

The start of a slowdown

Global PMI wrap-up (July)

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- ◆ The global composite PMI fell to 51.7 in July ...
- ◆ ... with weakness in both manufacturing and services, as higher rates are finally impacting demand
- ◆ The good news is that input costs are easing

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The global composite PMI fell to 51.7 in July, down from 52.7 in June. While this still points to growth, there are early signs of cooling momentum. The slowdown is more pronounced in the manufacturing sector – with PMIs contracting in most economies, more clearly in Europe and the US than in Asia. Service sector activity remains buoyant – helped by Asia, particularly India and mainland China.

Geographically, Asia seems to be doing relatively well – with India and Indonesia as notable standouts – while mainland China saw a fall in manufacturing activity, but an improvement in services. On the other hand, Europe’s PMIs were weak in July, with manufacturing activity contracting sharply, notably in Germany. Likewise, services growth in France, Germany and the UK moderated significantly. US data were also weak.

On the bright side, price pressures eased further in the manufacturing sector, while they continue to grind lower in the service sector. Headline inflation seems to be finally coming down with latest inflation prints from the US and the UK coming below market expectations. That said, there is a slight risk stemming from higher food prices due to adverse weather events and the end of the Black Sea Grain initiative.

Dropping inflationary pressures will no doubt be welcomed by policymakers. However, a tight labour market has led to higher policy rates, particularly in the developed world. And this has resulted in a squeeze in real income impacting consumer demand.

1. Snapshot of manufacturing and services PMIs

	Manufacturing PMIs			Services PMIs		
	May 23	Jun 23	Jul 23	May 23	Jun 23	Jul 23
World	49.5	48.7	48.7	55.5	53.9	52.7
US	48.4	46.3	49.0	54.9	54.4	52.3
Mainland China	50.9	50.5	49.2	57.1	53.9	54.1
Eurozone	44.8	43.4	42.7	55.1	52.0	50.9
Japan	50.6	49.8	49.6	55.9	54.0	53.8
UK	47.1	46.5	45.3	55.2	53.7	51.5
India	58.7	57.8	57.7	61.2	58.5	62.3
Brazil	47.1	46.6	47.8	54.1	53.3	50.2
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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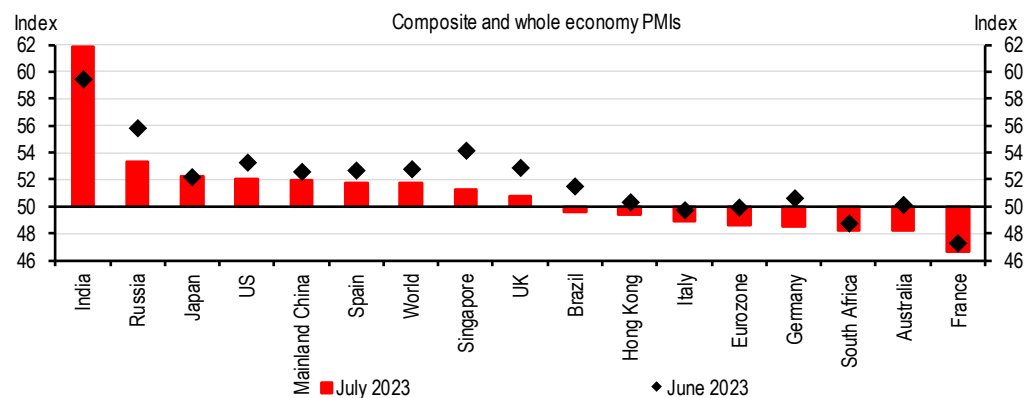
Feeling the brunt of tightening

- ◆ The global composite PMI fell by 1.0ppt in July, to 51.7
- ◆ The service sector slowed, though it remains more robust than manufacturing activity, which was still subdued in July
- ◆ Both price indices and supply chain constraints eased further

Early signs of a slowdown

The global composite PMI fell to 51.7 in July, down from 52.7. That said, it remains above the 50 watermark level supported by the service sector data which are faring better despite some cooling. Meanwhile, manufacturing sector remains bleak amid subdued demand.

2. Composite PMIs edged down in most economies



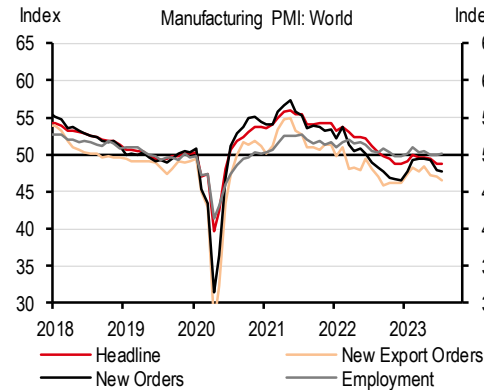
Source: S&P Global, HSBC

Manufacturing PMIs: Downturn continues

The global manufacturing PMI remained in contractionary territory at the beginning of Q3. It recorded a reading of 48.7 in July, the same as in the previous month. The downturn was driven by lower output levels and weaker new orders. The latter contracted at the fastest pace in six months. Data broken down by sector also showed a broad-based slowdown. Output and new orders contracted across the consumer, intermediate and investment goods industries. All three sub-industries also saw marked reductions in new export business.

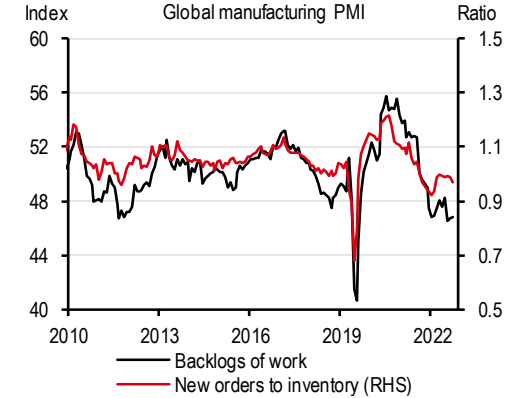
Even the forward-looking indicators for manufacturing PMI look bleak. Backlogs of work declined for another month, while the new orders-to-inventory ratio remains below 1, signalling contraction. That said, optimism about future output improved slightly in July. On the positive side, manufacturing employment improved in July, after remaining unchanged in the prior two months. Meanwhile, both input and output prices were still in contractionary territory, although they fell at a slightly slower pace. And suppliers' delivery times continue to improve further.

3. The global manufacturing PMI remained in contractionary territory in July



Note: Due to later-than-usual release dates, July data for Myanmar and Thailand were not available for inclusion in the global numbers
Source: S&P Global, HSBC

4. Backlogs of work fell in July and new orders to inventory signalled contraction



Note: Dotted line represents 2010-2019 average

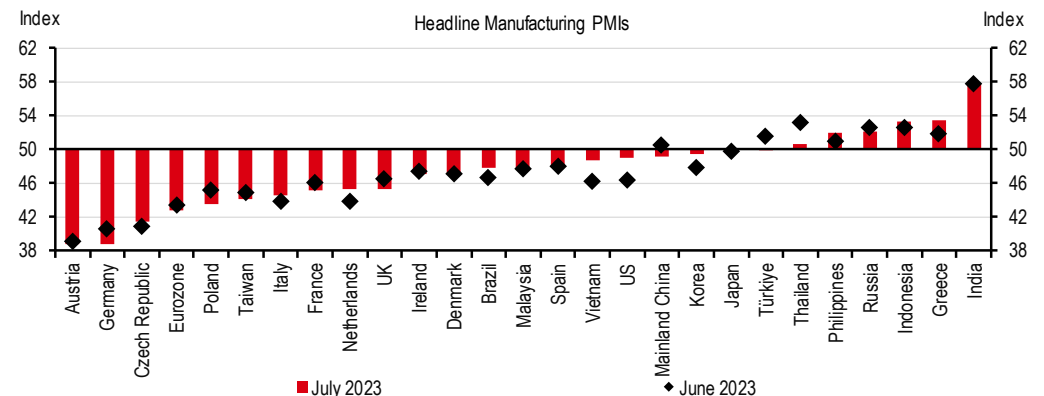
Source: S&P Global, HSBC

Geographically, manufacturing PMIs are faring the worst in the eurozone, where production contracted at the fastest rate since the height of the global pandemic in spring 2020. Headline PMI fell to 42.7 in July, down from 43.5. New orders, employment and purchasing activity all declined at a faster pace in July than in June. Germany and Austria showed the most weakness. A similar trend was observed in the UK as well, with headline PMI falling to 45.3 in July, down from 46.5. Weaker global conditions led to sharp fall in new orders and output.

Meanwhile, the decline in the US manufacturing sector softened in July, with headline PMI coming in at 49.0, up from 46.3. While the downturn stemmed from another monthly contraction in new orders as domestic and external demand conditions remained muted, we saw an uptick in output. That said, the decline in new orders softened to the slowest pace in the last three months. To this end, panellists commented that the challenging economic conditions across key export markets, especially in Europe, were the primary reason. Even ISM manufacturing fell at a moderate pace in July, registering a reading of 46.4, 0.4ppt higher than in June.

Finally, Asia, in particular mainland China, has started to show signs of a slowdown. Firms registered a marginal drop in production as new businesses declined. Headline PMI fell to 49.2 in July, down from 50.5. Panellists commented that muted foreign demand was a key factor weighing on total sales.

5. Manufacturing PMIs remain in contractionary territory in most economies



Source: S&P Global. Note: Data for Denmark is for June and May

That said, India and Indonesia continue to be the bright spots for Asia. While manufacturing PMI moderated slightly in India, it remains well above the 50 watermark level. The latest readings

came in at 57.7, down from 57.8 in June. Rates of expansion in output and new orders were only marginally softer than in June, with firms expanding their employment and purchasing activity accordingly. Meanwhile, Indonesia's manufacturing sector expanded further in July to 53.3, up from 52.5. This was led by an increase in new orders – both domestic and international. As a result, firms increased their production and employment.

Services PMIs: Lifted by Asia

The global service sector remained more resilient than the manufacturing sector. However, the slowdown has already set in, with July marking the second month of moderation. The global services PMI fell to 52.7, down from 53.9. Nevertheless, it remains well above the watermark level. This has been supported primarily by the resilient service sector in Asia – in particular, India and mainland China.

The services PMI in India rose to a record level of 62.3 in July, up from 58.5, supported by a sharp rise in output and new orders. Demand for Indian services improved to the greatest extent in over 13 years during July, with around 29% of the survey respondents reporting a higher intake of new business. And this was boosted by a pick-up in international sales, with record-high new export orders coming from Bangladesh, Nepal, Sri Lanka and the UAE. That said, input costs rose at the fastest pace in 13 months as food, labour and transportation costs remain at an elevated level.

The service sector in mainland China also had a strong start to the third quarter 2023 with services PMI rising by 0.2ppt to 54.1 in July. This was supported by a rise in new business. As a result, firms increased the number of employees. However, services companies were slightly less optimistic when assessing the 12-month outlook for business activity, with overall confidence slipping to the lowest level since last November. Turning to prices data, companies signalled softer rises in both input costs and output charges.

Meanwhile, both Europe and the US saw a slowdown in services PMI, although the headline remains above 50 for most of the countries. Eurozone PMI fell by 1.1ppt to 50.9 in July as new businesses contracted for the first time since the end of last year. While France's service sector fell below 50, Germany's service sector growth moderated. Lower client demand was cited as a key factor behind falling activity levels by survey respondents.

Even in the UK and the US, we saw a sharp slowdown in services. It seems like higher interest rates in the developed world is finally putting pressure on real income, thereby slowing consumer demand. In the US, services PMI fell by 2.1ppt to 52.3 in July as new orders rose at a softer pace. Nonetheless, new export businesses rose at a sharper pace, supporting a sustained upturn in total new sales. Meanwhile, cost pressures softened, but firms hiked output charges at a faster pace.

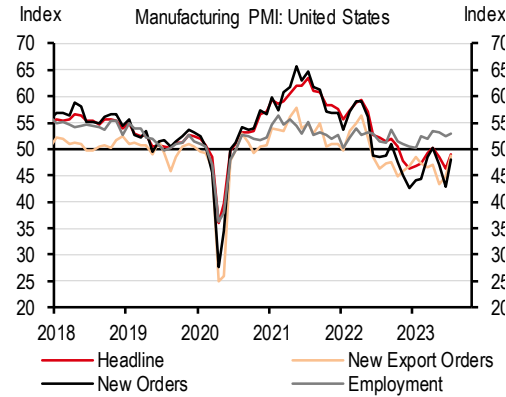
Prices: Moderating, but gradually

There has been good news on the price front for the last few months with both input and output prices moderating. The price moderation has been more pronounced in the manufacturing sector than in the service sector. However, input and output prices in the manufacturing sector fell at a slightly moderate pace in July. This is most likely due to an increase in commodity costs, especially food prices due to the end of the Black Sea Grain initiative and record-high temperatures destroying crops.

On the other hand, costs in the service sector rose at a moderate pace almost everywhere. India and the UK were the only exceptions where input costs rose at a faster pace. While, output charges eased a bit in the UK, they rose in India and the US.

Manufacturing PMIs

6. In the US, the headline PMI fell at a slower pace in July



Source: S&P Global, HSBC

7. The ISM manufacturing PMI also remains below 50



Source: S&P Global, HSBC

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



Source: S&P Global, HSBC

9. ...with Germany as one of the countries with highest deterioration



Source: S&P Global, HSBC

10. The manufacturing sector in mainland China also fell below 50 in July



Source: S&P Global, HSBC

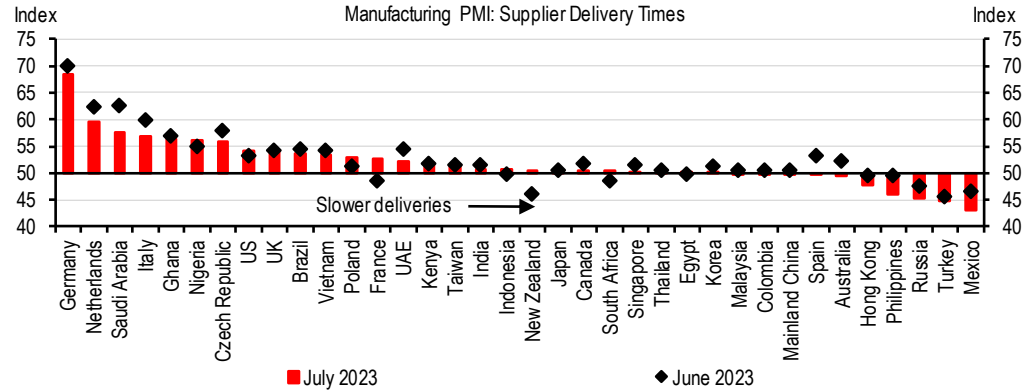
11. However, India continues to show resilience



Source: S&P Global, HSBC

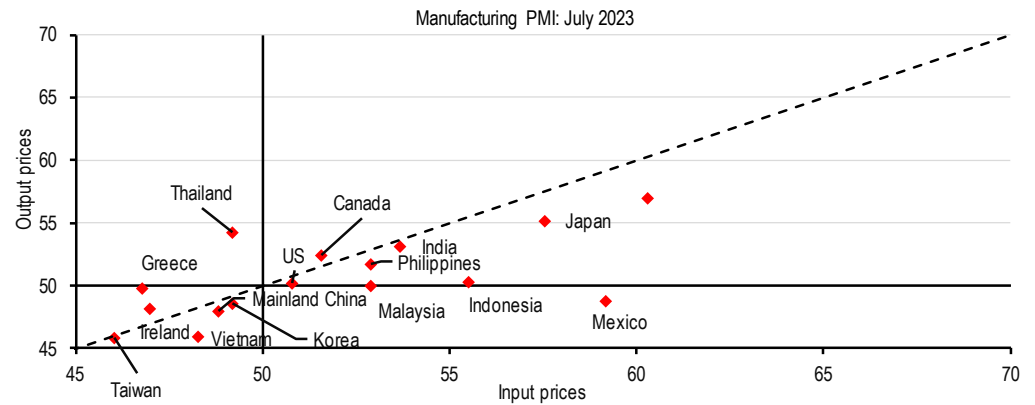
Other key trends in the manufacturing sector

12. Supplier delivery times remains above 50 in most economies and ceases to be a concern



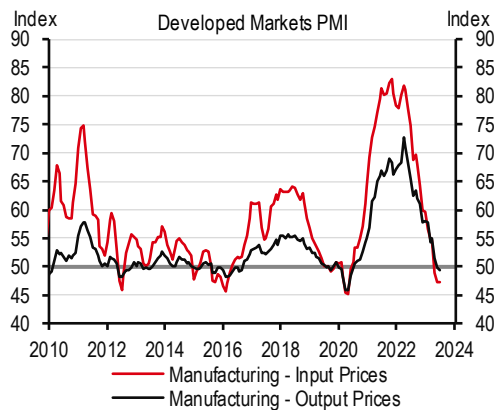
Source: S&P Global, HSBC

13. Both input and output prices have eased in most economies



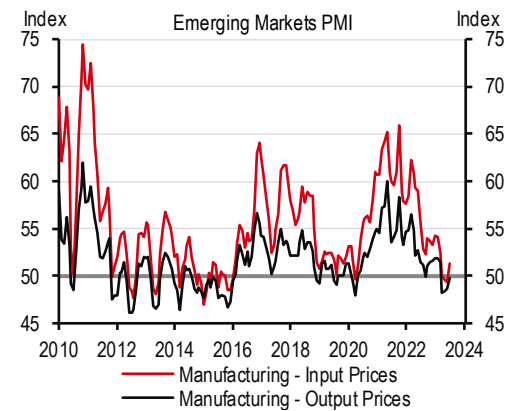
Source: S&P Global, HSBC

14. Both input and output prices remained below 50 in July for developed markets...



Source: S&P Global, HSBC

15. ...but input prices rose a tad in emerging markets



Source: S&P Global, HSBC

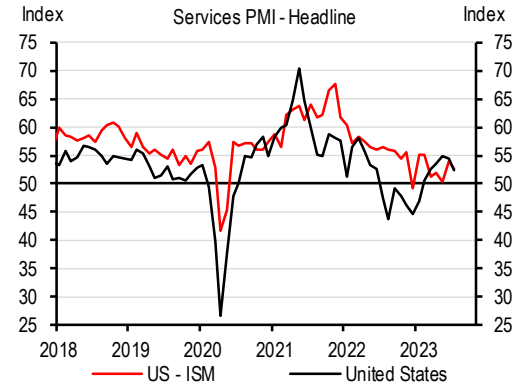
Services PMIs

16. The global services PMI dropped in July ...



Source: S&P Global, HSBC

17. ... with the US, the S&P Global and ISM moderating



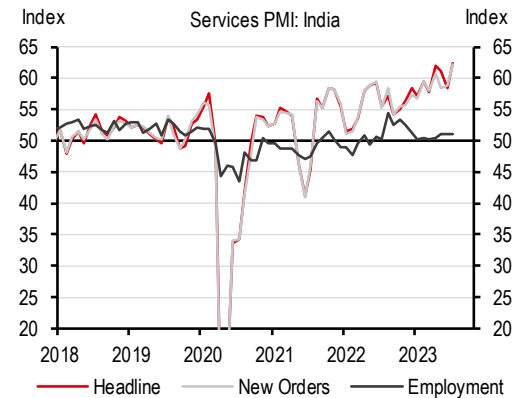
Source: S&P Global, Refinitiv Datastream, HSBC

18. The service sector in eurozone slowed in July ...



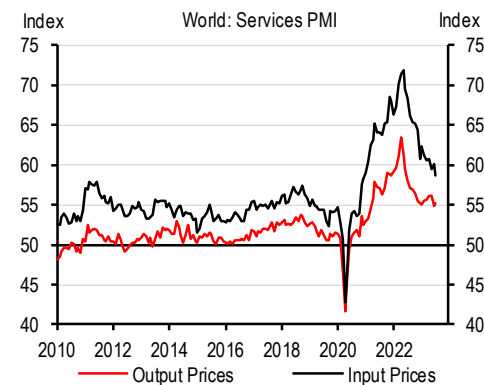
Source: S&P Global, HSBC

19. ... but India saw another month of robust services activity



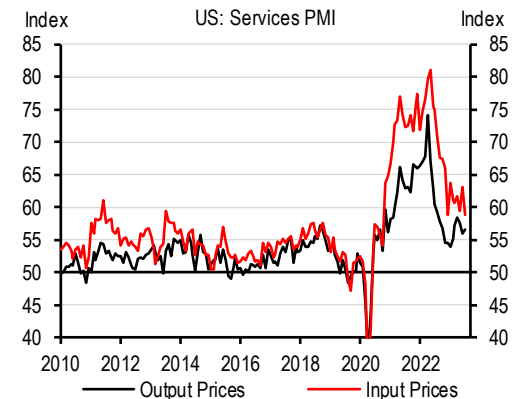
Source: S&P Global, HSBC

20. Service sector firms' costs moderated, but output charges rose slightly in July



Source: S&P Global, HSBC

21. Similarly input costs moderated, output charges increased in the US



Source: S&P Global, HSBC

22. Detailed breakdown of manufacturing and services PMIs

	Manufacturing PMIs									Services PMIs		
	Headline			New Orders			Employment			Business Activity		
	May 23	Jun 23	Jul 23	May 23	Jun 23	Jul 23	May 23	Jun 23	Jul 23	May 23	Jun 23	Jul 23
US	48.4	46.3	49.0							54.9	54.4	52.3
Canada	49.0	48.8	49.6							-	-	-
Mainland China	50.9	50.5	49.2							57.1	53.9	54.1
Japan	50.6	49.8	49.6							55.9	54.0	53.8
India	58.7	57.8	57.7							61.2	58.5	62.3
Korea	48.4	47.8	49.4							-	-	-
Indonesia	50.3	52.5	53.3							-	-	-
Malaysia	47.8	47.7	47.8							-	-	-
Thailand	58.2	53.2	50.7							-	-	-
Philippines	52.2	50.9	51.9							-	-	-
Vietnam	45.3	46.2	48.7							-	-	-
Eurozone	44.8	43.4	42.7							55.1	52.0	50.9
Germany	43.2	40.6	38.8							57.2	54.1	52.3
France	45.7	46.0	45.1							52.5	48.0	47.1
Italy	45.9	43.8	44.5							54.0	52.2	51.5
Spain	48.4	48.0	47.8							56.7	53.4	52.8
UK	47.1	46.5	45.3							55.2	53.7	51.5
Poland	47.0	45.1	43.5							-	-	-
Russia	53.5	52.6	52.1							54.3	56.8	54.0
South Africa	49.2	47.6	47.3							-	-	-
Brazil	47.1	46.6	47.8							54.1	53.3	50.2
Mexico	50.5	50.9	53.2							-	-	-
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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