Activity rises modestly, but new business growth dips to one-year low

Key findings

Modest activity growth sustained in July...

...but new business and employment growth eases

Optimism dips to near two-year low

Japan’s service sector began the third quarter with yet another modest monthly expansion in output, matching the trend seen so far in each month of 2019. Other key gauges of economic health such as employment and new business also signalled growth, while businesses remained upbeat towards the 12-month outlook. That said, there were signs of softening momentum as job creation and demand rose to slower extents, while optimism retreated to a 23-month low.

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 recorded 51.8 in July, a fractional decline from June’s 51.9. This signalled a modest month-on-month expansion in service sector activity that was broadly in line with the average across the year-to-date. Furthermore, output has risen in successive months since October 2016.

Panellists linked activity growth to improved demand for their services. Latest survey data indicated greater inflows of new business at Japanese service providers, however, the rate of increase slowed in July to a one-year low amid reports at some companies of subdued sales. Nevertheless, new business from abroad stabilised following June’s relatively marked drop. The respective index recorded a fraction above the 50.0 no-change mark.

Meanwhile, employment levels in Japan’s service sector increased for a thirty-first straight month during the latest survey period. That said, the rate of job creation weakened to its lowest since last October and was only marginal. According to anecdotal evidence, recruitment was partly restricted by increased retirements.

The combination of slower new business growth and sustained job creation coincided with a stabilisation in the volumes of outstanding work at Japanese service providers, ending a three-month sequence of backlog accumulation.

Elsewhere, latest survey data highlighted a further increase in operating costs in Japan’s service sector. Greater employment costs, as well as increased maintenance and raw material prices were mentioned among panel comments. That said, the rate of input cost inflation softened for a fourth straight month to the weakest since May 2018.

In response, prices charged for the provision of services in Japan increased in an effort to protect profit margins. In line with the softer increase in operating expenses, selling prices were lifted to a weaker extent than in June. The rate of charge inflation was the slowest in nine months.

Lastly, companies were optimistic that business activity would grow over the coming year, but the degree of confidence eased to a near two-year low.
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 continued to signal growth in July, recording 50.6. However, this was down from 50.8 in June and consistent with only a mild rate of expansion. Furthermore, the index fell to its lowest level since March. While service sector output growth was little-changed from June, manufacturing weakness deepened.

Survey data indicated softer growth in new work amid a slower rise in demand for services. Manufacturers continued to record falling order volumes, citing domestic and external market difficulties. That said, employment growth was broad-based, with both sectors registering higher staffing levels.

Meanwhile, inflationary pressures softened slightly, while business confidence slipped and was relatively subdued overall amid fears of slowing growth and uncertainty over the impact of the consumption tax hike.

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

“Service sector growth in Japan continued to ebb along sideways at the start of the third quarter, failing to break out of the modest expansion trend we’ve seen so far in the year-to-date.

“However, there were some signs that the underlying services economy was beginning to lose momentum, with employment and new business growth both easing, while optimism moderated as some firms were concerned that the looming consumption tax hike could impact demand.

“Another concern is the size of the divergence between services and manufacturing. July survey data for the latter showed no signs that the malaise has been thwarted. With the escalation of Japan-Korea tensions, softening growth in services in the run up to the sales tax increase could see recession risks become increasingly greater.”
Methodology
The Jibun Bank Japan Services PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 450 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. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. 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 ‘Services PMI’ but is not comparable with the headline manufacturing PMI figure.

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. July 2019 data were collected 12-26 July 2019.

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

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Jibun Bank is an internet retail bank established in 2008 by a joint investment of KDDI – a major telecommunication service provider – and MUFG Bank – Japan’s largest bank –. As a “smartphone-centric bank”, Jibun Bank has over 3.4 million customer accounts and focuses on providing high-quality financial services via smartphones.

Jibun Bank provides unique services such as “Smartphone ATM”, a service allowing to deposit and withdraw money from teller machine without cash card by just scanning a QR code shown on the smartphone app, and “AI Foreign Currency Forecast”, a foreign currency trading support tool that predict the rise of foreign exchange rate based on past trend deep learned by an AI (artificial intelligence).

As a member of the “au Financial Group”, Jibun Bank aims to play a major role in providing comprehensive smartphone-centric banking services in line with the “Smart Money Concept” and enhance customer experience.

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