HSBC Global Research

6 February 2024

Disappointment for doves

Global PMI wrap-up (January)

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Economics - Global

- The global composite PMI rose to 51.8 in January…
- …and with resilient activity, better employment data and supply chain risks emerging again…
- …the latest set of PMIs give central banks reason to be more cautious about the timing of rate cuts

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The global composite PMI rose to 51.8 in January, the best reading since June 2023. The manufacturing sector showed signs of stabilisation at the beginning of 2024 as new orders and output ticked up during the month with the global manufacturing PMI at 50.0 marking the first month without a contraction since August 2022. The global service sector remained more robust, too.

Geographically, Asian economies outperformed, led by India, while mainland China, Indonesia, and Korea maintained strength in their manufacturing activity. The US saw an uptick in both manufacturing and services PMIs, driven by rising demand. Europe, however, continued to be a drag with a tick lower in the eurozone service sector, but the UK saw another better set of data.

Looking ahead, mixed signals emerge. While the index for the future outlook rose in January, caution looks warranted due to potential supply chain disruptions. The Red Sea disruptions have resulted in increased freight costs and delivery times. Despite this, inventories remain at elevated levels with backlogs of work receding in major countries.

Although manufacturing input costs rose in January, they are still low. Given the supply chain disruptions, this could be an area to monitor in the coming months. Attention should also be paid to the employment data, which showed some signs of improvement in January. A combination of better demand, resilient hiring, and greater inflationary risks fits with the idea that central banks may opt to wait a little longer before making the "very important step" of lowering rates as Fed Chair Jerome Powell has put it.

1. Snapshot of manufacturing and services PMIs

	Manufacturing PMIs			Services PMIs		
	Nov 23	Dec 23	Jan 24	Nov 23	Dec 23	Jan 24
World	49.3	49.0	50.0	50.6	51.6	52.3
US	49.4	47.9	50.7	50.8	51.4	52.5
Mainland China	50.7	50.8	50.8	51.5	52.9	52.7
Eurozone	44.2	44.4	46.6	48.7	48.8	48.4
Japan	48.3	47.9	48.0	50.8	51.5	53.1
UK	47.2	46.2	47.0	50.9	53.4	54.3
India	56.0	54.9	56.5	56.9	59.0	61.8
Brazil	49.4	48.4	52.8	51.2	50.5	53.1
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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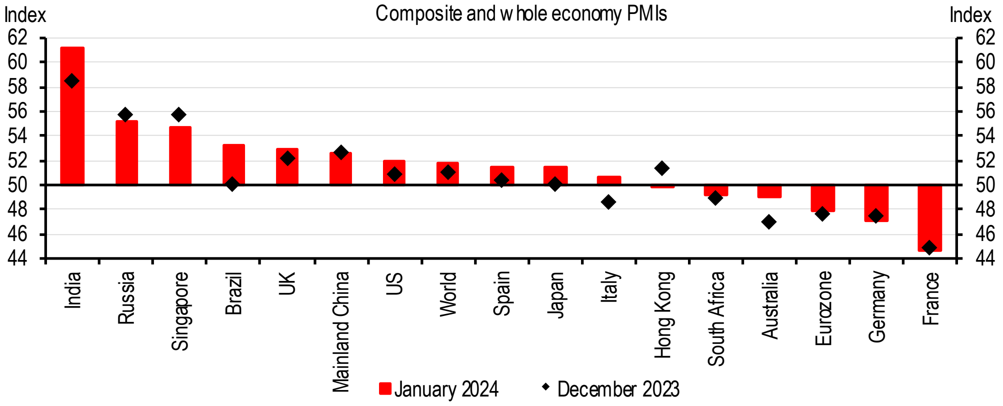
Disappointment for doves

- The global composite PMI rose again in January
- Manufacturing PMIs improved; services remained resilient
- Some signs of renewed supply chain risks in the PMI data

Navigating the uncertainties

The global composite PMI rose to 51.8 in January, and although the service sector continues to fare better than the manufacturing side of the economy, the latter's global PMI rose back to 50.0 after 16 straight months of suggesting a manufacturing contraction. Employment indices edged up, and supply chain metrics worsened on the back of disruptions in the Red Sea.

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



Source: S&P Global, HSBC.

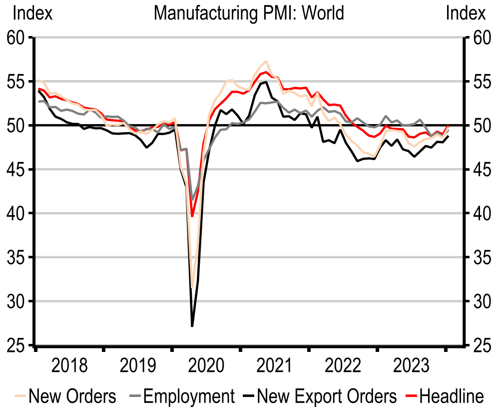
Manufacturing PMIs: from contraction to stability

The global manufacturing sector showed signs of stabilisation at the beginning of 2024 after 16 consecutive months of contraction. The global manufacturing PMI came in at 50.0 in January, up from 49.0. Even though the headline readings in many economies were supported by moves in the supplier delivery times index (which is inverted when calculating the headline series so that longer delivery times lift the headline reading), production volumes increased for the first time since May 2023, and new orders fell at the slowest pace in the past 19 months. Employment in the manufacturing sector also declined at the slowest pace in four months.

Backlogs of work decreased for another month, suggesting sufficient capacity, and the rise in output is likely supported by existing contracts. However, supply chain pressures due to disruptions from the Red Sea crisis led to lengthening of vendor lead times globally with notable increases seen in the US, eurozone, Japan, and the UK. As a result of these snags and the rise in freight costs, the manufacturing PMI input price index rose to the highest level in three months.

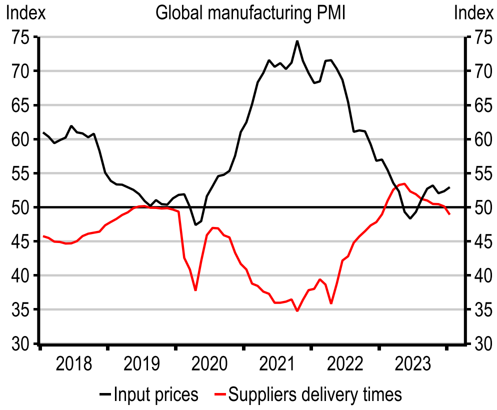
That said, determining if the manufacturing sector downturn is behind us is challenging at this juncture. Global demand conditions may be improving with the return to positive real wage growth and inventory levels are lower than a few quarters ago, but downside risks from supply chain pressures and inventory levels still being high enough may limit the speed of any continued improvements. Nonetheless, the forward-looking outlook improved with business confidence reaching its highest level since April of the previous year.

3. The global manufacturing PMI came in flat at 50.0 in January



Source: S&P Global, Macrobond.

4. But increased supply chain disruptions are visible, which may raise input costs

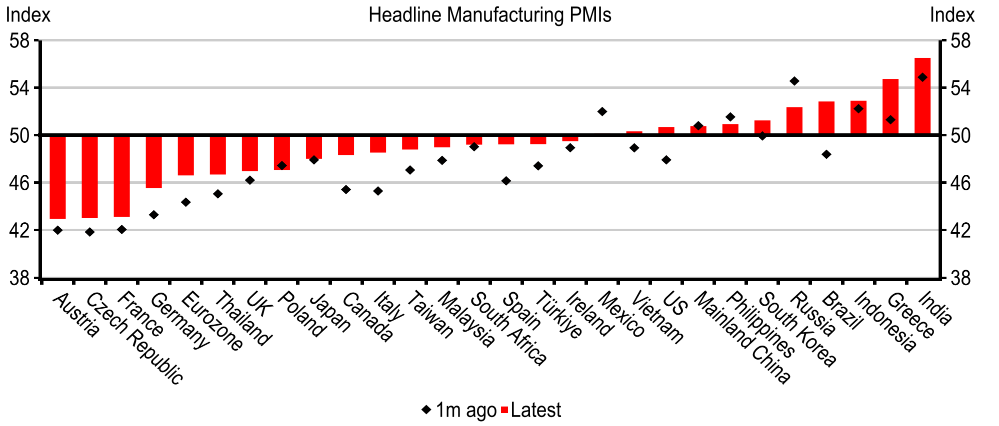


Source: S&P Global, Macrobond.

Geographically, while Europe remains a significant drag, things are looking brighter. The slump in the eurozone manufacturing sector eased in January with output and new orders declining at their slowest pace since April 2023. The headline manufacturing PMI in the eurozone ticked up by 2.4ppt to 46.6 in January while employment and purchasing activity also decreased at a moderate pace. The data also indicated substantial spare capacity as seen in another month of a sharp drop in backlogs of work. And despite supply chain disruptions, drawdowns of inventories continued.

The manufacturing sector in the UK exhibited a similar trend with the PMI falling at a slightly slower pace of 47.0 in January (from 46.0). Lower new orders stemming from subdued demand seems to be the main reason for the contraction. Disruptions in global trade due to the Red Sea route resulted in slightly higher input costs, but manufacturers maintained a positive outlook despite the current downturn and persistent weakness in demand with business optimism reaching a four-month high.

5. Manufacturing PMIs remain in contractionary territory in most economies



Source: S&P Global, Macrobond

The US manufacturing sector started 2024 on a positive note with the S&P manufacturing PMI rising to 50.7 from 47.9. This was attributed to successful marketing initiatives and strong domestic consumer demand. New orders rebounded significantly, rising by 5.5 points to 52.6. While the employment index rose marginally, ending the three-month streak of job losses, output continued to record a below 50 reading due to supply disruptions from severe storms and transportation delays. The higher cost of fuel resulted in increase in input costs in January – the sharpest pace seen since April 2023. Meanwhile, the ISM manufacturing PMI recorded another month of contraction, albeit at a slower pace, with only two of the six biggest manufacturing industries showing growth during the month.

Turning to emerging markets, India continued to lead the way with the January PMI rising to 56.5 from 54.9, supported by stronger domestic new orders and output. Firms increased their purchasing activity, remaining optimistic about year ahead outlook, which reached a 13-month high. The mainland Chinese manufacturing sector continued to expand at similar pace to in December with the PMI coming in at 50.8 in January, unchanged from a month before. This was supported by a rise in both new orders and output although spare capacity led firms to reduce staffing levels marginally. In other emerging markets, Brazil and Indonesia saw significant improvements in manufacturing conditions.

Services PMIs: Relatively resilient

The global services sector kicked off 2024 still in good form with the global services PMI rising to a six-month high of 52.3, up from 51.6 in December. Forward-looking indicators also picked up.

Asia continues to excel in this part of the economy with India performing exceptionally well. Indian service providers reported a sharp and accelerated expansion in business activity with the HSBC services PMI rising to 61.8 in January, up from 59.0. This was supported by a rise in new business, marking the quickest pace since July 2023. Some price pressures were noted in January with panellists citing higher costs in food, freight, and labour as the main contributors. Mainland China also experienced a solid expansion in the service sector albeit at a slightly slower pace. Nevertheless, firms increased hiring and maintained positive sentiment about future outlook.

The US services sector also fared better at the start of 2024 with S&P services PMI rising to 52.5, the best reading since June 2023. New business growth grew quickly, both domestically and from overseas, but S&P Global said that “in a bid to remain competitive, services providers raised output charges at the slowest pace in the current sequence of increase that began in June 2020, aided by slower growth of input costs”. This contrasted with the pricing signals in the ISM services, but the index did point to a faster pace of growth after the big downside surprise in December.

In contrast, Europe continued to underperform. The services PMI in the eurozone fell by 0.4ppt in January to 48.4. Weak demand conditions remain the major hindrance with new orders falling for the seventh consecutive month. However, demand for labour remains high with firms accelerating hiring activity during the month. Within the eurozone, Italy and Spain recorded expansions while Germany and France fell deeper into contractionary territory. On the other hand, the service sector in the UK exhibited its strongest performance since May 2023 with the PMI rising to 54.3 in January, up from 53.4. There was an increase in new orders and firms increased staffing levels.

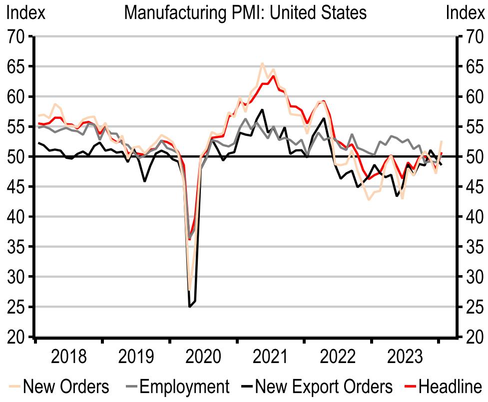
What does all this mean?

The uptick in the manufacturing PMI reading is a welcome development. It remains to be seen whether the improvement in recent months continues given the trade off in a few demand drivers. The service side of the economy remains resilient and so with a brighter demand picture and firms continuing to hire, there is scant evidence of a global downturn in the PMI data for now.

Despite these positive indicators, renewed concerns have arisen regarding supply chains due to disruptions in the Red Sea. This has resulted in increased freight costs and shipping timelines for some, putting upward pressure on input costs. While this was reflected in the input cost indices in January, it remains to be seen how permanent they are. In any event, upside risks to inflation coupled with some better news on the growth front mean central banks are likely to feel like they can wait a bit longer before opting to cut interest rates.

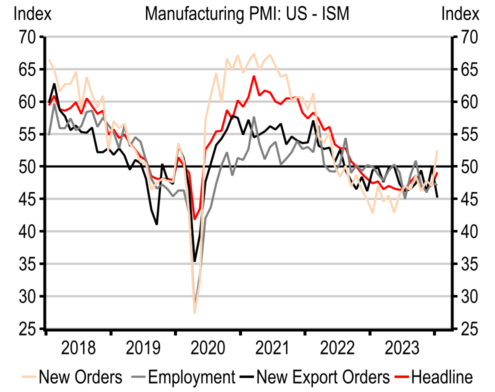
Manufacturing PMIs

6. In the US, manufacturing activity accelerated in January…



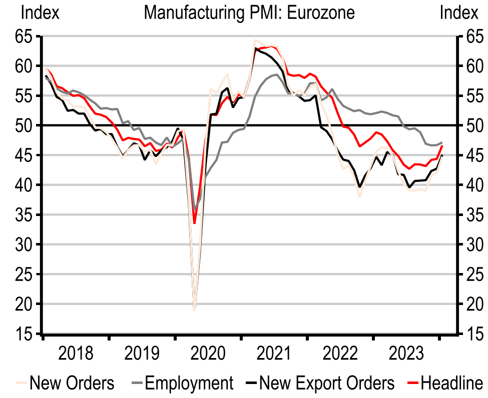
Source: S&P Global, HSBC, Macrobond

7. …while the ISM survey was a little softer



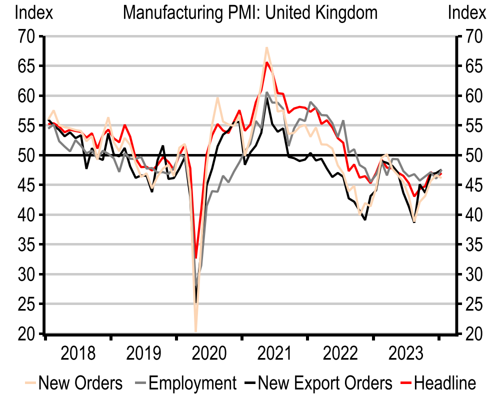
Source: S&P Global, HSBC, Macrobond

8. Manufacturing conditions remain weak in the eurozone, but the deterioration slowed…



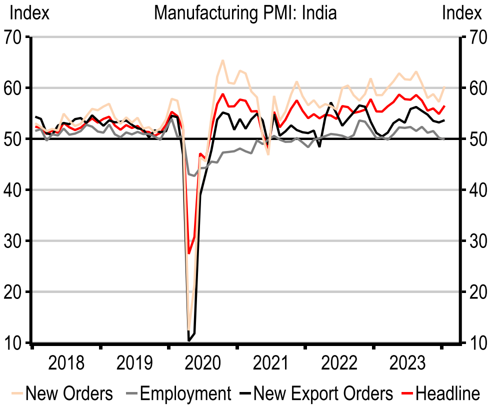
Source: S&P Global, HSBC, Macrobond

9. …and a similar story holds in the UK as well



Source: S&P Global, HSBC, Macrobond

10. Manufacturing conditions in India remain robust…



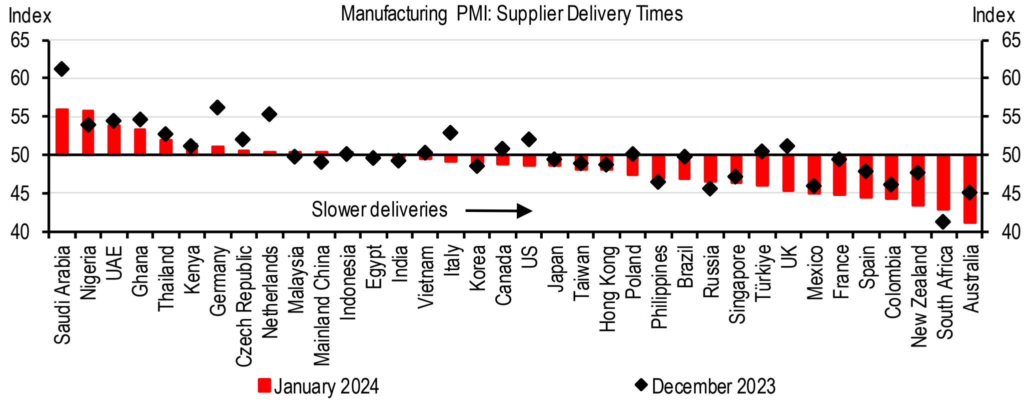
Source: S&P Global, HSBC, Macrobond

11. …while mainland Chinese manufacturing sector remains quite steady

Source: S&P Global, HSBC, Macrobond

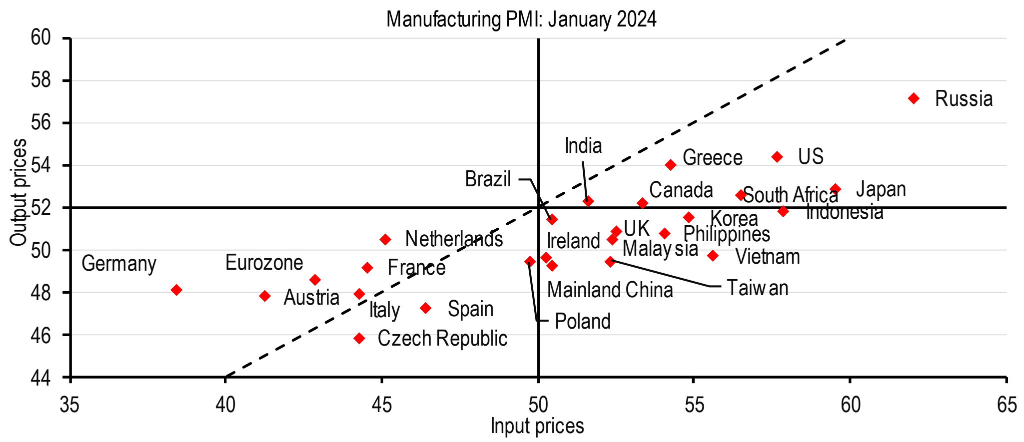
Other key trends in the manufacturing sector

12. Supplier delivery times suggest that supply chain issues might be resurfacing



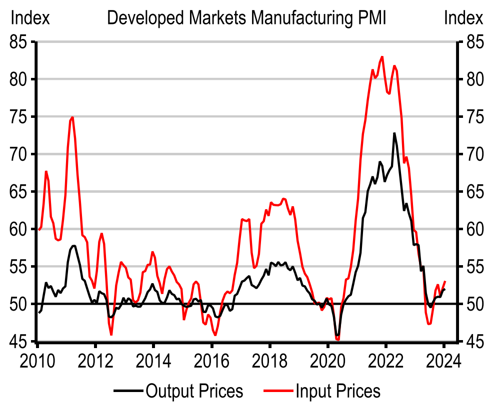
Source: S&P Global, Refinitiv Datastream

13. Input costs rose in some economies that were only partly translated into output charges



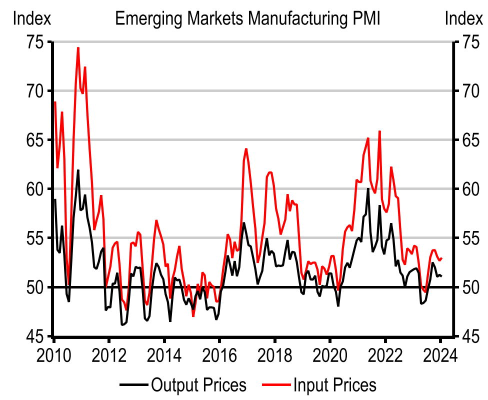
Source: S&P Global, HSBC

14. Input prices rose in developed markets…



Source: S&P Global, HSBC, Macrobond

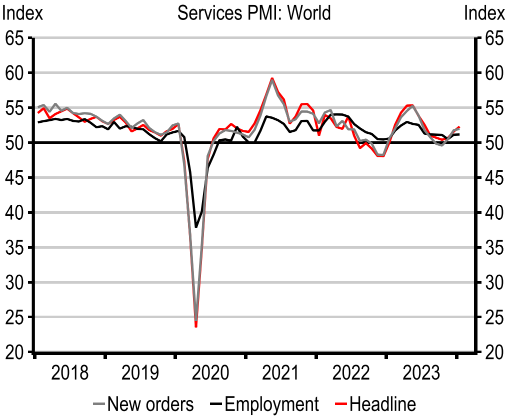
15. …and only marginally in emerging markets



Source: S&P Global, HSBC, Macrobond

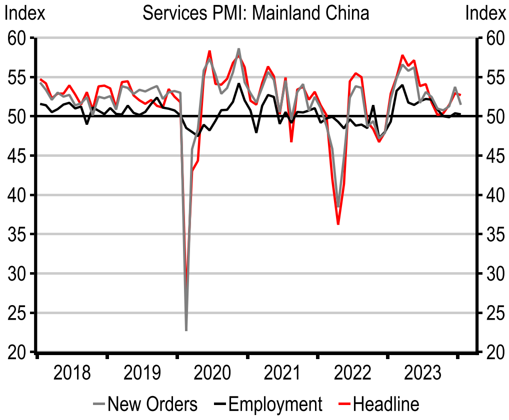
Services PMIs

16. Global services PMI picked up again in January…



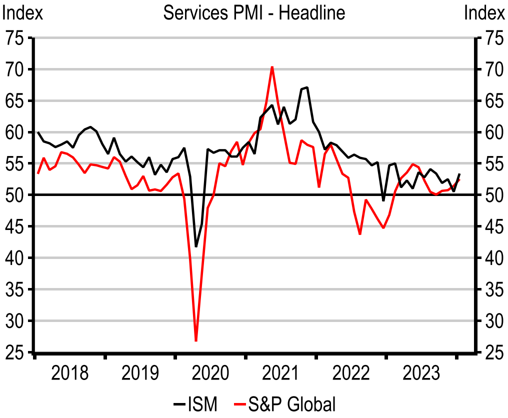
Source: S&P Global, HSBC, Macrobond

17. …with mainland China remaining robust



Source: S&P Global, HSBC, Macrobond

18. Services sector in the US performed better, supported by increased new orders…

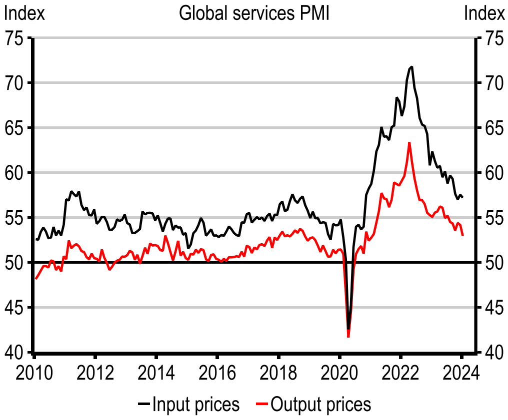


Source: S&P Global, HSBC, Macrobond

19. …but weakness is clearer in Europe

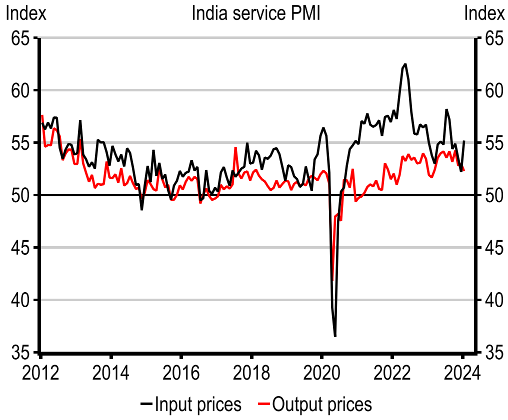
Source: S&P Global, HSBC, Macrobond

20. Inflationary pressures may be moderating in the service sector…



Source: S&P Global, HSBC, Macrobond

21. …with some stickiness in services prices in India



Source: S&P Global, HSBC, Macrobond

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