

A turning point?

Global PMI wrap up (Jan)

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- ◆ Global PMI data turned up at the start of the year
- ◆ Chinese reopening and lower European gas prices were key
- ◆ Price indices edged up, with input costs and charges rising

Global PMI data at the back end of 2022 were, by and large, pretty awful. Activity data slowed almost universally, particularly in the manufacturing sector and new orders suggested a poor start to 2023.

But January's data provide a glimmer of optimism, fitting with the prevailing theme at the start of the year that the very worst economic outcomes could be avoided this year. It's worth stressing that these numbers in isolation aren't great – the global composite PMI is still in contractionary territory at 49.8 – but it's the first sign of improvement in some time.

Much of that is owed to the rebound in optimism from mainland China – where the services PMI jumped from 48.0 to 52.9 on the back of the reopening – but we saw better data in the eurozone, too, and the US data may have come off the bottom. The discrepancy between the S&P Global PMI and the ISM services re-appeared, too, with the former edging up to a still-weak 46.8 while the ISM survey jumped by 6pts to 55.2, with new orders rising by more than 15pts, up to 60.4.

This may have come at a cost in terms of prices – with the steady falls in input and output price indices taking a pause in January – certainly something to keep an eye on in the months to come.

It's too early to celebrate these numbers – one data point does not make a new trend – but after months of the PMI data moving in one direction, it's encouraging to see some green shoots, even if they're still very small ones for now.

1. Snapshot of manufacturing and services PMIs

	Manufacturing PMIs			Services PMIs		
	Nov 22	Dec 22	Jan 23	Nov 22	Dec 22	Jan 23
World	48.8	48.7	49.1	48.1	48.1	50.1
US	47.7	46.2	46.9	46.2	44.7	46.8
Mainland China	49.4	49.0	49.2	46.7	48.0	52.9
Eurozone	47.1	47.8	48.8	48.5	49.8	50.8
Japan	49.0	48.9	48.9	50.3	51.1	52.3
UK	46.5	45.3	47.0	48.8	49.9	48.7
India	55.7	57.8	55.4	56.4	58.5	57.2
Brazil	44.3	44.2	47.5	51.6	51.0	50.7
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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James Pomeroy
Economist
HSBC Bank plc

Harriet Smith
Economist
HSBC Bank plc

Issuer of report: HSBC Bank plc

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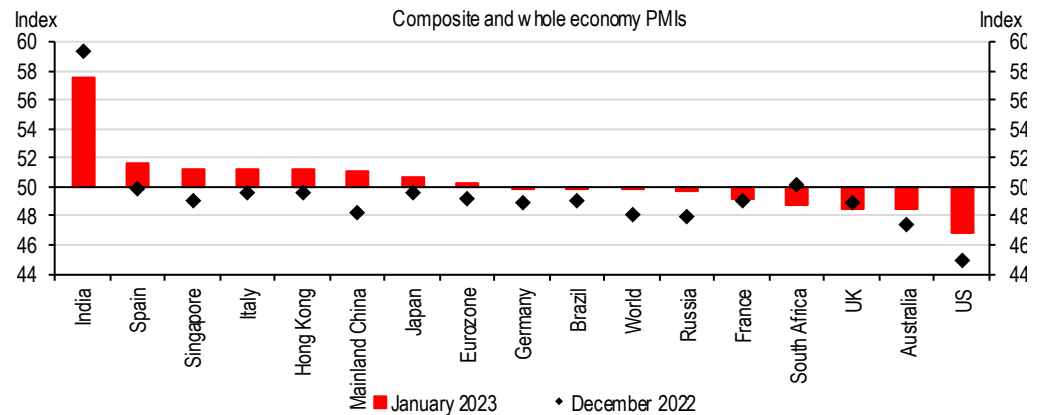
Green shoots

- ◆ January's PMI data broadly improved...
- ◆ ...across manufacturing and services sectors, with mainland China and the eurozone seeing the biggest moves
- ◆ This better demand outlook may have helped price indices edge up

Better, but not out of the woods

Global PMI data in January broadly improved for the first time in many months. On the manufacturing side, the global PMI rose by 0.4pts to 49.1, while the global services PMI rose back into expansion (by 2pts to 50.1) on the back of the lift in mainland China from reopening and better data in the eurozone due to lower energy prices. Whilst these readings are still weak in isolation, they at least show some sign of things starting to turn around on the activity front.

2. India is still the standout in the global PMI data



Source: S&P Global, HSBC

Manufacturing PMIs: Slower downturn

Global manufacturing conditions started 2023 on a better footing. Although reports still pointed to a drop in activity (with more sub-50 readings), the global manufacturing PMI ticked up to 49.1, from 48.7 in December, signalling a slowing in the speed of the downturn. The pace at which demand weakened further lost some steam: new orders fell for another month, but at the slowest rate since August, and the drop in new export orders was also less marked. Subsequently, the index for output rose to its highest level since August, but remained below-50 at 49.0, reinforcing that production cuts press on, albeit at a slower rate. And with that, the outlook for output remains challenging, as a fall in demand has coincided with sizable reductions in backlogs. But, we could be past the trough in the data.

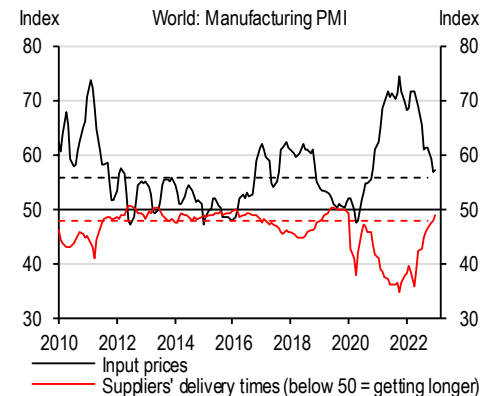
Interestingly, the release highlighted that the downturn has hit industries to varying extents. In particular, the various releases suggest that the slowdown has been concentrated to the intermediate and investment goods industries, while consumer goods producers have fared better and even increased output for a second month. This may be explained by firms' caution at continuing to invest, while consumers have continued to spend.

3. Global manufacturing activity contracted at a slower pace in January...



Source: S&P Global, HSBC

4. ...and while supplier delivery times improved again, prices edged up



Source: S&P Global, HSBC

The improved conditions at the start of the year had a positive impact on employment. After falling for the past two-months, the global employment index rose back above 50. However, at 50.1, the increase in employment was only slight, as job cuts continued in economies such as Brazil, mainland China and the UK which offset gains elsewhere.

Fortunately for firms, easing of supply chain disruptions continued; however, the latest developments for price pressures were less consistent. The global indices for input and output prices ticked up, with reports, such in the US, of firms pushing higher material and transportation costs through to consumers. However, overall, it was a mixed bag, with prices moderating further in some economies also. The European data are of note in chart 12, where output price indices are now notably higher than input price ones – suggesting that firms may have some pricing power and/or any falls in input cost pressures may take longer to feed into output prices and consumer price inflation.

The UK, eurozone and US all saw their headline S&P Global manufacturing PMIs rise, but remained below-50, pointing to a softer contraction to start the year. However, the US ISM data suggested otherwise (falling by 1pt to 47.4 and new orders falling more sharply), and so the health of the US manufacturing sector is less clear.

India's manufacturing sector, a global bright spark, continued to expand in January, however at a slower pace, while other Asian economies, such as Indonesia, the Philippines and Thailand reported faster rates of growth. Mainland China's headline manufacturing PMI edged up slightly, to 49.2, as COVID-19 containment measures eased. But, compared to the NBS manufacturing PMI, which rebounded back into expansionary territory, the improvement was less marked. This is likely because NBS survey was conducted later, during the Spring Festival, and suggests we may see a stronger bounce in the Caixin PMI data in February.

Services PMIs: Lifted by mainland China and lower energy prices

The biggest story in the services PMI data was also the Chinese data – which saw a more pronounced rebound than the manufacturing data. The headline services PMI rose from 48.0 to 52.9 on the back of the easing disruptions that pandemic-related restrictions had caused. The rebound was less than in the NBS PMI survey, but nonetheless, we expect mainland China's services sector to rebound in 2023 as pent-up demand is released.

India's services PMI posted another very strong reading, at 57.2. This was down slightly from the 58.5 in December, but the release from S&P Global said that respondents reported still-resilient demand, while cost pressures eased notably in January.

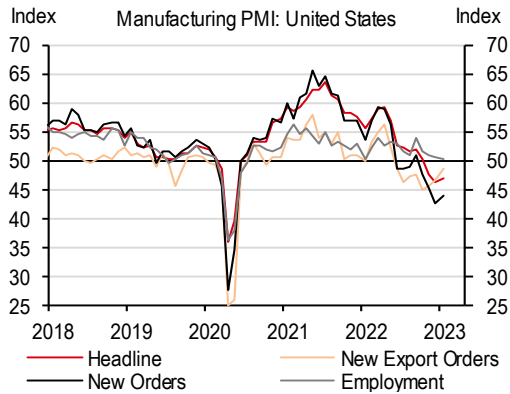
In Europe we saw another positive set of services PMIs, with the sector buoyed by the continued fall in gas prices. The eurozone aggregate rose by 1pt to 50.8. The rise was most notable in Germany (1.5pts) while Italy and Spain also saw large improvements, but France's service sector remained weak, with a PMI of 49.4, the only one of the 'big-4' to see a contraction in January. In the UK, the story was quite different, with a 1.2pt fall, down to 48.7.

In the US, the mystery of the divide between the ISM Services survey and S&P Global's services PMI reappeared in January, after the surveys temporarily told the same story in December. Both picked up, with the S&P Global series up 2.1pts to 46.8 (still indicating a contraction) but the ISM survey rose by 6pts to 55.2 – a strong expansion. The discrepancy is likely due to a mix in the nature of firms surveyed – both the split by industry and size – but it makes getting a good read on the health of the US service sector very difficult.

See over the page for key charts on January's PMI data for the manufacturing and services sectors.

Manufacturing PMIs

5. In the US, manufacturing conditions improved in January, but remained in decline...



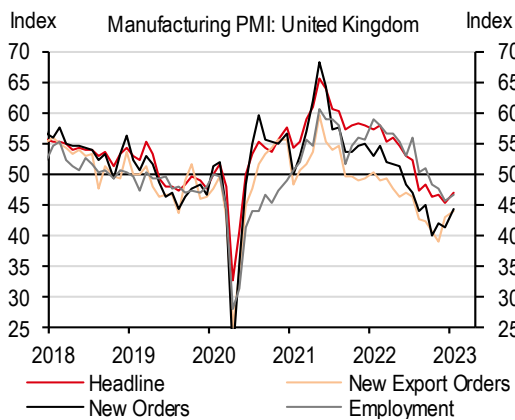
Source: S&P Global, HSBC

6. ... as they did in the eurozone, with new orders softening at a slower rate



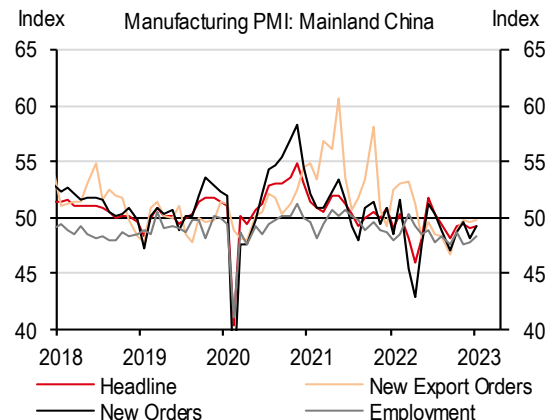
Source: S&P Global, HSBC

7. Likewise, in the UK, the downturn in manufacturing activity pressed on, but moderated in intensity



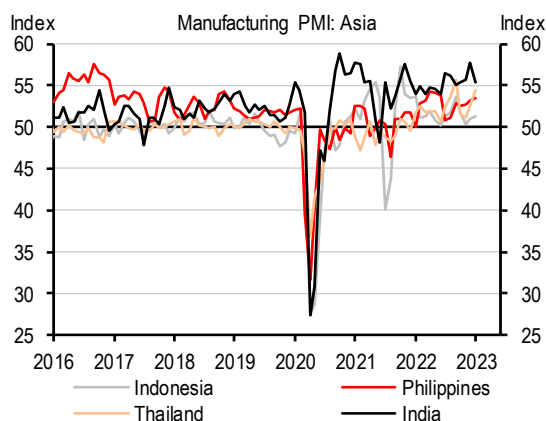
Source: S&P Global, HSBC

8. Mainland China's manufacturing sector weakened further despite COVID-19 restrictions easing



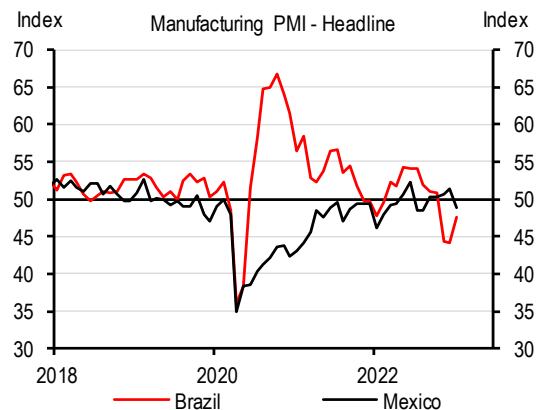
Source: S&P Global, HSBC

9. The expansion of manufacturing activity in parts of Asia continued, but India's manufacturing sector lost a little momentum in January



Source: S&P Global, HSBC

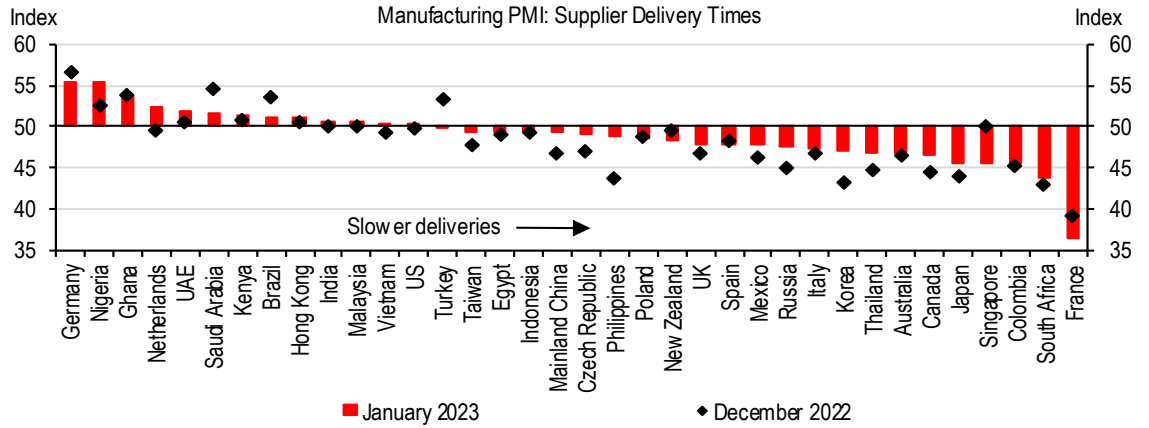
10. Mexico's manufacturing PMI dipped below-50 at the start of the year, while the downturn slowed in Brazil



Source: S&P Global, HSBC

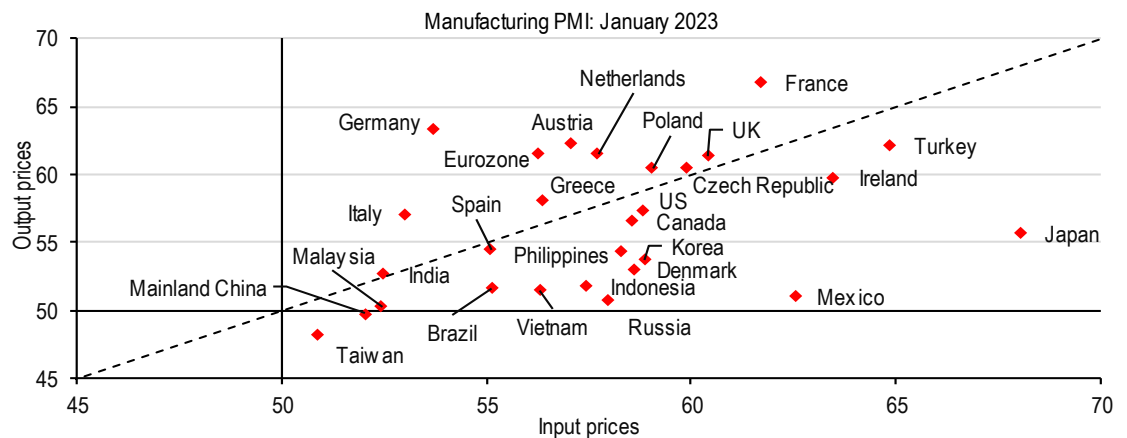
Other key trends in the manufacturing sector

11. Supplier delivery times continue to improve in most economies



Source: S&P Global, HSBC

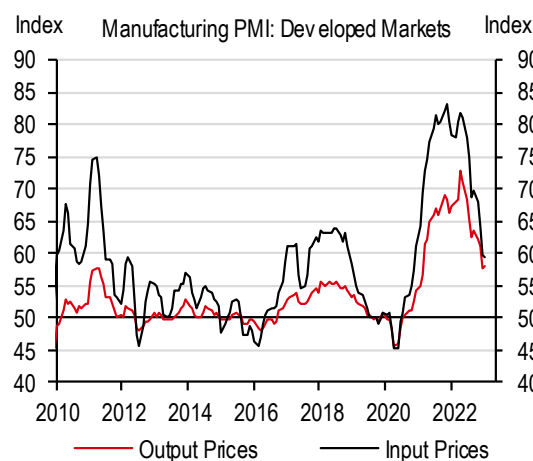
12. Price pressures are coming down, but in Europe, output prices are stickier than input prices



Source: S&P Global, HSBC

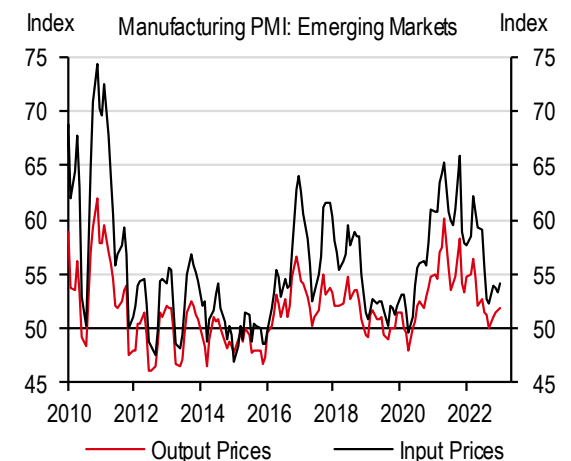
Source: S&P Global

13. Price indices are dropping broadly in the developed world, but in Europe output prices took a pause in January



Source: S&P Global, HSBC

14. In EM, pricing pressures have edged up but remain around historical norms



Source: S&P Global, HSBC

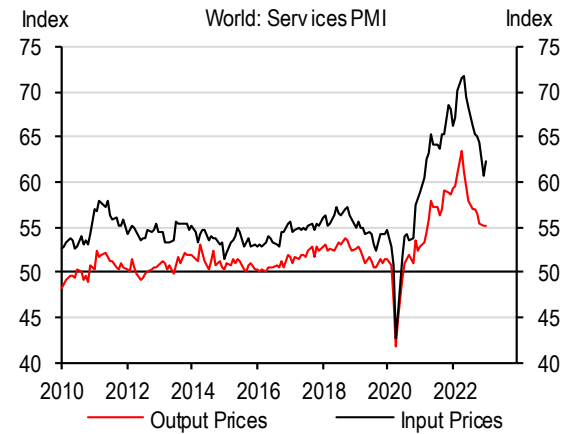
Services PMIs

15. The global services PMI picked up in January



Source: S&P Global, HSBC

16. Price pressures are still broadly moving lower in the services sector



Source: S&P Global, HSBC

17. US data edged up but were at odds with the ISM survey



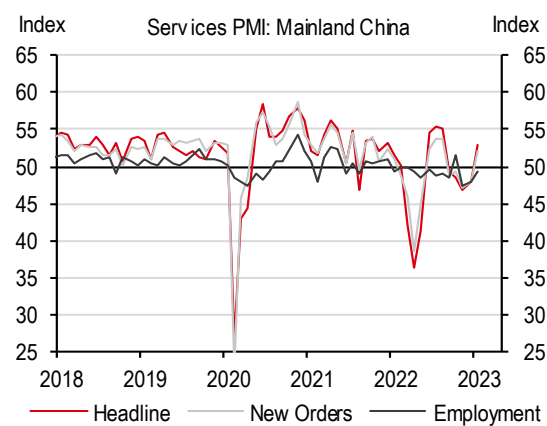
Source: S&P Global, HSBC

18. The eurozone services PMI rose back above the 50-watermark



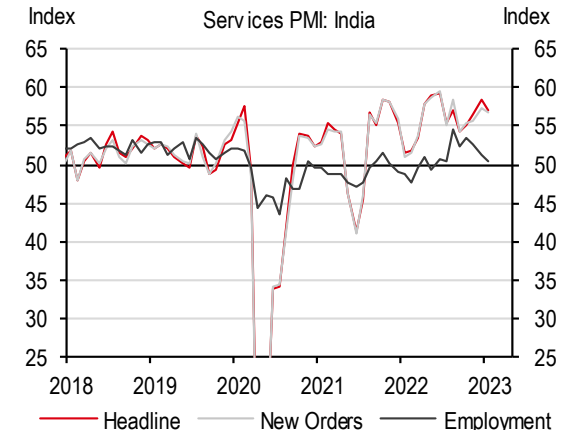
Source: S&P Global, HSBC

19. Mainland China saw a bounce back on reopening...



Source: S&P Global, HSBC

20. ...while India's data remain stronger than most of the world



Source: S&P Global, HSBC

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