

# AT A GLANCE | Japan

October 6, 2023

## Tankan Survey Results; Before and After the Bubble Burst

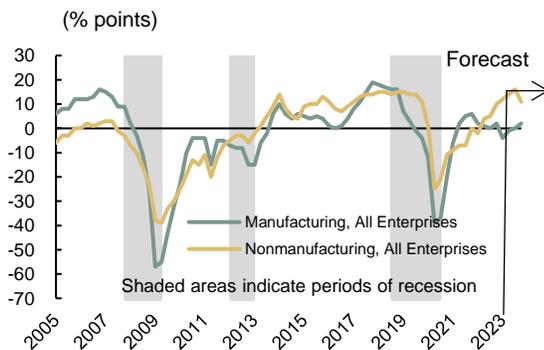
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### September Tankan Shows Solid Results

The September Tankan survey, released by the Bank of Japan on October 2, showed continued improvement in business confidence. Companies' expectation for their fixed investment has also remained strong. Looking back briefly, the Diffusion Index (DI) for business conditions rose from +8 to +10 for all sizes and industries, with both manufacturing and nonmanufacturing industries showing improvement (Figure 1). In addition, business fixed investment remained strong at 13% in all sizes and industries compared to the previous fiscal year, and the range of revisions remained roughly the same as the revision path in previous years, indicating that firms' stance on business fixed investment has remained stable (Figure 2).

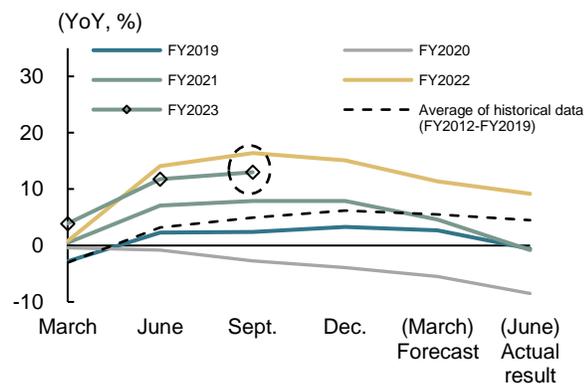
One of the most notable of these solid results is the strength of the nonmanufacturing sector. The DI for all nonmanufacturing sectors was +16, the strongest since December 1991. The Japanese economy, which has been stagnant since the collapse of the bubble economy, has begun to show signs of improvement. And there are a few other items in the Tankan survey that haven't been seen since the bubble burst. In this report, we would like to review the results of the September Tankan, other than business conditions and capital investment, with reference to developments after the collapse of the bubble economy.

**Figure 1: Tankan/Business Conditions DI**



Source: Bank of Japan

**Figure 2: Capital Investment Plan**



Source: Bank of Japan

### Employment Assessment Remains Tight

First, we should focus on supply-demand indicators, which affect prices. The DI of supply and demand for manufactured goods and services in all industries decreased to minus 12, slightly worse than the previous DI (minus 11), and remained in the negative range, indicating that a large proportion of firms answered that

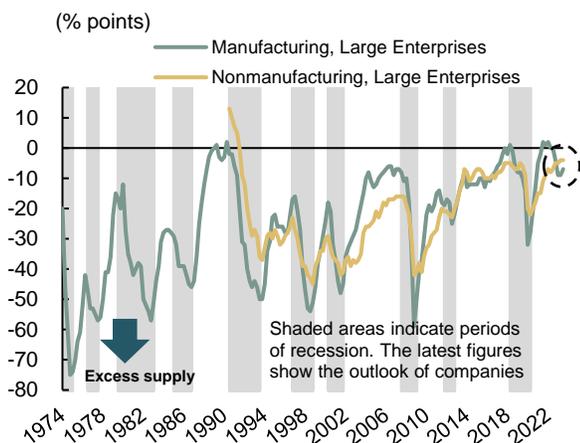
they had excess supply. However, the index has been positive only once since December 1990. For this reason, there is little substantive meaning in terms of positive or negative results.

If this is the case, one useful method of assessment would be to compare current results with historical levels. The nonmanufacturing sector is at its highest level except for the beginning of 1990 (similar to the peak around 18 to 19), and the supply-demand environment is at the same level as around 12 in 1991, including the beginning of 1990 (Figure 3). As a result, it seems clear that the economic environment has become conducive to price hikes in the nonmanufacturing sector, where goods and services have become relatively tight.

On the other hand, the current assessment of supply and demand in the manufacturing sector is somewhat poor. During 2022, the situation was the tightest following that of 1989 to 1991, and as seen in the actual price indicators, the economic environment was able to justify an increase in the price of goods. However, the current supply and demand situation has deteriorated to the same extent as before the Lehman Brothers shock in the period from 2004 to 2007 and in the early period of the introduction of quantitative and qualitative easing (QQE) in the period from 2013 to 2015, which means that it will become difficult for the price of goods to rise in the future.

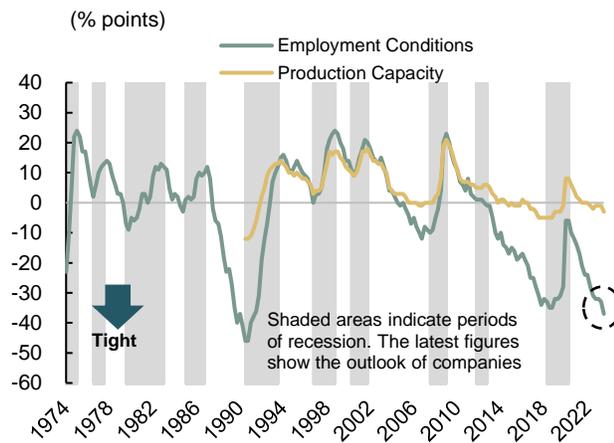
Although the situation is somewhat divergent between the manufacturing and nonmanufacturing industries, it can be seen from different perspectives. In the DI for production and sales equipment, the sense of shortage has not exceeded around 18 to 19, while in the DI for employment personnel, the sense of shortage has exceeded around 18 to 19 (Figure 4). Dividing this DI into the manufacturing and nonmanufacturing sectors shows that the nonmanufacturing sector is close to the peak of the shortage feeling before the bubble burst, and the manufacturing sector is close to the bottom level after the bubble burst (Figure 5). The fact that the labor shortage is serious is common to all industries, and this means that the upward pressure on wages will remain strong. In light of this, the possibility that price increases accompanied by wage increases will be sustained to some extent is increasing.

**Figure 3: DI for Judging Supply and Demand of Manufactured Goods and Services**



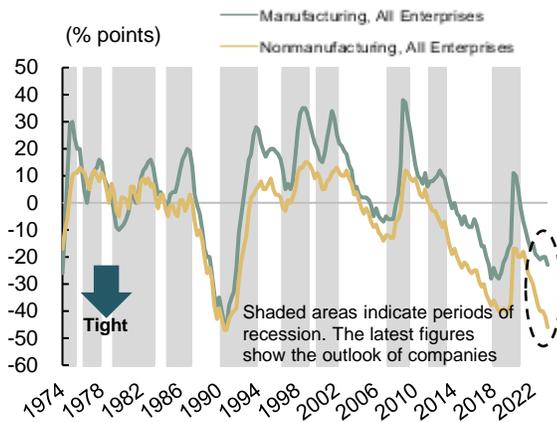
Source: Bank of Japan

**Figure 4: Employment Personnel Judgment DI and Production and Sales Equipment Judgment DI (all sizes and industries)**



Source: Bank of Japan

**Figure 5: Employment Status DI  
(manufacturing and nonmanufacturing)**



Source: Bank of Japan

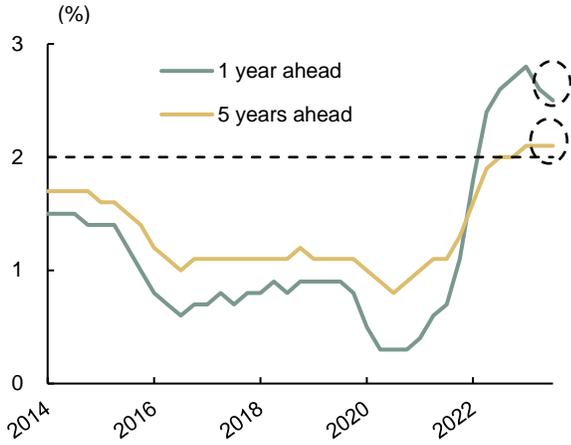
### High Inflation Expectations

In fact, in support of the above view, firms' price forecasts remain high (Figure 6). The overall outlook for prices in all sizes and industries shows that prices are +2.5% in one year, peaking at +2.8% in the March 2023 survey. However, the medium- to long-term outlook for prices in five years is +2.1% and over 2% for five consecutive quarters. This seems to mean that while the pressure to push costs has eased, more people believe that inflation is unlikely to rise as it has in the past, more people believe that wages will rise, and some inflation will remain as the structural labor shortage affects the economy.

Moreover, not only prices in general but also the outlook for companies' own selling prices remain high, suggesting that inflation will continue to rise to some extent. There is a strong correlation between the Tankan's sales price outlook (one year later, all sizes and industries), which has been delayed by three periods, and the core Consumer Price Index (CPI) (excluding fresh food and energy) (Figure 7). With the current sales price forecast holding at around 3%, it is possible that the core CPI will continue to rise around 3% until next spring.

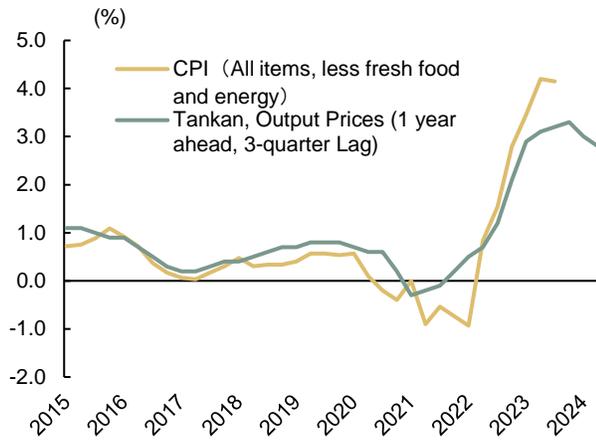
Summarizing the above, the current supply-demand environment is not necessarily favorable, but the tightening of labor market conditions is serious, and wage pressures are intensifying. Against this backdrop, the outlook for corporate selling prices remains high and inflation expectations remain above 2%. Such a move could lead to further wage increases in next year's spring wage negotiation cycle, and we will keep an eye on future trends.

**Figure 6: General Outlook for Prices  
(all scales and industries)**



Source: Bank of Japan

**Figure 7: Sales Price Outlook  
(one year later, all sizes and industries)**



Source: Bank of Japan

## Economic Outlook: 2023-2024 Forecast

Figure 1: Forecasts for Economic Growth, Inflation, and Unemployment Rates

		2022			2023				2024				2021	2022	2023	2024
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
US	Real GDP	-0.6	2.7	2.6	2.2	2.1	2.5	1.2	0.6	1.0	1.2	1.7	5.9	2.1	2.1	1.2
	Inflation	5.2	5.2	5.1	4.8	4.6	4.0	3.6	3.0	2.7	2.6	2.5	3.6	5.2	4.3	2.7
	Unemployment	3.6	3.6	3.6	3.5	3.6	3.7	3.9	4.2	4.4	4.4	4.5	5.4	3.7	3.7	4.4
Euro Area	Real GDP	0.8	0.3	-0.1	0.1	0.1	0.0	0.1	0.2	0.3	0.3	0.4	5.6	3.4	0.5	0.8
	Inflation	8.0	9.3	10.0	8.0	6.2	5.1	3.2	3.3	3.2	3.0	2.8	2.6	8.4	5.6	3.1
	Unemployment	6.7	6.7	6.7	6.6	6.4	6.5	6.6	6.7	6.8	6.8	6.8	7.7	6.7	6.5	6.8
Japan	Real GDP	5.3	-1.2	0.2	3.2	4.8	0.9	0.8	0.9	0.9	1.1	1.1	2.2	1.0	1.5	1.0
	Inflation	2.1	2.7	3.8	3.5	3.2	2.9	2.5	2.9	2.8	2.5	2.1	-0.2	2.3	3.0	2.6
	Unemployment	2.6	2.5	2.5	2.6	2.5	2.4	2.4	2.3	2.3	2.3	2.3	2.8	2.6	2.4	2.3
China	Real GDP	0.4	3.9	2.9	4.5	6.3	4.4	4.8	3.7	4.1	4.6	5.0	8.4	3.0	5.0	4.4
	Inflation	2.2	2.8	1.8	1.3	0.2	0.0	0.6	1.1	1.5	1.8	2.0	0.8	1.7	0.5	1.6
	Unemployment	5.8	5.4	5.6	5.5	5.2	5.3	5.2	5.1	5.0	5.0	5.0	5.1	5.1	5.3	5.0

Real GDP growth is in QoQ annualized for U.S. and Japan, QoQ for euro area and YoY for China and India. Inflation rate is in YoY%. Inflation rate is YoY, % of core index (ex. fresh food) for Japan, YoY % of PCE deflator for U.S., and total YoY% for the rest.

Figure 2: Forecast for Rates

Interest rate		2022	2023				2024				2022	2023	2024
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
US	Policy rate	4.25 ~ 4.50	4.75 ~ 5.00	5.00 ~ 5.25	5.25 ~ 5.50	5.25 ~ 5.50	5.25 ~ 5.50	5.00 ~ 5.25	5.00 ~ 5.25	4.75 ~ 5.00	4.25 ~ 4.50	5.25 ~ 5.50	4.75 ~ 5.00
	2yr	4.43	4.03	4.90	5.04	5.00	5.00	4.75	4.75	4.75	4.43	5.00	4.75
	10yr	3.87	3.47	3.84	4.57	4.20	4.00	3.90	4.00	4.00	3.87	4.20	4.00
Germany	Policy rate	2.50	3.50	4.00	4.50	4.50	4.50	4.50	4.25	4.00	2.50	4.50	4.00
	Deposit rate	2.00	3.00	3.50	4.00	4.00	4.00	4.00	3.75	3.50	2.00	4.00	3.50
	2yr	2.50	2.68	3.20	3.20	3.00	2.80	2.60	2.40	2.30	2.50	3.00	2.30
	10yr	2.20	2.29	2.39	2.84	2.50	2.30	2.20	2.10	2.10	2.20	2.50	2.10
Japan	Policy rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.10	0.10	0.10	-0.10	-0.10	0.10
	2yr	0.04	-0.06	-0.07	0.06	0.15	0.20	0.30	0.30	0.30	0.04	0.15	0.30
	10yr	0.42	0.35	0.40	0.77	0.75	0.80	0.90	0.90	0.90	0.42	0.75	0.90
China	Policy rate	2.75	2.75	2.65	2.50	2.40	2.40	2.40	2.40	2.40	2.75	2.40	2.40
	2yr	2.39	2.41	2.11	2.26	2.17	2.25	2.32	2.42	2.52	2.39	2.17	2.52
	10yr	2.83	2.85	2.64	2.67	2.62	2.67	2.72	2.77	2.82	2.83	2.62	2.82

Figure 3: Forecast for FX and Oil Price

		2022	2023				2024				2022	2023	2024
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
USD/JPY	Range	130.58 ~ 151.95	127.23 ~ 137.91	130.64 ~ 145.07	137.25 ~ 149.71	138.00 ~ 152.00	133.00 ~ 147.00	126.00 ~ 140.00	128.00 ~ 142.00	128.00 ~ 142.00	113.47 ~ 151.95	127.23 ~ 152.00	126.00 ~ 147.00
	End of quarter	131.12	132.86	144.31	149.37	145.00	140.00	133.00	135.00	135.00	131.12	145.00	135.00
EUR/USD	Range	0.9633 ~ 1.0735	1.0806 ~ 1.1033	1.0635 ~ 1.1095	1.0488 ~ 1.1276	1.0100 ~ 1.1100	1.0000 ~ 1.1000	1.0100 ~ 1.1100	1.0100 ~ 1.1100	1.0200 ~ 1.1200	0.9536 ~ 1.1495	1.0100 ~ 1.1276	1.0000 ~ 1.1200
	End of quarter	1.0705	1.0839	1.0909	1.0573	1.0500	1.0400	1.0500	1.0600	1.0600	1.0705	1.0500	1.0600
EUR/JPY	Range	138.81 ~ 148.40	124.40 ~ 145.67	142.55 ~ 158.00	151.42 ~ 159.76	148.00 ~ 162.00	141.00 ~ 155.00	135.00 ~ 149.00	135.00 ~ 149.00	136.00 ~ 150.00	124.40 ~ 150.00	137.39 ~ 162.00	135.00 ~ 155.00
	End of quarter	140.41	144.01	157.43	157.93	152.25	145.60	139.65	143.10	143.10	140.41	152.25	143.10
Crude Oil Prices (WTI)		82.64	75.99	73.67	82.22	89.50	85.50	79.50	80.50	80.00	98.74	80.35	81.38

※ Crude oil prices are averages for each period. Source: SMBC.

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