

Under pressure

Global PMI wrap-up (Apr)

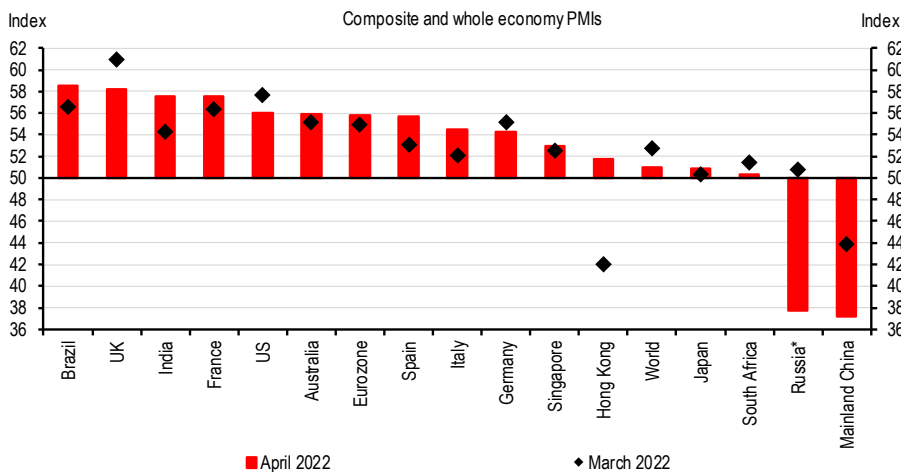
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Economics - Global

- ◆ COVID-19 related disruptions in mainland China weighed on the global manufacturing and services PMIs...
- ◆ ...offsetting some resilience in activity elsewhere...
- ◆ ...while higher input costs continue to put upward pressure on output prices in the developed economies

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Composite PMIs – World at a glance



Source: S&P Global, HSBC. Note: * Russia data is for March 2022 and February 2022

Global PMI data for April point to further downside risks for global growth. The global composite PMI fell to 51.0, down from 52.7 in March, with a slightly bigger drop in services than in manufacturing. Most of the fall was as a result of the sharp drops in PMIs in mainland China due to local lockdowns, but we also saw notable weakness in the US service sector, both of which more than offset some improvements in some of the activity surveys from Asia and Europe.

The COVID-related restrictions in mainland China are impacting on the global economy via weaker demand and adding to the global supply chain challenges already exacerbated by the war in Ukraine and the escalating sanctions. Pricing indices within the PMIs continue to rise. Moreover, in the manufacturing surveys the gap between input and output price components is narrowing, suggesting more firms are passing on their cost increases.

Given the intensifying squeeze on households' real incomes – and consumer and national business surveys in much of the world now pointing down – these PMIs are consistent with a softening in demand even where some support from re-opening is softening the impact.

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What are the data telling us?

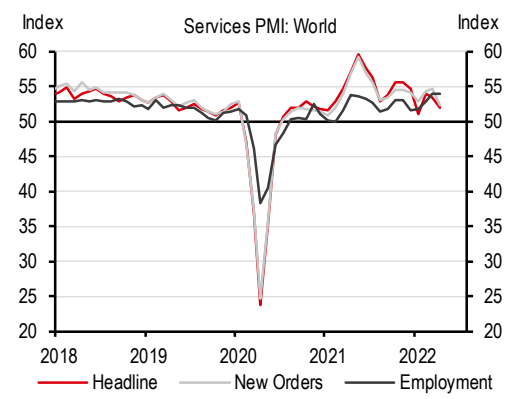
The global composite PMI came in at 51.0 in April, down from 52.7 in March. While services PMIs improved in the eurozone as COVID-19 related restrictions eased, another very weak reading in mainland China and cooling momentum in the US and the UK saw an overall slowdown in the pace of global services activity. Likewise, the global manufacturing PMI slipped to another multi-month low on the back of weaker data in mainland China while the manufacturing PMI fared a little better elsewhere in Asia despite the highly uncertain global backdrop.

1. The global manufacturing PMI slowed in March owing to geopolitical tensions



Source: S&P Global

2. The global services PMI fell in April, led by slowdown in mainland China

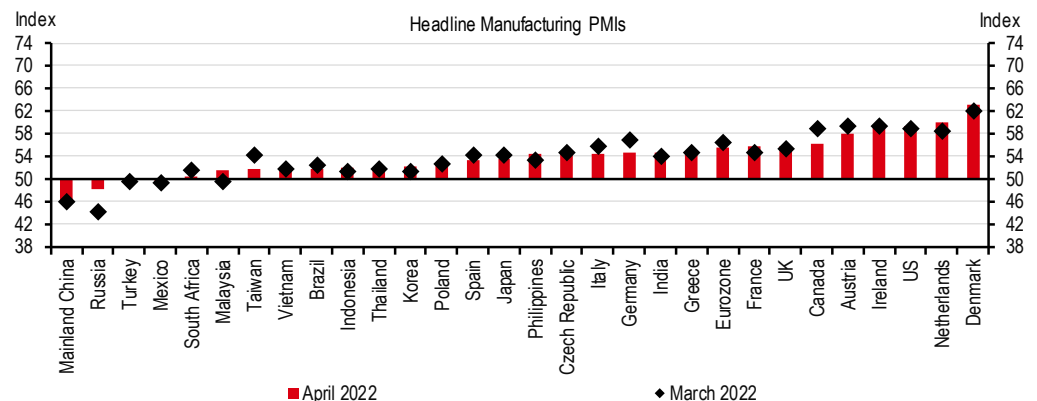


Source: S&P Global

Manufacturing: The mainland China impact

The global manufacturing PMI data in April remained remarkably steady asides from mainland China. Despite ongoing headwinds from the conflict in Ukraine, pandemic-related restrictions and supply chain disruptions, the global aggregate manufacturing PMI only edged down from 52.9 to 52.2. There was a wide range of outcomes across the world – with a handful of economies (such as Korea, India, the US, the UK and the Philippines) seeing an improvement, while we saw slight softening in the likes of Brazil and the Eurozone, although even in the latter a few countries improved.

3. The manufacturing sector moderated, but remains in expansionary territory in most of the world

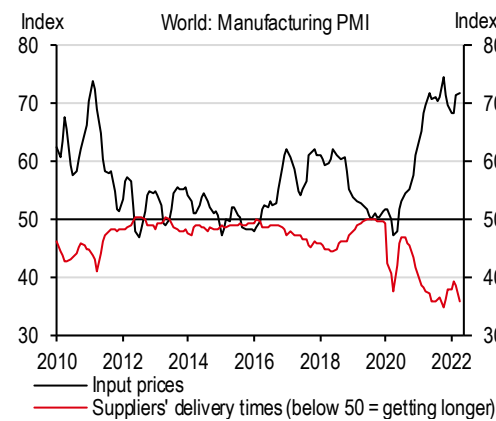


Source: S&P Global

However, the biggest story was the collapse in the surveys in mainland China – where the headline manufacturing index fell by 2.1 points to 46.0, suggesting a sharp downturn in activity for the second month in a row. The NBS PMI also fell by a similar magnitude as a result of the lockdowns and restrictions put into place in numerous cities.

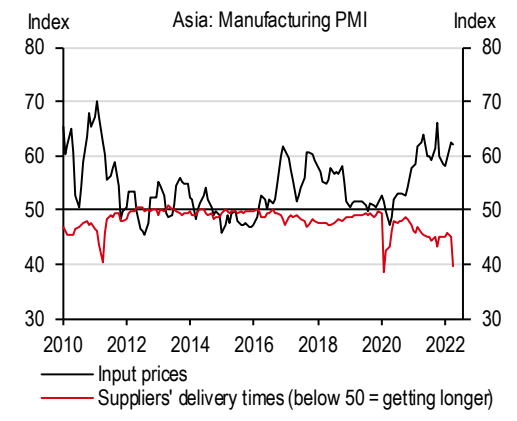
While the demand side of the global manufacturing PMIs has held up relatively well amid the highly uncertain global backdrop, the concern from these data is on the supply side. The global manufacturing PMI suppliers' deliveries time index deteriorated again, led by the impact in Asia.

4. The global supplier deliveries index fell again...



Source: S&P Global

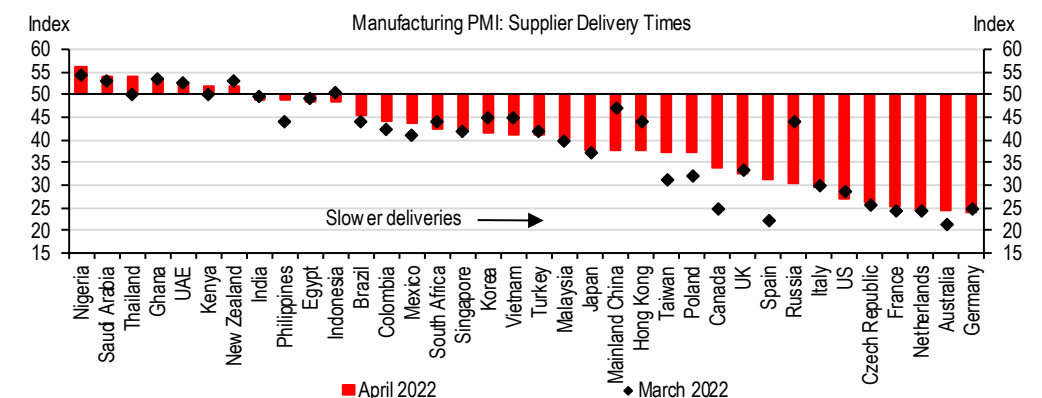
5. ...due to weakness in Asia, notably mainland China



Source: S&P Global

On an economy-by-economy basis, we can see that the biggest issues on the supply chain front are in most developed economies. Unsurprisingly, the index weakened most in Russia and mainland China but we saw a worsening in delivery times in Hong Kong and Korea, too. The data look slightly better in Poland, Spain, Taiwan, Philippines and Canada, on the other hand.

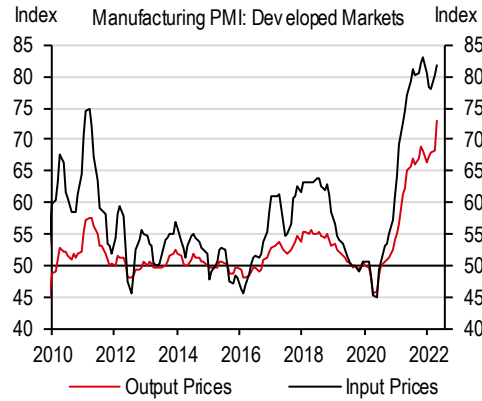
6. Delivery times lengthened in many economies in April



Source: S&P Global

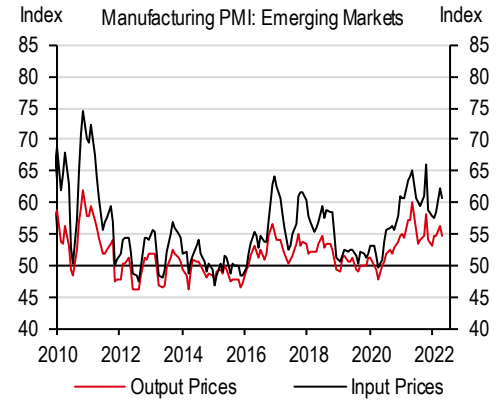
This adds to the global inflationary concerns that have intensified in recent months. The global input price index saw another increase to a fresh multi-year high, while firms continue to pass on more of these price increases, particularly in the developed world. In the emerging world, input and output price pressures look to have softened a little in aggregate. The moderation in input prices was notably led by Brazil (3.6pt drop) but many in Asia edged lower too. India was the main outlier with a 1.6pt rise in the same index.

7. Price pressures intensified again in the developed world...



Source: S&P Global

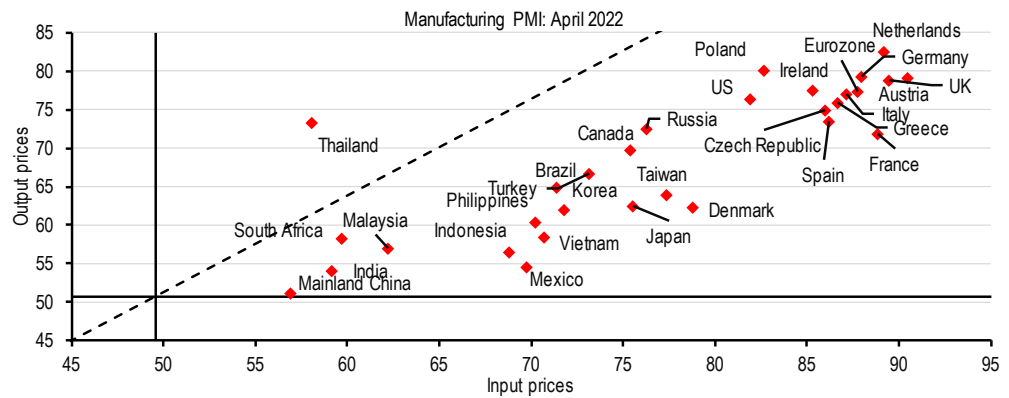
8. ...but without the same impact in the emerging world



Source: S&P Global

As for the output price index, the biggest rises were in many developed markets, including the US (up by 6.6pts), the UK (7.5pts) and Germany (3.7pts) so much more than the rise in the input indices. The narrowing gap between the two indices suggests that firms in the advanced economies are passing more of their costs onto their customers.

9. Renewed price pressures in March are likely to keep output prices elevated in the coming months



Source: S&P Global

Services: Weighed down

The service sector, for now, may be less influenced by geopolitical tensions and supply shortages. Instead, activity has either been adversely affected by lockdowns (mainland China) or the squeeze on incomes (US and UK), while the eurozone continues to see a grind higher on the slow relaxing of pandemic-related restrictions. The global services PMI fell from 53.4 in March to 51.9 in April.

The story is a little different in Asia from the west. Mainland China saw another sharp fall in the services PMI to 36.2 from 42.0 as pandemic restrictions sapped optimism from the economy. Both activity and new orders fell at the second sharpest rates since the survey began in 2005, and were exceeded only by those seen at the initial onset of the pandemic. Meanwhile, in India, the services PMI rose to 57.9 in April from 53.6 in March supported by increased new business and employment. That said, price pressures continue to intensify in India as well.

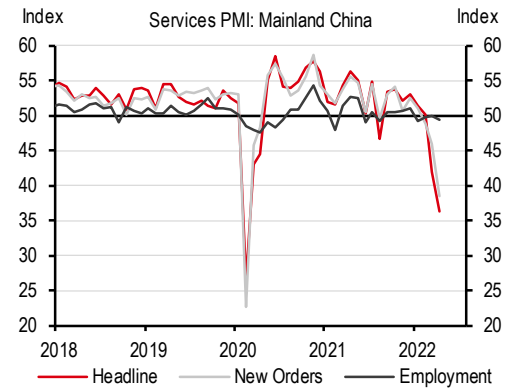
In Europe, there was still some re-opening momentum in the service sector in April with the eurozone aggregate services PMI rising from 55.6 to 57.7, despite the deepening of the real income squeeze.

10. The eurozone services PMI improved again as more restrictions were relaxed



Source: S&P Global

11. ...but mainland China's services PMI saw a sharp fall

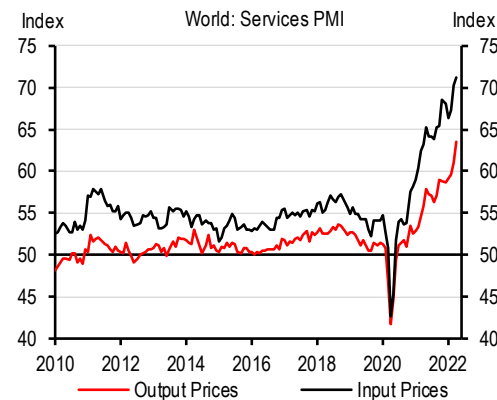


Source: S&P Global

It was a different story in the UK and the US, both further ahead in their reopening. Hence the realities of a cost-of-living squeeze may have weighed on activity. Whilst both readings still point to a decent pace of service sector activity growth (58.9 in the UK and 55.6 in the US), the marked falls in the headline index and new orders components suggest that firms' optimism may have been dented somewhat. In the US, the S&P Global services PMI fell from 58.0 to 55.6 and the ISM services survey fell from 58.3 to 57.1. Despite the moderating headline survey, output and new orders still continue to rise. But the main concern is the sharp rise in input and output prices due to labour shortages and rising cost of raw materials.

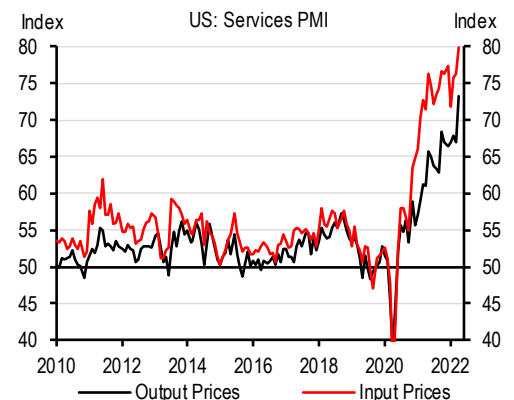
Globally, price pressures continue to build in the service sector, as a result of higher input costs. This includes underlying commodity prices and labour, and firms continue to pass these higher input prices onto their customers. In fact, output charges rose at a record pace in the survey history reflecting efforts to pass on near-record increase in input costs.

12. Increased supply chain disruptions resulted in new highs for prices



Source: S&P Global

13. Input and output prices have reached a new record in the US



Source: S&P Global

Summary

The April PMI data show a global economy facing many challenges. Weaker growth in mainland China is already here, but further supply chain disruptions could weigh on activity and push up costs in the coming months, adding to the headwinds from a cost of living squeeze, higher rates and choppy financial markets.

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