

Banking on services

Global PMI wrap up (May)

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Economics - Global

- ◆ The global PMI data remained resilient on the services front...
- ◆ ...but manufacturing data were subdued amid weaker goods demand
- ◆ Suppliers' delivery times keep improving, with input cost indices falling across the board

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The global PMI data continue to tell the same story. The manufacturing sector data remained subdued, but better service sector data meant that the global composite PMI rose in May to 54.4, the best reading for 18 months.

The good news came from the service sector, where the global PMI rose to 55.5 in May, from 55.4 in April. The sector is clearly growing quickly, supported by mainland China's reopening and a continued rotation into services spending in the West. In particular, services PMIs in the US, mainland China, India, and Japan rose 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 May, the same as seen in April and March. The weakness was most pronounced in Europe, where both output and new orders remain lacklustre. That said, there are a few economies that performed better; notably mainland China and India.

On the positive side, price pressures eased sharply in the manufacturing sector, while moderating a tad for services. Lower energy prices and further improvement in supply chains are resulting in lower input costs. As a result, output prices appear to be rising less quickly. However, service sector price pressures appear to be more intense due to stronger demand, and central banks will be looking for clearer signs of this moderating.

1. Snapshot of manufacturing and services PMIs

	Manufacturing PMIs			Services PMIs		
	Mar 23	Apr 23	May 23	Mar 23	Apr 23	May 23
World	49.6	49.6	49.6	54.4	55.4	55.5
US	49.2	50.2	48.4	52.6	53.6	54.9
Mainland China	50.0	49.5	50.9	57.8	56.4	57.1
Eurozone	47.3	45.8	44.8	55.0	56.2	55.1
Japan	49.2	49.5	50.6	55.0	55.4	55.9
UK	47.9	47.8	47.1	52.9	55.9	55.2
India	56.4	57.2	58.7	57.8	62.0	61.2
Brazil	47.0	44.3	47.1	51.8	54.5	54.1
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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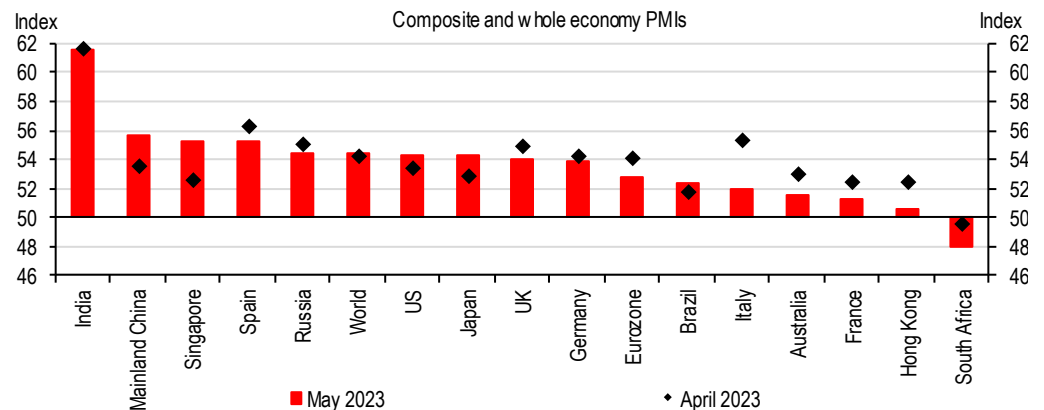
Divergent trends

- ◆ The global composite PMI hit an 18-month high in May
- ◆ The service sector remained robust, while manufacturing activity slowed further in May
- ◆ Both price indices and supply chain constraints eased further

Better than you'd think

At the peak of financial sector worries in March this year, no one would have believed that the global composite PMI would be hitting an 18-month high just a couple of months later. Yet, here we are. The global composite PMI rose to 54.4 in May, up from 54.2 in April. In particular, the upturn in activity was driven by the service sector. The overall improvement was despite the continued weakness in the global manufacturing sector.

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



Source: S&P Global, HSBC

Manufacturing PMIs: Just below the waterline

The global manufacturing PMI remained unchanged in May, printing 49.6 for the third consecutive month. While output rose for the fourth consecutive month as supply chain pressures eased further, new orders are still below 50. In fact, new export orders contracted further in May, implying subdued external demand in most economies. Looking ahead, business optimism for the year ahead fell to a five-month low, albeit it remains above 50.

Overall, the global manufacturing PMI has been below the 50 watermark level for the past nine months. That said, this is not a sharp contraction and most of the weakness has been driven by developed markets rather than emerging markets. The headline manufacturing PMI for EM economies, in fact, rose in May: up to 51.4 from 50.5 in April.

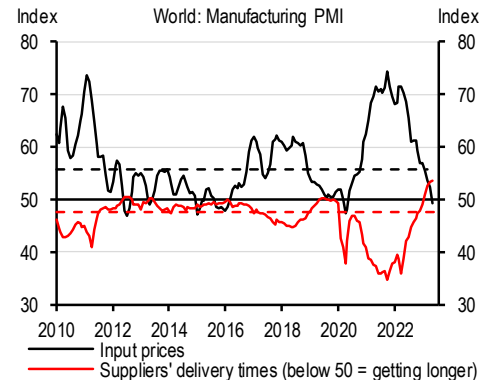
On the positive side, supply chain pressures eased further in May and the global input price index fell below 50 for the first time in three years. As a result, output prices also declined marginally for the first time since mid-2020.

3. The global manufacturing PMI seems to have stabilised but pointing to declines in activity...



Source: S&P Global, HSBC

4. ...but good news comes from suppliers' delivery times and input prices, which improved during the month

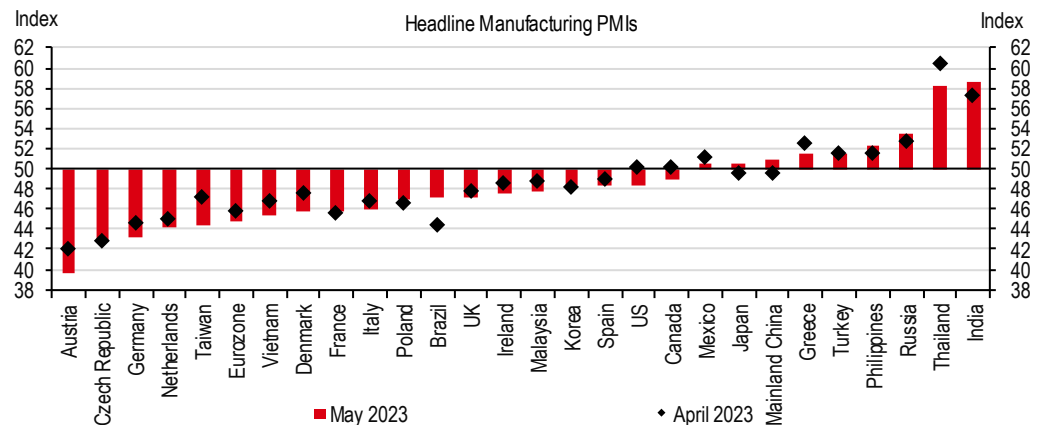


Source: S&P Global, HSBC. Note: Dotted line represents 2010-2019 average.

Geographically, manufacturing PMIs deteriorated further in the US and Europe. After a positive print in April, the US manufacturing sector saw a sharp fall in new orders. That said, output and employment continued to increase as firms expanded their capacity to fulfil existing backlogs. On the positive side, input prices fell sharply, by 10.5ppt in May, resulting in lower output prices as well. Likewise, the ISM manufacturing PMI also fell to 46.9, down from 47.1 in April. Of the six biggest manufacturing industries, only "Transportation Equipment" registered growth in May.

The picture looks similar in Europe. The eurozone PMI fell further, to 44.8, in May, down from 45.8 – the lowest in three years. This was led by a fall in production volumes and new orders as goods demand remains subdued. However, suppliers' delivery times continued to improve and amid falling energy costs, input prices fell further, giving some relief to manufacturers.

5. Manufacturing PMIs remain in contractionary territory for most economies



Source: S&P Global

Of the eight eurozone countries monitored by the survey, only Greece registered an expansion. And with the exception of France, the manufacturing sector deterioration worsened further in May. In the UK, the manufacturing sector continued to weaken, with output falling for the third month in a row. Although extra bank holidays played a role, demand remained lacklustre based on slowing new orders.

Moving further east, manufacturing activity held up better in mainland China, India, and Japan. The manufacturing PMI improved in mainland China to 50.9 as output expanded at the fastest rate in nearly a year. Panellists highlighted firm client demand resulting in new orders rising sharply in May. That said, business confidence slipped to a seven-month low in May amid lingering global economic uncertainty. However, the NBS manufacturing PMI, which reflects more domestic industries, deteriorated further in May.

On the other hand, India's manufacturing PMI sharply improved in May to 58.7, up from 57.2, pointing to the fastest growth since October 2020. Underlying demand remained strong, resulting in factory orders rising at the fastest pace since January 2021. This surge in sales paved the way for stronger increases in production, employment, and quantities of purchases.

The good news continued on the supply chain front. Globally, suppliers' delivery times improved further in May as supply chain bottlenecks continued easing. In fact, the suppliers' delivery index rose to the highest level since May 2009. Additionally, globally, the input price index fell below 50 – to 49.3 – the lowest reading since June 2020. In keeping with this, the output price index also fell sharply in May.

Services PMIs: Firing on all cylinders

The global service sector PMI recorded another month of expansion in May. It edged up to 55.5, from 55.4 in April. Services demand remained robust in most economies, with the eurozone the only area of any notable softness in May.

Here, we saw a slight moderation in the services PMI to 55.1, down from 56.2. Still, this remained well above the series' long-term average by a notable margin. May's reading showed resilient demand in the eurozone service sector, with new orders rising modestly for the fifth consecutive month. Notably, new export sales rose at the fastest pace since September 2014.

Within Europe, Germany saw an acceleration in its services PMI to 57.2, up from 56.0. Underlying data pointed to a broad-based increase in business activity, with new businesses rising for the fourth consecutive month. Meanwhile, services activity in France, Italy, and the UK rose at a slightly more moderate pace compared to April. In France, the new orders index declined by 2.1ppt as domestic demand declined. However, foreign demand remained more resilient. On the positive front, input cost inflation eased to a 20-month low, but firms were more aggressive in price setting, with output charges rising at the strongest pace since February.

Meanwhile, in the US, the services sector remained robust. The S&P Global PMI saw the fastest rise in business activity since April 2022, rising from 53.6 to 54.9. The ISM services was less buoyant, printing 50.3, down from 51.9, and showing a drop in employment and slowing new orders. There was some discussion of easing supply issues from firms in the comments and this may be reflected in the dropping price component of the survey.

Moving east, service activity in Asia remained robust. Mainland China saw another rise in its Caixin services PMI, by 0.7ppt to 57.1 in May. The upturn coincided with a steeper increase in total new orders and a sustained rise in new export business amid reports of stronger market conditions and increased customer turnout. While input prices moderated a touch, firms were able to increase output prices slightly due to stronger demand.

Meanwhile, in India, the service sector continued to grow strongly – with the headline PMI coming in at 61.2 in May, a touch lower than that in April. Output rose at the second quickest pace since July 2010, supported by increased new business. Additionally, monitored companies expanded their workforces to accommodate higher intakes of new work. However, the service economy also endured an intensification of inflationary pressures as evidenced by stronger increases in both input costs and output charges. See the coming pages for key charts on May PMI data.

Manufacturing PMIs

6. In the US, the headline PMI again went back below 50 after a rise in April



Source: S&P Global, HSBC

7. The ISM manufacturing PMI remained below 50



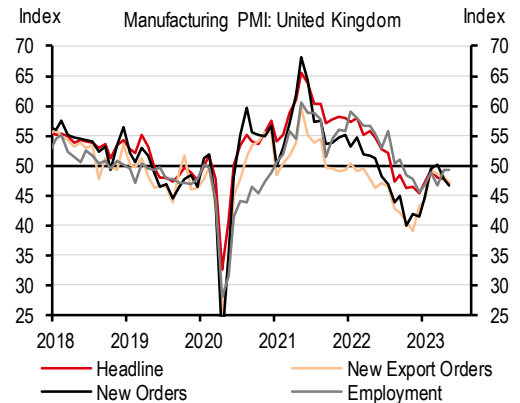
Source: S&P Global, HSBC

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



Source: S&P Global, HSBC

9. ...and the same story held in the UK



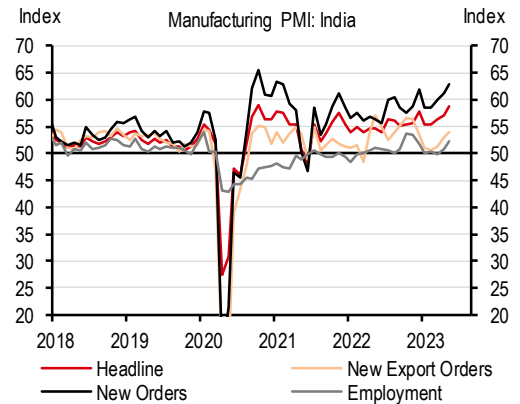
Source: S&P Global, HSBC

10. However, in mainland China, manufacturing activity picked up...



Source: S&P Global, HSBC

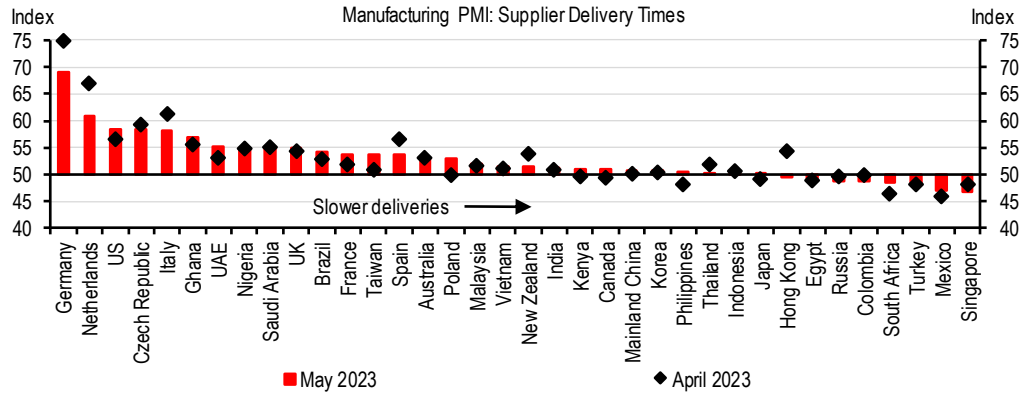
11. ...and in India, too, led by stronger domestic demand



Source: S&P Global, HSBC

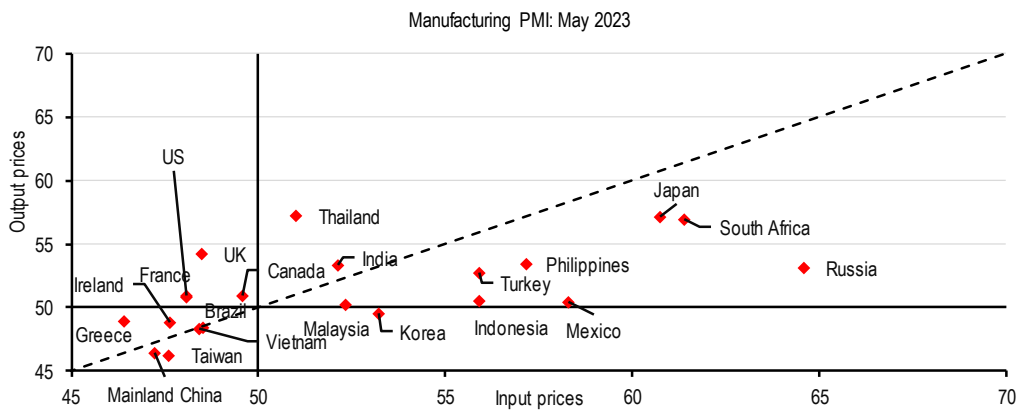
Other key trends in the manufacturing sector

12. Supplier delivery times widely improved



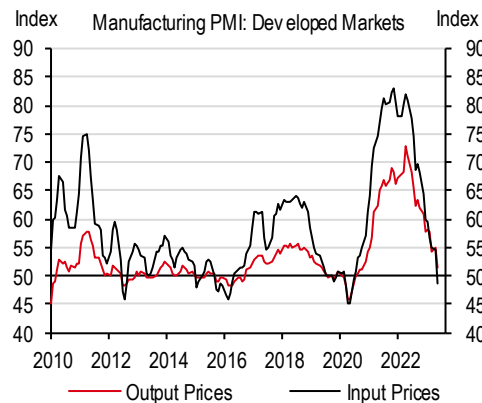
Source: S&P Global, HSBC

13. Both input and output prices eased in most economies



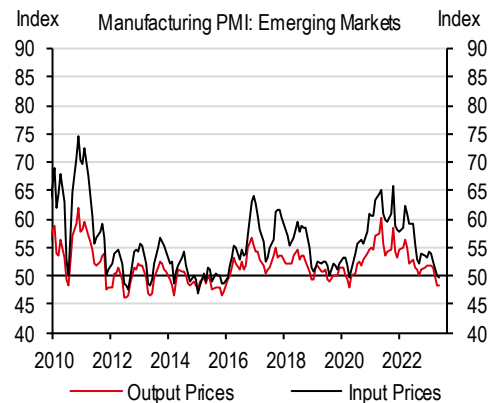
Source: S&P Global, HSBC

14. Input prices contracted in May for developed markets...



Source: S&P Global, HSBC

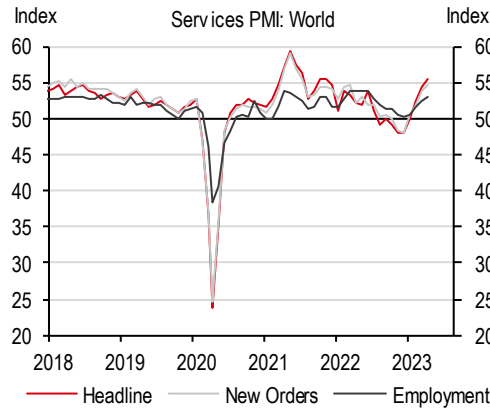
15. ...while both input and output prices came in below the watermark level for emerging markets



Source: S&P Global, HSBC

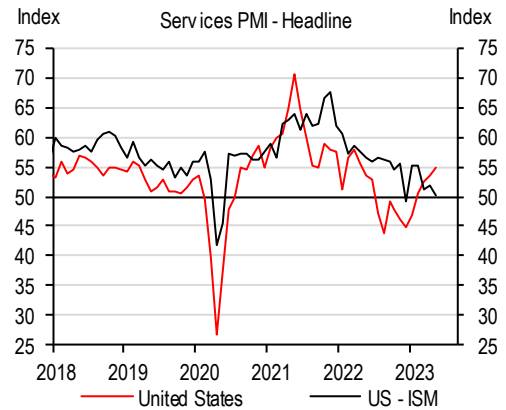
Services PMIs

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



Source: S&P Global, HSBC

17. In the US, the S&P Global and ISM series diverged



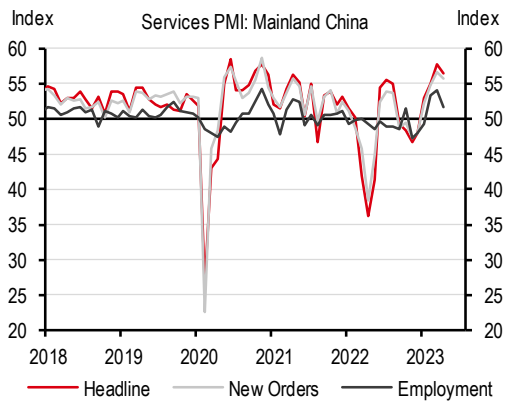
Source: S&P Global, Refinitiv Datastream, HSBC

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



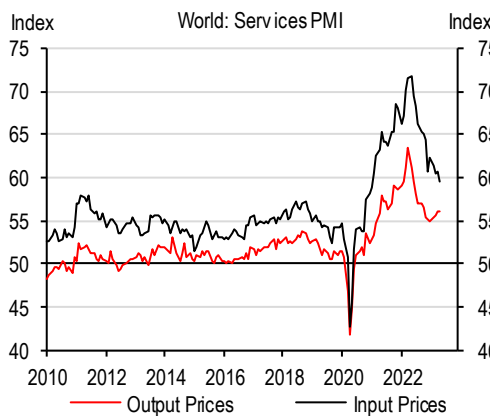
Source: S&P Global, HSBC

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



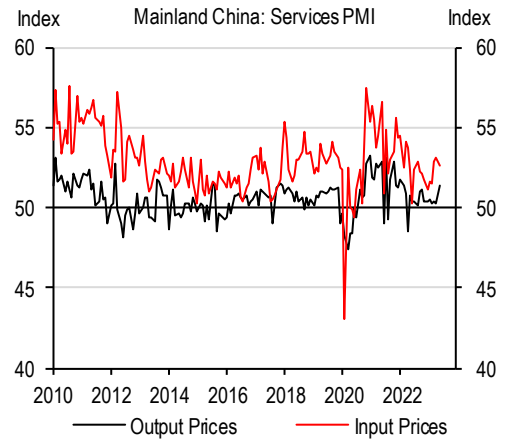
Source: S&P Global, HSBC

20. Service sector firms' input costs are coming down...



Source: S&P Global, HSBC

21. ... but in mainland China, firms were able to pass on higher costs to consumers



Source: S&P Global, HSBC

22. Detailed breakdown of manufacturing and services PMIs

	Manufacturing PMIs									Services PMIs		
	Headline			New Orders			Employment			Business Activity		
	Mar 23	Apr 23	May 23	Mar 23	Apr 23	May 23	Mar 23	Apr 23	May 23	Mar 23	Apr 23	May 23
US	49.2	50.2	48.4							52.6	53.6	54.9
Canada	48.6	50.2	49.0							-	-	-
Mainland China	50.0	49.5	50.9							57.8	56.4	57.1
Japan	49.2	49.5	50.6							55.0	55.4	55.9
India	56.4	57.2	58.7							57.8	62.0	61.2
Korea	47.6	48.1	48.4							-	-	-
Indonesia	51.9	52.7	50.3							-	-	-
Malaysia	48.8	48.8	47.8							-	-	-
Thailand	53.1	60.4	58.2							-	-	-
Philippines	52.5	51.4	52.2							-	-	-
Vietnam	47.7	46.7	45.3							-	-	-
Eurozone	47.3	45.8	44.8							55.0	56.2	55.1
Germany	44.7	44.5	43.2							53.7	56.0	57.2
France	47.3	45.6	45.7							53.9	54.6	52.5
Italy	51.1	46.8	45.9							55.7	57.6	54.0
Spain	51.3	49.0	48.4							59.4	57.9	56.7
UK	47.9	47.8	47.1							52.9	55.9	55.2
Poland	48.3	46.6	47.0							-	-	-
Russia	53.2	52.6	53.5							58.1	55.9	54.3
South Africa	48.1	49.8	49.2							-	-	-
Brazil	47.0	44.3	47.1							51.8	54.5	54.1
Mexico	51.0	51.1	50.5							-	-	-
Key	Below 50 and falling			Below 50 and rising			Above 50 and falling			Above 50 and rising		

Source: S&P Global, HSBC

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