



IHS Markit™

Global PMI

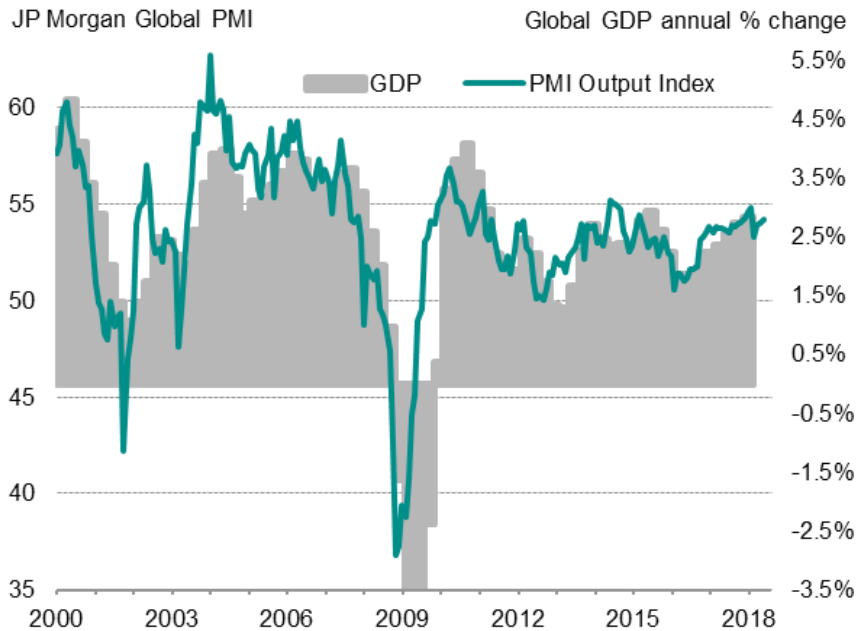
Strong end to Q2 for global economy, but risks to outlook intensify

July 10th 2018

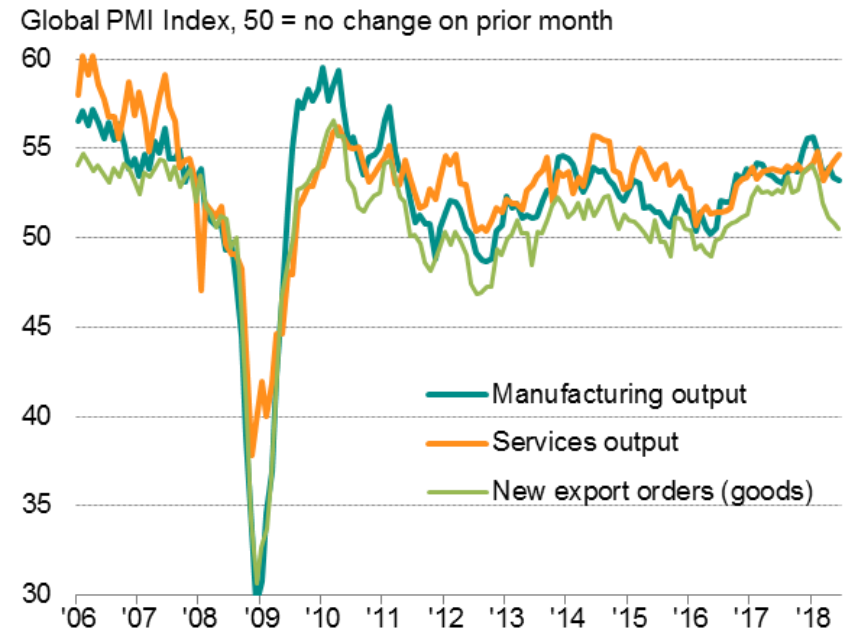
Global PMI hits four-month high but future expectations slip lower

- Global economic growth accelerated for a third successive month in June, according to the latest PMI business surveys. At 54.2 in June, the headline JPMorgan Global Composite PMI, compiled by IHS Markit, rose to a four-month high, suggesting at least some of the slowdown in business activity seen earlier in the year had been temporary. The survey data are consistent with global GDP rising at an annual rate of just over 2.5% (at market exchange rates) in Q2.
- However, an improvement in the rate of service sector expansion was countered by a slowdown in manufacturing, as the goods-producing sector reported weakened order book and trade growth. The June surveys registered the smallest rise in global trade for almost two years. Future expectations meanwhile fell, in part attributable to growing trade war fears. The outlook among manufacturers was the least optimistic for 19 months.

Global PMI* output & economic growth



Global PMI indicators



Sources: IHS Markit, JPMorgan.

Source: IHS Markit, JPMorgan.

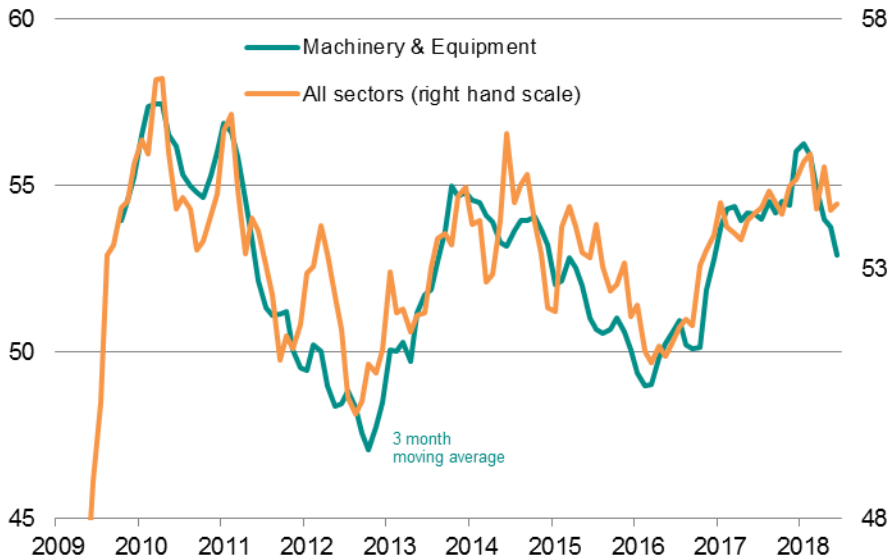
Financial and business service providers lead global upturn

The detailed sector PMI data underscored the extent to which current global economic growth is being driven by the services sector. Business spending on services seems to be a particularly potent force, with increased financial services activity (both banking and non-bank) also faring well in June.

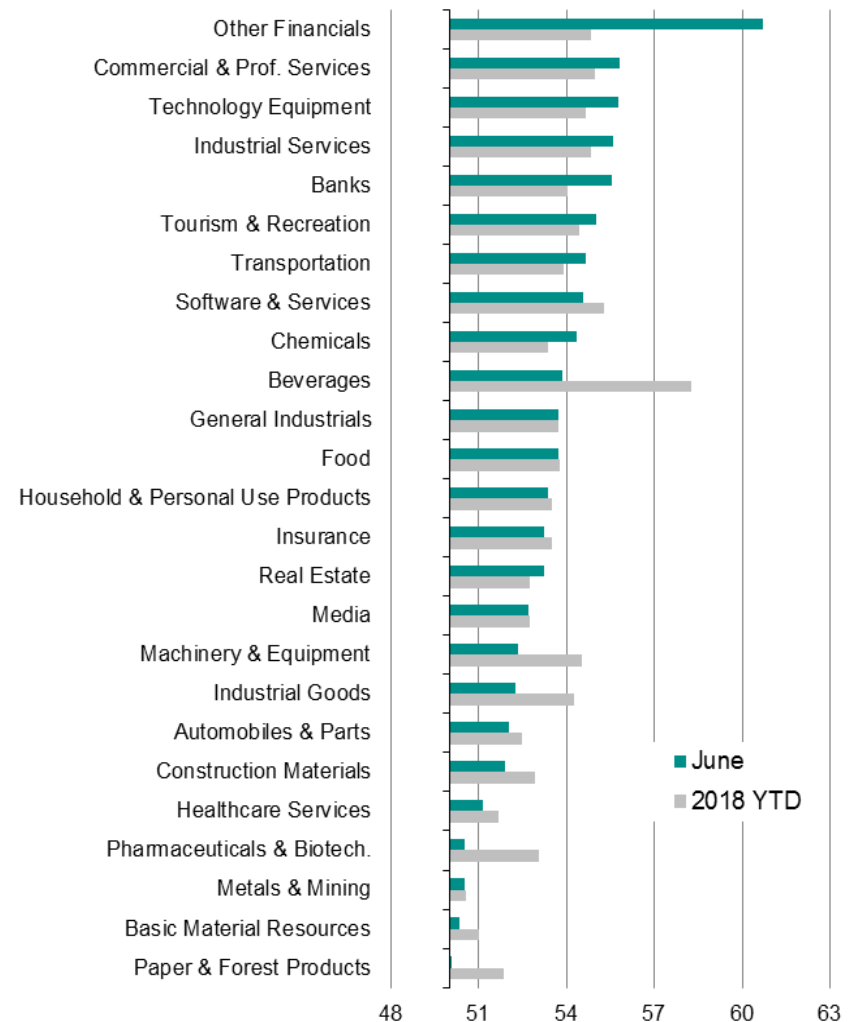
The fastest growing manufacturing sector is tech equipment, but many of the other lower-value-chain goods producing sectors are clearly struggling, most of all paper and timber products, which was the only sector to see output stagnate.

A warning light of the global upturn is flashed, however, in the form of a significant slowdown in orders for machinery & equipment, suggesting weakened global confidence is hitting capex.

Global PMI New Orders Index



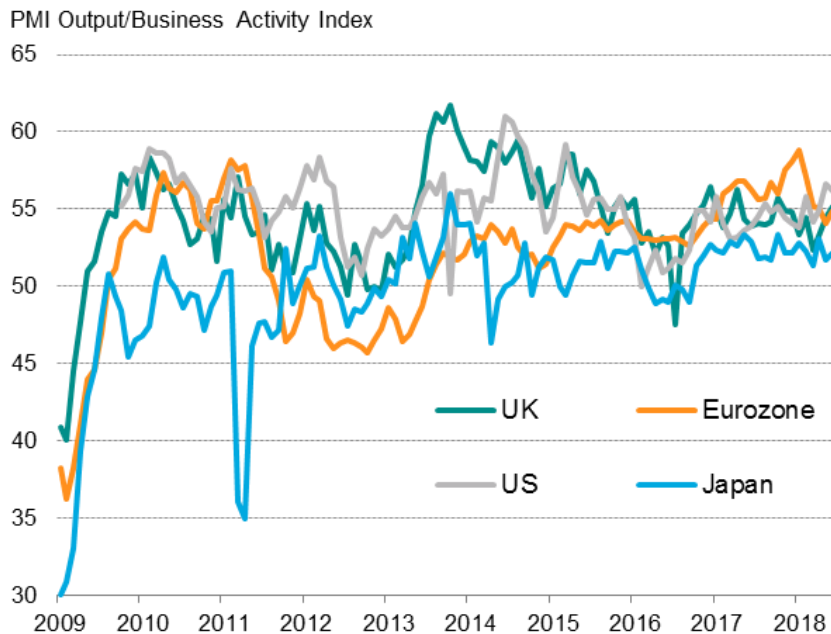
Global Sector PMI Output Index



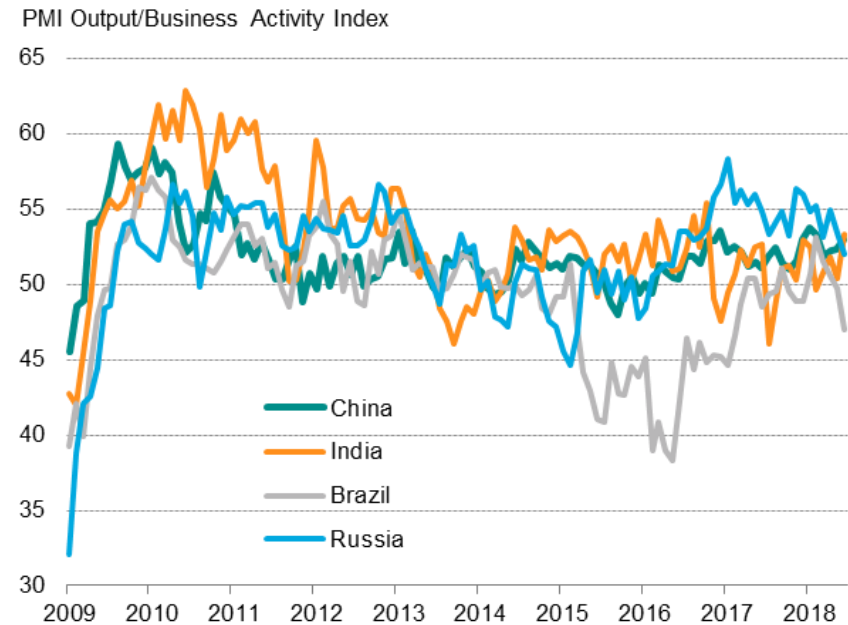
US retains lead in developed world upturn

- The major development in recent months has been the extent to which the US expansion has accelerated and replaced the eurozone as the fastest growing major developed economy. However, both the eurozone and UK, and to a lesser extent Japan, saw growth rates accelerate in June, rounding off solid second quarters for all four largest developed economies. A common theme was rising domestic demand contrasting with weaker new export order trends (the main exception being the UK, where the weak pound helped boost exports).
- Emerging markets saw varied growth trends. China and India reported improved PMI readings to four- and 20-month highs respectively, to signal strengthening growth at the end of the second quarter. In contrast, the rate of expansion in [Russia](#) slipped to a 25-month low and [Brazil](#) saw business activity contract at the steepest rate since February of last year, with a slowdown exacerbated by a trucker strike.

Developed world PMI* output



Emerging market PMI* output



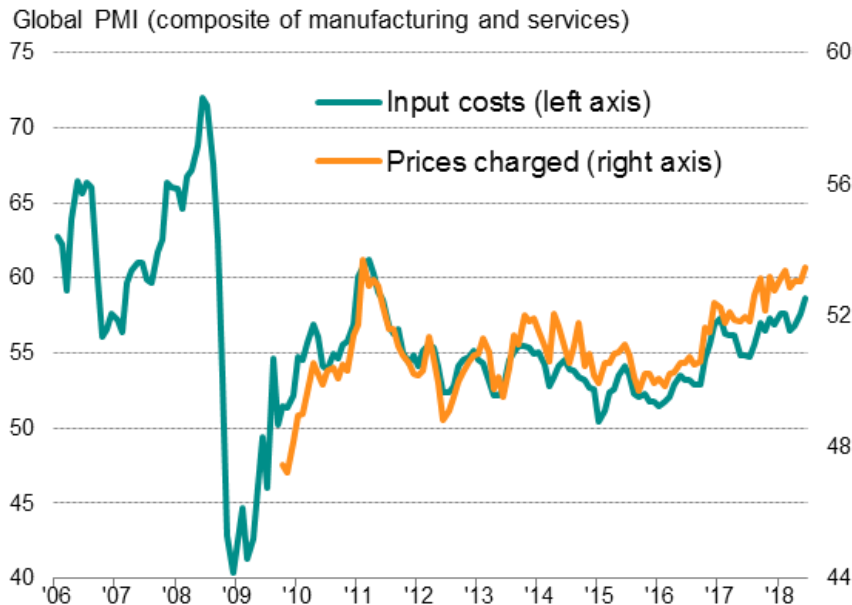
Sources: IHS Markit, CIPS, Nikkei.

Source: IHS Markit, Caixin, Nikkei.

Global prices rise at steepest rate in over seven years

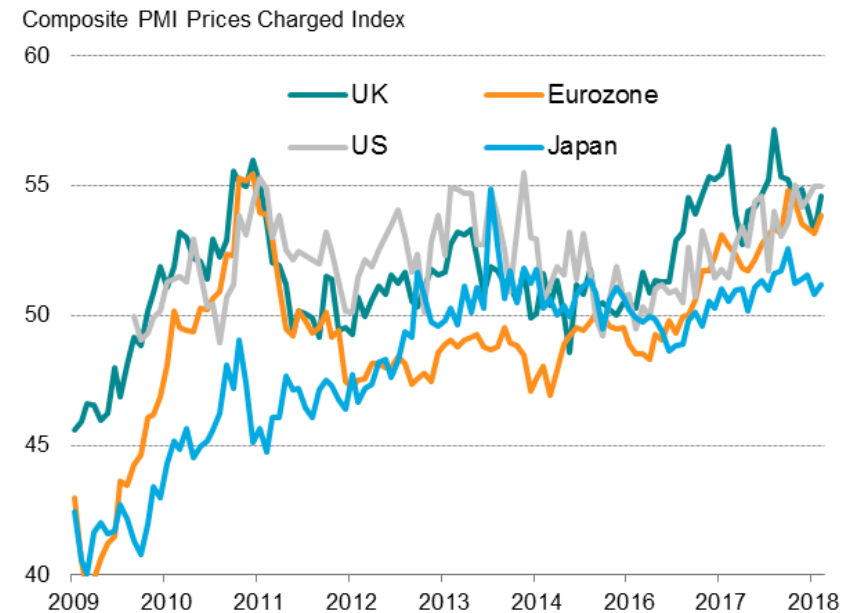
- Global price indices remained elevated by standards of recent years. Higher oil prices contributed to another rise in average input costs, and average selling prices for goods and services continued to increase as firms passed higher costs onto customers. Both measures showed some of the steepest rates of increase seen over the past seven years.
- In the eurozone, the UK and Japan, 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 solidly in the US during June, increasing at one of the fastest rates seen since 2011.

Global PMI* price indices



Sources: IHS Markit, JPMorgan.

Global PMI* selling price indices

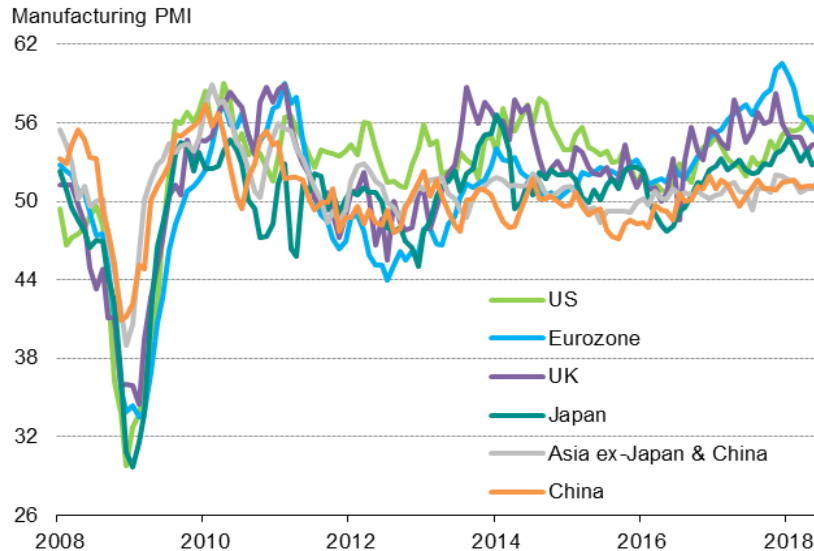


Source: IHS Markit, CIPS, Nikkei.

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

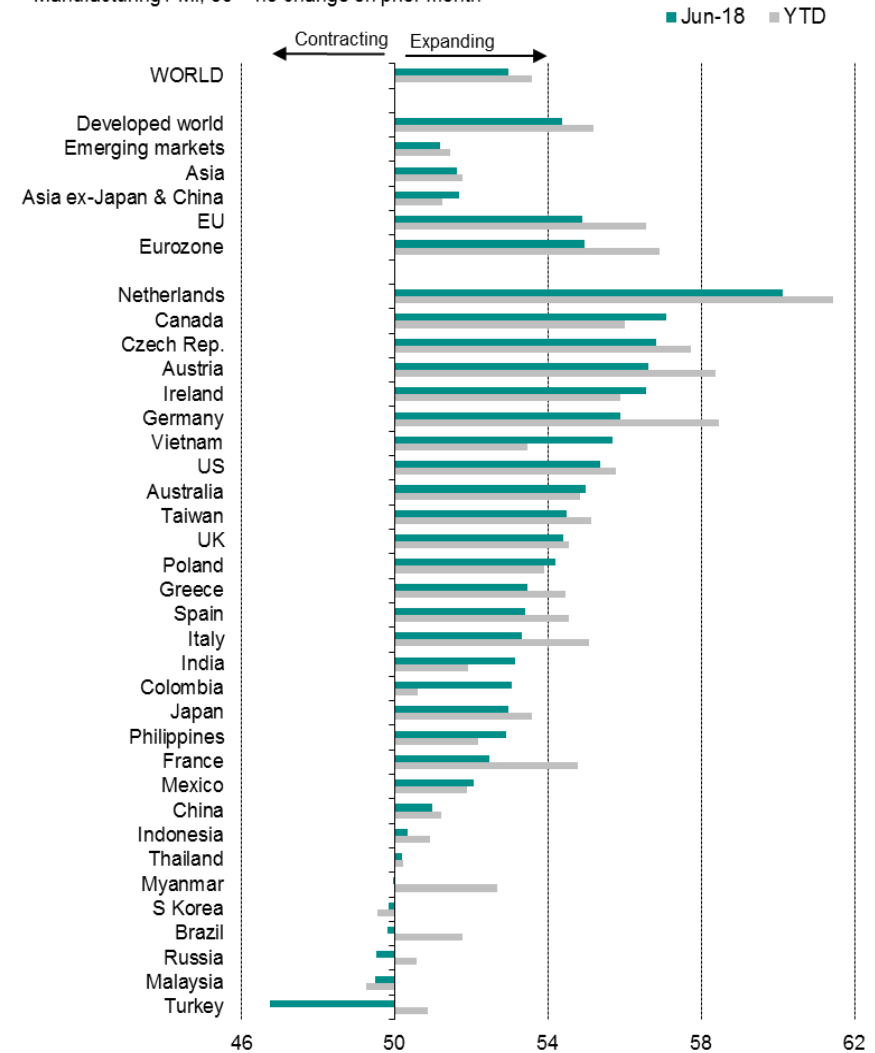
Netherlands tops manufacturing PMI league table

- Worldwide manufacturers reported the smallest rise in export orders for two years in June, contributing to the weakest improvement in business conditions for almost a year. The JPMorgan Global Manufacturing PMI, compiled by IHS Markit, fell to 53.0 in June, its lowest since July of last year.
- Five of the 30 countries covered by the global manufacturing PMI reported a deterioration of business conditions, up from three in May, all of which fall into our classification of emerging markets, though by far the steepest decline was again recorded in Turkey.
- Five of the top six manufacturing nations were European, led by the Netherlands. At second place, Canada was the top performing non-European country, followed by Vietnam in seventh place.



Sources: IHS Markit, Caixin, CIPS, Nikkei.

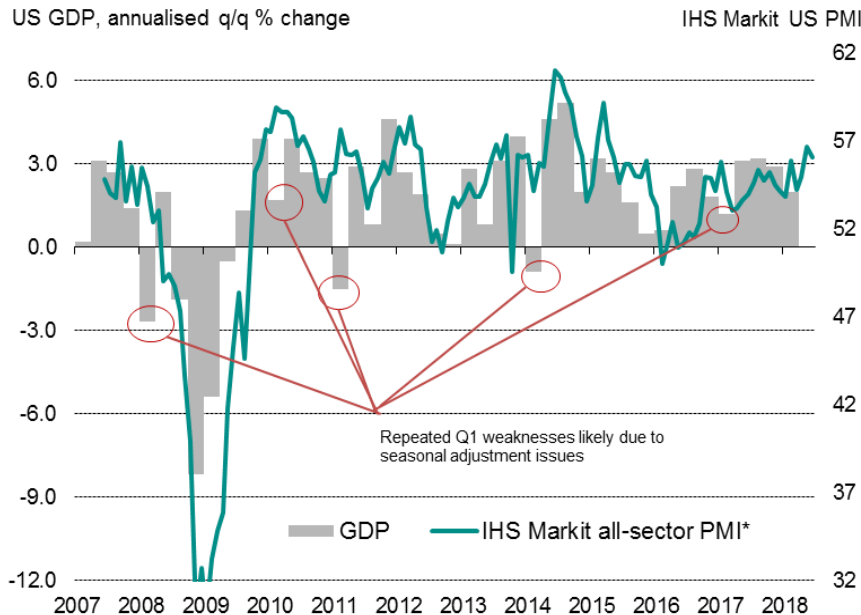
Manufacturing PMI, 50 = no change on prior month



US sees elevated price pressures amid strong end to Q2

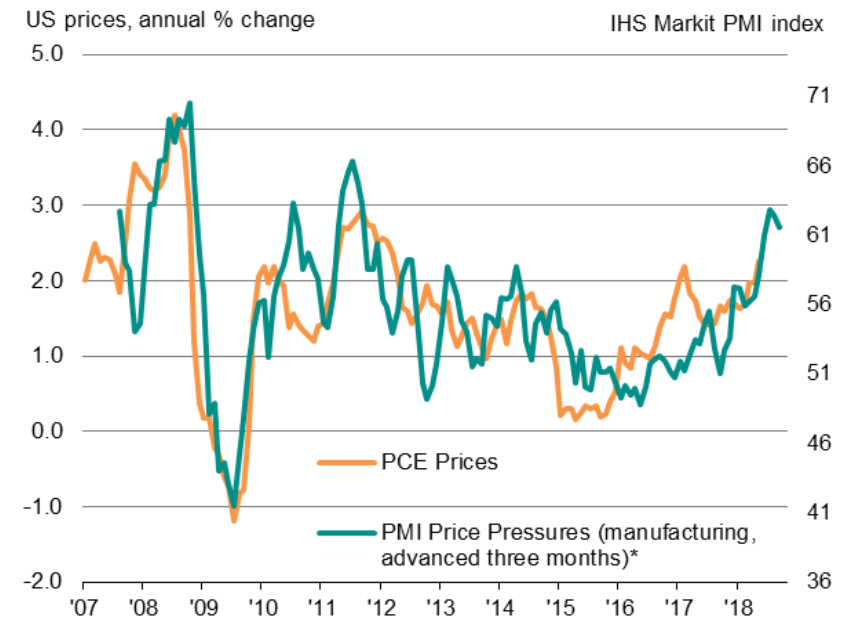
- Another month of solid US business activity growth in June, according to the IHS Markit PMI surveys, means Q2 saw the strongest performance from the service sector for three years. Coming on the heels of a robust manufacturing expansion, the survey data add to indications that the economy has picked up considerable growth momentum since Q1. June also saw further impressive job gains, with the manufacturing and services surveys collectively indicating a non-farm payroll rise in the order of 230k.
- On the downside, price pressures remained historically strong, and are likely to feed through to higher consumer price inflation in coming months. There are also signs that growth could weaken in Q3: business expectations about future growth have pulled back from recent highs, and new order flows have slowed for two successive months. However, all indicators remain at sufficiently high levels to suggest that any slowdown may only be modest.

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

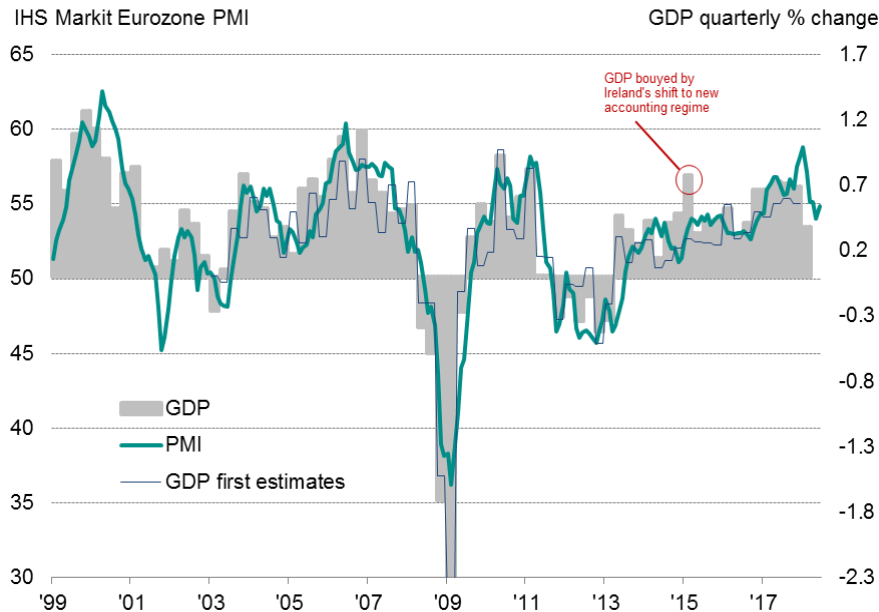


Sources: IHS Markit, U.S. Bureau of Economic Analysis.
* A blended index of input prices and supplier delivery times.

Eurozone PMI signals 0.5% Q2 growth, but optimism wanes

- Eurozone growth regained momentum in June, rounding off a second quarter for which the PMI survey data point to GDP rising by just over 0.5%. June also saw new orders and employment growth perk up, suggesting rising demand continues to motivate companies to expand capacity. Firms' costs and average selling prices for goods and services are meanwhile rising at rates close to seven-year highs, which will likely feed through to higher consumer price inflation in coming months.
- The upturn in the pace of economic growth and resurgent price pressures adds support to the ECB's view that stimulus should be tapered later this year, but the details of the survey also justify the central bank's cautious approach to policy. In particular, a decline in business optimism about the future to the lowest for over one-and-a-half years reflects intensifying nervousness about the outlook for the economy, notably in manufacturing.

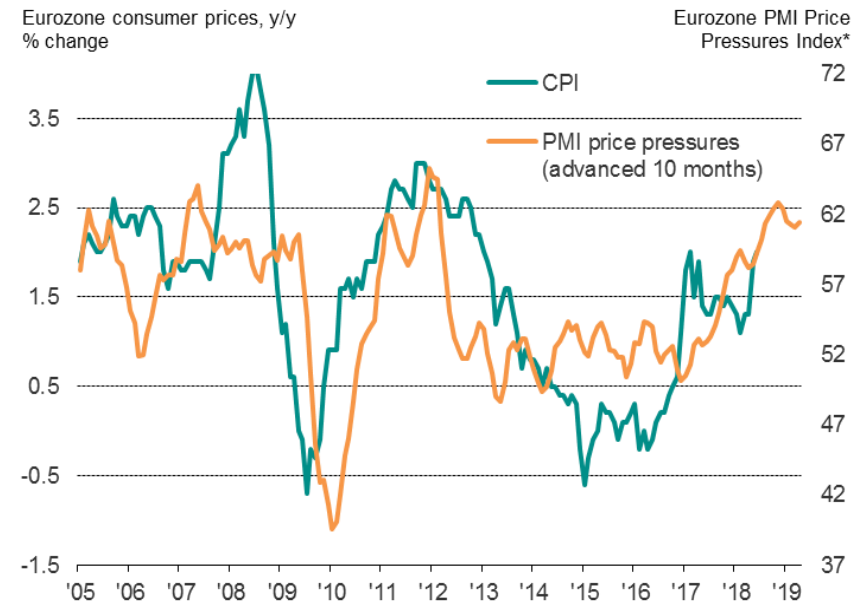
Eurozone economic growth and PMI**



Sources: IHS Markit, Eurostat.

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

Eurozone PMI and inflation



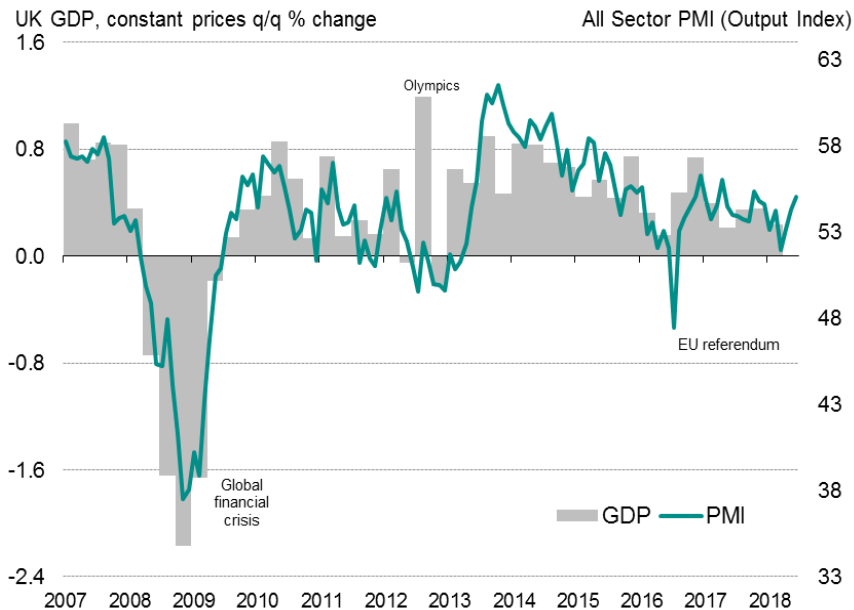
Sources: IHS Markit, ECB.

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

UK PMI rises to eight-month high in June, accompanied by price hikes

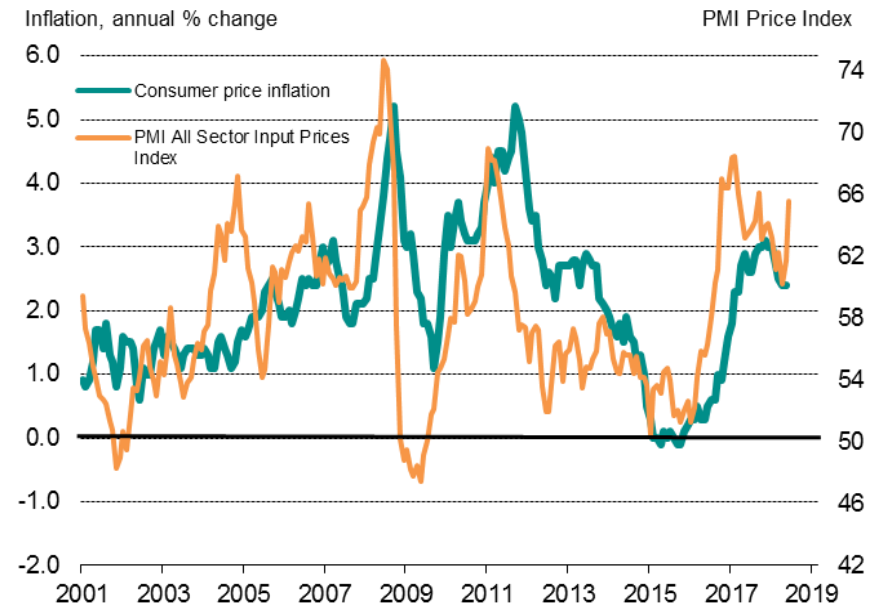
- Stronger growth of service sector activity in June adds to signs that the economy rebounded in Q2 and opens the door for an August rate hike, especially when viewed alongside PMI indices showing that inflationary pressures spiked higher. The survey data indicate that the economy likely grew by 0.4% in Q2, up from 0.2% in Q1. The sharp rise in business costs, linked to surging oil prices and the need to offer higher wages, suggests inflation will also pick up again from its current rate of 2.4%.
- It remains encouraging yet also puzzling as to how current business activity continues to show such resilience amid relatively moribund business confidence. The survey once again highlights how the outlook remains clouded by widespread concerns about the impact of Brexit uncertainty in particular. Such a divergence between current and expected future activity stokes worries that the upturn is being fueled by short-term spending and likely masks a lack of business investment.

UK PMI* and GDP



Sources: IHS Markit, CIPS, ONS.

UK PMI prices*



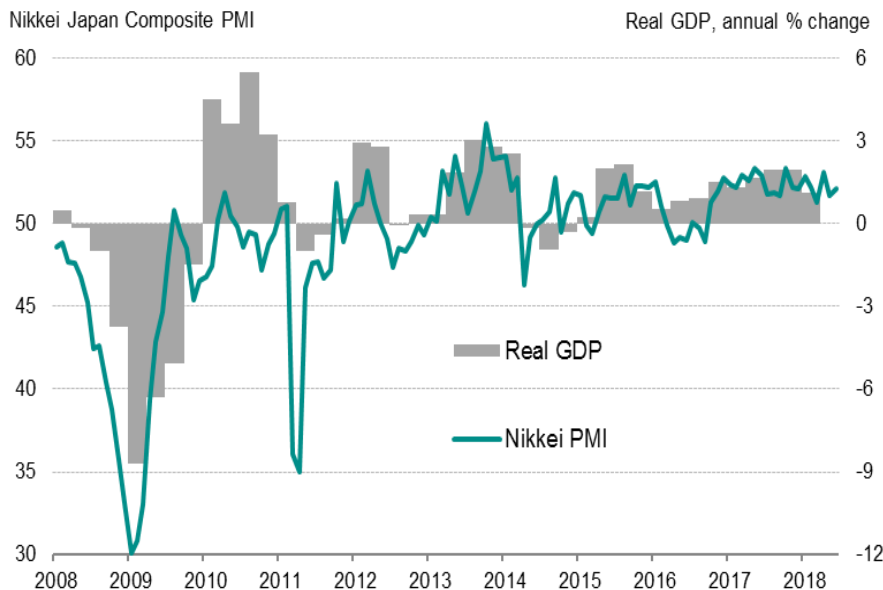
Sources: IHS Markit, CIPS, ONS.

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

Japan ends Q2 on stronger note, though exports fall

- The Japanese economy gained growth momentum in June, according to Nikkei surveys, ending Q2 on a stronger note. The Nikkei Japan Composite PMI™ Output Index rose from 51.7 in May to 52.1 in June. The average PMI reading for Q2 is slightly higher than Q1, to help allay concerns about spluttering economic growth, as indicated by the GDP decline in Q1.
- The manufacturing sector remained the main driver of economic activity, continuing to outpace services, but also faces the greatest risks. First, export sales fell for the first time in nearly two years, reflective of cooling world trade conditions. Second, high demand for inputs continued to put pressure on supply chains, resulting in widespread material shortages.
- Overall input cost inflation remained solid and well above the historical average, but strong competition limited scope for firms to charge higher prices.

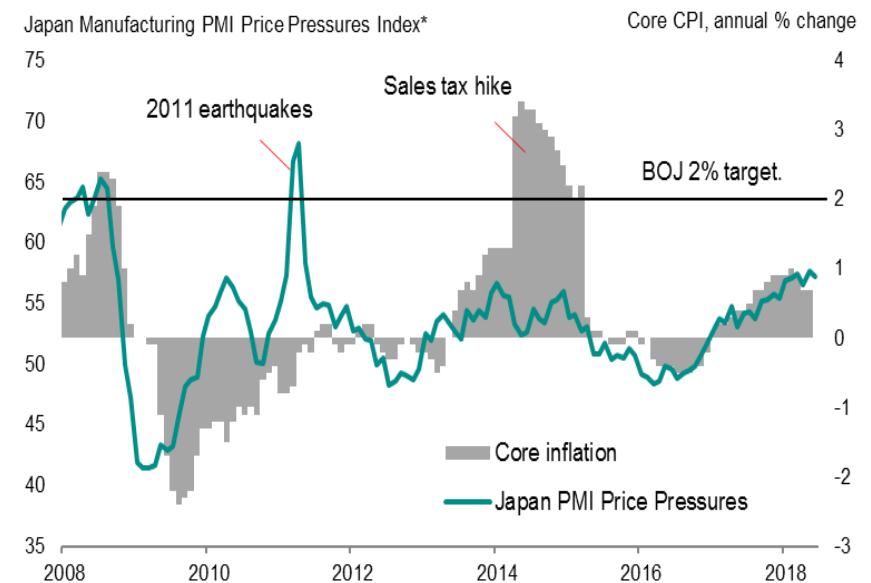
Japan economic growth and the PMI**



Sources: IHS Markit, Nikkei, Japan Cabinet Office.

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

Japan inflation indicators



*1

Sources: IHS Markit, Nikkei, Datastream.

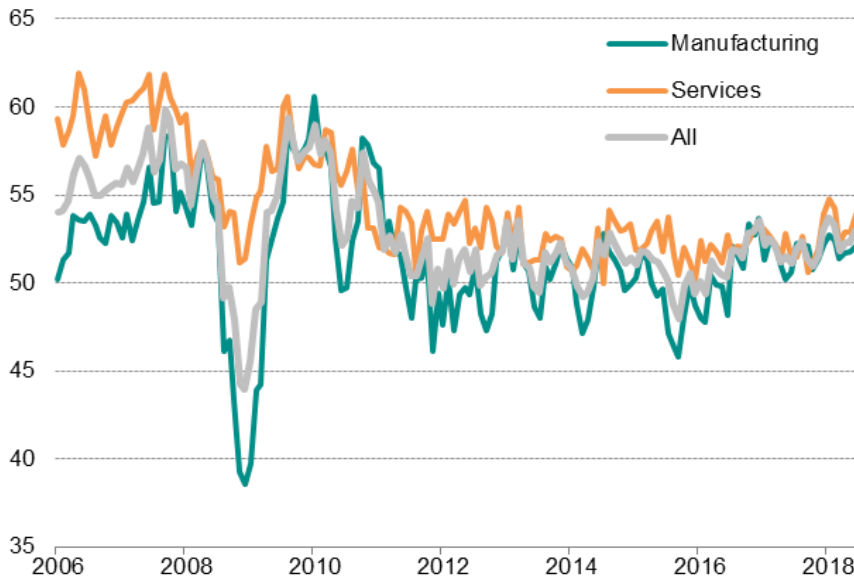
* A blended index of input prices and supplier delivery times.

Robust Caixin China PMI ends best first half of year since 2011

- Strengthened domestic demand helped boost China’s economy in June, marking a robust end to the second quarter. However, weakened trade acted as a drag. The Caixin China Composite PMI™ Output Index rose from 52.3 to 53.0 in June, signalling a solid increase in business activity. At 52.7, the average index reading for the first half of the year is the best since 2011.
- Although growth in both manufacturing output and services activity accelerated in June, new export orders declined for a third successive month, marking the first quarterly fall in foreign sales since 2016.
- The upturn was also marred by sharper inflationary pressures, which partly reflected supply bottlenecks linked to on-going output restrictions on heavy-polluting industries. There was little anecdotal evidence referencing slower exports and rising prices to trade wars and tariffs, but manufacturers’ future expectations slipped to a six-month low.

China economic growth and the PMI*

Caixin (IHS Markit) China PMI Output Index



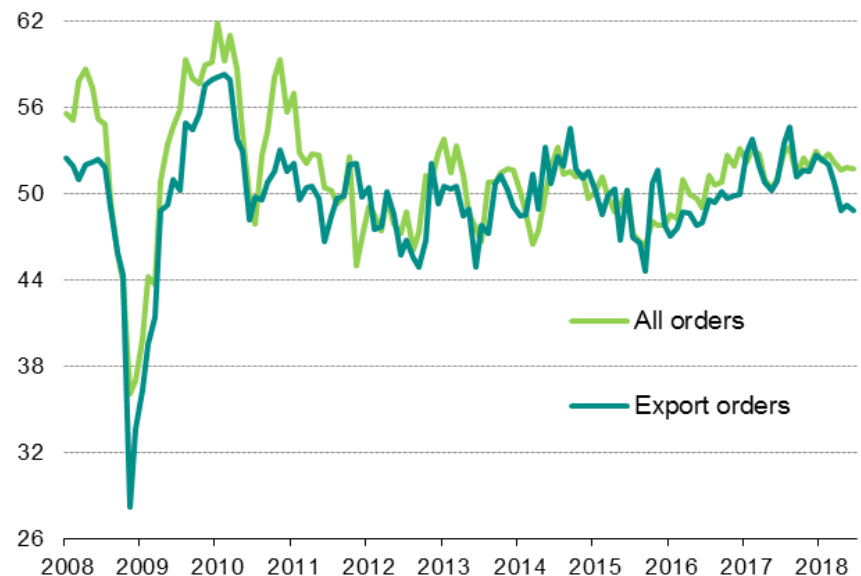
Sources: IHS Markit, Caixin.

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

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China exports and order books

Caixin China Manufacturing PMI new orders



Source: IHS Markit, Caixin.

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