



IHS Markit™

Global PMI

Global growth close to three-year lows amid worsening trade picture

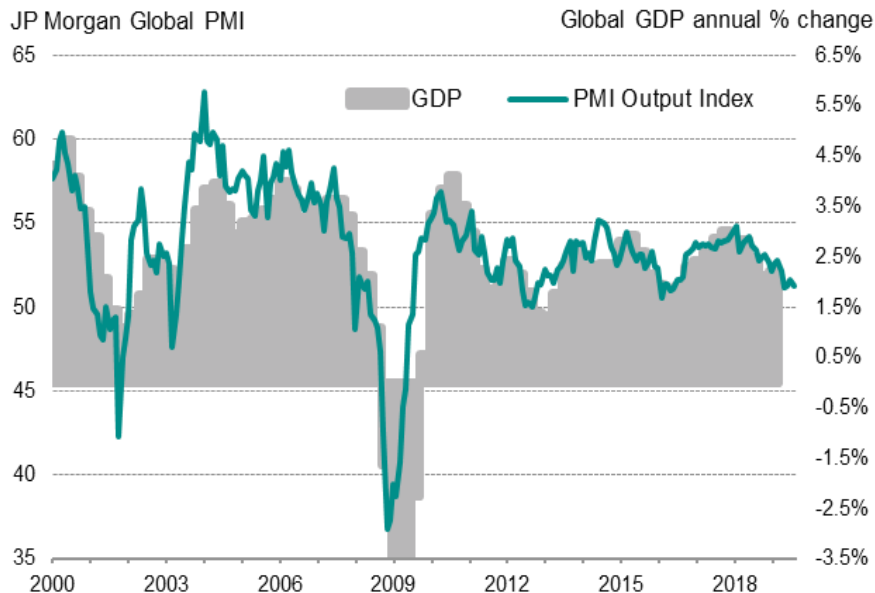
September 11th 2019

Global PMI close to three-year lows

At 51.3 in August, the JPMorgan Global PMI™, compiled by IHS Markit, fell from 51.6 in July to backtrack closer to the three-year lows seen in May and June. The index, which measures changes in total output across both manufacturing and service sectors, correlates well with GDP growth, and hints that the annual pace of global economic growth (at market prices) has slowed to around 2% in recent months, down markedly from 3% at the end of 2017.

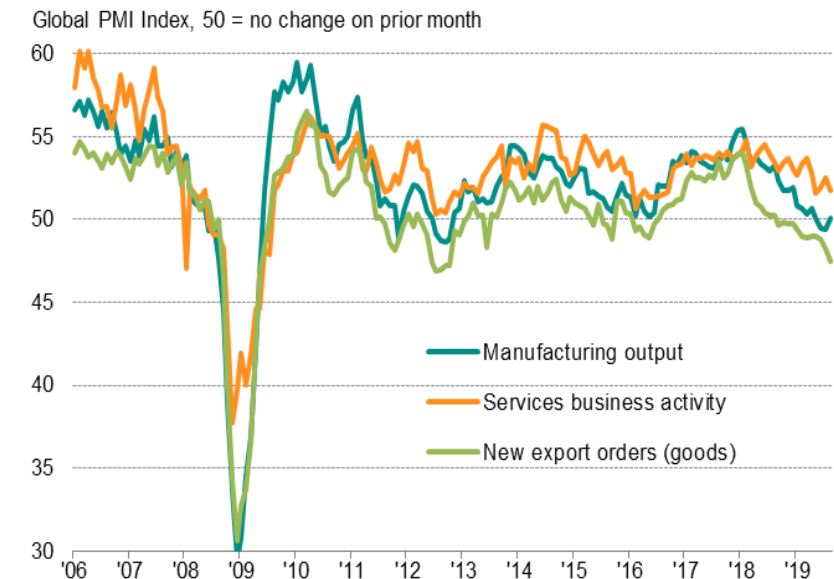
The key driver of the recent slowdown has been a decline in global trade. Goods exports fell at the sharpest rate since October 2012, dropping for a twelfth successive month in August. Although factory output stabilised after two months of declines, the performance was still one of the weakest seen over the past seven years. Global service sector growth remained more resilient than manufacturing, but nevertheless waned to the second-weakest in three years.

Global PMI* output & economic growth



Sources: IHS Markit, JPMorgan.

Global PMI indices



Sources: IHS Markit, JPMorgan.

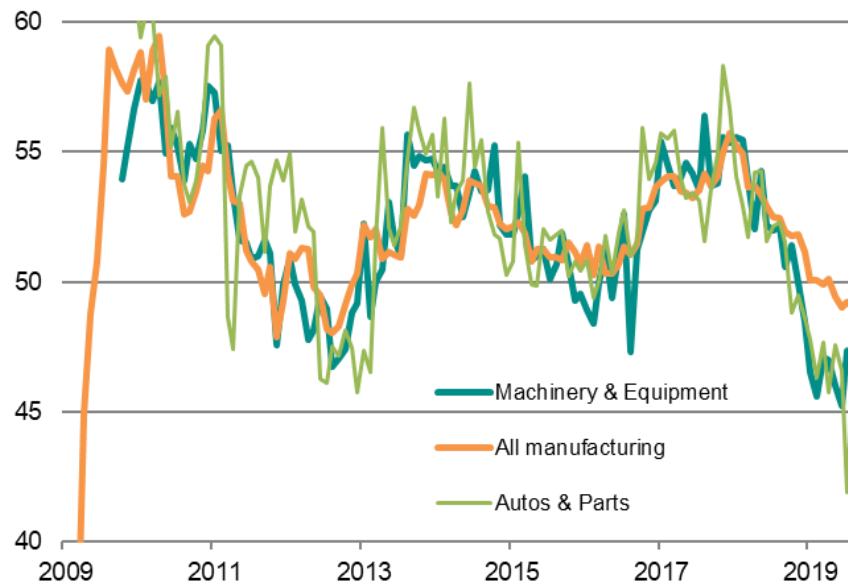
* PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

Auto makers continue to see steepest decline of all sectors

Automobile and parts producers saw the sharpest drop in global output of all sectors for a fifth successive month in August, while machinery & equipment makers also continued to report a strong downturn. Both sectors are seeing the sharpest downturns since the global financial crisis ten years ago. The weakness of machinery and equipment is of particular concern as this sector is a key bellwether of global business investment.

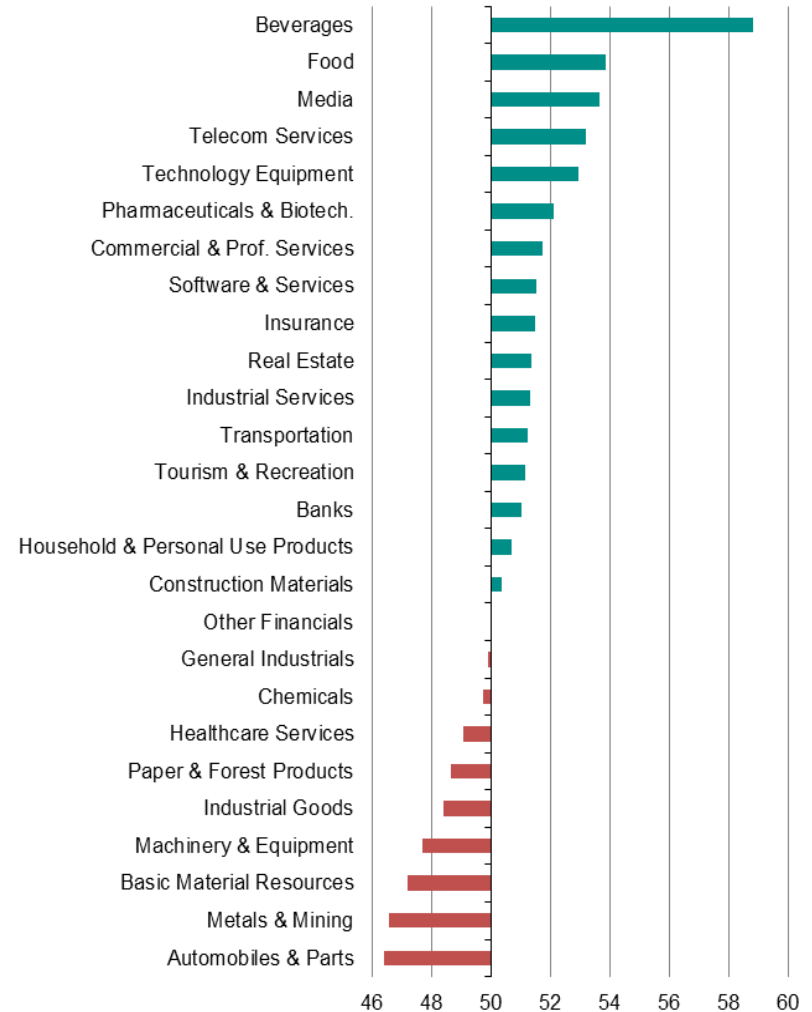
Many of the best performing sectors in August were again often those considered to be non-cyclical, such as insurance, pharmaceuticals and food and drink.

IHS Markit Global PMI New Orders Index



Source: IHS Markit

Global Sector PMI Output Index (August 2019)



Source: IHS Markit.

Stalling jobs growth amid record low business optimism

Global jobs growth came closer to stalling in August, easing to the lowest since September 2016. Manufacturing headcounts fell, albeit only modestly, for a fourth consecutive month, accompanied by the smallest rise in service sector jobs since October 2016. A key development to watch in coming months will be the extent to which the labour market might continue to weaken, as this could cause the manufacturing slowdown to spread further to the service sector.

While the deteriorating labour market picture was partly driven by the weakness of current order books, hiring was also hit by a further slump in business confidence in the outlook. Business expectations for the year ahead fell to their lowest since comparable data covering both manufacturing and services were first available in 2012. Data for services, which were first collated in 2009, fell to the lowest in the series' history.

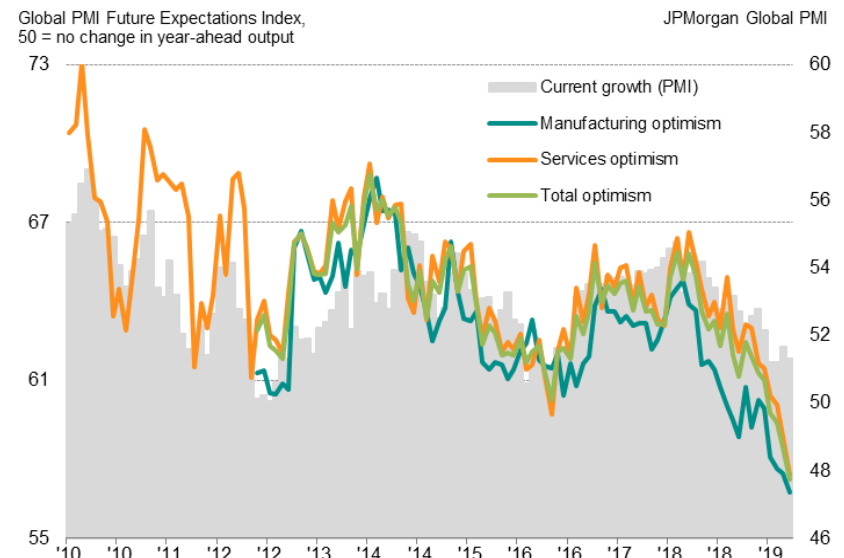
Global PMI* employment and order books

Global PMI Index, 50 = no change on prior month



Global PMI business optimism

Global PMI Future Expectations Index, 50 = no change in year-ahead output



Sources: IHS Markit, JPMorgan.

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

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Source: IHS Markit, JPMorgan, World Bank.

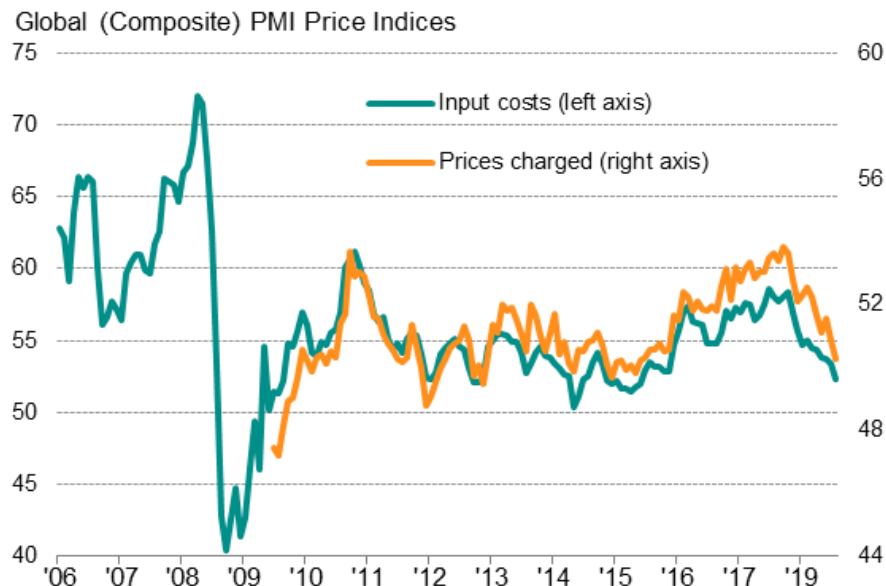
Global selling prices barely rise amid weakened demand growth

The global slowdown has brought with it a reduction of firms' pricing power, which in August led to average selling prices for goods and services barely rising. The monthly gain was the smallest recorded globally since March 2016.

Worldwide input cost pressures likewise moderated as suppliers commonly competed on price to win sales, the global index consequently also registering the smallest rise since March 2016. Average suppliers' delivery times – a key gauge of supply chain price pressures – were unchanged, highlighting the extent to which supply constraints have eased markedly since last year.

Cost and selling price pressures eased in both manufacturing and services, though the former saw the weakest trends, with average prices charged in fact falling globally for the first time since early-2016.

Global PMI* input and output prices

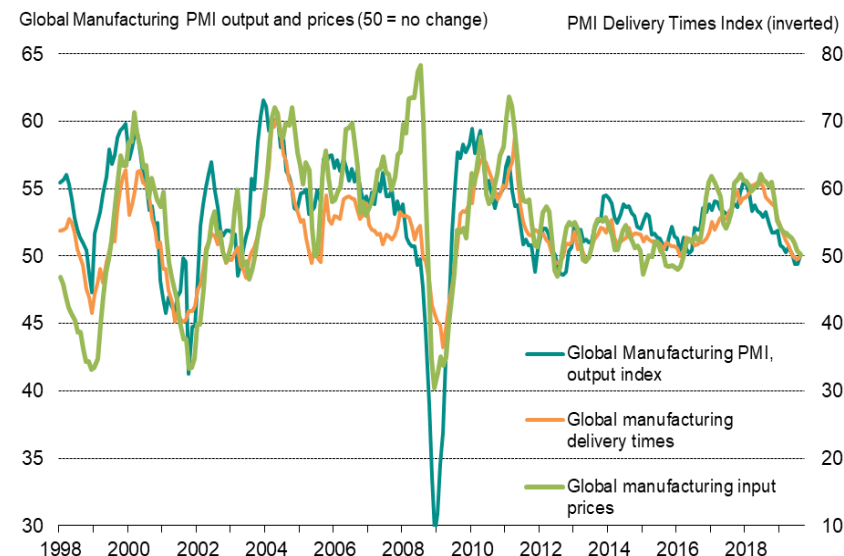


Sources: IHS Markit, JPMorgan.

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

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Global manufacturing price pressures



Source: IHS Markit, JPMorgan, World Bank.

Developed world PMI hits lowest since 2012

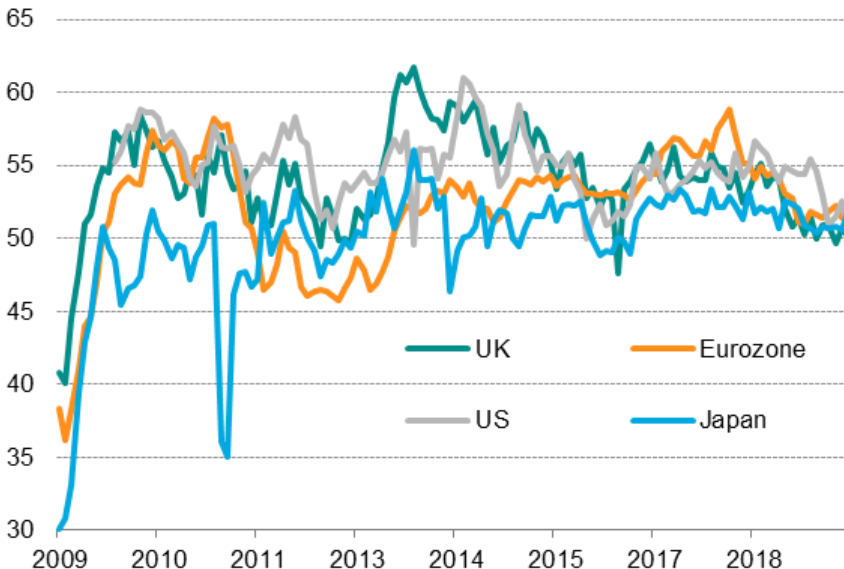
Developed world growth slowed to the weakest since December 2012, but emerging markets saw the pace of expansion rise to a four-month high, albeit remaining among the lowest seen over the past three years.

In the developed world, UK recorded the weakest expansion, but growth also slowed sharply in the US and remained subdued in the eurozone, with Germany's manufacturing sector acting as a key drag, albeit rising overall, matching a similar improvement in Japan.

China meanwhile reported a quicker rate of expansion, buoyed by improved performances in both manufacturing and services. In other key emerging markets, growth accelerated in both Brazil and Russia (albeit merely to five- and three-month highs respectively) and remained relatively robust in India, hinting that all four 'BRICs' could see the pace of economic growth accelerate in Q3.

Developed world PMI*

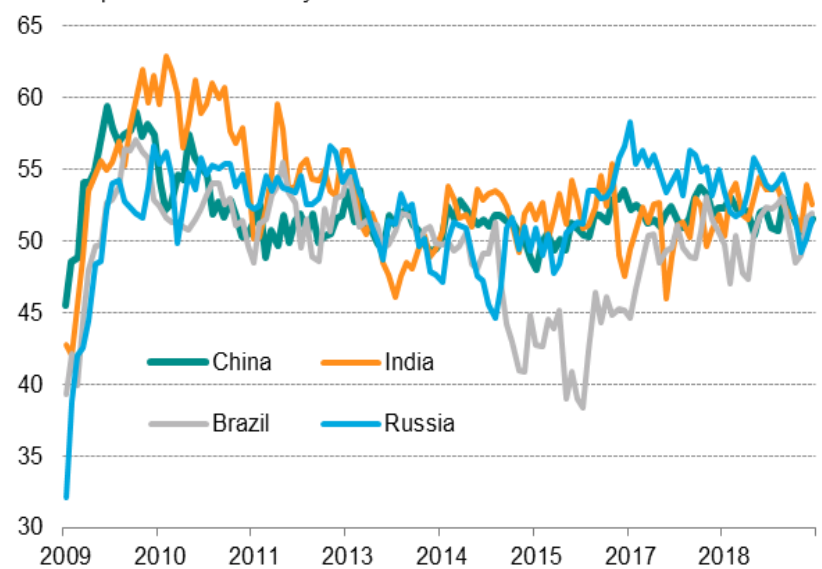
PMI Output/Business Activity Index



Source: IHS Markit, CIPS, Jibun Bank.

Emerging market PMI*

PMI Output/Business Activity Index



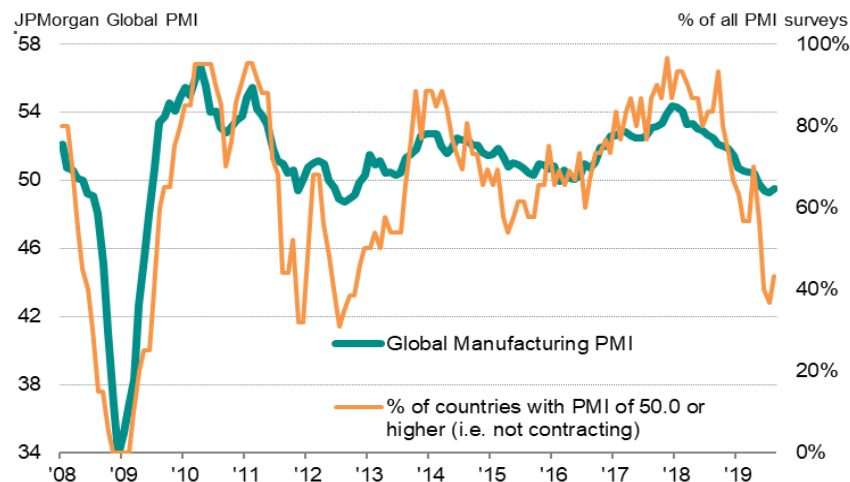
Source: IHS Markit, Caixin.

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

Manufacturing downturn seen in majority of countries

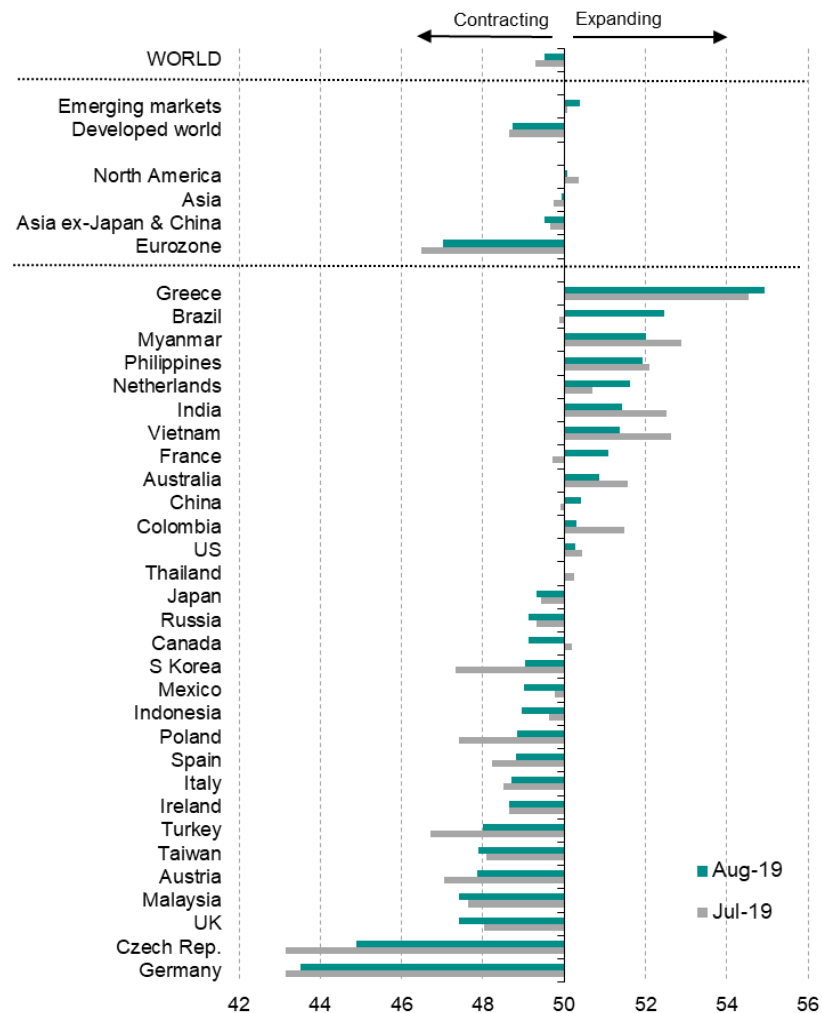
The JPMorgan Global Manufacturing PMI, compiled by IHS Markit, remained below 50.0 to signal a fourth consecutive monthly deterioration of business conditions. The current downturn is the longest and deepest since 2012.

The number of countries in decline eased from 19 to 17, but this still represents more than half of the 30 covered by IHS Markit's PMIs. A notably steep downturn was again seen in the Eurozone, dragged down in particular by Germany, which reported the steepest contraction of all countries followed by the Czech Republic and the UK. Other countries in decline include Japan, Canada, Mexico, Italy, Spain, Russia, Taiwan and South Korea. Only a marginal improvement was meanwhile seen in the US, where the PMI fell to its lowest since 2009, though China reported growth after two months of decline.



Source: IHS Markit, JPMorgan.

Manufacturing PMI, 50 = no change on prior month



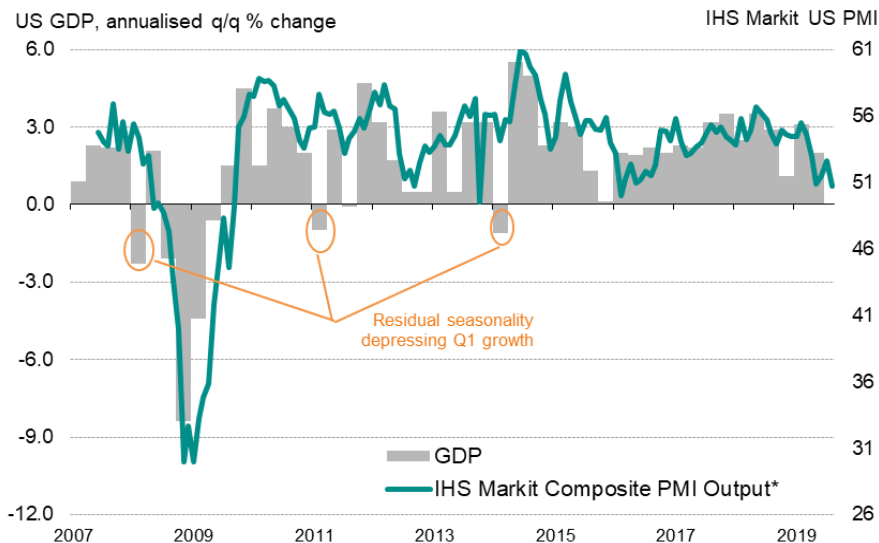
Source: IHS Markit.

US economic growth, hiring and price pressures all weaken

US business reported one of the toughest months since the global financial crisis in August, with growth of output, order books and hiring all slowing amid steep falls in both export and business confidence. Only on two occasions since the global financial crisis have the US PMI surveys recorded a weaker monthly expansion. At current levels, the August PMIs are indicating annualised GDP growth of 1.0%, putting the economy on course for growth of just below 1.5% in the third quarter.

A major factor behind the deterioration was the spreading of the manufacturing downturn to the service sector, via weakened household and business confidence. Jobs growth is also increasingly being affected by worries regarding the outlook. Overall jobs growth in August was the weakest since early-2010, commensurate with non-farm payrolls rising at a monthly rate of around 100,000, a signal which was subsequently confirmed by non-farm payroll data. Price pressures meanwhile fell sharply again to the lowest since 2016.

US economic growth and the PMI**



* Manufacturing PMI only pre-October 2009.
Sources: IHS Markit, US Commerce Department

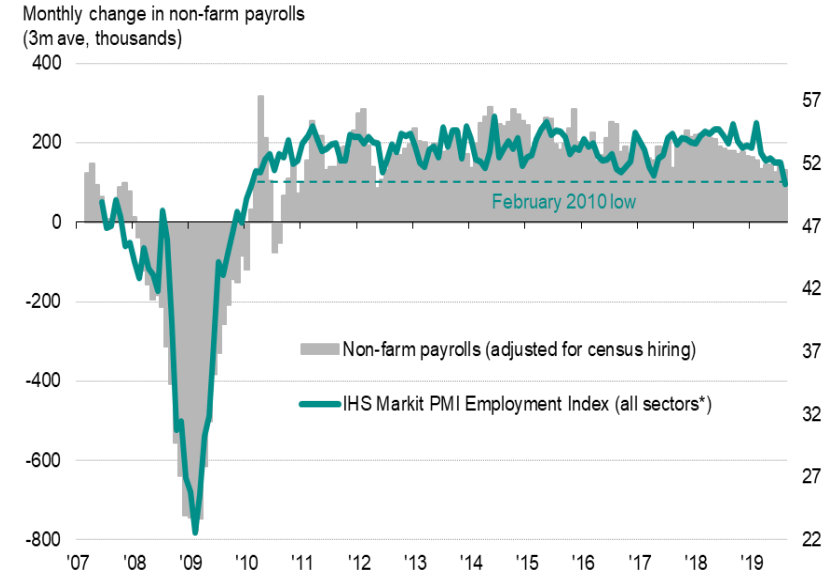
Source: IHS Markit.

*Manufacturing PMI only pre October 2009

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

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US employment



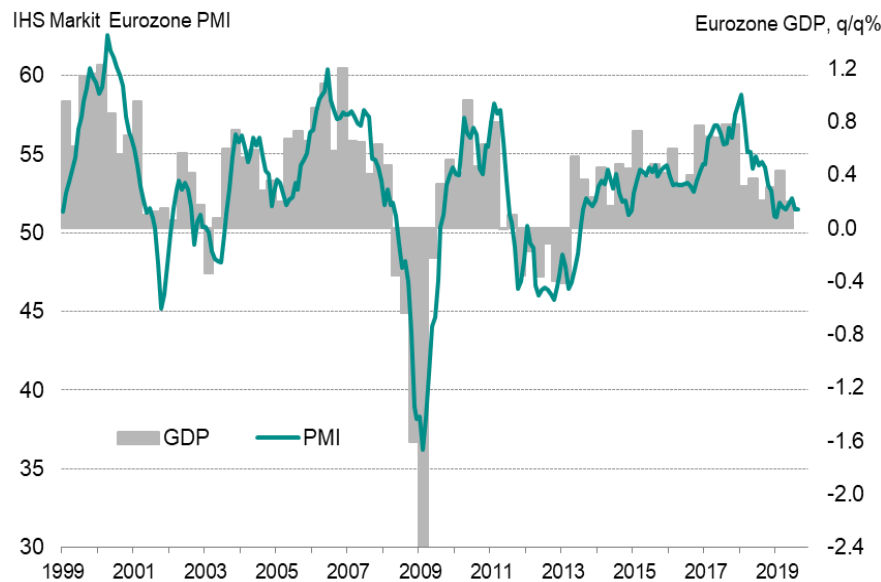
Source: IHS Markit, Federal Reserve.

Eurozone PMI signals weak third quarter expansion

The IHS Markit Eurozone PMI posted 51.9, compared to 51.5 in the previous month to register only modest growth. The latest readings indicate that GDP will rise by just 0.2% in Q3. Official data available so far for the quarter suggest growth could be even weaker. With price pressures also remaining subdued, the data add to the case for more stimulus from the ECB in September.

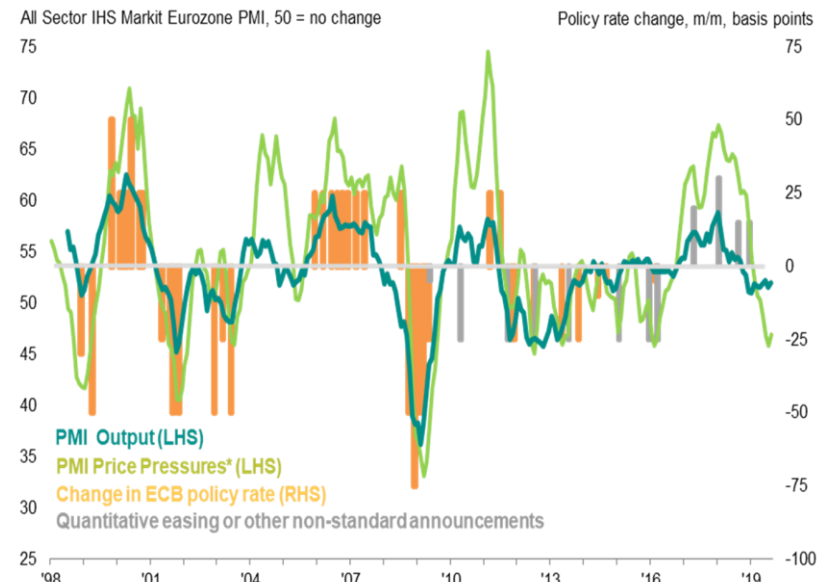
The August data showed that a fierce manufacturing downturn, fuelled by deteriorating exports and most intensely felt in Germany, continued to be offset by resilient growth in the service sector. However, with jobs growth waning to the slowest since early-2016, a deteriorating labour market looks set to be a key transmission mechanism by which the trade-led downturn infects services. A sharp drop in business optimism about the coming year in the service sector, down to the joint-lowest for six years, suggests that companies are already braced for tougher times ahead.

Eurozone PMI* and GDP



Sources: IHS Markit, Eurostat.

Eurozone PMI and ECB policy



Sources: IHS Markit, ECB.

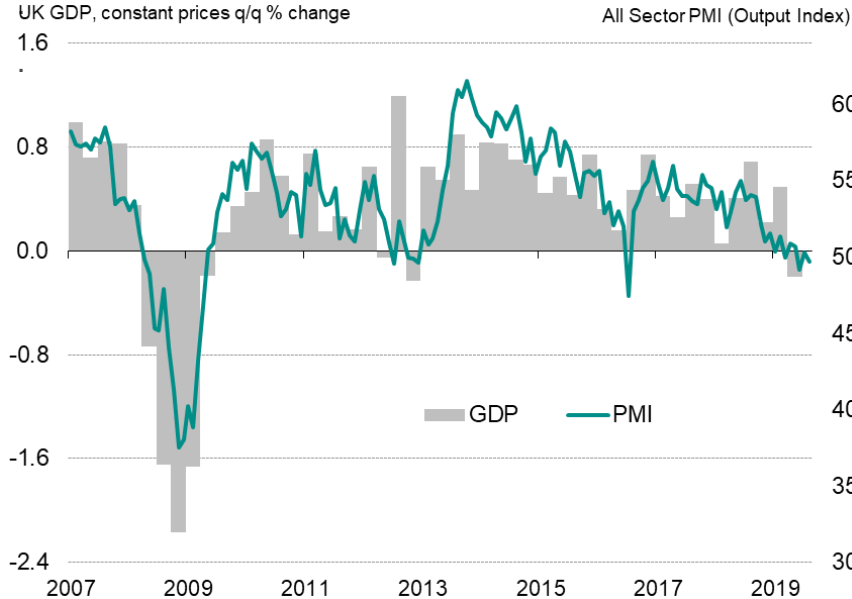
*PMI shown above is a GDP weighted average of the manufacturing and services indices.

UK PMI hints at recession risk in Q3

The seasonally adjusted IHS Markit/CIPS 'all-sector' PMI fell from 50.3 in July to 49.7 in August, pushing the average PMI reading over the past three months to the lowest since the depths of the global financial crisis in mid-2009. Taken together the July and August PMI readings indicate a 0.1% rate of GDP decline, putting economic output on course to fall in Q3. Severe downturns were seen in manufacturing and construction, leaving only the service sector to remain in expansion, though here growth almost stalled.

August also saw a marked deterioration of optimism about the business outlook. Businesses' expectations of their output growth in the year ahead slumped to a level that, with the exception of the low seen in the immediate aftermath of the 2016 referendum, points to the gloomiest outlook since 2009. Business worries continued to centre on Brexit-related uncertainty, as well as more broader fears regarding the prospect of slower economic growth at home and abroad, often in turn linked to geopolitical tensions and trade wars.

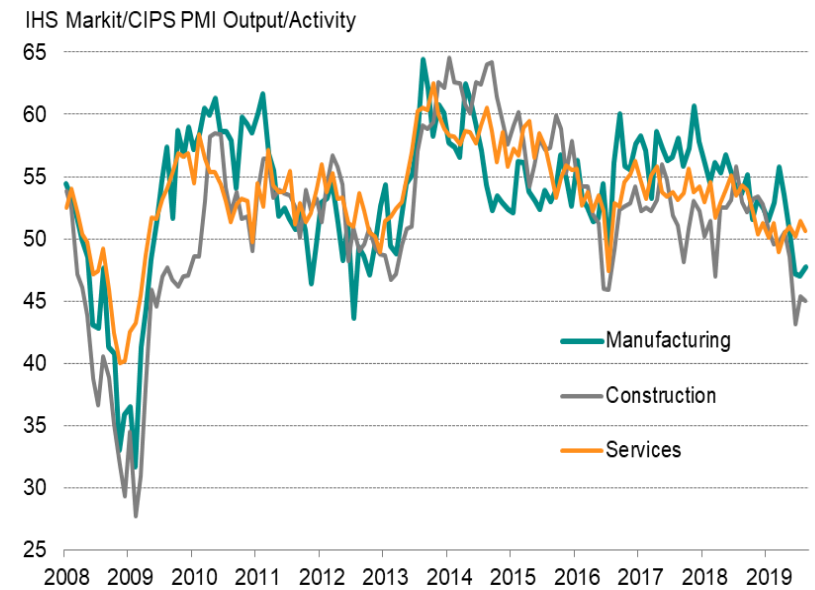
UK PMI* and GDP**



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

**Q2 2019 GDP based on April and May ONS data only

UK PMI output indices



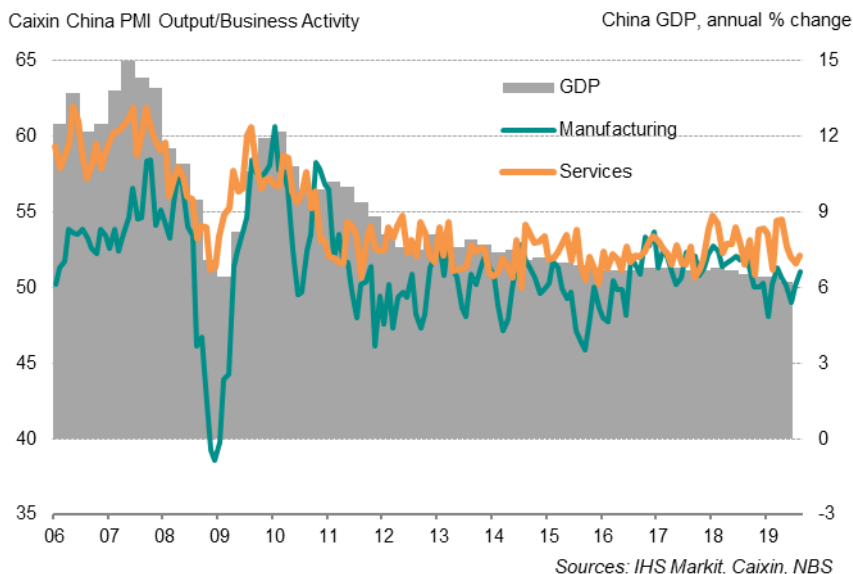
Source: IHS Markit/CIPS.

China PMI shows resilience, supported by stimulus

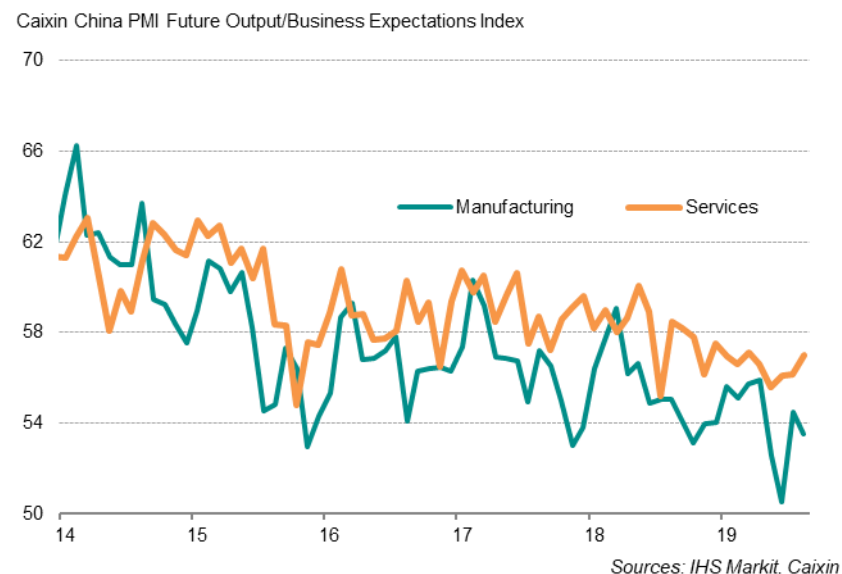
Chinese business activity growth picked up further in August, according to the latest Caixin PMI™ surveys. The accelerated upturn was driven primarily by faster service sector growth, although a mild rise in manufacturing output, following broad stagnation in July, was a welcoming development. Overall, the pace of growth picked up further since June but remained modest, with the composite PMI rising from 50.9 to 51.6.

External demand however deteriorate, with overall export business inflows declining at the fastest rate in nine months, led by a third consecutive month of falling manufacturing export sales. Expectations for the year ahead continued to run at one of the lowest seen since comparable data were first collected in 2012, dented by ongoing trade tensions with the US, but supported by signs of improving demand from domestic stimulus measures.

China PMI output indices



China PMI future expectations

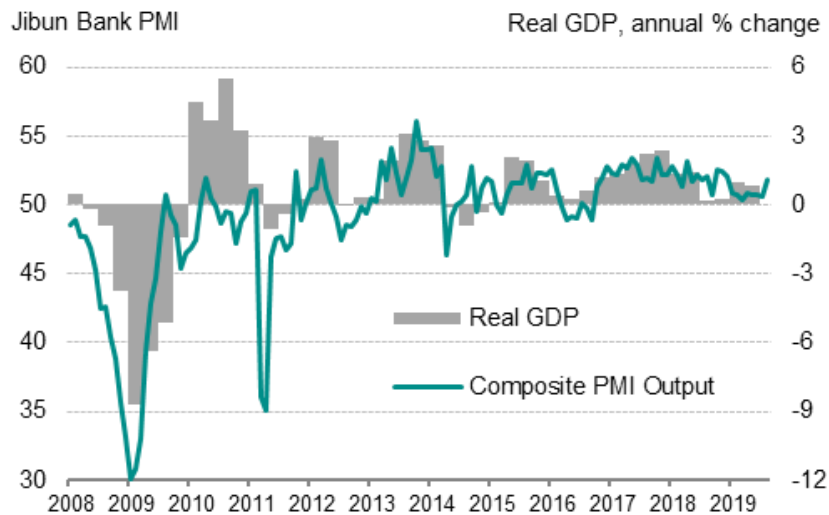


Japan's growth boosted by service sector, but exports drag

The Jibun Bank composite PMI data for August rose to its year-to-date highest, however indicating only modest annual GDP growth of approximately just over 1%. The August flash results continued to show the service sector driving the expansion, standing in stark contrast to the ongoing deterioration in manufacturing, where output has now fallen in each month so far this year. In fact, the current outperformance of service sector firms compared to manufacturers is the most marked since 2012.

Manufacturing PMI sub-indices indicated that demand both at home and abroad remained fragile, with exports declining at a solid pace. In a further sign that the improved rate of overall output growth is likely to be unsustainable, combined companies' expectations of their output in a year's time fell in August, running at the lowest level for over three years.

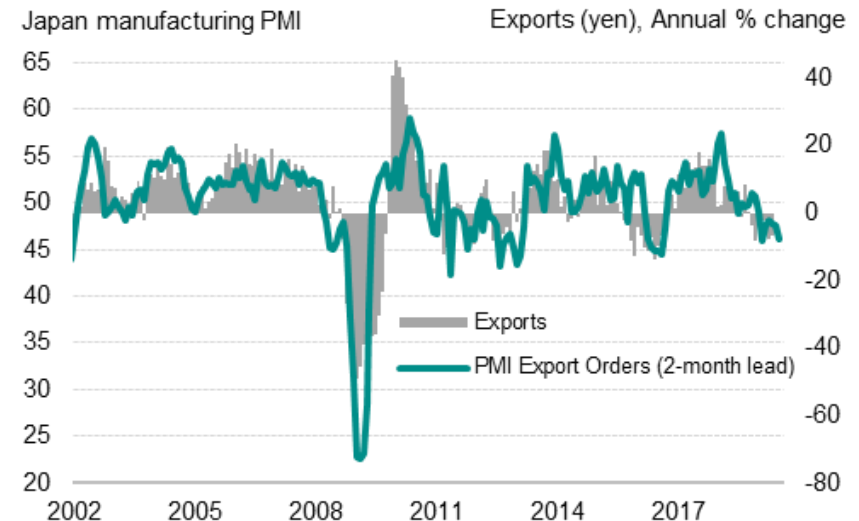
Japan PMI* and GDP



Sources: IHS Markit, Jibun Bank, Cabinet Office

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

Japan PMI new export orders



Sources: IHS Markit, Jibun Bank, MOF

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