

Shaking off uncertainty

Global PMI wrap-up (Mar)

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Economics - Global

- ◆ Global PMI data continue to show some resilience...
- ◆ ...with the service sector the key driver, particularly in mainland China
- ◆ Suppliers' delivery times improved in most economies with input costs indices falling across the board

Despite financial market volatility, global PMI data did not reflect any worries in March with the service sector looking particularly robust. Lower gas prices in Europe and the reopening in mainland China continued to play a key role, but service sector data improved almost across the board. On the other hand, manufacturing data continued to wobble around the watermark level for most economies. The global composite PMI rose to 53.4 in March, up from 52.1.

On the manufacturing side, the headline PMI fell by 0.3pts to 49.6 in March. That said, output remained in expansionary territory for the second consecutive month, supported by new orders, which fell at a slower pace in March. On the services side, most economies performed better in March. The global services PMI rose to 54.4 in March, up from 52.6 in February. In particular, services in the eurozone and mainland China sharply accelerated as new orders rose rapidly. This resulted in higher output and increased hiring across service firms.

There was more good news on the supply and cost front. Suppliers' delivery times and input prices eased sharply across the board in the manufacturing sector with the global suppliers' deliveries index reaching the highest level since 2009. With supply chain issues easing, this should translate into lower goods inflation through 2023, but service sector price pressures remain more intense and companies appear able to pass on their costs due to resilient demand in this part of the economy.

1. Snapshot of manufacturing and services PMIs

| | Manufacturing PMIs | | | Services PMIs | | |
|----------------|----------------------|--------|--------|----------------------|--------|--------|
| | Jan 23 | Feb 23 | Mar 23 | Jan 23 | Feb 23 | Mar 23 |
| World | 49.1 | 49.9 | 49.6 | 50.0 | 52.6 | 54.4 |
| US | 46.9 | 47.3 | 49.2 | 46.8 | 50.6 | 52.6 |
| Mainland China | 49.2 | 51.6 | 50.0 | 52.9 | 55.0 | 57.8 |
| Eurozone | 48.8 | 48.5 | 47.3 | 50.8 | 52.7 | 55.0 |
| Japan | 48.9 | 47.7 | 49.2 | 52.3 | 54.0 | 55.0 |
| UK | 47.0 | 49.3 | 47.9 | 48.7 | 53.5 | 52.9 |
| India | 55.4 | 55.3 | 56.4 | 57.2 | 59.4 | 57.8 |
| Brazil | 47.5 | 49.2 | 47.0 | 50.7 | 49.8 | 51.8 |
| 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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Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

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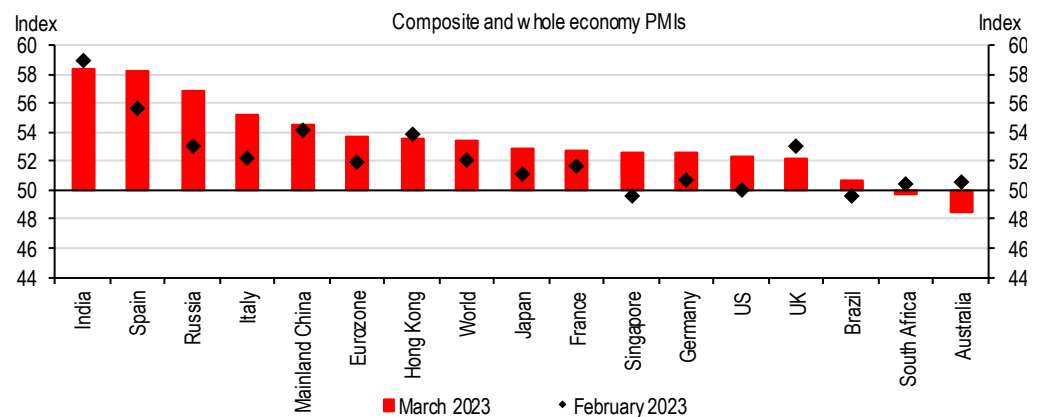
Servicing a recovery

- ◆ Global composite PMI picked up in March, rising by 1.3pts to 53.4
- ◆ Service sector rose sharply across the board while the story in manufacturing sector was mixed
- ◆ Both input and output prices and supply chain constraints eased further in March, helping firms

Resilient amid global uncertainties

Despite the financial market volatility in the month, the global composite PMI rose in March, from 52.1 to 53.4. In particular, the upturn in activity was driven by the service sector with the reopening of mainland China continuing to lift activity. Service sector data also improved again in the eurozone and the US, suggesting that momentum in the sector, globally, remains robust. The manufacturing sector did not fare so well with data edging lower in most economies, including mainland China (with the US a notable exception).

2. Composite PMIs showed another improvement in March in most economies



Manufacturing PMIs: Wobbling around the waterline

The global manufacturing PMI fell slightly in March, from 49.9 to 49.6. However, production volumes rose for the second straight month, albeit at a slightly slower pace. New orders remained broadly stable, supported by domestic rather than external demand in most economies. On a positive note, both supply chain stresses and prices eased during the month – good news for the supply side of the global economy. While in the US, the headline manufacturing PMI rose by 1.9pts (although still pointing to a contraction at 49.2), it deteriorated further in the eurozone. Downturns were registered in Japan, Korea, the UK and Brazil, while mainland China's manufacturing PMI fell back to 50.0 with weaker export orders playing a role.

3. Global manufacturing PMI edged down slightly in March...



4. ...but supplier delivery times continue to improve

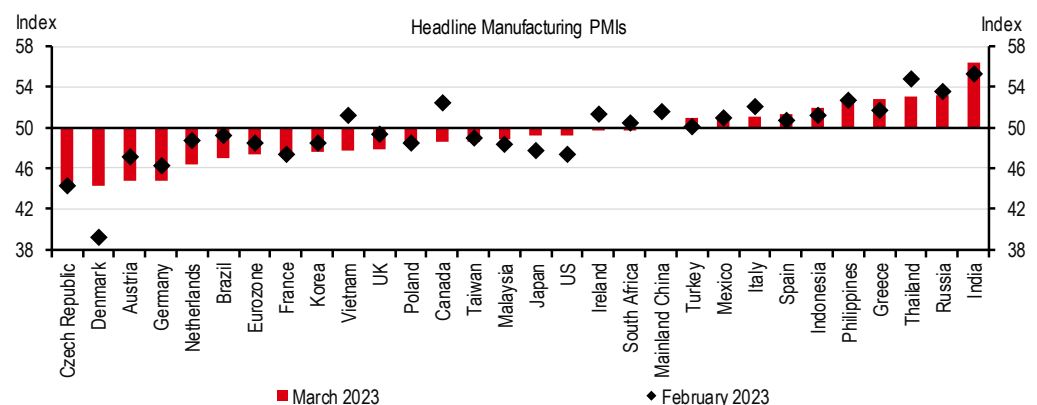


The good news continues on the supply chain front. Suppliers' delivery times improved further in March as supply chain bottlenecks eased, helped by mainland China opening up its economy faster than expected. In fact, the suppliers' delivery index rose to the highest level since May 2009. Additionally, input price pressures continue to ease, but increases in output prices continue to be higher in developed markets compared with emerging markets. Global manufacturing employment also increased for the second consecutive month in March, but some job losses were noted in the UK, mainland China, Brazil and India.

On a geographic basis, manufacturing PMIs painted a mixed picture in March. For example, in India, the PMI accelerated further to 56.4, supported by new orders and output. With supply chain pressures and input price pressures easing, companies concentrated on rebuilding their stocks. Meanwhile in mainland China, the manufacturing sector slowed in March after a sharp rise in February.

Moving west, the eurozone PMI slightly fell in March to 47.3. However, output expanded at the fastest pace since last May. Within the bloc, Greece, Spain and Italy were the top performers, but the headline manufacturing PMIs for Germany and Austria fell to their lowest in almost three years. The UK manufacturing sector fell back into contraction territory in March.

5. Manufacturing PMIs across the world show a mixed picture



In the US, the S&P Global manufacturing PMI rose from 47.3 to 49.2, but panel members indicated that new sales decreased due to higher interest rates and inflationary pressures, which continued to exert strain on customer purchasing power. However, the ISM manufacturing pointed to a faster contraction in March to 46.3, down from 47.7 as both new orders and output declined.

Services PMIs: Firing on all cylinders

The global service sector PMI recorded another month of strong growth in March. It rose to 54.4, up from 52.6 in February. Higher new orders resulted in increased output and employment.

Unlike in the manufacturing data, where Asian releases were notably better than elsewhere, service sector PMIs improved almost across the board. Of the major economies, only the UK and India saw weaker prints in March, and in the latter, the services PMI is one of the strongest on the board, at 57.8, down from 59.4. In the UK, the reading of 52.9 still points to a decent pace of growth in the sector.

Mainland China recorded another month of sharp acceleration in the services sector with the Caixin PMI rising to 57.8 March, up from 55.0. Increased activity levels were linked to sustained improvements in operating conditions and new order intakes following the recent easing of COVID-19 restrictions. Notably, new export business expanded at the quickest rate on record. As a result, there was a sharp increase in employment as well.

In the developed world, while manufacturing activity remained in decline, service sector activity appeared to be strong. After returning to growth this year, the eurozone services PMI jumped to 55.0 in March, up from 52.7 in February and the fastest since May 2022. In the US, we have a similar story. The S&P Global services PMI accelerated to 52.6 in March, up from 50.6 in February. The latest data signalled a modest rise in output that was the sharpest since June 2022. Where an increase in business activity was noted, firms attributed this to stronger client demand, a renewed rise in orders and acquisitions of new customers. Hence on the price front, companies were able to pass on higher prices to consumers. While input price inflation moderated, we saw a rise in output price growth. Meanwhile, the ISM services rose at a moderate pace of 51.2, down from 55.1, but overall services demand remained strong based on the comments within the release.

Much better news on prices

One consistent theme in the PMI data was the much more encouraging news on input prices. On the manufacturing side, easing supply chain challenges and lower commodity prices are clearly playing a role in pulling down input costs, and this is being seen across the board. In Europe, the impact is very clear with the manufacturing PMI input price index falling by more than 4pts to well-below 50. In charts 13-15 in the coming pages, this can be seen clearly.

In the service sector, price pressures are notably more intense – partly on the input cost side, but pricing power remains greater due to much stronger demand. The trend in the data is still broadly positive, however, with global input and output price indices in the services sector grinding lower since the middle of 2022. There are, however, some signs of slightly higher output prices emerging in the US in the past few months, which may be worth keeping an eye on in terms of how this translates into services components within CPI releases.

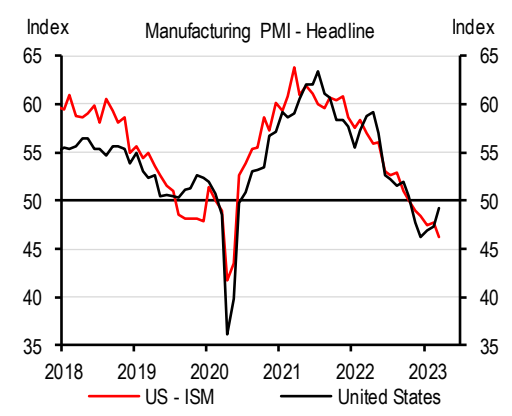
See the coming pages for key charts on March's PMI data for the manufacturing and services sectors.

Manufacturing PMIs

6. In the US, the headline PMI and its components edged up...



7. ...but the US ISM manufacturing fell again



8. In the eurozone, PMI data fell again, pulled down by Germany



9. The same trend is seen in the UK as well



10. But in Asia, India saw a pick-up in manufacturing activity due to resilient domestic demand

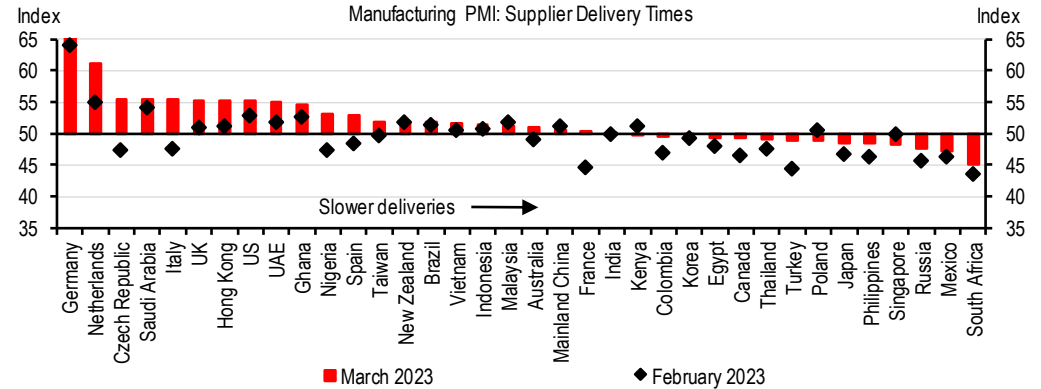


11. While mainland China's manufacturing sector cooled in March



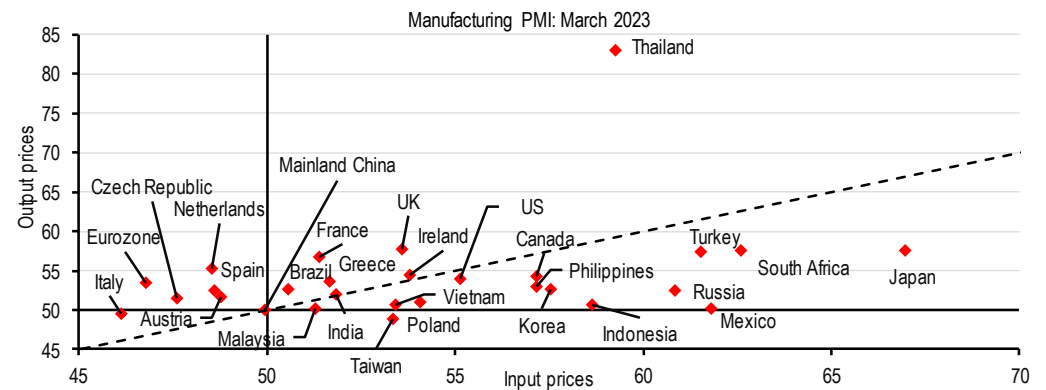
Other key trends in the manufacturing sector

12. Supplier delivery times are widely improved



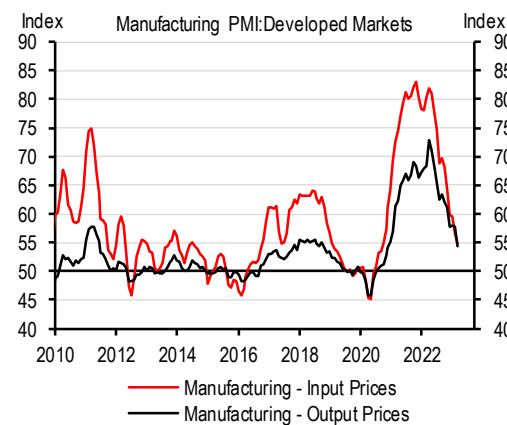
Source: S&P Global, HSBC

13. Both input and output prices eased in most economies



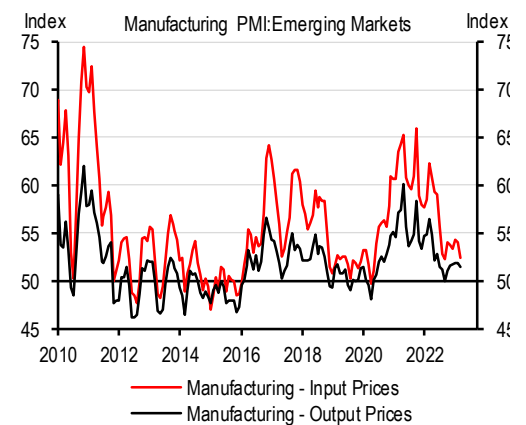
Source: S&P Global, HSBC

14. Price indices moderated in developed economies...



Source: S&P Global, HSBC

15. ... while in EM, price pressures are not very intense



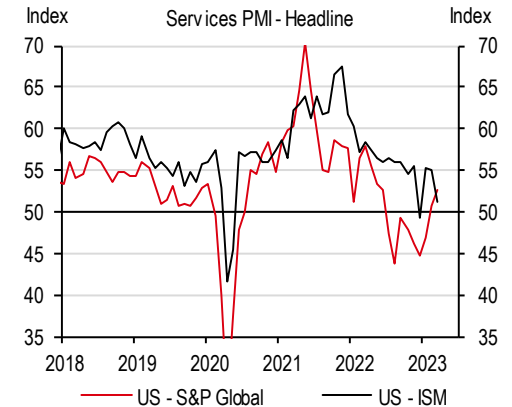
Source: S&P Global, HSBC

Services PMIs

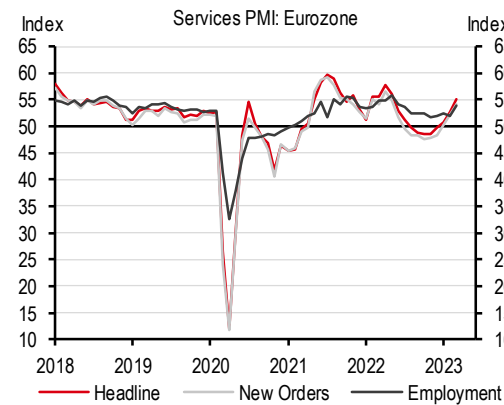
16. The global services PMI registered a strong increase in March



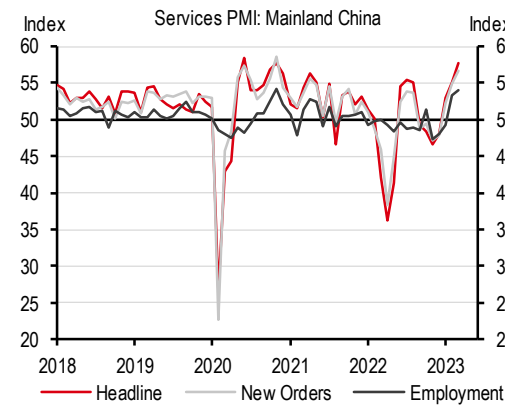
17. In the US, the S&P services PMI rose sharply, but the ISM services moderated...



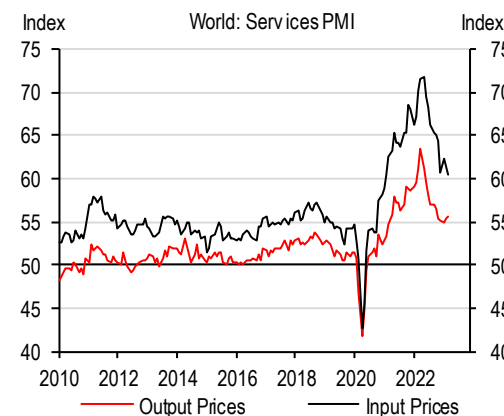
18. ...while in the eurozone, the service sector expanded more strongly



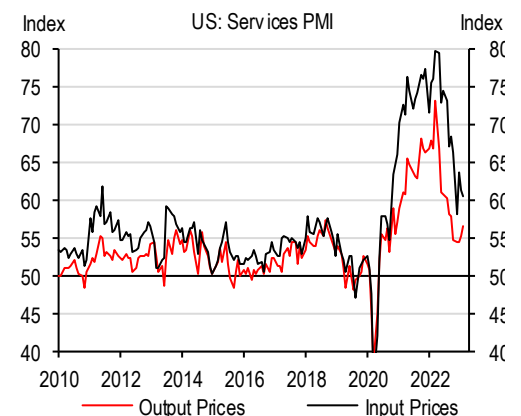
19. Mainland China's service sector is rebounding on reopening



20. Input prices edged lower in the global service sector...



21. ... but in the US, firms were able to pass on higher prices to consumers



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