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Jibun Bank Japan Services PMI®

Including Jibun Bank Japan Composite PMI®

Japanese service sector output declines for first time in over three years

Key findings

Business activity drops following typhoon and sales tax rise

Both input and output price inflation jump up

New order growth eases to 17-month low

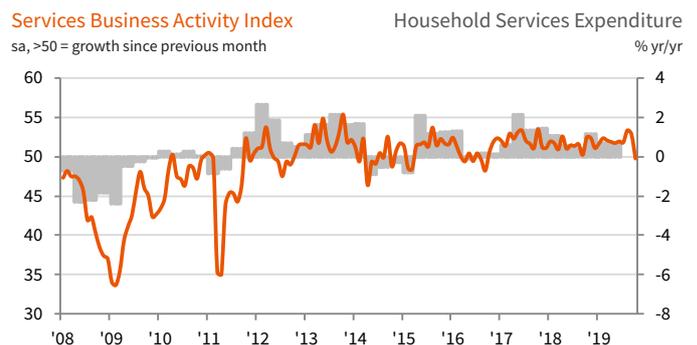
According to the latest PMI survey, service sector activity in Japan declined for the first time since September 2016. However, the consumption tax rise and disruptions from the typhoon were reportedly key to the decline. Both factors also restricted new business growth in October, which was the slowest in almost a year-and-a-half as output charges rose at the fastest rate since April 2014.

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 fell to 49.7 in October, from 52.8 in September, to signal the first decline in services output for over three years. According to anecdotal evidence, there were widespread reports of business activity being impacted by the typhoon and consumption tax increase. That said, the contraction was marginal overall.

Latest survey data also indicated that the sales tax rise and harsh weather conditions affected demand, as new order growth eased to a 17-month low in October. Nevertheless, new client wins supported a mild expansion in new business, extending the current upturn in new work which commenced in August 2016.



Sources: Jibun Bank, IHS Markit, Cabinet Office Japan

Inflows of new orders from overseas markets also rose during the latest survey period. New export business rose for a fourth successive month, with firms linking growth to the Rugby World Cup.

A noticeable step up in inflationary pressures was also a result of the consumption tax hike in October. Input prices faced by Japanese service providers rose at the strongest rate in seven months with inflation well above its long-run average.

In response, firms passed on these higher burdens onto their clients. In fact, output prices increased strongly and at the quickest pace since April 2014, which was when the consumption tax also rose.

Elsewhere, employment expanded in Japan's service sector during October, continuing the positive trend which started at the beginning of 2017. Overall, the rate of job creation was mild and little-changed from September. According to firms, staffing levels were increased as a result of sustained demand pressures.

There was evidence of a strain on service sector capacity during October, with outstanding business increasing for a third month in succession. That said, with new order growth easing, the rate of accumulation in backlogs of work also slowed and was only marginal overall.

Lastly, Japanese service providers were optimistic regarding the next 12 months. Plans to hire new staff and invest underpinned the confident outlook, according to panel members. Furthermore, the level of positive sentiment was above the historical average.

Jibun Bank Japan Composite PMI®

Private sector output falls for the first time in over three years

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 fell to 49.1 in October, from 51.5 in September, signalling the first decline in private sector output for over three years. Furthermore, the downturn was broad-based across both manufacturers and service providers.

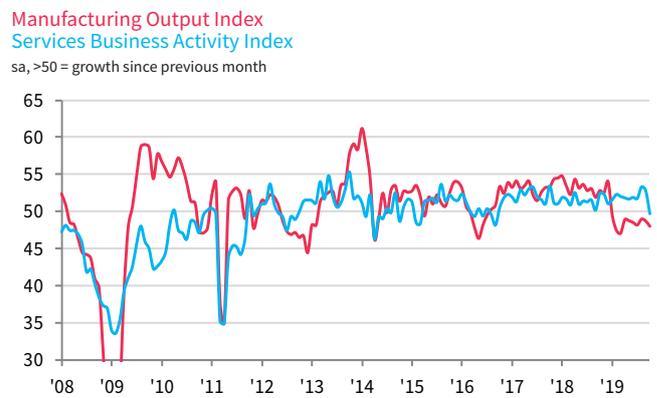
Aggregate new order intakes also declined when compared to September. Manufacturing sales fell at the fastest pace since May 2016, while only marginal growth in service sector new business was recorded.

That said, employment growth was sustained in October. Manufacturing jobs rose at the fastest pace in six months and outpaced that seen in the service sector.

Meanwhile, an intensification of inflationary pressures in the service sector led both composite input and output prices to rise at stronger rates.



Sources: Jibun Bank, IHS Markit, Cabinet Office Japan



Sources: Jibun Bank, IHS Markit.

Comment

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

"Japan's service sector has started the fourth quarter on a weaker footing, as many had expected would be the case with the sales tax hike coming into effect in October. However, the extent of the impact has been obscured by the devastating typhoon, which panellists mentioned had caused notable disruption to business operations.

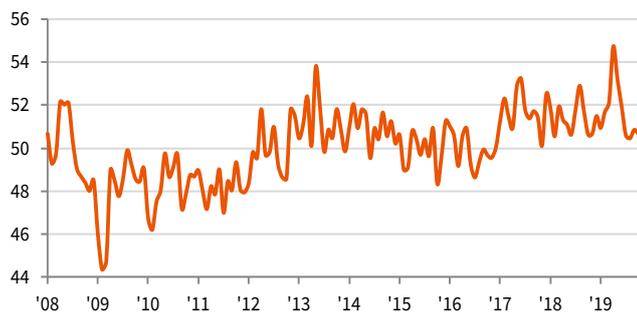
"That said, there are reasons to be positive

as new orders continued to rise, despite the poor weather exacerbating negative effects from the sales tax hike. This contrasts with April 2014, the last time the sales tax increased, when new orders dipped into contraction territory. This would hint that the impact this time round has not been as detrimental on the Japanese economy.

"That said, the short-term pricing and demand adjustments to the taxation change will likely dampen activity in the closing months of 2019. Unfortunately, it seems that the service sector may struggle to offset manufacturing weakness."

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 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.

October 2019 data were collected 11-28 October 2019.

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

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. To learn more go to ihsmarkit.com/products/pmi.html.

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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.

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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