

Japan: June Tankan up but forecasts gloomy

The headline Tankan survey from the bank of Japan showed a slightly lower than expected rise to 14 from 5 the previous quarter, and the outlook was also not as upbeat.



Source: istock

14 Large Mfg index
up from 5

Lower than expected

June Tankan is a mixed story

The consensus for the headline Tankan index for large manufacturing firms was 16, just a little above the 14 figure just released. That's not a bad pick up though, from only 5 in March. Medium and small-sized manufacturing firms also showed gains, though small firms still remain pessimistic on average, which may be because larger firms are squeezing their margins to fuel their own efficiency gains.

Outside the manufacturing sector, the gains were much more muted and the overall sense is still a pessimistic one, with the large non-manufacturing firm index only rising just above the breakeven pessimism/optimism threshold of zero to register an index of +1. Smaller firms saw modest improvements too but remained in negative territory.

Even for large manufacturing firms, the forward-looking outlook index was mixed, with large and medium-sized manufacturing firms and small non-manufacturing firms expecting conditions to deteriorate. So if this is reflected in GDP numbers, the outlook for 3Q is probably not much better than it will be for 2Q, and we aren't expecting much more than a flat reading then.

Tankan Summary

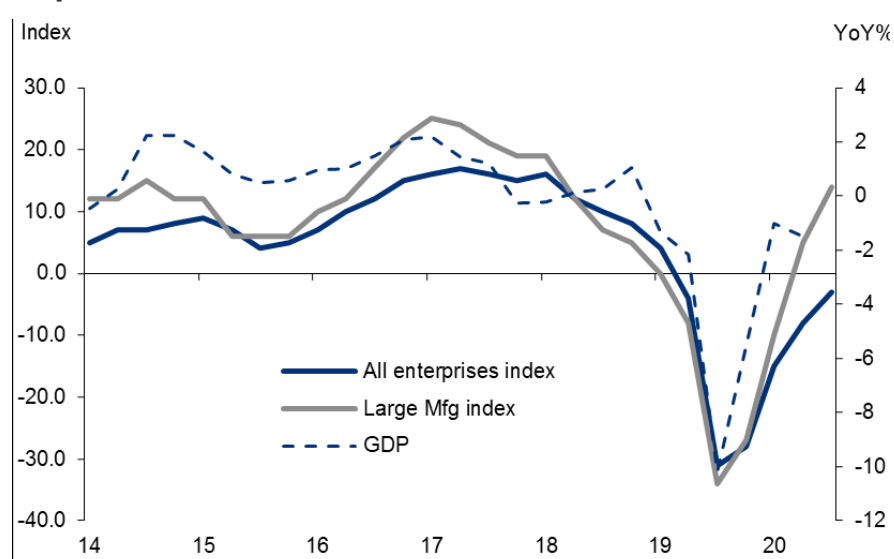
| | Mar-21 | Jun-21 | Outlook |
|--------------------------------|--------|--------|---------|
| Manufacturing firms | | | |
| Large | 5 | 14 | 13 |
| Medium | -2 | 5 | -1 |
| Small | -13 | -7 | -6 |
| Non Manufacturing firms | | | |
| Large | -1 | 1 | 3 |
| Medium | -11 | -8 | -8 |
| Small | -11 | -9 | -12 |

Source: CEIC, ING

GDP outlook for modest growth

The Tankan survey suggests that the best of the recovery from the big 2020 covid-induced dip in activity has now passed. We are expecting GDP growth to be practically flat QoQ in 2Q21, and for modest quarterly growth thereafter to deliver full-year growth of just 2.2%. That is better than the 4.7% contraction registered for 2020, but it is a far cry from the 5% growth figures that looked possible at the beginning of the year. That was before the current waves of Covid-19 emerged, and new states of emergency were introduced. Japan is picking up the pace of vaccination finally, but it is still way off where it needs to be to fully re-open its economy again.

Japan's GDP (YoY%) and Tankan indices



Source: CEIC, ING

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