



IHS Markit™

Global PMI

Global growth lifts to four-month high

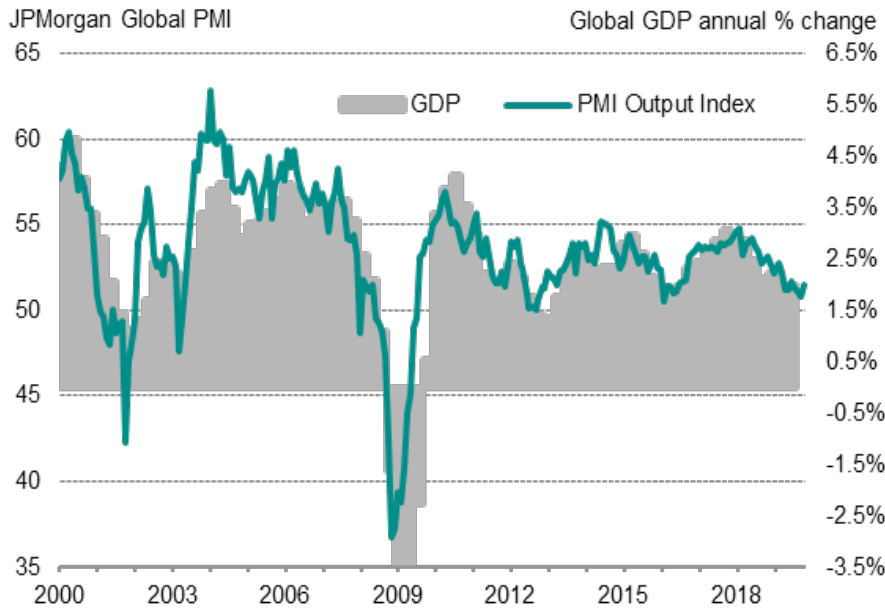
December 9th 2019

Global PMI at four-month high as manufacturing leads upturn

At 51.5 in November, the JPMorgan Global PMI™ (compiled by IHS Markit) rose to a four-month high, recovering some poise after slumping in October to its lowest since February 2016. The latest reading nevertheless remains one of the weakest recorded over the past four years, comparable with global GDP rising at an annual rate of just below 2% (at market prices) in the fourth quarter so far.

Manufacturing showed further tentative signs of improvement, with the global factory output index up for a fourth month in a row, accompanied by the first acceleration in service sector growth for four months. Both sectors nevertheless continue to grow at some of the weakest rates since early-2016. Global goods trade, which led the economic slowdown in 2018, meanwhile continued to deteriorate at a historically marked rate, acting as a drag on growth. Global service sector exports likewise fell. Total global new orders nonetheless expanded at the quickest rate for four months, hinting at improved domestic demand in key markets.

Global PMI* output & economic growth



Sources: IHS Markit, JPMorgan.

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

Global PMI indices

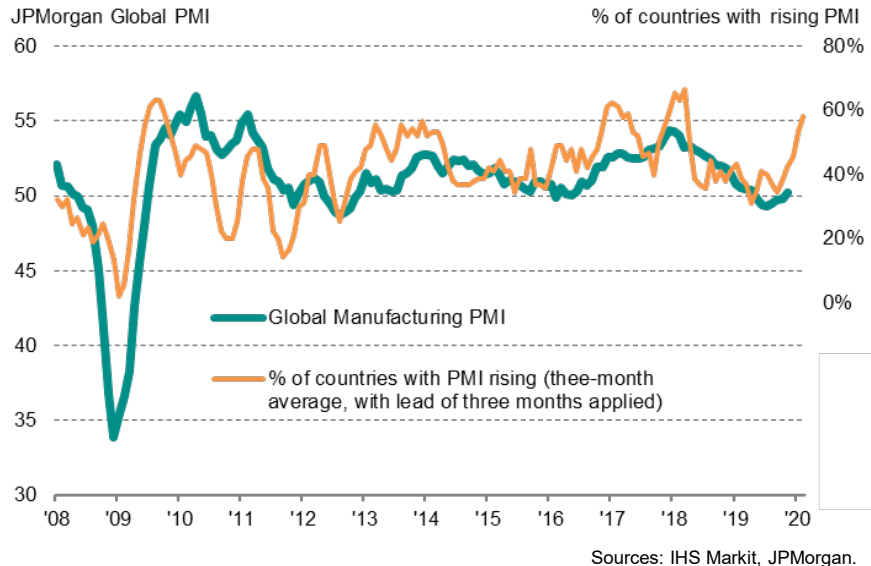


Sources: IHS Markit, JPMorgan.

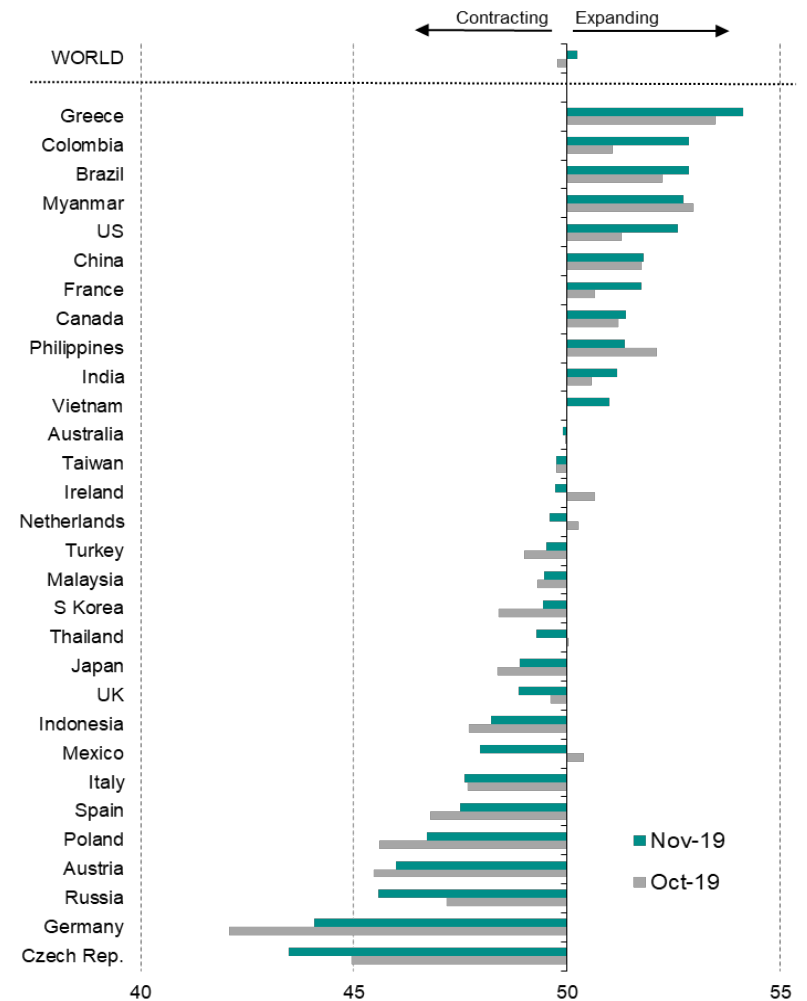
Countries reporting higher manufacturing PMIs at two-year peak

The [JPMorgan Global Manufacturing PMI](#), compiled by IHS Markit from its surveys in 30 markets, rose above the 50.0 no-change level for the first time since April.

Encouragingly, PMIs rose in 18 of the 30 markets surveyed in November, a harbinger of better times to come for the headline global PMI. These improvements included faster rates of increase in the US and China, as well as Canada, France, India, Brazil, Colombia and Greece, plus a return to growth in Vietnam. The percentage of countries reporting rising PMIs has now increased steadily since bottoming out at 30% back in May and June, up to the highest proportion since November 2017 (63%).



Manufacturing PMI, 50 = no change on prior month



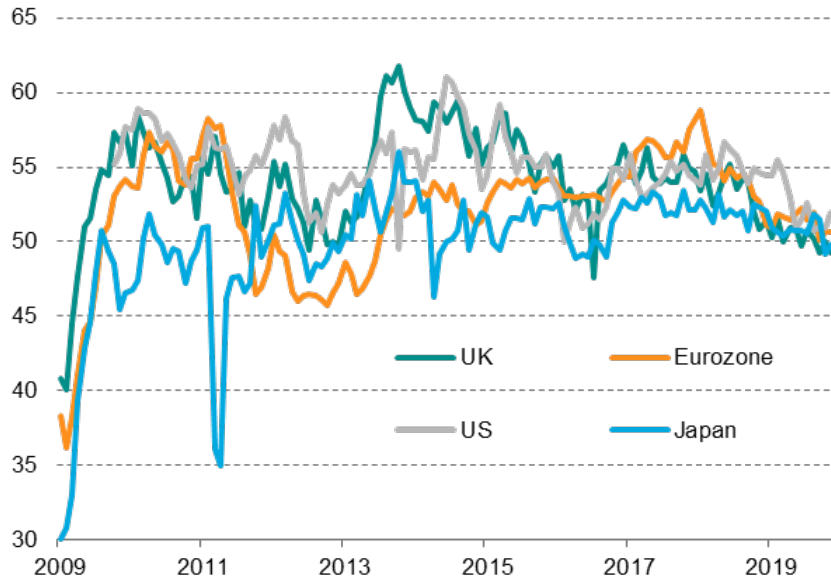
Developed world growth remains close to 2012 lows

Developed world growth remained especially sluggish in November. Although improving to a three-month high, output growth continued to run at one of the weakest rates seen since 2012, commensurate with annual GDP growth of approximately 1% across developed markets. Both Japan and the UK saw sub-50 composite PMIs, indicating mild contractions in business activity, while the Eurozone PMI continued to signal only a marginal rate of expansion. Of the 'G4' economies, only the US saw strengthening growth, though even here the rate of increase remained well below those seen earlier in the year.

Emerging market growth hit an eight-month high, gaining further traction from the three-year low seen back in June. A strengthening pace of expansion in China was accompanied by a return to growth for the first time in three months in India, while robust growth (by recent standards) was also recorded in Brazil and Russia.

Developed world PMI*

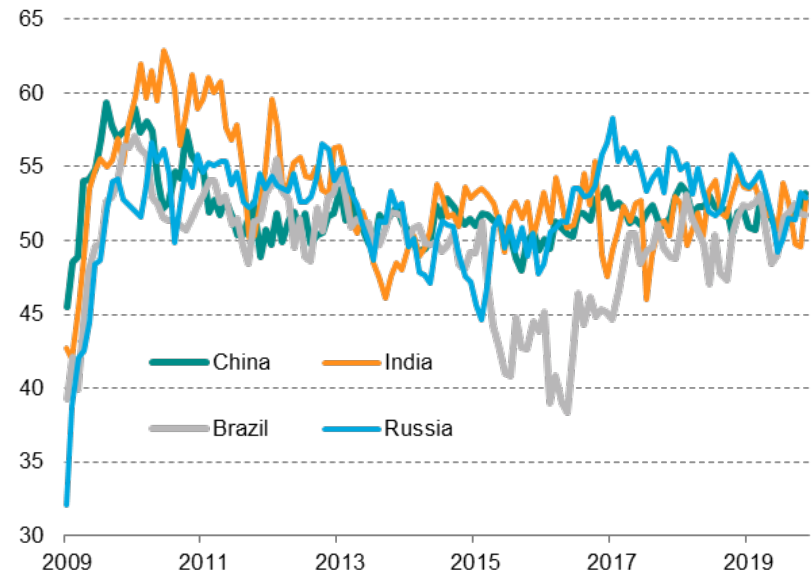
Composite PMI Output/Business Activity Index



Source: IHS Markit, CIPS, Jibun Bank.

Emerging market PMI*

Composite PMI Output/Business Activity Index



Source: IHS Markit, Caixin.

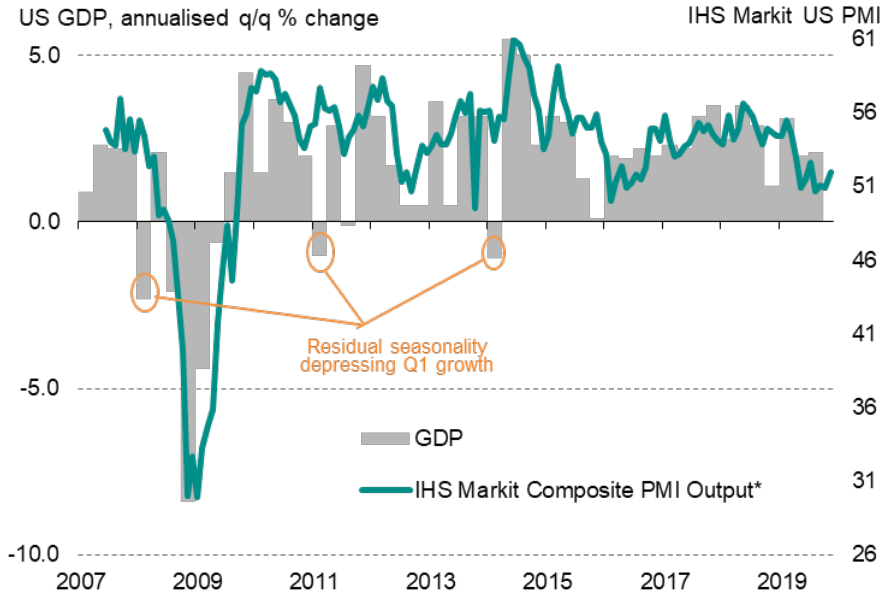
* PMI shown above is a GDP-weighted average of the survey manufacturing and services indices.

US growth picks up mid-way through fourth quarter

With both services and manufacturing reporting stronger rates of expansion, the November [US PMI surveys](#) from IHS Markit indicated the fastest growth for four months. The improvement comes from a low base, however, and even at these higher levels the survey is merely indicative of annualised GDP growth of 1.5%. Reviving order book growth meanwhile encouraged more companies to take on extra staff, with jobs growth hitting a four-month high, though the trend in jobs growth remained weaker than earlier in the year.

Weakened business activity and jobs growth compared to earlier in the year also reflected widespread caution with respect to pushing up costs in the face of an uncertain outlook. Business expectations for the year ahead continue to run at one of the lowest levels recorded by the survey since 2012. The survey found firms worried about trade wars, slowing economic growth at home and abroad, as well as the possibility of next year's elections causing customers to postpone spending decisions.

US economic growth and the PMI**



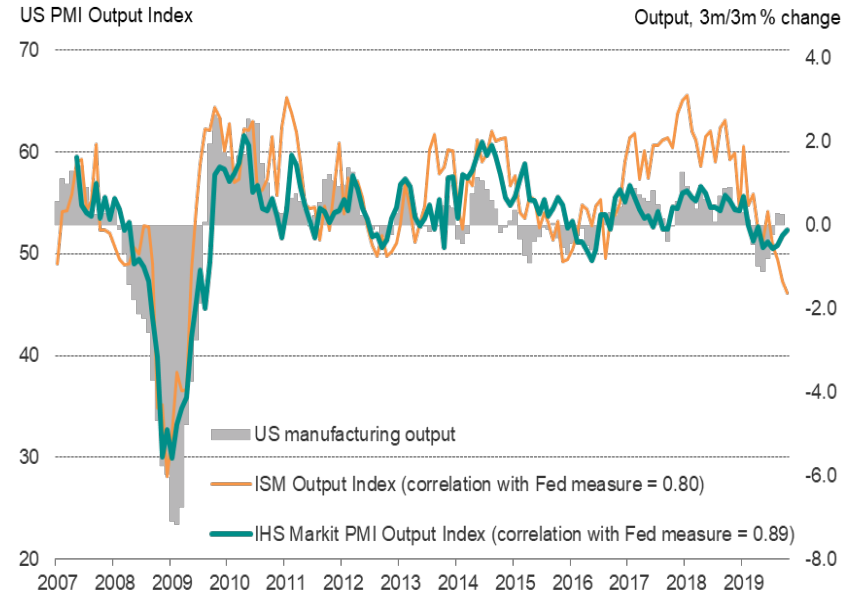
Sources: IHS Markit, BEA.

*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 manufacturing



Sources: IHS Markit, ISM, Federal Reserve

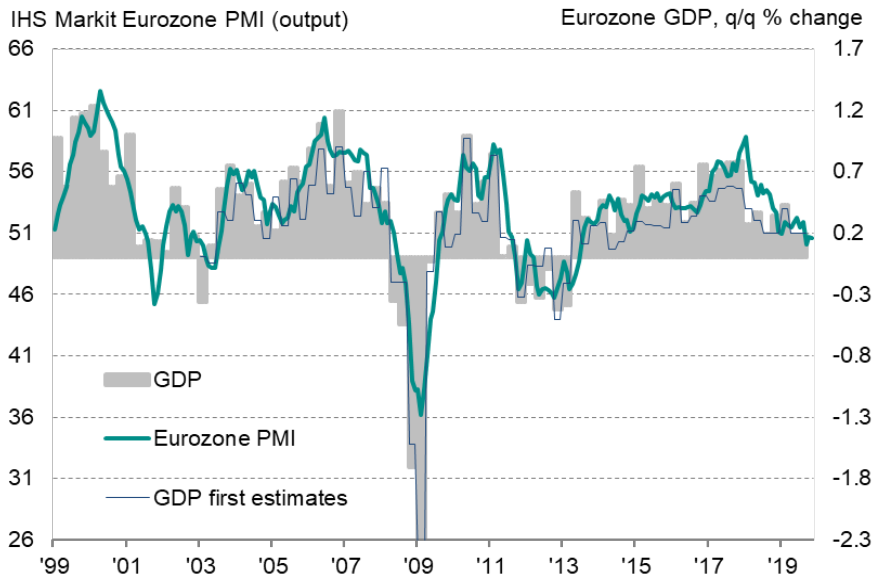
See also our paper on [ISM and IHS Markit PMI survey divergences](#).

Eurozone on course for subdued fourth quarter

The [eurozone PMI](#) for November indicated a near-stagnant economy for a third successive month. The survey data are indicating GDP growth of 0.1% at best in Q4. Manufacturing continued to act as a major drag, though the service sector is also on course for its weakest quarterly expansion for five years. Growth in France and Spain was offset by deteriorating business activity in Germany and Italy.

New orders have not grown since August, underscoring the recent weakness of demand, with sharply declining orders for manufactured goods accompanied by substantially weakened inflows of new business into the service sector. Business expectations regarding the year ahead are also among the lowest since the tail-end of the sovereign debt crisis in 2013, as firms worry about trade wars, Brexit and slowing economic growth both at home and globally. The near-stalling of the economy has been accompanied by some of the weakest price pressures seen over the past decade, threatening to keep inflation well below the ECB's target in coming months.

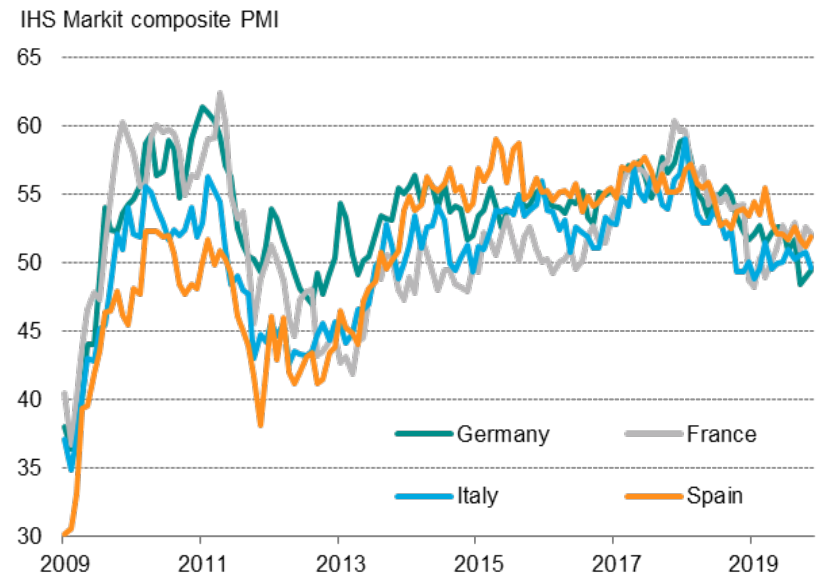
Eurozone PMI* and GDP



Sources: IHS Markit, Eurostat.

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

Euro big-four composite PMI *(output)



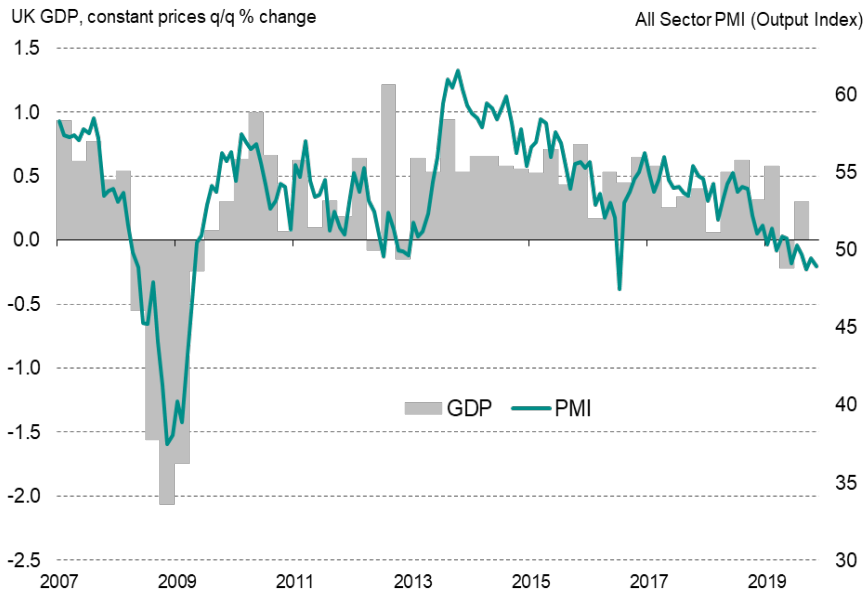
Source: IHS Markit.

UK PMI data signal economy's toughest spell since 2009

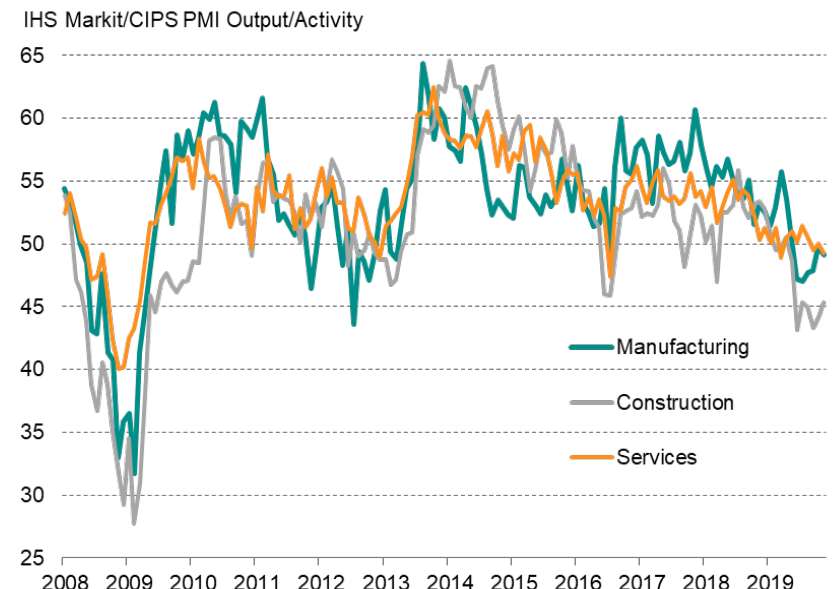
The November [UK PMI surveys](#) indicated one of the worst downturns since 2009, pushing the average reading for Q4 so far down to a level indicative of the economy stagnating at best. Although manufacturing output showed signs of its downturn easing after marked Brexit-related contractions in prior months, construction remained in a severe downturn and service sector output also fell. Further job losses were meanwhile reported for a third successive month, as companies cut operating capacity in line with a worsening sales trend. New orders showed the second-steepest monthly fall since April 2009. Companies commonly blamed falling demand on Brexit-related uncertainty, exacerbated by postponed spending decisions ahead of the general election.

While the PMI has diverged from GDP in recent months, the latter appears to have shown more Brexit-related volatility (read more in the research note which accompanied the [new flash UK PMI release](#)).

UK PMI* and GDP



UK PMI output by sector



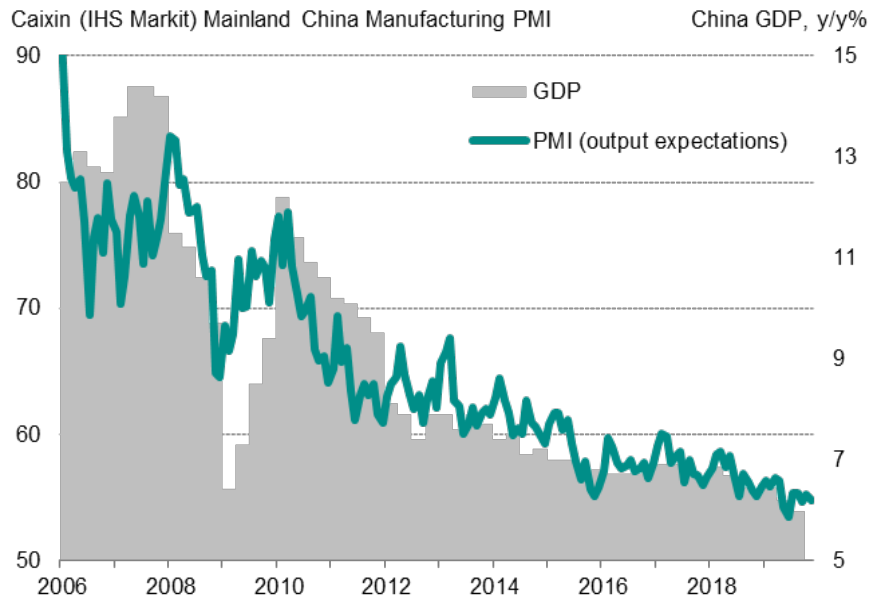
*PMI shown above is a GDP weighted average of the manufacturing, services and construction indices.

China PMI near two-year high, but expectations remain subdued

Much discussion followed the NBS and Caixin (IHS Markit) manufacturing PMI surveys moving in different directions in October, but November saw the two surveys come back into line. An upturn in the NBS survey's output index more than made up for the prior month's dip. Both surveys are now indicating solid growth of factory output, despite weak export trends, therefore hinting that growth stimulus is coming from domestic markets. Combined with an improved service sector reading, the Caixin survey data indicated the strongest monthly expansion of business activity since February 2018.

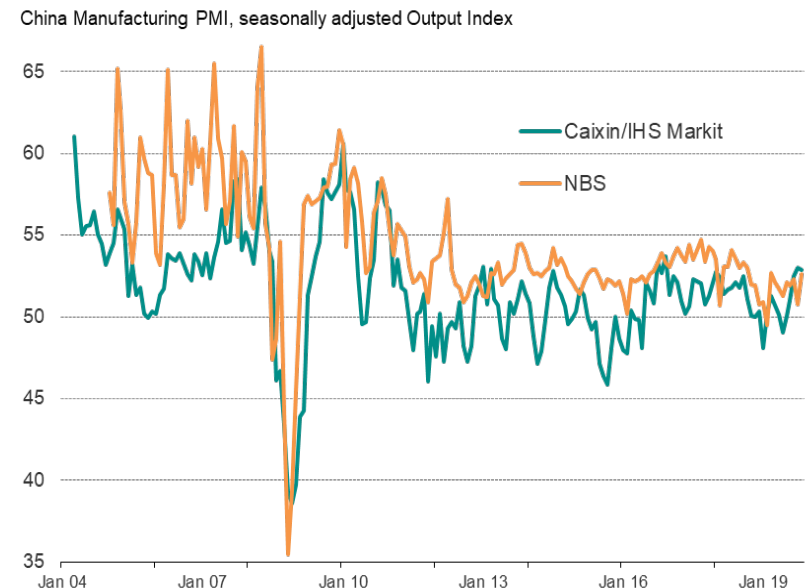
Whether the upturn represents the start of an improving trend, feeding through to faster GDP growth, looks unlikely. Firms' own expectations of output in the year ahead slipped lower in November, down to one of the gloomiest recorded in the history of the surveys (only May and June of this year saw weaker business prospects). Manufacturers remained especially downbeat.

China GDP and PMI expectations*



* Index uses only services pre-April 2012, combined manufacturing and services thereafter.
Source: IHS Markit, Caixin, NBS.

China Manufacturing PMI, output

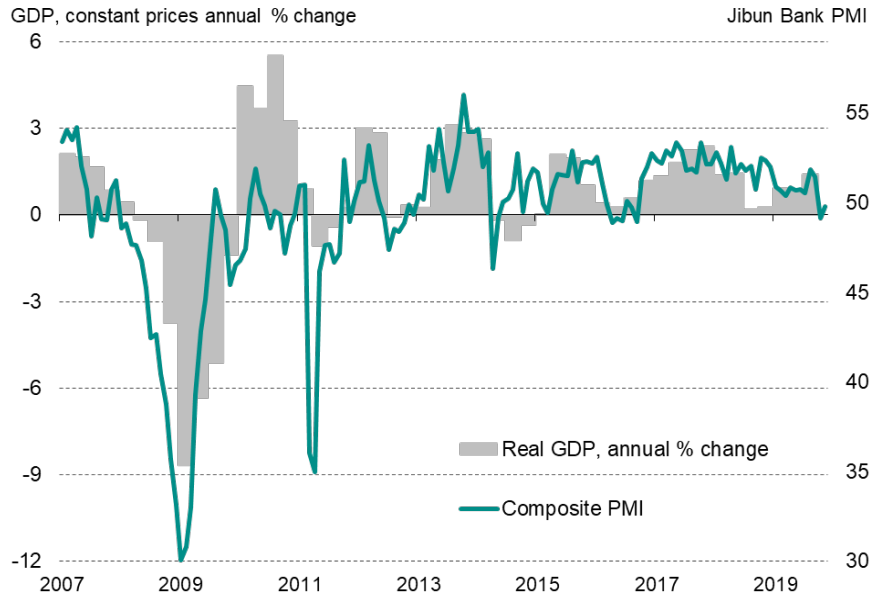


Sources: IHS Markit, Caixin, NBS.

Japan's Q4 hit by tax hike

The [Jibun Bank PMI](#) indicated a second successive monthly drop in business activity in Japan during November. The surveys showed demand, which had been boosted ahead of the sales tax rise in October, has faded again, leaving the service sector struggling to grow in the fourth quarter and manufacturing stuck in its most prolonged downturn since 2012-13. The data suggest there is a risk of the economy stagnating in Q4 after posting solid annual growth in recent quarters.

Japan PMI and GDP

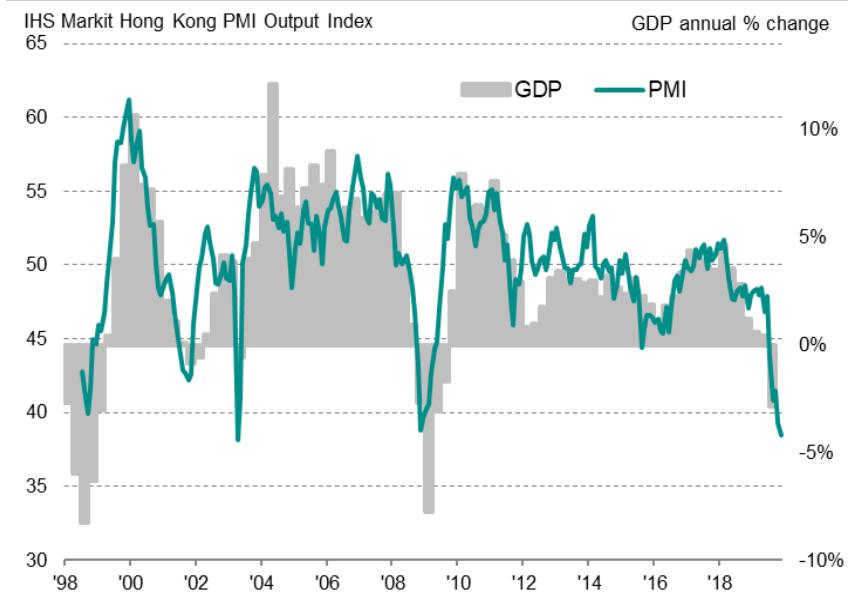


Sources: IHS Markit, Jibun Bank, Japan Cabinet Office.
*PMI shown above is a GDP weighted average of the manufacturing and services indices.

Hong Kong SAR recession

Having correctly predicted the sharp economic decline in Q3, when GDP fell 2.9% on a year ago, PMI data indicate that the [Hong Kong SAR](#) recession has deepened in Q4. The November PMI showed the most severe downturn since the SARS epidemic in early-2003. Business activity plunged at a survey record rate. Business confidence about future output remained at one of the lowest levels recorded since sentiment data were first collected in 2012, hinting at no immediate let-up to the downturn.

Hong Kong SAR PMI and GDP



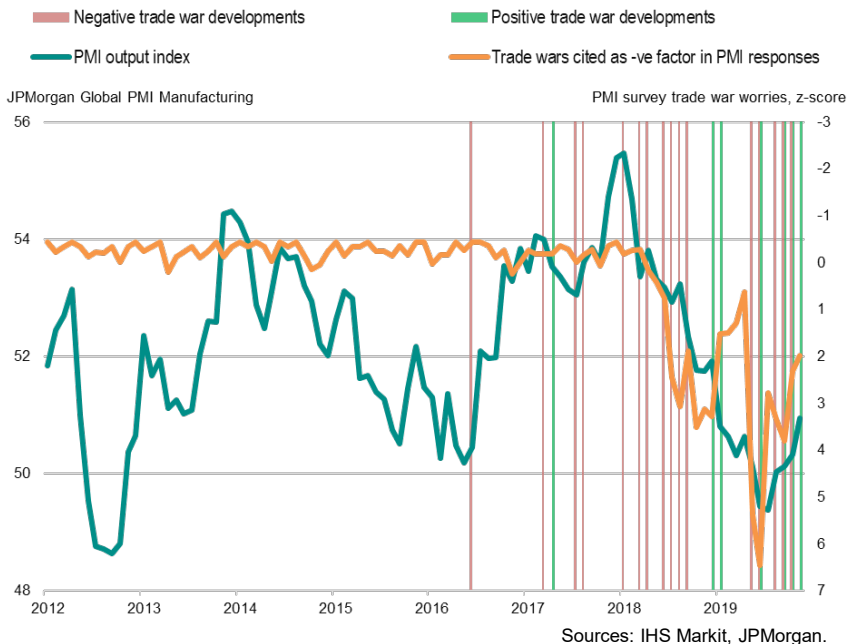
Sources: IHS Markit, Census and Statistics Department.

Global manufacturing and trade war tensions

In our first chart below we track the impact of trade war tensions on manufacturing with two gauges.

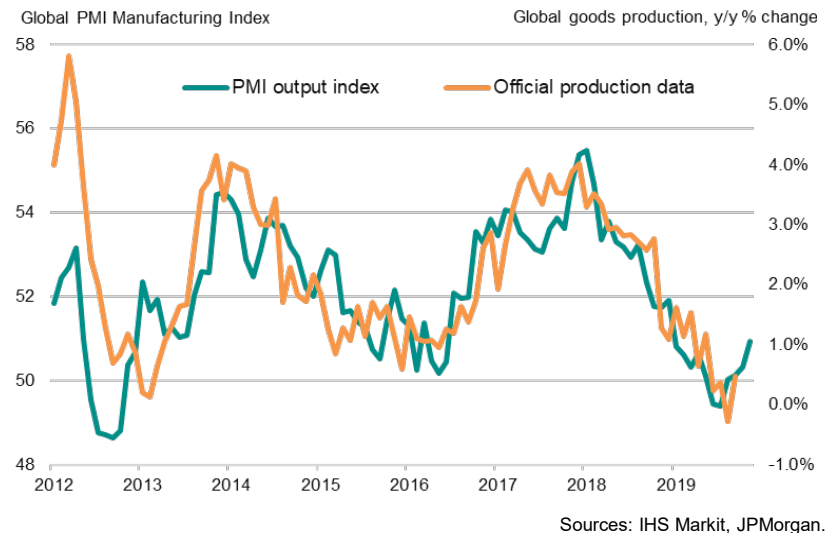
First, as shown by the orange line, we analyse the number of times “trade” and “tariffs” were mentioned by PMI contributors as factors that they perceive to have had a detrimental effect on their business, causing either a drop in orders, exports or output.

Second, we overlay the news flow on whether US-China trade discussions moved in a positive or negative direction (as measured by the impact on equity markets).



The analysis highlights how an increasingly negative news flow relating to trade wars quickly fed through to lower global manufacturing PMI readings in 2018 (the PMI peaked in December 2017). More recently, an improving news flow (shown by vertical bars moving from red to green), and an easing in panel member concerns about trade wars, has been accompanied by some improvement in PMI readings.

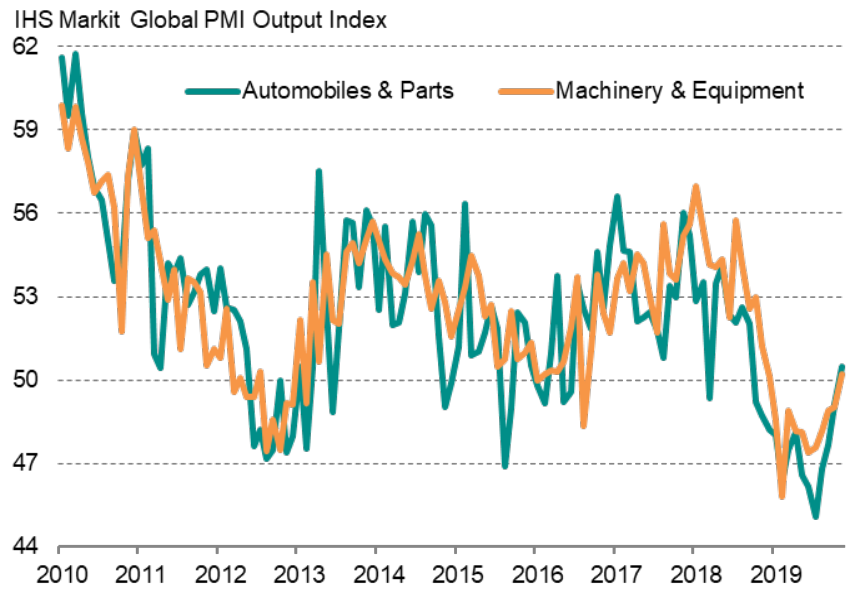
These findings therefore hint at a strong link between trade war tensions and actual manufacturing growth trends, suggesting that the future development of trade discussions could be instrumental in steering the direction of the PMI (and official manufacturing output) gauges in coming months.



Autos and machinery makers stage tentative returns to growth

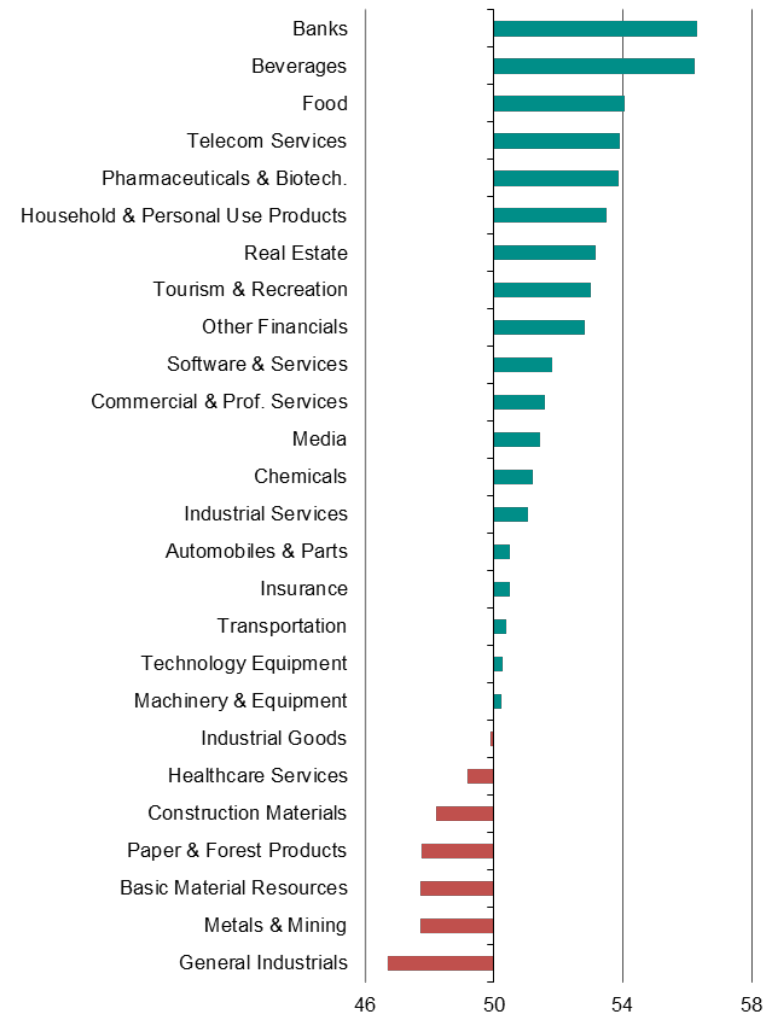
IHS Markit's [detailed sector PMI](#) data for November showed output rising in 19 of the 26 sectors, up from 15 in October, led by banking services, food and beverages. Two key sectors that have been in steep downturns returned to growth:

- output of the global autos and parts sector rose for the first time since September 2018, driven by the first (albeit marginal) rise in new orders for over a year.
- the machinery and equipment manufacturing sector, a key bellwether of global capex, saw the first increase in output since December 2018, with order books deteriorating again but at the slowest rate for a year.



Source: IHS Markit

Global Sector PMI Output Index (Nov. 2019)



Source: IHS Markit.

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