

Embargoed until 0930 JST (0030 UTC) 5th November 2020

## au Jibun Bank Japan Services PMI®

Including au Jibun Bank Japan Composite PMI®

# Services economy sees further fall in business activity

### Key findings

Output and new orders fall at softer pace

Employment levels stabilise

Business optimism highest since January 2018

Data were collected 12-27 October 2020.

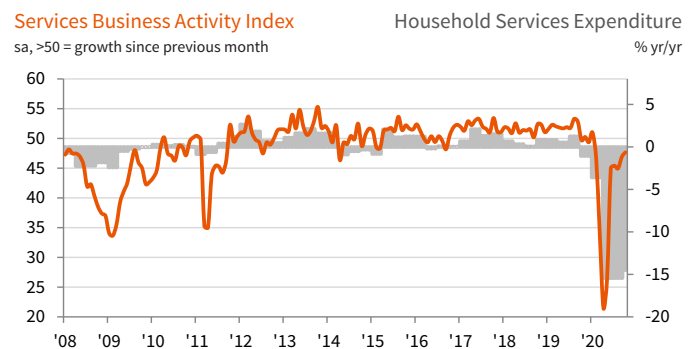
The Japanese service sector continued its gradual move towards a recovery in October following the severe disruptions related to the coronavirus disease 2019 (COVID-19) earlier this year. The rate of decline in business activity eased again, as the downturn in new orders also softened. Encouragingly, employment levels stabilised in the latest survey period following seven consecutive months of job losses. Meanwhile, companies were increasingly optimistic that a sustained recovery would prevail over the coming 12 months, pushing expectations to the highest level in close to three years.

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 a nine-month high of 47.7 in October, up from 46.9 in September. Although output remained in contraction territory, the latest decline was the softest in the current sequence of contraction, as some clients tentatively increased activity amid a relaxation of COVID-19 restrictions.

Similarly, overall new business fell modestly in October. Where a reduction was reported, Japanese service providers noted that



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

the spread of COVID-19 led to depressed demand and hindered business operations. Foreign demand for Japanese services continued to decline amid ongoing international restrictions as external markets wrestled a second peak of infections.

Meanwhile, employment levels stabilised in October. Anecdotal evidence noted that a number of vacancies had been filled, although there was evidence that the non-replacement of retirees remained commonplace in the Japanese service sector. Despite unchanged staffing numbers from September, outstanding business fell further. This extended the downward trend seen since December 2019, with firms citing a lack of pressure on business capacity amid sustained falls in new orders.

Japanese service providers registered a marginal fall in average cost burdens for the third month in a row in October. Companies stated that higher input prices were offset by reductions in supplier costs and efforts to rein in spending. Furthermore, businesses within the service sector reported lower selling prices for the eighth consecutive month, with respondents commonly suggesting that muted demand as a result of the COVID-19 pandemic and efforts to boost sales were behind discounting activity.

Nevertheless, business expectations for the next 12 months remained positive in October. The latest data indicated that optimism among Japanese service providers reached the highest level since January 2018. Panellists often attributed confidence to hopes of a return to normal business conditions and subsequent economic recovery once the virus spread is controlled.

## au Jibun Bank Japan Composite PMI®

### Private sector output falls at only a marginal pace

The au Jibun Bank Japan Composite\* PMI Output Index - which measures combined output in the manufacturing and service sectors - rose to 48.0 in October from 46.6 in September. Despite remaining below the 50.0 no-change threshold, the reading was the highest in nine months as the Japanese private sector continued to gradually recover from April's nadir.

Output fell at a quicker pace among service providers than at their manufacturing counterparts who noted the softest decline in production since November 2019. Meanwhile, the rate of contraction in aggregate new orders eased to the softest since January, as manufacturers and service providers signalled slower declines in demand. In line with falling orders, outstanding work across the Japanese private sector was depleted at a modest rate.

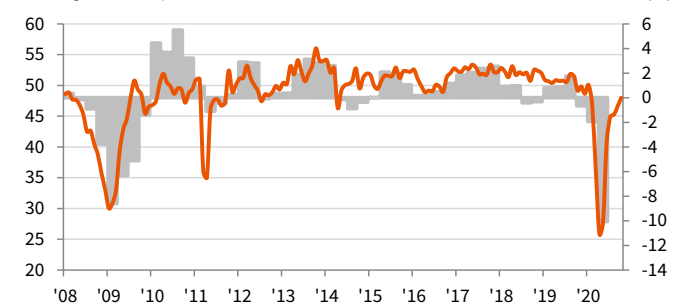
Amid evidence of spare capacity, private sector firms reduced their workforce numbers again, albeit only fractionally. The fall in employment was driven by manufacturers, as service providers registered unchanged staffing levels from September.

Private sector companies were also more optimistic regarding activity over the coming 12 months in October, with the aggregate level of positive sentiment the strongest since January 2018.

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

Composite Output Index

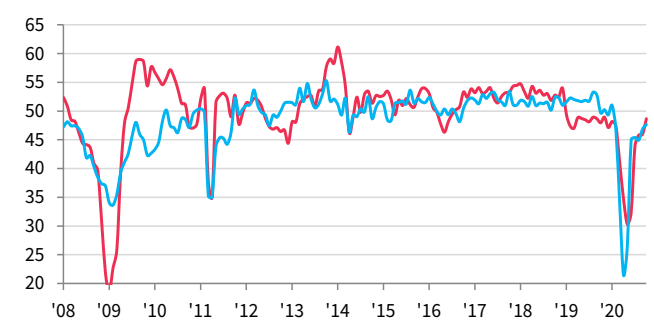
sa, >50 = growth since previous month



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, Usamah Bhatti, Economist at IHS Markit, said:

*"October data indicated a slower decline in Japanese service sector business activity, amid a softer fall in new orders. Restrictions relating to the COVID-19 pandemic have continually eased over the course of recent months, allowing service providers to report gradual moves towards a recovery in domestic demand during October. This was not the case for foreign orders, however, which fell sharply as key export markets battle*

*a resurgence in COVID-19 infections.*

*"Nonetheless, service providers reported a stabilisation in employment levels, while expectations regarding the year-ahead outlook for activity rose to the highest in nearly three years.*

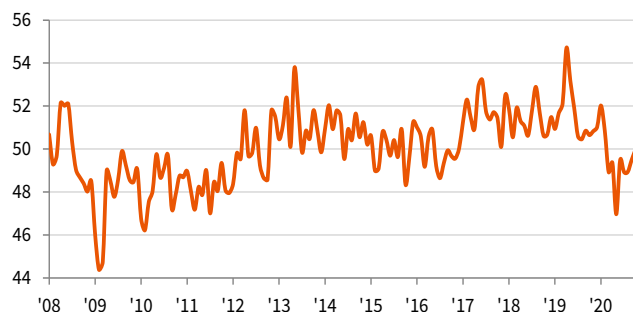
*"Overall private sector activity saw a modest decline in October, the softest in nine months, with the larger service sector recovering at a slower pace than manufacturing.*

*"Notwithstanding the severe shock from the pandemic, 2020 was set to be*

*challenging due to weaker exports and production. Yet, businesses in Japan's private sector are increasingly optimistic regarding a rise in activity in the coming 12 months, with expectations improving to its highest level since January 2018. IHS Markit forecasts a 5.6% decline in real GDP for 2020 and a 2.2% rise in 2021, as the Japanese economy tentatively moves towards a recovery."*

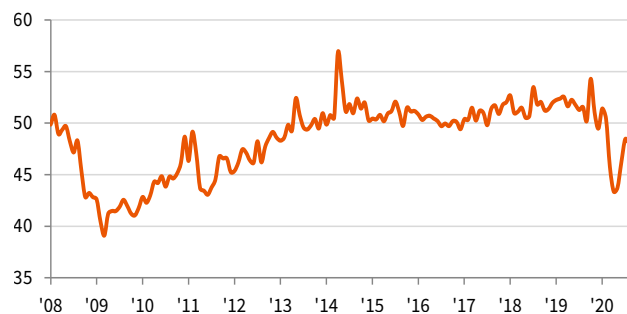
### Services Employment Index

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.

October 2020 data were collected 12-27 October 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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