

Nikkei Japan Services PMI[®] (with Composite PMI data)

Service sector grows at slowest rate in 17 months

Key points:

- Weaker rises in both activity and new orders
- Firms hire staff at quickened pace amid rising backlogs of work
- Output price inflation remains relatively marked

Data collection 12-26 March

The Japanese service sector continued to grow during March, albeit at a softer pace. A weaker rise in activity was underpinned by a slower expansion in new business inflows. Despite this, firms hired new staff at a quicker rate as part of efforts to clear rising levels of unfinished work.

On the price front, input cost inflation eased to a three-month low, but remained strong. Output prices on the other hand rose to a faster extent.

The headline index from the survey - the seasonally adjusted **Business Activity Index** - declined to 50.9 in March from 51.7 in February, signalling the weakest expansion in service sector output since October 2016. Nonetheless, the latest upturn extends the current sequence of rising activity to 18 months.

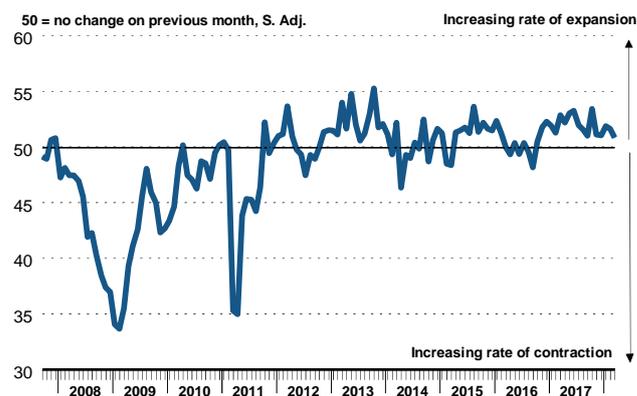
Likewise, Japanese goods producers expanded output at a softer pace. Subsequently, the **Nikkei Composite Output Index** fell to 51.3 during March from 52.2 in February.

According to anecdotal evidence, Japanese service providers increased output amid new customer acquisitions and higher demand. New business rose during March, maintaining a trend of new order growth which has been apparent since August 2016. However, the rate of expansion softened for a second successive survey period to an 18-month low.

Meanwhile, new orders rose to a slower extent in the manufacturing sector. The pace of expansion eased to a five-month low, but remained solid overall.

In line with the sustained upturn in demand, capacity pressures continued to be exerted on Japanese service providers. That said, the rate of backlog accumulation was only slight and weakened on that seen during February.

Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

Consequently, businesses recruited additional staff to clear outstanding orders and accommodate for further demand pressures. The rate of job creation accelerated to a modest pace and the joint-fastest since December last year, on a par with January.

Manufacturing firms also expanded operating capacity by hiring new staff during March. The pace of employment growth eased, but remained broadly in line with the 12-month average.

Continued sales growth also encouraged firms to raise selling prices. Japanese service providers have now increased output charges for eight successive months. The rate of inflation accelerated fractionally and was strong relative to historical trends.

That said, some panellists noted that prices were hiked due to higher operating expenses. Input costs rose strongly during March, despite the rate of inflation easing to a three-month low. Panellists reported that greater cost burdens were a result of higher delivery, fuel and labour prices.

Similarly, manufacturers raised output prices to a relatively marked degree during March. Higher food, fuel and metals prices impacted profit margins however, with input costs rising sharply.

Finally, business confidence towards activity over the forthcoming 12 months remained elevated during March. Companies widely anticipate demand to rise, with some predicting gains from the

upcoming Olympic Games. That said, the degree of optimism eased to a six-month low.

Comment:

Commenting on the Japanese Services PMI survey data, **Joe Hayes**, Economist at IHS Markit, which compiles the survey, said:

“The Japanese service sector lost further momentum during March, with overall business activity growing at the weakest pace since October 2016. New order receipts rose, albeit only slightly and at the softest rate in a year-and-a-half.

“That said, despite PMI data signalling disappointing output and demand conditions, prospects appear upbeat. Incoming new business has grown for 20 successive survey periods, and firms expect this trend to continue, as indicated by a solid degree of optimism towards future activity. This sustained upturn in demand led to capacity pressures however, with backlogs of work rising for a third month running. In turn, recruitment picked up, further suggesting confidence among firms that new sales will continue to be secured over the coming months.

“Expansionary order book volumes also encouraged firms to hike their selling prices. That said, the rate of output price inflation was broadly unmoved from the slight pace seen during February. Anecdotal evidence suggested that rising cost burdens were a key factor behind this latest rise. However, recent yen strength provides a source of downward cost pressures, which could ultimately cause output price discounting.”

-Ends-

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The Nikkei Japan Composite *PMI*[®] is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of over 800 companies based in the Japanese manufacturing and service sectors.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

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