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IHS Markit Japan Business Outlook

Business confidence in Japan weakens to three-year low

Key findings:

- Softer optimism at service providers drags overall business confidence down to three-year low
- Manufacturing sector outlook among weakest seen in survey's near ten-year history
- Profitability forecast turns negative for first time since late 2010

Data collected 12-25 June 2019

According to the latest IHS Markit Business Outlook survey, expectations towards private sector business activity in Japan deteriorated to a three-year low in June. Optimism has now declined in each of the past three survey periods and only China ranks lower globally.

A net balance of +11% of companies forecast business activity growth over the next 12 months, down from +13% in February, signalling softer optimism in Japan's private sector. Pulling confidence lower was a softer outlook at service providers, while sentiment in the manufacturing sector held close to February's near six-and-a-half year low.

Suppressing business output expectations are concerns towards the upcoming consumption tax hike planned for later this year and uncertainty caused by global trade frictions.

Subdued business activity forecasts pulled the profitability outlook into negative territory for the first time since October 2010. Capex and hiring intentions also moderated since February but remain stronger than their respective historical averages.

Some companies foresee growth opportunities arising from the 2020 Tokyo Olympic Games, while others anticipate that the launch of new products and investment into machinery will help drive growth.

Japan business activity expectations



Source: IHS Markit.

Employment & Investment Plans

Private sector firms in Japan expect employment levels to rise over the coming year (net balance of +15%). Although hiring intentions are softer than February's record high (+21%), they remain stronger than seen on average at both the global (+10%) and developed market (+11%) level. Furthermore, plans to expand recruitment are broad-based across both manufacturing and services.

Meanwhile, expansion plans supported positive forecasts for capex in June, as a net balance of +13% of firms expect greater investment at their businesses over the next year.

Inflation Expectations

Cost pressures are set to build over the coming 12 months as firms predict expenses relating to labour and other non-staff related inputs will increase. The rise in the sales tax, as well as forecasts of greater fuel and shipping costs are mentioned by panellists as factors underpinning non-staff cost inflation forecasts. Furthermore, wage pressures are expected to rise as an aging population restricts labour supply. Businesses also foresee strong growth in staff costs over the coming

year. However, both manufacturers and service providers expect inflation to be softer than predicted in February.

Firms are expecting to pass through greater cost burdens to clients in the form of higher prices charged. That said, the rate of selling price inflation is set to be the softest since October 2017.

Corporate Earnings

For the first time since data collection started nearly ten years ago, both manufacturers and service providers anticipate reduced profitability. This is the first time that overall corporate earning expectations have dipped into negative territory since October 2010, although the latest net balance was the lowest seen on record.

Comment:

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

“A third successive slip in business activity expectations was recorded by the June IHS Markit Japan Business Outlook survey. Confidence at private sector companies in Japan now stands at its lowest in three years, as the ongoing global trade frictions and slowing growth across the world economy were compounded by fears that the domestic economy will deteriorate.

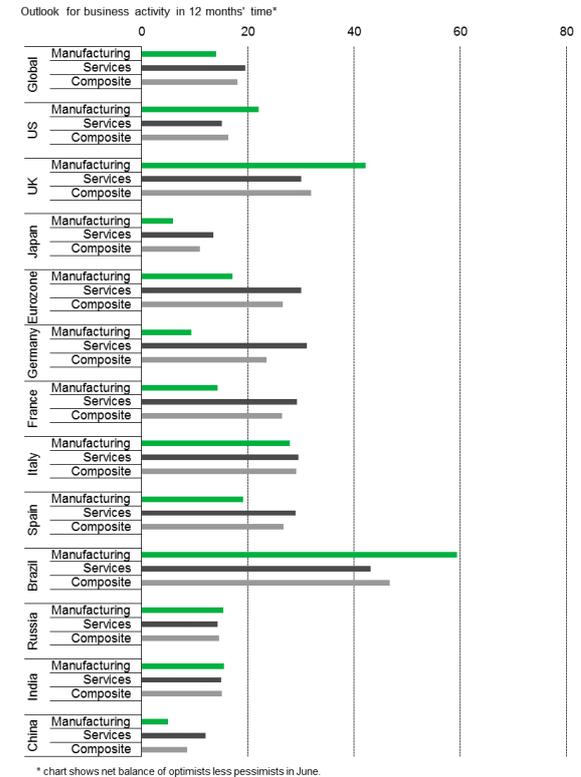
“Sentiment within the manufacturing sector remains fragile, but there are signs this malaise has spread to services, where business activity expectations slid in June. Given the negative impact the consumption tax hike had in 2014, some panellists, particularly in services, are bracing for a similar effect once again.

“While some firms did see opportunities over the coming 12 months, particularly around the 2020 Tokyo Olympic Games, the profitability outlook was negative across both sectors for the first time in the survey’s near-decade history, highlighting the struggles that Japanese businesses are gearing up for. Nevertheless, there were signs that some firms were pushing to defy these forecasts, as both capex and hiring intentions remained positive and above respective global averages.”

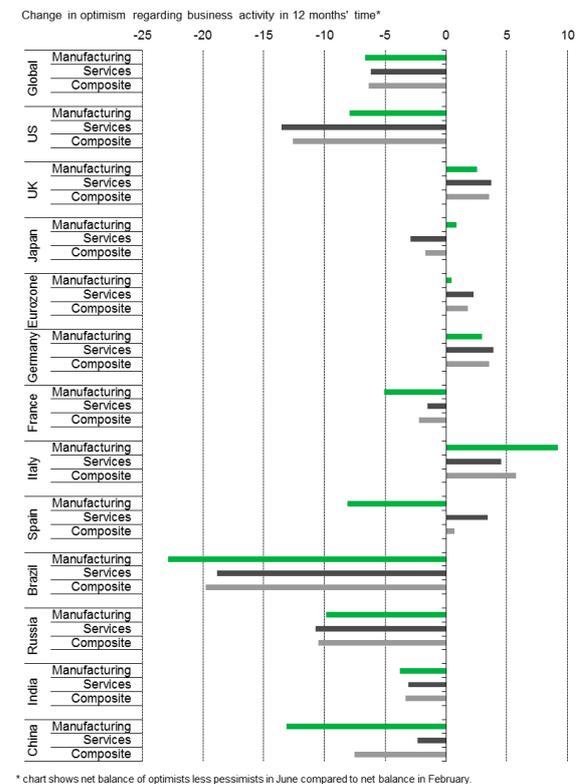
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Full data available on request from economics@ihsmarkit.com

Business optimism in June



How business activity expectations have changed since February



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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 June 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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