

Daiwa's Economic View

FICC Research Dept.

Business Outlook Survey: Wage increases are likely to exceed 5% in 2026 spring wage negotiations

- Business sentiment has improved across sectors; capex appetite remains solid
- Projected recurring profit for motor vehicle/accessory makers significantly revised upward
- December Tankan survey results are unlikely to hold any surprises

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Business sentiment has improved across sectors

In the Business Outlook Survey released on 11 December (survey date: 15 Nov), the Business Survey Index (BSI) for the Oct-Dec 2025 quarter was +4.9 (+4.7 in Jul-Sep) for large companies/all sectors, marking two consecutive quarters of positive readings. For reference, as the Business Outlook Survey's BSI is an indicator showing changes in business sentiment compared to the previous quarter, a positive figure means improvement.

Looking at large companies by sector, the BSI for the manufacturing sector improved to +4.7 (+3.8 in Jul-Sep). In addition to reduced uncertainty over tariff policies, factors such as robust AI demand, the yen's depreciation, and progress in passing on costs to prices appear to have contributed to the improvement in sentiment. Notably, with the US tariff issue settling at 15%, motor vehicle/accessory makers continued to see improved business sentiment at +6.5 (+7.6). On the other hand, factors such as rising procurement costs due to yen weakness and sluggish global commodity markets weighed on the iron/steel sector at -14.5 (-21.8) and the nonferrous metals sector at -16.1 (-11.5).

The BSI for the non-manufacturing sector also improved to +5.1 (+5.2 in Jul-Sep), indicating that business sentiment is improving across a wide range of sectors. Although Prime Minister Sanae Takaichi stated in the Diet on 7 November that "a Taiwan contingency could qualify as a survival-threatening situation for Japan" and the Chinese government issued a call on 14 November for its citizens to refrain from traveling to Japan, no significant negative impact on business sentiment from these travel restrictions has been confirmed at this time.

Looking ahead to the outlook for the Jan-Mar 2026 quarter, the BSI for large manufacturers stood at +1.1, while the index for large non-manufacturers was at +5.0. The figure for motor vehicle/accessory makers turned negative at -3.0, which suggests concerns about a decrease in exports due to tariff policies. However, the extent of the drop is limited, and such concerns do not appear to be significant.

"Business Conditions for Your Company" BSI*



Source: MOF; compiled by Daiwa.

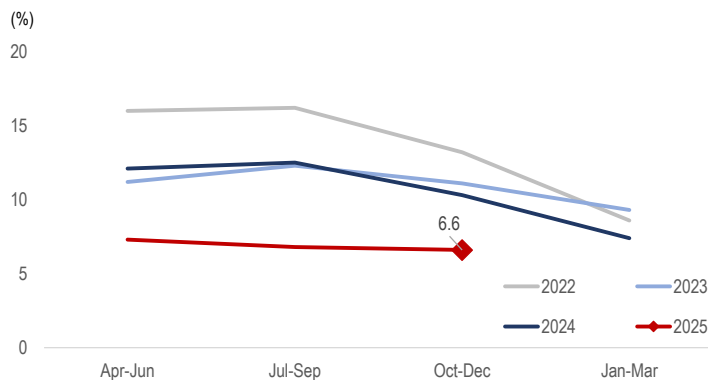
*The percentage of companies saying that domestic economic conditions are rising compared with the previous quarter, minus the percentage of companies saying that domestic economic conditions are declining compared with the previous quarter.

Capex: Solid, led by software

The capex plan for FY25 (including software, excluding land) for all company sizes and all sectors increased 6.6% y/y (+6.8% in Jul-Sep). Although the figure worsened slightly compared to the previous quarter, there is a statistical tendency for capex plans to be gradually revised downward in the second half of the fiscal year. Considering past revision patterns, the result for the Oct-Dec quarter's capex plan is stronger than anticipated. Furthermore, based on past revision patterns, the actual capex figure is projected to be around +3% to +4% y/y. This result indicates that the appetite for capex remains firm, despite the influence of tariff policies.

In particular, the plan for software investment maintains a substantial y/y increase of +11.6% (+12.4% in Jul-Sep).

Capex Plans (all sizes/all sectors; incl. software, excl. land)

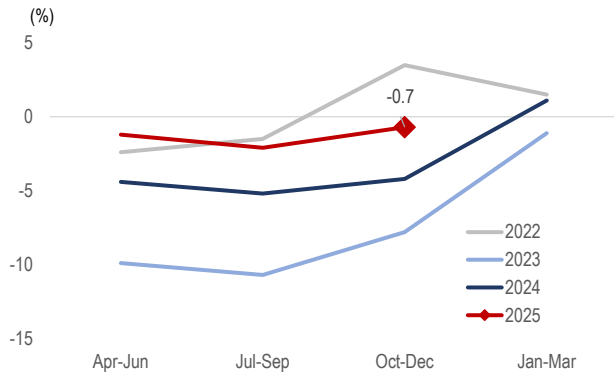


Source: MOF; compiled by Daiwa.

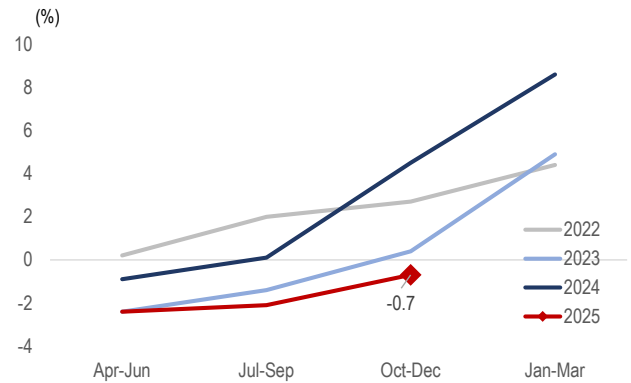
Recurring profit and resources for wage hikes: Wage increases are likely to exceed 5% in 2026 spring wage negotiations

The FY25 recurring profit (all sizes) is projected to decrease 0.7% y/y in both the manufacturing sector (−2.1% in Jul-Sep) and in non-manufacturing sector (−2.1%), but figures improved from the previous survey. Although recurring profit for motor vehicle/accessory makers is still expected to decline (by 5.2% y/y), this marked a substantial improvement from the previous survey (−14.7%), attracting attention. We can say that corporate earnings remain solid.

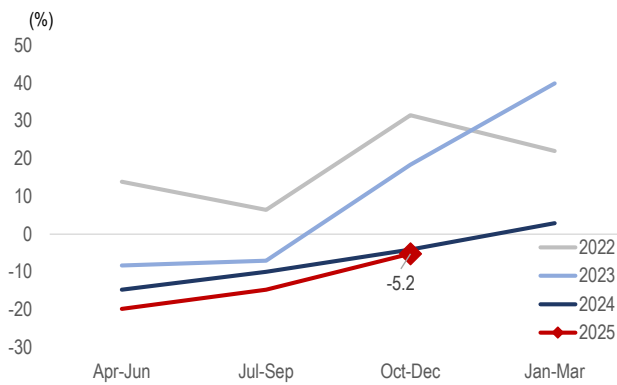
To examine the resources available for wage hikes, we used data from the latest Business Outlook Survey and the Financial Statements Statistics of Corporations by Industry to estimate the labor share, assuming that wage hikes similar to the previous year are implemented in the 2026 spring labor/management wage negotiations. The results suggest that the increase in the labor share would be limited for both the overall manufacturing sector and the motor vehicle/accessory manufacturing sector. Considering corporate sentiment, the earnings situation, and the wage hike “norm” being signaled by the Japan Business Federation, the Japanese Trade Union Confederation, and the government, it is unlikely that the 2026 spring wage negotiations will result in a significantly lower outcome than the previous year. Rather, based on the current state of corporate earnings, we think that there is a growing possibility that the rate of increase in wages in the 2026 spring wage negotiations could exceed 5% (+5.25% in 2025).

Recurring Profit Plans (all-size manufacturers)


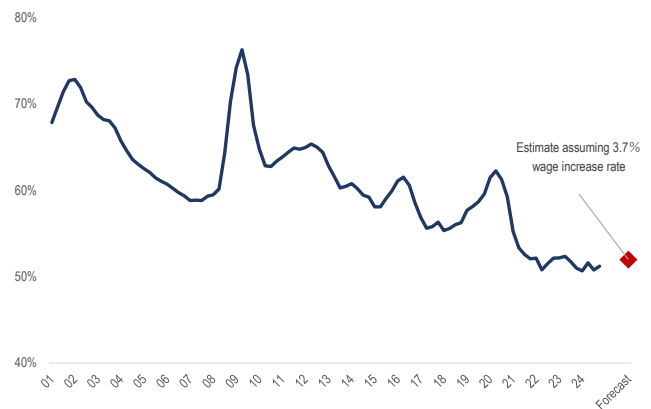
Source: MOF; compiled by Daiwa.

Recurring Profit Plans (all-size non-manufacturers)


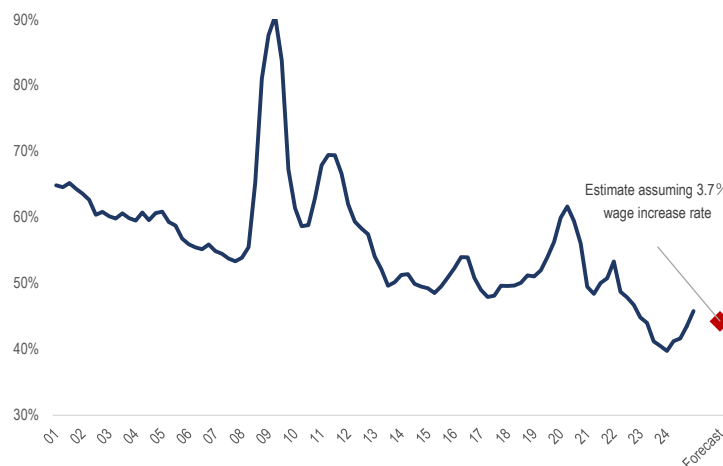
Source: MOF; compiled by Daiwa.

Recurring Profit Plans (all-size motor vehicle/accessory makers)


Source: MOF; compiled by Daiwa.

Labor Share Estimate (all-size manufacturers)


Source: MOF; compiled by Daiwa.

Labor Share Estimate (all-size motor vehicle/accessory makers)


Source: MOF; compiled by Daiwa.

Tankan results unlikely to serve as an obstacle for a December rate hike

On 9 December, Nikkei reported a comment within the BOJ stating, "A December rate hike is not yet a done deal, and many events are left." The source mentioned the need to confirm whether wage hikes will continue in the spring wage negotiations and whether any surprises will emerge

from domestic and overseas indicators. From that perspective, the BOJ Tankan survey (Dec survey), to be released on 15 December, will be the most crucial domestic indicator to watch.

That said, the Business Outlook Survey has already confirmed positive business sentiment, sufficient room for wage hikes, and solid capex trends. In addition, December Reuters Tankan readings were +10 for manufacturing (down from +13 in Sep) and +33 for non-manufacturing (up from +27). Moreover, December QUICK Tankan figures were +22 for manufacturing (down from +24 in Sep) and +37 for non-manufacturing (up from +30). While the manufacturing sector saw a decline, the sentiment in the non-manufacturing sector remains steady.

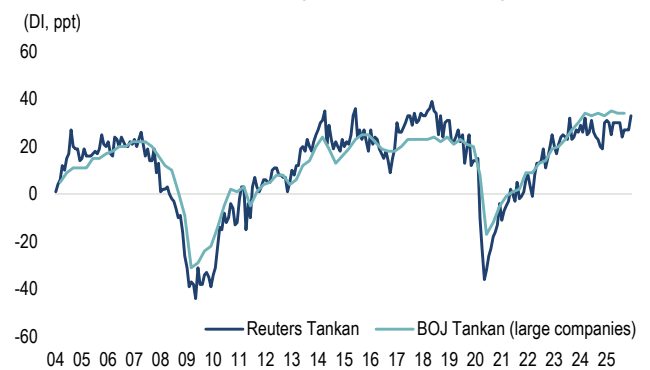
Based on these results, it is highly likely that the BOJ Tankan (Dec survey) will also confirm solid corporate trends. Barring any sudden, major market turmoil due to releases of data such as the US jobs report and US CPI before the Monetary Policy Meeting, the BOJ is likely to proceed with a rate hike in December.

Reuters Tankan, BOJ Tankan (manufacturers)



Source: Reuters, BOJ; compiled by Daiwa.

Reuters Tankan, BOJ Tankan (non-manufacturers)



Source: Reuters, BOJ; compiled by Daiwa.

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