

S&P Global Japan Services PMI[®]

Service sector activity rises solidly in July

July 2025

Stronger increases in activity and new work...

...but new export orders decline at fastest pace in just over three years

Employment stagnates, but price pressures ease

Latest PMI[®] data indicated a solid and accelerated rise in service sector activity across Japan in July. The upturn was supported by a further increase in overall new work, which occurred despite a dip in export sales. However, confidence around the year-ahead softened, and employment across the sector stagnated.

Prices data showed weaker increases in both input costs and output charges, but rates of inflation remained historically elevated overall.

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.

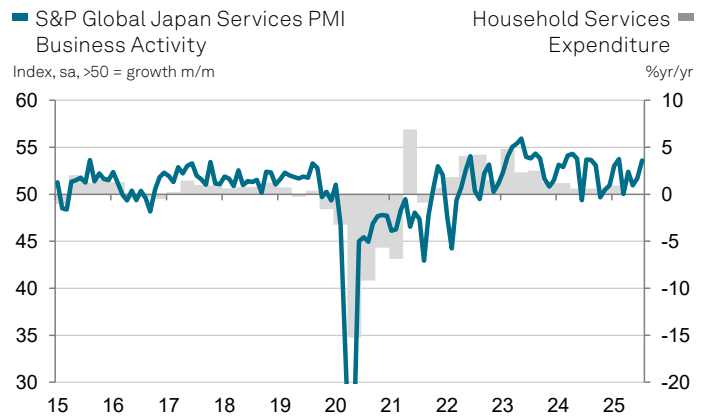
The headline figure is the Services Business Activity Index, which tracks changes in the volume of business activity compared with one month previously. A reading above 50.0 indicates an overall increase compared to the previous month, and below 50.0 an overall decrease.

The headline Japan Services Business Activity Index picked up from 51.7 in June to 53.6 in July, to signal a solid increase in service sector output. Business activity across the service industry has now risen in each of the past four months, with the latest upturn the strongest recorded since February.

Detailed sub-sector data indicated that the expansion was broad-based, with the steepest increase in activity seen at Information & Communication firms.

The sustained and stronger rise in business activity was supported by higher amounts of new orders. Though modest, the latest increase in new work was the quickest seen in three months. There were reports of improved customer numbers and successful business development efforts as having driven sales growth. However, demand from abroad declined for the first time since last December, and at the steepest rate in just over three years. Some firms linked this to lower tourist numbers amid concerns of a potential earthquake in Japan during July.

Employment across the service sector was meanwhile unchanged in July, which ended a 21-month period of payroll growth. While some firms hired additional staff to help with rising



Data were collected 10-28 July 2025.
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:

"PMI data showed a further modest increase in Japanese private sector output at the start of the third quarter. However, this reflected a steep increase in business activity at service providers, as factory output fell back into contraction.

"More forward-looking indicators were a little less upbeat in July. Firstly, overall new business continued to increase only slightly, while there was a reduction in overseas sales at both manufacturers and service providers. At the same time, business confidence regarding the outlook for output slipped to a three-month low. There was also greater caution around staff hiring, with overall employment rising at the weakest rate in 22 months.

"The survey data therefore suggest that customer demand, particularly from overseas, needs to strengthen in order to sustain growth. Now that a US-Japan trade deal has been announced, it's hoped that this will help to lift confidence and consumption in the months ahead and provide a much-needed boost to the manufacturing economy."

workloads, others noted that the non-replacement of voluntary leavers and difficulties finding staff had reduced headcounts. As a result, companies registered a further rise in outstanding business, with the rate of accumulation the quickest since last November.

The rate of input cost inflation continued to cool in July, with expenses increasing at the slowest pace in 17 months. That said, cost burdens continued to rise sharply overall. As a result, output charges were raised again and at a solid pace.

Finally, confidence regarding the year-ahead outlook for business activity dipped to a three-month low in July.

S&P Global Japan Composite PMI®

Growth of private sector output ticks up to five-month high

At 51.6 in July, the S&P Global Japan Composite PMI Output Index rose fractionally from 51.5 in June to signal a further modest increase in overall output. Nevertheless, the expansion was the strongest recorded since February, driven by a solid rise in service sector activity. Factory output meanwhile declined after a modest rise in June.

Composite new orders rose marginally, and this was also solely driven by the service industry as manufacturing sales fell further. There was a broad-based decline in new export business, however.

Overall employment expanded at the softest rate in 22 months and only slightly.

Input price inflation slowed further, slipping to the lowest in just over four years, but remained sharp. Output charge inflation also eased, but remained solid overall.

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.

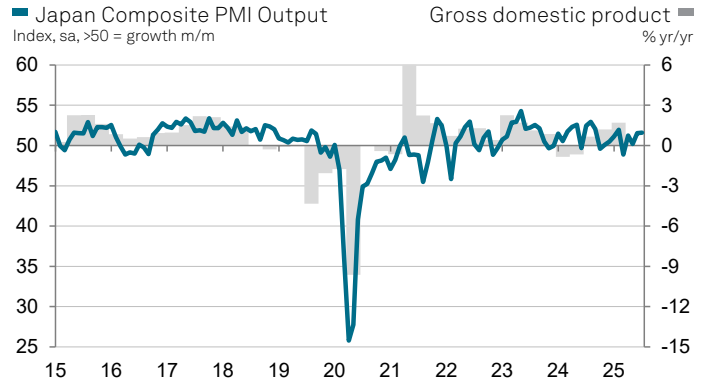
Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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

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