

Japan Business Sentiment Sank Lowest in 5 Years

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TOKYO: Japanese manufacturers have extended their run of pessimism to five months while sentiment among other businesses sank to its lowest in nearly five years, a Reuters poll showed, reflecting widespread gloom as the economy heads towards recession.

With US government efforts to prevent a financial meltdown so far failing to stop a slide in global stock markets, the Bank of Japan added to the pessimism by cutting its outlook for capital spending, as economists warned that the mood of businesses would sour further.

The Reuters Tankan reinforced views that the Japanese economy, which shrank in the second quarter at its fastest pace in seven years, was losing critical support from corporate activity as its longest postwar expansion grinds to a halt. The weak reading means the BOJ's widely watched quarterly tankan survey, due on Oct. 1, will likely show business sentiment worsening, underscoring views that the central bank will keep interest rates unchanged at 0.5 percent until late next year.

"Behind the weak results is uncertainty over the outlook for domestic and overseas economies," said Naoki Iizuka, a senior economist at Mizuho Securities.

"The survey was held before the Lehman shock, so unfortunately business sentiment will likely worsen further ahead," he said.

The survey found manufacturers' sentiment was at an index level of minus 14, up 2 points from a five-year low in August but staying negative for five straight months, while the mood among non-manufacturers worsened 4 points to minus 10, marking the lowest level since December 2003.

Recovery seen: Both manufacturers and non-manufacturers expect business conditions to improve in the next three months, the poll of 215 firms taken from Aug. 27 to Sept. 12 found, although economists expect the market turmoil after the survey to have taken a toll.

"The economy will shift to a recovery phase in April-June next year at the earliest," said Takehiro Sato, chief economist at Morgan Stanley Japan. "The main risk is a deeper or longer recession due to the ongoing slide in global financial markets," he said.

The index readings are derived by subtracting the percentage of respondents who say conditions are poor from those who say they are good. A negative index figure means most of those surveyed are pessimistic about conditions. The Reuters Tankan is a monthly poll of Japanese firms that tracks the Bank of Japan's quarterly tankan survey.

Compared with three months earlier, around the time of the last BOJ tankan survey, the index fell 12 points for manufacturers and 8 points for non-manufacturers.

The BOJ maintained its economic assessment that growth was sluggish and cut its view on business investment on Thursday, citing the impact of weaker corporate profits.

“Business fixed investment has declined somewhat lately, as corporate profits have decreased mainly due to the deterioration in the terms of trade,” the BOJ said in its monthly report for September.

While gasoline and other commodity prices have retreated from recent peaks, a positive impact has yet to be felt by many companies as they struggle to pass on high raw material costs to consumers. Among those suffering were the hard-hit real estate sector, stung by a series of corporate bankruptcies due to the credit crunch, and electric machinery makers who had hoped for a boost from the Beijing Olympics, the Reuters Tankan showed.

The mood among real estate and construction firms worsened 13 points to minus 30, the lowest since August 2003, reflecting slack domestic housing demand. The government has acknowledged that Japan is either heading into a recession or is already in one, ending a growth cycle that began in early 2002, the longest in six decades.

Source: Reuters