

The Japanese economy: topic of the month

An examination of fixed investment forecasts in the BOJ *Tankan*

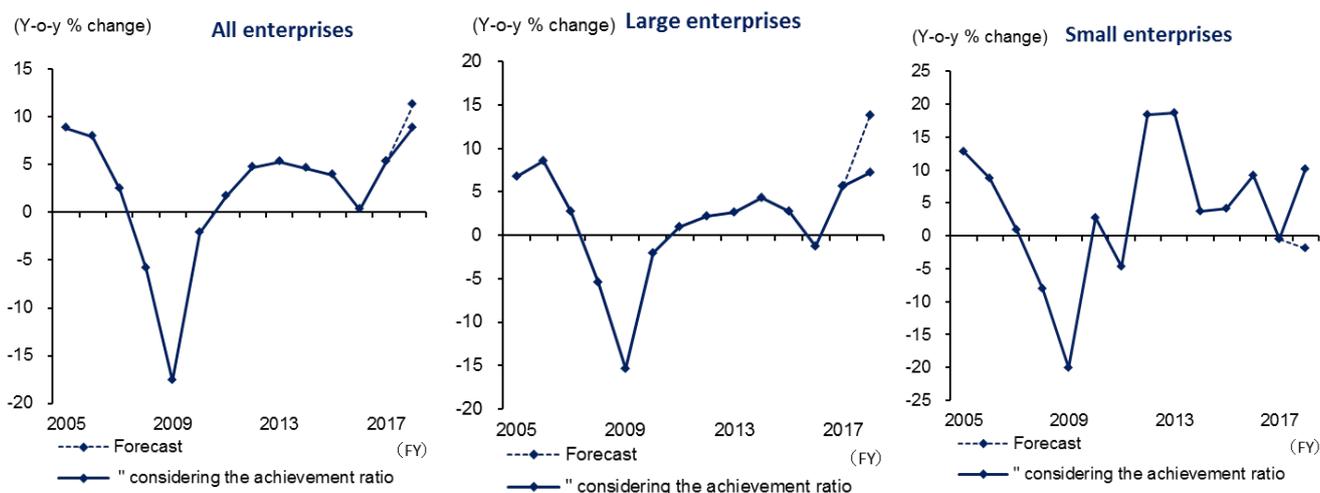
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Japan’s corporate enterprises continue to possess strong incentive to invest in plant and equipment (“fixed investment”). According to the Bank of Japan *Short-Term Economic Survey of Enterprises in Japan (Tankan)* of September 2018, forecasts on fixed investment (excluding land purchasing expenses and including software investment) turned out to be higher than in the past at +11.2% y-o-y. Even so, since the value of investment achieved tends to fall short of forecasts, it would be necessary to look at the forecasts in consideration of the achievement ratio (investment achieved as a ratio of forecasts).

We thus projected the amount of fixed investment in FY2018 on the basis of the past average of the achievement ratio. In our projections, the growth rate of fixed investment turned out slightly below the *Tankan* forecasts but above investment achieved in FY2017 (**Chart 1**).

Looking closer, in terms of the size of enterprises, investment achieved fell short of forecasts among large enterprises but was above forecasts among small enterprises. On average, the larger-than-forecast investment among small enterprises served to offset the short-fall among large enterprises.

[Chart 1: BOJ *Tankan* (by size of corporate enterprise)]



Note: Excluding land purchasing expenses and including software investment
 Source: Made by MHRI based upon Bank of Japan, *Short-Term Economic Survey of Enterprises in Japan (Tankan)*

In the case of small enterprises, there is a tendency of the value of investment achieved to be higher than forecasts due to the rise of the achievement ratio in the second half of the fiscal year. This indicates a tendency among small enterprises to gradually increase investment as the year goes by in view of demand and funding conditions (without setting a forecast at the beginning of the fiscal year). Therefore, the key to whether the actual growth of fixed investment will be as strong as forecasts in FY2018 hinges upon the rise of investment incentive among small enterprises in the second half of the fiscal year.

In the course of the foregoing, it is necessary to keep a close eye upon the trends in cash flows which sways fixed investment among small enterprises. Given prospects of higher costs such as crude oil prices and labor costs, the rise of demand would have to be strong enough to compensate for such rise of costs. Judging from these circumstances, the impact of the US protectionist trade policy upon the global economy warrants close attention.

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