



IHS Markit™

Global PMI

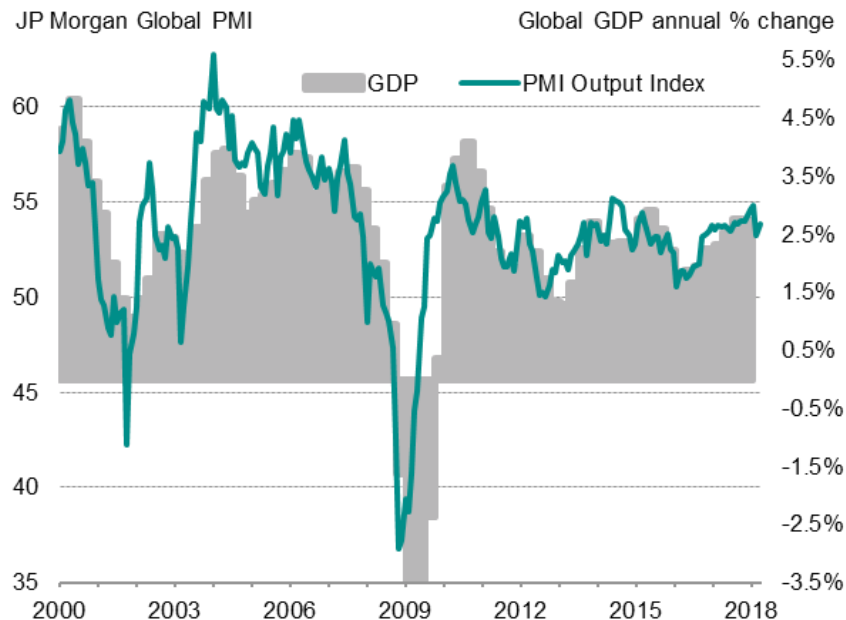
Global economy settles into lower gear,
but US bucks slowdown trend

May 10th 2018

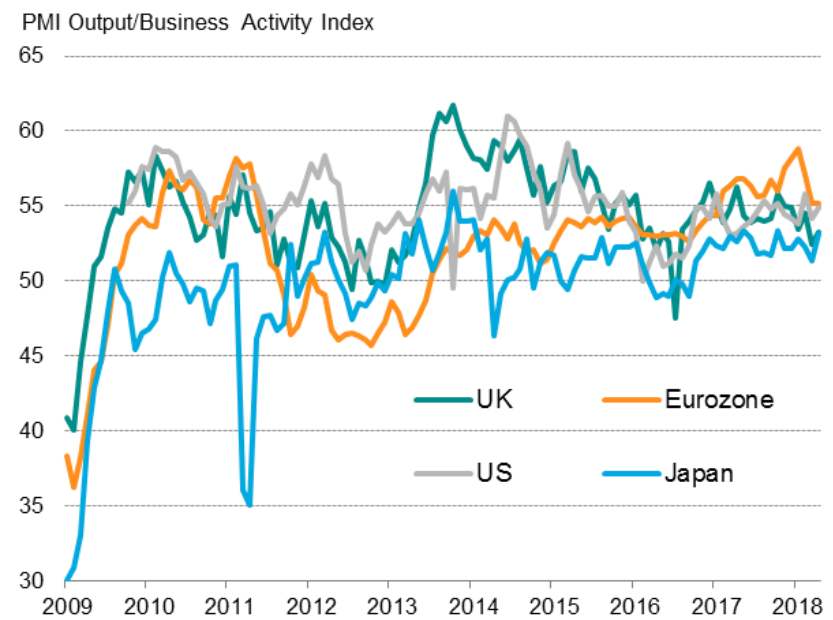
Global economy settles into lower gear

- PMI survey data indicate that global economic growth has settled into a slower (but still robust) pace in recent months. At 53.8 in April, the headline JPMorgan Global Composite Output PMI™, compiled by IHS Markit, failed to regain even half of the 1.5 point drop seen in March, leaving the rate of growth signalled much lower than that recorded earlier in the year. Nevertheless, the rate of increase was still in line with the average over 2017. As such, the PMI is consistent with global GDP rising at a reasonably solid annual rate of just over 2.5% (at market exchange rates) at the start of the second quarter.
- The composition of growth also appears to be changing, with the US showing increasing signs of driving the global expansion. US growth accelerated slightly in April, while growth across the eurozone continued to run below the strong rates seen at the turn of the year. The UK and Japan lagged behind again, though the latter enjoyed its strongest expansion for nearly a year.

Global PMI* output & economic growth



Global PMI indicators*



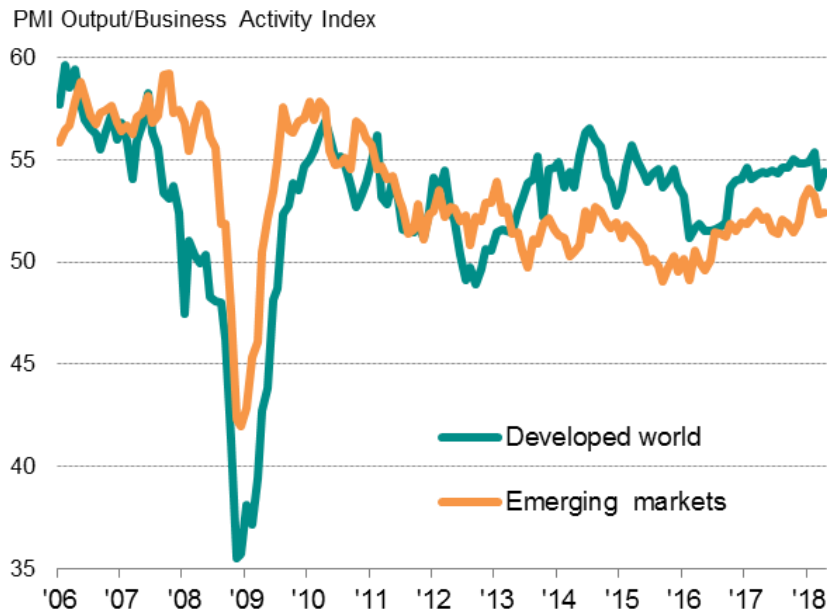
Sources: IHS Markit, JPMorgan.

Source: IHS Markit, CIPS, Nikkei.

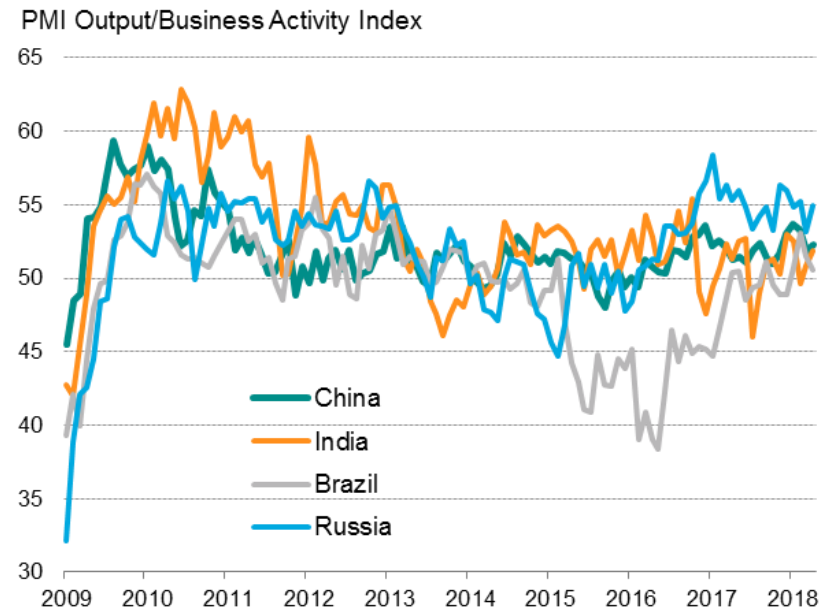
Emerging markets report solid start to Q2

- The emerging market PMI continued to trail behind that of the developed world, with the gap widening in April since the start of the year. Nonetheless, the recent spell of emerging market growth is the best recorded for five years.
- Growth ticked higher in Russia, China and India to provide welcome news that economic growth has started on a solid footing at the start of the second quarter, albeit remaining below peaks seen at the turn of the year due in part to weakened export performances. China saw growth accelerate in both manufacturing and services, primarily fuelled by rising domestic demand as exports slipped into decline.
- Brazil meanwhile saw growth slide to a four-month low in April, but the survey data continue to indicate on-going economic recovery. Russia continued to record the strongest expansion of the BRIC economies.

Emerging v developed world PMI* output



Emerging market PMI* output



Sources: IHS Markit, JPMorgan.

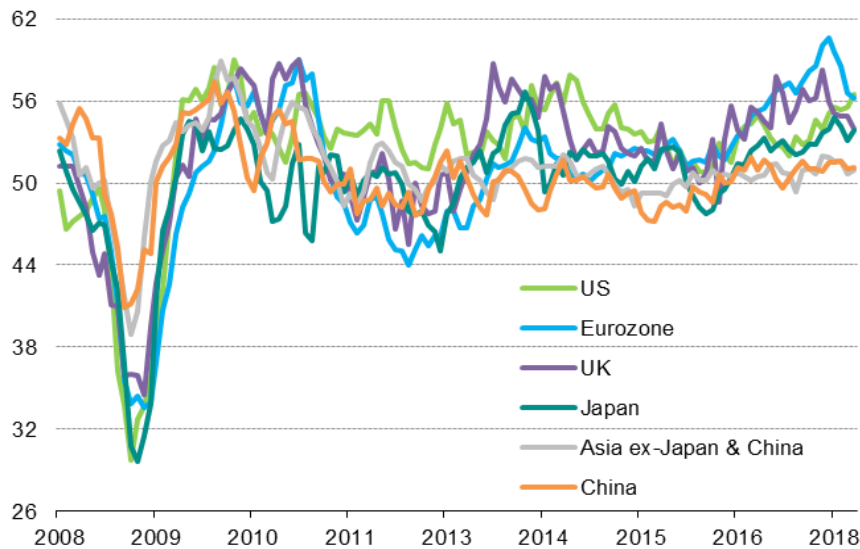
* PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

Source: IHS Markit, Caixin.

Northern Europe dominates global manufacturing, US closes gap

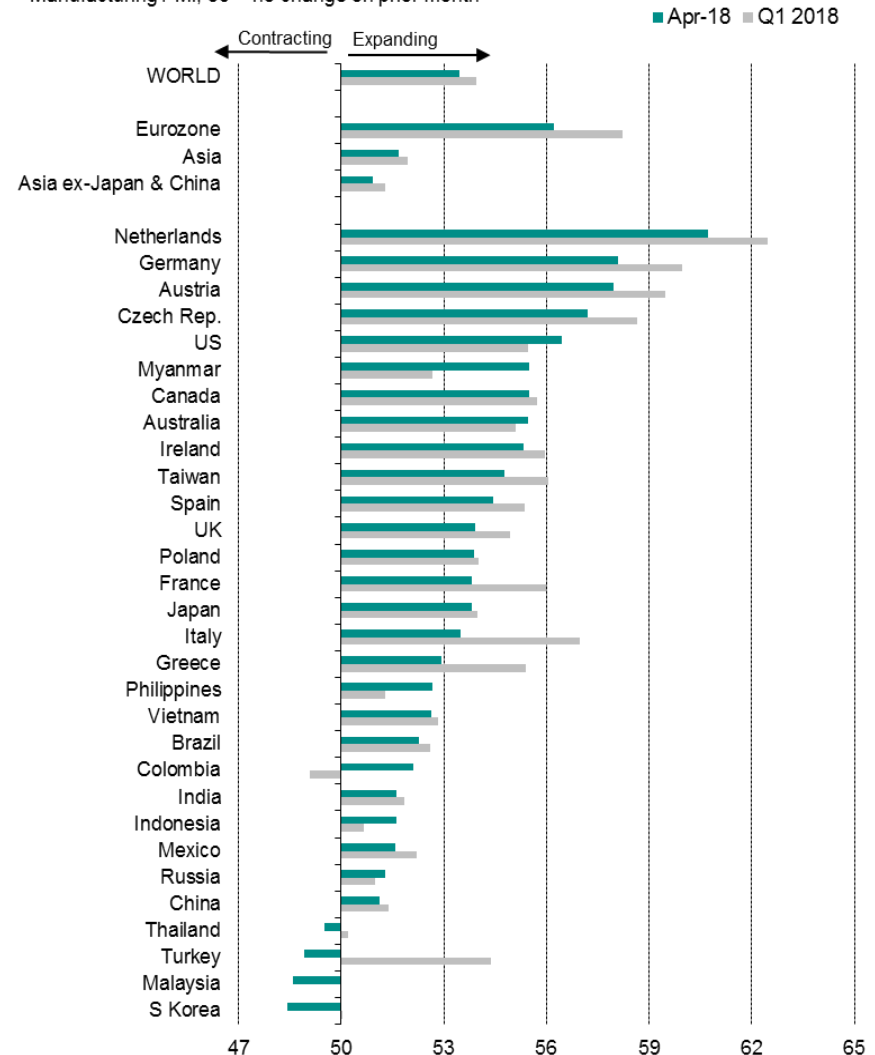
- Looking at just manufacturing, the headline PMI edged up from 53.3 in March to 53.5 in April. The latest reading failed to regain the peaks seen earlier in the year, but remained at a level consistent with global factory output rising at a solid annual rate of c.4% (at market exchange rates).
- While manufacturing continued to slow in the eurozone and UK, down to 13- and 17-month lows respectively, growth accelerated to a 43-month high in the US, surpassing the euro area for the first time since late-2016.
- A cluster of countries around Germany nevertheless continued to record the strongest manufacturing growth of all countries covered by the PMIs, led by the Netherlands.

Manufacturing PMI



Sources: IHS Markit, Caixin, CIPS, Nikkei.

Manufacturing PMI, 50 = no change on prior month



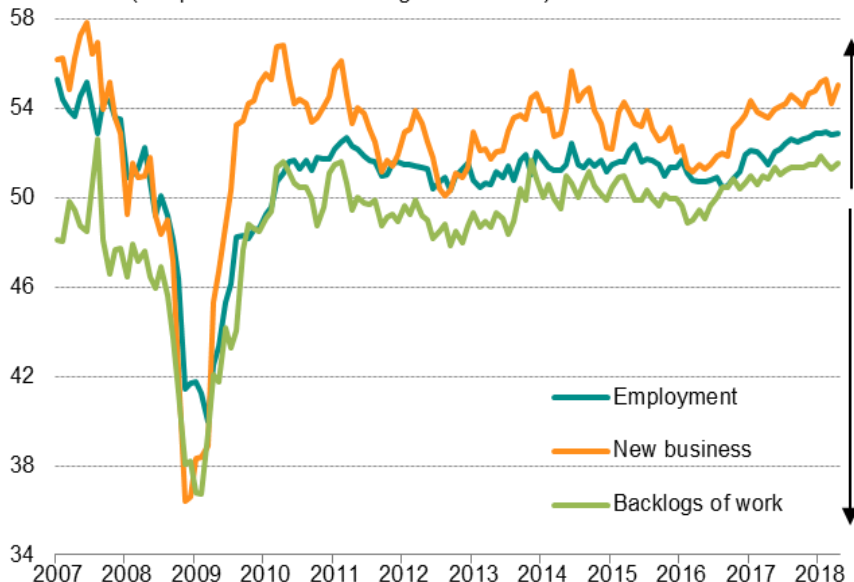
Sources: IHS Markit, JPMorgan, CBA, ISO, CIPS, NEVI, Nikkei, BME, Bank Austria, Investec, AERCE, Caixin, HPI, CBA.

Global jobs growth at decade high, but bottlenecks still on the rise

- Encouragingly, global new business inflows picked up pace again in April, albeit slightly below recent peaks, leading to a further increase in backlogs of work. Meanwhile, global employment growth was the joint-highest seen over the past decade as firms expanded capacity to meet fuller order books. The strength of new order growth and job creation further highlights the continuing robust health of the global economy, even if the overall pace of expansion has slowed since earlier in the year.
- It should also be noted that at least some of the slowdown was in part attributable to supply side constraints, including skill shortages and delivery delays for certain inputs, in turn reflecting the recent surge in demand for both employees and raw materials. Suppliers' delivery times showed the highest incidence of worldwide supply chain delays for seven years, a development which was again accompanied by rising prices as demand exceeded supply for many key inputs.

Global PMI* orders and employment

Global PMI (composite of manufacturing and services)

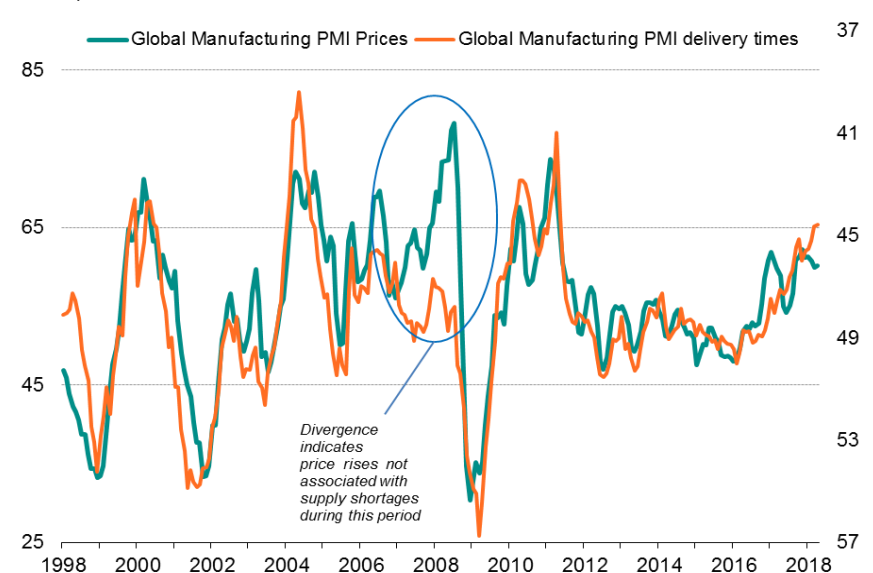


Sources: IHS Markit, JPMorgan.

Global PMI supplier deliveries and prices

PMI Input Prices Index

PMI Delivery Times Index (inverted)



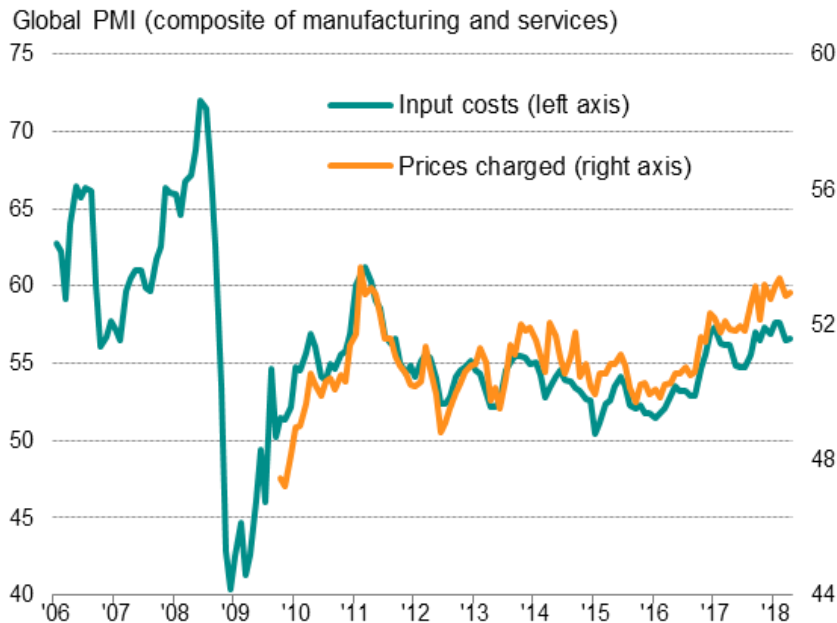
Source: IHS Markit, JP Morgan.

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

US reports steepest rise in prices of major developed economies

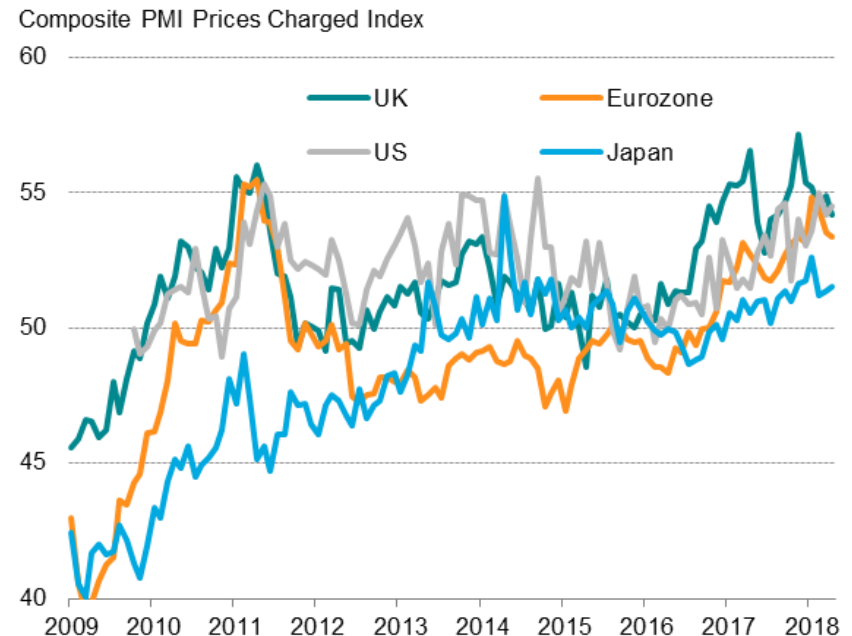
- The global upturn was once again accompanied by rising price pressures in the form of both higher costs and increased selling prices for goods and services. The latter has dipped since earlier in the year, but the rate of charge inflation remains among the highest seen over the past seven years.
- For the first time since 2015, the US reported the highest rate of selling price inflation of the four largest developed economies. US goods producers saw prices and costs rising at the highest rates since the first half of 2011, while service providers also reported one of the largest rises in costs seen in the past four years. Inflation measures meanwhile cooled in both the eurozone and UK but remained elevated. Prices showed a more modest increase in Japan, though the rate of growth remained relatively strong by recent years' standards.

Global PMI* price indices



Sources: IHS Markit, JPMorgan.

PMI* price indices



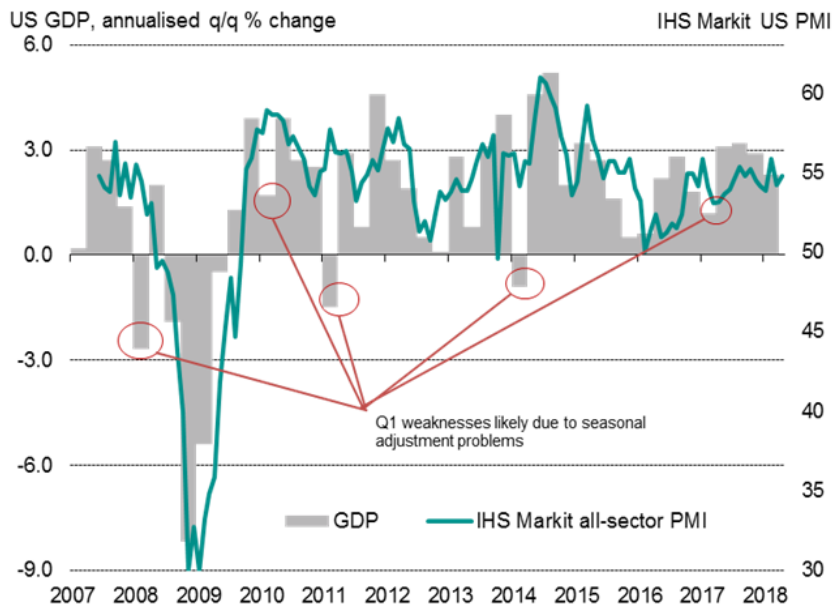
Sources: IHS Markit, CIPS, Nikkei.

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

US price pressures intensify as economy shows steady start to Q2

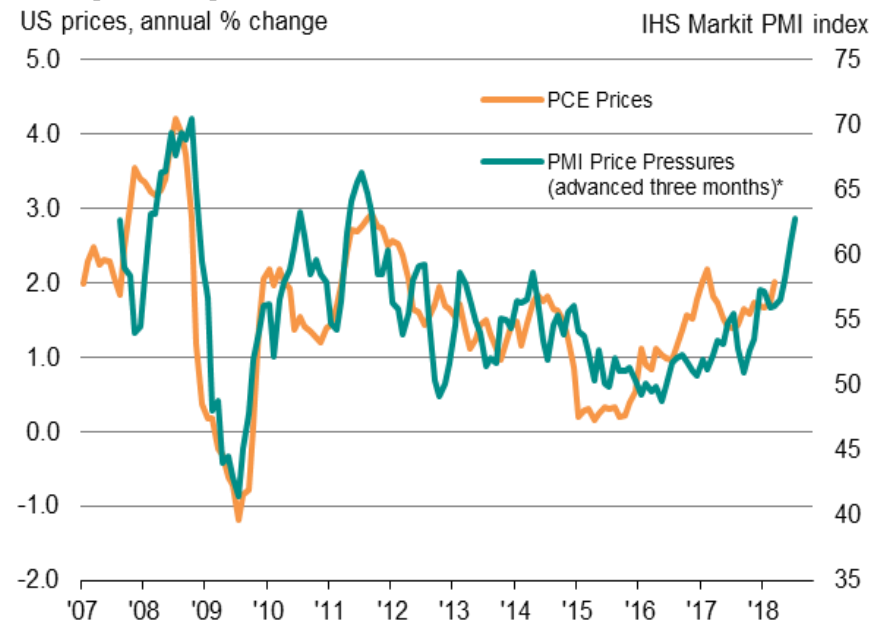
- An improved US service sector performance in April came on the heels of news of faster manufacturing growth, pointing to a broad-based strengthening of the economy. As such, the data support the view that Q2 GDP growth will come above the 2.3% rate seen at the start of the year. The two IHS Markit surveys also collectively pointed to another month of solid job gains, commensurate with the official measure of non-farm payrolls rising by approximately 200,000 in April.
- Perhaps the most important development was the upturn in price pressures. Survey evidence indicated that robust demand has allowed an increasing number of companies to raise prices for both goods and services in recent months. Higher oil prices are also pushing up costs. Measured across both manufacturing and services, input costs increased at the fastest rate since 2013, which will inevitably put greater pressure on consumer prices in coming months, all of which makes for a hawkish policy outlook.

US economic growth and the PMI**



** PMI shown above is a GDP weighted average of the manufacturing and services indices.
Sources: IHS Markit, U.S. Bureau of Economic Analysis.

US price pressures

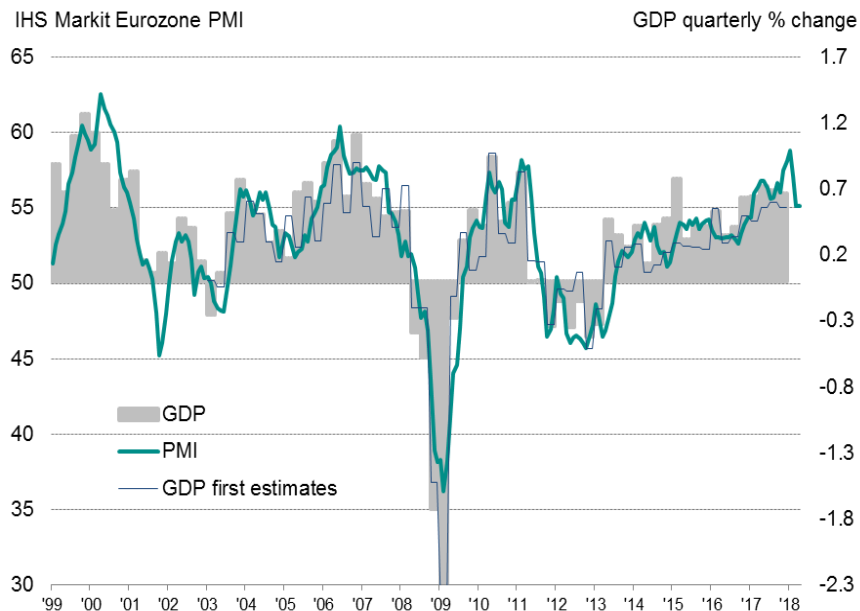


* A blended index of input prices and supplier delivery times.
Sources: IHS Markit, U.S. Bureau of Labour Statistics.

Eurozone PMI signals slower, but still solid, expansion

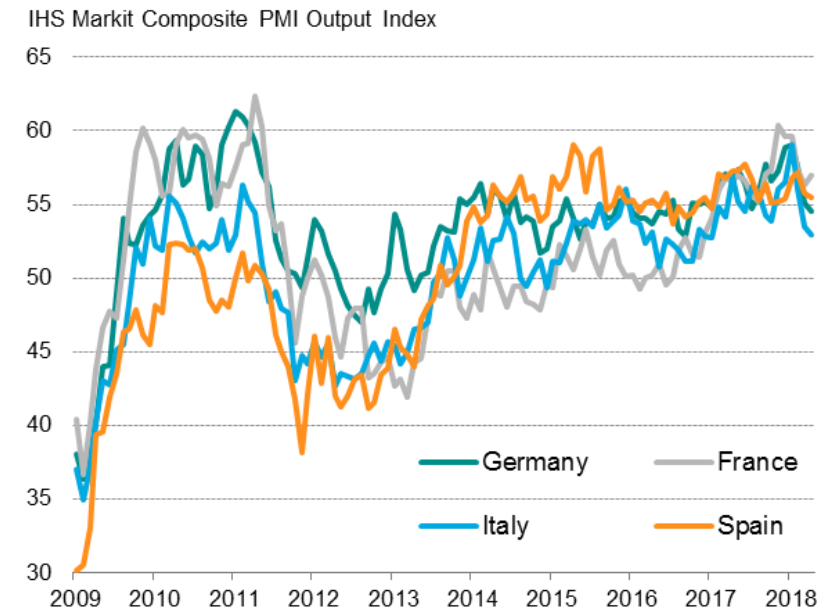
- The final PMI numbers confirmed the marked, broad-based fading of the eurozone's growth spurt so far this year. The headline index has fallen from an 11½ year peak in January to a 15-month low in April. All four largest euro members have seen growth weaken compared to earlier in the year. Despite the drop, the PMI is not yet at a worryingly low level, indicative of the eurozone economy growing at a robust quarterly rate of approximately 0.5-0.6%. Employment growth is also strong, with the rate of job creation at its highest for over a decade in the service sector, while price pressures remained elevated.
- However, the details of the survey hint at further declines in coming months, which would likely see policymakers sound increasingly concerned about the return of downside risks to the outlook. First, backlogs of uncompleted orders grew at the slowest rate for eight months. Second, companies' expectations about future output hit a five-month low.

Eurozone economic growth and PMI*



Sources: IHS Markit, Eurostat.

Eurozone PMI*

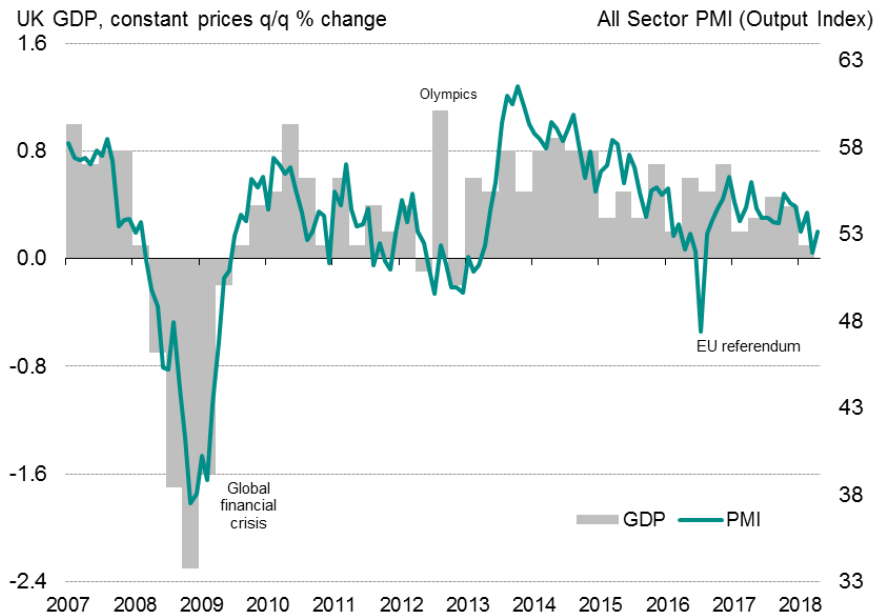


Sources: IHS Markit.
* PMI shown above is a GDP-weighted average of the survey output indices.

Muted PMI rebound indicates tepid UK economic growth at start of Q2

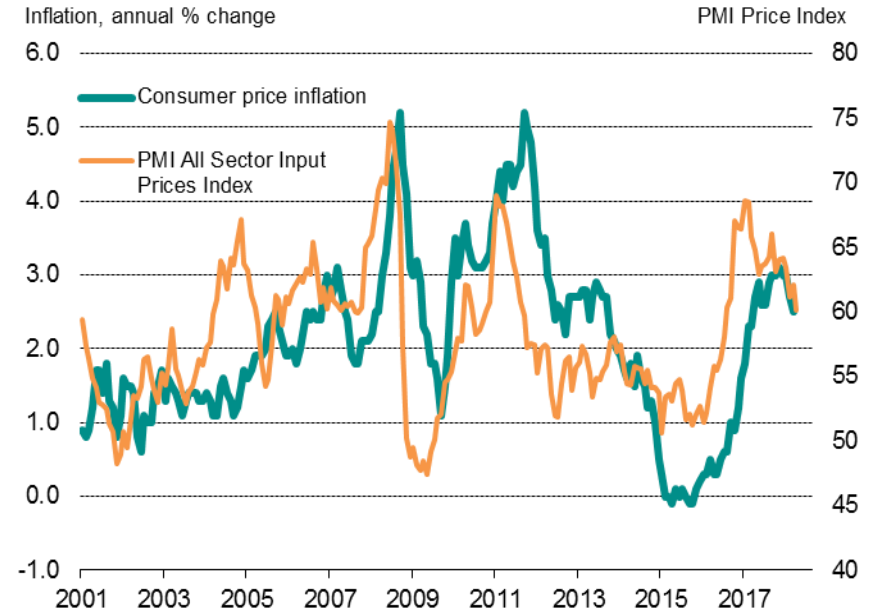
- UK business activity picked up only modestly in April after being disrupted by heavy snowfall in March, according to the latest PMI data, indicating that the rate of economic growth remained subdued at the start of Q2 after a disappointing Q1. The expansion signalled by the IHS Markit/CIPS PMI surveys was the third-weakest since the immediate fall-out from the 2016 Brexit vote, historically consistent with the economy growing at a quarterly rate of around 0.2%.
- The rate of job creation slipped to the lowest since January 2017. Survey data showed that sales, investment and hiring were hit by uncertainty about the economic outlook as well as sluggish domestic demand, notably among consumers.
- Price pressures have continued to cool. Nonetheless, the rates of increase remained elevated by historical standards. Average input costs showed the smallest rise since August 2016, while selling prices rose at the weakest rate for eight months.

UK PMI* and GDP



Sources: IHS Markit, CIPS, ONS.

UK inflation



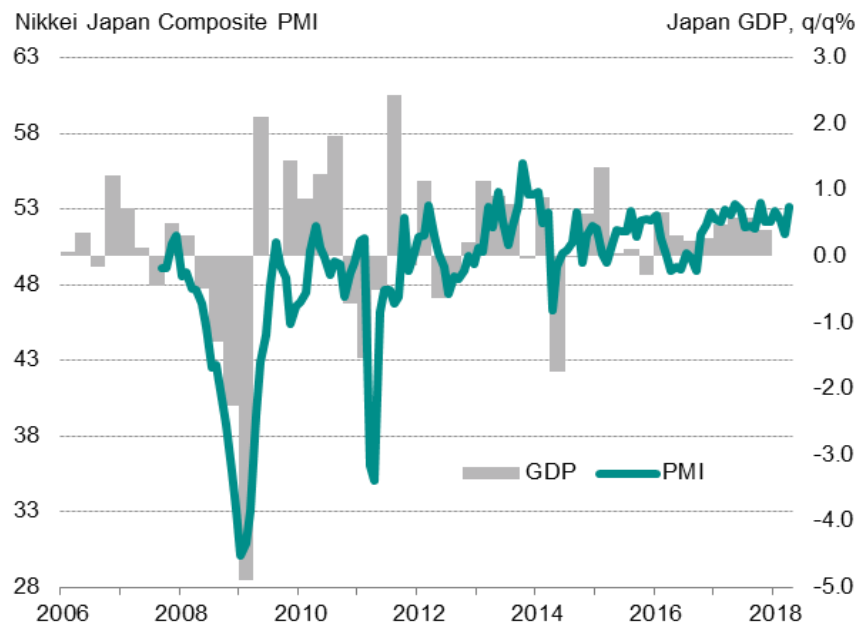
Sources: IHS Markit, CIPS, ONS.

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

Japanese growth picks up but price pressures remain modest

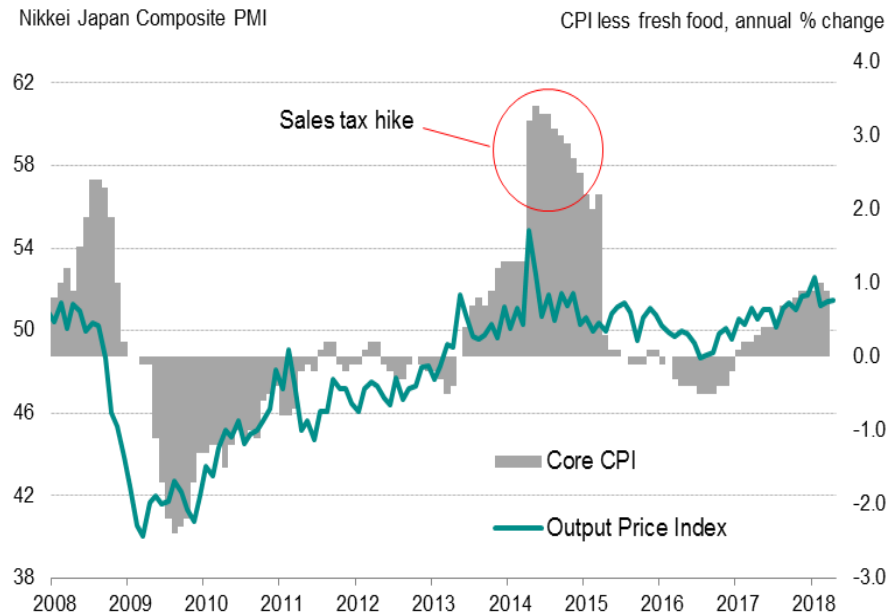
- The Japanese economy expanded at the strongest rate for six months at the start of Q2, according to the Nikkei Japan Composite PMI, allaying concerns of slowing business activity. Rising from 51.3 in March to 53.1 in April, the latest PMI was indicative of quarterly GDP rising at a solid 0.8%. Accelerating growth of new business and rising backlogs of unfinished work meanwhile suggest that the expansion in output has more room to run. On the downside, goods exports showed the smallest rise since September 2016, hinting that a stronger yen so far this year has hurt external demand.
- While overall input cost inflation eased further from January's peak, it remained sufficiently elevated to push selling prices higher. Despite average prices charged for goods and services rising solidly again, the pace of increase was consistent with core inflation remaining below 1%.

Japan economic growth and the PMI*



Sources: IHS Markit, Nikkei, Japan Cabinet Office.

Japan inflation indicators



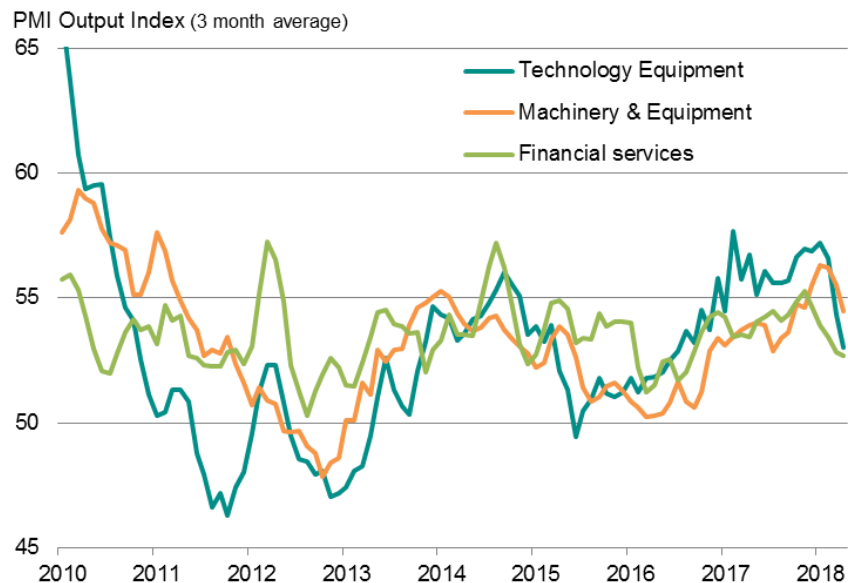
Sources: IHS Markit, Nikkei, Datastream.

* PMI shown above is a GDP weighted average of the survey output indices.

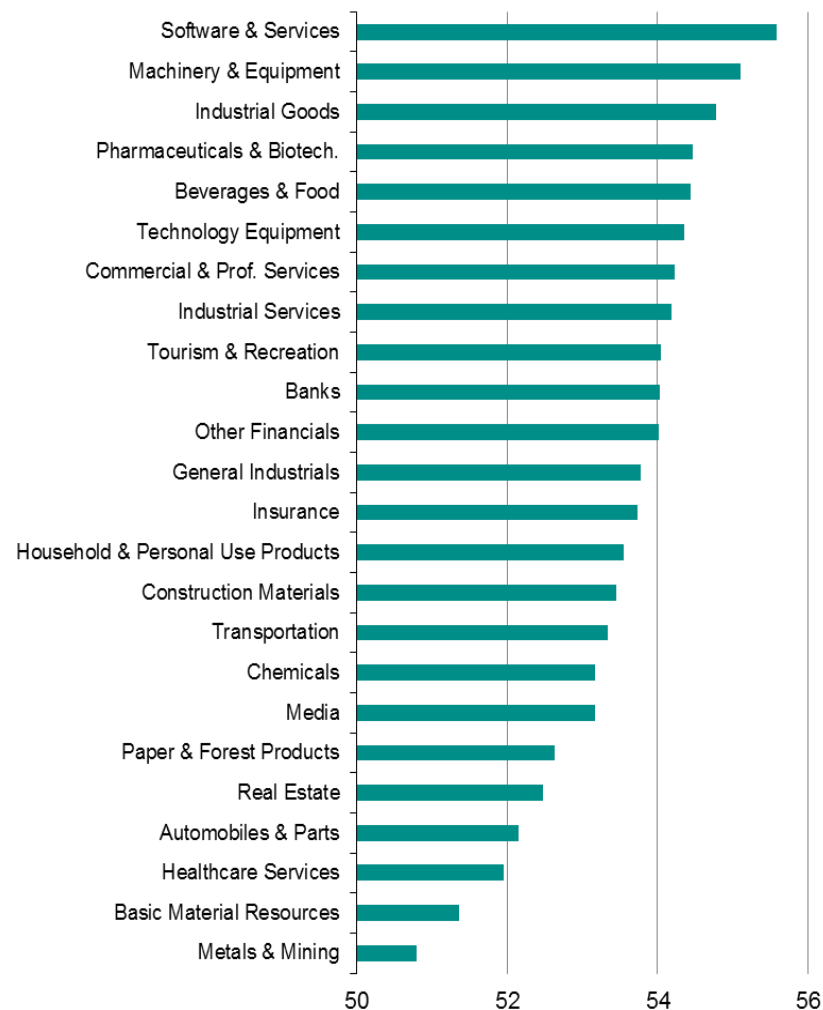
Global capex and financial services indicators soften in April

Global machinery and equipment manufacturing – an important bellwether of business investment spending – has seen the second-fastest output growth of all sectors covered by the PMI surveys so far in 2018. Similarly, tech equipment makers have been among the best performing sectors. However, both have seen growth trends cool significantly as the year has progressed, suggesting that the capex cycle is showing signs of having peaked.

Another key sector to watch is financial services, which often acts as a leading indicator of the wider economy. In the latest three months (to April) the sector has seen the weakest expansion for 20 months.



Global Sector PMI Output Index: YTD average



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