Japanese services companies reported an increase in business activity for the first time since the start of last year in October. Activity returned to expansion territory for the first time since January 2020, as COVID-19 restrictions were eased amid a reduction in infections. Moreover, firms reported a third consecutive increase in employment levels as demand gradually recovered from the disruption caused by the pandemic. As a result, service providers were increasingly confident that business conditions would recover in the year ahead. The overall degree of sentiment strengthened to the highest in over eight-and-a-half years.

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 rose from 47.8 in September to 50.7 in October, indicating a renewed increase in activity, albeit one that was marginal overall. Service providers noted that the lifting of COVID-19 restrictions aided a broad-based boost in business activity. Concurrently, new business inflows continued to trend towards stabilisation in October. Though new orders fell for the twenty-first consecutive month, the reduction was only fractional and the softest recorded since April. Panellists highlighted that the recovery in demand was only gradual, though the easing of state of emergency measures had boosted client confidence. That said, foreign demand for services declined at a sharper pace in October, as rising cases in the Asia-Pacific region and surging transportation costs weighed on international sales.

Employment levels increased for the third month running at the start of the fourth quarter. Firms attributed higher workforce numbers to efforts to expand capacity ahead of the purported recovery in demand. The rate of job creation softened from the previous survey period, however, and was only slight. In line with the trend for new business, firms utilised spare capacity to further reduce outstanding business, though to the least extent for three months.

Japanese service providers registered a solid rise in average cost burdens in October. The increase accelerated from September, and was the sharpest since January 2020. Where higher prices were reported, firms attributed this to greater raw material, fuel and wage costs. At the same time, service providers reported a modest rise in output charges for the second successive month in October. The rate of inflation reached a 21-month high as firms partially passed higher cost burdens to clients.

Firms in the Japanese service sector were increasingly confident that activity would rise over the coming year. Positive sentiment picked up from September to reach the strongest since March 2013. Firms cited hopes that the pandemic would recede, allowing international restrictions to ease and further boost demand for services.
au Jibun Bank Japan Composite PMI®

Private sector output rises for the first time in six months

The au Jibun Bank Japan Composite® PMI Output Index - which measures combined output in the manufacturing and service sectors - rose from 47.9 in September to 50.7 in October to signal the first expansion in private sector output since April. Japanese services firms recorded growth in activity for the first time since January 2020, while manufacturers reversed the decline noted in September. The 12-month outlook for output reached a series high in October (since 2012).

Aggregate new orders saw renewed growth in October. Demand for manufactured goods returned to expansion territory, while service sector firms commented on the softest reduction in six months. In line with this trend, outstanding business was depleted at the softest rate since July.

Private sector firms recorded a ninth consecutive rise in employment levels. The pace of job creation was only modest, however. Manufacturers reported the quickest rise in jobs since April 2019, but growth at services firms slowed to a three-month low.

Private sector firms signalled the strongest rise in cost burdens in over 13 years in October amid widespread reports of material and logistics shortages, which contributed to the fastest rise in output charges in over three years.

*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.

Comment

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

“Japanese service sector firms reported that activity returned to expansion territory for the first time in nearly two years as the country lifted restrictions in light of falling COVID-19 infections. While marginal, the upturn in business activity was the first since January 2020, while new business saw just a fractional reduction in October.

“Moreover, firms continued to build capacity in anticipation of a gradual recovery in demand, despite the rate of job creation easing to a three-month low. Service providers also noted stronger optimism that business conditions would improve over the year ahead, with confidence rising to the highest for eight-and-a-half years.

“Overall private sector activity increased at the start of the fourth quarter, the first in six months. A renewed expansion in services activity was coupled with a reversal of the decline in manufacturing output from the previous survey period.

“Concerns surrounding intensifying price pressures remained elevated, with aggregate input prices rising at the fastest pace in over 13 years in October. This contributed to the quickest rise in prices charged for goods and services for over three years.

“Yet, private sector firms reported record levels of optimism regarding the year-ahead outlook, as firms expected the pandemic would further recede and demand would recover in line with a further easing in restrictions, notably internationally. As a result, IHS Markit estimates the Japanese economy will expand by 2.3% in 2021.”
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 to 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. October 2021 data were collected 12-26 October 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.

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit’s prior consent. IHS Markit and au Jibun Bank shall not have any liability, duty or obligation for or relating to the content or information (“data”) contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit or au Jibun Bank be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers’ Index™ and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.

© 2021 IHS Markit