

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

Service sector growth hits 26-month high in October

Key points:

- Headline Business Activity Index rises to 53.4
- New business growth quickens to 53-month high
- Business confidence rises

Data collection 12- 26 October

Growth of the Japanese service sector was maintained during October, extending the current sequence of expanding output to 13 months. This was supported by the sharpest rise in new orders since May 2013. In turn, firms accumulated further backlogs, while also adding to their payrolls for the tenth month running. On the price front, although cost pressures continued to build, output price inflation weakened to a mild pace.

The headline index from the survey - the seasonally adjusted **Business Activity Index** - recorded 53.4 in October, rising from 51.0 in September to indicate a solid rate of expansion. Furthermore, the degree to which activity increased was the strongest since August 2015.

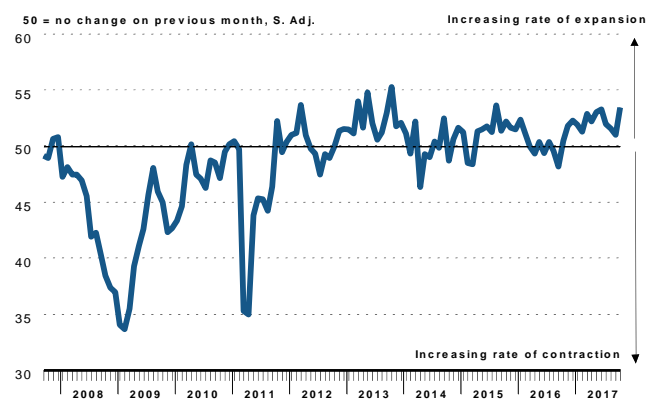
Meanwhile, output growth in the manufacturing sector quickened to a five-month high. Consequently, the **Nikkei Composite Output Index** increased to 53.4 in October, up from 51.7 in September, to signal the joint-quickest rate of growth in 45 months.

The most marked pace of business activity growth for over two years coincided with the sharpest expansion in new business since May 2013. Evidence provided by panellists indicated that the rise in new orders had underpinned greater activity levels.

New orders placed with Japanese manufacturers rose, however the pace of expansion eased slightly from September.

As was the case with activity, growth of new work was solid. Stronger demand conditions led to a further rise in backlogs of work. Latest survey data signalled that outstanding work increased for an eleventh month in a row. That said, the rate of backlog accumulation eased to the weakest since April.

Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

Rising levels of new business encouraged Japan's service sector businesses to boost employment, extending the current sequence of increase to ten months. However, the rate of job creation was slight and weaker than that seen in September.

In the manufacturing sector, the rate of jobs growth was modest, quickening from September's ten-month low.

Cost pressures intensified in October, maintaining a trend in input prices which extends to exactly five years. The rate of inflation accelerated for a third consecutive month, albeit fractionally. Companies reported that higher labour costs had driven up operating expenses.

Higher demand for Japanese services prompted firms to raise prices charged in October for a third month running. That said, despite a stronger rate of input price inflation, the rate at which average charges increased was mild, easing from September.

Similarly, purchase cost inflation accelerated for manufacturing firms. In turn, factory gate charges were increased in October, with output price inflation accelerating to the joint-fastest pace since November 2014.

Finally, businesses maintained a positive outlook towards growth prospects during the latest survey

period. In fact, the degree of optimism increased to the joint-highest since May, on a par with June. Panellists' confidence was generally linked to expectations of an improved domestic economy and new client wins.

Comment:

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

“The Japanese service sector made a strong start to Q4, with the headline business activity index hitting a 26-month high. This was underpinned by new business growth accelerating to the quickest rate since May 2013.

“Further to this, the composite output index signalled the joint-fastest increase in almost four years, indicating a marked improvement in private sector business conditions.

“In the wake of Shinzo Abe’s election victory, confidence among Japanese service providers lifted. The level of positive sentiment strengthened to the joint-highest since May, on a par with June.”

-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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