

Ups and downs

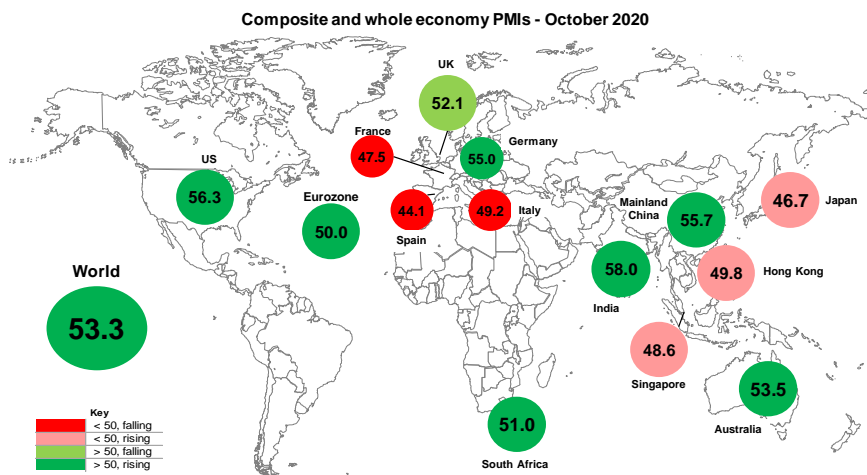
Global PMI wrap-up (October)

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Economics - Global

- ◆ The global composite PMI rose strongly in October...
- ◆ ...but there remains a big divide between manufacturing and services...
- ◆ ...and across regions as Europe's data have diverged from the rest of the world

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Composite PMIs – World at a glance



Source: IHS Markit, HSBC. Note: Brazil and Russia's services/composite PMIs are due for release on 5 November 2020.

While the world has been watching the results of the US elections, October's PMIs have painted an interesting picture of the global economy. The global composite PMI rose to the highest level in more than two years, but there are two main divergences. Firstly, between manufacturing (which continues to recover steadily) and services (which are more affected by renewed lockdowns, particularly in Europe), and secondly, between the developed and emerging markets.

Much of the developed world – notably in Europe and Japan – is seeing the recovery hit a stumbling block. While much of this is due to renewed restrictions due to the rise in COVID-19 cases, in many places the recovery was slowing even before this.

On the other hand, the rebound in mainland China has broadened out and India's data have improved markedly as the number of COVID-19 cases has dropped in recent weeks. Brazil, which was the epicentre of the virus in June and July, now has the strongest manufacturing PMI in the world.

This recovery is clearly multi-speed across the world – some sectors are doing better than others, while some economies are doing better than others. The latest set of PMIs suggest that this trend has continued into Q4.

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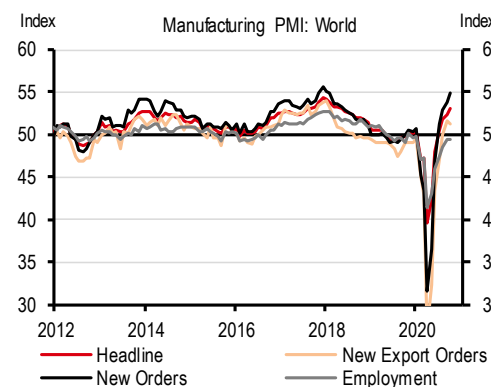
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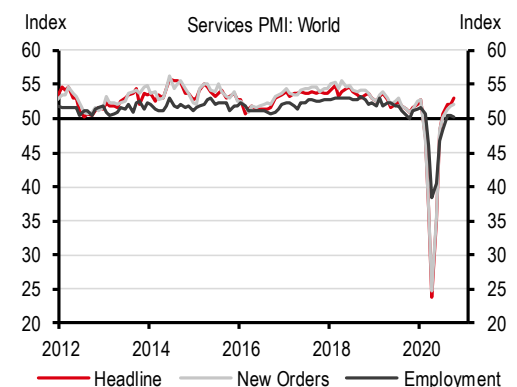
The story from the PMIs

The global composite PMI picked up in October, to 53.3, the best reading in more than two years. This aggregate improvement was driven by faster growth in new business, but employment stalled. The most telling story in October's PMI data is the stark divide between manufacturing and services. While we don't get services PMI data for as many economies, it's clear that the manufacturing data are faring much better than services numbers across the world. Although both the aggregate indices for manufacturing and services both rose, the manufacturing data showed a consistent improvement, whereas the services picture was far patchier.

1. The global manufacturing PMI picked up again in October...

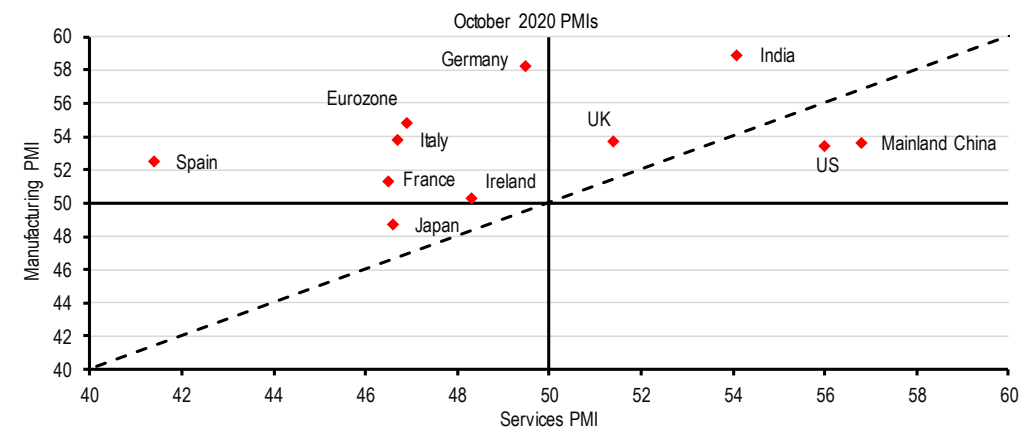


2. ...while the global services PMI was lifted higher by mainland China



That makes sense in Europe, where new restrictions announced in late October will weigh on sentiment in many services sectors (and another drop in services PMIs in November may be likely). In mainland China and India, where we get both sets of data, services and manufacturing PMIs are strong, and in Brazil the manufacturing PMI is the strongest in the world. The US data are also firmer on both the manufacturing and services numbers – something that is replicated in the ISM series – suggesting that it is in Europe where the manufacturing and services divide is clearest.

3. Only in the US and mainland China is the services PMI outperforming manufacturing



Demand for goods remains elevated as consumers across the world have switched their services consumption to products (or are saving more) and this is being reflected in the PMI data – partly through the headline manufacturing PMIs, but also via the new export orders numbers. However, the recovery in export orders is far from universal. As we can see in chart 4, we have improving new orders data in Europe, India, and Brazil, but many of the Asian PMIs suggest a weaker export recovery – at odds with some of the better hard data we've seen in recent months.

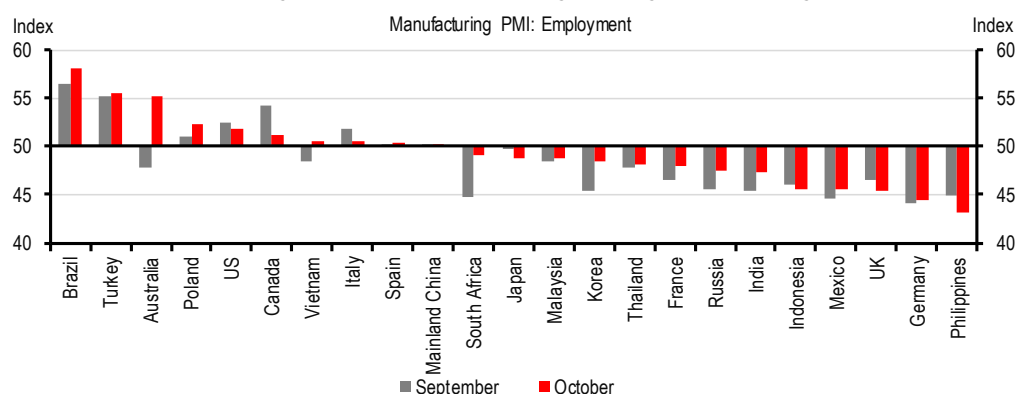
4. Export orders PMIs vary across the world



Source: IHS Markit

The employment component remains problematic in much of the world. While we saw a small improvement in many economies in October, the employment subcomponent of manufacturing PMIs remains in negative territory in many Asian nations as well as much of Europe. The global manufacturing PMI's employment component has now been below 50, indicating contraction, for the past 11 months.

5. The rebound in activity hasn't been followed by employment in many economies

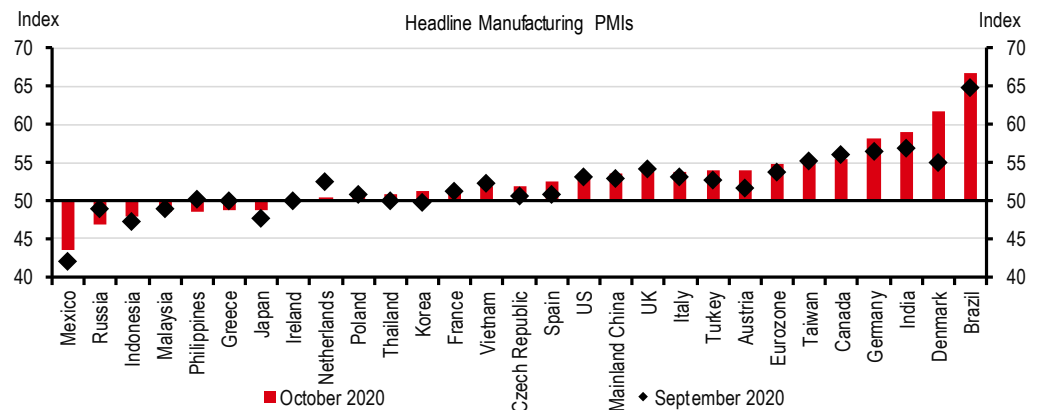


Source: IHS Markit

Manufacturing

The global manufacturing picture continues to improve. The global aggregate rose to 53.0 in October, the best reading since early 2018. The employment component remained below 50, but we saw a sharp rise in global new orders and output. Input prices continue to rise much more quickly than output prices.

6. Manufacturing PMIs have become more diverse



Source: IHS Markit

The improvements are pretty broad-based, regardless of the developments on the services side of the economy or developments in terms of COVID-19 cases. We saw a strong pickup in the eurozone (with a 1.1pt increase, despite the COVID-19 resurgence), India (with a 2.1pt increase) and Mexico (1.5pt increase) – with all three parts of the world currently posting very different daily numbers of new COVID-19 cases. Despite Mexico's improvement in October, the manufacturing PMI remains the weakest in the world.

In Asia the story is uneven. While mainland China and India saw decade highs, many of the smaller economies are failing to see the same pick-up. Across the region, new export orders faded, a key engine of growth, and now with renewed lockdowns in Europe and possibly weaker demand for Asian exports, that picture is even less promising.

The European numbers continue to fare well despite the introduction of more COVID-19 induced restrictions. The eurozone aggregate is up at 54.8, a more than three-year high, with big rises in Spain and Germany. In the UK, with more Brexit uncertainty, the manufacturing gauge edged down, to 53.7, but remains comfortably in expansionary territory for now.

In the US, the ISM manufacturing index rose strongly, to 59.3 (up from 55.4 in September). The employment component was the notable highlight, rising into expansionary territory, but new orders also rose strongly. The manufacturing recovery in the US clearly continues to build steam, and this was echoed in the Markit survey where we saw a small increase in the headline index and the new orders subcomponent. In this survey, the employment component nudged back, but remains in expansionary territory.

Services

The global services PMI picked up in October, from 52.0 to 52.9, but this global aggregate masks the divergence between different parts of the world. Despite the strong headline reading, the employment index indicated that services firms across the world are keeping hiring steady.

The most striking release was mainland China's services PMI, which rose to 56.8, the strongest reading in 10 years. The reading, coupled with the strong NBS non-manufacturing PMI, suggest that the post-pandemic recovery continues to broaden out. Although consumer spending is still lagging the recovery in industry in the hard data, there are signs that the recovery in this part of the economy is starting to gain pace.

On the other side of the fence, none of the Big 4 eurozone countries posted a reading above 50, while Spain's reading fell further into contraction (from 42.4 to 41.4), to post the weakest services PMI in the world. As the COVID-19 case numbers have picked up across the continent, the weakness in the service sector outlook has broadened – and the employment numbers remain well below 50.

In the US, the ISM services PMI fell back from 57.8 to 56.2, but this was the fifth month in a row of expansion in the services sector, according to this survey. The employment index fell back, to 50.1, so just indicating expansion, and the new orders index edged lower, but at 58.8 still indicated a rapid expansion. On the other hand, the US Markit services PMI showed a faster expansion (56.9 from 54.6 in September). While new orders picked up, employment fell. Between the two indices, there is clearly an ongoing recovery within the US services sector, but employment may be softening to a greater extent than output.

Summary

October's PMIs look good on the face of it. The global numbers improved in both manufacturing and services, but this masks a clear divergence across the world: China, India, and the US are looking better than other developed markets and in Europe the services sector is likely to remain weak due to renewed restrictions to tackle COVID-19 outbreaks. The latest set of PMI data suggest that the multi-speed recovery of the past few months is continuing.

Heat maps – Manufacturing PMIs

	Headline					New Orders					Employment			
	Jul 20	Aug 20	Sep 20	Oct 20		Jul 20	Aug 20	Sep 20	Oct 20		Jul 20	Aug 20	Sep 20	Oct 20
Global		51.8	52.4	53.0										
US - Markit		53.1	53.2	53.4										
US - ISM		56.0	55.4	59.3										
Canada		55.1	56.0	55.5										
Brazil		64.7	64.9	66.7										
EU		55.3	56.6	57.8										
Eurozone		51.7	53.7	54.8										
Austria		51.0	51.7	54.0										
France		49.8	51.2	51.3										
Germany		52.2	56.4	58.2										
Greece		49.4	50.0	48.7										
Ireland		52.3	50.0	50.3										
Italy		53.1	53.2	53.8										
Netherlands		52.3	52.5	50.4										
Spain		49.9	50.8	52.5										
Denmark		52.9	55.1	61.7										
United Kingdom		55.2	54.1	53.7										
Switzerland		51.8	53.1	52.3										
Czech Republic		49.1	50.7	51.9										
Poland		50.6	50.8	50.8										
Russia		51.1	48.9	46.9										
Turkey		54.3	52.8	53.9										
South Africa		45.3	49.4	51.0										
Japan		47.2	47.7	48.7										
Mainland China		53.1	53.0	53.6										
India		52.0	56.8	58.9										
Indonesia		50.8	47.2	47.8										
South Korea		48.5	49.8	51.2										
Taiwan		52.2	55.2	55.1										
Vietnam		45.7	52.2	51.8										
Australia		49.3	46.7	56.3										
New Zealand		51.0	54.0											

Above 50 and rising

Above 50 and falling or same

Below 50 and rising

Below 50 and falling or same

Data unavailable at time of release

Source: IHS Markit

Heat maps – Manufacturing PMIs

	Output Prices					Input Prices			
	Jul 20	Aug 20	Sep 20	Oct 20		Jul 20	Aug 20	Sep 20	Oct 20
Global									
US - Markit									
Canada									
Brazil									
EU									
Eurozone									
Austria									
France									
Germany									
Greece									
Ireland									
Italy									
Netherlands									
Spain									
Denmark									
United Kingdom									
Switzerland									
Czech Republic									
Poland									
Russia									
Turkey									
South Africa									
Japan									
Mainland China									
India									
Indonesia									
South Korea									
Taiwan									

Source: IHS Markit

Heat maps – Services PMIs

	Business activity					New business					Employment			
	Jul 20	Aug 20	Sep 20	Oct 20		Jul 20	Aug 20	Sep 20	Oct 20		Jul 20	Aug 20	Sep 20	Oct 20
Global		52.0	52.0	52.9										
US - Markit		55.0	54.6	56.9										
US - ISM		62.4	63.0	61.2										
Brazil		49.5	50.4											
EU		50.5	48.0	46.9										
Eurozone		50.5	48.0	46.9										
France		51.5	47.5	46.5										
Germany		52.5	50.6	49.5										
Ireland		52.4	45.8	48.3										
Italy		47.1	48.8	46.7										
Spain		47.7	42.4	41.4										
United Kingdom		58.8	56.1	51.4										
Russia		58.2	53.7											
Japan		45.0	46.9	46.6										
Mainland China		54.0	54.8	56.8										
India		41.8	49.8	54.1										
Australia		42.5	36.2											

	Greater or equal to 50 and rising or same		Less than 50 and rising or same		Data unavailable at time of release
	Greater than or equal to 50 and falling		Less than 50 and falling		

Source: IHS Markit

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