

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

### Demand for services supports continued activity growth

#### Key points:

- Service sector output rises at modest pace
- Firms continue to observe rising new business
- Employment growth quickens to survey high

Data collection 10-25 April

Japan's service sector remained in a healthy state at the start of the second quarter, with business activity and new order growth continuing. Operating capacities were placed under pressure, supporting employment growth, which accelerated to a survey high. Looking ahead, the outlook for service sector activity improved amid positive forecasts towards the domestic economy.

The headline index from the survey – the seasonally adjusted **Business Activity Index** – recorded 51.8 in April, down slightly from 52.0 in March to the lowest in three months. Nevertheless, the rate of expansion in service sector output matched the average seen across the current period of growth which started in October 2016. According to anecdotal evidence, the rise in activity was driven by supportive demand conditions.

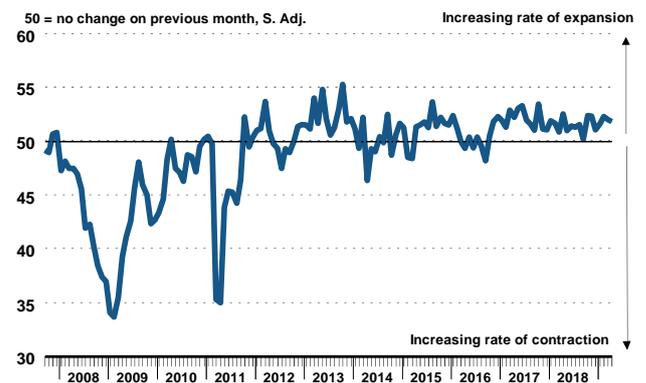
While manufacturers continued to scale back production, the extent of the fall eased since March. As a result, the **Nikkei Composite Output Index** picked up in April to 50.8, from 50.4 in March, signalling a mild rate of expansion in private sector activity.

New orders placed with Japanese service providers increased in April. New customer wins were coupled with improved demand from existing client bases, helping to keep sales along the expansion path which started almost three years ago. That said, new business was sourced from domestic markets, as latest survey data indicated a renewed dip in export orders.

Meanwhile, a stronger decline in foreign sales weighed on overall manufacturing order books, which fell further during April.

The sustained upturn in demand for services exerted pressure on operating capacities, as evidenced by an increase in backlogs of work at Japanese service providers. The rate of accumulation was modest overall and contrasted

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Sources: Nikkei, IHS Markit

with a fractional depletion recorded in March.

Manufacturers were able to channel extra resources into reducing the level of work outstanding given weak demand. Backlogs fell at the fastest pace since June 2016.

Greater inflows of new business and increased levels of outstanding work led service providers to bolster workforce numbers. Employment growth was strong and quickened to a survey record during April. There was also a sharper uptick in manufacturing payrolls.

Optimism towards the outlook for services output over the coming 12 months also improved during the latest survey period. Confidence was underpinned by positive forecasts towards the domestic economy, planned company investment and expectations of stronger demand. Similarly, manufacturing confidence edged up, reaching a five-month high.

On the price front, latest survey data indicated further cost pressures, with input prices rising markedly across both sectors. Reports from panellists indicated that staffing expenses and fuel costs had driven inflation in April.

Subsequently, some companies shared part of the rise in input prices with clients by raising selling charges. That said, the rate of increase eased to a five-month low in the service sector, and was broadly level with that seen in March at manufacturers.

## Comment:

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

*“As has been the case since the start of the year, Japan’s service sector continued to tick along at a modest pace. Domestic demand is holding up, currently supporting activity and keeping the year-ahead outlook well anchored. Nevertheless, manufacturing woes continued, which have kept the composite PMI at a subdued level which is indicative of quarterly GDP growth of about 0.2%.*

*“With comments from the manufacturing panel highlighting weakness in automobile and semi-conductor industries, both key to Japan’s foreign trade, the domestic market will need to keep providing support to the Japanese economy.”*

-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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