HSBC Global Research

7 May 2024

Services surge

Global PMI wrap up (April)

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Economics - Global

- The global composite PMI rose to 52.4, with better services data offsetting the slight moderation in manufacturing PMIs
- Input costs accelerated for manufacturers due to higher prices of raw materials and labour costs
- Firms mostly remain cautiously optimistic about the year ahead

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The global composite PMI rose to 52.4 in April, marking the best reading since June 2023. The increase was primarily driven by a faster rise in service sector output, which offset the mild moderation in the manufacturing sector. Nevertheless, new orders remained robust across both sectors, suggesting there is still some momentum in the data to come. Firms remained optimistic about the year ahead, though a reduced pace of hiring suggests some degree of caution.

Asian economies outperformed, particularly India. Mainland China also saw accelerated growth in its manufacturing sector, while the pace of expansion in the service sector slowed. Eurozone economies also fared better in April, with rising service sector output offsetting some weakness in manufacturing, even if the worst has passed.

Looking ahead, the outlook presents mixed signals. While manufacturing new orders rose in most economies, it remains unclear how much of this is due to replenishing inventories versus strong demand. The new orders to inventory ratio remains above one, which may indicate some strength in demand.

Price data should also be closely watched. Higher commodity prices look to be feeding into increased input costs on the manufacturing front, while services cost indices remain elevated – the area of concern for many central bankers across the world. Price indices are also higher in developed markets than emerging markets, a sign that the so-called 'last mile' of inflation may not be fading quickly in these economies.

1. Snapshot of manufacturing and services PMIs

	Manufacturing PMIs			Services PMIs		
	Feb 24	Mar 24	Apr 24	Feb 24	Mar 24	Apr 24
World	50.3	50.6	50.3	52.4	52.4	52.7
US	52.2	51.9	50.0	52.3	51.7	51.3
Mainland China	50.9	51.1	51.4	52.5	52.7	52.5
Eurozone	46.5	46.1	45.7	50.2	51.5	53.3
Japan	47.2	48.2	49.6	52.9	54.1	54.3
UK	47.5	50.3	49.1	53.8	53.1	55.0
India	56.9	59.1	58.8	60.6	61.2	60.8
Brazil	54.1	53.6	55.9	54.6	54.8	53.7
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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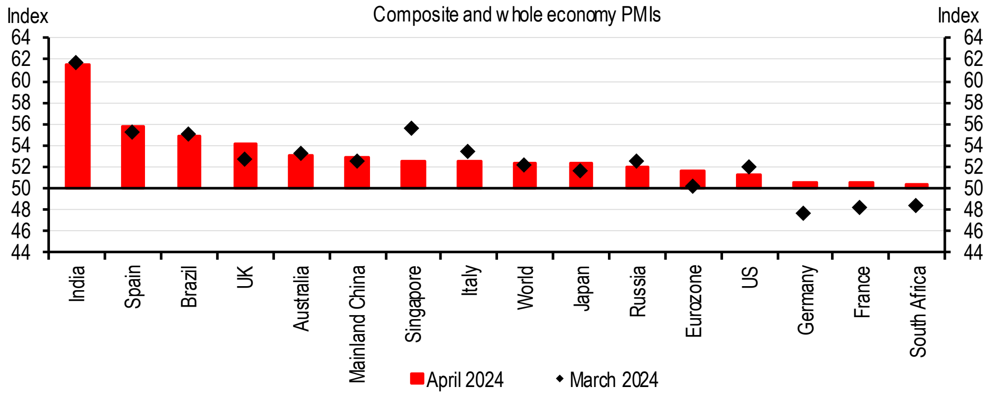
Still getting better

- The global manufacturing PMI pulled back in April, but strength in services saw the global composite PMI rise again
- Cost pressures rose slightly during the month as prices of raw materials rose and wage levels remain elevated
- Firms remain cautiously optimistic about the year-ahead outlook

Cautiously optimistic

The global composite PMI rose to 52.4 in April – supported by both manufacturing and services sectors, with the latter faring better than the former. New orders remained strong, albeit slightly slower than in March, but new export orders rose for the first time since February 2022. Overall, both manufacturing and services firms remain optimistic about the outlook for the year ahead, although the level of optimism receded slightly from March.

2. Composite PMIs continue to show a geographical split in growth momentum



Source: S&P Global, HSBC.

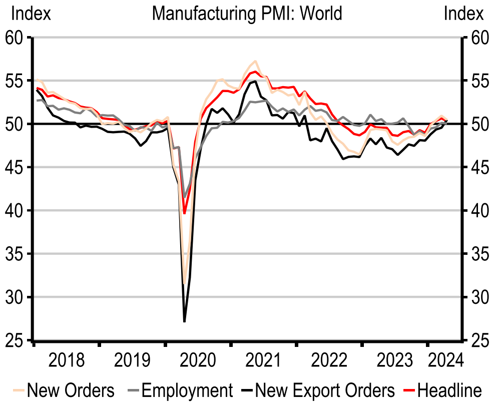
Manufacturing PMIs: Modest expansion

The global manufacturing sector continued its upturn in April, although the headline PMI pulled back to 50.3 from 50.6. This was led by an increase in both domestic and international new orders, with the latter rising at its fastest pace in 26 months even if domestic orders look to have moderated slightly in April. Consequently, firms increased their output levels, albeit at a slightly slower pace than in March. Hiring levels rose marginally during the period, but purchasing activity declined. This reduction in purchasing activity is likely to be attributed to a combination of higher input costs and inventory management.

By sector, output increased in both the consumer and intermediate goods industries. In contrast, output in the investment goods sector contracted for the first time in three months. Similarly, new work intake improved for consumer goods and intermediate goods, but deteriorated for investment goods.

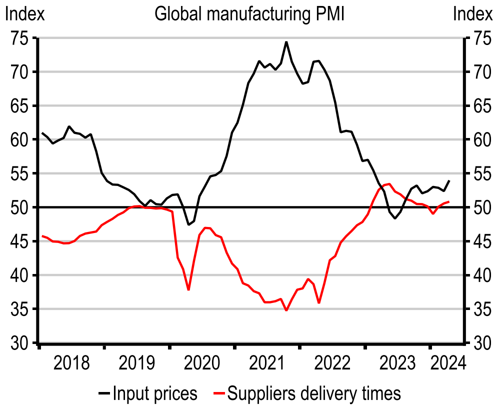
Geographically, emerging markets outperformed developed markets, with PMIs below 50 in the latter. This was primarily led by a slowdown in the manufacturing sectors in the US and the UK. Meanwhile, mainland China, Brazil and India were major contributors to growth in emerging markets.

3. The global manufacturing sector expanded modestly in April…



Source: S&P Global, Macrobond.

4. …and supplier delivery times shortened, but input costs rose

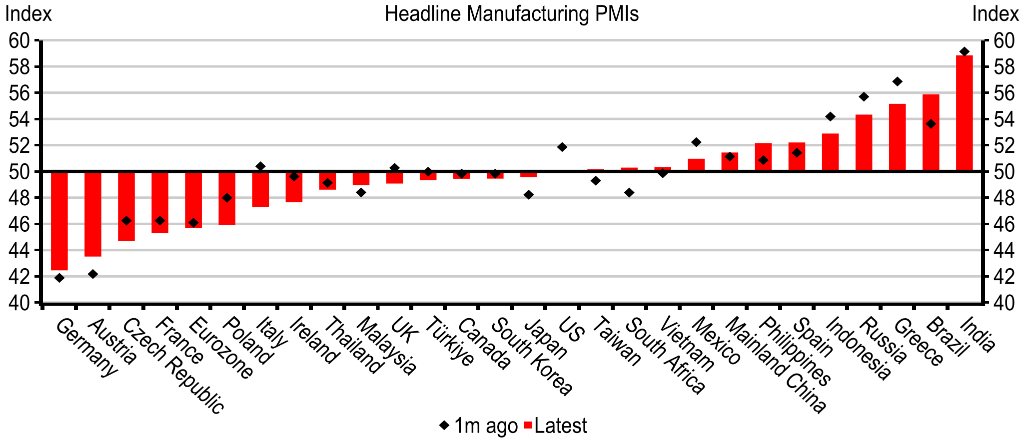


Source: S&P Global, Macrobond. Note: Number above 50 means delivery times are shortening.

The US manufacturing sector disappointed slightly in April, with manufacturing conditions remaining unchanged at 50.0, down from 51.9 in March. The decline was led by a fall in new orders, prompting firms to reduce purchasing activity. Panellists cited clients' reluctance to commit to new orders amid an uncertain market outlook. Meanwhile, output increased at a slower pace as outstanding business enabled firms to reduce backlogs, despite lower new orders. However, firms remain optimistic about future prospects and increased their staffing levels. On the price front, input costs rose sharply due to increase in oil and metal prices. The ISM manufacturing PMI also reflected similar trends, with the headline index contracting in April, falling by 1.1ppt to 49.2.

The manufacturing sector in the UK also showed renewed signs of weakness in April, with the PMI falling by 1.2ppt to 49.1. Both output and new orders fell back into contractionary territory, as uncertain market conditions, client destocking, and supply chain disruptions stymied growth opportunities. The slowdown was largely seen in the intermediate goods and investment goods sectors, while the consumer goods sector fared better due to stronger demand. Input costs also rose in the UK, with the rate of increase accelerating to its highest level since February 2023. Consequently, manufacturers increased output charges as well.

5. Manufacturing PMIs are now more evenly split between growth and contraction



Source: S&P Global, Macrobond

The manufacturing sector in the eurozone continues to be a drag, with the headline PMI falling 0.4ppt to 45.7 in April as new orders fell sharply. However, the decline in the output sub-index was the slowest in a year, and firms remained optimistic about future output and increased their staffing levels. While some economies such as Greece, Spain, and Netherlands registered growth in the region, others like Germany, France, and Austria saw a deterioration.

Meanwhile, emerging markets performed much better. India continues to record the highest pace of growth, with its manufacturing PMI at 58.8, albeit down from 59.1. Strong demand helped firms to increase their output levels, despite a slightly slower pace than in March. Firms increased their input buying activity amid better delivery times. Hiring levels also increased as Indian manufacturers expect the year-ahead outlook to remain bright.

The manufacturing sector in mainland China accelerated in April, with the Caixin PMI rising by 0.3ppt to 51.4 as new orders improved. New orders expanded at the fastest pace in over a year, and new export orders rose at the fastest pace in three-and-a-half years. Consequently, firms increased their output levels at the fastest pace since May 2023. However, firms remain cautious as they reduced staffing levels, and the NBS PMIs gave a bit more scope for caution.

Services PMIs: Resilient growth

The resilience in the service sector continued in April as well, with the global services PMI rising to 52.7 from 52.4. This resilience was bolstered by increases in new orders, prompting firms to hold an optimistic outlook for the year ahead. In particular, there was a sharp improvement from some European economies that have lagged for some time.

The services PMI in the eurozone saw a big improvement in April, rising by 1.8ppt to 53.3, the fastest pace of growth in 11 months. Germany and France recorded marked improvements in the service sector in April. Stronger demand conditions led to increased output levels, too, and new orders rose to the highest level since May 2023. Additionally, backlogs of work also fell, adding to a further pick-up in sales. Price pressures also crept up slightly, leading to higher output prices.

UK service providers also recorded an upturn in service activity in April, with the service PMI rising by 1.9ppt to 55.0. This was led by increased orders, which rose at the fastest pace in 11 months. Panellists mentioned that an improved economic outlook led clients to spend more. However, staffing levels were only increased marginally, with the employment index at the lowest level in four months. Input costs rose at the fastest pace since August 2023, a potential inflation challenge for the Bank of England.

In contrast, business activity in the US service sector increased at a slower pace in April as new orders fell at the fastest pace in 16 months. Employment was also reduced sharply, with the sub-index falling to one of the lowest readings on record – something that may be worth watching in coming releases. The ISM services index also pulled back, with the index falling below 50 (to 49.4) for the first time since December 2022.

Asian economies remained robust on the services side, too. The Indian service sector PMI stood at 60.8 in April, led by a sharp rise in new orders and output, both of which recorded the fastest pace of growth in 14 years. In addition to buoyant domestic demand, firms noted new business gains from several parts of the world, which collectively underpinned the second-quickest upturn in international sales since the series started in September 2014. Input costs also rose sharply in April due to higher wage costs and food prices. The service sector in mainland China also expanded at a moderate pace, supported by the fastest rate of incoming business in nearly a year.

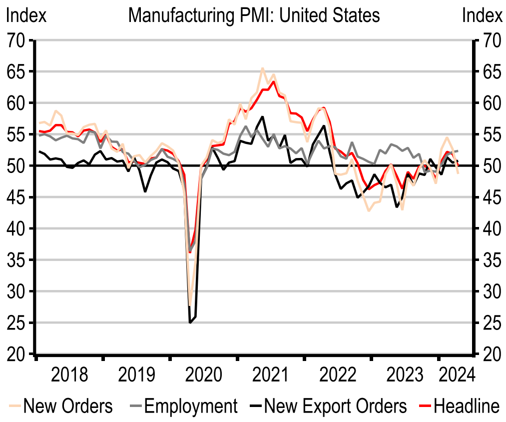
What does all this mean?

The strength of PMI data persisted in April, supported by a rise in new orders and output levels, and we are witnessing nascent signs of international demand gaining traction. It appears that while some of this is replenishing inventories, demand is picking up, too. However, both manufacturing and service firms remain cautious about hiring levels, despite future optimism.

Despite supply chain challenges so far having a limited impact, price pressures have increased, due to higher commodity prices, particularly oil. Labour costs also remain elevated, adding pressure to input costs. Service sector inflation could therefore stay stickier, a challenge for central bankers.

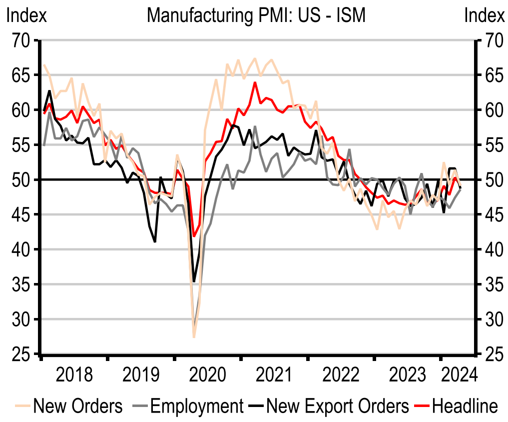
Manufacturing PMIs

6. In the US, manufacturing activity slowed in April, albeit still seeing growth…



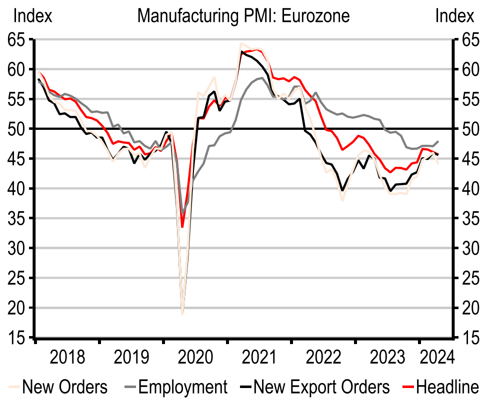
Source: S&P Global, HSBC, Macrobond

7. …while the ISM manufacturing PMI fell into contractionary territory



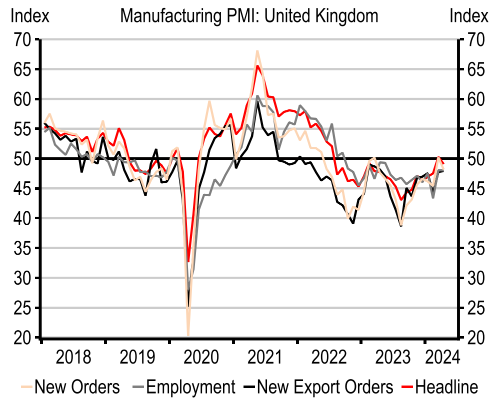
Source: S&P Global, HSBC, Macrobond

8. Manufacturing conditions remain weak in the eurozone, led by Germany and France…



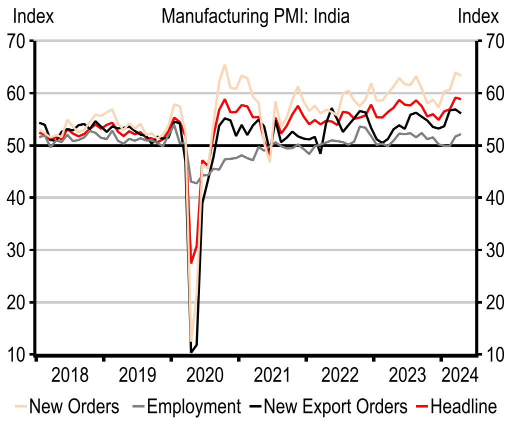
Source: S&P Global, HSBC, Macrobond

9. …and in the UK we saw a pullback



Source: S&P Global, HSBC, Macrobond

10. Manufacturing conditions in India remain robust…



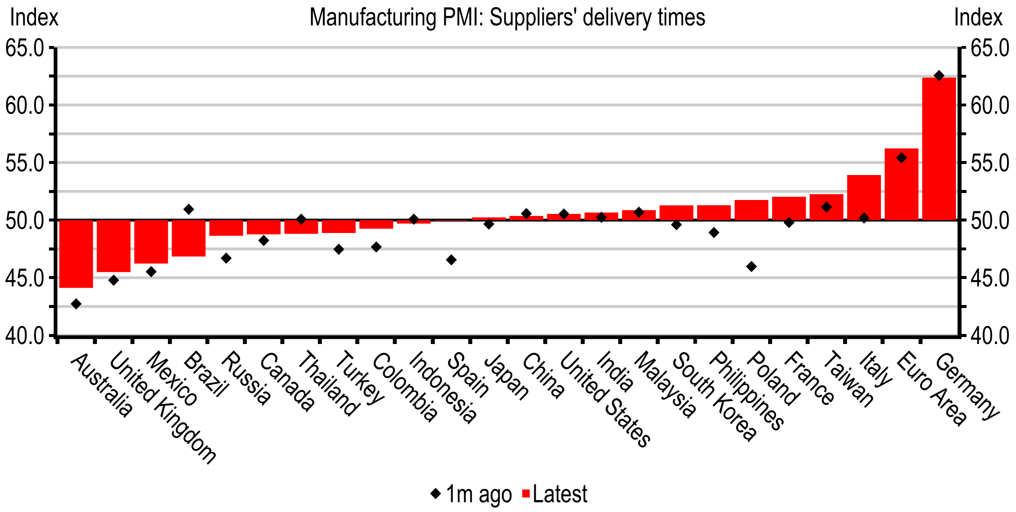
Source: S&P Global, HSBC, Macrobond

11. …while the Chinese manufacturing sector has seen some improvement

Source: S&P Global, HSBC, Macrobond

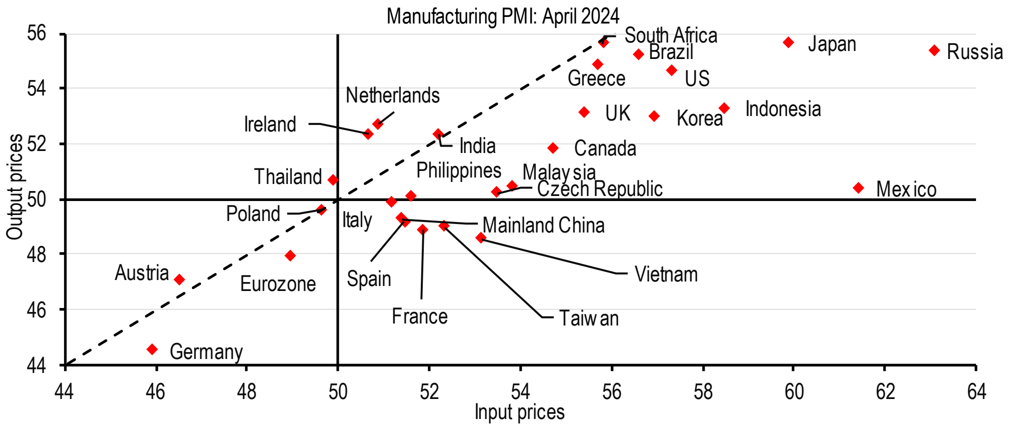
Other key trends in the manufacturing sector

12. Supplier delivery times suggest that supply chain issues might be dissipating



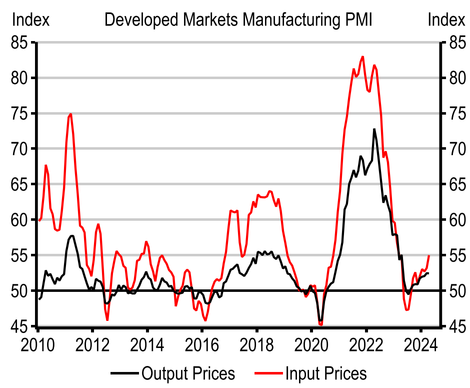
Source: S&P Global, Refinitiv Datastream

13. Input costs rose in some economies, but only partly translated into output charges



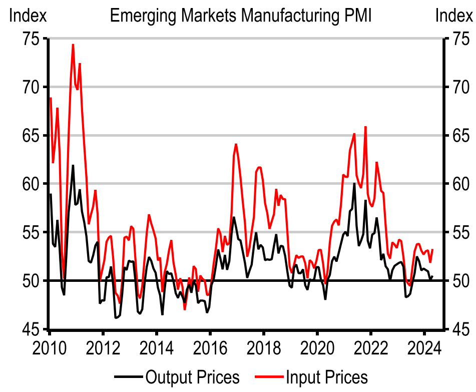
Source: S&P Global, HSBC

14. Cost pressures rose in developed markets, but remain at a manageable level for now…



Source: S&P Global, HSBC, Macrobond

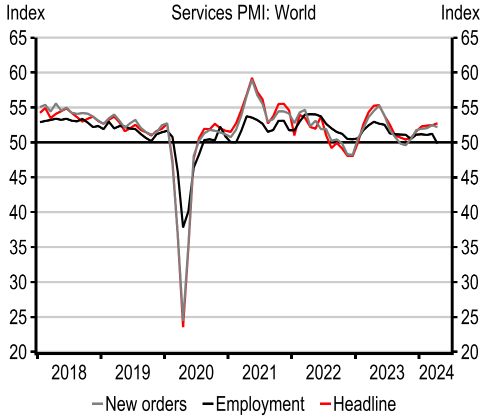
15. …but they moderated in emerging markets, led by mainland China



Source: S&P Global, HSBC, Macrobond

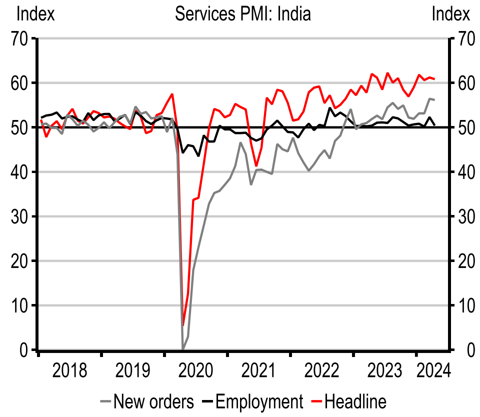
Services PMIs

16. The global services PMI remains robust…



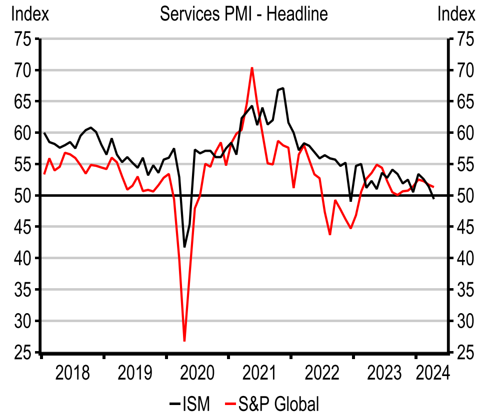
Source: S&P Global, HSBC, Macrobond

17. …with India still leading the pack



Source: S&P Global, HSBC, Macrobond

18. The services sector in the US looks to have slowed in April…

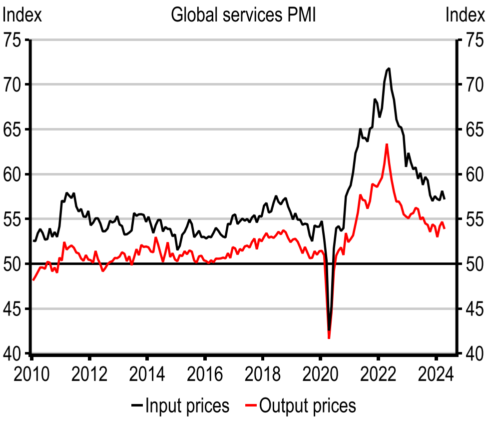


Source: S&P Global, HSBC, Macrobond

19. …but the eurozone is showings signs of improvement

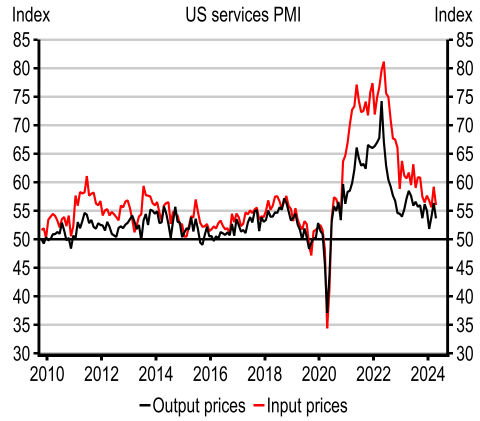
Source: S&P Global, HSBC, Macrobond

20. Inflationary pressures are hanging around in the services sector…



Source: S&P Global, HSBC, Macrobond

21. …typified by the stickiness in services prices in the US



Source: S&P Global, HSBC, Macrobond

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