

Nikkei Japan Services PMI[®] (with Composite PMI data)

Business activity continues to expand in March

Key points:

- Latest data rounds off relatively solid quarter for services
- Increased demand encourages further job creation...
- ...but business confidence dips to 18-month low

Data collection 12-26 March

Growth of service sector business activity was sustained at the end of the first quarter, supported by healthy new order inflows and continued expansion in workforce numbers. Higher employment levels helped companies complete workloads in a timely manner, leading backlogs to fall. However, new export business remained subdued, while business optimism slipped to a one-and-a-half-year low.

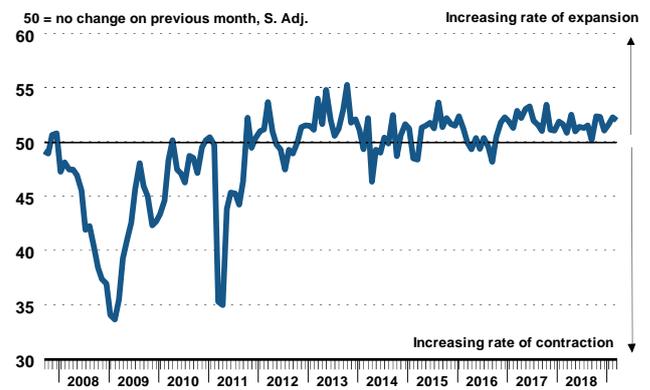
The headline index from the survey – the seasonally adjusted **Business Activity Index** – recorded 52.0 in March, compared to 52.3 in February, signalling a slightly softer expansion in service sector business activity. That said, latest data rounded off the strongest quarterly performance since Q2 2017, and extended the current upturn to two-and-a-half years.

In contrast, manufacturing companies cut production at the fastest rate in almost three years during March. The **Nikkei Composite Output Index** fell to a 30-month low of 50.4 in March, down from 50.7 in February, signalling only a marginal rate of expansion.

Output volumes in Japan’s service economy were lifted by supportive demand conditions, according to panel members. Latest survey data pointed to relatively marked growth in order book volumes. In fact, the rise was among the sharpest seen throughout the survey history. Increased events as well as greater demand from both new and existing clients reportedly underpinned the improvement in sales during March. However, new orders were primarily sourced from domestic markets, as growth in new work from overseas was subdued.

Meanwhile both domestic and external demand slowed in the manufacturing economy. Total new business declined at the second-fastest pace since

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Sources: Nikkei, IHS Markit

June 2016.

To cope with the sustained rise in new business, service providers expanded their workforces. The rate of job creation accelerated for a second month running and was the strongest since last August. Furthermore, extra staff helped companies alleviate pressures on operating capacities. Backlogs of work fell fractionally in March.

Manufacturers also increased staffing levels in March, extending the current run of growth to just over two-and-a-half years. Lower demand and increased recruitment enabled goods producers to channel additional resources to clearing backlogs.

Looking ahead, services firms anticipate further improvements in business activity over the coming 12 months. However, the level of positive sentiment fell to an 18-month low, with some companies expecting the consumption tax hike to have an adverse impact on growth prospects.

Business confidence in the goods-producing sector lifted off its recent low in February, but remained subdued by historical standards.

Lastly, survey data indicated a pick-up in inflationary pressures in Japan’s service sector. Extra hiring reportedly drove labour costs higher, contributing to the fastest rise in operating expenses in five months. In order to protect profit margins, output charges were increased at a

quicker pace, with the rate of inflation rising to an eight-month high. The rise in selling prices was moderate overall.

While output price inflation accelerated in the manufacturing sector, input costs rose at the weakest rate since August 2017.

Comment:

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

“Latest PMI data rounded off a fairly solid start to the year for Japan’s service sector, with business activity growth recording its strongest quarterly average since Q2 2017. Output volumes were supported by favourable domestic demand in March, as new orders from overseas remained underwhelming.

“However, when combined with the disappointment from the earlier manufacturing survey, the Composite PMI reading dipped for the fifth straight month and was only indicative of marginal growth. While global trade frictions and a slowdown across the global economy pose obvious external risks, the consumption tax hike later this year could potentially derail the domestic market. Overall business confidence in Japan slipped to its lowest level since July 2016.”

-Ends-

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The Nikkei Japan Composite *PMI*[®] 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'.

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