

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

## Growth of service sector softens in July

### Key points:

- Both activity and new work rise at slower rates
- Capacity pressures sustained; workforce numbers rise
- Confidence dips to lowest level since February

Data collection 12- 26 July

Growth of the Japanese service sector was maintained during July, extending the current run of expansion to ten months. New orders also continued to rise, albeit at a slower rate, whilst capacity pressures led to a further increase in backlogs. Workforce numbers were expanded in response to higher workloads and in line with ongoing optimism regarding future activity levels.

On the price front, average input costs continued to increase, largely due to rising employment expenses, but there was a fractional decline in output charges recorded, the first time that companies have lowered their prices in 2017 so far.

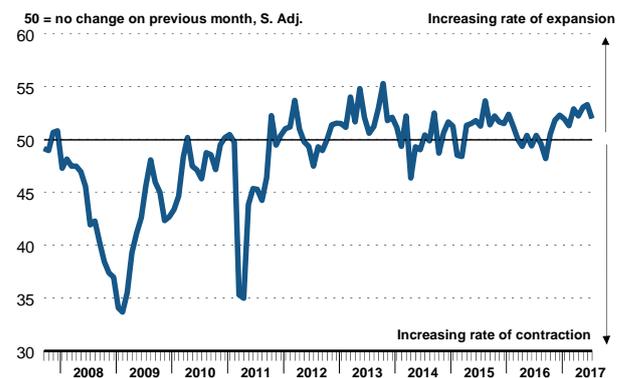
The headline seasonally adjusted **Business Activity Index** recorded 52.0 during July to signal growth in activity for the tenth successive month. However, falling from 53.3 in June, the degree to which activity increased was moderate and the lowest since February.

There was a concurrent slowdown in the rate of growth of Japanese manufacturing production. This meant that the **Nikkei Composite Output Index** fell to 51.8 in July, down from 52.9 in June and the lowest reading recorded since last October.

Increased service sector activity was closely linked to further gains in incoming new business. July's survey showed that volumes of new work rose for a twelfth successive month. Growth was solid, albeit a little softer than rates seen during May and June. Panellists commented on increased demand, new store openings and promotional activities as reasons for the upturn in new work.

Similar to the trend seen for output, manufacturers also saw a weaker increase in levels of new orders. The respective composite index subsequently fell to a three-month low.

Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

Capacity indicators showed that pressure on resources continued during July. Service sector backlogs of work rose for the eighth successive month, with latest data showing growth at the strongest recorded by the survey since April 2015. Panellists responded by adding to their workforce numbers for a seventh successive month.

Manufacturers also added to their payroll numbers, with the rate of growth again solid and above that signalled in the service sector.

Average input prices in the service sector rose again in July, maintaining a trend that extends back to November 2012. Companies reported that higher labour costs had driven up overall operating expenses. The rate of inflation was, however, down on June's recent high and the slowest recorded by the survey since April. Meanwhile, output charges were reduced slightly, the first such occurrence of the year so far.

Manufacturers reported ongoing inflation of input prices during July, and continued to raise their own output charges at a marginal pace.

Finally, confidence regarding the year ahead remained inside positive territory during the latest survey period. A number of companies are forecasting a boost in sales and demand over the next 12 months, whilst new store openings should also bolster activity. However, the net level of optimism was the lowest recorded by the survey since February.

**Comment:**

Commenting on the Japanese Services PMI survey data, **Paul Smith**, Director at IHS Markit, which compiles the survey, said:

*“The Japanese private sector made a solid, albeit unspectacular, start to the third quarter of the year, with growth being maintained, but at the slowest rate since last October. Weaker expansion was registered across both manufacturing and service sectors in line with weaker gains in new business compared to previous months.*

*“Nonetheless, highlighting the generally steady and benign growth environment, companies continue to add to their payroll numbers at a steady clip as positive expectations for output and demand over the coming months were maintained.”*

-Ends-

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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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