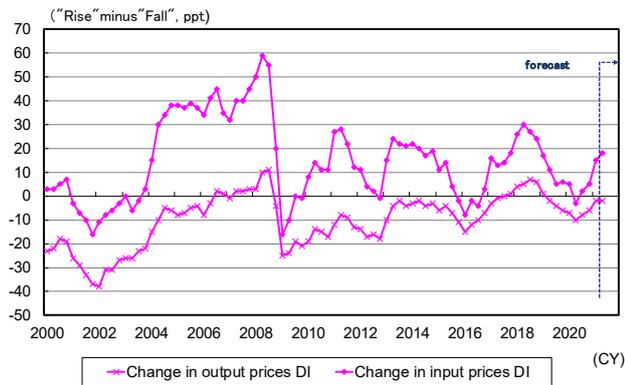
Source: MUMSS, from Bank of Japan "Short-Term Economic Survey of Enterprises in Japan"

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



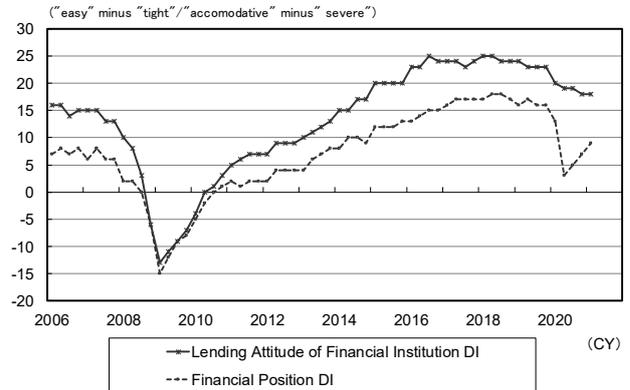
Source: MUMSS, from Bank of Japan "Short-Term Economic Survey of Enterprises in Japan"

**Figure 3. Output/input prices DI  
(All industries, all enterprises)**



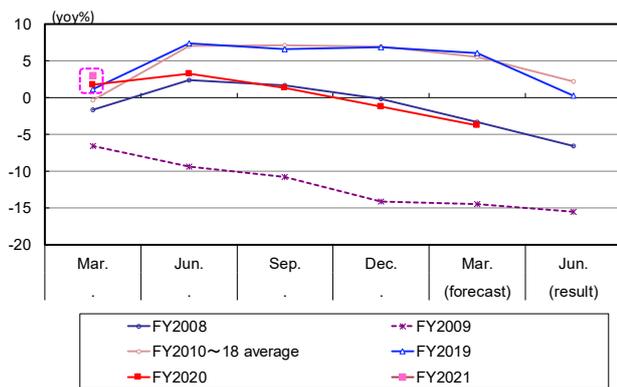
Note: Incl. land purchasing; excl. software and R&D investment  
Source: MUMSS, from Bank of Japan "Short-Term Economic Survey of Enterprises in Japan"

**Figure 4. Corporate finance DI  
(All industries, all enterprises)**



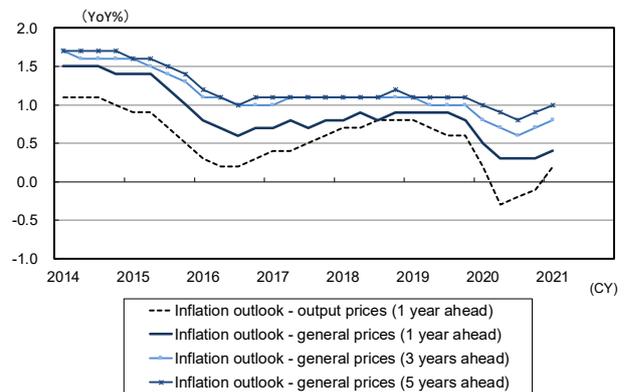
Source: MUMSS, from Bank of Japan "Short-Term Economic Survey of Enterprises in Japan"

**Figure 5. Capex 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 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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