



JRI news release

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

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The latest edition of the Bank of Japan's *Short-Term Economic Survey* ("*Tankan*") based on the survey carried out in March which is due to be published on April 1 is likely to reveal that the business sector has maintained a surprisingly strong performance, one indication being that the business sentiment diffusion index has held level.

The *Tankan* is likely to reflect both the improvement in business conditions following adjustments in the real economy and the downward pressure on business confidence stemming from the confusion in the financial markets (the slump in share prices). In the manufacturing sector, with exports and machinery orders holding steady, business confidence is expected to show a sustained gentle improvement, especially among large companies. In the non-manufacturing sector the continued stagnation of consumer spending and construction investment and the growing uncertainty as to the future of the domestic economy due to the fall in share prices are both exerting a downward pressure on business confidence.

Looking to the future, this basic pattern of firm performance in the manufacturing sector and weakening performance in the non-manufacturing sector, is likely to remain in place. However as the negative impact of the Iraqi problem on the real economy is proving greater than expected the improvement in the forecast of business confidence is also likely to remain small for the manufacturing sector.

On an all industries/all sizes of company basis, the *Tankan's* forecast of the amount of capital investment in fiscal 2003 is likely to be down 7.8% points on the level recorded in fiscal 2002, virtually the same rate of growth as forecast at the time of initial investment plans for fiscal 2002. Owing to improvements in capacity utilization, the rate of decline in capital investment is expected to slow in the

manufacturing sector, but growing uncertainty over the future trend of the domestic economy makes it likely that the decline will accelerate in the non-manufacturing sector.

Thus, Japan's real economy is by no means on a downward spiral, but if the slump in share prices were to become long-term, there is a risk that it might trigger an economic recession. To avoid recession, it will be necessary to halt the fall of share prices by taking steps to make the future less uncertain. Specifically, the government should (i) take resolute action to regenerate Japanese industry, (ii) continue its policy of deregulation using "special zones for structural reform", and (iii) establish conditions favorable to the fostering of individual investors.