

# **News Release**

Purchasing Managers' Index

MARKET SENSITIVE INFORMATION

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# Markit Japan Services PMI™ (with Composite PMI data)

# Service sector activity rises for eleventh successive month in September

# **Key points:**

- Longest sequence of business activity expansion on record
- New business stagnates though unusual weather partly to blame
- Cost inflation accelerates

# **Summary:**

September's survey of Japanese service providers signalled a solid expansion of business activity and a marginal improvement in employment. However, new orders stagnated, in part the result of unusual weather conditions.

The headline seasonally adjusted **Business Activity Index** rose in September, posting above the 50.0 no change mark for the eleventh successive month, from 51.2 in August to 53.0. This was the longest sequence of expansion in the Japanese service sector since this series began in September 2007. Respondents cited the domestic economic recovery and the planned rise in sales tax next year as reasons for growth.

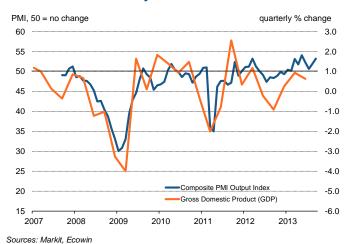
The solid growth of business activity in the service sector was just surpassed by goods producers in September, who recorded the fastest rise in output since February 2011. As a result, the **Composite Output Index** posted its highest reading in four months, up from 51.9 in August to 53.2.

Unusually, service sector growth in activity was not matched by a similar gain in **new business**, which broadly stagnated in September. Anecdotal evidence indicated unusual weather conditions had to a large degree stifled domestic demand. Conversely new orders in the manufacturing sector increased at the sharpest pace in 40 months, thanks in part to solid increases in new export orders. Thus, despite the weakness of service

providers' new business growth, the private sector as a whole saw a moderate increase in new orders.

Private sector **employment** rose only marginally in September, as service sector staffing levels performed relatively poorly in comparison with business activity. A similar pattern emerged from the latest manufacturing data, as goods producers reported a near-stagnation in payroll numbers. Anecdotal evidence from manufacturers indicated that the rise in output and new orders encouraged recruitment but not enough to counteract the degree of natural turnover.

## **Private Sector Activity and GDP**



**Prices charged** in the Japanese private sector broadly stabilised in September. Of the 5% of service providers whose charges rose, a number attributed the increases to a strategy of incremental price rises, in preparation for the upward revision of the sales tax next year. However, competitive pressures weighed on pricing power.

September marked the eleventh successive month of **input cost** inflation in the service sector, continuing the longest sequence of price increases



since a 15-month run ended in November 2008. Respondents largely attributed the increases to rising fuel costs and the impact of the weak yen on foreign input prices. Likewise, goods producers reported further cost escalations, as manufacturing input prices rose for the ninth successive month.

Private sector **outstanding business** stabilised in September following a three-month sequence of decline. A fall in service providers' uncompleted orders was offset by the sharpest increase in manufacturing backlogs since April 2006. Of the service providers who recorded a fall in outstanding business, some cited productivity improvements, such as increasing the rate at which they processed orders.

**Business sentiment** among Japanese service providers rose to its highest level since June, and September marked the fifteenth successive month of positive sentiment. Anecdotal evidence indicated that the success of the Tokyo 2020 Olympic bid supported optimism. A number of respondents also cited a continued belief in the efficacy of Abenomics.

#### Comment:

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

"Japan's service sector entered its eleventh month of expansion in September, as business activity rose at a solid pace. Unusually, however, new order growth didn't accompany the increase in activity and employment also failed to grow meaningfully.

"Whilst supported for the moment by the strength of demand in the manufacturing sector, a lack of new orders for service providers indicates a possible weakening of consumer demand which if unabated, could have knock-on effects to industry.

"The stagnation of payrolls across the private sector signals employers remain cautious in their growth-expectations for the coming months. With the announcement of the sales tax hike imminent, restoring momentum to consumer demand and business confidence is likely necessary to ensure the recent expansion continues."

-End-



# For further information, please contact:

## Markit

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## **Notes to Editors:**

The Markit Japan Services  $PMI^{TM}$  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*™ 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™* (*PMI™*) 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 <a href="mailto:economics@markit.com">economics@markit.com</a>.

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