

S&P Global Japan Services PMI[®]

Service sector activity stagnates in May amid surge in costs

May 2026

Output prices increase at near-record pace amid substantial rise in costs

New order growth slips to 23-month low

Employment expands at weakest rate in nine months

Latest PMI data indicated that business activity across Japan's service sector stagnated midway through the second quarter, as firms signalled another sharp rise in costs and only a marginal increase in sales.

Business costs rose to the greatest extent in over four years in May, often linked to supplier price hikes due to the Middle East war. This led to the second-fastest increase in output charges since the survey began in late 2007. Firms also signalled a slower increase in employment, while business confidence remained below the post-pandemic average.

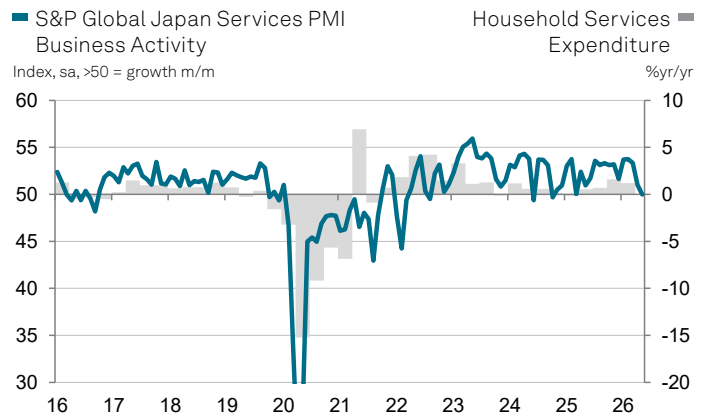
The S&P Global Japan Services PMI[®] is compiled by S&P Global from survey responses from a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services.

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 50.0 indicates an overall increase compared to the previous month, and below 50.0 an overall decrease.

The headline index fell further from February's recent record, slipping from 51.0 in April to the neutral value of 50.0 in May. This signalled no change in business activity from the previous month and ended a 13-month period of expansion. While some firms noted that activity levels had increased due to higher sales and new business lines, others indicated that relatively subdued demand conditions had dampened performance.

Sub-sector data indicated that Finance & Insurance companies registered the strongest growth, while Consumer Services saw the steepest contraction.

Japanese service providers signalled a sustained slowdown in the rate of new order growth in May. Notably, sales rose at a marginal pace that was the slowest seen since the current period of expansion began nearly two years ago. The weaker upturn in overall new work was partly due to a steeper reduction in foreign demand, with new export business falling at the sharpest pace in over four years.



Data were collected 11-26 May 2026.
Sources: S&P Global PMI, Cabinet Office Japan via S&P Global Market Intelligence.
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Comment

Annabel Fiddes, Economics Associate Director at S&P Global Market Intelligence:

"After a strong performance over the first quarter of 2026 - which was recently confirmed by official GDP data - the latest PMI surveys indicate a loss of momentum across Japan's private sector as we move through the second quarter. The ongoing war in the Middle East continued to exert pressure on the economy, most notably by driving a substantial increase in costs for businesses. Price indicators in May pointed to a record rise in selling prices for goods and services amid a near unprecedented increase in business costs, largely due to widespread supplier price hikes and supply chain disruption, but also higher labour costs.

"Rising prices have also impacted demand, especially within the service sector, as households' budgets have come under greater strain. Notably, service sector activity stagnated for the first time in over a year in May, to indicate that overall growth of output was driven solely by the manufacturing industry. However, the latter is partly being boosted by temporary stock building, which is expected to fade once warehouses are deemed sufficiently stocked and if global economic conditions remain fragile.

"Looking ahead, it will be important to closely monitor the PMI surveys for signs of a further slowdown, or even a contraction of activity, and much of this will hinge on developments in the Middle East and their impact on global supply chains and prices."

Average input prices rose to the greatest extent in 43 months and rapidly overall. A wide range of factors had reportedly increased in price, including fuel, energy and raw materials, often due to supplier price hikes amid the Middle East war. Higher labour costs were also cited. This led to a near-record rise in prices charged by services companies in May.

Employment meanwhile expanded at the slowest rate for nine months and only marginally. Concurrently, the level of outstanding business rose at a slightly faster, but modest pace.

Business confidence regarding the one-year outlook for activity improved slightly for the second straight month, but remained weaker than the post-pandemic trend. Geopolitical uncertainty, rising costs and a shrinking and ageing population had all

S&P Global Japan Composite PMI®

Output charges increase at record pace in May

At 51.1 in May, the S&P Global Japan Composite PMI Output Index declined from 52.2 and signalled a slower and only modest increase in overall business activity across Japan. Notably, the upturn was the weakest recorded in five months. Growth was driven solely by an increase in manufacturing output, as activity stagnated across the service sector.

Total new order growth at the composite level also expanded at the slowest pace in five months, and rose only modestly overall. Overseas demand for Japanese goods and services likewise increased at the weakest pace in 2026 to date. Cost pressures intensified again, with composite input prices rising to the greatest extent in 43 months, whilst the rate of output charge inflation accelerated to a fresh record high. Employment growth slipped to a seven-month low, which contributed to a stronger rise in outstanding business.

Methodology

The S&P Global 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. Data collection began in September 2007.

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.

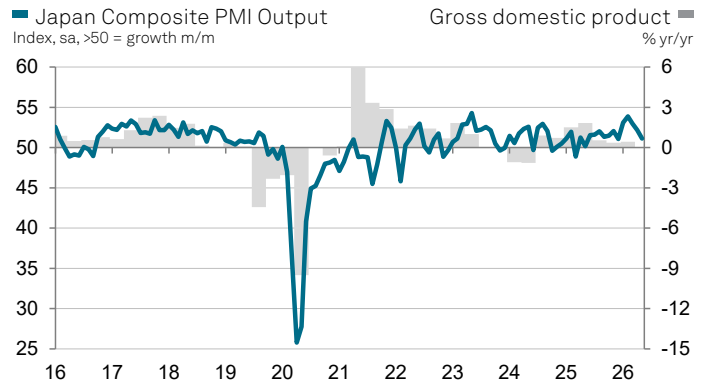
Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@spglobal.com.

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