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IHS Markit Japan Business Outlook

Business sentiment hits survey low in February

Key findings:

- Output expectations slump to their lowest on record
- Confidence drops across both manufacturing and services
- Capex intentions at weakest since October 2016

Data collected 12-25 February 2020

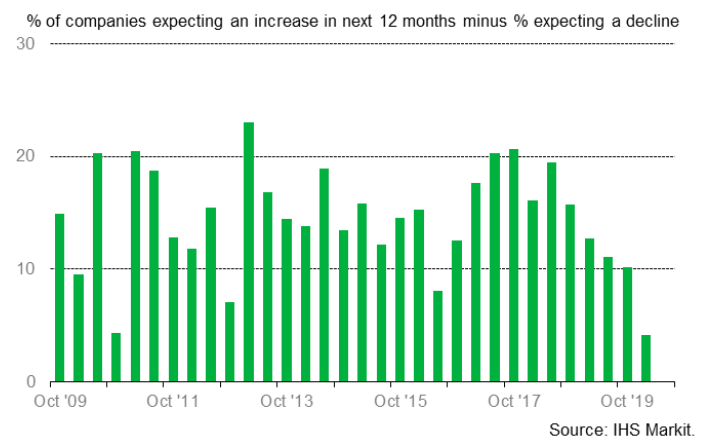
According to the latest IHS Markit Business Outlook survey, Japanese private sector output expectations eroded again in February, with optimism at its weakest since data collection began over ten years ago. Furthermore, the level of positive sentiment is below the global average, with China the only country to record a lower level of confidence by nation.

A net balance of +4% of firms forecast greater business activity over the next 12 months. This was a decline from last October (+10%), and the fifth survey period in a row in which confidence has softened. By sector, output expectations were trimmed by both manufacturers and service providers, although the former are the least optimistic of the two. Business sentiment in Japan is markedly lower compared to the global average (+18%), with China (+1%) the only country with weaker growth expectations.

According to panel members, business activity over the next 12 months is expected to suffer as a result of uncertainty over the severity and duration of the coronavirus disease 2019 (COVID-19) outbreak. Weaker demand from China and other key export markets in Asia, reduced tourism and further supply chain disruption, which would put upward pressure on costs are foreseen as risks to the outlook.

Firms mentioned other concerns such as shortages of staff, population decline, more trade conflict between the US and China, a downturn in the automobile sector

Japan business activity expectations



and lower demand after the Tokyo Olympic Games finish.

Employment & Investment Plans

Hiring intentions remain positive in February, with employment forecast to rise at a similar rate as expected last October. This came despite some firms expecting labour shortages to hinder jobs growth. Robust job creation plans are also seen at the sector level, with both manufacturers and service providers expecting to recruit extra staff over the next 12 months. Plans to hire young and highly skilled workers underpinned workforce expansion initiatives in some cases.

Capital spending is also projected to rise over the next year, although to a lesser extent than foreseen in October. Overall, investment plans are at their weakest for just over three years as a less upbeat outlook towards capex among manufacturers outweighed a slight pickup in investment plans at service providers. A net balance of +10% of firms anticipate higher capex, compared to +11% last October.

Inflation Expectations

Inflationary pressures are set to build in Japan over the coming 12 months. Businesses expect input costs to increase as higher raw material and fuel prices push operating expenses higher. That said, non-staff costs are set to rise at the slowest rate since October 2016 amid forecasts of sluggish demand and protracted economic weakness. Meanwhile, a net balance of +28% of firms foresee labour costs rising as wages are bid up in an effort to recruit suitably-skilled workers, although staff cost inflation expectations weakened in comparison to last October.

As a consequence of lower cost inflation forecasts, output charges are projected to rise only marginally over the next 12 months, with the net balance of firms anticipating higher selling charges (+4%) at its lowest for over three years.

Corporate Earnings

Profitability forecasts dipped back into negative territory during February, reversing the renewed pickup seen last October. Negative corporate earnings expectations reflect weaker sentiment across the manufacturing sector, as service providers predict marginal profits growth over the next 12 months.

Comment:

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

“A further erosion of business confidence was seen across the Japanese private sector in February, the fifth successive survey in which optimism has dwindled. Given the strong contraction in GDP seen at the end of 2019, and the notable rise in economic risks such as protracted global economic disruption from the COVID-19 outbreak, there is much to be concerned about for Japanese firms.

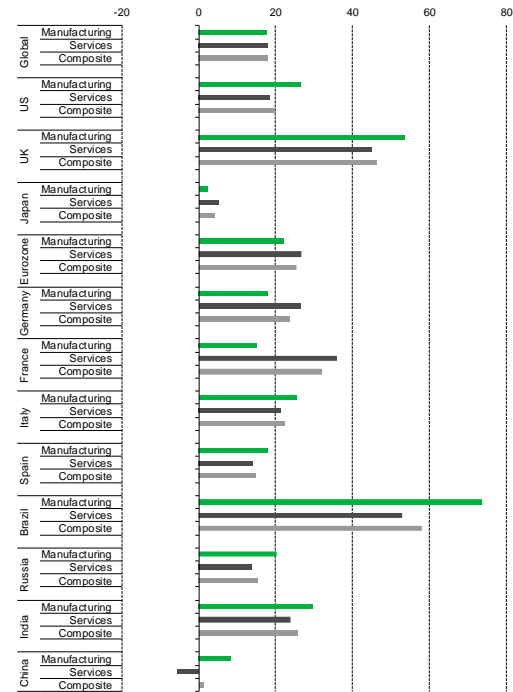
“Lower export demand from China, supply chain disruptions and reduced tourism pose near-term threats which could continue for some time. However, more serious structural issues such as Japan’s ageing population and a shrinking labour force combine with the COVID-19 shock to stack the odds heavily against Japan’s economy in 2020.”

-Ends-

Full data available on request from economics@ihsmarkit.com

Business optimism in February

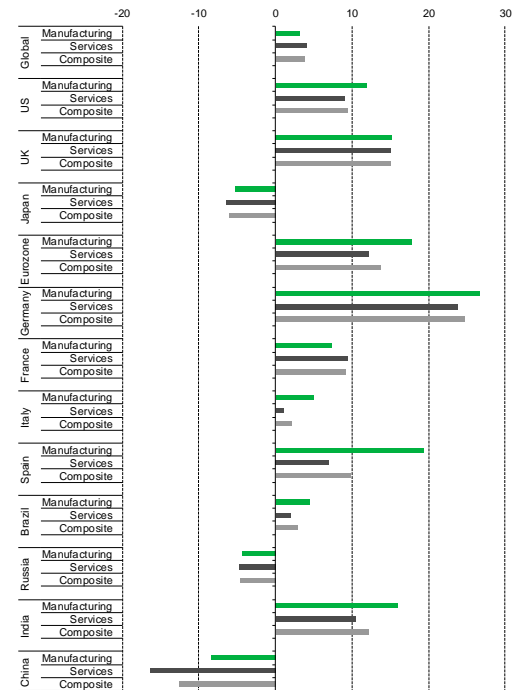
Outlook for business activity in 12 months' time*



* chart shows net balance of optimists less pessimists in February.

How business activity expectations have changed since October

Change in optimism regarding business activity in 12 months' time*



* chart shows net balance of optimists less pessimists in February compared to net balance in October.

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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 February 12 and 27.

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 7,000 firms.

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