

Nikkei Japan Services PMI™ (with Composite PMI data)

Growth in service sector activity picks up

Key points:

- Business activity at services firms increases at second-sharpest rate in over a year
- Cost pressures rise and output prices increase at Japanese services providers
- Service sector business sentiment eases to weakest in five months

Summary:

Growth of the Japanese service sector improved at a faster rate at the start of the final quarter of 2015. Picking up from September's low, growth of activity was robust overall, supported by further expansion in new orders. In contrast, employment levels declined, having increased slightly in the prior month.

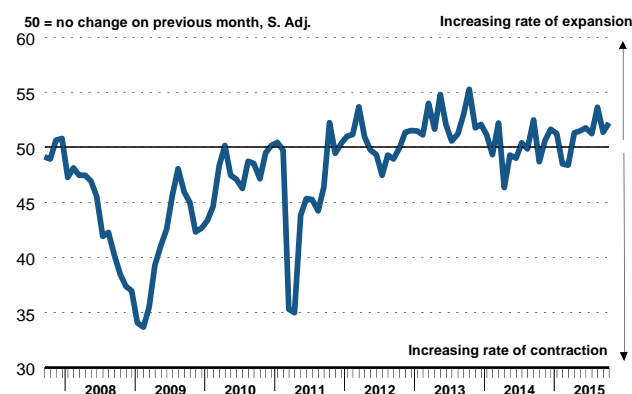
Meanwhile, purchasing costs at Japanese services firms rose at a faster rate, albeit at a pace weaker than the average over the current three-year period of inflation. Concurrently, charges rose, following a marginal decline in September. Meanwhile, business sentiment eased for the second month running to the weakest since May.

The seasonally adjusted Business Activity Index posted at 52.2, up from 51.4 in September, indicating a quicker rate of expansion in the Japanese service sector. Moreover, the latest reading was the best since August and the second-highest since September 2014. New business developments and a rise in sales were cited as the main factors behind the increase in activity.

Meanwhile, output growth at Japanese manufacturers increased at the sharpest pace since February. The quicker increases in both manufacturing and service sector output was reflected in the **Nikkei Composite Output Index** which posted at 52.3 the best reading since August (52.9) and the second-highest since September 2014.

Contributing to the expansion in business activity was an increase in new orders at Japanese services firms. Growth in new work intakes was little-changed from September's low, but was in line with the average seen over the year so far. Manufacturers also registered an expansion in new orders and at the fastest rate in a year.

Nikkei Japan Services PMI



Sources: Nikkei, Markit

Despite evidence of greater activity, service sector firms cut back on their staffing levels. Moreover, the rate of decline was the sharpest since December 2011. In contrast, employment increased at Japanese manufacturers to the greatest degree for 18 months.

A combination of greater demand and a reduction in staff numbers subsequently led to pressure on capacity at Japanese services firms, as volumes of unfinished work accumulated. Furthermore, the rate of increase was the quickest since July, with 12% of survey respondents recording greater backlogs. In contrast, manufacturers reported a decrease in backlogs of work for the second month running.

On the price front, reports of an unfavourable exchange rate driving up imported costs led to a rise in input prices. Subsequently, service firms increased their charges in order to compensate for greater cost burdens. In the goods-producing sector, input prices rose during the month, while manufacturers' charges declined.

Expectations of new premises, new business developments and higher sales were all cited as factors behind positive forecasts for growth in the Japanese service sector. However, the degree of sentiment eased to a five-month low, with some panellists signalling concerns over the strength of underlying demand, particularly from China.

Comment:

Commenting on the Japanese Services PMI survey data, **Amy Brownbill**, economist at Markit, which compiles the survey, said:

“Growth of the Japanese service sector improved at a faster rate in October, underpinned by a sharper rise in new orders. Despite this, employment levels declined at the fastest rate since December 2011, although this led consequently to an accumulation in volumes of unfinished work.

“Meanwhile, subdued confidence regarding future output growth was signalled in the survey data as sentiment eased to the weakest since May, with some firms anticipating weaker demand, particularly from China.”

-Ends-

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Notes to Editors:

The Nikkei Japan Services *PMI*[™] is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

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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Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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