

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 September

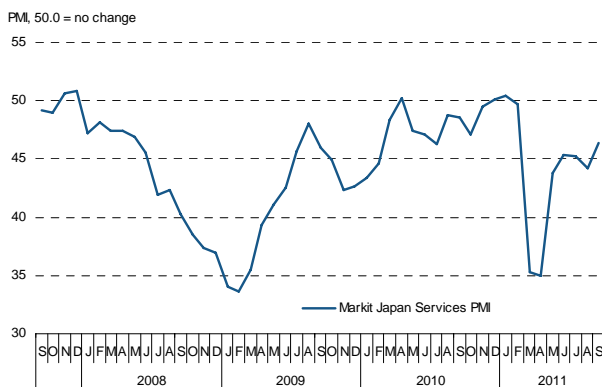
Key points:

- Composite data shows output falling for a seventh month in succession
- At the composite level, backlogs of work fall at fastest rate in five months
- Service sector business confidence dips to five-month low

Summary:

The Japanese service sector continued to contract at the end of the third quarter, with business activity, new orders and employment all decreasing further over the month. Confidence regarding the business outlook dipped to a five-month low, while, on the price front, average input costs decreased again during September. Companies reduced their output charges in response to strong competition for new business.

Services Activity



Sources: Markit.

The headline seasonally adjusted Business Activity Index – which is based on a single question asking respondents to report on the actual change in

business activity at their companies compared to one month ago – posted 46.4 in September, up from 44.3 in August, signalling a continued decline in business activity. Despite climbing to a seven-month high, the index was at a level indicative of a solid pace of reduction. According to panellists, falling sales was the main factor behind the latest decline in business activity.

Meanwhile, *PMI™* survey data, released 30 September, signalled a fall in manufacturing production for the first time in five months. As a result, the Composite Output Index remained below the neutral level of 50.0 for the seventh month running and signalled a solid reduction in private sector activity.

Incoming new business received by service providers fell for the eighth successive month in September. Although solid, the pace of decline eased to the slowest since February. New order levels fell across four of the six monitored sectors, with Post & Telecommunication and Transport & Storage the exceptions. Combined with a renewed fall in new work taken by manufacturers, private sector new business fell at the fastest rate since June.

With new business continuing to fall, service providers worked through backlogs of work during September. The pace of reduction was solid, and broadly in line with the long-run average for the survey. This, coupled with a faster decrease in backlogs of work at manufacturers, meant that private sector unfinished business fell at the fastest pace since April.

The reduction in new business at Japanese services companies was also a key reason behind a further reduction in staff numbers, which have now fallen for 38 months in succession. Composite

data signalled another decline in overall employment in the latest survey period.

Average input costs faced by service providers decreased for the third consecutive month during September. However, the rate of decline was only marginal. A number of survey respondents reported that lower operating costs reflected reduced labour-related costs. In contrast, manufacturers recorded a sharp increase in average costs. Overall input prices in the private sector increased modestly in September.

Output prices set by Japanese service sector firms fell further in September. Panellists mentioned that output charge deflation reflected increased competition for new business. Although solid, the rate of output price discounting was the weakest since March. Manufacturers also recorded a drop in output charges during September, although the pace of decline was weaker than in services.

September data signalled that Japanese service providers expect business activity to be higher in 12 months' time. Panellists attributed their confidence to expectations of higher new order intakes and business expansion plans. Nonetheless, the degree of optimism was only slight, and the lowest in the current five-month period of positive sentiment. Where pessimism was recorded, this was linked by panellists to fears that economic conditions may deteriorate in the coming year.

Comment:

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

“PMI survey data signalled a further contraction of Japan’s private sector economy in September, as manufacturing production fell for the first time in five months and services activity declined at a solid pace. Falling new business across both sectors was behind the latest reduction in private sector output. Meanwhile, firms responded to fewer new order intakes by working through their backlogs of work at the fastest rate in five months. Latest survey findings indicated that job shedding continued in September, and falling workloads bode ill for employment in the months ahead.

“Looking ahead, service sector business optimism dipped to the lowest in five months, mainly reflecting fears that the wider economy will struggle in the face of economic headwinds.”

-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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