

# News Release

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## S&P Global Japan Business Outlook

### Business confidence softens but remains strong overall

#### Key findings

Output expectations soften in both manufacturing and service sectors

Cost inflation forecasts among the strongest on record

Profitability projections hit lowest since June 2020

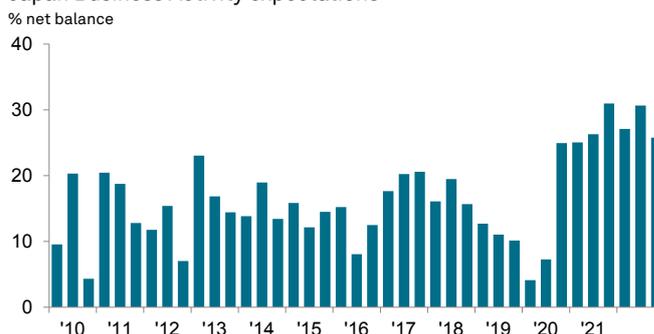
Japanese companies remained strongly upbeat towards growth prospects in October, according to the latest S&P Global Japan Business Outlook survey. Despite waning slightly from the joint-record high seen in the previous survey period, sentiment regarding future activity was among the strongest on record and among the highest worldwide.

Optimism was primarily driven by hopes of a strong recovery in demand, successful product launches and a sustained improvement in the COVID-19 situation. Firms were also anticipating that a rise in domestic and foreign tourism, following the recent easing in border restrictions and the launch of the National Travel Discount Programme, would boost demand further. October's positive outlook for business activity also supported strong hiring and investment intentions, while profitability was also expected to rise, albeit to a lesser extent than estimated in June.

The net balance of firms forecasting growth in business activity over the next 12 months posted at +26% in October. The degree of optimism remained among the most upbeat to date and compared favourably to the global average (+17%). That said, overall sentiment was weaker than that seen in June, where overall sentiment hit a joint-record high (+31%).

At the sector level, manufacturing firms and service providers both registered an optimistic outlook towards output levels in the coming 12 months, though expectations softened slightly in both industries since June. The drop in sentiment was more noticeable across the manufacturing sector, where firms registered the lowest level of optimism since June 2020.

Japan Business Activity expectations



Source: S&P Global.  
Data were collected 12-26 October 2022.

#### Comment

Commenting on the Japan Business Outlook survey data, Laura Denman, Economist at S&P Global Market Intelligence, said:

*"Japanese private sector companies maintained a positive outlook regarding business activity over the next 12 months in October, with the net balance of firms expecting a rise in output (+26%) comparing favourably with the global average (+17%). Optimism primarily stemmed from hopes for higher levels of demand in the coming months. The recent easing in foreign travel restrictions and the roll-out of the National Travel Discount Programme is expected to boost tourism and demand, particularly in the service sector. A sustained COVID-19 recovery and the continued mitigation of lingering pandemic-related effects was also reported as an opportunity for future growth.*

*"That said, the degree of positivity, though historically strong, did weaken from the joint record high posted in the previous survey period. Inflationary pressures seemingly weighed upon the outlook and profitability projections, as staff, non-staff, and output price inflation looks set to remain intense in the coming months. Expectations for a further weakening of the yen and the deterioration in global economic conditions have also been commented as major causes for concern for future demand prospects. As such, firms have downwardly revised profitability forecasts, with the net balance of firms expecting increased profits the lowest since June 2020 (+8%)."*

Threats to the outlook largely stemmed from inflationary pressures and the subsequent impact on the wider economy. Firms often expressed concerns regarding higher raw material, energy, and labour costs. The weakness in the exchange rate, material shortages (specifically within the semiconductor industry) and lingering COVID-19 effects were also cited as potential risks to business activity over the coming year. Japanese private sector firms were also wary of weakening global economic conditions, and the effects that that would have on their activity levels.

### Firms project strong inflationary pressures

Inflationary pressures are projected to remain historically strong over the coming year. The net balance of firms forecasting greater staff costs slipped only fractionally from June's survey peak, and was the second-highest on record (+44%).

A similar trend was registered for non-staff costs, with the net balance of companies predicting a rise in non-staff costs edging down to +29% from the record high of +32% in the previous survey period, to a level that was also the second-highest on record. As such, panellists often intended to pass on additional cost burdens to their customers through a further increase in their selling prices over the next 12 months (net balance of +28%).

### Hiring and investment intentions revised down but remain strong

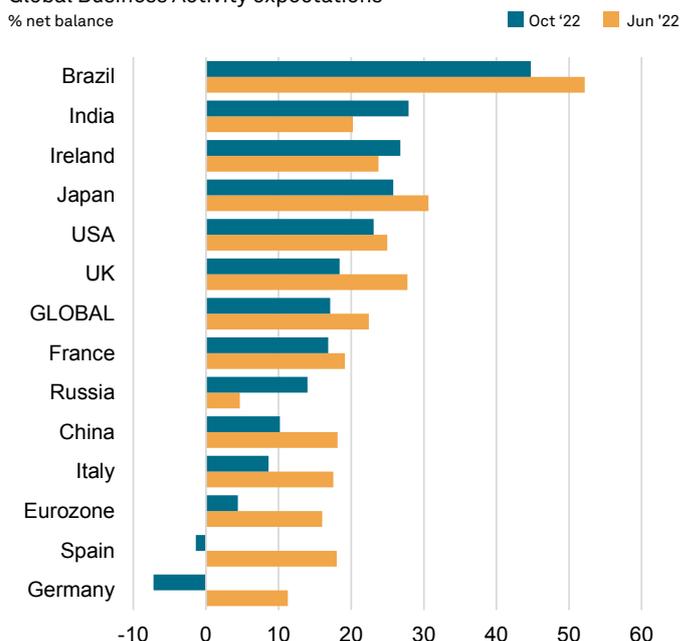
Firms signalled strong hiring intentions in October. With a net balance of +19% of firms expecting to expand their staffing levels, the outlook for employment softened slightly from the series high in the last survey period (+23%) but remained well above the historical average.

Meanwhile, Japanese companies downgraded their expectations with regards to investment over the coming year. The net balance of firms predicting greater capex and R&D spending fell slightly from +14% to +12% and +7% to +6% in October, respectively.

### Profitability forecasts weaken amid growing cost pressures

Japanese companies foresee profitability growth in the coming year, though the overall level of sentiment was the weakest in the current positive sequence (since June 2020). The respective net balance fell from +15% in June to +8% in October. Despite both service providers and manufacturers both expressing optimism overall, the level of positive sentiment across the manufacturing sector was the lowest since February 2020 and only slight.

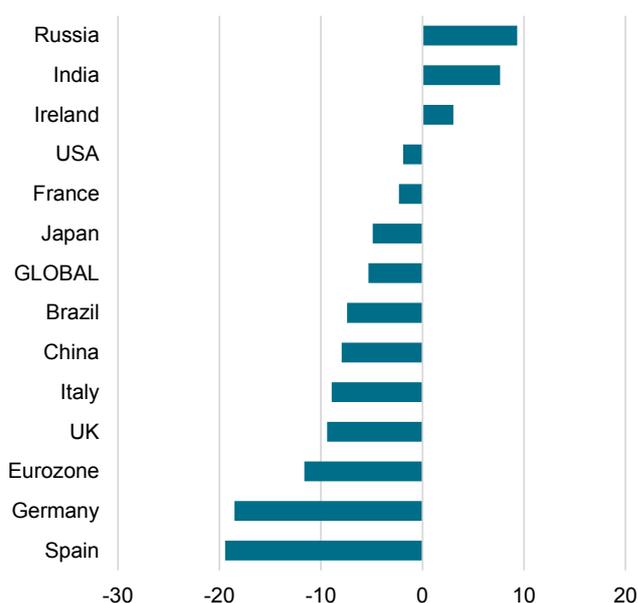
Global Business Activity expectations



Source: S&P Global.

Global Business Activity expectations

Change in % net balance, Oct '22 vs. Jun '22



Source: S&P Global.

Full data available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

## Survey methodology

The Global Business Outlook Survey for worldwide manufacturing and services is produced by S&P Global and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that S&P Global operates. This methodology seeks to ensure harmonization of data and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 8,000 firms.

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