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IHS Markit Japan Business Outlook

Japanese business confidence ranks weakest globally

Key findings:

- Optimism in manufacturing sector at lowest since October 2012...
- ...but service providers' expectations remain resilient
- Hiring and capex intentions improve despite profitability outlook diminishing

Data collected 12-25 February 2019

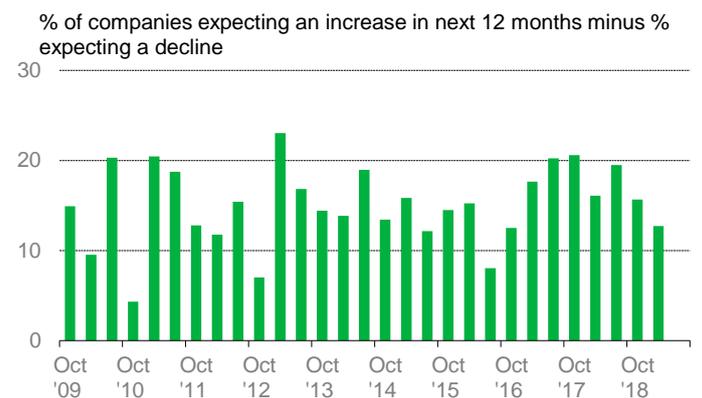
According to the latest IHS Markit Business Outlook survey, private sector business activity expectations in Japan deteriorated in February and rank as the weakest globally. Although firms retain an optimistic outlook, a marked easing of confidence in the manufacturing sector drove overall private sector sentiment to its weakest since 2016.

A net balance of +13% of companies predict higher business activity over the next 12 months, down to from +16% in October. While service sector optimism remains broadly unchanged and holds close to last June's multi-year high, manufacturers are the least upbeat in over six years amid mounting concern towards global trade frictions and weaker growth across key export markets.

Softer expectations towards business activity weighed on the profitability outlook lower. Nevertheless, employment and capital spending intentions strengthen across both manufacturing and service sectors.

Some firms anticipate business opportunities to arise from last-minute orders ahead of the consumption tax hike later this year. Furthermore, the Olympic Games in 2020 are forecast to support growth in the near-term. At the same time, other companies expect the domestic economy to improve, helping generate new business.

Japan business activity expectations



Source: IHS Markit.

Employment & Investment Plans

Japanese private sector firms are set to boost their staff numbers over the coming year. Employment expectations are the strongest seen since data collection began almost ten years ago (net balance of +21%), improving at both manufacturers and service providers. Moreover, recruitment plans in Japan are notably stronger than the global (+15%) and developed market (+18%) averages.

Similarly, latest data show a broad-based improvement of capital expenditure forecasts. Furthermore, capex plans are broadly in line with those seen globally. Efficiency measures and investment into AI technology were mentioned by some panellists.

Inflation Expectations

Amid expectations of yen depreciation and raw material price increases, non-staff costs are projected to rise over the coming 12 months, albeit to a weaker extent than in foreseen in October. Projections of stable oil prices helped to soften manufacturing inflation expectations to their lowest for a year. Service providers also anticipate non-staff expenses to pick up at a slower

pace. Nonetheless, both sectors foresee steep increases in staffing costs over the next year.

To combat pressures on profit margins, firms are set to lift output charges over the forthcoming year. The expected rate of selling price inflation remains close to October's record high.

Corporate Earnings

In line with weaker business activity projections, the profitability outlook deteriorated to its weakest since mid-2016 in February. By sector, manufacturers anticipate lower profits for the first time since October 2012, while expectations in the service sector weakened for a third straight survey period.

Comment:

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

“Business activity expectations in Japan reached the lowest since 2016 in February, according to latest data. Beneath the surface however, much of the drag on sentiment is coming from the manufacturing sector, where optimism dropped to its weakest in over six years. Further escalations of global trade frictions and weaker growth in key export markets, particularly China, have raised concern within this segment of the economy.

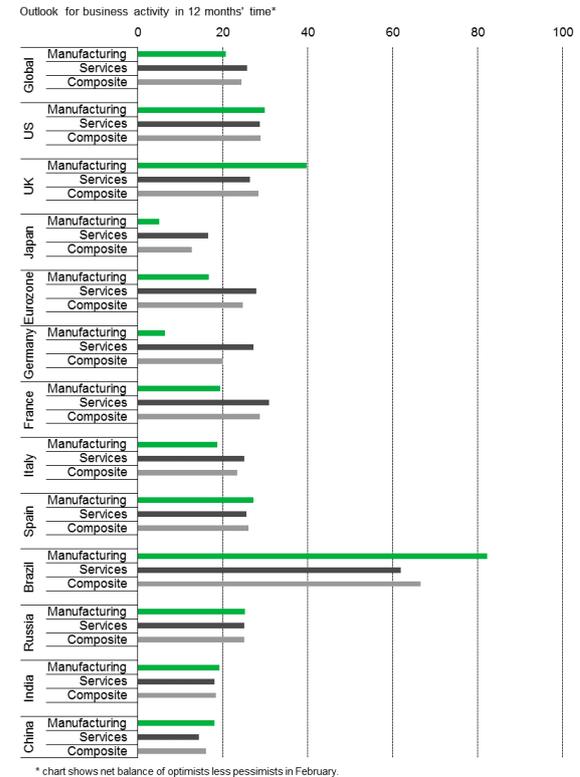
“Nonetheless, service sector confidence remains well anchored around the level seen last June, which was the strongest in over five years. Panellists expect the domestic economy to be accommodative of growth in the coming year, particularly with the Olympic Games just around the corner. While the rush of orders prior to the consumption tax hike later this year will provide some short-term gain. However, given the adverse effects the sales tax rise had in 2014, others are more pessimistic.

“Indeed, the overall profitability outlook, which fell to its weakest in almost three years, suggests the underlying message from the latest Business Outlook survey is skewed to the downside.”

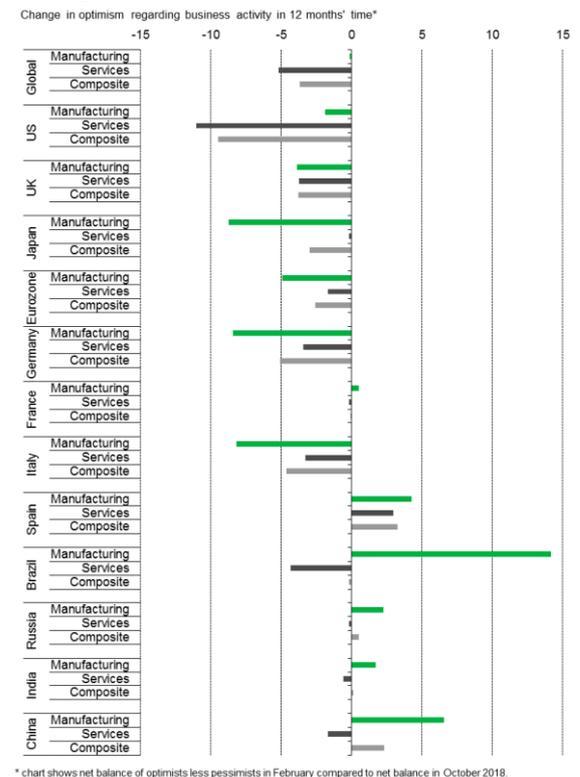
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Full data available on request from economics@ihsmarkit.com

Business optimism in February



How business activity expectations have changed since 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 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 0.0 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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