Global PMI

Global economy sees soft start to second quarter as growth slips to joint-weakest since 2016

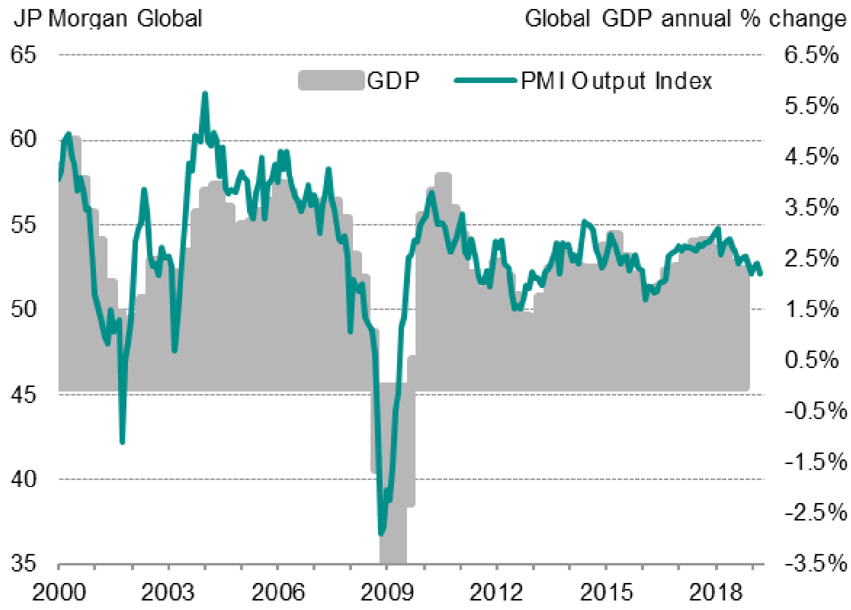
May 13th 2019

Global PMI slips to joint-lowest since 2016

The pace of global economic growth fell to its joint-lowest for two-and-a-half years in April, according to the latest business surveys, reflecting a broadly stagnant manufacturing economy and slower service sector growth. At 52.1 in April compared to 52.7 in March, the JPMorgan Global PMI, compiled by IHS Markit, was the joint-lowest since September 2016. While the average PMI reading for the first quarter was indicative of worldwide GDP rising at an annual pace of just over 2% (at market prices), the April reading suggests some of this momentum has been lost at the start of Q2. Business sentiment meanwhile sank lower, down to its weakest since June 2016. Uncertainty and trade wars remained the most commonly cited causes of reduced optimism.

Both current activity and future sentiment were weakest in manufacturing, where an eighth successive monthly drop in exports caused output to more or less stagnate. Services growth and confidence remained more resilient, though also lost ground compared to March.

Global PMI* output & economic growth



Sources: IHS Markit, JPMorgan.

Global PMI output and exports

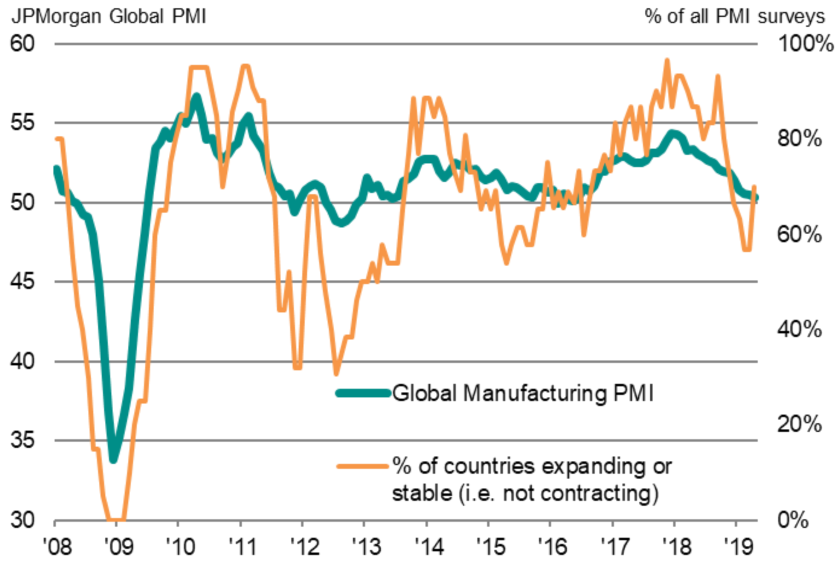
Sources: IHS Markit, JPMorgan.

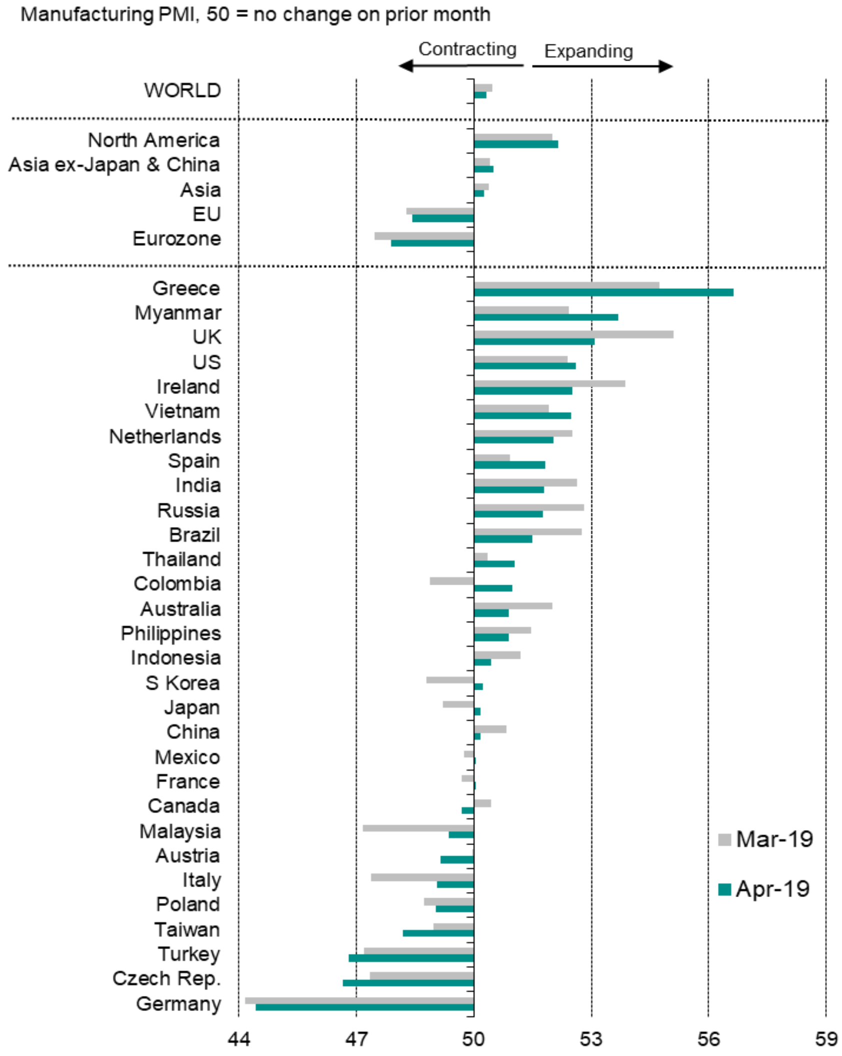
* PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

PMI signals near-stalling of manufacturing at start of Q2

The headline JPMorgan Global Manufacturing PMI, compiled by IHS Markit, fell to 50.3 in April, its lowest since June 2016. Better news came from the breadth of the slowdown, however, as the number of countries that reported a deterioration or stagnation of manufacturing fell from 13 in March to nine.

Greece saw the strongest manufacturing upturn, contrasting with Germany, which continued to see the steepest downturn, ensuring the eurozone once again acted as a significant drag on the global manufacturing economy. The US moved up the rankings, while the surveys indicated a renewed decline in Canada. Both Japan and China eked out modest gains, helping to keep Asia in expansion mode.





Sources: IHS Markit, JPMorgan, CBA, ISO, CIPS, NEVI, Nikkei, BME, Bank Austria, Investec, AERCE, Caixin, HPI, CBA.

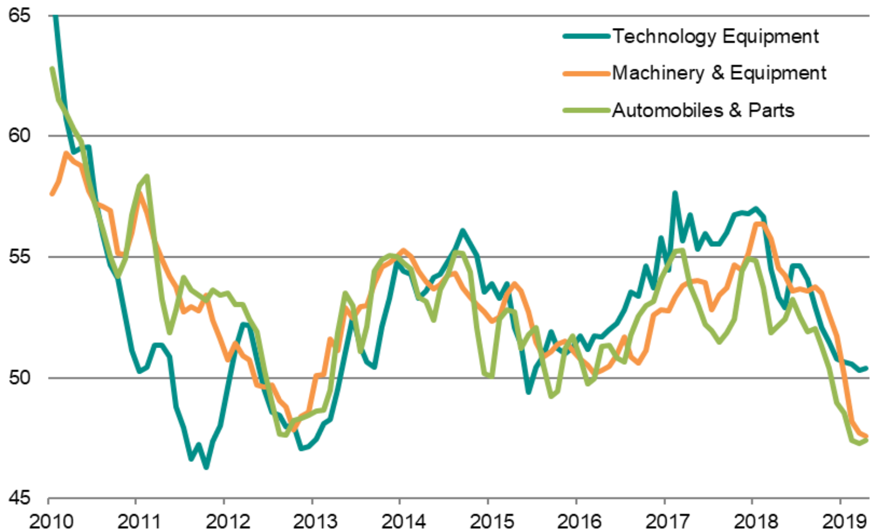
Machinery and autos sectors remain in steep decline

The number of sectors in contraction eased to five of the 26 covered by the global PMI sector data (from eight in March), but some of those in decline are key bellwethers of the health of the wider global economy.

The steepest drop in output was recorded among machinery and equipment makers (a key business investment indicator), production of which has fallen in recent months at the fastest rate since the global financial crisis. Similarly, global output of technology equipment has almost stalled over the past three months. In contrast, both sectors were seeing surging growth and demand this time last year.

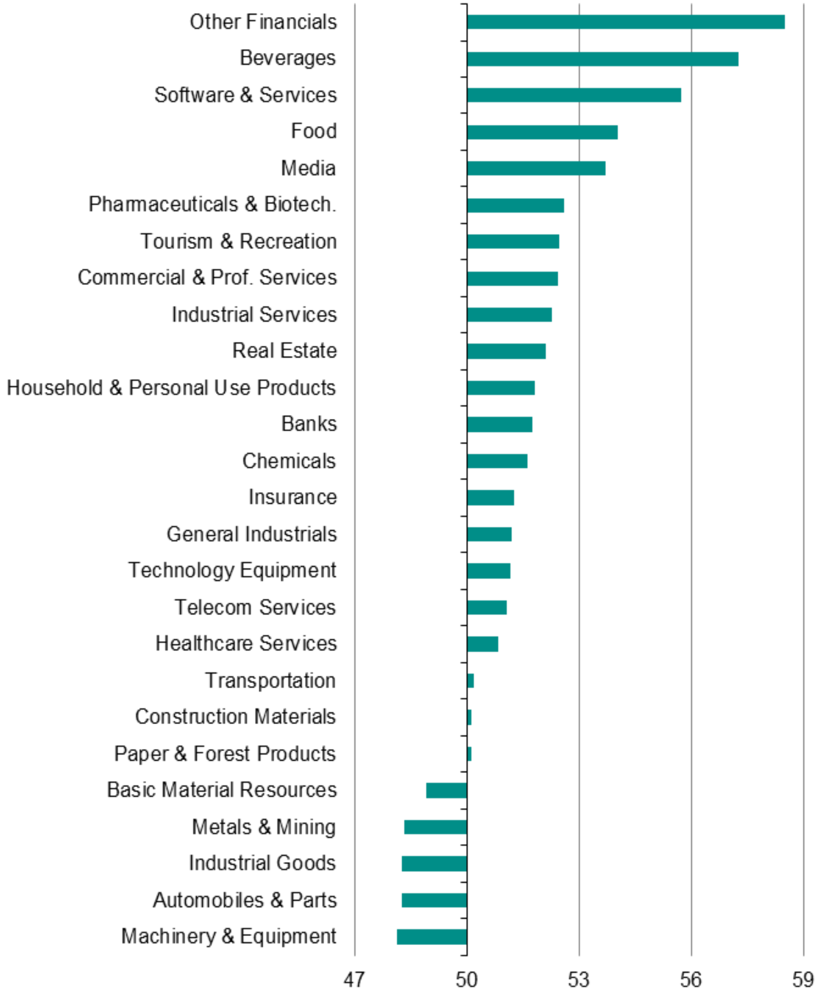
The second-steepest fall in output was seen at autos and parts producers, with an especially marked decline again seen in Europe, suggesting the sector's malaise has extended into the second quarter.

IHS Markit Global PMI Output Index (three-month average)



Source: IHS Markit.

Global Sector PMI Output Rankings (April 2019)



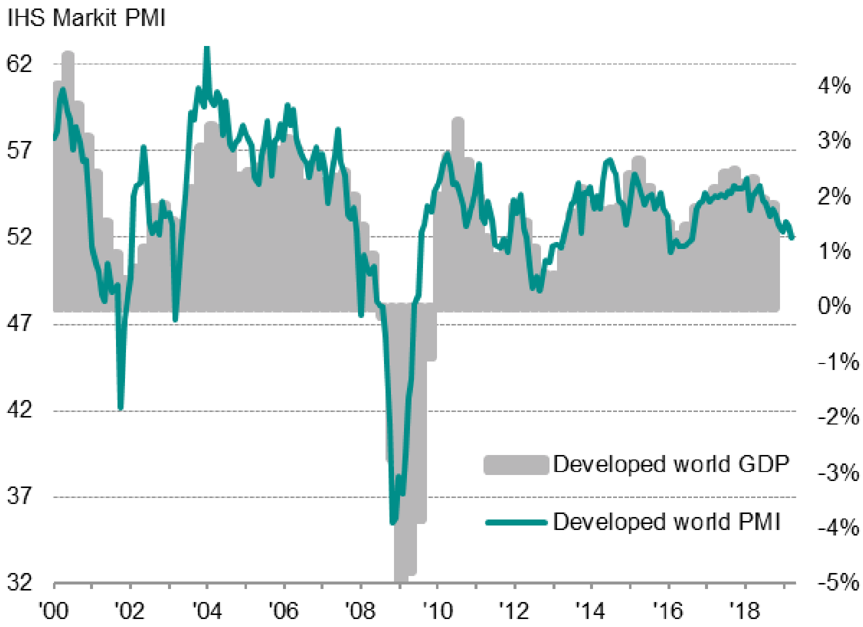
Source: IHS Markit.

Developed world growth slips to lowest since 2016

The Developed World PMI fell to its lowest since September 2016, commensurate with annual GDP growth of just 1.25% (roughly half the pace seen a year ago). Especially modest growth rates were seen in the UK, eurozone and Japan at the start of the second quarter, with the former recording the weakest performance, but the big shift occurred in the US. Although the IHS Markit US PMI surveys continued to indicate that the US led the developed world expansion, the rate of growth eased markedly in April to close the gap with the other major developed economies.

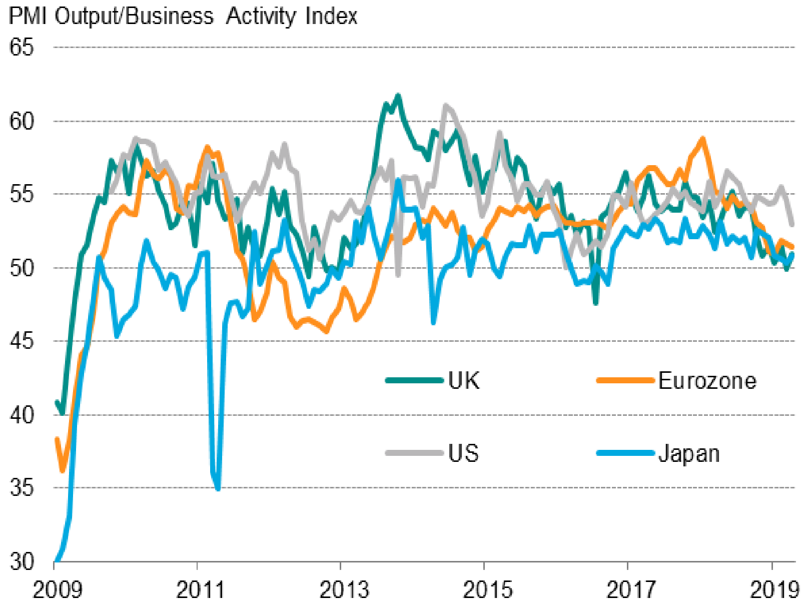
By sector, developed world manufacturers reported especially tough conditions, with output now having failed to grow over the past three months after a further stagnation in April. While service sector growth remained more resilient, the rate of growth eased to the second-lowest since late-2016 in a sign of the factory-led slowdown broadening out.

Developed world GDP and the PMI**



Source: IHS Markit, JPMorgan.

Developed world PMI**



Source: IHS Markit, CIPS, Nikkei.

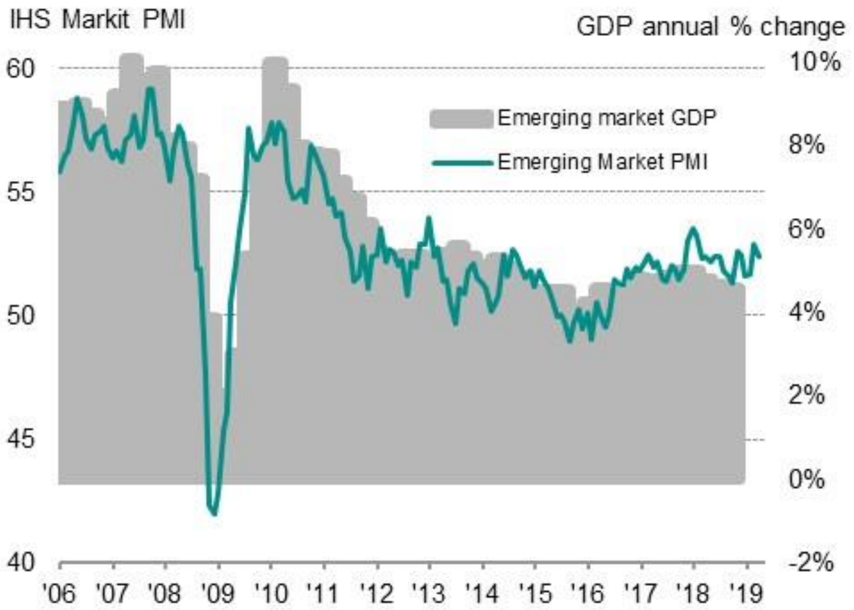
** PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

Emerging markets lose momentum but growth stays elevated

The Emerging Markets PMI showed a slight loss of growth momentum in April, but the indicator remained relatively elevated by recent standards and indicative of annual GDP growth of approximately 5.5%. With the exception of the growth peak seen in early-2018, recent months have seen some of the strongest emerging market growth rates since 2012. The service sector once again drove the expansion, reflecting rising domestic demand in some of the world's largest emerging markets. However, while manufacturing growth has perked up from the lows seen late last year, the rate of factory expansion remains historically subdued, linked to weaker global trade flows.

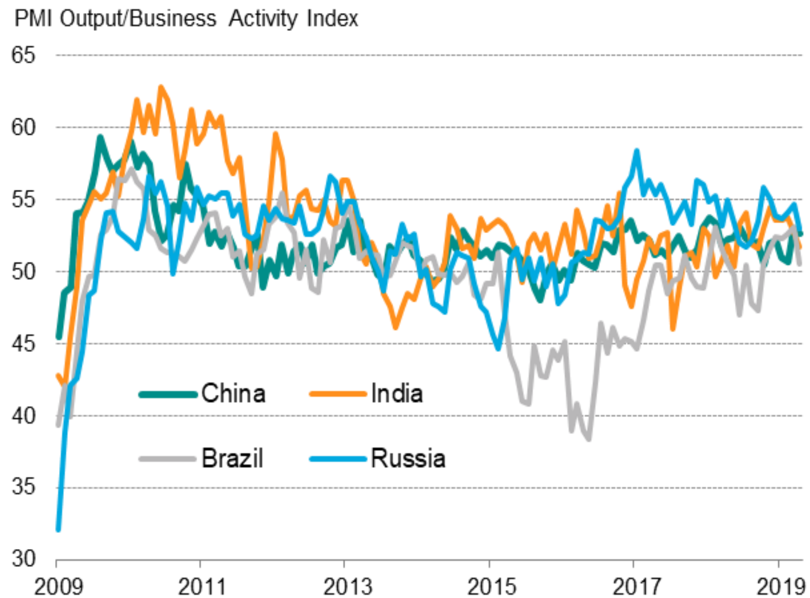
All four largest emerging markets lost growth momentum in April, albeit only very modestly in China. The weakest expansion was seen in Brazil, where services slipped back into decline, while the strongest growth was again seen in Russia. The rate of expansion in India meanwhile moderated to a seven-month low, though much of the slowdown was linked to disruptions arising from the elections.

Emerging market GDP and the PMI**



Source: IHS Markit.

Emerging market PMI**



Source: IHS Markit, Caixin, Nikkei.

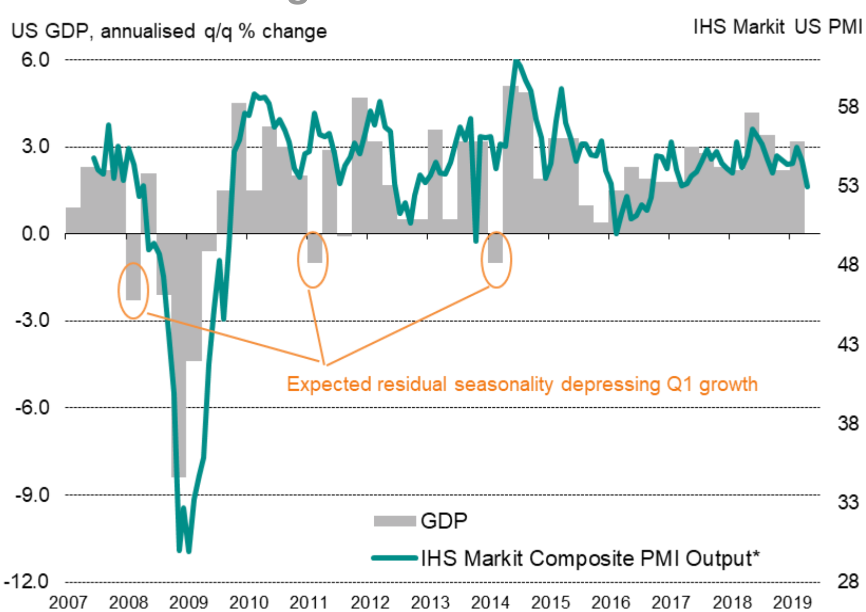
** PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

US upturn loses momentum in April amid weakened services

The IHS Markit PMI surveys indicated a slowing of the US economy at the start of Q2, suggesting the robust start to the year has lost some pace. Businesses reported the weakest output and sales growth for two years, indicative of GDP growth easing to 1.9% in April. While Q1 saw factory weakness being offset by a robust service sector, both manufacturing and services have now shifted into a lower gear. An additional concern is that business optimism about the year ahead has slumped to its lowest since mid-2016, reflecting widespread reports from companies that weaker economic growth will likely further dampen business activity in coming months.

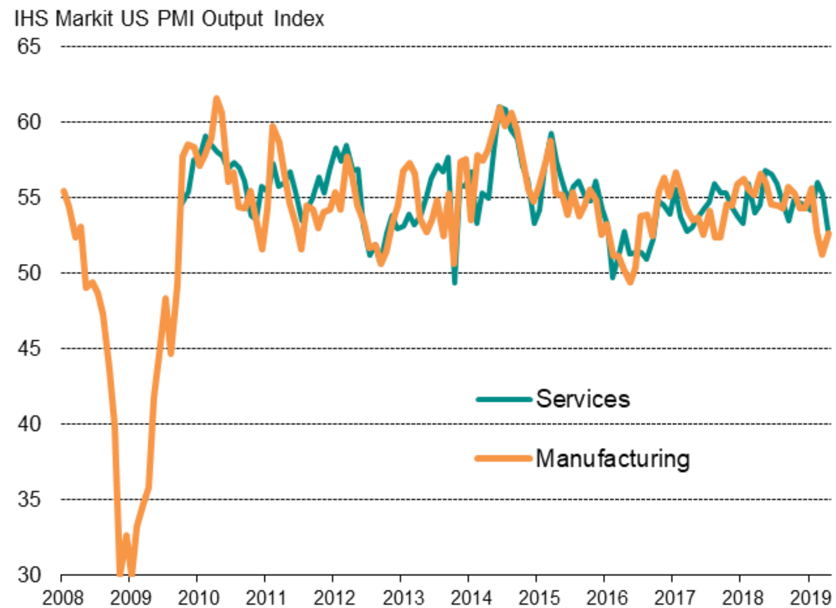
Jobs growth has subsequently slipped to a two-year low as firms took a more cautious approach to hiring and expanding capacity in the face of the weaker sales growth and gloomier outlook. Price pressures have fallen alongside the slower rate of economic growth signalled by the surveys, as firms struggled to raise prices amid intense competition.

US economic growth and the PMI**



* Manufacturing PMI only pre-October 2009.
Sources: IHS Markit, US Commerce Department

US PMI sector output



Source: IHS Markit.

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

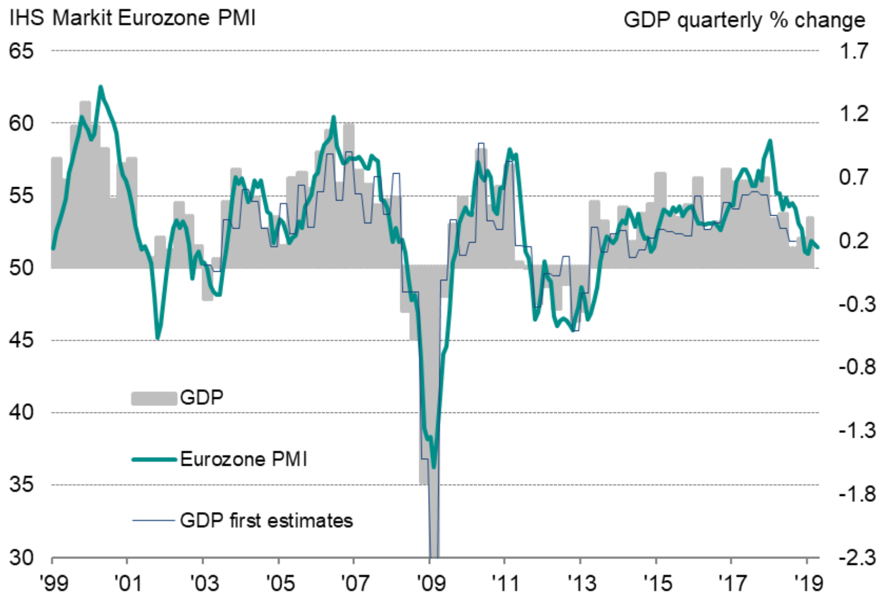
Eurozone PMI signals slow start to second quarter

The eurozone economy started Q2 on a disappointing footing, with the PMI falling in April to one of the lowest levels since 2014. The survey is indicative of the economy growing at a quarterly rate of approximately 0.2%, but manufacturing remains mired in its steepest downturn since 2013 and service sector growth has slipped lower.

Average selling prices showed the weakest rise since August 2017, strongly hinting at weakened pricing power and lower core inflationary pressures. Firms were often unable to pass higher costs on to customers amid weak demand. Although inflows of new orders for goods and services picked up further from the low seen back in January, the increase was among the slowest since 2014.

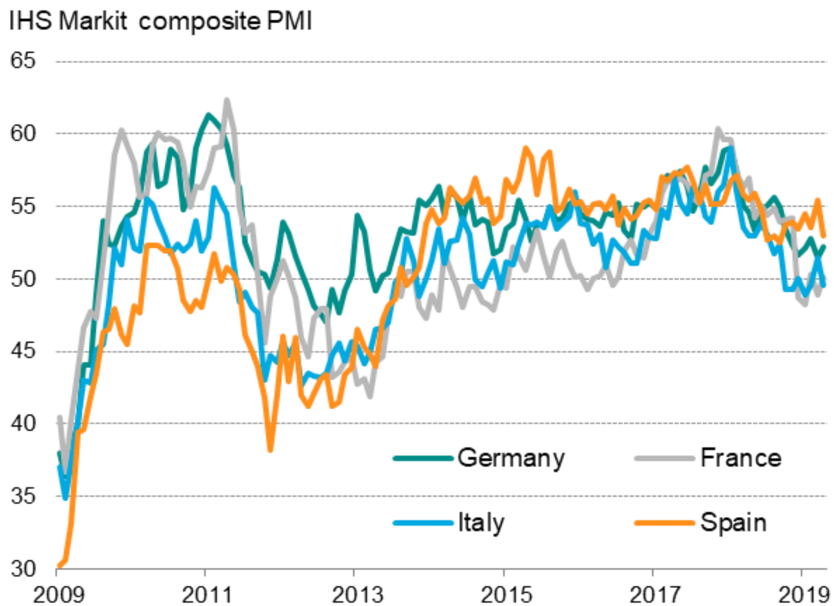
Of the four largest euro members, Spain saw the sharpest expansion of business activity in April, albeit with growth slowing markedly, followed by Germany. Italy meanwhile recorded a marginal contraction of business activity while France stagnated.

Eurozone economic growth and PMI*



Sources: IHS Markit, Eurostat.

Eurozone output by country



Source: IHS Markit.

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

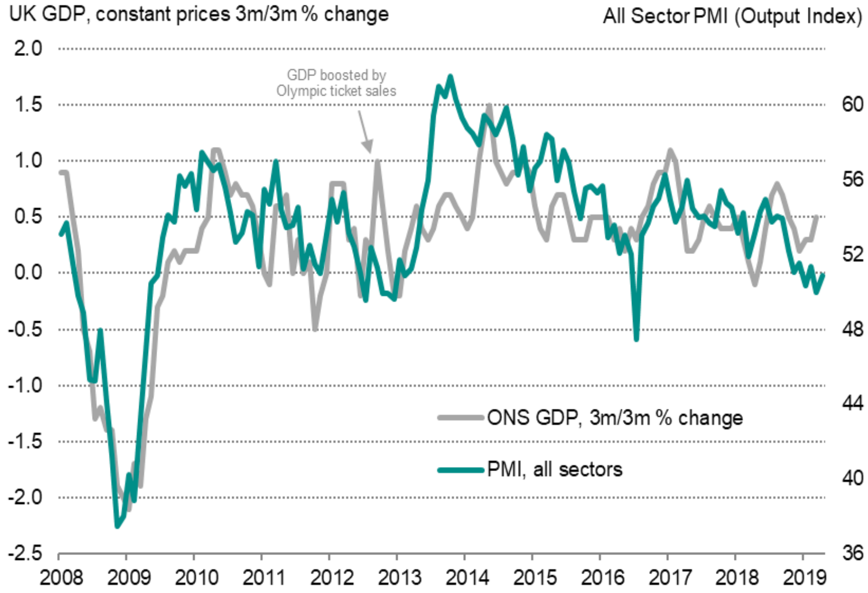
UK PMI surveys show economy treading water in April

April's PMI surveys indicated only a marginal rise in UK business activity, suggesting the economy remained more or less stagnant at the start of Q2. The disappointing April surveys follows a Q1 in which the average PMI reading was the lowest since late 2012. Although both the service sector and construction returned to growth, in both cases the expansions were only marginal. An upturn in manufacturing meanwhile showed signs of waning, as a temporary boost from Brexit-related stock piling faded.

Although firms grew more optimistic about the outlook, linked in part to a reduced threat of an imminent 'no deal' Brexit, forward-looking indicators such as order books hint at near-term subdued demand, which has already filtered through to a reduction of employment.

While GDP data showed stronger growth than the PMI in Q1, buoyed by a surge in manufacturing output and consumer spending, history indicates that the recent low PMI readings mean the official GDP and labour market data will likely weaken in coming months.

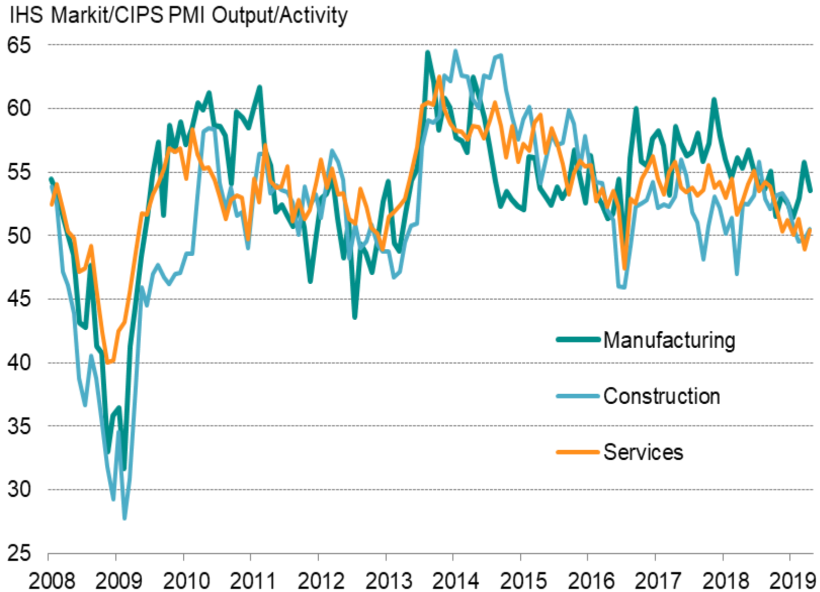
UK PMI* and GDP



Sources: IHS Markit, CIPS, ONS.

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

UK output by sector



Sources: IHS Markit, CIPS.

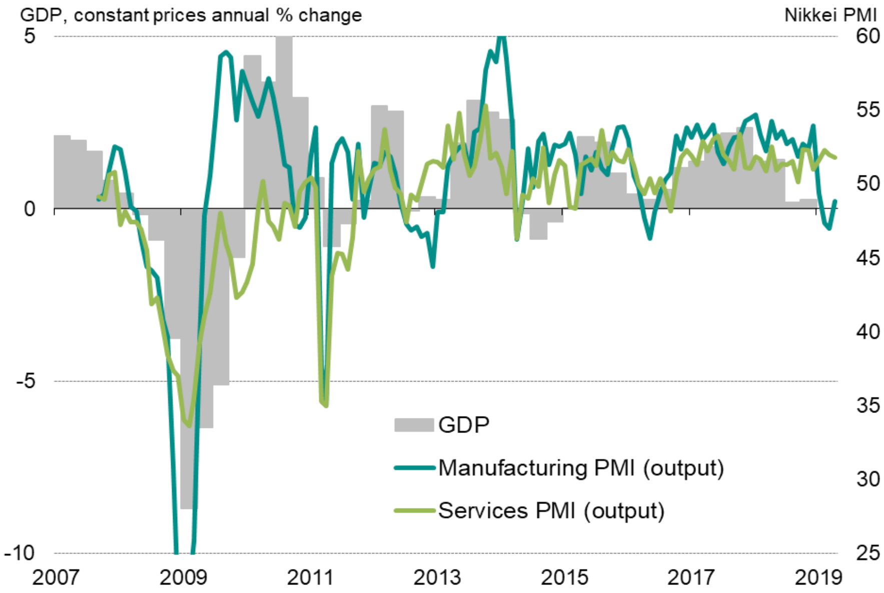
Japan's economy supported by robust service sector

In Japan, the Nikkei PMI surveys for April indicated an ongoing marked divergence of robust service sector growth contrasting with a struggling manufacturing sector. The main cause of the manufacturing downturn was a persistent deterioration in export orders, which fell for a fifth consecutive month. Comments from producers highlighted particular weakness in automobile and semiconductor industries, both key to Japan's foreign trade performance.

In contrast, Japan's service sector continued to tick along at a modest pace in April. Domestic demand drove the expansion, supporting current activity and keeping the year-ahead outlook well anchored.

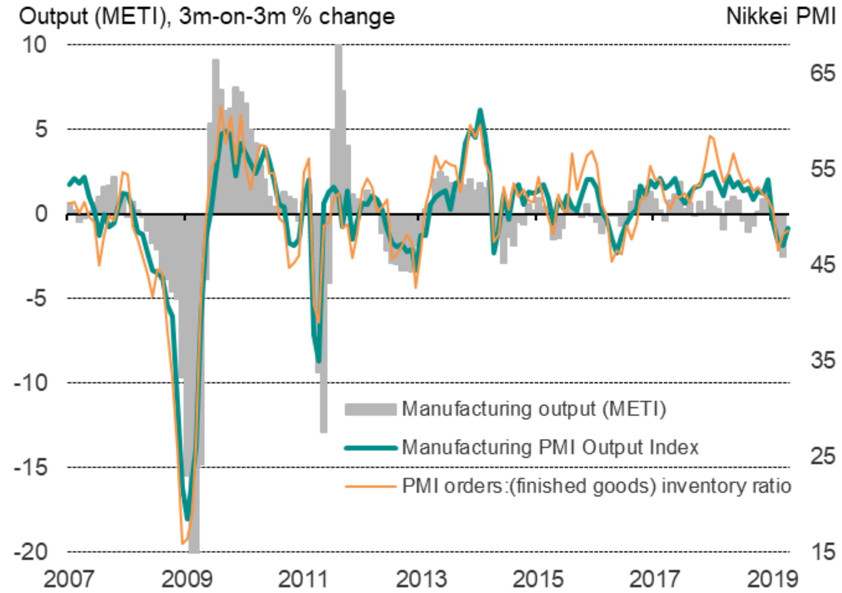
Taken together, the PMI data from the two sectors are indicative of quarterly GDP growth of approximately 0.2%.

Japan PMI and GDP



Sources: IHS Markit, Nikkei, Japan Cabinet Office.

Japan manufacturing output



Sources: IHS Markit, Nikkei, METI.

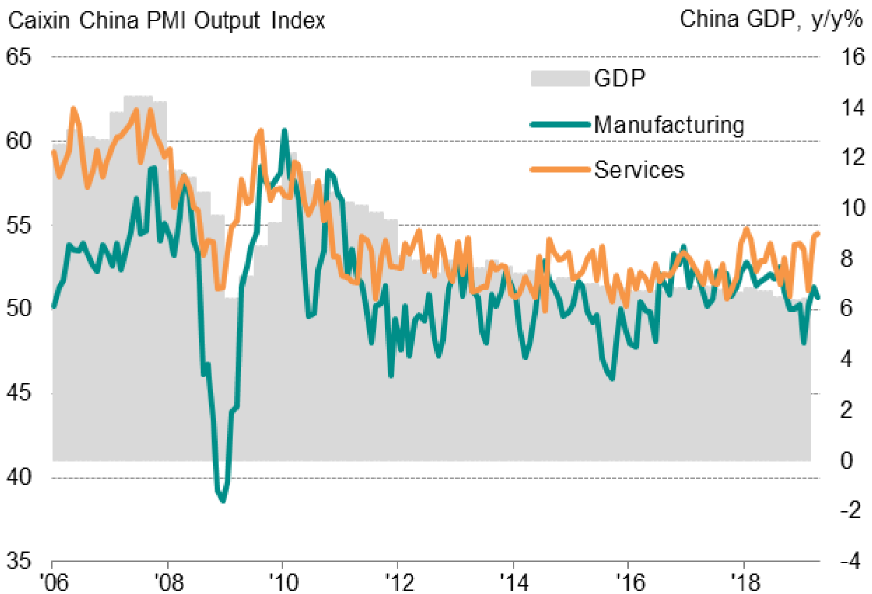
Service sector drives Chinese economic growth at start of Q2

The Caixin PMI surveys showed the Chinese economy retaining solid business activity growth at the start of Q2, supported by another strong expansion of the service sector. The survey's composite output index dipped from 52.9 in March to 52.7 in April, but nonetheless remained well above recent lows to indicate one of the strongest growth rates of business activity since mid-2018.

Business activity in services rose solidly in April, increasing at the second-fastest pace since May 2012 (and one of the fastest rates since 2010). By contrast, manufacturing output growth in April was much more modest, slowing from March's seven-month high, reflecting only a marginal increase in new orders. After showing a rise in March, new export orders shrank in April.

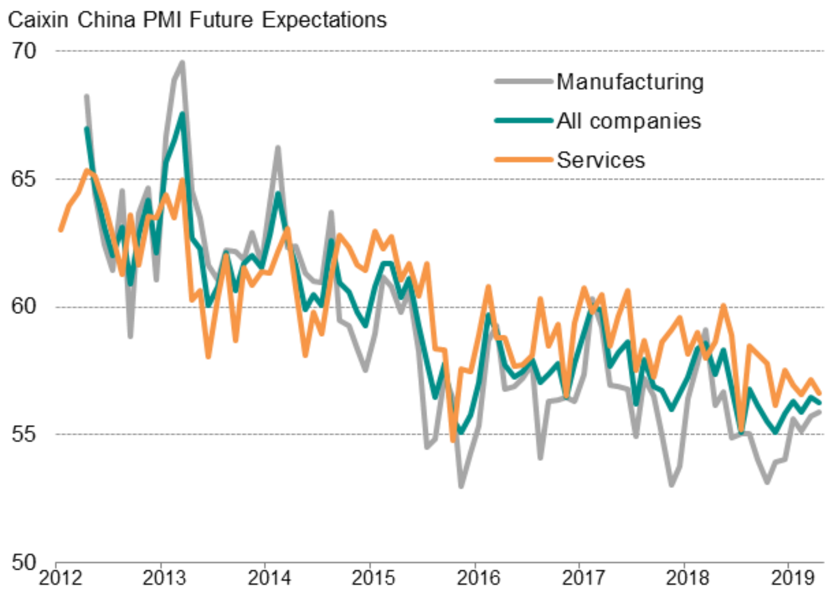
Whether growth in the coming months is likely to be sustained at this steady pace remains uncertain, as future expectations remained historically weak. The gap between actual output and future expectations is one of the largest on record.

China PMI output indices



Sources: IHS Markit, Caixin.

China PMI future expectations



Sources: IHS Markit, Caixin.

Disclaimer