

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

Business activity growth remains mild in July

Key points:

- Employment growth accelerates...
- ...but output and new business rise at softer rates
- Price pressures intensify

Data collection 12-26 July

The Japanese service sector began the third quarter with another monthly rise in output, supported by continued growth in new business. In line with upbeat output forecasts, firms increased workforce numbers at the quickest pace in four months.

On the price front, input costs increased at the fastest pace in six months, encouraging businesses to raise output charges to the greatest extent in over four years.

The headline index from the survey - the seasonally adjusted **Business Activity Index** - edged fractionally lower in July to 51.3, from 51.4 in June, signalling a broadly similar pace of output growth to that seen in the prior survey period. July data stretches the current expansionary sequence into a twenty-second month. That said, the extent of July's rise was only mild and below the average seen over the current growth period.

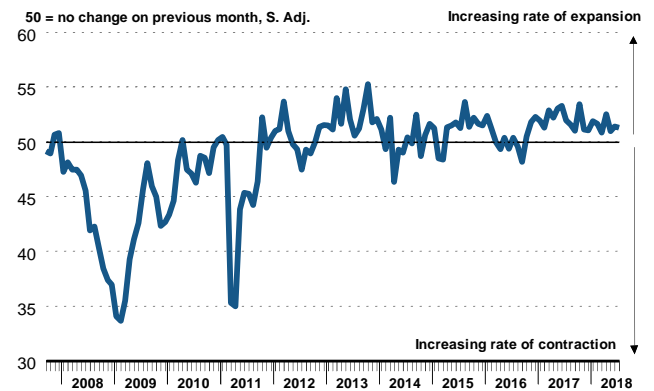
A slower pace of expansion in the manufacturing sector was also recorded. Subsequently, the **Nikkei Composite Output Index** declined to 51.8 in July, from 52.1 in June, pointing to a softer expansion in private sector business activity.

Panelists primarily attributed the rise in output to greater intakes of new work. Survey data indicated that demand has improved in each month for the past two years. According to anecdotal evidence, new store openings and successful contract tendering had helped generate new sales in July.

Order book volumes in the goods-producing sector rose to a noticeably slower extent in July. The rate of expansion was the weakest since October 2016.

Japanese service sector businesses faced greater capacity pressures as a result of rising order book volumes. Outstanding business increased for a

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Sources: Nikkei, IHS Markit

second month running during July, however the rate of accumulation was only slight and weakened since June.

With new orders and backlogs of work both rising, service sector businesses retained a positive outlook towards future output in July. The level of positive sentiment strengthened amid forecasts of growing client bases, new product launches and planned job creation.

Meanwhile, confidence among manufacturers weakened to a four-month low, but remained strong overall.

In keeping with demand, Japanese service providers raised operating capacities by recruiting additional staff at the beginning of the third quarter. In fact, the rate employment growth was the fastest for four months. Job creation has been observed since the start of 2017.

A moderate pace of employment growth was sustained in the manufacturing sector during July. The rate of increase slowed fractionally, but remained stronger than that seen in the service sector for a seventh straight survey period.

Labour costs were reported to have risen during July, in line with higher employment and increased salaries. Higher prices for food and fuel were also mentioned by panel members. As such, the rate of input cost inflation quickened to a six-month high and was strong overall.

In response, service-providing companies set higher output charges in an attempt to offset profit margin erosion. Furthermore, the extent to which selling prices were raised was the strongest in 50 months.

Similarly, faster rates of inflation in both input costs and output prices were noted by goods producers during July. Increased fuel prices and higher staffing costs also reportedly impacted profit margins at manufacturers.

Comment:

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

“In general, the signal from the July survey was the status quo – business conditions in Japan’s service sector are continuing to improve at a fairly mild pace. Business activity has risen in successive months for almost two years, although the latest reading on the headline figure points to a relatively weak rate of expansion.

“Nonetheless, demand conditions improved to an extent which generated capacity pressures, with panellists pointing to a rise in outstanding business. In turn, this should support further output growth in the coming months. Further positivity can be drawn from the fact that employment growth accelerated to a four-month high, despite reports of rising wage pressures. A stronger degree of business confidence, in tandem with the quickest rate of output price inflation for 50 months, reaffirms the upbeat signal from these forward looking indicators.”

-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'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

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