

# Nikkei Japan Services PMI<sup>®</sup> (with Composite PMI data)

## Weakest rise in service sector activity for six months

### Key points:

- Activity and new order growth both ease
- Rising backlogs of work nonetheless lead to further employment gains
- Business confidence continues to slide

Data collection 11- 25 August

Expansion of the Japanese service sector was sustained in August for an eleventh successive month, albeit at a slower rate. The weaker gain in activity was linked to a similar slowdown in new order growth, which also undermined business expectations. Confidence was the lowest recorded by the survey for over a year.

Nonetheless, rising backlogs of work encouraged the further expansion of employment, whilst firms increased their charges at the most notable rate since March. Input prices rose at a broadly similar rate to July.

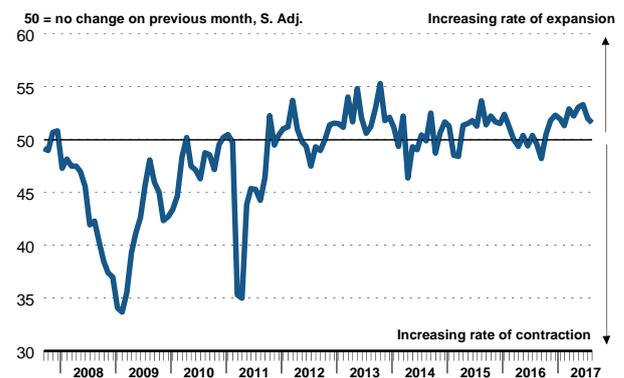
The headline seasonally adjusted **Business Activity Index** recorded 51.6 in August to extend the current period of growth to 11 months. However, falling from 52.0 in July and down for a second successive month, the rate of growth signalled by the survey was moderate and the lowest recorded since February.

In contrast, there was an improvement in the rate of expansion in manufacturing output to a three-month high. That subsequently meant that the **Nikkei Composite Output Index** moved broadly sideways during August, registering a level of 51.9, up fractionally from July's nine-month low of 51.8.

The ongoing expansion of service sector activity was again closely linked to rising levels of incoming new business. Growth of new work has now been recorded for 13 months in a row, although the latest increase was the slowest since April. There were several reports from panellists of increased competition limiting their gains in new work.

Meanwhile, manufacturers registered only a moderate rise in sales, with growth little changed since July. At the composite level, the rise in new orders was subsequently the lowest recorded by the survey for four months.

### Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

Although growth of incoming new business and activity both continued to weaken during August, pressure on service sector capacity persisted, with backlogs of work outstanding increasing for a ninth successive month. Companies were subsequently encouraged to add to their workforce numbers. Services employment rose moderately for an eighth consecutive survey period.

In the manufacturing sector, jobs were added at a solid pace, extending the current run of growth to a whole year.

Latest survey data showed that service sector input prices continued to increase, maintaining a trend that stretches back to November 2012. Labour costs were cited as a primary inflationary source by those panellists that recorded a rise in average operating expenses in August. Service sector companies sought to protect margins by passing on their higher costs to clients, as highlighted by the strongest increase in average output charges since March.

In the manufacturing sector, rates of input and output price inflation weakened compared to those seen in July.

Finally, business confidence regarding activity over the next 12 months remained positive during August, but eased since July to the lowest level in over a year. Although a number of companies are expecting rising levels of new work to be maintained, several commented that competitive pressures and fears of weaker demand may undermine growth.

## Comment:

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

*“Although growth of the service sector eased during August, wider expansion of the Japanese economy remains entrenched in a fairly decent growth range heading towards the final month of Q3.*

*“Subsequently firms remain confident enough to continue to add to their workforce numbers, and employment continues to rise nicely.*

*“However, a slide in service sector confidence to a 13-month low provides a little concern that growth could continue to falter in the near-term.”*

-Ends-

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The Nikkei Japan Services *PMI*<sup>®</sup> is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

The Nikkei Japan Composite *PMI*<sup>®</sup> 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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