



IHS Markit™

Global PMI

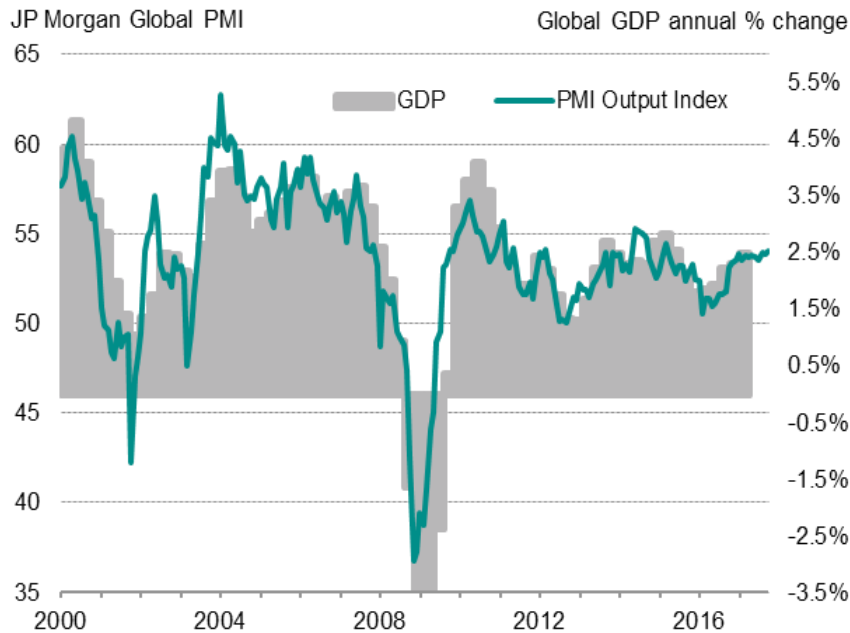
Global economy starts fourth quarter on firm footing,
price pressures ease

November 9th 2017

Global economy sees solid start to fourth quarter

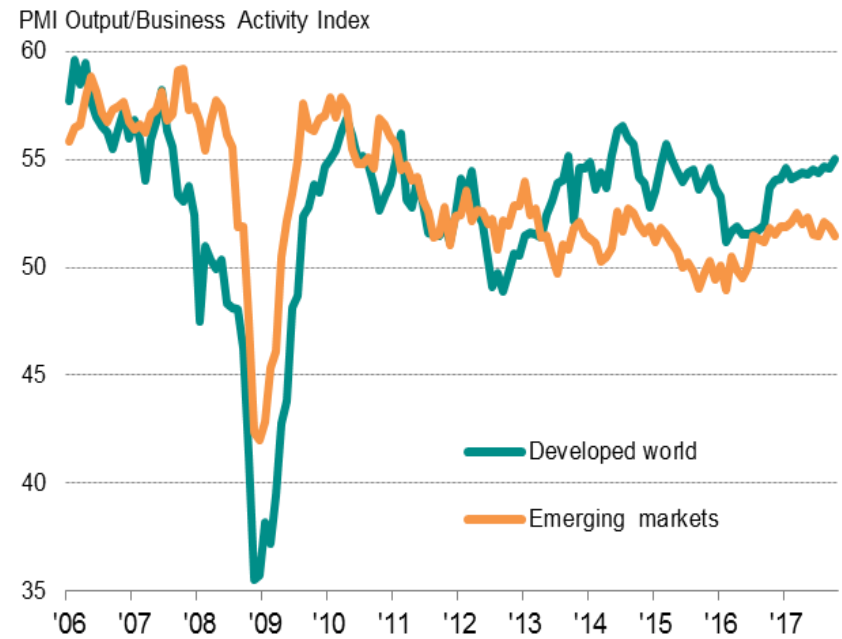
- [Survey data](#) show the global economy continuing to expand at a steady pace at the start of the fourth quarter. The headline JPMorgan PMI™, compiled by IHS Markit, inched up to 54.0 in October from 53.9 in September, matching the August level which had in turn been the highest since March 2015. Historical comparisons suggest that the latest PMI indicates global GDP (measured at market prices) is rising at an annual rate of just over 2.5%.
- An improved performance in the developed world was in part offset by a second successive monthly slowing in emerging markets. Developed world growth reached its highest since April 2015, with a composite PMI output index of 55.0. An equivalent reading of 51.5 for the emerging markets signalled the joint-weakest expansion seen over the past year.

Global PMI* & economic growth



Sources: IHS Markit, JPMorgan.

Developed v emerging market output



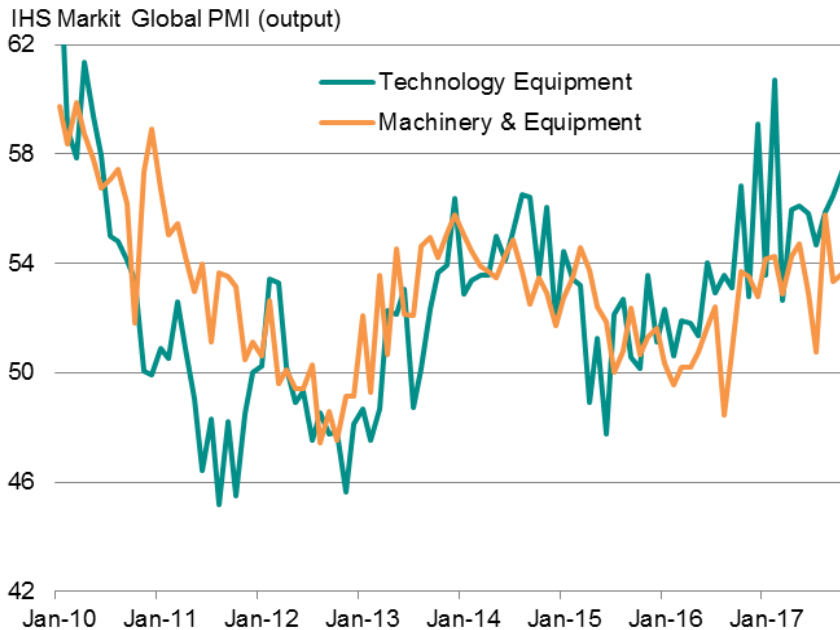
Source: IHS Markit.

* PMI shown above is a GDP weighted average of the survey output indices.

Signs of rising global investment continue to build

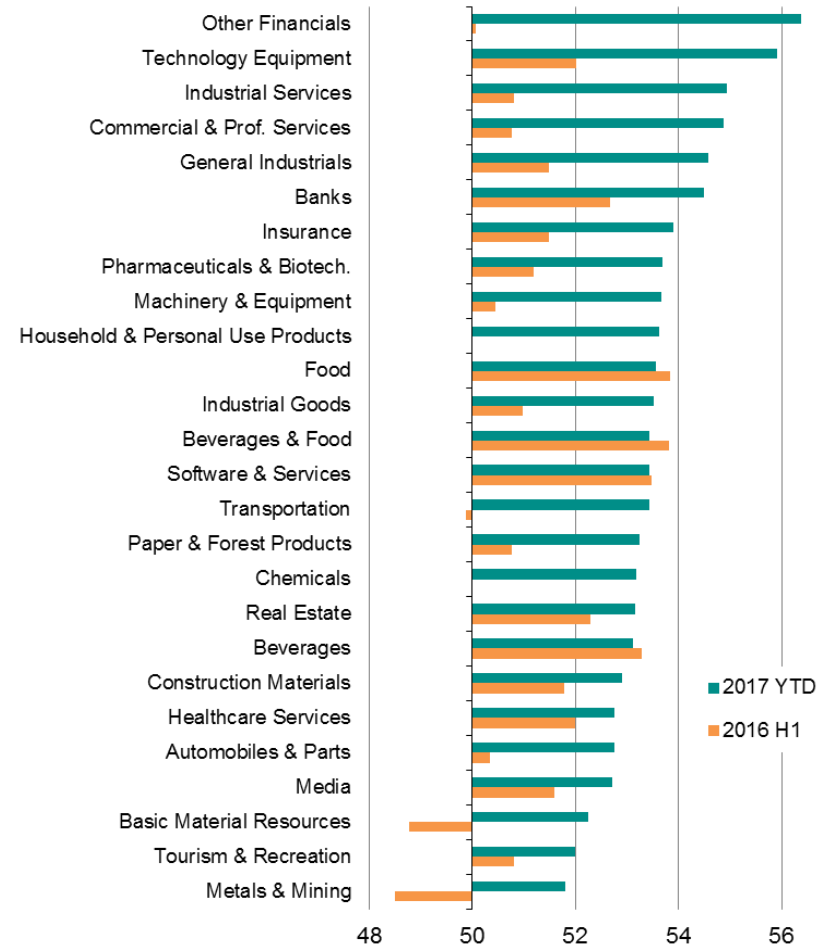
Charts below compare PMI Output Index readings for the various sub-sectors covered by the surveys. The ranking (bar) chart shows the average so far this year compared with the first half of 2016, when the global economy was barely expanding.

Tech equipment manufacturers have risen sharply up the growth rankings, second only to 'other' (non-bank) financial companies, so far this year, highlighting a worldwide upturn in capex. Similarly, machinery and equipment makers have seen output growth trend higher on average this year, also reflecting a welcome upturn in business investment.



Sources: IHS Markit.

Global Sector PMI Output Index

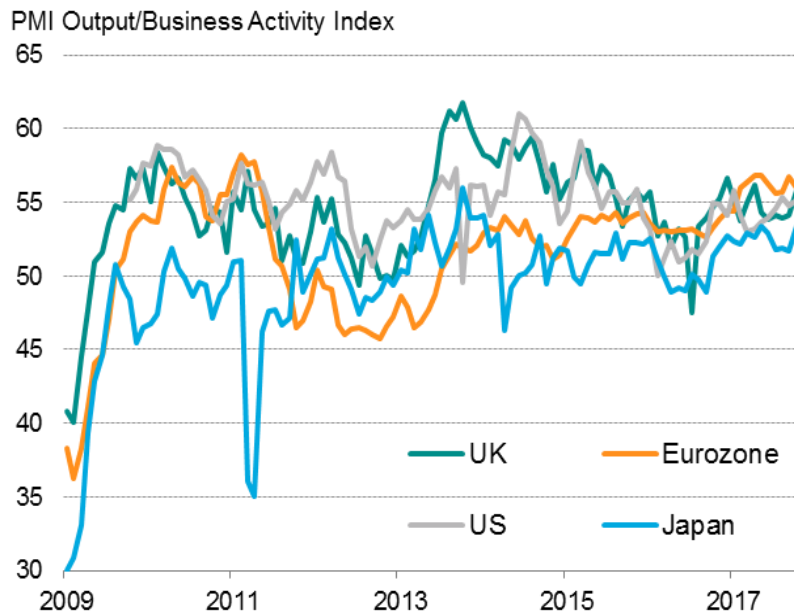


Source: IHS Markit.

Broad-based developed world upturn, emerging market malaise

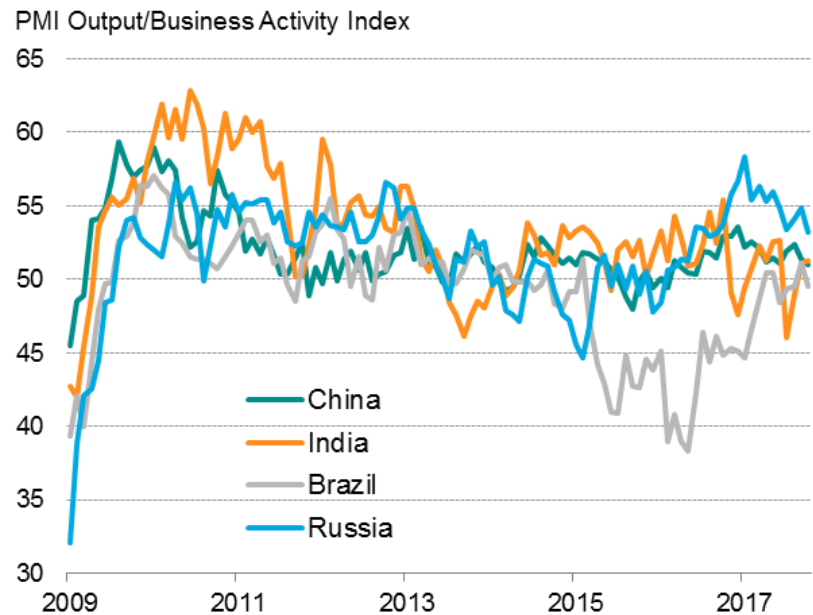
- In the developed world, the growth differential between the four largest economies was the narrowest since comparable data were first available in late-2009, highlighting the broad-based nature of the upturn. The fastest expansion was recorded by the eurozone for the ninth month running, despite the pace of growth slowing, closely followed by the UK, where the composite PMI hit a six-month high. Growth also accelerated in the US and Japan.
- A relative malaise was meanwhile seen across the four major emerging economies. The fastest expansion was seen in Russia, despite growth slipping to a 13-month low. Growth also slowed in China to the weakest for 16 months, and India’s expansion remained disappointingly modest, with business hit again by the sales tax. Brazil saw the worst performance, however, slipping back into decline.

Major developed markets*



Source: IHS Markit, CIPS, Nikkei.

Major emerging markets*

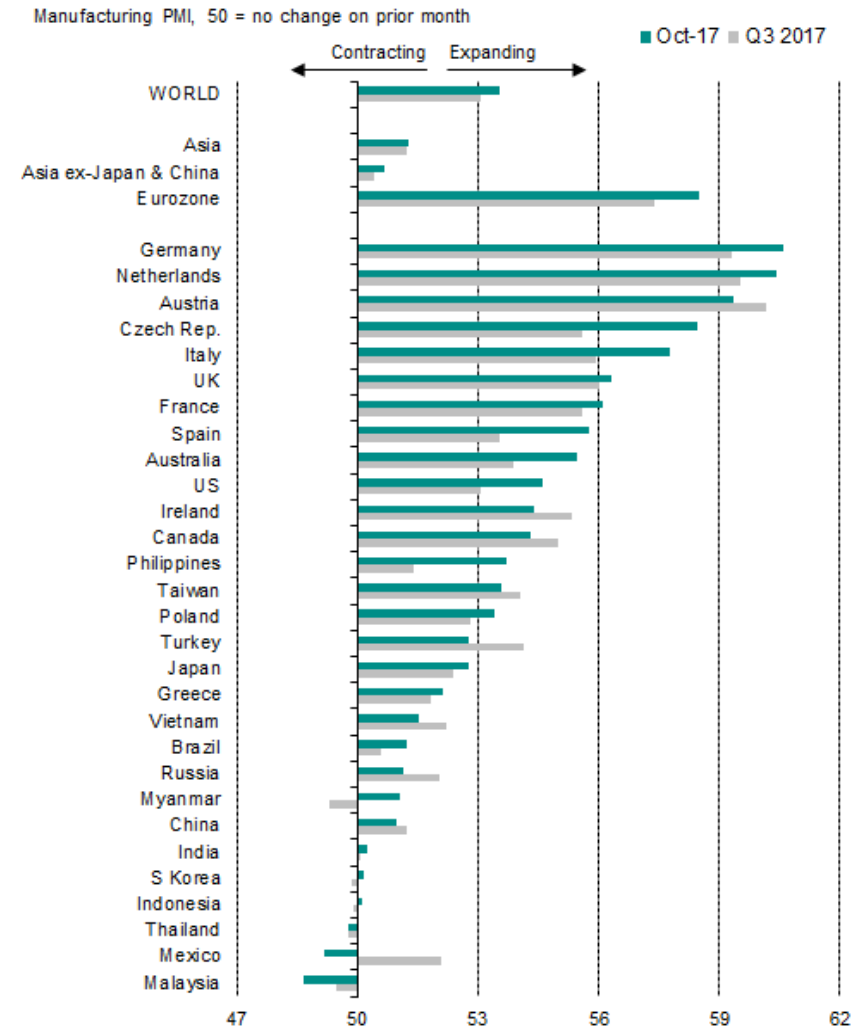
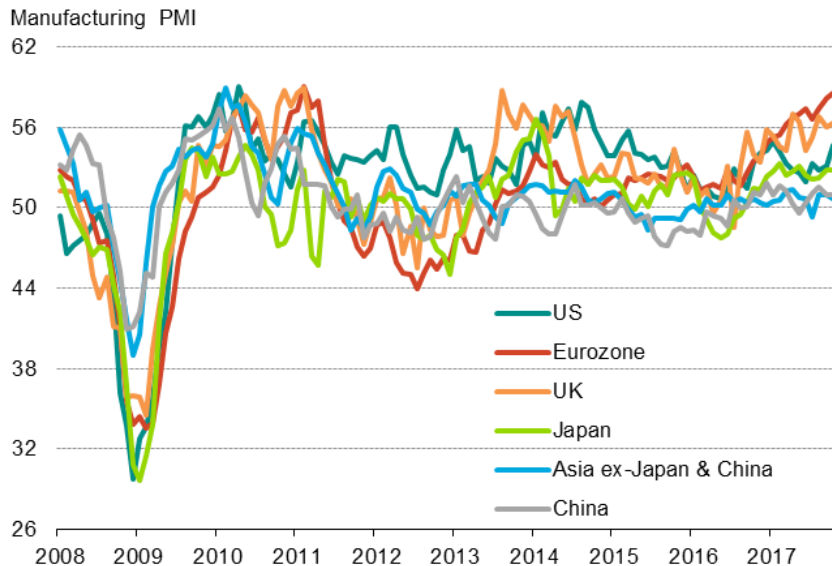


Sources: IHS Markit, Caixin, Nikkei.

* PMI shown above is a GDP weighted average of the survey output indices.

Germany holds top spot of global manufacturing PMI rankings

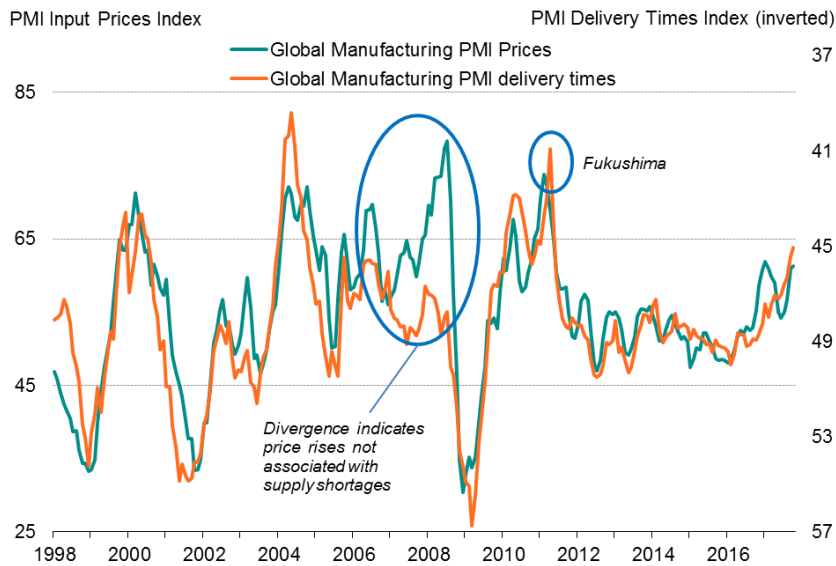
- [Global manufacturing](#) enjoyed its strongest improvement in business conditions for 6½ years in October, according to the latest PMI surveys. Only three of the 29 countries covered by IHS Markit’s PMI data saw a deterioration in business conditions: Malaysia, Mexico and Thailand. Notably, the bottom 11 countries were all emerging markets, including China, India, Russia and Brazil.
- European countries continued to dominate, holding all top eight places in the global manufacturing rankings. Northern European countries fared especially well, with the upturn led by Germany, followed by the Netherlands, Austria and the Czech Republic.



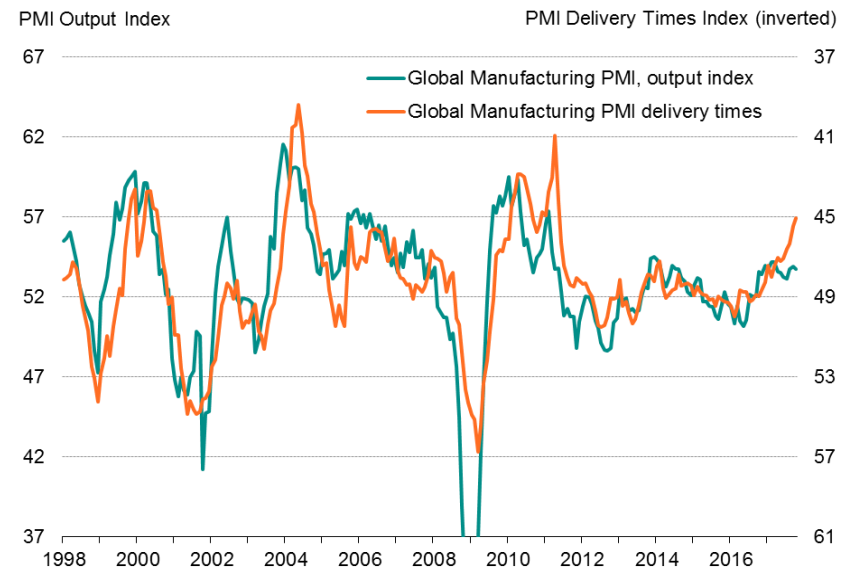
Supply shortages push prices higher

- The manufacturing upturn was again accompanied by rising price pressures. Input prices showed the second-largest monthly rise since May 2011. Price rises were often associated with suppliers being busier, as indicated by delivery times lengthening to the greatest extent since 2011. Busy suppliers are generally more able to negotiate increased prices, meaning longer delivery times therefore often point to rising core inflationary pressures.
- However, in the current situation, longer delivery times have in part been the result of hurricane disruption in the US, which has generated a short-term price spike for many items (a similar, though more extreme, situation was seen in the aftermath of the Fukushima disaster in 2011).
- A comparison of current output growth and delivery times highlights how delivery times are lengthening more than current output growth would normally suggest. Therefore, this indicates that at least some of the current global input cost inflation reported by manufacturers will be temporary.

Global supply delays and prices



Global supply delays and output

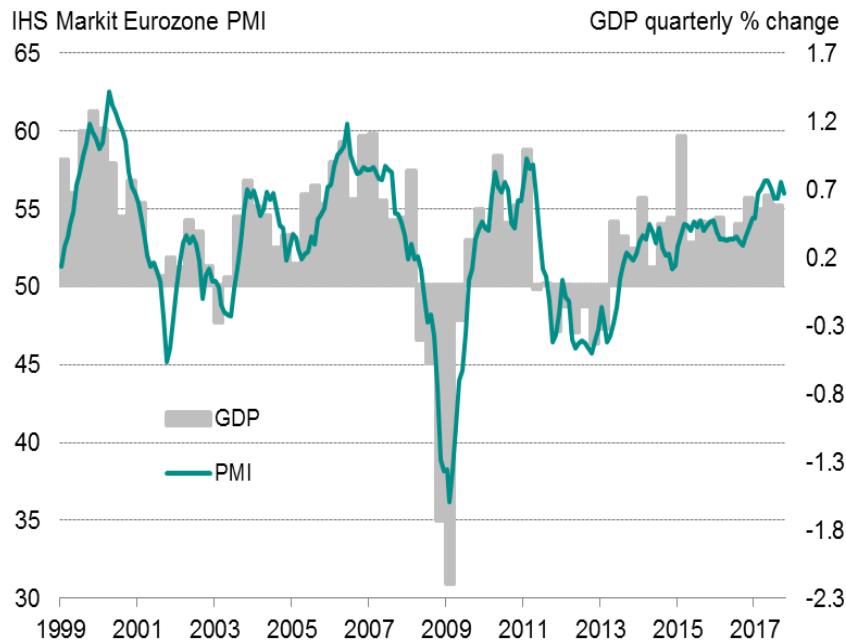


Sources: IHS Markit, JPMorgan.

Eurozone PMI signals strong growth and job gains at start of Q4

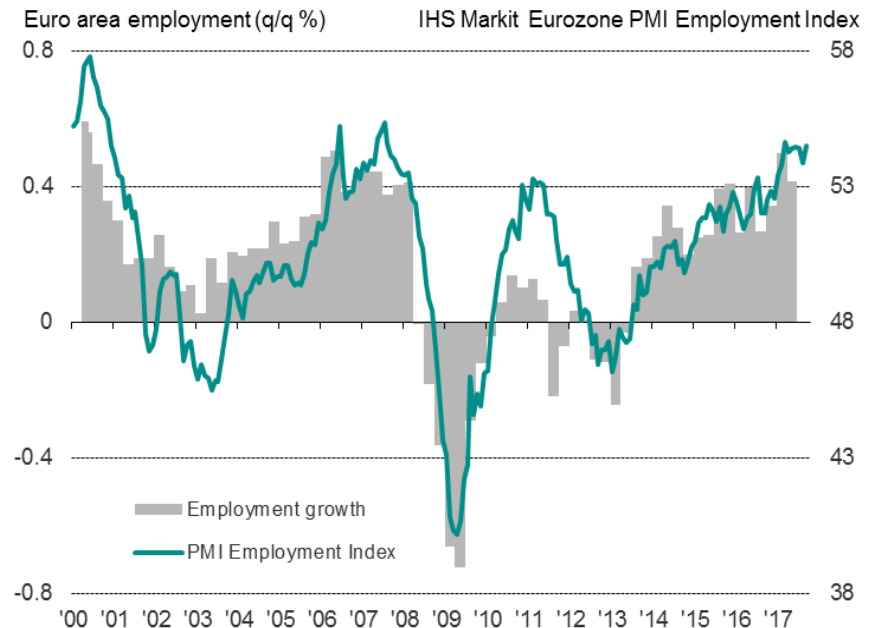
- The eurozone growth spurt retained strong momentum at the start of the fourth quarter. At 56.0, the October headline composite PMI reading was identical to the average seen over Q3 and puts the region on course for another 0.6-7% expansion in the closing quarter of 2017.
- The anecdotal evidence from PMI responses suggests that companies are focusing on buoyant demand from domestic markets, remaining firmly in expansion mode in line with expectations of stronger business and consumer spending. Hence an upturn in employment growth to a decade high in October, with a two-decade high seen in manufacturing.
- However, not all eurozone countries saw stronger growth momentum. Of note, growth slipped to its weakest since January in [Spain](#), in part due to heightened political uncertainty, and also sank lower in [Italy](#).

Eurozone economic growth and PMI*



Sources: IHS Markit, Eurostat.

Eurozone employment



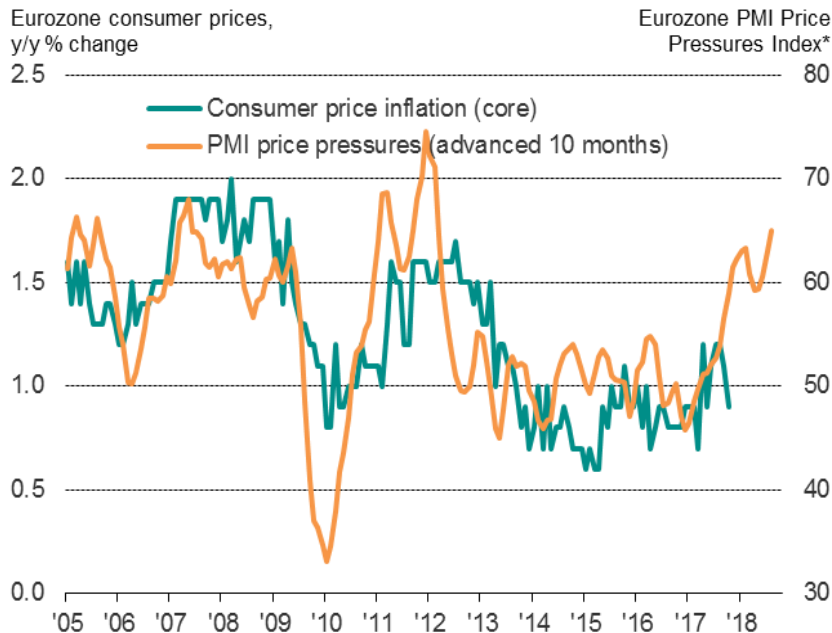
Sources: IHS Markit, Eurostat.

* PMI shown above is a GDP weighted average of the survey output indices.

ECB trims 2018 asset purchase target amid encouraging signals

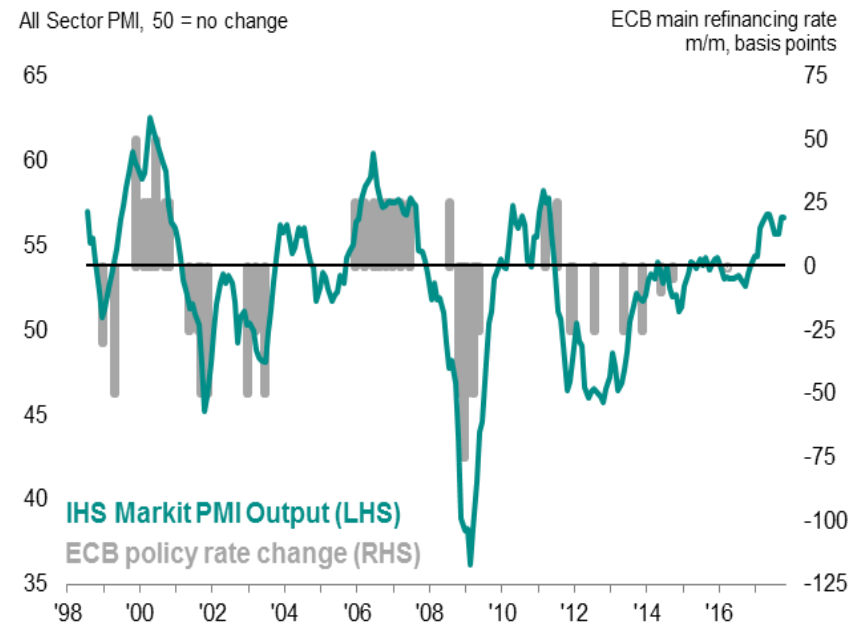
- Eurozone inflationary pressures meanwhile lifted higher, with prices charges for goods and services rising at a rate not beaten for over six years in October. A composite index based on input prices and supplier lead times acts as a leading indicator of core inflation, and suggests that core pressures are set to rise again after dipping in September.
- Furthermore, when charted against historical ECB policy decision, the composite Eurozone PMI clearly moved into territory normally associated with a tightening of monetary policy.
- It's therefore little surprise that the ECB has announced its decision to rein-back some of its stimulus, reducing its asset purchases in 2018. Further tapering rhetoric may follow if the PMI data continue to show strong economic growth and further upward price pressures.

PMI prices and inflation



Sources: IHS Markit, Eurostat.

ECB policy & Eurozone PMI Output



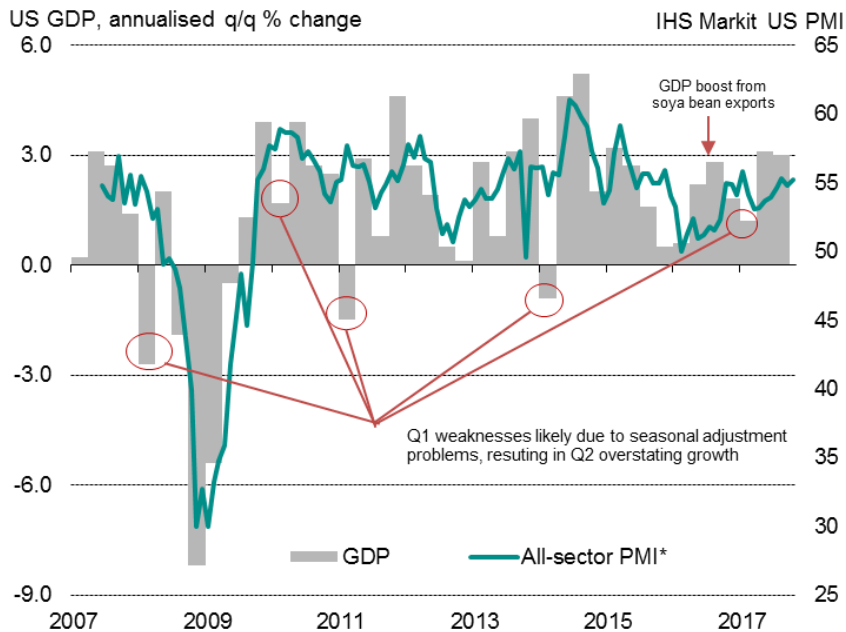
Sources: IHS Markit, ECB.

* Price Pressures Index is based on input prices and suppliers' delivery times.

Upturn in US PMI numbers puts economy on course for solid Q4

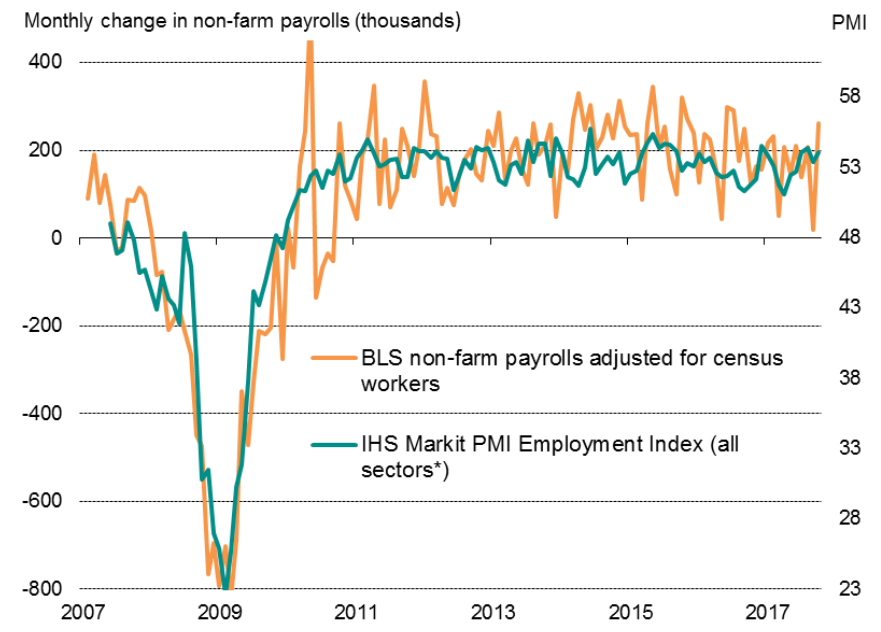
- The IHS Markit US composite PMI rose in October to the second-highest since January, indicating annualised GDP growth of just over 2.5%. PMI data also signalled steep employment growth as firms boosted capacity to meet rising order book volumes, an improvement which was later confirmed by the rebound (and upward revision) to official non-farm payrolls.
- However, the surveys also showed a drop in inflationary pressures from a hurricane-related three-year high seen in September. Having been buoyed by supply chain disruptions in prior months, input cost pressures eased at the start of the fourth quarter, and the rate of increase of average prices charged for goods and services dropped markedly to show the weakest increase for six months. Charges for services rose especially modestly, having shown the largest rise for three years in September.

US economic growth and the PMI*



Sources: IHS Markit, Commerce Department.

US jobs*



Sources: IHS Markit, Bureau of Labor Statistics.

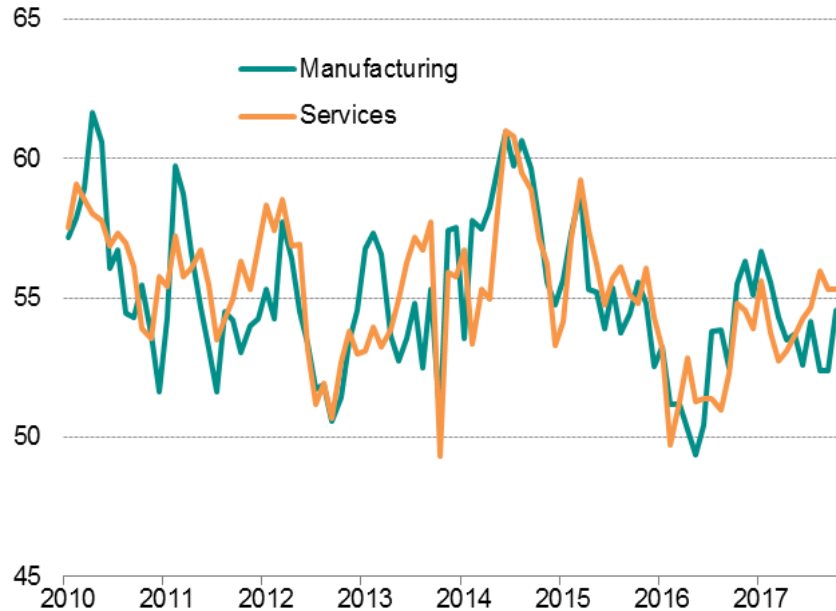
* PMI shown above is a GDP weighted average of the manufacturing and services indices.

US manufacturing rebounds after summer soft patch

- The return to normal functioning supply chains, and reviving business activity in areas affected by the recent hurricanes, was a key element of the stronger US expansion seen in October. The IHS Markit PMI showed manufacturing output growth rebounding sharply from hurricane-disrupted levels in August and September, reaching an eight-month high.
- The recent subdued manufacturing readings from the IHS Markit survey prior to October contrasted with near-record high ISM survey data, but the weak picture has since been confirmed by official Fed data, showing falling manufacturing production on the three months to September.
- Despite the upturn in manufacturing, services remained the main driver of the US expansion at the start of Q4, enjoying its strongest growth spell since 2015 in recent months.

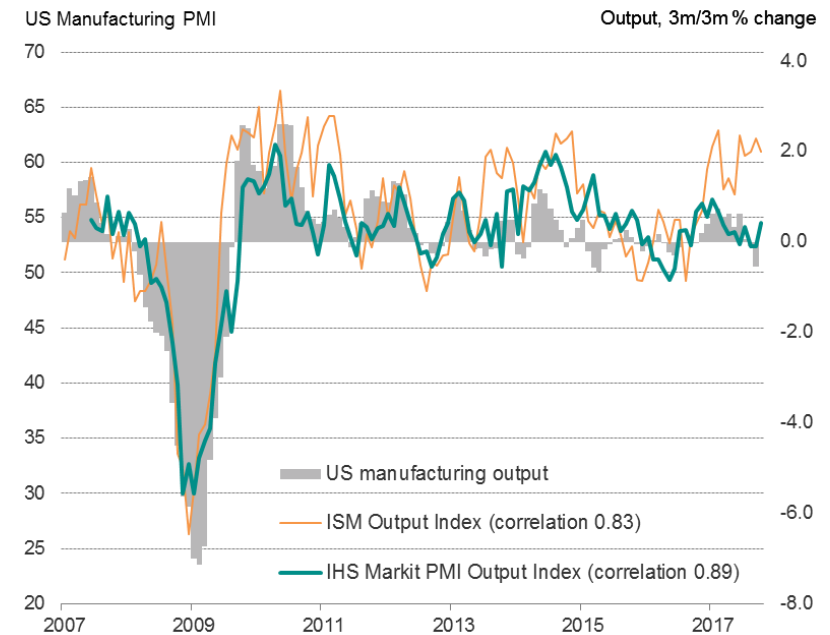
US manufacturing & services

IHS Markit US PMI Output/Business Activity Index



Source: IHS Markit.

US manufacturing production v surveys

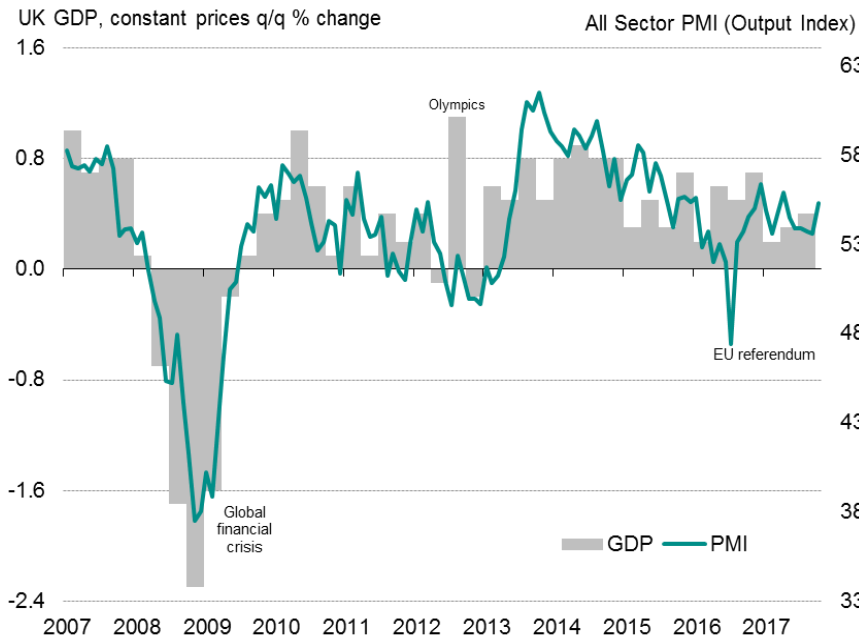


Sources: IHS Markit, ISM, Thomson Reuters Datastream.

UK PMI shows economy picking up speed, BoE hikes rates

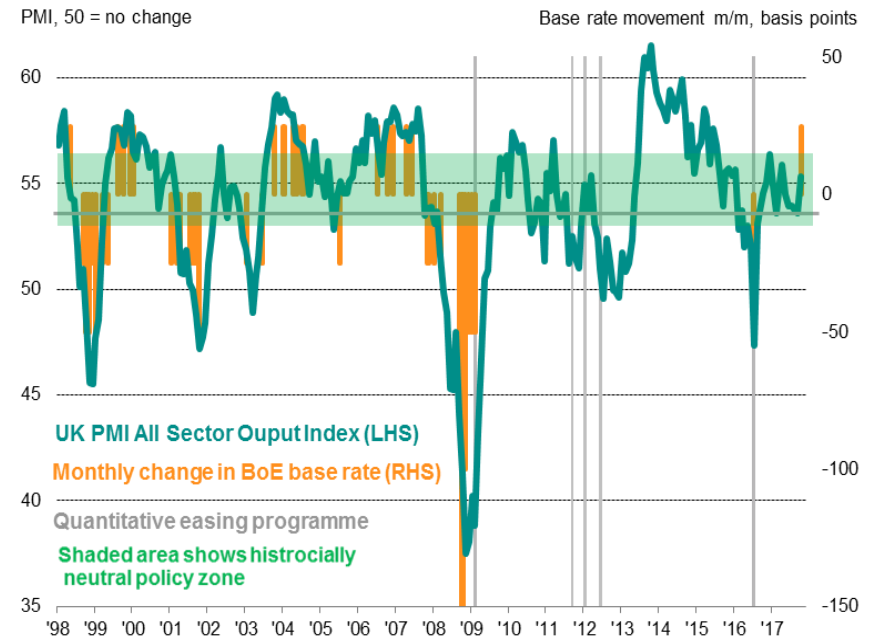
- An [upturn in UK business activity](#) growth to the fastest for six months added some justification to the Bank of England’s decision to hike interest rates for the first time in a decade. The ‘all-sector’ IHS Markit/CIPS PMI Output Index rose for the first time in six months, up from 53.6 in September to 55.3. The current reading is indicative of the economy growing at a quarterly rate of 0.5%, representing an encouragingly solid start to Q4.
- However, the October upturn merely keeps the all-sector PMI in broadly neutral territory as far as Bank of England policy is concerned, albeit with a tightening – rather than loosening – bias. In this respect, the November rate hike looks unusual: past interest rates hikes (since 1999) have not occurred when the all-sector PMI has been below 56.5.

UK economic growth and the PMI*



Source: IHS Markit, CIPS, ONS.

UK PMI* and Bank of England policy



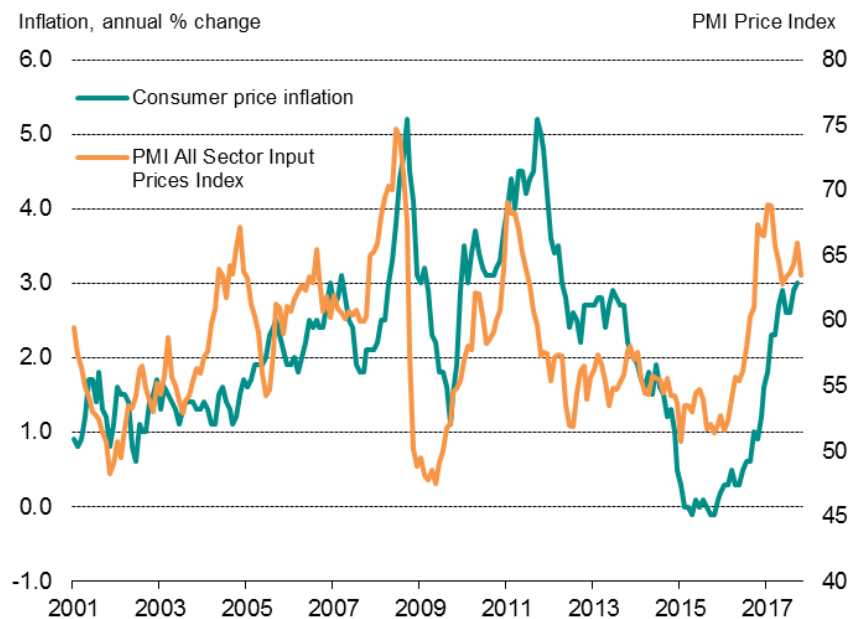
Sources: IHS Markit, CIPS.

* PMI shown above is a GDP weighted average of the survey output indices.

Cooling UK price pressures and drop in optimism clouds policy outlook

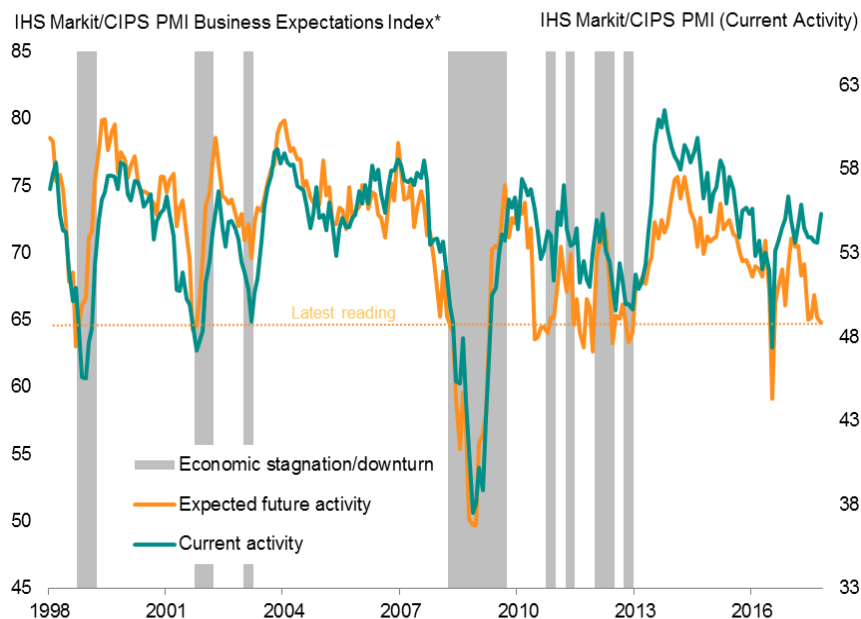
- News on UK prices was varied. Average selling prices for goods and services rose at an increased rate, but input cost pressures eased, the latter suggesting future consumer price inflation may cool, albeit with some further increase from September's rate of 3.0% signalled before the rate starts to moderate again.
- The rate of job creation meanwhile waned to its lowest for seven months amid a downturn in business optimism about the year ahead to a 15-month low. Anecdotal evidence highlighted how companies were worried that customer spending will be increasingly hit as Brexit uncertainty intensifies, all of which suggests there are downside risks to the economic outlook. Such risks add significant uncertainty to the timing of any further rate hikes.

UK PMI prices and inflation



Source: IHS Markit, CIPS, ONS.

UK PMI: Current vs. Future Activity Index



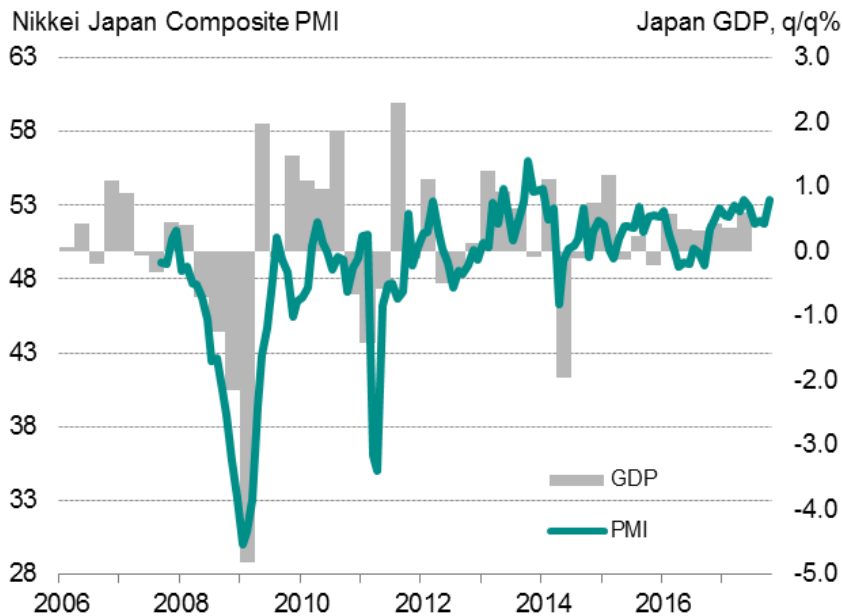
* covers only services and construction prior to 2012

Sources: IHS Markit, CIPS.

Japan PMI hits second-highest level in nearly four years

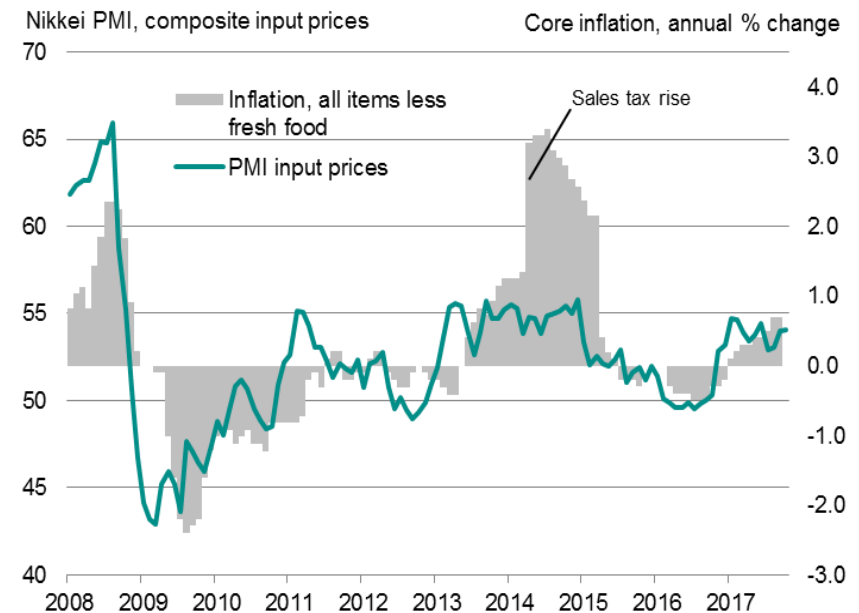
- In Japan, the composite Nikkei PMI jumped to its second-highest level in 45 months in October. Service sector growth accelerated to broadly match that seen for manufacturing, where exports continued to help drive expansion. The rise in the PMI for Japan suggests GDP growth has accelerated again, having slowed in the third quarter after a surprisingly strong second quarter.
- Average prices for goods and services rose further in October. The increase was due to a combination of rising global commodity prices as well as higher wages given greater competition for employees amid tight labour market conditions. However, the overall rate of input cost inflation remained only modest and broadly consistent with consumer price inflation of just 0.5%.

Japan economic growth and the PMI*



Sources: IHS Markit, Nikkei, Japan Cabinet Office

Japan inflation



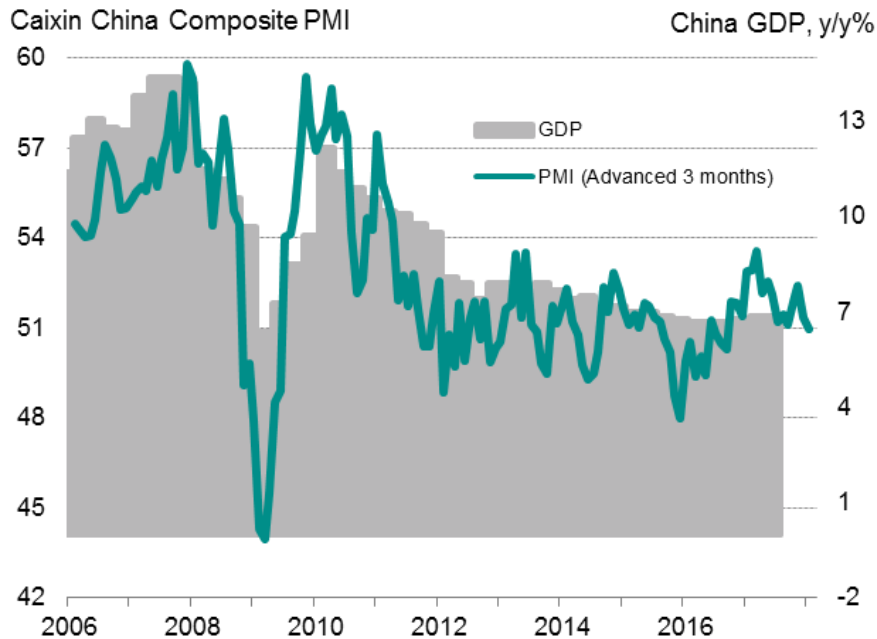
Sources: IHS Markit, Nikkei, Thomson Reuters Datastream.

* PMI shown above is a GDP weighted average of the survey output indices.

China PMI signals slower growth but rising prices

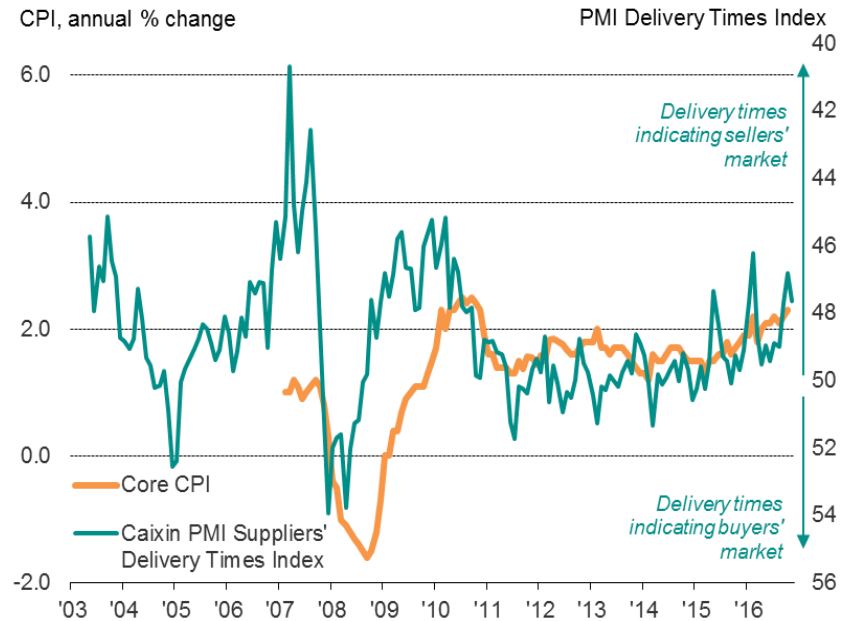
- Growth also disappointed in China, with the Caixin PMI down to its weakest since June of last year thanks to a drop in factory output growth and still-modest service sector growth. The headline Caixin PMI Composite Output Index edged down to 51.0 in October from 51.4 in September, signalling a marginal deterioration in growth compared to that seen over Q3.
- Chinese employment remained stagnant, as a rise in services payrolls was insufficient to offset manufacturing job losses.
- Input prices rose at one of the highest rates so far this year amid evidence that stretched supply chains pushed prices higher. Low stock levels at suppliers and environmental inspection policies were cited as reasons behind longer delivery times, which lengthened to one of the greatest extents for over six years, pointing to rising core inflationary pressures.

China PMI* & economic growth



Sources: IHS Markit, Caixin, NBS.

China delivery times and inflation



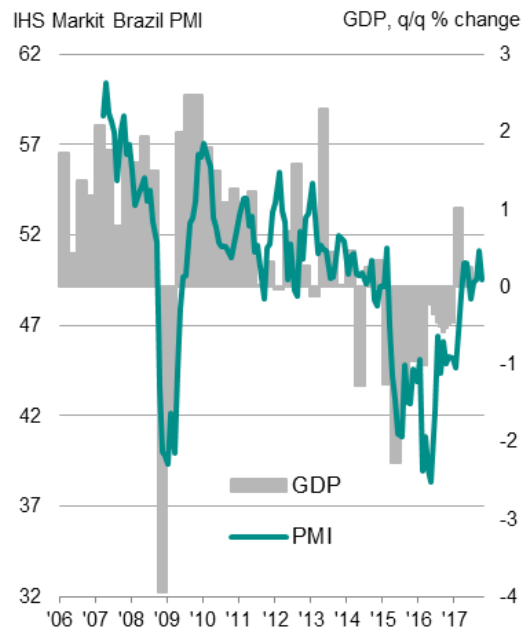
Sources: IHS Markit, Caixin.

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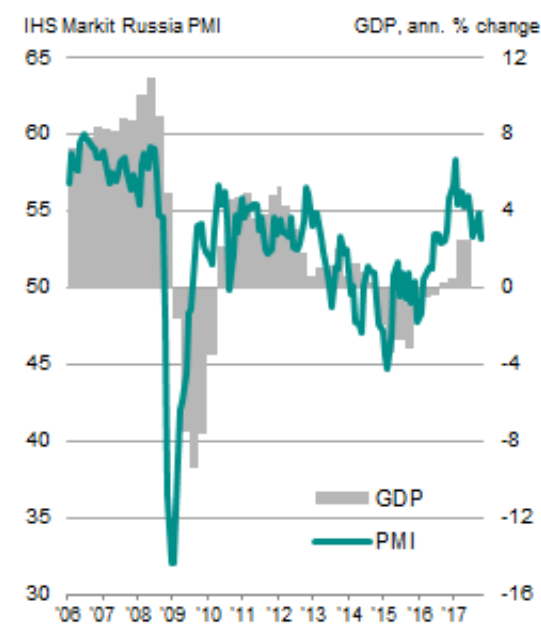
Russia leads BRIC nations despite slowdown

- The fastest expansion among the 'BRIC' economies was seen in [Russia](#), despite growth slipping to a 13-month low amid weaker rates of improvement in both manufacturing and services.
- Sluggish growth was meanwhile seen in [India](#), where the Nikkei PMI surveys signalled a second month of expansion after the downturns seen in July and August, when business activity was hit by the introduction of the new sales tax. However, the overall rate of growth remained disappointingly subdued in October, suggesting an on-going dampening of demand from the consumption tax.
- [Brazil](#) once again reported the worst performance as far as PMI surveys among the BRICs are concerned, with the data signalling a renewed slide back into decline after having indicated the strongest (albeit still modest) growth for nearly four years in September. A downturn in Brazil's service sector offset modest growth of manufacturing output.

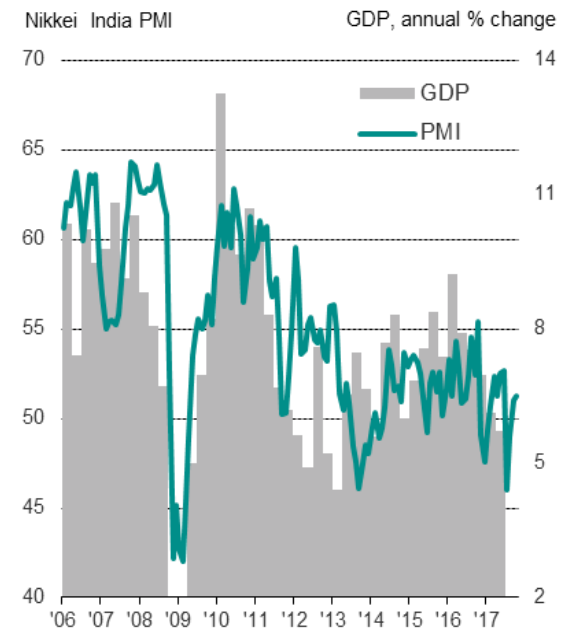
Brazil PMI* v GDP



Russia PMI* v GDP



India PMI* v GDP



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