

News Release

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S&P Global Japan Business Outlook

Japanese firms remain optimistic despite sentiment softening

Key findings

Confidence lowest since mid-2020 but firms still relatively upbeat

Profits forecasts revised down amid ongoing inflationary pressures

Optimism around employment stable

Business confidence in Japan continued to soften at the start of 2023 but companies remained optimistic regarding the year-ahead outlook, according to the latest S&P Global Japan Business Outlook survey. Profits forecasts were the lowest since mid-2020 amid expectations of inflation remaining elevated, while predictions around employment and investment growth were stable.

The net balance of companies predicting a rise in business activity over the coming year was at +24% in February, down from +26% last October and continuing to trend lower from the joint-record high seen in June 2022. Japan was one of only three monitored countries to see sentiment soften from the previous survey and confidence was below the global average. That said, the net balance was still above its average going back to 2009, signalling a relatively positive outlook.

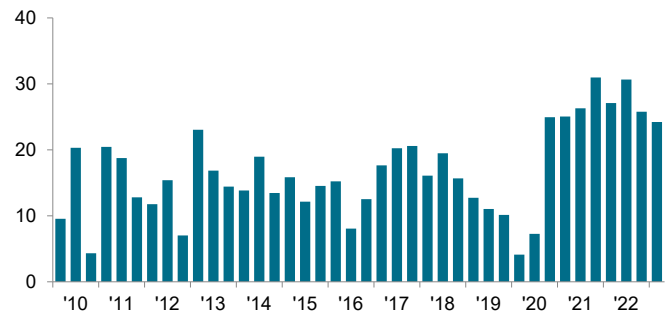
A recovery from the COVID-19 pandemic was one of the main opportunities listed by companies, with 2023 likely to see less disruption caused by the virus than in previous years and tourism boosted accordingly.

On the other hand, threats to the outlook included the ongoing war in Ukraine, concerns about the global economy and the potential for further issues with the supply of semiconductors.

There were differing trends in confidence between the two monitored sectors. Manufacturers were more confident than in February as the net balance improved to +28% from +24%. Service providers, therefore, were behind the overall reduction in confidence, seeing their net balance drop to +22% from +26%. Overall optimism was subsequently the lowest since the June

Japan Business Activity expectations

% net balance



Source: S&P Global.

Data were collected 10-23 February 2023.

Comment

Commenting on the Japan Business Outlook survey data, Andrew Harker, Economics Director at S&P Global Market Intelligence, said:

"While Japan was one of only three countries globally to see business sentiment wane in early-2023, it is important to note that companies were still optimistic that business activity will rise over the year ahead. The COVID-19 pandemic should certainly play a lesser role over the course of 2023, helping firms to plan their operations."

"Sustained strong inflationary pressures are now the main headwind to growth, having the potential to choke off any recovery in demand and limit profitability. Firms will be hoping to see cost pressures start to soften over the course of this year, although they are currently not optimistic that this will be the case."

"With confidence strengthening across much of the global economy and signs that the start of the year has been more positive than expected, we may see this translate into better prospects for Japanese firms too as 2023 progresses."

2020 survey period.

Inflation set to remain elevated

One of the factors behind the drop in overall confidence in February was the likelihood that inflationary pressures will remain elevated. Higher costs for energy and staff were often mentioned as a threat to the outlook. The net balance for non-staff costs ticked up to +31%, the second-highest on record, while at +49% the net balance for staff costs was the highest since the combined series began in 2019 and above the global average. Stronger staff cost pressures were predicted across both the manufacturing and service sectors.

In turn, companies are set to raise their own selling prices. Expectations around output price inflation were unchanged from the October outlook survey and only fractionally weaker than the series record posted in June last year.

Strong inflationary pressures are predicted to limit profitability in the private sector over the coming year. The profits net balance dropped for the second outlook survey running to just +6%, the lowest since mid-2020. Confidence in Japan was well below the global average (net balance: +16%). While profits sentiment was muted across both monitored sectors, manufacturing saw confidence grow since last October, with services driving the overall moderation in optimism.

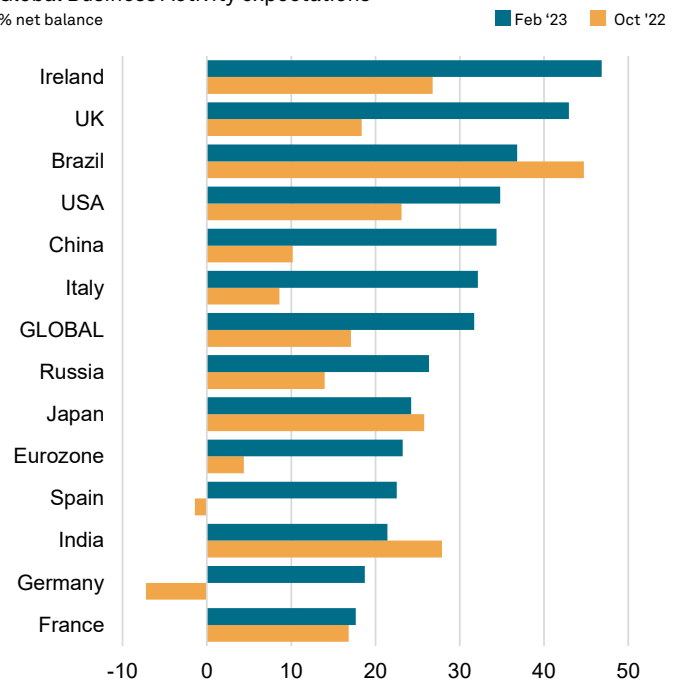
Employment and investment intentions stable

Companies in Japan continued to predict increases in employment, with sentiment unchanged from that seen last October (net balance: +19%). Optimism therefore remained among the highest on record and was above the global average. Service providers were more likely to forecast job creation than manufacturers. The continued optimism around future staffing levels was tempered by concerns around being able to hire new workers in sufficient numbers to support planned output growth.

Sentiment around investment was also stable in February. Capital expenditure (capex) is set to rise, with the net balance ticking up to +13%. Sentiment around capex was stronger in the manufacturing sector than in services.

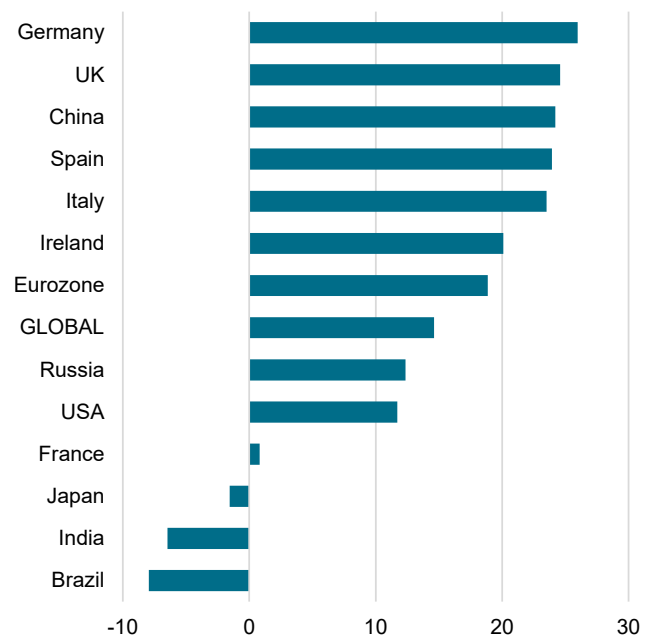
Manufacturers (+12%) were also more likely to predict an increase in R&D spending than service providers. In fact, at +1% the net balance for services was only just in positive territory. The combined net balance of +5% was broadly unchanged from last October and aligned with the series average.

Global Business Activity expectations
% net balance



Source: S&P Global.

Global Business Activity expectations
Change in % net balance, Feb '23 vs. Oct '22



Source: S&P Global.

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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