

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

## Solid business activity growth and positive outlook at start of 2017

### Key points:

- Output increases at robust pace
- New orders expand at same rate as December's 17-month record
- Cost inflationary pressures accelerate to 28-month high

Data collection 12 – 26 January

The Japanese service sector continued to improve at the start of 2017, with business activity increasing at a solid pace helped by strong new order growth. As a result, services firms were optimistic towards their hiring policies, with the rate of job creation picking up to a 13-month high. On the price front, input prices increased at the sharpest rate since September 2014, leading charges to rise.

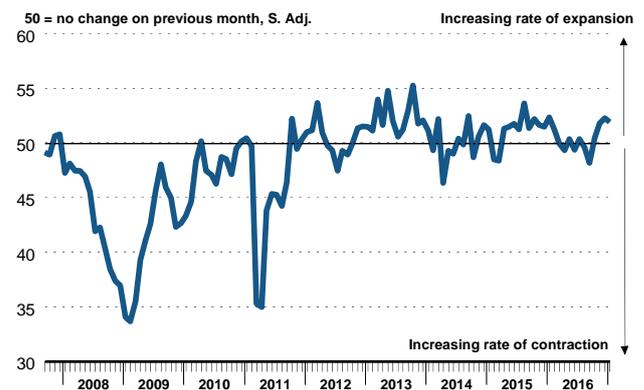
The headline seasonally adjusted Business Activity Index posted at 51.9 in January, down from 52.3 in December, signalling a robust, albeit slower, expansion in output at Japanese services firms. Although lower than the previous month, the latest reading was sharper than the average seen over 2016. According to panellists, company expansions and greater new work inflows helped to boost activity.

New orders at Japanese services firms rose at the same rate as December's 17-month high during January. A number of firms linked greater incoming new orders to success in gaining new clients.

Meanwhile, production growth at Japanese manufacturers rose at a solid, albeit slower, pace. Reflecting robust expansions in both manufacturing and service sector activity, the **Nikkei Composite Output Index** posted at 52.3, slightly down from 52.8 in December, signalling a solid expansion in overall output at private sector firms in Japan.

According to the latest survey data, new orders rose at a sharper rate than output, which added extra pressure on services firms' capacity. In fact, volumes of unfinished business were accumulated at the quickest rate since November 2015. Meanwhile, backlogs of work were depleted at Japanese manufacturers, albeit at the joint-weakest rate in the current 13-month sequence.

### Nikkei Japan Services PMI



Sources: Nikkei, IHS Markit

In order to cope with the surge in demand, services firms added to their staff numbers. Moreover, the rate of job creation was the fastest in over one year. Employment at manufacturers also rose at a robust pace.

Meanwhile, reports of greater raw material costs, fuel expenses and wages led to higher input prices at Japanese services firms in January. This resulted in an increase in charges, albeit only marginally. Similarly, manufacturers reported the most marked increase in input prices since March 2015. Subsequently, goods producers raised their charges.

Finally, forecasts for output at Japanese services over the coming year were positive in January, as business sentiment strengthened to the strongest rate in nine months. Expectations of greater demand stemming from preparations in hosting the 2020 Tokyo Olympic Games and new product launches as factors behind the confidence. A similar trend was also seen in the manufacturing sector, with confidence towards the outlook reaching a 31-month high.

### Comment:

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

*“Latest survey data pointed to a further improvement in the Japanese service sector, with*

*business activity increasing at a solid, albeit slightly slower, pace. New orders rose at a rate little-changed from December's 17-month record. The manufacturing sector also started 2017 on a good footing, further supporting the IHS GDP forecast for Q1 2017 of 1.3% year-on-year growth in real terms.*

*"Both manufacturers and services firms in Japan were upbeat towards output over the coming year. Business sentiment at services firms picked up to a nine-month high, backed by greater demand stemming from the preparations in hosting the 2020 Tokyo Olympic Games and new product launches."*

-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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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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