

The Bank of Japan's Tankan survey shows a worsening of business sentiment and a rise in prices DI

RYO YAMADA
ECONOMIC RESEARCH OFFICE

MUFG Bank, Ltd.
A member of MUFG, a global financial group

18 APRIL 2022

(ORIGINAL JAPANESE VERSION RELEASED ON 1 APRIL 2022)

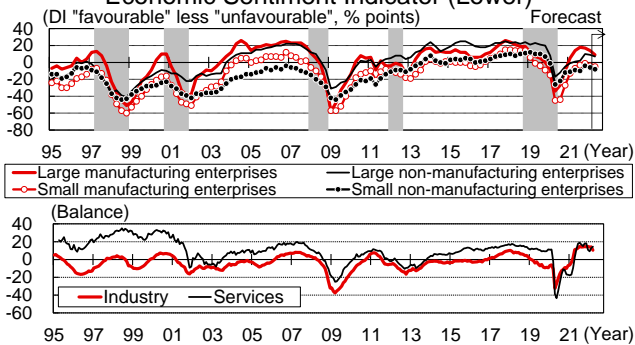
Japan's economic recovery is still being affected by the COVID-19 situation both domestically and overseas, and sentiment is easily swayed by restrictions on movement and disruption to supply chains. Nevertheless, it seems widespread opinion at the start of the year was that the recovery will be steady if economic normalisation continues in Japan and overseas on the back of progress in "living with COVID-19" policies. However, the recent crisis in Ukraine and the resulting strict sanctions against Russia imposed by developed countries – including Japan – have led to a rise in uncertainty.

In light of this, the Bank of Japan's Tankan survey published on 1st April gained attention as the first indicator of business sentiment based on both the spread of the omicron variant in Japan and the outbreak of the crisis in Ukraine. First, the Business Conditions DI (an indicator of business sentiment which shows the change in the percentage of respondents who replied "favourable" less those who replied "unfavourable") across both the manufacturing and non-manufacturing sectors shows enterprises' "actual results" have worsened and even their "forecasts" have deteriorated compared with current conditions (Chart 1). In the non-manufacturing sector, there are industries which have experienced a boost from the easing of various restrictions (such as "services for individuals" and "accommodation, eating and drinking services"), yet it is predicted that a wide range of industries – especially industries that produce materials – will be affected greatly by a rise in natural resource prices and some supply constraints caused by the crisis in Ukraine. However, taking into consideration that the Economic Sentiment Indicator for the Eurozone – which is closer to the crisis in Ukraine – has held fast during the same period, it is possible that this decrease will be temporary and is the fault of a cumulation of negative factors (the pandemic and the crisis in Ukraine), rather than the prelude to a sudden fall.

While "inflation" and "supply constraints" have become key considerations for business sentiment and management, in this Tankan survey, "supply and demand conditions, inventories and prices" were also a point of focus. The changes in "supply and demand conditions" and "inventory levels" have remained small, whereas the "change in output prices" DI and "change in input prices" DI ("rise" less "fall") rose significantly across both large and small enterprises (Chart 2). Results show the rise was widespread across industries. There was also a marked rise in the "inflation outlook of enterprises" since the latter half of last year. The Bank of Japan is

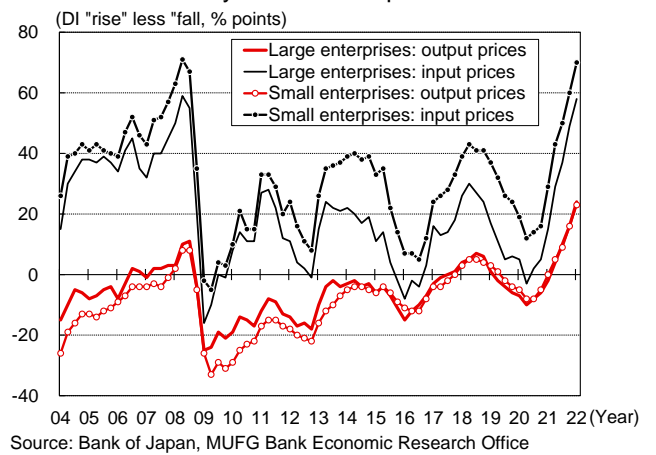
sticking resolutely to its position of maintaining its easy monetary policy, but it is likely attention will be paid to the impact on its policy decisions if the “prices” DI continues to rise.

Chart 1: Business Conditions DI in the BoJ's Tankan by Enterprise/Size (Upper) and the Eurozone's Economic Sentiment Indicator (Lower)



Note: Shaded areas denote periods of economic recession. Data between Oct-Dec 2018 and Apr-Jun 2020 are preliminary results
 Source: Bank of Japan, European Commission, MUFG Bank Economic Research Office

Chart 2: Manufacturing Sector's Prices DI by Size of Enterprise



Translated by Elizabeth Foster

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of Apr.1, 2022

	Fiscal	Fiscal	2021			2021			2022	
	2019	2020	2Q	3Q	4Q	OCT	NOV	DEC	JAN	FEB
Real GDP Growth Rate <% changes from previous period at SA annual rate>	-0.7	-4.5	2.4 (7.3)	-2.8 (1.2)	4.6 (0.4)	***	***	***	***	***
Industrial Production Index	-3.8	-9.5	1.1 (19.9)	-3.7 (5.8)	1.0 (1.2)	1.8 (-4.1)	7.0 (5.1)	-1.0 (2.7)	-0.8 (-0.5)	0.1 (0.2)
Production										
Shipments	-3.6	-9.8	0.7 (18.8)	-4.1 (4.2)	1.5 (0.2)	2.4 (-5.6)	7.4 (3.5)	0.1 (2.8)	-1.6 (-0.9)	-1.3 (-1.7)
Inventory	2.8	-9.8	0.9 (-5.0)	2.5 (0.5)	2.8 (5.0)	0.6 (2.2)	2.0 (5.6)	0.1 (5.0)	-1.4 (4.6)	1.9 (7.3)
Inventory/Shipments Ratio (2015=100)	112.5	122.9	108.2 [142.1]	114.4 [124.0]	117.1 [114.6]	119.2 [115.3]	116.4 [114.2]	115.8 [114.3]	115.3 [108.7]	118.8 [109.8]
Index of Tertiary Industries Activity	-0.7	-6.9	-0.5 (7.5)	-0.8 (0.3)	2.4 (0.4)	1.8 (-0.8)	0.8 (0.9)	0.1 (1.0)	-0.7 (1.6)	
Domestic Corporate Goods Price Index	0.1	-1.4	2.5 (4.6)	2.2 (6.1)	2.3 (8.8)	1.5 (8.4)	0.6 (9.2)	0.0 (8.7)	0.8 (8.9)	0.8 (9.3)
Consumer Price Index(SA, total, excl.fresh foods)	0.6	-0.4	-0.5 (-0.6)	0.4 (0.0)	0.2 (0.4)	0.0 (0.1)	0.2 (0.5)	0.1 (0.5)	0.0 (0.2)	0.4 (0.6)
Index of Capacity Utilization (2015=100)	98.2	87.4	96.7 [75.3]	90.2 [85.1]	94.4 [92.6]	89.7 [93.2]	96.9 [91.9]	96.5 [92.7]	93.4 [95.7]	93.0 [93.0]
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	-0.3	-8.8	4.1 (12.6)	1.1 (13.3)	5.1 (6.4)	2.5 (2.9)	2.4 (11.6)	3.1 (5.1)	-2.0 (5.1)	
Manufacturing	-8.1	-8.5	11.1 (26.5)	7.2 (33.7)	3.1 (23.4)	-10.2 (13.0)	7.1 (29.4)	3.5 (27.5)	-4.8 (18.7)	
Non-manufacturing	6.2	-9.0	-0.9 (2.2)	-3.6 (-1.2)	6.8 (-6.4)	12.6 (-5.4)	-0.5 (-2.1)	0.4 (-10.2)	-1.9 (-7.0)	
Excl.Electric Power & Ship building										
Shipments of Capital Goods (Excl.Transport Equipment)	-5.5	-6.6	9.9 (22.7)	-2.5 (21.1)	-4.2 (10.5)	-0.7 (10.1)	0.4 (10.9)	0.9 (10.9)	6.1 (8.0)	-6.5 (1.3)
Construction Orders	-5.9	-0.3								
Private	-8.7	-4.9	(16.8)	(9.5)	(5.9)	(2.1)	(11.6)	(4.8)	(11.0)	(-2.3)
Public	-3.2	29.6	(16.3)	(18.1)	(16.4)	(11.3)	(15.6)	(20.1)	(28.8)	(15.6)
Public Works Contracts	6.8	2.3	(-2.2)	(-12.0)	(-15.0)	(-19.8)	(-14.5)	(-6.6)	(-17.7)	(-9.1)
Housing Starts 10,000 units at Annual Rate, SA	88.4 (-7.3)	81.2 (-8.1)	86.5 (8.1)	86.6 (7.2)	85.5 (6.1)	87.7 (10.4)	85.1 (3.7)	83.8 (4.2)	82.0 (2.1)	87.2 (6.3)
Total floor	(-4.5)	(-9.3)	(8.4)	(9.6)	(8.0)	(11.4)	(6.8)	(5.9)	(3.0)	(4.7)
Sales at Retailers	-0.4	-2.8	(6.5)	(-0.4)	(1.3)	(0.9)	(1.9)	(1.2)	(1.1)	(-0.8)
Real Consumption Expenditures of Households over 2 persons (SA)	-0.4	-4.9	3.6 (7.1)	-4.7 (-1.5)	4.6 (-0.7)	3.9 (-0.6)	-0.9 (-1.3)	0.2 (-0.2)	-1.2 (6.9)	
Propensity to Consume (SA,%)	66.9	61.3	61.7 [54.9]	62.0 [62.5]	64.2 [65.8]	65.3 [66.4]	65.2 [66.3]	62.1 [64.7]	64.5 [63.2]	63.3 [63.3]
Overtime Hours Worked (All Industries, 5 employees or more)	-2.5	-13.9	2.8 (19.1)	-0.2 (7.3)	-0.1 (4.1)	0.1 (2.1)	2.9 (5.1)	1.4 (5.1)	-1.2 (3.3)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	0.0	-1.5	(1.0)	(0.5)	(0.0)	(0.2)	(0.8)	(-0.4)	(0.9)	
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	96	36	78	66	60	61	60	59	49	
Ratio of Job Offers to Applicants (SA,Times)	1.55	1.10	1.11 [1.20]	1.15 [1.05]	1.17 [1.05]	1.16 [1.05]	1.17 [1.05]	1.17 [1.06]	1.20 [1.08]	1.21 [1.09]
Unemployment Rate (SA,%)	2.4	2.9	2.9	2.8	2.7	2.7	2.8	2.7	2.8	2.7
Economy Watcher Survey (Judgment of the present condition D.I.%)	38.7	37.7	41.1 [21.6]	41.7 [44.5]	56.5 [44.1]	55.1 [52.7]	56.8 [44.2]	57.5 [35.3]	37.9 [31.9]	37.7 [41.7]
Bankruptcies (Number of cases)	8,631 (6.4)	7,163 (-17.0)	1,490 (-18.9)	1,447 (-28.4)	1,539 (-12.1)	525 (-15.9)	510 (-10.4)	504 (-9.7)	452 (-4.6)	459 (2.9)

(Notes)

Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable.

The figures in () indicate % changes from previous year.

[] show the comparable figure of the previous year.

2. Balance of Payments

	As of Apr.1, 2022									
	Fiscal	Fiscal	2021			2021			2022	
	2019	2020	2Q	3Q	4Q	OCT	NOV	DEC	JAN	FEB
Customs Clearance (Exports in Yen Terms)	-6.0	-8.4	(45.0)	(24.9)	(15.7)	(9.4)	(20.5)	(17.5)	(9.6)	(19.1)
Value	-1.6	1.0	(7.9)	(10.0)	(14.2)	(12.3)	(15.1)	(15.2)	(14.1)	(15.9)
Volumes	-4.4	-9.3	(34.5)	(13.6)	(1.3)	(-2.6)	(4.7)	(2.0)	(-4.0)	(2.7)
Imports (In Yen terms)	-6.3	-11.3	(23.9)	(36.9)	(37.4)	(26.8)	(43.8)	(41.2)	(38.8)	(34.1)
Value	-3.9	-8.2	(17.9)	(27.0)	(35.4)	(30.8)	(35.6)	(39.8)	(32.4)	(35.2)
Volumes	-2.4	-3.3	(5.1)	(7.8)	(1.4)	(-3.0)	(6.1)	(1.0)	(4.8)	(-0.9)
Current Account (100 mil. yen)	186,723	163,021	37,272	42,289	17,067	11,801	8,973	-3,708	-11,887	
Goods (100 mil. yen)	4,839	39,017	9,588	41	-5,833	1,667	-4,313	-3,187	-16,043	
Services (100 mil. yen)	-17,172	-36,636	-15,824	-10,520	-11,108	-5,754	-2,142	-3,213	-7,379	
Financial Account (100 mil. yen)	205,436	135,618	11,768	55,477	-6,958	-8,796	2,185	-347	12,390	
Gold & Foreign Exchange Reserves (\$1mil.)	1,366,177	1,368,465	1,376,478	1,409,309	1,405,750	1,404,520	1,405,754	1,405,750	1,385,932	1,384,573
Exchange Rate (¥/\$)	108.68	106.04	109.48	110.10	113.70	113.10	114.13	113.87	114.83	115.20

3. Financial Market Indicators

	Fiscal	Fiscal	2021			2021			2022		
	2019	2020	2Q	3Q	4Q	OCT	NOV	DEC	JAN	FEB	
Uncollateralized Overnight Call Rates	-0.046	-0.031	-0.019	-0.031	-0.031	-0.027	-0.040	-0.026	-0.020	-0.018	
			[-0.044]	[-0.039]	[-0.026]	[-0.020]	[-0.032]	[-0.026]	[-0.017]	[-0.016]	
Euro Yen TIBOR (3 Months)	0.026	-0.054	-0.067	-0.072	-0.064	-0.072	-0.072	-0.049	-0.049	-0.049	
			[-0.041]	[-0.062]	[-0.055]	[-0.055]	[-0.055]	[-0.055]	[-0.055]	[-0.055]	
Newly Issued Japanese Government Bonds Yields (10 Years)	0.005	0.120	0.050	0.065	0.070	0.095	0.050	0.070	0.170	0.180	
			[0.030]	[0.015]	[0.020]	[0.040]	[0.030]	[0.020]	[0.055]	[0.150]	
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	0.720	0.686	0.687	0.686	0.684	0.689	0.689	0.684	0.691	0.686	
			(0.001)	(-0.001)	(-0.002)	(0.003)	(0.000)	(-0.005)	(0.007)	(-0.005)	
The Nikkei Stock Average (TSE 225 Issues)	18,917	29,179	28,792	29,453	28,792	28,893	27,822	28,792	27,002	26,527	
			[22,288]	[23,185]	[27,444]	[22,977]	[26,434]	[27,444]	[27,663]	[28,966]	
M2(Average)	(2.5)	(8.1)	(7.7)	(4.7)	(4.0)	(4.2)	(4.0)	(3.7)	(3.6)	(3.6)	
Broadly-defined Liquidity(Average)	(1.8)	(4.9)	(6.7)	(5.2)	(4.8)	(5.0)	(4.8)	(4.7)	(4.4)	(4.2)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin	(2.1)	(5.9)	(3.0)	(0.7)	(0.7)	(0.9)	(0.6)	(0.6)	(0.5)	(0.4)
	Banks	(2.2)	(5.8)	(2.4)	(0.4)	(0.6)	(0.8)	(0.5)	(0.5)	(0.5)	(0.3)
	City Banks etc.	(1.9)	(6.9)	(0.8)	(-1.4)	(-1.0)	(-0.7)	(-1.1)	(-1.2)	(-1.0)	(-1.3)
	Regional Banks	(4.5)	(4.5)	(3.8)	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	(2.3)	(2.2)
	Regional Banks II	(-5.9)	(6.1)	(3.6)	(0.0)	(-0.3)	(-0.1)	(-0.4)	(-0.3)	(-0.3)	(-0.5)
	Shinkin	(1.1)	(6.7)	(7.1)	(2.6)	(1.0)	(1.3)	(1.0)	(0.8)	(0.6)	(0.5)
Deposits and CDs (Average)	Total(3 Business Condition)	(2.6)	(8.5)	(7.8)	(5.1)	(4.3)	(4.7)	(4.3)	(3.9)	(3.6)	(3.5)
	City Banks	(3.6)	(9.9)	(7.9)	(5.2)	(4.6)	(5.2)	(4.4)	(4.1)	(3.6)	(3.4)
	Regional Banks	(3.4)	(7.0)	(8.2)	(5.9)	(4.9)	(5.1)	(5.0)	(4.5)	(4.5)	(4.5)
	Regional Banks II	(-5.5)	(6.7)	(5.4)	(0.8)	(-0.3)	(-0.1)	(-0.2)	(-0.6)	(-0.7)	(-1.0)

(Notes)

Newly Issued Japanese Government Bonds Yields and Interest rates are averages. The Nikkei Stock Average is as of month-end. Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable. The figures in () indicate % changes from previous year. [] show the comparable figure of the previous year.

(Sources)

Cabinet Office, National Accounts, Machinery Orders; METI, Indices of Tertiary Industry Activity, Industrial Production, Current Survey of Commerce; MOF, Trade Statistics, Balance of Payments; MPMHAPT, Consumer Price Index, Family Income and Expenditure Survey, Labour Force Survey; MHLW, Monthly Labour Survey; Ministry of Land, Infrastructure, and Transport, Economic Construction Statistics; BOJ, Corporate Price Index, Financial and Economic Statistics Monthly, etc.

For further details, please contact the Economic Research Office, MUFG Bank

Managing Director, Rei Tsuruta <rei_tsuruta@mufg.jp>

Written by Ryo Yamada <riyou_yamada@mufg.jp>

This report is intended for information purposes only and shall not be construed as solicitation to take any action such as purchasing/selling/investing financial market products. In taking any action, each reader is requested to act on the basis of his or her own judgment. This report is based on information believed to be reliable, but we do not guarantee its accuracy. The contents of the report may be revised without advance notice. Also, this report is a literary work protected by the copyright act. No part of this report may be reproduced in any form without express statement of its source. This report is also available for viewing online.

