

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

Service sector growth accelerates to 22-month high

Key points:

- Both activity and new business rise solidly
- Fastest rate of job creation in over four years
- Sentiment dips from May high but remains positive

Data collection 12- 27 June

The recent steady upturn at Japanese service providers was sustained in June, with business activity growth picking up slightly to a 22-month high. New orders increased solidly, leading to faster round of job creation. Capacity pressures were evident despite a larger workforce.

Prices data indicated a squeeze on margins, with input costs again rising more quickly than selling prices. Confidence towards the year ahead eased fractionally, but was nevertheless robust overall.

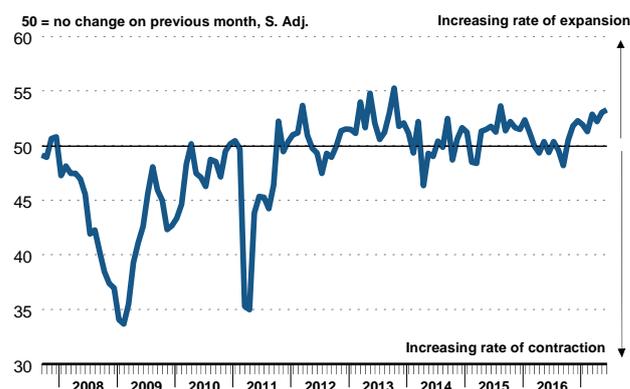
The headline index from the survey – the seasonally adjusted **Business Activity Index** – edged up to 53.3 in June, from 53.0 in May. The latest reading was the highest in nearly two years and pointed to a solid rise in service sector activity. It also continued the trend of accelerating growth, which has been noted throughout the second quarter.

Despite slower growth of Japanese manufacturing production, the **Nikkei Composite Output Index** signalled a solid expansion at 52.9 in June, down only slightly from 53.4 in May.

Higher service sector activity was linked by panellists to a combination of new business gains and employment growth. New orders increased for the eleventh month in a row, helped in some cases by the opening of new stores. Meanwhile, payroll numbers rose for the sixth month running. The rate of hiring accelerated to the most marked since May 2013.

Manufacturers also raised their staffing levels in June, in line with current and expected improvements in client demand. Together, the rises in services and manufacturing employment helped the rate of private sector job creation to reach the highest since September 2007 (the first month of data collection).

Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

The rise in new work was sufficient to lead to another increase in outstanding business at Japan's service providers. Backlog accumulation was reported for the seventh straight month, albeit to only a modest extent. The vast majority of respondents saw no change.

As has been the case in every month since November 2012, input prices faced by Japanese service providers rose in June. Moreover, the rate of inflation quickened to the sharpest in five months, amid reports of higher raw material and staff costs.

Service sector charges increased as a result, although the rise remained only modest overall. This was highlighted by the respective seasonally adjusted index posting close to the crucial 50.0 threshold.

Manufacturers noted a similar trend to services firms, with input prices rising more quickly than average charges.

Finally, Japanese service providers remained upbeat about the year ahead in June. Surveyed firms commented on expectations of higher demand, which they attributed to planned sales efforts, the opening of new branches and a projected boost from the 2020 Olympic Games in Tokyo. Although dipping from May's four-year high, the level of optimism was much greater than the average since the series started in September 2007.

Comment:

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

“Latest PMI numbers pointed to another steady month in the Japanese economy. Service sector growth picked up to a 22-month high in June, which mostly offset a manufacturing slowdown. The average Composite Output PMI reading in the second quarter was 53.0, up from 52.5 in Q1. GDP growth therefore looks set to be sustained.

“What’s more, with both manufacturers and service providers continuing to hire at solid rates, the omens are good for further growth in the rest of 2017. Cost pressures remain historically strong, however, which is squeezing margins as charges are not rising at the same pace.”

-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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