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au Jibun Bank Japan Services PMI®

Including au Jibun Bank Japan Composite PMI®

Service sector expands at softer pace in December

Key findings

Activity and new orders rise at moderate, albeit softer rates

Further slight fall in employment

Business optimism softens to three-month low

Data were collected 06-20 December 2021.

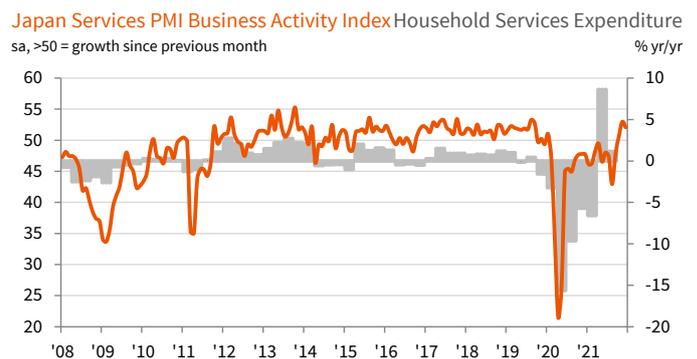
The Japanese service sector witnessed a softer expansion at the end of 2021. Both the activity and new orders indices signalled softer, yet still moderate rates of growth in December, as businesses continued to report a steady recovery in demand. Despite firmer demand conditions, firms struggled to fill available vacancies, which contributed to a further slight reduction in employment. Moreover, concerns about the potential for new variants of COVID-19 clouded the 2022 outlook for business activity, with the degree of optimism softening to the lowest for three months.

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 dipped from 53.0 in November to 52.1 in December to indicate a moderate expansion in business activity. Despite the slight easing in the growth rate, the average reading over the final quarter was the strongest quarterly performance since the third quarter of 2019.

As pandemic restrictions were eased, demand continued to improve during December. Total new business rose in consecutive months for the first time since January 2020, with



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

the rate of expansion moderate overall, with service providers commonly attributing this to stronger client confidence. Moreover, foreign demand for services also rose for the second successive month, and at the fastest pace since October 2019.

In contrast, employment levels decreased for the second month in a row at the end of 2021. Firms commonly noted the non-replacement of voluntary leavers as the main factor behind the fall in staffing, though the rate of job shedding was only slight. At the same time, firms signalled a fractional rise in outstanding business, the second in as many months and a further sign of pressure building on existing capacity.

Meanwhile average cost burdens faced by Japanese service providers rose for the thirteenth consecutive month in December. The rate of input cost inflation accelerated from November to reach the highest since August 2008, as panellists widely attributed the increase to higher raw material and staff costs. Concurrently, prices charged for Japanese services increased, extending the current bout of inflation to four months. Moreover, the rate of cost inflation was the sharpest recorded since October 2019.

Looking forward, Japanese service providers remained confident that activity would expand over the coming year. Sentiment was positive for the sixteenth month running, though eased to a three-month low in December. Optimism was underpinned by hopes that the end of the pandemic would facilitate a broad recovery in demand, though there was concern regarding the potential impact of new variants of COVID-19.

au Jibun Bank Japan Composite PMI®

Private sector output continues to expand at end of 2021

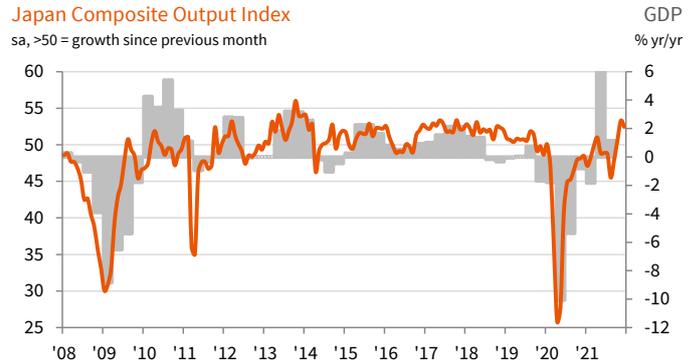
The au Jibun Bank Japan Composite* PMI Output Index - which measures combined output in the manufacturing and services sectors - dipped from 53.3 in November to 52.5 in December to signal a softer, yet still moderate expansion in Japanese private sector output. As a result, the average reading in the final quarter marked the strongest quarterly performance since the fourth quarter of 2018. Both manufacturing and services firms reported a softening in growth rates in December.

Aggregate new orders were also increased for a third consecutive month, despite growth easing slightly from November. That said, stronger demand placed additional pressure on private sector capacity as outstanding business rose at the fastest rate for three-and-a-half years.

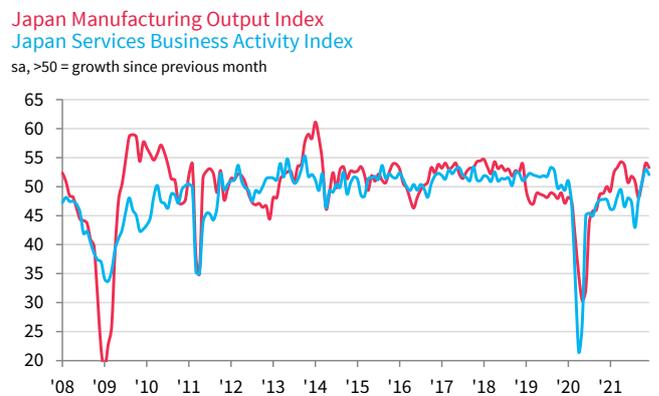
Private sector firms recorded a rise in staffing levels for the eleventh month running. The rate of job creation was unchanged from November and marginal, reflecting quicker growth at manufacturers and a second successive fall at services firms.

Firms reported rapidly increasing cost burdens at the end of 2021. Average input costs rose at the fastest pace since August 2008, which contributed to the fourth-fastest rise in output charges on record.

**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.*



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



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Comment

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

"Japanese service sector businesses signalled a sustained expansion in business conditions at the end of 2021, as activity rose for the third consecutive month. The easing of COVID-19 restrictions allowed customer-facing businesses to operate more freely throughout the final quarter of the year and also led to a further rise in incoming business as client confidence grew throughout December.

"That said, firms continued to cite shortages in both labour and raw materials, with employment levels dipping further. Moreover, business optimism eased to the lowest since September.

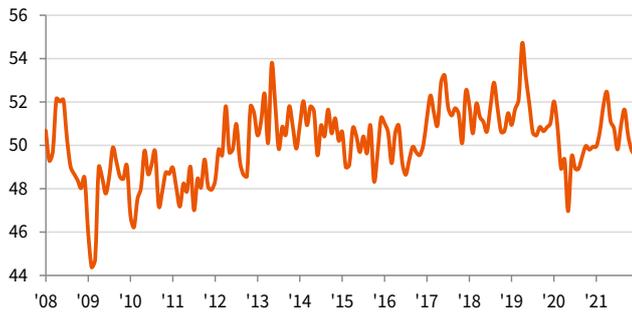
"Overall private sector activity improved moderately at the end of 2021, following sustained expansions in both manufacturing and services. Private sector firms also commented on a further solid rise in incoming business, the first full quarter of growth reported since 2019Q3.

"Cost burdens among Japanese private

sector firms continued to intensify at the end of the year, pushing input price inflation to the sharpest in nearly 13-and-a-half years amid sustained material shortages and supply chain delays. Concerns that disruption would extend into the new year were elevated, as business optimism dipped to a four-month low. These were exacerbated by the potential impact of new COVID-19 variants, such as the Omicron strain. Nonetheless, IHS Markit continues to forecast a modest expansion in Japan, estimating the economy will grow 3.5% in 2022."

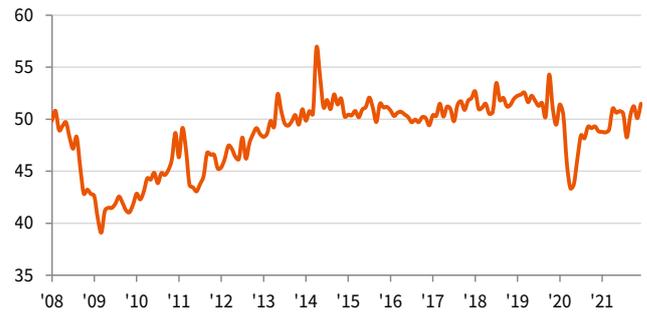
Japan Services Employment Index

sa, >50 = growth since previous month



Japan Services Prices Charged Index

sa, >50 = inflation since previous month



Contact

au Jibun Bank
Grp-S-I-Room@jibunbank.co.jp

Usamah Bhatti
 Economist
 IHS Markit
 T: +44 134 432 8370
usamah.bhatti@ihsmarkit.com

Joanna Vickers
 Corporate Communications
 IHS Markit
 T: +44 207 260 2234
joanna.vickers@ihsmarkit.com

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.

December 2021 data were collected 06-20 December 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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The au Jibun Bank Japan PMI is sponsored by au Jibun Bank Corporation

The au 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", au Jibun Bank focuses on providing high-quality financial services via smartphones.

The au 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", au 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.

About IHS Markit

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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