



IHS Markit™

Global PMI

Global growth outlook blighted by weak trade flows

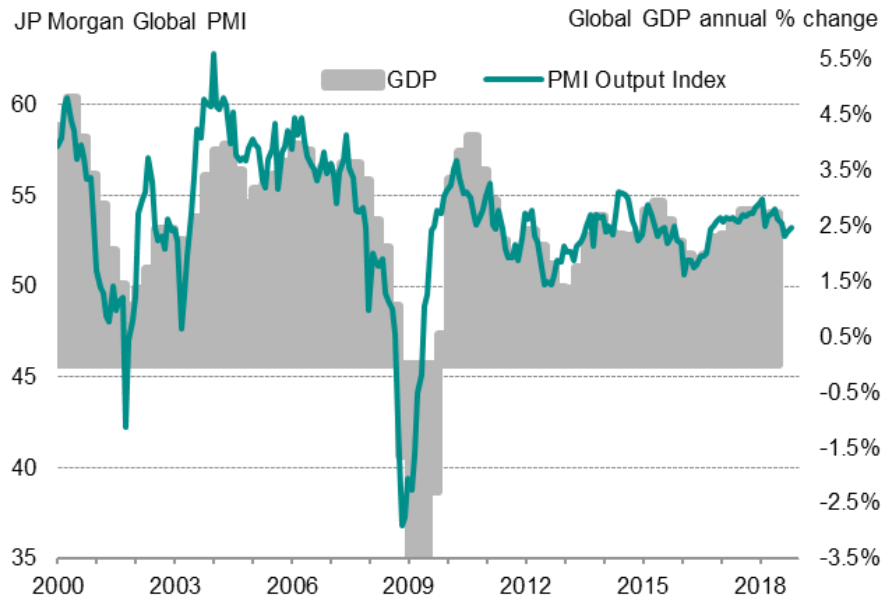
December 12th 2018

Global PMI subdued amid smallest rise in orders for two years

The latest business surveys showed worldwide output rising further mid-way through the fourth quarter, but falling trade flows continued to subdue the overall pace of expansion. Although global business activity grew at a marginally improved pace for a second successive month in November, according to the [latest JPMorgan PMI](#), the expansion was one of the weakest seen over the past two years. The Global Composite PMI, compiled by IHS Markit, rose from 53.0 in October to a three-month high of 53.2.

Growth is also likely to soften again in coming months: sentiment about the year ahead and inflows of new work both deteriorated to the worst recorded for just over two years. The survey data showed that subdued manufacturing growth and a further marginal drop in global exports acted as a drag on the global economy growth. Service sector growth accelerated, led by a stronger emerging market performance, which helped offset a slower rate of developed world expansion.

Global PMI* output & economic growth



Global PMI indicators*



Sources: IHS Markit, JPMorgan.

Sources: IHS Markit, JPMorgan.

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

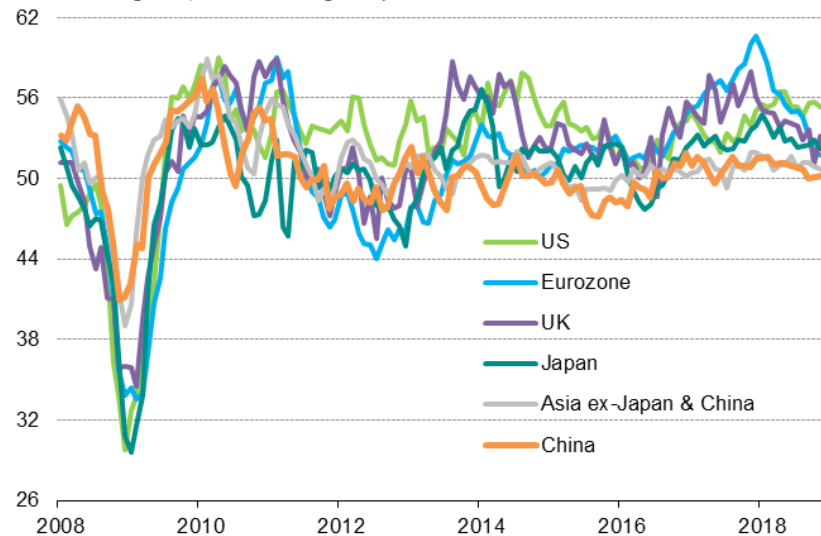
World exports fall for third month running

Global manufacturing growth remained unchanged at a two-year low in November, according to the [JPMorgan Global Manufacturing PMI](#), compiled by IHS Markit. Concurrently, exports fell for a third month running, and the number of countries reporting a deterioration of business conditions rose to the highest since 2016. Business optimism meanwhile hit the lowest since comparable data were first available in mid-2012, often reflecting concerns over trade wars.

Vietnam rose to the top of the PMI rankings while the US moved up into fourth place, having displayed more resilience in terms of factory growth than other major economies.

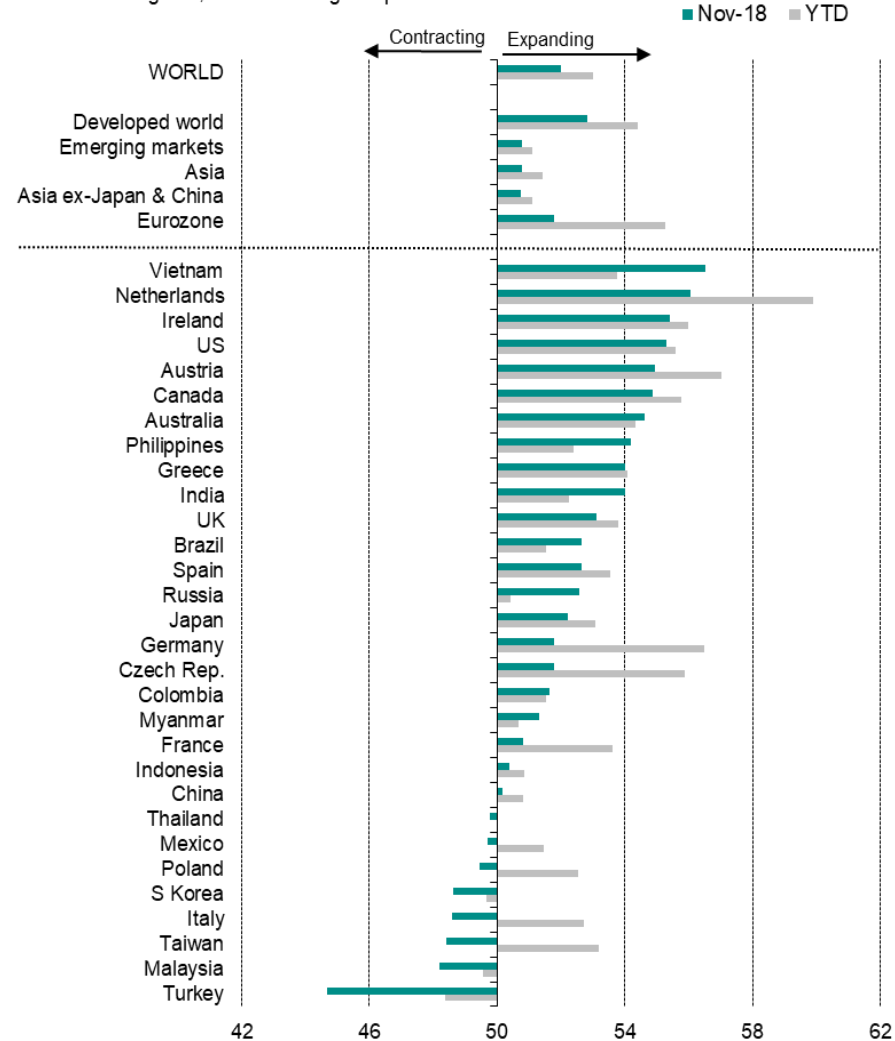
Eight of the 30 countries surveyed by IHS Markit reported a sub-50 PMI reading (up from one a year ago), with the worst performance seen in Turkey.

Manufacturing PMI, 50 = no change on prior month



Source: IHS Markit, CIPS, Nikkei, Caixin.

Manufacturing PMI, 50 = no change on prior month



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

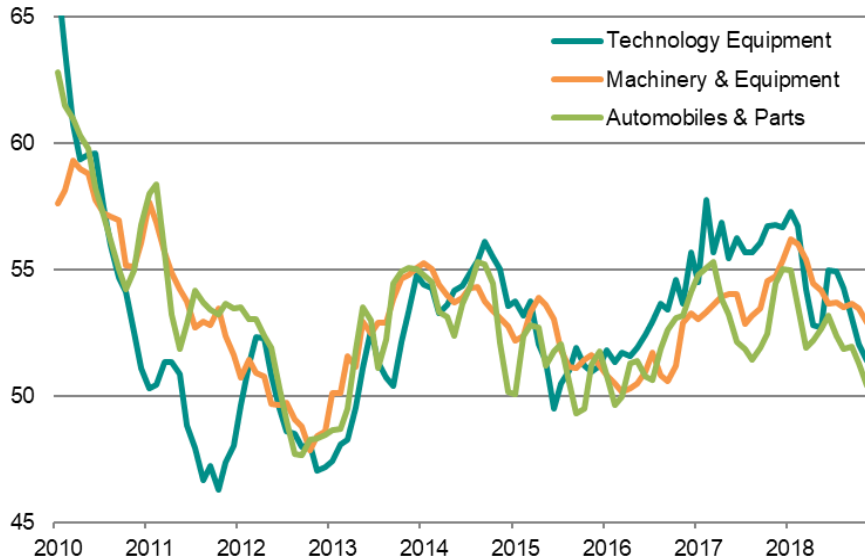
Weaker trends seen in global capex indicators

Global [Sector PMI data](#) showed output falling in four of the 26 sectors, led by Metals & Mining, where the drop was the steepest for three years. The decline reflects the recent cooling of demand for raw materials in manufacturing. Auto makers also reported another drop in output, with an especially sharp fall [seen in Europe](#), where makers have been struggling with new emissions regulations.

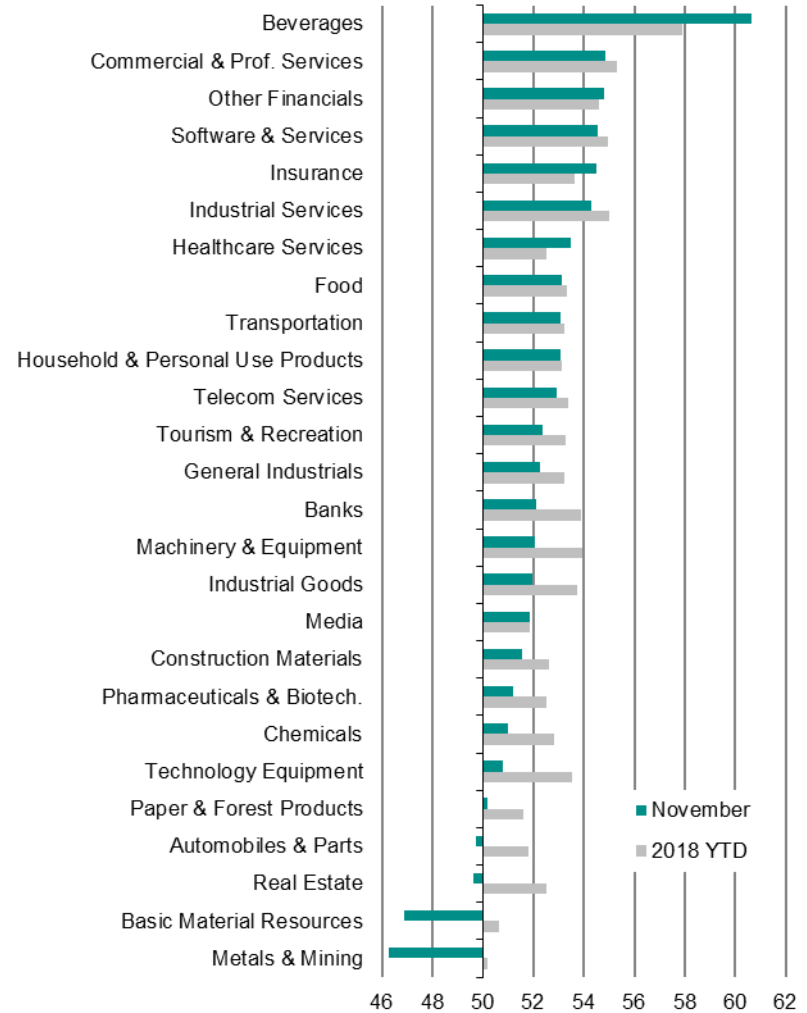
Importantly from a global capex perspective, machinery & equipment makers and tech equipment producers both resumed slower growth trends.

Six of the top seven growing sectors were all service industries, though the fastest growing sector was again beverages.

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



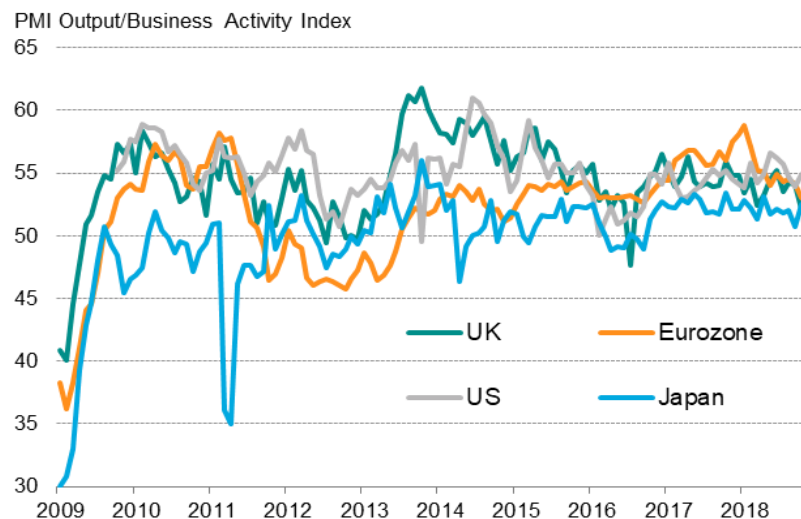
Global Sector PMI Output Rankings



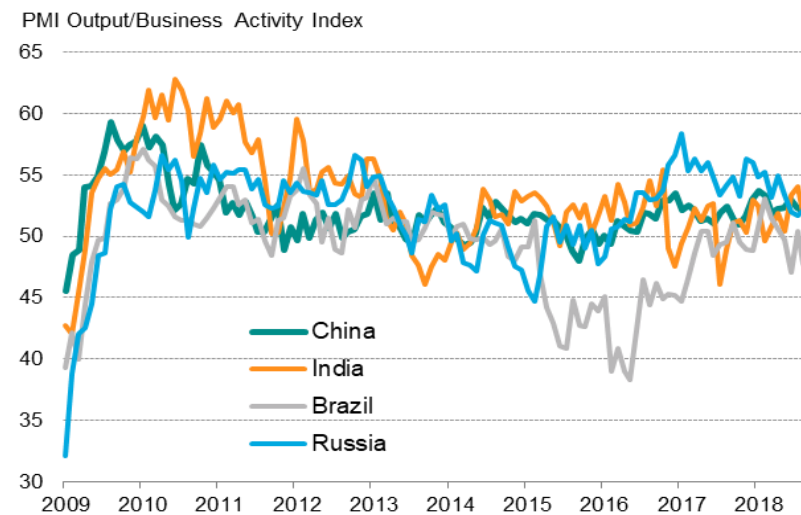
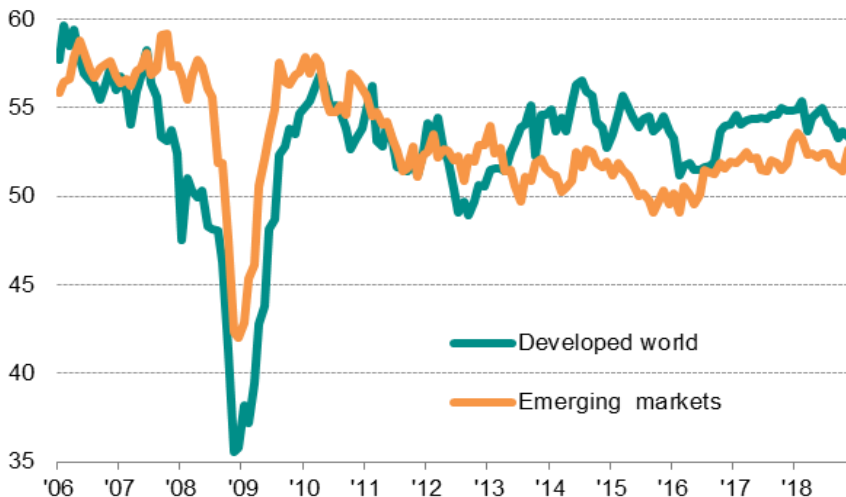
Resilient US continues to lead global upturn

Emerging markets closed the gap with the developed world in November, the latter held back by slower European growth in particular. Among the major developed markets, the strongest expansion was again seen in the US. Although the US PMI edged slightly lower, the index still points to a solid Q4. An improvement in November's PMI numbers meanwhile indicated that Japan looks set to rebound from a drop in GDP in Q3. In contrast, growth slowed close to stagnation in the UK as Brexit worries intensified, and eurozone growth hit the lowest for over two years.

In the emerging markets, key gains were seen in India and Brazil, the former notching up the best PMI for just over two years. However, China's Q4 is so far looking the weakest since mid-2016.



Global PMI Output/Business Activity Index

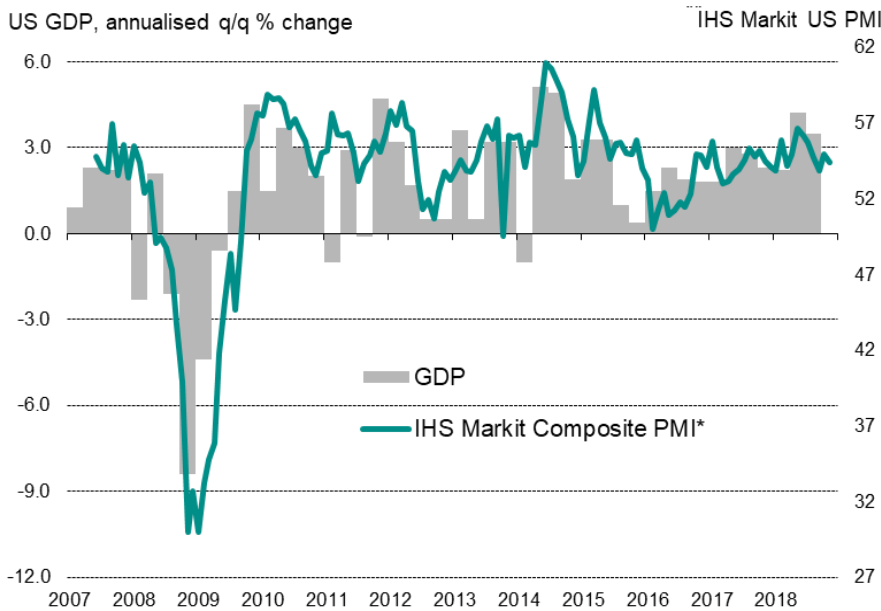


US PMI points to softer, though still solid, Q4 growth

US business surveys continued to send contrasting signals, a dip in the [IHS Markit PMI](#)™ indicated that the economy will likely see GDP growth slow to 2.5% in Q4, considerably below the 4.9% indicated by the ISM data. However, a [recent paper](#) demonstrates that the ISM output and new orders indices have overstated growth of their corresponding official economic concepts, to the extent that a statistical break in the relationships likely occurred in June 2017. No such statistical break is evident in the IHS Markit survey data.

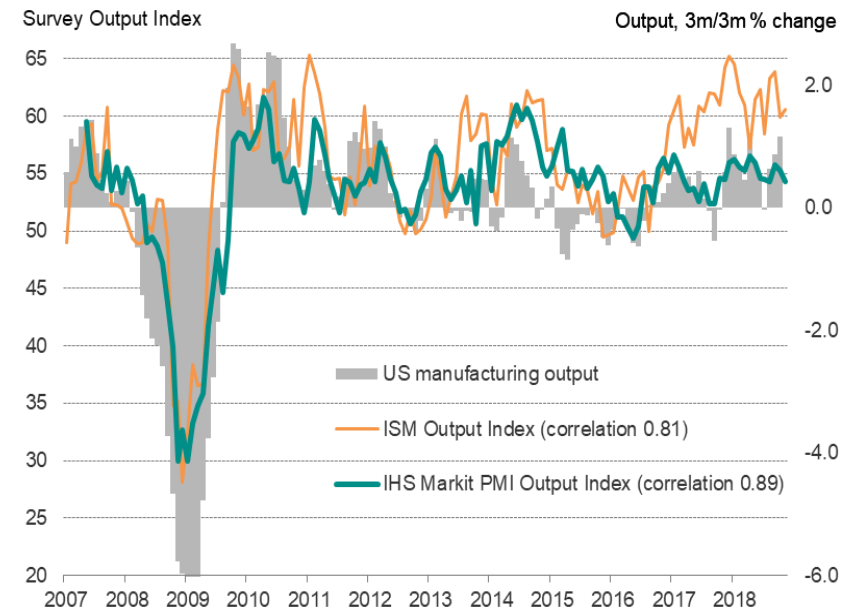
However, even the weaker expansion signalled by the IHS Markit PMI is impressive when taken in the context of the 4.2% and 3.5% rates of expansions seen in Q2 and Q3 respectively, which had already been the best back-to-back performances of the US economy since 2014. Although easing, jobs growth also remains strong: the IHS Markit PMI Employment Index has exhibited a 95% correlation with monthly non-farm payroll changes over the past decade and was indicative of a 185,000 non-farm payroll rise in November.

US economic growth and the PMI**



Source: IHS Markit, U.S. Bureau of Economic Analysis.

US manufacturing



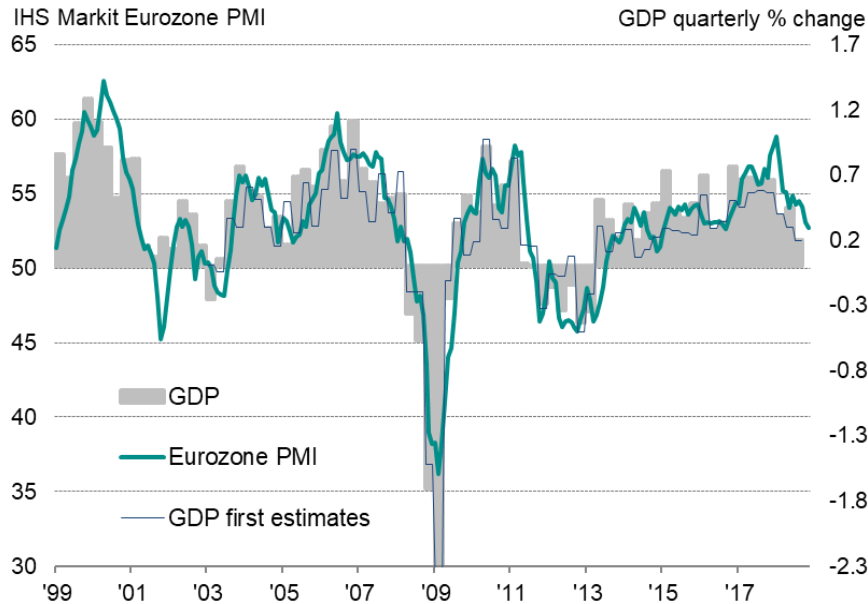
Sources: IHS Markit, ISM, U.S. Federal Reserve.

Eurozone economy loses further momentum in November

The [eurozone PMI](#) for November hit the lowest for over two years, pointing to modest GDP growth of 0.3% in Q4, an estimate confirmed by our [new 'nowcast' models](#). The survey showed a manufacturing-led slowdown spreading to the service sector. Business optimism was meanwhile found to have been running at its lowest since 2014, boding ill for the outlook and employment growth. The survey responses highlighted intensifying headwinds of trade war worries, Brexit worries, a struggling autos sector and rising uncertainty about economic and political outlooks. [Analysis of historical comparisons](#) suggest that the survey data are indicative of a bias toward looser monetary policy

Hardest hit was Italy, where business contracted again to indicate a risk that the [economy faces a slide into recession](#), and Germany, which reported the weakest growth for nearly four years. France and Spain meanwhile saw more resilient growth.

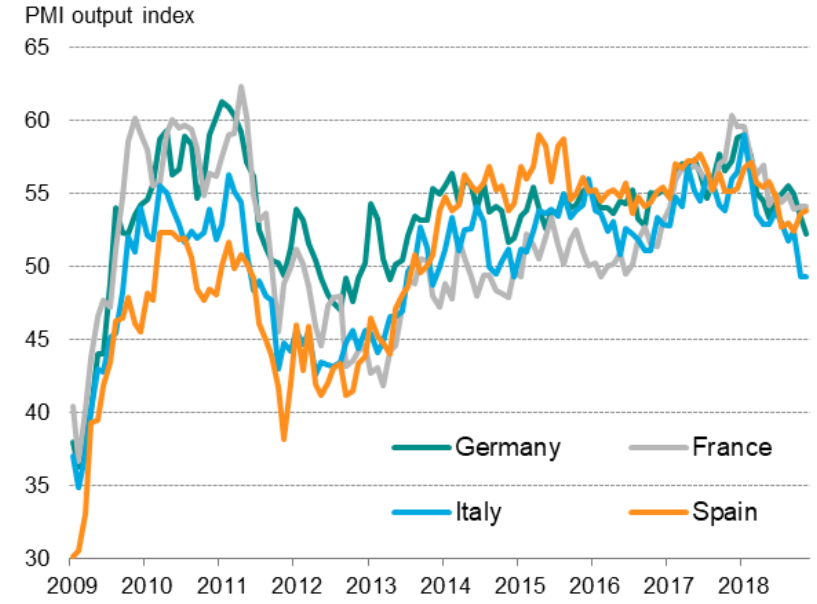
Eurozone economic growth and PMI*



Source: IHS Markit, Eurostat.

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

Eurozone 'big-four' output*



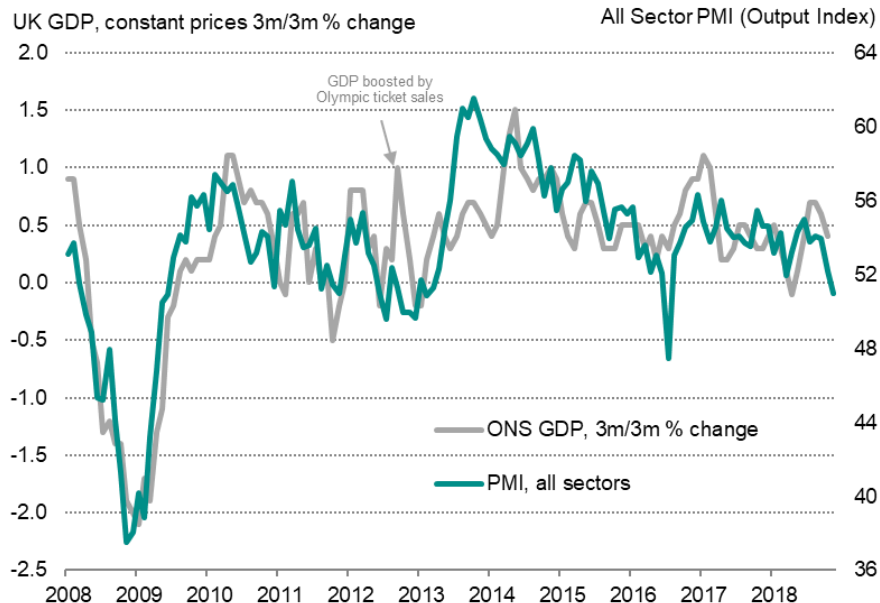
Sources: IHS Markit.

UK economy flatlining as Brexit worries intensify

PMI surveys showed UK business activity [stalling in November](#). With the exception of July 2016, when business slumped in the immediate aftermath of the EU referendum, the PMI was the lowest since February 2013. The surveys are so far consistent with just 0.1% GDP growth in Q4, thanks to the expansion seen back in October. [Official data](#) confirmed the weakening picture since the summer, with GDP up just 0.1% in October after being unchanged in August and September.

A contraction of service sector activity in November was only avoided by firms working through backorders to an extent not exceeded since 2009. As such, unless demand revives, a slide into decline at the turn of the year is a distinct possibility. Both the slowdown in business activity and a deterioration in optimism about the year ahead to the second-lowest since the global financial crisis were primarily caused by anxieties over Brexit, leading companies and customers to cancel or postpone spending and investment.

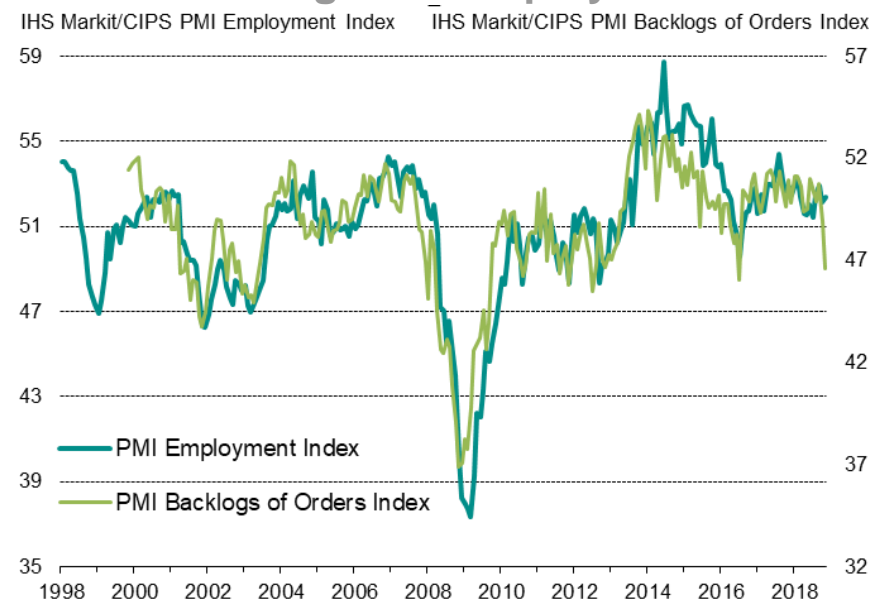
UK PMI* and GDP



Sources: IHS Markit, CIPS, ONS.

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

UK PMI backlogs and employment



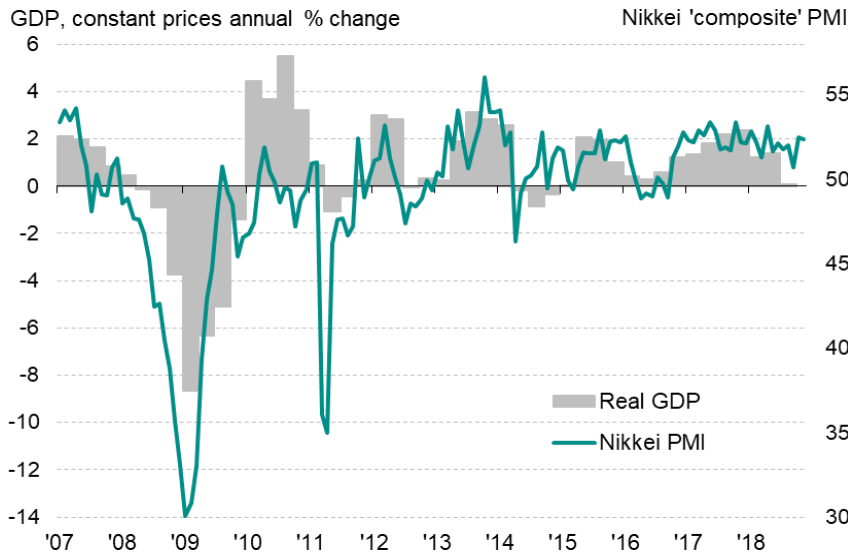
Sources: IHS Markit, CIPS, ONS.

Japan PMI signals Q4 rebound in economy, but worries build

The [Nikkei Japan Composite PMI™](#) Output Index came in at 52.4 in November, close to October's post-typhoon rebound of 52.5. The solid numbers set the scene for stronger GDP numbers in Q4 after the 0.6% decline seen in Q3. However, the survey also brought signs of slower output growth in coming months. Growth in manufacturing sales was noticeably weaker than October and among the slowest for two years. There was also little support from external markets. While still growing, export orders rose at only a marginal rate amid reports of increasingly tough global trade conditions. Business optimism meanwhile sank to a 15-month low.

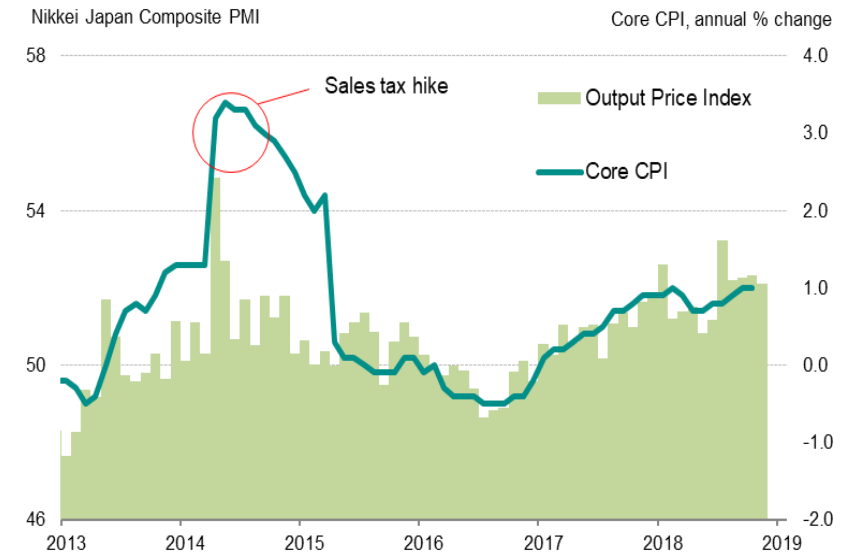
Input price inflation eased from a decade-high in October, but cost increases remained well above the historical average. Companies were often able to pass some of the cost rises on to their clients. However, the PMI Output Prices Index remained noticeably below 54, seen as a key level that is consistent with the Bank of Japan's 2% target for core consumer price inflation.

Japan economic growth and the PMI*



Sources: IHS Markit, Nikkei, Japan Cabinet Office.

Japan manufacturing exports



Sources: IHS Markit, Nikkei, MIAC.

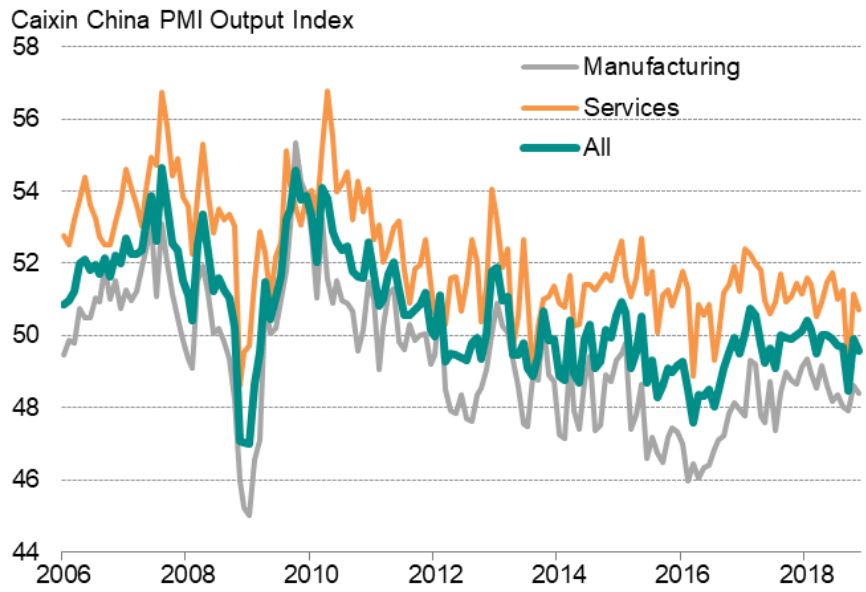
* PMI shown is a GDP-weighted average of the manufacturing and services indices.

China PMI running at weakest since mid-2016 so far in Q4

Faster economic growth was signalled in China during November after the [Caixin Composite PMI™](#) (which covers both manufacturing and services) rose from 50.5 in October to 51.9. The rise was the biggest gain (in terms of index points) for over two years, though still failed to regain the ground lost in October, which had seen the index fall to a 28-month low. As such, the average PMI reading for the latest two months puts the fourth quarter on course for the weakest expansion since the second quarter of 2016. Manufacturing, suffered a further drop in exports, and hence remained the key area of weakness.

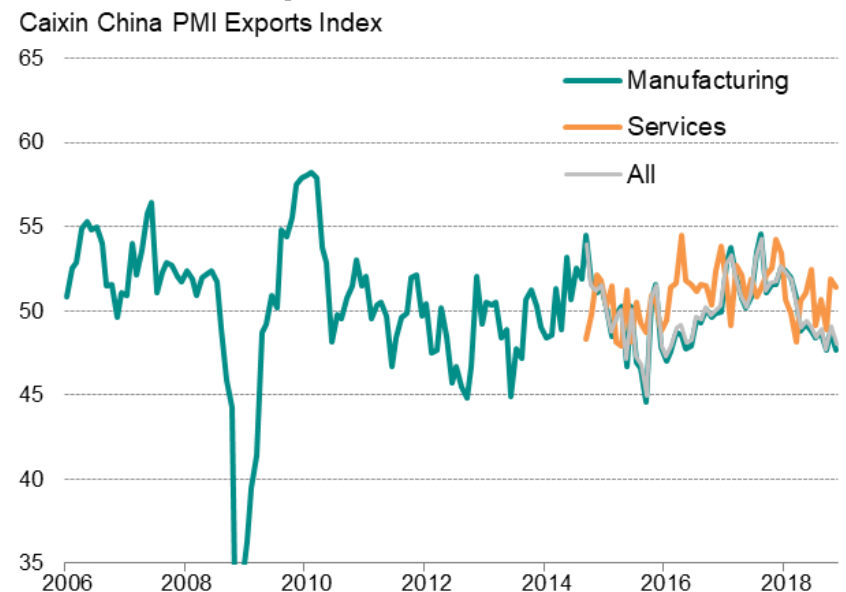
Other indicators urge caution in interpreting November's upturn as the start of a stronger growth phase, suggesting the soft-patch has further to run. Most worrying was a drop in business expectations about the year ahead to the joint-lowest since comparable data were first available in 2012. Job losses accelerated amid concerns over the gloomier outlook.

China PMI output indices



Sources: IHS Markit, Caixin.

China PMI export orders indices



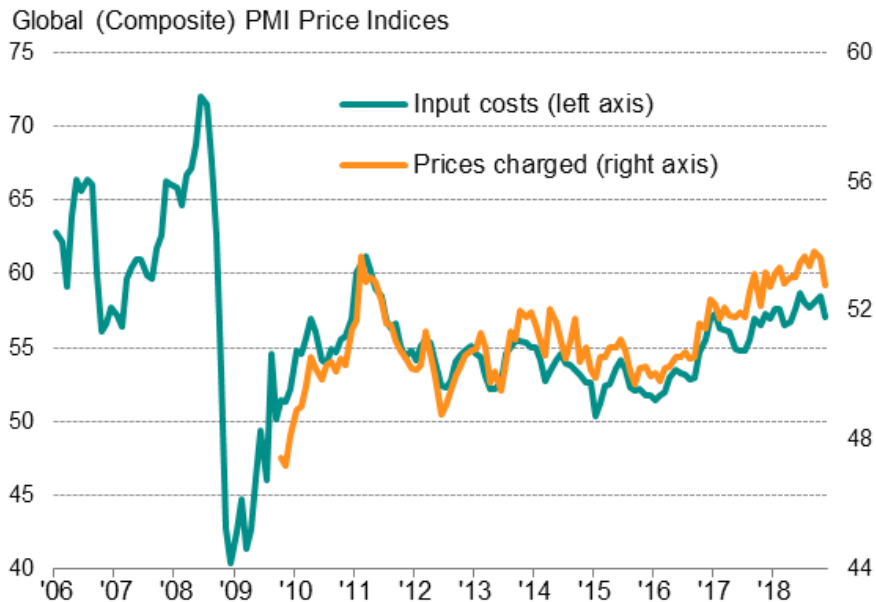
Sources: IHS Markit, Caixin.

Global selling price inflation cools further from survey-record

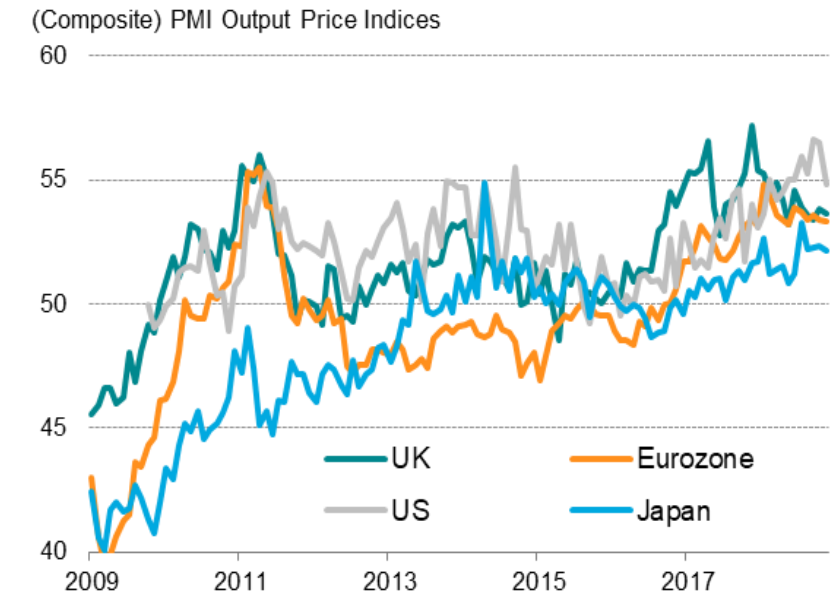
Tariffs were again a key factor behind a jump in firms' costs in November, notably in the US, alongside higher energy prices and rising wages in some countries. However, the recent drop in oil prices showed signs of feeding through, and supply chain delays were often reported to have moderated as supply and demand became more aligned for certain key inputs, helping ease upward price pressures. Measured across both sectors, global input costs showed the smallest monthly increase since April.

Average selling prices for goods and services also rose at a reduced pace, the rate of inflation cooling further from the survey record high seen in September, moderating slightly in both manufacturing and services to show the smallest overall increase so far this year. Among the major economies for which comparable data are available, the steepest rise in selling prices was again seen in Germany, followed by the US, though in both cases rates of increase softened.

Global PMI* price indices



Global PMI* price indices



Sources: IHS Markit, JPMorgan.

Source: IHS Markit, CIPS, Nikkei.

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

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