

Demand down, supply snags sorted?

Global PMI wrap-up (Oct)

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- ◆ October PMI data suggest a further slowdown in global economic activity...
- ◆ ...as manufacturing activity deteriorated for another month while a fresh contraction in services activity was reported
- ◆ While the demand-side looks bleak, softer activity has provided some supply-side relief

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The global PMI data for October don't look great on a headline basis. The composite PMI fell to 49.0, the third month in a row of sub-50 readings, with both the services and manufacturing data showing contractions. The PMI data point to global growth that is slowing with the weakest data in Europe while things look slightly better in much of Asia and Latin America.

The US data remain confusing. The ISM and S&P Global surveys agree on a manufacturing slowdown, but the services surveys give differing signals about the pace of activity – with the ISM survey pointing to still solid (if slower) growth while the S&P Global series points to a sharp contraction in activity.

The good news, however, is that this softness in demand is helping to clear supply chain bottlenecks, and quickly. The October data saw significant improvements in supplier delivery times and backlogs of work that are starting to feed into lower price pressures. In the ISM manufacturing index, the Supplier Deliveries Index registered a 5.6pt drop to 46.8, the first time in “faster” territory since February 2016.

As a result, the drop in demand appears to be a double-edged sword. The weaker data are a concern, but this is helping to alleviate some of the supply and price challenges seen in the global economy over the past couple of years.

1. Snapshot of manufacturing and services PMIs

	Manufacturing PMIs			Services PMIs		
	Aug 22	Sep 22	Oct 22	Aug 22	Sep 22	Oct 22
World	50.3	49.8	49.4	49.3	50.0	49.2
US	51.5	52.0	50.4	43.7	49.3	47.8
Mainland China	49.5	48.1	49.2	55.0	49.3	48.4
Eurozone	49.6	48.4	46.4	49.8	48.8	48.6
Japan	51.5	50.8	50.7	49.5	52.2	53.2
UK	47.3	48.4	46.2	50.9	50.0	48.8
India	56.2	55.1	55.3	57.2	54.3	55.1
Brazil	51.9	51.1	50.8	53.9	51.9	54.0
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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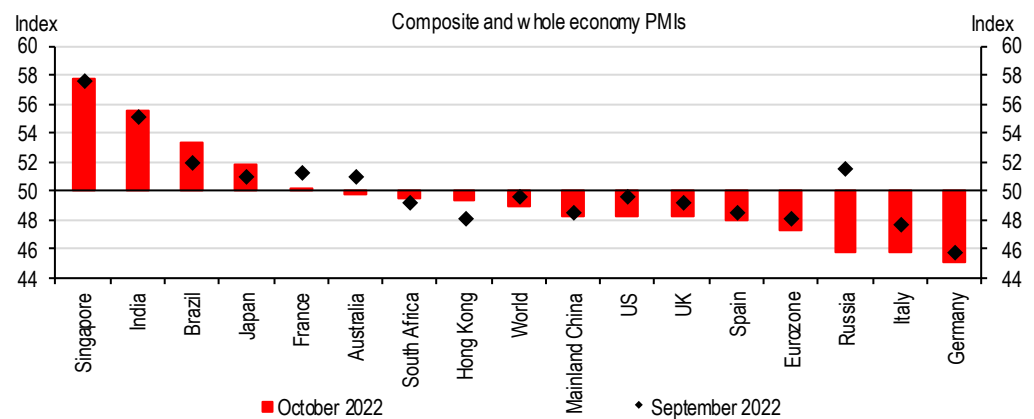
Taking its toll

- ◆ October PMI data provide further signs of slowdown...
- ◆ ...with both manufacturing and services data dropping...
- ◆ ...but supply indicators continue to improve

Depressed demand

The downturn in global economic activity pressed into October with the global composite PMI printing 49.0, the third consecutive below-50 reading and the weakest figure since June 2020. The weakness in both manufacturing and services activity is clear – but there remains a substantial geographical divergence. The PMI data are far worse in Europe than elsewhere while US data are harder to read due to the discrepancy between the ISM and S&P Global data. But, in other parts of the world, such as in most of Asia and Latin America, the data are holding up much better. In Asia, mainland China's service sector remains disrupted by pandemic restrictions and Malaysia's manufacturing sector is weak, but globally India, Brazil and Singapore are standing out as bright spots.

2. October PMI suggests a further slowdown in global economic activity, but regional divergences remain



Source: S&P Global, HSBC

Manufacturing PMIs: Some slight relief beyond demand deteriorating

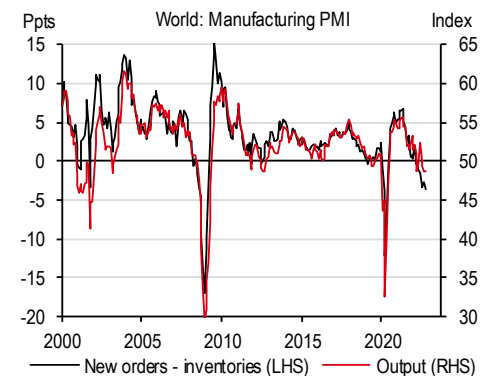
The global manufacturing PMI fell deeper below-50 in October, to 49.4 from 49.8, yet again was led by demand softening further. The October data suggest that global new orders contracted at the fastest pace in 28 months. Since all corners of the globe are feeling the pinch, along with weakening domestic demand, dwindling export demand persists; new export orders suffered widespread declines across the consumer, intermediate and investment goods industries and fell for an eighth successive month. Subsequently, backlogs of work subsided, but nevertheless, production cutbacks continued, resulting in output falling further and business sentiment grinding lower.

3. Global manufacturing activity contracted for a second month in October...



Source: S&P Global, HSBC

4. ...and new orders suggest further downside risks



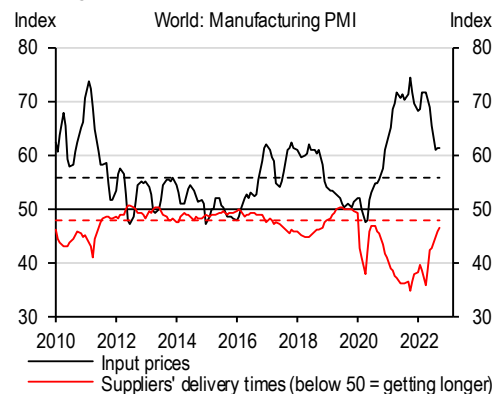
Source: S&P Global, HSBC

When comparing manufacturing conditions across countries, divergences remain. Parts of Asia and LatAm continue to hold up better than Europe where the Eurozone manufacturing PMI contracted further to 46.4 from 48.4, marking a 29-month low, with Spain and Germany leading the decline. Notably, manufacturing activity in India saw growth accelerate in October, while in Brazil, Indonesia, Thailand and the Philippines, slower rates of expansion were reported. Similarly, in the US, the manufacturing sector improved further in October, but at a more muted pace, as economic uncertainty weighed on new orders.

Fortunately, though hard to see on the surface, diving deeper into the data reveals some buried bright spots. Input prices rose at a slower pace in October, output price pressures softened slightly in October. Moreover, supply chain constraints eased further (chart 5) with supplier delivery times widely improving, arguably providing the stand out source of good news with some releases noting it as a key factor helping to ease cost burdens for firms and reduce backlogs.

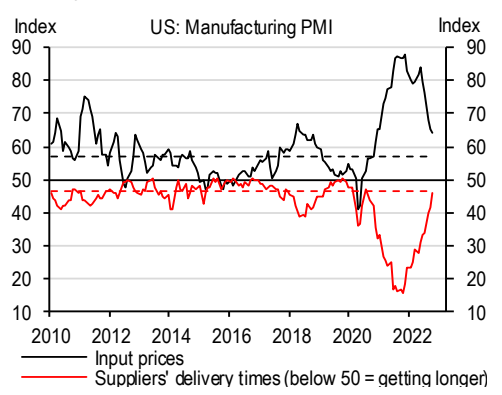
The evidence of improvements on this front is building. The global manufacturing PMI's supplier deliveries index showed another rapid improvement in October while in the US, where the improvements have been clearest in the shipping rates data, the index is back at pre-pandemic norms (chart 6).

5. Supplier delivery times are improving quickly...



Source: S&P Global. Note: Dotted lines show 2010-2019 averages

6. ...and are back to normal in the US already



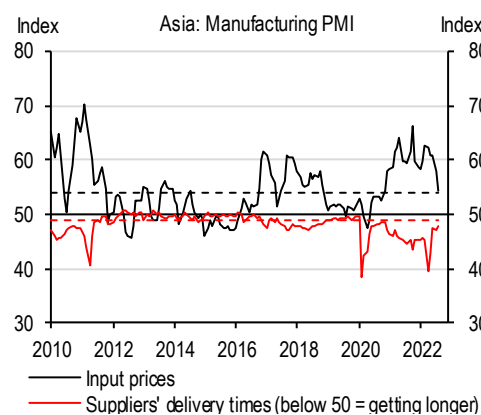
Source: S&P Global. Note: Dotted lines show 2010-2019 averages

This marries with the data from the ISM manufacturing survey that showed the first print of its supplier deliveries index in "faster" territory since February 2016, and one survey respondent being quoted as saying "Lead times are improving". This is having a material impact on input costs for firms, but also may lead to a sharper drop in output price indices in the coming months if

competition rises into a world of slowing demand. Another respondent in the ISM survey said that “Prices are continuing a slight decline. Suppliers are trying to hold off decreases, but competition is increasing” – suggesting that the cross section of easing supply and demand forces may put downward pressure on goods inflation.

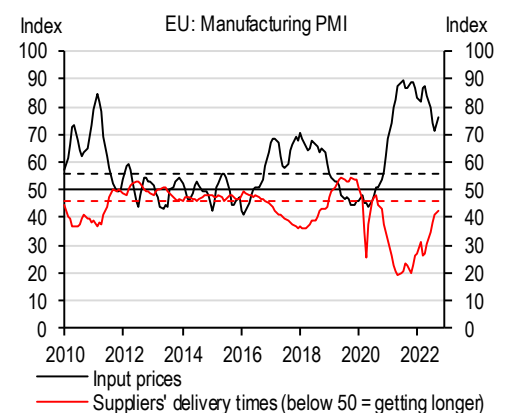
In Asia, where these challenges have been less pressing this year, input price indices continue to fall quickly. However, in Europe we can see (chart 8) that although supply chain snags may be becoming less acute, price pressures for firms remain intense – likely as a result of higher energy prices in the region. As a result, it may be that these improvements in global supply chains provide less of a disinflationary force in the region compared to elsewhere.

7. Asia’s suppliers are facing fewer issues...



Source: S&P Global. Note: Dotted lines show 2010-2019 averages

8. ...while energy costs dominate in Europe



Source: S&P Global. Note: Dotted lines show 2010-2019 averages

Services PMI: Two sides of the same coin

The global services PMI also fell, from 50.0 to 49.2. The downturn in global services activity was once again led by developed nations. The Eurozone services PMI dropped deeper below 50, from 48.8 to 48.6, with the release highlighting further falls in new orders on raised uncertainty, high prices and soft demand conditions. Germany remains hard hit with its services PMI at 46.5 in October.

Likewise, in the US, the slowdown in service sector activity carried on into October with the data suggesting the downturn had gained pace amid elevated inflation and raising rates weighing more heavily on client appetite. There remains a divergence between the ISM and S&P Global US services PMIs. The former continues to point to a decent (if slower) pace of growth while the latter suggests that activity is declining rapidly. While it’s unclear exactly what is behind the divergence, it’s likely to be a combination of firm size (larger firms in the ISM index) and sectoral composition – with the US Sector PMIs showing a divergence between very weak data in financials compared with technology and healthcare.

In contrast, the service sector in India is thriving. Not only did India’s manufacturing sector outperform, its services sector also reported faster rates of expansion in October with the services PMI rising from 54.3 to 55.1. Strong domestic demand counteracted the continued deterioration of foreign sales, which sunk further. In light of favourable conditions, firms looked more upbeat about the outlook: business confidence ticked up and employment growth accelerated.

Elsewhere in Asia, Japan was a relative outperformer with its services PMI rising to 53.2, up from 52.2 in September. Faster service sector growth was supported by robust demand boosted by the introduction of a nationwide travel discount scheme as well as the removal of remaining travel restrictions facilitating growth in tourism. On the other hand, mainland China’s service sector saw a slowdown in October with COVID-19 containment measures weighing on activity.

Manufacturing PMIs

9. In the US, October data suggested more muted manufacturing growth...



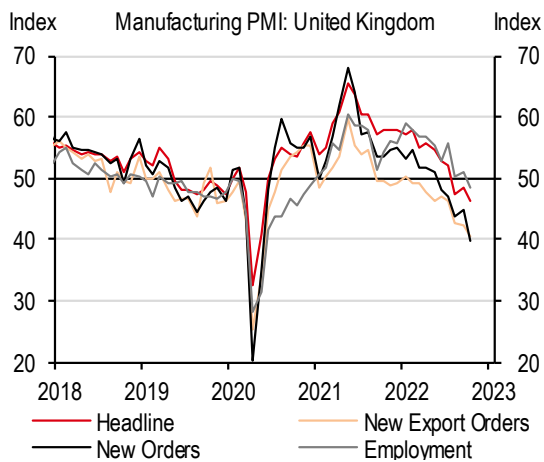
Source: S&P Global, HSBC

10. ... while the slowdown in accelerated in the Eurozone...



Source: S&P Global, HSBC

11. ... as well as in the UK, where manufacturing output contracted for a fourth successive month



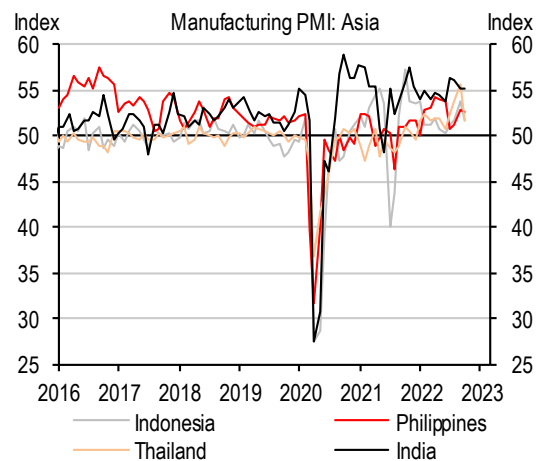
Source: S&P Global, HSBC

12. COVID-19 restrictions remain a weight on manufacturing conditions in mainland China...



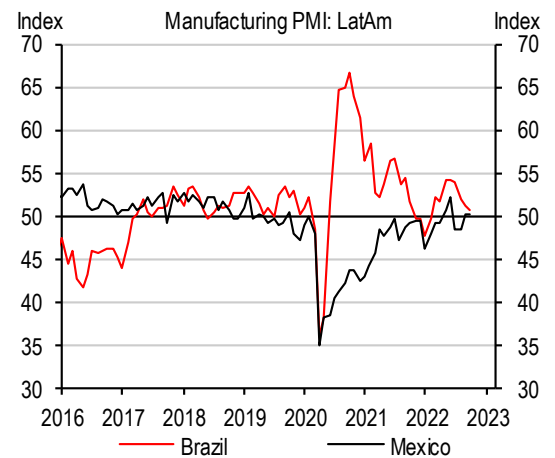
Source: S&P Global, HSBC

13. ... whereas elsewhere in Asia, activity is expanding



Source: S&P Global, HSBC

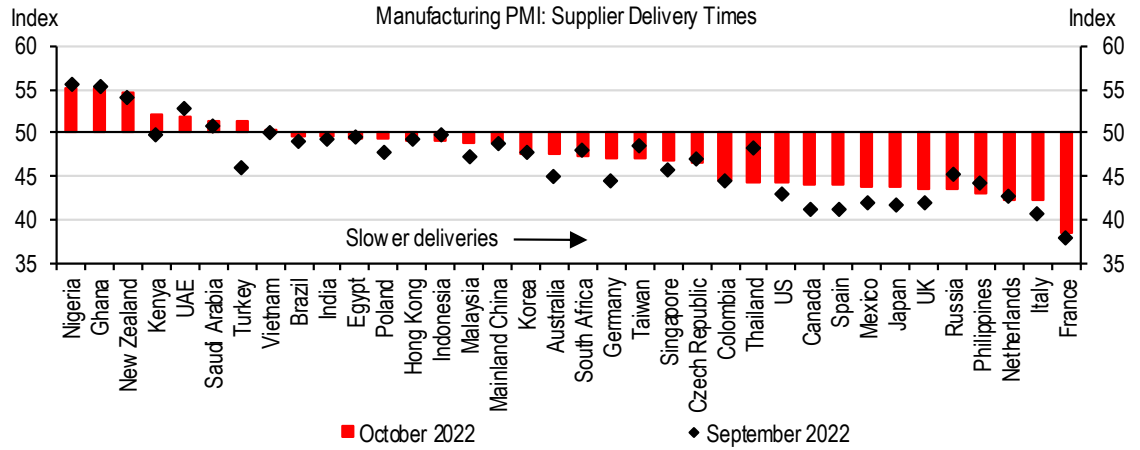
14. Conditions continue to hold up in LatAm, though growth is slowing in Brazil



Source: S&P Global, HSBC

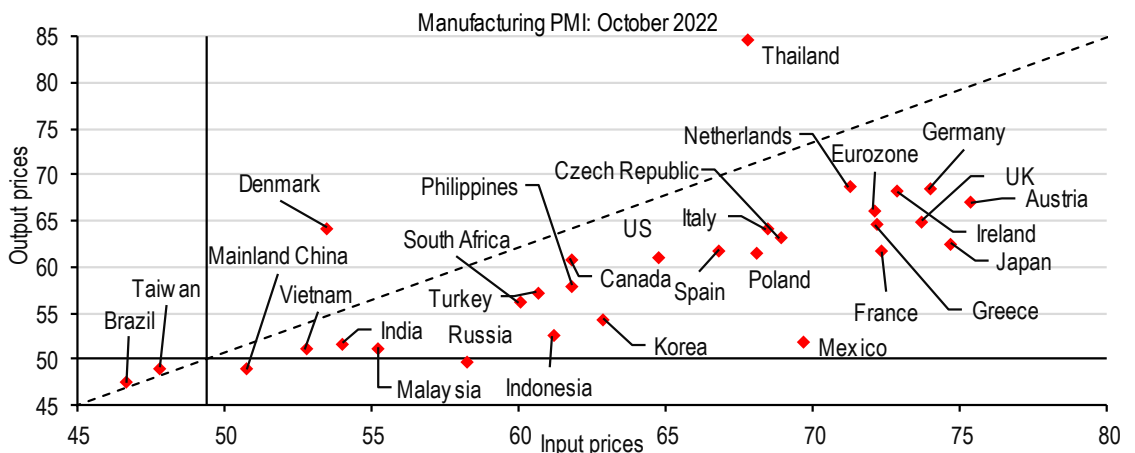
Other key trends in the manufacturing sector

15. Supplier delivery times are widely improving...



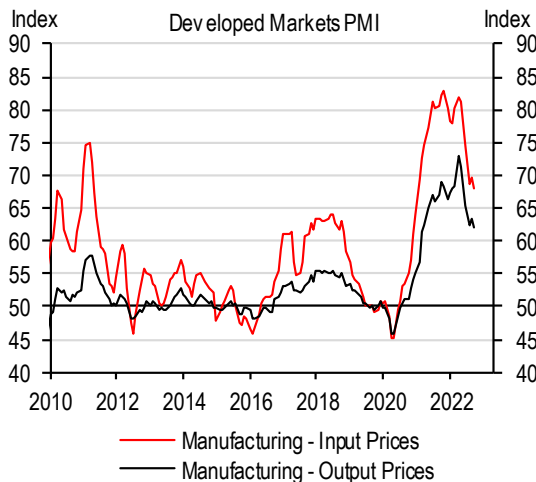
Source: S&P Global, HSBC

16. Price pressures remain elevated...



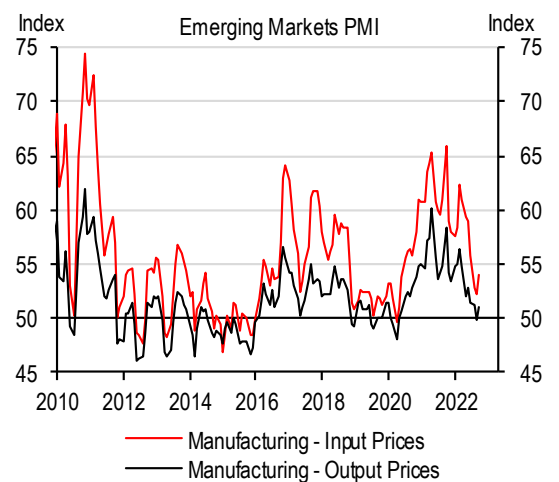
Source: S&P Global, HSBC

17. ...but edged down in developed markets...



Source: S&P Global, HSBC

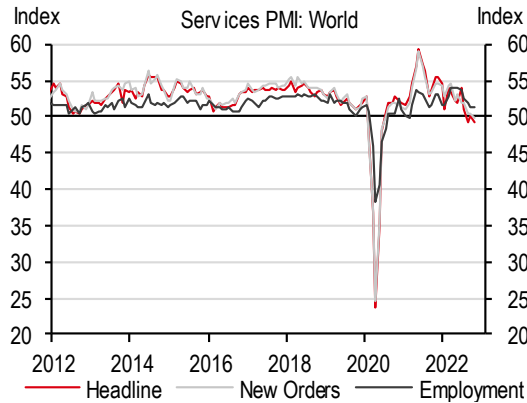
18. ... while ticked up in emerging economies



Source: S&P Global, HSBC

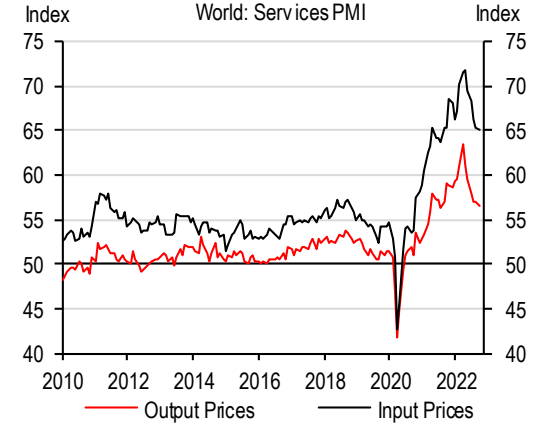
Services PMIs

19. The global services PMI was sub-50 again...



Source: S&P Global, HSBC

20. ...but price pressures are cooling, slowly



Source: S&P Global, HSBC

21. US service activity contracted at a faster rate in October...



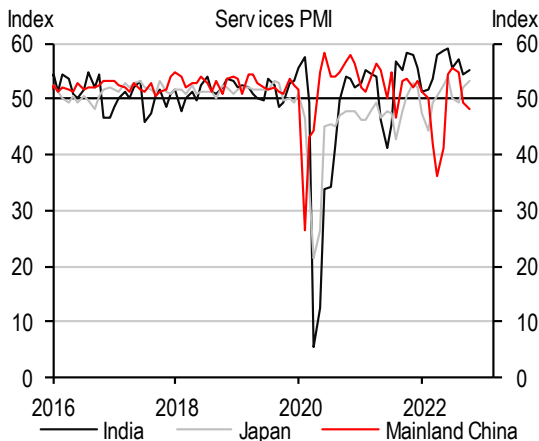
Source: S&P Global, HSBC

22. ... as in the Eurozone as demand wanes



Source: S&P Global, HSBC

23. India and Japan's service sectors prosper, while the opposite is true for mainland China...



Source: S&P Global, HSBC

24. ...while in Brazil, we saw a tick up in October, as the sector grows quickly



Source: S&P Global, HSBC

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