

Daiwa's Economic View

BOJ Tankan outlook (Sep survey): Odds of BOJ rate hike likely increasing

- Business conditions for large manufacturers expected to improve following US-Japan tariff agreement
- Capex plans also expected to remain at high levels
- BOJ's Tankan (Sep survey) likely to confirm solid corporate trends, potentially supporting BOJ rate hike within this year

FICC Research Dept.

Kento Minami81-3-5555-8789
kento.minami@daiwa.co.jp

Daiwa Securities Co. Ltd.



Summary

The BOJ's September Tankan survey will likely reflect decreased uncertainty caused by the US-Japan tariff agreement. Indeed, we expect the business conditions DI for large manufacturers to improve to +16 (from +13 in Jun survey). Improvements are expected across a wide range of industries, particularly processing. The business conditions DI for large non-manufacturers is expected to remain at a high level of +33, albeit dipping slightly from the +34 figure in the June survey.

We expect FY25 capex plans (excluding software, including land purchases) to include a slight downward revision to +6.5% y/y from +6.7% in the June survey. That said, capex plans overall remain at high levels and the appetite for such investment among corporations is expected to remain robust.

All told, the September Tankan survey is expected to confirm solid corporate trends, likely further fueling support for an additional BOJ interest rate hike.

If solid corporate trends are confirmed, in line with our expectations, we should have a better picture of the actual tariff impacts. Going forward, we believe it is highly likely that the BOJ will move forward with another interest rate hike within this year, once it has confirmed the direction of the US economy and once the political situation in Japan stabilizes.

Our Projections for BOJ Tankan (Sep survey)

		Previous survey (Jun 2025)	Our projections (Sep 2025 survey)	
		Actual result	Actual result	Forecast
Business conditions DI ("favorable" - "unfavorable", % points)	Large manufacturers	13	16	13
	Large non-manufacturers	34	33	31
	Small manufacturers	1	1	-1
	Small non-manufacturers	15	16	15
		Previous survey (Jun 2025)	Our projections (Sep 2025 survey)	
		FY25 plan	FY25 plan	
Fixed investment plans (y/y %)	All-size firms in all industries	6.7	6.5	

Source: Compiled by Daiwa.

Focus on tariff impacts, continuity of inflation expectations, passing higher cost to prices

The indicators likely to attract the most attention in the BOJ's Tankan September survey are the "business conditions DI," "recurring profit plans," and "fixed investment plans," which all take into account the tariff impacts. [A 9 September Bloomberg report](#) included a comment from a BOJ official that key factors for monetary policy decisions, such as corporate trends in response to US tariffs, are likely to come together from this fall. Here, it is clear that the BOJ's September Tankan survey is included among these "key factors."

Here, we should also pay attention to price aspects. Current corporate and consumer prices have been higher than we expected, reflecting a heightened willingness to pass on higher costs to prices, particularly in the case of food items. To assess the sustainability of this strong momentum, we must confirm the current strength of intentions to pass on higher cost to prices, taking into account indicators such as the "output price DI." Also, from the perspective of whether corporate inflation expectations will remain at 2%, attention should also be paid to "inflation outlook of enterprises" and similar indicators.

Expect business conditions DI to improve, view that downward pressure from tariffs is limited may strengthen

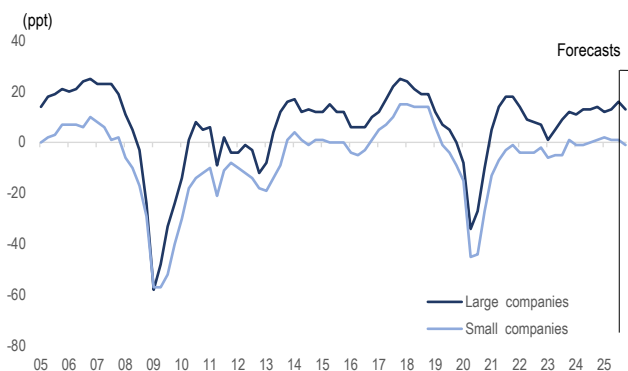
The business conditions DI for large non-manufacturers is expected to deteriorate slightly to +33 (+34 in Jun survey), while that for large manufacturers is expected to improve to +16 (+13). According to the reference indicators, the business conditions DI for large manufacturers in the September Reuters Tankan survey came in at +13 (+6 in Jun survey), while the DI in the September QUICK Tankan survey was at +24 (+8 in Jun). Both of these reference indicators confirm significant improvements.

As for manufacturing, reduced uncertainty over tariff policies following the 23 July US-Japan tariff agreement is expected to boost business sentiment across a wide range of sectors, particularly processing. Also, demand growth related to generative AI is expected to contribute to improved business sentiment in sectors such as electrical machinery.

Business sentiment among large non-manufacturers is expected to be dampened by factors such as sluggish consumption of non-durable goods due to rising prices, particularly for food items, and increased costs, including labor expenses. Meanwhile, consumer sentiment, as measured by the Consumer Confidence Index, has improved since April and consumption remains firm, supported by spending on services. Business sentiment among non-manufacturers is expected to remain at a high level.

Looking ahead, business sentiment is expected to decline amid concerns about the impacts of passing on tariff-related costs to prices on exports to the US, particularly in the automotive industry, where the global economic slowdown is another concern.

BOJ Tankan: Business Conditions DI (manufacturing)



Source: BOJ; compiled by Daiwa.

BOJ Tankan: Business Conditions DI (non-manufacturing)



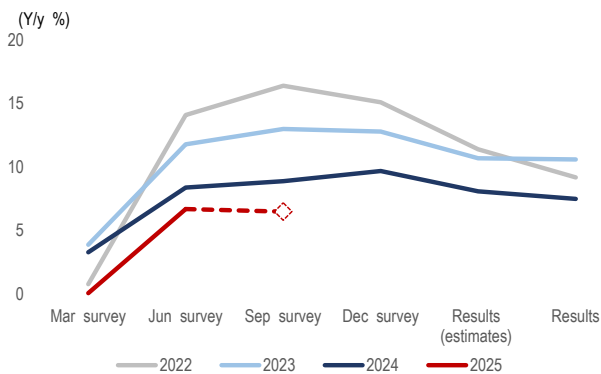
Source: BOJ; compiled by Daiwa.

Capex plans down since previous survey, but tariff impacts limited

We expect FY25 capex plans for all industries for overall businesses (excluding software, including land purchases) to remain positive at +6.5% y/y, albeit slightly lower than +6.7% in the June survey. Also, compared to some previous years, the growth rate has slowed y/y. The September survey will likely confirm that tariff policies are having some impact on companies' willingness to invest in equipment.

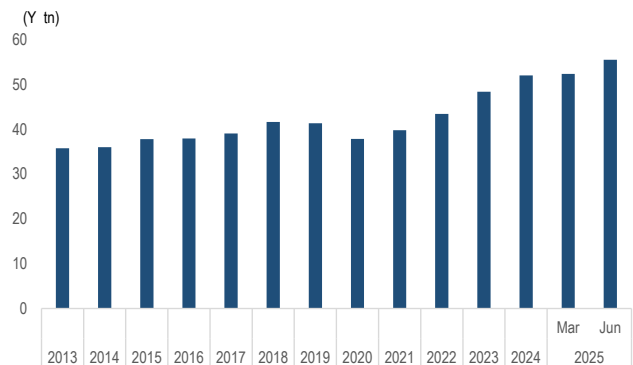
However, there have been upward trends for capex amounts since the pandemic and the level for FY25 is expected to remain high. Under such conditions, we can probably assume that, "Despite the impact of tariffs, appetite for capex among corporations is expected to remain generally firm in FY25."

Fixed Investment Plans (y/y chg, all-size firms in all industries)



Source: BOJ; compiled by Daiwa.
 Note: Excluding software, including land purchases.

Levels of Fixed Investment Plans (all-size firms in all industries)



Source: BOJ; compiled by Daiwa.
 Notes: (1) Excluding software, including land purchases.
 (2) Actual results through FY24; figures for FY25 are as of each survey.

Strong corporate trends likely to increase odds of another interest rate hike

Within the BOJ, there is the view that inflationary pressures are mounting due to soaring prices for foodstuffs, starting with rice. Another view is that the BOJ should proceed with raising interest rates, if the economic drag from tariffs is deemed limited (9 Sep Reuters report). The results of the BOJ's September Tankan survey (due out on 1 Oct) are likely to reinforce the view that the economic drag from tariffs is limited, potentially providing support for the Bank to raise interest rates.

However, assessing the downward pressure that tariffs exert on the Japanese economy also requires monitoring US economic trends. This is because the largest portion of Japanese exports are bound for the US. If a major economic shock were to occur in the US, Japan's exports would also be significantly impacted due to a decline in US consumption and investment.

The US economy is now in a peculiar state, with the labor market showing clear signs of slowing, while the economy is resilient. If the likelihood of a soft landing for the US economy increases going forward, it will further reinforce the view that downward pressure on the Japanese economy from tariffs will be limited.

If the BOJ's September Tankan survey confirms solid corporate trends, in line with our expectations, we should have a better picture of the actual tariff impacts (based on Japan's economic indicators) to a certain extent. Then, we believe there is a high likelihood that the BOJ will proceed with another interest rate hike within this year, once it has confirmed the direction of the US economy and once the political situation in Japan stabilizes.

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