Services economy sees softer fall in business activity

Key findings

- Declines in output and new orders ease
- Export sales down at softest pace in 17 months
- Business optimism reaches three-month high

Japanese services companies continued to report that business conditions were disrupted by the latest wave of COVID-19 infections at the end of the second quarter of 2021. Activity and incoming business experienced further contractions as restrictions introduced to curb the spread of the disease remained in place through much of June. That said, in both cases, rates of decline eased from May. Firms also reported the softest reduction in new export orders since January 2020. Moreover, service providers were increasingly confident that business conditions would recover in the year ahead. The overall degree of optimism strengthened to the highest since March.

The au Jibun Bank Japan Services PMI® is compiled by IHS Markit from survey responses from a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services.

The headline figure is the Services Business Activity Index, which tracks changes in the volume of business activity compared with one month previously. A reading above 50 indicates an overall increase compared to the previous month, and below 50 an overall decrease.

The seasonally adjusted Japan Services Business Activity Index rose to 48.0 in June from 46.5 in May, indicating a softer reduction that was modest overall. Service providers highlighted that restrictions continued to hinder activity, however.

Similarly, new business inflows fell for the seventeenth month in a row in June. The rate of contraction eased from May and was only marginal. Panellists highlighted that the pandemic dampened demand for Japanese services in both domestic and external markets. That said, foreign demand for services declined at a softer pace in June, the softest in the current 17-month sequence of downturn.

Meanwhile, employment levels increased for the fifth month running at the end of the second quarter. Firms attributed higher workforce numbers to capacity expansion efforts in anticipation of a recovery in demand. The rate of job creation softened from the previous survey period and was marginal. In line with subdued new business, firms utilised spare capacity to further reduce outstanding business for a nineteenth month in a row in June.

Japanese service providers registered a further rise in average cost burdens in June. That said, the increase was only marginal and the softest for four months. Where higher prices were reported, firms attributed this to greater wage, fuel and raw material costs. At the same time, service providers reported a marginal rise in output charges for the third month in a row in June. The pace of inflation edged up slightly from May as firms partially passed on higher cost burdens to clients.

Firms in the Japanese service sector were increasingly confident that activity would rise over the coming year. Positive sentiment in June picked up from May to reach the strongest since March. Firms cited hopes that the pandemic would recede as the vaccine rollout accelerates, triggering a broad-based recovery in demand.
Private sector output falls further in June

The au Jibun Bank Japan Composite* PMI Output Index - which measures combined output in the manufacturing and service sectors - edged up to 48.9 in June from 48.8 in May, to signal a further contraction in private sector output. The rate of decline at services firms eased from May, while Japanese manufacturers reported the softest rise in output for five months.

Aggregate new orders meanwhile fell at a softer pace in June. Growth in the manufacturing sector slowed and there was a softer reduction at service providers. With the trend for new orders remaining subdued, private sector firms deployed resources to complete existing work and further depleted outstanding business.

Positively, private sector firms recorded a fifth consecutive rise in employment levels. The pace of growth was marginal, however. Manufacturers reported the quickest rise in jobs since January 2020, but growth at services firms slowed to a four-month low.

Private sector firms were also more optimistic regarding the year-ahead outlook for activity in June. The aggregate level of positive sentiment was the strongest since March 2013.

*Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of manufacturing and service sectors according to official GDP. The Japan Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

Comment

Commenting on the latest survey results, Usamah Bhatti, Economist at IHS Markit, said:

"Businesses in the Japanese service sector reported that activity remained subdued as the country continued to battle the latest wave of COVID-19 infections. The rate of decline eased to a more modest pace, however. Meanwhile, softer declines in both domestic and international sales signalled that demand conditions were beginning to shore up.

"Moreover, short-term uncertainty appears to be easing as the vaccination programme gathers pace. Firms continued to build capacity in anticipation of increasing demand, though the pace of job creation eased to a four-month low. Service providers also maintained strong optimism that business conditions would improve over the year ahead.

"Overall private sector activity decreased at the end of the second quarter, with the latest data signalling a broadly unchanged rate of decline. A slower contraction in services activity compared with softer growth of manufacturing production.

"Confidence about the outlook for private sector activity strengthened in June, despite headwinds from the COVID-19 pandemic. Firms were at their most optimistic since March 2013 amid anticipations that the pandemic would recede and trigger a broad-based recovery supported by stronger demand and the Olympics, which have since been confirmed to allow limited domestic spectators. As a result, IHS Markit estimates the Japanese economy will expand by 2.6% in 2021."
au Jibun Bank Japan Services PMI®

Methodology
The au Jibun Bank Japan Services PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of ‘higher’ responses and half the percentage of ‘unchanged’ responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the ‘Services PMI’ but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the ‘Composite PMI’ but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. June 2021 data were collected 11-25 June 2021.

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The au Jibun Bank is an internet retail bank established in 2008 by a joint investment of KDDI – a major telecommunication service provider – and MUFG Bank – Japan’s largest bank –. As a “smartphone-centric bank”, au Jibun Bank focuses on providing high-quality financial services via smartphones.

The au Jibun Bank provides unique services such as “Smartphone ATM”, a service allowing to deposit and withdraw money from teller machine without cash card by just scanning a QR code shown on the smartphone app, and “AI Foreign Currency Forecast”, a foreign currency trading support tool that predict the rise of foreign exchange rate based on past trend deep learned by an AI (artificial intelligence).

As a member of the “au Financial Group”, au Jibun Bank aims to play a major role in providing comprehensive smartphone-centric banking services in line with the “Smart Money Concept” and enhance customer experience.