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au Jibun Bank Japan Services PMI®

Including au Jibun Bank Japan Composite PMI®

Headline PMI reaches four-month high in June

Key findings

Service sector downturn eases as some firms return to business

Demand conditions remain fragile, but deterioration weakens drastically

Firms foresee further challenges, but sentiment improves since May

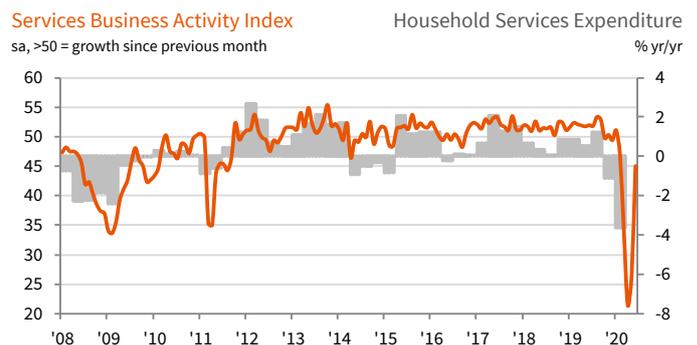
Data were collected 12-25 June 2020.

Following unprecedented and survey-record contractions in service sector output in April and May, latest PMI data revealed a substantial easing of the service sector downturn caused by coronavirus disease 2019 (COVID-19) disruptions. With the state of emergency being lifted, some businesses returned to work and reported a tentative improvement in their order books. However, conditions remained fragile amid low customer numbers and operating rates, alongside still-weak economic conditions.

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 recorded a sizeable month-on-month rise of 18.5 points in June. The headline figure recorded 45.0, up from 26.5 in May. While still remaining beneath the 50.0 mark which separates growth from contraction, latest survey data signalled a substantial slowing in the downturn as the state of emergency being lifted allowed for a resumption in economic activity. However, where output did rise, panel comments suggest that growth was limited due to below-capacity operations and low customer numbers.



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

Nevertheless, the broad trend remained negative in June. According to panel comments, levels of activity and new orders were pulled lower by the ongoing adverse economic effects of COVID-19. Demand for Japanese services continued to fall in June, although the decline moderated from those seen in the two previous months. Improved social mobility reportedly benefited order books at some companies, but the majority of businesses observed either no change or a further drop in new workloads.

Spare capacity was once again apparent during June as volumes of outstanding business fell solidly. According to firms, operating requirements remained low due to weak demand conditions.

Service sector employment was down only marginally during June, and the majority of companies (88%) recorded no change. Of the small group that saw workforces shrink, panel members often linked this to retirements.

Looking ahead, businesses expect activity levels to remain constrained over the coming year by heightened economic uncertainty, a further shrinking in client numbers and below-capacity operating rates. That said, the level of confidence improved to a four-month high as some firms were optimistic that the worst of the downturn had passed.

Lastly, input costs stabilised in June, following two successive months of solid reductions. Some companies reported higher expenses due to the purchase of protective equipment. Meanwhile, firms remained in discounting mode in June, cutting prices for a fourth month running.

au Jibun Bank Japan Composite PMI®

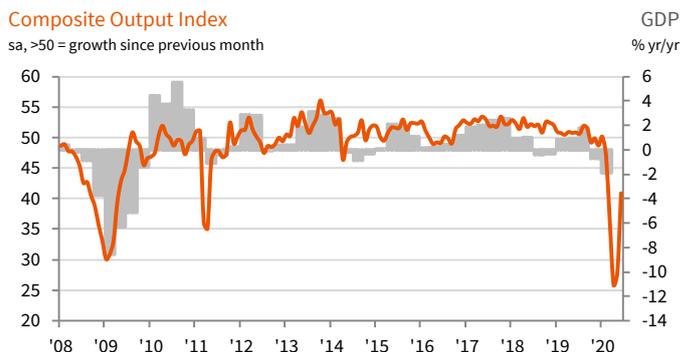
Service sector pulls Composite PMI higher as manufacturing weakness persists

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.

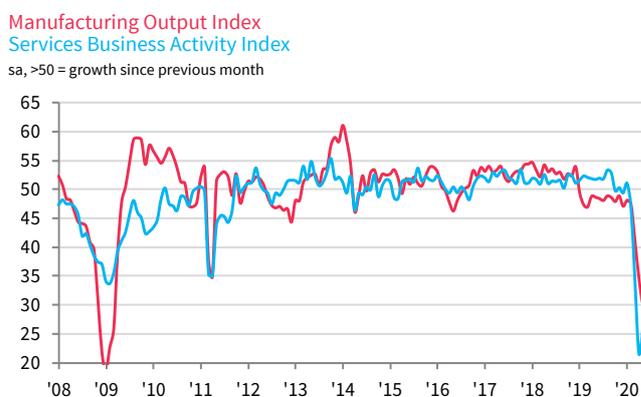
The au Jibun Bank Japan Composite Output Index - which measures combined output in the manufacturing and service sectors - rose to 40.8 in June, from 27.8 in May, signalling a considerably slower rate of contraction in activity. That said, the decline was marked overall as manufacturing production continued to fall steeply and at a rate which was the second-strongest since March 2009. Meanwhile, the downturn in services activity slowed sharply to the weakest since February.

A similar trend was seen with regards to order books in June. While rates of contraction across both sectors slowed, manufacturers observed a further sharp month-on-month fall. This contrasted with a substantially weaker drop in demand for services.

Elsewhere, business confidence improved, although sentiment was stronger at manufacturers than service providers.



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:

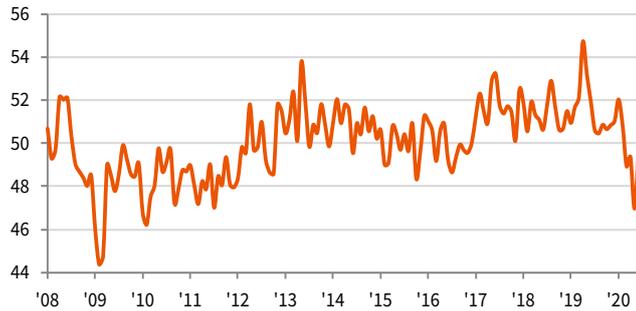
"Services PMI data for Japan are certainly moving in the right direction, with the headline output index rising by nearly 20 points on the month as the state of emergency ending has improved social mobility and encouraged a slow resumption in economic activity. However, growth hasn't come roaring back and a further sub-50.0 reading

suggests the downturn is only easing, not ending.

"We have to remember that Japan's economy was already in a recession before the second quarter and 2020 was set to be economically challenging, notwithstanding the huge COVID-19 shock. Panel comments suggest that service sector demand conditions remain very fragile and, although the spread of the virus has stabilised in Japan, customer numbers were reportedly still low in June. Until demand rises persistently at a strong

rate, we can expect a sluggish recovery."

Services Employment Index
sa, >50 = growth since previous month



Services Prices Charged Index
sa, >50 = inflation since previous month



Contact

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

Joe Hayes
Economist
IHS Markit
T: +44 1491 461 006
joseph.hayes@ihsmarkit.com

Bernard Aw
Principal Economist
IHS Markit
T: +65 6922 4226
bernard.aw@ihsmarkit.com

Katherine Smith
Public Relations
IHS Markit
T: +1 781 301 9311
katherine.smith@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.

June 2020 data were collected 12-25 June 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://www.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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