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Markit Japan Business Outlook

Business activity expectations strongest since mid-2014

Key findings:

- Output growth over next 12 months forecasted to strengthen
- Hiring intentions joint-strongest in series history
- Input costs set to increase to greatest extent for three years

Data collected 10-23 February 2017

The latest Markit Business Outlook survey shows that confidence at Japanese private sector companies has risen since the previous survey. The net balance of companies forecasting activity growing over the coming 12 months stands at +17%, up from +12% in October and the strongest since June 2014 (+19%). However, the level of positive sentiment remains weaker than the global average (+31%) and is the second-lowest recorded across all monitored economies.

Optimism among Japan's goods producers has risen further in February, with a net balance of +25% of firms predicting production growth over the next 12 months. Service providers remains comparatively less confident about their prospects, despite the net balance rising to +14%.

Japan's private sector companies suggest that a number of factors are likely to support growth of business activity over the coming year, including new product launches, stronger demand related to the Tokyo 2020 Olympic Games and upturns in other economies, most notably the United States and China. Uncertainties remain however, especially with regard to steep fuel price hikes and workforce shortages.

Activity growth is set to be supported by an increase in new business levels. The net balance of companies predicting new work growth has risen from October's

Japan business activity expectations



+11% to +15% in February, the strongest level of optimism since June 2015. Moreover, expectations towards new business growth have risen in both the manufacturing and service sectors, as the net balance's reached +25% and +11% respectively.

An increase in business revenues is meanwhile expected by +13% of companies, up from +9% in October. In fact, the level of positive sentiment is the strongest in nearly three years. Moreover, Japan's private sector firms are anticipating a further increase in profit levels over the next 12 months. At +13% in February, the net balance has risen from +9% in October and is the strongest ever recorded during the survey's history.

Outlook on jobs matches survey high

Employment prospects remain bright in Japan's private sector, with the net balance of businesses intending to hire additional workers over the course of the next year at +16%. The latest reading is the joint-highest ever recorded in the series history. Hiring intentions have reached a survey high amongst Japan's manufacturers (+20%), while service sector firms plan to raise staffing levels at a weaker pace than in October (15% in February, down from 17%).

Inflationary pressures to intensify

On the price front, companies expect inflationary pressures to intensify over the next year, with a rise in input costs anticipated by +21% of businesses, up sharply from +9% in October and the strongest for three years. Panel members expect input costs to rise faster in Japan's service sector than at manufacturers.

In response to higher average cost burdens, Japanese private sector companies intend to raise their selling prices further over the year ahead. That said, with a net balance of +6% of businesses planning on raising their selling prices, the expected rate of inflation is relatively subdued, despite the net balance being the highest level for one year.

Rise in capex expected

Meanwhile, capital expenditure is expected to increase over the course of the next year. Intentions remain positive, with a net balance of companies planning on raising capital rising to +11% in February, up from +9% in October.

Comment:

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

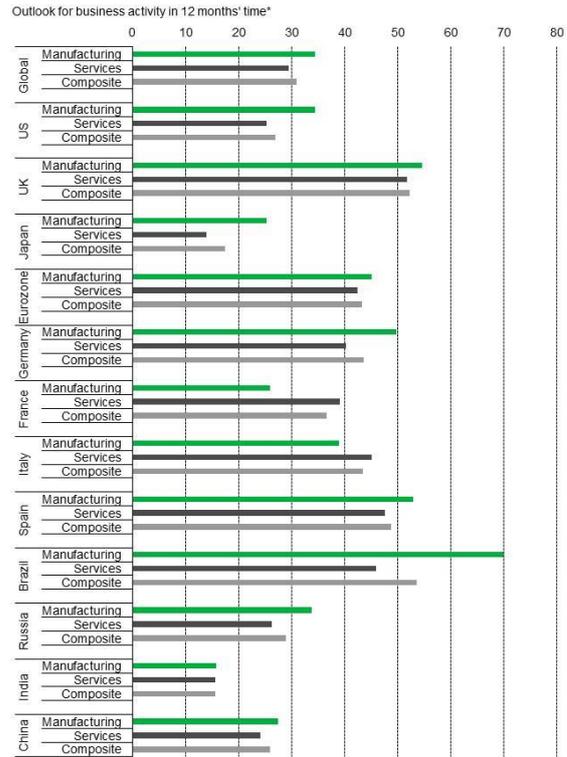
“Japanese business optimism picked up in February to the strongest in nearly three years, with firms expecting to capitalise on higher demand stemming from the upcoming Tokyo 2020 Olympics. Subsequently, the outlook towards jobs growth equalled the series high, with new business and capex also predicted to rise at faster rates. Encouragingly for policymakers from the Bank of Japan, firms believe inflationary pressures will intensify further, shaking off the prospect of future deflation woes.”

“However, Japan’s private sector recorded the second-lowest level of business confidence amongst all the global economies covered in the Outlook series, highlighting how not all firms are optimistic that the recent upturn in the economy can be sustained over the coming year ahead.”

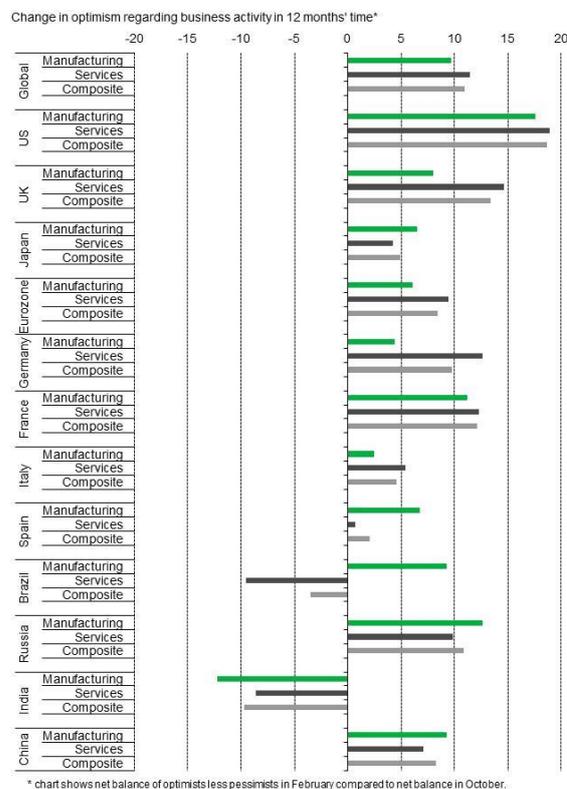
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Full data available on request from economics@ihsmarkit.com

Business optimism in February



How business activity expectations have changed since October



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

Samuel Agass, Economist
Telephone +44-1491-461-006
Email: samuel.agass@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 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 10 and 24.

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 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 6,600 firms.

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