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IHS Markit Japan Business Outlook

Business sentiment improves, but employment and capex plans weaken

Key findings:

- Output expectations improve but remain subdued
- Hiring intentions weakest since 2012
- Firms revise down capex plans as profit forecasts remain negative

Data collected 12-25 June 2020

Japanese private sector business expectations improved slightly in June, according to the latest IHS Markit Business Outlook survey, after having reached a record low in the previous survey conducted in February. Nevertheless, firms remained deeply concerned about the impact of the coronavirus disease 2019 (COVID-19) pandemic on business output, with optimism among the lowest seen in over ten years of data collection. Furthermore, the level of positive sentiment was once again below the global average, with Germany and India the only countries to record weaker confidence.

A net balance of +7% of firms expected business activity to increase over the next 12 months. This was an improvement from just +4% in February, and the first time in exactly two years that confidence has strengthened. By sector, manufacturers recorded a sharp improvement, with sentiment around future output the highest since June 2018. On the other hand, service providers registered the weakest level of optimism since October 2010.

Compared to the global average (+15%), business sentiment in Japan was notably lower, although the gap eased since the previous survey in February. Only Germany (+6%) and India (-30%) registered weaker levels of business optimism.

A key concern among panel members was the continuation of the COVID-19 pandemic, with many citing this as a key threat to future business activity. Firms forecasted that the economy was likely to remain

Japan business activity expectations



weak amid a decline in exports, with a second wave of the virus representing an additional concern. Falling profits and capital investment, trade friction between the US and China and the delay of the Tokyo Olympic Games were also mentioned.

Employment & Investment Plans

Hiring intentions weakened in June, as private sector firms in Japan expect employment to rise at the slowest rate in nearly eight years. It was often noted that weak demand levels as a result of the pandemic had reduced cash flow and hampered firms' ability to hire new staff. Services companies forecasted a slightly stronger rate of job creation compared to manufacturers, although both registered weaker hiring intentions compared to that seen in February.

Forecasts for capital spending also weakened in the latest survey period, with investment plans at their lowest since October 2009. A net balance of just +3% of firms anticipated higher capital expenditure over the next year, compared to +10% in February. Again, both manufacturing and services firms reported lower capex expectations than seen earlier this year.

Inflation Expectations

Inflationary pressures are set to build more slowly in Japan over the coming 12 months. The net balance of businesses expecting non-staff cost inflation fell to +2% in June, the lowest for nearly eight years, amid reduced demand for raw materials. At the same time, forecasts of rising wage costs across the private sector dropped to their weakest so far (+8%), in line with worsening hiring intentions among firms. As a consequence of lower cost inflation forecasts, output charges were projected to fall over the next 12 months, the first time this has been recorded since October 2012.

Corporate Earnings

Japanese companies still expected profits to fall, continuing the negative trend from February. That said, sector data showed profitability forecasts at goods producers turning positive for the first time since October 2018. Services companies meanwhile predicted the sharpest drop in profits on record, contrasting with positive forecasts in the prior two survey periods.

Comment:

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

“A lot has occurred globally since the previous snapshot of business confidence in February, as the COVID-19 pandemic has led to historic declines in activity and concerns of a threat to long-term business recovery both in Japan and around the world. The outlook actually improved in June, but from a record low in February and was still historically weak, with just a net balance of +7% of businesses forecasting an uplift in activity over the coming 12 months.”

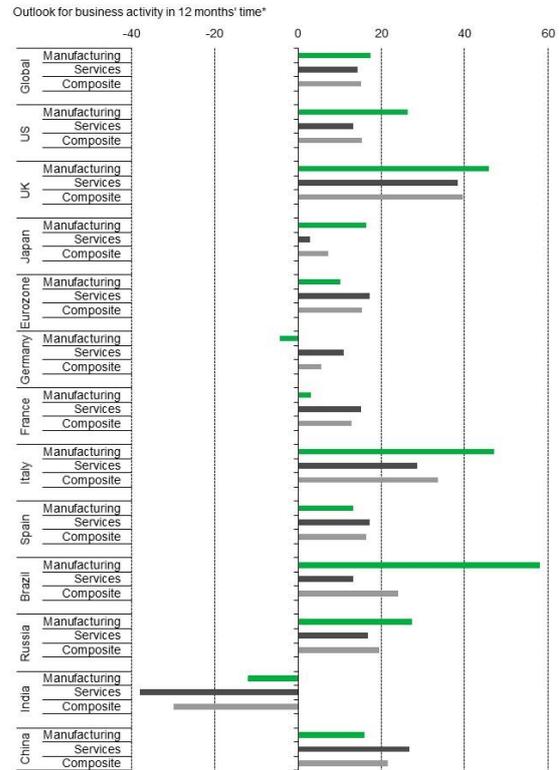
“Meanwhile, predictions of falling profits, reduced capital expenditure growth and weaker hiring plans show that firms are deeply concerned about the impact the pandemic will have on their business, in addition to long-term fragilities such as global trade tensions and an aging national population. The odds continue to stack heavily against Japan’s economy.”

-Ends-

Full data available on request from:

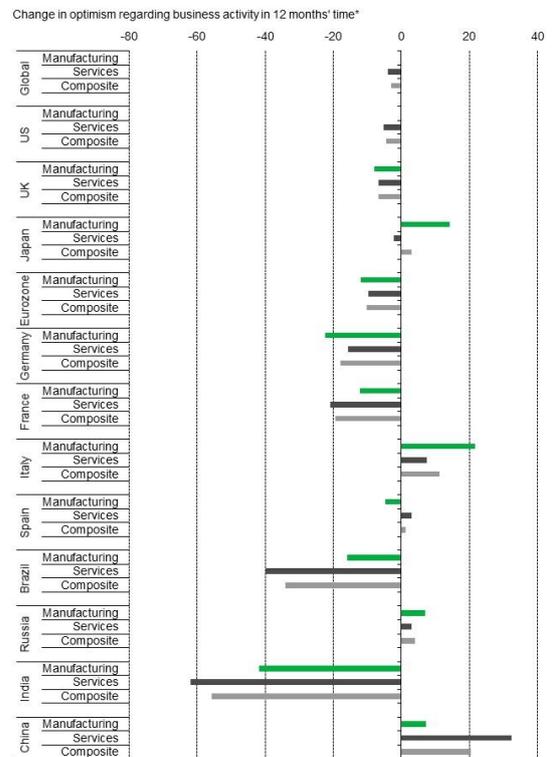
economics@ihsmarkit.com

Business optimism in June



* chart shows net balance of optimists less pessimists in June.

How business activity expectations have changed since February



* chart shows net balance of optimists less pessimists in June compared to net balance in 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 10 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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