



IHS Markit™

Global PMI

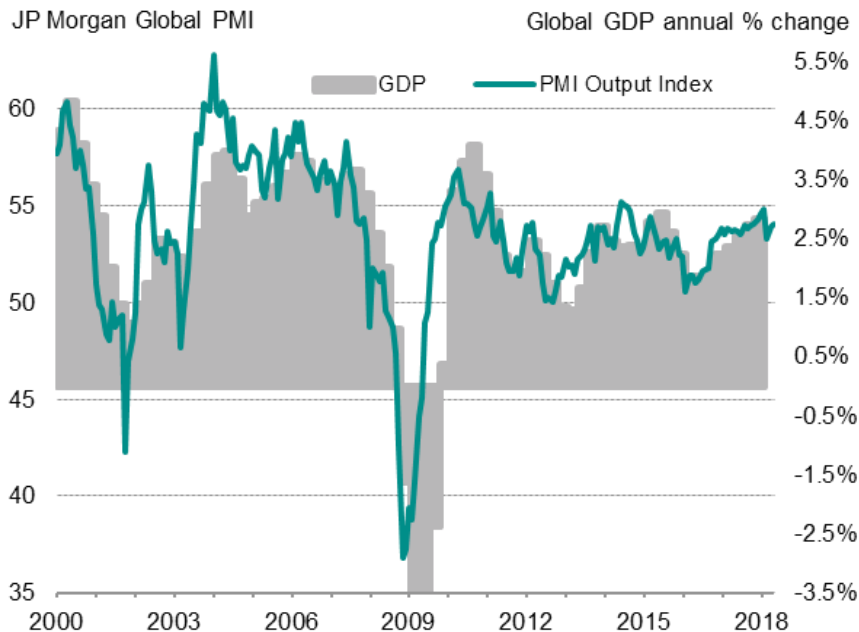
Global economy buoyed by rising US strength

June 12th 2018

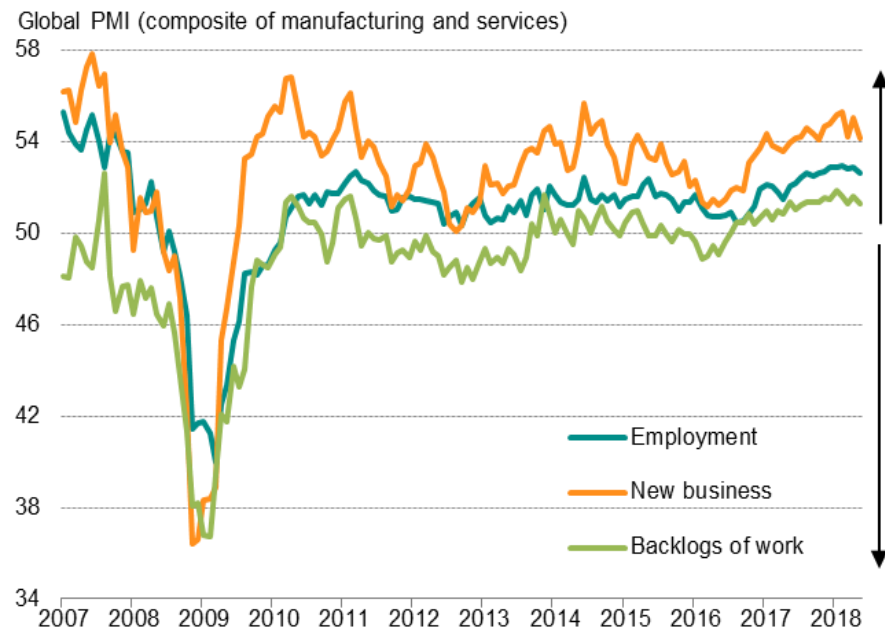
Global PMI rises but also brings signs of slower future growth

- At 54.0 in May, the headline JPMorgan Global Composite PMI, compiled by IHS Markit, rose for a second successive month. Although remaining below the highs seen earlier in the year, the survey data are consistent with global GDP rising at a reasonably solid annual rate of just over 2.5% (at market exchange rates) so far in the second quarter.
- Growth may slacken off in June, as new order inflows grew at the joint-slowest rate seen over the past seven months, and backlogs of work grew at a slightly reduced rate. Companies meanwhile took on staff at the slowest rate since last October, in part due to future expectations of growth slipping. However, while all key indices other than output edged slightly lower in May, all remained in positive territory and matched or bettered the averages seen over 2017. As such, the surveys indicate few significant downside risks to the immediate global outlook.

Global PMI* output & economic growth



Global PMI indicators*



Sources: IHS Markit, JPMorgan.

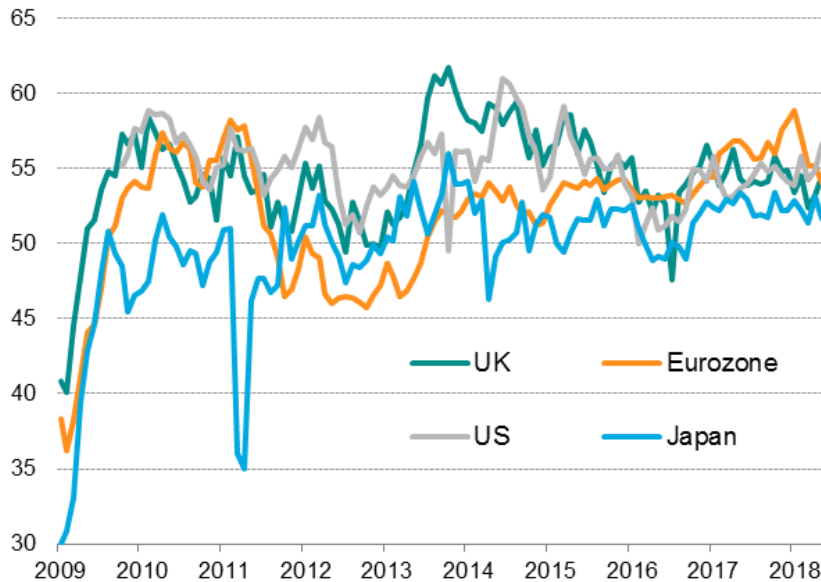
* PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

US leads developed world upturn, emerging market growth slows

- The major development in recent months has been the extent to which the US expansion has accelerated and eurozone growth weakened. The US now leads the four largest developed world economies, followed by the UK, which narrowly outpaced the eurozone. Order book situations suggest that US growth is likely to continue to accelerate, or at least remain strong, in June, whereas the risks are tilted towards growth slowing further in the eurozone and UK.
- In Asia, Japan and China both saw only modest expansions, with upturns constrained by poor export performances.
- Disappointing trade flows were in fact a common complaint among many emerging market nations, including Brazil, South Korea, Malaysia and Indonesia. Measured as a whole, emerging market growth slowed to the weakest since last November, contrasting with an acceleration in developed world growth to a three-month high.

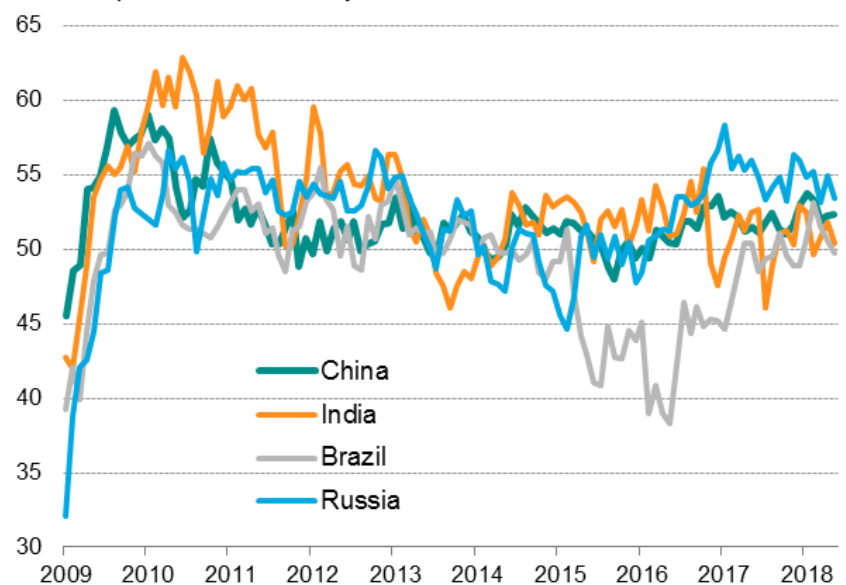
Developed world PMI* output

PMI Output/Business Activity Index



Emerging market PMI* output

PMI Output/Business Activity Index



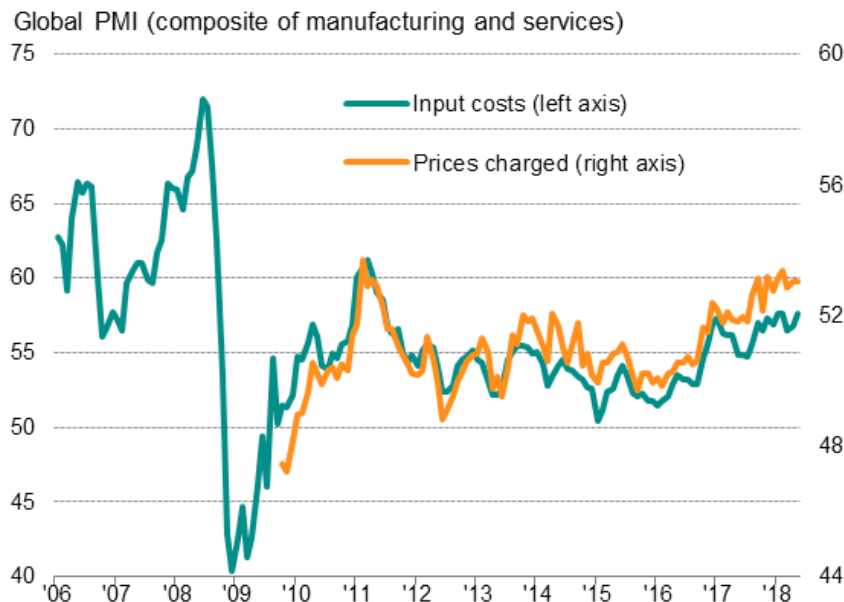
Sources: IHS Markit, CIPS, Nikkei.

Source: IHS Markit, Caixin, Nikkei.

Global inflation marches higher, but US sees steepest price pressures

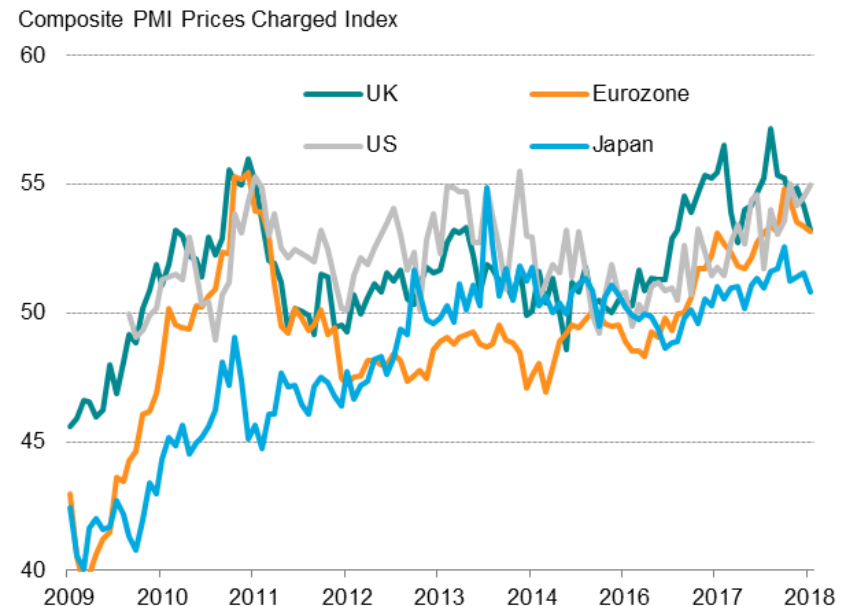
- Global price indices remained elevated by standards of recent years. Higher oil prices contributed to another rise in average input costs, and average selling prices for goods and services continued to increase as firms passed higher costs onto customers. Both measures showed some of the steepest rates of increase seen over the past seven years.
- Eurozone, UK and Japanese selling price growth, measured across both goods and services, has slowed in recent months, despite costs being pushed higher by rising oil prices, hinting at difficulties in maintaining margins.
- In contrast, average selling prices rose at an increased rate in the US during May, reaching one of the fastest rates seen since 2011.

Global PMI* price indices



Sources: IHS Markit, JPMorgan.

Global PMI * selling price indices



Source: IHS Markit, CIPS, Nikkei.

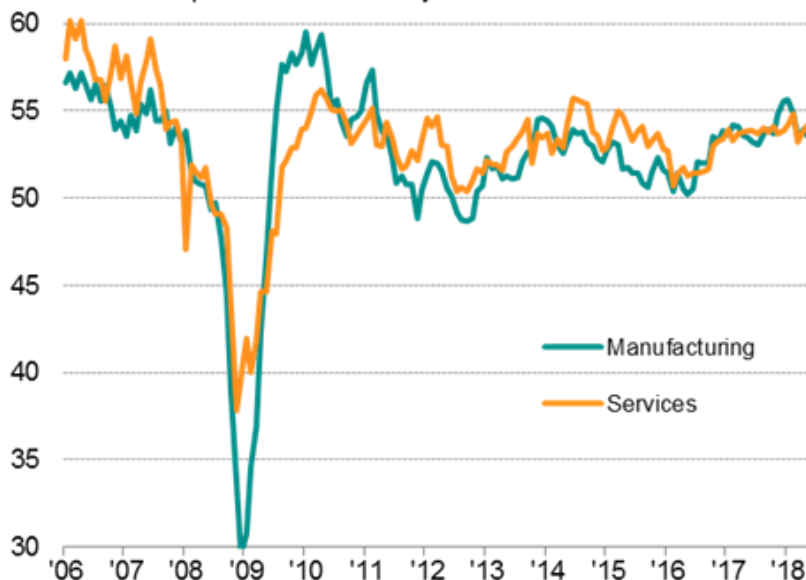
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Business service providers lead global upturn

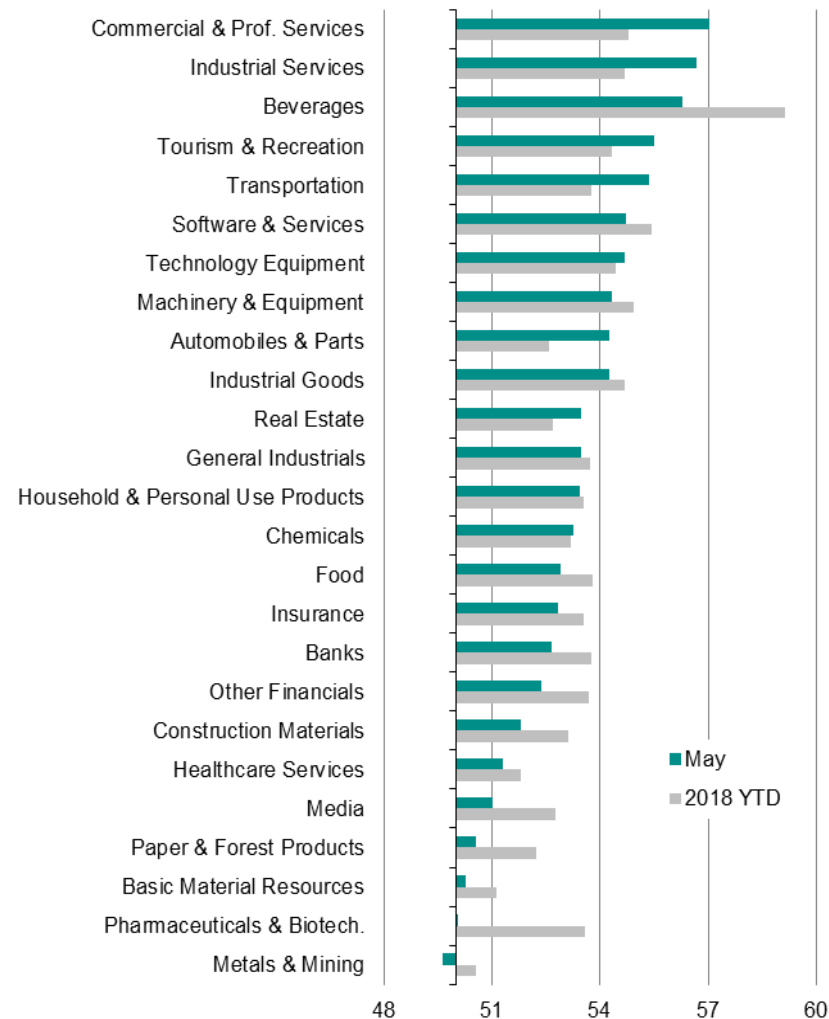
Global growth was led by the service sector in May, which narrowly outpaced a slowing manufacturing economy. Business-to-business services, notably commercial & professional services, were especially buoyant, enjoying the strongest expansions of all 25 sub-sectors covered by the global PMI surveys in May. Such services tend to be highly cyclical, and other cyclical sectors such as tourism, technology, machinery and autos also fared well.

Typical non-cyclical defensive sectors generally fared less well, though only metals & mining (a cyclical sector) bucked the trend and saw output decline during May.

Global PMI Output/Business Activity Index



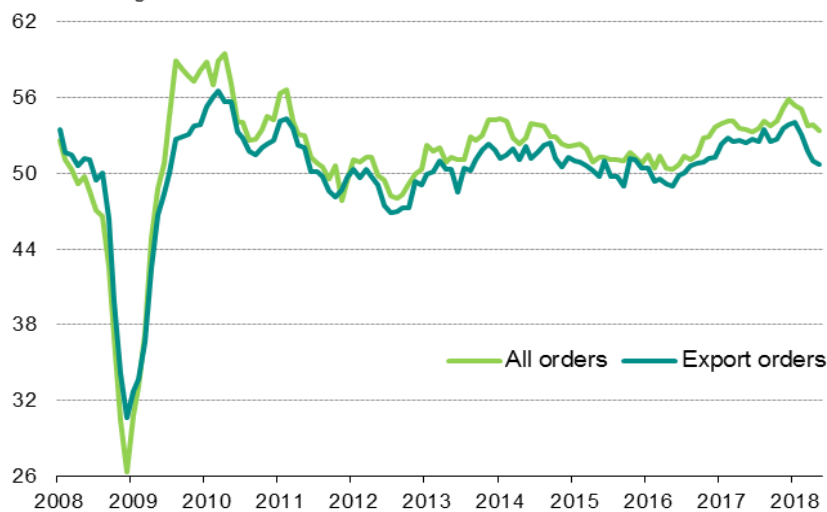
Global Sector PMI Output Index



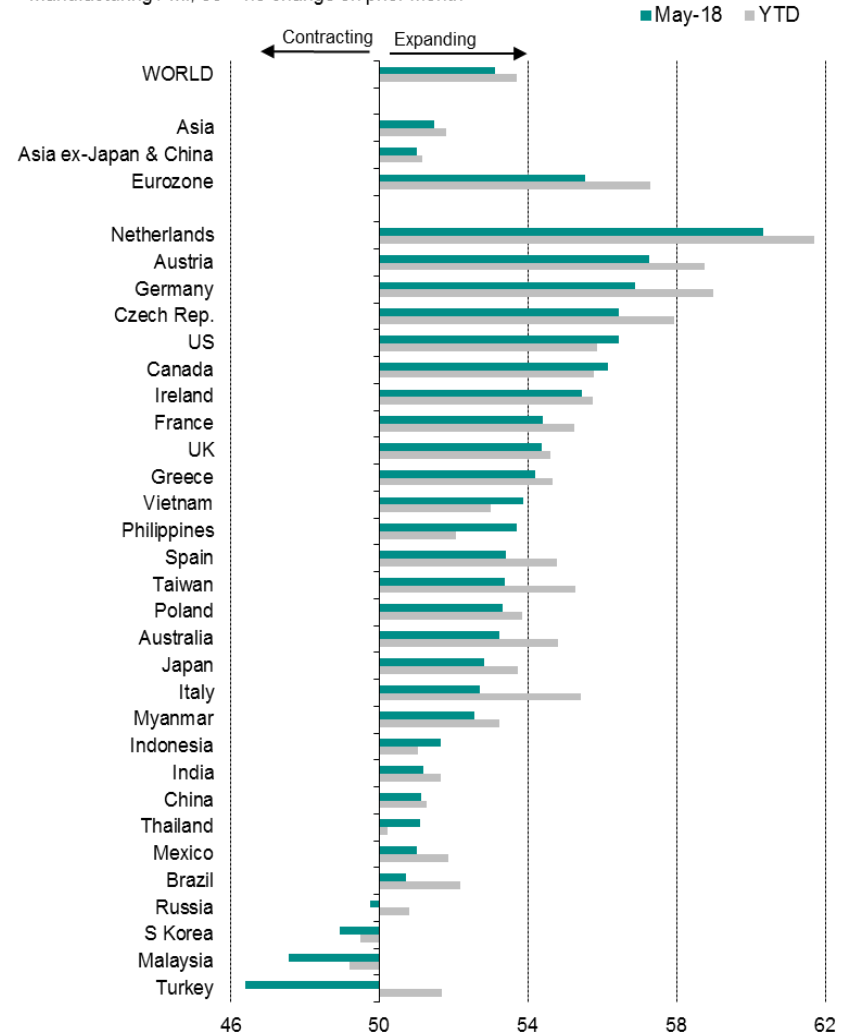
Manufacturing growth led by Central Europe and North America

- Looking at manufacturing, the global PMI hit its lowest since August of last year. The weakest inflow of new orders for nearly a year suggests production growth could wane further in coming months.
- Slower growth in new orders largely reflected a slowing in global trade flows. New export orders rose only marginally in May, registering the smallest global increase since August 2016. Emerging market exports fell for a second month.
- The US has now recorded faster manufacturing growth than the eurozone for two successive months, the former enjoying its best growth spell for almost four years so far in Q2. However, the top of the manufacturing rankings continued to be dominated by a handful of European countries, clustered around Germany and led once again by the Netherlands.

Manufacturing PMI new orders



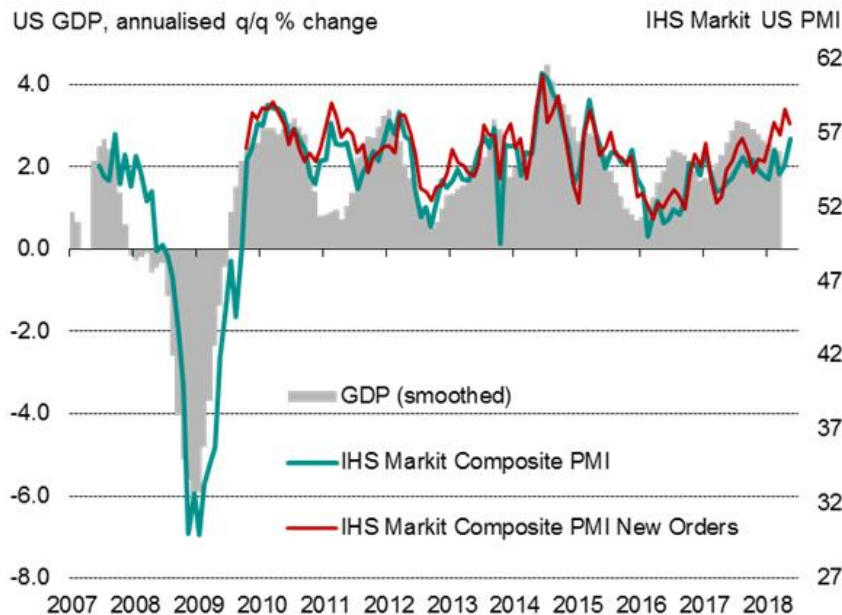
Manufacturing PMI, 50 = no change on prior month



US price pressures hit seven-year high

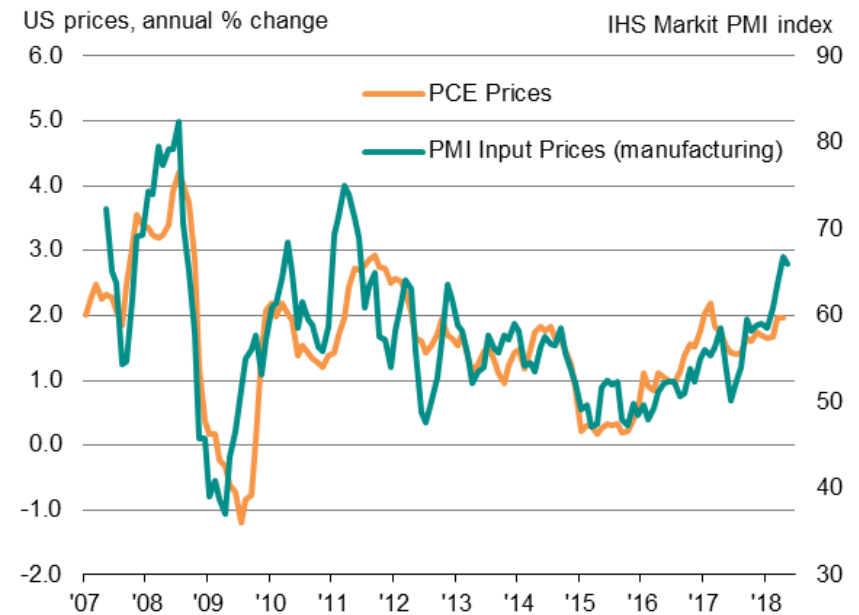
- IHS Markit's PMI surveys showed the US economy kicked up a gear in May. A markedly improved service sector performance took the final composite PMI to its highest for over three years. The composite PMI is a reliable leading indicator of underlying GDP growth, and has risen to a level which is consistent with the economy expanding at an annualised rate of approximately 3.5%.
- With business optimism about the year ahead running at one of the highest levels seen over the past three years and inflows of new business remaining buoyant, it looks likely that strong growth momentum will be sustained in coming months.
- However, the survey also reveals increased concerns regarding rising costs and the impact of tariffs. Across both manufacturing and services, companies' costs are now rising at one of the strongest rates seen over the past seven years, which will likely feed through to higher consumer prices in coming months.

US economic growth and the PMI*



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

US price pressures

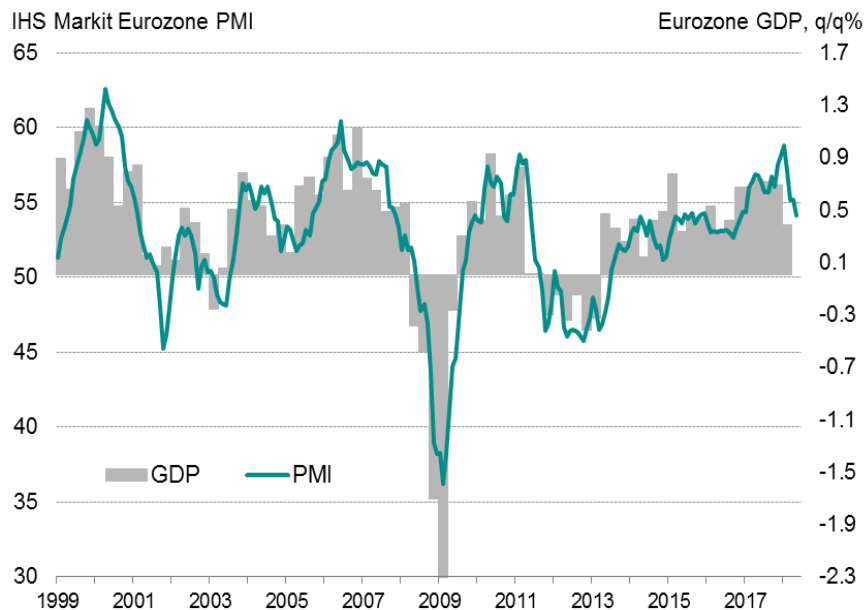


Sources: IHS Markit, U.S. Bureau of Economic Analysis.

Eurozone outlook clouds over

- The PMI showed the pace of eurozone economic growth sinking to a one-and-a-half year low in May, having now slowed continually since January's peak to suggest that the region is on course for its worst quarter since 2016. The surveys signal GDP growth of 0.4-0.5% for Q2, and there is much uncertainty as to whether the pace will continue to weaken.
- Measured across both manufacturing and services, both new order inflows and expectations regarding future business activity have descended to 18-month lows, meaning hiring has also been scaled-back. Pricing power has meanwhile waned in line with weaker growth of demand.
- The slowdown since earlier in the year has been broad-based, though Spain has shown the greatest degree of resilience. Crisis-torn Italy has meanwhile reported the weakest expansion of the largest euro member states for the fourth month running.

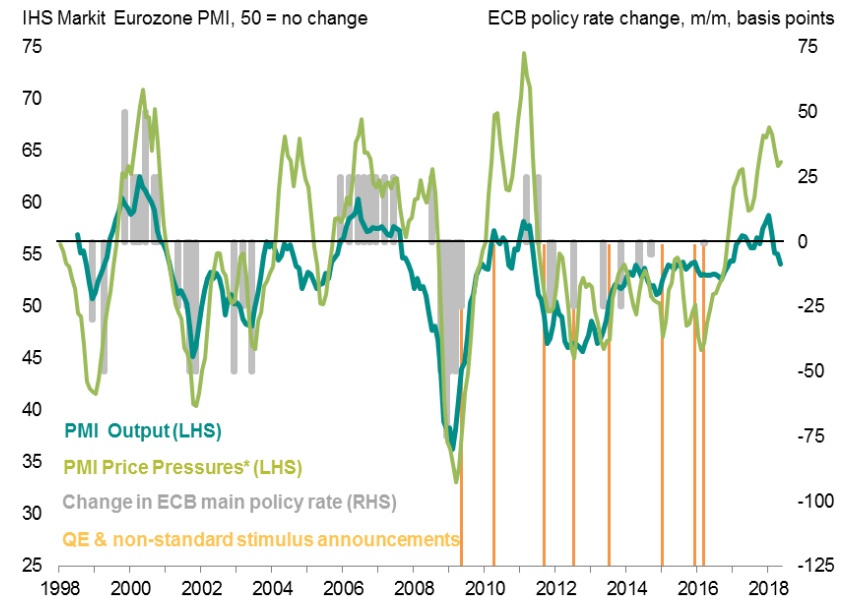
Eurozone economic growth and PMI**



Sources: IHS Markit, Eurostat.

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

Eurozone PMI and ECB policy decisions



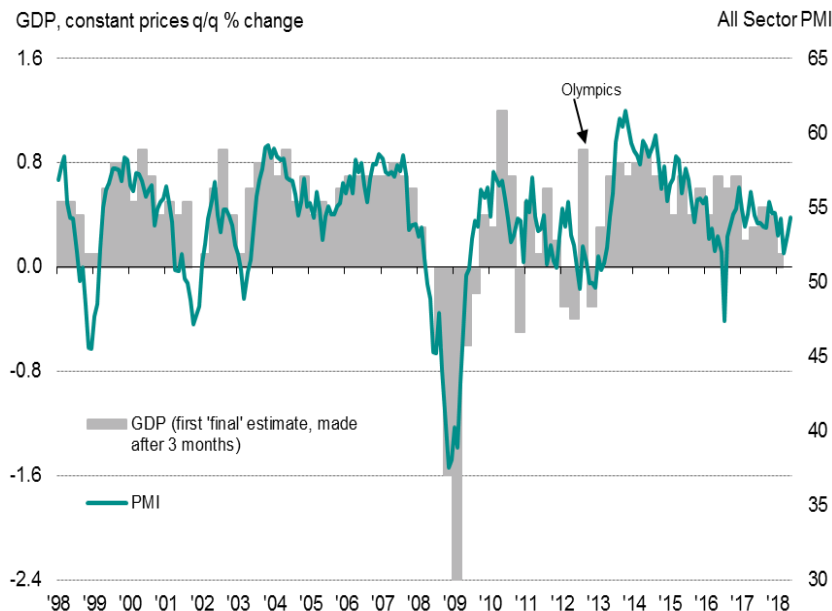
Sources: IHS Markit, ECB.

* A blended index of input prices and supplier delivery times.

UK PMI hits five-month high in May, but rebound lacks conviction

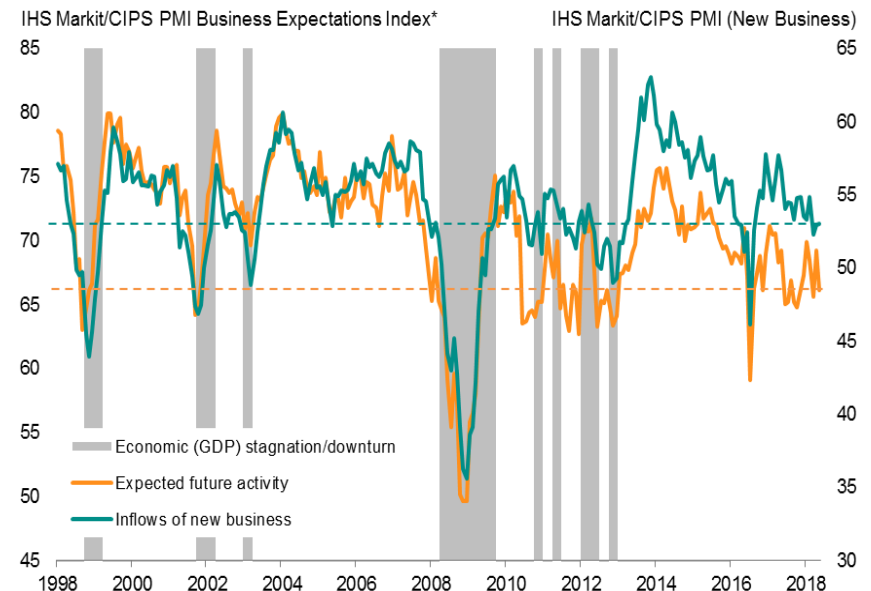
- UK business activity rose in May to the greatest extent recorded so far this year, though forward-looking indicators suggest growth could deteriorate again in coming months.
- The average Q2 PMI reading so far is historically consistent with UK GDP rising at a quarterly rate of 0.3-0.4%. However, this would still be the second-weakest quarter since the autumn of 2016. What's more, weak new order inflows, falling backlogs of work, subdued hiring and dampened business expectations for the year ahead all suggest that the recent rebound in activity after snow-related disruptions earlier in the year could prove short-lived.
- The rate of inflation of average selling prices for goods and services meanwhile slowed for a second successive month to an 11-month low, indicating that companies struggled to pass higher costs on to customers.

UK PMI* and GDP



Sources: IHS Markit, CIPS, ONS.

UK PMI forward-looking indices*



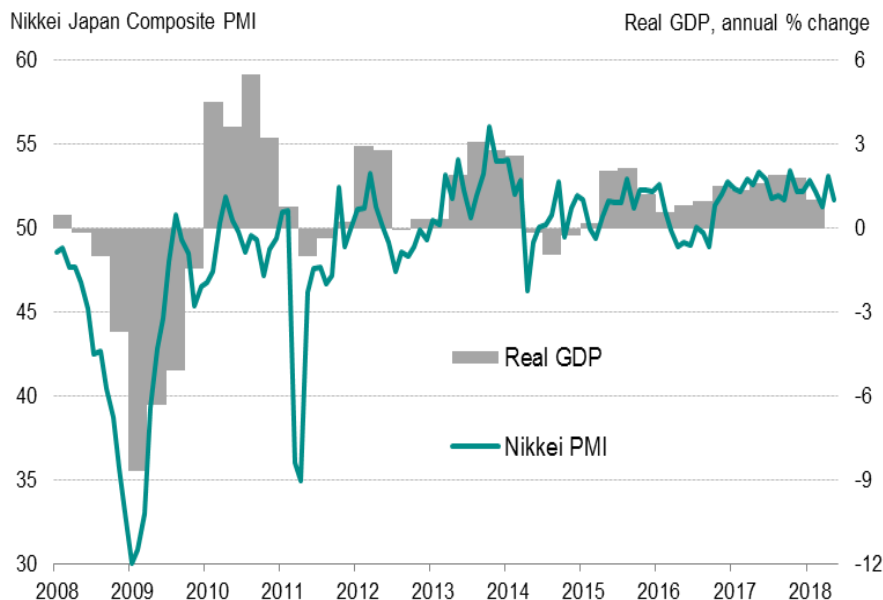
Sources: IHS Markit, CIPS, ONS.

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

Japan sees steady growth so far in Q2, but cost pressures rise

- The Nikkei Japan Composite PMI™ Output Index fell from a six-month high of 53.1 in April to 51.7 in May. Despite the decline, the average reading for the composite output index in Q2 so far (52.4) is slightly above the average in the opening three months of 2018, providing welcome news of steady underlying growth momentum after the slowdown seen earlier in the year. However, growth of new business cooled, and backlogs of orders across manufacturing and services combined fell for the first time in nearly one-and-a-half years, hinting at downside risks for future months.
- The combined effect of material shortages and rising input demand pushed cost inflation higher, especially in manufacturing. May saw suppliers' delivery times (a key indicator of future inflation) lengthen to the greatest extent since the 2011 earthquakes. Alas, firms only increased selling prices marginally, often citing stiff competition.

Japan economic growth and the PMI*

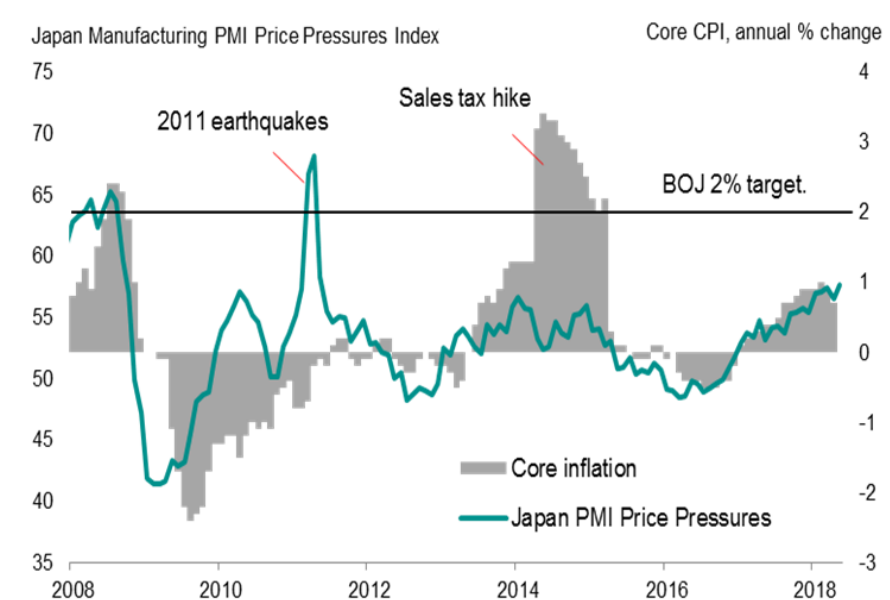


Sources: IHS Markit, Nikkei, Japan Cabinet Office.

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

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Japan inflation indicators**



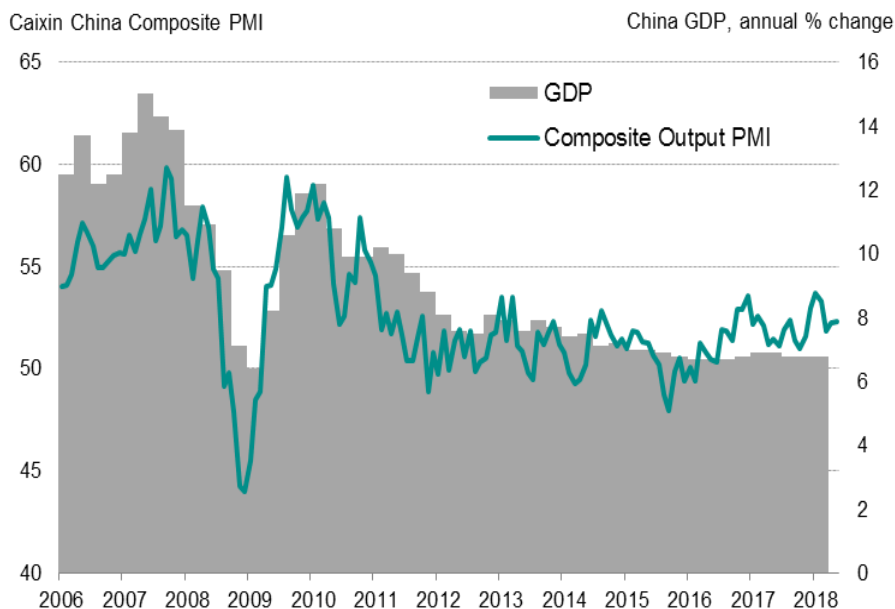
Sources: IHS Markit, Nikkei, Datastream.

** PMI shown above is blended index of price and supply chain measures.

Caixin China PMI points to robust economy despite export decline

- China's economy maintained a steady momentum midway through the second quarter, according to the latest Caixin PMI surveys. At 52.7, the average composite PMI reading so far this year is up from 51.8 in 2017, and represents the strongest start to a year since 2011.
- The upturn appeared increasingly driven by domestic demand, indicating further progress of the government's planned shift towards more consumption-based economic growth. By sector, services activity continued to expand at a faster rate than manufacturing output, the latter struggling amid weaker global demand and the stronger yuan. With export sales remaining in decline for a second successive month across the manufacturing sector, the survey data suggest domestic demand has increasingly become the main growth driver.

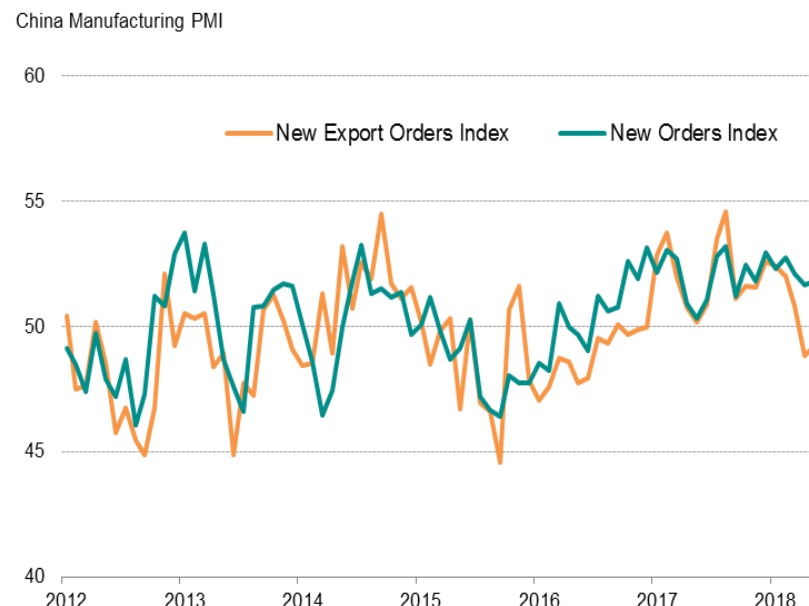
China economic growth and the PMI*



Sources: IHS Markit, Caixin, NBS.

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

China exports and order books



Sources: IHS Markit, Caixin.

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