

News Release

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S&P Global Japan Business Outlook

Business sentiment at softest level for over four years

Key findings

Output expectations weaker than global average

Optimism surrounding future employment at four-year low

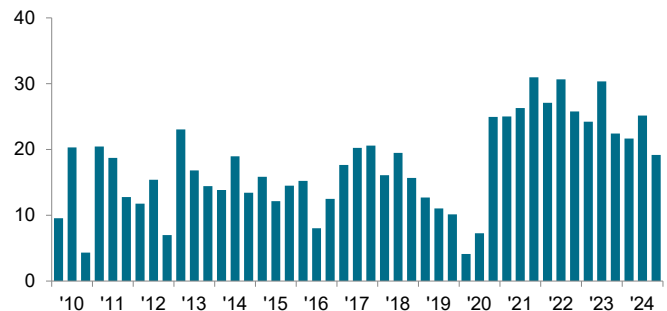
Record net balance of firms expect staff costs to rise

Japanese private sector business expectations remained positive in October, but the overall degree of sentiment softened to the lowest since June 2020, latest data from the S&P Global Business Outlook survey revealed. That said, optimism remained above the pre-pandemic trend level. Firms often hoped that economic conditions and demand would continue to stabilise over the coming 12 months to support a recovery in sales and consumption, while the competitive exchange rate would boost demand from overseas markets. However, the weaker yen raised concerns among Japanese private sector firms as a potential source of inflation, particularly on goods and inputs imported to Japan. As such, inflationary pressures are expected to have a stronger impact than previously expected, as indicated by the net balance of firms predicting higher non-staff costs rising to the joint-highest level in the series history. Concurrently, inflation is also expected on the labour side, with a record net balance of companies expecting wages to rise during October. Companies generally expect rising price pressures and a slower trend in activity to weigh on profitability and employment, with the jobs outlook in particular falling to a four-year low in the latest survey period.

A net balance of +19% of Japanese firms expected business activity to increase over the next 12 months in October, a six-point drop from June (+25%) and signalling the weakest degree of positive sentiment since June 2020. Both the manufacturing and services sectors reported softer levels of optimism, with net balances falling from +30% to +27% and +23% to +16%, respectively. As a result, service sector firms indicated the lowest level of confidence since mid-2020.

Japan Business Activity expectations

% net balance



Source: S&P Global PMI.

Data were collected 10-28 October 2024.

Comment

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

"Japanese private sector companies followed the broad trend of other global developed markets in seeing the degree of confidence in the business outlook wane, according to October's S&P Global Business Outlook survey. A net balance of +19% of firms anticipate an uplift in activity over the coming year in October, the weakest level since June 2020. That said, confidence in the outlook remained above the pre-pandemic average.

"Firms often mentioned that the biggest headwinds to the year-ahead outlook were inflationary pressures, labour shortages and geopolitical tensions. Taking each of these in turn, private sector firms were increasingly expectant of higher staff and non-staff costs in October, with the respective net balances reaching record and equal-record highs. Efforts to effectively manage these costs, coupled with an ageing population and skilled labour shortages, meant that firms were the least optimistic regarding the outlook for employment in four years, while profits were also expected to increase at a softer rate.

"The cloud of geopolitical tensions also hangs over the outlook, with firms increasingly mentioning the impact of conflict in the Middle East, weakness in the Chinese economy and the outcome of the US election."

A number of respondents reported concerns that high inflation, labour shortages and ongoing geopolitical tensions were key threats to future activity. Specifically, concerns were voiced around higher material costs from abroad due to the weak yen and rising labour costs, as well as escalating conflicts in the Middle East, the result of the US election and the muted Chinese economy.

Firms project record increases in staff costs

Cost pressures are expected to remain elevated in Japan over the coming year, as survey respondents upwardly revised their projections for both staff and non-staff costs compared to the previous survey period. The net balance of firms expecting non-staff costs to rise edged up from +31% to +32% to the joint-highest on record. Firms often attributed this to forecasts of higher raw material prices, particularly from overseas as a result of currency weakness. Moreover, the net balance of companies anticipating greater staff costs rose to a fresh record of +58% from +54% in June, sustaining the indication that wages are predicted to be the main driver of inflationary pressure.

Despite the strengthening of cost expectations, the net balance of firms planning to raise their output charges was unchanged at +27%, though this was still the joint-highest since February 2023.

Hiring and investment intentions weaken

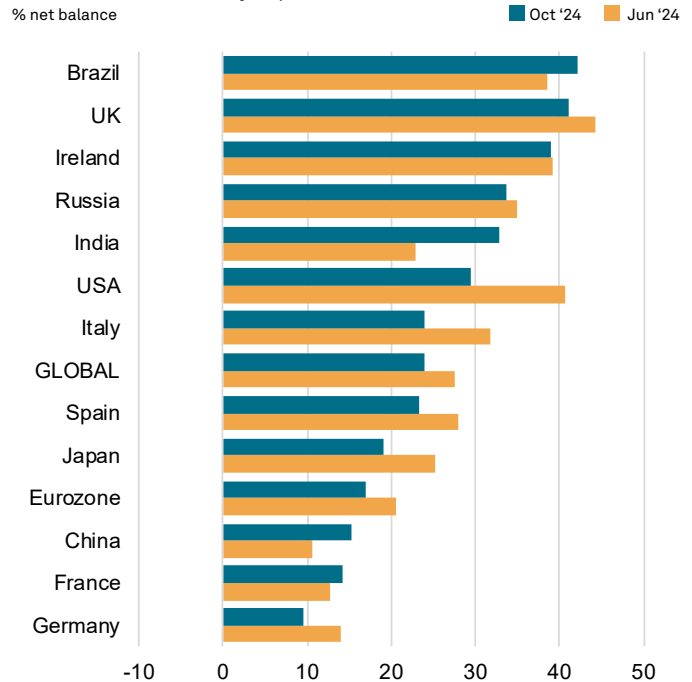
Hiring intentions weakened in October, as fewer private sector businesses expected employment to rise over the next year. The level of confidence eased to a four-year low, as a net balance of +14% of firms planned to increase their staffing numbers, down from +17% in June. Underlying data pointed to softer optimism at service providers, which saw the lowest degree of sentiment since June 2021. Manufacturers meanwhile saw employment expectations edge up slightly.

Capital spending over the next 12 months was projected to rise further in October. A net balance of +16% of firms foresee higher capital expenditure, the lowest for one year, with softer optimism broad-based across the manufacturing and service sectors. Capex forecasts were still above the long-run trend, but companies continued to express relatively subdued expectations around future R&D spending, with a net balance of just +6% of businesses forecasting higher expenditure in this area.

Profitability set to increase at softer rate

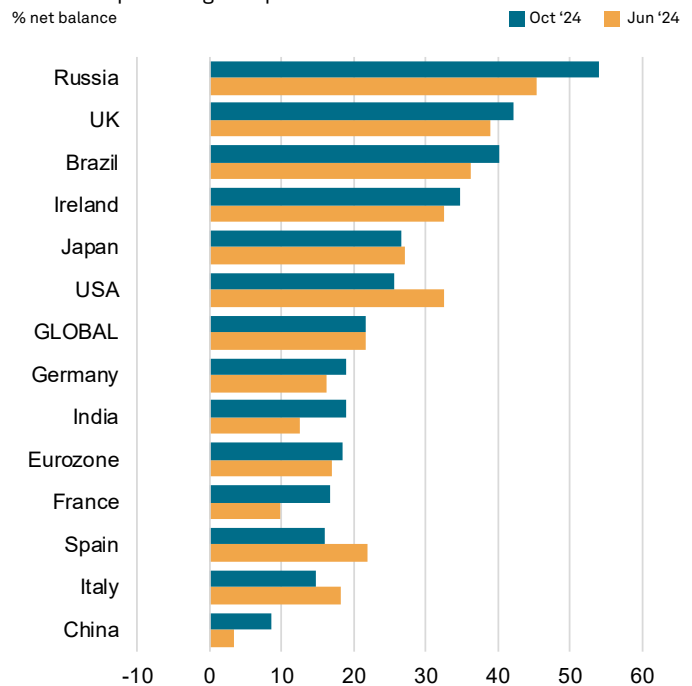
The net balance of Japanese private sector businesses expecting profits to increase over the coming year fell from +17% in June to +12% in October. Confidence in Japan was in line with the global average (+12%). While service providers saw confidence wane, manufacturers expressed the strongest degree of optimism since June 2023.

Global Business Activity expectations



Source: S&P Global PMI.

Global Output Charges expectations



Source: S&P Global PMI.

Full data available on request from economics@spglobal.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*. 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.

* The countries with manufacturing and service sector surveys are Brazil, China, France, Germany, India, Italy, Japan, Russia, Spain, the Republic of Ireland, the UK and the USA. Manufacturing data are collected for the Netherlands, Austria, Greece, Poland and the Czech Republic.

Contact

Usamah Bhatti
Economist
S&P Global Market Intelligence
T: +44 1344 328 370
E: usamah.bhatti@spglobal.com

SungHa Park
Corporate Communications
S&P Global Market Intelligence
T: +81 3 6262 1757
E: sungha.park@spglobal.com

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