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IHS Markit Japan Business Outlook

Business sentiment strongest since February 2013

Key findings:

- Optimism towards future activity strengthens in Japan, but remains weaker than global average
- Hiring intentions stay strong
- Cost pressures set to intensify

Data collected 11-26 October 2017

The IHS Markit Business Outlook survey shows growing confidence among Japanese private sector businesses. Optimism regarding future output has strengthened to a multi-year high, while firms are increasingly confident of greater business revenues. That said, latest data indicate a slight deterioration in confidence regarding new business and profits.

October's Business Outlook survey signals stronger business confidence among Japanese private sector companies, with the net balance of firms forecasting output to increase over the coming year up from +20% in June to +21% in October. This signals the strongest level of positive sentiment since February 2013, and the second-highest since data collection began eight years ago. Despite this, business confidence in Japan is firmly below the global average.

By sector, service providers are increasingly confident of higher activity over the next year, while manufacturers are slightly less optimistic than they were in June. That said, the level of sentiment recorded in the latter remains higher than that seen at service providers.

Japanese private sector companies indicate that the Liberal Democratic Party's election victory, the 2020 Tokyo Olympics games and new customer acquisitions are likely to support business activity growth. Uncertainties remain however, with firms citing that tensions with North Korea, alongside a combination of rising raw material prices and a weaker yen could

Japan business activity expectations



dampen output growth.

Japanese businesses continue to forecast higher new business inflows over the coming year. That said, the degree of confidence is the lowest since October 2016. Both manufacturers and service providers signal weaker levels of positive sentiment.

In line with the trend for business activity projections, Japanese private sector firms forecast higher business revenues, with the degree of optimism increasing to the joint-highest since June 2013.

Employment & Investment Plans

Positive outlooks for both activity and new orders underpin forecasts of rising employment in Japan. Despite the net balance easing from a survey high in June, the expected rate of job creation remains elevated relative to historical data. Sector data indicate that hiring intentions are slightly firmer at manufacturing firms compared to service companies. Projections for capital expenditure over the next year remain positive. That said, the net balance of firms expecting to raise capex is down slightly from June.

Inflation Expectations

Firms expect input prices to rise over the coming year. Predictions of rising cost burdens are more apparent among manufacturers than service providers, amid forecasts of greater raw material costs and a weaker yen. Nonetheless, inflationary pressures across Japan are set to remain weaker than the global trend.

Expectations of higher costs coincide with forecasts of greater selling prices. The net balance of firms that predict output charges to increase stands at the highest since October 2015.

Corporate Earnings

In line with forecasts of rising business revenues, firms anticipate higher profits over the forthcoming 12 months. That said, the net balance of firms who predict greater profits is down to the lowest since October 2016 amid expectations of rising cost pressures.

Comment:

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

“Following the election victory of the Liberal Democratic Party, Japanese businesses appeared to draw confidence from the prospect of further economic stimulus under Shinzo Abe. Expectations of higher activity levels are the strongest since February 2013, while firms anticipate revenues to grow further.

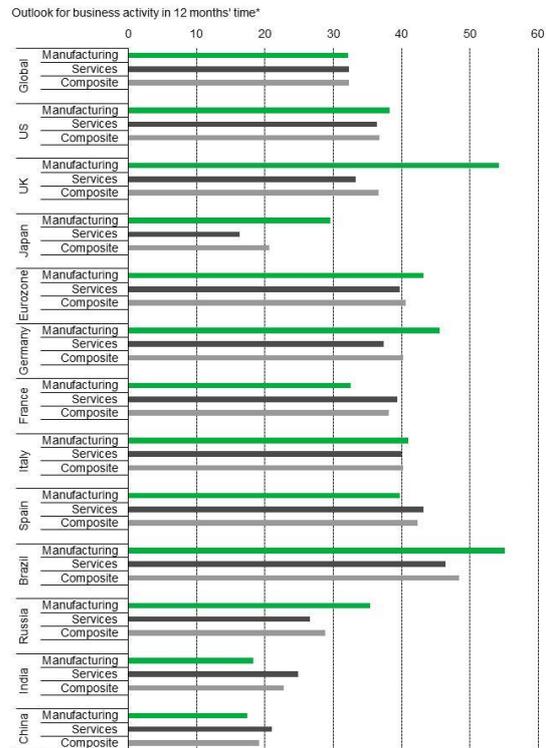
“That said, businesses are anticipating cost pressures to mount amid rising raw material prices and a weaker yen. Although they also signal that selling prices are set to rise, confidence over profits is diminishing. Nonetheless, hiring intentions and investment plans remain strongly positive relative to historical data.

“In comparison to other economies monitored by the Business Outlook survey, however, Japanese business confidence is the weakest. Despite an overall upbeat picture, concerns are raised by some firms regarding the ongoing situation with North Korea.”

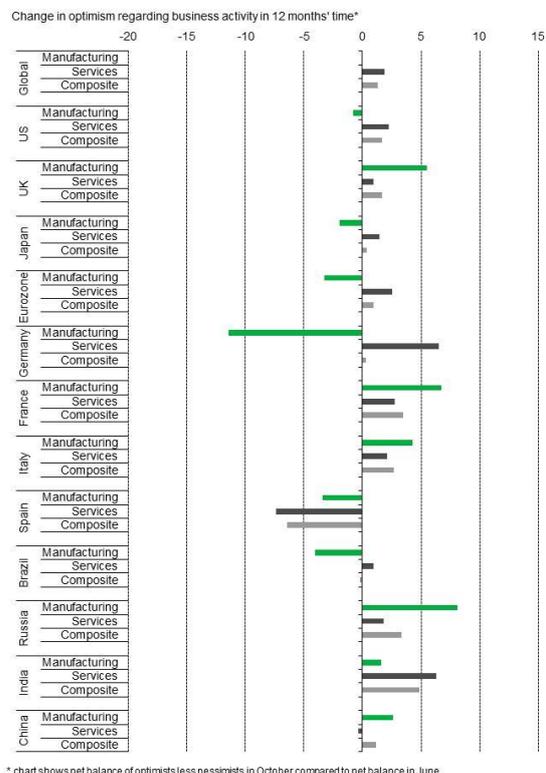
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Full data available on request from economics@ihsmarkit.com

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 11 and 26.

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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