

News Release

Embargoed until 2301 UTC 16 July 2023

S&P Global Japan Business Outlook

Business sentiment strengthens in June

Key findings

Output expectations at second-highest level in survey history

Optimism surrounding future profits improves to joint-record high

Inflationary pressures forecast to remain elevated

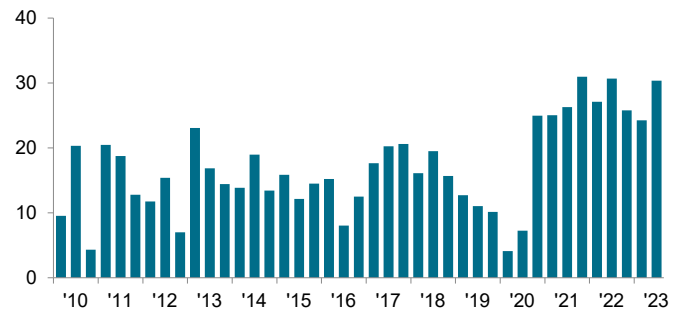
Japanese private sector business expectations rose close to a record high in June, according to the latest S&P Global Business Outlook survey. Sentiment regarding future activity strengthened notably from that seen in February, and was the second-strongest in the history of the survey. Firms often hoped that economic conditions would continue to normalise and support a sustained recovery in demand and consumption, particularly from overseas thanks in part to the competitiveness of the exchange rate. Concurrently, businesses continued to express concerns surrounding rising costs in the year ahead, although inflationary pressures are now expected to have a softer impact than previously expected, as indicated by the net balance of firms predicting higher non-staff costs dropping to the lowest level since February 2022. Companies generally expect easing price pressures and further increases in activity to boost profitability, with a record net balance of businesses anticipating higher profits over the next year.

A net balance of +30% of Japanese firms expected business activity to increase over the next 12 months in June. This was higher than that seen in February (+24%) and signalled the second-strongest degree of positive sentiment in the history of the survey. Both the manufacturing and service sectors reported stronger levels of optimism, with net balances rising from +28% to +31% and +22% to +30% respectively. As a result, service sector firms indicated the second-highest level of confidence on record, while optimism among manufacturers was the most pronounced since October 2021.

A number of respondents highlighted concerns that

Japan Business Activity expectations

% net balance



Source: S&P Global PMI.

Data were collected 12-27 June 2023.

Comment

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

"There have been significant developments both in Japan and globally since the previous business outlook survey in February. The few remaining pandemic-related restrictions were fully lifted across Japan and the wider global economy, which provided a boost to the economy, while the impacts of surging energy and raw material prices seen over the course of 2022 showed signs of dissipating. As a result, a net balance of +30% of firms anticipate an uplift in activity over the coming year in June, the second-highest level in the series history.

"Forecasts regarding capital expenditure and staff hiring also improved, with the former reaching the highest in the survey history. There was also some positivity on the inflation front as the extent to which non-staff costs are expected to rise eased to the lowest since February 2022. That said, wage pressures are still expected to weigh heavily on firms, as a net balance of +49% of companies foresee higher staff costs over the coming year. This had little impact on expectations for profitability, however, as firms registered a notable improvement in optimism regarding future profits in June to the joint-highest on record.

"Japan's economic outlook therefore looks positive, although key risks remain, particularly the prolonged impact of inflation, a subdued domestic economy, a depreciating currency and ongoing geopolitical developments."

subdued economic conditions and high inflation were key threats to future activity. Concerns were also voiced around higher material and labour costs, as well as risks associated with rising trade and geopolitical tensions between the US and China and the Russia-Ukraine war.

Firms project softer increases in non-staff costs and selling prices

Cost pressures are expected to remain elevated in Japan over the coming year, although survey respondents downwardly revised their projections for non-staff costs and output charges compared to the previous survey period. The net balance of firms expecting non-staff costs to rise fell from +31% in February to +27% in June, with firms often forecasting higher energy and raw material prices, particularly from overseas as a result of the weakness of the yen. That said, the net balance of companies anticipating greater staff costs was unchanged from February's record high of +49%, an indication that wages are projected to be the main driver of inflationary pressure.

In line with the trend for non-staff costs, the net balance of firms planning to raise their output charges eased from the near-record high of +28% in the previous survey period to +23%, the lowest since October 2021.

Hiring and investment intentions strengthen

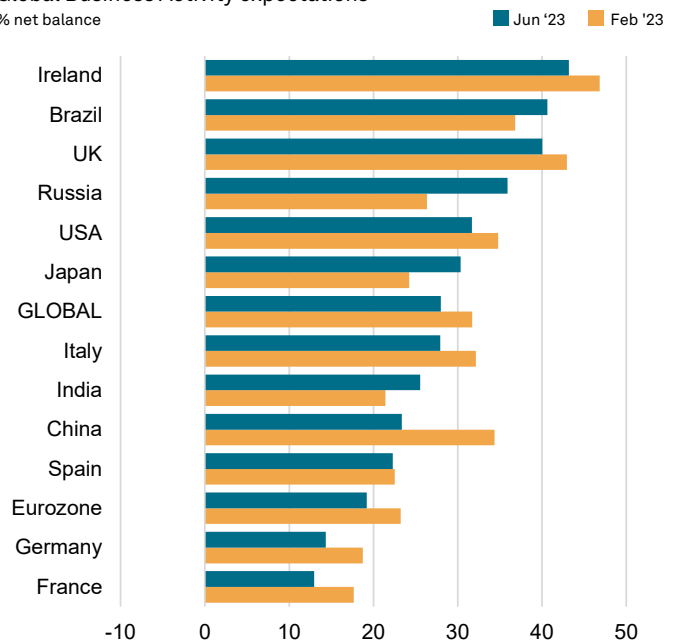
Hiring intentions strengthened in June, as more private sector businesses expected employment to rise over the next year. The level of confidence rose to a one-year high, as a net balance of +21% of firms planned to increase their staff numbers. Underlying data indicated that job creation will be broad-based across both manufacturing and service sectors, with the latest survey highlighting a notable improvement in hiring intentions among goods producers.

Capital spending over the next 12 months was projected to rise further in June. A net balance of +18% of firms foresee higher capital expenditure, the highest in the survey history, with optimism at a record high among manufacturers. Meanwhile, companies continued to express relatively subdued expectations around future R&D spending, with a net balance of just +5% of businesses forecasting higher expenditure in this area, unchanged from February.

Profitability forecast to improve

The net balance of Japanese private sector businesses expecting profits to increase over the coming year jumped from +6% in February to +18% in June, the joint-highest level on record. Confidence in Japan was also stronger than the global average (+14%). Both manufacturers and service providers expressed stronger optimism, with the level of positive sentiment in the latter improving to a joint-series record.

Global Business Activity expectations
% net balance



Source: S&P Global PMI.

Global Business Activity expectations
Change in % net balance, Jun '23 vs. Feb '23



Source: S&P Global PMI.

Full data available on request from 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*. 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.*

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