

News Release

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

Sales tax pushes activity lower in April

Key points:

- Services business activity falls for second time in three months
- Output prices up at a record pace
- Business expectations improve to highest seen since September 2013

Summary:

Japanese service companies reported a fall in business activity in April, with the solid pace of reduction the sharpest since September 2011. Following a similar trend, new business declined for the first time in nine months. In both cases, firms linked the reductions to the rise in the sales tax.

In contrast, April saw growth in payroll numbers for the fourth month running and at a faster pace than in March. Both prices charged and input prices increased at much sharper rates, with the rate of inflation of output prices a series record.

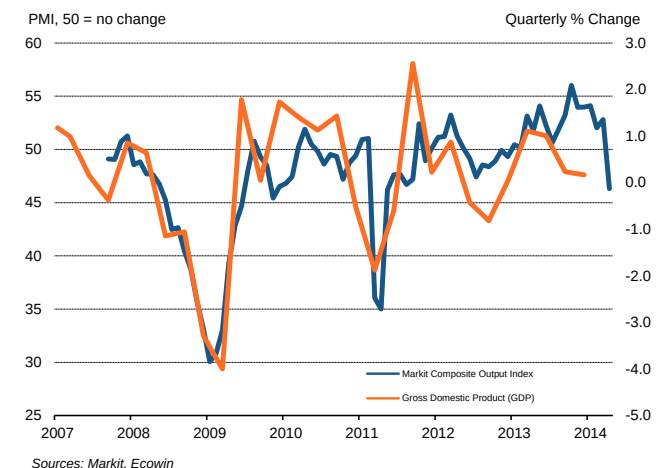
The headline seasonally adjusted Business Activity Index decreased to 46.4 from a reading of 52.2 recorded in March. Posting below the crucial 50.0 no-change mark (which separates growth from contraction), the index signalled a sharp decline in Japanese services activity. Exactly 23% of panellists commented on a reduction in business activity in April.

Japanese manufacturing firms saw a decline in output for the first time in 14 months in April. Alongside this fall in output was a deterioration in new orders which also decreased for the first time in 14 months. The **Composite Output Index** declined to 46.3 in April from 52.8 in March indicating an overall decline in output for private sector firms in Japan.

Alongside a fall in business activity for Japanese services, was a reduction in new business. The seasonally adjusted New Business Index posted its lowest level seen since July 2012.

Alongside this decrease in new service business was a fall in incoming orders for Japanese manufacturers. With a similar explanation to services, Japanese manufacturers blamed the implementation of the rise in sales tax for the drop in new orders.

Private Sector Activity and GDP



Sources: Markit, Ecwin

On the price front, Japanese services recorded a marked rise in prices charged and input prices in April, with prices charged increasing at the fastest pace seen in the series so far. About 20% of panellists commented on higher prices with the vast majority attributing inflation to the increase in the sales tax.

Similar to services, Japanese manufacturers saw a continued rise in their prices, although input cost inflation was the slowest since July 2013. Some panellists attributed inflation to an increase in raw

material prices, whilst others blamed the depreciation of the yen which led to higher import costs.

In contrast to the fall in new business and output, both Japanese manufacturers and services saw growth in their payroll numbers during April. The Composite Employment Index recorded a ninth consecutive monthly increase in employment, with the rate of job creation quickening since March.

Volumes of work outstanding at Japanese services providers rose for the second month running in April. Some panellists stated they were still trying to cope with the increased new orders which had been recorded in March before the rise in the sales tax. In comparison, work outstanding declined for Japanese manufacturers for the first time in nine months. Japanese manufacturers attributed the decline to the fall in orders following the implementation of the sales tax.

Finally, Japanese service providers in April recorded the strongest optimism registered since September 2013. Companies attributed this to positive improving economic conditions over the next 12 months and the continued increase in payroll numbers leading to a rise in activity.

Comment:

Commenting on the Japanese Services PMI survey data, Amy Brownbill, Economist at Markit and author of the report said:

"The implementation of the sales tax had a damaging effect on the business activity of Japanese service companies, with a solid fall in business activity the sharpest recorded since September 2011. Selling prices rose at a record pace, with a number of panellists commenting on the increase in sales tax as the main contributor."

"Interestingly, business expectations over the next 12 months remained positive for Japanese services, with the highest reading since September 2013. This helped employment payroll numbers to remain in growth territory in April."

-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.

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