

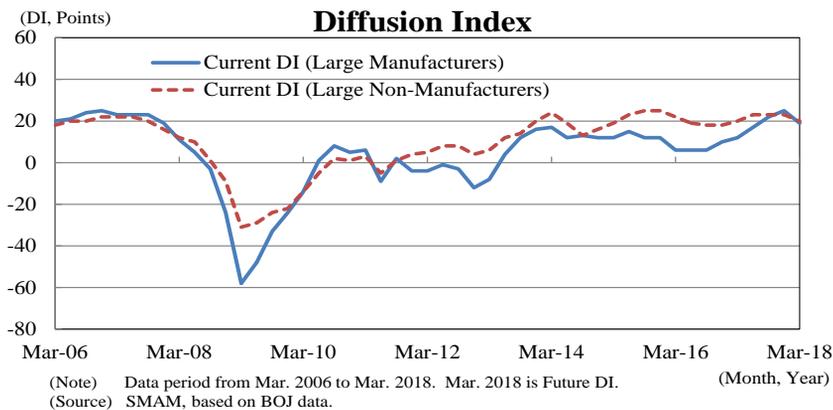
“Tankan survey”; record-high for the first time in 11 years

The “Short-Term Economic Survey of Enterprises in Japan” known as the “Tankan survey” is conducted by the Bank of Japan in quarterly basis based on the data from more than 10,000 companies which is used as a reference for their monetary policy decision making process. The current and future business confidence for large manufacturers are widely known as “Business Condition Diffusion Index” receiving most attention in the financial markets. According to the latest December “Tankan” announced on 15th December, business conditions of large manufacturers showed improvement and marked a 11 year high since December 2006.

Point 1

5th straight quarters of improvement of large manufacturers’ business conditions; record-high for the first time in 11 years

- According to December “Tankan survey”, the latest “Business Condition Diffusion Index” for large manufacturers rose 3 point to +25 from the previous survey of September. This was 5th straight quarters of improvement beaten market expectation of +24 (Bloomberg). Business conditions DI recorded an 11 year high. Of the manufacturers, Medium-sized and Small enterprises also saw improvement. Background seems to be increase in export due to (1) a weaker JPY compared to assumed exchange rate of USD and EUR by Japanese corporations and (2) recovery of global economy. Improvement of DIs of manufacturers such as Automobile, Production machinery, Steel and Non-ferrous attributed to the overall improvement of the DI.
- Assumed exchange rate of large manufacturers for FY2017 was JPY110.18 against USD which slightly shifted to weaker yen than the previous survey.



Point 2

Business conditions DI of Large non-manufacturers were flat Weak consumption due to prolonged rain fall

- Meanwhile, the latest Business conditions DI of the large non-manufacturers was the same at +23 as the previous survey. Medium-sized and Small enterprises were almost the same (+1) as the previous survey, too. Although consumption is trending up, pace of improvement of non-manufacturers was moderate compared to the previous survey due to prolonged rain fall and rise of wages.
- Capital spending plan of Japanese corporations (All size and All Industries) was + 6.3%, surpassed that of previous survey (September). Negative gaps of Production capacity DI and Employment conditions DI widened due to their shortages. These could lead to capital expenditure in future.

Economic expansion and earnings growth expectation will likely support equity market

- December “Tankan survey” confirmed moderate economic expansion trend due to significant improvement of manufacturers, while improvement of non-manufacturers was stymied by bad weather.
- Pace of rise of Nikkei 225 index accelerated after September temporarily recovered 23,000 level on 9th November, and is still hovering around this level. The Japanese equity market appears to be supported by (1) strong export due to global economic recovery and (2) recovery of commodity market. Despite some uncertainties over North Korean situation and in Middle East, continuation of economic expansion and earnings growth expectation seem to underpin Japanese equity market.

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