

Nikkei Japan Services PMI™ (with Composite PMI data)

Service sector activity growth accelerates to 22-month high

Key points:

- New business at service providers grows at robust pace
- Cost pressures ease, while charges also rise at slower rate in the service sector
- Forecasts of service sector activity strongest in nearly two years

Summary:

Business conditions in the Japanese service sector improved substantially mid-way through Q3. Activity growth picked up to the strongest since October 2013, alongside a solid increase in new business. On the price front, inflationary pressures were evident as input prices rose, although at the slowest rate in four months. Charges also increased at a weaker pace.

Meanwhile, business sentiment strengthened for the third month running to the strongest since September 2013.

At 53.7, up from 51.2 in July, the seasonally adjusted Business Activity Index signalled a noticeable improvement in business activity at Japanese services companies. The latest reading was the highest in 22 months, with 19% of survey participants recording greater output. According to panellists, an economic recovery and an increase in demand had contributed to the expansion in output.

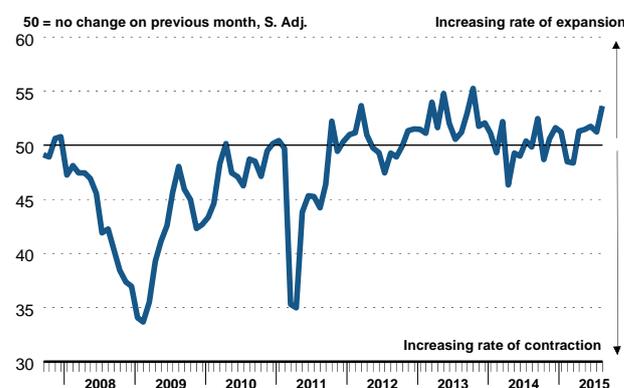
Meanwhile, output at Japanese manufacturers increased, albeit at a weaker pace than seen at the start of Q3. The **Nikkei Composite Output Index** pointed to a sharp expansion in overall activity, posting at 52.9, up from 51.5 in July. Moreover, the latest reading was the highest since January 2014.

An improvement in service sector activity was underpinned by a further increase in new work intakes. Despite falling slightly from July's 26-month high, growth in new orders was the second-fastest in 2015 so far. Surveyed companies mentioned that the securing of new clients had led to the expansion. Meanwhile, new order growth in the manufacturing sector accelerated to the fastest since January.

As a result of increases in both activity and new business, pressure on capacity was evident at Japanese service providers as volumes of

unfinished work accumulated in August. The rate of increase softened from July, but was in line with the average observed since the start of the year. Manufacturers also registered an increase in backlogs, although growth was only modest overall.

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Despite reports of stronger output growth and an increase in new work intakes, Japanese services firms reduced their staffing numbers in August. However, the rate of job shedding was marginal overall. In contrast, manufacturers hired staff for the fifth successive month, with the rate of job creation little-changed from the seven-month high observed in July.

Inflationary pressures persisted at Japanese services firms in August as purchasing prices rose for the thirty-fourth month in a row. Higher staff wages were cited as a factor behind increased input costs. However, the rate of inflation slowed to a four-month low and was weaker than the historical average. Prices charged also rose at a slightly slower rate and one that was weaker than the average over the current 19-month period of inflation. This differed in the goods producing sector, as input prices were unchanged in August, bringing to an end a 31-month period of inflation.

Finally, forecasts towards activity over the following 12 months strengthened, with sentiment the best in nearly two years. Expectations of an economic recovery, greater demand generated from the preparations for the hosting of the Olympic Games and expansions in business were all cited as determinants behind the optimism.

Comment:

Commenting on the Japanese Services PMI survey data, **Amy Brownbill**, economist at Markit, which compiles the survey, said:

“Latest survey data showed signs of a marked improvement in the Japanese service sector. Activity growth accelerated to the strongest since October 2013, underpinned by a solid increase in new orders. In contrast, employment levels declined, offsetting the slight increase seen at the start of Q3. That said, the rate of job shedding was marginal.

“Prospects for future growth were also recorded in the data as forecasts of activity strengthened for the third straight month, with the degree of sentiment the strongest in nearly two years.”

-Ends-

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Notes to Editors:

The Nikkei Japan Services *PMI*[™] is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

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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Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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