

News Release

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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Markit Japan Services PMI™ (with Composite PMI data)

Japanese private sector activity falls at solid pace in July

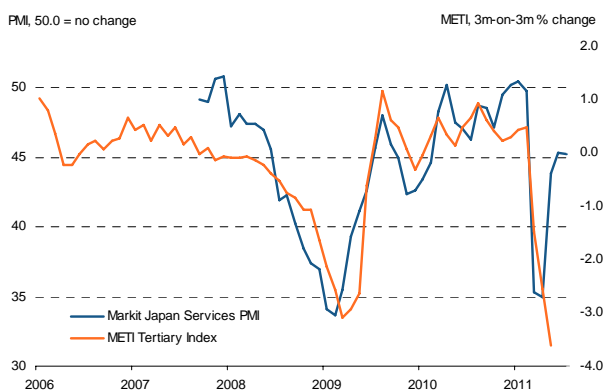
Key points:

- Composite data signals fifth successive monthly decline in business activity
- Private sector new work falls only marginally
- Service sector optimism remains solid

Summary:

Japanese service providers reported lower business activity for the sixth consecutive month during July, as intakes of new work continued to fall amid weak domestic consumption. Companies further reduced their employee numbers in response. Looking ahead, service providers expressed a solid degree of optimism in the one-year business outlook. Meanwhile, output prices and input costs decreased at marked and marginal rates respectively.

Services Activity



Sources: Markit, METI.

The seasonally adjusted Business Activity Index posted 45.3 in July, down fractionally from 45.4 in June, signalling a marked reduction in Japanese services output. However, the pace of reduction

was much slower than the severe falls seen in March and April.

Meanwhile, *PMI™* survey data released 29 July signalled that manufacturing production in Japan rose at the fastest rate since February. Consequently, the Composite Output Index, covering activity across both manufacturing and services, rose fractionally from 47.6 to 47.7 in July.

July data pointed to a sixth successive monthly decline in new business received by service providers in Japan. However, the rate of contraction was the slowest since February, and weaker than the long-run survey average. Muted domestic demand was cited by panellists as the principal factor contributing to the latest reduction. Combined with renewed new order growth in the manufacturing sector, private sector new business fell at only a marginal rate in July.

Backlogs of work in the Japanese service sector decreased further during July, suggesting limited pressure on firms' capacity amid fewer intakes of new business. The pace of backlog depletion was solid, and faster than in the preceding month. This was partly offset at the composite level by a weaker decrease in work-in-hand at manufacturers.

Japanese service providers continued to reduce their employee numbers in July. Furthermore, the pace at which job cuts were implemented was the fastest in 17 months. In contrast, manufacturers recorded a rise in employment for the first time in four months, but this was insufficient to prevent another fall in overall staff numbers.

In the service sector, average input costs decreased for the first time in eight months during July. However, the rate of decline was only marginal. A number of survey respondents reported

that deflation reflected reduced labour-related costs. This, coupled with a slower rise in average costs faced by manufacturers, contributed to the weakest rate of overall input price inflation in 2011 so far.

Prices charged by service sector firms in Japan fell again during July, extending the current period of deflation to 41 months. The rate of output price discounting was marked, and broadly similar to those seen throughout the second quarter. Where a reduction in charges was signalled, this was commonly linked by panellists to strong competition for new business. Composite data signalled the slowest decline in average tariffs since March, mainly reflective of renewed output price inflation in the manufacturing sector.

When questioned about the prospects for business activity at their units over the next 12 months, Japanese service providers expressed a solid degree of optimism. Respondents to the latest survey attributed confidence to expectations that reconstruction work following March's earthquake will support activity growth. Positive sentiment has now been recorded for three months in succession.

Comment:

Commenting on the Japanese Services PMI survey data, Alex Hamilton, economist at Markit and author of the report said:

“A pause in the recovery of Japan’s private sector was evident in July, with the rate of decline in business activity holding broadly steady since June. However, this masked divergences by sector, with faster growth of manufacturing production contrasting with a marked decline in services output amid weak domestic consumption. The trend in the PMI data suggests that the economy is again reverting to two speed, a tendency seen throughout much of the survey history prior to the earthquake and tsunami.”

“Looking ahead, however, service providers expressed a solid degree of optimism in the one-year business outlook, mainly reflecting expectations that reconstruction work following March’s earthquake will bolster activity growth.”

-End-

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Notes to Editors:

The Markit Japan Services *PMI*TM 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 Markit Japan Composite *PMI*TM 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'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The *Purchasing Managers' Index*TM (*PMI*TM) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. *PMI* surveys are the *first* indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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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