

Embargoed until 0930 JST (0030 UTC) 5 June 2023

au Jibun Bank Japan Services PMI®

Including au Jibun Bank Japan Composite PMI®

Fresh record expansion in business activity

Key findings

Steep rises in activity and demand attributed to post-COVID recovery

Strongest increase in outstanding business on record

Business confidence remains among highest in survey history

Data were collected 12-25 May 2023.

The Japanese service sector economy continued its rebound midway through the second quarter of 2023. There were record expansions in business activity, total new business and new export orders as firms noted a strong increase in demand following the lifting of remaining pandemic-related restrictions. Moreover, data indicated that the upturn is likely to be sustained in the near-term as the level of work in hand (but not yet completed) also increased at a record rate as service providers noted the impact of rising demand on existing capacity. As a result, Japanese services firms were confident that business activity would continue to rise over the coming 12 months, with the overall degree of positive sentiment remaining close to the series peak recorded in the previous survey period.

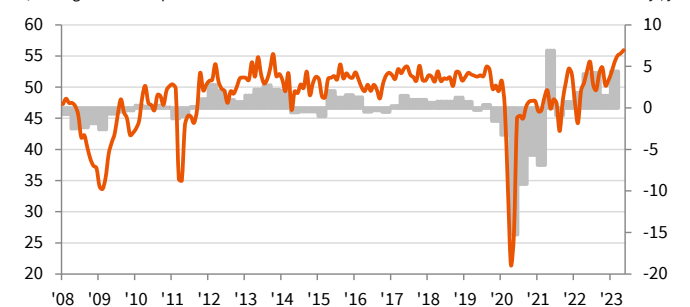
The au Jibun Bank Japan Services PMI® is compiled by S&P Global from survey responses from a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services.

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 headline au Jibun Bank Japan Services Business Activity Index rose from the previous peak of 55.4 in April to 55.9 in May to set a fresh series record expansion in services activity. Anecdotal evidence suggested that the increase in customer demand was sustained as the impacts of the COVID-19 pandemic continued to wane.

Along with boosting activity, these factors helped to drive

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

the strongest increase in new business received in the survey history. The rise was prevalent in both domestic and international markets, with foreign demand for Japanese services also expanding at an unprecedented rate, with panel members largely attributing this to the strength in inbound tourism.

Pressure on existing capacity was prevalent in the latest data, as Japanese service providers indicated a series record increase in the level of outstanding business. Firms aimed to address this by taking on additional staff during May, with the rate of job creation rising at the second-fastest pace in the survey history, behind April 2019.

On the prices front, Japanese services firms continued to signal marked increases in operating expenses during May. The rate of input price inflation eased slightly from April however, to the joint-softest recorded for 14 months. Rising cost burdens were commonly attributed to rising staff and raw material costs, as well as the increasing impact of inflation. Concurrently, prices charged for Japanese services rose at a softer rate for the first time since the start of the year. That said, the rate of inflation remained solid and extended the current sequence to 13 months.

The 12-month outlook for business activity remained strongly optimistic in May, with firms signalling that confidence eased only slightly from April's series peak. Positive sentiment was underpinned by hopes that the current recovery would be sustained as the impacts of the pandemic continued to dissipate, with particular emphasis placed on the strength of the tourism sector.

PMI®

by S&P Global

au Jibun Bank Japan Composite PMI®

Private sector output rises at fastest pace since October 2013

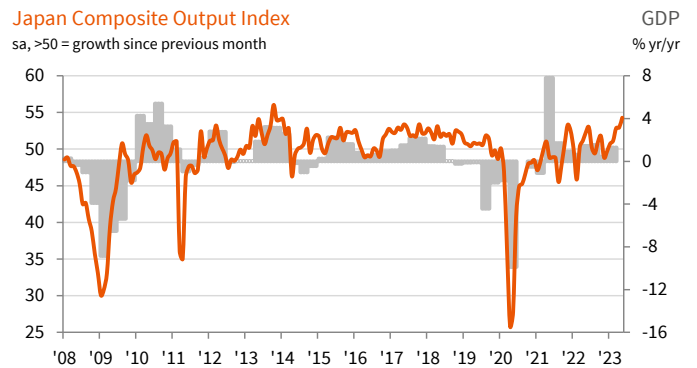
The au Jibun Bank Japan Composite PMI Output Index* - which measures combined output in the manufacturing and services sectors - signalled a solid expansion in the Japanese private sector economy. At 54.3 in May, the index was up from 52.9 in April to signal an accelerated increase that was the second-strongest since the series began in September 2007.

Growth was led by the service sector, where activity rose at a record pace for the second successive month. Additionally, manufacturing production returned to expansion territory for the first time in 11 months.

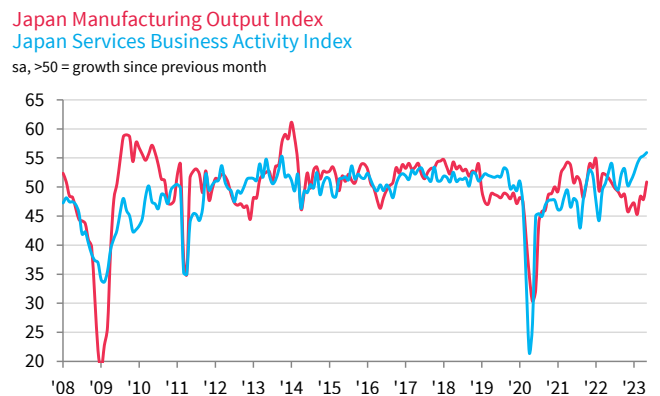
There was a series record upturn in new order inflows at Japanese private sector firms, led by an unprecedented rise at service providers. This contributed to a solid increase in backlogs of work that was the strongest since the survey record set in June 2022. In order to ease capacity pressures, private sector employment levels were raised to the greatest extent since June 2017.

The rate of input cost inflation eased to the softest since October 2021 in the latest survey period amid slower rises at both manufacturing and services firms. This contributed to the first slowdown in the rate of output price inflation since the start of the year.

Companies remained optimistic that output will increase over the coming year, with sentiment holding close to April's 17-month high.



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



Sources: au Jibun Bank, S&P Global.

Comment

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

"The Japanese service sector continued on its upward trend that began at the end of last year during May, with latest PMI data pointing to back-to-back record increases in business activity, new orders and exports. Firms were buoyed by the easing of the few remaining pandemic restrictions and have noted strong increases in demand, notably from overseas and inbound tourism.

"The upward trend looks set to

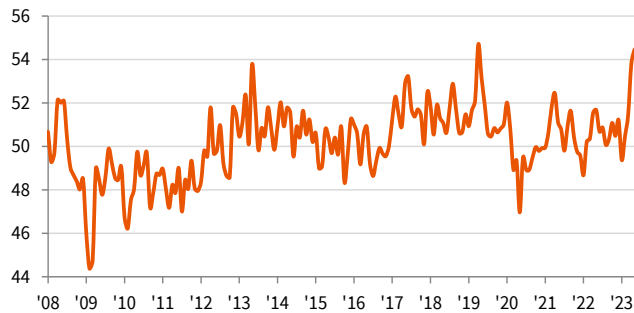
continue in the near and medium term, as capacity pressures meant that outstanding business also rose at a series record rate, while business optimism held close to the record high seen in April.

"The record expansion in activity among service providers, coupled with a renewed increase in manufacturing production contributed to a stronger increase in overall private sector activity. The rate of expansion was solid and the second-strongest in the history of the series (behind October 2013). The upturn

was led by the dominant services sector, although there was a renewed sense of optimism for private sector activity given the expansions in manufacturing output and new orders. Latest data also provides the indication economic growth has accelerated in the second quarter of the year, following the 1.3% year-on-year increase in growth in the first quarter of 2023, according to the latest official statistics."

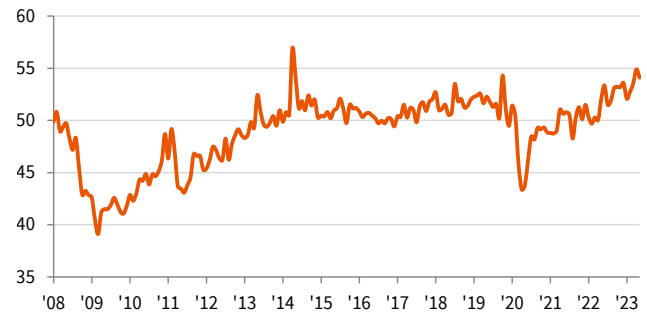
Japan Services Employment Index

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.

May data were collected 12-25 May 2023.

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

About PMI

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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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