

## “Tankan survey”; large manufacturers business confidence deteriorated for 2 consecutive quarters

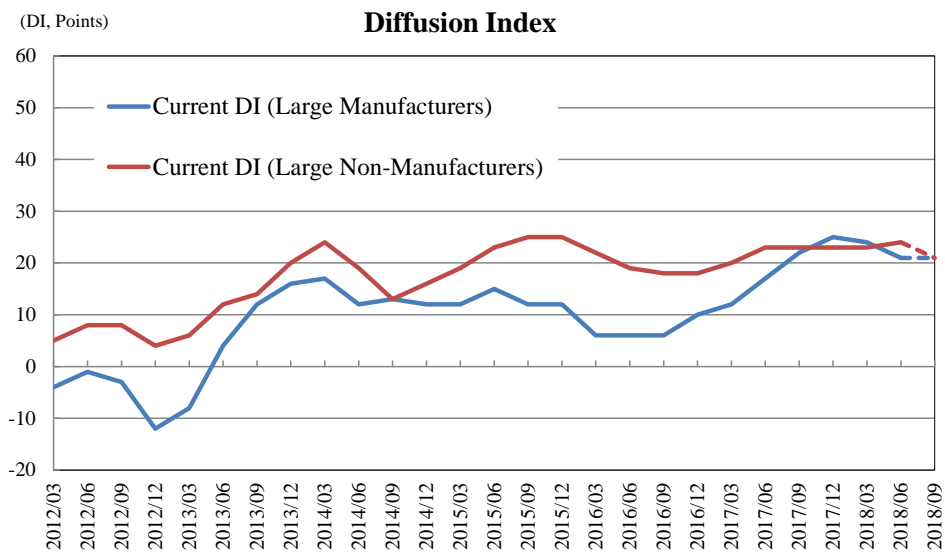
The “Short-Term Economic Survey of Enterprises in Japan” known as the “Tankan survey” is conducted by the Bank of Japan quarterly used as a reference for their monetary policy decision making process based on the data from more than 10,000 companies. The economic data includes the annual projections 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 (DI)” and “Future Business Condition Diffusion Index (Future DI)” as a key economic data in the financial markets. According to the latest “Tankan,” Business Confidence DI for large manufacturers have dropped for 2 consecutive quarters due to the factor such as rising costs.

### Point 1

## Business Condition Diffusion Index for large manufacturers dropped for 2 consecutive quarters

### Large non-manufacturers slightly recovered

- According to June “Tankan survey” released on 2 July, Business Confidence DI for large manufacturers kept its high level but declined by -3 points to 21 compared to March survey for 2 consecutive quarters. Decline for 2 consecutive quarters happened for the first time since December 2012. By sectors, petroleum & coal products, lumber & wood products and motor vehicles showed the most declines perhaps due to rising costs of raw materials and U.S.-China trade friction. Future DI for the next quarter is expected to be flat.
- On the other hand, Business Confidence DI for large non-manufacturers recovered by +1 point to 24. By sectors, electric & gas utilities and services for individuals increased. Meanwhile, the future DI is expected to fall by -3 points.



(Note) Data period from Mar. 2012 to Sep. 2018. Dotted lines are Future DIs.

(Source) SMAM, based on BOJ data.

## Point 2

### CAPEX remained firm FY2018 predicted exchange rate is JPY107.26

- FY2018 CAPEX plan of large enterprises was drastically revised up by +13.6% YoY from +2.3% of the previous survey which remained firm compared to the past average.
- FY2018 large manufacturers' predicted exchange rate attracting market attention, was revised up by +2 to JPY107.26 against USD.
- Employment condition DI (all enterprises) declined moderately to -32 (last survey -34).

## Future Outlook

### Solid CAPEX and weakening JPY may support Japanese stock market

- On 2 July, Nikkei 225 Index closed JPY492.58 weaker than the previous day at JPY21,811.93 due to concerns over intensified U.S.-China trade friction. However, the Index closed almost flat by only -JPY33.75 for the morning session after "Tankan survey" was released. Accordingly, it was unlikely that the deterioration of large manufacturers' business sentiment had impacted the Japanese stock market in a big way. Even though U.S.-China trade friction will still weigh on Japanese stock market, we believe it will be underpinned by 1) solid large enterprises' CAPEX plan reflected in "Tankan survey" and 2) possible improvement of corporate earnings if current lower USD/JPY exchange rate (weaker JPY against USD) compared to FY2018 predicted exchange rate (JPY107.26 against USD), would continue going forward.

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