Daiwa Securities

Economic Commentary

BOJ’s Mar Tankan: Price increase sustainability, US risks

- Concerns about higher-than-expected prices, US risks persist
- Inflation outlook of enterprises, price-setting behavior suggest higher-than-expected prices
- Economy, BOJ projections both on track; need to monitor uncertainty originating in US from Apr

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BOJ’s Mar Tankan: Concerns about higher-than-expected prices, US risks persist

The BOJ released its March Tankan survey on 1 April. Our three key takeaways from the survey this time were (1) Impact of the new US administration’s tariff policies, (2) corporate inflation expectation trends in response to cost-push inflation, and (3) progress transferring higher costs to prices. The base date for this survey was 12 March, when concerns about a US recession began to emerge and when 25% tariffs on steel and aluminum went into effect. Meanwhile, we should note that the feasibility of the 2 April tariffs (automobile tariffs + reciprocal tariffs) may not have been factored in.

First, the inflation outlook of enterprises (all enterprises, all industries, 5 years ahead) was +2.3% (+2.2% in Dec survey) and the output prices DI increased for both the actual results and for the forecasts. Here, the issue is whether such price trends are “persistent” or just “transitory.” The survey results suggest that price trends may be persistent. This is in line with the 28 March Tokyo area CPI results and raises concerns about the risk of higher-than-expected prices.

Meanwhile, the business conditions DI worsened for large manufacturers vs the December survey. The slowdown for overseas economies and the impact of the new US administration’s tariffs, which took effect on 12 March, are seen as partially responsible for this downturn. Meanwhile, the reading for large non-manufacturers improved vs the December survey. The level for all industries was also high and both Japan’s economy and the BOJ’s projections appear to have remained on track. However, during his March post-meeting press conference, BOJ Governor Kazuo Ueda said that there are many remaining uncertainties originating from the US and the Bank will not have any real clarity on this front until April. With risks originating from the US that could push prices lower, the phase of carefully assessing the impact of the 2 April US tariff will likely remain in place.

Inflation outlook of enterprises, price-setting behavior suggest higher-than-expected prices

Turning to the inflation outlook of enterprises, the five-year outlook for overall prices (all enterprises, all industries), which the BOJ pays particular attention to, increased slightly to +2.3% (+2.2% in Dec survey). This rise in general prices was due mainly to large manufacturers (+1.9% 5 years ahead, +1.7% in Dec survey) and small non-manufacturers (+2.5% 5 years ahead, +2.4% in Dec survey).

Support for this rise in inflation expectations likely came from wage hikes set during the 2025 annual spring labor-management wage negotiations, the good progress passing on higher costs to prices, and the sustained rise in prices. The fact that these factors worked in tandem to bring about a change in the inflation outlook for enterprises is indicative of the “possibility of a steady increase in the underlying inflation rate toward the 2% price target.”

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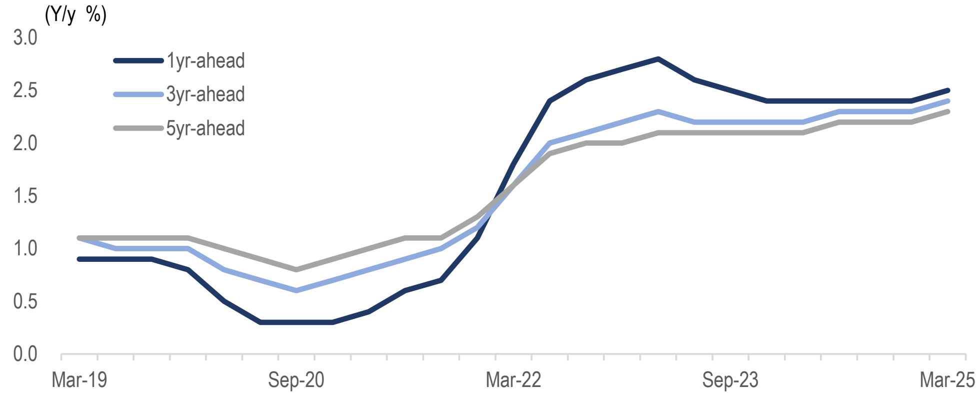
Chart 1: Outlook for General Prices (all company sizes, all industries)

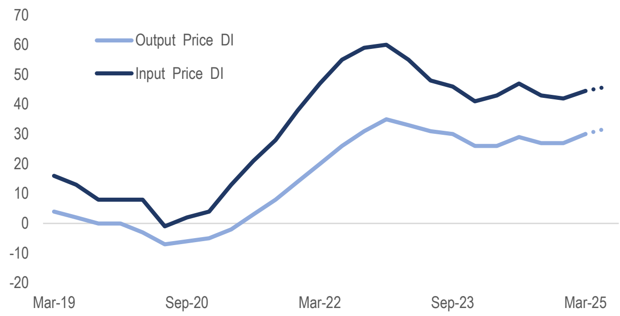


Source: BOJ; compiled by Daiwa.

Recently the change in the input prices DI and the change in output prices DI rose for both large enterprises and small non-manufacturers. This confirms that the passing on of higher costs to prices is spreading. Also, even the change in the output prices DI forecast was +30 for large manufacturers (+2 change from actual result) and +34 for large non-manufacturers (+2). This also suggest that the passing on of higher costs to prices is strengthening.

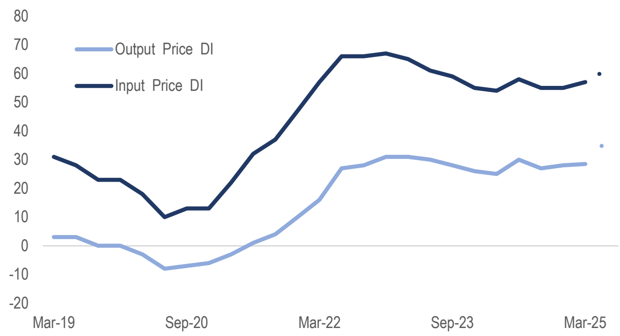
This willingness to pass on higher costs to prices is particularly pronounced among SMEs. Indeed, the change in the output prices DI was significantly higher for small manufacturers at +37 (+10) and small non-manufacturers at +37 (+7). These factors suggest the possibility of further upward pressure on prices, as the shifting of higher costs to prices spreads across enterprises of all sizes and industries. We should probably keep in mind the risk of higher-than-expected prices materializing in the future.

Chart 2: Input Price DI, Output Price DI (large companies)



Source: BOJ; compiled by Daiwa.

Chart 3: Input Price DI, Output Price DI (small companies)



Source: BOJ; compiled by Daiwa.

Business conditions DI, state of economy suggest BOJ projections on track; must monitor 2 Apr tariff decisions

Even though the business conditions DI for large manufacturers deteriorated from +14 in the December survey to +12, the reading for large non-manufacturers improved to +35 from +33. Also, the reading improved for small manufacturers (+2 from +1) and held steady for small non-manufacturers (+16 from +16).

The deterioration for large manufacturers is thought to have been influenced by the US tariff policy and the slowdown for China and other overseas economies. However, other industries and sizes showed no deterioration and, overall, the BOJ's economic projections appear to be on-track.

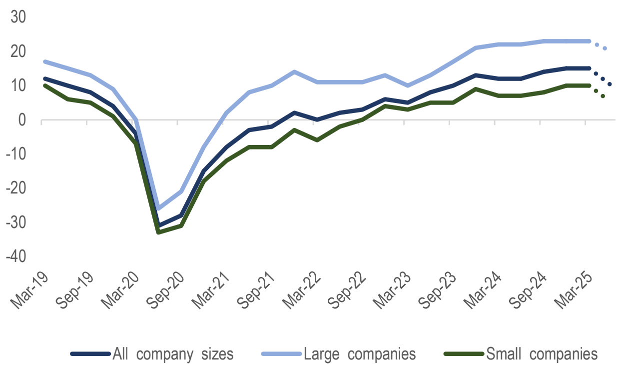
By industry, business conditions worsened for large manufacturing companies in the materials sectors, such as “chemicals,” due to the impact of overseas economic slowdowns. Also, in addition to the deterioration for “iron & steel” due to tariffs, “general-purpose machinery,” “production machinery,” and “business-oriented machinery” also deteriorated due to restrained investment (capital goods) for production expansion amid the growing uncertainties surrounding overseas economies. Meanwhile, within the non-manufacturing sector, conditions improved for a wide range of industries due to solid demand for services, overseas tourists visiting Japan, and progress passing on higher costs to prices.

Turning to the business conditions DI forecasts, even though the forecast for large manufacturers is unchanged from the actual March survey result of +12, the forecast for large non-manufacturers deteriorated 7 points to +28 (+35 in Mar survey). This deterioration in the forecast for the non-manufacturing sector may reflect higher labor and raw material costs. That said, the BOJ’s Tankan survey has a “statistical quirk” in that it tends to be pessimistic when the economy is in an expansionary phase. The deterioration in the forecast for the non-manufacturing sector probably falls within the bounds of this quirk, so there is no need to be overly pessimistic about the future.

The business conditions DI for large automakers improved to +13 (+8 Dec survey), but its forecast worsened 4 points to +9. This current business conditions DI has probably not factored in the impact of the 2 April tariffs.

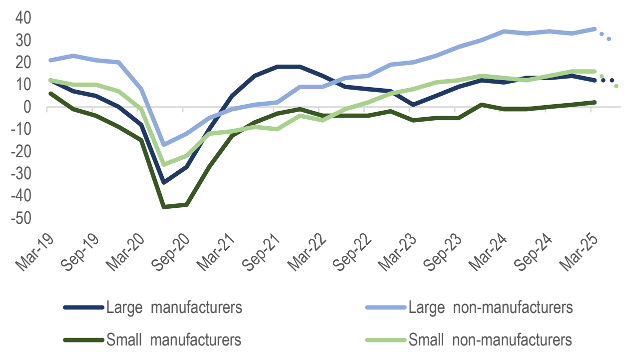
Furthermore, looking at the FY24 recurring profit forecasts, +1.1% growth is expected for large enterprises/all industries and 2.6% growth is expected for small enterprises/all industries. Here, the rates of change have generally been in line with historical rates of change. This data also does not confirm the overall pessimistic view held by companies at this juncture.

Chart 4: Business Conditions DI (by company size)



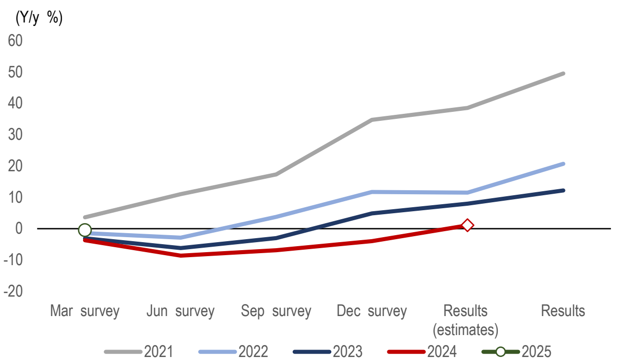
Source: BOJ; compiled by Daiwa.
Note: Dotted lines indicate forecast DI in Mar survey.

Chart 5: Business Conditions DI (by company size, industry)



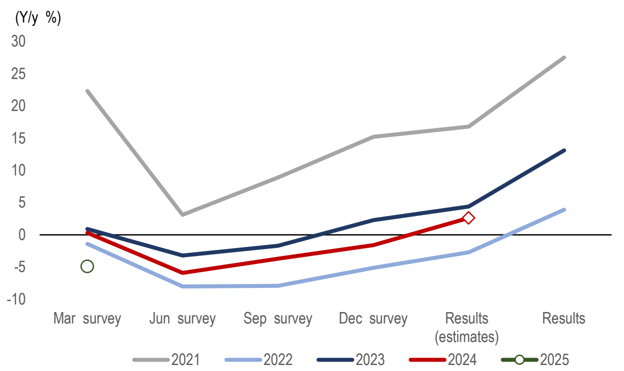
Source: BOJ; compiled by Daiwa.
Note: Dotted lines indicate forecast DI in Mar survey.

Chart 6: Recurring Profit Plans (large companies, all industries)



Source: BOJ; compiled by Daiwa.

Chart 7: Recurring Profit Plans (small companies, all industries)



Source: BOJ; compiled by Daiwa.

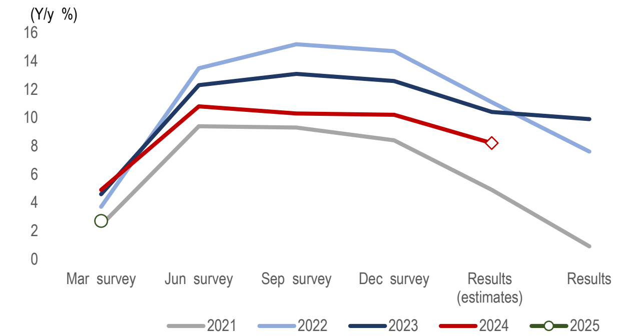
No change to view that appetite for capex remains strong

Turning to the capex plans for companies of all sizes and all industries + financial institutions (excl. land investment but incl. software and R&D), which is a figure conceptually similar to the capex component of GDP, the rate declined slightly in FY24 to +8.2% from the previous year (+10.2% in Dec survey), but this is still within roughly the same range as the previous year's rate of change. Given that the private-sector equipment deflator in the National Accounts is generally around 3%, the y/y increase is viewed as solid even in real terms.

However, the amount of orders received (flows) in the machinery orders statistics has been on a downward trend since December 2024, and there have been moves to restrain investment in capital goods amid the heightened uncertainties involving overseas economies. The actual results to be announced in the BOJ's June Tankan survey (due out on 1 Jul) should also attract considerable interest.

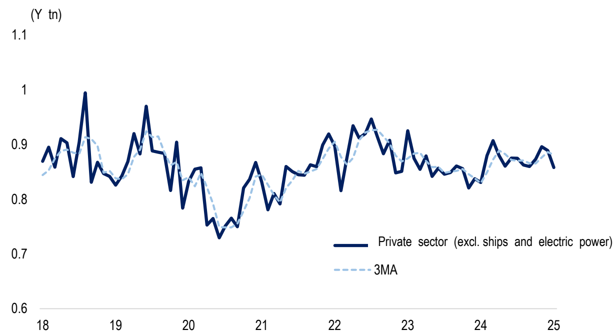
Also, the capex plans (excl. land investment but incl. software and R&D) for FY25 is +2.7% y/y, which is a lower level vs FY23-24. However, this planned value is expected to include the impact of higher price increases in FY23-24. All told, there should be no change in the assessment that the appetite for capex, particularly labor-saving and DX investments, will remain strong amid Japan's structural labor shortages.

Chart 8: Fixed Investment Plans (all company sizes, all industries + financial institutions)



Source: BOJ; compiled by Daiwa.

Chart 9: Machinery Orders Received*



Source: Cabinet Office; compiled by Daiwa.
**Private-sector machinery orders, excluding volatile ones for ships and electric power companies.*

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