

January blues

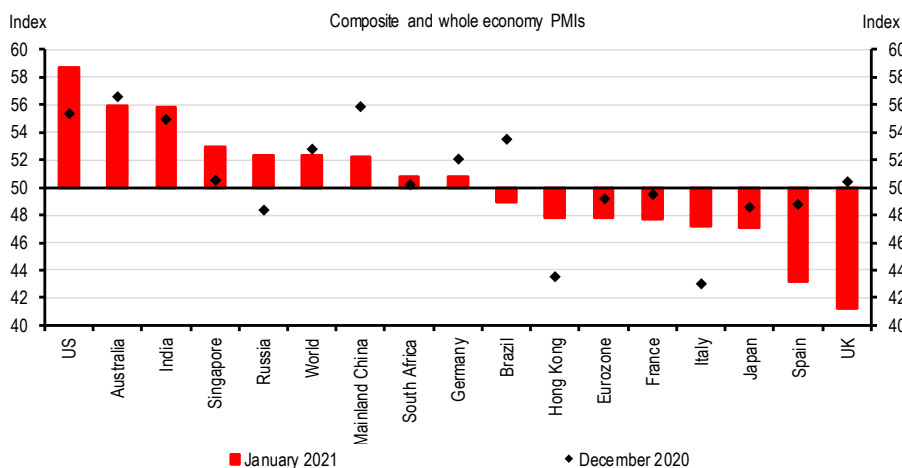
Global PMI wrap-up

Free to View
Economics - Global

- ◆ 2021's first PMIs show a loss of global momentum...
- ◆ ...but the US and India look to be faring better...
- ◆ ...as price pressure keeps building across the world

James Pomeroy
 Global Economist
 HSBC Bank plc

Composite PMIs – world at a glance



Source: IHS Markit, HSBC.

January's PMIs sounded a note of caution about the pace of the global recovery. The global composite PMI fell by 0.4 points to 52.3, pulled down by weaker data from mainland China, further softness in Europe's service sector and some big drops in manufacturing PMIs in some parts of the world, notably Brazil.

Globally, the manufacturing sector continues to outperform the services sector, although both aggregate PMIs fell in January. The global services PMI fell to 51.2, the lowest reading since July 2020.

The data from the US and India fared better – two economies we highlighted before as having upside risks to growth in 2021 due to the starting point in terms of restrictions in January and the progress being made on the vaccine front. Both economies saw a pick-up in the services sector in contrast to further weakness in much of the rest of the world.

Price data were telling, too. Once again we saw the input price component rise for the global manufacturing sector as a result of fuel, logistics and pandemic-related expenses. This is reflected in output prices – the global index rose to the joint-highest level since 2011. On the services front, both input and output costs, reinforcing the notion that globally, headline inflation rates should move higher in the coming months.

This is a redacted version of a report by the same name published on 04-Feb-21. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

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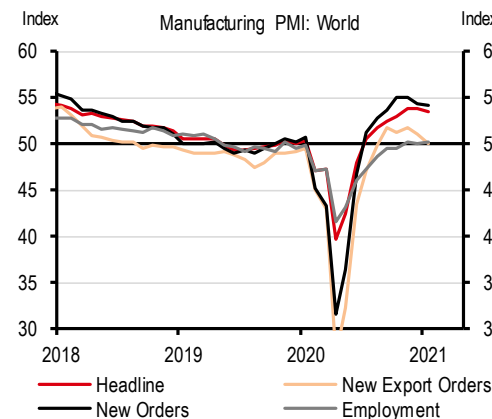
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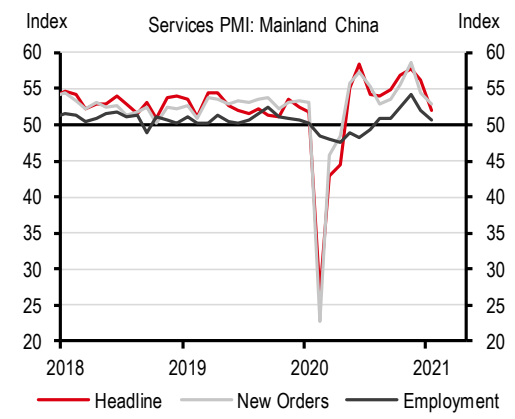
The story from the PMIs

The global composite PMI fell again in January, from 52.7 to 52.3, with most of the subcomponents falling back, including export orders and employment. Whilst the global PMI remains in expansionary territory, it has now fallen for the past two months, suggesting that the global economy has clearly lost some momentum in the past two months.

1. The global manufacturing PMI edged down in January...



2. ...while the global services PMI fell again

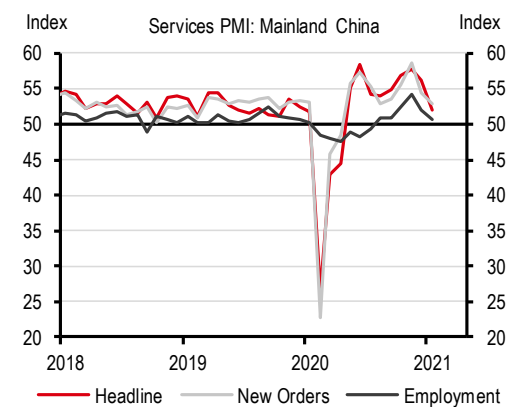


Most of that cooling comes from mainland China. A pick-up in the number of COVID-19 cases, restrictions in some regions and advice against travelling ahead of the Chinese New Year holiday has seen a clear softening in business confidence in both the manufacturing and services sectors. The Caixin manufacturing PMI fell by 1.5pts to 51.5 while the Caixin services PMI fell by more, by 4.3pts, to 52.0. These followed a similar pattern to the NBS indices which fell too. The data are unlikely to improve in February as, although we do not expect to see a full national lockdown, most local governments have put in stricter travelling and gathering restrictions, which are still likely to dampen overall service activity over the New Year holiday.

3. Momentum cooled in mainland China around the turn of the year...

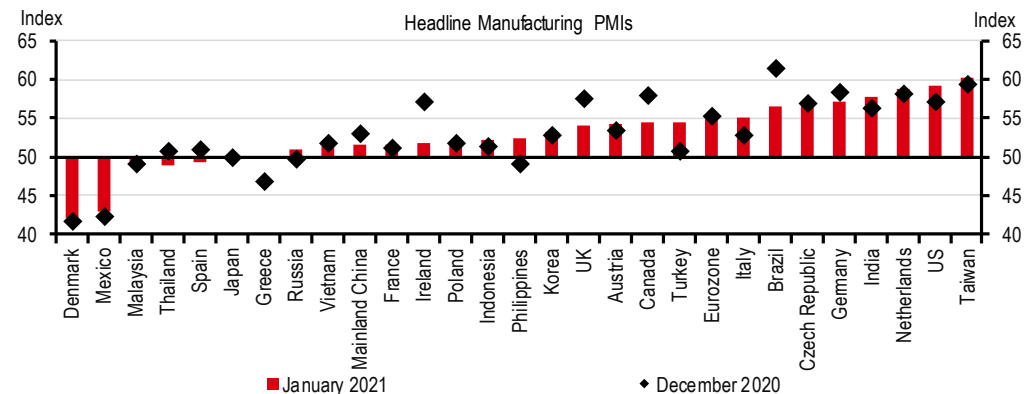


4. ...even more clearly in the services sector



These same issues are evident in much of Asia. Malaysia, Thailand and Japan all saw their manufacturing PMIs start the year in contractionary territory, while the latter's services sector index remains weak at 47.1, 1.4pts lower than in December. These economies have all had a pick-up in COVID-19 cases and restrictions and the economic data are seeing the impact.

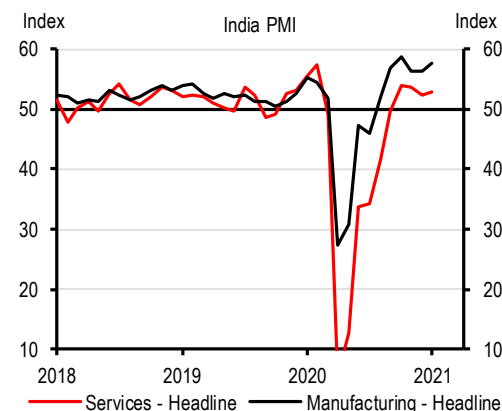
5. Global manufacturing PMIs cooled in most places in January



Source: IHS Markit

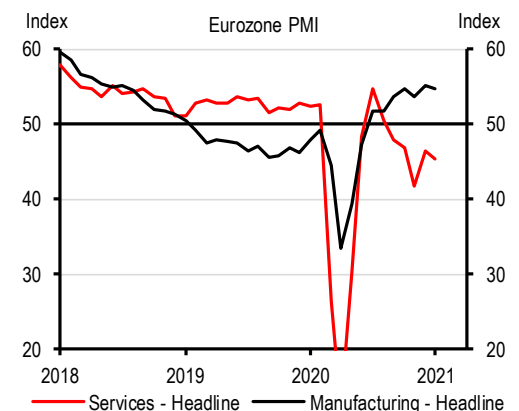
But it is not all bad news in Asia. Despite a surge in case numbers, activity looks to have improved in the Philippines, while Indonesia, Korea and Taiwan all look to be faring better – supported by robust exports and the continued strength in the electronics cycle. The standout in Asia, though, is India – where activity data continue to improve across the board and that continues to be reflected in the PMI data (chart 6). Elsewhere in the emerging world, Russia's service sector PMI rose strongly back into expansion, while South Africa's manufacturing PMI points to growth if only just, despite more virus-related challenges.

6. India's data continue to improve...



Source: IHS Markit. Note: Lows in April 2020 cut off to be able to see latest data more clearly.

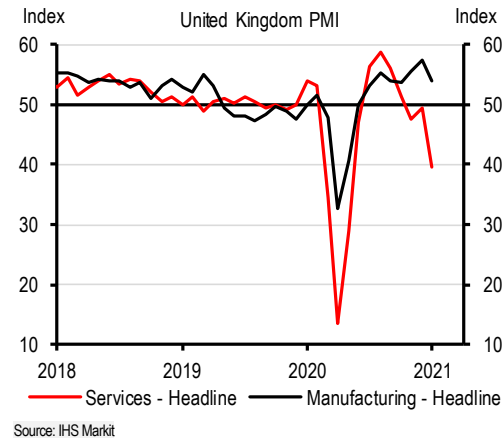
7. ...while the eurozone data shows the impact of lockdowns



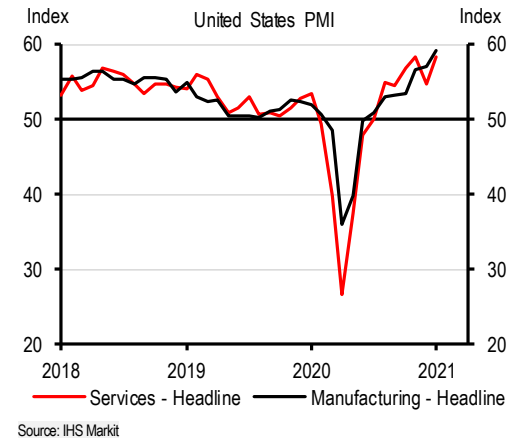
Source: IHS Markit. Note: Lows in April 2020 cut off to be able to see latest data more clearly.

Despite the pace of improvement cooling, the world's manufacturing sector continues to grow, whereas the same cannot be said for the services sector in many parts of the world. That is best seen in the eurozone (chart 7) where the services PMIs remain in contractionary territory while the manufacturing sector data remain buoyant. This is clearly as a result of the lockdowns put in place across the region at the end of 2020 that are still in place. The divide is seen even more clearly in the UK due to the national lockdown, where the services PMI fell by nearly 10pts, to 39.5, while the manufacturing PMI remains robust at 54.1, despite a drop in January.

8. The UK data show the impact of the national lockdown...



9. ...whereas the US data look more robust



The US data look better. Despite the clear wobbles in the broad activity data in December – across the services PMI, nonfarm payrolls and retail sales – the early data for January look better. After the much stronger ADP employment print, the services PMI picked up by 3.5pts to 58.3, although the employment component softened. But more encouragingly, the sector PMIs released at the same time showed the consumer services sector return to growth – although it still lags the other sectors, with growth in healthcare, financials and consumer goods looking much stronger.

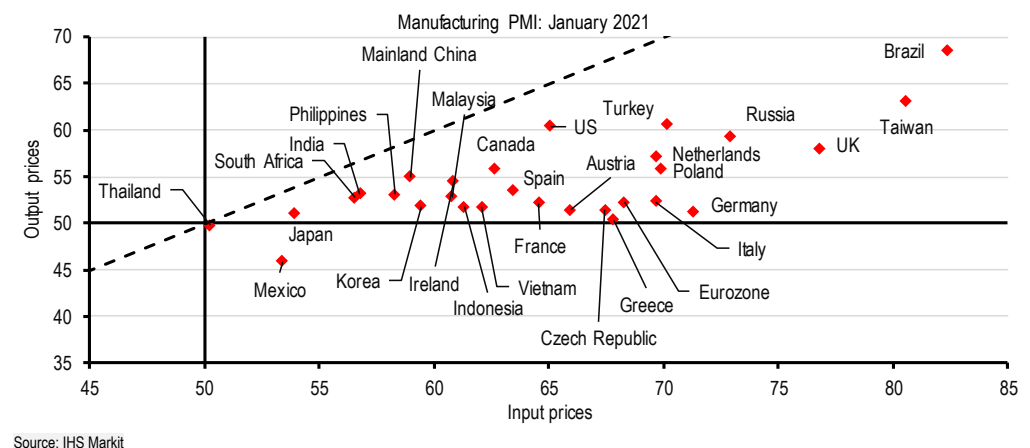
The US ISM surveys were solid too – the manufacturing index may have fallen from 60.5 to 58.7, but the employment component rose, while the ISM services rose by 1pt to 58.7, the strongest reading since February 2019. Clearly, the US has started 2021 on a much better footing than most other economies, despite the elevated number of COVID-19 cases at the start of the month.

Inflationary pressures keep building

The PMI data continue to provide a good early signal of global inflationary pressures. In the manufacturing sector, input and output prices are rising in almost every economy (with Thailand and Mexico the only exceptions).

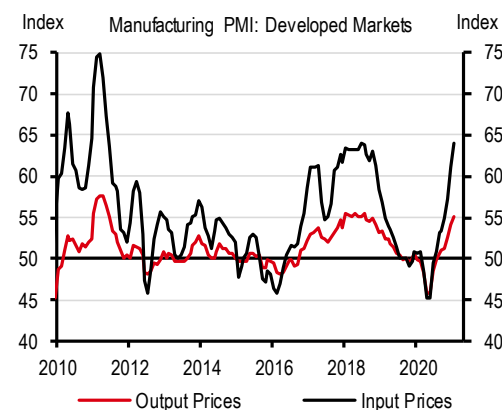
Input prices have been elevated for some time, but there continue to be signs that some of these costs are being passed on as output prices are moving higher too – in both developed and emerging markets. The global manufacturing output price index hit 55.0 in January, the joint-highest reading since 2011.

10. PMIs suggest that input cost pressures are rising



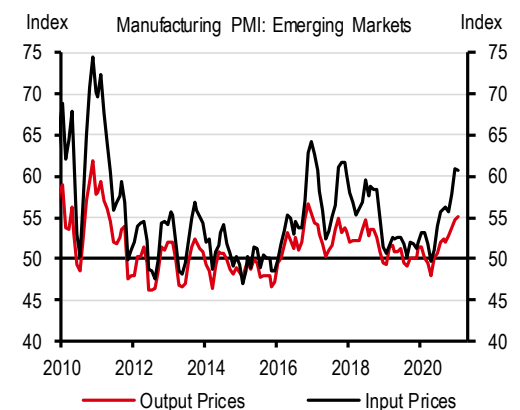
While global goods price inflation has been subdued for some time, some of these cost increases may be slowly starting to filter through to output prices. However, the rise in output prices is still much less than that of input prices (like in 2018 in the developed world, chart 11) suggesting that the degree of inflationary pressures may remain muted despite the much higher input costs. In the course of 2021, particularly once economies start to open up much more, the developments in these indices will be key to watch.

11. Input prices are rising quickly...



Source: IHS Markit

12. ...and output prices are moving higher too

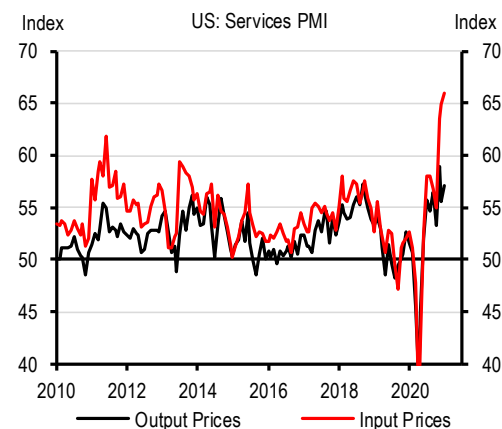


Source: IHS Markit

In the services sector, things are slightly different. We don't have the same universal pick-up in input prices (mainland China's edged down but are still elevated and in Europe the input price index is some way below pre-pandemic averages) but the global aggregate has been lifted by the US, where the input price index has moved to a series high (since late 2009) and output prices have followed in recent months – albeit not to quite the same level.

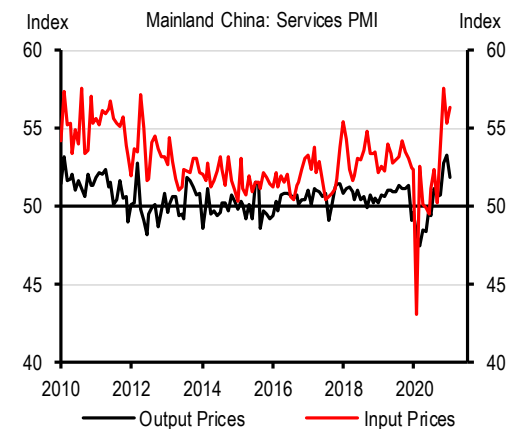
Tellingly, Markit's press release said that "higher input prices were reportedly linked to greater fuel, transportation and supplier costs, especially for PPE" – suggesting that many of these higher costs could be temporary, but it will be interesting to note how sellers' prices change if demand picks up in the second half of the year.

13. The US services PMI's input price index hit a record high in January...



Source: IHS Markit

14. ...and mainland China's equivalent is elevated too



Source: IHS Markit

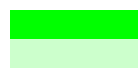
Summary

January's PMIs suggest that the global recovery may have taken a breather at the start of 2021. That weakness is most evident in the services sector and in mainland China, but in most parts of the world the pick-up in the number of COVID-19 cases and restrictions has led to a cooling of business optimism. The outliers are clearly the US and India, where the data have held up and even improved in January. Both economies are making steady progress on the vaccine front, and could be well-placed to outperform expectations in 2021.

Inflationary pressures are clearly still building. Firms are seeing higher input costs from fuel, logistics and pandemic-related expenses, and this is being passed on to consumers to some degree. For now, firms are still taking a hit on margins, but how that changes as demand picks up will be interesting to follow.

Heat maps – Manufacturing PMIs

	Headline					New Orders					Employment			
	Oct 20	Nov 20	Dec 20	Jan 21		Oct 20	Nov 20	Dec 20	Jan 21		Oct 20	Nov 20	Dec 20	Jan 21
Global		53.8	53.8	53.5										
US - Markit		56.7	57.1	59.2										
US - ISM		57.7	60.5	58.7										
Canada		55.8	57.9	54.4										
Brazil		64.0	61.5	56.5										
EU		54.9	55.8	54.2										
Eurozone		53.8	55.2	54.8										
Austria		51.7	53.5	54.2										
France		49.6	51.1	51.6										
Germany		57.8	58.3	57.1										
Greece		42.3	46.9	50.0										
Ireland		52.2	57.2	51.8										
Italy		51.5	52.8	55.1										
Netherlands		54.4	58.2	58.8										
Spain		49.8	51.0	49.3										
Denmark		46.6	41.7	42.1										
United Kingdom		55.6	57.5	54.1										
Switzerland		54.5	57.3	59.4										
Czech Republic		53.9	57.0	57.0										
Poland		50.8	51.7	51.9										
Russia		46.3	49.7	50.9										
Turkey		51.4	50.8	54.4										
South Africa		50.3	50.2	50.8										
Japan		49.0	50.0	49.8										
Mainland China		54.9	53.0	51.5										
India		56.3	56.4	57.7										
Indonesia		50.6	51.3	52.2										
South Korea		52.9	52.9	53.2										
Taiwan		56.9	59.4	60.2										
Vietnam		49.9	51.7	51.3										
Australia		52.1		55.3										
New Zealand		54.7	48.7											



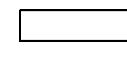
Above 50 and rising

Above 50 and falling or same



Below 50 and rising

Below 50 and falling or same



Data unavailable at time of release

Source: IHS Markit. Note: No Australia data for December 2020.

Heat maps – Manufacturing PMIs

	Output Prices					Input Prices			
	Oct 20	Nov 20	Dec 20	Jan 21		Oct 20	Nov 20	Dec 20	Jan 21
Global									
US - Markit									
Canada									
Brazil									
EU									
Eurozone									
Austria									
France									
Germany									
Greece									
Ireland									
Italy									
Netherlands									
Spain									
Denmark									
United Kingdom									
Czech Republic									
Poland									
Russia									
Turkey									
South Africa									
Japan									
Mainland China									
India									
South Korea									
Taiwan									

Source: IHS Markit

Heat maps – Services PMIs

	Business activity					New business					Employment			
	Oct 20	Nov 20	Dec 20	Jan 21		Oct 20	Nov 20	Dec 20	Jan 21		Oct 20	Nov 20	Dec 20	Jan 21
Global		52.2	51.8	51.6										
US - Markit		58.4	54.8	58.3										
US - ISM		59.6	60.5	59.9										
Brazil		50.9	51.1	47.0										
EU		41.7	46.4	45.4										
Eurozone		41.7	46.4	45.4										
France		38.8	49.1	47.3										
Germany		46.0	47.0	46.7										
Ireland		45.4	50.1	36.2										
Italy		39.4	39.7	44.7										
Spain		39.5	48.0	41.7										
United Kingdom		47.6	49.4	39.5										
Russia		48.2	48.0	52.7										
Japan		47.8	47.7	46.1										
Mainland China		57.8	56.3	52.0										
India		53.7	52.3	52.8										
Australia		52.9												

Greater or equal to 50 and rising or same
Greater than or equal to 50 and falling

Less than 50 and rising or same
Less than 50 and falling

Data unavailable at
time of release

Source: IHS Markit.

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HSBC Bank plc
8 Canada Square, London
E14 5HQ, United Kingdom
Telephone: +44 20 7991 8888
Fax: +44 20 7992 4880
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