

EMBARGOED UNTIL: 09:01 (Tokyo) / 00:01 (UTC) March 12th 2018

IHS Markit Japan Business Outlook

Japanese business optimism lowest since October 2016

Key findings:

- Firms signal subdued output expectations for the next 12 months...
- ...But stronger demand predictions underpin positive profit outlook
- Output prices set to increase at fastest pace since data collection began in October 2009

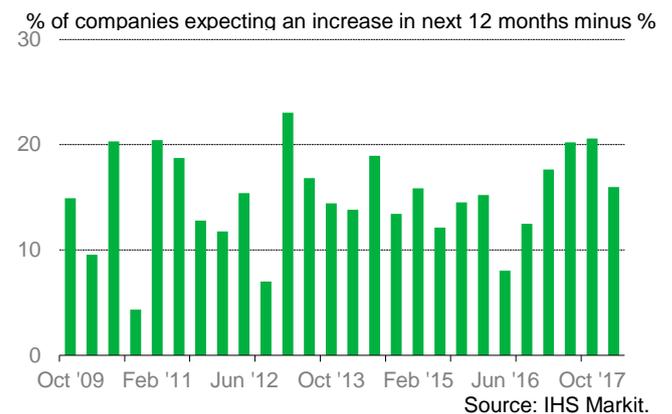
Data collected 12-23 February 2018

The IHS Markit Business Outlook survey for February shows weakening confidence among Japanese private sector companies. Nonetheless, firms are more optimistic towards profits amid forecasts of higher new business. Although firms predict sharper cost inflation, companies anticipate that this will be partially offset by increases in average selling prices.

October's Business Outlook survey signals weaker business confidence among Japanese private sector companies, with the net balance of firms forecasting output to increase over the coming year down from +21% in October to +16% in February. This indicates the weakest level of positive sentiment since October 2016. Moreover, business optimism in Japan is at the bottom of the global rankings. As has been the case since February 2013, manufacturers are more optimistic than their service sector counterparts. However, a broad-based weakening of business confidence contributed to the decline at the composite level.

Japanese enterprises expect that the 2020 Tokyo Olympic Games, as well as new client wins and product launches, will boost business activity over the coming 12 months. That said, businesses express concerns over rising raw material costs and geopolitical tensions.

Japan business activity expectations



Goods producers and service providers project new business inflows to rise. However, survey data points to weaker sentiment in the former, but stronger optimism in the latter. Overall, composite level data shows private sector firms are more confident towards new business than in last October. Panellists anticipate improved demand from both domestic and overseas markets. Moreover, firms expect to gain from an upturn in demand ahead of the consumption tax hike due in 2019.

Employment & Investment Plans

Japanese private sector firms expect to raise their workforce numbers over the next year, albeit at a slightly weaker pace than in the previous survey period. Sector data indicate that the expected rate of job creation is firmer among manufacturers than service providers. Firms note that new staff hiring is expected in order to replace retirements.

Private sector businesses also look set to increase investment spending over the coming 12 months. Sentiment towards capital expenditure was broadly equal across both manufacturing and service sectors.

Inflation Expectations

Firms widely anticipate prices for a variety of inputs, particularly labour and fuel, to rise over the forthcoming year. In turn, the net balance of firms forecasting greater input costs is the joint-highest since survey data collection began in October 2009. The shift in expectations was most prominent in the manufacturing sector.

That said, forecasts of firmer client demand are expected to enable firms to partially offset greater cost burdens with higher selling prices. In fact, the net balance of firms predicting higher output charges similarly stands at a new survey high.

Corporate Earnings

Despite positive demand projections and intentions to raise selling prices at a faster pace, revenue forecasts have been revised down slightly in the latest survey period. Nonetheless, the net balance of firms expecting profitability to improve over the course of the next 12 months rose. Sector data indicates a broad-based pick-up in sentiment towards net earnings, led by manufacturers.

Comment:

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

“Despite the solid performance of the Japanese economy since the previous Business Outlook survey in October, private sector companies are signalling slightly more subdued year-ahead output growth expectations. Notably, output expectations in Japan ranked at the bottom globally.

“Firms are expecting to run into capacity constraints over the forthcoming year. The ageing population is set to cause increased retirements, while an extremely tight labour market is limiting talent pools available to firms. Additionally, manufacturers indicate that they expect material shortages to weigh on output potential. At the same time, expectations around future input costs are at their joint-highest since data collection began in October 2009. This is also despite predictions of downward price pressures on imported materials due to forecasted yen appreciation.

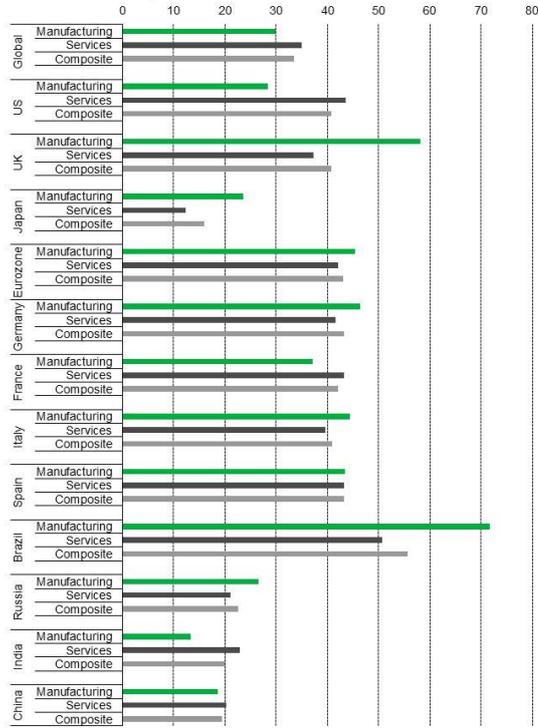
“Nonetheless, positive output expectations are underpinned by forecasts of rising new business. Domestic demand is expected to pick up over the coming year, as Japanese customers bring forward expenditure ahead of the consumption tax hike in 2019. Meanwhile, increased competition is encouraging firms to expand into overseas markets. Consequently, a robust demand environment would provide a supportive backdrop for higher output prices. Bank of Japan policymakers will be encouraged given the net balance of firms predicting higher selling charges stands at the highest level since the survey began.”

-Ends-

Full data available on request from economics@ihsmarkit.com

Business optimism in February

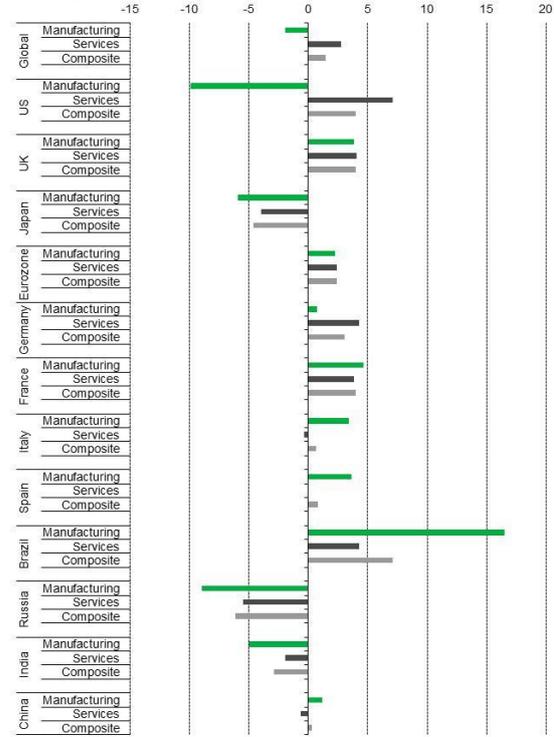
Outlook for business activity in 12 months' time*



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

How business activity expectations have changed since October

Change in optimism regarding business activity in 12 months' time*



* chart shows net balance of optimists less pessimists in February compared to net balance in October.

For further information, please contact:

IHS Markit

Joe Hayes, Economist
 Telephone +44-1491-461-006
 Email joseph.hayes@ihsmarkit.com

Joanna Vickers, Corporate Communications
 Telephone +44-207-260-2234
 Email joanna.vickers@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 February 12 and 23.

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.

About IHS Markit (www.ihsmarkit.com)

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 key business and government customers, including 85 percent of the Fortune Global 500 and the world's leading financial institutions. Headquartered in London, IHS Markit is committed to sustainable, profitable growth.

IHS Markit is a registered trademark of IHS Markit Ltd. All other company and product names may be trademarks of their respective owners © 2018 IHS Markit Ltd. All rights reserved.

The intellectual property rights to the Business Outlook survey provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index™ and PMI® are either registered trademarks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trade mark of IHS Markit Limited.

If you prefer not to receive news releases from IHS Markit, please email joanna.vickers@ihsmarkit.com. To read our privacy policy, [click here](#).