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Jibun Bank Japan Services PMI®
Including Jibun Bank Japan Composite PMI®

Service sector output declines at strongest rate in over three years

Key findings

December rounds off worst quarter since 2016

New business growth remains subdued

Output prices decline for first time since July 2017

Services Business Activity Index
sa, >50 = growth since previous month

Household Services Expenditure
% yr/yr

Sources: Jibun Bank, IHS Markit, Cabinet Office Japan

Japan's service sector economy moved back into contraction during December, wiping out the minor recovery recorded in November and rounding off the worst quarterly economic performance seen for over three years. Although new business gains were reported, latest survey data showed that underlying demand conditions slowed from the first half of the year, leading businesses to cut their output charges and begin reducing backlogs.

Nonetheless, employment growth was maintained and output expectations remained in firm positive territory.

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 49.4 during December, down from 50.3 in November, signalling the second contraction in service sector output over the past three months. Furthermore, the decline was the strongest in over three years, subsequently rounding off the worst quarterly economic performance since the third quarter of 2016.

According to firms, underlying demand conditions had slowed and ultimately weighed on business activity. Latest survey data
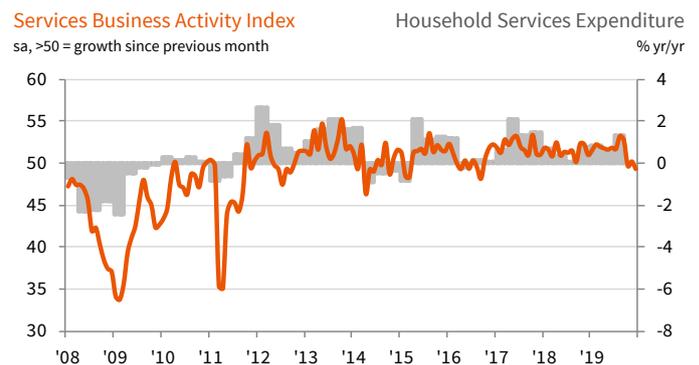
showed a modest improvement in sales, although the rate of increase was notably weaker than those seen on average during the first half of 2019. There were nevertheless still reports of new customer wins boosting order book volumes, but new business from international clients contracted for the first time since June.

With growth in new work remaining subdued, businesses turned their focus on outstanding orders. Backlogs declined in December at the strongest rate for over one-and-a-half years. According to panel members, this partly reflected firms catching up on orders that were disrupted by the typhoon in October.

Despite evidence of capacity pressures easing, Japanese service providers continued to hire additional staff in December. The rate of job creation was the fastest in six months, albeit only slight overall. Expansion plans and the provision of new services underpinned the rise in employment, according to anecdotal evidence.

Expectations of higher business activity were signalled by the latest survey data, which showed a solid level of positive sentiment among Japanese service providers. This was despite the degree of optimism slipping from November's five-month high.

Elsewhere, latest survey data for prices showed diverging trends. Input costs increased during December, which firms attributed to higher fuel and labour expenses. However, output charges were reduced, albeit marginally, for the first time since July 2017.

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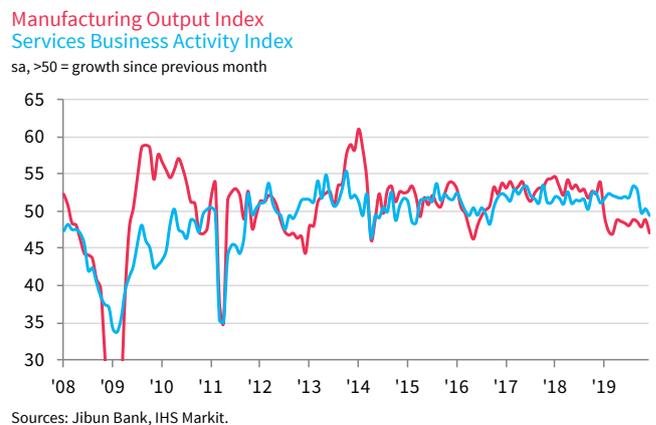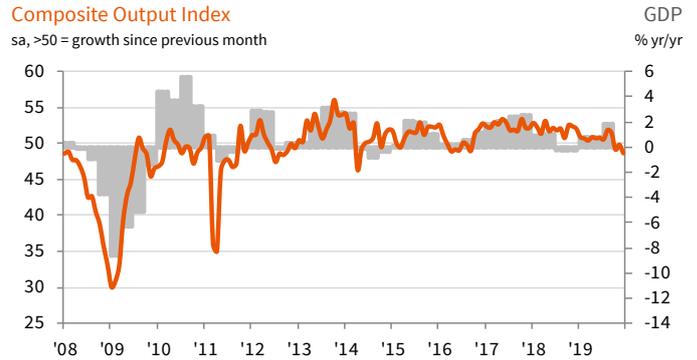By IHS Markit

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Jibun Bank Japan Composite PMI®

Private sector output falls at strongest rate since April 2014

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 recorded 48.6 in December, down from 49.8 in November, signalling the sharpest contraction in private sector business activity for over five-and-a-half years. Furthermore, latest data rounds off the third successive monthly decline and worst quarterly performance since the second quarter of 2016.

Aggregate new order intakes were stagnant in December as falling demand for manufactured goods offset new business wins in the service sector. Firms instead allocated more resources to tackling backlogs of work, which fell at the fastest rate since July 2016. Nevertheless, employment increased in December and businesses remained optimistic towards output volumes in the year ahead.

Lastly, output charges fell for the first time in three years, despite input costs rising.

Composite Output Index
sa, >50 = growth since previous month

GDP
% yr/yr

Sources: Jibun Bank, IHS Markit, Cabinet Office Japan

Manufacturing Output Index
Services Business Activity Index
sa, >50 = growth since previous month

Sources: Jibun Bank, IHS Markit.

Comment

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

"Japan's service sector has ended 2019 in a precarious position. At the start of the year, robust domestic demand was sufficient to offset globally-driven weakness in the industrial sector. Now, underlying conditions in the service sector have deteriorated and are no longer strong enough to support the Japanese economy.

"Overall, survey data for the three months to December imply that fourth quarter GDP is likely to contract. While the sales tax and typhoon hampered October's performance, we saw a very limited recovery in November and the service sector has registered its strongest downturn in over three years in December.

"Latest data highlight that the impetus is back on Abe and the Bank of Japan to look at ways to stimulate the domestic economy. Survey data for the second half of 2019 suggest that the Japanese

economy has most likely entered a cyclical lull, although continued job creation and upbeat expectations provide a glimmer of hope."

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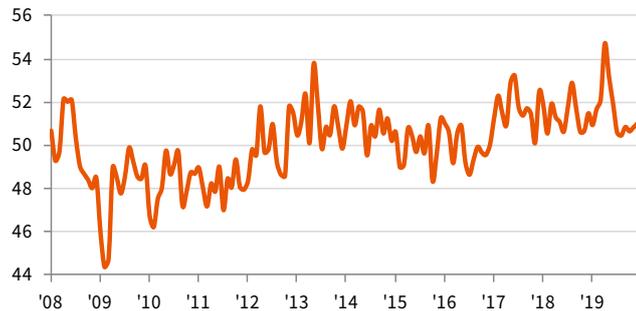
Services Prices Charged Index
sa, >50 = inflation since previous month

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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.

December 2019 data were collected 05-18 December 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.

Jibun Bank Japan PMI is sponsored by Jibun Bank Corporation
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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