Global PMI

Trade downturn keeps global growth close to two-year low

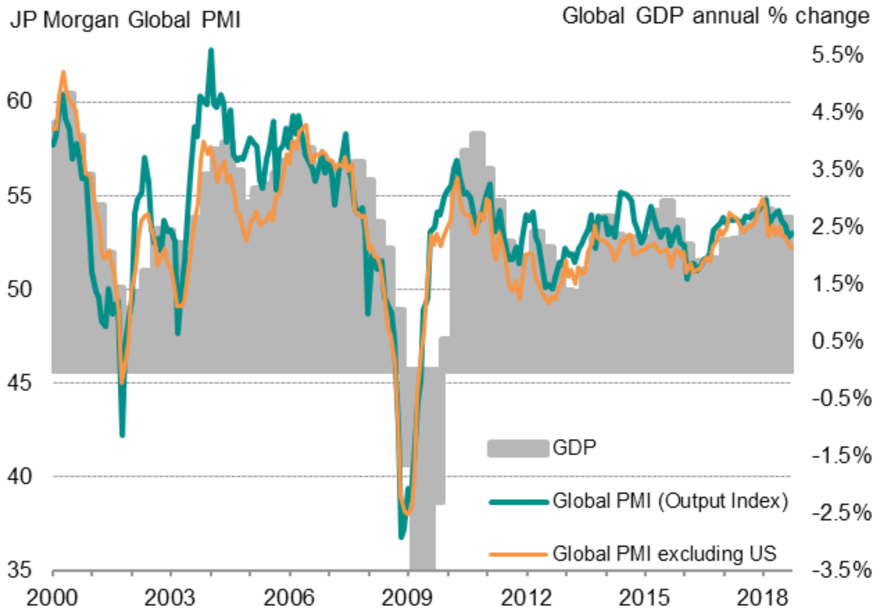
November 8th 2018

Global PMI stuck close to two-year low in October

Global business activity grew at a marginally improved rate in October, suggesting the pace of economic growth accelerated for the first time in four months. The JPMorgan Global PMI, compiled by IHS Markit, edged up from 52.8 in September to 53.0, indicative of annual global GDP growth of just below 2.5% (at market exchange rates. However, the improvement in part reflected weather-related rebounds in the US and Japan. Even with these rebounds, the increase was the second-weakest seen for two years.

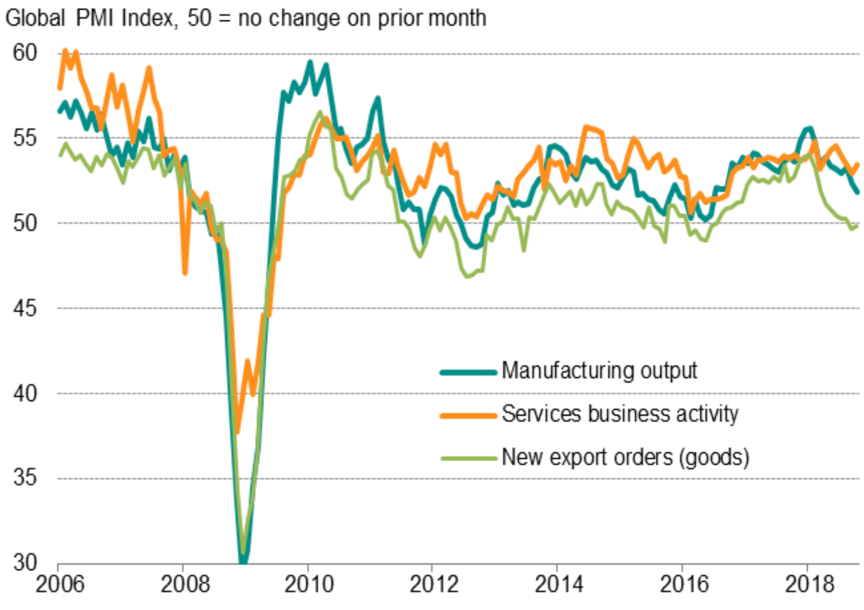
Manufacturing output increased at the slowest pace since June 2016 but services activity growth picked up from September's two-year low, albeit remaining below the highs seen earlier in the year. The manufacturing slowdown could be largely attributed to a second successive month of marginal declines in worldwide export orders. The improved service sector performance in October was predominantly driven by faster growth in the US and Japan, which had both seen adverse weather subdue business in September.

Global PMI* output & economic growth



Sources: IHS Markit, JPMorgan.

Global PMI indicators*



Sources: IHS Markit, JPMorgan.

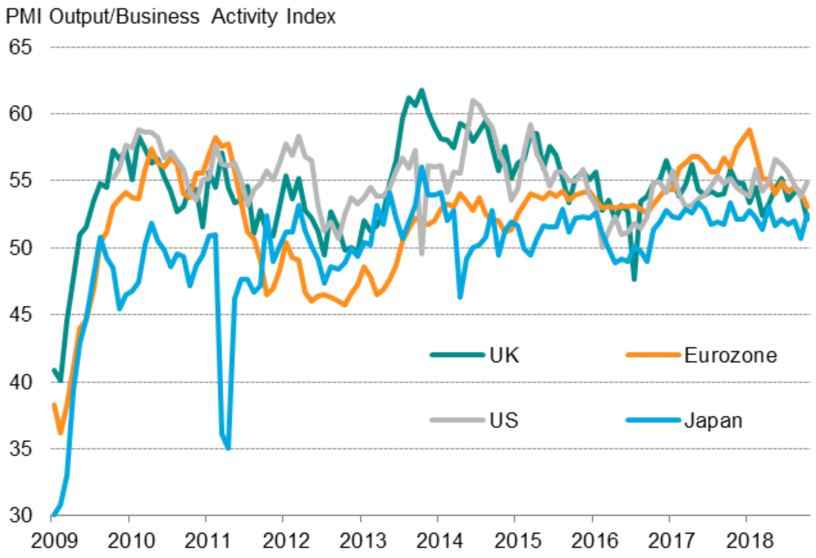
* PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

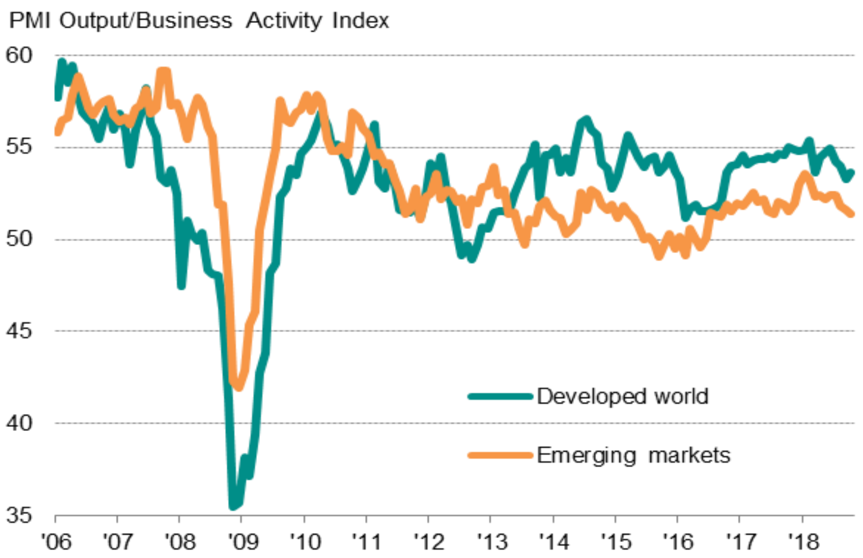
US leads global upturn

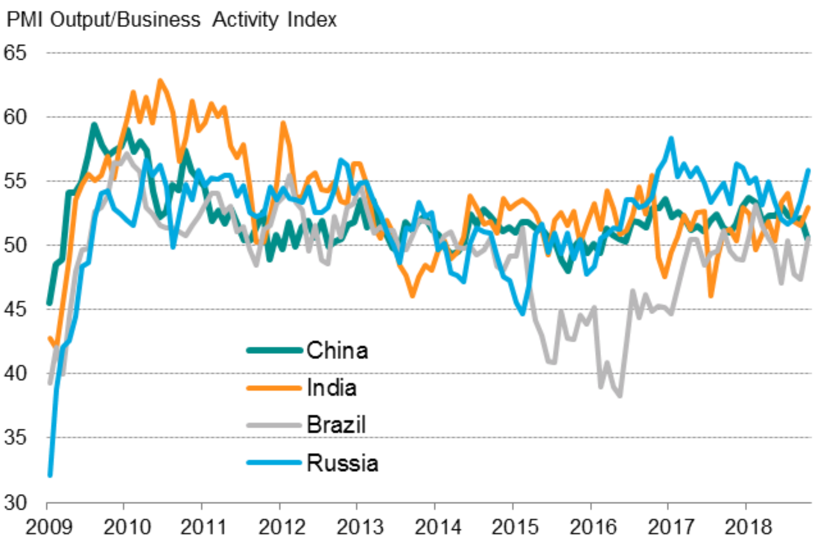
Emerging market output grew especially slowly, registering the joint-weakest expansion for 25 months. Developed world growth improved but was still the second-weakest in two years.

Among the major developed markets, Eurozone and UK composite PMI figures registered the weakest upturns for 25 and 27 months respectively. Composite PMI readings rose to three- and six-month highs respectively in the US and Japan, but both were buoyed in part by improved weather.

In the major emerging markets, a key development was the weakening of growth in China to the slowest since June 2016, with only marginal gains seen in both manufacturing and services. In contrast, improved performances were seen in India, Russia and Brazil after disappointing data in prior months.







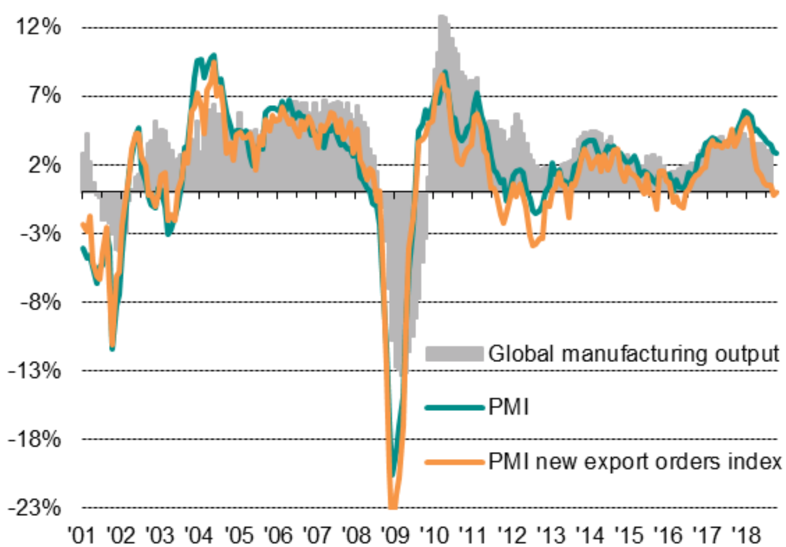
Sources: IHS Markit, CIPS, Caixin, Nikkei.
NB. All data refer to a GDP-weighted average of the PMI survey manufacturing and services indices.

Global manufacturing wanes

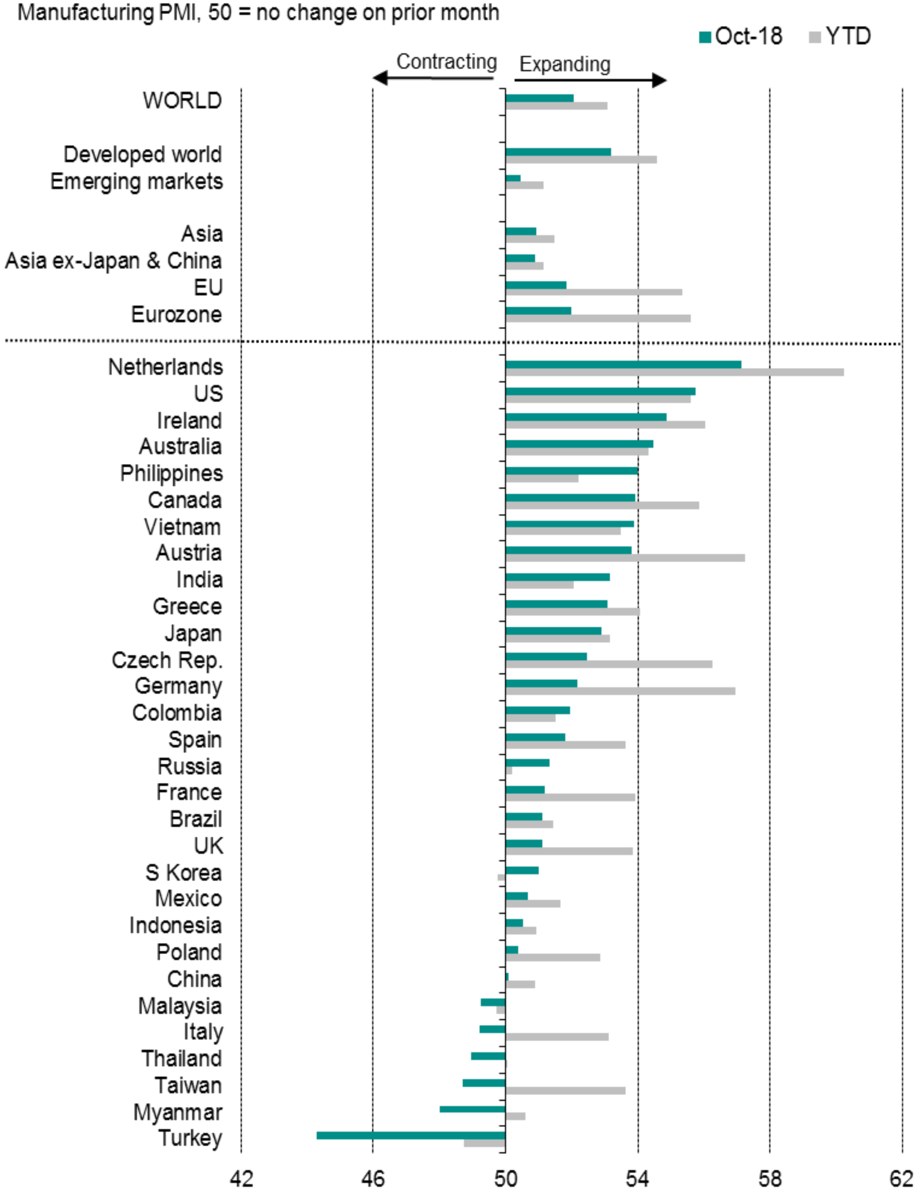
Manufacturing output increased globally at the slowest pace since June 2016, according to [the JPMorgan Global Manufacturing PMI](), constrained by a weaker increase in new business, including a second monthly drop in exports.

Developed economies generally fared better than emerging markets, notably the US, which moved up to second place in the rankings, beaten only by the Netherlands.

Six of the 30 countries surveyed reported a deterioration in manufacturing conditions in October, all of which were emerging markets with the exception if Italy. Turkey reporting the steepest downturn, followed by Myanmar, Taiwan and Thailand. China eked out only a very marginal expansion.



Source: IHS Markit, JPMorgan.



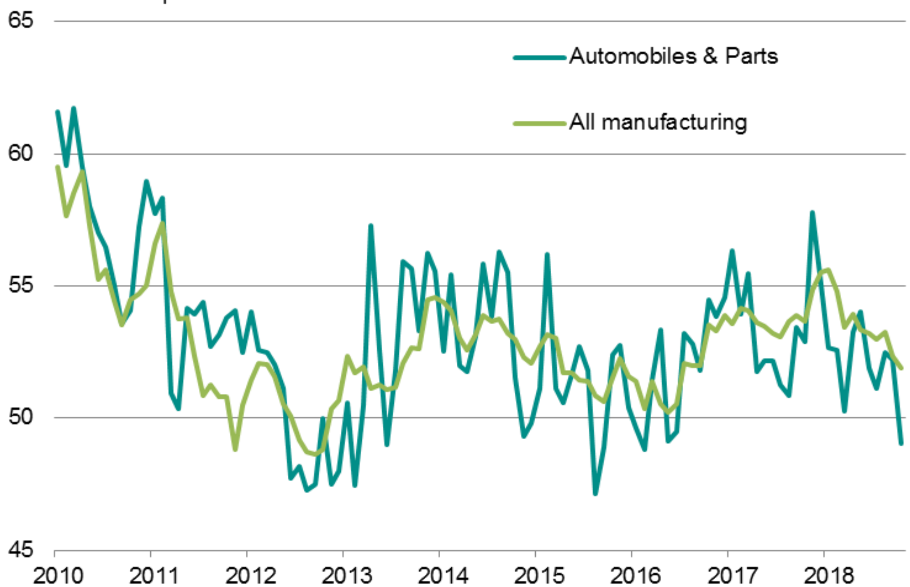
Sources: IHS Markit, JPMorgan, CBA, ISO, CIPS, NEVI, Nikkei, BME, Bank Austria, Investec, AERCE, Caixin, HPI, CBA.

Auto makers lead global slowdown

Global sector PMI data showed output falling in October in just four of the 26 sectors for which data are available, though that's the largest number of sectors reporting a decline since August 2016. Auto makers reported the sharpest drop in production, with an especially sharp fall seen in Europe, where makers have been struggling with new emission regulations.

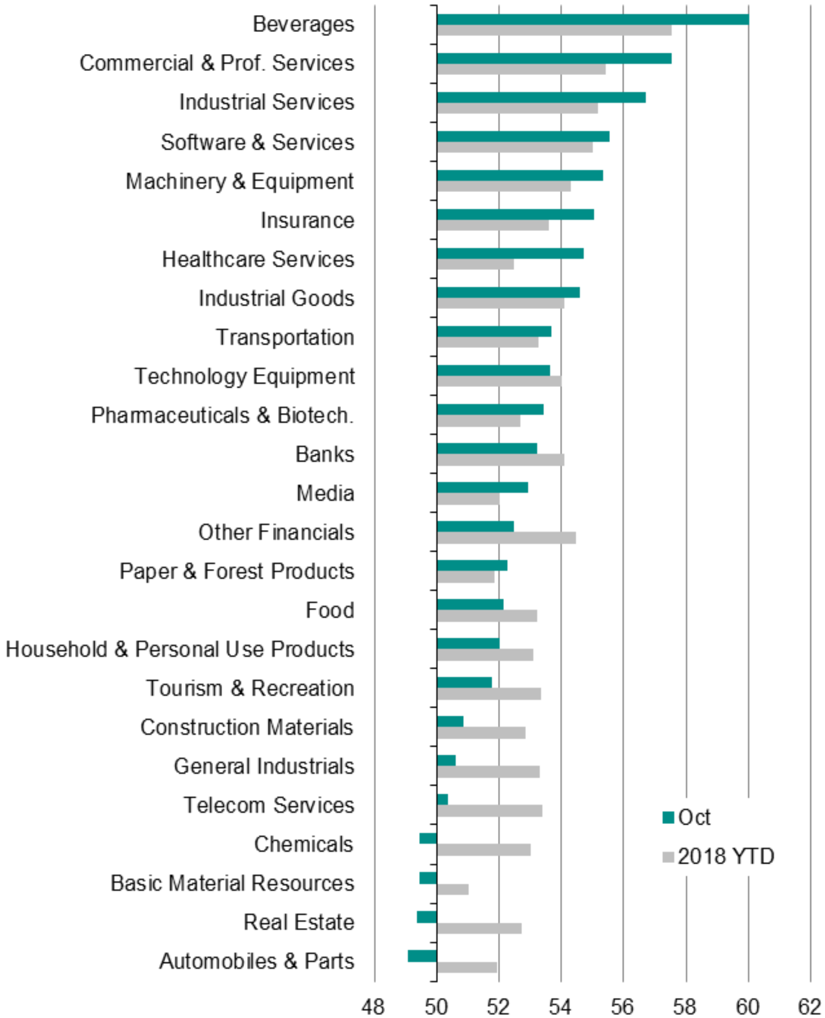
The fastest growing sector was beverages, followed by a clutch of service sectors, spearheaded by commercial and professional services, which recorded the steepest growth of business activity for over three years. Machinery and equipment makers, a key bellwether of global capex, meanwhile reported a welcome upturn.

Global PMI Output Index



Source: IHS Markit, JPMorgan.

Global Sector PMI Output Rankings



Source: IHS Markit.

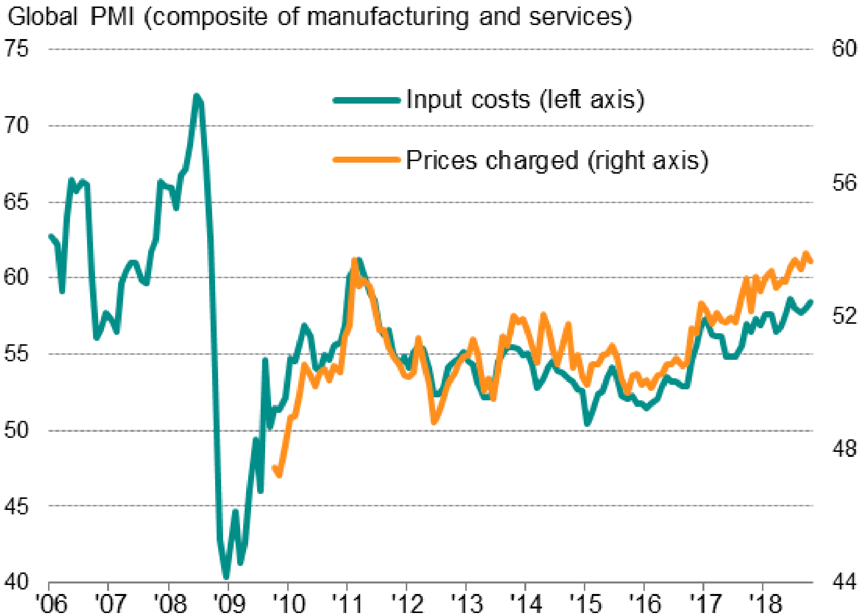
Global selling price inflation near survey-record

Tariffs were a key factor behind a jump in firms' costs, alongside higher energy prices (notably for oil) and rising wages in some countries. Despite some signs of easing prices for some key commodities on global markets, including key metals such as steel, measured across both sectors input costs showed the second-largest monthly increase since June 2011.

Average selling prices for goods and services also rose sharply again as firms passed higher costs on to customers. The monthly rise in prices charged was just below the survey record high seen in September, moderating slightly in both manufacturing and services.

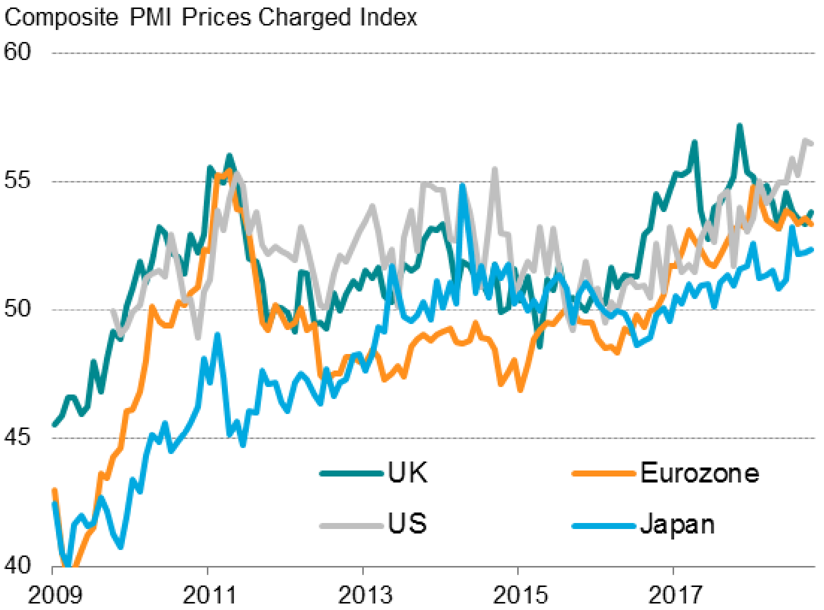
Among the major economies for which comparable data are available, the steepest rise in selling prices for goods and services was seen in Germany, followed by the US.

Global PMI* price indices



Sources: IHS Markit, JPMorgan.

Global PMI* price indices



Source: IHS Markit, JPMorgan.

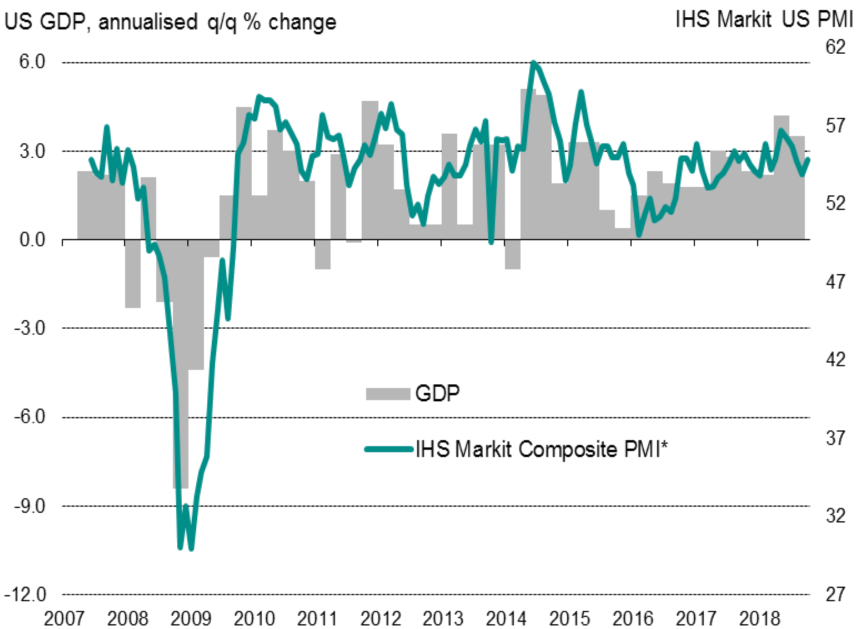
* PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

US PMI signals solid start to Q4 but also near-record price rise

The September IHS Markit US PMI surveys showed a rebound from a weather-torn September, with strong domestic demand propelling service sector growth in October. Combined with the steady output growth in the manufacturing sector, the survey data suggest the economy grew at its fastest rate since July. Comparisons with GDP indicate that the latest survey data translate into an annualised rate of economic growth of around 2.5-3.0%, representing a solid start to the fourth quarter. Expectations of future business growth spiked higher, suggesting companies are expecting a strong end to the year for the economy.

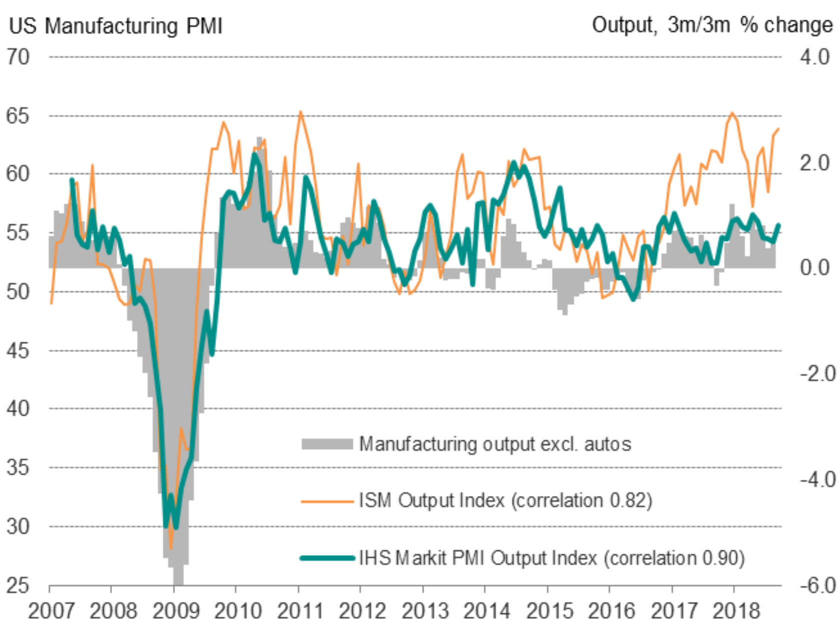
Average selling prices for goods and services rose at a rate only marginally below September's ten-year survey record high, however, indicating that intensifying inflationary pressures remain a key concern. Price rises often reflected the need to pass higher costs on to customers, in turn often linked to tariffs, upward wage growth and higher interest rates. Consumer price inflation therefore looks set to remain elevated, adding to the hawkish picture ahead of an expected Fed rate hike in early December.

US economic growth and the PMI**



Source: IHS Markit.

US manufacturing



Sources: IHS Markit, ISM, U.S. Federal Reserve.

*Manufacturing PMI only pre-October 2009

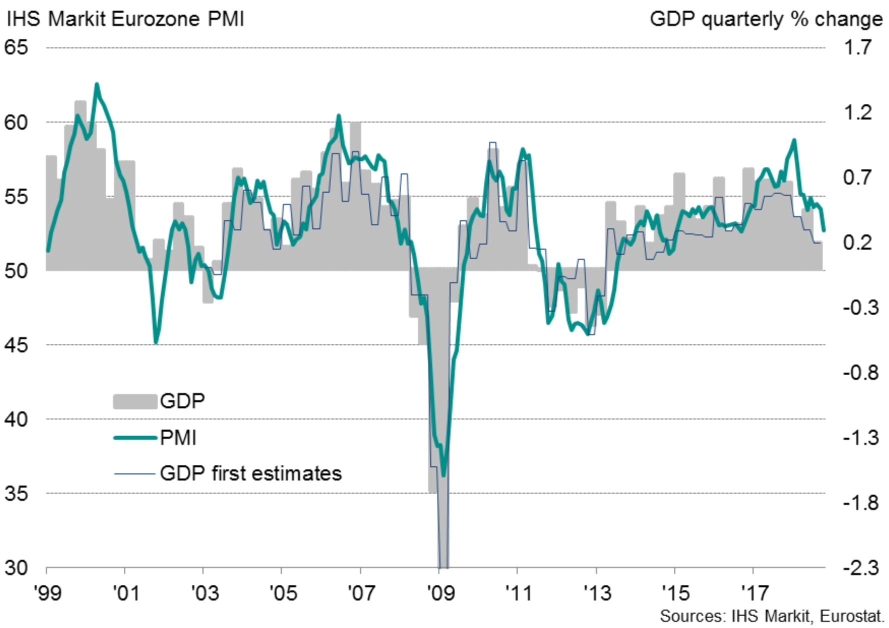
** PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

Eurozone growth weakens to lowest in over two years

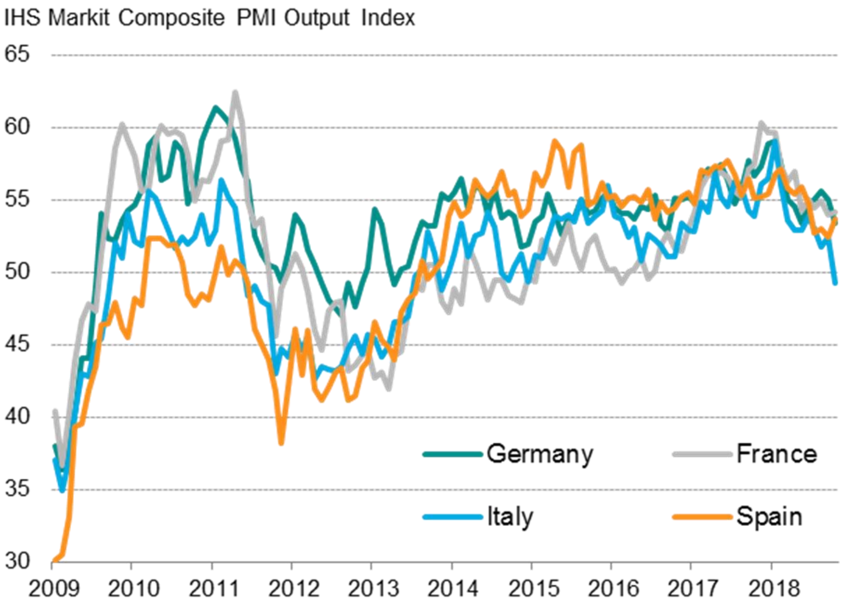
Eurozone companies reported a disappointing start to the fourth quarter, with the region's PMI down to its lowest since September 2016. Not only is business activity is growing at its slowest rate for over two years, but expectations about the future have also slumped to the bleakest for over four years. An export-led slowdown linked to growing trade tensions and tariffs that has been met with rising political uncertainty, growing risk aversion and tightening financial conditions. The slowdown has consequently become more broad-based to increasingly envelop the services economy. While the PMI numbers hint at an upward revision to the 0.2% flash estimate of Q3 GDP growth, it's clear that the economy has slowed sharply and that the weakness has intensified into Q4.

Italy has seen an especially steep deterioration in business conditions, slipping into decline in October, and Germany has also seen a worrying slowdown, with both countries dogged by rising political uncertainty. France and Spain, in contrast, have seen more resilient business conditions, though both have slowed sharply since earlier in the year

Eurozone economic growth and PMI*



Eurozone 'big-four' output



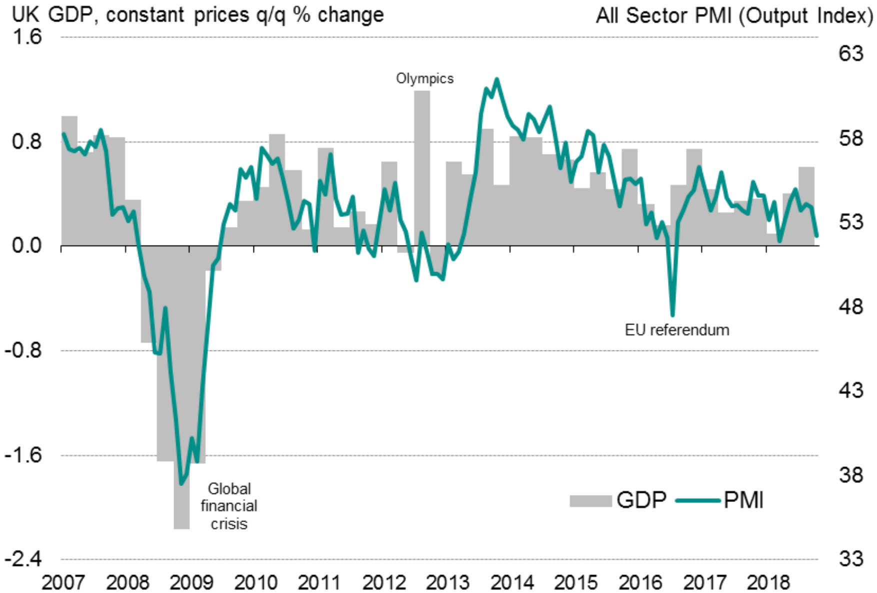
*PMI shown above is a GDP weighted average of the manufacturing and services indices.

UK PMIs show economy slowing sharply as Brexit worries bite

PMI surveys showed UK business activity growing at a sharply reduced rate in October. The October surveys are indicative of the economy growing at a quarterly rate of just 0.2%. The survey also saw inflows of new orders and business optimism about the year ahead deteriorate further to levels commensurate with economic stagnation at best. Another steep rise in costs and signs of rising wage pressures meanwhile suggested consumer price inflation will remain elevated in coming months.

Brexit uncertainty in particular continued to cloud the outlook, dampening current spending and investment, though other factors were also reported to have weakened demand, including global economic slowdown worries. The surveys therefore add to evidence that the economy is being restrained, potentially temporarily, as Brexit discussions between the UK and EU intensify, but it remains unclear as to the extent to which Brexit worries are merely exacerbating a more broad-based slowing of the economy.

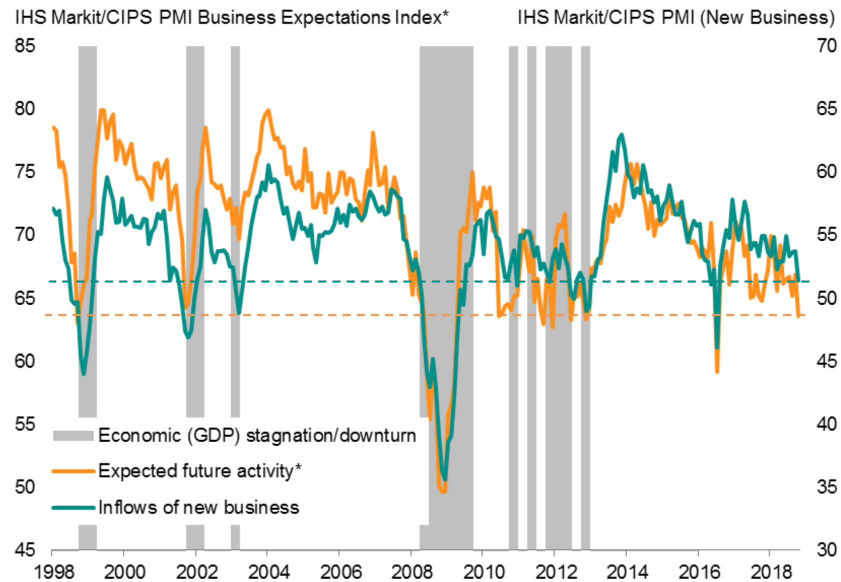
UK PMI* and GDP



Sources: IHS Markit, CIPS, ONS.

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

UK PMI forward-looking indicators



* covers only services and construction prior to 2012. Source: IHS Markit/CIPS.

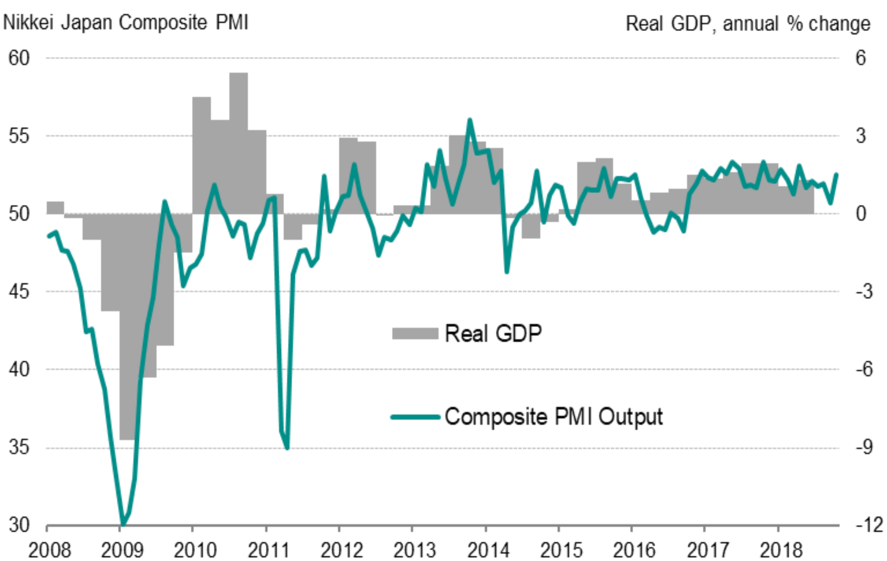
Sources: IHS Markit, CIPS, ONS.

Japan PMI rebounds but input cost inflation hits 10-year high

The Nikkei Japan Composite PMI rebounded to 52.5 in October from a two-year low of 50.7 in September. The latest reading indicated a faster rate of growth of business activity in the economy, commensurate with annual GDP growth of approximately 2%. After four months of sluggish export performance, foreign orders increased in October. But with typhoons having battered the economy in September, at least some of the upturn in the PMI could be pinned on business and trade flows returning to normal. The combined readings for the past two months suggest an underlying GDP growth rate of just over 1%.

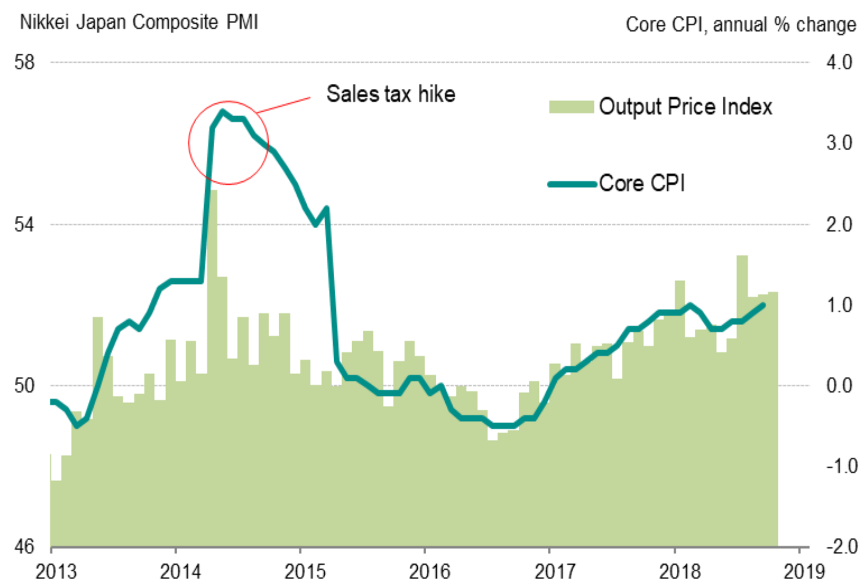
Input costs rose at the strongest rate for a decade, but firms only managed to partially shift some of the cost burdens on to customers. Output charges increased modestly. As highlighted in a previous note, a markedly higher level in the PMI's measure of output prices for goods and services needs to be seen for core inflation to reach the Bank of Japan's 2% target

Japan economic growth and the PMI*



Sources: IHS Markit, Nikkei, Japan Cabinet Office

Japan price indices



Sources: IHS Markit, Nikkei, MIAC

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

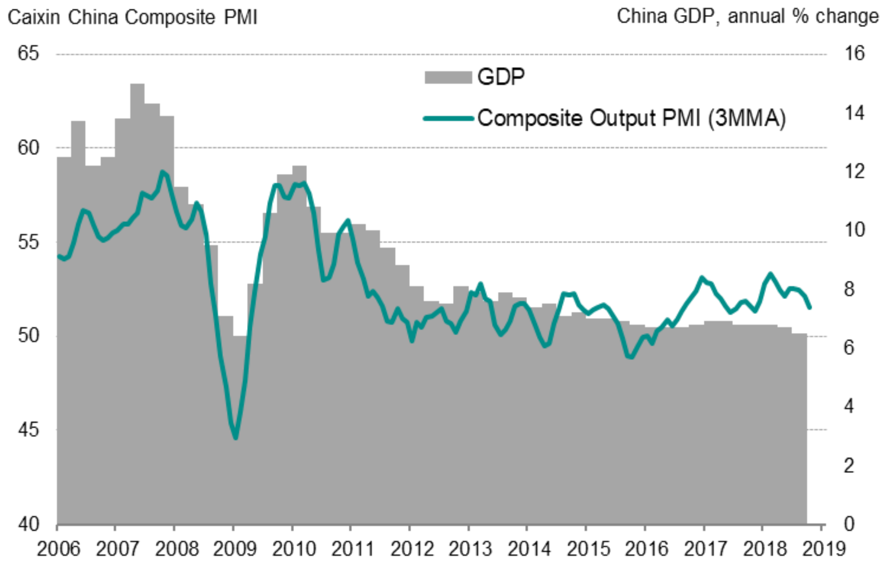
Caixin China PMI signals business growth at weakest in two years

The Caixin China Composite PMI™ (which covers both manufacturing and services) fell from 52.1 in September to 50.5 in October, which was the biggest drop for 5½ years. The latest reading was the lowest since June 2016, signalling only a mild improvement in the health of the Chinese economy.

Manufacturing led the slowdown, with factory output broadly stagnant in October, compared to the prior two years of expansion. Manufacturing orders grew marginally, dragged down by a further decline in new export business. Foreign sales have now shrunk for seven straight months. The export downturn was linked by some firms to rising trade tensions.

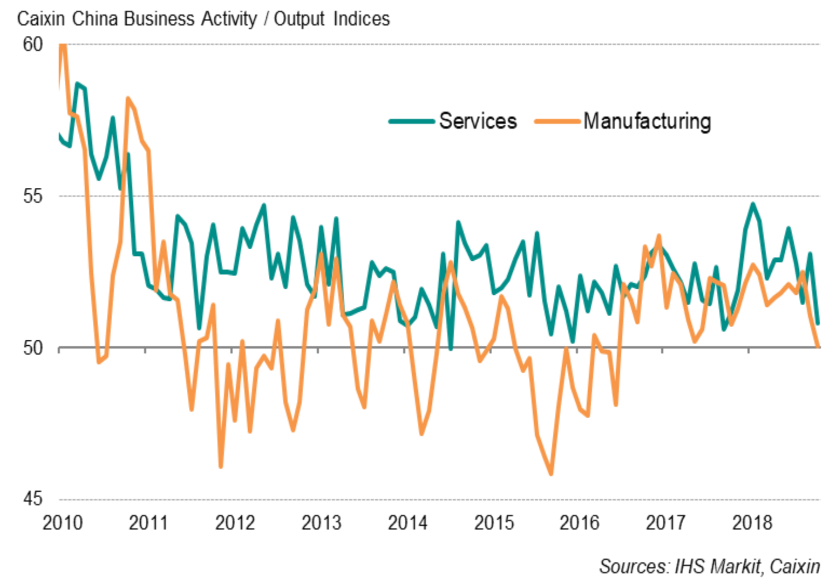
The October surveys also brought news that the slowdown in manufacturing appeared to have broadened to the service sector, which reported the softest rise in business activity for just over a year.

China PMI and nominal GDP



Sources: IHS Markit, Caixin.

China PMI output indices



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

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