

Nikkei Japan Services PMI[®] (with Composite PMI data)

Service sector growth rebounds to six-month high in October

Key points:

- Stronger upturn in business activity
- New business growth quickens to near five-and-a-half-year high
- Selling charge inflation eases despite stronger rise in costs

Data collection 12-26 October

Japan's crucial service sector experienced a stronger rate of growth in activity at the start of the fourth quarter. Output was supported by the greatest improvement in demand conditions for almost five-and-a-half years. There were suggestions that, in both cases, growth rebounded as firms looked to recover shortfalls from recent adverse weather conditions. Outstanding business declined despite a softer expansion in employment, while firms retained an optimistic view towards future output.

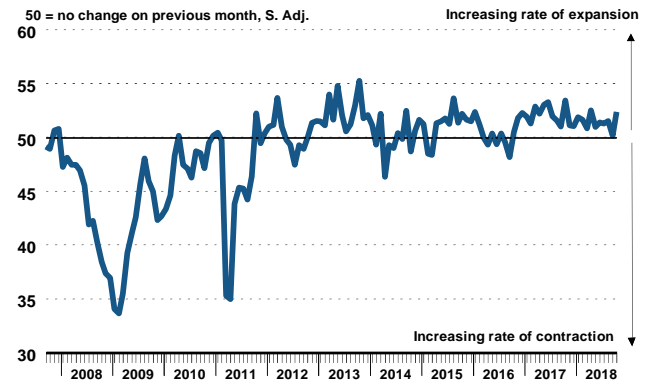
The headline index from the survey - the seasonally adjusted **Business Activity Index** - increased to 52.4 in October, from 50.2 in September, to signal the sharpest rate of output expansion since April. Growth has been recorded in every month for just over two years. Furthermore, the headline index was notably greater than the year-to-date average.

Similarly, Japan's goods-producing sector observed a stronger expansion in production during the latest survey period. Consequently, the **Nikkei Composite Output Index** increased from 50.7 in September to a six-month high of 52.5 in October.

Japanese service providers attracted new business during October. In fact, the rate of improvement in demand was the strongest for almost five-and-a-half years and solid overall. Panellists mentioned that new contract wins had supported sales. According to anecdotal evidence, the recovery in sales and output reflected restoration efforts following the natural disasters which occurred during September.

New orders placed with firms in the manufacturing sector also increased to a faster degree than in September. The rate of expansion was weaker than that seen by service providers.

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Sources: Nikkei, IHS Markit

Despite marked growth in demand, Japanese service providers cleared outstanding business in October and to a greater extent. That said, the reduction was only slight. Indeed, although extra staff were recruited, the rate of job creation was mild and the weakest in four months. According to anecdotal evidence, labour shortages hampered hiring, while staffing levels in some cases fell due to the non-replacement of retirees.

On the other hand, the rate of job creation recorded by manufacturing companies accelerated and was the strongest since April.

Survey data pointed to diverging trends in prices during October across Japan's service sector. Greater food, fuel and labour costs drove operating expenses up sharply and at the fastest pace in three months. However, output charges were increased to the softest extent since June. Moreover, input cost inflation was notably stronger than that of selling prices, indicating pressures on margins.

Looking ahead, businesses were confident that activity levels would increase over the coming year. Planned company expansions, investment initiatives and positive sales forecasts supported a greater level of positive sentiment than in September.

Meanwhile, sentiment among goods producers, albeit still positive overall, weakened for a fifth

month in a row in October, as confidence was impacted by subdued demand projections.

Comment:

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

“As was the case with manufacturing PMI data in October, growth in Japan’s crucial services economy rebounded at the beginning of Q4. Business activity expanded at the fastest pace in six months as firms observed the best monthly improvement in demand conditions since May 2013.

“However, many respondents noted that the rise in both output and new sales was a normalisation effect following the business impact of natural disasters in September. November PMI data will be important to assess whether the stronger monthly improvements in output and new business are knee-jerk reactions.”

-Ends-

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The Nikkei Japan Composite *PMI*[®] 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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IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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