# Deeper domino effects

## Global PMI wrap up (Dec)

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Economics - Global

- Based on PMI data, the global economy ended 2022 badly
- Weaker demand is weighing on employment prospects…
- …but, with help from supply chains, reducing price pressures

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The last set of PMI data for 2022 was grim. The composite global PMI may have edged up, but only to 48.2, and the past few months have seen weaker readings than at any point between early 2009 and the start of 2020. The composite PMI is based solely on the output components from within the manufacturing and services indices, and forward-looking components suggest that there may be more pain to come. New orders (particularly export orders) show no sign of turning and employment data continue to weaken within the PMI releases.

The only solace is that this may be having an impact on prices. As the S&P Global release for the US manufacturing PMI noted: "*In an effort to drive sales, firms also registered a softer uptick in selling prices at the end of the year*", and this is being seen in the input and output price data across most of the world. While the demand outlook, particularly on the goods side of the economy, looks bleak, the supply side has improved dramatically over the past six months and the improvements in supplier delivery times suggests that backlogs are no worse than pre-pandemic levels in many markets.

There were some pockets of better news on the activity front, too. Europe's service sector showed a milder contraction in activity (although firms remain cautious), and in India, the PMI data remain very strong, with the manufacturing sector benefitting from new investment in local production and the economy continuing to see some re-opening lift. However, all in all, December's PMIs suggest the global economy is starting 2023 on the back foot.

**1. Snapshot of manufacturing and services PMIs**

| | Manufacturing PMIs | | | Services PMIs | | |
|---|---|---|---|---|---|---|
| | Oct 22 | Nov 22 | Dec 22 | Oct 22 | Nov 22 | Dec 22 |
| World | 49.4 | 48.8 | 48.6 | 49.2 | 48.1 | 48.1 |
| US | 50.4 | 47.7 | 46.2 | 47.8 | 46.2 | 44.7 |
| Mainland China | 49.2 | 49.4 | 49.0 | 48.4 | 46.7 | 48.0 |
| Eurozone | 46.4 | 47.1 | 47.8 | 48.6 | 48.5 | 49.8 |
| Japan | 50.7 | 49.0 | 48.9 | 53.2 | 50.3 | 51.7 |
| UK | 46.2 | 46.5 | 45.3 | 48.8 | 48.8 | 49.9 |
| India | 55.3 | 55.7 | 57.8 | 55.1 | 56.4 | 58.5 |
| Brazil | 50.8 | 44.3 | 44.2 | 54.0 | 51.6 | 51.0 |
| Heatmap Key | Below 50 and rising | | | Above 50 and rising | | |
| | Below 50 and falling | | | Above 50 and falling | | |

Source: S&P Global, HSBC. Note: Services data for mainland China are due to be released on 08 October 2022.

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# A lack of Christmas cheer

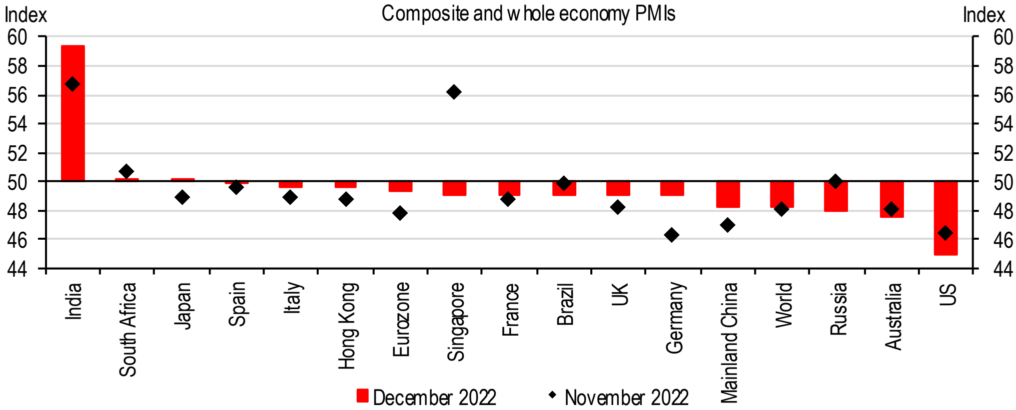
- Latest PMI data suggest the downturn in global economic activity slowed slightly at the end of the year…
- …although manufacturing activity declined at a faster rate…
- …where broader-based impacts are becoming particularly more apparent

## A little better, but only on the headline figure

The global composite PMI ticked up in December to 48.2 from 48.0 in November pointing to a fractionally slower rate of decline in global economic activity. However, it is worth stressing that the composite PMI is based solely on the output component within the manufacturing and services PMIs – and the manufacturing headline index fell while the services index was flat. All in all, these PMIs suggest a deterioration in the economic outlook, with forward-looking components continuing to fare badly and employment hardly growing on a global basis.

The wide-ranging weakness is clear in chart 2, where India's composite PMI is up close to record highs but every other economy is seeing either a stagnation or a contraction in activity.

**2. It's India vs the world in the PMI data at the moment**




Source: S&P Global, HSBC

**Manufacturing PMIs: More signals of broader-based impacts**

Based on the PMI data, global manufacturing activity saw its fourth consecutive contraction in December with the headline index falling to 48.6, from 48.8 in November, signalling a faster rate of decline. The deterioration of demand showed no let-up, as new orders and new export orders softened further. Yet, despite this intensifying weakness, output levels contracted at a slower pace, but were nevertheless only slightly above November's 29-month low. However, as highlighted by the release, lower intermediate goods production stood as the driver, while output of consumer and investment goods ticked up.

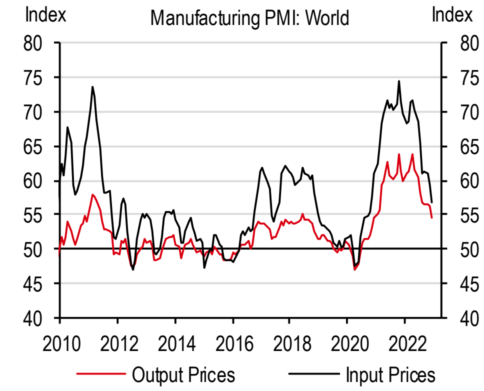
Notably, there were further signs of the impacts becoming more broad-based as manufacturers reduced employment for a second month. Rising excess capacity is likely to be a key contributing factor, as emphasised by the UK release, where December marked a third consecutive month of job cuts, at the steepest rate since October 2020, along with a reduction in backlogs at the second quickest pace in over a decade. While the reduction in manufacturing employment overall was modest, the outlook for manufacturing jobs looks increasingly vulnerable if demand softens further.

In better news, global input and output price indices moderated markedly, to 56.8 and 54.6, respectively. As a standout, input price pressures eased considerably in the US as manufacturers reported lower prices for fuel, metals and oil-related products, which translated to output prices softening also.

**3. The slowdown in global manufacturing activity gained pace in December…**


Source: S&P Global, HSBC

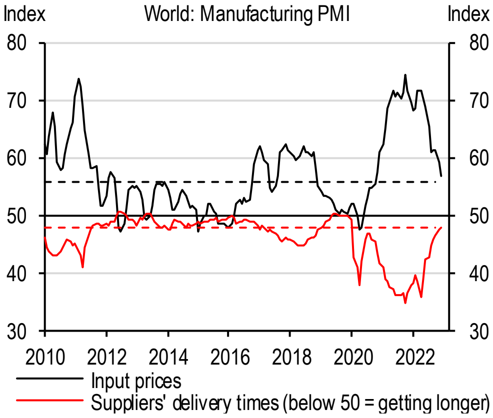
**4. …but price pressures eased considerably for firms**




Source: S&P Global, HSBC

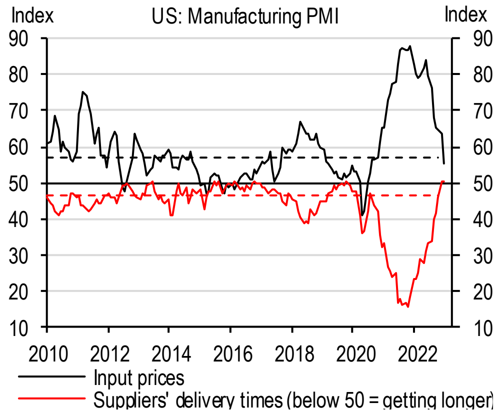
This is partly due to the continued improvements in global supply chains. The global PMI manufacturing supplier deliveries times index is now back at pre-pandemic levels and the input price index is only just above those pre-pandemic norms. In the US, where the recovery in supply chains has been faster than most, the supplier deliveries index rose back above 50 (a rare occurrence based on chart 6) and the input price index fell sharply again. This story was mirrored by the ISM manufacturing – where the supplier deliveries index fell to 45.1, the lowest reading since March 2009 (the S&P Global index is inverted for supplier deliveries) and the ISM survey also revealed a sharp drop in the prices component – now at 39.4, a 3.6pt drop and the lowest reading since April 2020.

**5. Supplier delivery times are back to normal levels…**




Source: S&P Global. Note: Dotted lines shows pre-pandemic average.

**6. …and the move has been extreme in the US**

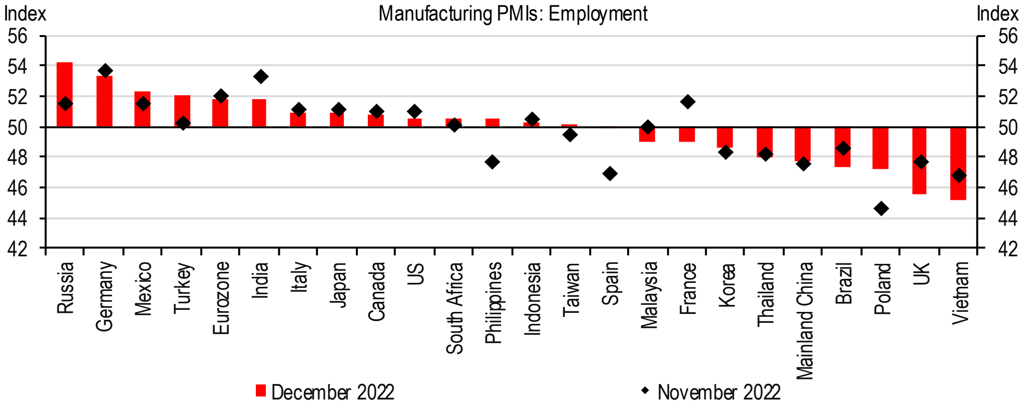



Source: S&P Global. Note: Dotted lines shows pre-pandemic average.

As in November, there are a few bright sparks among emerging markets. To note a few, the manufacturing sectors of India, Indonesia, Mexico and the Philippines reported faster rates of growth in December. In contrast, manufacturing activity in mainland China deteriorated further as COVID-19 containment measures remained a constraint, but business optimism towards the year ahead picked up on the back of re-opening plans. These figures should lift if more activity can restart in the coming months, but elevated numbers of COVID-19 cases may make readings more volatile than usual in the near term.

Among developed economies, the story is broadly consistent, with weakening client demand at the forefront. Manufacturing activity slumped further in the US, UK and eurozone amid additional reductions in new orders and corresponding production cuts. The worry is that this weakness is starting to show a little more clearly in the employment data, with many economies now seeing PMI employment indices below 50 and very few showing any improvements. Given that labour markets have been key to some of the resilience in consumer spending, drops in hiring could have an outsized impact on future demand, particularly for consumer goods.

**7. Employment PMIs are softening in many economies**




Source: S&P Global

**Services PMIs: Not as hard hit**

The global services PMI was unchanged in December at 48.1, pointing to a continued contraction in services activity.

The latest data showed conditions improved for services providers in the eurozone; its services PMI rose to 49.8 in December, up from 48.5, pointing to a slowdown in the speed of the downturn. Despite a continuation of demand weakness, with new orders declining further, albeit at a slightly slower rate, firms increased employment for another month. But, firms remain cautious amid a challenging economic backdrop and continue to face elevated cost pressures.

As for other developed markets, service sector conditions deteriorated further in the US, while the UK services PMI rose to just below the no-change mark of 50 (49.9), indicating conditions were almost unchanged to the month prior. However, as highlighted by the release, when digging deeper into the latest data and assessing reports from firms, inflationary pressures remain a considerable weight on demand and business expectations.

The weakness in the US data has been at odds with the resilience in the ISM Services index in recent months. That report is not out for December at the time of writing, but the continued weakness in the S&P Global series remains confusing. S&P Global released a US sector PMI which shows a greater weakness in the financial sector than elsewhere – so it could be that borrowing activity or housing activity are being more adversely affected as a result of higher rates, and this is feeding into the S&P Services PMI.

For emerging markets, the picture is more mixed. As well as booming manufacturing activity, India's services PMI jumped from 56.4 in November to 58.5 in December, supported by an acceleration in demand. In Brazil, momentum is fading – output expanded in December, but at a 19-month low. In mainland China, service sector activity, too, was further disrupted by COVID-19 containment measures. However, the intensity of the impact moderated from November and optimism towards an improvement in future conditions edged up.

## Manufacturing PMIs

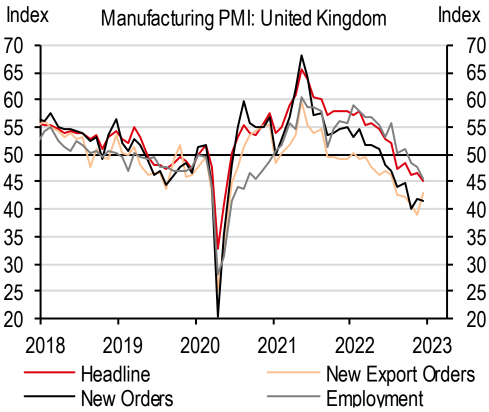
**8. In the US, the decline in manufacturing activity intensified in December led by an accelerated contraction in new orders…**


Source: S&P Global, HSBC

**9. …while in the eurozone, the speed of the slowdown moderated**


Source: S&P Global, HSBC

**10. More job cuts were recorded by UK manufactures in December as the downturn gained pace**




Source: S&P Global, HSBC

**11. In mainland China, COVID-19 restrictions remained a constraint at the end of the year**


Source: S&P Global, HSBC

**12. India's manufacturing sector prospered further in December as demand stands strong…**

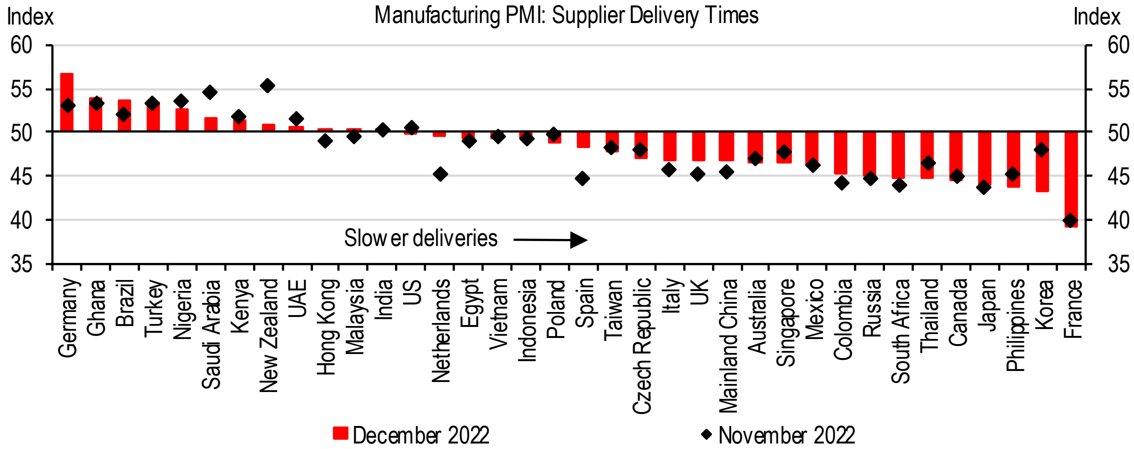

Source: S&P Global, HSBC

**13. … and Mexico lies as LatAm's bright spot as manufacturing activity flourished further**


Source: S&P Global, HSBC

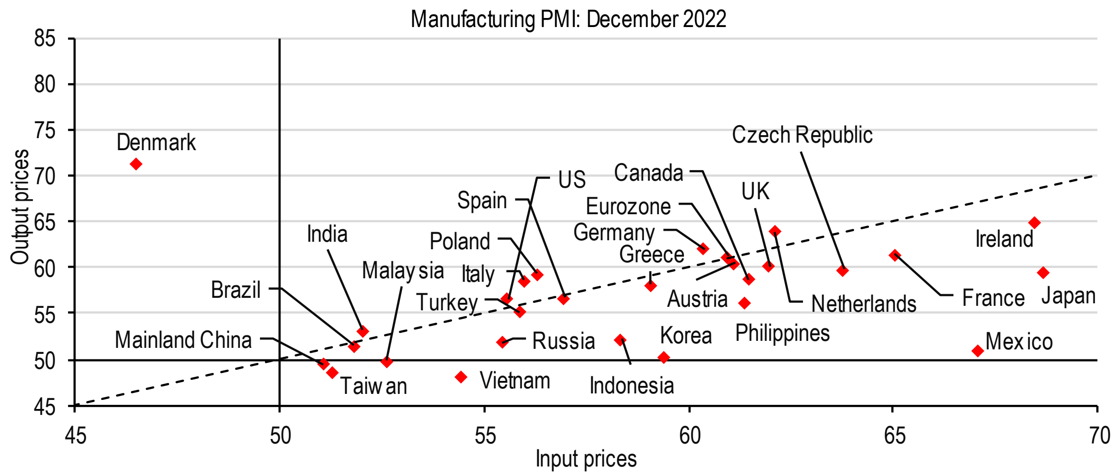
## Other key trends in the manufacturing sector

### 14. Supply chain improvements continue for a handful of economies



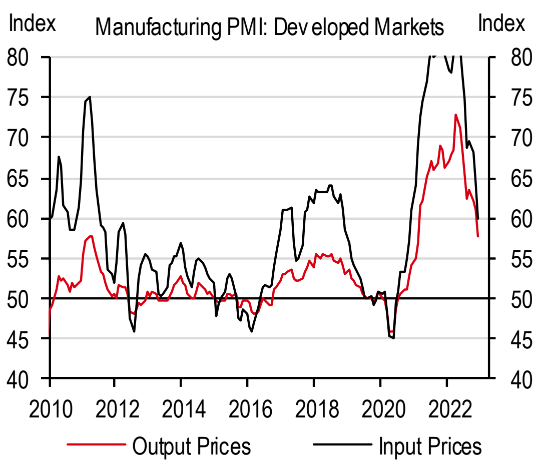

Source: S&P Global, HSBC

### 15. Price pressures eased in December, but remain an issue for firms



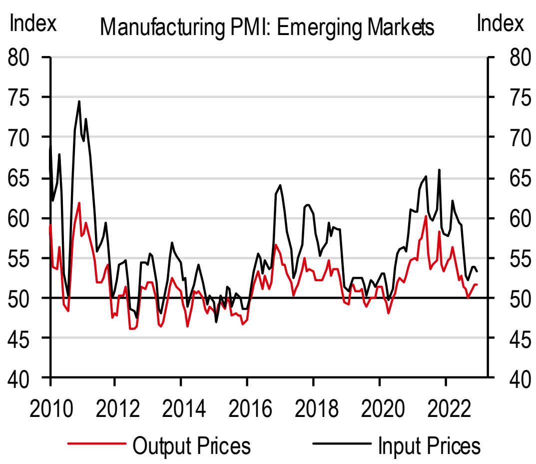

Source: S&P Global, HSBC

### 16. Price pressures are dropping in the developed world…




Source: S&P Global, HSBC

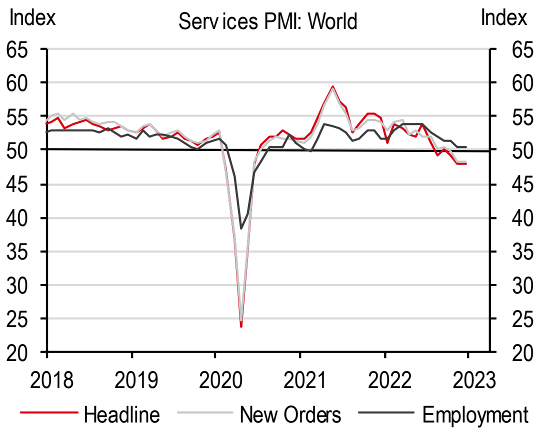
### 17. …and remain subdued in the emerging world




Source: S&P Global, HSBC

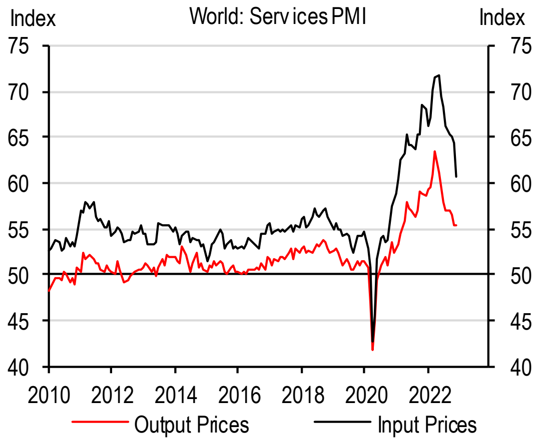
## Services PMIs

**18. Global services activity remains weak…**



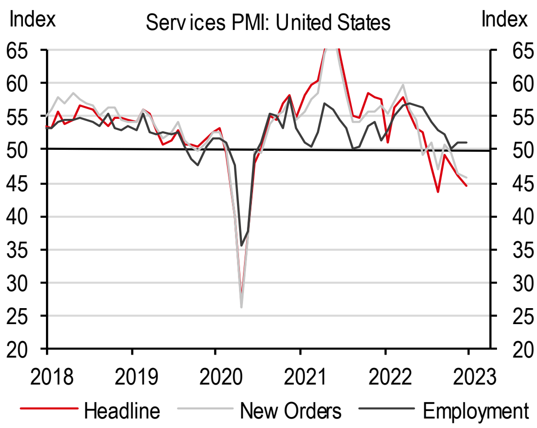

Source: S&P Global, HSBC

**19. …but price pressures are dropping fast**




Source: S&P Global, HSBC

**20. US data are worse than most…**

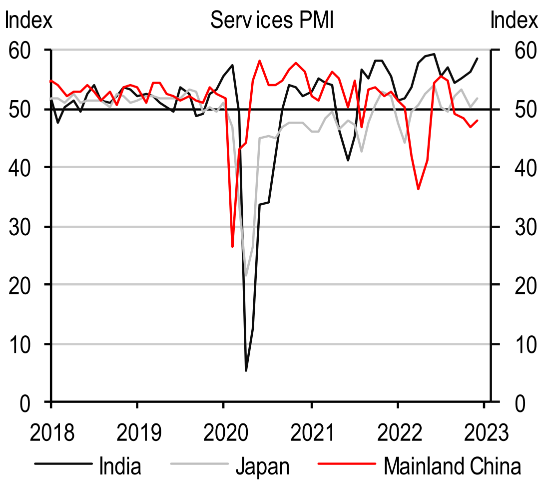



Source: S&P Global, HSBC

**21. …while in the eurozone, the slowdown eased in intensity**


Source: S&P Global, HSBC

**22. Growth in India and Japan's service sectors gained pace in December, while a further contraction was reported in mainland China**




Source: S&P Global, HSBC

**23. Brazil's services PMI remains in expansionary territory, but momentum is fading**


Source: S&P Global, HSBC

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