

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

### Service sector continues to grow at mild pace in June

#### Key points:

- Output encouraged by faster growth in new business...
- ...but employment rises at slower pace
- Margins come under pressure amid rising fuel prices

Data collection 12-26 June

Japanese service sector output increased at a quickened pace in the final month of the second quarter, with stronger growth in new business supporting the upturn in activity. At the same time, backlogs of work increased amid weaker growth in employment.

Meanwhile, profit margin erosion was evidenced by input costs rising faster than output prices.

The headline index from the survey - the seasonally adjusted **Business Activity Index** - registered 51.4 in June, up from 51.0 in May, thereby indicating a stronger pace of output expansion. That said, despite a faster rate of increase, the latest rise in service sector activity was softer than the average recorded across the current 21-month sequence of expansion.

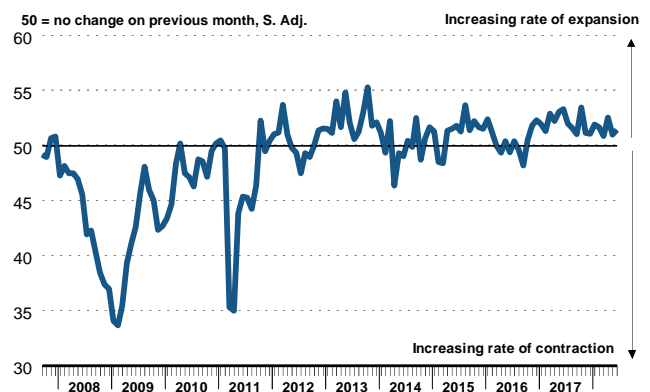
Similarly, goods producers expanded production at an accelerated pace in June. In turn, the **Nikkei Composite Output Index** rose to 52.1 in June, from 51.7 in May, to signal a stronger improvement in private sector business activity.

Panelists mentioned that new product launches and greater order book volumes had underpinned the rise in output during June. The increase in new work was moderate overall and stronger than the 20-month low observed in May. The rise in sales was attributed to new project start-ups and new client acquisitions.

Meanwhile, order book volumes increased across the manufacturing sector, albeit to a marginally weaker extent. That said, the pace of expansion was stronger than that of the services economy.

To manage higher workloads, firms recruited additional staff during the latest survey period, extending the current period of job creation to 18

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Sources: Nikkei, IHS Markit

months. There were some reports that new store openings had supported the expansion in employment. However, the increase in staff levels was only marginal and the softest since February.

The combination of faster new business growth and slower staff recruitment led to a rise in outstanding business during June. This contrasted with the modest reduction in backlogs observed in May. That said, the rate of accumulation was only marginal.

An improved pace of job creation was also observed in the manufacturing sector, however this did not prevent a further month of increased outstanding business.

Input costs continued to rise during June, thereby sustaining a trend which has been apparent since November 2012. Increased transportation and labour costs were cited as factors driving operating expenses. Furthermore, the rate of inflation was solid and accelerated to a three-month high.

Rising cost burdens encouraged firms to raise selling charges. However, the rate of increase was mild and noticeably outpaced by that of input costs, signalling pressures to service sector profit margins.

Likewise, faster input price inflation in the manufacturing sector contributed to steeper hikes in selling charges.

Continued...

Lastly, service providers remained optimistic towards future output in June. Forecasts of stronger demand and Olympic-Games related business were cited as reasons to be confident.

## Comment:

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

*“Growth in Japan’s crucial service sector was sustained during June. That said, PMI data poses the question as to whether the business cycle has finally plateaued in Japan. The latest survey indicates that output has expanded at a broadly similar pace over Q2 as that seen across Q1, therefore suggesting the likelihood of another disappointing GDP number.*

*“However, weak client demand seen in May was reversed during the latest survey. This should support business activity, at least in the short-term. That said, with employment growth having slowed in each of the past three months, the potential for firms to meet any further upswing in demand could be impacted by staff shortages and skills mismatches.”*

-Ends-

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### **Notes to Editors:**

The Nikkei 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 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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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](mailto:economics@ihsmarkit.com).

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