

# Nikkei Japan Services PMI<sup>®</sup> (with Composite PMI data)

## Business activity growth edges up to three-month high

### Key points:

- New order growth quickens for first time since October 2017
- Firms hire additional staff amid rising backlogs of work
- Cost pressures intensify further

Data collection 12-26 January

The Japanese service economy began 2018 positively, with an accelerated pace of activity growth. New business inflows increased at a sharper rate, contributing to a rise in the level of outstanding work and prompting firms to hire new staff. Encouraged by stronger upturns in output and new orders, business confidence strengthened to a 56-month high.

The headline index from the survey - the seasonally adjusted **Business Activity Index** - increased to 51.9 in January, from 51.1 in December. This signalled a moderate pace of expansion, and the first time that output growth has quickened in the Japanese service sector since October last year.

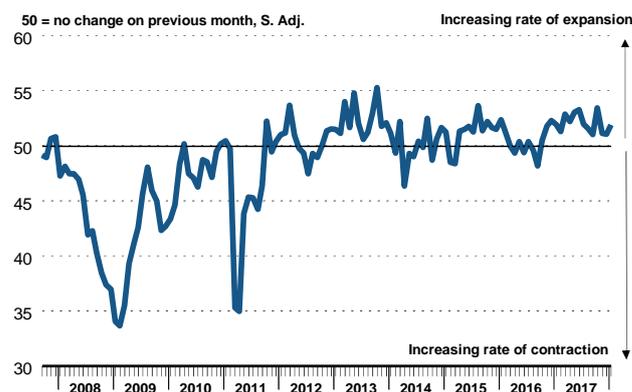
Concurrently, the manufacturing sector expanded production at the fastest rate since February 2014. The **Nikkei Composite Output Index** increased to 52.8 during January from 52.2 in December to signal a solid pace of private sector output growth.

According to service providers, stronger growth in output was underpinned by greater new business inflows. New order receipts rose for an eighteenth consecutive month and at a quicker rate in January. Firms noted that demand from new and existing customers had fuelled the upturn.

Similarly, new order growth in the manufacturing sector picked up to a four-year high.

In line with a faster expansion in order book volumes, the level of outstanding business with Japanese service providers increased in January. Firms suggested that staff shortages had contributed to an accumulation in backlogs of work.

Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

Buoyed by stronger sales and output growth, service sector firms maintained a positive outlook towards activity over the coming 12 months. The level of confidence strengthened to the highest since May 2013.

Confident that the growth trend in activity would be sustained, Japanese service providers enhanced operating capacity by hiring more employees. Additional jobs have been created in each of the past 13 survey periods. That said, the latest reading signalled a marginal slowdown in the rate of employment growth.

In the manufacturing sector, additional jobs were created at the joint-fastest pace since April 2014, on a par with February 2017. New staff were hired in anticipation of greater new business inflows.

In line with stronger optimism and robust demand conditions, Japanese service sector firms raised their selling prices in January. In fact, output price inflation accelerated for the third successive month to the sharpest since May 2014.

That said, the rate at which input prices increased continued to outstrip that of selling charges, implying a further tightening of profit margins. The rate of inflation was sharp, quickening to the fastest since August 2008.

Similarly, manufacturers raised output prices to partly offset stronger input cost inflation.

## Comment:

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

*“January PMI data shows continued growth in Japanese service sector output. Indeed, activity rose at a faster pace amid a stronger expansion in new business inflows. This supported forecasts of further economic growth by panellists, with business optimism strengthening to a 56-month high.*

*“Input cost inflation accelerated to the sharpest rate since August 2008, with higher food and fuel expenses cited as a principal factor behind the uptick. However, demand growth spurred on firms to raise output prices at the fastest pace since May 2014. The Bank of Japan does not expect the 2% target to be attained until at least April 2019, with December 2017 core CPI rising at an annual rate of 0.9%.*

*“That said, with PMI and official data signalling sustained increases in output and employment, domestic inflationary pressures are not lacking. A continuation of yen appreciation against the US dollar could undermine the BoJ’s commitment to ultra-loose monetary policy, however.”*

-Ends-

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**Notes to Editors:**

The Nikkei Japan Services *PMI*<sup>®</sup> 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*<sup>®</sup> 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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