

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

Stronger demand drives activity growth in February

Key points:

- New business rises at fastest rate since May 2013
- Activity growth quickens to three-month high
- Firms remain optimistic towards coming 12 months

Data collection 12-25 February

The performance of Japan's key service economy improved during February, supported by the sharpest rise in new business since May 2013. There was also a slight pick-up in foreign demand. In turn, activity increased at a faster rate and outstanding workloads rose, encouraging firms to expand their workforces. Optimism was retained, with the level of confidence holding close to the average seen across the past 12 months.

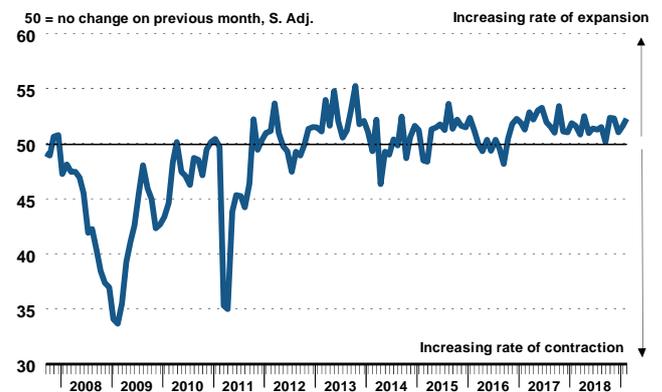
The headline index from the survey – the seasonally adjusted **Business Activity Index** – increased for a second month in succession to 52.3 in February, from 51.6 in January, signalling a modest expansion in service sector output. Moreover, the rise was the strongest since last November.

Meanwhile, the **Nikkei Composite Output Index** was dragged lower for a fourth successive month, dipping to 50.7 in February, from 50.9 in January. The decline reflected a stronger reduction in manufacturing sector production, the sharpest since May 2016.

Driving the sharper upturn in services activity was a faster improvement in demand conditions. New product launches, successful tendering and stronger sales performances helped lift order book volumes. Overall, new business expanded solidly and at the quickest pace since May 2013. Also contributing to the increase in workloads were foreign markets, with survey data pointing to a renewed upturn in new business from abroad. That said, export growth was only mild, with a large majority of survey participants (89%) recording constant levels of foreign demand.

Meanwhile, goods producers noted a faster rate of decline in order book volumes. Manufacturing export sales also dropped in February.

Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

With growth of new business outpacing the expansion in services output, backlogs of work were consequently accumulated in February. The rise in outstanding orders was the fastest in 18 months. To enhance operating capacities, Japanese service providers recruited additional staff during the latest survey period. Quality-improvement efforts was also cited as a reason driving jobs growth. Overall, the rise in employment was the joint-quickest since last August, but only modest.

Goods producers were able to allocate more resources to clearing work-in-hand in February, with outstanding business falling at the quickest pace since June 2016. Despite the easing of capacity pressures, manufacturing employment continued to expand.

Services firms faced pressure on their profit margins in February amid reports of greater labour, transportation and material costs. Latest survey data pointed to a strong rate of input price inflation. However, firms took advantage of robust demand and shared part of the rise in operating expenses with clients, increasing output charges to the quickest extent in seven months.

Survey data pointed to diverging inflationary trends at manufacturers and service providers. Input prices increased at a softer pace in the goods-

producing sector, leading output charges to also rise at a slower rate.

Finally, service providers reported a strong degree of confidence in February. The optimistic outlook was supported by upbeat sales expectations and planned new store openings. The level of positive sentiment held close to that seen on average across the past 12 months.

In contrast, a ninth successive monthly weakening of business confidence was recorded in the manufacturing sector.

Comment:

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

“Japan’s service sector remained resilient in February, contrasting to the struggles the country’s manufacturers have endured so far this quarter. Service providers will play an important role in the coming months if Japan’s economy is to avoid slipping into a downturn.”

“The positive from the Q4 GDP print was signs of strength in domestic demand. Latest survey data suggest that favourable demand pressures have persisted into Q1. Service sector new business rose at the sharpest rate in almost six years in February.”

“Against unsupportive global trade conditions and the impending sales tax hike, risks to the Japanese business cycle are mounting. Further stimulus from the Abe administration will be paramount to help the domestic market sustain the buoyancy seen in the latest service sector survey.”

-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'.

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