

Nikkei Japan Services PMI[®] (with Composite PMI data)

Service sector activity growth continues in May

Key points:

- Upturn in services activity sustained amid resilient demand
- Employment rises at solid pace
- Businesses maintain optimistic outlook

Data collection 13-28 May

Japan's service sector continued to show signs of resilience during May, with business activity, new orders and employment all expanding. There were also signs of an improvement in overseas demand, with export sales rebounding. Business confidence, despite dipping slightly since April, remained stronger than seen on average over the survey history.

The headline index from the survey – the seasonally adjusted **Business Activity Index** – recorded 51.7 during May, compared to 51.8 in April. This signalled a moderate rate of expansion in service sector output that was broadly similar to that recorded in the previous month. The average rate of growth seen so far in the second quarter is only fractionally weaker than that during the opening three months of the year.

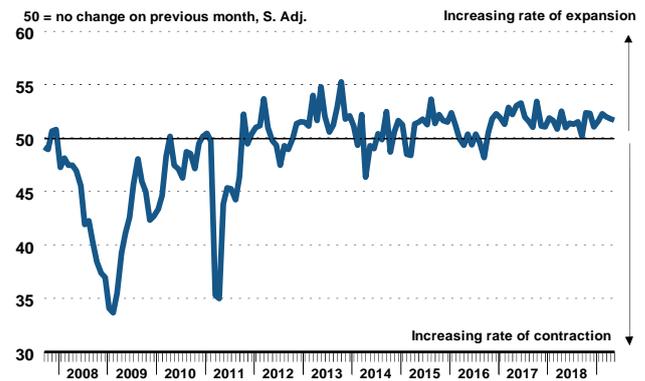
The contraction in manufacturing output continued in May, with the rate of decline little-changed from that seen in April. Subsequently, the **Composite Output Index** fell only to 50.7, from 50.8 previously.

Supporting the expansion in services activity were continued inflows of new work. New sales increased at a solid and quicker rate in May. The upturn in demand was attributed to new client wins, successful tendering and greater volumes of work from abroad.

Demand conditions remained unfavourable for Japanese manufacturers in May, particularly in overseas markets as firms reported lower orders from Chinese clients.

Meanwhile, latest survey data indicated a rebound in new export business at service providers during May following contraction in April. Some companies suggested that underlying demand from international clients had improved.

Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

The employment trend in Japan's service sector remained robust during May. Although the rate of job creation slowed from April's survey high, new store openings and the recruitment of graduates supported a solid rise in staffing levels overall.

Despite the solid month-on-month gain in workforce numbers, Japanese service providers continued to signal a build-up in outstanding work. Panellists indicated that sustained growth in sales had tested operating capacities. That said, the rate of accumulation was only marginal and eased since April.

Employment growth was also sustained in the manufacturing sector, although the rate of increase dipped to the weakest since November 2016. Reduced intakes of new work led goods producers to channel their resources towards tackling backlogs, which declined for a fifth month running in May.

Increased hiring was one factor behind another monthly increase in input costs for service providers during May. Firms also reported higher maintenance and gas expenses. Overall, input prices rose strongly, albeit at the weakest pace in three months. Meanwhile, output price inflation accelerated.

The rate of increase in input costs at manufacturers was solid and broadly in line with that seen at service sector firms. Prices charged for goods also rose in May.

Looking ahead, service sector businesses were optimistic of activity growth in the coming year. However, the degree of confidence slipped and was on par with March's 18-month low. Some firms were concerned about the planned consumption tax hike later this year.

In the goods-producing sector, firms cast their first downbeat assessment towards the year ahead in six-and-a-half years.

Comment:

Commenting on the Japanese Services PMI survey data, **Joe Hayes**, Economist at IHS Markit, which compiles the survey, said:

“Japan’s services economy continued to tick along at a modest pace during May. Taken in conjunction with the earlier-released manufacturing PMI, private sector output in Japan is growing at a rate that’s broadly in line with the underwhelming average seen in the opening quarter. The current underlying trend in Japan’s economy is disappointing and will certainly warrant concern from Abe amid the upcoming upper house elections in July and the scheduled consumption tax hike later this year. Indeed, service sector panellists indicated a degree of concern towards the sales tax increase, which pulled sentiment to its joint-lowest level in 18 months.”

-Ends-

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Notes to Editors:

The early June releases of May data from the Asia PMI series will be the final releases to carry Nikkei branding.

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The Nikkei Japan Composite *PMI*[®] is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of over 800 companies based in the Japanese manufacturing and service sectors.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

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