



IHS Markit™

Global PMI

Growth cools at start of Q3 amid survey-record price rise

August 10th 2018

Stalling exports drag global PMI to four-month low, optimism wanes

- Global economic growth slowed to a four-month low in July, according to the latest PMI business surveys. At 53.7, compared to 54.2 in June, the headline JPMorgan Global Composite PMI, compiled by IHS Markit, remained indicative of global GDP rising at a solid annual rate of approximately 2.5% (at market exchange rates). However, a drop in future expectations to the lowest since November 2016 suggests the pace of expansion could wane further in coming months.
- While both service sector and manufacturing growth rates weakened in July, the latter has exhibited the more significant slowdown, largely the result of a near-stagnation in global exports. Accelerating export trade flows had helped propel the global economic expansion in 2017 but, having peaked in January of this year, export growth has since all but disappeared. Only marginal export growth was seen in both June and July, the latter registering the smallest expansion for two years.

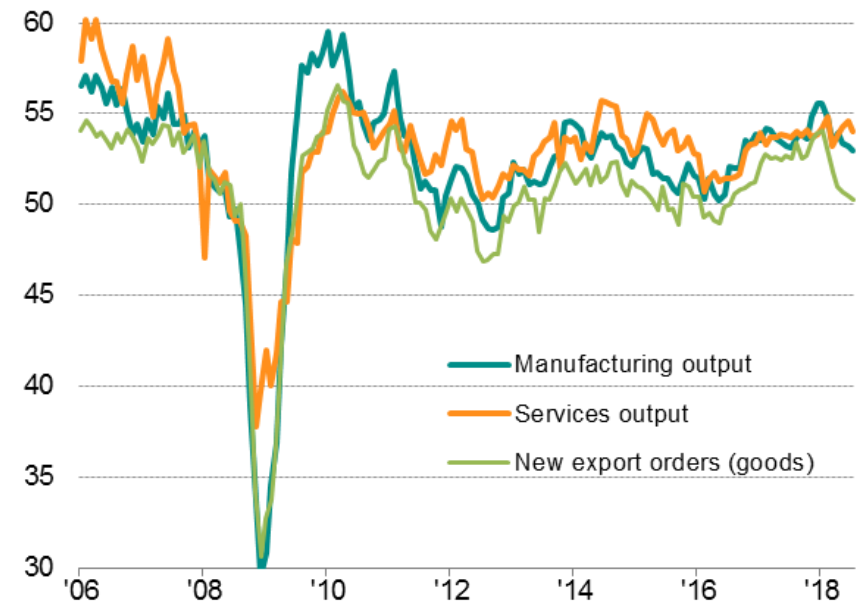
Global PMI* output & economic growth



Sources: IHS Markit, JPMorgan.

Global PMI indicators*

Global PMI Index, 50 = no change on prior month



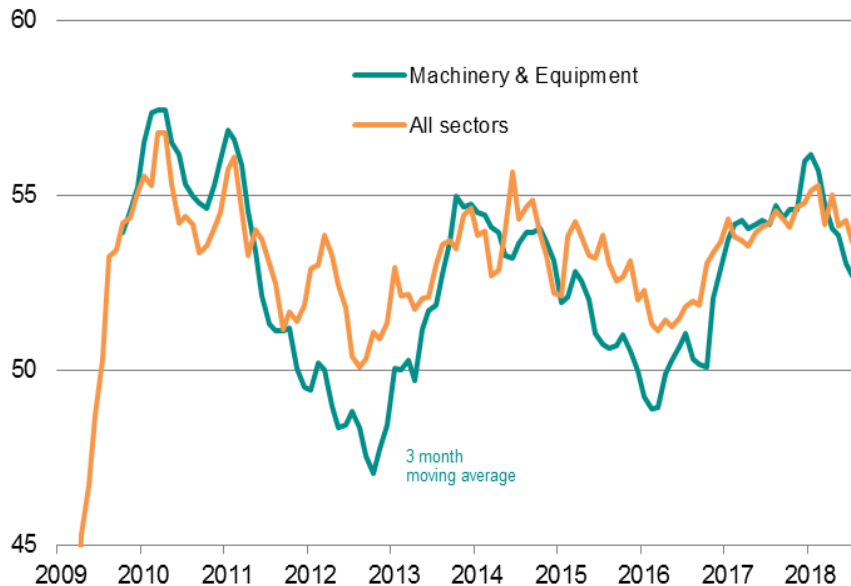
Source: IHS Markit, JPMorgan.

Slowdown in machinery demand hints at weaker global capex

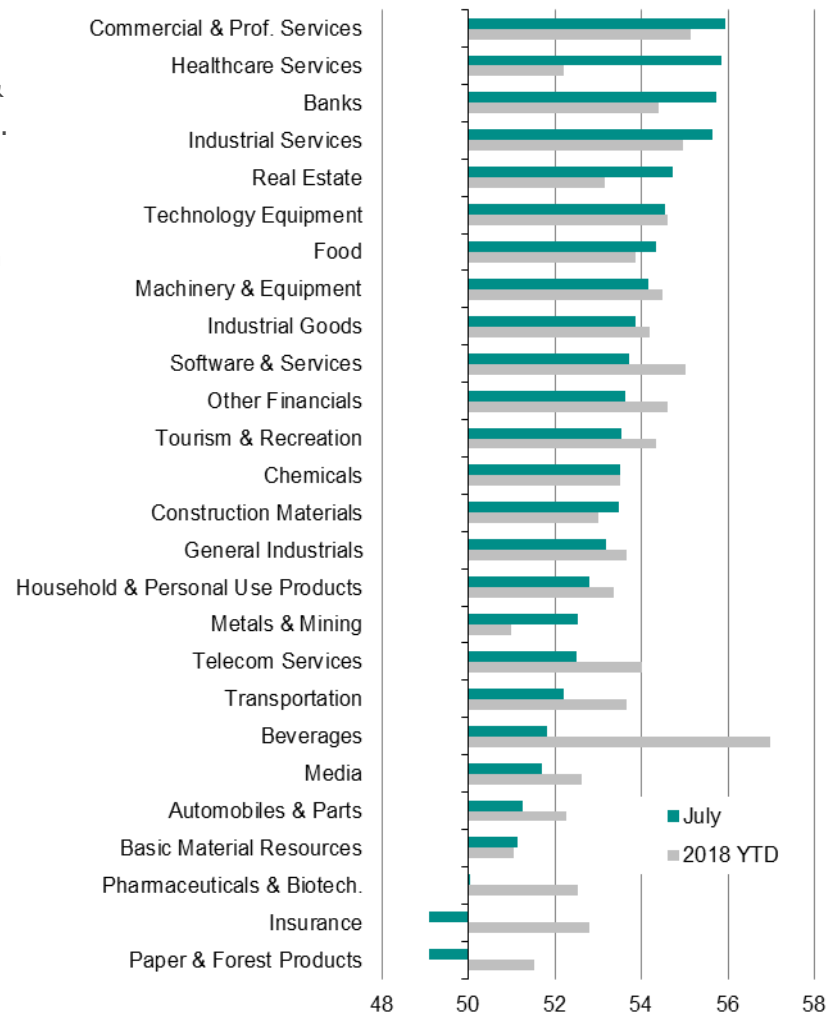
Global sector PMI data showed growth being led by commercial & professional services, followed by healthcare and banking. Tech equipment makers observed the fastest growth among manufacturers in July. Only two sectors saw falling output: paper & forest products and insurance, though pharma & biotech stagnated.

A further slowdown in demand for machinery & equipment meanwhile suggests that the on-going weakening of global business confidence is hitting capex and investment. Having shown strong growth at the start of the year, new orders for machinery & equipment grew at the slowest rate since late-2016 in the three months to July.

Global PMI New Orders Index



Global Sector PMI Output Index

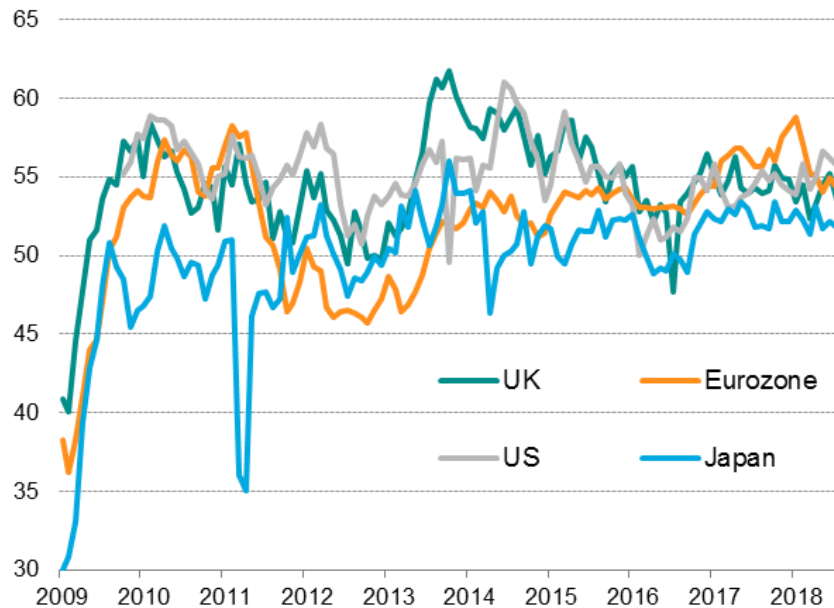


US leads developed world upturn for third straight month

- The US was the best-performing major developed economy for the third successive month in July, as signalled by the composite PMI surveys, having outpaced the eurozone in recent months. However, growth slowed in all four largest developed economies, most notably in the UK. Japan nonetheless recorded the weakest expansion, though still reported steady growth.
- Growth trends were more varied among the largest emerging markets. Russia continued to lose ground after having led the major emerging markets throughout 2017 and early 2018, replaced by India as the fastest growing BRIC nation. India was notable in enjoying its strongest expansion for 21 months in July as headwinds such as the GST continued to fade. Brazil saw business activity rebound after a trucker strike hit activity in June, but remained the worst major emerging market performer.

Developed world PMI* output

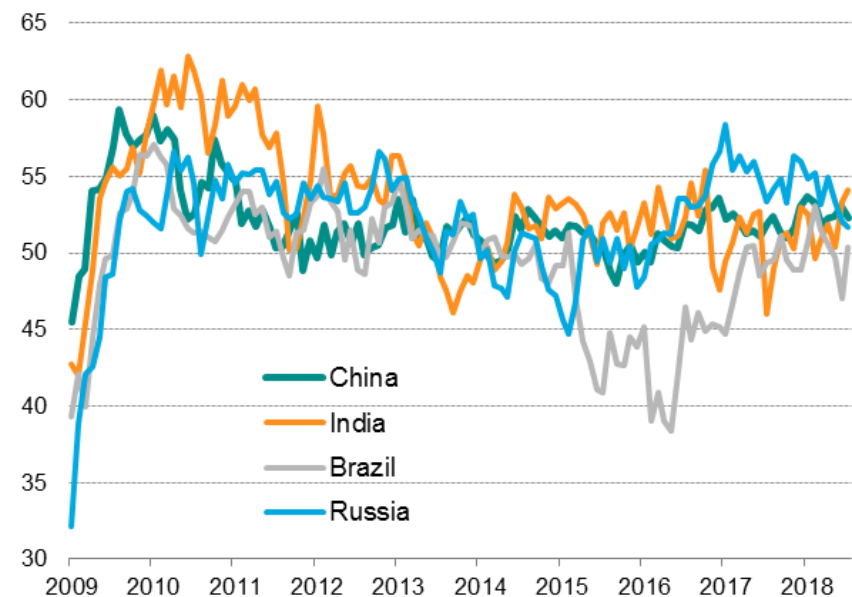
PMI Output/Business Activity Index



Sources: IHS Markit, CIPS, Nikkei.

Emerging market PMI* output

PMI Output/Business Activity Index



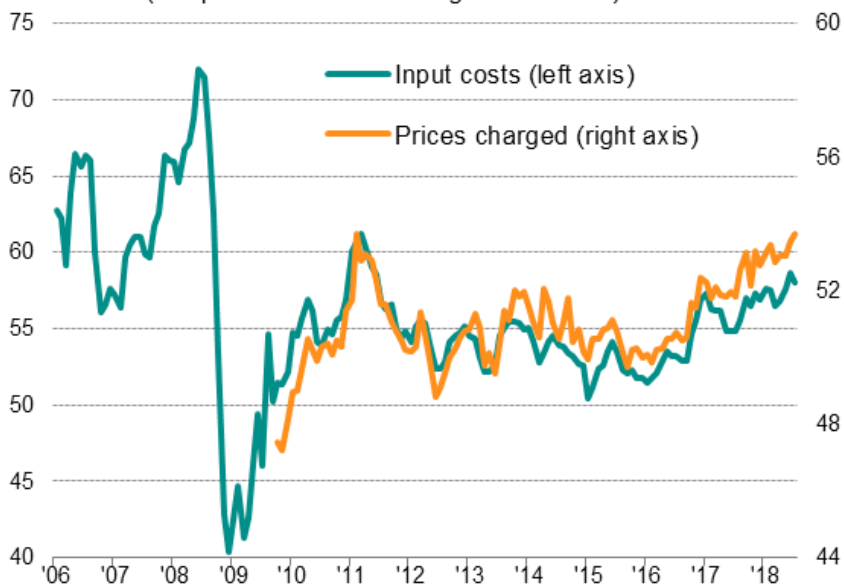
Source: IHS Markit, Caixin, Nikkei.

Global selling prices rise at steepest rate in survey history

- Average prices charged for goods and services rose globally in July at the joint-fastest rate since comparable data were first available in 2009. Service sector price inflation hit a survey-record high, but factory gate price inflation cooled to remain significantly below the peaks seen in 2011.
- Sellers generally sought to pass greater costs on to customers, with increased oil prices and tariff pressures widely reported as pushing input costs higher. Factories also reported that increasingly extended supplier delivery times – often blamed on advance buying ahead of tariffs – once again also helped vendors negotiate higher prices. In the service sector, higher wage pressures were also reported, notably in developed markets. However, although global input cost inflation remained elevated, the rate of increase dipped slightly in July to suggest some pressure may come off selling prices in August.

Global PMI* price indices

Global PMI (composite of manufacturing and services)

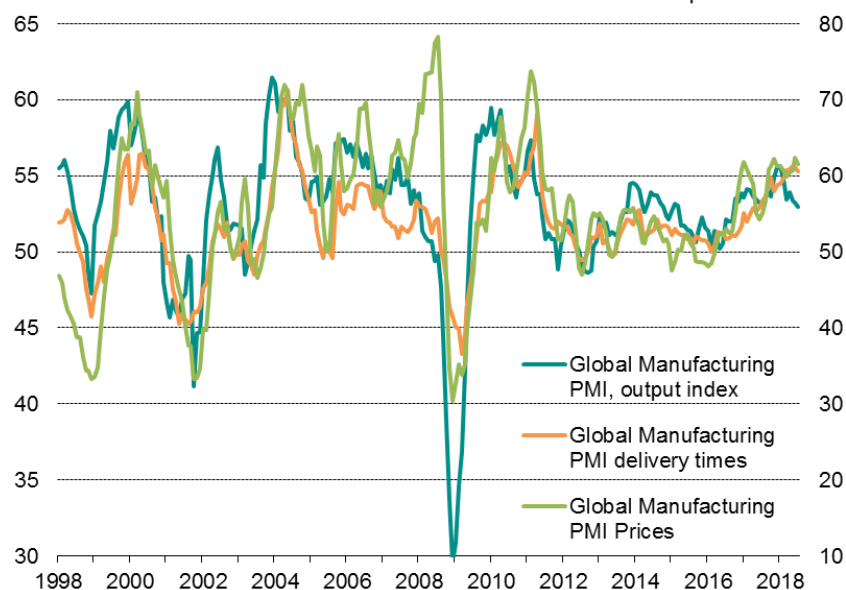


Sources: IHS Markit, JPMorgan.

Global manufacturing PMI price pressures

PMI Output and Delivery Times Index (inverted)

PMI Input Prices Index



Source: IHS Markit, JPMorgan.

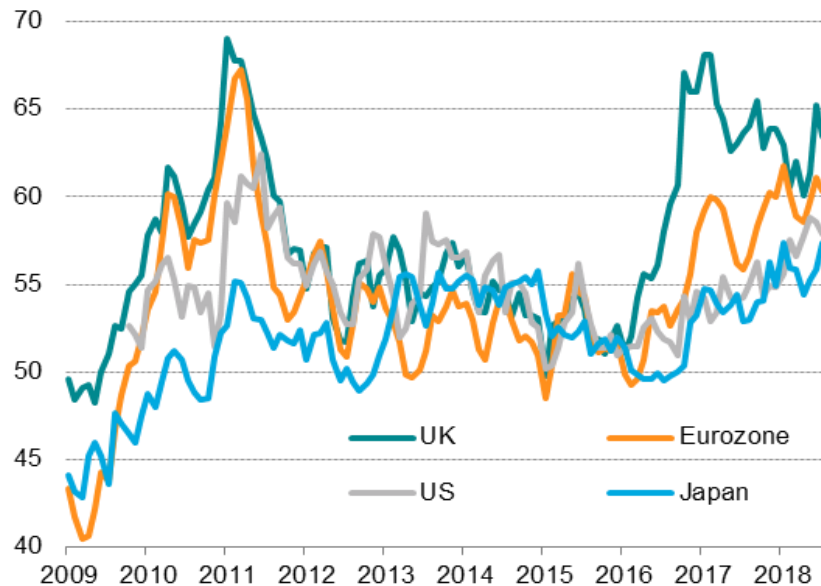
* PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

US sees survey-record price hikes, but UK suffers largest rise in costs

- Rising costs remained a common theme of the national PMI surveys in July, albeit with some signs of upward pressures easing in some countries, including the US, UK and eurozone, though still remaining high. The UK once again saw by far the most widespread cost increases of the major developed economies, in part linked to the renewed depreciation of sterling pushing up import prices.
- While the UK suffered the greatest cost pressures, it was the US that saw companies report the steepest rise in selling prices among the largest rich-world economies. Average prices charged for goods and services rose in the US at the steepest rate in the near-ten year history of the IHS Markit PMI surveys, hinting that US companies were increasingly able to push through price rises amid stronger demand relative to other countries.

Developed world PMI* input costs

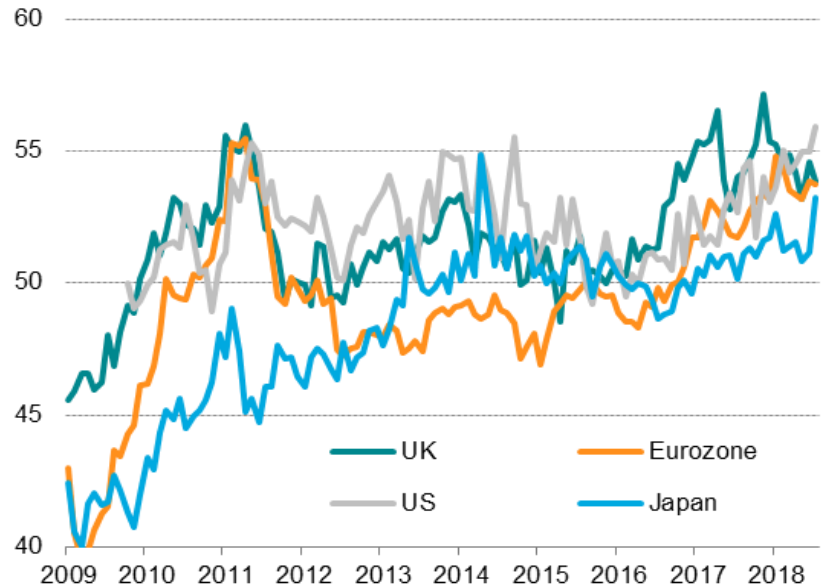
Composite PMI Input Costs Index



Source: IHS Markit, CIPS, Nikkei.

Developed world PMI* selling prices

Composite PMI Prices Charged Index



Source: IHS Markit, CIPS, Nikkei.

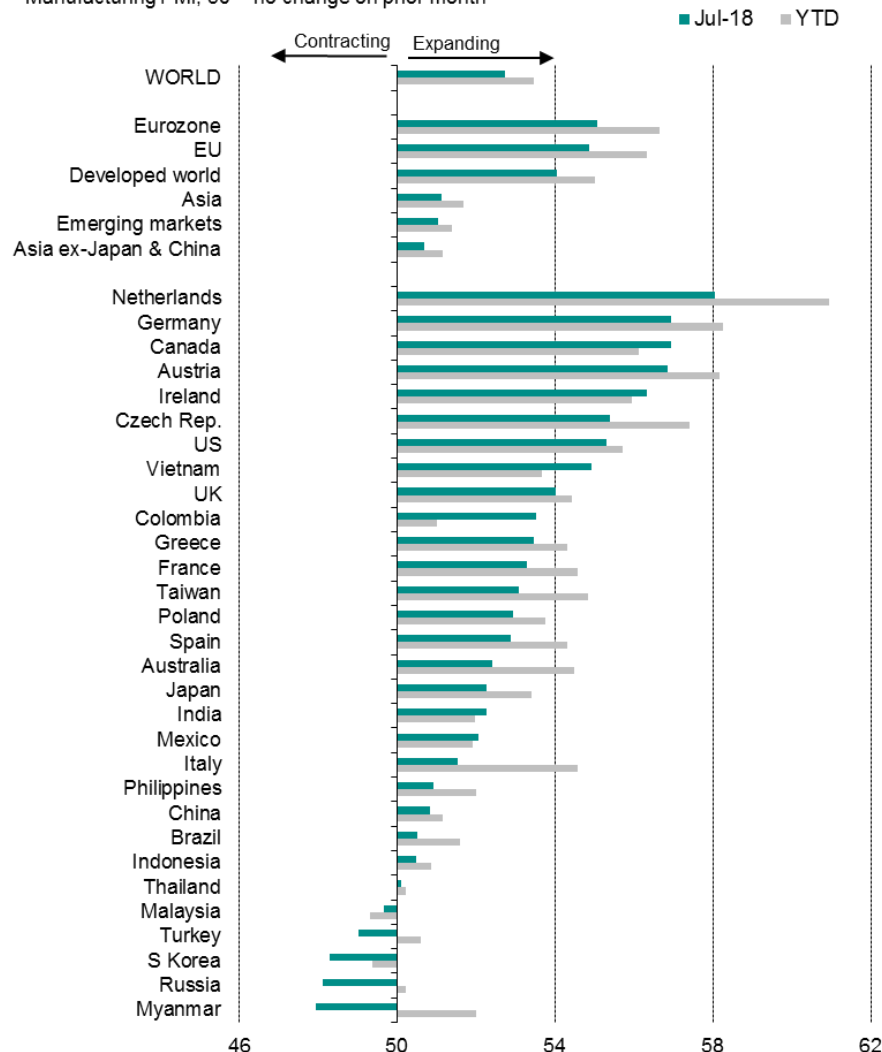
* PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

Europe and North America dominate manufacturing league table

- The JPMorgan Global Manufacturing PMI, compiled by IHS Markit, cooled to a one-year low of 52.7 in July, down from 53.0 in June and losing further ground from the recent peak of 54.5 seen last December.
- PMIs fell in 19 of the 30 countries covered by the surveys. Only five reported a deterioration of business conditions with a sub-50 PMI reading, all of which fall into our classification of emerging markets.
- Strong rates of manufacturing expansion were seen at the top of the table, where five of the top six nations were European, led once again by the Netherlands. Canada was the top-performing non-European country, followed by the US.



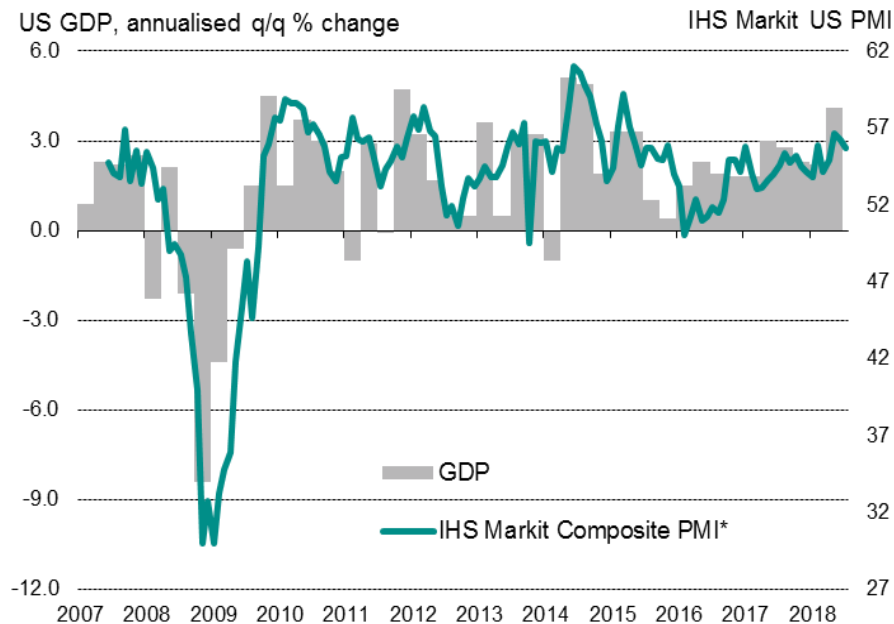
Manufacturing PMI, 50 = no change on prior month



US sees cooler growth after strong Q2, but prices spike higher

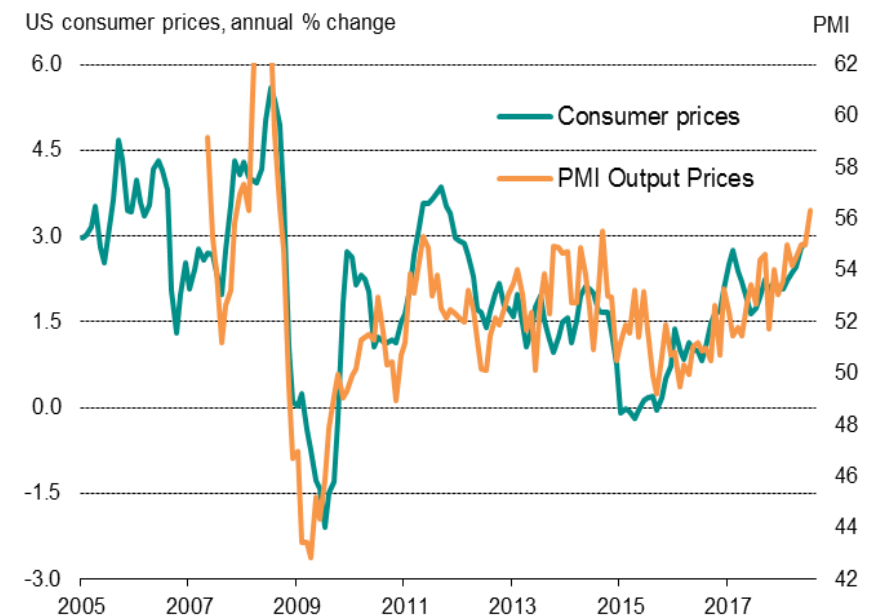
- US economic growth accelerated in Q2, with GDP rising at an annualised rate of 4.1%, up from 2.2% in Q1. The acceleration had been foretold by the IHS Markit PMI, which averaged 55.9 in Q2 against 54.6 in Q1. With the composite PMI dipping to 55.7 in July, the pace of expansion cooled slightly at the start of Q3, but the PMI remains consistent with the economy growing at a rate approaching 3%. Manufacturing and services continued to register robust (albeit slower) growth in July, the former held back by a second successive monthly (marginal) drop in exports. Growth may weaken further in August, however, with future business expectations down to a six-month low.
- Inflationary pressures meanwhile remained elevated, with average prices charged for goods and services rising at the steepest rate recorded since comparable data were first available in 2009. Input cost inflation also remained elevated, with the impact of tariffs widely reported, though moderated slightly to a three-month low.

US economic growth and the PMI*



* Manufacturing PMI only pre-October 2009.
Sources: IHS Markit, Datastream

US price pressures

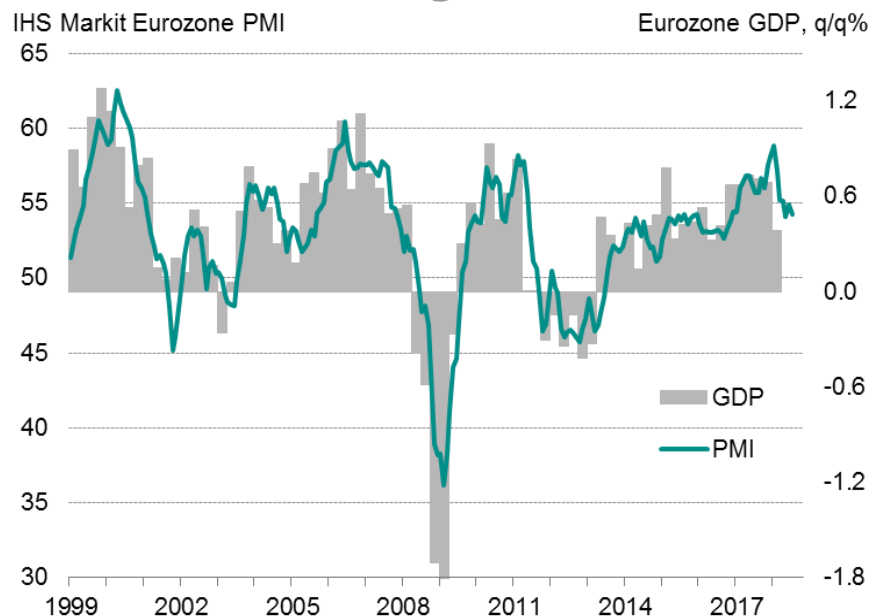


* Index based on manufacturing only data pre-October 2009.
Sources: IHS Markit, Datastream.

Eurozone PMI signals modest export-led slowdown

- At 54.3, down from 54.9 in June, the headline Eurozone PMI suggests eurozone GDP growth eased slightly at the start of Q3. The July PMI is consistent with quarterly GDP growth of 0.4%, down from a 0.5% expansion indicated for Q2. The slowdown adds to suspicions that June's rebound was temporary and that the underlying trend remains one of softer, but still solid, expansion.
- While there are signs that improving domestic demand in many countries is helping drive robust service sector expansion and support manufacturing, a worsening export trend is clearly having a detrimental effect on the latter. Export orders grew at the slowest rate for 23 months in July.
- Price pressures eased from recent highs but remained elevated to suggest further upward pressure on consumer prices in coming months. The steady pace of economic growth and high price pressures add to a hawkish ECB stance.

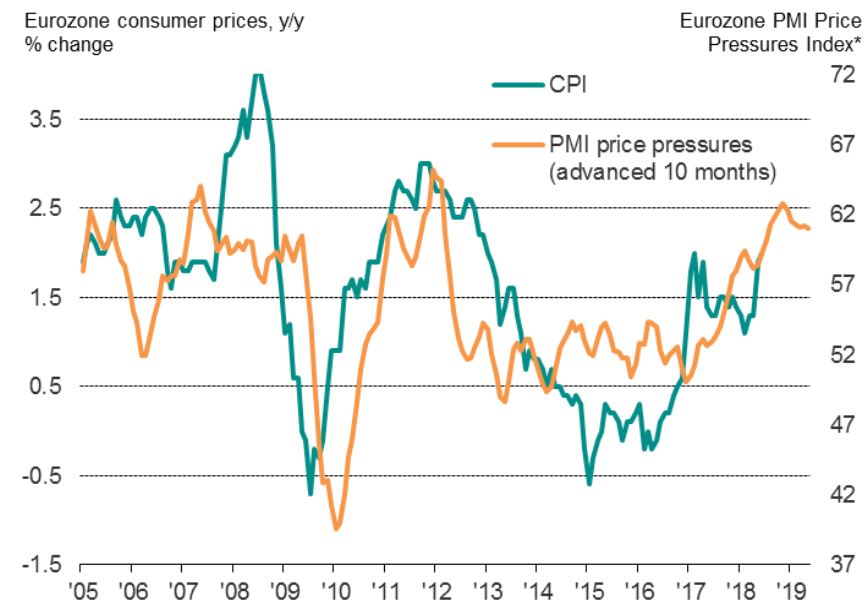
Eurozone economic growth and PMI**



Sources: IHS Markit, Eurostat.

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

Eurozone PMI and inflation



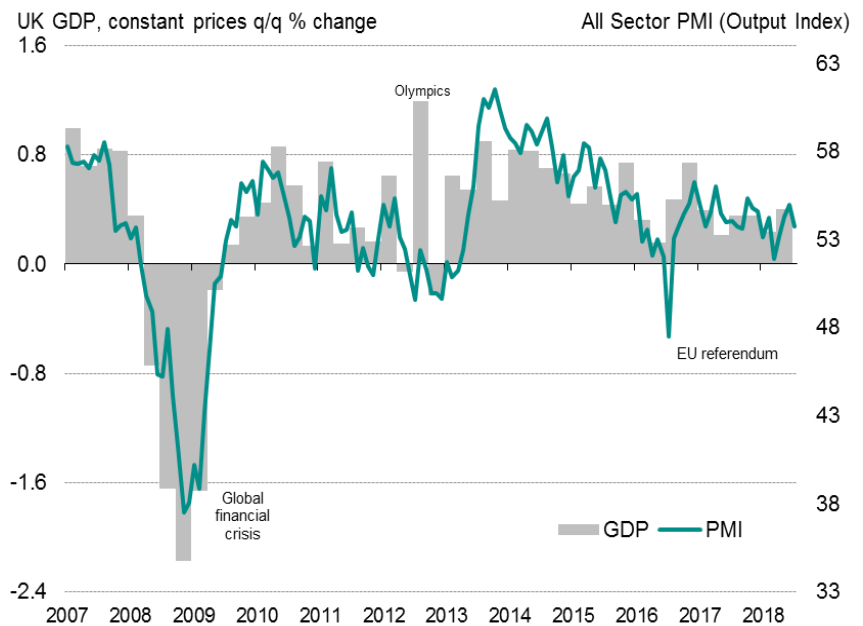
Sources: IHS Markit, ECB.

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

Bank of England hikes rates as UK PMI slides to three-month low

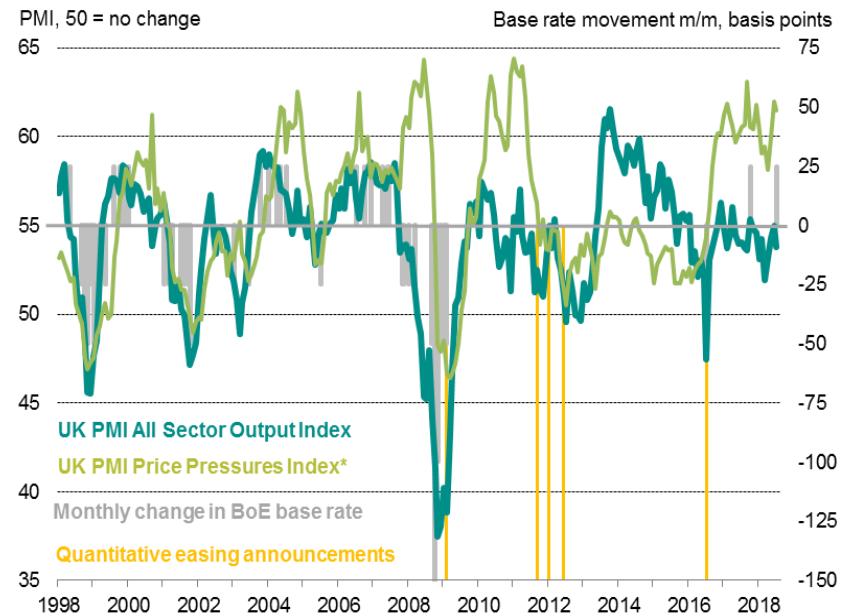
- The UK 'all sector' PMI fell to a three-month low of 53.8 in July, down from June's eight-month high of 55.0. The decline could be in part attributed to unusually hot weather. The survey data correctly indicated that the economy grew by 0.4% in Q2, up from 0.2% in Q1, but then started Q3 on a slightly softer footing of just over 0.3%. New orders and employment also grew at reduced rates in July, as did selling prices and input costs, albeit with rates of inflation remaining elevated.
- The weaker PMI failed to deter the Bank of England from raising interest rates to a decade-high of 0.75%. The last two rate hikes have been unusual, with previous hikes only occurring when the all sector PMI had been above 56.5. The change in behaviour can be in part explained by the Bank's assessment that the economy cannot grow as fast without stoking inflation. However, no further hike is generally expected until February while Brexit uncertainties look set to intensify.

UK PMI* and GDP



Sources: IHS Markit, CIPS, ONS.

UK PMI and Bank of England policy

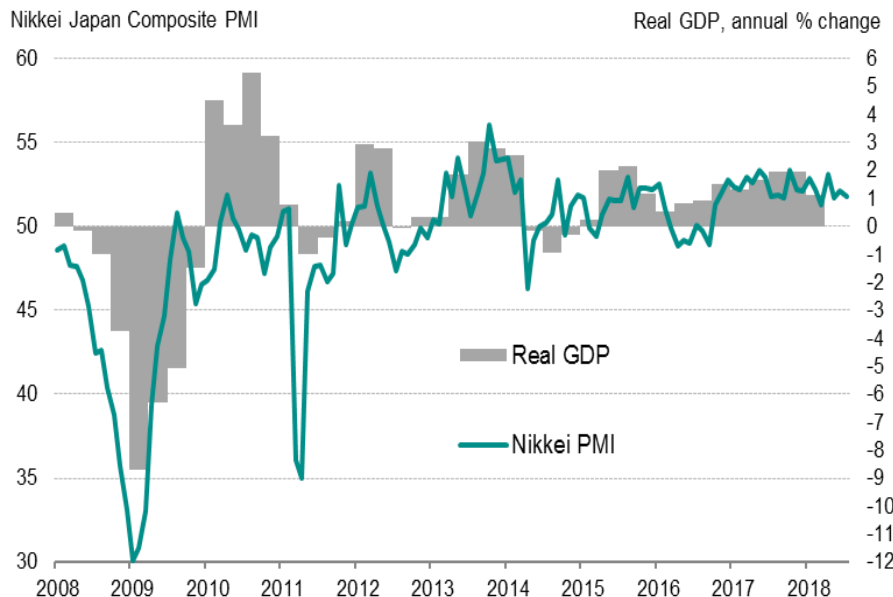


Source: IHS Markit, CIPS, Bank of England.

Japan PMI signals weaker growth but marked jump in prices

- The headline Nikkei Japan PMI dipped from 52.1 in June to 51.8 in July, representing a slower rate of business activity growth. July's reading is consistent with annual GDP growth of 1.0%, down from 1.5% signalled by the survey for Q2. More concerning was the weakening performance in new business. Although still signalling growth, the latest data showed the joint-weakest increase in new work since November 2016 (on par with May). Rising domestic demand helped bolster the service sector, but July saw [manufacturing growth slow to a near one-year low](#) as export sales failed to pick up following a downturn in June.
- July data meanwhile showed the steepest rise in input costs for nearly a decade. Firms continued to report widespread increases in costs for oil, food, metals and labour. With companies seeking to pass higher costs on to customers, average selling prices for goods and services rose at the fastest rate for over four years.

Japan economic growth and the PMI*

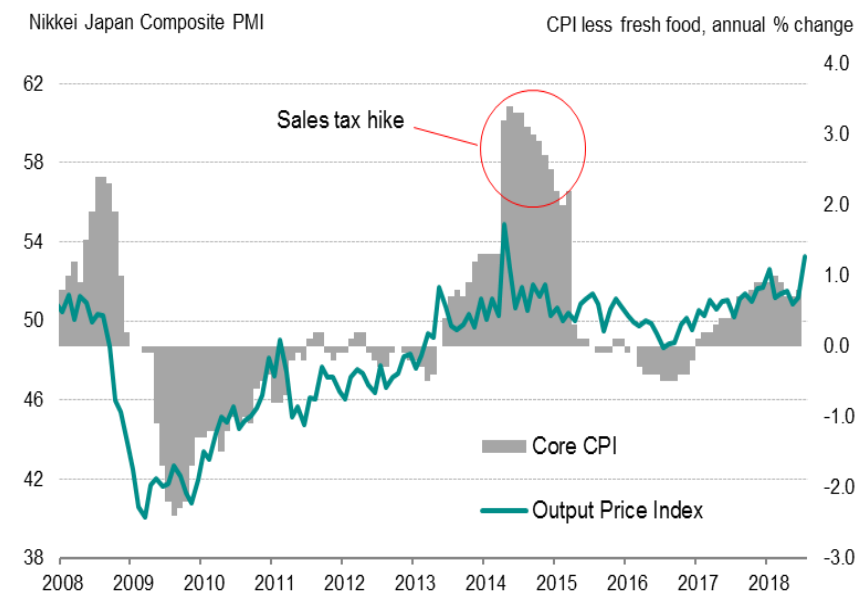


Sources: IHS Markit, Nikkei, Japan Cabinet Office.

* 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.

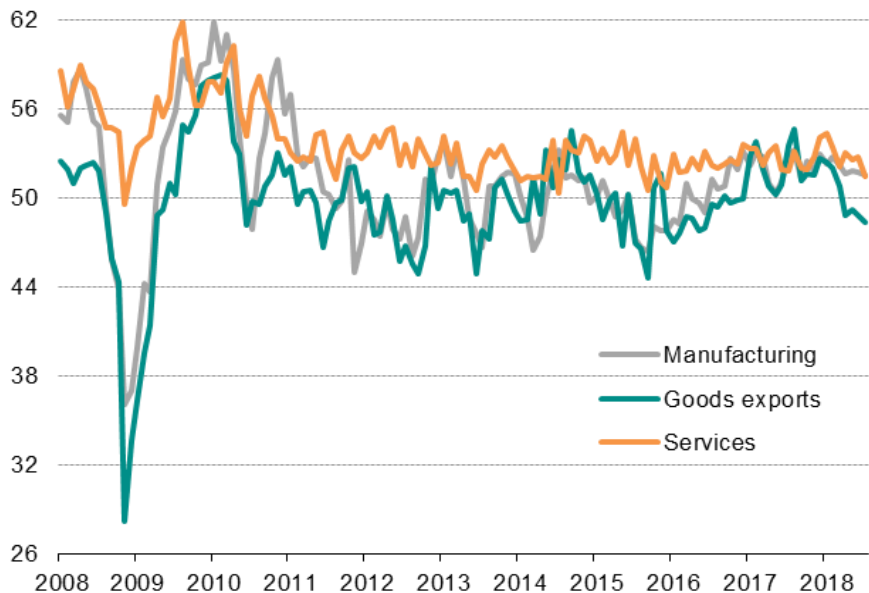
** PMI shown above is blended index of price and supply chain measures.

Caixin China PMI hints at rising growth risks

- At 52.3 in July, the Caixin China Composite Output Index (which covers both manufacturing and services) slipped from 53.0 in June to signal a modest gain in business activity. Although the latest index reading came in below the average seen over the first six months of 2018 (52.7), the first half of the year has been the strongest since 2011. While manufacturing output and new orders increased at a largely steady pace, new export sales fell to the greatest extent for just over two years. In services, incoming new business expanded at the weakest pace since December 2015.
- Expectations regarding output in the year ahead slipped to the lowest in just over two-and-a-half years in July. Services companies consequently adopted a more cautious approach to hiring, adding to their payrolls at only a marginal rate, while manufacturers continued to shed staff. Overall, employment fell for the second month running in July, albeit only slightly.

China new orders and exports

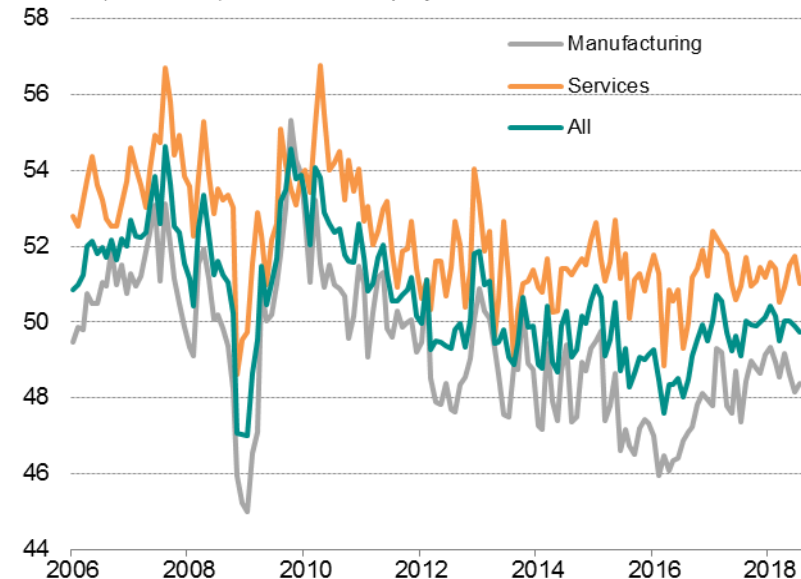
Caixin China PMI new orders



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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