

# Flash Comment

## Japan: Tankan suggests growth is returning

- While part of the Tankan business survey for Q2 turned out weaker than expected it still suggests an improvement in business conditions in Q2 and an accelerated improvement in the current quarter.
- Q2 Tankan survey is consistent with GDP growth having turned positive in Q2 and being significantly above potential growth in Q3.

### Details

According to the Tankan business survey compiled by Bank of Japan **business conditions in Q2 improved more than expected by enterprises in Q1** and the surveyed enterprises expect the improvements in business conditions to accelerate in the current quarter. Compared to consensus expectations today's Tankan was a mixed bag. Current business conditions improved less than expected, while the outlook for the current quarter improved more than expected. As expected improvements have been most pronounced within manufacturing, but remain more challenging than in non-manufacturing.

The development in Tankan is consistent with GDP growth having turned positive in Q2 and being significantly above potential growth in the current quarter (see chart below). Hence, contrary to some of the media headlines this morning, we do not see any evidence of a slow recovery in today's Tankan.

According to Tankan **large enterprises are planning to cut capital expenditures by 9.4%** (Consensus: -6.9%) in fiscal year 2009 (starting in April). In our current economic forecast we expect private non-residential investment to decline by 13% in fiscal year 2009. Thus the Tankan capital expenditure plans does not suggest a major downside from business investments in our current forecast. Business investment will be the weakest part of the Japanese economy. We expect business investments to contract in the current quarter and not recover substantially before Q1 2010.

**Financial conditions in Q2 appear to have improved slightly** compared to Q1. As seen in the chart on the next page the lending attitude of financial institutions has improved slightly and conditions for issuing commercial papers have improved markedly according to the surveyed enterprises. In addition it should be noted that the lending attitude of financial institutions is currently at the same level as during the previous recession in 2001 and significantly better than during the financial collapse in Japan in 1997/1998. This underlines that compared to the US and Europe the current crisis is not so much a financial crisis.

The USD/JPY exchange rate predicted by large manufacturing enterprises for fiscal year 2009 is 94.9 for H1 and 94.8 for H2 (97.6 for H1 and 96.7 for H2 in previous survey).

### Assessment and Outlook

Today's Tankan has no implication for our economic and financial forecast. April and May in our opinion suggest 2%-3% q/q GDP growth and we still believe growth can accelerate to around 6% q/q AR in Q3. Japan will outperform Euroland and the US in the coming quarters, but it will largely be a catch-up on earlier underperformance. Hence, no major impact on monetary policy (no hike before ECB and Fed) and JPY.

#### Tankan Large Manufacturing, Q2

	Act	Con	DB	Last
Current	-48	-43	-47	-58
Outlook	-30	-34	-36	-51

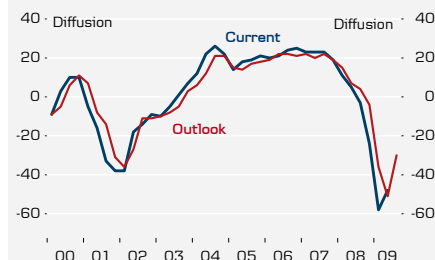
Bloomberg and Danske Markets

#### Tankan Large Non-manufacturing, Q2

	Act	Con	DB	Last
Current	-29	-27	-30	-31
Outlook	-21	-23	-21	-30

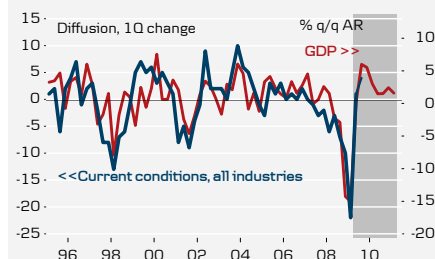
Bloomberg and Danske Markets

#### Tankan for large manufacturers



Reuters EcoWin and own calculations

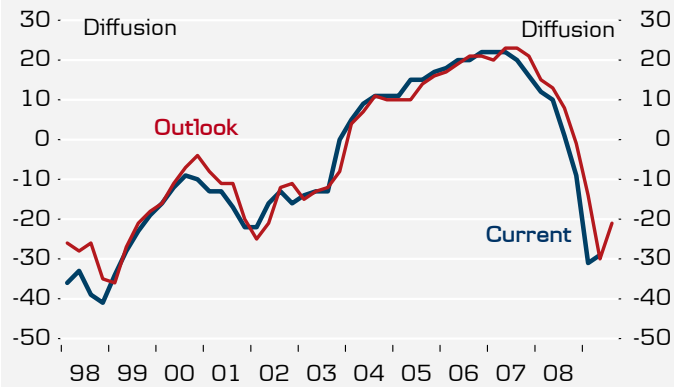
#### Tankan suggest GDP growth returning into positive territory



Reuters Ecwin and Danske Markets

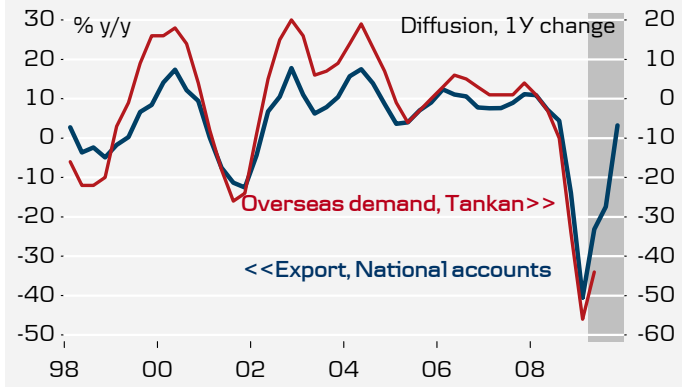
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Tankan for large non-manufacturers



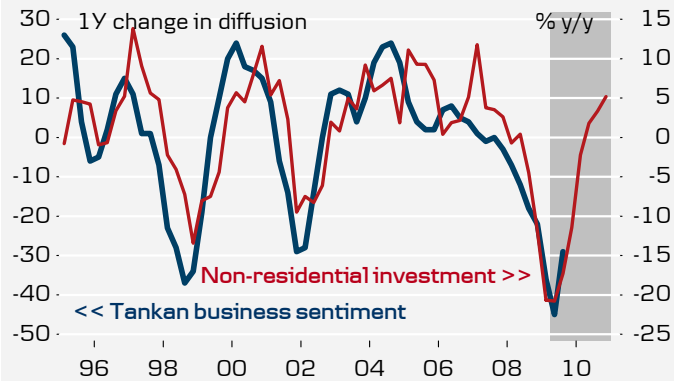
Reuters EcoWin

Overseas demand has started to recover



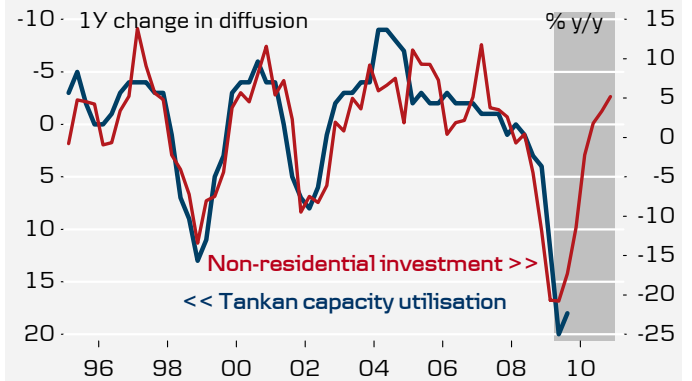
Reuters EcoWin and own calculations

Tankan suggests corporate investment is close to bottoming out



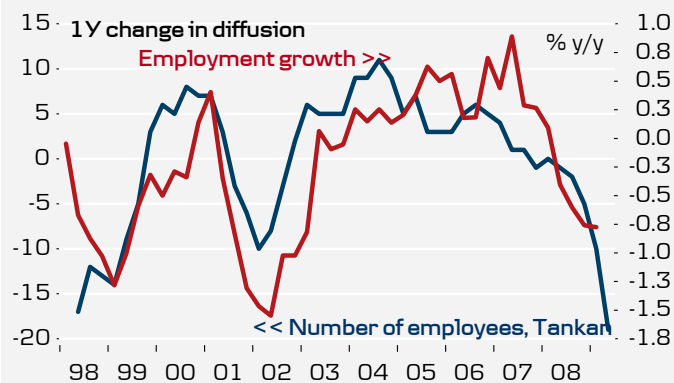
Reuters EcoWin and Danske Markets

...and there might be downside risk to our current forecast



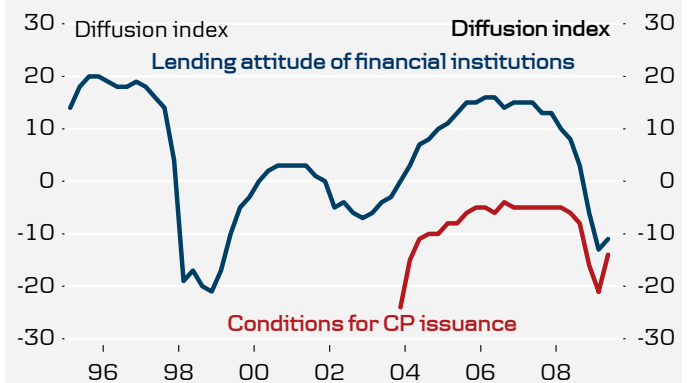
Reuters EcoWin and Danske Markets

The labour market will continue to deteriorate in the short run



Reuters EcoWin and own calculations

Financial conditions have started to ease



Reuters EcoWin

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