

Embargoed until 0930 JST (0030 UTC) 4 December 2019

Jibun Bank Japan Services PMI®

Including Jibun Bank Japan Composite PMI®

Japanese service sector stages weak recovery in November

Key findings

Activity rebounds following October's disruptions...

...but growth only marginal amid soft new order expansion

Input price inflation accelerates but charges rise at slower rate

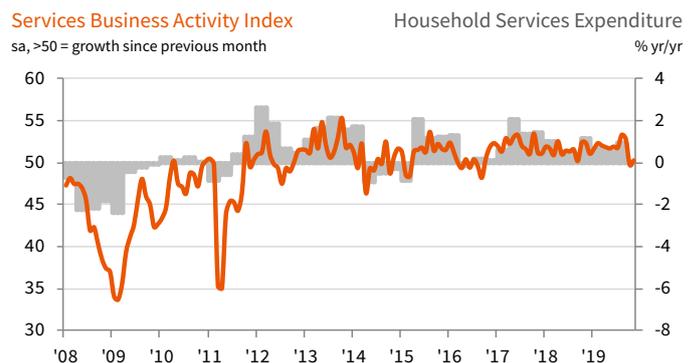
While a move back into expansion territory is a positive following the negative economic effects of the consumption tax hike and typhoon in October, latest survey data showed the rebound was only limited, with business activity growing marginally in November.

New orders expanded overall, but the rate of growth was only slightly stronger than in October and relatively weak in comparison to the average seen across the current 40-month period of upturn. That said, the jobs trend remained positive as service sector employment growth was sustained and optimism towards the year ahead improved to a five-month high.

The 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 Business Activity Index rose back above the crucial 50.0 mark in November to signal renewed growth during November. However at 50.3, the headline index was only indicative of marginal growth that was noticeably weaker than the expansions seen on average across the first three quarters of the year.



Sources: Jibun Bank, IHS Markit, Cabinet Office Japan

Restoration efforts following the typhoon in October reportedly hindered business activity, while other firms also mentioned sluggish demand conditions. Latest survey data pointed to increased order book volumes at Japanese service providers. However, the expansion was mild overall and sluggish in comparison to the average seen across the current 40-month upturn. There was little contribution from overseas clients in November, with survey data pointing to broadly unchanged volumes of new export business.

Despite reports of operational difficulties in the aftermath of the typhoon, the level of outstanding business was broadly unchanged when compared to October. According to survey respondents, businesses were able to cope with existing demand pressures.

There was some positive news during the November survey for Japan's service sector, however, as employment continued to grow. Job creation has been recorded in every month since January 2017, with the latest rise the joint-strongest since June.

Furthermore, business confidence strengthened to a five-month high. Forecasts of improvements in demand, tailwinds from the Tokyo Olympics and new customer wins underpinned the optimistic outlook towards the next 12 months.

Lastly, survey data showed diverging trends in prices. Input costs increased at an accelerated rate in November amid reports that prices were still being increased as a result of the consumption tax hike. Meanwhile, output charge inflation softened from

Jibun Bank Japan Composite PMI®

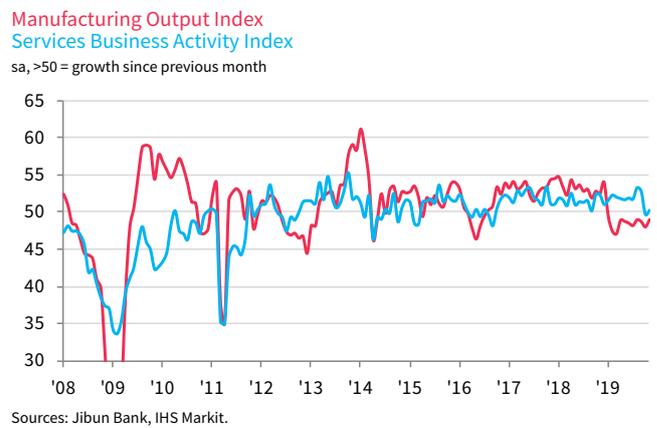
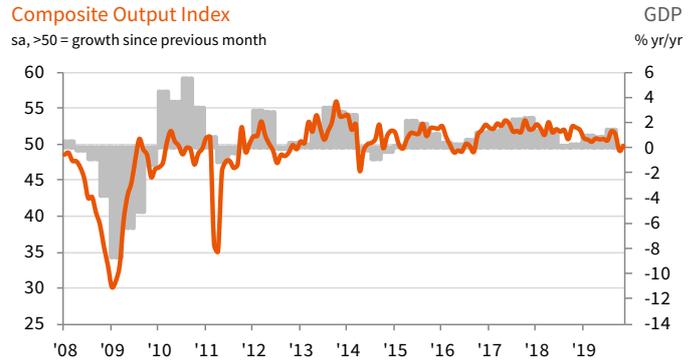
Marginal decline in private sector output during November

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

The Jibun Bank Japan Composite Output Index recorded below the neutral 50.0 mark in November for a second successive month, with a reading of 49.8 (49.1 in October) signalling a further contraction in private sector output. That said, the decline was weaker than in October due to a slim expansion in services activity and a slower downturn in manufacturing production.

Aggregate weakness remained apparent on the demand side as total private sector new business declined, fuelling a further easing of capacity pressures. Nevertheless, employment grew amid broad-based job creation across both the manufacturing and service sectors.

Elsewhere on the price front, trends diverged as input cost inflation accelerated to a six-month high while output charges rose at a softer rate.



Comment

Commenting on the latest survey results, Joe Hayes, Economist at IHS Markit, said:

"November data is highly discouraging for the Japanese economy. October was difficult to interpret as a consequence of the consumption tax hike and powerful typhoon. A rebound was to be expected in November, but disappointingly, the strength of the recovery was limited, with activity growing only marginally.

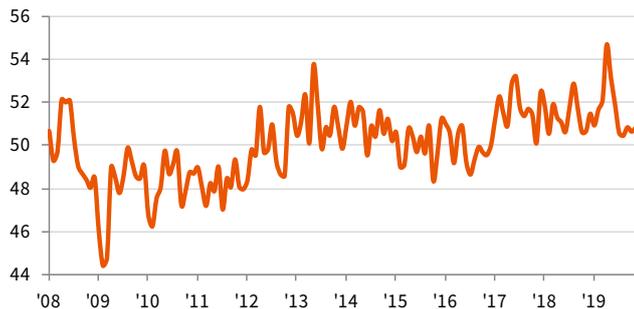
"No notable acceleration in new business growth was also seen, suggesting

that underlying demand conditions in Japan's service sector have weakened so far in the fourth quarter.

"Japan's service sector has been robust in 2019 so far, doing a good job at offsetting the strong drag from manufacturing. However, based on survey data so far in the fourth quarter, a contraction in economic output seems highly plausible as we head into year-end."

Services Employment Index

sa, >50 = growth since previous month



Services Prices Charged Index

sa, >50 = inflation since previous month



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Methodology

The 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.

November 2019 data were collected 12-26 November 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About PMI

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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", Jibun Bank has over 3.4 million customer accounts and focuses on providing high-quality financial services via smartphones.

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", 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.

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