Solid output growth sustained in Japanese service sector

Key findings

Business activity grows amid increased sales

Inflationary pressures ease

Business confidence remains in line with year-to-date average

Japan’s service sector maintained its growth trend during June, rounding off another robust quarter. Output was supported by improved demand conditions within the domestic economy, outweighing sluggish sales to overseas clients. Firms were also optimistic that the expansion could be sustained over the coming year, with confidence edging up slightly.

Elsewhere, employment increased at a weaker pace, while intensified pressures on capacities was signalled by a sharper rise in backlogs of work.

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 increased to 51.9 in June, from 51.7 in May. This indicated a solid and faster expansion in Japanese service sector activity and extended the current upward trend into a thirty-third month. On average for the second quarter, growth was broadly in line with that seen during the first three months of 2019.

Supporting higher output volumes was sustained growth in new business. Panel members reporting improved sales linked this to new customer gains and a general improvement in underlying demand. The expansion was solid overall and little-changed since May.

That said, the upturn in order books was primarily driven by domestic clients, as latest survey data highlighted a renewed decline in new export business placed with Japanese service providers. The drop in overseas new business was the joint-fastest in almost two years, matching that recorded in April.

According to latest survey data, pressure on operating capacities built, as evidenced by a third successive monthly rise in backlogs of work. Continued growth in new business reportedly led to the accumulation in outstanding business.

Concurrently, firms hired additional staff in June, extending the current run of job creation to two-and-a-half years. However, the rate of increase in staffing levels lost momentum, easing to a four-month low amid reports of the non-replacement of retiring employees.

Meanwhile, cost burdens continued to increase in June amid reports of greater labour, fuel, maintenance and shipping expenses. Nevertheless, the rate of input price inflation slowed to a five-month low. Firms raised selling charges as part of efforts to maintain profit margins. However, output charges increased only modestly and to a weaker extent than in May.

Finally, business confidence remained resilient in June, matching the average seen over 2019 so far. Planned company expansions, the launch of new services and forecasts of stronger demand underpinned the optimistic outlook.
Mild growth in Japanese private sector output continues in June

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 edged up fractionally to 50.8 in June, from 50.7 in May, signalling a mild rate of expansion in private sector business activity in Japan. Trends seen in the year-to-date in the manufacturing and service sectors were sustained, with contraction observed in the former and expansion in the latter.

Manufacturing new orders declined for a sixth successive month in June, but solid growth of new work in the service sector helped overall sales to rise. Meanwhile, employment increased in both sectors, but the combined rate of job creation fell to a four-month low.

Both cost and charge inflation slowed in June. Selling prices rose at the weakest pace since May 2018.

Lastly, business confidence improved from May’s 34-month low as a result of a return to optimism in the manufacturing sector.

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

“The trend of manufacturing malaise and service sector resilience was once again apparent in Japan PMI data for June. That said, services activity growth moved sideways, with the respective index little-changed from April and May and matching its average for 2019 so far.

“However, second quarter PMI readings in aggregate are indicative of the economy growing at approximately 0.3% annually. This would be a slowdown from the strength seen in the first quarter, but would corroborate with the underlying trends seen so far this year of subdued domestic consumption and struggling exports.

“The next few months of PMI data will add further evidence as to whether the domestic economy in Japan is in the right shape to cope with Abe’s planned consumption tax hike in the late-Autumn.”
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.

June 2019 data were collected 12-25 June 2019.

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

About PMI

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