



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

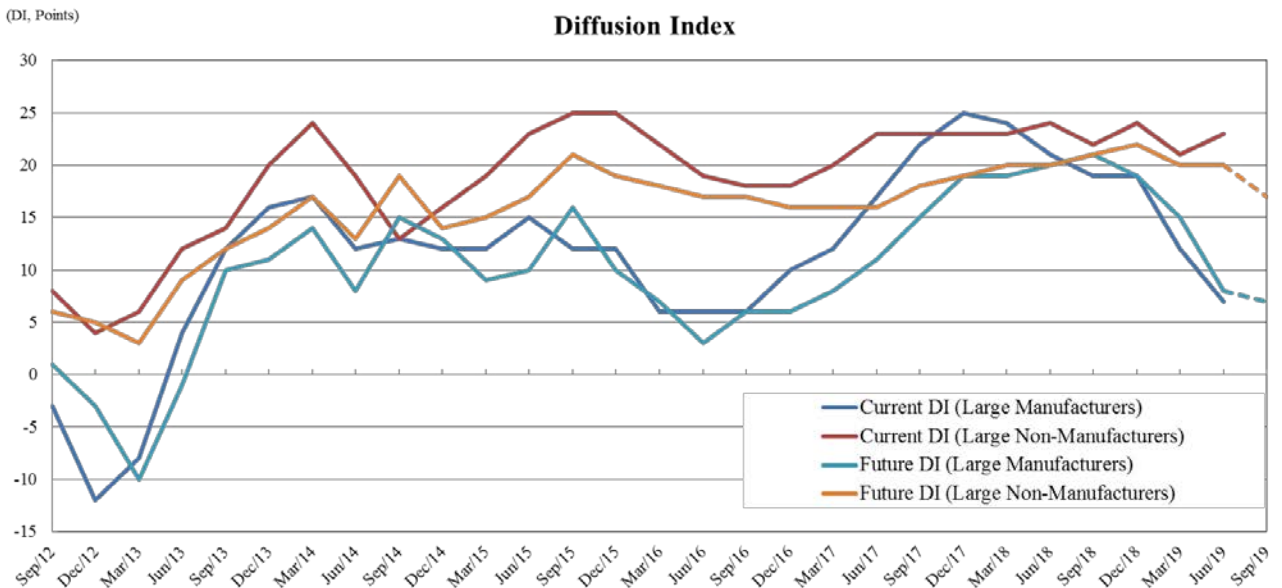
“Tankan Survey” is an economic survey used by the Bank of Japan as a reference for monetary policy decision making based on quarterly data from approximately 10,000 companies. The economic data includes annual projections of revenues, profits and capital expenditures (CAPEX) as well as business confidence of the companies. Business Condition Diffusion Index (DI) that shows large manufacturers’ business confidence is the most major indicator of the survey. According to June “Tankan Survey” which was released on 1 July, DI for large manufacturers deteriorated for 2 consecutive quarters.

Point 1

Large manufacturers’ business confidence deteriorated for 2 consecutive quarters

Large non-manufacturers recovered

- According to June 2019 “Tankan Survey”, Business Condition DI for large manufacturers declined to 7 by 5 points from March survey (12) and below market consensus (9), possibly due to concern over overseas’ economic slowdown and US-China trade friction. However, Future DI (business sentiment for future 3 months) unchanged at 7.
- Meanwhile, Business Condition DI and the Future DI for large non-manufacturers recovered by 2 points to 23 and declined by 6 points to 17, respectively. Large non-manufacturers maintained high score due to solid domestic demand.
- June “Tankan Survey” indicated slowdown in manufacturing with concern over overseas’ economic slowdown and US-China trade friction, and strong non-manufacturing with solid domestic demand, as the previous survey.



(Note) Data period from Sep. 2012 to Sep. 2019. Dotted lines are Future DIs.
(Source) SMDAM, based on BOJ data.



Point 2

CAPEX plans remained firm

FY2019 exchange rate expected by large manufacturers was JPY109.35

- FY2019 CAPEX plan of all industries (all enterprises) revised up by 2.3% YoY from the previous survey. Also FY 2019 Software investment plan rose by 12.9% YoY, reflecting active investment in manpower-saving.
- FY2019 large manufacturers' expected exchange rate slightly weaker to JPY109.35 against USD from the previous survey (JPY108.87).

Outlook

We expect continuing US-China trade talks may ease the trade friction

- Since June "Tankan Survey" was conducted from 28 May to 28 June, it has likely reflected the growing uncertainty over external environment due to relapse of US-China friction. However the pessimistic outlook is not necessarily prevailing, as Future DI for large manufacturers remained unchanged from the current June survey at 7. Although the economy has not yet picked up, we believe that it has not entered into full-scale correction despite the unexpected worsening of business confidence in manufacturing, as that of non-manufacturing has been steady and CAPEX plans have not decreased. We expect continuing US-China trade talks may ease the trade friction.

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