

EMBARGOED UNTIL: 00:01 (UTC) November 11th 2019

IHS Markit Japan Business Outlook

Business confidence weakens again in October

Key findings:

- Business outlook in Japan the least optimistic for over three years
- Subdued output forecasts apparent across both manufacturing and services
- Capex intentions at weakest since early 2017

Data collected 11-28 October 2019

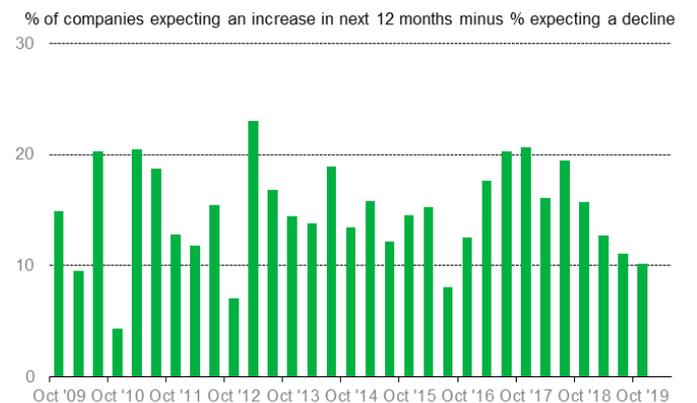
According to the latest IHS Markit Business Outlook survey, Japanese private sector companies are their least optimistic towards activity for the coming 12 months in over three years. Furthermore, the level of optimism is weaker than the global average having eased for a fourth successive survey period in October. Subdued expectations are also apparent at the sector level, with manufacturers and service providers reporting modest growth projections.

A net balance of 10% of firms anticipate activity to increase over the next 12 months. This was down slightly from July, where the net balance was 11%, but is also the fourth straight survey in which optimism has weakened. By industry, service sector companies were marginally more upbeat than their manufacturing counterparts.

Although survey data highlights subdued prospects for the year ahead, anecdotal evidence highlights where firms are identifying growth opportunities over the coming 12 months. Firms foresee new product launches as a key driver of new business, while other firms are optimistic that the Japanese economy will pick up in the approach to the Tokyo Olympic Games.

That said, political tensions with Korea, the US-China trade war, an ageing population, competitive pressures and a stronger yen were all mentioned as factors which could adversely impact Japanese business output over the next year.

Japan business activity expectations



Employment & Investment Plans

Despite reports of labour shortages and shrinking workforces due to retirements, Japanese businesses expect employment levels to rise over the next 12 months. Relatively solid hiring intentions are signalled by a net balance of +16% of companies planning to recruit additional staff, which was stronger than the series trend and the global average (+7%). Sector level data also highlight relatively robust job creation forecasts at manufacturers and service providers.

Positive investment forecasts also remain in place during October, with a net balance of +11% of firms projecting higher capex. That said, intentions are one of the least upbeat since early 2017 amid a broad-based deterioration in sentiment towards the investment climate.

Inflation Expectations

With regards to operating expenses, Japanese private sector companies anticipate inflationary pressures to build over the coming 12 months, with both labour and other non-staff related costs forecast to rise. Efforts to attract skilled staff are expected to incur greater hiring

fees, according to some companies, while others indicated that raw material prices, tariffs and energy costs will ramp up pressure on profit margins.

In response, businesses plan to raise their output prices to rise in order to pass on part of the higher cost burdens to their clients. However, latest survey data indicate that selling charge inflation is set to be the softest in two years. Pricing power is expected to be especially weak in the manufacturing sector, although inflationary pressures are forecast to be less intense at services firms also.

Corporate Earnings

Following on from the negative profitability expectations in the previous survey period, October data shows that firms anticipate marginal growth in corporate earnings over the coming 12 months. That said, the aggregate number masks diverging trends at the sector level, with expectations of profit growth in the services economy contrasting with forecasts of reduced earnings at manufacturers.

Comment:

Commenting on the Japan Business Outlook survey data, **Joe Hayes**, Economist at IHS Markit, said:

“The Japanese economy has showcased its ability to continue growing this year despite the strong headwinds it has faced such as an unfavourable export environment and softer growth both in Asia and globally. The Business Outlook survey shows that firms continue to expect activity levels to grow over the coming 12 months amid the opportunities arising from the Olympic Games and the development of new products, especially in the automobile and electronics industries.

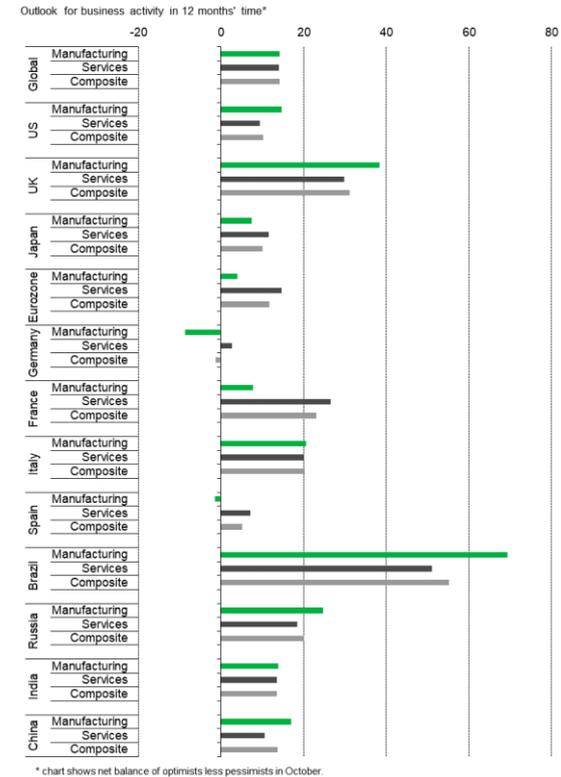
“Nevertheless, confidence was at its weakest for over three years, while capex intentions, which are crucial for productivity gains and long-term growth, are at their weakest since early 2017.

“Notably, the overall feeling among panellists seems to be relatively downbeat, with the US-China trade war and concerns of more spillover into the domestic economy undermining business sentiment, as has been the case for much of 2019.”

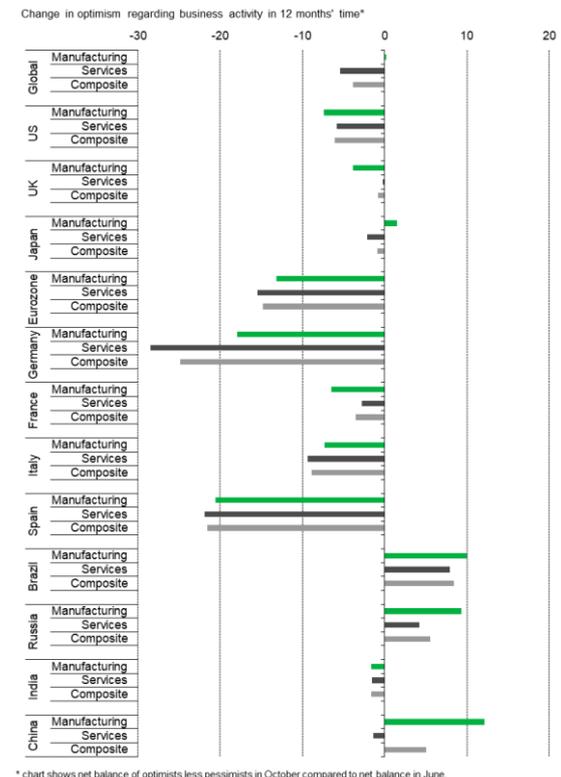
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Full data available on request from economics@ihsmarkit.com

Business optimism in October



How business activity expectations have changed since June



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Notes to Editors:

The Global Business Outlook Survey for worldwide manufacturing and services is produced by IHS Markit 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. The latest survey was conducted between October 9 and 30.

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 IHS Markit 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, fax, 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 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months while values below 0.0 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 7,000 firms.

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