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IHS Markit Japan Business Outlook

Business sentiment among Japanese firms strongest since early-2013

Key findings:

- Confidence towards future activity growth strengthens
- Employment outlook brightest on record
- Firms expect input price inflation to soften

Data collected 2017 11-27 June

June's Business Outlook survey signals stronger business confidence among Japanese private sector firms. The net balance of companies forecasting output to increase over the next year is up from +18% in February to +20% in June, which is the highest reading since February 2013. Notably, positive sentiment in Japan is at one of the highest levels recorded in the survey history. However, the reading is below both the global (+31%) and eurozone (+40%) equivalents, as has generally been the case since composite data became available in October 2009.

The improvement in overall confidence towards future activity reflects greater positivity among manufacturers and service providers, with projections much stronger in the former. This is shown by the respective net balances of +31% and +15%.

New product launches, an upturn in demand from overseas markets and the Tokyo Olympic games are set to provide opportunities for growth over the coming year. Meanwhile, global uncertainty, fluctuations in the value of the yen, tax changes and labour shortages are all cited as factors that could dampen growth.

Japanese companies continue to project greater inflows of new business over the coming 12 months. Up from +15% in February to 16% in June, the degree of optimism is up to its joint-highest since February 2014. Matching the trend for output, manufacturers (+29%) signal a stronger degree of confidence than service providers (+10%).

Japan business activity expectations



Business revenues expectations are slightly less optimistic than in the previous survey period, with the respective net balance of +12% down from +14% in February. Nonetheless, sentiment for profitability over the coming year is at its highest level in the survey history, with the net balance rising from +13% to +15% in June. However, the profit forecast remains weaker than the global average (+23%).

Most upbeat mood for employment on record

In line with growth forecasts for output and new orders, companies in Japan predict an increase in staffing levels over the coming year. A net balance of +17% of firms anticipate an expansion of their payroll numbers, which is the highest reading since composite figures became available in late-2009. Data split by sector indicate that hiring intentions are firmer in manufacturing (+19%) than in the service sector (+16%).

Capex plans revised up

The latest data indicate that Japanese firms intend to increase capital investment over the coming 12 months.

The net balance has improved from +11% to +14% in June. Similar levels of sentiment are seen among both manufacturers (+13%) and service providers (+15%).

Input price inflation forecast to subside

Input cost inflation is forecast to moderate over the next year, with the overall net balance for input costs falling from +21% to +12% in June. At the same time, firms expect to raise their output charges only slightly, as highlighted by a net balance of +7%.

Comment:

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

“Overall, business confidence towards the year ahead picked up across Japan in June to paint a bright future for the economy going forward.”

“Expectations regarding future output reached its highest level since February 2013, reflecting improved growth forecasts in both the manufacturing and service sectors. Moreover, confidence around new orders climbed to the joint-strongest since early-2014. Anticipations of greater workloads led firms to revise up hiring plans, with employment forecast to rise at the quickest pace on record.”

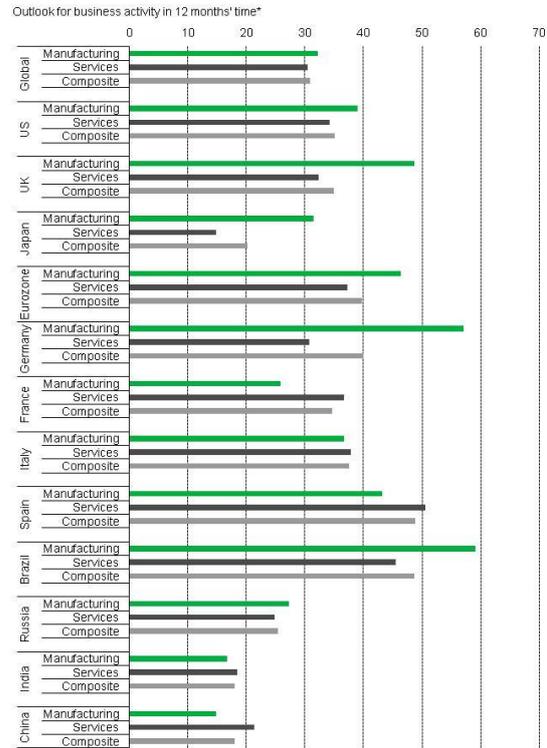
“The Tokyo 2020 Olympic Games is cited as a key opportunity for growth, while many firms also expect demand conditions at home and abroad to strengthen.”

“On the prices front, firms forecast a softer increase in input costs and only a slight rise in prices charged. Projections of weaker inflationary pressures suggest that the Bank of Japan should continue with its bond-purchasing programme.”

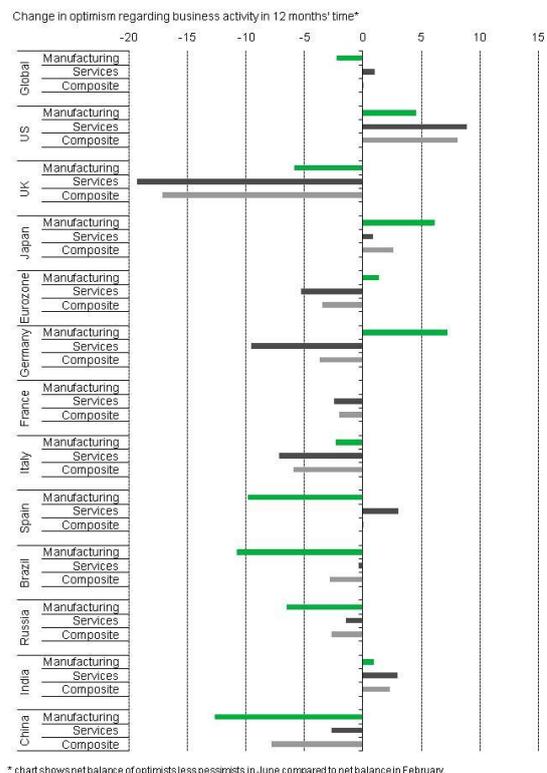
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Full data available on request from economics@ihsmarkit.com

Business optimism in June



How business activity expectations have changed since February



For further information, please contact:**IHS Markit**

Aashna Dodhia, Economist
Telephone +44-1491-461-003
Email: Aashna.Dodhia@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 June 11 and 27.

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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