

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

Business activity growth eases in December

Key points:

- Weaker rise in new sales hampers output growth
- Job creation accelerates to three-month high
- Business confidence remains elevated

Data collection 5-18 December

Japanese service sector business activity continued to expand through the last month of the fourth quarter. However, the rate of growth was the weakest for three months. Softer inflows of new work restricted the increase in output, as demand improved to the slowest extent since July. Nonetheless, the first rise in outstanding business for four months signalled a return of capacity constraints. To alleviate operational pressures, employment was increased at an accelerated pace. Looking ahead, confidence was elevated and held close to November's recent high.

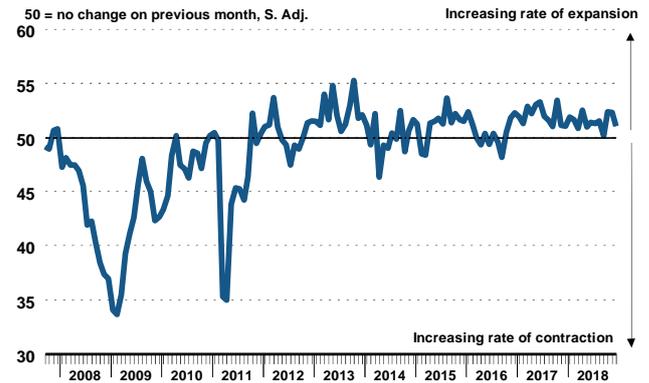
The headline index from the survey - the seasonally adjusted **Business Activity Index** - fell to a three-month low of 51.0 in December, down from 52.3 in November, signalling mild growth of service sector output in Japan. Poor weather and underwhelming sales at some companies weighed on activity growth.

Meanwhile, manufacturing sector production increased solidly and at the fastest pace since last April. However, the weaker expansion in Japan's dominant services sector pulled the **Nikkei Composite Output Index** down to 52.0 in December, from 52.4 in November.

Latest survey data indicated weaker growth of new orders at service providers. Overall, the improvement in demand was modest, but reduced workloads at some companies pulled the expansion down to a five-month low. Also hampering total sales was a weaker increase in new export orders, which grew at just a marginal pace.

Despite demand for services rising at a weaker pace, the improvement was still stronger than the rise in order books at manufacturers. Overall, private sector sales increased at the weakest rate since July.

Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

Despite the easing of demand pressures, operational capacities at services firms were tested during December, as evidenced by a rise in backlogs of work. Although the rate of accumulation was only fractional, it was the first time since August that outstanding business had been accumulated. To ease these pressures, extra staff were recruited in December, continuing a run of job creation that started two years ago. Moreover, the expansion in staffing levels was the strongest since September and accelerated for a second successive month.

Goods producers also continued to increase their workforces during December, however the rate of employment growth eased to a modest pace.

Japanese service providers maintained an upbeat view on growth prospects over the coming 12 months, with the level of confidence holding close to November's ten-month peak. Company expansion, new store openings and projects in the pipeline supported optimism.

Manufacturers were less upbeat than their service-providing counterparts in December, with optimism among goods producers easing for a seventh successive month.

Lastly, survey data pointed to cooling cost inflation faced by Japanese service providers. Input prices increased to the weakest extent since May. Nonetheless, the rise was still solid overall amid reports of greater transport and labour expenses.

Meanwhile, output prices were increased to a quicker extent in December.

Inflationary pressures cooled in the goods-producing economy. Factory gate charges increased at a weaker rate amid a slower rise in operating costs.

Comment:

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

“Positive survey data from the manufacturing sector were not mirrored by Japan’s dominant service-providing industry in December, where business activity increased at the weakest pace since May if the natural-disaster-hit September is discounted. The survey also pointed to abating demand pressures, as private sector sales increased only mildly on the month.

“Nonetheless, composite level data points to a relatively solid pace of expansion over the last three months of 2018, suggesting that the Q4 GDP print should bring a bounce-back in growth.”

-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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