

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

Activity growth weakens to three-month low

Key points:

- Service sector output growth softens
- Backlogs fall amid weaker rise in new business
- Output price inflation quickens to 29-month high

Data collection 5-18 December

The Japanese service sector ended Q4 with a fifteenth straight month of business activity growth. That said, the pace of expansion softened to the weakest since September. Similarly, new orders increased to a lesser extent, with growth easing markedly to a 15-month low. That said, optimism regarding future activity strengthened to a seven-month high.

The headline index from the survey - the seasonally adjusted **Business Activity Index** - fell to 51.1 in December, from 51.2 in November. This marked the softest output increase since September. Moreover, the rate of growth was below the average seen across the current 15 month sequence of expansion. Nonetheless, panellists indicated that the modest rise was driven by greater sales.

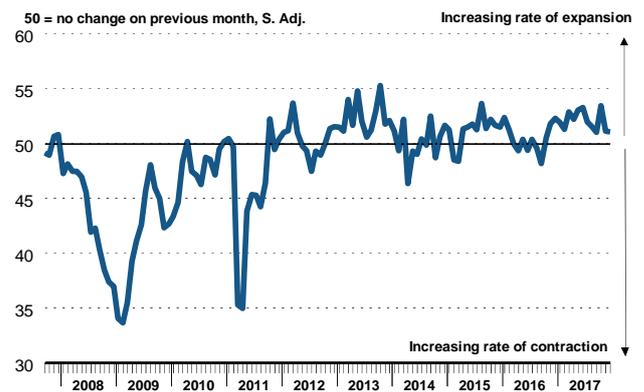
In contrast, the manufacturing sector expanded production at the fastest rate since February 2014. The **Nikkei Composite Output Index** remained unchanged from November at 52.2 during December to indicate a moderate pace of private sector output growth.

New business placed with Japanese service providers increased during December, albeit mildly. According to anecdotal evidence, new customer acquisitions had underpinned the order book volume expansion. That said, new business grew to the weakest extent since September 2016.

Conversely, new orders placed with manufacturers increased at the joint-sharpest rate in 47 months, on a par with February 2014.

Though activity growth and demand eased across the service sector, this did not discourage businesses from raising employment. In fact, the rate of job creation, albeit moderate, strengthened to a six-month high.

Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

Higher staff levels coincided with a reduction in backlogs of work. Outstanding business decreased for the first time in 13 months, with panel members attributing this to slower new order growth.

In the manufacturing sector, the rate of jobs growth was moderate, easing from the six-month high observed during the previous month.

Service providers did not appear to be concerned by softer demand, as the outlook regarding future activity remained upbeat. The level of confidence rose for the fourth month in succession to the highest since May, supported by expectations of workforce expansions and new project launches.

The service sector appeared less cautious over raising prices. Output price inflation quickened to a 29-month high amid reports of higher operating expenses. Input prices increased during December, maintaining an inflationary trend which extends back to November 2012. Firms suggested that higher labour costs had contributed to a solid rise in cost burdens.

Japanese manufacturers also raised selling prices during December in line with greater sales. Meanwhile, input price inflation remained sharp despite softening slightly.

Comment:

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

“Service sector businesses observed a further weakening of activity growth during the final month of Q4. In fact, the pace of expansion eased to the second slowest in 2017. Although incoming new orders increased for a seventeenth straight month, the extent of this rise was the softest seen since September 2016.

“Nonetheless, an accelerated rate of job creation provides an upside takeaway from the latest survey. Additionally, the business outlook towards future activity strengthened despite evidence of sluggish demand. Consistent with stronger optimism, businesses raised output prices at the sharpest rate in 29 months.

“On a further positive note, firms reported that input price inflation was underpinned by higher pay to their staff. This will be welcomed by Prime Minister Abe amid his recent call for firms to raise wages to encourage greater domestic consumption.”

-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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