



IHS Markit™

# Global PMI

Manufacturing and trade act as drags on global economy

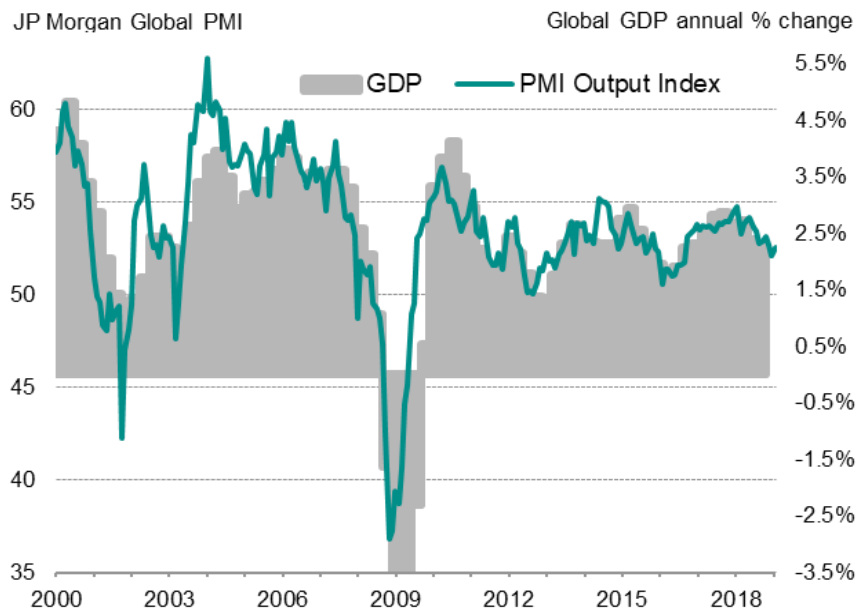
March 8<sup>th</sup> 2019

# Global PMI lifts higher on back of stronger service sector expansion

The pace of global economic growth picked up in February from a near two-and-a-half year low at the start of the year, but remained among the weakest since 2016. The JPMorgan Global PMI, compiled by IHS Markit, rose from 52.1 in January to 52.6. Despite the rise, the PMI still suggests the global economy could struggle to expand at a rate in excess of 2.0% in Q1 (measured at market prices), down from an estimated 2.3% in Q4 2018 and a peak of 2.9% at the end of 2017.

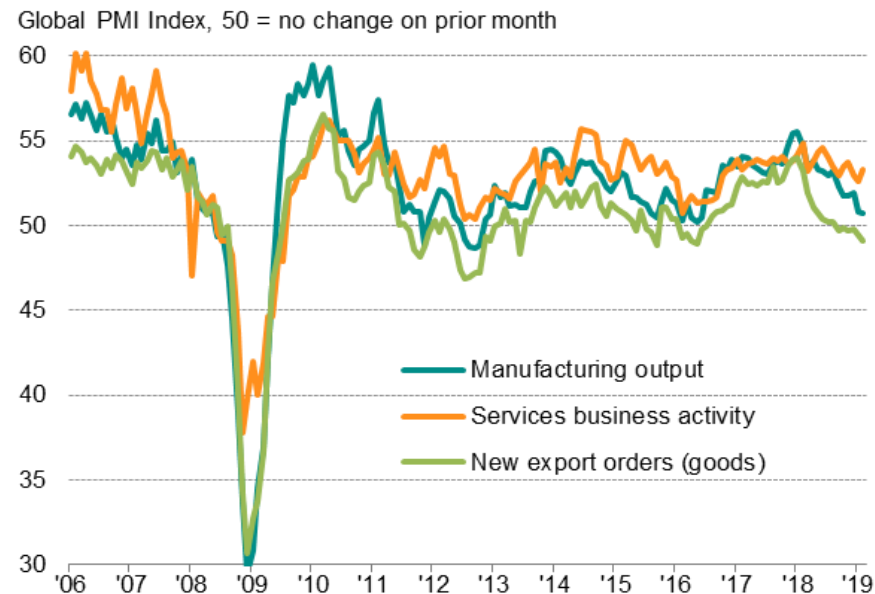
The slowdown was led by a near-stagnation of manufacturing output, in turn largely attributable to a further downturn in global trade. Worldwide exports fell for a sixth straight month, dropping at the steepest rate since May 2016. In contrast, service sector growth perked up to a three-month high, offsetting the manufacturing slowdown, buoyed by faster inflows of new business, suggesting domestic market demand remains encouragingly robust in many key economies.

## Global PMI\* output & economic growth



Sources: IHS Markit, JPMorgan.

## Global PMI indicators



Sources: IHS Markit, JPMorgan.

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

# Global autos and machinery downturns intensify

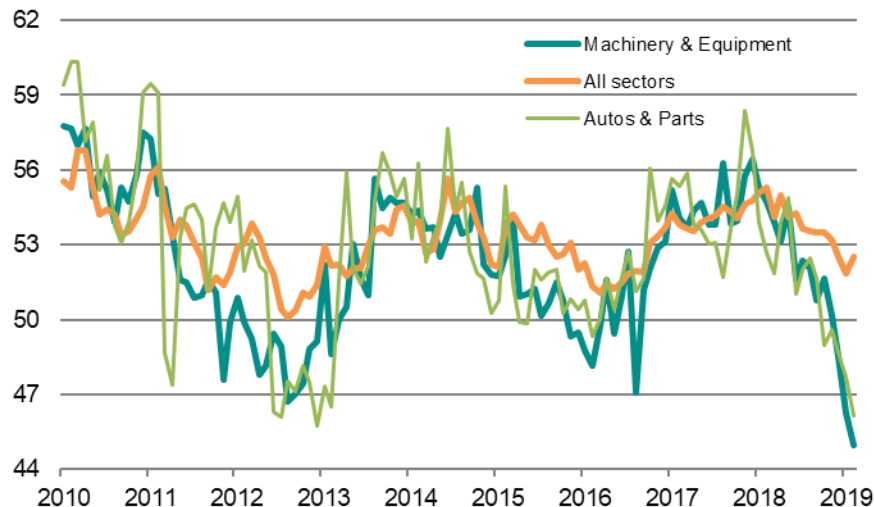
The number of sectors in contraction in February increased to 10 of the 26 covered by the global [PMI sector data](#). By comparison, none were in decline this time last year.

Three of the top five sectors were financial services industries, led by insurance. Food and drink both also continued to rank highly.

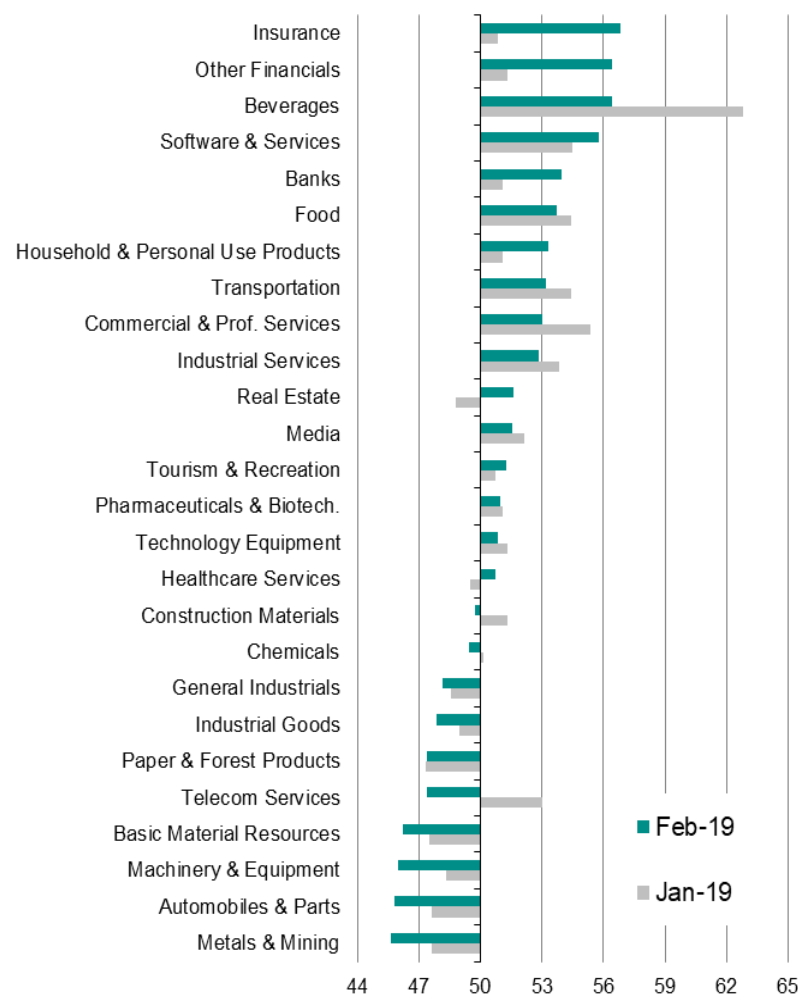
More cyclical sectors continued to generally fare worse. Metals and mining saw the steepest downturn, reporting the sharpest drop in new orders since 2012. The autos sector also saw the most marked drop in output and orders since 2012.

Another area of concern was the steepest drop in output and orders for machinery and equipment since data were first available in 2009, hinting at reduced global business investment.

IHS Markit Global PMI New Orders Index



Global Sector PMI Output Rankings

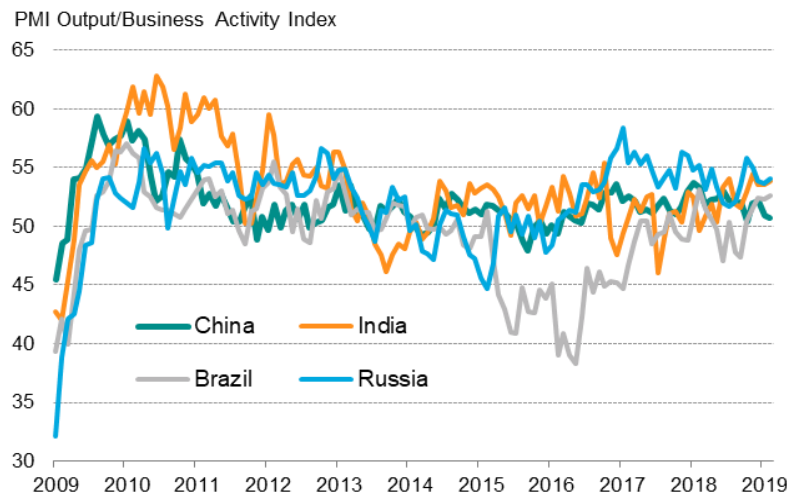
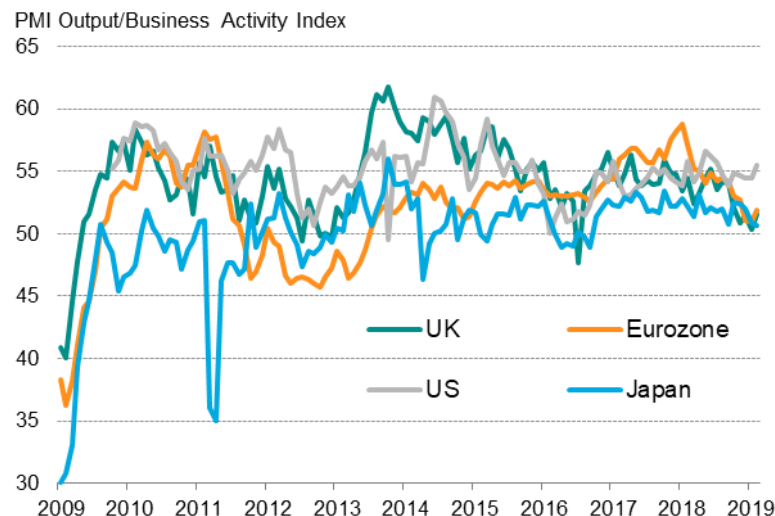
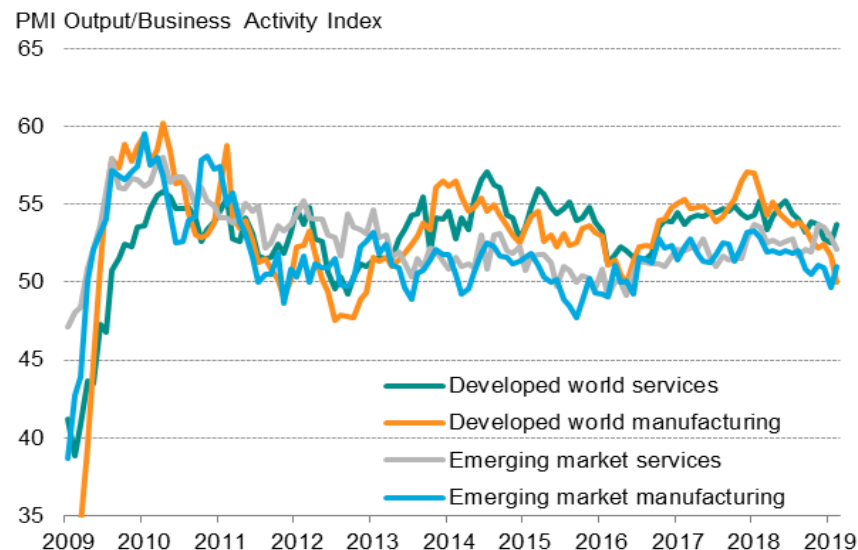


# US outperforms global economy to greatest extent for four years

Composite PMIs (covering manufacturing and services) indicated that developed world growth accelerated to a three-month high in February, while emerging markets saw the pace of expansion hold steady on that seen in January. However, in both cases growth rates are among the lowest seen since 2016, with manufacturing close to stalling in both instances.

The US continued to lead the expansion amid lacklustre growth in Europe and Japan, outperforming both the global and developed world PMIs to the greatest extents since early-2015.

The failure of emerging market growth to pull higher from January's recent low reflected a weakened rate of expansion in China, which slipped to the second-lowest since June 2016.



Sources: IHS Markit, CIPS, Caixin, Nikkei.

NB. All data refer to a GDP-weighted average of the PMI survey manufacturing and services indices.

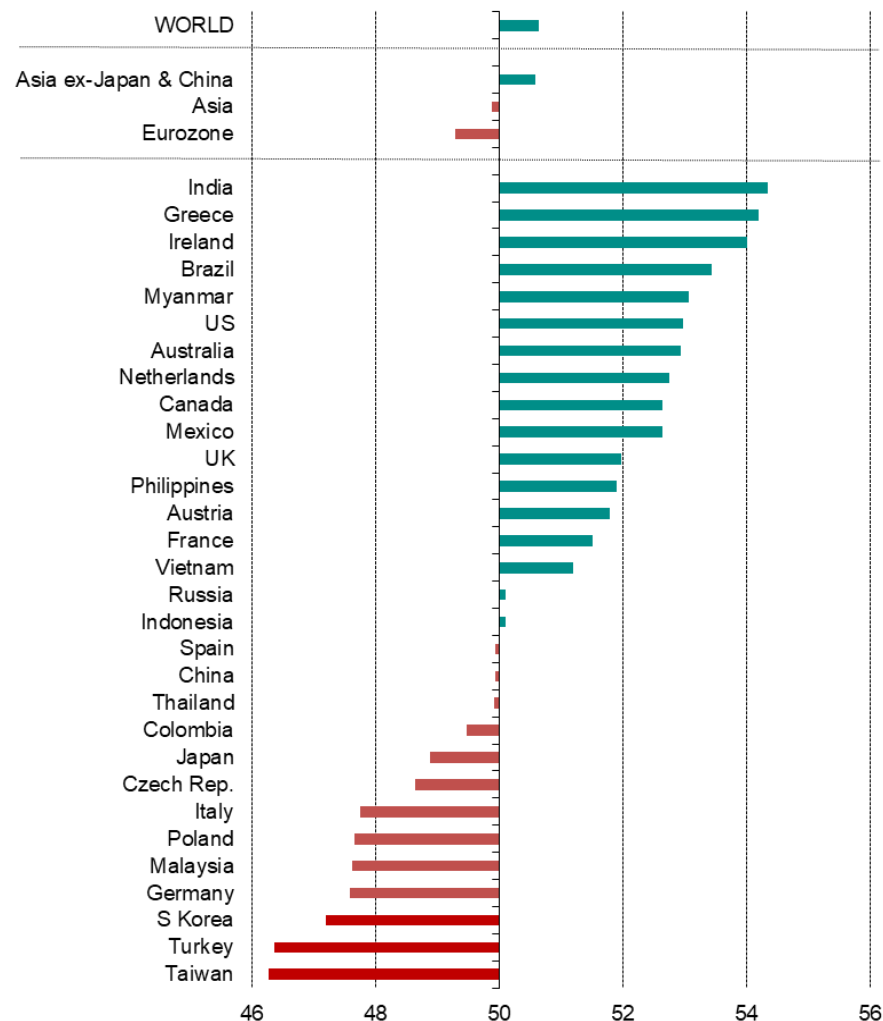
# Manufacturing downturn spreads to more countries

The global manufacturing downturn both intensified and widened in February. The JPMorgan Global Manufacturing PMI, compiled by IHS Markit, fell to its lowest since June 2016, while the number of countries in decline rose to 13 out of 30, up from 11 in January and just two this time last year. Almost two-thirds of countries surveyed reported falling export orders.

Six of the 13 economies in manufacturing decline were found in Asia, including both China and Japan, leading to a second month of contraction across Asia as a whole. However, the eurozone suffered a far steeper rate of decline by comparison.

The strongest growth was seen in India, followed by Greece and Ireland. The US dropped from second to sixth place.

Manufacturing PMI, 50 = no change on prior month (February 2019)



Sources: IHS Markit, CPB World Trade Monitor.

# Easing capacity constraints bode well for cooler inflation

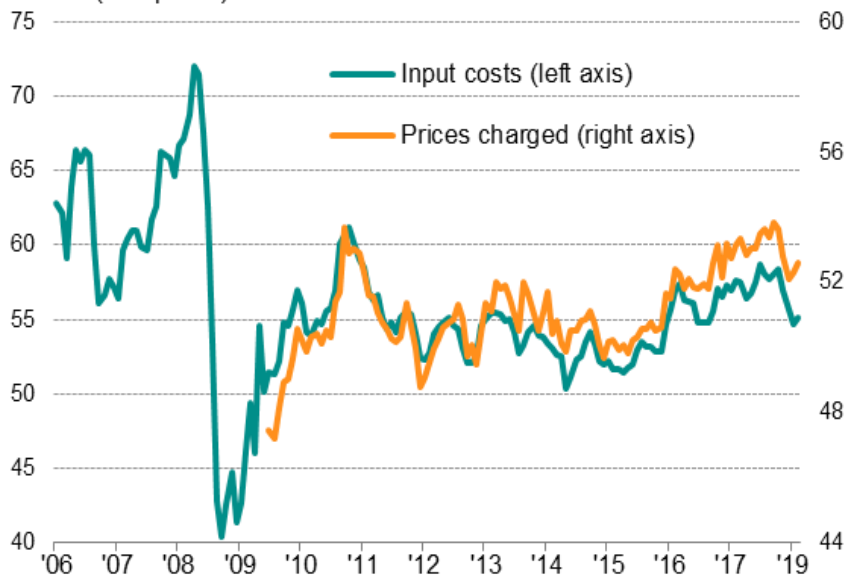
Global input cost inflation picked up slightly from January's near two-and-a-half year low but remained well below the average seen in 2018. Similarly, average selling price inflation edged higher, though likewise continued to run well below last year's peaks.

Weakened inflation rates have emanated in part from lower oil prices, though also reflect demand and supply coming back into balance for many goods and services, principally as a result of demand cooling.

In manufacturing, reduced growth of input buying helped drive an easing in global supply chain delays to the lowest since November 2016, which – alongside lower oil prices – was a key factor cited as helping alleviate inflationary pressures. Factory input cost inflation has slowed markedly since the middle of last year, dropping in February to its lowest since September 2016.

## Global PMI\* price indices

Global (Composite) PMI Price Indices

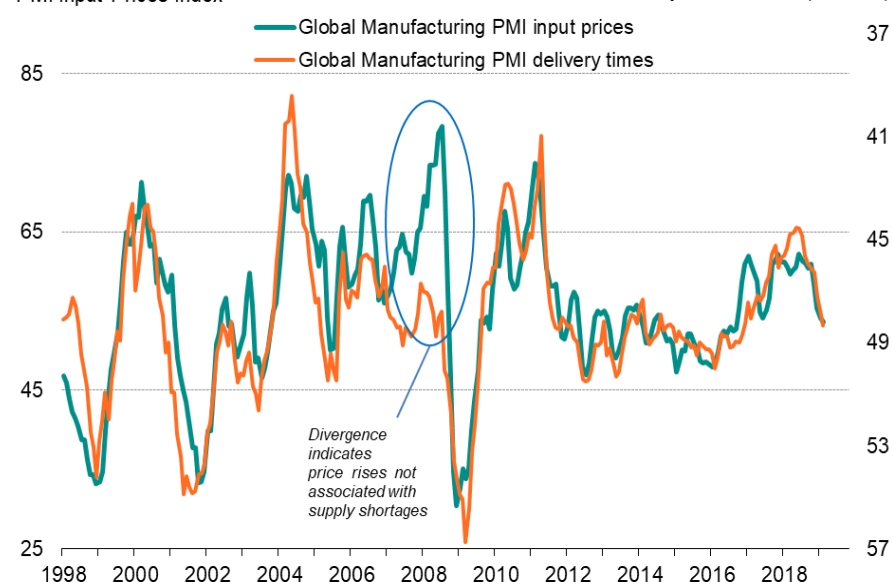


Sources: IHS Markit, JPMorgan.

## Global PMI price pressures

PMI Input Prices Index

PMI Delivery Times Index (inverted)



Source: IHS Markit, JPMorgan..

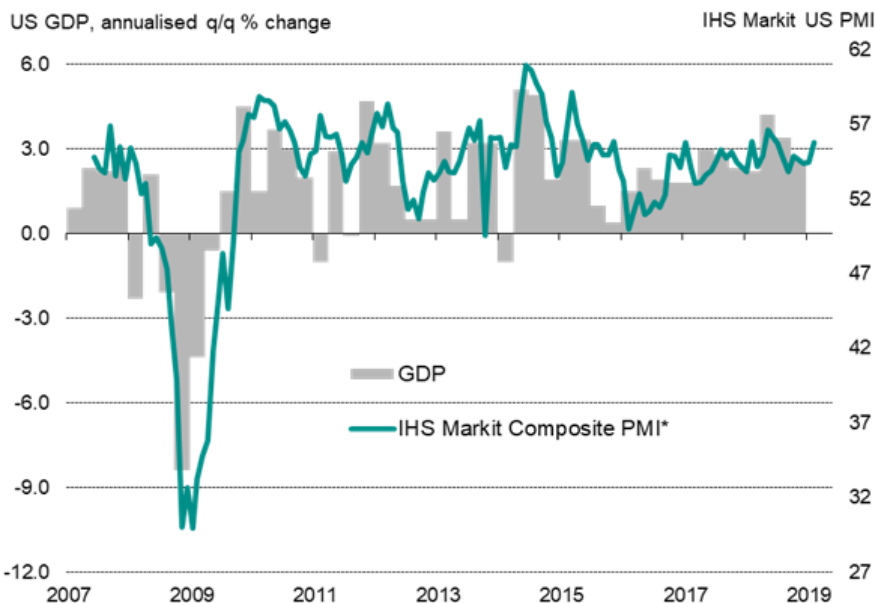
\* GDP-weighted average of the manufacturing and services indices.

# US PMI signals improved GDP growth and faster hiring

IHS Markit's US PMI surveys revealed a [growing dichotomy in the US](#), with manufacturing at near-stagnation while service sector growth accelerated. The solid service sector gain suggests the first quarter is on course to see a similar expansion to the 2.6% GDP growth recorded in Q4 of last year. The surveys also suggest hiring remained encouragingly solid in February, albeit predominantly driven by the service sector, suggesting official payroll data will get revised higher. Price pressures also ticked up, in part due to tariffs.

The worry is that the manufacturing slowdown will spill over to the service sector, dampening economic growth in coming months. Companies themselves certainly appear to have become more circumspect. Business optimism about the outlook cooled in February amid worries over the impact of tariffs, trade wars, higher prices and rising interest rates. Manufacturing sentiment fell especially sharply to the second-lowest in just over two years, while service sector optimism also waned to one of the weakest seen over the past year.

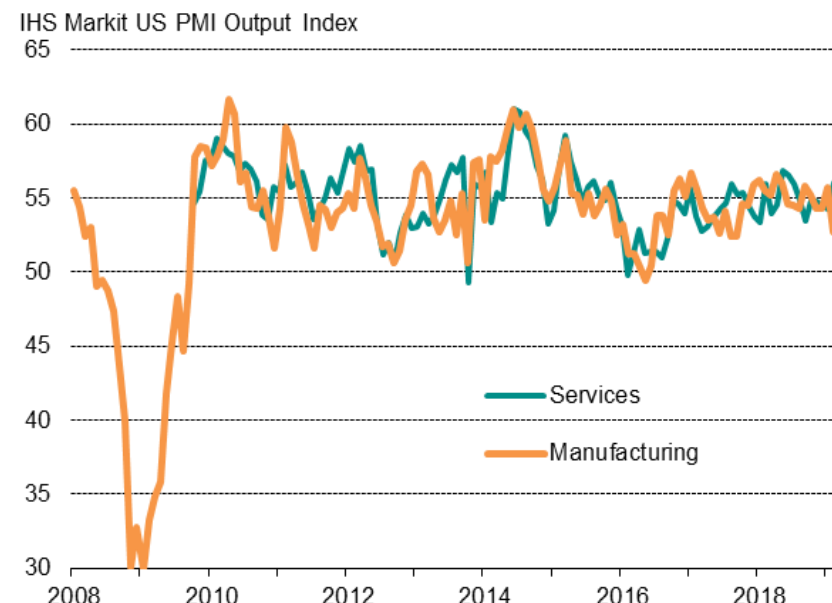
## US economic growth and the PMI\*\*



\* Manufacturing PMI only pre-October 2009.

Sources: IHS Markit, BEA.

## US PMI sector output



Source: IHS Markit.

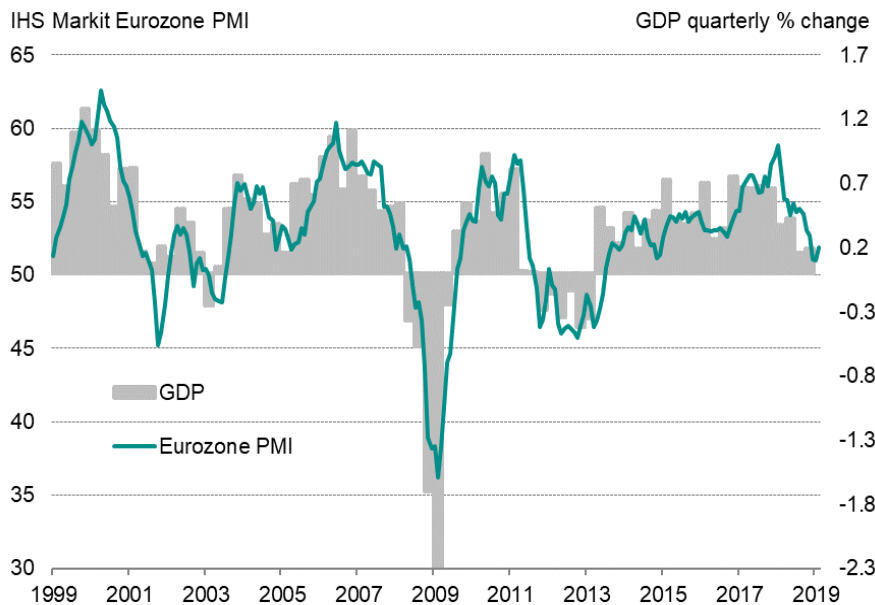
\*\* PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

# PMI shows eurozone economy stuck in low gear

Growth in the euro area remained subdued in February. The [Eurozone PMI](#) strengthened to a three-month high amid signs of one-off dampening factors easing (such as the ‘yellow vest’ protests in France and the auto sector emissions rule change), but even at these levels the PMI indicates quarterly GDP growth merely picking up to 0.2% from 0.1% in January. The first quarter could therefore see the euro area economy struggle to beat the 0.2% expansion recorded in Q4 of last year as headwinds continued to constrain business activity, according to anecdotal evidence from the survey. These included slowing global economic growth, rising geopolitical concerns, trade wars, Brexit and tightening financial conditions.

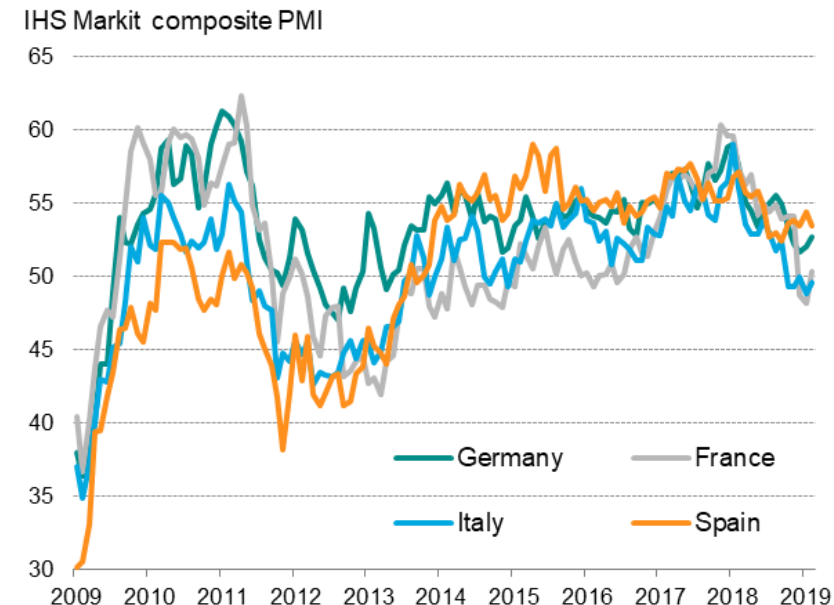
Of the largest euro members, Spain continued to record the strongest rate of expansion, followed by Germany (both buoyed by their service sectors). France saw business conditions stabilise after two months of protest-related decline, but Italy remained in contraction.

## Eurozone economic growth and PMI\*



Sources: IHS Markit, Eurostat.

## Eurozone ‘big-four’ output\*



Sources: IHS Markit.

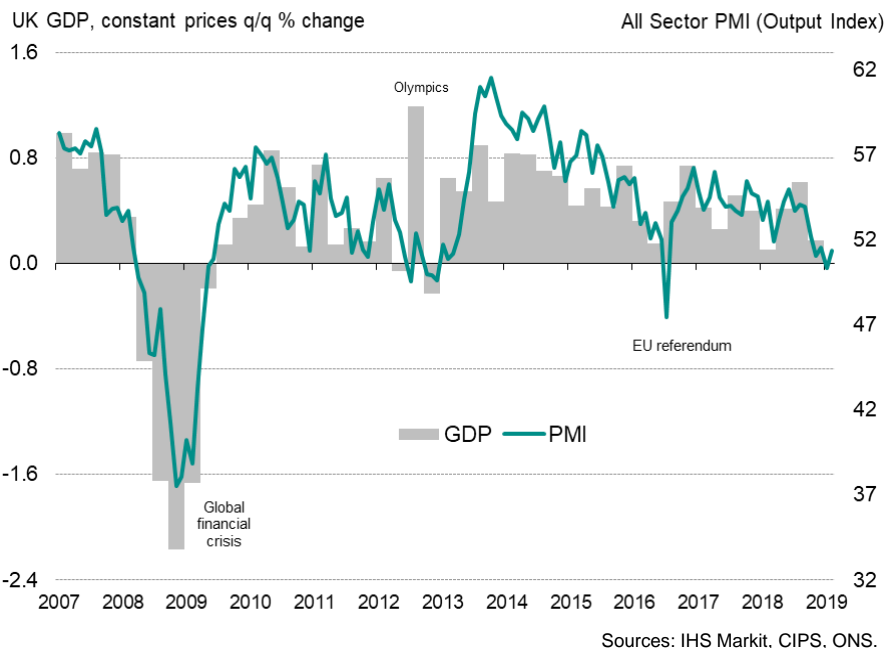
\*PMI shown above is a GDP weighted average of the manufacturing and services indices.

# UK job cuts mount amid stalled demand and Brexit uncertainty

The [UK PMIs](#) indicate just 0.1% GDP growth in Q1 so far as Brexit uncertainty exacerbated a wider slowdown. Even this modest performance reflected a boost to some sectors from pre-Brexit preparations. Customers sought to buy goods or complete projects ahead of Brexit day on 29<sup>th</sup> March and manufacturers built stockpiles to an extent not previously seen in the survey's 27-year history.

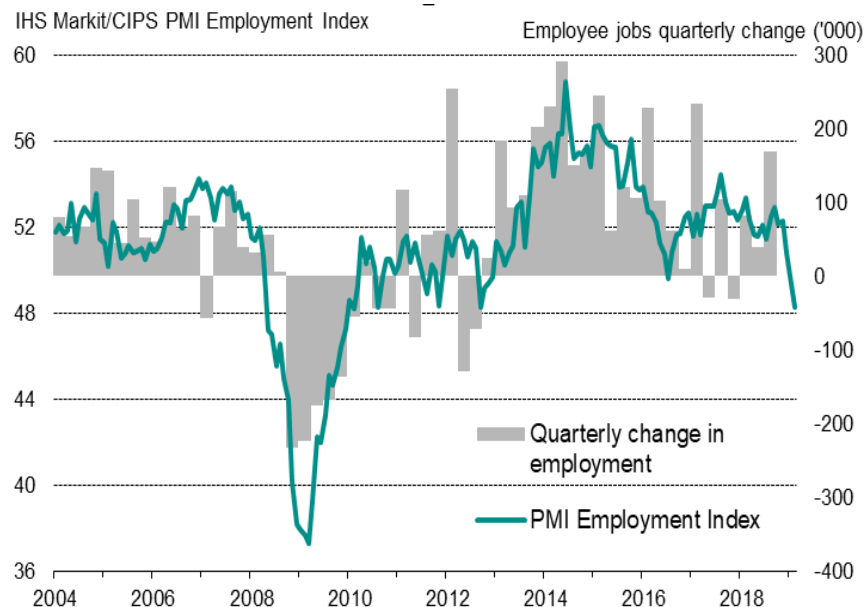
Looking further ahead, business optimism regarding the next 12 months sank to the lowest ever recorded by the survey with the exceptions of the height of the global financial crisis and July 2016. Brexit concerns dominated the list of reasons cited by companies for deteriorating business performance by a wide margin. With excess capacity developing amid a lack of new work, and prospects growing gloomier, job losses accelerated in February. Employment across services, manufacturing and construction fell at a rate not exceeded for nine years as companies cut costs and awaited clarity on the outlook.

## UK PMI\* and GDP



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

## UK PMI and employment



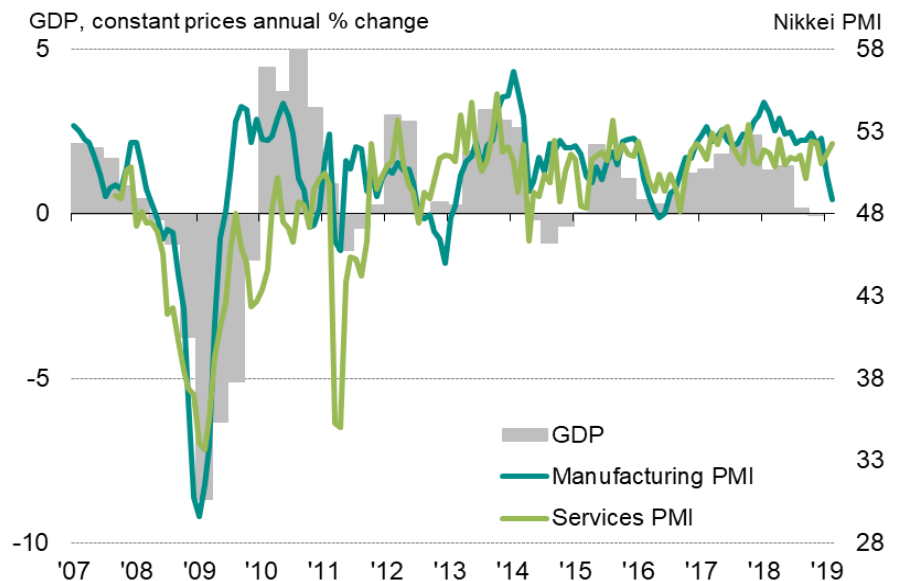
Sources: IHS Markit, CIPS, ONS.

# Japan's service sector only partly eases manufacturing pain

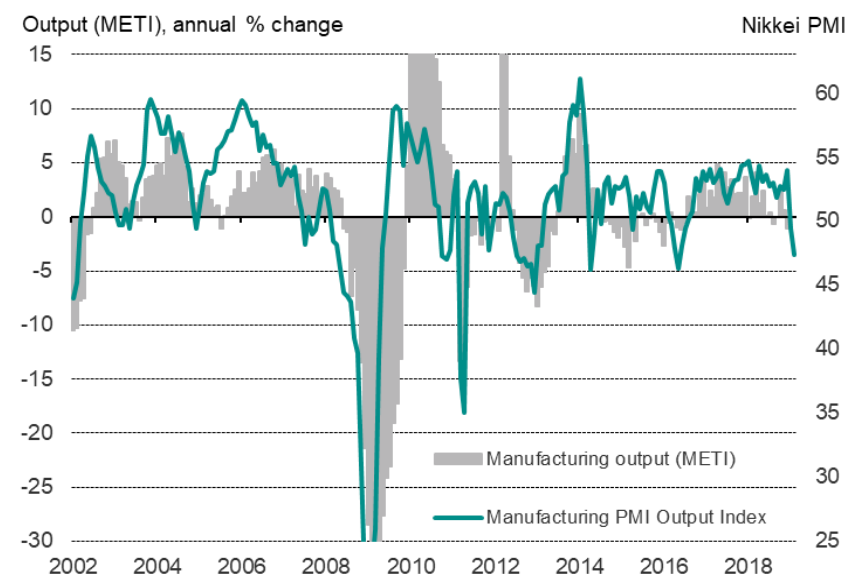
The Nikkei PMI surveys for Japan painted a picture of divergent trends in the economy. Robust domestic demand helped drive faster [service sector](#) growth, which enjoyed the largest monthly rise in new business for almost six years. It was a different story in [manufacturing](#), where factory output fell at the steepest rate since May 2016. Although overseas orders fell at a slower rate than in January, it was still the second-sharpest decline for two-and-a-half years.

Measured overall, the service sector gain helped offset the manufacturing decline to result in a modest increase in business activity. The upturn was nonetheless the joint-weakest since the current upturn began in September 2016. While the surveys showed a more resilient economy than depicted by the revision-prone GDP data late last year, the recent weakness of the composite PMI in 2019 so far suggests the underlying pace of economic growth has deteriorated, boding ill ahead of the planned sales tax rise later this year.

## Japan PMI and GDP



## Japan manufacturing output

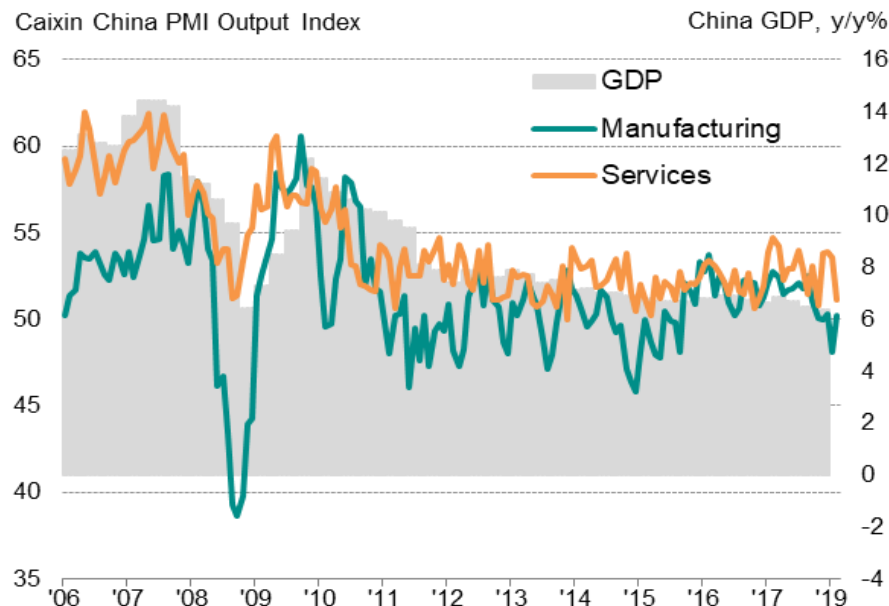


# China PMI signals further growth slowdown in February

Business activity in China grew only modestly in February, according to the Caixin PMI surveys, amid a renewed fall in exports. With the exception of last October, the increase in activity was the weakest since June 2016. The surveys showed service sector growth cooling midway through Q1 to one of the weakest rates seen in the near 14-year history of the survey. Sustained services activity growth likely reflects solid domestic demand, buoyed in part by additional stimulus, as well as higher export sales. There was better news from manufacturing, which stabilised in February after suffering the first fall in output for two-and-a-half years in January. However, goods producers reported reduced export sales for the tenth time in the past 11 months, as new work from abroad remains dampened by the ongoing US-China trade dispute.

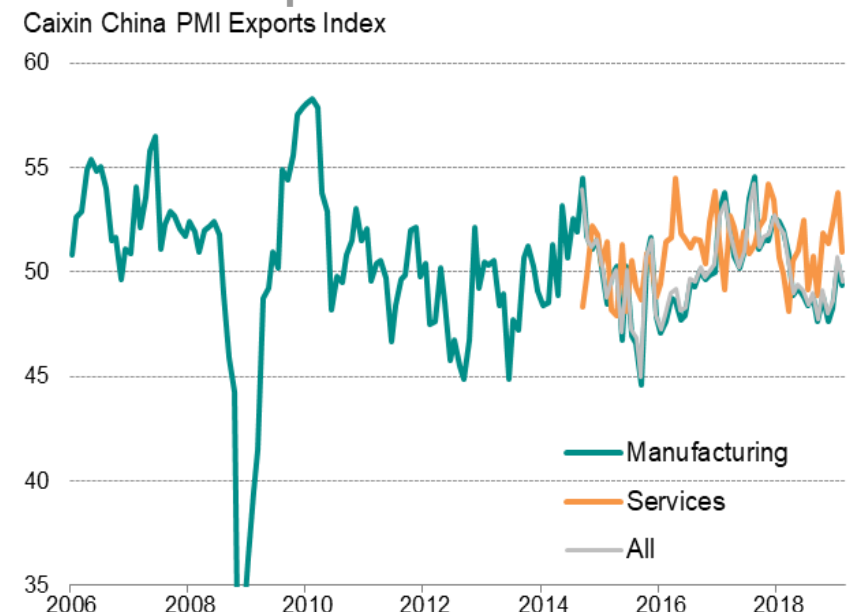
Average prices charged for goods and services meanwhile rose for the first time in four months, though input costs also increased.

## China PMI output indices



Sources: IHS Markit, Caixin.

## China PMI exports



Sources: IHS Markit, Caixin.

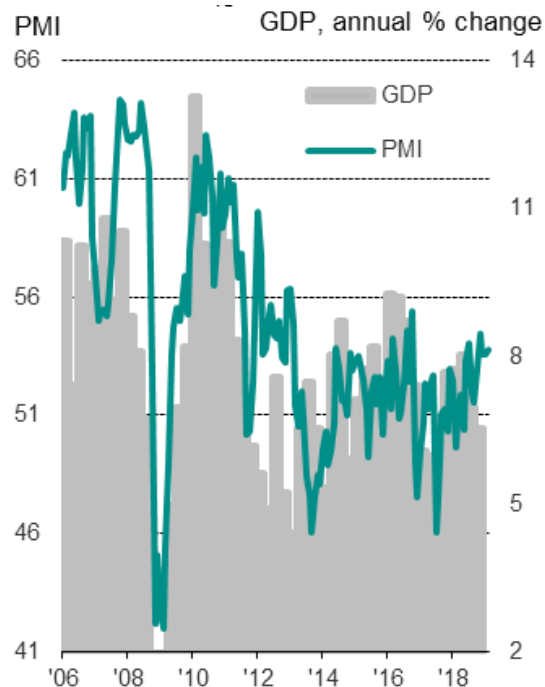
# India, Brazil and Russia report robust expansions

[Nikkei PMIs for India](#) showed the pace of economic growth strengthening in February to the second-fastest since last July, driven by a thriving manufacturing sector, where production growth hit a 14-month high. The service sector also saw faster increases in new work and business activity.

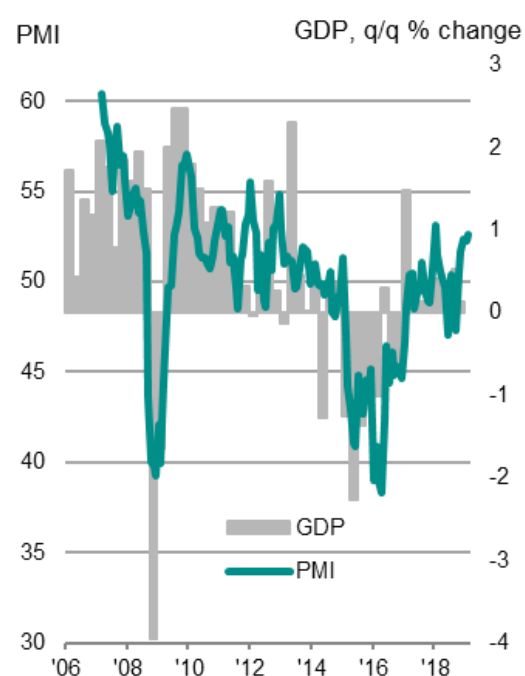
Brazil's upturn also gained further momentum, with the composite PMI reaching its second-highest in six years. Improved growth rates were seen in both manufacturing and services, the latter enjoying a particularly marked turnaround from the steep downturn recorded in the middle of last year, though still lagging behind the manufacturing sector. Domestic demand was the main driver of expansion.

However, of the four largest emerging markets, [Russia](#) recorded the fastest rate of expansion, with growth accelerating slightly on the back of improved performances in both manufacturing and services.

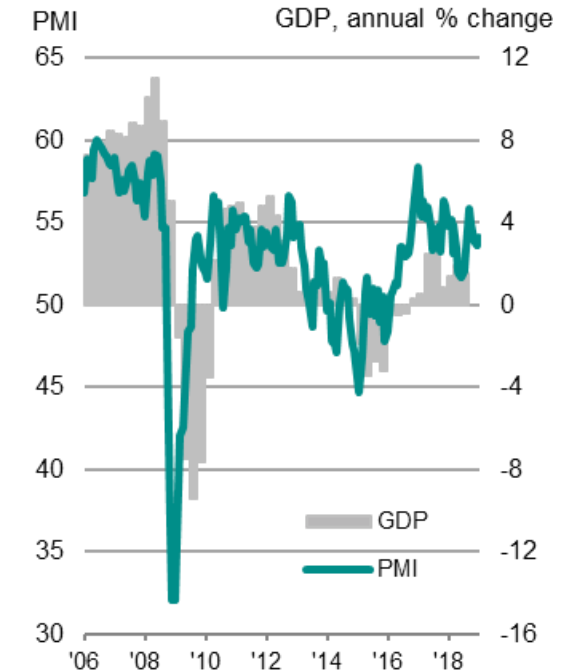
## India PMI



## Brazil PMI



## Russia PMI



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