

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

Service sector growth eases in September

Key points:

- Business activity expands at weakest pace for nearly a year as new order growth softens
- Output price inflation highest since July 2015
- Business confidence picks up slightly

Data collection 12- 26 September

Japanese service providers signalled a further expansion of business activity in September, although the rate of growth was the slowest since October 2016. New orders also rose at a weaker pace, while firms raised their staff numbers modestly. On the price front, output charges increased at the fastest pace in over two years, as cost pressures continued to build.

The headline index from the survey - the seasonally adjusted **Business Activity Index** - registered 51.0 in September, to extend the current sequence of rising services activity to 12 months. However, the reading was down from 51.6 in August to indicate the slowest rate of growth since October 2016.

Manufacturing output however rose solidly in September, with the growth rate accelerating to a four-month high. Nonetheless, the **Nikkei Composite Output Index** dipped to 51.7 in September, down from 51.9 in August.

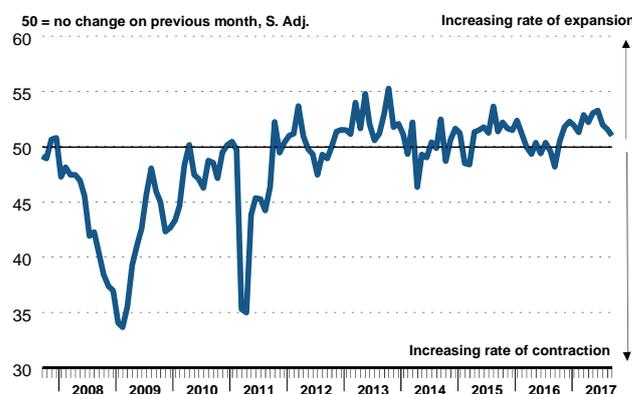
Softer growth of Japanese service sector business activity coincided with a weaker increase in total business. Furthermore, the latest increase in new work was the least marked since November 2016 and moderate overall. According to panellists, new store openings and successful marketing activities had supported sales in September.

Meanwhile, Japanese manufacturers saw new order growth reach a four-month high, supporting the pick-up in output.

In spite of weaker growth in activity and new business, Japanese services companies continued to add to their payrolls in September. The rate of jobs growth remained moderate overall, despite quickening from the previous month.

Rising staff numbers were reportedly supported by new store openings and the filling of vacancies.

Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

Although employment increased again, capacity pressures persisted in September, as highlighted by a tenth successive monthly rise in backlogs of work. However, the rate of accumulation weakened to a three-month low.

In the manufacturing sector, jobs growth was subdued in September, with employment rising at the slowest pace since November 2016. Nonetheless, payroll numbers grew for the thirteenth successive month.

Cost burdens facing Japanese service providers increased in September, as has been the case since November 2012. Panellists indicated that staff shortages had driven up labour costs, while hikes in fuel and raw material prices had placed additional upward pressure on input costs.

Similarly, manufacturers endured higher input prices, with the rate of inflation up to a five-month high. In contrast, output prices increased only moderately in September.

Meanwhile, service providers raised their charges to the greatest extent in 26 months in September. According to panellists, higher charges generally reflected greater input costs. Nonetheless, the rate of charge inflation remained modest.

Finally, business confidence picked up slightly from the 13-month low seen in August. Firms that projected higher activity in 12 months' time

generally commented on planned expansions to their business and Olympic Games-related demand.

Comment:

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

“Expansion in Japanese service sector business activity weakened in September. Softer growth in new work squeezed activity to its slowest growth rate in nearly a year, while job creation remained modest.”

“Rising cost pressures on service providers subsequently saw output price inflation accelerate to the fastest rate since July 2015. Nonetheless, the output price pick-up was modest.”

“Weaker activity growth, however, has not fuelled a further slide in business confidence, which picked up moderately following a 13-month low in August.”

-Ends-

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For further information, please contact:

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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