

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

## Growth of activity falls to two-year low in September

### Key points:

- Business activity growth slows to marginal pace
- Demand and employment continue to rise
- Price pressures remain elevated

Data collection 12-25 September

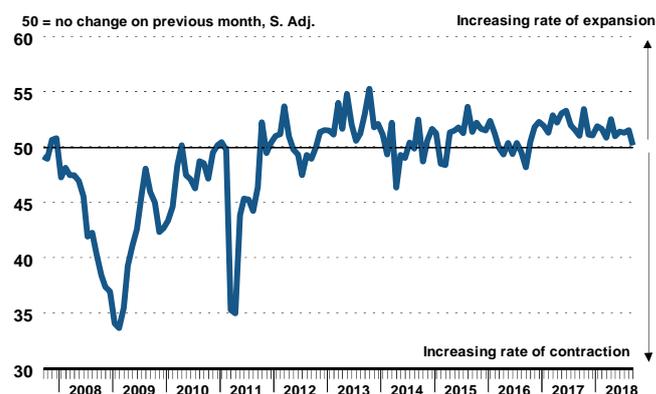
Japan's service economy only just remained in expansionary territory at the end of the third quarter. Output grew at a marginal pace, with inflows of new work rising to a slower extent. Amid another month of job creation, capacity pressures alleviated, with backlogs of work declining for the first time since May. Future business activity expectations remained broadly in line with the average seen this calendar year. Meanwhile, survey data pointed to relatively marked rates of input cost and output price inflation.

The headline index from the survey - the seasonally adjusted **Business Activity Index** - fell to the lowest level in two years during September. Still above the 50.0 no-change mark with a reading of 50.2, down from 51.5 in August, the headline figure continued to signal expansion in Japan's crucial service sector. However, the rate of growth was notably slower and only marginal overall.

Softer service sector business activity growth in conjunction with a weaker expansion in manufacturing sector production drove the **Nikkei Composite Output Index** lower to 50.7 in September, down from 52.0 in August.

Workloads at service providers continued to increase in September, despite growth easing. Demand pressures remained robust and latest data extended the current sequence of upturn to 26 months. Some panellists reported solid sales performances as a reason underpinning output growth, however some firms were negatively impacted by the recent earthquake. Business activity growth was only marginal in September. Nonetheless, survey data indicated that Japanese service providers were able to cope with current levels of demand, as backlogs of work declined for the first time since May.

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Sources: Nikkei, IHS Markit

Manufacturers received greater new order inflows in September, with the rate of growth edging up fractionally to a three-month high. Demand pressures were broadly similar across both monitored sectors of the Japanese private sector.

Despite anaemic growth in output, service providers continued to add to their payrolls. Employment growth has been recorded in every month since January 2017. The rate of job creation eased to a three-month low, but was in line with the average seen over the current period of rising recruitment.

Goods producers also ramped up hiring at the end of the third quarter, continuing a trend which first began in September 2016.

Weaker improvements in key business health barometers did not translate into negative sentiment towards future output prospects. Business confidence remained solid and was broadly in line with the average seen so far in 2018. Planned new store openings, sales promotions and forecasts of economic growth supported optimism in September.

Meanwhile, confidence among manufacturers dipped to a 22-month low in September as some panellists raised concerns towards the demand outlook.

Elsewhere, survey data continued to indicate strong input price inflation faced by Japanese service providers, with labour and fuel costs cited as

sources of profit margin pressure. Firms responded by raising output charges, with the rate of increase accelerating, despite input costs rising to a lesser extent.

A similar trend was recorded in the manufacturing economy, with output price and input cost inflation rates remaining marked.

### Comment:

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

*“The services sector ended Q3 on a rather disappointing note, with the headline PMI dipping to a two-year low and signalling only a marginal rate of growth in business activity.*

*“New business and employment both increased at rates which were broadly in line with their respective current expansionary-period averages, however. This suggests the anaemic output growth observed in September should be transitory, as robust demand pressures and job creation should continue to drive stable growth in business activity.*

*“Business sentiment did nudge slightly lower, but remained at a strong level. Survey data also signalled a marked month on month rise in selling prices, indicating that demand conditions are perceived to be able to withstand higher charges.”*

-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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