

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

Activity rises at quickest pace in six months

Key points:

- Stronger improvement in demand supports output growth
- Output price inflation accelerates, despite softer cost pressures
- Business confidence eases to seven-month low

Data collection 12-25 April

Growth in the Japanese service economy picked up at the start of the second quarter, supported by greater staffing levels and a solid rise in order book volumes. That said, although backlogs of work were accumulated to a greater extent, signalling plentiful workloads, business optimism towards future output eased.

Nevertheless, firms raised output prices to a stronger degree, despite a slower rate of input cost inflation.

The headline index from the survey - the seasonally adjusted **Business Activity Index** - increased to 52.5 in April, from 50.9 in March, to signal a sharper rate of expansion in service sector output. Although the increase was only moderate in size, it was the greatest observed since October 2017.

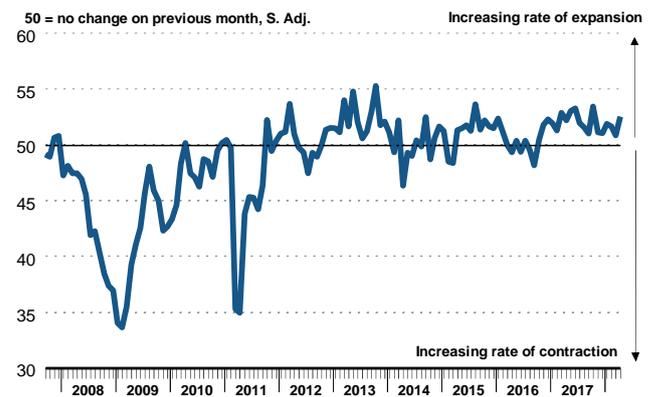
Likewise, an accelerated pace of output growth was observed in the Japanese goods producing sector. In turn, the **Nikkei Composite Output Index** increased to 53.1 in April, from 51.3 in March.

A nineteenth consecutive monthly expansion in output was reportedly underpinned by increased employment and a stronger influx of new work. New business placed with Japanese service providers rose at the fastest pace in five months. Greater order book volumes were linked to positive economic conditions and new client acquisitions.

New orders placed at Japanese manufacturers also rose at a sharper pace in April, with panellists attributing the increase to new product launches.

In line with greater workloads, a rise in employment was observed across the service sector in April. Although the rate of job creation softened and was only mild overall, additional staff have been recruited in each survey period since January 2017.

Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

That said, the rise in workforce numbers did not prevent a further build-up of capacity pressures. The rate of backlog accumulation, albeit modest, quickened on that seen in March.

Manufacturing firms also expanded operating capacity by hiring new staff during April. However, unlike their service sector counterparts, they created new jobs at a quickened pace.

The upturn in demand encouraged Japanese service providers to raise output prices in April. The rate of inflation accelerated for a second successive survey period, with panellists associating hikes in selling charges to increased costs.

According to anecdotal evidence, operating expenses in the Japanese service sector were driven higher by greater shipping costs and higher wages. That said, the extent of the rise in input prices softened noticeably to an eight-month low in April.

Prices paid for inputs by manufacturers increased sharply in April; however the rate of inflation eased slightly. In response, factory gate charges were hiked, albeit to a slower extent.

Despite improved demand and output growth, business confidence, albeit positive overall, weakened to the lowest level since September 2017. Nonetheless, the degree of optimism was firmly above the historic average of the series. Planned new store openings and projections of

economic growth were cited as reasons underpinning positive sentiment.

Comment:

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

“Following successive months of softening output growth through February and March, Japan’s service sector started the second quarter by gathering some momentum. The fastest rise in business activity for six months was supported by another monthly expansion in employment and a solid improvement in demand.

“However, business confidence regarding future activity weakened to a seven-month low despite the stronger inflow of new work and rise in backlogs. Panellists noted that increased competition and rising labour shortages may impact output potential over the coming 12 months.

“Nevertheless, businesses raised their selling charges to a greater extent in April, even with a weakened rate of input price inflation. Indeed, stronger output price hikes, in the wake of weaker cost pressures, signals confidence in the purchasing power of service sector clients.”

-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'.

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