News Release

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

Japanese private sector activity decreased at a much slower rate in May

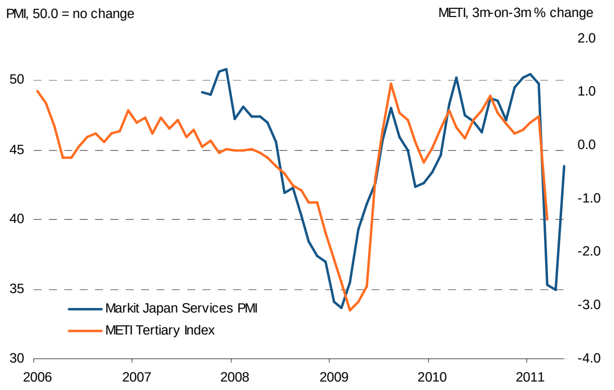
Key points:

- Composite data pointed to a solid reduction in private sector output.
- Overall new business fell at weakest rate in current three-month period of decline.
- Renewed service sector optimism signalled.

Summary:

May data pointed to a marked decline in Japanese service sector activity, although the rate of contraction eased sharply since April. Similar trends were seen for both new and outstanding business, while staff numbers fell for a thirty-fourth successive month. On the prices front, service providers reduced their output charges at a marked rate, despite a further rise in average costs. Looking ahead, firms were confident about the one-year business outlook for the first time since February.

Services Activity



Sources: Markit, METI.

The seasonally adjusted Business Activity Index rose from 35.0 to a three-month high of 43.8 in May, but was nonetheless at a level indicative of a marked reduction in services output.

Meanwhile, *PMI*™ survey data released midweek pointed to a welcome rebound in Japanese manufacturing activity during May, with the index tracking output rising almost seventeen points to signal growth for the first time in three months. Consequently, the Composite Output Index, covering activity across both manufacturing and services, increased sharply from 35.0 to 46.2 in May. The month-on-month rise in the index was by far the largest since the start of the series in September 2007.

Underpinning the decline in service sector activity was a further fall in new orders. Similar to the trend for output, the rate of decline in new work eased markedly since April, but remained sharp nonetheless. This, coupled with only a marginal decline in new work taken by manufacturers, meant that overall new business fell at a markedly reduced pace in May.

The level of outstanding work in the service sector fell again during May. That said, the rate of backlog depletion eased sharply since April, with the index measuring work-in-hand posting its largest month-on-month rise since data were first compiled in September 2007. Alongside renewed outstanding business growth in the manufacturing sector, this contributed to a markedly slower pace of backlog depletion at the composite level.

Japanese service providers continued to reduce their employee numbers in May, with the rate of decline quickening slightly since April. Combined with a slower reduction in manufacturing employment, private sector job shedding held steady at a modest rate in May.

Both manufacturers and service providers registered increases in their average input costs during May. That said, the rates of inflation differed, with input prices increasing sharply in manufacturing, whilst only a marginal rise was recorded in the service sector. Composite data signalled the slowest rate of input cost inflation since January.

In response to strong competitive pressures, service providers continued to lower their output charges at a marked rate during May. The latest decrease was the steepest since March 2010. In contrast, manufacturing firms increased their factory gate charges for the first time in two-and-a-half years, albeit marginally.

When questioned about the prospects for business activity at their units over the next twelve months, Japanese service sector firms expressed overall optimism for the first time since February. Moreover, the extent of positive sentiment was the highest in eleven months. Renewed business optimism was linked to expectations that economic conditions will improve in the forthcoming year.

Comment:

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

"Composite PMI data indicate that Japan has taken its first steps on the road to recovery following March's earthquake and tsunami, with private sector activity falling at a much reduced rate in May.

"However, there were clear divergences by sector, with renewed manufacturing output growth contrasting with a marked decline in services activity. While manufacturers benefitted from reduced supply chain constraints in May, weak domestic consumption acted to dampen business activity in the services sector. On a more promising note, service providers were optimistic about the one-year business outlook for the first time since February, with the relevant index climbing nearly eleven points to post its highest reading since June 2010."

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For further information, please contact:

Markit
Alex Hamilton, Economist
Telephone +44-1491-461-076
Email alex.hamilton@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7260-2047
Mobile +44 781 581 2162
Email caroline.lumley@markit.com

Soji Nagano, Sales & Marketing
Telephone +813-6402-0126
Email soji.nagano@markit.com

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.

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Purchasing Managers' Index™ (PMI™) surveys are now available for 32 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. To learn more go to www.markit.com/economics.