

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

Business activity growth softens in May

Key points:

- Backlogs of work fall amid new order growth slowdown
- Firms continue to expand workforce numbers
- Output price inflation eases, despite quicker rise in costs

Data collection 11-25 May

Another month of improvement in the Japanese service sector was observed midway through the second quarter. However, growth failed to gather further momentum from April's six-month peak. Inflows of new work increased at a noticeably softer pace, while greater workforce numbers enabled firms to clear backlogs of work.

In line with the softer rise in sales, output price inflation eased, despite a greater increase in costs. Nonetheless, business confidence strengthened.

The headline index from the survey - the seasonally adjusted **Business Activity Index** - decreased to 51.0 in May, from 52.5 in April to signal a moderation in service sector output growth. That said, activity has increased in each of the past 20 months.

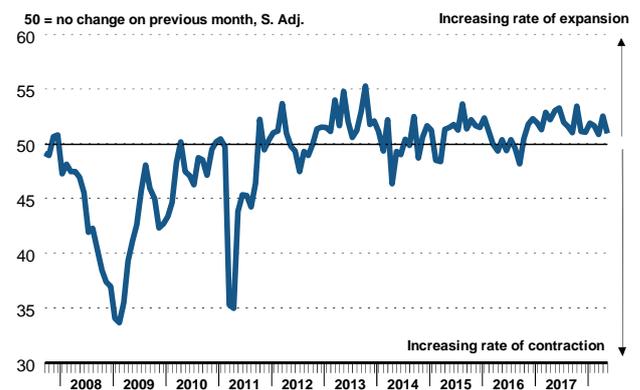
Similarly, a slower pace of output growth was observed in the Japanese goods producing sector. In turn, the **Nikkei Composite Output Index** fell to 51.7 in May, from 53.1 in April.

Panellists attributed the mild rise in output to new store openings and contract wins. However, matching the trend in overall business activity, the inflow of new work during May was slower than that seen in April. In fact, the rate of growth was the weakest since September 2016. Nonetheless, new business has risen in each of the past 22 survey months.

A softer improvement in manufacturing sector demand was recorded in May. That said, new business growth was markedly stronger than that in the services economy.

Despite weaker demand pressures, Japanese service providers continued to add to their payrolls in May. Job creation has now been sustained since January 2017. That said, the rate of employment

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Sources: Nikkei, IHS Markit

growth was only mild and slowed to a three-month low.

The combination of increased workforces and slower new order growth contributed to the first reduction in outstanding business since the end of last year. Overall, backlogs of work were cleared to the quickest extent in 22 months.

Conversely, incomplete work in the manufacturing sector increased in May amid the slowest rate of job creation in seven months.

On the price front, higher food, fuel and labour costs underpinned a further month of rising operating expenses faced by Japanese service providers. Input price inflation accelerated, but remained weaker than the increases observed during the first quarter.

However, faster growth in cost burdens was not met by a quicker rise in output prices, indicating profit margin erosion at Japanese service sector firms. Furthermore, the pace of increase in selling charges was the softest seen across the current ten-month stint of inflation.

As has been the case since February 2017, input price inflation faced by manufacturers outpaced that for their service-providing counterparts. Furthermore, cost burdens increased to a faster extent than in April. However, goods producers raised output prices at a slower pace in May.

Continued...

Businesses remained firmly confident towards future output prospects in May, despite weaker output growth. Planned new product launches and positive demand projections underpinned positive sentiment.

Comment:

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

“The Japanese service sector continued along an expansionary path during May; however the pace of growth failed to improve on April’s six-month high, rising to only a mild extent.

“There were worrying signs of deteriorating demand conditions, with new sales increasing at the softest rate in 20 months. In an effort to support business activity, firms began to clear their backlogs of work. Outstanding business decreased for the first time in five months during May.

“To the upside, there were mentions among panellists that the continued upturn in order books had encouraged them to raise prices. However, the rate of inflation was the weakest seen across the current ten-month bout of rising charges.”

-Ends-

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IHS Markit (About PMI and its comment)

Joe Hayes, Economist
Telephone 44 1491 461 006
Email joseph.hayes@ihsmarkit.com

Jerrine Chia, Marketing and Communications
Telephone 65 6922 4239
E-mail jerrine.chia@ihsmarkit.com

Bernard Aw, Principal Economist
Telephone 65 6922 4226
E-mail bernard.aw@ihsmarkit.com

Nikkei inc. (About Nikkei)

Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone 81 3 6256 7115
Email koho@nex.nikkei.co.jp

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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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