Japanese service providers signalled that business conditions continued to be disrupted by rising coronavirus disease 2019 (COVID-19) cases at the start of the year. Both output and new business inflows experienced sharper declines in January, with the latter falling at the fastest pace for eight months. That said, employment levels remained stable for a fourth consecutive month and optimism towards growth prospects was retained.

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.

At 46.1 in January, the seasonally adjusted Japan Services Business Activity Index fell from 47.7 in December, indicating a quicker contraction in business activity. The latest reduction was the sharpest recorded since August, and meant that activity has fallen in each of the last 12 months.

Similarly, new business declined at a quicker pace in the latest survey period. This extended the current sequence of contraction to 12 months, with the latest reduction the fastest since May. Panel members highlighted that the resurgence in COVID-19 infections and the introduction of a state of emergency to allow new restrictions designed to curb the spread of infections caused the fall in new work. Moreover, international demand for Japanese services deteriorated further.

Despite ongoing weaknesses in activity and new business, Japanese service providers kept employment levels broadly stable for the fourth consecutive month in January. Where employment levels increased, firms commented on higher demand for skilled workers in the technology and digital sectors. However, this was offset by ongoing retirements and voluntary resignations at other companies. There was also evidence that businesses redirected capacity towards the completion of existing projects, indicated by a sharp fall in outstanding business. Backlogs of work decreased to the greatest extent since last July.

Average cost burdens faced by firms in the Japanese service sector rose for the second consecutive month in January. However, the rate of increase remained only marginal. According to anecdotal evidence, businesses faced increased costs for transportation and equipment. However, this was partly offset by cost-cutting efforts elsewhere to combat the wider impact of the pandemic on margins. Despite higher input costs, survey participants reported a further fall in average prices charged in January, with price-discounting strategies extended into an eleventh successive month amid efforts to stimulate sales.

Nonetheless, business expectations for the next 12 months remained positive in January. Firms commonly attributed confidence to hopes of an end to the pandemic, which they hope will stimulate both domestic and international demand. The latest data indicated that optimism was moderate overall and softened for the third month in a row.
au Jibun Bank Japan Composite PMI®

Downturn in private sector output quickens

The au Jibun Bank Japan Composite® PMI Output Index - which measures combined output in the manufacturing and service sectors – fell to 47.1 in January from 48.5 in December, highlighting the quickest fall in private sector output since September. Moreover, output has now contracted for 12 months in a row.

Output fell at a quicker pace among services firms than at their manufacturing counterparts. Moreover, the rate of contraction in aggregate private sector new orders quickened to the fastest since September. The fall in orders was driven by services, as the manufacturing sector saw a stabilisation in new orders. Falling orders encouraged private sector firms to deploy resources to reduce outstanding business, with backlogs down markedly in January.

Employment levels in the Japanese private sector declined in January, after stabilising in December. The rate of job shedding was the fastest since August, and driven by a modest fall at manufacturers.

Private sector firms were optimistic regarding the year-ahead outlook for business activity, but confidence weakened to a four-month low. Nevertheless, businesses displayed positive sentiment for the seventh month running.

*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:

“The Japanese services economy started the new year in similar fashion to the way it ended 2020. Latest PMI data signalled a quicker decline in both business activity and new orders, with the latter contracting at the fastest pace since May. Panel members highlighted that a rise in COVID-19 infections and the subsequent implementation of a state of emergency dampened output and demand further.

“Despite this, Japanese service providers kept staffing levels broadly stable for the fourth month in a row. Moreover, expectations regarding the year-ahead outlook for activity were positive for the fifth consecutive month.

“Overall private sector activity fell further in January, and at a faster pace. Both the manufacturing and service sectors saw output fall, with the larger service sector noting the sharper contraction.

“Businesses in the Japanese private sector remained optimistic regarding a rise in activity in the coming 12 months. Although the level of positive sentiment was strong overall, it fell for the third month running due to a rise in COVID-19 cases. Firms cited concerns over when the pandemic would end given the introduction of stricter measures, as well as ever-increasing uncertainty regarding the status of the Tokyo Olympic Games. Nonetheless, businesses were confident that the roll-out of vaccines would enable an end to the pandemic and provide a broad-based boost in demand. As a result, IHS Markit expects the economy to grow 2.3% in 2021.”
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. January 2021 data were collected 12-26 January 2021.

About PMI

Purchasing Managers’ Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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