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A Forecast of the Bank of Japan's

Short-Term Economic Survey ("Tankan")

(September Survey)

September 19, 2003

Economics Research Center

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The Japan Research Institute, Limited

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***Short-Term Economic Survey ("Tankan")* (September Survey)**

The latest edition of the Bank of Japan's *Short-Term Economic Survey* ("*Tankan*"), based on the September survey, which is due to be published on October 1, is likely to reveal that consumer spending and capital investment are recovering and that, in reflection of heightened expectations of economic recovery due to the rise in share prices, business conditions for the corporate sector are improving.

The business sentiment diffusion index for September is likely to be –22% points on an all industries / all sizes of company basis, 4% points up on the level recorded at the end of June. In the manufacturing sector and among large companies, a recovery in orders for IT-related products and machinery is sustaining domestic demand, and as exports have begun to recover, business confidence is expected to see a substantial improvement of 8% points as compared with the June survey. In the non-manufacturing sector, by contrast, although business confidence has started to improve, the improvement is likely to be small, owing to the slowness of business results to improve, among other factors.

On an all industries / all sizes of company basis, the *Tankan's* forecast of the amount of capital investment in fiscal 2003 is set to see a steady upward adjustment, rising 1.5% points on the level recorded in fiscal 2003. In the manufacturing sector, the improvement in business results and heightened expectations of economic recovery suggest that capital investment will see a substantial increase, especially among large companies, and, even in the non-manufacturing sector, the rate of decline is likely to slow, due to the recovery of consumer spending, among other factors.

Given the substantial improvement in business profitability and the strength of foreign economies, it is highly likely that the recovery in the corporate sector will continue in the short term. However, as indicated by the differences in pace of improvement of the business sentiment DI, the non-manufacturing sector and small- and medium-sized companies remain weak. To convert the present economic upturn into a full-scale recovery, it is essential to resolve this “polarization” and, to this end, Japan must make a renewed effort to transform its industrial structure and make all possible haste in strengthening its economy against external shocks.