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au Jibun Bank Japan Services PMI®

Including au Jibun Bank Japan Composite PMI®

Business activity decreases at slowest rate in eight months

Key findings

Slower declines in activity and new orders

Marginal contraction in employment

Sentiment highest in nine months

Data were collected 11-25 September 2020.

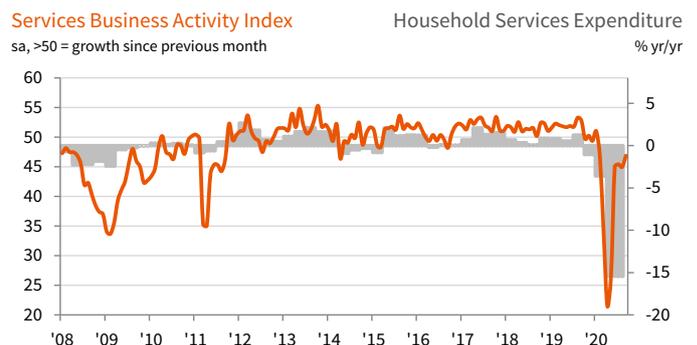
The Japanese service sector continued to contract at the end of the third quarter, with business activity, new orders and employment all decreasing in September. However, the rates of contraction eased, signalling a move towards stabilisation. The ongoing coronavirus disease 2019 (COVID-19) pandemic led to the closure of businesses whilst lockdown restrictions prevented tourism activity. Nevertheless, sentiment was at its highest since December, with panellists hoping for the passing of COVID-19 and full resumption in operations over the next year.

The au Jibun Bank Japan Services PMI® is compiled by IHS Markit 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 seasonally adjusted Japan Services Business Activity Index posted 46.9 in September, up from 45.0 in August. The latest figure signalled a reduction in activity, although one that was the slowest in the current eight-month sequence of contraction.

Incoming new business received by service providers also fell for the eighth month running during September. Although solid, the pace of decline eased from that seen in August. Anecdotal evidence continued to highlight the impact of lockdown



Sources: au Jibun Bank, IHS Markit, Cabinet Office Japan

restrictions on client operations and market demand.

Export sales remained especially subdued, with latest data signalling a steep and accelerated contraction. International travel restrictions and client business closures were often mentioned by respondents.

The reduction of new business at Japanese service companies contributed to a fall in staffing numbers, although firms commonly mentioned employee retirements as the main driving factor. Employment has now contracted for seven successive months. Despite reduced workforce numbers, companies were able to deal with incoming new orders and continued the downward trend in outstanding business seen since last December.

Average input costs fell for the second consecutive month during August. However, the rate of decrease was only marginal. Survey respondents noted lower labour costs following reduced workforce numbers. Cost savings were passed onto clients, with some firms mentioning discounting strategies to stimulate sales in the sector.

Finally, business sentiment improved at Japanese service providers and returned to positive territory during September. Despite another downturn in new work and output, firms hope for a recovery in demand in both domestic and foreign markets and the complete easing of lockdown restrictions over the coming year. That said, some firms expected a decrease in business activity amid worries about the continuation of COVID-19.

au Jibun Bank Japan Composite PMI®

Highest composite reading for seven months in September

The au Jibun Bank Japan Composite* PMI Output Index - which measures combined output in the manufacturing and services sectors - rose to 46.6 in September from 45.2 in August, the highest reading since February. However, the index was below the crucial 50.0 neutral value for the eighth month running.

Private sector new business also continued to fall, although the pace of reduction eased to the slowest in the current period of decline. New orders placed at Japanese manufacturers decreased to a greater extent than in the service sector.

Falling workloads led private sector companies to reduce their staffing levels. Marginal job cuts were signalled among manufacturers and service providers.

Companies in both sectors were optimistic that business activity will rise in the coming 12 months. At the composite level, business expectations were the strongest since December 2018.

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

Composite Output Index

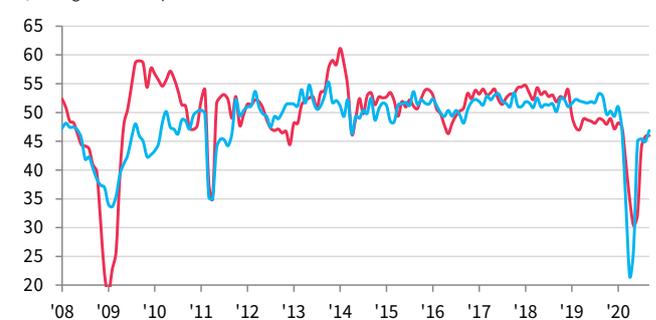
sa, >50 = growth since previous month



Sources: au Jibun Bank, IHS Markit, Cabinet Office Japan.

Manufacturing Output Index
Services Business Activity Index

sa, >50 = growth since previous month



Sources: au Jibun Bank, IHS Markit.

Comment

Commenting on the latest survey results, Shreeya Patel, Economist at IHS Markit, said:

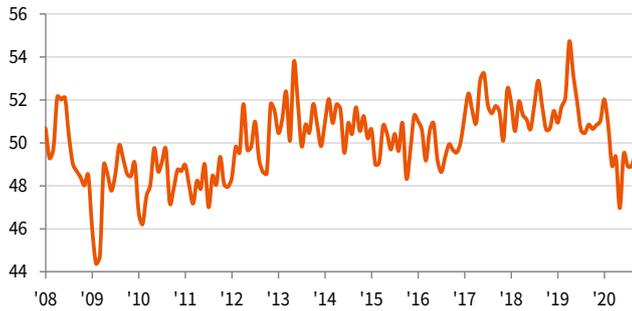
"Japan continues to be impacted by the COVID-19 outbreak as it recorded another contraction in services business activity during September. Demand across the country remains subdued, with tourism and travel restrictions impeding new work volumes across the service sector. There were some signs of stabilisation, however, with activity falling to the least extent since the pandemic began.

"Optimism was also evident regarding the year-ahead outlook. Sentiment returned to positive territory amid hopes of rising demand in the next 12 months.

Employment, meanwhile, dropped only marginally. Overall, there are signs of improvement in the sector, however recovery is far from secure."

Services Employment Index

sa, >50 = growth since previous month



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 IHS Markit 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.

September 2020 data were collected 11-25 September 2020.

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 Japan PMI is sponsored by au Jibun Bank Corporation

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.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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