

**EMBARGOED UNTIL: 00:01 (UTC) March 15<sup>th</sup> 2021**

# IHS Markit Japan Business Outlook

## Business sentiment remains elevated in February

### Key findings:

- Output expectations remain at record high
- Hiring intentions strongest for a year
- Robust optimism surrounding future capex and profits

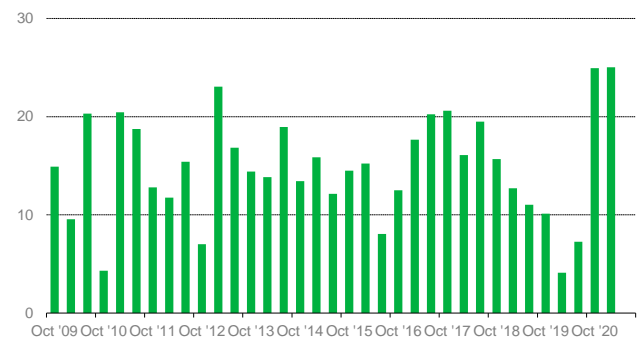
Data collected 11-23 February 2021

Japanese private sector business expectations remained at a record high in February, according to the latest IHS Markit Business Outlook survey. Positive sentiment regarding future activity was unchanged from October 2020, and significantly stronger than a year earlier as firms cited hopes that the rollout of coronavirus disease 2019 (COVID-19) vaccinations would bring about an end to the pandemic. In turn, this would trigger a broad-based recovery in domestic and global demand, whilst allowing the rescheduled Tokyo Olympic Games to take place and further boost the Japanese economy. However, the level of positive sentiment in Japan was below the global average, and the second-lowest recorded of all monitored economies, with only Russia recording a weaker outlook.

A net balance of +25% of Japanese firms expected business activity to increase over the next 12 months. This was unchanged from October 2020, and indicated that the level of sentiment remained at the highest seen in the survey's history. Manufacturers indicated a further uptick in optimism, with sentiment around future output the highest since October 2017. At the same time, expectations at Japanese service providers were unchanged from last October's record high.

Although business expectations were strong overall, a number of respondents were concerned that a continuation of the COVID-19 pandemic and potential for further waves as a result of vaccine resistant variants were a key threat to future activity. Panellists also cited

### Japan business activity expectations



Source: IHS Markit.

the cancellation of the Olympics, surging raw material prices and lower domestic and external demand as further risks to the outlook.

### Employment & Investment Plans

Hiring intentions improved again in February, as Japanese private sector businesses expected employment to rise more strongly over the next 12 months. At +15%, the net balance of firms anticipating greater staff numbers was also broadly in line with levels recorded prior to the pandemic. Manufacturers projected a stronger rate of job creation, with the respective net balance rising 11 points on the previous survey period in October to reach the highest level for two years (+19%). Hiring intentions at service providers also improved, albeit only slightly (net balance of +13%, up from +12%).

Capital expenditure over the coming year was also expected to rise. A net balance of +12% of firms expected a pickup in investment plans compared with +11% in October. While optimism at manufacturing companies gathered momentum, expectations softened in the service sector.

### Inflation Expectations

Inflationary pressures are set to build more quickly in Japan over the coming year. The net balance of

businesses that expected greater wage costs rose to a one-year high of +23% in February. That said, expectations around non-staff cost inflation were unchanged in February (net balance of +10%). Firms often commented that rising raw material prices were expected to be a key driver of cost inflation, particularly for manufactured goods. Overall, expectations for output charges picked up slightly in February, but remained relatively subdued. A net balance of +4% of businesses anticipated higher selling prices – the lowest of all regions monitored by the survey.

## Corporate Earnings

Japanese private sector firms projected an increase in profits over the next 12 months. Optimism remained strong overall, despite slipping from October's record, with a net balance of +16% of firms expecting higher profitability. Optimism in the manufacturing sector hit a fresh series high (+23%), while services firms saw sentiment soften since October (from +16% to +13%).

### Comment:

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

*“The Japanese private sector was broadly resilient in the wake of the ongoing disruption caused by the COVID-19 pandemic at the start of 2021. A reduction in cases and vaccine rollouts in domestic and international markets meant the outlook for future business activity remained strong in February. A net balance of +25% of firms anticipated a rise in activity over the coming year, equalling the series record seen in October.”*

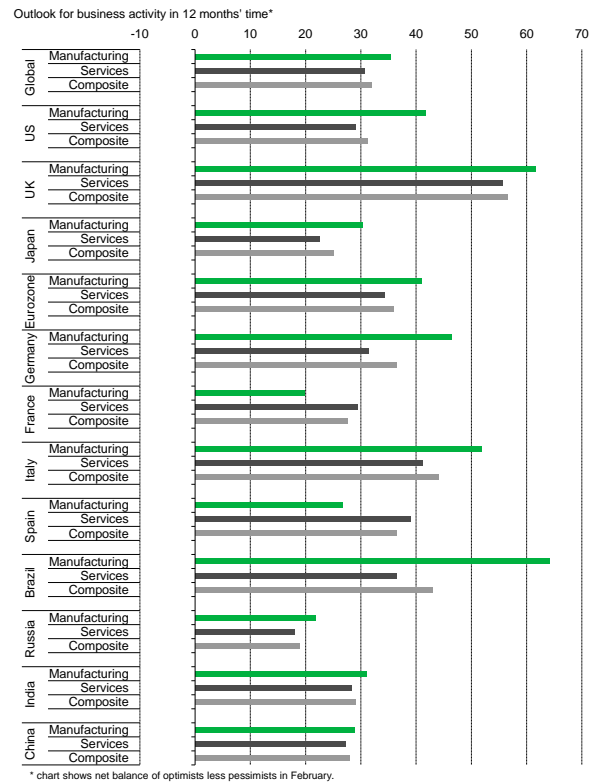
*“Forecasts also improved around hiring and capital expenditure, where confidence returned to pre-pandemic levels. While firms highlighted that rising raw material and staff costs would create inflationary pressures, businesses, especially in the manufacturing sector, recorded strong levels of optimism regarding profitability. There does remain some uncertainty clouding the outlook for Japan, as hopes are underpinned by the commencement of the rescheduled Olympic Games alongside a broad recovery in demand following pandemic disruption.”*

**-Ends-**

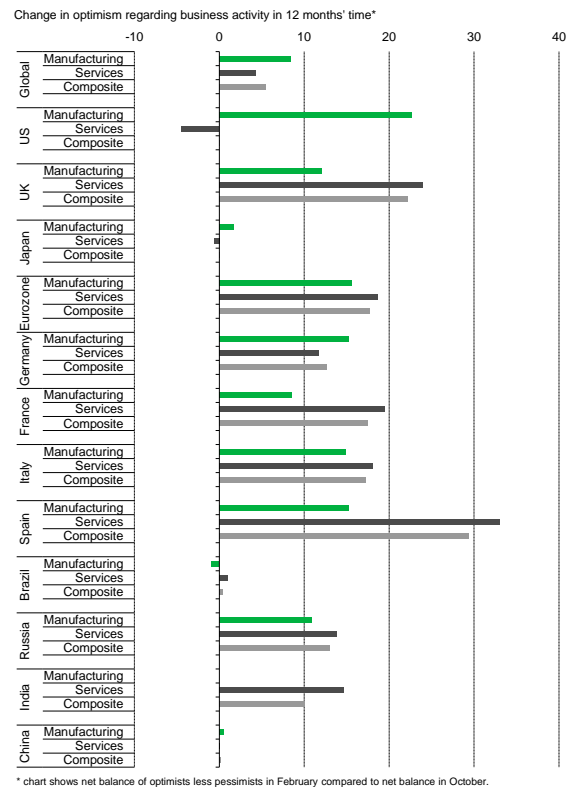
Full data available on request from:

[economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

## Business optimism in February



## How business activity expectations have changed since October



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

Usamah Bhatti, Economist  
Telephone +44-1344-328-370  
Email [usamah.bhatti@ihsmarkit.com](mailto:usamah.bhatti@ihsmarkit.com)

Katherine Smith, Public Relations  
Telephone +1-781-301-9311  
Email [Katherine.smith@ihsmarkit.com](mailto: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 February 2 and 25.

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.

**About IHS Markit ([www.ihsmarkit.com](http://www.ihsmarkit.com))**

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

*IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2021 IHS Markit Ltd. All rights reserved.*

**The intellectual property rights to the Business Outlook survey provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index™ and PMI® are either registered trademarks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trade mark of IHS Markit Ltd. and/or its affiliates.**

*If you prefer not to receive news releases from IHS Markit, please email [pollyanna.delima@ihsmarkit.com](mailto:pollyanna.delima@ihsmarkit.com). To read our privacy policy, [click here](#).*