

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

Service sector output growth holds close to October's six-month high

Key points:

- Business activity grows solidly
- Demand conditions remain supportive
- Confidence strengthens to ten-month peak

Data collection 12-27 November

Japan's crucial service sector continued to record solid growth during the latest survey period, with output increasing at a pace which was broadly in line with October's six-month record. Incoming work rose at a relatively marked rate, while export business growth was mild. As a result, employment was raised, but reports of retirements limited the increase. Meanwhile, prices data indicated a persistence of elevated cost pressures, but demand was reportedly strong enough to enable companies to pass through higher costs to clients. Confidence also picked up in November.

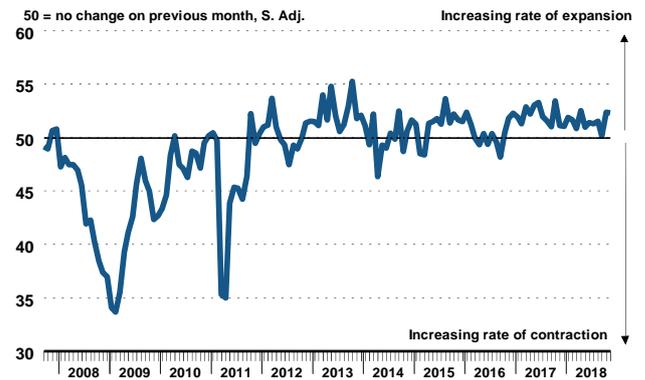
The headline index from the survey - the seasonally adjusted **Business Activity Index** - registered 52.3 in November, fractionally down from October's six-month peak of 52.4. Although the rate of expansion softened, it was solid overall and stronger than the average seen across the current 26-month stretch of growth. Supporting the upturn in output was elevated demand, according to panellists.

Weaker service activity growth in tandem with a slower rise in manufacturing production resulted in the **Nikkei Composite Output Index** edging slightly lower to 52.4 in November from 52.5 in October.

Latest survey data pointed to a relatively strong upturn in new business received by Japanese service providers. Momentum failed to build from the near five-and-a-half year high seen in October, however. New customer wins and favourable order placements were linked to demand growth. Furthermore, the improvement in sales was broad-based across domestic and international markets, with new export business rising at the strongest rate since July.

Slower growth in manufacturing sector order books was also observed in November, with the expansion the joint-weakest in just over two years (on a par with July).

Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

To cope with additional workloads, service sector businesses hired extra staff, continuing a trend which started at the beginning of 2017. The rate of job creation was only mild, with some firms indicating that retirements had limited the expansion in payroll numbers. Despite the stronger rise in new orders, the combined impact of higher business activity and increased employment enabled firms to alleviate capacity pressures. Backlogs of work declined for a third straight month in November.

Manufacturing employment also increased in November, with the rate of job creation broadly unchanged from that seen in the previous month.

Upbeat business conditions in Japan's service-providing economy filtered through to future expectations. Firms anticipate output over the coming 12 months to be higher than present levels. In fact, confidence strengthened in November and was the highest since January.

On the other hand, goods producers were less optimistic than in October, with some raising concerns about future demand conditions.

Meanwhile, service sector cost burdens continued to rise, with operating expenses increasing at a relatively sharp rate amid reports of higher material, fuel and labour costs. Firms took advantage of favourable demand conditions and raised output charges. The rate of inflation picked up, but held close to October's four-month low.

A similar picture was apparent in the manufacturing sector, where input costs increased, prompting higher charges for goods.

Comment:

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

“Recent PMI data have been difficult to read into given the weather-related impact in September and the inevitable bounce-back in October as businesses returned to normality. However, services PMI data for November revealed a level of resilience in Japan, with growth holding close to the six-month peak seen in the previous month, building a stronger case for a rebound in the Q4 GDP number.

“Our newly-launched services export data also indicated a stronger rate of expansion in foreign orders received by Japanese firms. That said, the rise was weak and notably softer than those recorded during H1.

“Nonetheless, reports from panel members suggest that demand conditions were supportive of price rises. Given the overwhelming cost-push nature of recent inflation in Japan, this bodes well for the Bank of Japan that core inflationary pressures on the service-side of the economy could build.”

-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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