IHS Markit™

Global PMI

Global economy lifted by services but hit by steepening decline in manufacturing

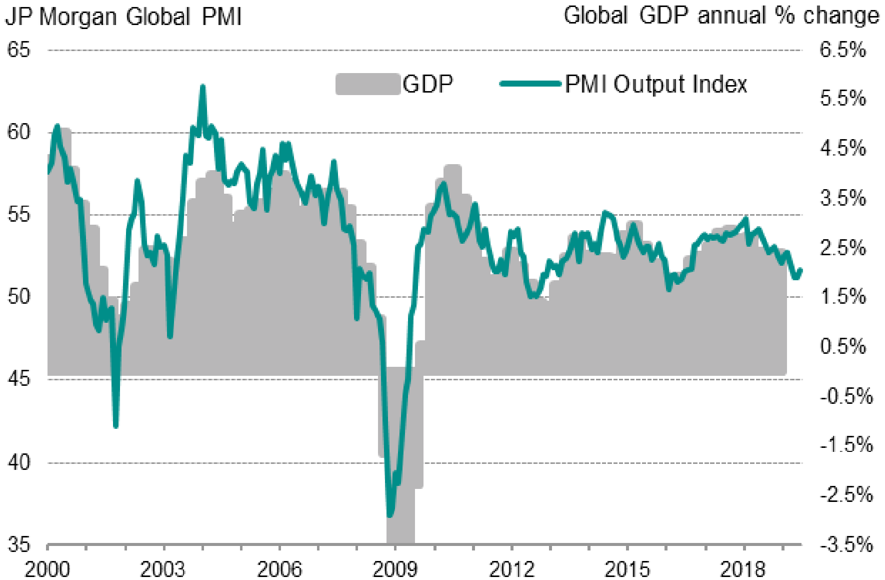
August 8th 2019

Improved service sector lifts global PMI from three-year low

The pace of global economic growth edged up in July but remained among the weakest seen over the past three years, according to the latest PMI surveys. The JPMorgan Global PMI™, compiled by IHS Markit, rose from 51.2 in June to 51.7 in July, a level which is consistent with worldwide GDP rising at a modest annual pace of approximately 1.8% (at market prices). 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.

The PMI was lifted higher by faster service sector growth in July, which rose to a three-month high yet remained weaker than the average pace seen since late-2016. However, manufacturing output fell for a second successive month, indicating the first spell of falling production since 2012. This was, in turn, linked to an eleventh successive monthly decline in global goods export orders, which contracted at the sharpest rate since October 2012.

Global PMI* output & economic growth



Sources: IHS Markit, JPMorgan.

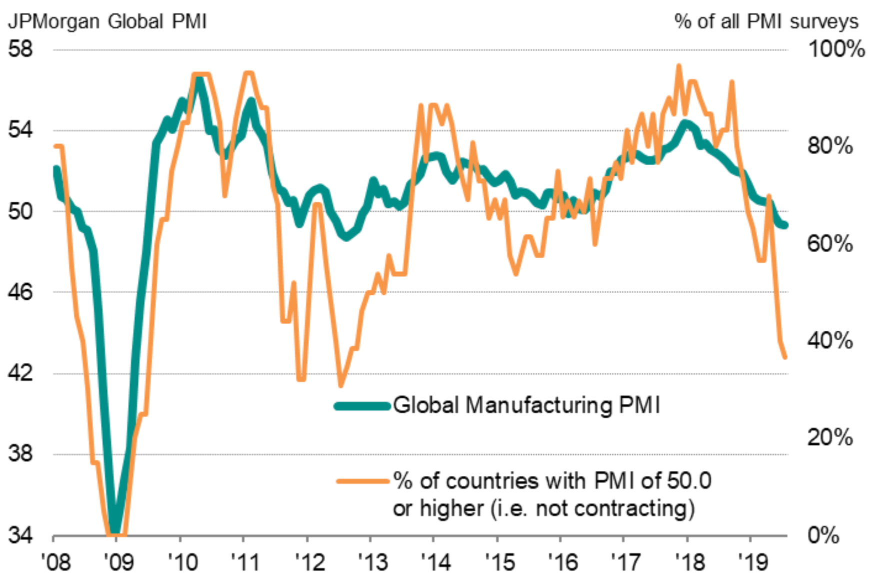
Global PMI indices

Sources: IHS Markit, JPMorgan.
* PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

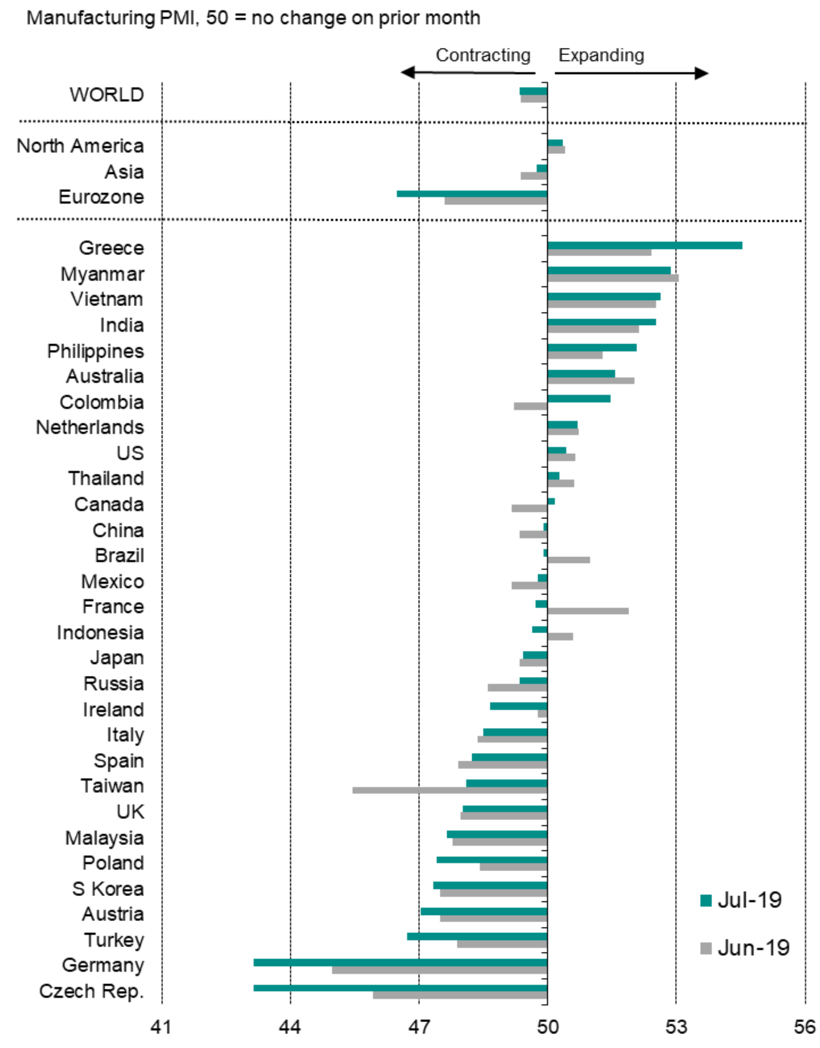
Manufacturing downturn spreads to more countries

A broadening out of the manufacturing malaise was highlighted by almost two-thirds of all countries surveyed reporting a deterioration of manufacturing conditions in July. Countries in decline now include China, Japan, Germany, the UK, Spain, Italy, Brazil, Russia, Taiwan, South Korea and Mexico.

Looking at the world's largest economies, the eurozone as a whole reported the steepest decline (led by intensifying weakness in Germany), followed by the UK and then Japan. A marginal decline was seen in China while business conditions more or less stagnated in both the US and Canada, albeit with the US PMI down to its lowest since 2009.



Source: IHS Markit, JPMorgan.



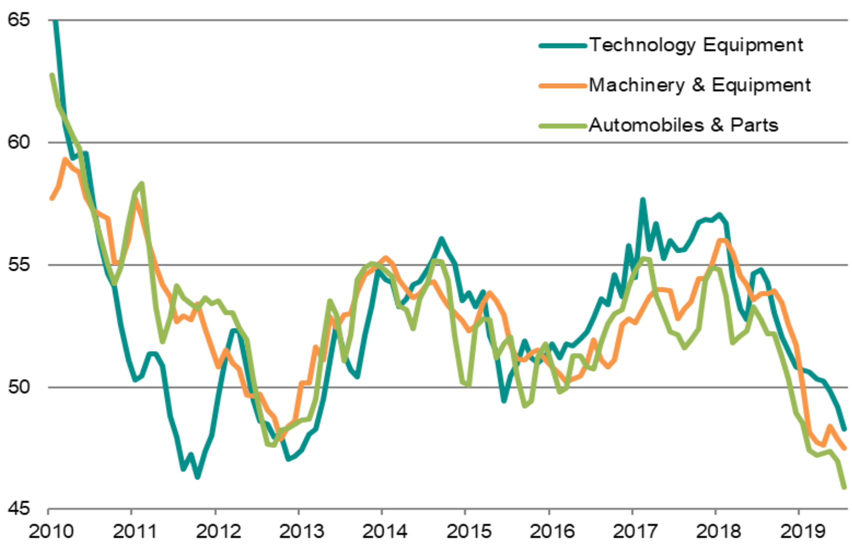
Source: IHS Markit.

Auto makers continue to see steepest decline of all sectors

Automobile and parts producers saw the sharpest drop in global output of all sectors for the fourth successive month in July, followed by machinery & equipment makers. Both sectors are seeing the sharpest downward trend in production since the global financial crisis ten years ago.

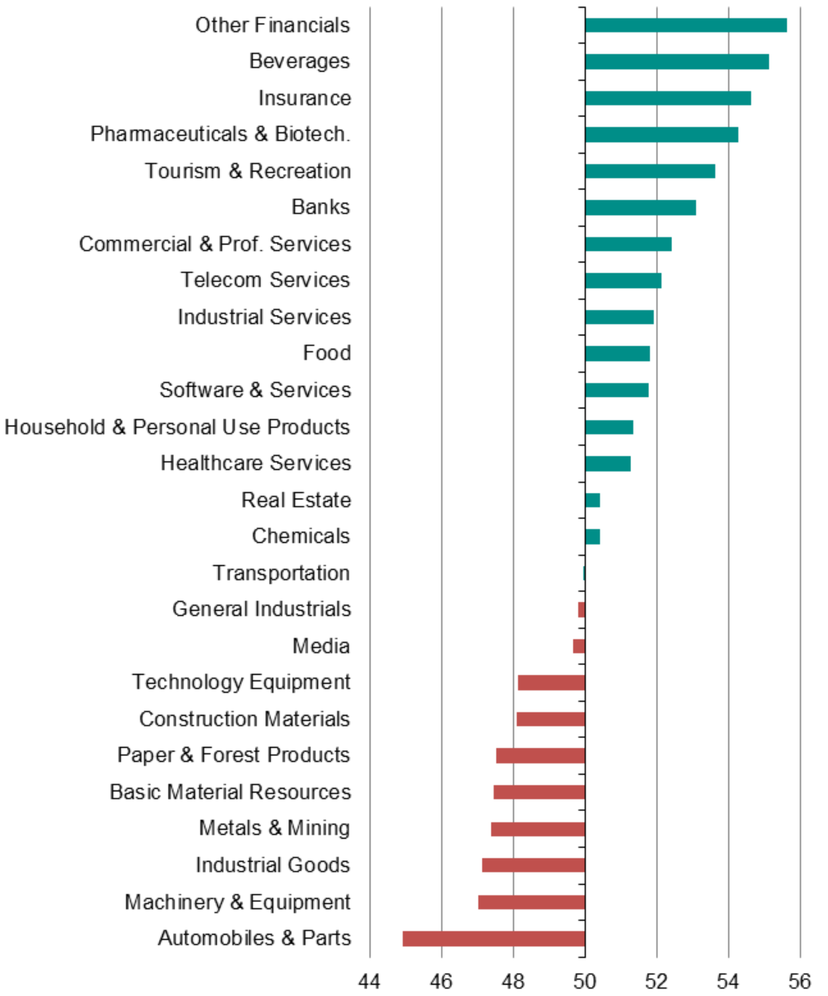
The best performing sectors in July were often those considered to be non-cyclical, such as insurance, pharmaceuticals and food and drink. Eight of the top nine sectors were all service sectors, led by other (non-bank) financials. The top-ranking manufacturing sector other than food and drink production was household and personal use products.

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



Source: IHS Markit

Global Sector PMI Output Index (July 2019)



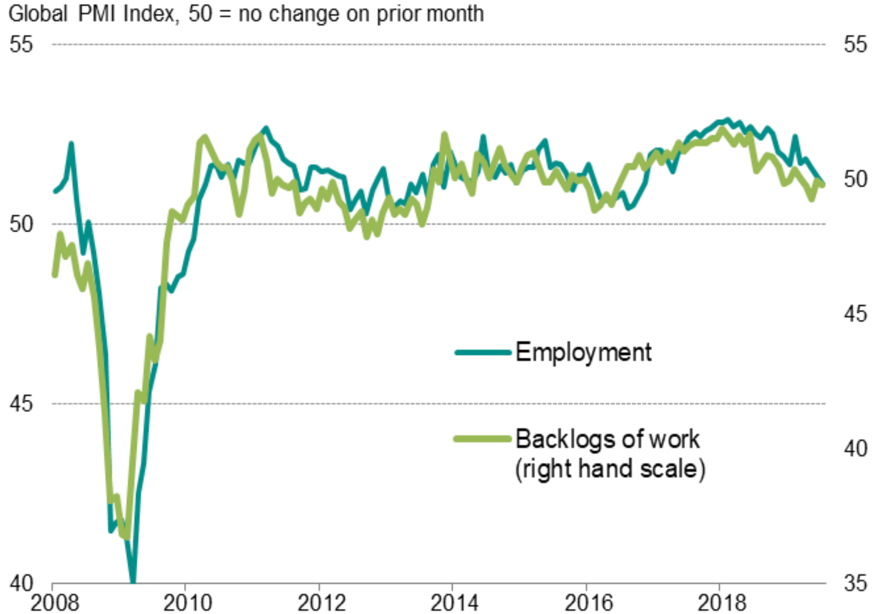
Source: IHS Markit.

Risk aversion hits global employment and investment

An increasingly cautious approach was seen among global businesses in relation to hiring and investment, linked to rising risk aversion, weakened order book growth and deteriorating confidence in the outlook. Future output expectations fell to the lowest since comparable global data were first available in 2012, while backlogs of work fell for the third time in four months.

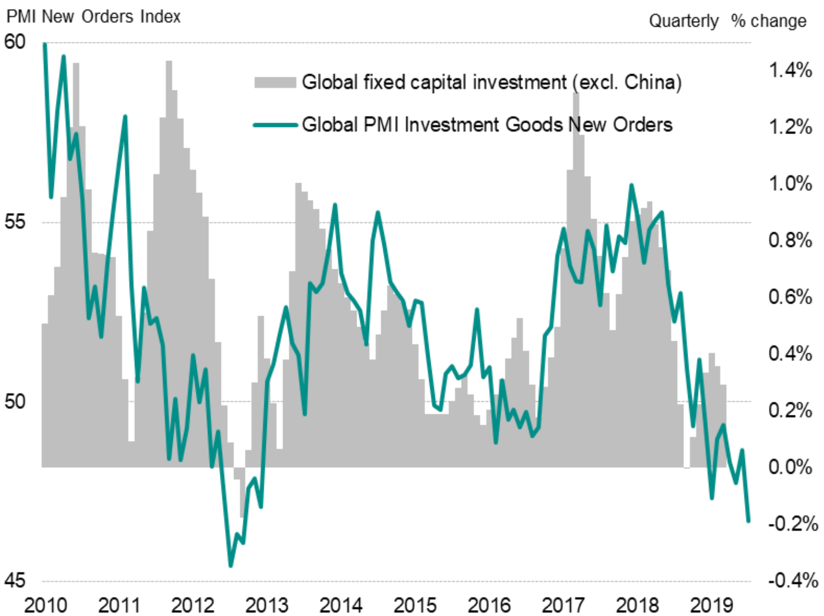
Global employment growth consequently slipped to the lowest for 32 months. Global investment goods production meanwhile fell for a seventh straight month, dropping at the sharpest pace since November 2012, in turn reflecting the steepest drop in new orders for such goods since September 2012. Official 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 survey data therefore point to a further moderation in capex during Q2 and into Q3.

Global PMI* employment and order books



Sources: IHS Markit, JPMorgan.
* PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

Global PMI investment goods orders



Source: IHS Markit, JPMorgan, World Bank.

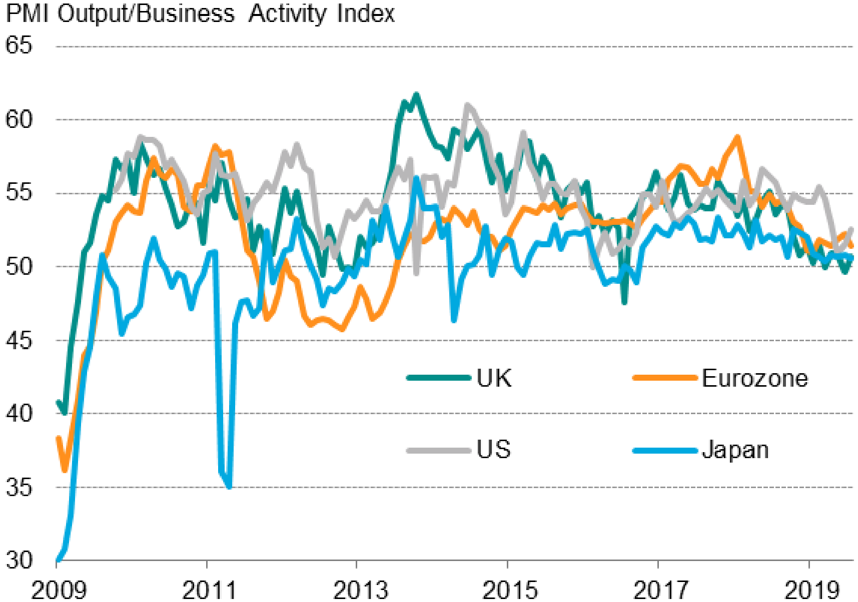
Emerging and developed world PMIs nudge higher

Both developed and emerging market growth ticked higher in July but rates were among the slowest seen over the past three years.

In the developed world, a common theme was one of service sector growth offsetting weak goods production. Manufacturing contracted for a fifth straight month whereas services growth hit a three-month high. Growth was led by the US, followed by the eurozone. The UK steadied after contracting in June, while Japan remained stuck in one of the weakest spells since 2016.

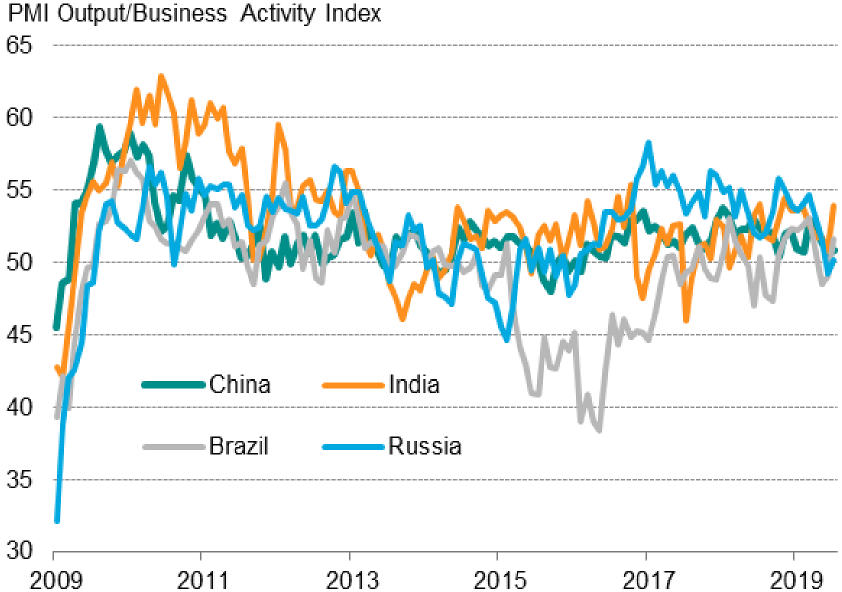
Emerging market growth was the strongest for three months, but had been weakest for three years in June, according to the PMI surveys. The gain was led by a jump in activity in India as both domestic and export demand revived, as well as returns to modest growth in Russia and Brazil. China also saw growth lift slightly from June's eight-month low. Improved service sector performances led the upturns, though in India the manufacturing sector was notable in also enjoying robust growth.

Developed world PMI*



Source: IHS Markit, CIPS, Jibun Bank.

Emerging market PMI*



Source: IHS Markit, Caixin.

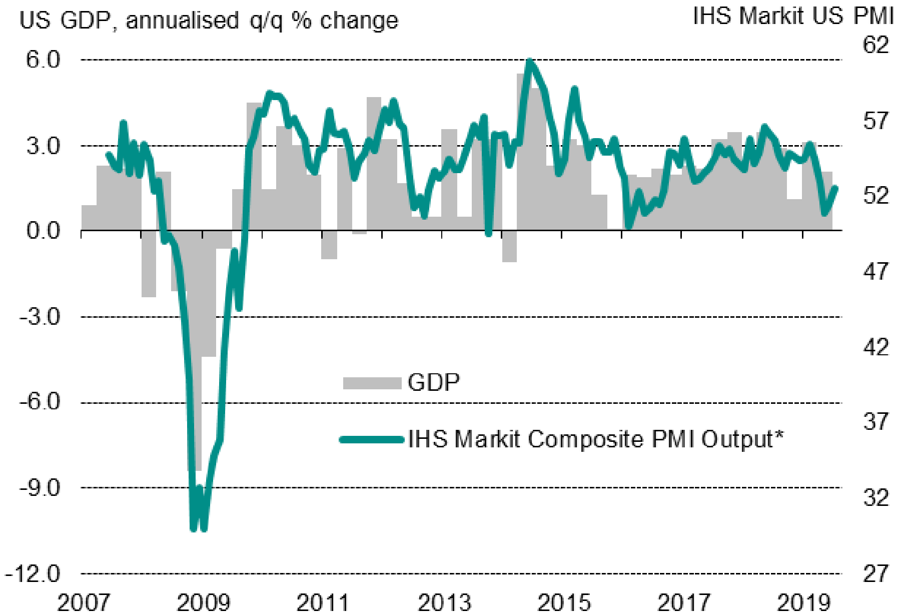
* PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

US growth subdued as manufacturing struggles at start of Q3

The US surveys from IHS Markit indicated an improvement in the overall rate of business growth in July, but the weak pace of expansion remains a concern. The PMIs for manufacturing and services collectively point to GDP expanding at an annualised rate of under 2% in July, below that seen in the second quarter and among the weakest seen over the past three years. Although service sector growth picked up, the manufacturing sector PMI hit the lowest since August 2009, and indicated an accelerating decline in production.

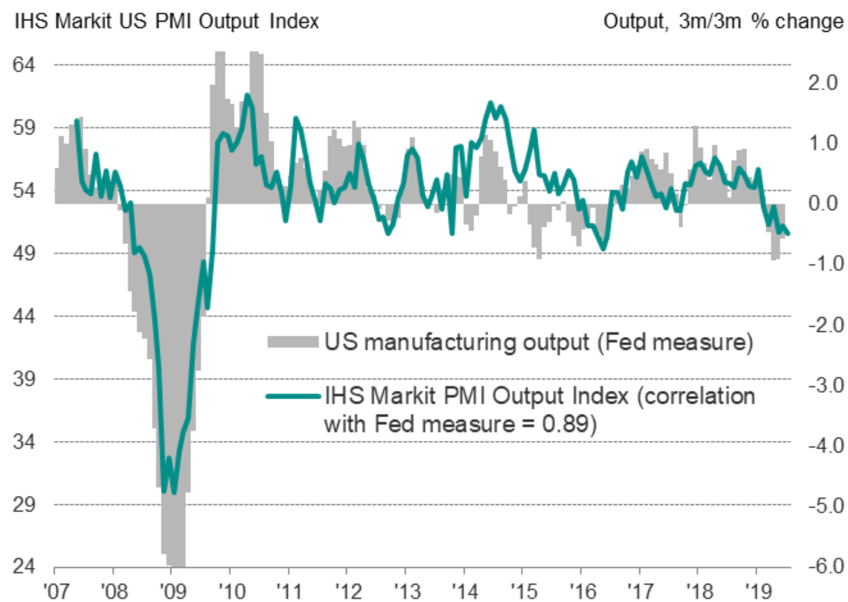
A sharp drop in future expectations meanwhile suggests downside risks have increased in the near-term at least, hinting that the upturn in growth seen in July could prove short-lived and that GDP growth could remain disappointingly modest in Q3. Optimism is at its lowest ebb since comparable data were first available in 2012 as companies have grown increasingly concerned about the year ahead, fueled by trade war worries and wider geopolitical jitters, as well as growing concerns that the economic cycle has peaked.

US economic growth and the PMI**



Source: IHS Markit.
*Manufacturing PMI only pre October 2009
** PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

US PMI and manufacturing output



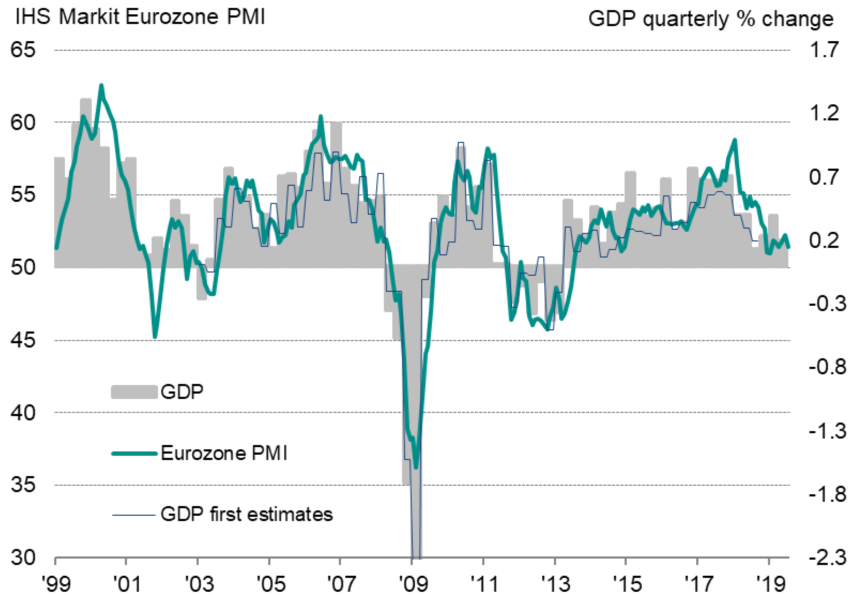
Source: IHS Markit, Federal Reserve.

Eurozone growth moderates in July as factory woes deepen

The July Eurozone PMI surveys showed that the service sector continued to sustain the expansion of the overall eurozone economy at the start of Q3, but there are signs that the scale of the manufacturing downturn is starting to overwhelm. Trade war worries, slower economic growth, falling demand for business equipment, slumping auto sales and geopolitical concerns such as Brexit led the list of business woes, dragging manufacturing production lower at its fastest rate for over six years. While the service sector helped offset the factory downturn, growth here also edged lower in July, taking the overall pace of GDP growth signalled by the PMI closer to 0.1%. Our July nowcast models point to GDP falling by 0.1% in Germany and declining very marginally in Italy, but growing 0.3% in France.

The main source of growth currently appears to be the consumer, in turn buoyed by the relative strength of the labour market. However, with the July survey indicating the weakest jobs growth in over three years, there are signs that this growth engine is also losing impetus.

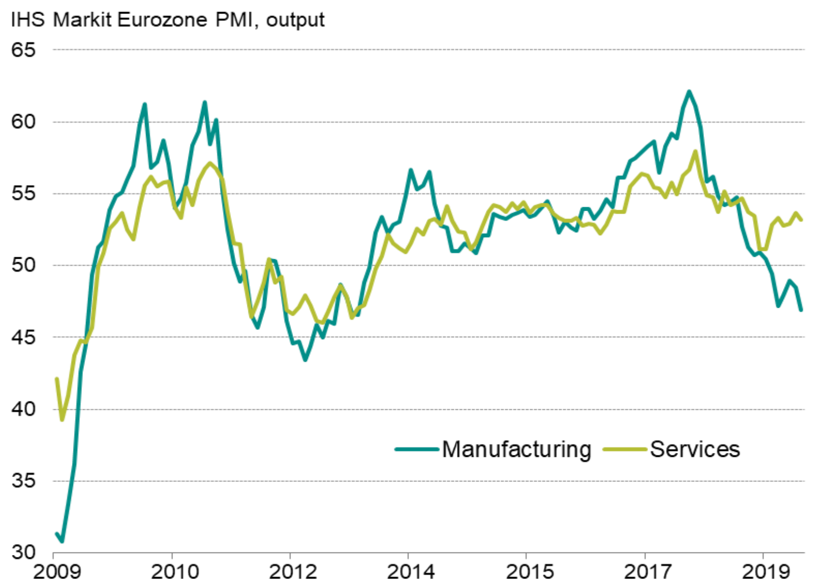
Eurozone PMI* and GDP



Sources: IHS Markit, Eurostat.

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

Eurozone PMI output indices



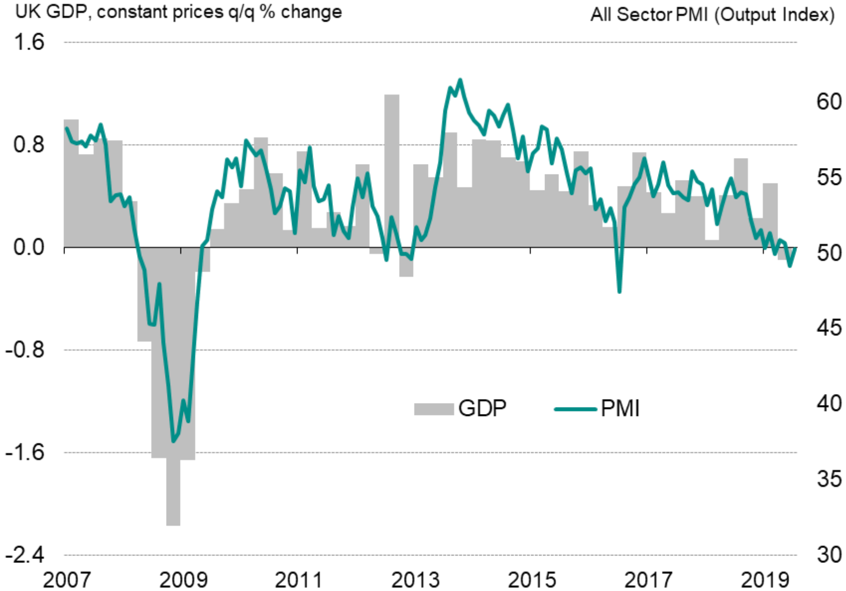
Source: IHS Markit.

UK PMIs signal stalled economy at start of Q3

An improved rate of growth in the UK service sector to the highest since October was welcome news after other PMI surveys showed the sharpest drop in manufacturing output for seven years and a construction sector mired in its deepest downturn for a decade. However, the overall picture is one of an economy that is only just managing to skirt recession, with July's performance among the worst since the height of the global financial crisis in 2009. The latest PMI numbers are indicative of the economy stagnating at the start of the third quarter after indicating a 0.1% decline in the second quarter.

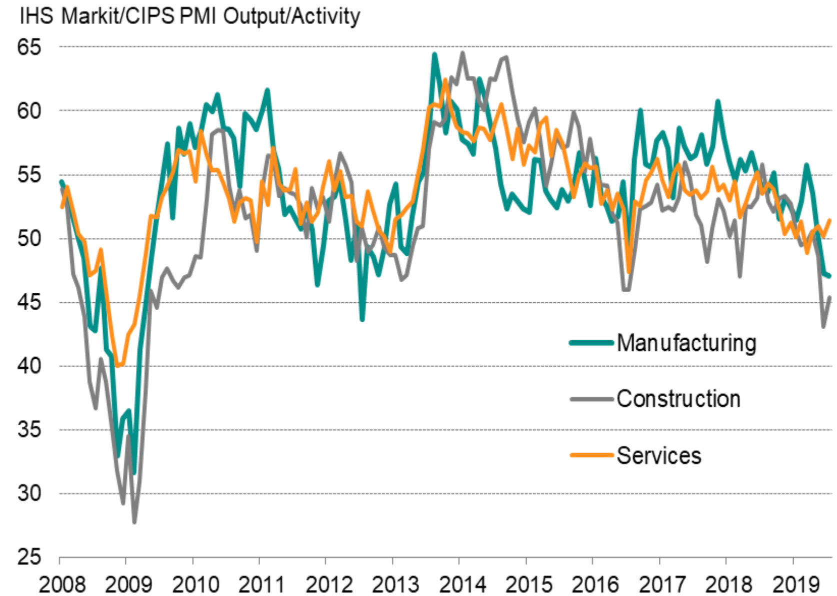
Even growth in the service sector remains worryingly subdued, constrained by a marked fall in business services activity, where the rate of decline in July has been exceeded only once in the past ten years. The best performing sector was consumer services, highlighting how the economy remains dependent on consumer spending to avoid contraction.

UK PMI* and GDP**



*PMI shown above is a GDP weighted average of the manufacturing, services and construction indices.
**Q2 2019 GDP based on April and May ONS data only

UK PMI and Bank of England policy



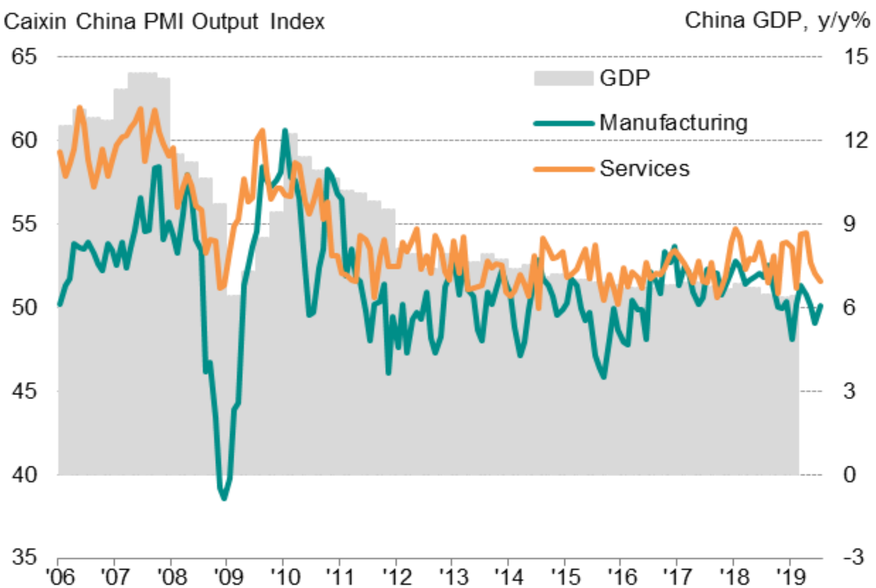
Sources: IHS Markit, CIPS, Bank of England.

China PMI edges higher but still close to three-year low

The latest Caixin PMI™ surveys indicated an easing in the pace of growth of service sector activity but a steadying of the goods-producing sector. Overall, the pace of growth perked up slightly since June but remained weak, with the composite PMI merely up from 50.6 to 50.9. Only in three months has the rate of expansion been weaker over the past three years.

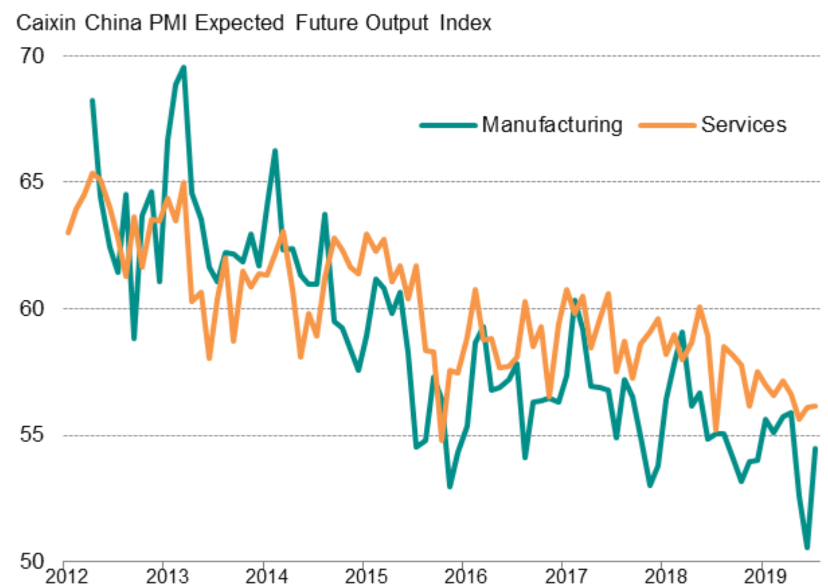
Expectations for the year ahead also remained subdued, albeit less so than the survey low seen in June. Confidence in the outlook continued to run at one of the lowest seen since comparable data were first collected in 2012, subdued in both manufacturing and services, dented by ongoing trade frictions with the US, but supported by signs of improving demand from domestic stimulus measures. New order inflows picked up in July to show one of the largest gains recorded over the past year, reflecting improved service sector demand and a steadying of goods orders.

China PMI output indices



Sources: IHS Markit, Caixin.

China PMI future expectations



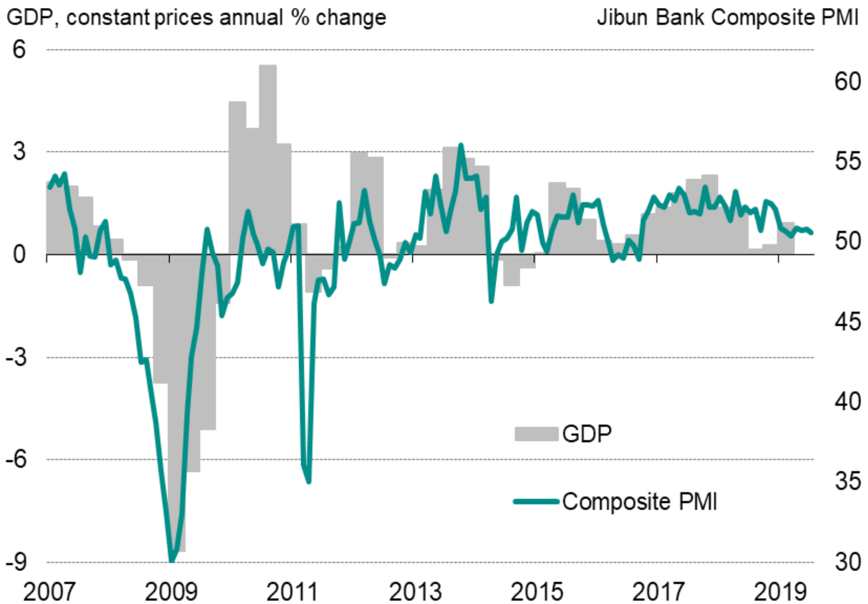
Sources: IHS Markit, Caixin.

Japan's steady growth fuelled by service sector

The Jibun Bank composite PMI data for July edged down to its second-lowest since September 2016, indicating only modest annual GDP growth of approximately 1%. Service sector growth remained steady, providing an all-important support to the economy. In contrast, the manufacturing sector contracted for a seventh successive month, extending the sector's deepest downturn since 2012.

Falling exports were the main driver of the manufacturing downturn. New export orders for goods have now fallen in each month since December as trade war tensions weighed heavily on international demand for Japanese goods. In addition to the US-China trade dispute, the further drop in exports in July comes at a time of rising frictions between Japan and South Korea. Business optimism about the year ahead meanwhile moderated to the second-lowest in three years as trade worries added to concerns that the looming consumption tax hike could also hit demand later in the year.

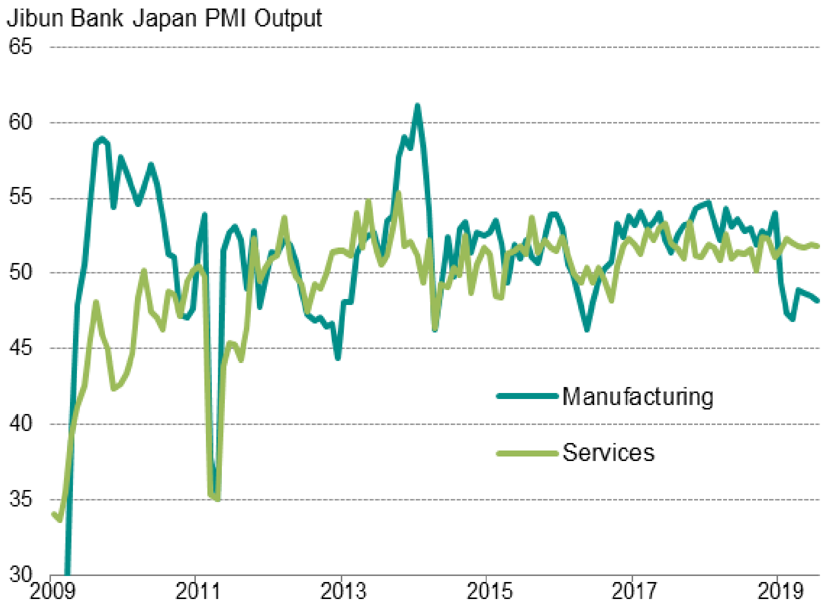
Japan PMI* and GDP



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

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

Japan PMI output indices



Sources: IHS Markit, Jibun Bank.

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