

The Current Economic Cycle as Seen in the Tankan



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Grasping Business Trends in Japan Through Surveys

The Tankan is conducted by the Bank of Japan every March, June, September and December with the purpose of accurately grasping the business trends in Japan and applying the findings in implementing monetary policies. The target population of the Tankan is private enterprises (excluding financial institutions) in Japan with a capital of 20 million yen or more. The survey population consists of approximately 220,000 such private enterprises, based on the 2014 Economic Census for Business Frame, conducted by the Ministry of Internal Affairs and Communications in July 2014.

Survey items consist of the following four categories: (1) “Judgment Survey”, (2) “Annual Projections”, (3) “Inflation Outlook of Enterprises”, and (4) “Number of New Graduates Hired” (surveyed only in June and December). Of particular interest and focus among these categories are Business Conditions in the Judgment Survey and Fixed Investment in the Annual Projections.

Business Conditions Diffusion Index (DI) & the Business Cycle

Business Conditions in the Judgment Survey asks each enterprise to choose from “Favorable”, “Not so favorable”, and “Unfavorable” to best describe their business conditions. The Business Conditions DI is then released as an index which subtracts the percentage of those that chose unfavorable from the percentage of enterprises that chose favorable. If the Business Conditions DI is positive, it shows that the number of enterprises that replied that business conditions are favorable was more than those that replied that business conditions are unfavorable, and *vice versa* if the DI was negative.

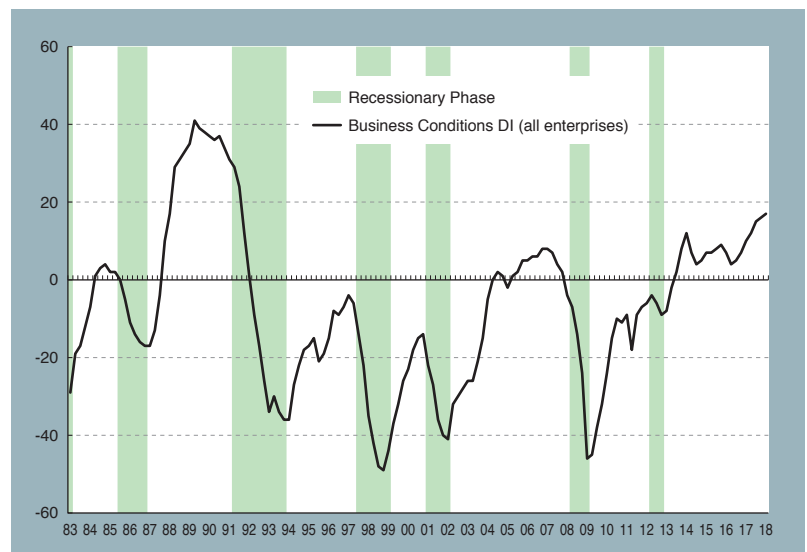
Chart 1 shows trends in the Business Conditions DI for all industries of all sizes. The shaded area shows the recessionary phase. There is a tendency

for recession to begin immediately after the Business Conditions DI peaks, and turn around to an economic expansion immediately after the DI hits the lowest. In addition, during the period when economic expansion was not really felt, as was the case with the 1990s, although the Business Conditions DI was rising, it remained in the negative zone.

The current economic expansionary phase, which began in early 2013, can be divided into (1) the upward phase in the January-March 2014 period (March Survey), (2) the stagnation phase between the April-June 2014 period (June Survey) and the April-June 2016 period (June Survey), and (3) the upward phase in the July-September 2016 period (September Survey). The economic expansion is said to exceed the Izanagi boom, but many economists actually view the (2) phase as being a recessionary phase.

CHART 1

Trend in Business Conditions DI



Source: Tankan (Bank of Japan)

Was the Turning Point in Economic Cycle Displayed?

In the March 2018 Survey which was released on April 2, 2018, the Business Conditions DI for all industries of all sizes a 17, 1 point increase from the December 2017 Survey. The speed at which it has been rising since the December 2017 Survey has slowed down. The Business Conditions DI for large enterprises, not only manufacturing but also non-manufacturing, decreased from the December 2017 Survey.

Business Conditions also surveys the enterprises on not just current business situations, but also about the future. *Chart 2* focuses on the relationship between the trends in the margin of error in forecasts and the economic trends, or in other words, the difference between the future Business Conditions DI from the previous survey and the current Business Conditions DI in the current survey. The future data from the previous survey is subtracted from the current data for the new survey for the Business Conditions DI for all industries of all scales in this chart, and it highlights the tendency of the economy to be expanding when the difference is positive, and to be in recession when negative.

The Business Conditions forecast DI for all industries of all sizes was 12 in the December 2017 Survey. Since the March 2018 survey shows the current DI to be 17, the difference is plus 5 points.

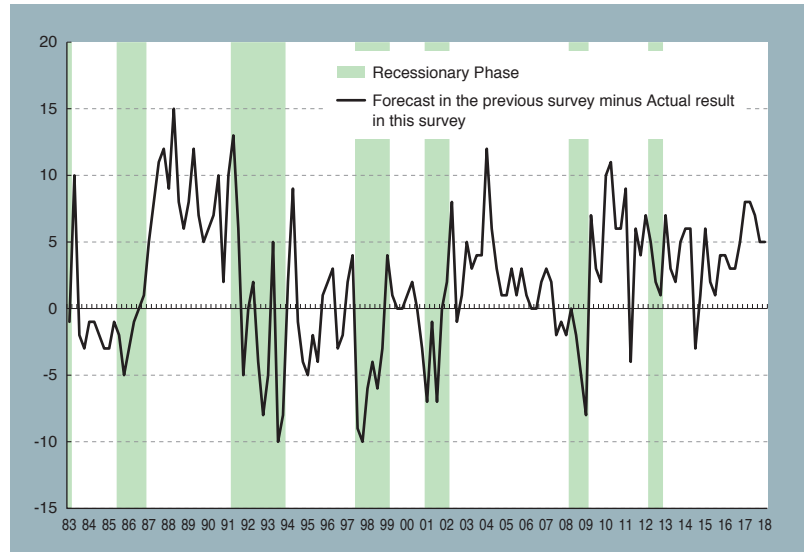
Is Capital Investment Plan Strong?

Fixed Investment in the Actual Projections is surveyed six times for every fiscal year. The March Survey is conducted immediately before the said fiscal year begins, and then the June Survey, September Survey, December Survey, and March Survey are conducted within the fiscal year, and the following June Survey is conducted in the next fiscal year. Of the surveys, the March Survey is also called the Forecast and the June Survey the Actual. The trends in the capital investment plans (trends compared to the previous fiscal year) for the six surveys are compared against the average movements of the past surveys to grasp the capital investment incentives for private enterprises.

Chart 3 summarizes the recent trends for large enterprises of all industries. Plans for fiscal 2017 show high growth compared to fiscal 2016 or the average of fiscal years between 2010 and 2016, but the growth has slowed since the June Survey. In the March 2018 Survey, it has slowed again.

CHART 2

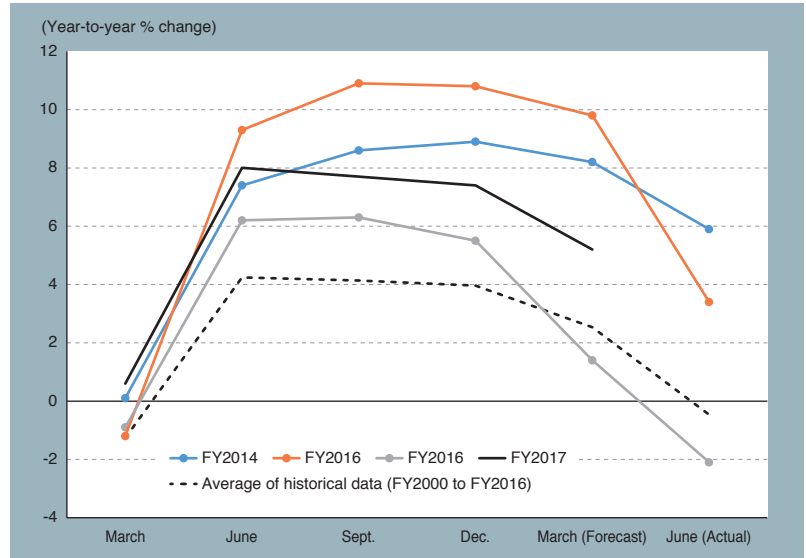
Forecast error in the Business Conditions DI (all enterprises)



Source: Tankan (Bank of Japan)

CHART 3

Developments of Fixed Investment including land purchasing expenses (large enterprises, all industries)



Source: Tankan (Bank of Japan)

Note: This article has been written with available information as of April 2, 2018. **JS**

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ECONOMIC INDICATORS FOR JAPAN

Calendar year, Quarter and Month	Real GDP		Nominal GDP		IIP rate of increase over previous year/term (month) (%)	CPI (All terms, less fresh food) rate of increase over previous year/the same term (month) of the previous year (%)
	Amount (trillion yen)	Rate of increase over previous year/term (%)	Amount (trillion yen)	Rate of increase over previous year/term (%)		
2009	472.2	-5.4	489.5	-6.0	-21.9	-1.3
2010	492.0	4.2	500.4	2.2	15.6	-1.0
2011	491.5	-0.1	491.4	-1.8	-2.8	-0.3
2012	498.8	1.5	495.0	0.7	0.6	-0.1
2013	508.8	2.0	503.2	1.7	-0.8	0.4
2014	510.7	0.4	513.9	2.1	2.1	2.6
2015	517.6	1.4	532.0	3.5	-1.2	0.5
2016	522.5	0.9	538.4	1.2	-0.1	-0.3
2017	531.4	1.7	546.5	1.5	4.4	0.5
2017/1st Qtr.	527.1	0.5	540.7	0.3	0.2	0.2
2nd Qtr.	530.2	0.6	545.5	0.9	1.8	0.4
3rd Qtr.	533.3	0.6	549.2	0.7	0.5	0.6
4th Qtr.	535.5	0.4	550.7	0.3	1.6	0.9
2017/Jul.	—	—	—	—	-0.3	0.5
Aug.	—	—	—	—	1.3	0.7
Sept.	—	—	—	—	-0.6	0.7
Oct.	—	—	—	—	0.5	0.8
Nov.	—	—	—	—	0.7	0.9
Dec.	—	—	—	—	1.8	0.9
2018/Jan.	—	—	—	—	-4.5	0.9
Feb.	—	—	—	—	2.0	1.0
Sources	"SNA (National Accounts of Japan)", Cabinet Office				"Indices of Industrial Production", Ministry of Economy, Trade and Industry	"Consumer Price Index", Statistics Bureau, Ministry of Internal Affairs and Communications

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Exports amount (trillion yen)	Exports rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount (trillion yen)	Imports rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to US (trillion yen)	Exports to US rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from US (trillion yen)	Imports from US rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to EU (trillion yen)	Exports to EU rate of increase over previous year/ the same term (month) of the previous year (%)
2009	54.2	-33.1	51.5	-34.8	8.7	-38.6	5.5	-31.4	6.7	-41.0
2010	67.4	24.4	60.8	18.0	10.4	18.8	5.9	7.2	7.6	12.8
2011	65.5	-2.7	68.1	12.1	10.0	-3.4	5.9	0.3	7.6	0.0
2012	63.7	-2.7	70.7	3.8	11.2	11.7	6.1	2.5	6.5	-14.7
2013	69.8	9.5	81.2	14.9	12.9	15.6	6.8	12.0	7.0	7.7
2014	73.1	4.8	85.9	5.7	13.6	5.6	7.5	10.7	7.6	8.4
2015	75.6	3.4	78.4	-8.7	15.2	11.5	8.1	6.9	8.0	5.3
2016	70.0	-7.4	66.0	-15.8	14.1	-7.1	7.3	-9.2	8.0	-0.0
2017	78.3	11.8	75.4	14.1	15.1	6.9	8.1	10.5	8.7	8.5
2017/1st Qtr.	19.0	8.5	18.7	8.8	3.6	-0.7	2.0	9.7	2.1	-0.1
2nd Qtr.	18.8	10.5	18.1	16.2	3.6	6.8	2.0	12.2	2.1	10.0
3rd Qtr.	19.6	15.1	18.4	14.8	3.8	14.4	2.0	12.4	2.2	11.1
4th Qtr.	20.9	13.0	20.2	17.0	4.1	7.5	2.0	7.8	2.3	13.4
2017/Jul.	6.5	13.4	6.1	16.5	1.3	11.5	0.7	14.2	0.7	8.3
Aug.	6.3	18.1	6.2	15.5	1.2	21.8	0.7	5.9	0.7	13.7
Sept.	6.8	14.1	6.2	12.3	1.3	11.1	0.7	17.6	0.8	11.6
Oct.	6.7	14.0	6.4	19.0	1.3	7.1	0.6	3.3	0.8	15.8
Nov.	6.9	16.2	6.8	17.3	1.4	13.0	0.7	12.5	0.7	13.3
Dec.	7.3	9.4	6.9	15.0	1.4	3.1	0.7	7.6	0.8	11.4
2018/Jan.	6.1	12.3	7.0	7.8	1.1	1.2	0.7	8.5	0.7	20.3
Feb.	6.5	1.8	6.5	16.6	1.3	4.3	0.6	5.2	0.8	11.5
Sources	"Trade Statistics of Japan", Ministry of Finance									

ECONOMIC INDICATORS FOR JAPAN

Calendar year, Quarter and Month	Cash salary amount rate of increase over previous year/ the same term (month) of the previous year (%)	Active job openings-to-applicants ratio (time(s))	Unemployment rate (%)	M2 rate of increase over previous year/ the same term (month) of the previous year (%)	Balance of payments		Yen/\$ rate (averaged during the term)
					Trade balance (trillion yen)	Current balance (trillion yen)	
2009	-3.9	0.47	5.1	2.7	5.4	13.6	93.5
2010	0.5	0.52	5.1	2.8	9.5	19.4	87.8
2011	-0.2	0.65	4.6	2.7	-0.3	10.4	79.8
2012	-0.9	0.80	4.3	2.5	-4.3	4.8	79.8
2013	-0.4	0.93	4.0	3.6	-8.8	4.5	97.6
2014	0.4	1.09	3.6	3.4	-10.5	3.9	105.8
2015	0.1	1.20	3.4	3.6	-0.9	16.5	121.0
2016	0.5	1.36	3.1	3.4	5.5	21.1	108.8
2017	0.4	1.50	2.8	4.0	5.0	22.0	112.2
2017/1st Qtr.	0.2	1.44	2.9	4.1	1.1	6.0	113.6
2nd Qtr.	0.5	1.49	2.9	3.9	1.0	4.6	111.1
3rd Qtr.	0.2	1.52	2.8	4.0	1.8	7.0	111.0
4th Qtr.	0.7	1.57	2.7	3.9	1.2	4.3	112.9
2017/Jul.	-0.6	1.51	2.8	4.0	0.6	2.3	112.5
Aug.	0.7	1.52	2.8	4.0	0.3	2.4	109.9
Sept.	0.9	1.53	2.8	4.1	0.9	2.3	110.7
Oct.	0.2	1.55	2.8	4.1	0.4	2.2	112.9
Nov.	0.9	1.56	2.7	4.0	0.2	1.3	112.9
Dec.	0.9	1.59	2.7	3.6	0.5	0.8	113.0
2018/Jan.	1.2	1.59	2.4	3.4	-0.7	0.6	110.7
Feb.	1.3	1.58	2.5	3.3	0.2	2.1	107.9
Sources	"Monthly Labour Survey", Ministry of Health, Labour and Welfare	"Employment Referrals for General Workers", Ministry of Health, Labour and Welfare	"Labour Force Survey", Statistics Bureau, Ministry of Internal Affairs and Communications	"Money Stock", Bank of Japan	"Balance of Payments", Ministry of Finance		Bank of Japan

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Imports amount from EU (trillion yen)	Imports from EU rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to Asia (excluding China) (trillion yen)	Exports to Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from Asia (excluding China) (trillion yen)	Imports from Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to China (trillion yen)	Exports to China rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from China (trillion yen)	Imports from China rate of increase over previous year/ the same term (month) of the previous year (%)
2009	5.5	-24.3	19.1	-29.3	11.6	-32.8	10.2	-21.0	11.4	-22.9
2010	5.8	5.5	24.7	29.5	14.1	22.0	13.1	27.8	13.4	17.3
2011	6.4	10.1	23.8	-3.9	15.7	11.7	12.9	-1.4	14.6	9.2
2012	6.6	3.6	23.3	-1.8	16.3	3.3	11.5	-10.8	15.0	2.7
2013	7.6	15.2	25.2	8.1	18.3	12.6	12.6	9.7	17.7	17.4
2014	8.2	6.8	26.1	3.5	19.4	6.2	13.4	6.0	19.2	8.6
2015	8.6	5.6	27.1	3.7	18.9	-2.6	13.2	-1.2	19.4	1.3
2016	8.2	-5.5	24.7	-8.7	16.2	-14.5	12.4	-6.5	17.0	-12.4
2017	8.8	7.4	28.0	13.3	18.6	14.8	14.9	20.5	18.4	8.5
2017/1st Qtr.	2.1	-1.7	6.8	13.9	4.6	6.5	3.4	16.3	4.5	0.9
2nd Qtr.	2.1	10.0	6.7	11.6	4.5	16.6	3.6	19.2	4.3	7.7
3rd Qtr.	2.2	10.3	7.0	14.7	4.6	18.4	3.7	24.1	4.5	8.3
4th Qtr.	2.4	11.5	7.5	13.0	4.9	18.2	4.2	21.9	5.1	17.0
2017/Jul.	0.7	3.2	2.3	13.4	1.6	23.6	1.2	17.6	1.5	13.2
Aug.	0.8	12.4	2.3	17.0	1.5	16.8	1.2	25.8	1.5	11.1
Sept.	0.8	15.4	2.4	13.7	1.5	15.0	1.3	29.3	1.6	1.7
Oct.	0.8	18.2	2.4	15.2	1.6	20.3	1.4	26.0	1.6	14.4
Nov.	0.8	6.9	2.5	17.9	1.6	17.9	1.4	25.1	1.8	21.7
Dec.	0.8	9.9	2.6	6.8	1.7	16.7	1.5	15.9	1.7	14.9
2018/Jan.	0.8	18.3	2.2	9.6	1.7	10.2	1.2	30.8	1.7	-3.3
Feb.	0.7	11.2	2.3	0.3	1.6	16.7	1.1	-9.7	1.5	39.2
Sources	"Trade Statistics of Japan", Ministry of Finance									