

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

# IHS Markit Japan Business Outlook

## Business sentiment improves sharply in October

### Key findings:

- Business optimism in Japan hits fresh survey record
- Both services and manufacturing report stronger output forecasts
- Sustained optimism around future staff hiring, but inflationary pressures expected to strengthen

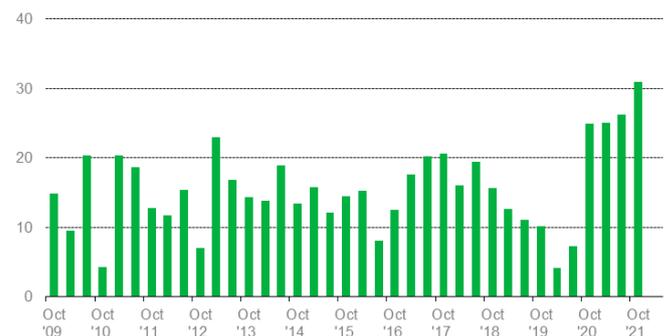
Data collected 12-26 October 2021

Japanese private sector businesses signalled a strong improvement in overall sentiment in October, according to the latest IHS Markit Business Outlook survey. Expectations regarding future activity reached a fresh series high for the fourth consecutive period, and signalled a considerable upturn in optimism despite the disruption caused by the COVID-19 pandemic during the majority of the summer and autumn months. Firms commonly cited hopes that the accelerated vaccination programme would bring an end to the pandemic and international restrictions, providing a further boost to the Japanese economy. The level of positive sentiment was also in line with the global average in October.

A net balance of +31% of Japanese firms expected business activity to increase over the next 12 months. This was an improvement from the previous record of +26% in June and was the strongest level of sentiment recorded in the 12-year history of the survey. Both monitored sectors recorded higher confidence, with service providers registering the strongest level of optimism since the survey began. Manufacturers also reported a strong improvement, with sentiment around future output the joint-highest in survey history.

Despite the much improved outlook, panellists highlighted rising prices and shortages of raw materials as a major concern, with firms citing this as a key threat to future business activity. Other risks to the outlook included a resurgence of the pandemic, lower external

### Japan business activity expectations



demand (particularly in China), and structural labour market issues surrounding the aging and declining population.

### Employment & Investment Plans

Hiring intentions remained upbeat in October, as private sector businesses in Japan expect employment levels to rise over the next year. Optimism recovered to exceed levels seen prior to the pandemic, with firms signalling the strongest hiring intentions since February 2019's series record. Manufacturers projected a stronger rate of job creation than service providers, with confidence the second-highest on record. That said, the improvement at service providers pushed expectations to the highest seen for two years.

Capital spending over the coming 12 months is also projected to rise. A net balance of +14% of firms expected capex to increase, compared to +13% in June, with optimism at manufacturing companies reaching the highest since February 2011 and outweighing that at services firms, which saw sentiment soften fractionally in the latest survey period.

### Inflation Expectations

Inflationary pressures are set to build in Japan over the coming 12 months. A net balance of +34% of companies projected greater staff costs, in line with improved hiring

intentions among Japanese firms. Concurrently, the net balance of firms expecting non-staff costs to rise jumped from +13% in June to +19%, as firms commented on rising prices of raw materials amid widespread shortages. As a result, expectations regarding output charges rose to the highest for three years in October, as a net balance of +13% of businesses anticipated higher selling prices.

## Corporate Earnings

A record high net balance of Japanese private sector businesses expected profits to increase over the coming year. On balance, +18% of firms expected an increase in profitability, setting a new record for the second time since the onset of the pandemic and subsequent recovery. Service providers registered the strongest optimism for an increase in profits since the survey began, while manufacturers also noted an improvement in expectations. Optimism at Japanese firms was also well above the global average (+12%).

### Comment:

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

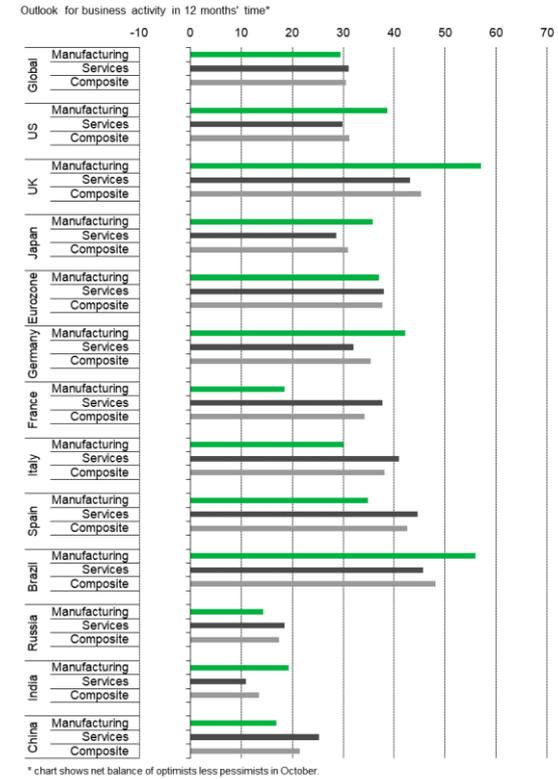
*“There has been significant change both within Japan and globally since the previous outlook in June. Despite a summer spike in COVID-19 cases and a significantly scaled back Olympic Games in Tokyo, an accelerated vaccine rollout and suppression of caseloads meant the outlook for future business activity in the world’s third largest economy improved sharply in October, with a net balance of +31% of firms foreseeing an uplift in activity over the coming year, a series record.*

*“Forecasts for capital expenditure and staff hiring improved to the highest since February 2019, while a record net balance of firms predicted profits would increase in the year ahead. That said, firms highlighted that inflationary pressures would rise steeply amid ongoing material and labour shortages. Japan now faces life under a third Prime Minister in a year as Fumio Kishida took charge following the October election, while pinning hopes on a boost to demand as international restrictions are lifted as part of a wider recovery from the pandemic.”*

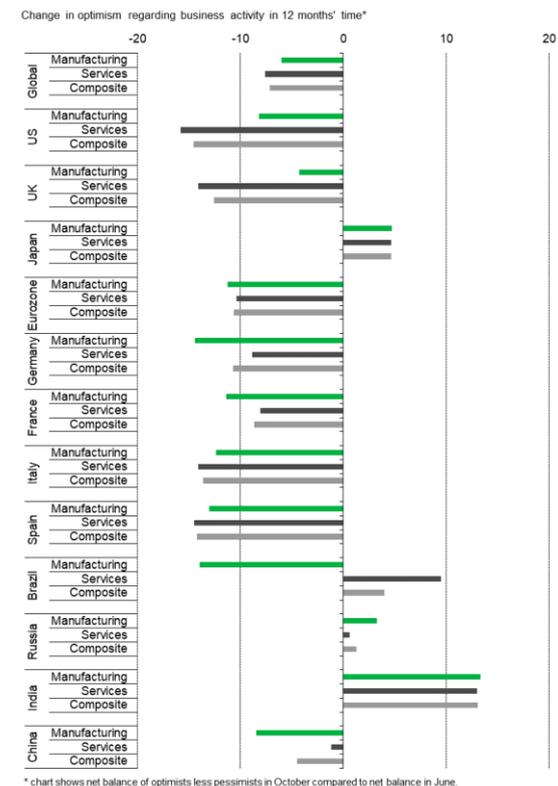
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Full data available on request from: [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

## Business optimism in October



## How business activity expectations have changed since June



**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 October 11 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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