A contagious chill

Global PMI wrap up (Nov)

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Economics - Global

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- The global composite PMI fell deeper into contractionary territory in November…
- …as the slowdown in global manufacturing and services activity gained pace…
- …with the impact starting to be felt in the labour market

The downturn in global economic activity accelerated in November as the global composite PMI fell further into contractionary territory, to 48.0, down from 49.0 in October.

The manufacturing weakness shows no let up. The global composite index fell to 48.8, the weakest reading in 29 months, and the softness of demand has fed into firms' optimism and is now starting to weigh on employment – with only a handful of economies not seeing a contraction in output within the PMI data.

The global services sector is not immune, either. The global composite index fell to 48.1, also a 29-month low, dragged down by another very weak reading from the S&P Global US services PMI. The ISM Services index told a different picture, with another solid print, further clouding the picture over the health of the US service sector. Nonetheless, weaker services data in the eurozone and mainland China are also a concern.

Fortunately, supply chain and price pressures eased further, but there are signs that the labour market is starting to soften: manufacturing employment contracted and service sector providers slowed the pace of hiring.

1. Snapshot of manufacturing and services PMIs

	Manufacturing PMIs			Services PMIs		
	Sep 22	Oct 22	Nov 22	Sep 22	Oct 22	Nov 22
World	49.8	49.4	48.8	50.0	49.2	48.1
US	52.0	50.4	47.7	49.3	47.8	46.2
Mainland China	48.1	49.2	49.4	49.3	48.4	46.7
Eurozone	48.4	46.4	47.1	48.8	48.6	48.5
Japan	50.8	50.7	49.0	52.2	53.2	50.3
UK	48.4	46.2	46.5	50.0	48.8	48.8
India	55.1	55.3	55.7	54.3	55.1	56.4
Brazil	51.1	50.8	44.3	51.9	54.0	51.6
Heatmap Key	Below 50 and rising			Above 50 and rising		
	Below 50 and falling			Above 50 and falling		

Source: S&P Global, HSBC. Note: Services data for mainland China is due to be released on 08 October 2022.

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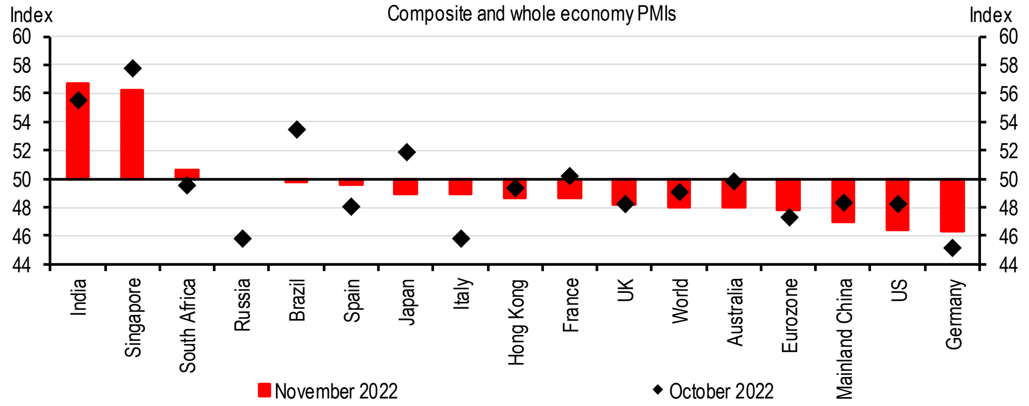
Rippling repercussions

- Latest PMIs suggest the downturn in global economic activity accelerated in November…
- …as the global manufacturing and services PMIs dropped deeper below-50…
- …leading to a contraction in employment in the manufacturing sector and a slower rate of hiring by service providers

More doom and gloom

Based on the PMIs, global economic activity deteriorated further in November: the global composite PMI dropped to 48.0 (from 49.0 in October), with weakening demand the driving force. Much of the developed world reported a continued slowdown, while less of a consistent story is clear among emerging markets. Fortunately, supply chain issues and price pressures eased further, but weakness spread to the labour market.

2. There is still some divergence across the world



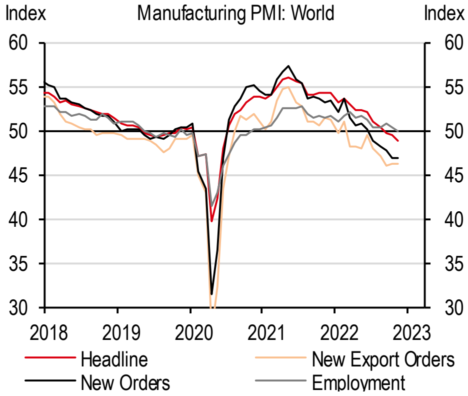
Source: S&P Global, HSBC

Manufacturing PMIs: The slowdown gains pace

The speed of the slowdown in global manufacturing activity picked up again in November. The global manufacturing PMI sunk deeper into contraction, to 48.8 in November, from 49.4 in October, marking its third consecutive sub-50 reading. Once again, reports on the demand-side of economy were bleak: domestic and foreign demand weakened further, leading to output declining at a faster rate than in October. Fortunately, manufacturing input and output prices continued to ease, but nevertheless remain elevated and a lingering burden for firms. Although finished goods inventory levels were boosted by weaker demand, input inventories ticked down as firms cut back purchasing for the first time in 20 months amid raised cost pressures.

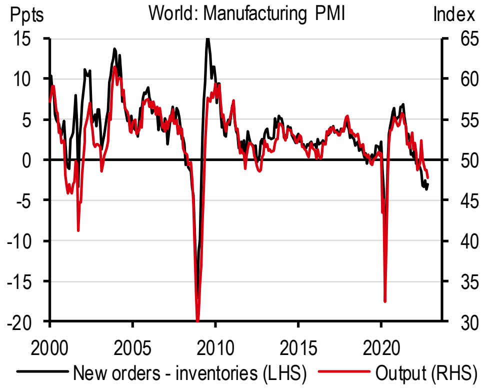
Notably, the implications of the downturn became more broad-based. Employment had so far been resilient, but the global sub index dipped below-50 in November, signalling a decline in manufacturing hiring activity. Subdued business optimism about future output likely played a part: softening demand, along with rising stocks and reduced backlogs, can suggest future production cuts in the coming months may be likely.

3. The global manufacturing PMI fell further below-50 in November…



Source: S&P Global, HSBC

4. …and firms cut back hiring amid a gloomy production outlook



Source: S&P Global, HSBC

The downturn pressed on in much of the developed world, but the pace of the contraction slowed in the eurozone and UK. In the US, manufacturing activity contracted for the first time since June 2020, driven by steep falls in output and new orders. The S&P Global series mirrored the US ISM manufacturing, with fell below 50 to the lowest level since May 2020. Some bright spots of strength in parts of Asia and LatAm still remain: the manufacturing sectors in India, Indonesia, Mexico, Thailand, and the Philippines recorded growth in November. However, in Brazil, the manufacturing PMI fell sharply from 50.8 in October to 44.3 in November with the release highlighting new work intakes suffered amid public policy uncertainty. Japan's manufacturing sector had also been faring better until now: its manufacturing PMI reported a fresh contraction in November, falling from 50.7 to 49.0.

Turning to mainland China, COVID-19 restrictions continue to weigh on manufacturing activity. As indicated by the Caixin manufacturing PMI, manufacturing conditions remained contractionary in November, but ticked up a touch from 49.2 in October to 49.4 in November, pointing to a modestly slower slowdown.

Services PMIs: A similar softening story

The global services PMI fell to 48.1 in November, from 49.2 in October, signalling a faster slowdown in global services activity. Unlike the manufacturing sector, services providers continued to expand employment, but at a slower rate.

In the developed world, the story is little changed: at the forefront of the downturn, weak demand amid cost of living pressures continues to weigh on new orders. In the eurozone, the services PMI dropped a touch from 48.6 in October to 48.5 in November, while in the UK the services PMI remained at 48.8. Turning to the US, the S&P Global services PMI dropped deeper below 50, to 46.2 in November from 47.8 in October, with a further fall in output. However, once again there was a divergence with the ISM services print, which rose to 56.5 in November from 54.4 in October, suggesting that the sector is still growing quickly.

As with manufacturing activity, the service sectors of some economies in Asia and LatAm are prospering, with India in particular remaining a standout. Its services PMI rose further, from 55.1 in October to 56.4 in November supported by an expansion in new business inflows: domestic new orders edged up further and new exports orders increased. Japan's services sector, too, reported growth in November as improved post-pandemic conditions and the National Travel Discount programme continue to boost activity. However, momentum faded somewhat, with its services PMI falling to 50.3, down from 53.2 in October. Likewise, in Brazil, service sector activity picked up for another month, but at a slower pace. This saw its services PMI fall from 54.0 in October to 51.6 in November.

As with manufacturing activity, mainland China's service sector remains constrained by COVID-19 containment measures. The Caixin services PMI dropped to 46.7 in November, from 48.4 in October and looking ahead, Chinese service providers appeared less confident about future output.

Manufacturing PMIs

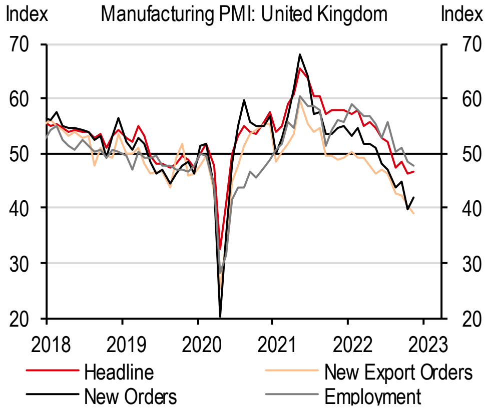
5. US manufacturing activity contracted for the first time since June 2020 in November…

Source: S&P Global, HSBC

6. …and the downturn persisted in the eurozone, albeit at a slower pace…

Source: S&P Global, HSBC

7. …as in the UK, with new orders and output remaining weak

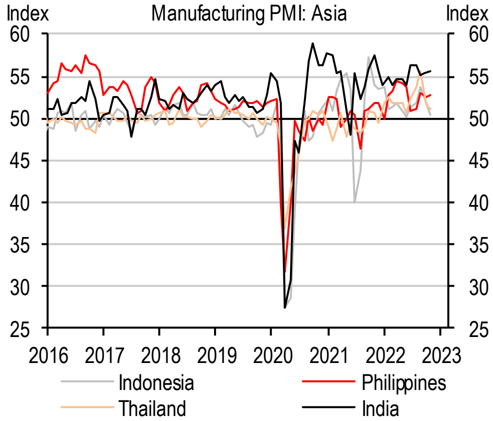


Source: S&P Global, HSBC

8. In mainland China, COVID-19 restrictions continue to weigh on output

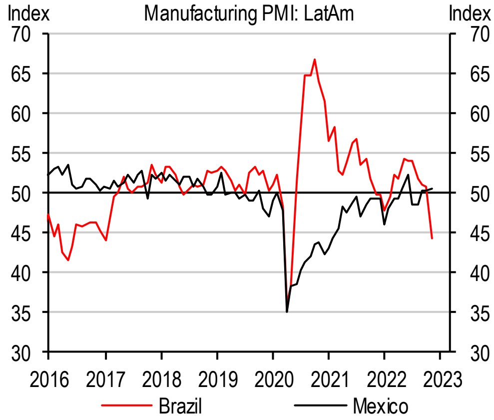
Source: S&P Global, HSBC

9. The manufacturing sectors of some Asian economies grew further in November…



Source: S&P Global, HSBC

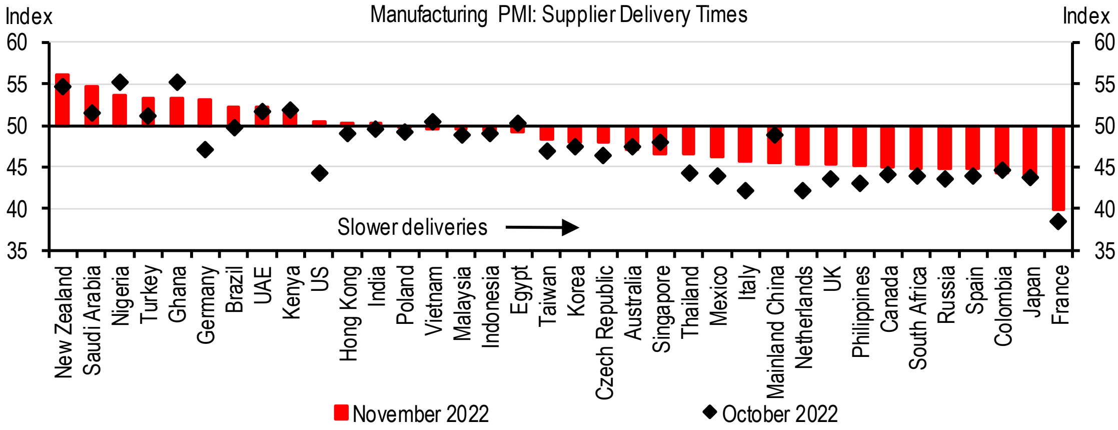
10. …as in Mexico, while Brazil manufacturers reported a sharp deterioration



Source: S&P Global, HSBC

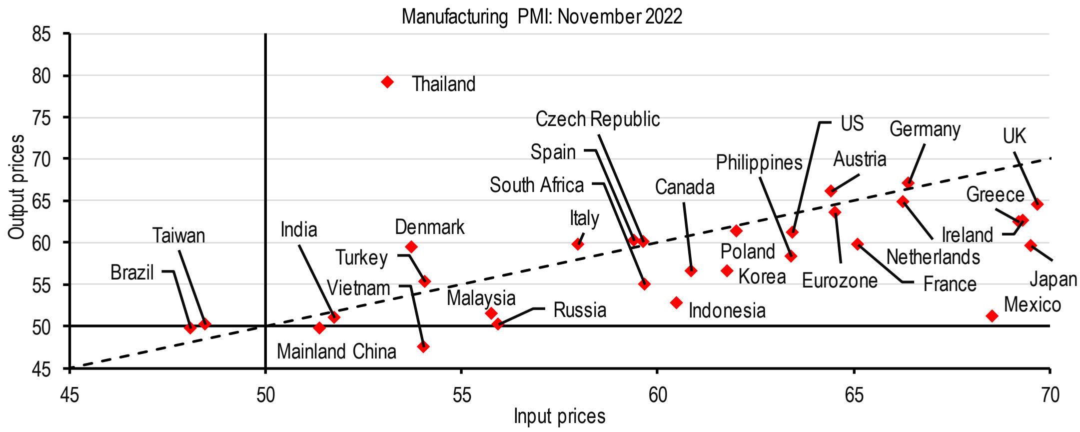
Other key trends in the manufacturing sector

11. Supplier delivery times continue to improve



Source: S&P Global, HSBC

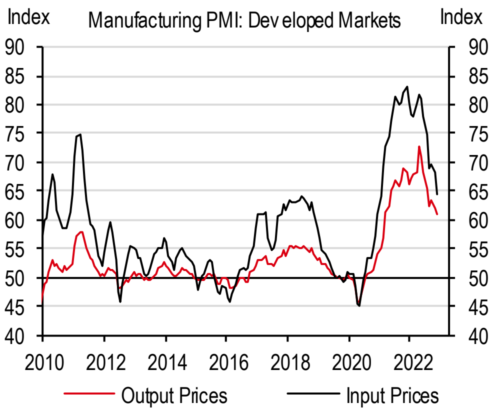
12. Price pressures remain at high levels…



Source: S&P Global, HSBC

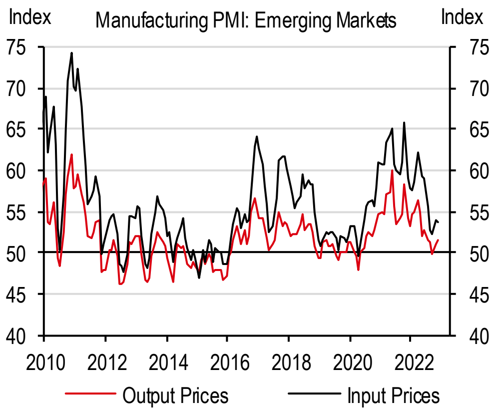
Source: S&P Global

13. …but eased further among developed markets…



Source: S&P Global, HSBC

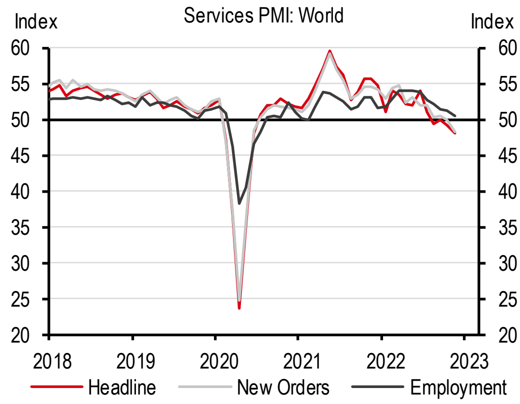
14. …while in emerging markets, despite input prices dipping, output prices ticked up



Source: S&P Global, HSBC

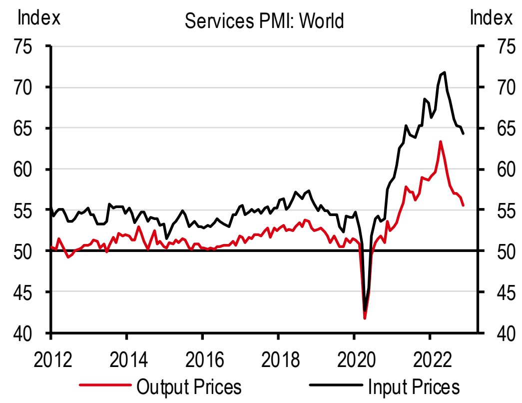
Services PMIs

15. The slowdown in global services activity continued into November…



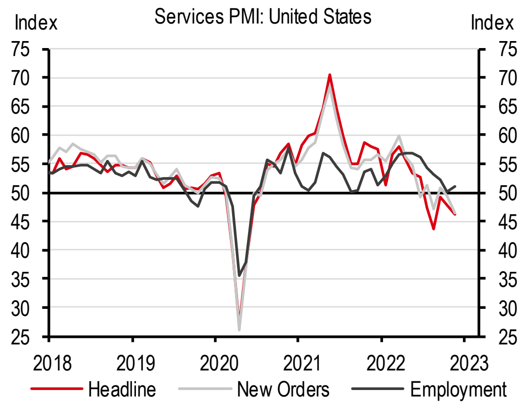
Source: S&P Global, HSBC

16. …but in better news, prices pressures eased further



Source: S&P Global, HSBC

17. In the US, service activity deteriorated at a quicker rate in November…

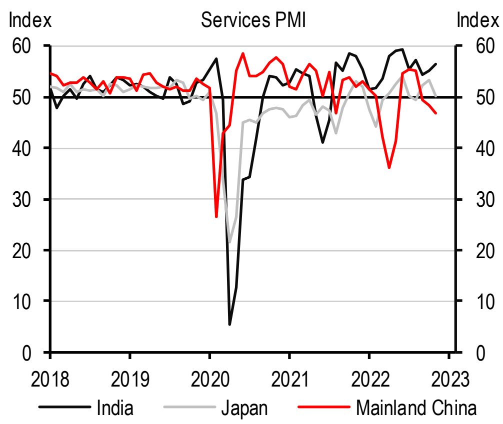


Source: S&P Global, HSBC

18. …as in the eurozone, which marked a fourth-consecutive month in contractionary territory

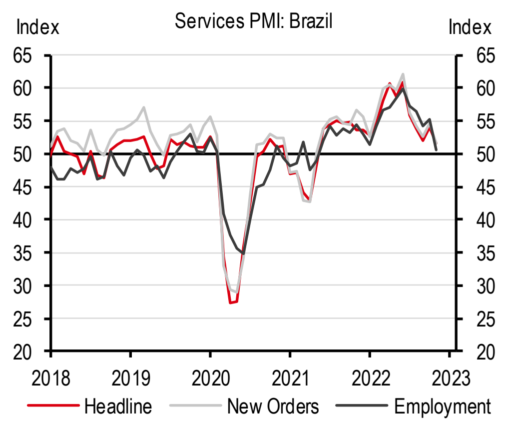
Source: S&P Global, HSBC

19. India stands as a service sector outperformer in Asia, while momentum is fading in Japan and activity contracted further in mainland China



Source: S&P Global, HSBC

20. Brazil's service sector continued to grow in November, but notably at a slower pace



Source: S&P Global, HSBC

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