8 May 2023

Boom or bust?

Global PMI wrap up (Apr)

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Economics - Global

- Global PMI data show that activity remains resilient, particularly in the services sector…
- …but manufacturing data are much weaker, suggesting a sharp contraction in activity
- Suppliers' delivery times keep improving, with input cost indices falling across the board

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Depending on how you look at the global PMI data in April, you may feel more optimistic or pessimistic about the global economy. Despite financial market uncertainty, the global composite PMI remained resilient, rising to 54.2 in April, up from 53.4.

The good news comes from the service sector, where the global PMI rose to 55.4 in April, from 54.4 in March. The sector is clearly growing quickly, supported by mainland China's reopening and a continued rotation into services spending in the west. In particular, service sectors in the US, the eurozone, and India accelerated sharply as new orders rose rapidly. This resulted in higher output and increased hiring across services firms.

However, the manufacturing side looks bleak. The headline PMI came in at 49.6 in April, the same as seen in March. This was led by slowdown, particularly in Europe, in both output and new orders as demand remains lacklustre. That said, there are a few economies that performed better; notably the US, India, and ASEAN.

The divergence continues on the prices front. Manufacturing suppliers' delivery times eased in almost all economies, implying fewer headwinds for firms. As a result, price pressures in the manufacturing sector also eased. However, service sector price pressures remain more intense and firms appear able to pass on their costs due to resilient demand in this part of the economy.

1. Snapshot of manufacturing and services PMIs

	Manufacturing PMIs			Services PMIs		
	Feb 23	Mar 23	Apr 23	Feb 23	Mar 23	Apr 23
World	49.9	49.6	49.6	52.6	54.4	55.4
US	47.3	49.2	50.2	50.6	52.6	53.6
Mainland China	51.6	50.0	49.5	55.0	57.8	56.4
Eurozone	48.5	47.3	45.8	52.7	55.0	56.2
Japan	47.7	49.2	49.5	54.0	55.0	54.9
UK	49.3	47.9	47.8	53.5	52.9	55.9
India	55.3	56.4	57.2	59.4	57.8	62.0
Brazil	49.2	47.0	44.3	49.8	51.8	54.5
Heatmap Key	Below 50 and rising			Above 50 and rising		
	Below 50 and falling			Above 50 and falling		

Source: S&P Global, HSBC.

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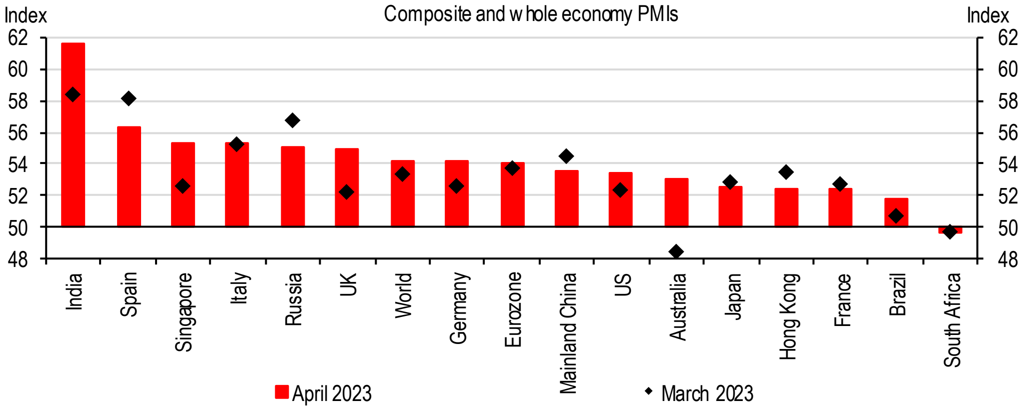
Divergent trends

- Global composite PMI picked up slightly in April to 54.2, from 53.4
- Service sector rose sharply across the board, while growth in the manufacturing sector is waning with few exceptions
- Both input and output prices, and supply chain constraints eased further in April, helping firms

Resilient amid global uncertainties

Amid the continued financial market uncertainty and volatility, nobody has told the respondents to the PMI surveys that risks are rising. The global composite PMI rose in April, from 53.4 to 54.2. In particular, the upturn in activity was driven by the service sector, which improved across the board, led by increased new orders. On the other hand, the manufacturing sector didn't fare so well, with data edging lower in most economies, including mainland China (with the US a notable exception).

2. Composite PMIs showed another improvement in March in most economies



Source: S&P Global, HSBC

Manufacturing PMIs: Mostly into deeper contraction

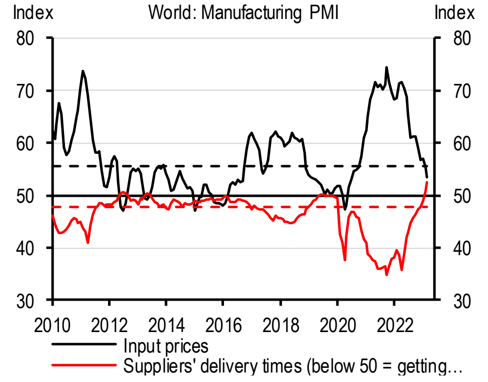
The global manufacturing PMI fell to 49.6 at the beginning of the second quarter, the same rate as seen in March.

A broad-based slowdown was observed with new orders falling at a slightly faster pace during the month. This was led by slowdown in mainland China as the impact from COVID-19 reopening waned, which has been driving the manufacturing sector for the last two months. Firms highlighted the rise in cost of living as the main reason for subdued demand. Additionally, post pandemic lockdowns, consumer preferences shifted from goods to services, which also results in lower demand. However, production volumes improved a tad in April to 50.8, up from 50.6 in March. On the positive side, supply chain pressures improved further in April, making it a little easier on firms. As a result, overall input prices moderated during the month. But overall, firms continue to cut back purchasing activity due to lack of demand.

3. The global manufacturing PMI remain below the 50 watermark level in April

Source: S&P Global, HSBC

4. …but supplier delivery times continue to improve



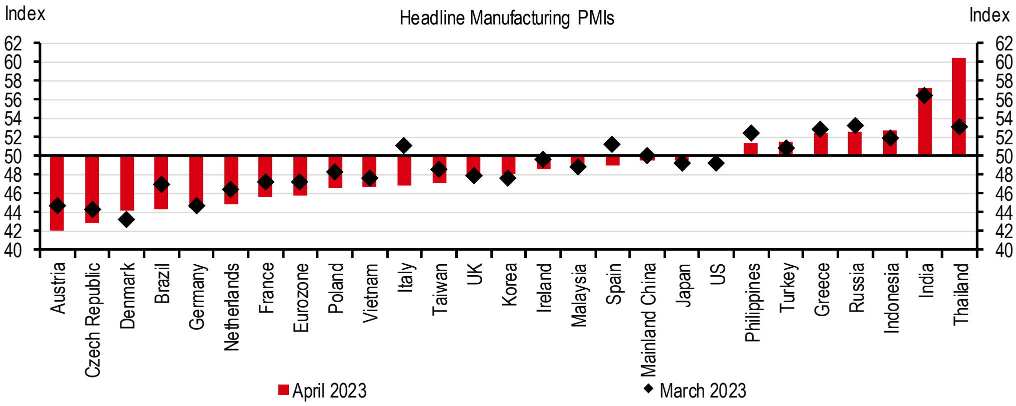
Source: S&P Global, HSBC. Note: Dotted line represents 2010-2019 average.

While, manufacturing PMIs fell in most regions, we saw an uptick in production activity in the US. The US manufacturing PMI saw a slight expansion in April (50.2 from 49.2 in March) – the first in six months - led by increased domestic demand. As a result, output increased at the fastest pace since May 2022. However, both input and output prices increased at a steeper rate in April. The ISM manufacturing was not so positive, showing a small increase, to 47.1, but remaining in contractionary territory, while the comments from respondents were quite mixed about activity levels.

The picture looks worse in Europe. The eurozone PMI fell further, to 45.8, in April, down from 47.3 – the lowest in almost three years. New orders fell at the sharpest pace in four months, implying subdued demand conditions. As a result, output and purchasing activity also deteriorated. In the UK, the manufacturing sector continue to deteriorate, with output falling for the second month in a row as demand remains lacklustre based on slowing new orders.

Moving further east, we have a slightly mixed picture. In mainland China, the Caixin Manufacturing PMI fell by 0.5ppt to 49.5 in April. Firms commented that sluggish market conditions and weaker-than-expected customer spending had dampened sales. On the other hand, India and ASEAN economies saw moderate expansion in their manufacturing sectors led by resilient domestic demand. Thailand deserves a special mention, where the manufacturing PMI increased by 7.3ppts to 60.4, the highest since the beginning of the survey in December 2015.

5. Manufacturing PMIs across the world show a mixed picture



Source: S&P Global

The good news continues on the supply chain front. Suppliers' delivery times improved further in April as supply chain bottlenecks continued easing – helped by mainland China opening up its economy faster than expected. In fact, the suppliers' delivery index rose to the highest level since May 2009. Additionally, input price pressures continue to ease in the manufacturing sector, but increases in output prices continue to be faster in developed markets compared with emerging markets. However, in the US, we saw a rise in both input and output prices in April. Meanwhile, we saw a slight rise in global manufacturing employment in April – a third consecutive rise, but some job losses were noted in Brazil, mainland China, and eurozone.

Services PMIs: Firing on all cylinders
The global service sector PMI recorded another month of expansion in April. It rose to 55.4, up from 54.4 in March, the fastest pace since November 2021. Higher new orders resulted in increased output and employment in most economies.

Unlike in the manufacturing data, where we broadly saw slowdowns, the service sector remains robust. The eurozone service sector recorded another month of expansion in April, with the PMI rising to 56.2, up from 55.0. This was primarily driven by Germany, which saw a 2.3ppt rise in the month. Higher demand for eurozone services boosted new order intakes, which rose at a similarly strong rate to that of output. The increase in new business was the strongest in a year.

In the US as well, the service sector PMI rose by 1ppt to 53.6 in April. New orders, output, and employment all mirrored the headline index, implying underlying demand conditions remain strong. As a result, both input and output prices gained momentum. The US ISM services sector also expanded by 0.7ppt to 51.9 in April for the fourth consecutive month. This has been led by higher new orders, in particular new export orders, which rose from 43.7 to 60.9 in April.

Mainland China also recorded another month of expansion in the services sector, with the Caixin PMI rising at a moderate pace of 56.4 in April, down from 57.8. While the boost to the manufacturing sector from reopening after COVID-19 has worn off due to weaker global goods demand, there is still sufficient demand in the services sector. That said, the rate of growth in both output and new orders softened from March. Meanwhile, the services PMI in India rose at the fastest pace since June 2010, at 62.0 in April, from 57.8. Panellists highlighted stronger service demand both in the domestic market and in the international market.

All eyes on prices

With inflation turning out to be much more persistent than we thought (see *Food inflation*, 24 April, 2023) especially in Europe, it is important to keep an eye on input and output prices. Both are usually good leading indicators of where inflation is headed.

Price pressures are more intense in the service sector, but they seem to be moderating in the manufacturing sector, with a few exceptions – one being the US where both price indices rose in April. Meanwhile, both input and output prices rose a touch in April in the service sector. However, service sector firms are mostly able to pass on higher prices to customers as demand in the service sector remains resilient.

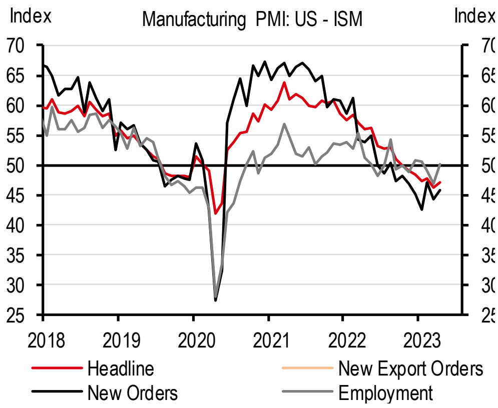
See the coming pages for key charts about April's PMI data.

Manufacturing PMIs

6. In the US, the headline PMI rebounded above the watermark level…

Source: S&P Global, HSBC

7. …but US ISM manufacturing remained below 50



Source: S&P Global, HSBC

8. In the eurozone, manufacturing PMI data deteriorated further in April…

Source: S&P Global, HSBC

9. …and even mainland China saw a moderation in manufacturing activity

Source: S&P Global, HSBC

10. However, in India manufacturing activity picked up during the month

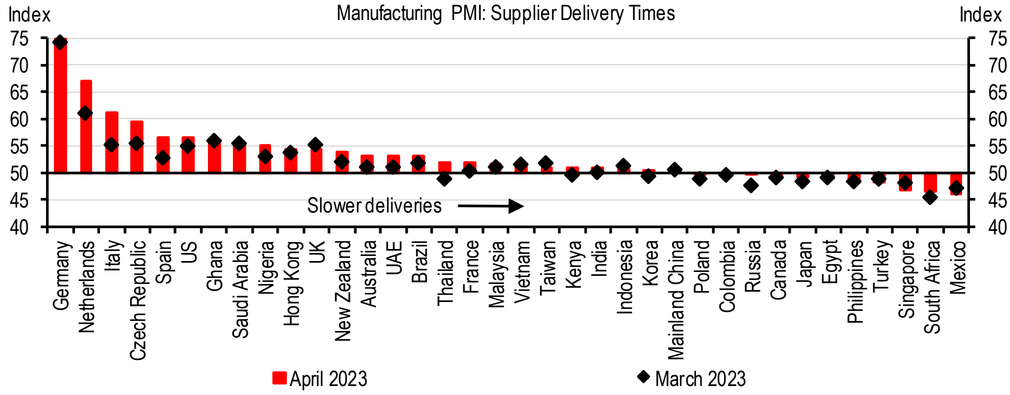
Source: S&P Global, HSBC

11. And Thailand is worth mentioning for the sharp rise in activity

Source: S&P Global, HSBC

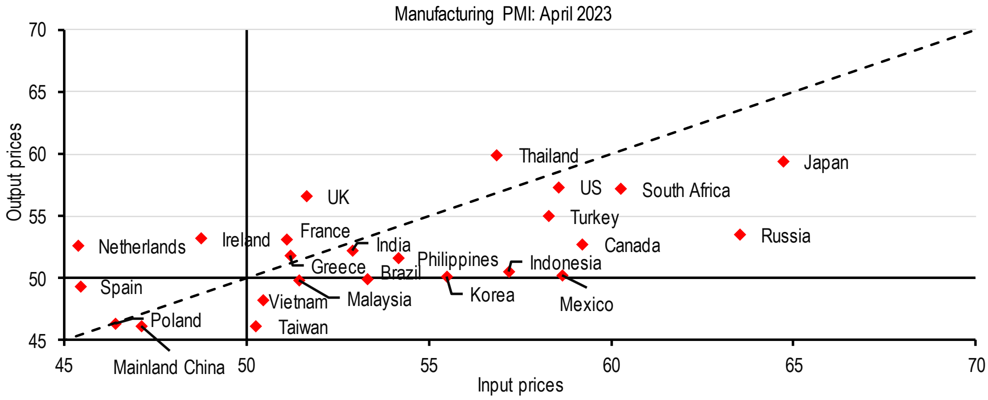
Other key trends in the manufacturing sector

12. Supplier delivery times are widely improved



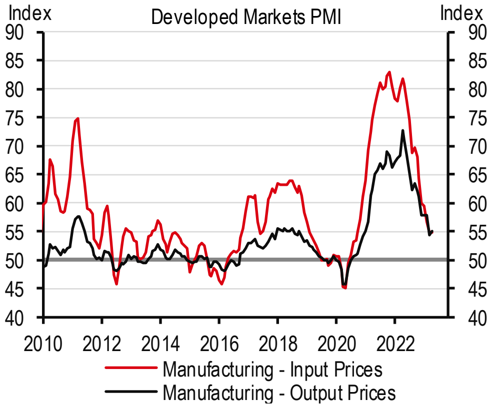
Source: S&P Global, HSBC

13. Both input and output prices eased in most economies



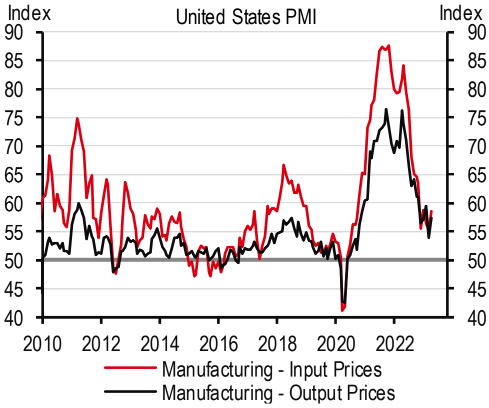
Source: S&P Global, HSBC

14. Input price moderated a touch, while output prices rose slightly in developed economies…



Source: S&P Global, HSBC

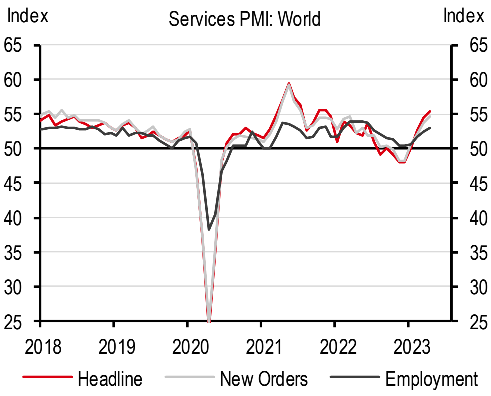
15. …with the exception of the US, where both input and output prices surged in April



Source: S&P Global, HSBC

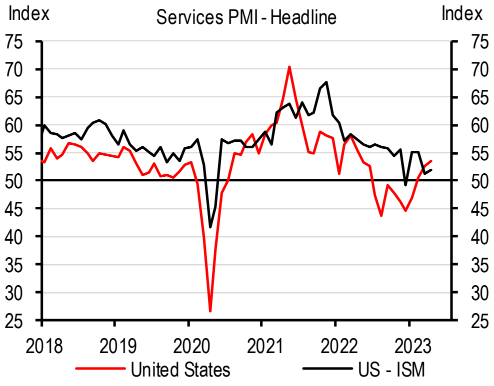
Services PMIs

16. The global services PMI registered a strong increase in April



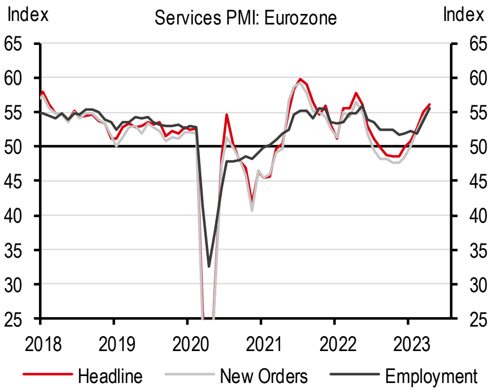
Source: S&P Global, HSBC

17. In the US, both the S&P & ISM services PMI rose in April



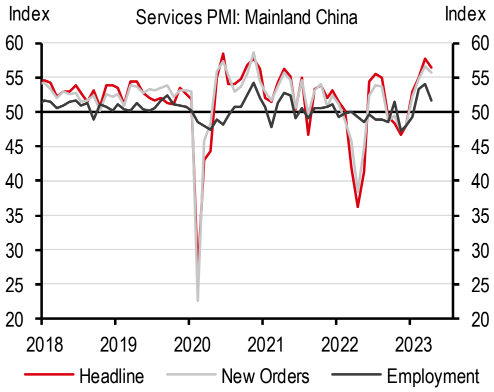
Source: S&P Global, Refinitiv Datastream, HSBC

18. The service sector in the eurozone expanded at a faster pace in April as well



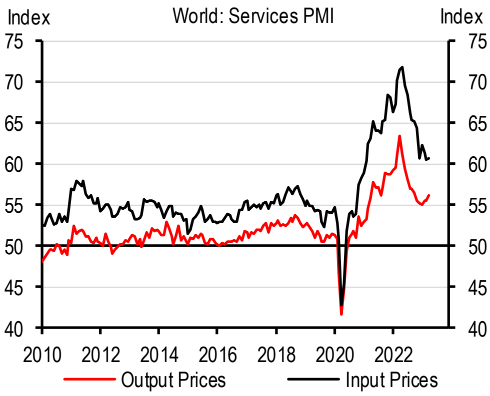
Source: S&P Global, HSBC

19. Mainland China's service sector saw a slight moderation in activity, but remained robust



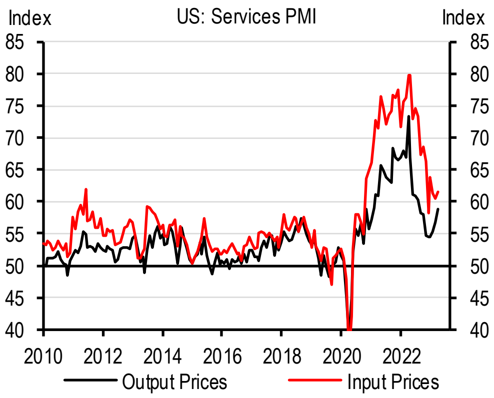
Source: S&P Global, HSBC

20. Both input and output prices nudged a tad higher in April…



Source: S&P Global, HSBC

21. … but in the US, firms were able to pass on higher costs to consumers



Source: S&P Global, HSBC

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