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au Jibun Bank Japan Services PMI®

Including au Jibun Bank Japan Composite PMI®

Stronger service sector activity growth in December

Key findings

Sustained expansions in activity and new business

Demand from overseas increases at fastest rate since July 2018

Selling price inflation at 38-month high

Data were collected 5-20 December 2022.

The Japanese service sector ended the year with a further expansion in output and order books in December. Supported by an uplift in tourism and sustained improvement in COVID-19 conditions, demand reportedly remained strong in December and drove a slightly faster expansion in business activity. Companies were hopeful that current levels of demand would continue, as signalled by a historically elevated level of confidence in December. Elsewhere, inflationary pressures worsened. Input costs and charges rose at rates among the fastest on record.

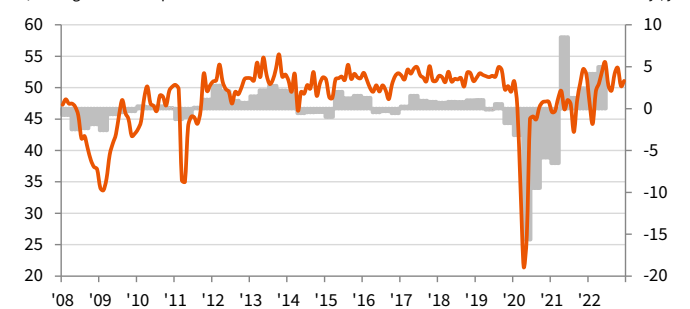
The au Jibun Bank Japan Services PMI® is compiled by S&P Global from survey responses from a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services.

The headline figure is the Services Business Activity Index, which tracks changes in the volume of business activity compared with one month previously. A reading above 50 indicates an overall increase compared to the previous month, and below 50 an overall decrease.

The au Jibun Bank Japan Services Business Activity Index posted at 51.1 in December, rising from 50.3 in November. The latest reading was indicative of a fourth consecutive rise in activity in the Japanese service sector. The pace of expansion was only mild overall but was faster than in November and quicker than the average for the year as a whole. Growth in new business reportedly mirrored current demand conditions, said survey respondents.

Boosted tourism volumes, resulting from the continued success of the National Travel Discount Programme, and a sustained easing in COVID-19 disruptions were pivotal

Japan Services PMI Business Activity Index Household Services Expenditure
sa, >50 = growth since previous month % yr/yr



Sources: au Jibun Bank, S&P Global, Cabinet Office Japan

factors supporting demand, according to anecdotal evidence. As such, order book volumes held by Japanese service sector firms increased for the fourth month in a row in December. The rate of growth, however, was the slowest since July. Meanwhile, demand from overseas increased at the strongest pace since July 2018.

To cope with the current workload, firms increased their workforce numbers for the eleventh month in a row in December. The rate of job creation, albeit only modest, was the sharpest since May. Some panel member mentioned that higher volumes of application were received in December to signal some easing in labour shortages that have been previously reported on.

Nevertheless, capacity pressure at Japanese service sector firms was sustained in December and backlogged work increased for the fifth month in a row, the longest sequence in over five years.

Japanese service providers remained strongly optimistic about output over the coming 12 months, with firms hopeful that demand conditions would remain positive in the new year. In fact, the degree of confidence was more pronounced than in November and well-above the historical average.

Turning to prices, inflationary pressures worsened in the final month of the year. Driven by higher labour, fuel, electricity, and raw material prices, average cost burdens faced by Japanese service providers increased at an accelerated pace in December. Concurrently, firms raised their selling prices at the fastest pace in over three years, and the fourth-highest on record. While some firms simply increased prices to reflect higher input costs, others took advantage of the strong demand conditions and raised prices in an attempt to boost profitability.

au Jibun Bank Japan Composite PMI®

Softer contraction in output across Japan's private sector

The S&P Global Japan Composite PMI Output Index* rose to 49.7 in December, up from 48.9 in November to indicate a second consecutive deterioration in output in the Japanese private sector economy. The rate of contraction, however, was softer than in November and only fractional.

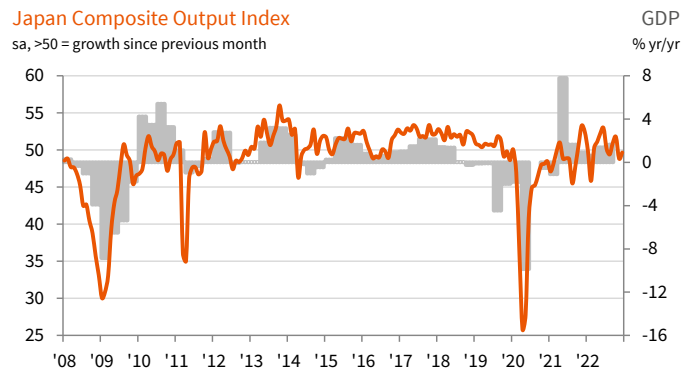
The softer downturn was reflective of some gains in growth momentum across the Japanese service sector as the National Travel Discount Programme and a sustained improvement in COVID-19 related disruptions continued to support demand. Meanwhile, manufacturers reported a sustained decline in output.

Similarly, service sector firms registered sustained growth in new business in December while order book volumes across the Japanese manufacturing sector contracted at a solid pace.

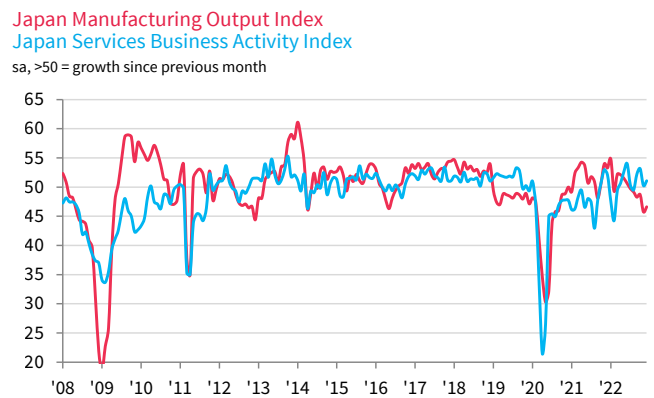
The two sectors displayed mixed trends in terms of prices. While goods producers continued to register rates of inflation that were historically elevated, both input costs and selling price inflation weakened on the month. In contrast, service sector firms recorded faster rates of inflation.

Finally, optimism across the private sector economy was broad-based with the degree of confidence for the year ahead at manufacturing firms matched by that of service providers.

*Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of manufacturing and service sectors according to official GDP. The Japan Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.



Sources: au Jibun Bank, S&P Global, Cabinet Office Japan.



Sources: au Jibun Bank, S&P Global.

Comment

Commenting on the latest survey results, Laura Denman, Economist at S&P Global Market Intelligence, said:

“Japanese service sector growth picked up in the final month of the year, according to latest PMI data. As has been the case since the launch of the National Travel Discount Programme in October, an uplift in tourism volumes, alongside a sustained improvement in the COVID-19 situation continued to support demand conditions and reportedly led to sustained expansions in business activity and inflows of new business in December. With the government-led

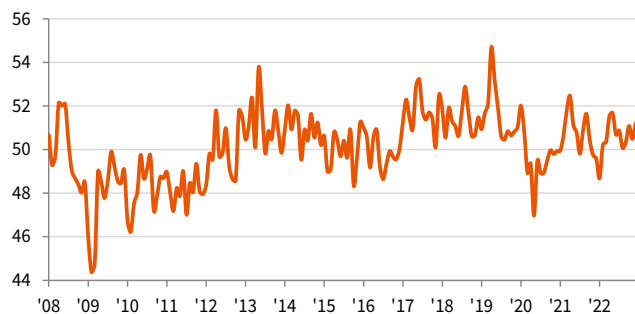
programme set to continue in January, we can hope to see activity levels across the Japanese service sector expand in the new year. Notably, despite current global conditions, demand from overseas increased at the fastest pace since July 2018.

“However, the bad news in December primarily resides with regards to cost pressures. Rates of both selling price and input cost inflation accelerated on the month with the former the fourth-strongest ever recorded. Alongside increasing fuel, electricity and raw material costs, firms reportedly began

to feel the effects of October’s upward minimum wage rate revision in December. As such, companies increased their charged prices at a sharper pace. Some panel members mentioned that the stronger demand conditions encouraged firms to rise prices further in an attempt to increase profitability.”

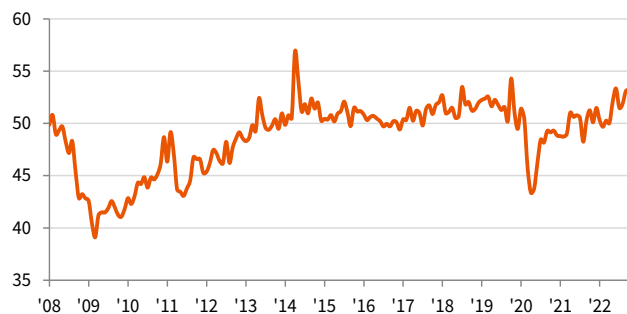
Japan Services Employment Index

sa, >50 = growth since previous month



Japan Services Prices Charged Index

sa, >50 = inflation since previous month



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Methodology

The au Jibun Bank Japan Services PMI® is compiled by S&P Global from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

December 2022 data were collected 5-20 December 2022.

About PMI

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.
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The au Jibun Bank is an internet retail bank established in 2008 by a joint investment of KDDI – a major telecommunication service provider – and MUFG Bank – Japan's largest bank –. As a "smartphone-centric-bank", au Jibun Bank focuses on providing high-quality financial services via smartphones.

The au Jibun Bank provides unique services such as "Smartphone ATM", a service allowing to deposit and withdraw money from teller machine without cash card by just scanning a QR code shown on the smartphone app, and "AI Foreign Currency Forecast", a foreign currency trading support tool that predict the rise of foreign exchange rate based on past trend deep learned by an AI (artificial intelligence).

As a member of the "au Financial Group", au Jibun Bank aims to play a major role in providing comprehensive smartphone-centric banking services in line with the "Smart Money Concept" and enhance customer experience.

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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