



IHS Markit™

# Global PMI

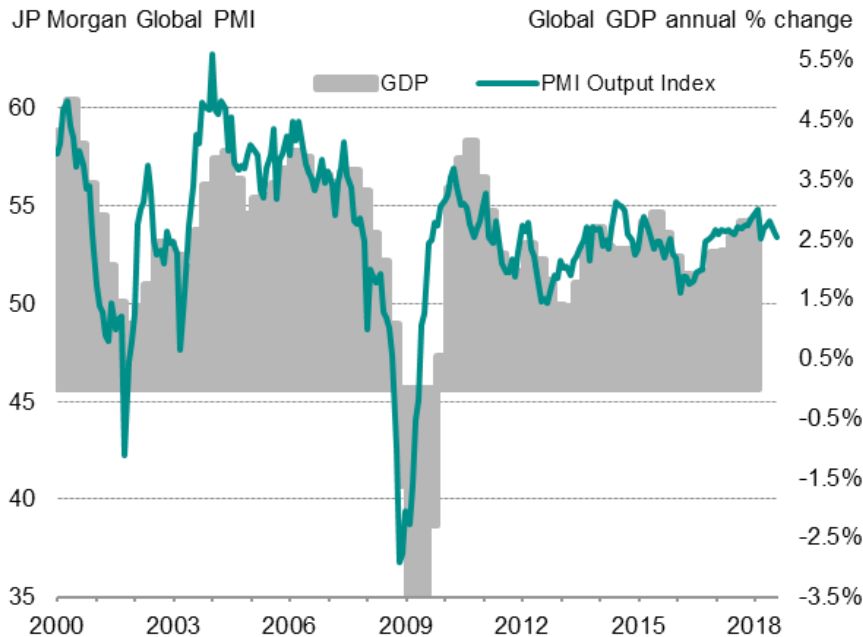
Growth near two-year low as trade flows stagnate

September 11<sup>th</sup> 2018

# Global PMI signals one of weakest expansions for two years

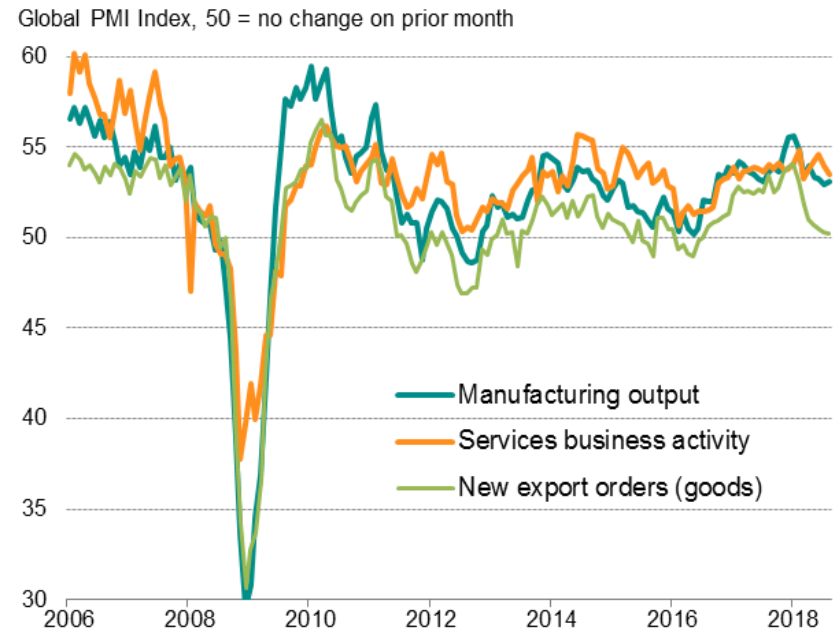
- Global economic growth edged lower in August. The headline JPMorgan Global Composite PMI, compiled by IHS Markit, fell from 53.7 in July to 53.4, its second-lowest level since the end of 2016. However, the latest reading is only marginally below the 53.8 average seen in 2017 and remains indicative of global GDP rising at a solid annual rate of 2.5% (at market exchange rates). Future expectations improved slightly, albeit from a subdued level.
- Manufacturing output growth continued to run at one of the weakest rates seen over the past two years, stymied by a further near-stagnation of global trade flows. Global export orders barely rose for a fourth consecutive month. In a sign of weakness spreading beyond the export sector, August saw worldwide service sector business activity grow at the slowest pace for five months, to also register one of the softest performances seen over the past two years.

## Global PMI\* output & economic growth



Sources: IHS Markit, JPMorgan.

## Global PMI indicators

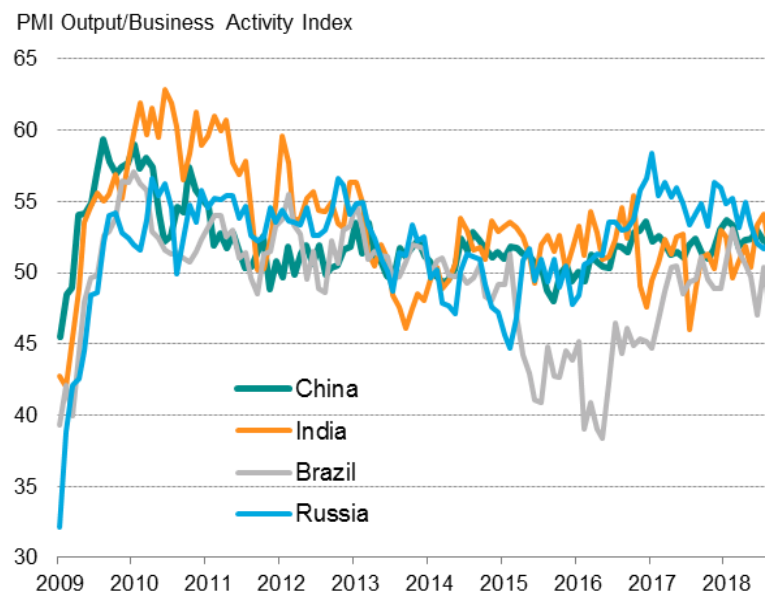
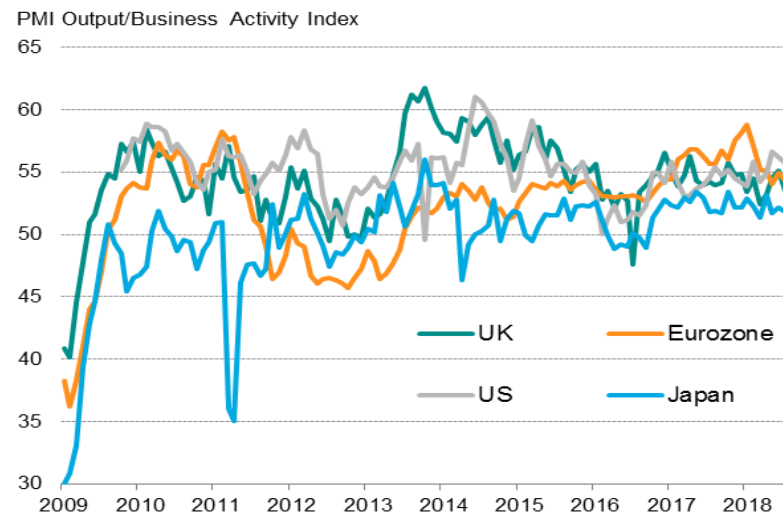
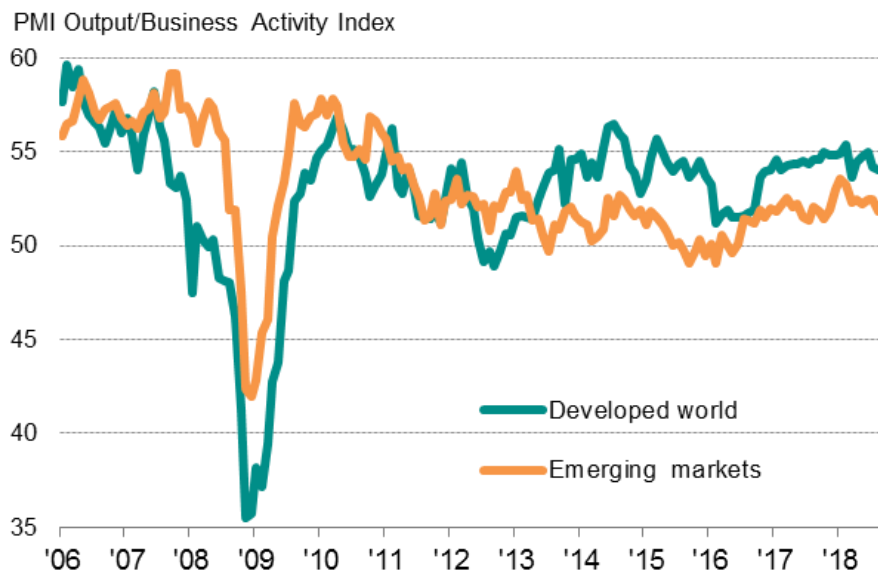


Source: IHS Markit, JPMorgan.

## Developed world growth rates converge, emerging markets wane

Developed world output expanded at the slowest pace since November 2016, reflecting a weaker service sector performance alongside relatively subdued manufacturing growth. The US was the best-performing major developed economy for the fourth successive month, though the gap closed with the UK and eurozone. Japan again saw the weakest (albeit still solid) growth.

Emerging markets meanwhile grew at the slowest pace since last October, as weaker services growth matched a factory sector stuck in a low gear. Of the four largest emerging markets, only Russia saw an improved performance. Growth slowed in both China and India, but Brazil was the worst performer, suffering the second-largest decline in output for a year and a half.



Source: IHS Markit, CIPS, Caixin, Nikkei.

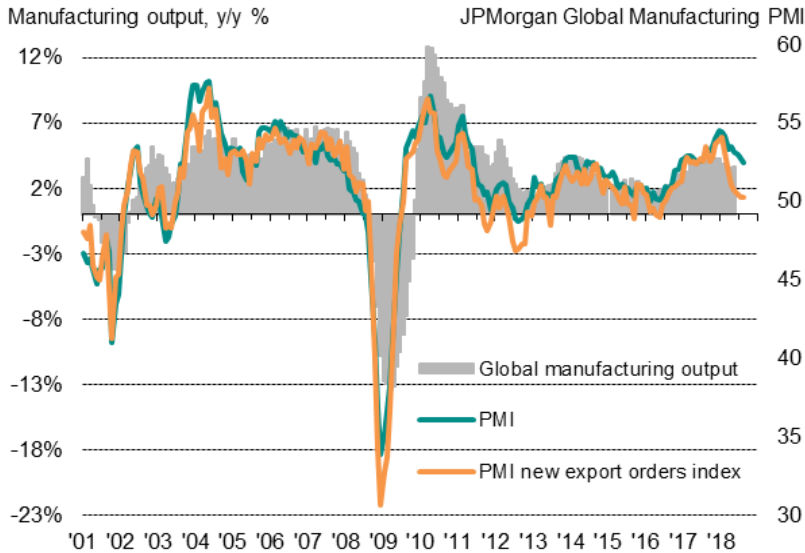
All data refer to a GDP-weighted average of the PMI survey manufacturing and services indices.

# Export woes hit manufacturing

Worldwide manufacturers reported the weakest expansion since November 2016. The [JPMorgan Global Manufacturing PMI](#) fell from 52.8 in July to 52.5. Order book growth slid to a two-year low, in part due to near-stagnant exports.

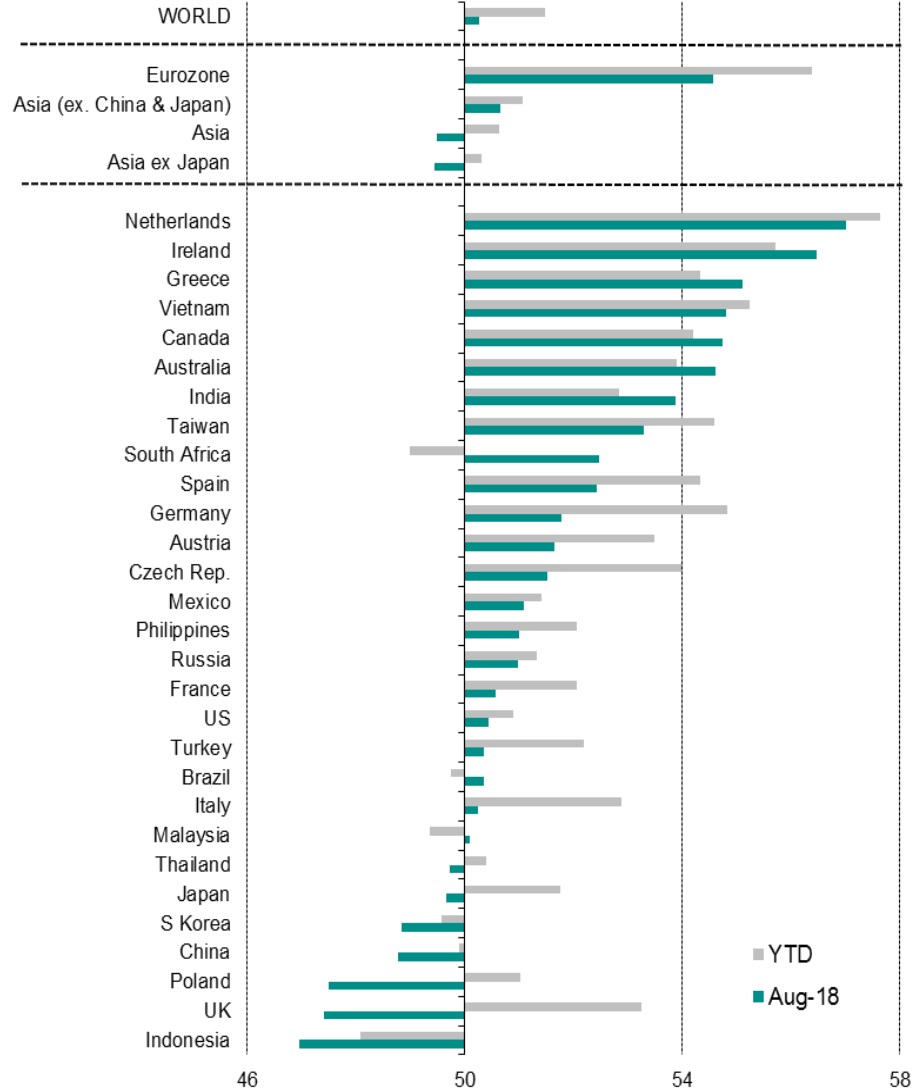
The PMI survey responses commonly cited tariffs and escalating trade wars as key factors behind worsening production, export, employment and future sentiment trends.

Eight of the 29 nations covered by the IHS Markit surveys reported a fall in new export orders in August, with the steepest declines seen in Indonesia and the UK. Other notable export-stragglers were China, South Korea and Japan.



Source: IHS Markit, JPMorgan, Thomson Reuters Datastream.

Manufacturing PMI New Exports Index, 50 = no change on prior month

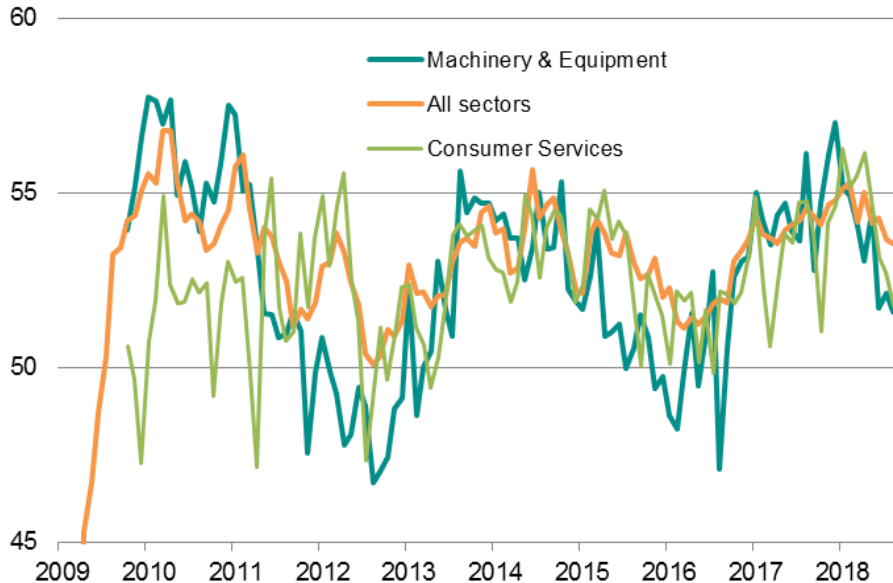


# Consumers lead global slowdown, though capex also cools

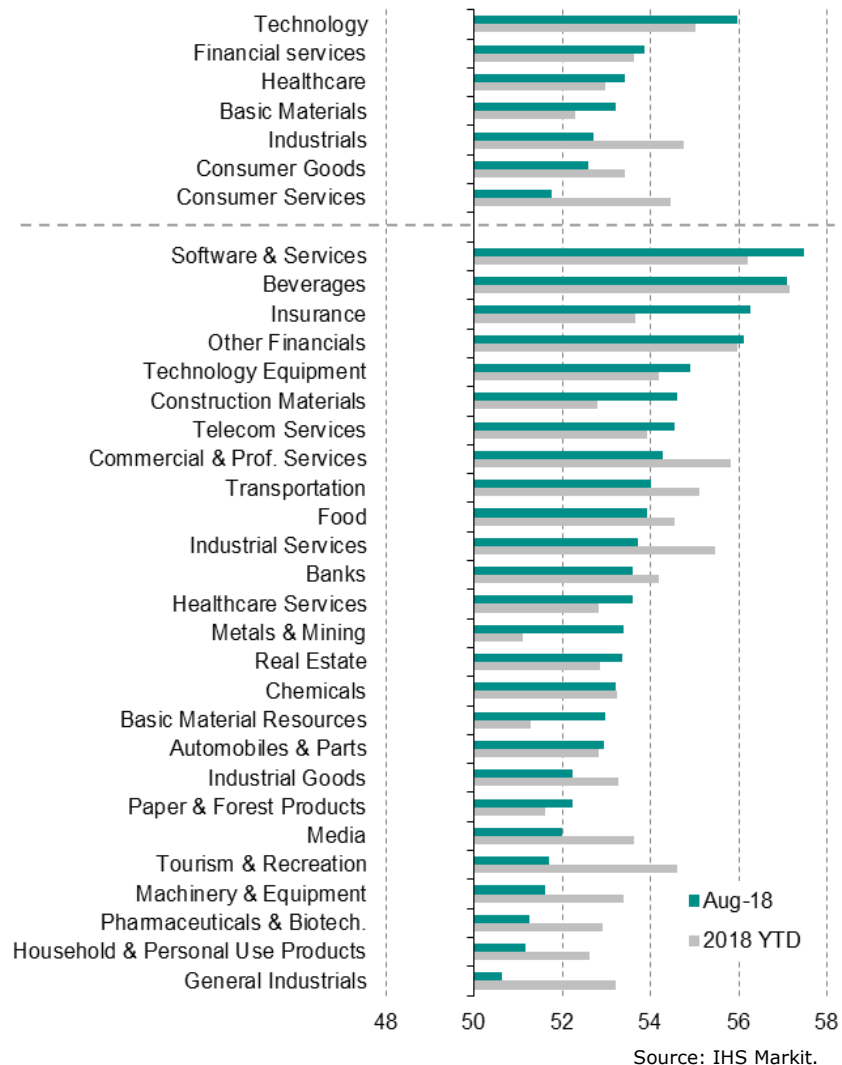
Global Sector PMI data showed that the weakest rise in new orders of the broad industrial sectors was recorded for consumer goods and services, with the latter suffering the steeper loss of momentum. Both registered one of the weakest expansions for over two years, with household products, tourism & recreation and media sub-sectors seeing especially sluggish demand growth.

Machinery & equipment manufacturing, a bellwether of wider capital spending, also saw a notable slowdown. The machinery sector has seen order book growth cool sharply since the start of the year, culminating in August with the smallest monthly gain in new orders since September 2016.

Global PMI New Orders Index



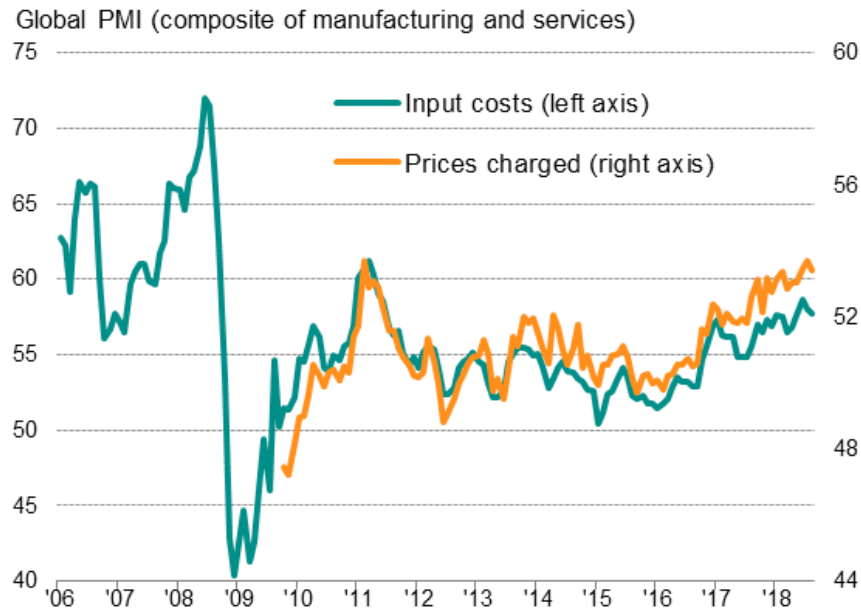
Global Sector PMI New Orders Index



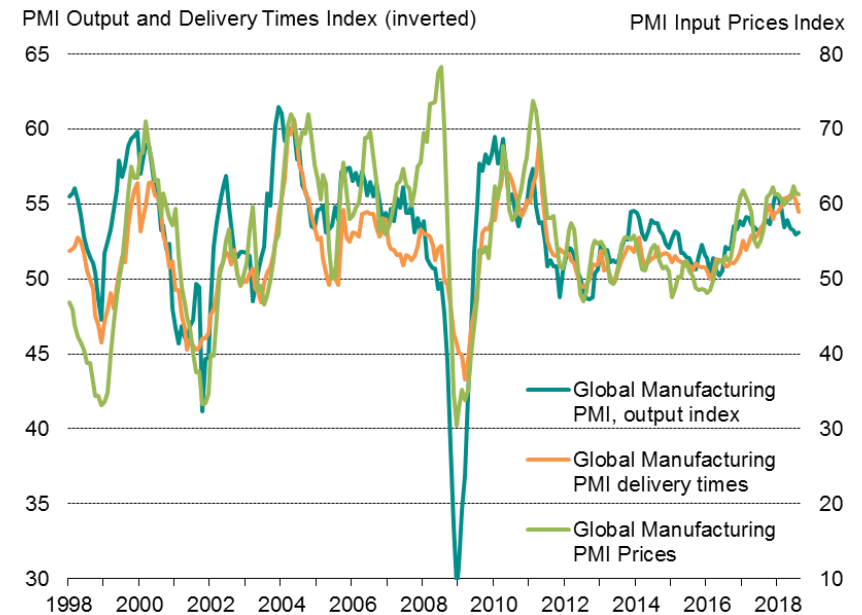
# Global selling price inflation holds close to survey-high

- Average prices charged for goods and services rose globally at a slightly reduced pace in August, but nevertheless continued to increase at one of the steepest rates seen since comparable PMI data for prices were first available in 2009. Service sector price inflation remained close to July's survey-record high, but factory gate price inflation eased slightly for a second successive month. A cooling of selling price inflation in the developed world contrasted with a steeper rate of increase in emerging markets, linked in part to the stronger US dollar pushing up imported commodity prices in many countries.
- Factories also reported that widespread supply shortages, illustrated by a further marked lengthening of average supplier delivery times, once again helped vendors negotiate higher prices. Some supply chain delays were blamed on increased stock-building of inputs ahead of anticipated future price hikes or shortages, in turn often linked to tariffs.

## Global PMI\* price indices



## Global manufacturing PMI price pressures



Sources: IHS Markit, JPMorgan.

Source: IHS Markit, JPMorgan.

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

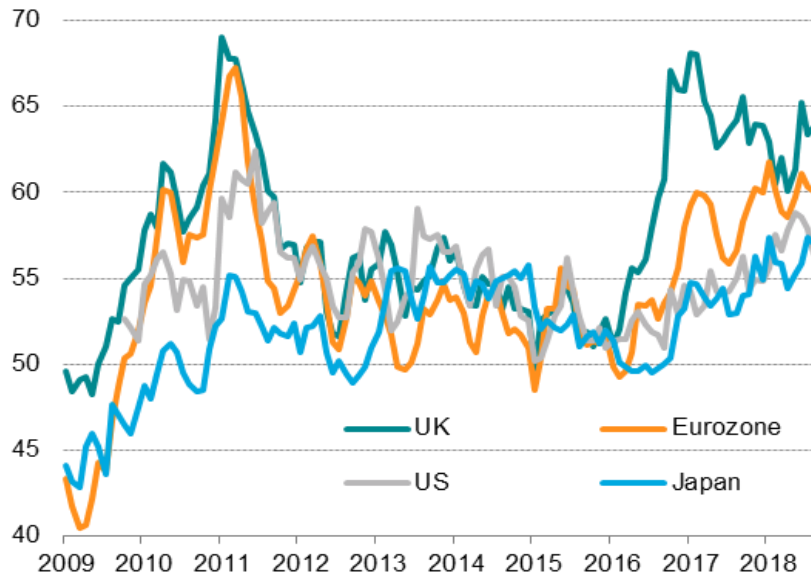


## Germany sees highest price pressures

- Looking across all countries surveyed, Germany reported the steepest rise in both costs and selling prices across both manufacturing and services of all nations in August. However, treating the eurozone as a whole, a renewed weakening of sterling helped ensure the UK saw the steepest increase in costs of the world's four largest developed economies in August, and was also notable in seeing cost pressures intensify. Costs nevertheless once again also rose at strong rates in the US, eurozone and Japan. The US reported the weakest rate of increase overall, linked partly to cheaper imports arising from the dollar's strength.
- Despite seeing the slowest growth of input costs of the four largest developed economies, the US once again saw the steepest increase in average selling prices. US companies continued to report one of the strongest rates of output cost inflation seen this side of the global financial crisis, highlighting improved pricing power in US markets.

### Developed world PMI\* input costs

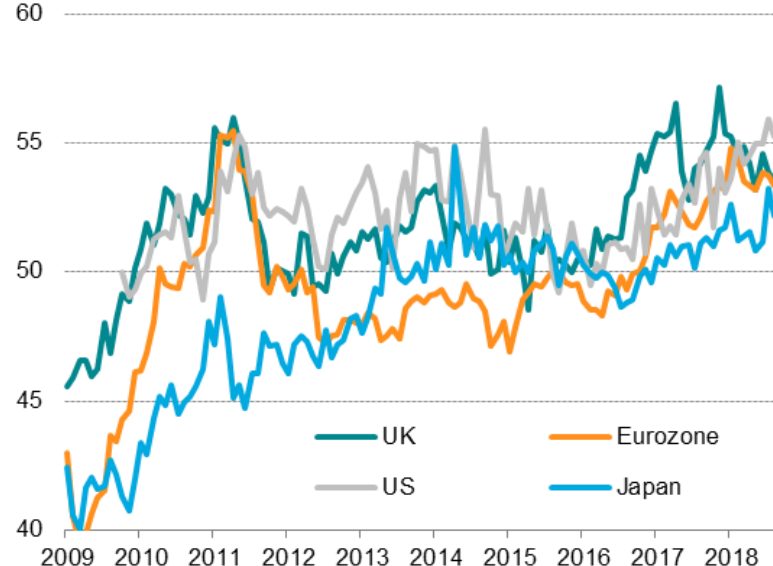
Composite PMI Input Costs Index



Source: IHS Markit, CIPS, Nikkei.

### Developed world PMI\* selling prices

Composite PMI Prices Charged Index



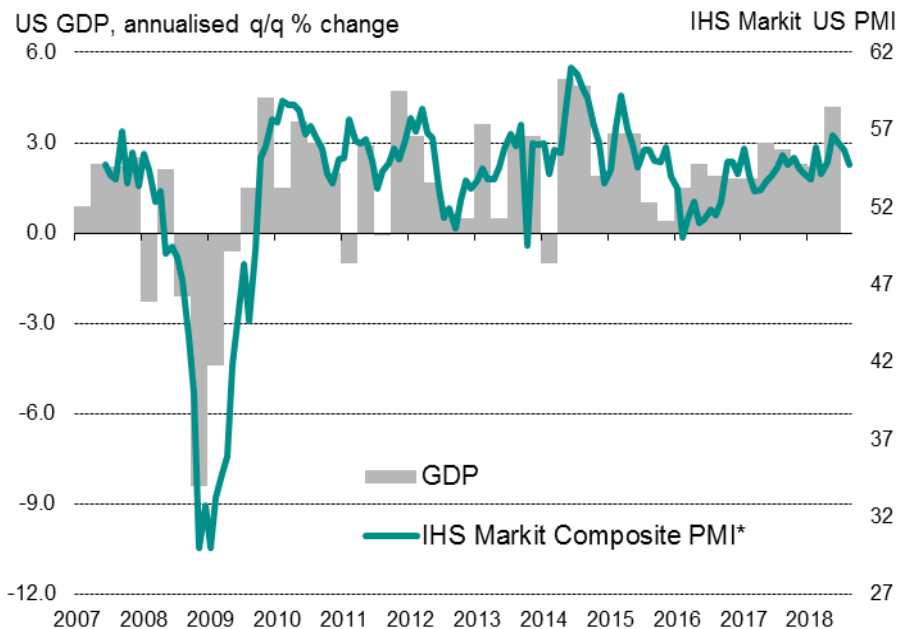
Source: IHS Markit, CIPS, Nikkei.

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

# US surveys hint at softer – but still strong – GDP rise in Q3

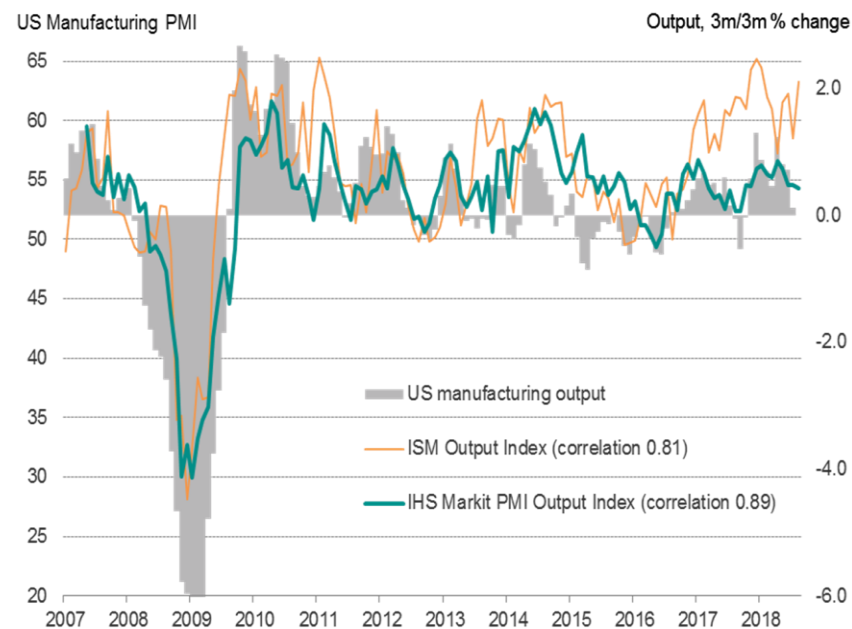
- The IHS Markit composite PMI fell for a third month running to 54.7 in August. The weaker PMI numbers indicate that Q3 is unlikely to see economic growth match the 4.2% clip seen in Q2, though still signal annualised GDP growth of just under 3.0%. However, with August seeing the weakest rise in new orders for goods and services for eight months, growth could wane further.
- Despite the signs of slower growth, companies continued to report strong pricing power, underscoring the on-going buoyancy of domestic demand. Average prices charged for goods and services rose at a rate only slightly below July’s nine-year high.
- The divergence between the ISM and IHS Markit PMI manufacturing surveys remained wide. With the ISM heavily biased towards very large companies, it’s likely that the divergence reflects the weaker trend in smaller manufacturers seen in the IHS Markit data. In contrast, smaller service providers were found to have been outperforming larger services companies again in August.

## US economic growth and the PMI\*



Source: IHS Markit, JPMorgan, Thomson Reuters Datastream.  
\*Manufacturing PMI only pre=October 2009.

## US manufacturing



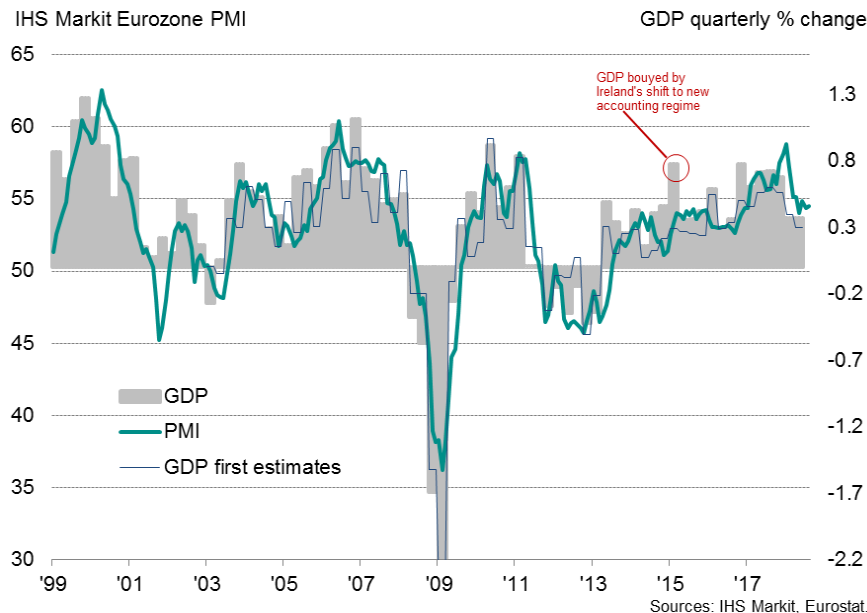
Source: IHS Markit, ISM, Thomson Reuters Datastream.



# Solid Eurozone PMI masks mixed growth trends across the region

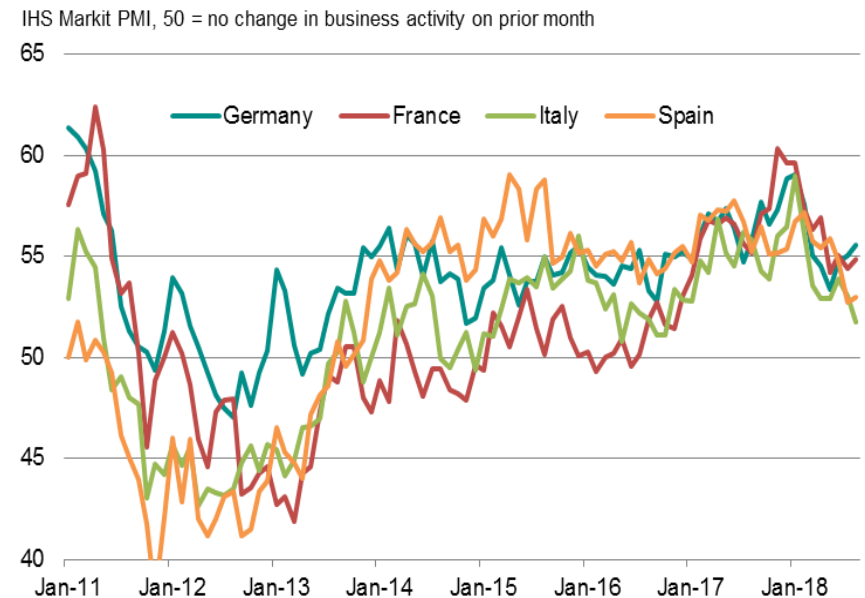
- The Eurozone PMI showed robust growth of business activity, new orders and employment extending into August, but also highlighted some areas for concern. The expansion looked increasingly uneven and the business mood became more unsettled. The survey data for Q3 so far suggest growth could at least match the 0.4% expansion seen in Q2, yet business optimism about the year ahead fell to a near two-year low amid growing concerns about trade wars and heightened political uncertainty.
- Growth also looks worryingly unbalanced. Although all of the largest euro countries have seen growth moderate so far this year, solid growth is still being signalled for Germany during Q3 and, to a lesser extent, France. However, latest data for Italy suggest the region's third largest economy is on course for its weakest expansion for nearly two years in Q3, while in Spain, Q3 could be the worst for almost five years unless September sees business activity pick up again.

## Eurozone economic growth and PMI\*\*



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

## Eurozone 'big-four' output



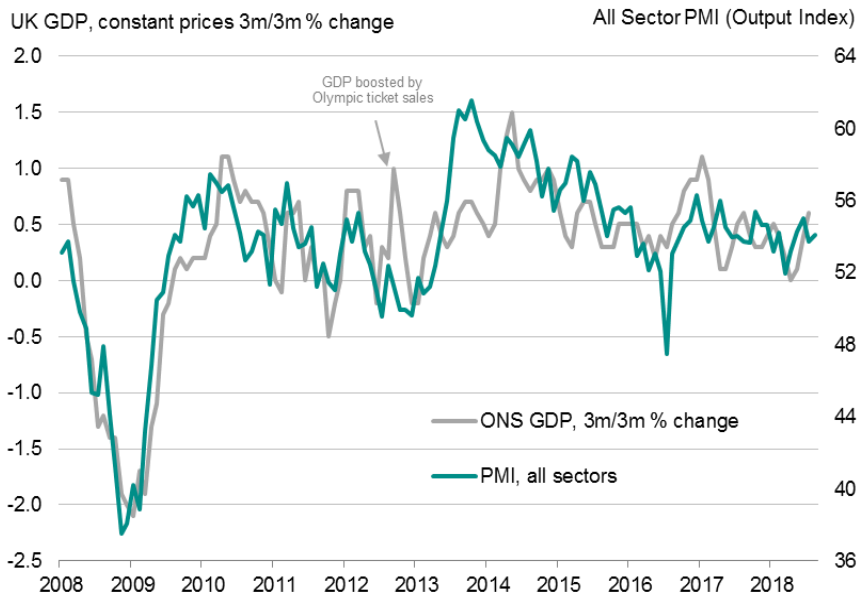
Source: IHS Markit.

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

# Service sector helps lift UK PMI to indicate 0.4% Q3 GDP growth

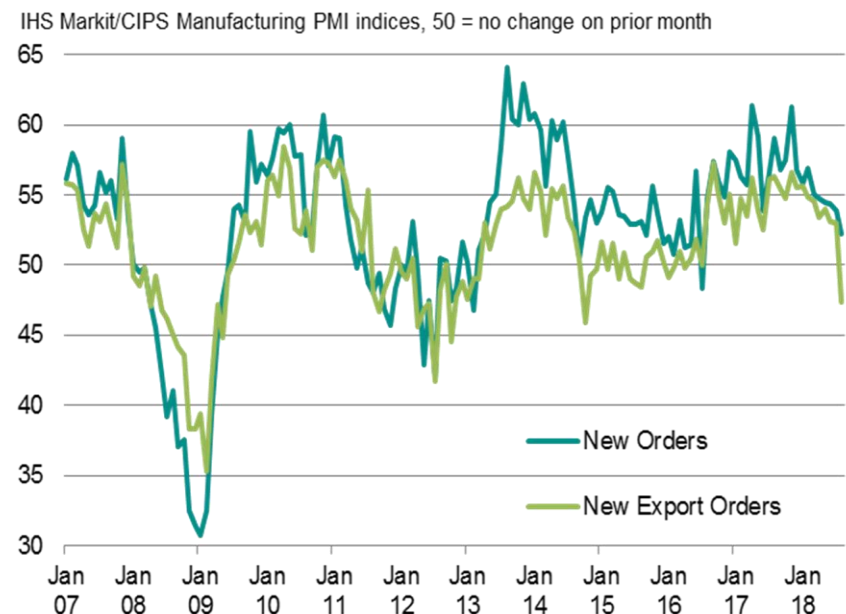
- The IHS Markit/CIPS 'all-sector' PMI rose to 54.1 from 53.7 in July as stronger service sector growth helped offset slower rates of expansion in manufacturing and construction in August. The improvement lifts the Q3 average to a level indicative of robust economic growth of just under 0.4%. However, optimism about future business activity dropped markedly to one of the lowest levels seen since the Brexit vote.
- Service sector business activity showed the second-largest monthly expansion since February but the factory sector reported the weakest rise in output since March 2017, a time when production had fallen in the immediate wake of the Brexit vote. The latest slowdown was driven to a large extent by the first drop in export orders since 2016, blamed on a combination of weaker global demand and Brexit-related concerns among foreign customers. The steepest reduction in export sales was seen for producers of inputs to other overseas manufacturers.

## UK PMI\* and GDP



Sources: IHS Markit, CIPS, ONS.

## UK PMI indicators

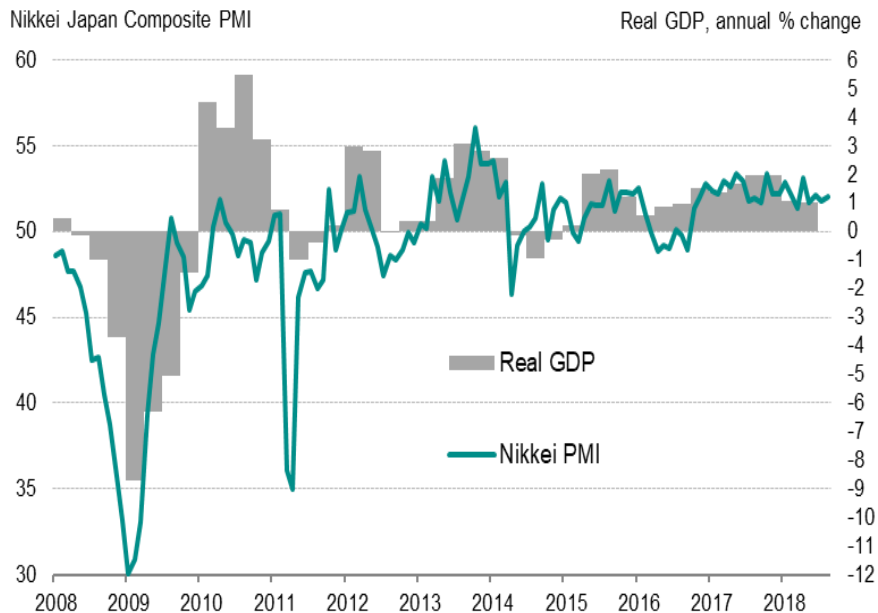


Source: IHS Markit, CIPS.

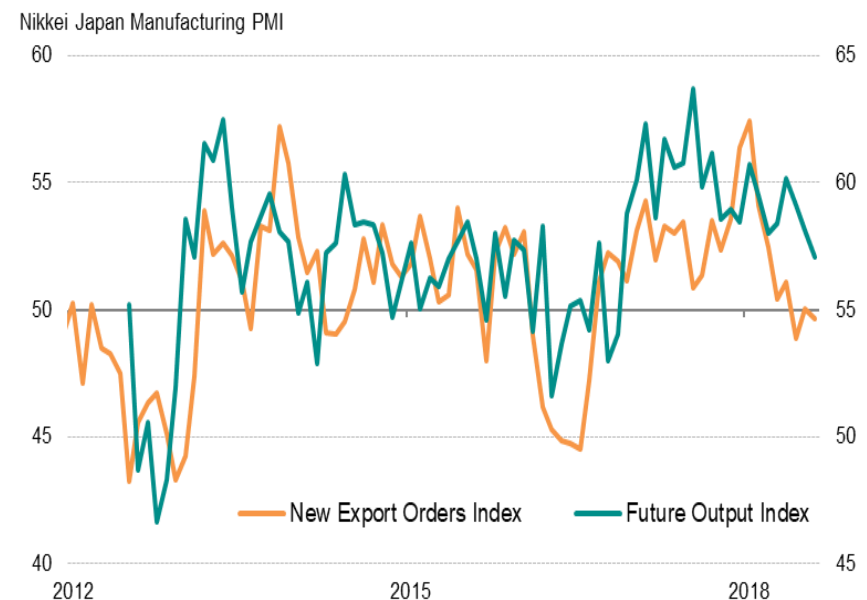
# Japan PMI surveys point to steady growth despite export fall

- The Nikkei Japan Composite PMI rose slightly from 51.8 in July to 52.0 in August. The average reading for Q3 so far signals a steady rate of growth of business activity in the economy, commensurate with annual GDP expanding at approximately 1%. New business intakes grew at the fastest rate in four months and above the average seen over the first half of the year, easing concerns of weakening demand after a disappointingly soft reading in July.
- Sector-wise, the manufacturing economy continued to lead the upturn in business activity, although the expansion of the goods-producing sector appeared to be increasingly driven by domestic markets, with export sales falling. Overall expectations towards factory production in the year ahead were the lowest since the fourth quarter of 2016, with anecdotal evidence suggesting that growing trade frictions had weighed on overseas sales.

## Japan economic growth and the PMI\*



## Japan manufacturing indicators



Sources: IHS Markit, Nikkei, Japan Cabinet Office.

Sources: IHS Markit, Nikkei.

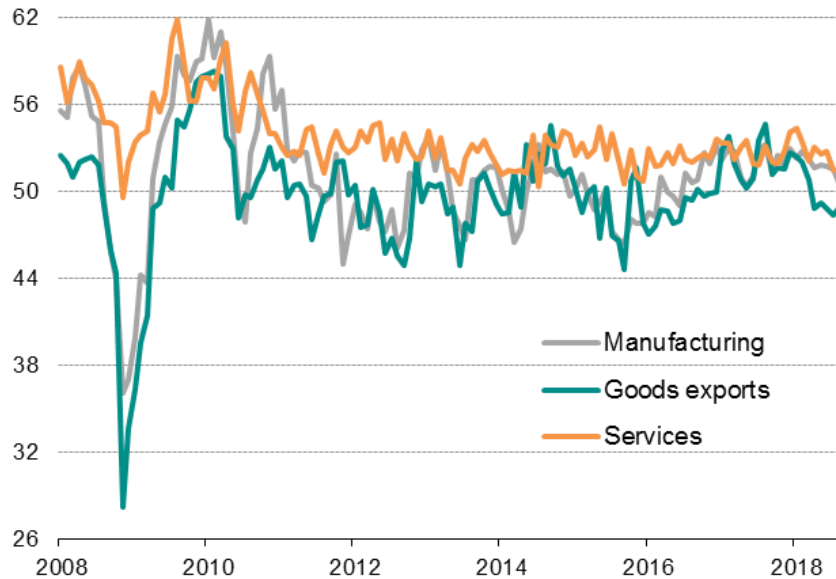
\* PMI shown is a GDP-weighted average of the manufacturing and services indices.

# Caixin China PMI points to Q3 export-led slowdown

- The Chinese economy lost some momentum midway through Q3 amid signs of softer client demand. The Caixin China Composite PMI Output Index (which covers both manufacturing and services) fell from 52.3 in July to a five-month low of 52.0 in August. Most concerning was that new business expanded at the slowest pace for just over two years, hinting at a further slowing in output growth in coming months. The survey also brought further evidence that escalating trade frictions had weighed on demand, particularly in the manufacturing sector, where exports fell for a fifth straight month.
- A ray of hope came from an upturn in business optimism about the year ahead, led by better sentiment in the service sector, highlighting how domestic demand is likely to lead growth in coming months. However, manufacturing job losses intensified as a result of the export-led slowdown, with a rise in service sector staffing levels failing to fully offset the factory decline.

## China new orders and exports

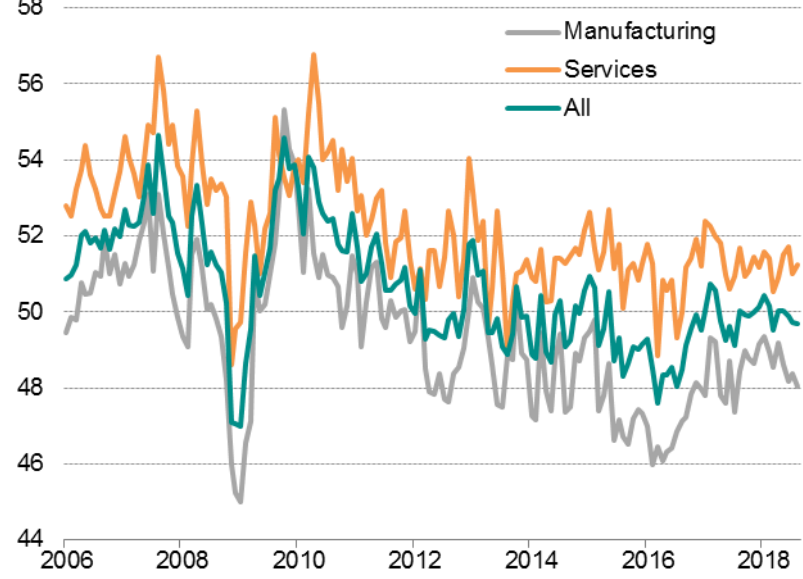
Caixin China PMI New Orders Indexes



Sources: IHS Markit, Caixin.

## China employment

Caixin (IHS Markit) China PMI Employment Index



Sources: IHS Markit, Caixin.

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

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