

# News Release

**Purchasing Managers' Index™**  
**MARKET SENSITIVE INFORMATION**  
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## Markit Japan Services PMI™ (with Composite PMI data)

### Modest growth of Japan's service sector

#### Key points:

- Longest sustained period of services activity growth recorded in survey history
- Employment and new business both return to growth in service sector
- Service sector input prices rise for the tenth consecutive month

#### Summary:

The latest data for Japan's service sector indicated a slight recovery of growth in August following July's brief slowdown. Business activity expanded at a faster pace whilst both new work and employment returned to growth having contracted marginally in July. Meanwhile, input prices rose for the tenth successive month.

The headline seasonally adjusted **Business Activity Index** rose from 50.6 in July to 51.2 in August. The latest increase marked the tenth successive reading above the 50.0 no-change mark. This was the longest period of sustained growth ever recorded in this series, which began in September 2007. Anecdotal evidence suggested that higher volumes of new orders was the key driver of the expansion.

The modest recovery of growth evident in the service sector was complemented by the manufacturing industry data, as goods producers recorded the fastest rise in output since February 2011. As a result, the **Composite Output Index** rose from July's reading of 50.7 to a level of 51.9 in August.

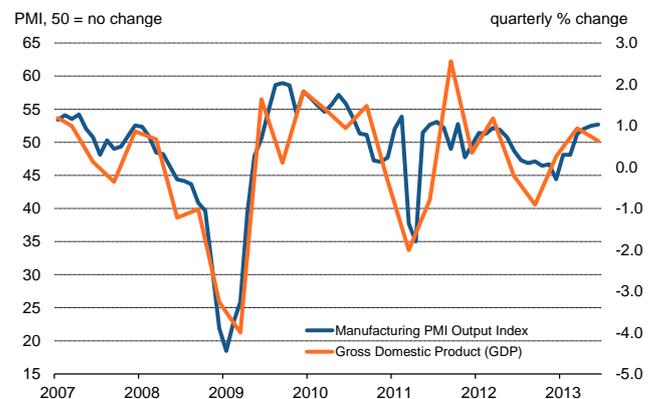
**New business** in the service sector increased in August, after falling slightly in July, but the rate of growth was relatively weak. Respondents cited improvements in the domestic economy, particularly within the construction sector, as a key

driver. Meanwhile Japanese manufacturers recorded a solid increase in new orders and an increase in the rate of expansion from July's four-month low. Consequently new business rose across the private sector in August.

Service sector **employment** followed a similar pattern to new business in August and the latest data signalled a return to growth after the marginal contraction recorded in July. A number of survey participants cited an increase in workload as the main reason for the increase in staffing levels.

The marginal rise in service providers' staffing levels was matched with an even weaker rise in manufacturing payroll numbers. Nevertheless, fractional as it was, concurrent growth signalled an increase in overall private sector employment, following the slight decline in July.

#### Private Sector Activity and GDP



Sources: Markit, Ecwin

Private sector **input costs** rose across the private sector for the ninth consecutive month. Service sector input prices increased for the tenth consecutive month and at a fractionally faster pace than recorded in July. Meanwhile in the

manufacturing industry, input prices rose at a much sharper pace. Respondents from both sectors cited higher fuel costs and the weak yen as the main drivers of cost inflation in August.

**Prices charged** in Japan's private sector fell marginally in August. Service providers' charges fell for the second consecutive month and at the fastest rate seen for four months. Conversely, the manufacturing industry recorded no change in charges in August.

**Business outstanding** contracted overall in the private sector as backlogs in the service sector continued to fall at a solid pace. Though a slight rise was recorded in manufacturing backlogs, it was too slight to influence the economy-wide trend.

**Business sentiment** among Japanese service providers weakened for the third consecutive month in August to the lowest level recorded since last November. Anecdotal evidence suggested that service providers felt their performance in the coming year is highly dependent on whether a rise in the sales tax is implemented next April.

**Comment:**

Commenting on the Japanese Services PMI survey data, Claudia Tillbrooke, Economist at Markit and author of the report said:

*"Japan's service sector continued its ten-month run of expansion in August, with a slight acceleration in the rate of growth, indicating July's weak performance was only a minor lull."*

*"The indications are that this growth trend has the potential to continue into the final quarter of the year. Further out, anecdotal evidence suggests growth sustainability may depend on whether the decision to implement the rise in sales tax is finalised."*

-End-

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**Notes to Editors:**

The Markit Japan Services *PMI*<sup>™</sup> is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

The Markit 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.

The *Purchasing Managers' Index*<sup>™</sup> (*PMI*<sup>™</sup>) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. *PMI* surveys are the *first* indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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 Markit. Please contact [economics@markit.com](mailto:economics@markit.com).

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