

Nikkei Japan Services PMI™ (with Composite PMI data)

Service sector growth strengthens to 19-month high

Key points:

- Ongoing improvements in demand continue to support service sector growth
- Strengthened confidence and capacity pressures push up employment
- Cost inflation eases, but charges raised at quicker pace

Data collection 13 - 28 March

Growth of Japan's service sector strengthened during March, improving to the best in over a year-and-a-half on the back of continued gains in demand and new business. With confidence at its highest for almost a year, companies added to their workforce numbers for a third month in succession, albeit to a relatively modest degree.

March's headline seasonally adjusted **Business Activity Index** improved to a 19-month high of 52.9, from a level of 51.3 in February. Growth has now been recorded for six months in a row, and was again supported by a rise in levels of incoming new business during March.

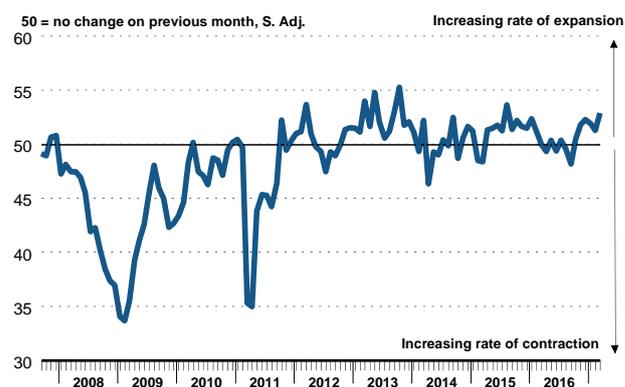
Japanese manufacturers also signalled a marked increase in their output, albeit at a rate that was down on February's recent high. Nonetheless, this didn't prevent the **Nikkei Composite Output Index** strengthening in March to a 19-month high of 52.9 (up from February's 52.2).

Latest data showed that service sector new work rose for an eighth month in succession. Although growth was a little softer, it nonetheless remained close to the highs recorded around the turn of the year. Moreover, there were reports from a wide range of companies of improved underlying demand for their services.

Manufacturers reported a similar-sized rise in new work, meaning the respective composite index fell to a four-month low but still signalled solid growth.

Hopes for continued growth in new business helped to underpin positive forecasts for activity over the coming 12 months. Latest data showed that service sector expectations were at their strongest since April 2016, with companies also signalling plans to raise investment in business units and employment numbers.

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Sources: Nikkei, IHS Markit

March's survey indicated a third successive monthly increase in the size of the service sector workforce. Companies reportedly added to their staff numbers in a bid to bolster capacity at a time of rising sales.

The survey added to evidence on capacity pressures by revealing a fourth consecutive monthly increase in levels of work outstanding. Although growth was relatively modest, the degree to which backlogs rose in the service sector was the strongest registered by the survey for 20 months.

On the price front, the latest survey indicated that average operating costs continued to rise in March, led higher by increased prices for fuel and labour. Input prices have now been rising continuously for close to four-and-a-half years, although the latest rate of inflation was a five-month low.

Meanwhile, with manufacturers indicating a slower rate of cost inflation, the composite increase in overall input prices was the lowest of the year so far.

Finally, Japanese service providers sought to protect margins by raising their own charges in March. Although modest, the rate of inflation was the strongest seen by the survey since October 2015.

In contrast, manufacturing output prices were little changed since February.

Comment:

Commenting on the Japanese Services PMI survey data, **Paul Smith**, Senior Economist at IHS Markit, which compiles the survey, said:

“The underlying performance of the Japanese economy continues to strengthen, with the PMI data suggestive of accelerated GDP growth during the first quarter of the year.

“Growth is broad-based. Both the manufacturing and service sectors are enjoying upturns, supported by firm demand for goods and services.

“With capacity pressures subsequently intensifying, this is having a positive spillover into the labour market. Jobs continued to be added at a solid pace in March.”

-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'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

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