

# Nikkei Japan Services PMI<sup>®</sup> (with Composite PMI data)

## Service sector output growth edges up to four-month high

### Key points:

- New business growth accelerates
- Recruitment increases at faster pace
- Business confidence remains solid

Data collection 13-28 August

Latest survey data continued to point to business activity growth across Japan’s service sector. Sales volumes rose to a relatively marked degree, while firms hired extra staff at the fastest pace in 14 months. Greater payroll numbers contributed to a further month of strong input price inflation. In response, output charges were increased.

The headline index from the survey - the seasonally adjusted **Business Activity Index** - was recorded at 51.5 in August. This was up from 51.3 in July, signalling an improved rate of growth in Japanese service sector output. Although the expansion was the strongest in four months, it was just mild overall and only fractionally stronger than the increases seen in June and July. Nonetheless, latest data extends the current survey-record stretch of growth into a twenty-third successive month.

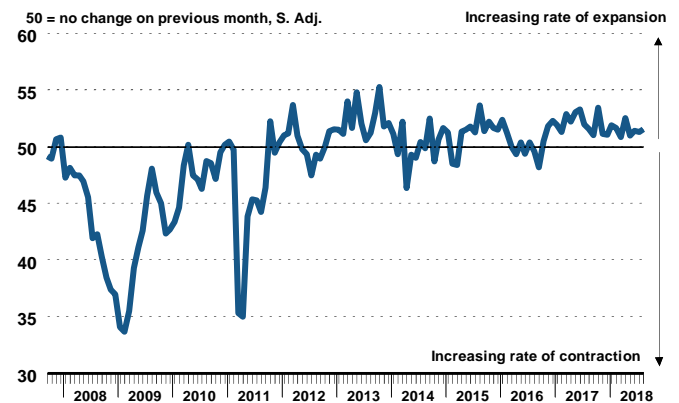
With output growth likewise accelerating in the manufacturing sector, the **Nikkei Composite Output Index** rose to 52.0 in August, from 51.8 in July to signal a broad-based pick up in the Japanese private sector economy.

New business placed at Japanese service providers increased solidly in August. Moreover, order book volumes rose to the joint-fastest extent in nine months (equalled by that in April). The improvement in demand was attributed to new store openings and successful project bids. Indeed, panellists observing higher business activity linked this to growth in total sales.

Order book volume growth in the goods-producing sector quickened for the first time since April. The pace of increase was moderate overall, albeit weaker than those seen across the first and second quarters.

Faster growth of incoming new business hindered the ability of the Japanese service sector to complete orders in a timely fashion. This was evidenced by a third successive monthly rise in

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Sources: Nikkei, IHS Markit

backlogs of work. That said, the rate of accumulation was only mild and was softer than those seen in the preceding two months.

Marked growth in employment was observed during August, as panellists sought to boost capacities to meet stronger demand. In fact, the rate of job creation was the strongest in 14 months and was among the fastest recorded since data collection began in September 2007.

Manufacturers recruited extra staff to a softer degree in August, however. The rate of job creation was the joint-softest since November 2016 (level with last September).

Greater payroll numbers contributed to a further month of rising operating costs in the service sector. According to anecdotal evidence provided by the survey panel, increased labour and material costs underpinned sharp input price inflation. That said, the pace of increase eased on that from July. To protect profit margins, Japanese service providers increased selling prices. Overall, charges were hiked to a softer extent, but the rate of inflation was relatively strong.

Both output and input prices in the goods-producing sector rose in August. Amid another month of sharp cost inflation, selling charges were increased at the fastest pace since October 2008.

Lastly, business confidence was little changed from the strong levels seen since May. Panellists

generally cited upbeat demand projections as a reason supporting their optimism.

Sentiment faltered in the manufacturing sector. Although upbeat overall, the degree of confidence eased to the weakest in 21 months. Geopolitical risk was cited as a reason for concern.

**Comment:**

Commenting on the Japanese Services PMI survey data, **Joe Hayes**, Economist at IHS Markit, which compiles the survey, said:

*“The headline PMI figure pointed to the fastest growth in Japanese service sector output for four months. However, the index was little moved since the preceding two months and was indicative of only a mild pick up in business activity.”*

*“Survey data continues to point to fairly robust conditions for the service sector to continue along its expansionary path nonetheless. New orders increased at the joint-fastest rate in nine months, resulting in a further month of backlog accumulation. The concurrent effect of these should support higher output levels in the short-term. Indeed, with employment growth hitting a 14-month high, the sentiment signal from service sector panellists remains one of positivity.”*

-Ends-

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**Notes to Editors:**

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The Nikkei Japan Composite *PMI*<sup>®</sup> is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of over 800 companies based in the Japanese manufacturing and service sectors.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

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