



IHS Markit™

# Global PMI

Global economic growth stuck at three-year low  
as manufacturing falls into decline

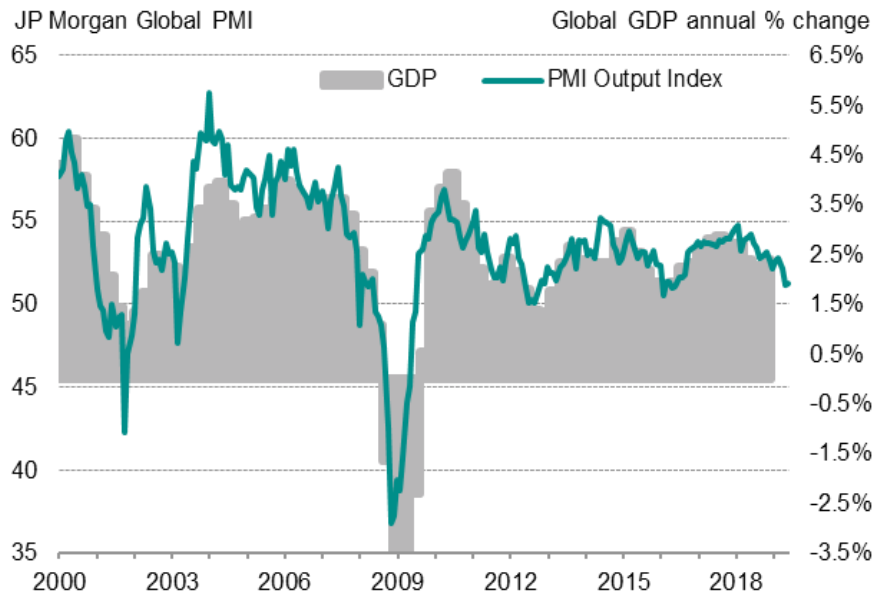
July 9<sup>th</sup> 2019

# Global PMI stuck at three-year low

The pace of global economic growth remained stuck at a three-year low in June, according to the latest PMI surveys from IHS Markit, rounding off the worst quarterly expansion since the second quarter of 2016. The JPMorgan Global PMI™, compiled by IHS Markit, held steady at 51.2 in June, signalling the slowest rate of expansion of global output since June 2016 during the past two months. The survey data are consistent with worldwide GDP rising at an annual pace of approximately 1.8% (at market prices) in the second quarter, down from 2.4% in the first quarter.

Both the PMI and official GDP data indicate that the pace of global economic growth peaked at 2.9% at the end of 2017 and has since slowed gradually, led by a steady weakening of worldwide trade flows. New export orders fell globally for a seventh successive month, with the rate of decline accelerating to indicate the steepest drop in worldwide trade since May 2016.

## Global PMI\* output & economic growth



Sources: IHS Markit, JPMorgan.

## Global exports



Sources: IHS Markit, JPMorgan.

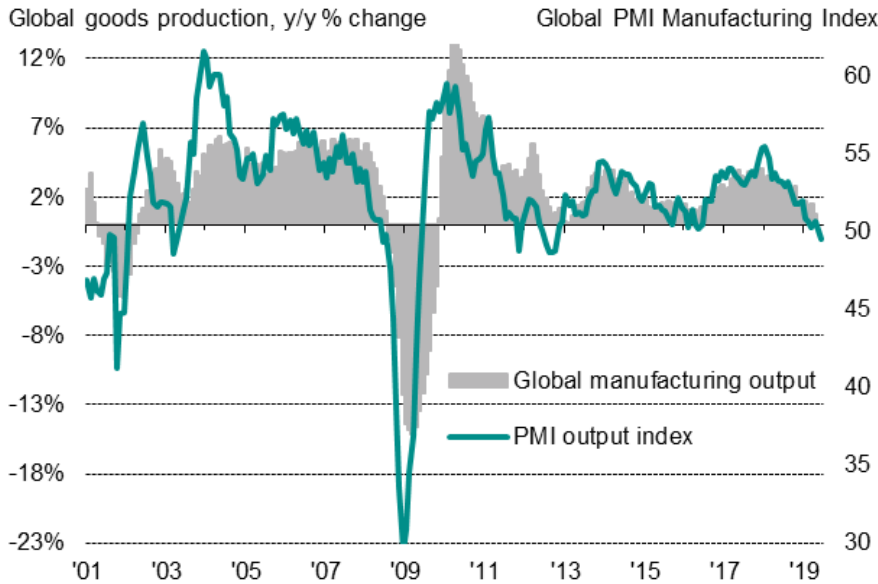
\* PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

# Global manufacturing PMI hits lowest since October 2012

Worldwide manufacturing business conditions worsened for a second successive month in June, with the health of the sector declining at the fastest rate since October 2012.

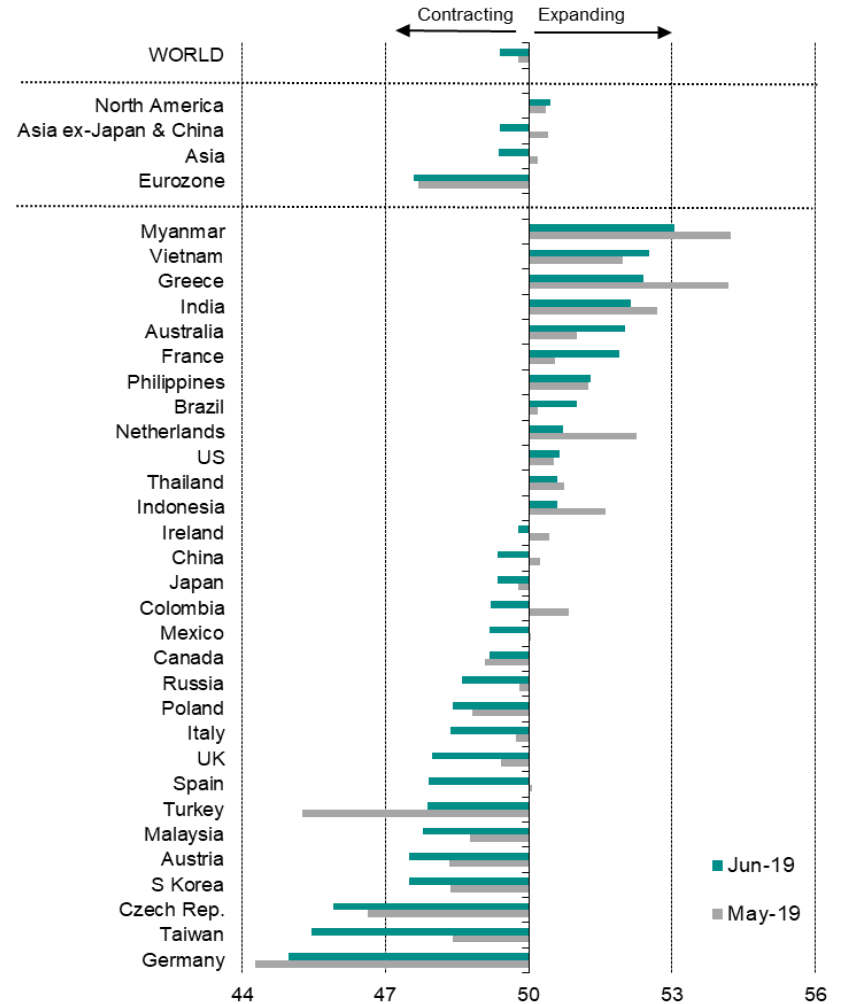
Only 12 of the 30 countries covered by the IHS Markit surveys reported improved business conditions, the lowest number for over six years.

Deteriorating business conditions were seen in the eurozone, UK, China and Japan. The US meanwhile remained close to stagnant, the past two months registering the worst performance seen over the past decade.



Source: IHS Markit, JPMorgan.

Manufacturing PMI, 50 = no change on prior month



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

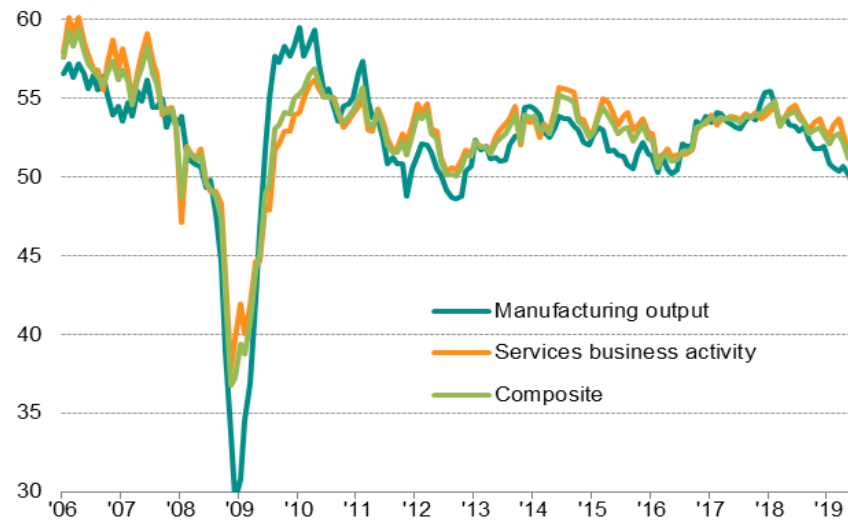
# Auto makers see steepest decline of all sectors

Service sector growth was more resilient globally than manufacturing, though remained in its worst growth spell for three years, led by financial services. Service providers accounted for eight of the top ten best-performing detailed sectors covered by the global PMIs in the three months to June.

The top performing manufacturing sectors in the second quarter were food and drink, with pharmaceutical & biotech coming next at eleventh place, all of which are widely seen as typical 'defensive', non-cyclical sectors.

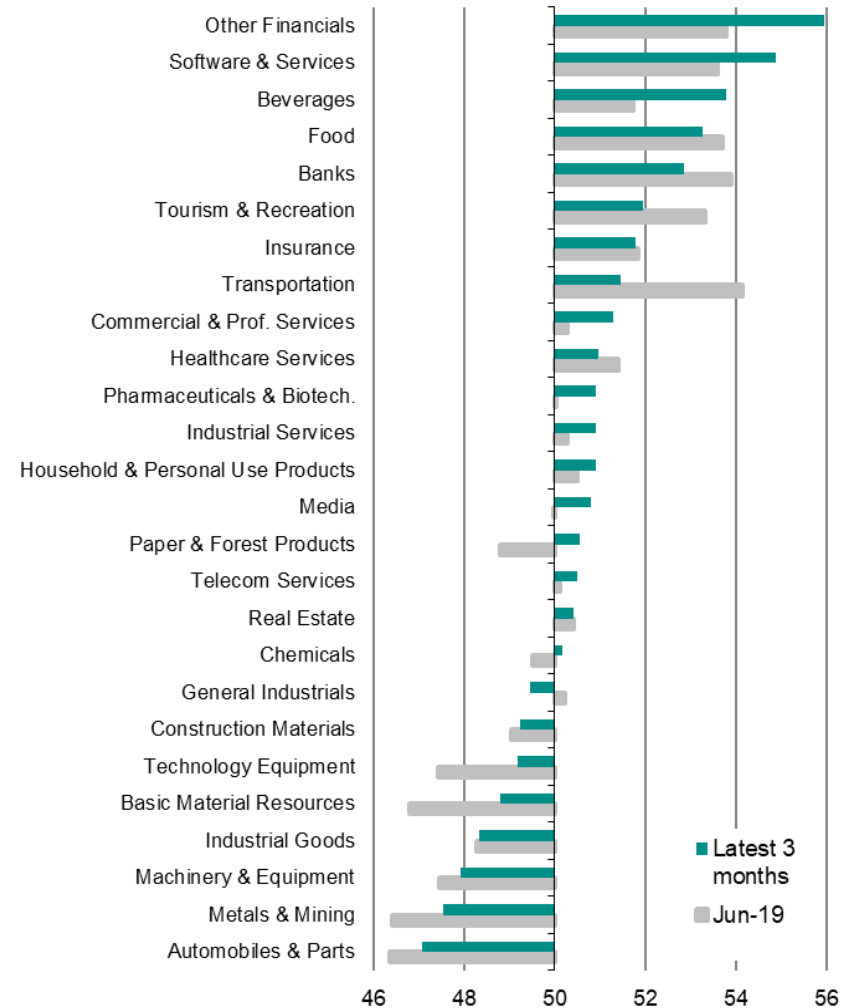
Auto makers continued to hold bottom place in the growth rankings. Capex-sectors such as machinery & equipment and tech equipment also continued to trend sharply lower.

Global PMI Index, 50 = no change on prior month



Source: IHS Markit, JPMorgan.

## Global Sector PMI Output Rankings



Source: IHS Markit.

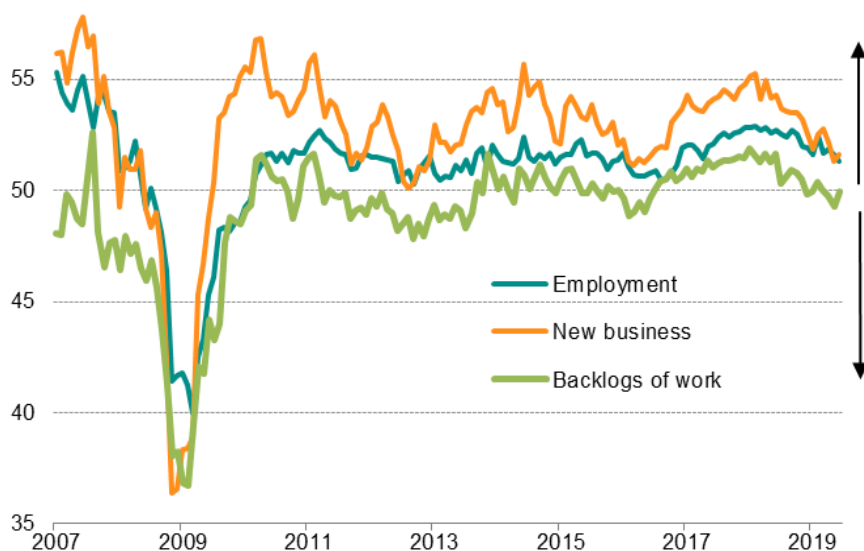
## Global jobs growth and investment trend lower

New order inflows improved slightly on May but growth remained among the weakest seen over the past three years, while companies' expectations of their own output in a year's time (the only subjective question asked in the PMI surveys) fell to the lowest since data on the outlook were first collected in mid-2012. The softer sales trend and gloomier prospects hit hiring and investment.

Global employment growth slipped to the lowest since November 2016. A net loss of factory jobs for the second month was joined by weaker hiring in the service sector. Global investment goods production meanwhile fell for a sixth month, ending the worst quarter since 2012. Official data have already shown annual global business investment growth cooling sharply up to the first quarter of the year, running at less than half the pace seen a year earlier, closely following the trend in the PMI data. The latest data therefore point to a further moderation in capex during Q2.

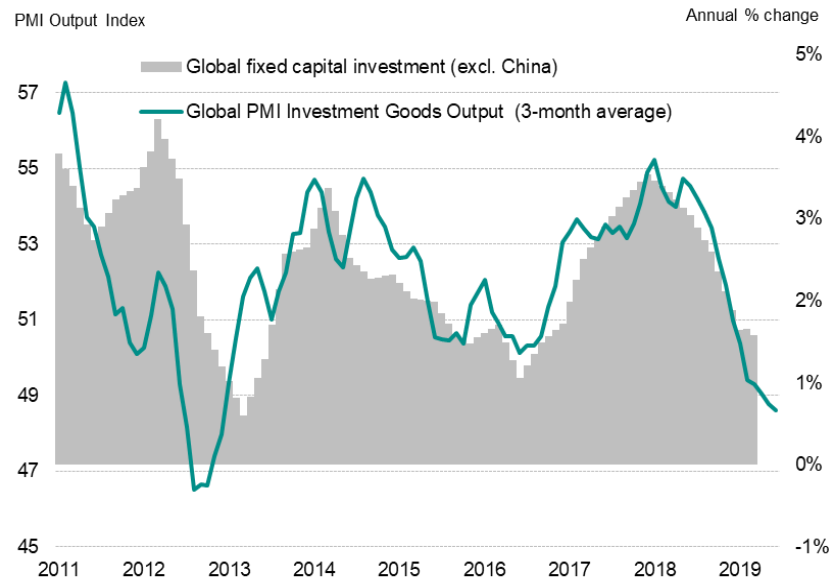
### Global PMI\* employment and order books

Global PMI Index, 50 = no change on prior month



Sources: IHS Markit, JPMorgan.

### Global PMI investment goods output



Sources: IHS Markit, JPMorgan, World Bank

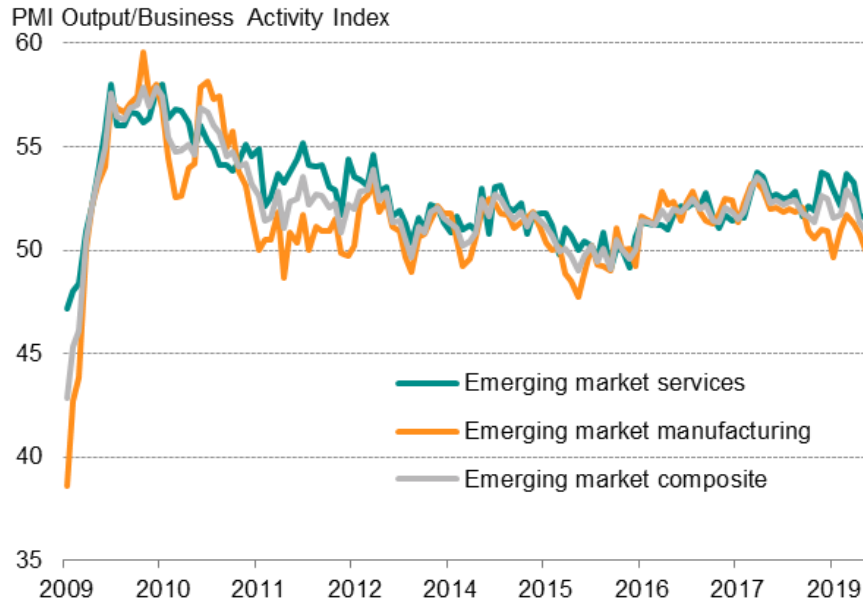
\* PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

# Developed world sees worst quarter since 2013

Growth lifted slightly higher in the developed world, but the improvement failed to prevent the rich-world economies enduring the worst calendar quarter since the start of 2013. The sustained weak PMI reading in June reflected a fourth consecutive monthly decline in manufacturing output and the second-slowest service sector expansion seen over the past 33 months. Jobs growth in the developed world also moderated to the joint-lowest since late-2016 and future expectations deteriorated to a new low.

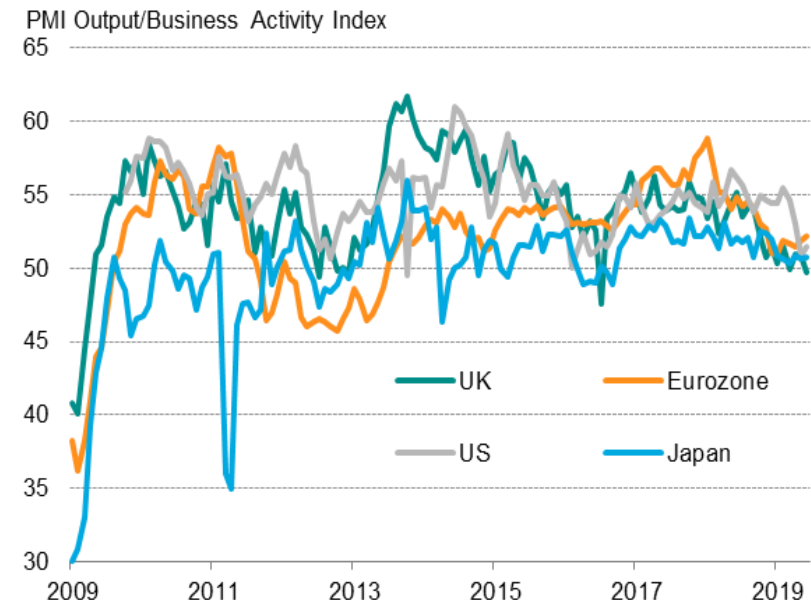
Among the largest advanced economies, the eurozone saw the strongest PMI for the second month, with growth buoyed by an improved service sector. Growth also edged higher in the US but has eased markedly in Q2 since Q1, as the slowdown broadened from manufacturing to services. Growth also remained stuck in a low gear in Japan, close to a three-year low. However, the worst performer among the biggest developed countries was the UK, which saw the first fall in business activity since the 2016 Brexit vote.

## Developed world PMI (output)



Source: IHS Markit.

## Developed world PMI\*



Source: IHS Markit, CIPS, Jibun Bank.

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



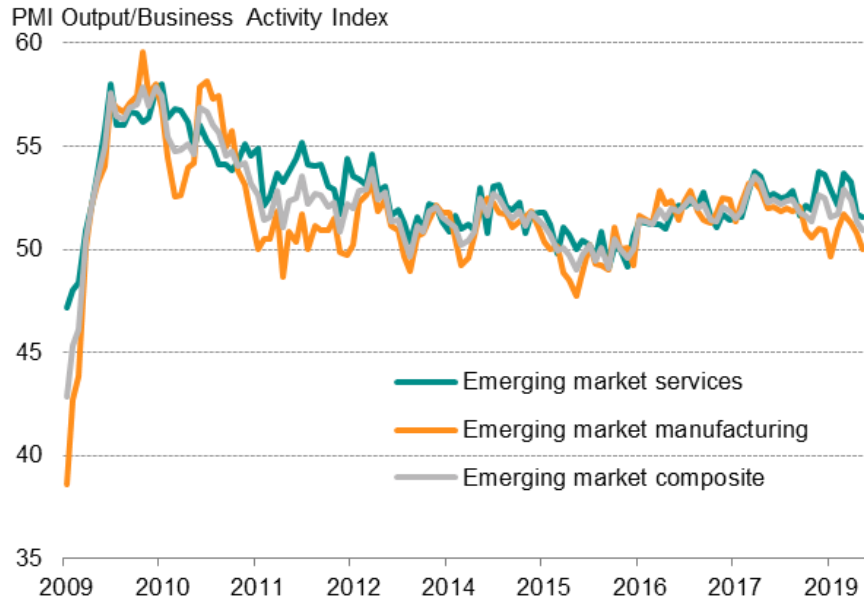
# Emerging market PMI at three-year low

Emerging market growth was the weakest for three years in June, according to the PMI surveys, amid a broad-based deterioration in performance. Manufacturing stagnated while the service sector grew at the slowest pace for just over one-and-a-half years. Emerging market employment dropped for a second successive month and future expectations sank to the lowest since January 2016, hinting at further weak business growth in coming months.

Looking at the four largest developing economies, both Brazil and Russia recorded falling output in June, the former reporting the second successive monthly decline while the latter saw the first downturn since the start of 2016.

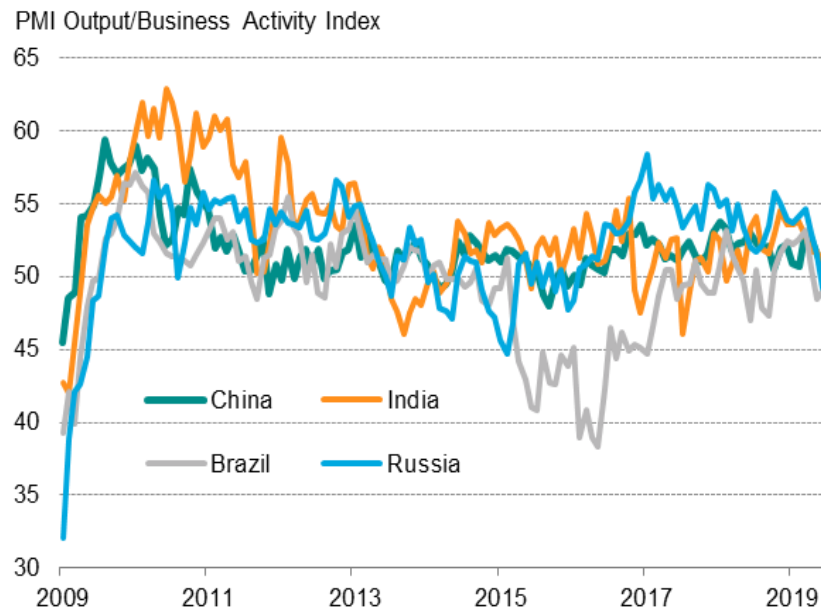
Both China and India continued to expand, but rates of growth slowed to eight- and 13-month lows respectively. China's weakness stemmed from a manufacturing downturn whereas India's malaise reflected a drop in service sector activity.

## Emerging market PMI (output)



Source: IHS Markit.

## Emerging market PMI\*



Source: IHS Markit, Caixin.

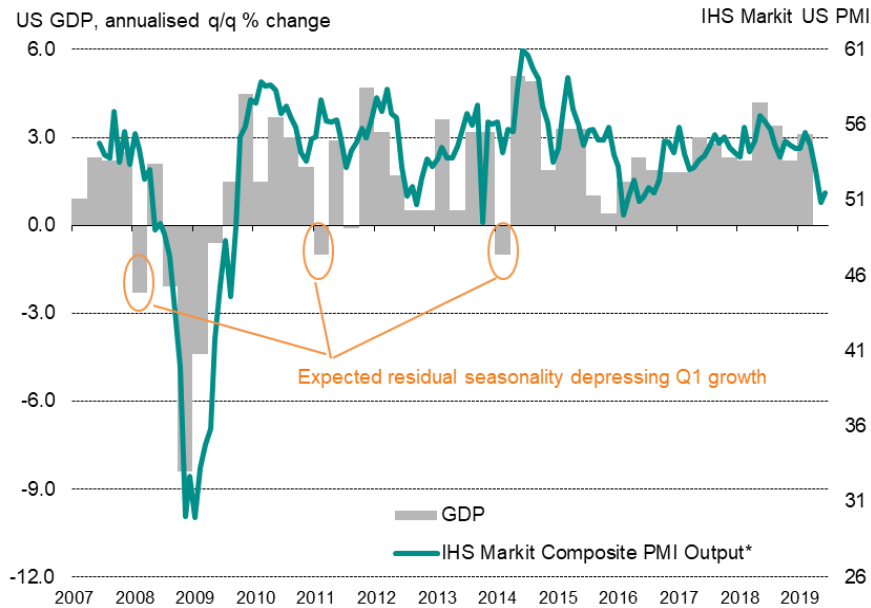
\*\* PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

# US growth slows sharply in second quarter

The US surveys from IHS Markit indicate a sharp slowing in the pace of economic growth in Q2. The PMI data point to GDP expanding at an annualised rate of 1.5%. A major change since Q1 has been a broadening-out of the slowdown beyond manufacturing, with service providers now also reporting much weaker activity and order trends than earlier in the year.

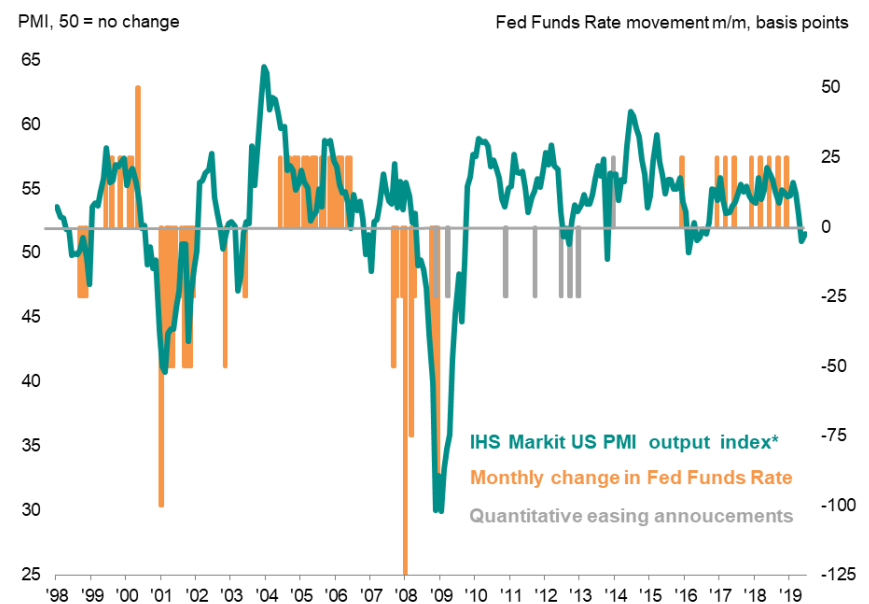
Hiring was hit as firms scaled back their expansion plans in the face of weaker than expected order inflows and gloomier prospects for the year ahead. Jobs growth was the weakest for over two years and future expectations across both services and manufacturing has slipped to the lowest seen since comparable data were first available in 2012. Trade wars and geopolitical concerns topped the list of companies' worries about the year ahead, alongside forecasts of slower economic growth. Progress in US-China trade talks could therefore be key to helping lift confidence in coming months.

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



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

## US PMI and FOMC decisions



Sources: PMI uses IHS Markit post-2007 and ISM pre-crisis, Federal Reserve.



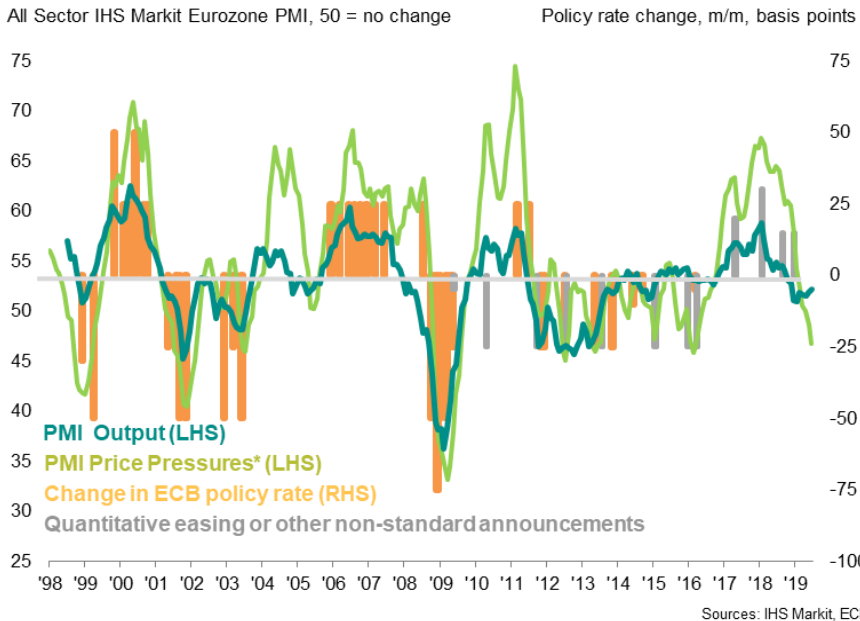
# Eurozone's weak Q2 adds to case for further stimulus

The Eurozone PMI surveys remained indicative of GDP rising by just over 0.2% in Q2. Growth is being fueled by the service sector which is helping offset the deep manufacturing downturn, though it remains unclear how long this unusual divergence can be sustained. A deterioration of future expectations to one of the lowest seen since 2015 meanwhile suggests the business mood remains sombre. Downside risks to the outlook prevail amid trade war worries, rising geopolitical uncertainty and slowing global economic growth.

Looking at the largest states, the survey data are consistent with GDP slowing sharply to 0.4% in Spain and only modest 0.2% expansions seen in both France and Germany. Italy is on course to see a 0.1% decline.

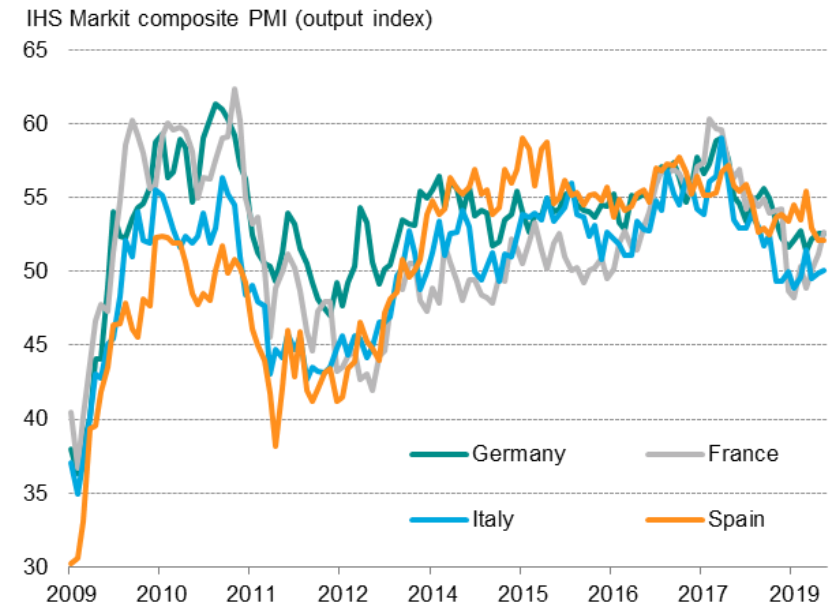
Inflationary pressures have also moderated as weak demand prompted companies to increasingly compete on price, further building the case for renewed stimulus from the ECB in coming months.

## Eurozone PMI and ECB policy decisions



\*Price pressures gauge is a blend of input cost and supplier delivery times indices.

## Eurozone PMI\* output by country



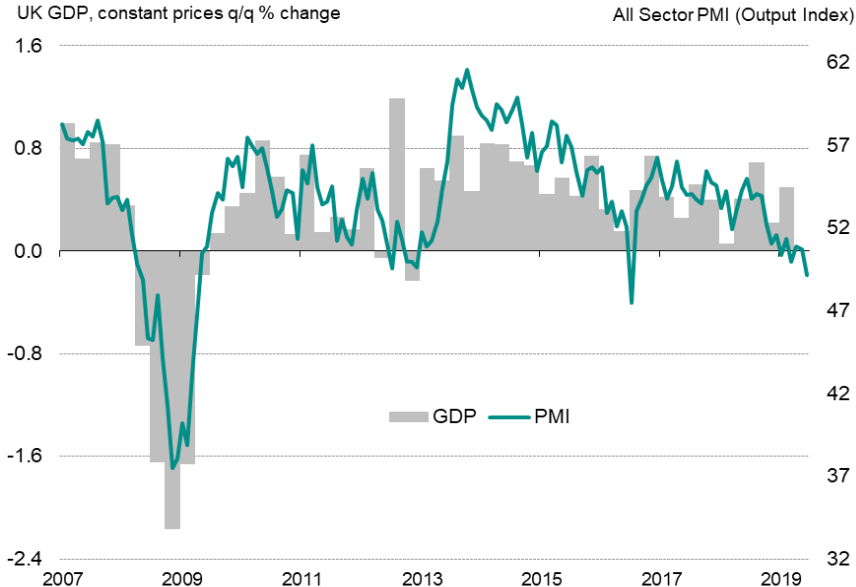
\*PMI shown above is a GDP weighted average of the manufacturing and services indices.

# UK PMIs indicate economy in renewed decline in Q2

The near-stagnation of the UK service sector in June was one of the worst performances seen over the past decade and adds to the flow of bad news after steep declines were seen in both manufacturing and construction. Collectively, the PMI surveys indicate that the UK economy has slipped into contraction for the first time since July 2016, suffering the second-steepest fall in output since the height of the global financial crisis in April 2009. The June reading alone is indicative of the economy contracting at a quarterly rate of 0.2%, and rounds off a second quarter for which the survey points to a 0.1% contraction of GDP.

The latest downturn has followed a gradual deterioration in demand over the past year as Brexit-related uncertainty has increasingly exacerbated the impact of a broader global economic slowdown. Risks also remain skewed to the downside, with sentiment about the year ahead worryingly subdued and suggesting the third quarter could see businesses continue to struggle.

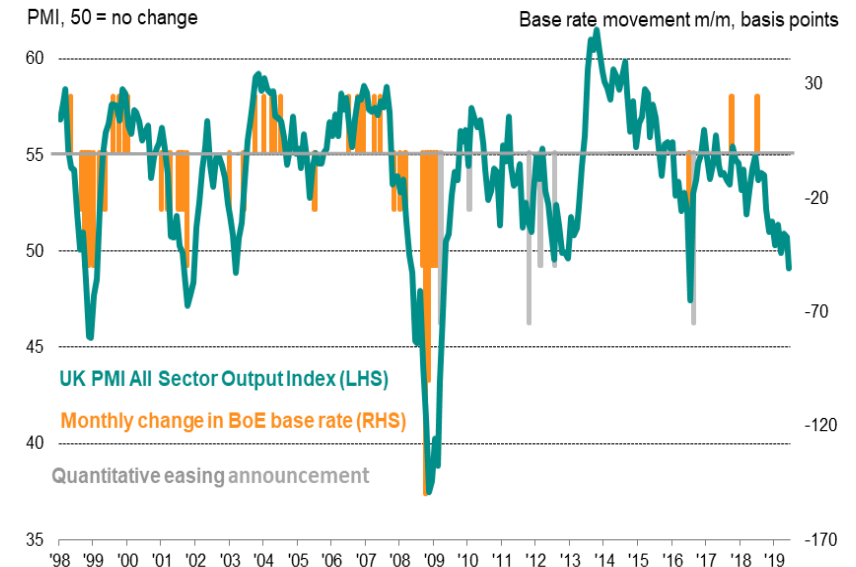
## UK PMI\* and GDP



Sources: IHS Markit, CIPS, ONS.

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

## UK PMI and Bank of England policy



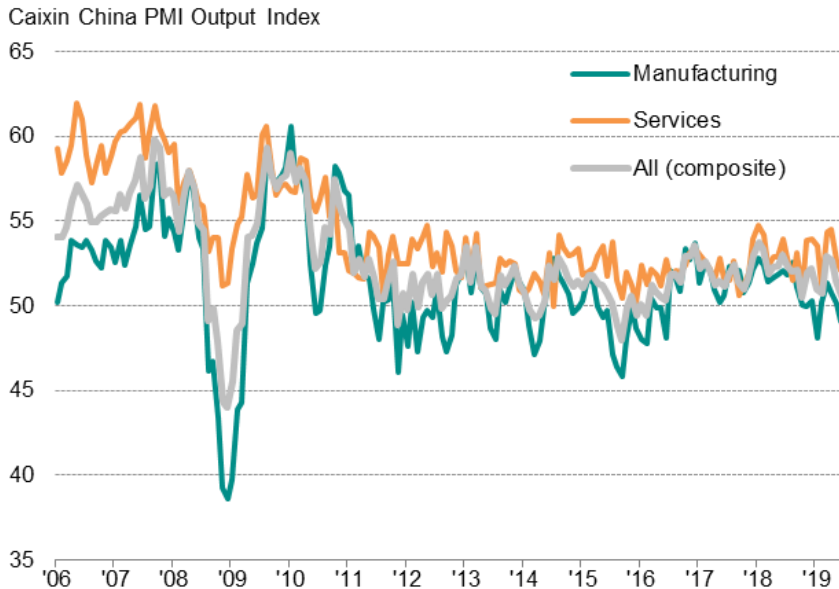
Sources: IHS Markit, CIPS, Bank of England.

# Jobs fall in China as business confidence hits new low

The latest Caixin PMI™ surveys indicated that growth momentum in the Chinese economy lost further traction, with June seeing the weakest rise in business activity for eight months. Output was restrained as the combined order book growth across manufacturing and services softened to the slowest pace in four months, dragged down in particular by weakened export performance. New export business fell at the sharpest rate since February. Business confidence about the year ahead also worsened, down to its lowest on record, calling into question if current stimulus policies are sufficient to support economic growth.

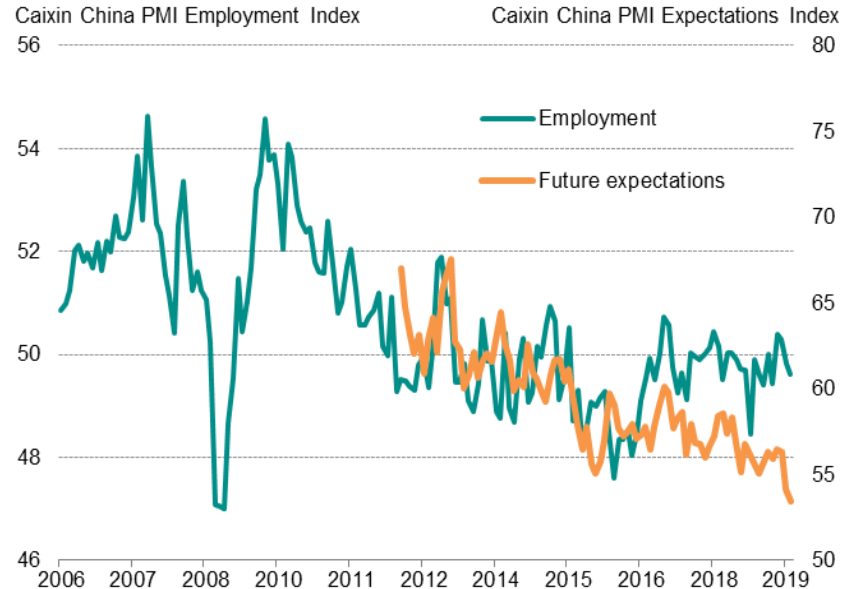
The widening slowdown in economic activity and gloomier prospects weighed on hiring. Overall employment fell for a second consecutive month, albeit only slightly. The weakness in the labour market stemmed mostly from the manufacturing sector, where headcounts shrank for a third month running. However, the rise in service sector employment was meagre.

## China PMI output indices



Sources: IHS Markit, Caixin.

## China PMI future expectations



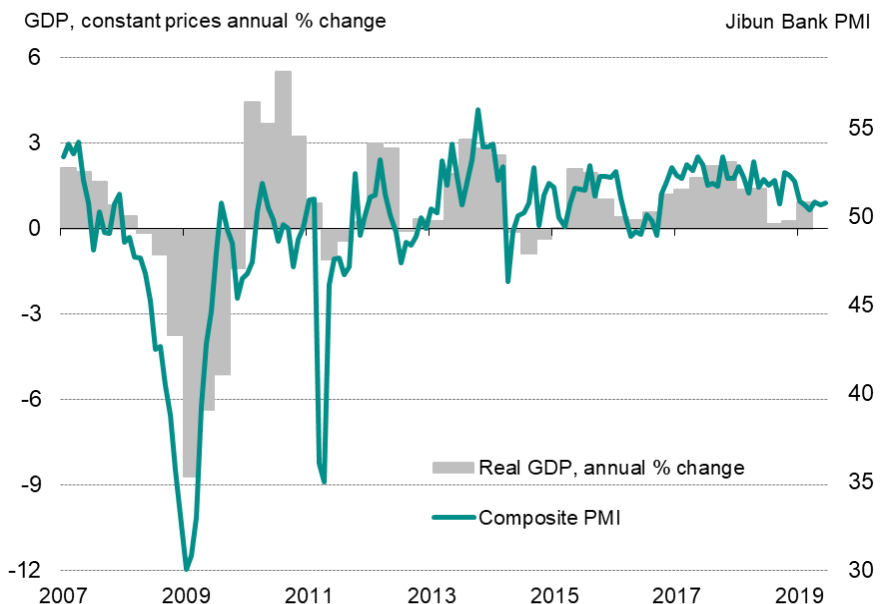
Sources: IHS Markit, Caixin.

# Japan's service sector drives growth as exports fall

The trend of Japan's manufacturing malaise and service sector resilience was once again apparent in the Jibun Bank PMI data for June. That said, services activity growth moved sideways, with the respective index little-changed from April and May and matching its average for 2019 so far to provide an important support to the economy and suggesting GDP will have continued to rise in Q2. While the manufacturing sector looks to have acted as a further drag on the economy in Q2, the factory downturn moderated in June despite a worsening export trend, to suggest that the worst could be over. Business sentiment also lifted higher, notably so in manufacturing.

The next few months of PMI data will add further evidence as to whether the domestic economy in Japan is in the right shape to cope with the planned consumption tax hike in the late Autumn.

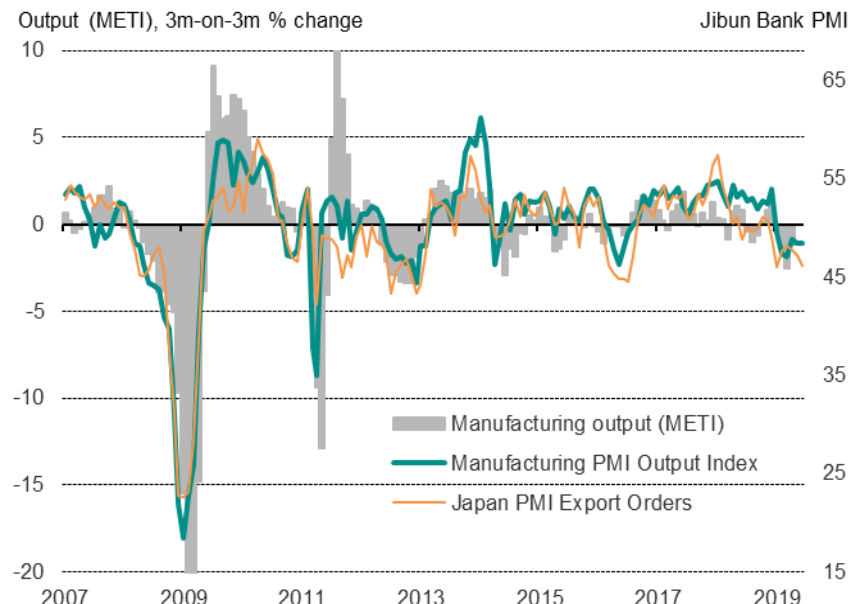
## Japan PMI\* and GDP



Sources: IHS Markit, Jibun Bank, Japan Cabinet Office.

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

## Japan manufacturing output



Sources: IHS Markit, Jibun Bank, .

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