

Japan service sector

Japanese service sector economy contracted at sharpest pace in over a decade, in line with newly-launched PMI data

PMI anticipated the downturn in service sector activity

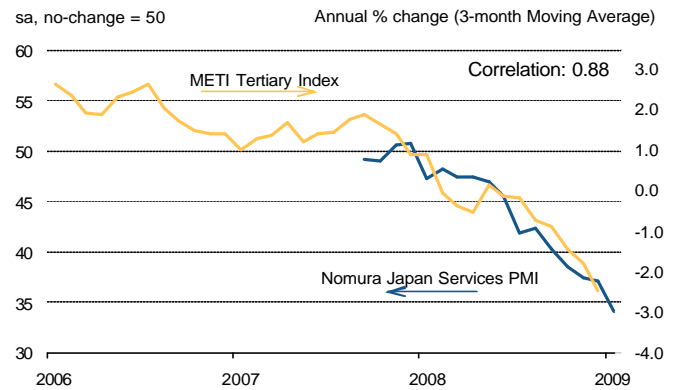
Official tertiary data released on 17 February showed that the Japanese services economy shrank by 1.6% in December from the previous month and 3.5% on a year ago. The latest fall marked the fifth consecutive yearly contraction of the Japanese service sector and was the sharpest decline since a 4.3% annual drop in March 1998.

The news comes after grim official data released by the Cabinet Office on 16 February revealed that the Japanese economy shrank at a quarterly pace of 3.3% in Q4. The drop in service sector activity suggests that households are beginning to bear the brunt of the economic downturn, as fears of unemployment spread and sentiment plummets. This suggests that consumer spending is likely to join exports in dragging the Japanese economy deeper into recession in 2009.

The newly launched Nomura Japan Services PMI, compiled by Markit and released almost two months in advance of official data, has accurately tracked the downward trend seen in official tertiary data since its inception in September 2007 (see chart 1). Despite the short history of the survey, PMI data display a correlation of 0.88 with METI tertiary data, suggesting

that the PMI survey is an accurate indicator of actual trends in service sector activity.

Chart 1: Nomura Japan Services PMI vs. METI Data



Outlook for Japan's service sector looks considerably bleak

January PMI data signalled that activity and new business levels fell at sharp and accelerated rates, pointing to a grim outlook for the Japanese service sector economy moving into 2009.

The Nomura Japan Services PMI is released on 3 March. To find out how to receive data from the surveys or obtain copies of the reports, please contact economics@markit.com

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