Service sector activity recovers in January

Key findings

Business activity growth at four-month high

Demand conditions improve; employment rises further

Business confidence slides to 29-month low

January PMI® survey data signalled an improved business environment for Japanese service providers, with key metrics of macroeconomic health such as output, new orders and employment all rising. Firms also showed a degree of pricing power as output charges rose solidly. That said, concern towards economic prospects in the coming year, particularly after the Tokyo Olympic Games, pulled business confidence down to its weakest for over two years.

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 rose to 51.0 in January. This was up from 49.4 at the end of last year and signalled a renewed expansion in service sector output across Japan. Although the increase in business activity was modest, it was the fastest in four months and represented a marked turnaround from the contraction seen on average in the fourth quarter of 2019.

Solid gains in new work were a key supporting factor of growth in January. Latest survey data signalled a forty-second straight monthly rise in sales, with the rate of expansion accelerating to a seven-month high. New client wins were reported by a number of panel members. Meanwhile, exports provided a marginal contribution to total new business growth during the latest survey period, reversing the slight contraction seen previously.

There was a notable pickup in service sector employment in Japan at the start of 2020. Workforce numbers have risen in each month since January 2017, with the rate of increase gaining momentum to reach an eight-month high. Recruitment lifted due to higher demand and company expansions, according to anecdotal reasons.

Despite greater demand, the stronger rise in employment coincided with a second successive decline in backlogs of work at Japanese service providers. This marked the first back-to-back decreases in outstanding business since November 2018. Overall, the rate of depletion was modest and eased from December.

Firms took advantage of robust demand conditions in January and raised their selling prices. With the exception of October’s sharp rise following the consumption tax change, the rate of inflation was the strongest since last August. Survey respondents linked hikes in their charges to greater cost pressures. Food, fuel, rent and insurance were reportedly among the causes of higher input prices. The rate of increase accelerated and was strong overall.

Looking ahead, while business remained optimistic of output growth in the coming year, the degree of confidence fell to a 29-month low. Concern towards the ageing society and weak economic conditions all weighed on the outlook.
Jibun Bank Japan Composite PMI®

Japanese private sector activity stabilises in January

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 increased to 50.1 in January, from 48.6 in December. With a reading only fractionally above the neutral 50.0 mark, the headline index was broadly indicative of a stabilisation in private sector business activity in January following three successive month-on-month contractions in the fourth quarter of 2019.

The sector breakdown revealed that continued decline in manufacturing production was offset by a renewed increase in service sector activity.

Composite level data showed a renewed rise in new orders in January following stagnation in December. Meanwhile, private sector employment growth continued and was broad-based for a thirty-seventh successive month.

Comment

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

"Latest PMI data will come as a relief that Japan’s service sector - which has essentially been driving economic growth for around a year now - has recovered from the sales tax hike and typhoon disruption, which had quite the overhang in the fourth quarter.

"Stronger growth in demand and employment instil some confidence that short-term economic prospects are not as bad as feared at the end of last year.

"That said, business confidence dropped to a 29-month low in January, with concern towards the ageing working population and low-growth environment restricting expectations in the year ahead. While the Tokyo Olympic Games will certainly provide a boost to economic activity this year, firms are looking past temporary factors and are showing early signs of concern for Japan’s growth potential."
Methodology

The 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.

January 2020 data were collected 13-28 January 2020.

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

About PMI

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