



IHS Markit™

Global PMI

Trade downturn pushes global growth to two-year low

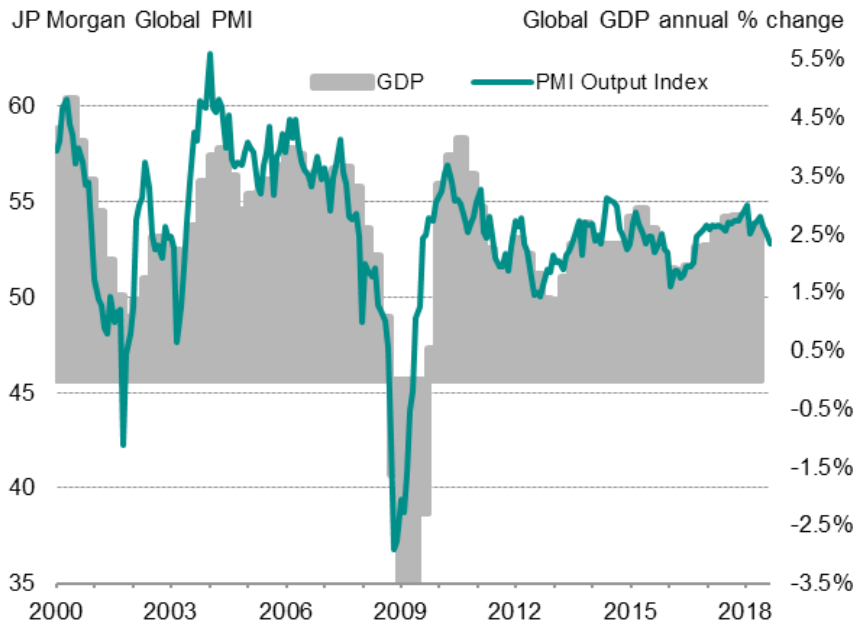
October 10th 2018

Global PMI slides to two-year low amid export-led slowdown

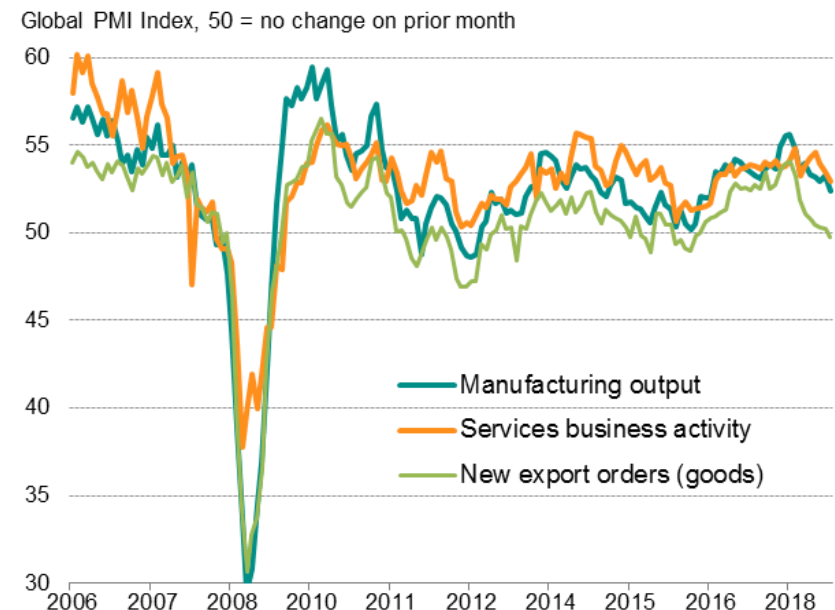
Global economic growth moderated to a two-year low in September in a broad-based slowdown, according to the latest PMI surveys. The headline [JPMorgan Global Composite PMI](#), compiled by IHS Markit, fell for a third successive month in September, down from 53.4 in August to 52.8, its lowest since September 2016. The latest reading is indicative of annual global GDP growth slipping below 2.5% (at market exchange rates). Business confidence about the year ahead likewise fell to the gloomiest for two years, suggesting growth may weaken further in coming months.

Slower growth was recorded across both manufacturing and services, the former down to a two-year low while the latter showed the joint-slowest rise for two years. A key area of weakness remained global exports, which fell for the first time in over two years in September, representing a marked turnaround in worldwide trade since the surging growth seen at the start of the year.

Global PMI* output & economic growth



Global PMI indicators*



Sources: IHS Markit, JPMorgan.

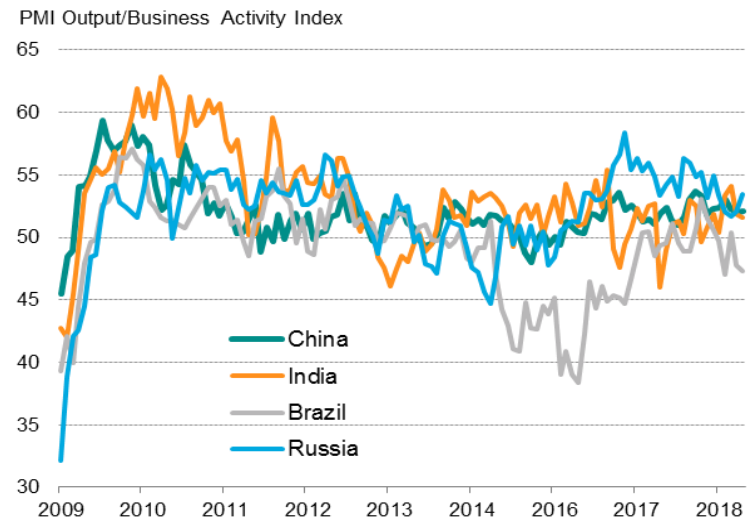
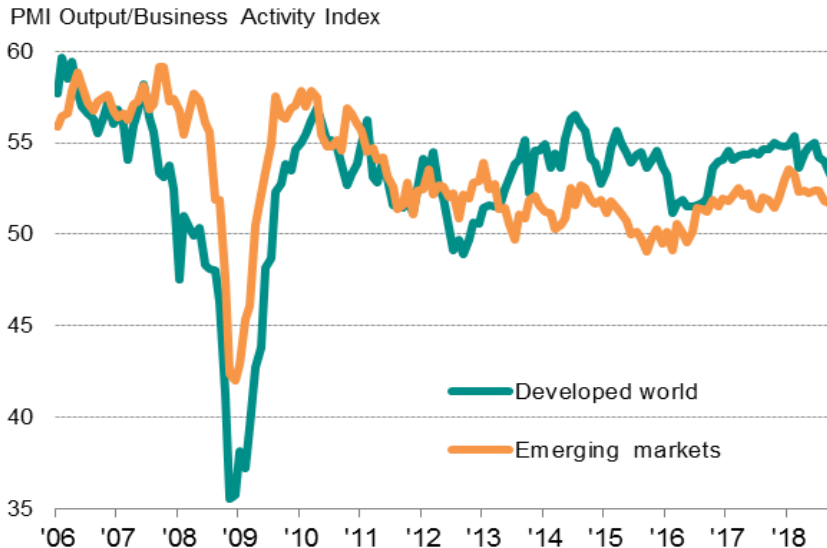
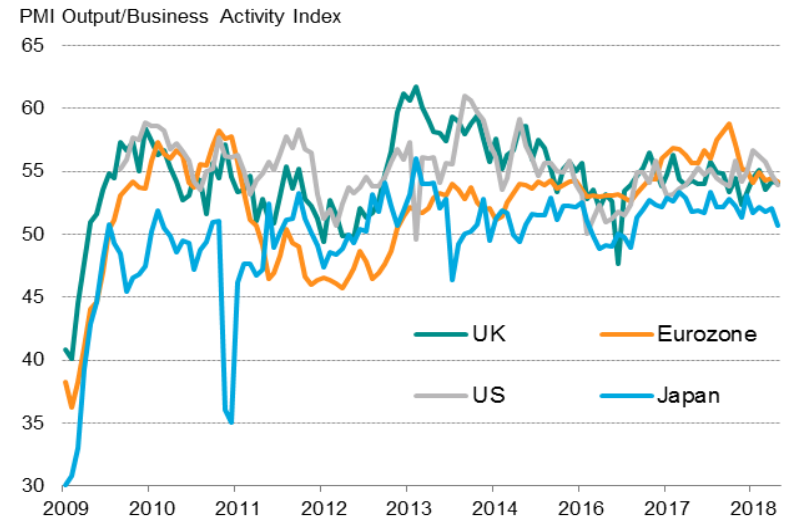
Sources: IHS Markit, JPMorgan.

Slowdown led by emerging markets

Emerging markets grew especially slowly in September, reporting the smallest expansion of output since October of last year, though developed world growth moderated to a two-year low.

Output expanded at softer rates across all four major developed markets, albeit remaining encouragingly robust in the US, UK and eurozone. A more worrying slowdown was seen in Japan, where growth was the weakest seen for two years.

Trends were more mixed among the largest emerging markets. Output rose at faster rates in both China and Russia as improved service sector expansions offset lacklustre factory performances. Growth meanwhile hit a four-month low in India and Brazil saw the second-steepest fall in output since early 2017.

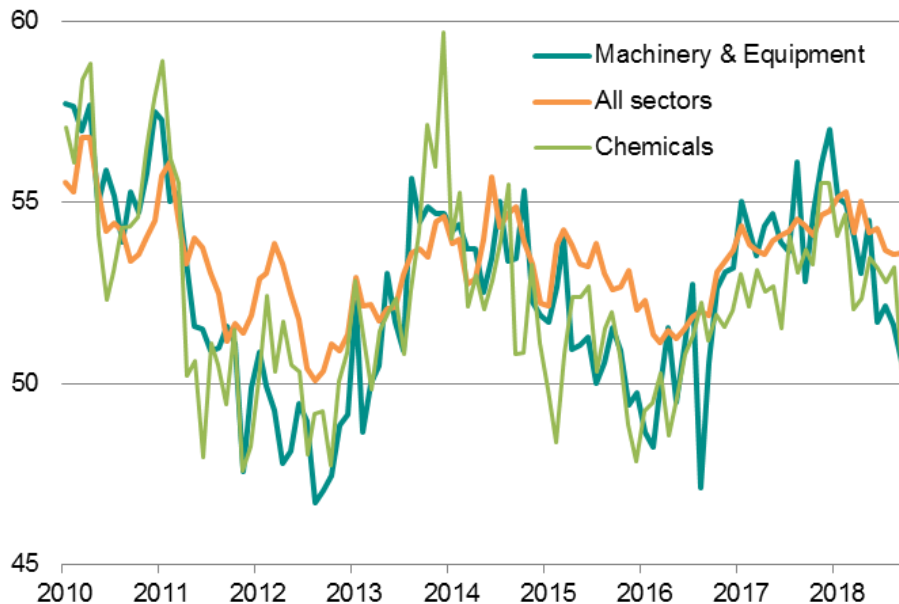


Services dominate global order book growth rankings

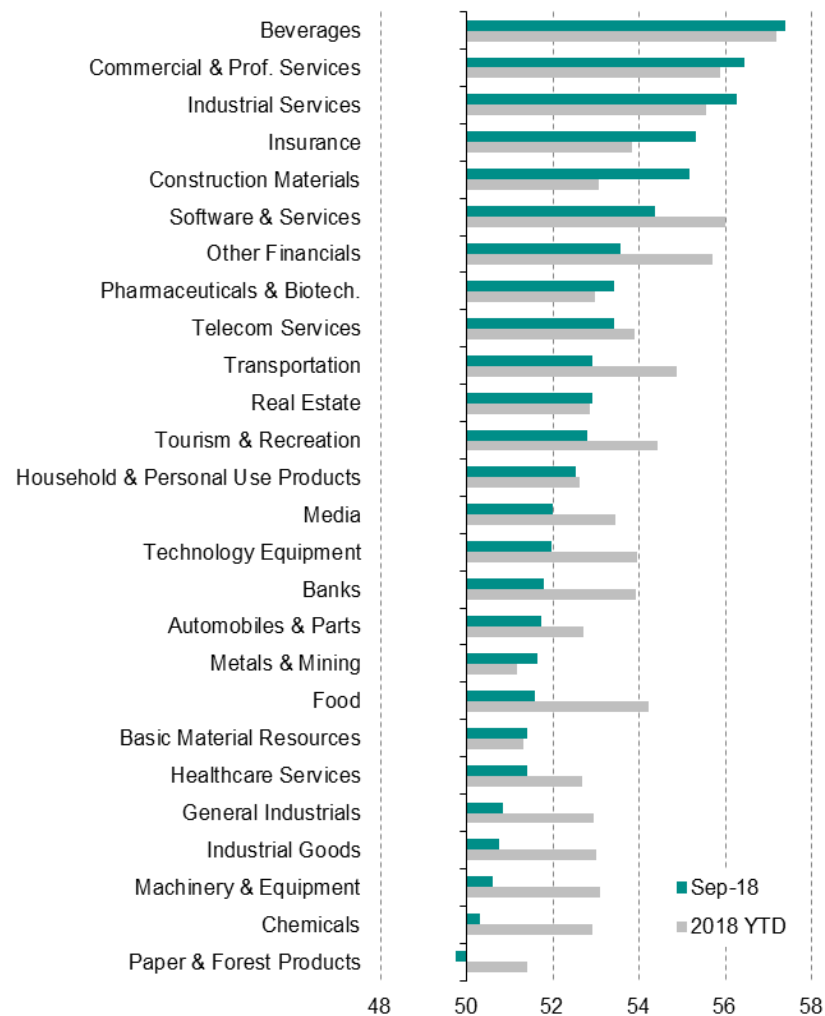
Global [sector PMI data](#) showed new order inflows rising in all 26 detailed sub-sectors excluding paper & forest producers. However, only eight sub-sectors reported orders to have risen at a faster rate than their respective year-to-date average. Two of the worst-performing sectors were especially notable: machinery & equipment makers – a key bellwether of global capex – saw the weakest influx of new orders for two years, while chemical producers meanwhile also saw only a marginal rise in new orders.

With the exceptions of construction material producers and drink makers, services dominated the top half of the rankings.

Global PMI New Orders Index



Global Sector PMI New Orders Index

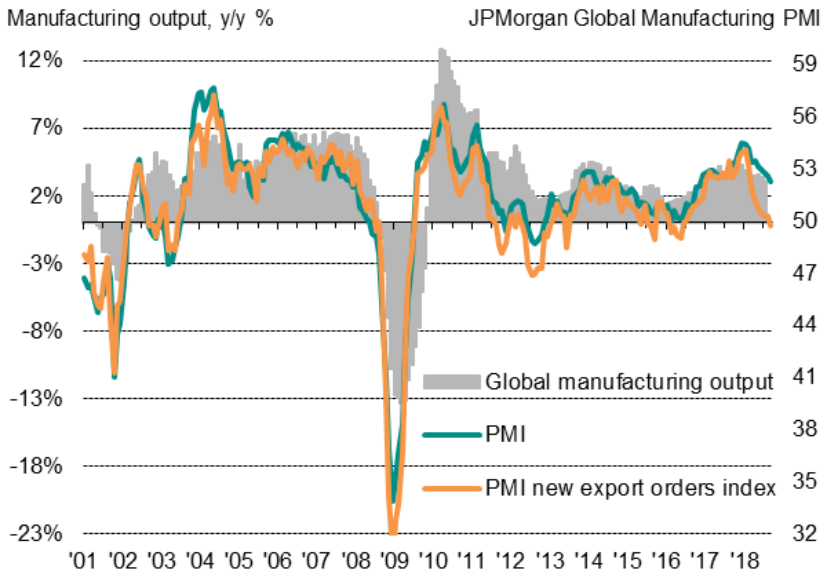


Global trade deteriorates

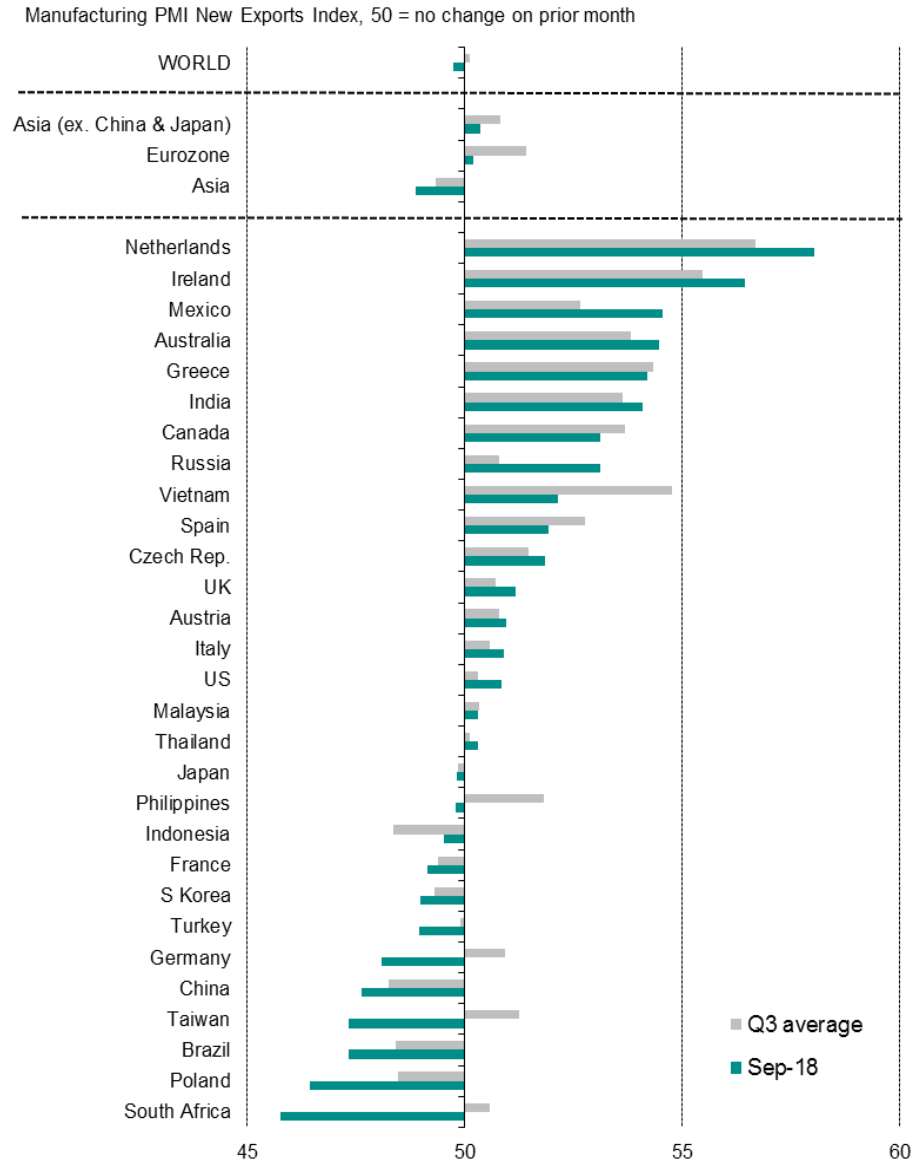
Falling exports acted as a drag on factory output, order book growth and hiring in September, pulling the [JPMorgan Global Manufacturing PMI](#) down to its lowest since November 2016.

Declining exports were seen in 12 of the 29 countries surveyed in September, half of which were Asian, including China, where exports fell at the steepest rate since February 2016 (dropping for a sixth straight month), and Japan, where exports fell for a second month.

Although export performance picked up in the US and UK, it remained lacklustre by recent standards, with the latter rounding off the worst quarter for just over two years. Trade was more mixed in the eurozone, though the region as a whole saw the weakest export growth since June 2013.



Source: IHS Markit, JPMorgan.



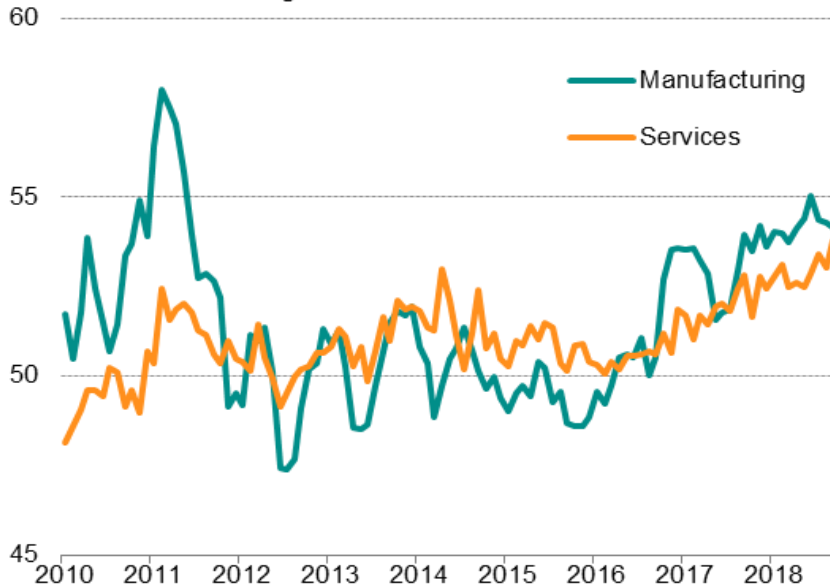
Global price pressures rise, led by record service sector inflation

Global price pressures intensified in September. Average input costs continued to rise at one of the fastest rates seen since the first half of 2011, linked in part to higher oil prices, increased wages and tariff-related surcharges, notably in the US. Average selling prices for goods and services also rose sharply as firms pushed higher costs on to customers. The monthly rise in prices charged was the highest seen since comparable global data were first available in 2009. Although prices charged for goods rose at a slightly slower rate during the month, service sector rates showed the largest increase on record.

By country, by far the steepest upward pressure on selling prices among the developed world economies was recorded in the US, where the rate of inflation hit a post-recession high. However, selling price inflation also remained elevated by recent historical standards in the eurozone, UK and Japan.

Global PMI* price indices

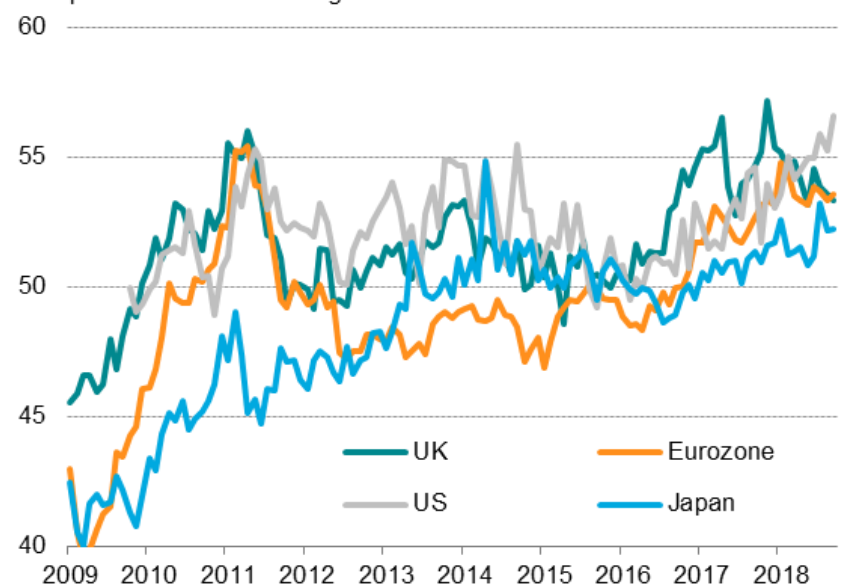
Global PMI Prices Charged Index



Sources: IHS Markit, JPMorgan.

Global PMI* price indices

Composite PMI Prices Charged Index



Source: IHS Markit, JPMorgan.

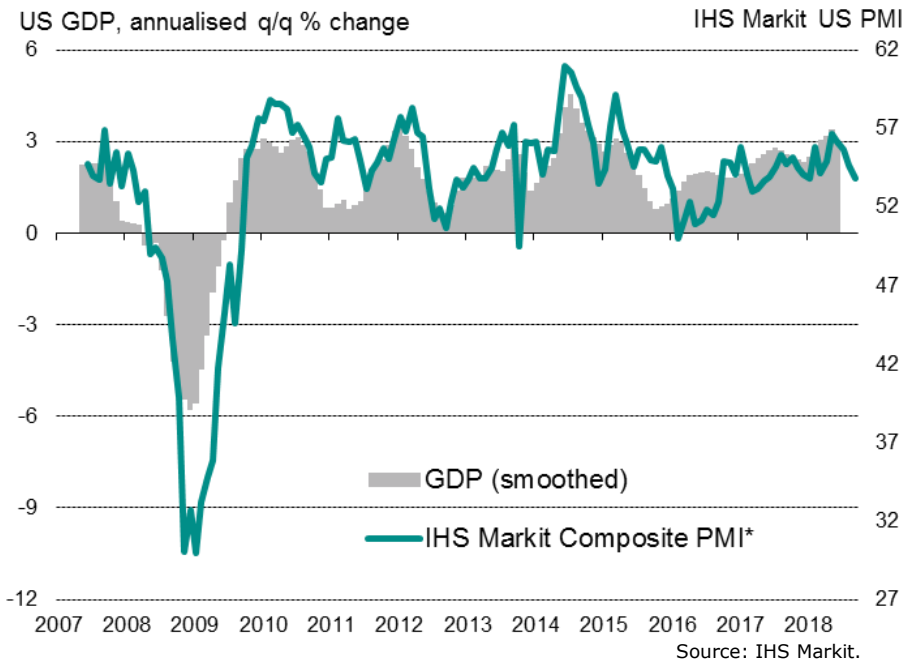
* PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

US PMI signals cooler growth but also record monthly price rise

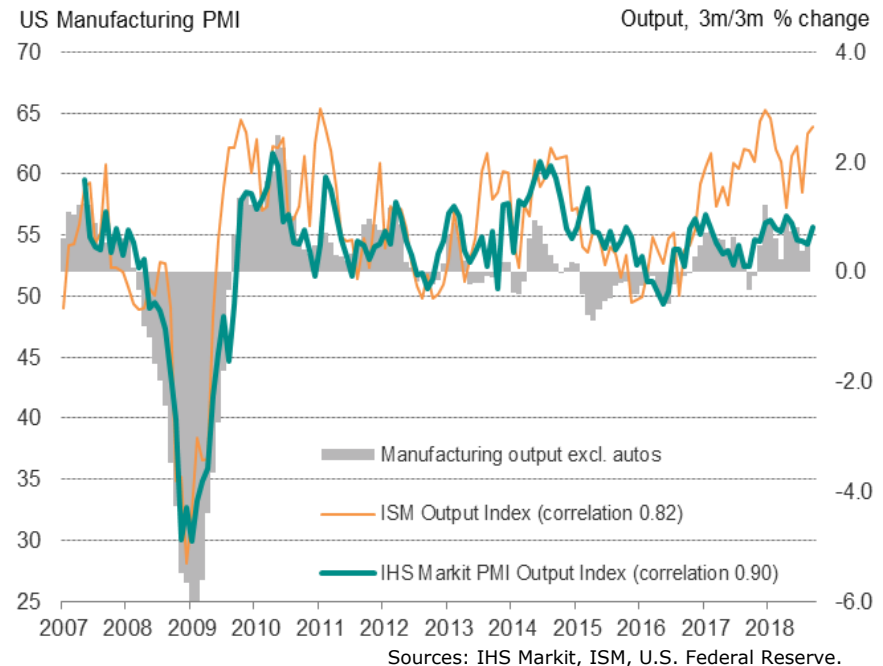
The September [IHS Markit US PMI surveys](#) showed that the pace of economic growth cooled to the lowest since January but continued to run close to a 3% annualised rate over Q3 as a whole. Service sector growth has eased considerably since peaking back in May, but remains relatively solid. Some of the slowdown in September could also be traced to the extreme weather. [Manufacturing growth](#) meanwhile picked up in September despite lacklustre exports.

Firms are hiring in increasing numbers to expand capacity, with the employment index from the manufacturing and services surveys rising to a level indicative of non-farm payrolls rising at a trend rate of around 200,000. However, the surveys still found many companies struggling to meet demand, with strong inflows of new business causing backlogs of work to accumulate across the economy at one of the fastest rates seen since 2014. The combination of reduced spare capacity and robust domestic demand is driving prices charged for goods and services higher at a rate not seen since the global financial crisis.

US economic growth and the PMI**



US manufacturing

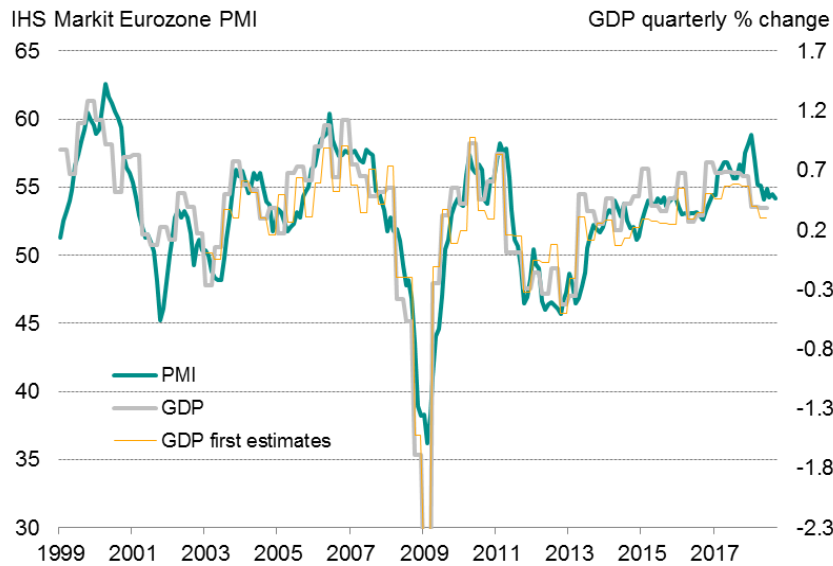


Eurozone PMI signals solid Q3 but dips close to two-year low

September’s PMI survey data showed the pace of [eurozone growth slowing](#) to one of the weakest seen over the past two years amid especially poor performances in Spain and Italy. Manufacturing led the slowdown, with export orders close to stalling. However, the survey data still indicate a robust Q3 on the whole, with GDP set to rise by almost 0.5%. The survey data also suggest prior GDP data could be revised higher. Upward revisions to GDP are more common at times of strong and accelerating growth.

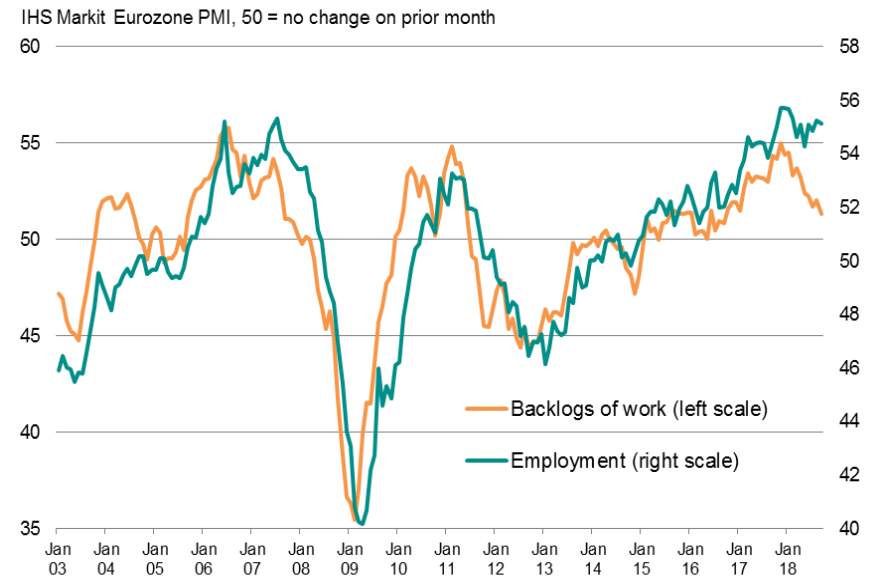
While job gains remained close to record highs, the degree to which such robust jobs growth will persist remains in doubt. Business activity growth has exceeded new order inflows in recent months, and consequently backlogs of work rose at a rate which would historically be commensurate with considerably slower jobs growth than currently being seen. The overall rise in unfinished business was the smallest for two years. Hiring will therefore likely moderate unless demand revives.

Eurozone economic growth and PMI*



Sources: IHS Markit, Eurostat.

Eurozone employment



Source: IHS Markit.

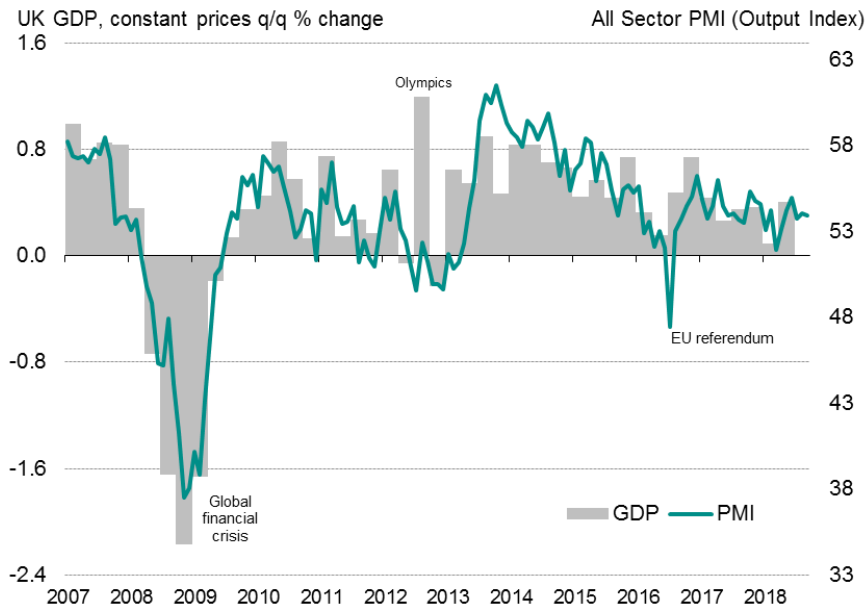
*PMI shown above is a GDP weighted average of the manufacturing and services indices.

UK PMI surveys show economy enjoying 0.3-0.4% growth in Q3

PMI survey data showed UK business activity rising in September, albeit with the rate of growth cooling fractionally to the second-lowest since April. The expansion in September means the survey data indicate that the pace of economic growth likely slowed only marginally during Q3 amid a continuing broad-based expansion. At 54.0, the [IHS Markit/CIPS 'all-sector' PMI](#) output index slipped from 54.1 in August, consistent with GDP rising by 0.35% in Q3 against 0.4% in Q2. All three main business sectors reported growth in September, though only manufacturing reported an stronger rate of expansion

The all-sector prices index meanwhile showed the second-largest monthly increase in firms' costs seen over the past year. All three sectors saw input cost inflation accelerate, in part due to higher oil prices during the month, which fed through to fuel, transport and other oil-based costs. The rise in cost pressures suggests consumer prices will have continued to rise at a pace above the Bank of England's 2% target in September, and will likely remain closer to 3% than 2% in coming months.

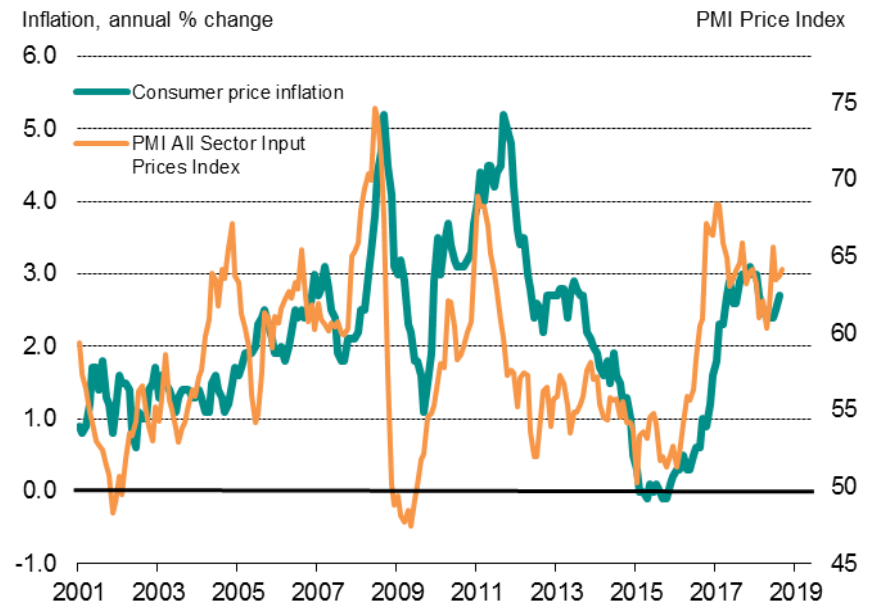
UK PMI* and GDP



Sources: IHS Markit, CIPS, ONS.

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

UK PMI* input costs and inflation



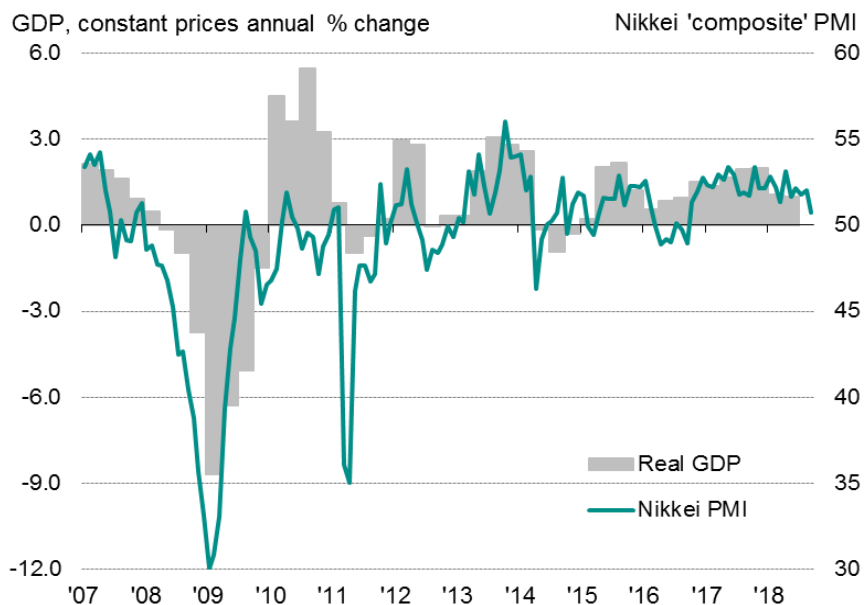
Sources: IHS Markit, CIPS, ONS.

Japan PMI at two-year low signals softer output growth

The latest survey data indicate that Japan's economy continued to enjoy solid growth in September, but also that the upturn is losing momentum. The [Nikkei Japan Composite PMI™](#) Output Index slipped from 52.0 in August to 50.7 in September, posting the weakest expansion for two years. The average reading for Q3 was nevertheless commensurate with annual GDP growth of around 1%, albeit edging closer to stagnation as the quarter proceeded. September saw only a fractional rise in service sector activity and the smallest rise in factory output for two years, the latter linked to a second successive monthly drop in export orders.

While adverse weather is likely to have dampened service sector activity in particular, suggesting business may rebound in October, manufacturers woes look longer lasting. The survey showed evidence that trade wars and tariffs have dented demand for Japanese manufactured goods, and also contributed to pushing business optimism about the year ahead close to a two-year low.

Japan economic growth and the PMI*

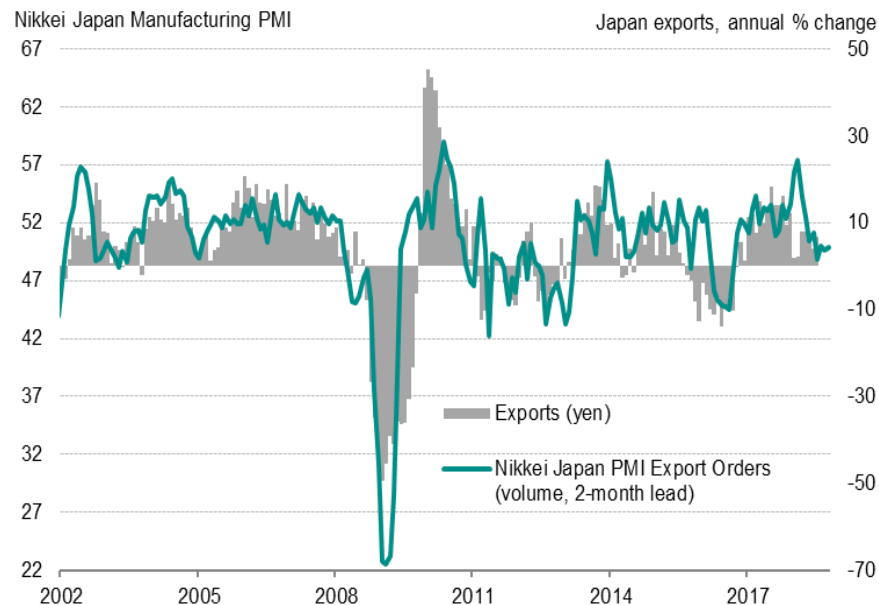


Sources: IHS Markit, Nikkei, Japan Cabinet Office.

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

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Japan manufacturing exports



Sources: IHS Markit, Nikkei, Datastream.

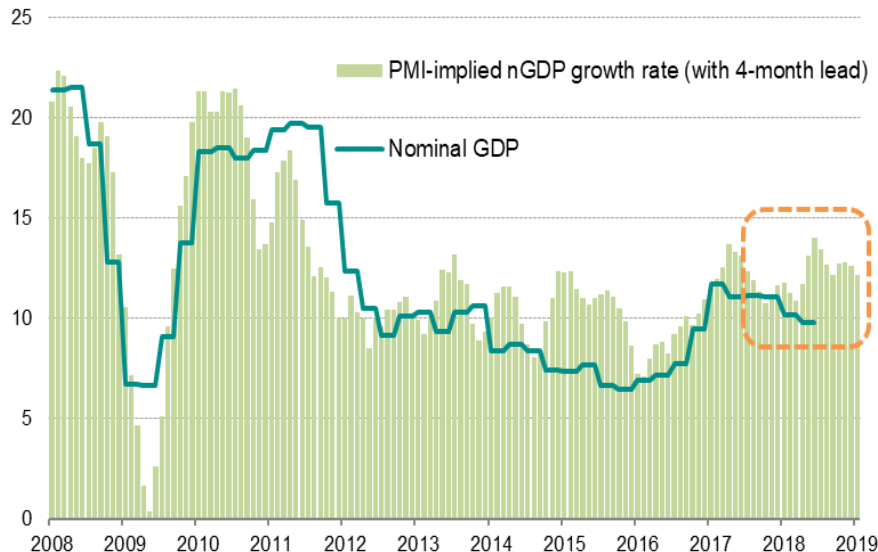
Caixin China PMI highlights risks to future expansion

The [Caixin China Composite PMI™](#) Output Index (which covers both manufacturing and services) rose marginally from 52.0 in August to 52.1 in September, but remained below the historical average. At 52.1, the Q3 average signalled the weakest quarterly performance so far this year, indicating a modest slowing in the pace of economic growth. Longer-term prospects also hinted at challenges ahead. While expectations of output in the year ahead were positive, as optimists continued to exceed pessimists, the September reading was among the lowest seen over the past three years.

Service sector growth picked up to a three-month high, but a further decline in exports weighed on manufacturing activity. Factory output grew at the slowest rate for nearly a year in September, responding to a stagnation of new orders. Foreign sales fell by the greatest extent since early 2016, with anecdotal evidence pointing to trade wars and tariffs as key reasons for weaker demand.

China PMI and nominal GDP

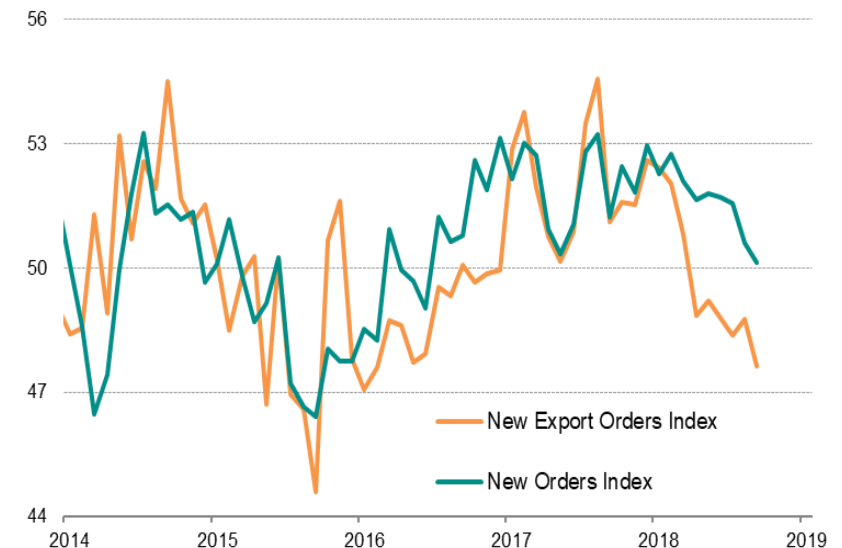
GDP, annual % change



Sources: IHS Markit, Caixin, NBS

China new orders and export orders

China Manufacturing PMI



Sources: IHS Markit, Caixin. ¹

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

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