

**EMBARGOED UNTIL: 00:01 (UTC) November 10<sup>th</sup> 2020**

# IHS Markit Japan Business Outlook

## Business confidence improves sharply in October

### Key findings:

- Business optimism in Japan reaches survey record
- Both services and manufacturing report stronger output forecasts
- Record high optimism around profits

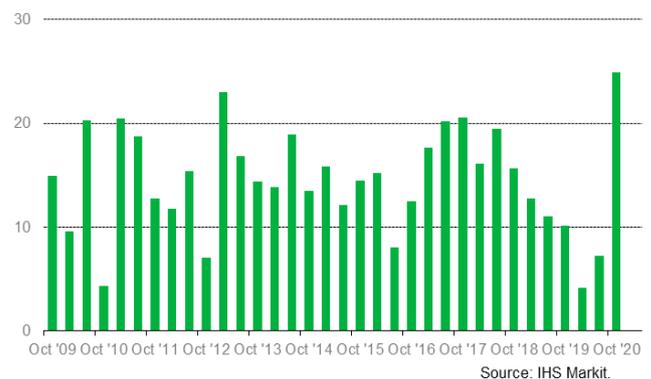
Data collected 12-27 October 2020

Japanese private sector businesses signalled a strong improvement in sentiment in October, according to the latest IHS Markit Business Outlook survey. Expectations regarding future activity reached a series high, strengthening from the nadir earlier in the year when the country and global economy was in the midst of the downturn caused by the coronavirus disease 2019 (COVID-19) pandemic. Firms commonly cited hopes of a recovery from the COVID-19 pandemic through a vaccine and better treatments. In turn, this would lift domestic and global demand, while the rescheduled Tokyo Olympic Games would also provide a welcome boost to the Japanese economy. The level of positive sentiment was also broadly in line with the global average in October.

A net balance of +25% of Japanese firms expected business activity to increase over the next 12 months. This was an improvement from just +7% in June, and was the strongest level of sentiment in the 11-year history of the survey. Both sectors recorded a sharp improvement, as service providers registered the strongest level of optimism since the survey began. Manufacturers also recorded a strong increase, with sentiment around future output the highest since October 2017.

Despite the much improved outlook, panellists highlighted the continuation of the COVID-19 pandemic and potential for further waves of cases as a major

### Japan business activity expectations



concern, with firms citing this as a key threat to future business activity. Other risks to the outlook included lower domestic and external demand, a delay to or cancellation of the Olympics, falling capital expenditure and the potential of increased US-China frictions.

### Employment & Investment Plans

Hiring intentions strengthened in October, as private sector businesses in Japan expect employment to rise over the next year. Yet intentions remained considerably below levels seen prior to the pandemic. Service providers forecasted a stronger rate of job creation compared to manufacturers, although both sectors still remained below pre-pandemic levels. Firms continued to report concerns about long-term fragilities in the labour market due to the ageing population.

Capital spending over the coming 12 months is projected to rise to a greater extent than in June. A net balance of +11% of firms expected a pickup in investment plans compared with just +3% in June, with optimism at services companies slightly outweighing that at manufacturing firms.

### Inflation Expectations

Inflationary pressures are set to build in Japan over the coming 12 months. Forecasts for rising wages saw an

11-point increase to +19%, in line with higher intentions for hiring among Japanese firms. At the same time, the net balance of firms expecting non-staff costs to rise rose to +9% from +2% in June, as firms expect demand for raw materials to return in line with activity. As a result, expectations for output charges returned to positive territory in October, as a net balance of just +2% 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, +17% of firms expected an increase in profitability in October, reversing the net expectation of a decline seen in June. Both services and manufacturing sectors registered unsurpassed expectations for an increase in profits since the survey began. Japanese firms were among the most optimistic compared to other monitored countries, with only Brazil and the US (both at +23%) recording higher confidence.

## 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. The disruption caused by the COVID-19 pandemic eased both domestically and overseas, with the outlook for future business activity improving sharply in October. A net balance of +25% of firms, a series record, foresaw an uplift in activity over the coming year.*

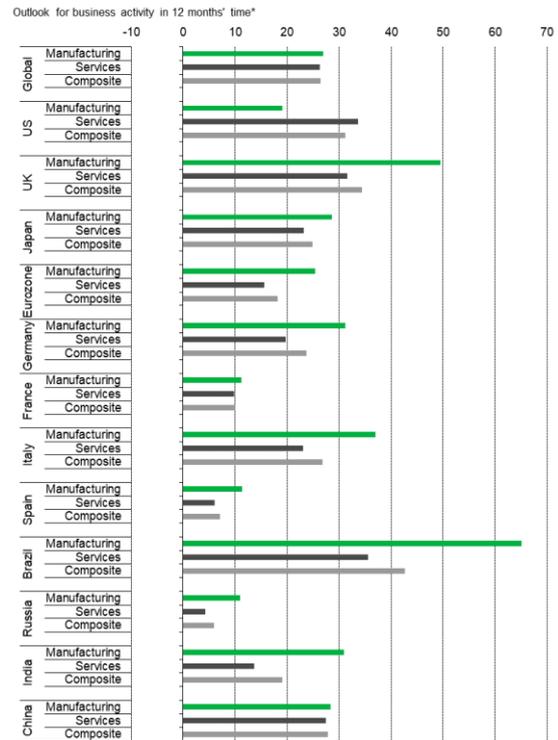
*“Forecasts for higher capital expenditure and hiring intentions improved, yet remained below pre-pandemic levels. Nonetheless, a record net balance of firms predict profits will increase in the year ahead. Moreover, Japan now faces life outside the rule of Shinzo Abe, who stepped down as Prime Minister at the end of August, while pinning hopes on a significant boost to demand from the rescheduled Tokyo Olympics alongside a wider recovery from the pandemic.”*

**-Ends-**

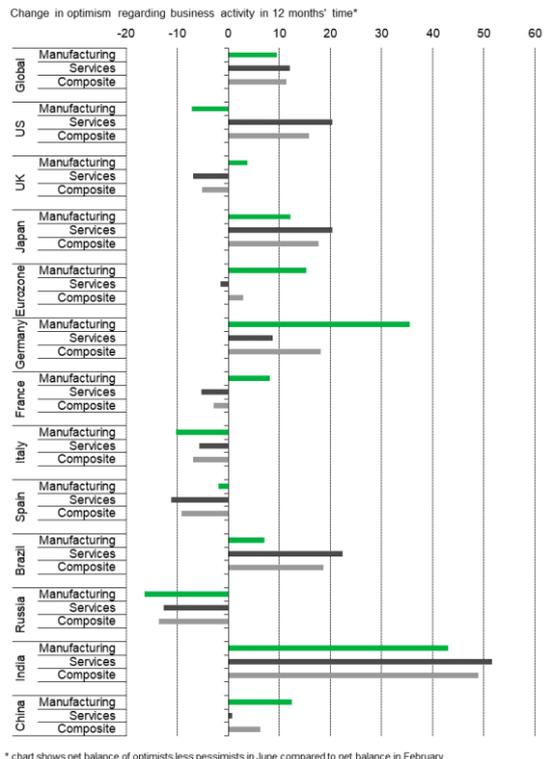
Full data available on request from:

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## 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 9 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 7,000 firms.

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