

A tepid trajectory

Global PMI wrap up (August)

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- ◆ The global composite PMI fell further in August to 50.6...
- ◆ ...with weakness in both manufacturing and services as higher rates biting end demand...
- ◆ ...but India continues to be a bright spot for both sectors

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The global composite PMI fell to 50.6 in August, down from 51.6 in July. While this still points to growth, it seems that global activity is slowing down. While the manufacturing PMI ticked up, it remains in contractionary territory, and the services PMI moderated again. It may be the case that the service sector will follow the manufacturing sector slump.

It seems that higher interest rates are really impacting end demand. Both manufacturing and services are seeing slowdowns in new business, although the latter is proving slightly more resilient. There appears to be little sign of a turn in the manufacturing data in this month's PMI data. Meanwhile, employment indices showed a mixed picture as firms continue to hire in some geographies, despite the softening in demand.

Geographically, Europe is faring much worse than elsewhere. Both manufacturing and services PMIs in the eurozone declined further below the watermark level in August. Even in the US, manufacturing activity declined in August, while services grew at a slower pace. Meanwhile, Asia seems to be faring better, with India leading the pack. Mainland China's manufacturing sector also seems to have bounced back in August.

Despite few supply chain issues, input costs picked up in August, likely due to higher energy prices. This may not be a sign of input costs building new momentum, but the turn in the data may provide some concerns in the offices of central bankers across the world.

This mix – of potentially higher costs and weaker demand – is far from ideal. The PMI data in the coming months will be key to see whether there are any signs of a turn in the activity or inflation data, hopefully for the better.

1. Snapshot of manufacturing and services PMIs

	Manufacturing PMIs			Services PMIs		
	Jun 23	Jul 23	Aug 23	Jun 23	Jul 23	Aug 23
World	48.7	48.6	49.0	53.9	52.7	51.1
US	46.3	49.0	47.9	54.4	52.3	50.5
Mainland China	50.5	49.2	51.0	53.9	54.1	51.8
Eurozone	43.4	42.7	43.5	52.0	50.9	47.9
Japan	49.8	49.6	49.6	54.0	53.8	54.3
UK	46.5	45.3	43.0	53.7	51.5	49.5
India	57.8	57.7	58.6	58.5	62.3	60.1
Brazil	46.6	47.8	50.1	53.3	50.2	50.6
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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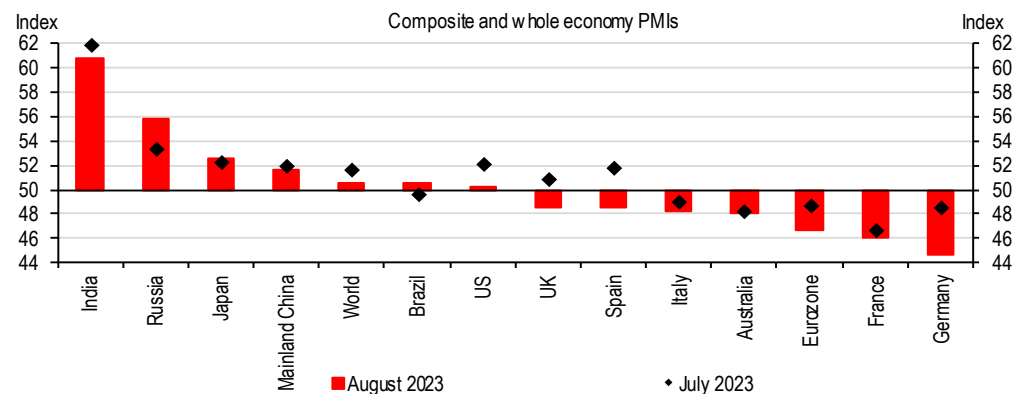
Services follow manufacturing

- ◆ The global composite PMI fell by 1ppt to 50.6 in August
- ◆ Both manufacturing and service sectors are showing signs of a slowdown, although the latter is still in expansionary territory
- ◆ While supply chains issues are clear, energy prices have lifted input costs

Languid momentum

The global composite PMI fell by 1ppt in August, to 50.6, suggesting that global economic activity has almost ground to a halt. This was the weakest reading in seven months.

2. Composite PMIs edged down in most economies



Manufacturing PMIs: The downturn decelerates

The global manufacturing PMI remained in contractionary territory in August. However, the pace of contraction has moderated, with the global headline PMI up by 0.4ppt to 49.0. New orders, output, and employment all reflected the headline trend. Looking a little deeper, it was mostly emerging markets, in particular India and mainland China, which drove the uptick in the global manufacturing PMI, rather than the developed markets. In fact, the manufacturing sector for the developed markets fell further in August to 46.8, down from 47.1. Sectoral breakdowns show that intermediate and investment goods contracted in August, while consumer goods industries saw mild growth.

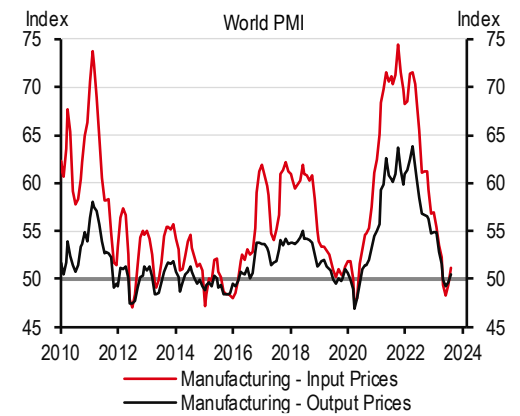
Overall, new orders continued to fall for the fourteenth straight month with the eurozone, the US, and Japan all experiencing declines in new work. And the downturn in new orders led to a further depletion of work-in-hand as pointed out by declining backlogs of work. Meanwhile, both input and output costs increased during August, mostly led by emerging markets. Overall business optimism for the manufacturing sector dipped to its lowest in nine months as the new orders to finished goods inventory ratio remained at a level signalling contraction.

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



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

4. Both input and output prices ticked up in August

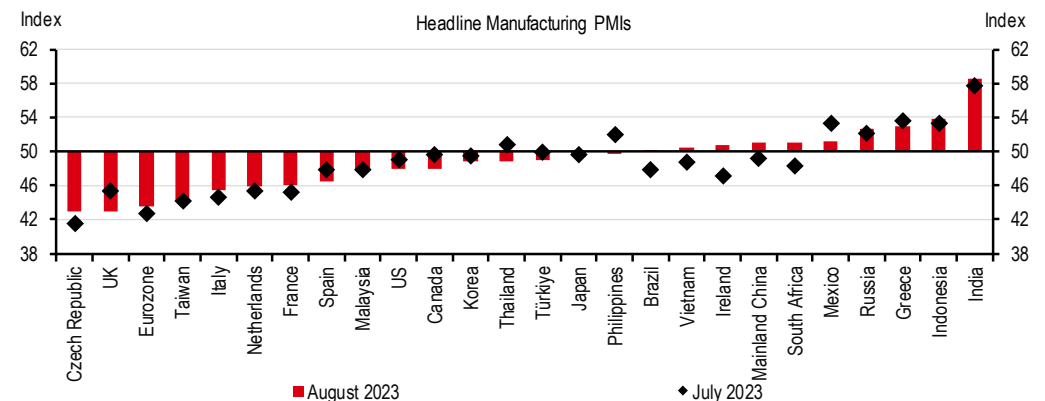


Source: S&P Global, HSBC.

Geographically, manufacturing PMIs are faring the worst in the eurozone. That said, the headline index fell at a slower pace of 43.5 in August, up from 42.7 in July. New orders fell at the sharpest pace in the 26-year history of the series, led by slowdown in both domestic and international demand. And rapidly declining backlogs of work have put a considerable squeeze on production lines across the region. As a result, employment fell for the third straight month, although the fall was only marginal. The big four economies of the region – Germany, France, Italy, and Spain – all have PMIs stuck in contractionary territory. In the UK, the manufacturing PMI fell further in August, reaching a 39-month low of 43.0 led by a sharper contraction in output and new orders.

A similar story is seen in the US as well. Business conditions worsened further in August with the S&P Global manufacturing PMI declining to 47.9, down from 49.0, as a faster decline in new orders led to a renewed contraction in output. Panellists blamed this on a weakening global economy and customers being cautious about placing new orders. As a result, backlogs of work declined further. Input and output prices also rose during the month, despite an improvement in supply chain metrics. Meanwhile, the ISM manufacturing rose by 1.2ppt to 47.6. New orders also contracted, reflecting lacklustre demand. Of the six biggest manufacturing industries, only three industries registered growth in August – transport equipment, food, beverages & tobacco, and petroleum & coal products.

5. Manufacturing PMIs remain in contractionary territory in most economies



Source: S&P Global. Note: Data for Denmark is for June and May

Asia appears to be a relative bright spot, in particular India and, possibly surprisingly, mainland China. The Indian manufacturing sector registered another month of improvement in August, with

the PMI rising to 58.6, up from 57.7. New orders and output rose at the quickest pace in almost three years. As a result, firms increased their purchasing activity. On the price front, cost pressures accelerated, but there was a slower uptick in selling charges. Meanwhile, mainland China's manufacturing sector bounced back in August after the fall in July. It rose to 51.0 – the best reading in six months supported by higher output and total new orders amid reports of firmer market demand. As a result, manufacturers expanded their purchasing activity and staffing levels. Cost pressures picked up slightly, however, with average input prices rising for the first time in six months.

Services PMIs: Slowdown in service surge

After showing remarkable resilience through 2023, there are signs that the global services sector may follow the weakness seen in the manufacturing sector. However, the picture is more diverse – with some slowdowns in some economies but not all. The global services PMI fell to 52.7 to 51.1, weighed down by sharp drops in Europe, the US and mainland China.

The service PMI in India may have edged down but, at 60.1, this is still a historically high reading, supported by nine-year-high new export orders. Consequently, sales increased sharply and firms were able to pass on higher prices to customers with output prices rising at the fastest pace in over six years. However, mainland China saw a softer expansion in its service sector with the headline PMI falling to 51.8 in August, down from 54.1. Falling new orders led to lower sales. However, business confidence for the year ahead remains robust.

In Europe, we saw some sharp drops in service sector PMIs in August. The eurozone aggregate dropped by 3ppts, to 47.9, with a 5ppts drop in Germany the main cause. But weakness was seen across the board, with greater than 1ppt drops in the rest of the big-4 economies, all pointing to a contraction in activity. Similarly, the UK saw a sharp drop in its services PMI, which fell by 2ppts to 49.5 in August. According to panellists, weaker business and consumer spending combined with higher borrowing costs were the major reasons for the slowdown.

The US services PMI data once again showed mixed signals. The S&P Global PMI fell sharply, from 52.3 to 50.5, while the ISM services saw a strong increase, with the headline index up 1.8ppts to 54.5 and the business activity index (which is comparable to the S&P series) rising by 0.2ppt to 57.3. The quotes within the ISM report point to robust demand still, and some signs of easing cost pressures, yet the prices paid index rose again. Overall, the US service sector PMIs point to steady growth in demand and hiring continuing to rise, but at a slower rate.

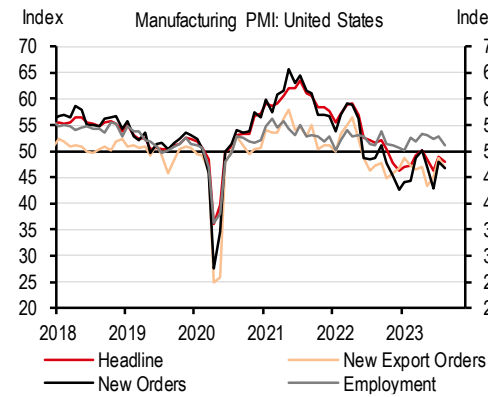
Prices: Regaining momentum?

Some economies saw an increase in manufacturing cost pressures in August. Whether this is temporary, due to energy prices, or whether the disinflationary process is waning remains debatable. The pick-up globally was clearer in emerging markets, but only a few economies, such as the UK, South Africa, and Indonesia, saw a drop in input price indices. That said, PMI data suggest that input costs are still falling in most European economies, just at a slower pace. But Asian economies are seeing a clearer uptick in input price pressures.

We saw some uptick in service input prices as well, but in most cases, output prices in the service sector moderated. The only exception is India, where output prices in the service sector rose sharply due to increased demand, meaning that service providers were able to charge a higher price. The US and eurozone saw a slight uptick in input costs indices in the services sector, but not in prices charged.

Manufacturing PMIs

6. In the US, the headline PMI fell further in August...



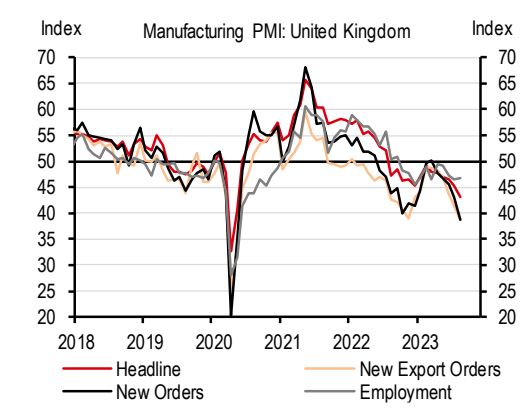
7. ...but the ISM fell at a slower pace



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



9. We saw a sharp deterioration in the manufacturing sector in the UK



10. But manufacturing conditions in India remain robust...



11. ...and mainland China also saw a rebound in the manufacturing sector in August



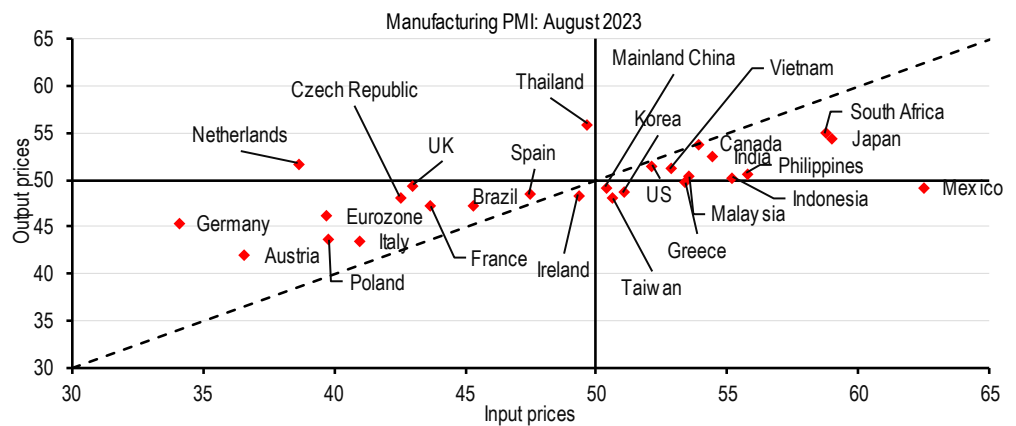
Other key trends in the manufacturing sector

12. Supplier delivery times remain above 50 in most economies and cease to be a concern



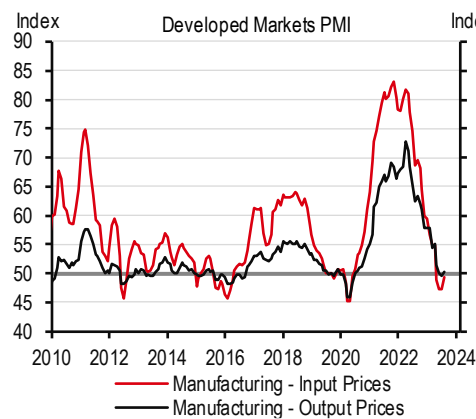
Source: S&P Global, HSBC

13. Input and outprices rose slightly, although remain benign



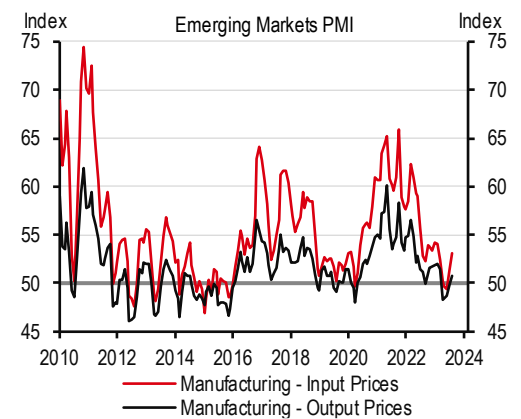
Source: S&P Global, HSBC

14. Input prices ticked up slightly in developed markets...



Source: S&P Global, HSBC

15. ...but price pressures seem more apparent in emerging markets



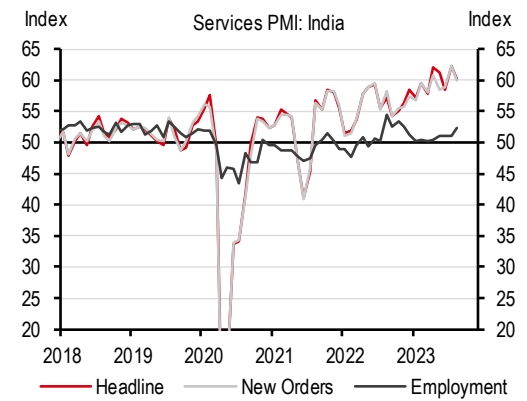
Source: S&P Global, HSBC

Services PMIs

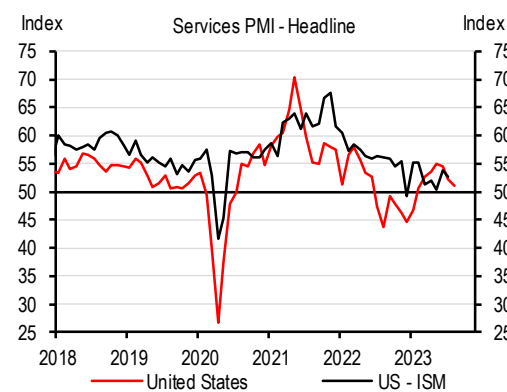
16. The global services PMI dropped in August, but manages to remain above 50...



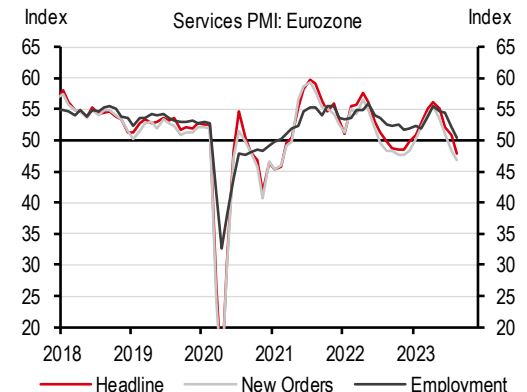
17. ...Asia remains a relatively bright spot, in particular, India



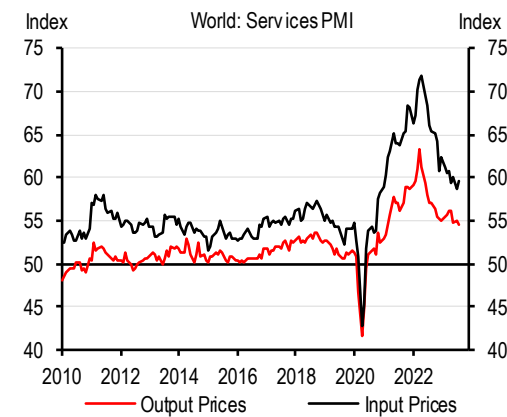
18. Services PMI moderated in the US, but remained in expansionary territory...



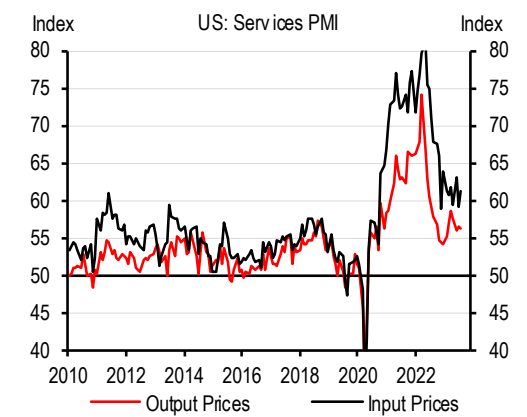
19. ...but they fell below the waterline in most of eurozone economies



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



21. ...in the US, just about, too



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