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au Jibun Bank Japan Services PMI®

Including au Jibun Bank Japan Composite PMI®

Services economy sees further fall in business activity

Key findings

Output and new orders contract

Employment levels rise for first time in a year

Business optimism highest since January 2018

Data were collected 11-23 February 2021.

Japanese services companies continued to report that business conditions were disrupted by the ongoing coronavirus disease 2019 (COVID-19) pandemic in February. Activity and incoming business experienced further contractions as restrictions introduced to curb the spread of the disease remained in place in Japan. That said, employment expanded for the first time since February 2020 as service providers were increasingly confident that business conditions would recover in the year ahead. The overall degree of optimism strengthened to a 37-month high.

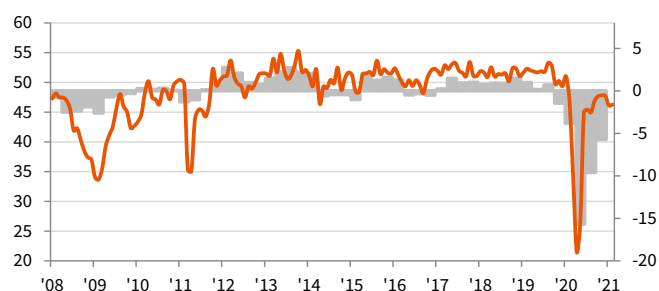
The au Jibun Bank Japan Services PMI® is compiled by IHS Markit from survey responses from a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services.

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 edged up from 46.1 in January to 46.3 in February, indicating a sustained contraction in activity. The latest reduction was slightly softer than that seen in the previous month, yet remained solid overall as activity was hindered by ongoing restrictions to combat the pandemic.

Similarly, new business inflows fell for the thirteenth month in a row in February. The rate of contraction was the sharpest registered since last May and was strong overall. Panellists

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

highlighted that the pandemic continued to dampen demand for Japanese services in both domestic and external markets. Foreign demand for services decreased at a softer pace than that for total new business, however, the slowest rate of recorded since February 2020. That said, the pace of contraction was still solid overall.

Meanwhile, employment levels increased for the first time since February 2020 halfway through the opening quarter of 2021. Job creation was marginal, with firms attributing higher workforce numbers to capacity expansion efforts in anticipation of a recovery in demand. As incoming business remained subdued, firms utilised spare capacity to further reduce outstanding business for the fifteenth month in a row in February.

Japanese service providers registered a rise in average cost burdens for the third month running in February. That said, the increase was only fractional and the softest in the current sequence of inflation. Where higher prices were reported, firms attributed this to greater wage and transportation costs. Despite input prices increasing further, businesses within the service sector reported lower output charges for the twelfth time in as many months. Moreover, the pace of price discounting was the quickest recorded since August 2020 as firms looked to attract customers.

Firms in the Japanese service sector were increasingly confident that activity would rise over the coming year. Positive sentiment in February picked up from the previous month and was the strongest since January 2018. Firms cited hopes that the pandemic would recede and trigger a broad recovery in demand from the domestic and foreign markets.

au Jibun Bank Japan Composite PMI®

Private sector output falls at softer pace in February

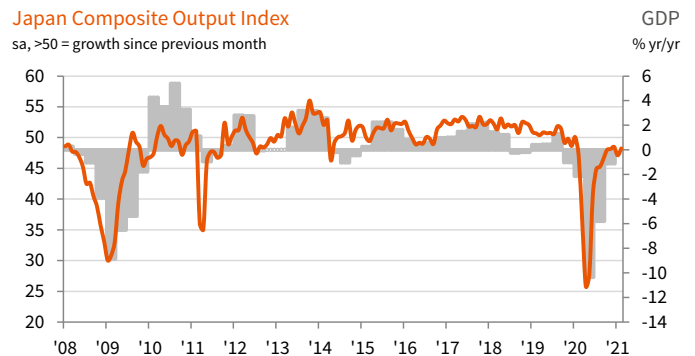
The au Jibun Bank Japan Composite* PMI Output Index - which measures combined output in the manufacturing and service sectors - rose to 48.2 in February from 47.1 in January. Although the index remained below the 50.0 no-change threshold for a thirteenth straight month, the reading signalled a slower rate of contraction. Manufacturers recorded a rise in output for the first time since December 2018 in February, although this was offset by a further solid decline at service providers.

Aggregate new orders also decreased moderately, weighed down by weakness in the larger service sector. With new orders subdued, private sector firms deployed resources to fulfil existing orders and further depleted backlogs of work.

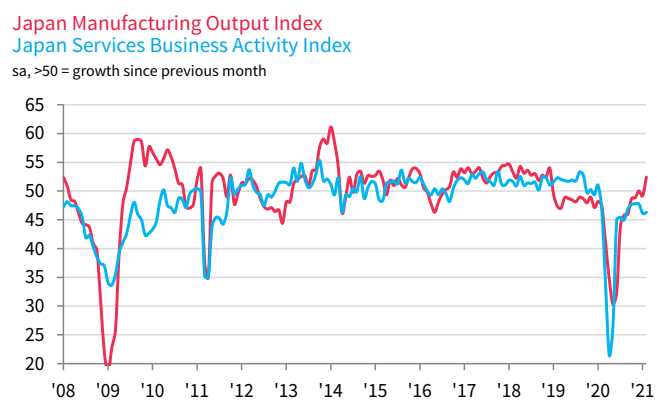
Private sector firms recorded an expansion in employment levels for the first time in a year. The pace of growth was marginal as a renewed rise among service providers was partially offset by a marginal fall at manufacturing firms.

Private sector companies were also more optimistic regarding the year-ahead outlook for activity in February. The aggregate level of positive sentiment was the strongest since January 2018.

**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:

"Businesses in the Japanese service sector reported that activity remained subdued as the country battled the latest wave of COVID-19 infections. Although the rate of decline softened from January, it was still solid overall. Moreover, a further sharp fall in incoming business signalled the fragility of demand as the pandemic dragged on.

"Nevertheless, short-term uncertainty

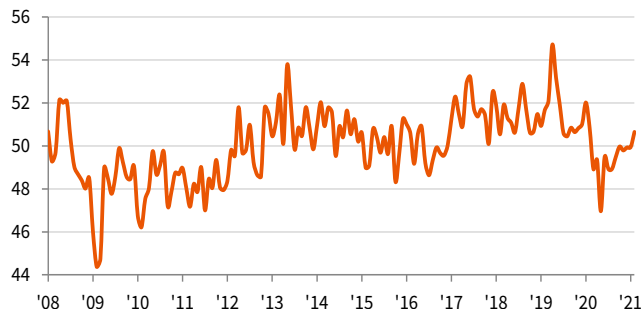
appears to be easing as vaccine rollouts begin. Firms looked to prepare for a boost in demand by expanding employment levels for the first time since last February. Service providers also maintained strong optimism that business conditions would improve over the coming 12 months.

"Overall private sector activity decreased during February, although latest data signalled a slower contraction. Manufacturers posted an expansion in production for the first time in more than two years.

"Confidence about the outlook for private sector activity strengthened in February, despite headwinds from the COVID-19 pandemic. Firms were at their most optimistic since January 2018 amid anticipations that the pandemic would recede and trigger a broad economic recovery supported by stronger demand, stable conditions and the Olympics. As a result, IHS Markit forecasts the Japanese economy will expand by 2.2% in 2021."

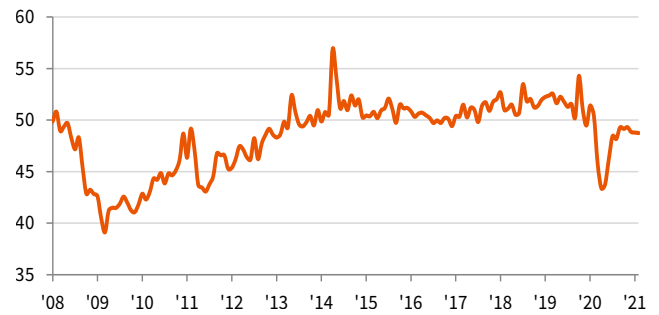
Services Employment Index

sa, >50 = growth since previous month



Services Prices Charged Index

sa, >50 = inflation since previous month



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Methodology

The 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.

February 2021 data were collected 11-23 February 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 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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