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IHS Markit Japan Business Outlook

Business confidence hits record high in June

Key findings:

- Output expectations improve to highest on record
- Confidence rises in both manufacturing and services
- Sustained optimism around future staff hiring and investment

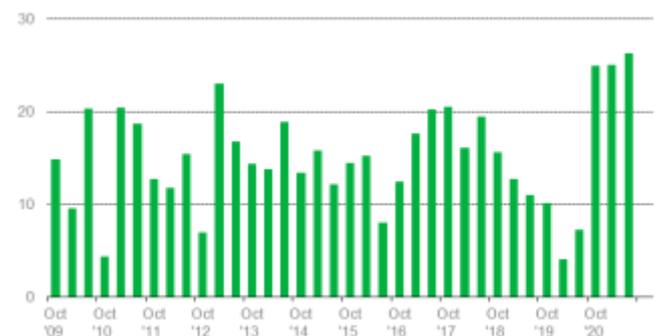
Data collected 11-25 June 2021

Japanese private sector firms were highly upbeat regarding the year ahead in June, according to the latest IHS Markit Business Outlook survey. Expectations regarding future activity reached a new series high, and was up significantly from that seen a year prior. Firms often hoped that a broad recovery from the COVID-19 pandemic would take place as the vaccination programme gathered momentum. This in turn would lift domestic and global demand further, while the Tokyo Olympic Games are also expected to provide a boost to the Japanese economy. That said, the slow pace of the vaccine rollout in comparison to other developed nations meant that the level of positive sentiment was considerably below the global average in June.

A net balance of +26% of Japanese firms expected business activity to increase over the next 12 months. This marked a slight improvement from +25% in February, and indicated the strongest degree of optimism in the 12-year history of the survey. Both goods producers and service providers recorded an improvement, as service providers registered the strongest level of positive sentiment since the survey began. Manufacturers also saw a slight uptick in confidence, with optimism around future output the highest since June 2017.

Despite the improved outlook, panellists highlighted the continuation of the pandemic as a major concern, with firms citing this as a key threat to future activity. At the

Japan business activity expectations



same time, businesses (particularly those in the manufacturing sector) were concerned that instability in raw material prices and ongoing supply chain disruption would dampen future activity. Other risks to the outlook included a slowdown in demand after the Olympics and the potential for increased US-China frictions.

Employment & Investment Plans

Hiring intentions strengthened slightly in June, as more private sector businesses expected employment to rise over the next year. The level of confidence was broadly in line with those recorded before the pandemic, as a net balance of +16% of firms expected to increase their staff numbers; the highest since October 2019. Manufacturers forecasted a stronger rate of job creation compared to service providers, with expectations reaching the highest since February 2018. That said, there were concerns around the long-running issue of an ageing population, and its impact on the Japanese labour market.

Capital spending over the next 12 months was projected to rise to the greatest extent in two years in June. A net balance of +13% of firms expected to increase their investment plans, with optimism at manufacturing firms far outweighing that at services companies.

Inflation Expectations

Inflationary pressures are set to build in Japan over the coming year. The net balance of firms anticipating higher staff costs increased from +23% in February to +28% in June, in line with forecasts of greater staff hiring. At the same time, the net balance of firms expecting non-staff costs to rise rose from +10% to +13% in June, as firms projected strong rises in raw material prices. As a result, expectations for output charges increased to a two-year high, as a net balance of +10% of businesses anticipated higher selling prices.

Corporate Earnings

The net balance of Japanese private sector businesses expecting profits to increase over the coming year was unchanged at +16% in June. Both service providers and manufacturers expressed optimism, however the level of positive sentiment at manufacturers dipped to a one-year low in the latest survey period amid concerns around higher input costs. Moreover, confidence regarding future earnings in Japan was weaker than the global average (+20%).

Comment:

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

“There have been significant developments both in Japan and globally since the previous outlook survey in February. Further waves of the COVID-19 pandemic continue to disrupt the Japanese economy, but the acceleration of the vaccination programme and the Olympics encouraged firms to signal a more positive outlook for future business activity. A net balance of +26% of firms foresaw an uplift in activity over the coming year - a series record.

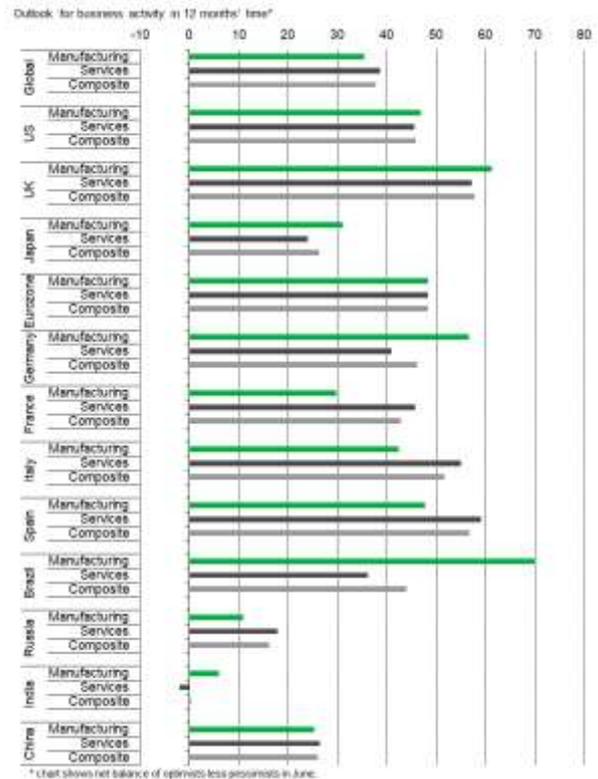
“Forecasts regarding capital expenditure and staff hiring improved to pre-pandemic levels. That said, the net balance of firms predicting a rise in profits was unchanged amid concerns about ongoing price pressures, notably for raw materials. Japan’s economy remains precariously placed, as policymakers battle to balance risks from further waves of the virus with a successful Olympics and economic recovery.”

-Ends-

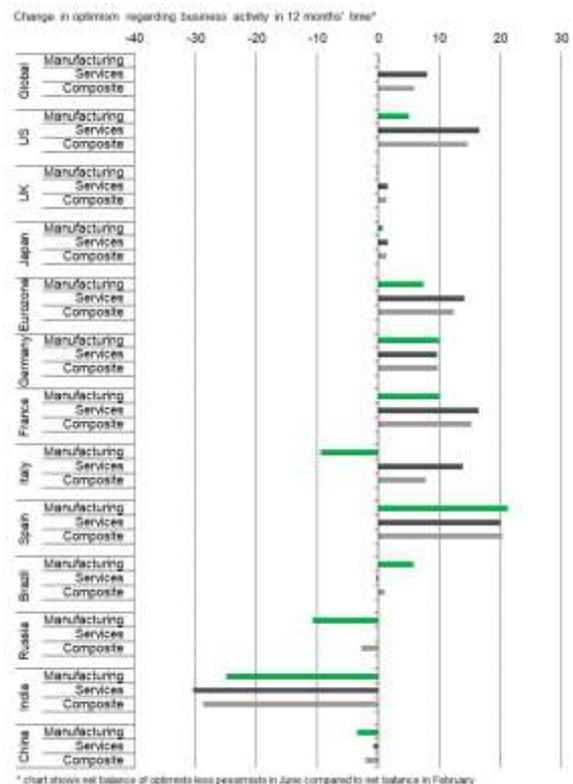
Full data available on request from:

economics@ihsmarkit.com

Business optimism in June



How business activity expectations have changed since February



For further information, please contact:**IHS Markit**

Usamah Bhatti, Economist
Telephone +44-1344-328-370
Email usamah.bhatti@ihsmarkit.com

Katherine Smith, Public Relations
Telephone +1-781-301-9311
Email Katherine.smith@ihsmarkit.com

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 June 10 and 29.

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 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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