

# Nikkei Japan Services PMI™ (with Composite PMI data)

## Employment growth in Japanese service sector hits 45-month high

### Key points:

- Japanese service providers report further increase in output
- New business growth continues to outstrip historical average
- Cost pressures remain strong

Data collection 10 - 23 February

February survey data signalled the fastest increase in employment in Japan's service sector for 45 months. Meanwhile, new business growth remained robust and firms raised output, albeit at the slowest rate for four months. On the price front, cost inflationary pressures alleviated slightly but remained sharp, while charges rose only marginally.

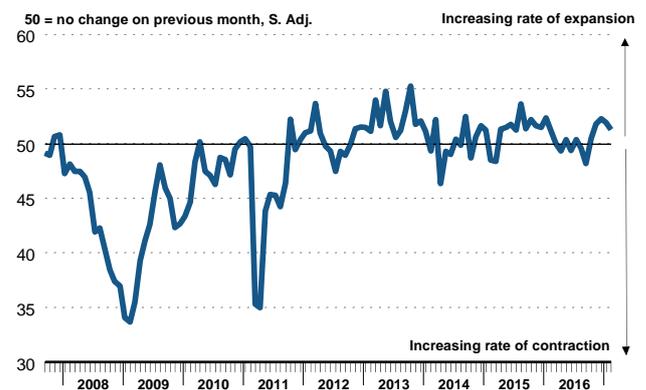
The headline seasonally adjusted Business Activity Index fell to 51.3 in February, down slightly from 51.9 at the start of 2017 and its lowest for four months. The latest increase extended the current sequence of growth which was first observed in October last year, with panel members linking the rise to an uptick in new business levels.

Despite Japanese manufacturers raising their output at the fastest extent for 35 months, the **Nikkei Composite Output Index** eased slightly from January's reading of 52.3. At 52.2 in February, the latest figure was down further from December's 16-month high.

New store openings and an increase in activity in the car rental industry contributed to another solid rise in new business levels during February. In fact, the rate of expansion remained broadly in line with the previous two months and continued to outstrip the historical average. Meanwhile, Japan's goods producers received the quickest increase in new orders for 14 months.

A higher new quantity of new projects encouraged Japan's service sector businesses to add to their staffing levels at the quickest pace for 45 months in February. In fact, manufacturers also added to their payrolls at a marked pace which was the quickest for 34 months.

Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

Meanwhile, Japanese service providers recorded a further build-up in outstanding business levels midway through the first quarter of 2017. That said, that rate at which backlogs of work accumulated was only fractional and weakened to a three-month low. In the manufacturing sector, outstanding business increased in February, bringing to an end a 13-month period of deteriorating backlogs.

Latest survey data pointed to a further increase in input costs in Japan's service sector, extending the current sequence of inflation to 52 months straight. Although the rise in input costs eased since January's 28-month high, it was still marked. Firms mainly linked the rise to higher fuel costs.

In line with the increase in average cost burdens, service providers operating in Japan raised their selling prices further, albeit at a fractional pace.

Japanese manufacturers registered a further marked increase in their average cost burdens in February. However, they kept selling prices broadly unchanged since the previous month.

Higher employment, planned company reorganizations and increased advertising activity led service sector firms to predict a rise in business activity over the next 12 months. In the manufacturing sector, business optimism was the second-strongest recorded in the series history during February.

## Comment:

Commenting on the Japanese Services PMI survey data, **Samuel Agass**, economist at IHS Markit, which compiles the survey, said:

*“Japan’s service sector continued to grow during February, albeit at the weakest pace for four months. However, this did not stop firms from adding to their headcounts at the quickest extent since May 2013. New business growth was also robust and continued to outstrip the historical average but this could only contribute to a fractional accumulation in backlogs of work. The overall expansion in Japan’s private sector remained relatively moderate, despite output growth in the manufacturing sector hitting a near three-year high.”*

-Ends-

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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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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@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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