

Embargoed until 0930 JST (0030 UTC) 8 May 2020

## au Jibun Bank Japan Services PMI®

Including au Jibun Bank Japan Composite PMI®

# Services activity declines at survey-record rate during April

### Key findings

Measures to stem COVID-19 outbreak leads to collapse in demand

Services output falls at fastest rate in survey history

Business confidence sinks to lowest since global financial crisis

Data were collected 07-27 April 2020.

Service sector output in Japan sank deeper into contraction territory during April as measures to stem the spread of the coronavirus disease 2019 (COVID-19) led to a survey-record decline in demand. As a result, output fell at an unprecedented rate which outpaced the declines seen during the global financial crisis and after the 2011 tsunami.

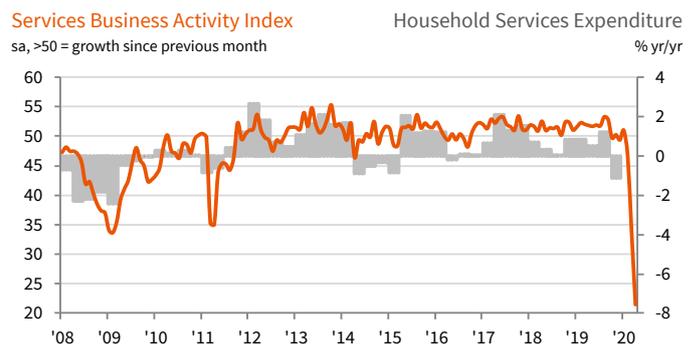
Employment levels were reduced as businesses reported a strong rise in spare capacity. Meanwhile, business confidence fell to its lowest since January 2009.

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 sank to 21.5 in April, from 33.8, signalling a severe decline in service sector output that was notably faster than seen in March. Furthermore, the reduction was the fastest since data collection began in September 2007.

Panel members overwhelmingly attributed the unprecedented drop in activity to the global COVID-19 pandemic, as public health measures to prevent the spread of the virus caused demand to contract sharply. Latest survey data pointed to the



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

fastest drop in new orders at Japanese service providers on record. Clients shutting their businesses, order cancellations and lower tourism were all linked to the sharp fall in sales.

Export demand also fell at the quickest pace on record in April, outpacing that seen in March. The global COVID-19 pandemic severely dented new orders from overseas markets, according to anecdotal reasons.

As a result of lower intakes of new work, spare capacity increased sharply during April. Lower production requirements and a desire to cut costs led Japanese service providers to reduce employment at the start of the second quarter. That said, the rate of job shedding was mild and approximately 83% of firms left staffing levels unchanged from March.

Concern that the economic damage caused by coronavirus would be long-lasting, business confidence sank to its lowest since January 2009. Overall, businesses expect activity to decline over the next 12 months, with uncertainty over the timing of an economic recovery weighing on sentiment.

On the prices front, latest survey data pointed to the first decrease in overall cost burdens since October 2012. Lower staffing numbers pulled down labour costs in April, while other firms linked the drop in operating expenses to a fall in fuel prices. The rate of reduction was the strongest for over a decade.

Plummeting demand and lower costs contributed to further discounting in Japan's service sector at the start of the second quarter. Selling charges were reduced at the fastest pace since June 2011.

## au Jibun Bank Japan Composite PMI®

### Private sector output falls at sharpest rate on record in April

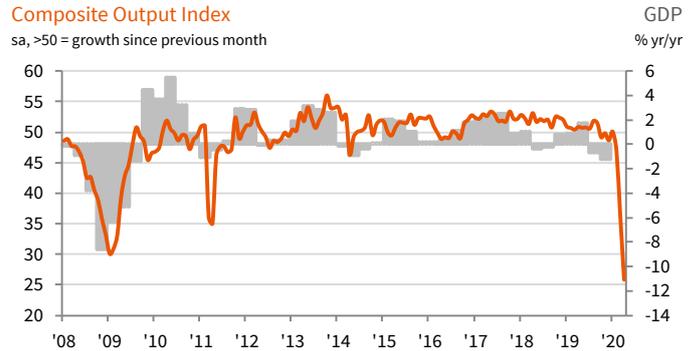
Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Japan Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

The au Jibun Bank Japan Composite Output Index fell to 25.8 in April, down sharply from 36.2 in March to the lowest ever recorded by the survey since data collection began in September 2007. While both manufacturers and service providers registered sharper contractions in output, the latter was once again the main driver of the downturn.

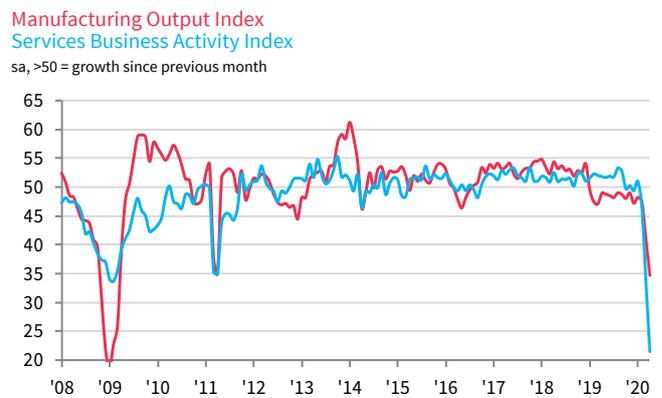
Manufacturing production fell at the strongest rate since March 2009, while services activity declined at the steepest rate on record.

Demand for Japanese goods and services fell considerably in April. Orders from overseas markets plunged as measures to curb the spread of COVID-19 in key export markets led clients to cancel orders.

Employment also declined, with manufacturers cutting jobs quicker than their service sector counterparts.



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



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### Comment

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

"Japan's economic downturn accelerated in April, according to latest survey data. Given the stepped-up response from the Government to tackle the spread of COVID-19, it's unsurprising to see a plethora of record lows across the service sector survey. Most notably, new orders and output fell at unprecedented rates which outpaced previous sharp

declines such as those during the global financial crisis and in aftermath of the 2011 tsunami.

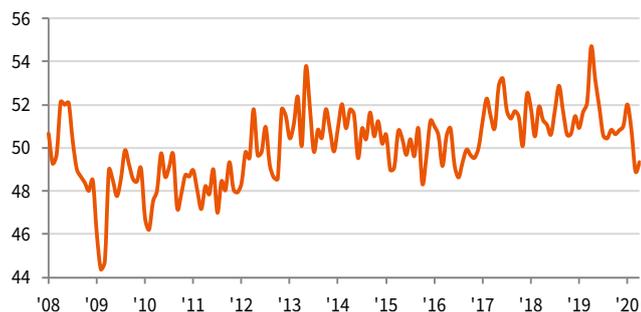
"Historical comparisons between composite PMI data and GDP suggest that at present the levels, the economy is contracting an annual rate of approximately 12%.

"That said, the employment index held up pretty well in April, signalling only a mild month-on-month decline. This is a good sign, and if the majority of firms do retain their workforces, it will be strongly

supportive of a quicker recovery."

### Services Employment Index

sa, >50 = growth since previous month



### Services Prices Charged Index

sa, >50 = inflation since previous month



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### 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.

April 2020 data were collected 07-27 April 2020.

### 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.  
[ihsmarkit.com/products/pmi.html](https://ihsmarkit.com/products/pmi.html)

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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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