

## News Release

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

#### Japanese private sector activity fell at slowest rate in four months

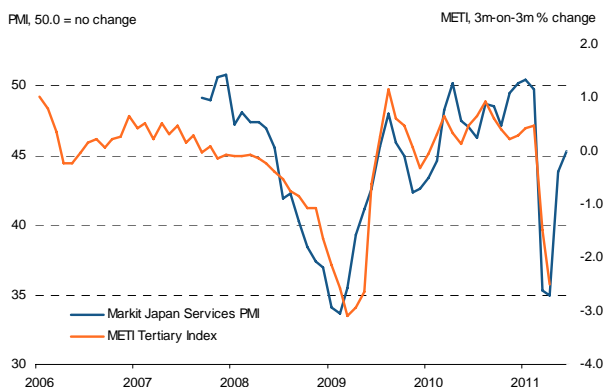
##### Key points:

- Moderate decline in private sector output signalled.
- Composite data signalled the slowest rate of job shedding since January.
- Service sector business optimism at two-year high.

##### Summary:

Japanese service sector activity fell for the fifth successive month in June, although the pace of decline eased to the slowest since February. Similar trends were recorded for both new and unfinished business, while firms continued to reduce their staff numbers on average. Looking ahead, service providers expressed the strongest degree of optimism in the one-year business outlook for two years. Meanwhile, output charges fell at the most marked rate in fifteenth months.

##### Services Activity



Sources: Markit, METI.

The seasonally adjusted Business Activity Index climbed to a four-month high of 45.4 in June, from

43.8 in the previous month, signalling a solid decrease in service sector activity. However, the latest index reading was above the long-run series average of 44.5.

Meanwhile, *PMI™* survey data released 30 June signalled that manufacturing output rose at the fastest rate since February. Consequently, the Composite Output Index, covering activity across both manufacturing and services, rose from 46.2 to a four-month high of 47.6 in June.

Lower activity in the service sector reflected a further decline in new business during June. Where a decline was signalled, this was commonly linked to weak domestic consumption in the wake of March's earthquake. Although solid, the pace of reduction eased for the second successive month. Alongside a stagnation of new business in the manufacturing sector, this contributed to a slower pace of decline at the composite level.

Fewer intakes of new business received by service providers enabled companies to transfer spare capacity to complete unfinished work, which fell at a solid rate in June. However, the pace of decline eased to the slowest in four months. Composite data signalled the slowest rate of backlog depletion since February.

Staff numbers in the Japanese service sector fell further during June, although the rate of job shedding was the weakest since January. According to survey respondents, reduced employment reflected falling new business. Combined with a slower reduction in manufacturing employment, private sector job shedding eased to the weakest in five months.

June data signalled that average cost burdens faced by service providers were unchanged

compared to one month ago, ending a six-month period of inflation. Respondents that reported a rise in average costs attributed this to higher fuel and labour-related costs. Where a decrease was signalled, panellists often mentioned general cost saving efforts. In contrast, manufacturers reported the fastest rate of input cost inflation in three months.

Output prices set by service sector firms fell again in June. The rate of deflation was marked, and accelerated to the sharpest in fifteen months. Anecdotal evidence suggested that lower charges reflected increased competition for new business. This, coupled with a modest decline in output prices set by manufacturers, meant that overall charges fell at the fastest rate in almost a year.

Japanese service providers expect business activity to be higher in twelve months' time. The degree of optimism was solid, and the highest in two years. Panellists attributed the positive outlook to expectations that reconstruction work following March's earthquake will support activity growth. Business expansion plans and new product developments were also mentioned.

**Comment:**

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

*“Japanese private sector activity continued its earthquake recovery in June, recording the slowest drop in four months. Manufacturing was again a pillar of strength, while service providers reported a slower fall in activity. Looking forward, service sector optimism reached a two-year high, with respondents noting that they expect construction work following March’s earthquake to support activity growth in the year ahead.”*

-End-

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**Notes to Editors:**

The Markit 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 Markit 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'.

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™ (PMI™)* 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](mailto:economics@markit.com).

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