Japanese service providers indicated that business conditions were disrupted by a renewed rise in COVID-19 infections during May. Activity and new business inflows experienced sharper declines, both falling at the fastest pace since February. More positively, employment rose for the fourth month running, but the rate of growth eased to a three-month low. Optimism towards growth prospects was retained, though the level of positive sentiment slipped to the lowest since the start of the year.

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 46.5 in May, the seasonally adjusted Japan Services Business Activity Index fell from 49.5 in April, signalling a quicker contraction in service sector activity. The latest reduction was solid and the sharpest recorded since February as tighter restrictions weighed on output.

Similarly, new business declined at a faster pace in the latest survey period, extending the current sequence of contraction to 16 months. The latest reduction was the quickest for three months and modest. Panel members highlighted that the rise in COVID-19 cases and the reimposition of a state of emergency to curb the spread of infections caused the fall in new work. Moreover, international demand for Japanese services deteriorated further as key markets around Asia faced stricter restrictions due to a surge in infection rates.

Despite ongoing demand weaknesses, Japanese service providers increased employment levels for the fourth month in a row in May. Anecdotal evidence suggested that firms took on additional staff in anticipation of higher sales once the pandemic subsided. That said, there was further evidence that businesses redirected capacity towards the completion of existing projects, signalled by the eighteenth consecutive monthly fall in outstanding business.

Average cost burdens faced by Japanese service companies increased for the sixth successive month in May. Rising cost pressures were commonly attributed to higher raw materials, staff and energy costs. In a move to alleviate pressure on margins, survey participants sought to partially pass higher costs to clients, with average prices charged for services up for the second month running. That said, the rate of inflation was only marginal.

Business expectations for the next 12 months remained positive in May. Firms generally linked confidence to hopes of an end to the pandemic, which in turn would stimulate both domestic and international demand. The overall degree of optimism was strong, but the softest since January.
The au Jibun Bank Japan Composite® PMI Output Index - which measures combined output in the manufacturing and service sectors – fell to 48.8 in May from 51.0 in April, highlighting a renewed fall in private sector output. The decline was marginal, yet the quickest since February.

Trends for both output and new orders were weaker among services firms. While their manufacturing counterparts noted growth, rates of increase softened. As a result, total private sector new business declined at the quickest pace for three months. Falling orders encouraged private sector firms to deploy resources to reduce outstanding business, as indicated by a renewed fall in backlogs.

Positively, employment in the Japanese private sector rose during May. Though the rate of job creation slowed from April, the increase was the fourth in as many months as both manufacturing and services firms increased headcounts.

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

“Despite this, service providers continued to increase staffing levels for the fourth month in a row. Moreover, expectations regarding the year-ahead outlook for activity were positive for the ninth consecutive month. “Overall private sector activity saw a renewed decline in May, driven by a sharper fall in the larger service sector. At the same time, manufacturing output rose at a softer pace.

“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 second month running amid a renewed rise in COVID-19 cases. Firms highlighted concerns over the timing of the recovery given the introduction of stricter measures, which are currently due to ease shortly before the planned start of the Tokyo Olympic Games in July. Nonetheless, businesses were confident that the eventual end to the pandemic would occur within the coming year, and provide a broad-based boost to demand. As a result, IHS Markit expects the economy to grow 2.6% in 2021.”

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

“The Japanese services economy faced a sharper downturn in demand conditions in the middle of the second quarter. Latest PMI data signalled a quicker decline in both business activity and new orders, the fastest since February. Panel members highlighted that a surge in COVID-19 infections and the subsequent implementation of another state of emergency dampened output and demand further.

“Despite this, service providers continued to increase staffing levels for the fourth month in a row. Moreover, expectations regarding the year-ahead outlook for activity were positive for the ninth consecutive month. “Overall private sector activity saw a renewed decline in May, driven by a sharper fall in the larger service sector. At the same time, manufacturing output rose at a softer pace.

“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 second month running amid a renewed rise in COVID-19 cases. Firms highlighted concerns over the timing of the recovery given the introduction of stricter measures, which are currently due to ease shortly before the planned start of the Tokyo Olympic Games in July. Nonetheless, businesses were confident that the eventual end to the pandemic would occur within the coming year, and provide a broad-based boost to demand. As a result, IHS Markit expects the economy to grow 2.6% 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.

May 2021 data were collected 12-25 May 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.

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world’s leading financial institutions.

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