

Embargoed until 0930 JST (0030 UTC) 03 September 2021

au Jibun Bank Japan Services PMI®

Including au Jibun Bank Japan Composite PMI®

Service sector contracts sharply in August

Key findings

Activity and new orders fall at quickest rates for 15 months

Renewed rise in employment levels

Business optimism softens to joint-lowest in 2021 so far

Data were collected 12-25 August 2021.

The Japanese service sector witnessed a sharper contraction during August. Both the activity and new orders indices signalled the fastest declines since May 2020, as businesses grappled with a fourth wave of COVID-19 infections and subsequent restrictions. That said, firms were not deterred from increasing capacity ahead of a predicted return in demand, as service providers noted a renewed rise in employment levels. Businesses remained confident that activity would rise over the coming 12 months, despite the degree of optimism softening to the joint-lowest since January.

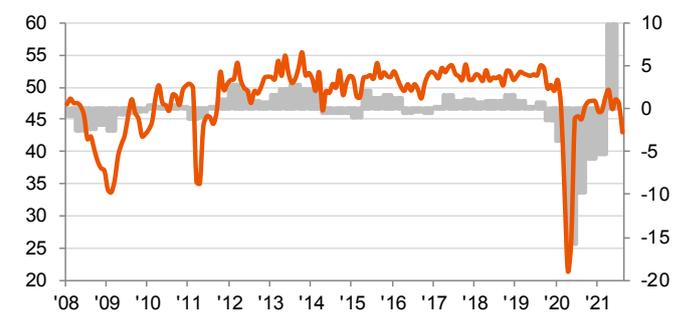
The au Jibun Bank Japan Services PMI® is compiled by IHS Markit from survey responses from a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services.

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 fell from 47.4 in July to 42.9 in August to indicate a marked contraction in business activity. The latest reduction was the fastest since May 2020, during the first wave of the pandemic.

As state of emergency measures were extended, demand remained depressed during August. This pushed the seasonally adjusted New Business Index to the lowest level for 15 months, with service providers commonly attributing this to the latest rise in virus infections. Moreover, foreign demand for services

Japan Services PMI Business Activity Index Household Services Expenditure
sa, >50 = growth since previous month % yr/yr



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

decreased at a quicker pace in the latest survey period, as key external markets continued to battle further waves of infection.

More positively, employment levels increased for the sixth time in seven months midway through the third quarter. Firms took on additional staff in preparation for increased demand, but the rate of job creation was only marginal overall. At the same time, firms utilised spare capacity to reduce outstanding business to the greatest extent since January.

Meanwhile, average cost burdens faced by Japanese service providers rose for the ninth time in as many months in August. The rate of input cost inflation remained solid in August, with panellists widely attributing the increase to higher raw material prices, most notably fuel. This did not translate to prices charged for Japanese services, however, which were reduced for the first time in five months. Businesses commented that they had engaged in price discounting in an effort to stimulate sales amid depressed demand conditions. The rate of deflation was the sharpest recorded for a year.

Looking forward, Japanese service providers remained confident that activity would expand over the coming 12 months. Sentiment was positive for the twelfth month in a row, yet eased to the joint-softest since January. Optimism was underpinned by hopes that falling infection rates amid a successful vaccination programme would stimulate a broad recovery in demand conditions, however there was concern regarding the impact further waves of the pandemic would have.

au Jibun Bank Japan Composite PMI®

Private sector output declines sharply in August

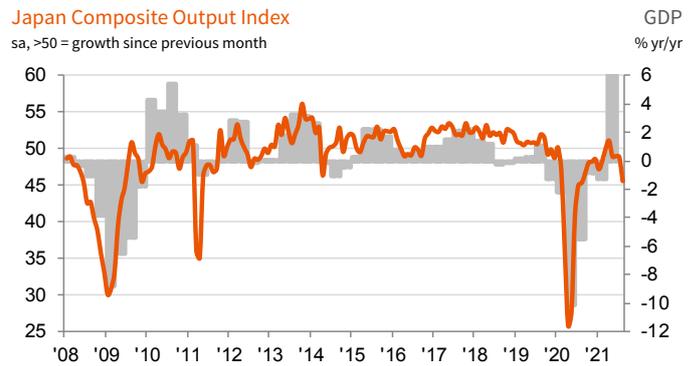
The au Jibun Bank Japan Composite* PMI Output Index - which measures combined output in the manufacturing and service sectors - fell to 45.5 in August from 48.8 in July to signal an accelerated deterioration in Japanese private sector output. The rate of decline was sharp, and the quickest recorded for a year. The contraction was led by the fastest fall in services output for 15 months, alongside a softer increase in manufacturing production.

Aggregate new orders were also reduced at a quicker rate, with the pace of decrease the quickest since January. The fall in services demand was the quickest since May 2020, while growth of manufacturing orders also eased. Firms redirected capacity to reduce outstanding business, with the rate of depletion the sharpest since February.

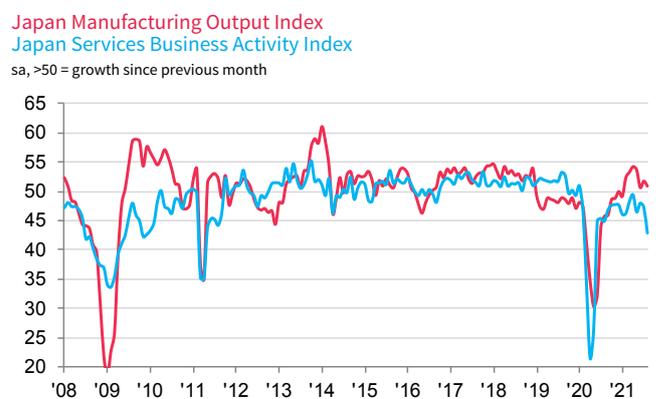
Private sector firms recorded a rise in staffing levels for the seventh consecutive month in August. The rate of job creation was the fastest since April, reflecting quicker growth at manufacturers and a renewed rise at services firms.

Companies were optimistic regarding the year-ahead outlook for activity for the fourteenth month running in August. The level of positive sentiment remained strong overall, despite easing from the previous survey period.

**Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of manufacturing and service sectors according to official GDP. The Japan Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.*



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



Sources: au Jibun Bank, IHS Markit.

Comment

Commenting on the latest survey results, Usamah Bhatti, Economist at IHS Markit, said:

"Japanese service sector businesses signalled an accelerated deterioration in business conditions in August, as activity fell at the sharpest pace since May 2020. The resurgence of COVID-19 infections due to the Delta variant also led to a steeper reduction in incoming business as firms readjusted to operating under stricter state of emergency measures.

"Positively, firms remained optimistic regarding the outlook for activity over

the coming year, as evidenced by a renewed rise in employment levels. Anecdotal evidence suggested that firms increased capacity in anticipation of greater demand.

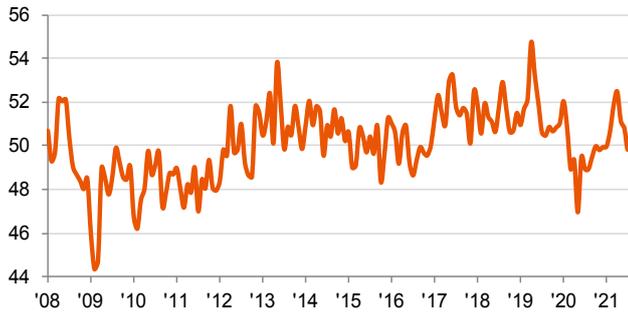
"Overall private sector activity declined at the sharpest pace in a year in August, led by a quicker contraction in the larger services sector. Private sector firms also reported a further solid reduction in incoming business, and one that was the quickest since the start of the year.

"Confidence about the outlook for private sector activity remained strong

in August, although the risks are skewed to the downside. State of emergency restrictions have been extended to 21 prefectures and affect approximately 80% of the population, including large cities such as Tokyo, Kyoto and Hokkaido. Nonetheless, business remains optimistic that the pandemic will recede amid an ongoing vaccination programme which should stimulate a broad-based economic recovery. IHS Markit estimates that the Japanese economy will grow 2.5% in 2021, with the economy estimated to recover to pre-pandemic levels midway through 2022."

Japan Services Employment Index

sa, >50 = growth since previous month



Japan Services Prices Charged Index

sa, >50 = inflation since previous month



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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.

August 2021 data were collected 12-25 August 2021.

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.
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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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