

Daiwa's Economic View

Business Outlook Survey: Confirms steady corporate trends

- Business sentiment improved against backdrop of US/Japan tariff agreement
- Recurring profit plan drop also limited; capex expected to remain solid
- Earnings levels sufficient for securing funds for wage hikes
- Corporate trends remain solid, bolstering BOJ's case for hiking rates, but US economy concerns persist

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Business sentiment (incl. manufacturing sector) improved, supported by US/Japan tariff agreement, other factors

On 11 September, MOF released its Jul-Sep 2025 Business Outlook Survey (survey date: 15 Aug). This survey serves as a key indicator for gauging business sentiment following the 23 July US/Japan reciprocal tariff agreement and the 7 August imposition of 15% reciprocal tariffs. It also serves as a leading indicator for the BOJ's Tankan survey due out on 1 October. The sector-specific tariff (25%) imposed on automobiles remains in effect even after the US/Japan tariff agreement. The new tariff rate (15%) is expected to be applied by 16 September. Accordingly, it is important to note that as of the time of this survey, the additional tariff rate on automobiles is 25%.

The business conditions BSI (Business Survey Index) for the Jul-Sep 2025 quarter was +4.7 for large companies/all industries, a turnaround from -1.9 for the Apr-Jun quarter. Looking at large companies by industry, the BSI was +3.8 for large manufacturers (-4.8) and +5.2 for non-manufacturers (-0.5). In addition to non-manufacturers, business sentiment also improved for manufacturers, who are directly impacted by tariffs. Among these, the BSI for motor vehicles and its accessories manufacturing improved a sharp +7.8 (-16.1). The business sentiment outlook for motor vehicles and its accessories manufacturing has deteriorated slightly (-0.6). This is likely due to uncertainty arising from the process of passing on higher costs to automobiles exported to the US.

The Business Outlook Survey's BSI is an indicator showing changes in business sentiment compared to the previous quarter. The improved manufacturing sector sentiment this time is likely due to a significant reduction in uncertainty compared to the previous quarter, following the US/Japan tariff agreement. In the same way that the BOJ assessed the US/Japan tariff agreement as a "significant step forward," these results indicate that corporate sentiment is improving.

"Business Conditions for Your Company" BSI* (among large companies)



Source: MOF; compiled by Daiwa.

* The percentage of companies saying that domestic economic conditions are rising compared with the previous quarter, minus the percentage of companies saying that domestic economic conditions are declining compared with the previous quarter.

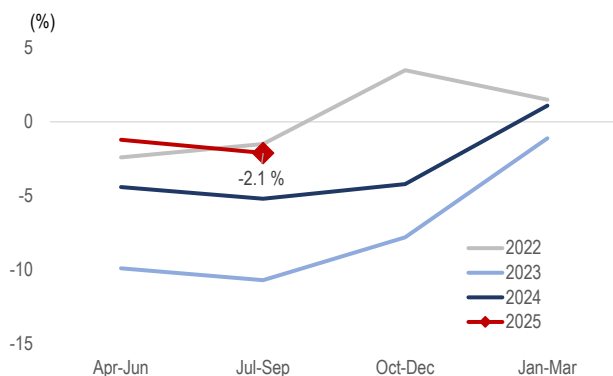
Recurring profit drop limited, good chance capex remains upbeat

The FY25 recurring profit (all sizes) is projected to decrease 2.1% y/y in both the manufacturing sector (−1.2% in Apr-Jun) and in non-manufacturing sector (−2.4%). As such, manufacturing sector profit deteriorated from the previous survey. Meanwhile, even though recurring profit for motor vehicles and its accessories manufacturing is expected to decline by 14.7% (−19.8% in Apr-Jun), this marked an improvement from the previous survey. As for the automotive industry, in particular, [many carmakers had tentatively set their profit plans in the previous survey](#). Also, at the time of the survey, the timing of the reduction in automobile tariffs was still undetermined. While we had anticipated that profit declines would widen in this survey, the improved profit plans were a positive surprise. Furthermore, even when looking at the manufacturing sector overall, there are indications that declining corporate earnings seem limited at this juncture.

Furthermore, capex plans for FY25 are expected to increase 6.8% y/y, but this growth rate slowed compared to the Apr-Jun quarter (+7.3%). Companies tend to gradually revise downward their capex plans toward the latter half of each fiscal year. If we make estimates based on past adjustment ranges, the planned value could potentially decline to around 1~4% y/y.

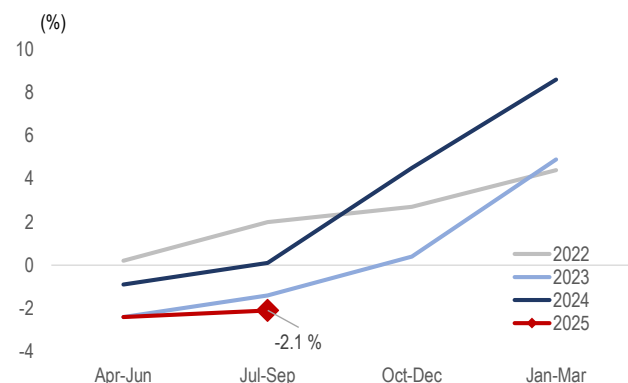
However, capex through FY24 remained at a very high level and, if the abovementioned growth is realized, we can probably assume capex has remained solid. Capex plans face both upward factors (structural demands in the form of investments in labor-saving and digital transformation (DX) to address labor shortages) and downward factors (potential restrained investment due to heightened uncertainty surrounding Trump tariffs). However, the findings of this survey suggest that it is very likely that capex will remain solid even in FY25.

Recurring Profit Plans (all-size manufacturers)



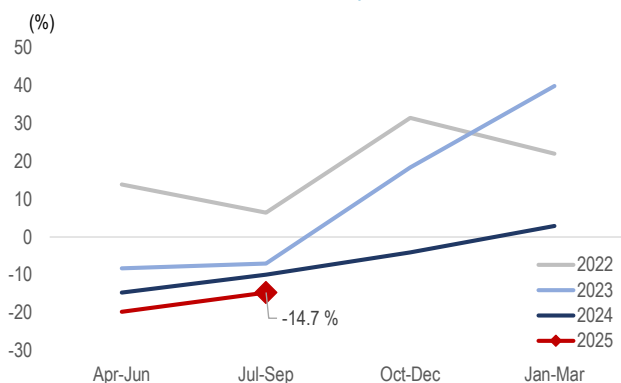
Source: MOF; compiled by Daiwa.

Recurring Profit Plans (all-size non-manufacturers)



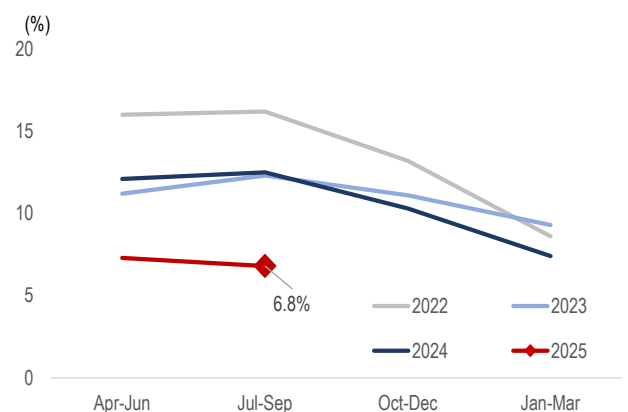
Source: MOF; compiled by Daiwa.

Recurring Profit Plans (all-size motor vehicles and its accessories manufacturers)



Source: MOF; compiled by Daiwa.

Capex Plans (all-size firms in all industries)



Source: MOF; compiled by Daiwa.

Firms likely to secure sufficient funds for wage hikes ahead of 2026 spring labor talks

It is within the scope of expectations that the BOJ, when making policy decisions, will consider that “overseas economies will slow due to the impact of trade policies in various countries, putting downward pressure on corporate profits and other factors.” From the corporate earnings perspective, the more important point is whether a “mechanism whereby wages and prices gradually rise in tandem, mutually reinforcing each other” will be maintained next year and beyond.

In order to analyze the potential leeway for wage increases ahead of the 2026 annual spring labor/management wage negotiations, we estimated the labor share for FY25 using data from the Financial Statements Statistics of Corporations by Industry and this Business Outlook Survey. Specifically, assuming that personnel expenses for FY25 will increase by the base pay rate (+3.70%) realized at the spring 2025 labor/management wage negotiations (7th round of responses), the estimated recurring profit for FY25 reflects the projected decline in earnings indicated by the Business Outlook Survey, based on the actual results from the Financial Statements Statistics of Corporations by Industry for FY24.

Preliminary calculations indicate that while the labor share is projected to rise in the manufacturing sector in FY25, it will remain low compared to pre-pandemic levels. Also, while the labor share in motor vehicles and its accessories manufacturing will increase, it will remain low. Under these circumstances, the current recurring profit plans confirm that there is no significant impact on the funding for wage increases ahead of the 2026 annual spring labor/management wage negotiations.

The manufacturing sector, including motor vehicles and its accessories, has continued to achieve record-high profits since the pandemic, partly due to a weak yen. In particular, FY24 recurring profits, as seen in the Financial Statements Statistics of Corporations by Industry, reached record highs for both manufacturing and non-manufacturing sectors. Under these circumstances, the labor share also declined since the onset of the pandemic. Corporate profits have risen to levels where wage increases are entirely feasible, provided that the profit decline is within a certain range.

Labor Share Estimate (manufacturers)



Source: MOF; compiled by Daiwa.

Note: Labor share is calculated as “(personnel expense) ÷ (depreciation + recurring profit + personnel expense).”

Labor Share Estimate (motor vehicles and its accessories manufacturers)



Source: MOF; compiled by Daiwa.

Note: Labor share is calculated as “(personnel expense) ÷ (depreciation + recurring profit + personnel expense).”

Solid corporate trends support BOJ rate hike, but US economic concerns persist

The results of this Business Outlook Survey indicate that even considering the impact of Trump tariffs, the effects on corporate sentiment, earnings, and capital investment are limited. Companies may also still have sufficient resources to fund wage hikes. Based on the results of

the Business Outlook Survey, it is highly likely that the BOJ's Tankan survey, scheduled for release on 1 October, will also confirm the solid corporate trends.

If the BOJ's Tankan survey (due out on 1 Oct) confirms steady corporate trends, attention will focus on whether BOJ Governor Kazuo Ueda signals a shift in the Bank's recognition during his 3 October meeting with four major business organizations in Osaka, amid reduced downside risks for Japan's economy. However, it should be noted that, as indicated by [Bloomberg's 9 September report citing sources](#), the BOJ is clearly heightening its vigilance regarding downside risks for the US economy. Key factors to consider for determining the next rate hike include: (1) corporate trends in Japan, (2) US economic conditions, (3) stabilization of politics in Japan. While closely monitoring these conditions, as well as any communications from the BOJ, we are now at the stage of gauging the distance to the next rate hike. Specifically, we are anticipating a situation in which a major action or decision by the BOJ is possible at any moment, starting from its October Monetary Policy Meeting.

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