

Stagnation

Global PMI wrap up (October)

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- ◆ The global composite PMI fell to 50.0 in October, suggesting no growth...
- ◆ ...with weakness in both manufacturing and services...
- ◆ ...and most clearly in Europe

Global demand remained lacklustre in October. The global composite PMI fell to 50.0 in October, down from 50.5 in September, suggesting that global economic activity stagnated. On the manufacturing side, new orders and new export orders continue to reflect subdued demand conditions across the world.

The divergence between the manufacturing and service sector continues, but the gap has reduced over recent months. The global manufacturing PMI remains stuck in contractionary territory, while the pace of growth in the service sector is slowing.

Geographically, Europe remains the weak spot in both sectors, with both manufacturing and services PMIs below 50. On the other hand, US manufacturing and services activity looked better in October as new orders, in particular domestic demand, improved. Asian economies performed much better than the West, again, with India leading the pack. That said, we are seeing some early signs of a slowdown in Asia as well. Mainland China's Caixin manufacturing PMI fell below 50 and higher oil prices seem to be adding to input costs for Asian manufacturers.

Going forward, we are yet to see any sign of upturn in global demand. Global trade remains subdued across geographies, and with inventories at a more-than-adequate level and subdued new export orders, the chance of a rebound in output anytime soon seems to be unlikely (see: *The state of global trade*, 1 November, 2023).

In fact, future outlook indices moderated for many economies in October. As a result, many firms reported cutting down staffing levels. While labour market data remain broadly robust, there may be some early warning signals in the latest set of PMI data.

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1. Snapshot of manufacturing and services PMIs

	Manufacturing PMIs			Services PMIs		
	Aug 23	Sep 23	Oct 23	Aug 23	Sep 23	Oct 23
World	49.0	49.2	48.8	51.0	50.7	50.4
US	47.9	49.8	50.0	50.5	50.1	50.6
Mainland China	51.0	50.6	49.5	51.8	50.2	50.4
Eurozone	43.5	43.4	43.0	47.9	48.7	47.8
Japan	49.6	48.5	48.7	54.3	53.8	51.6
UK	43.0	44.3	44.8	49.5	49.3	49.2
India	58.6	57.5	55.5	60.1	61.0	58.4
Brazil	50.1	49.0	48.6	50.6	48.7	51.0
Heatmap Key	Below 50 and rising			Above 50 and rising		
	Below 50 and falling			Above 50 and falling		

Source: S&P Global, HSBC. Note: India's services PMI is not released at the time of publication.

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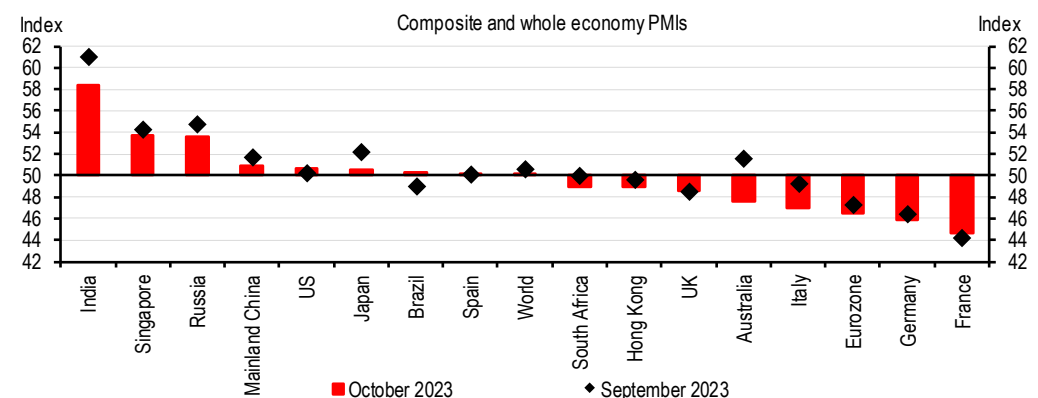
No sign of a turnaround

- ◆ The global composite PMI fell from 50.5 to 50.0 in October
- ◆ Manufacturing data remain weak while services slipped again
- ◆ While supply chains issues appear to be in the past, energy prices lifted input costs

Prolonged downturn

The global composite PMI fell by 0.5pts in October, to 50.0, suggesting that global economic activity is stagnating. Services continue to fare better than the manufacturing sector, although even this side of the global economy is showing clear signs of moderation in most geographies.

2. Composite PMIs continue to show the geographical split of growth momentum



Manufacturing PMIs: Further downturn

The outlook for the manufacturing sector remains bleak with October's global manufacturing PMI falling further into contractionary territory to 48.8, down from 49.2. This records the fourteenth consecutive month of contraction. Major sub-indices such as the output, new export orders and employment fell during the month. As a result, firms developed a less positive outlook, with the 12-month ahead business outlook index falling by 2.2pt to the lowest reading in 11 months.

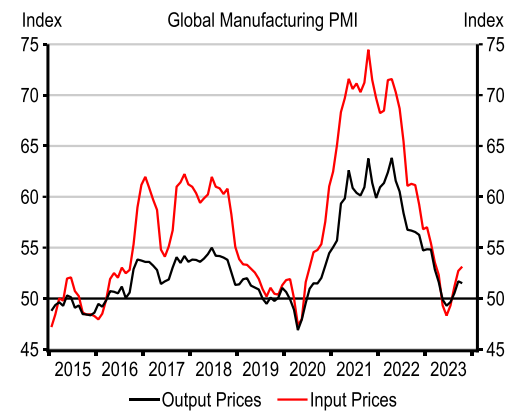
Data broken down by sector showed the intermediate and investment goods industries deteriorated in October, but in contrast, consumer goods production rose at the quickest pace in five months.

On the other hand, input costs accelerated to a seven-month high, part of which looks to be being passed on in the output price data. However, the rise in output costs moderated a touch in October. Geographically, emerging markets saw a faster rise in prices compared to developed markets.

3. The global manufacturing PMI fell further in October

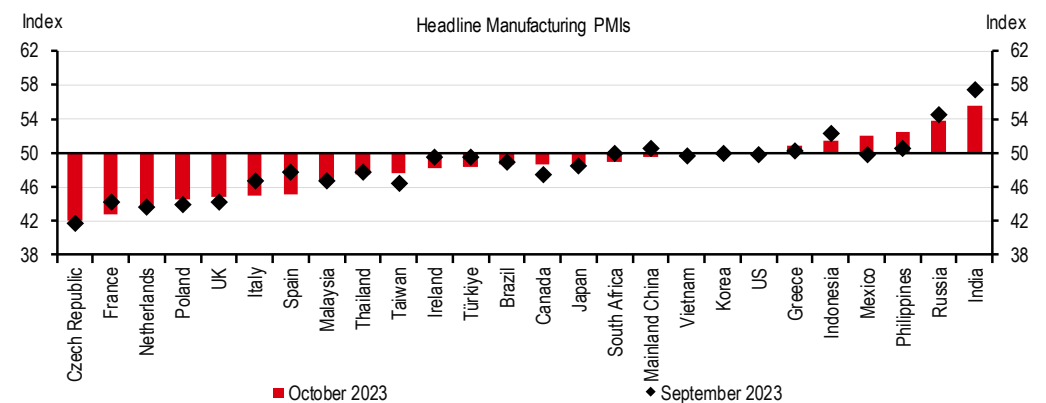


4. Higher oil & raw material costs resulted in another month of higher input costs



Geographically, Europe remained the principal drag on global manufacturing output. The eurozone manufacturing PMI further fell in October - to 43.1, the lowest reading in three months. New orders, purchasing activity and employment all fell sharply during the month. Germany was the worst performer, despite the pace of decline easing for the third consecutive month. France recorded its biggest deterioration in factory conditions in nearly three-and-a-half years. Meanwhile, UK's manufacturing PMI remained below 50 for the third consecutive month, even though the index edged up. Panellists cited that cost-of-living pressures and high interest rates led to weaker consumer confidence which held back consumer demand.

5. Manufacturing PMIs remain in contractionary territory in most economies



Asian economies also noted some dip in production volume, although countries such as India, Indonesia and the Philippines continued to see growth. The Indian manufacturing industry continues to expand modestly, albeit at a slower pace compared to September as demand for certain types of products faded. New orders, production and buying levels all rose, but at a moderate pace in October, resulting in a five-month low in the employment sub index. Meanwhile, cost pressures intensified, but output price inflation receded.

On the other hand, mainland China saw a deterioration in its manufacturing sector, with the headline PMI declining to 49.5 in October, down from 50.6. Respondents cited weaker foreign demand and higher prices as the major contributor to the slowdown in output and sales during

the month. As a result, firms reduced purchasing activity and staffing levels. Like in India, input costs rose in mainland China as well, primarily led by increase costs of raw materials and oil.

The US saw a slightly different picture with its S&P Global manufacturing PMI stabilising at 50.0 in October, helped by an increase in new orders that ended a five-month sequence of decline. However, firms reduced their expectations of future output and reduced staffing levels. And despite a contraction in input buying and reduction in inventory holding, input cost pressures picked up during the month. However, the ISM manufacturing PMI fell by 2.3ppt to 46.7 in October as new orders remained subdued and inventories were drawn down further. Only the food, beverages and tobacco product industry registered growth in October.

Services PMIs: Slowdown in service surge

The service sector had been more resilient for the most part of 2023, but cracks are appearing here too. However, the picture is more diverse than the manufacturing set of data. The global services PMI fell to 50.4, down from 50.7 – the slowest pace in nine months.

Like the manufacturing sector, the eurozone was the major drag. The eurozone services PMI fell to 47.8 in October, down from 48.7. Within the region, the German services sector weakened at the fastest pace, with the index dropping by 2.1pts to 48.2. On the other hand, France's services PMI pointed to a more moderated pace of decline in October. However, subdued new orders led to a slowdown in sales and employment during the month.

The US service sector surveys continue to give mixed signals. October's S&P Global services PMI rose marginally, by 0.5ppt, to 50.6. Output expanded, but new orders remained subdued, but firms remain optimistic and increased staffing levels. Increased capacity allowed service providers to work through their outstanding business, depleting backlogs of work. Meanwhile, the ISM services, which has been faring better than the S&P metric, moderated in October by 1.8ppt to 51.8. That said, this survey has registered growth in 40 of the last 41 months, while new orders improved for the month and all twelve industries reported growth.

Turning to Asia, the service sector in India and mainland China expanded in October. While India saw a deceleration in sales, the services PMI remains well above 50 at 58.4, down from 61.0. Price pressures and competitive conditions were cited as the main reasons for this slowdown. New orders remained robust, supported by international demand which recorded the second highest increase in the survey's history.

Meanwhile, mainland China's service sector PMI edged up by 0.2ppt to 50.4 in October. Subdued activity levels coincided with a further slowdown in new order growth, which was the weakest in 2023 so far despite an improvement in new export business. As a result, firms were conscious about hiring new staff and the future outlook index slipped to the lowest level since early 2020.

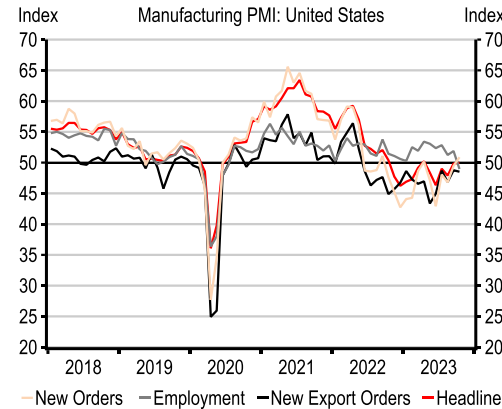
Prices: Regaining momentum?

In the manufacturing sector, October saw another month of higher input and output costs. This was mostly seen in emerging economies, rather than developed markets, with higher oil prices and raw material costs were cited as the major reasons. On the other hand, eurozone economies recorded another month of deflation in October with both input and output costs falling with operating expenses at the lowest level since April, implying improved supply conditions.

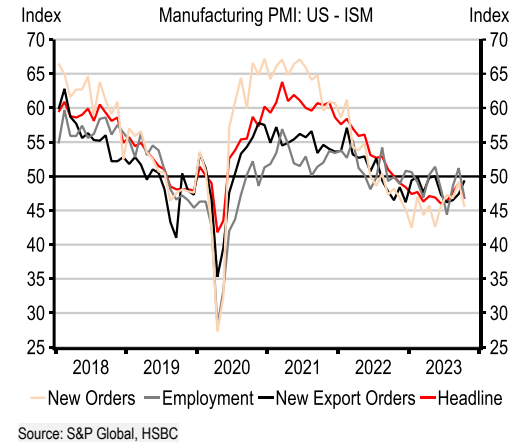
However, service prices slowed during the month. The US saw one of the clearest moderations in input costs, which was only partly reflected in output charges. However, in India higher food, fuel and staff costs kept input costs elevated.

Manufacturing PMIs

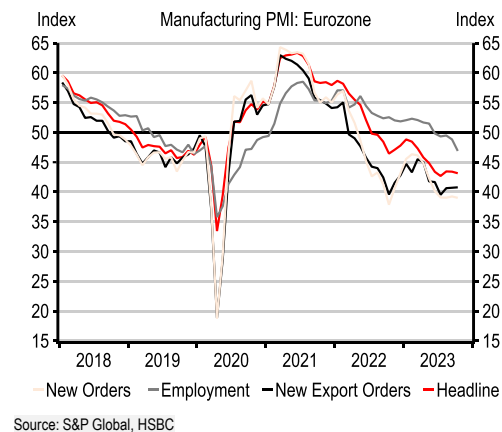
6. In the US, manufacturing activity remained stable in October...



7. ...while the ISM survey points to a sharp slowdown in the manufacturing sector



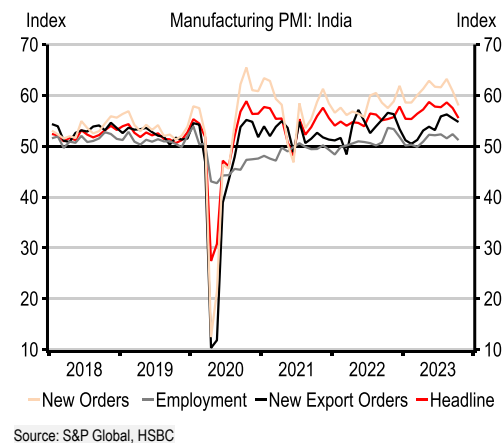
8. Manufacturing conditions remain weakest in the eurozone, led by Germany



9. Meanwhile, the UK saw a slight moderation in manufacturing activity



10. Manufacturing conditions in India remain robust...

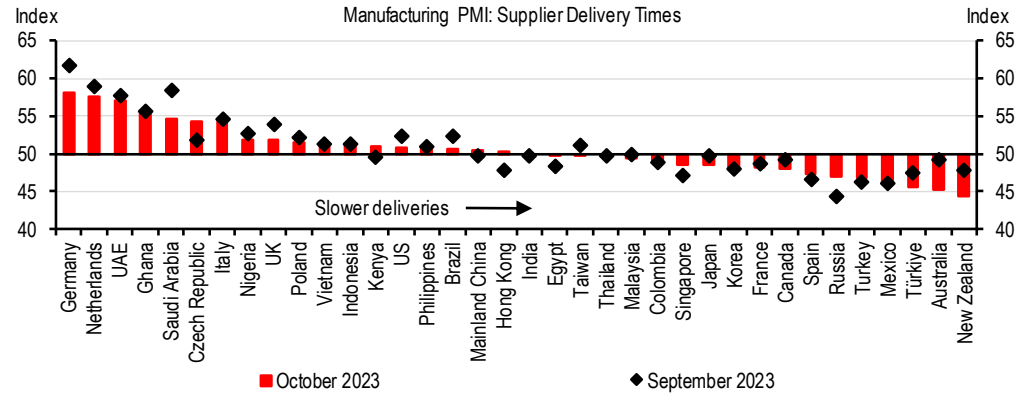


11. ...compared to the marginal fall in activity in mainland China

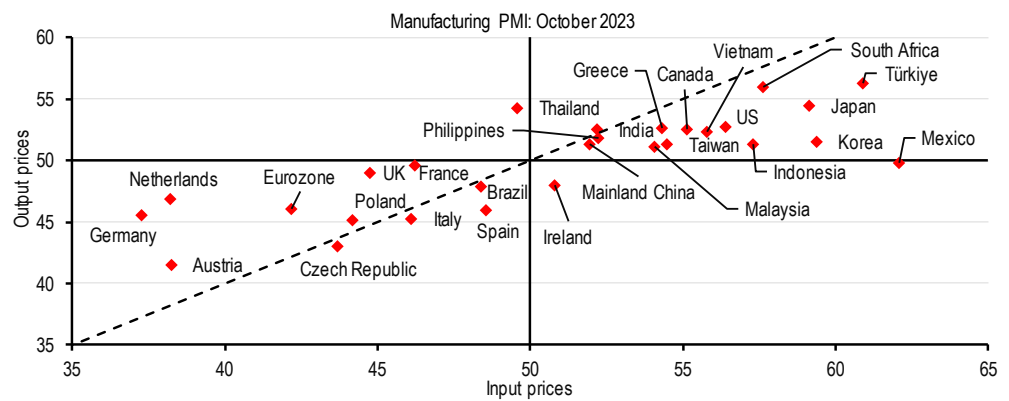


Other key trends in the manufacturing sector

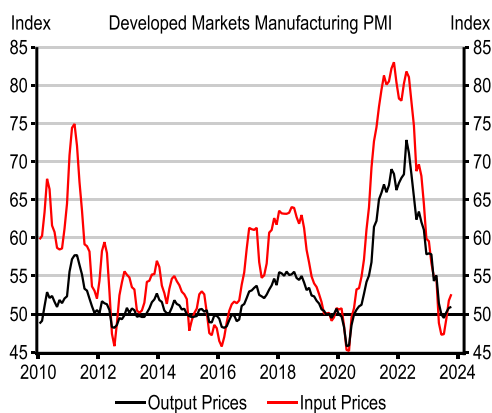
12. Supplier delivery times suggest that supply chain issues are no longer a worry



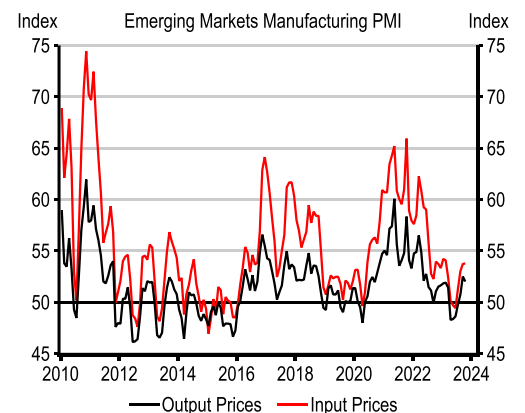
13. Input costs rose in some economies which were only partly translated to output charges



14. Input prices rose in developed markets...

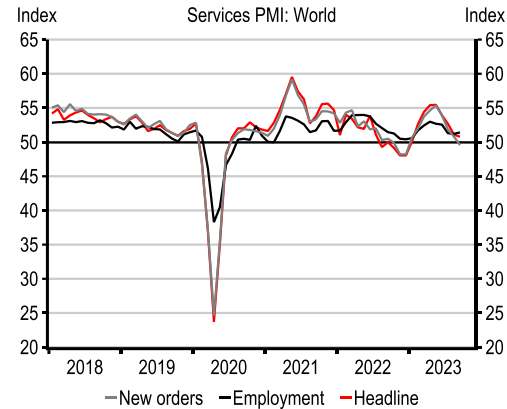


15. ...and they picked up at a faster pace in emerging markets



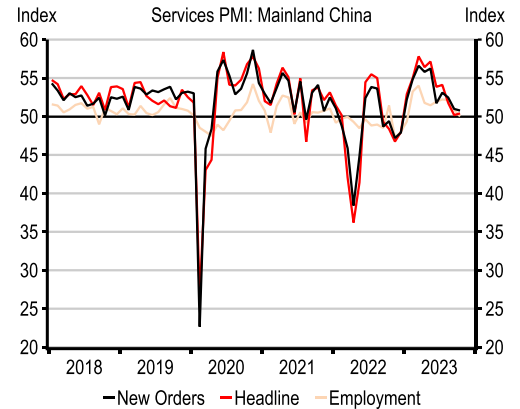
Services PMIs

16. The global services PMI slowed again, but remains in growth territory...



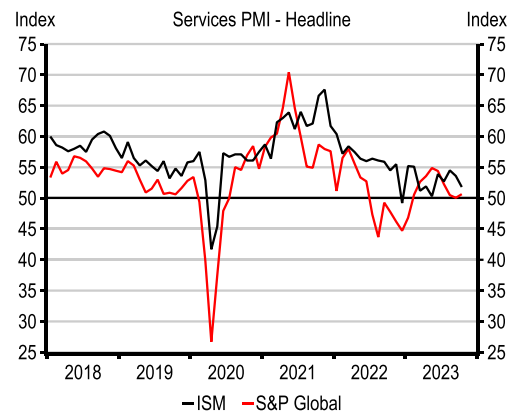
Source: S&P Global, HSBC

17. ...with a small tick up in mainland China



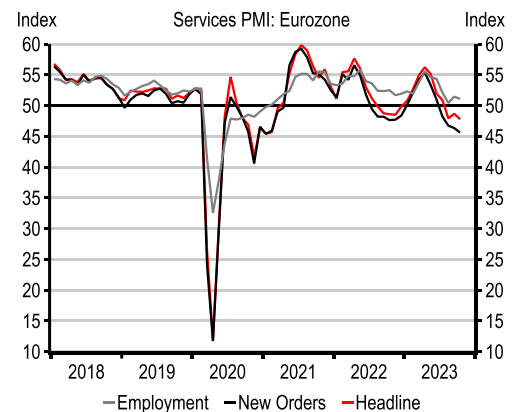
Source: S&P Global, Refinitiv Datastream, HSBC

18. There are still mixed signals in the US...



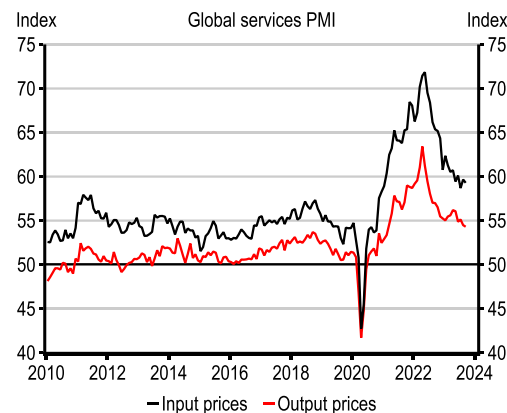
Source: S&P Global, HSBC

19. ...but weakness is clearer in Europe



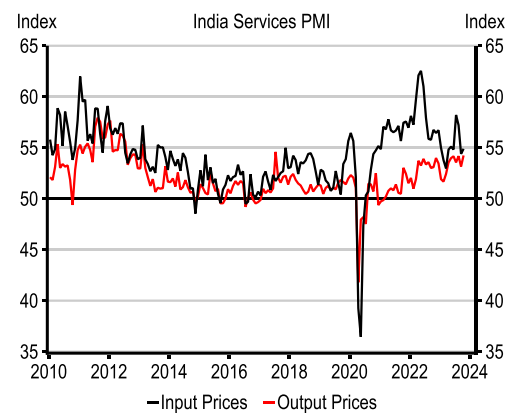
Source: S&P Global, HSBC

20. Unlike the manufacturing sector, services prices rose at a moderate pace...



Source: S&P Global, HSBC

21. ...but India's inflationary pressures appear stickier



Source: S&P Global, HSBC

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