Services Business Activity Index
sa, >50 = growth since previous month

Household Services Expenditure
% yr/yr

Sources: au Jibun Bank, IHS Markit, Cabinet Office Japan

Business activity falls at fastest rate since April 2014 as COVID-19 outbreak squeezes demand

Key findings
- Survey respondents link falling tourism to strong drop in demand
- Business activity declines at strongest rate since April 2014
- Business optimism eases to near four-year low

According to the latest PMI data, Japan’s service sector faced a difficult month in February as a sharp fall in demand led business activity to contract at the fastest rate since April 2014. Panel comments suggest that the COVID-19 outbreak had squeezed tourism, a key source of demand for Japanese services.

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.

The seasonally adjusted Japan Services Business Activity Index fell from 51.0 in January to 46.8 in February. This signalled a renewed contraction in services output, reversing the shallow recovery registered previously. Furthermore, the rate of decrease was the sharpest since April 2014, the month in which the sales tax increased to 8%.

According to anecdotal evidence, business activity declined due to reduced volumes of new work. Latest survey data pointed to the steepest drop in demand for eight-and-a-half years. One factor weighing on sales was lower levels of tourism, according to some panel members. Reports suggested that the COVID-19 outbreak had squeezed new business receipts due to fewer foreign visitors in Japan. In some cases, companies mentioned that they had to close their stores due to a lack of work. Sales to clients in foreign markets also negatively impacted on total order book volumes in February, with export demand falling to the fastest extent in two-and-a-half years.

With new business intakes down sharply on the month, Japanese service providers focused their resources on tackling backlogs of work. Latest survey data signalled a third successive depletion in the level of outstanding business during February. Furthermore, the decline accelerated from January and was the strongest since September 2012.

For the third month in succession, optimism among Japanese service providers eased in February. The degree of confidence was only mild and its weakest for just over three-and-a-half years. The outlook was weighed on by pessimistic expectations regarding the impact of coronavirus. Some firms also foresee the ageing population and competitive pressures as factors which could restrict output.

On a more positive note, service sector employment continued to rise in Japan. However, the rate of job creation slowed to a three-month low and was only marginal. Some companies mentioned that retiring workers were not replaced. Latest survey data indicated further inflationary pressures midway the first quarter. Input costs rose amid reports of higher energy, transport and staff costs, although the rate of inflation eased. Meanwhile, output charges rose for a second month in a row.
au Jibun Bank Japan Composite PMI®

Aggregate output falls at sharpest rate since April 2014

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 au Jibun Bank Japan Composite Output Index fell to 47.0 in February, down from 50.1 in January, signalling a renewed contraction in private sector business activity. The decrease was solid and the strongest since April 2014, the month in which economic output was hit by the consumption tax rising to 8%.

The contraction in output was broad-based by sector, although services firms recorded the stronger decline as companies were hit by reduced tourism. That said, material shortages due to shipment delays constrained manufacturing production as the COVID-19 outbreak affected both the demand and supply side of the economy.

New orders fell sharply amid reports of lower overseas sales. Manufacturers recorded the faster decline, however, as lower export demand weighed on total order books.

Comment

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

“The February PMI report bodes ill for the Japanese economy and, barring an exceptional rebound in March, suggests that a technical recession is exceedingly likely following the fourth quarter’s marked contraction in GDP.

“The initial impact of the COVID-19 outbreak appears to have hit service sector activity the hardest. Services companies in Japan have not recorded such a drop in output since April 2014 when the consumption tax hike to 8% took effect.

“New business fell sharply as tourism, a key source of demand, was squeezed. In some cases, firms reportedly closed their stores as incoming workloads were insufficient.

“Policymakers are powerless in offsetting the economic effects of coronavirus. Supply chains are likely to face bottlenecks as Chinese vendors face heavy backlogs, while increasing cases of COVID-19 outside of China will do little to spur consumers to travel and go out to restaurants.”
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. February 2020 data were collected 12-25 February 2020.

About PMI

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