

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

Activity growth accelerates in January

Key points:

- Service sector output grows amid rise in demand...
- ...but export sales decline
- 12-month outlook remains positive

Data collection 11-28 January

According to latest survey data, stronger business activity growth was recorded in Japan's service sector during January. The improved expansion was supported by healthy inflows of new business from domestic clients, as a renewed decline in export orders was observed. The outlook remained positive, as firms anticipate activity levels to rise over the coming 12 months. In line with optimism, staffing levels were boosted. However, capacity constraints persisted, with backlogs of work rising to the greatest extent in 15 months. Meanwhile, output price inflation quickened, despite a softer increase in cost burdens.

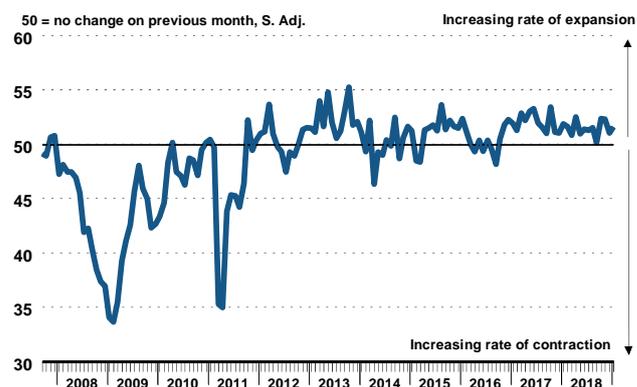
The headline index from the survey – the seasonally adjusted **Business Activity Index** – rose in January to 51.6, from 51.0 in December, thereby indicating a stronger expansion in service sector business activity. Anecdotal evidence suggested that output was raised to accommodate for greater demand.

In contrast, production was scaled back by Japanese manufacturers, the first monthly drop in output in the sector since July 2016 and a notable turnaround from the solid expansion seen in December. As such, the **Nikkei Composite Output Index** fell to 50.9 in January, from 52.0 in December.

Healthier inflows of new business to service providers were signalled in January. The rise in new sales was modest overall and extended the current period of improving demand to two-and-a-half years. That said, new orders placed by clients in overseas markets declined during January for the first time since last August. However, the contraction was only marginal.

Growth in sales was not mirrored at manufacturers, who observed the first decline in new orders for almost two-and-a-half

Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

years in January. Demand conditions for Japanese goods were reportedly unfavourable in January.

Looking ahead, service sector companies expect future activity growth over the coming 12 months. Investment plans and forecasts of improved underlying demand underpinned optimism during January.

Although optimism was maintained by manufacturers, confidence eased for an eighth month in succession during January, with the impending consumption tax hike and concerns regarding Sino-US trade relations weighing on positive sentiment.

In line with a positive outlook, employment was raised by Japanese service providers. Anecdotal evidence indicated that new business wins had encouraged job creation. However, the rise in workforce numbers was only mild, with retirements reportedly hampering growth.

Against falling output and new business, Japanese manufacturers raised employment and at a stronger rate than their service-providing counterparts. That said, the rate of job creation eased to a five-month low.

A weaker rise in staffing levels and stronger inflows of new work led to an intensifying of capacity pressures at service providers in January. Backlogs of work rose mildly, but at the sharpest rate since October 2017.

Meanwhile, survey data indicated another monthly increase in cost burdens at Japanese service providers, stemming from greater transport, utility and labour expenses. However, the rate of inflation was the softest since last May, having eased for a third successive month. Nonetheless, output prices were increased at a sharper rate in January.

Similarly, goods producers observed a weaker rate of input cost inflation, and output prices were increased at a faster pace in January.

Comment:

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

“With Japan’s manufacturing sector underperforming amid global trade frictions and a weakening underlying domestic economy, PMI data for the service sector provided some upside for the start of 2019. Business activity grew at a stronger rate, supported by stronger demand and continued growth of employment. Service providers also remained resilient with their year-ahead forecasts, despite the looming consumption tax hike which is set for later this year.

“That said, excluding the weather-impacted figure seen last September, production cutbacks by the country’s goods producers pulled the composite output index to its lowest since September 2016, indicating the downside momentum in Japan’s underlying growth trajectory.”

-Ends-

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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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