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## au Jibun Bank Japan Services PMI®

Including au Jibun Bank Japan Composite PMI®

# Services economy remains in contraction at the end of 2020

### Key findings

Sustained reductions in output and new business

Employment levels broadly stabilise

Sentiment remains positive

Data were collected 4-18 December 2020.

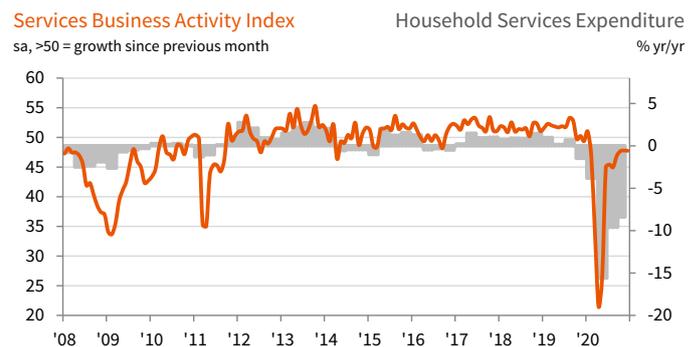
The Japanese service sector ended a turbulent year on a muted note. Business activity and new orders remained in decline during December as a further wave of coronavirus disease 2019 (COVID-19) infections caused renewed disruptions to service providers. Encouragingly however, employment levels were broadly stable for the third consecutive month and companies remained optimistic that the pandemic would recede over the coming 12 months to induce a sustained recovery in demand.

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 dipped fractionally from 47.8 in November to 47.7 in December. Despite the latest reading signalling a moderate contraction in activity, the Index has remained at a broadly similar level throughout the final quarter of 2020, well above levels seen in the spring and indicating that the downturn is bottoming out.

Incoming business fell for the eleventh month in a row in December. Although solid, the pace of decline eased from that seen in November. According to anecdotal evidence, demand was hampered by a third wave of COVID-19 infections which



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

resulted in cancellation of orders throughout the latest survey period. Moreover, export sales were especially subdued, with December data pointing to a sharp, albeit softer, contraction amid evidence that the pandemic continued to weigh on external demand for Japanese services.

As had been the case in the prior two months, businesses in the Japanese service sector highlighted a broad stabilisation in employment levels in December. Survey participants commented that increased recruitment of skilled staff was offset by further employee retirements. Firms redirected capacity towards the completion of existing work, with outstanding business levels down for the thirteenth month in a row.

Meanwhile, average cost burdens faced by Japanese service providers ended a four-month sequence of falls with a marginal increase in input prices in the latest survey period. Panellists often attributed increased price pressures to higher staff costs. Despite the rise in input prices, firms engaged in further price discounting as part of efforts to stimulate sales amid muted demand caused by the COVID-19 pandemic. Prices charged for services fell for the tenth month running, and at a marginal pace that was quicker than in November.

Looking ahead, Japanese service providers remained confident that activity would expand over the coming year. December data indicated that business expectations were positive for the fourth month in a row, and solid overall. Firms cited hopes that the end of the pandemic would stimulate the sector and facilitate a wider recovery in client demand.

## au Jibun Bank Japan Composite PMI®

### Private sector output falls further at the end of the year

The au Jibun Bank Japan Composite\* PMI Output Index - which measures combined output in the manufacturing and service sectors - rose to 48.5 in December from 48.1 in November. While the index was below the neutral 50.0 mark for the eleventh month in a row, the reading was the highest in this sequence and thereby signalled a slower rate of contraction.

Manufacturers recorded a stabilisation in output in December, whereas service providers registered a further modest decline. Aggregate new orders fell further, although the pace of contraction eased from November. Once again, a sharp decline among service providers offset broadly stable orders at manufacturers. In response to a reduction in incoming business, firms were able to reduce backlogs of work for the sixteenth month in a row.

Despite falling workloads, private sector companies recorded broadly stable workforce numbers in December. Goods producers and service providers recorded broadly unchanged staff levels.

Firms in both sectors were optimistic that activity would rise in the coming year, with expectations stronger among manufacturers.

*\*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.*

Composite Output Index

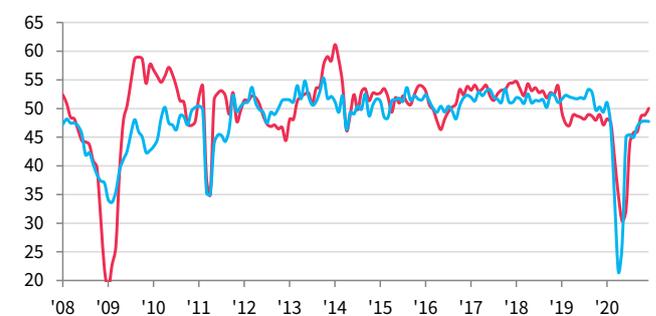
sa, >50 = growth since previous month



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

Manufacturing Output Index  
Services Business Activity Index

sa, >50 = growth since previous month



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 provided further evidence that the recovery in the services economy faltered at the end of a tumultuous year which saw the postponement of the Tokyo Olympics amidst the COVID-19 pandemic. As the country battled a third wave of COVID-19 infections, latest data indicated both activity and incoming business contracted. Firms often cited that demand had been dampened by*

*rising infection rates.*

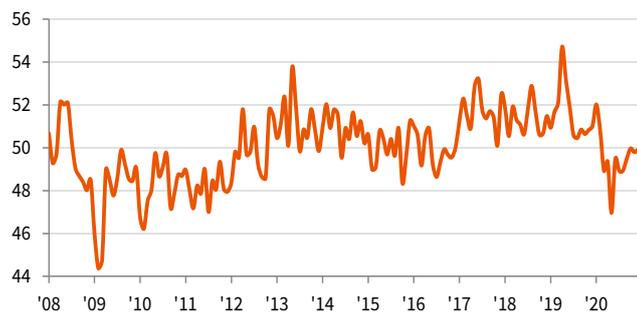
*"Encouragingly, services firms noted that employment levels remained broadly stable for the third month in succession, while expectations regarding the year-ahead outlook for activity remained positive.*

*"Overall private sector activity decreased in the final month of the year, although at the softest pace for 11 months. Manufacturers posted a stabilisation of production, while the service sector saw an eleventh consecutive fall in activity.*

*"The outlook for overall business conditions was positive in December, despite headwinds surrounding the resurgence in COVID-19 cases curbing optimism. Private sector firms were hopeful that the pandemic would diminish over the course of the next 12 months to induce a broad-based economic recovery, which would be supported by the rescheduled Tokyo Olympics and stable business conditions. As a result, IHS Markit currently expects the Japanese economy to expand by 2.6% 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.

December 2020 data were collected 4-18 December 2020.

### 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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