HSBC Global Research

5 August 2021

Delta echo

Global PMI wrap-up (Jul)

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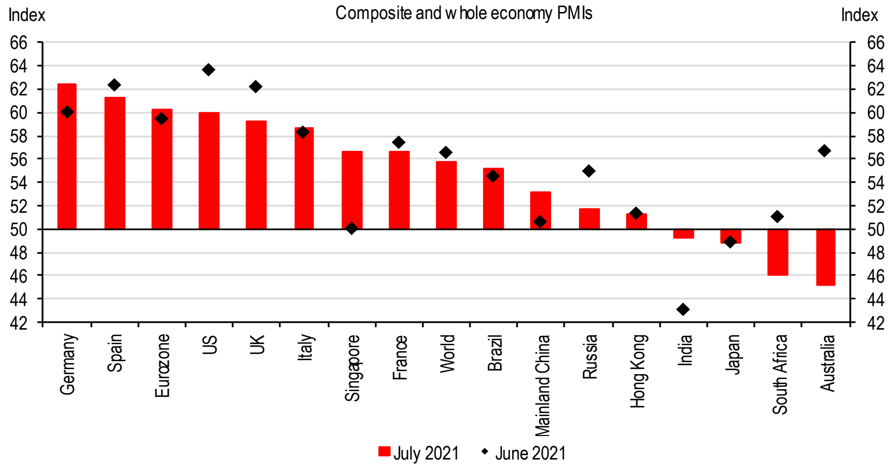
Economics - Global

- Asian PMIs sank in July on the continued spread of the Delta variant in the region…
- …but there are fewer concerns in Europe, where service sector data keep improving
- There are some tentative signs of price pressures peaking

James Pomeroy
Global Economist
HSBC Bank plc

Composite PMIs – World at a glance



Source: IHS Markit, HSBC.

July's global PMI data show the impact that the spread of the Delta COVID-19 variant is having on economic activity across the world. Manufacturing PMIs in Asia, most notably in ASEAN, sank, while European services data, where vaccine rollouts are proving effective, saw an improvement. The global composite PMI looks to have peaked in May.

The US data tell a mixed story – with the two manufacturing indices (from Markit and ISM) going in opposite directions and the services series repeating the trick. Taking all four US PMIs in tandem, it looks like activity levels remain strong but sequential improvements may have peaked at the start of the summer.

On top of the activity data, PMI indices are interesting in terms of pricing. In the developed world, labour shortages and raw material prices are pushing up input costs in both the manufacturing and services sectors. But this phenomenon isn't being seen everywhere: aside from Korea and Taiwan, price pressures are far more muted in Asia.

If the slight softening in global new orders continues and supply bottlenecks start to ease, we could see these price pressures dissipate in the coming months – and the signals from the PMIs could be key first indications of how this is progressing. On the services front, there are already some signs of cost pressures peaking in the US and in Europe, even as economies continue to open up and staff shortages are plentiful.

This is an abridged version of a report of the same title published on 5 August 2021. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

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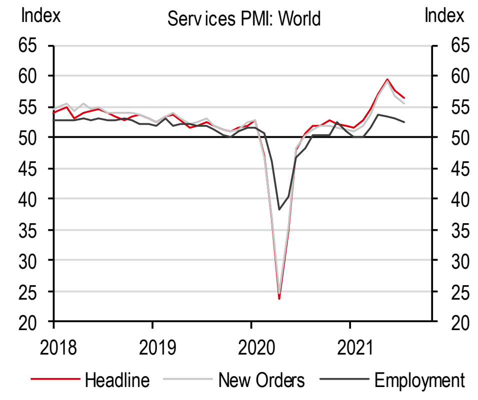
PMIs – what are they telling us?

While the global PMIs are extremely strong, momentum has clearly softened over the course of the past two months. July's global composite PMI reading of 55.7 was a four-month low. This is, of course, still a strong number, but the sequential improvement in global economic activity looks to have peaked in May. The drop was more pronounced in the service sector than in manufacturing – but this was due to weakness in the US data (although the ISM services survey told the opposite story) – and the divergence between the PMIs in those parts of the world that have been able to vaccinate and those who haven't remains abundantly clear.

1. The global manufacturing PMI slipped again in July

Source: IHS Markit

2. The global services PMI fell to 56.3 in July

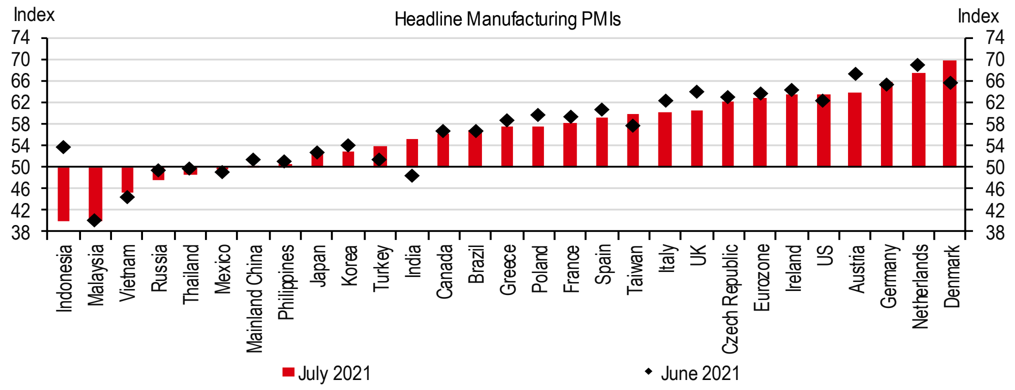


Source: IHS Markit

Delta's echoes are felt

The impact of the continued elevated COVID-19 figures in much of Asia was clear in July's PMI data. Indonesia's manufacturing PMI fell by more than 13pts and the rest of the region now sits at the bottom of the global rankings: only the Philippines has an expansionary manufacturing PMI. As Fred Neumann has noted, easing new orders, including for exports, suggest the drag is broader and more persistent than simply being about production disruption from higher case numbers and restrictions.

3. ASEAN PMIs saw sharp falls in July



Source: IHS Markit

Globally, new orders and new export orders have softened over the past two months, and that relative weakness is weighing on the region. But, for now, in the developed world, the story looks better. Markit's US survey hit an all-time high, rising by 1.3pts to 63.4, with the subcomponents littered with good news in terms of new orders, employment and future optimism. The same story wasn't the case in the ISM release, which fell from 60.6 to 59.5, against consensus of a small improvement, but the survey still suggested that employment in the sector was improving and new orders are still strong.

The eurozone aggregate PMI broke its run of record highs, but the 62.8 print (down from 63.4) still points to a robust pace of growth. There was more strength in Germany (up to 65.9), but weaker readings in France, Italy and Spain. The UK survey dropped sharply, by 3.5pts, to 60.4, but this reading would still have been a record high up until a few months ago. Firms reported that shortages of materials, staff and skills were all factors limiting output.

4. Eurozone data remain strong…

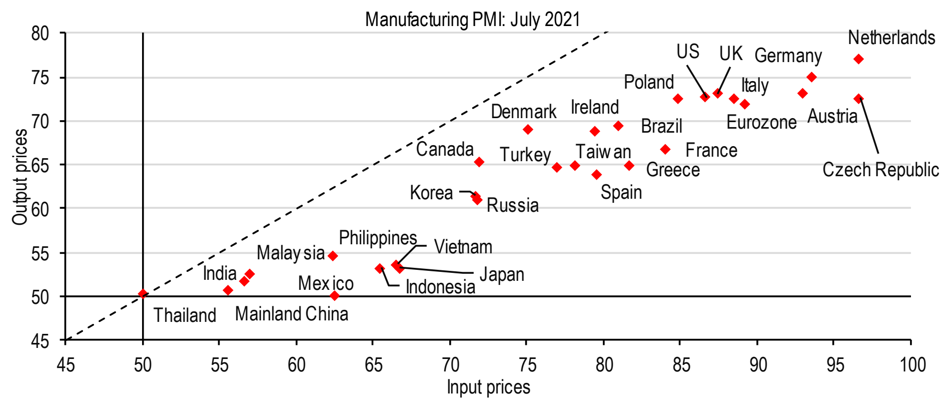
Source: IHS Markit

5. …and the US Markit PMI keeps improving

Source: IHS Markit

One respondent to the US ISM manufacturing survey highlighted that: “Material costs continue to rise, and supplies are sometimes delayed. Labor issues are still affecting us the most with finding proper labor. Labor costs are increasing as we are competing locally for top talent.” These same issues appear to be affecting price pressures across the developed world, as seen in chart 6. Those economies in Europe, North America and Brazil stand out compared to the lower price pressures seen in Asia and Mexico. The two exceptions to that broad grouping are Korea and Taiwan, where semiconductors are a large industry and shortages are pushing up prices.

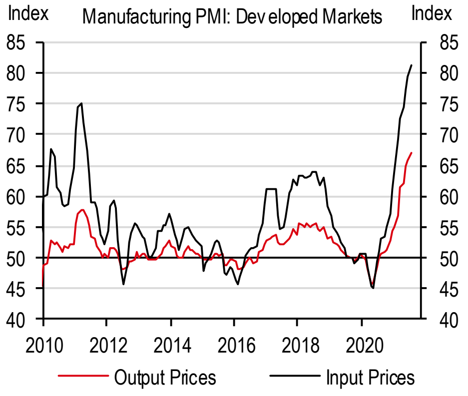
6. Price pressures are still high in the developed world



Source: IHS Markit

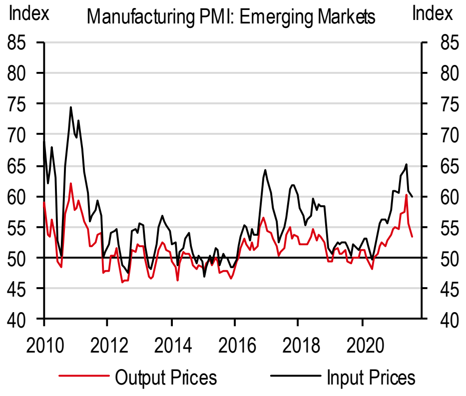
This discrepancy can be seen clearly in charts 7 & 8, where developed markets are seeing soaring input costs, which are feeding through into higher output prices, but in the emerging world the same pressures aren’t there, particularly in mainland China. Of course, price pressures could change in the coming months if demand for goods softens due to economies re-opening and spending shifting towards services. It was interesting to note another respondent to the US ISM survey commenting: “Supply chains are slowly, very slowly filling up. Like a water hose, starting upstream and slowly flowing downstream. Rumour is a full return to ‘normal’ may be nearer to year’s end, but the situation is progressing.” This suggests we may be amid the peak in terms of inflationary pressures.

7. DM price pressures keep intensifying…



Source: IHS Markit

8. …but they may be softening a touch in the emerging world

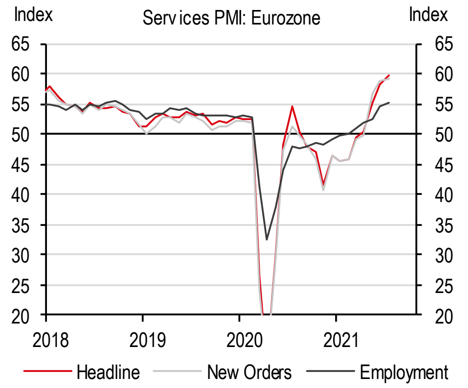


Source: IHS Markit

A mixed picture in services

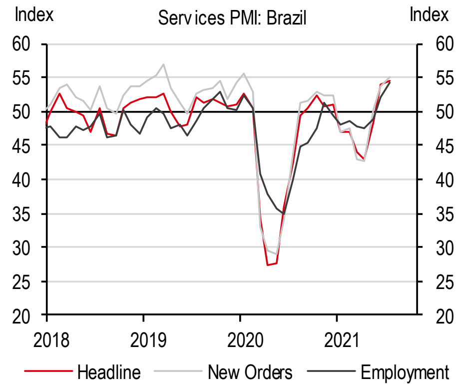
That services rebound is clearly still happening in the parts of the world where the vaccination rollout has been fast and restrictions are being eased – most notably in mainland Europe. The eurozone services PMI has risen quickly in recent months as rising vaccinations and falling case numbers have allowed restrictions to come off, with the index increasing again in July to 59.8, a fifteen-year high. The clearest strength was in Germany, where the PMI rose from 57.5 to 61.8 and Italy (56.7 to 58.0), while the PMIs in Spain and France fell slightly. In the US, July's services PMIs told contrasting stories – the ISM survey rose by 4pts to a record high of 64.1, while the Markit index slipped by 4.7pts to 59.9 – essentially mirror images of each other. In either event, the PMIs point to strong growth, even if the pace of sequential growth may have peaked based on an average of the two series.

9. The eurozone services PMI keeps rising…



Source: IHS Markit

10. …and Brazil's data are improving, too

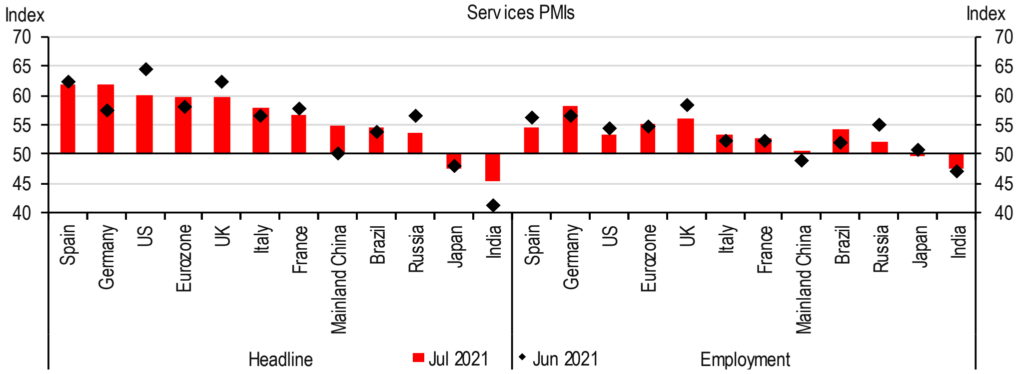


Source: IHS Markit

But in Asia, where we get services PMI data, the situation is very mixed. Mainland China saw a surprise rebound by 4.6pts to 54.9, with the improvement driven by new business. However, the survey data were collected prior to the Delta outbreak that started in Nanjing, which has led to a number of restrictions being put in place. While the situation remains uncertain, it is likely to weigh on service sector sentiment and activity in the August data.

In India, the services PMI rebounded after the sharp fall in June, but the reading of 45.4 suggests that businesses are still reeling from the second wave of virus cases. And with signs of a possible next wave in India, the service sector still being in contractionary territory is a concern. In Japan, the services PMI has yet to climb back above the 50 threshold since the pandemic began and dipped lower again, to 47.4 in July, due to more pandemic-related concerns. Brazil, on the other hand, saw its services PMI rise once more, to 54.4, the best reading in eight-and-a-half years, with clear strength coming from overseas demand, and businesses opting to hire more workers.

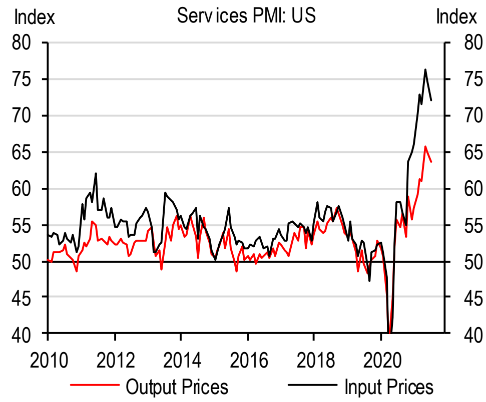
11. Services PMIs are very diverse across the world



Source: IHS Markit

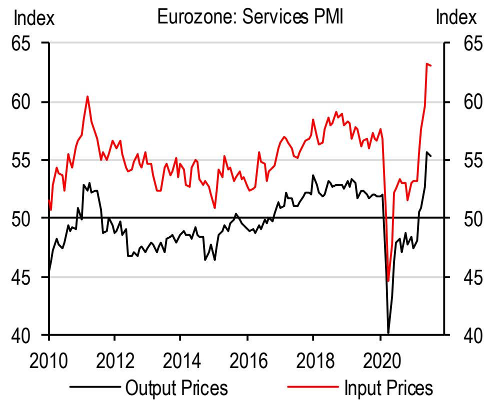
In terms of service sector pricing, there is some tentative evidence that price pressures may be peaking. In Europe, mainland China and the US, the services PMI input price component looks to have peaked, although it remains elevated in all three geographies. In particular, in the eurozone, the decline in both input and output price indices in July was very small. This isn't to say that the price pressures that firms are facing have started to dissipate, but simply that they may not be getting any worse. Some of the comments published with the ISM services report were telling – one respondent saying that "Ocean freight costs have created a negative impact to our business" and another noting that "Costs have risen dramatically in the last 45 days. Lodging, fuel, travel and supplies are all rising sharply. Costs for available labor are also rising, as demand increases in a diminished labor pool" – suggesting that some firms are still feeling these higher input costs.

12. Services price pressures may have peaked in the US…



Source: IHS Markit

13. …and already, too, in Europe



Source: IHS Markit

Summary

July's PMI data paint another mixed picture for the global economy. Asian data continue to show the impact of the latest wave of COVID-19 cases across the region, while activity continues to improve in Europe's service sector. More broadly, while inflationary pressures are acute, there are some tentative signs of these peaking – which would be of some comfort for firms facing shortages of products and higher costs. Given that many firms across the PMI surveys are reporting shortages holding back output, as these shortages and bottlenecks within the global economy dissipate, we could see a slight uptick in activity as price pressures soften.

Disclosure appendix

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Issuer of report
HSBC Bank plc
8 Canada Square, London
E14 5HQ, United Kingdom
Telephone: +44 20 7991 8888
Fax: +44 20 7992 4880
Website: www.research.hsbc.com

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