

News Release

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

Growth of Japanese service sector sustained in July, though pace slows

Key points:

- Weakest rise in service sector activity in nine months
- Services employment and new orders broadly stagnate
- Ninth successive month of higher input prices in the service sector

Summary:

The latest data for Japanese service providers indicated that the expansion evident in previous surveys continued in July, but the pace slowed. Business activity increased only marginally, whilst new business and employment stagnated, in each case ending eight-month sequences of growth.

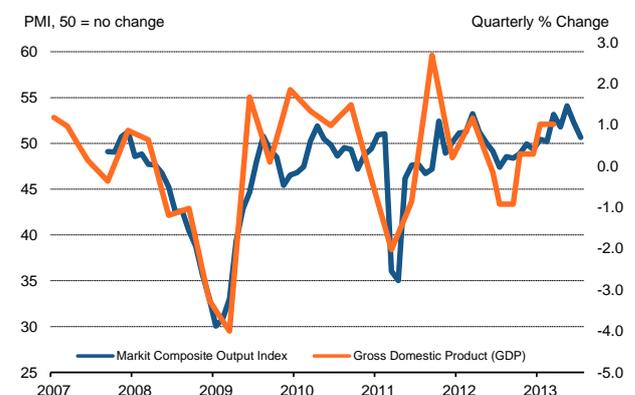
The headline seasonally adjusted **Business Activity Index** fell in July to 50.6 from 52.1 in June. Whilst this was the weakest increase so far in the current period of expansion, July marked the continuation of a nine-month run of growth, the longest ever recorded in the series. Where service sector activity rose, panellists reported higher sales from existing customers and new sales locations.

Continued but dampened growth of service sector activity was echoed in manufacturing output which grew marginally. As a result, the **Composite Output Index** slipped from June's reading of 52.3 to a level of 50.7 in July.

New business in the service sector remained broadly unchanged in July. Anecdotal evidence suggested increased orders from large-scale projects had offset delays in budgets for public projects. Conversely new orders for manufacturing firms rose in July for the fifth consecutive month. Thus across the private sector the composite index indicated there was a marginal expansion in new business.

Service sector **employment** stabilised in July, following eight months of expansion. Anecdotal evidence indicated that increased production, and expansions in sales teams, had compensated for strategic reductions in payroll numbers. The Composite Employment Index fell marginally, to the lowest level recorded since October 2012, and signalled a marginal drop in staffing levels.

Private Sector Activity and GDP



Sources: Markit, Ecowin

Input prices for the service sector continued to exert inflationary pressure as they rose for the ninth successive month, though the pace of inflation eased somewhat. Prices rose at a faster pace in the manufacturing industry, continuing a seven-month sequence of expansion. Panellists from both sectors cited increases in raw material prices and higher fuel costs as the key drivers.

Meanwhile, **prices charged** by Japanese service providers ended their short period of inflation, and fell marginally in July. That said, the index remained higher than its historical average. Panellists attributed the slight fall in charges to the market power of larger customers and their demands for

lower prices. In contrast, charges in the manufacturing industry rose fractionally, though not to a large enough degree to influence the direction of change at the composite level, where output prices fell in July.

Business outstanding in both the service and manufacturing sectors contracted at faster rates. Respondents linked the latest depletion to slower new order growth. July marked the twenty-sixth month of decline in manufacturing firms' backlogs.

Business sentiment amongst service providers remained positive in July, though fell to the lowest level recorded in eight months. Companies reported an optimistic outlook regarding the economy over the next year, which they felt was likely to strengthen. The sales tax was cited by a number of respondents, though expectations of its effect were mixed. Some panellists felt it would aid their business, providing a surge of orders prior to its introduction in April, whilst others worried about the long-term impact it may have on demand.

Comment:

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

“The Japanese service sector continued its nine-month sequence of growth in July, but the rate of expansion weakened. This follows a period of particularly strong performance relative to the survey history.

“Whether the short period of recovery will continue remains to be seen; but with the latest data showing employment and new orders stagnating in July, the outlook is distinctly less positive than reported in previous surveys. This sentiment was echoed by respondents, who voiced concerns regarding the impact of Abe’s three policy arrows and particularly the potential consequences of the increase in sales tax next April.”

-End-

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Notes to Editors:

The Markit Japan Services *PMI*[™] 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 economics@markit.com.

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