

**EMBARGOED UNTIL: 00:01 (UTC) November 19<sup>th</sup> 2018**

# IHS Markit Japan Business Outlook

## Business sentiment dips amid weaker demand forecasts

### Key findings:

- Manufacturing sector drags confidence lower amid global trade fears
- Profitability outlook subdued as input cost inflation expectations at record high
- Employment set to increase at weakest pace for over two years

Data collected 12-26 October 2018

According to the latest IHS Markit Business Outlook survey, private sector businesses in Japan cast a less optimistic view towards future business activity amid forecasts of strong input cost inflation and weaker demand conditions.

At +16% in October, the net balance of companies anticipating higher business activity levels is down from +19% June, indicating the joint-weakest degree of confidence for two years (on a par with February). Relative to other developed markets, optimism in Japan is notably weaker, while on a global scale, only China is signalling softer sentiment.

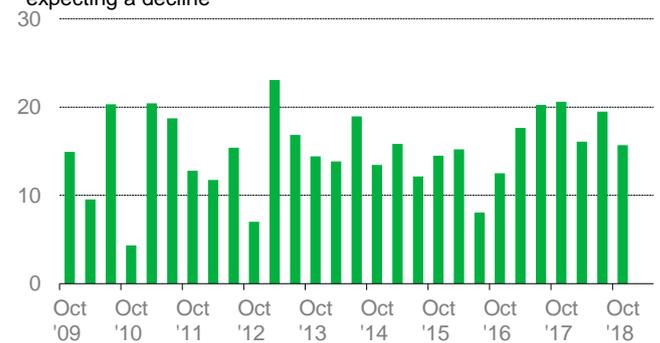
Data split by sector reveals that manufacturers are less bullish on output prospects than services firms for the first time in six years amid ongoing global trade tensions. Reduced optimism was nonetheless broad-based across both goods producers and service providers.

Positive sentiments towards the outlook is supported by expectations of new business wins, opportunities from the upcoming Tokyo Olympic Games, government policy and an anticipated surge in sales ahead of the consumption tax hike.

Overall, survey data points to positive forecasts regarding demand over the coming year. Reflecting the trend in business activity however, projections for sales

### Japan business activity expectations

% of companies expecting an increase in next 12 months minus % expecting a decline



Source: IHS Markit.

changes are anticipated to weigh on demand prospects.

### Employment & Investment Plans

Weaker output and sales predictions dampened hiring intentions. Japanese private sector companies are expecting to raise employment to the weakest extent since June 2016. Softer recruitment plans are led by service providers, while forecasts of manufacturing jobs growth are unchanged since the previous survey period.

On the other hand, capex plans remain resilient, broadly stable when compared to June and in line with the global average. Increased automation and investment into new infrastructure were mentioned by some panellists.

### Inflation Expectations

Pressures on margins in Japan's private sector are predicted to persist, with input cost inflation expectations unchanged from June's survey peak. Unfavourable exchange rate variation and higher costs for raw materials, transportation and labour are foreseen by survey respondents. Sector data indicates that goods producers anticipate a sharper rise in operating expenses than their service providing counterparts.

As a result, businesses are planning to share part of the rise in cost burdens with clients. The net balance of companies intending to raise output prices is at its joint-highest in the survey's history.

### Corporate Earnings

Amid reports of strong competition, survey data points to a downgrading of business revenue expectations in Japan. The combination of softer revenues and strong input cost expectations coincided with the most subdued profit forecasts for two years in the latest survey period. Moreover, the outlook for corporate earnings in Japan was among the weakest globally and notably softer than those for developed markets as a whole.

### Comment:

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

*“Businesses in Japan upheld their positive outlook during October. However, compared to other monitored counties, only China revealed weaker sentiment. There was a notable moderation in confidence among Japanese manufacturers, with rising global trade tensions being cited as a risk to the outlook.”*

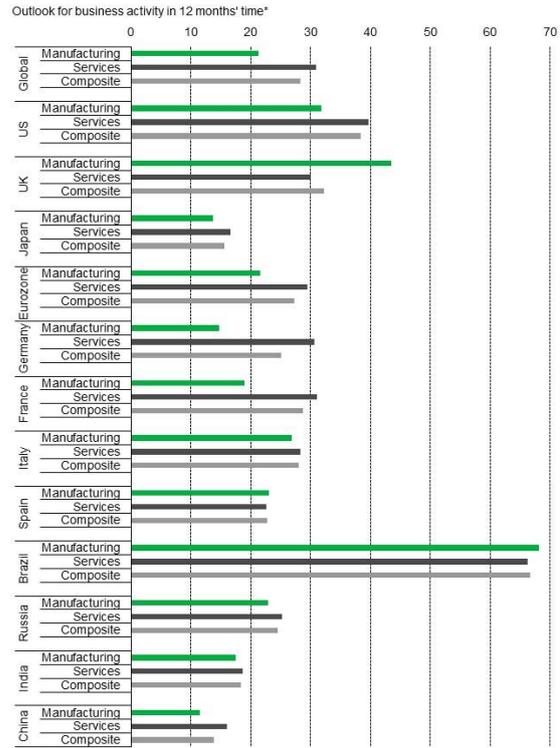
*“Weaker forecasts towards demand and recruitment both weighed on business activity expectations. Hiring intentions were at their softest since June 2016, while competitive pressures are predicted to hamper sales performances.”*

*“Elsewhere, inflationary expectations on the cost-push side remain stubbornly elevated at record levels, arising from yen weakness, higher raw material prices and wage pressures. Consequently, profitability is projected to improve only slightly, with corporate earnings forecasts dipping to a two-year low.”*

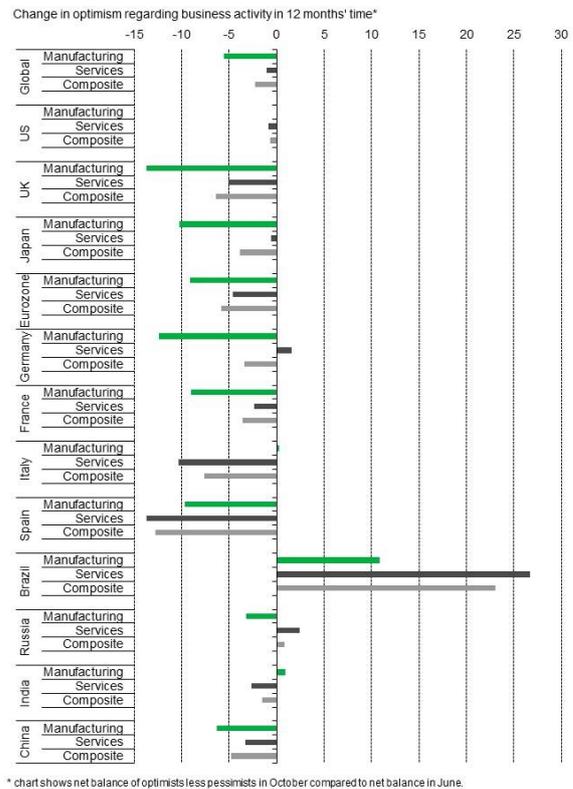
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Full data available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

### Business optimism in October



### How business activity expectations have changed since June



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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 October 12 and 26.

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 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months while values below 0.0 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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