HSBC Global Research

5 October 2023

Closer to stagnation

Global PMI wrap up (September)

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Economics - Global

- The global composite PMI fell further in September, to 50.5…
- …with weakness in both manufacturing and services…
- …and some very soft forward-looking components

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The global composite PMI fell to 50.5 in September, down from 50.6 in August. While this still points to growth, the concerning part is the drop in composite new orders into contractionary territory for the first time since January. The global manufacturing sector continues to contract, while the global services PMI dropped from 51.1 to 50.8 in September, an eight-month low.

While most major central banks have likely reached their peak in terms of monetary tightening, our forecast is for interest rates to remain at an elevated level for longer. This should act as a continued drag on economic activity, and the PMI data give no signs of a turnaround given the weak-looking new orders components.

Geographically, Europe is faring much worse than elsewhere. While both manufacturing and services remain in contractionary territory, the latter looks slightly better than in August as the German service sector improved sharply in September. On the other hand, in the US we saw a slight uptick in manufacturing activity, but the services PMI slipped. Asia seems to be faring better, with India leading the pack.

Despite limited supply chain issues, input costs picked up in September, likely due to higher energy prices. Whether this means the end of some of the cost-led disinflation we've seen in recent months is a key question.

Overall, global growth has slowed through 2023, with the PMI data keeping a gap between the manufacturing and service sectors. The latest data point to a continued stagnation in activity in September, rather than a turnaround or things looking worse.

1. Snapshot of manufacturing and services PMIs

	Manufacturing PMIs			Services PMIs		
	Jul 23	Aug 23	Sep 23	Jul 23	Aug 23	Sep 23
World	48.6	49.0	49.1	52.7	51.1	50.8
US	49.0	47.9	49.8	52.3	50.5	50.1
Mainland China	49.2	51.0	50.6	54.1	51.8	50.2
Eurozone	42.7	43.5	43.4	50.9	47.9	48.7
Japan	49.6	49.6	48.5	53.8	54.3	53.8
UK	45.3	43.0	44.3	51.5	49.5	49.3
India	57.7	58.6	57.5	62.3	60.1	-
Brazil	47.8	50.1	49.0	50.2	50.6	48.7
Heatmap Key	Below 50 and rising			Above 50 and rising		
	Below 50 and falling			Above 50 and falling		

Source: S&P Global, HSBC. Note: India's services PMI is not released at the time of publication.

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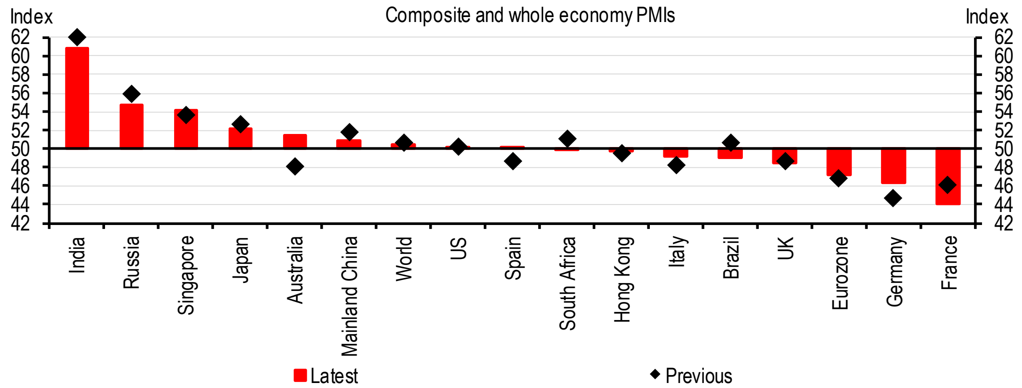
Moderating service surge

- The global composite PMI fell from 50.6 to 50.5 in September
- Manufacturing data remained weak, while services slipped again
- While supply chain issues appear to be in the past, energy prices lifted input costs

Limited drive

The global composite PMI edged down by 0.1pts in September, to 50.5, suggesting that global economic activity is stagnating. Services fared better than the manufacturing sector, although even this side of the global economy is showing clear signs of moderation.

2. Composite PMIs continue to show the geographical split of growth momentum



Source: S&P Global, HSBC. Note: India's Composite PMI is not released yet for September, so the chart shows August (and July) for India, and September and August for others

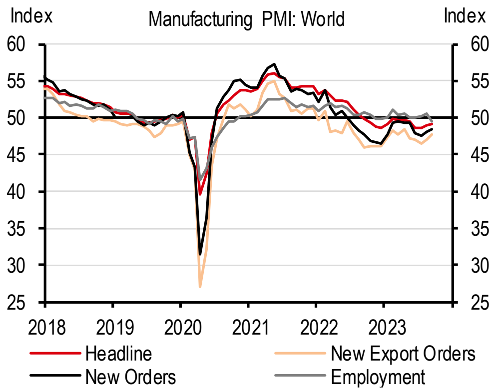
Manufacturing PMIs: Still in the doldrums

The global manufacturing sector remained in contractionary territory at the end of the third quarter, with the global manufacturing PMI edging up to 49.1, from 49.0 in August. However, this still points to a contraction, and all key components' – output, new orders, and employment – indices were below 50.

Global manufacturing output declined for the fourth straight month in September as further contractions in the intermediate and investment goods industries were only partly offset by growth at consumer goods producers. Weaker intake of new orders was the primary reason for lower output, and this was reflected in both domestic and international demand. As a result, firms reduced their staffing levels, albeit marginally.

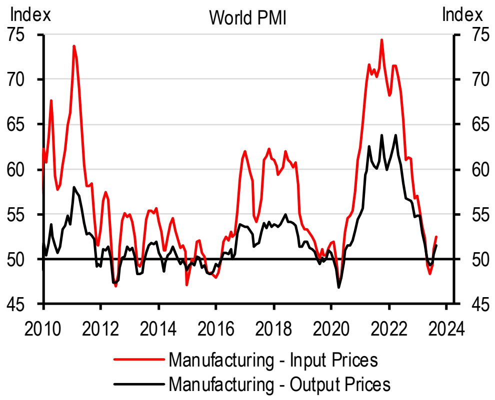
On the brighter side, September's data signalled an improvement in average vendor lead times for the eighth month in a row as supply chains improved further. These helped manufacturers to clear some backlogs of work. Despite this, we saw some signs of renewed price pressures as both global input and output prices rose during the month.

3. The global manufacturing PMI remained in contractionary territory in September



Source: S&P Global, HSBC. Note: Due to later-than-usual release dates, September data for India were not available for inclusion in the global numbers.

4. Both input & output prices rose for the second consecutive month in September

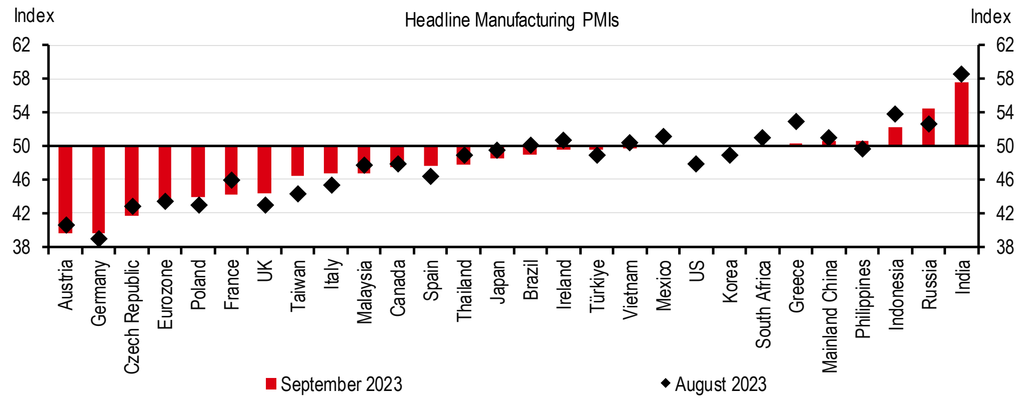


Source: S&P Global, HSBC.

Geographically, Asia is faring better than the West with India, Indonesia and mainland China all seeing manufacturing PMIs in expansionary territory. That said, the pace of expansion slowed. While most parts of the world seem to be suffering from slowing demand, India continues to buck that trend. Although the headline manufacturing PMI recorded the lowest reading in five months, it remained well above 50, at 57.5 in September. New orders remained strong as compared to historical data, with survey participants citing favourable demand and fruitful advertising as some of the reasons. Manufacturers were able to pass on higher prices to consumers, although input prices moderated in September.

Mainland China also saw a further rise in output during September, with some firms mentioning firmer demand, while others indicated that output had increased after unusually high temperatures during August had led to temporary work suspensions. That said, firms reduced their workforce as part of cost cutting measures.

5. Manufacturing PMIs remain in contractionary territory in most economies



Source: S&P Global

The eurozone manufacturing sector remains in deep contractionary territory, with the headline PMI edging lower to 43.4 in September, down from 43.5. With the exception of Greece (where it was marginally above 50), all of the other countries monitored by the survey saw a contraction. Germany and Austria continued to observe the fastest rates of decline, followed by the Netherlands and France. New orders fell at the sharpest pace in the 26-year survey history, leading manufacturers to scale back their output and cut back on jobs.

Meanwhile, the UK's manufacturing sector ended Q3 on a negative note, although the pace of deterioration moderated in September. The headline PMI came in at 44.3 in September, up from August's 39-month low of 43.0. All five sub-indices mirrored the headline index, reflecting overall weakness in the sector. Data broken down by sector show intermediate goods remained the weakest, while consumer and investment goods fared only moderately better.

The US economy saw an uptick in output volumes in September, with firms increasing their employment levels as well. As a result, the headline manufacturing PMI fell at a slightly slower pace. The recent increase in oil prices pushed up input costs in September – the fastest pace since April. In turn, firms sought to pass through greater operating expenses to customers through the fastest rise in selling prices in five months. Meanwhile, the ISM manufacturing index rose by 1.4ppt to 49.0 in September, with production volumes increasing 2.5pts to 52.5. Two of the six biggest manufacturing industries registered growth in September – Food, Beverage & Tobacco Products; and Petroleum & Coal Products.

Services PMIs: Slowdown in service surge

After showing remarkable resilience through 2023, there are signs that the global services sector is following the weakness seen in the manufacturing sector. However, the picture is more diverse across geography. The global services PMI fell to 50.8 from 51.1 – the slowest pace of growth in eight months.

The service sector in the eurozone recorded another month of contraction, albeit the pace of contraction slowed. The bloc's services PMI rose to 48.7, up from 47.9 in August. This was mainly due to the German service sector, which rebounded in September. However, the overall slowdown in the region was led by a fall in new businesses, which showed the weakest reading since February 2021. As a result, service providers were able to process outstanding businesses at a faster pace in September. On the brighter side, employment was up during the month. On the inflation front, despite an uptick in the input price index, output prices rose at the slowest pace since August 2021.

Meanwhile, the US service sector surveys continue to give mixed signals. September's S&P Global services PMI fell to 50.1, down from 50.5, suggesting limited growth, if any. However, the ISM services index pointed to a faster pace of growth, coming in at 53.6 in September. The business activity index, which is more comparable to the S&P Global survey, rose by 1.5pts to 58.8, showing quite a divergence between the surveys. Both have their merits – with the S&P survey asking more firms, but that survey focuses on smaller firms compared to larger firms, typically, within the ISM index.

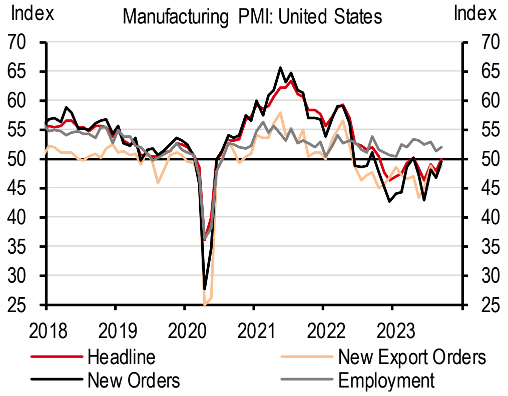
Turning to Asia, at the time of publication, India is yet to release its service PMI data. Mainland China recorded another month of expansion, but the services PMI fell by 1.6ppt to 50.2. Business activity and overall new orders both expanded at the slowest rates year-to-date. Adding to that, confidence around the year ahead outlook also moderated to a 10-month low.

Prices: Regaining momentum?

Some economies saw another month of increasing manufacturing cost pressures in September. Higher commodity prices are likely to blame and could mark a turning point in the better news on input cost pressures for firms seen so far in 2023. Developed markets saw a sharper rise in manufacturing price pressures, led by the US, Germany, and Italy. In Asia, mainland China and Korea saw a sharp rise in prices, while India saw some moderation.

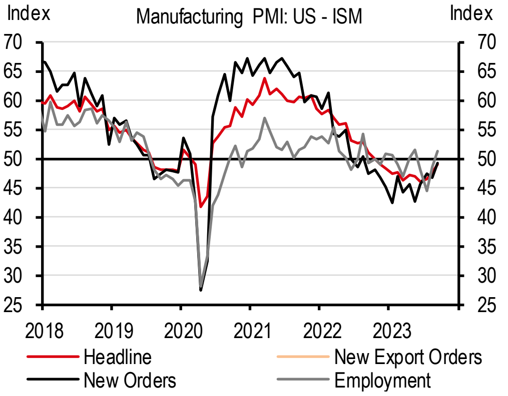
Manufacturing PMIs

6. In the US, activity contracted at a slower pace in September…



Source: S&P Global, HSBC

7. …and a similar trend was observed in the ISM survey

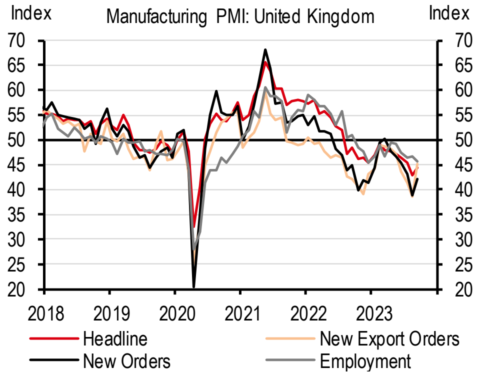


Source: S&P Global, HSBC

8. Manufacturing conditions remain weakest in the eurozone, led by Germany

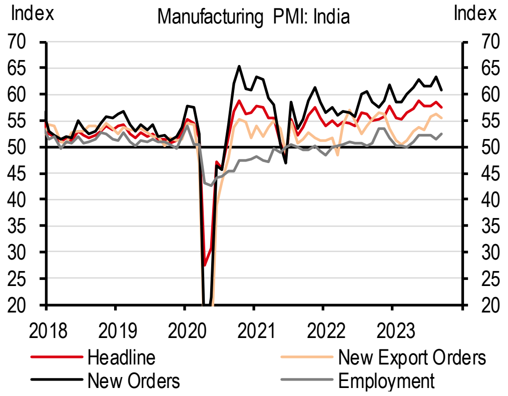
Source: S&P Global, HSBC

9. Meanwhile, the UK saw a slightly better set of data



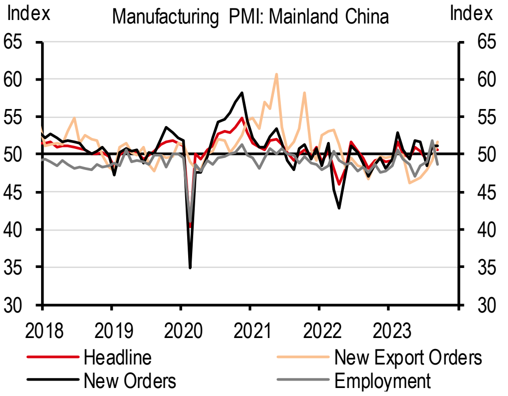
Source: S&P Global, HSBC

10. Manufacturing conditions in India remains robust…



Source: S&P Global, HSBC

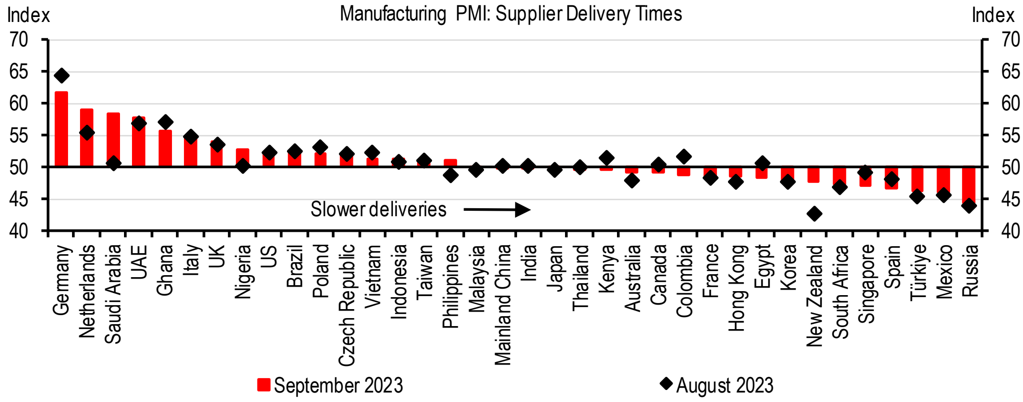
11. …compared to the limited pace of expansion in mainland China



Source: S&P Global, HSBC

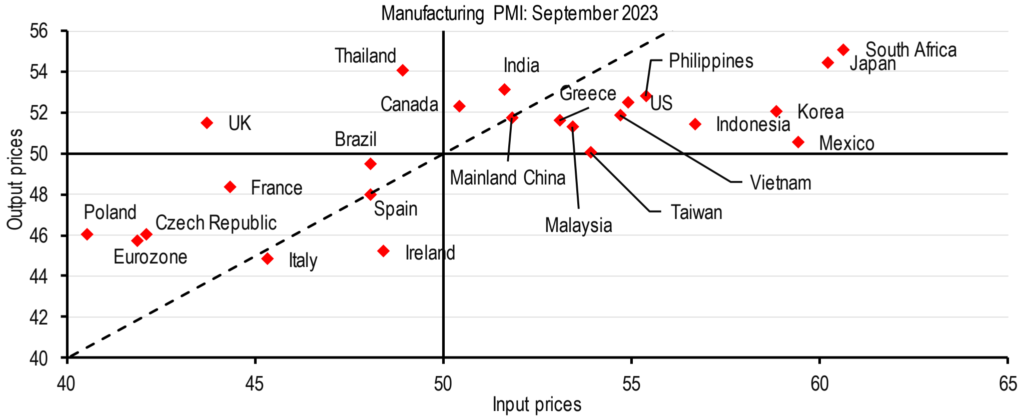
Other key trends in the manufacturing sector

12. Supplier delivery times remains above 50 in most economies as supply chains are no longer a concern



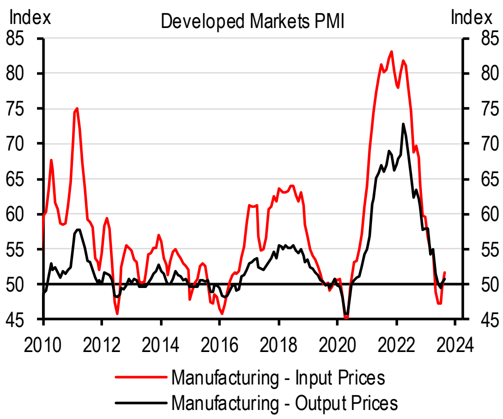
Source: S&P Global, HSBC

13. Input and output prices rose slightly, although remain benign



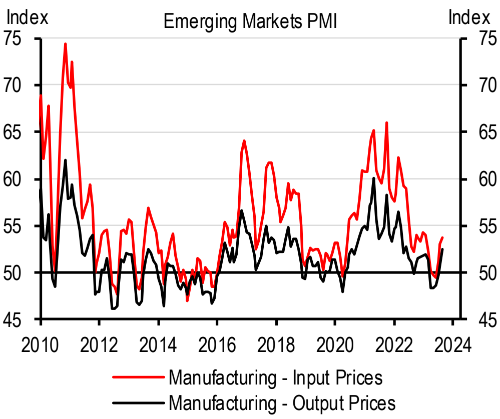
Source: S&P Global, HSBC

14. Input prices rose at a faster pace in developed markets…



Source: S&P Global, HSBC

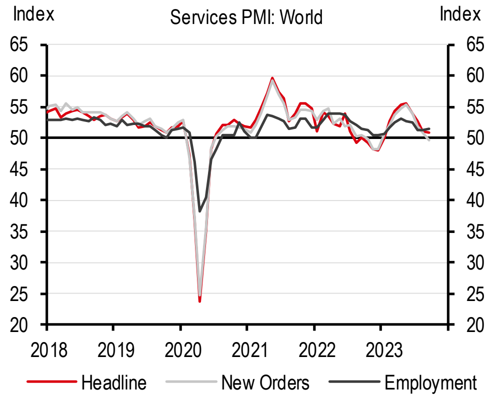
15. …and picked up in the emerging world, too



Source: S&P Global, HSBC

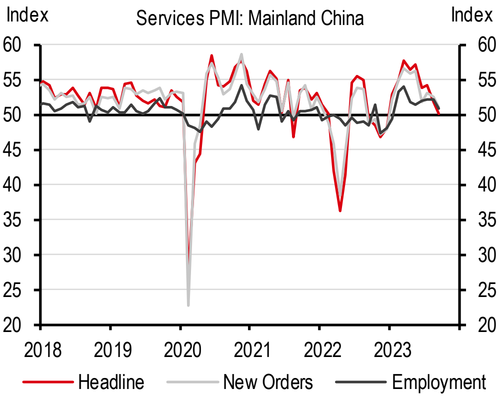
Services PMIs

16. The global services PMI dropped in August, but remains above 50…



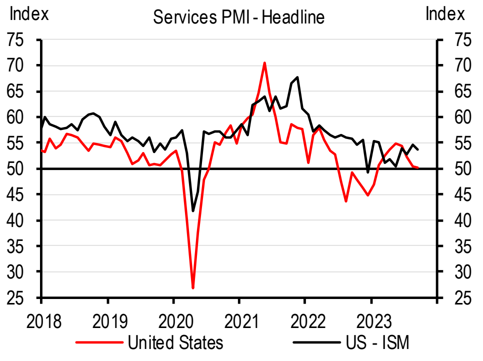
Source: S&P Global, HSBC

17. …and we saw a slowdown in mainland China



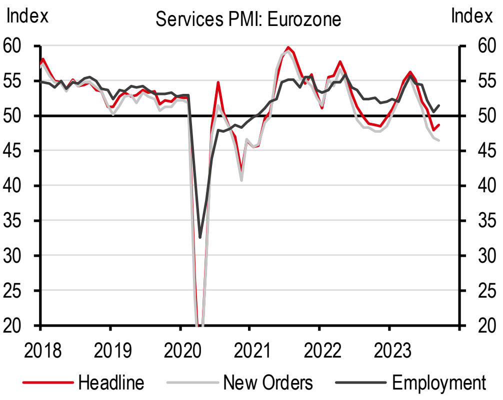
Source: S&P Global, Refinitiv Datastream, HSBC

18. There are still mixed signals in the US…



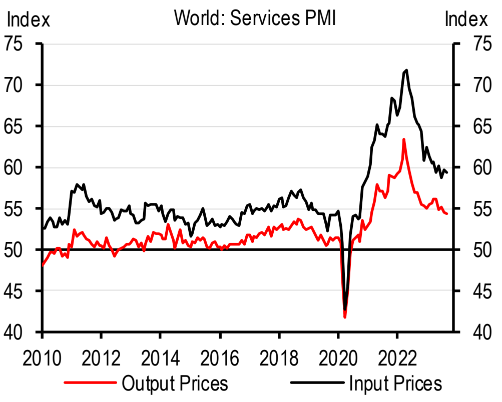
Source: S&P Global, HSBC

19. …but weakness is clearer in Europe



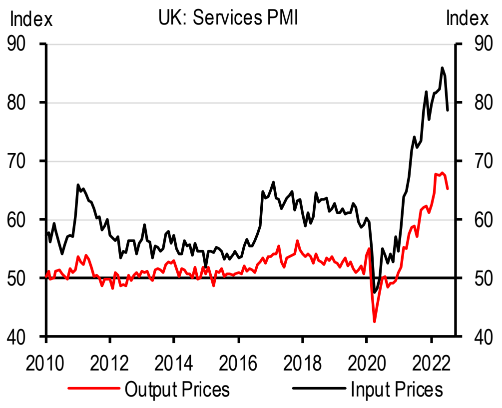
Source: S&P Global, HSBC

20. Service sector firms' lifted prices at a slower pace in August…



Source: S&P Global, HSBC

21. …but UK inflationary pressures appear stickier



Source: S&P Global, HSBC

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