



**JRI news release**

**A Forecast of the Bank of Japan's  
*Short-Term Economic Survey ("Tankan")*  
(March Survey)**

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**A Forecast of the Bank of Japan's  
*Short-Term Economic Survey ("Tankan")* (March Survey)**

The latest edition of the Bank of Japan's *Short-Term Economic Survey ("Tankan")*, based on the March survey, which is due to be published on March 19, is likely to show that the economy continues to recover at a gentle pace.

The business sentiment diffusion index for March is likely to show a slight improvement, up 3% points on the level recorded at the end of December on an all industries/all sizes of company basis<sup>1</sup>. In the manufacturing sector, the continued growth of exports and the weakening of the yen from late February onwards suggest that the business sentiment diffusion index is likely to rise 4% points as compared with our last forecast. Thanks to the strong performance of the manufacturing sector and the recovery of construction investment and consumer spending, the index is also likely to see a slight improvement in the non-manufacturing sector.

On an all industries/all sizes of company basis, the *Tankan's* forecast of the amount of capital investment in fiscal 20034 is set to see a downward adjustment of 1.4% points. This represents a relatively level for March. Capital investment should continue to rise in the general machinery and electrical machinery sectors against a backdrop of export growth, among other factors, and is also likely to see a recovery in the materials industry, under the influence of improving conditions in the goods markets, and sectors such as telecommunications and information services.

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<sup>1</sup> As compared with the results re-calculated on the new basis adopted on March 8 (same applies hereafter).

A key point of this quarter's Tankan is that it is likely to show that the polarization of performance between manufacturing and non-manufacturing industries and between large and small enterprises is beginning to resolve itself, at a gentle pace. In other words, thanks to progress in corporate restructuring (the reduction of debts, personnel expenses, etc.) and to the gradual increase in the economic pulling power of new industries it is likely that the figures for the business sentiment diffusion index and capital investment plans in the non-manufacturing sector and among small and medium enterprises, which have long been regarded as being in recession, will be firmer than in the past.

See next page for details of the Institute's forecast of the trend of the business sentiment diffusion index and capital investment plans.

## **1. Business Sentiment Diffusion Index**

The actual figures for March on an all industries/all sizes of company basis are likely to be up 3% points on the previous survey (December), a slow but steady improvement. In spite of negative factors such as the rise in the prices of materials and the BSE crisis, the continued strength of overseas economies and the weakening of the yen have contributed to an improvement in business confidence and the diffusion index is likely to see an upward revision of 4% points as compared with our last forecast.

In December, we predicted a fall in the business sentiment diffusion index in the manufacturing sector. This reflected negative factors such as fears of a strengthening of the yen that began to emerge in September 2003 and a fall in exports in conjunction with the lowering of the value-added tax refund rate in China. In recent months, positive developments, including the fall in the value of the yen against foreign currencies since late February and the gentle acceleration of the recovery of overseas economies despite the slower export growth recorded by China in January and February, suggest that the index is likely to rise, if only a little way.

In the non-manufacturing sector, the index is likely to have fallen in the food and beverage industries in the wake of the BSE and avian influenza crises. However, the knock-on effects of production growth in the manufacturing sector (benefiting transportation, business services, the leasing industry, etc.), the increase in factory construction and the strong demand for apartments in the Tokyo area (benefiting the construction and real estate industries), and the recovery in consumer spending as income conditions have bottomed out and consumer confidence has begun to

recover, suggest that the overall index for the non-manufacturing sector is likely to rise.

Looking ahead to June, given that the recovery of overseas economies is expected to continue, it is likely that business confidence will continue to improve.

However, as the rise in the prices of materials is exerting a downward pressure on corporate profitability, the improvement is likely to be slight.

## **2. Capital Investment Plans**

The amount of capital investment plans for fiscal 2004 is likely to reach a relatively high level for March, reflecting the growing expectations of economic recovery.

In the manufacturing sector, in view of the continued recovery of overseas economies and growth of the digital consumer electronics market, the stance of the general machinery and electrical machinery sectors on capital investment is likely to remain positive and the improving conditions in the goods markets are likely to boost investment in capacity expansion in the materials industry. There are signs that the trend of transferring production activities to overseas bases is coming to an end and that Japanese companies are returning to domestic production, and investment plans are likely to remain firm in all industries and among all sizes of company.

In the non-manufacturing sector, too, investment plans are likely to remain firm overall. Although the corporate sector will remain somewhat cautious in view of the continued uncertainty of the trend of consumer spending, the benefits of the strong performance of manufacturing industry should gradually be felt in non-

manufacturing industry, and the economic pulling power of the telecommunications and information service industries, and other growth sectors, is likely to grow.