Ending 2023 on the up

Global PMI wrap up (December)

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- The global composite PMI rose by 0.5pts to 51.0 in December…
- …thanks to widespread improvements in services data…
- …but firms remain cautious – with employment indices a possible cause for concern

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The global composite PMI ticked up marginally by 0.5pts to 51.0 in December. This was led by an improvement in the service sector PMIs, which saw improvement in most economies. On the other hand, manufacturing conditions deteriorated further at the end of the year. While the overall pace of global growth at the end of 2023 remained sluggish, the PMI data suggest that the worst may be behind us.

The divergence between the manufacturing and service sectors is likely to persist for some time. Manufacturers continue to be held back by high levels of inventories, reduced new orders and a rotation in spending patterns towards services, notably entertainment and leisure. While global trade will likely pick up in 2024 as a result of the inventory cycle, there was no sign of a turnaround yet, in either the new orders or exports orders data.

Geographically, Europe remains the main weak spot in both sectors, with both manufacturing and services PMIs below 50. While there is no clear sign of a meaningful recovery, it appears that the pace of decline has bottomed out. Meanwhile, the US PMIs continue to give mixed signals – with the manufacturing sector declining and service sector expanding. On the other hand, Asian economies performed relatively better, with India leading the pack. However, even here we saw a notable move lower in the pace of activity growth.

Going forwards, we are seeing mixed signals. While the index for future outlook rose in December, firms remain cautious about hiring and purchasing activity. We have seen cuts in staffing levels in major economies like the UK, the US, mainland China and India for the manufacturing sector, and in Europe the service sector employment data are just above the 50 watermark and could be worth watching in the coming months.

1. Snapshot of manufacturing and services PMIs

	Manufacturing PMIs			Services PMIs		
	Oct 23	Nov 23	Dec 23	Oct 23	Nov 23	Dec 23
World	48.8	49.3	49.0	50.4	50.6	51.6
US	50.0	49.4	47.9	50.6	50.8	51.4
Mainland China	49.5	50.7	50.8	50.4	51.5	52.9
Eurozone	43.1	44.2	44.4	47.8	48.7	48.8
Japan	48.7	48.3	47.9	51.6	50.8	52.0
UK	44.8	47.2	46.2	49.5	50.9	53.4
India	55.5	56.0	54.9	58.4	56.9	-
Brazil	48.6	49.4	48.4	51.0	51.2	50.5
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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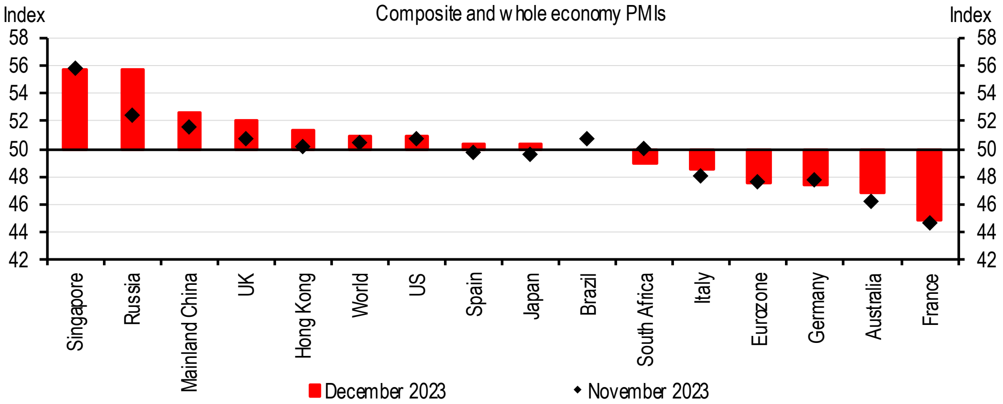
Subdued resilience

- The global composite PMI rose in December
- Manufacturing PMIs remain weak, but services show some resilience
- Going forwards, we need to closely watch employment data

Mixed signals

The global composite PMI rose to 51.5 in December with the service sector again faring better than manufacturing. Geographically, Europe is still the major drag despite some slightly less-bad readings, while Asia continues to fare better.

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



Source: S&P Global, HSBC. Note: India's composite PMI yet to be released at time of publication.

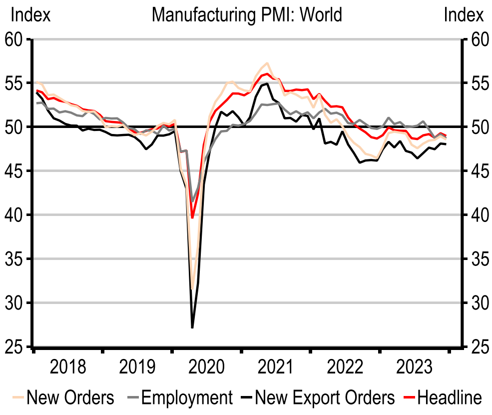
Manufacturing PMIs: Ending the year on a lacklustre note

The manufacturing sector ended 2023 on a weaker footing. December's global manufacturing PMI fell from 49.3 to 49.0, with the index now spending the past 16 months below the 50 watermark. The fall-back in November was led by declines in both new orders and output. As a result, firms cut down staffing levels and purchase quantities. In particular, job losses were registered for the fourth successive month, with cuts seen in mainland China, the eurozone, the US and the UK among others.

By sector, output in the intermediate goods sector contracted at a faster pace in December, marking a seventh consecutive month of contraction. In contrast, producers of both consumer and investment goods saw expansions. Data broken down geographically show a contraction in output in all except seven of the 29 countries for which December data are available.

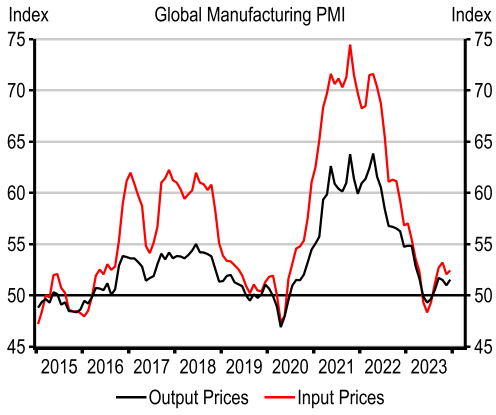
On the price front, we saw a slight uptick in December. That said, price pressures remain mild and so this is likely not a cause for concern for now. This could change if global supply chains become more snarled due to the ongoing situation in the Red Sea. However, job losses are already worth keeping an eye on, with employment indices dropping back in most markets. However, firms became slightly more optimistic about 2024 output in this latest set of data.

3. The global manufacturing PMI fell further in December



Source: S&P Global, Macrobond. Note: Due to later than usual release dates, data for India and Kazakhstan were not available to include in global readings.

4. Manufacturing price indices turned up slightly in December

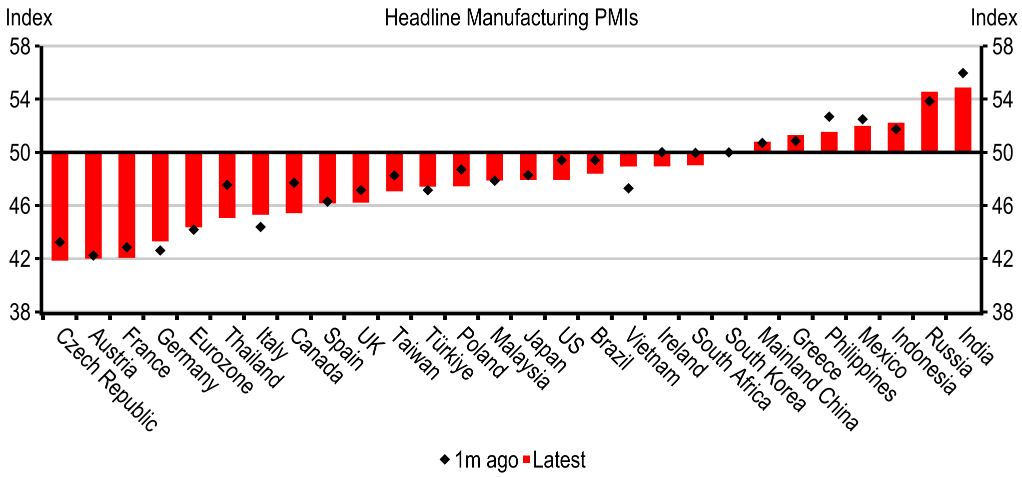


Source: S&P Global, Macrobond.

Geographically, Europe remained the principal drag on global manufacturing output. The eurozone December manufacturing PMI ticked up marginally to 44.4, from 44.2. Data split in three main industrial groups show intermediate goods producers faced the most challenges. And within the eurozone, Germany and Italy showed softer deteriorations, while France recorded the clearest worsening of business conditions. Backlogs of work improved for another month as demand remains weak and the destocking process seems to be continuing, given stocks of purchases shrank for eleven straight months.

In the UK, the manufacturing sector ended 2023 on a weaker footing with the headline PMI falling to 46.2, down from 47.2. While new orders remain bleak, they fell at a slower pace. However, the output index fell sharply by 3.7pts in December, suggesting that there is less demand for fresh production.

5. Manufacturing PMIs remain in contractionary territory in most economies



Source: S&P Global, Macrobond

Even the manufacturing sector in the US contracted further in December with the headline S&P Global PMI falling to 47.9, down from 49.4 in November. This was led by a sharp fall in new orders – both domestic and external. Panellists cited lower purchasing power and global uncertainty as the primary reasons. Consequently, firms reduced staffing levels and purchasing activity. Nonetheless, business confidence picked up to a three-month high. Meanwhile, the ISM manufacturing PMI edged up to 47.4 in December, with all six industries in contractionary territory. While the direction of moves of both indices differed in December, the story of weak manufacturing activity is consistent.

On the other hand, Asia seems to be doing much better, led by India and mainland China. While the manufacturing sector in India slowed in December, the headline HSBC PMI remained well above the historical average, coming in at 54.9. This was led by weaker increases in factory orders and output. And the overall future business outlook remained positive.

Meanwhile, mainland China ended 2023 on a slightly more positive note with a 0.1pt uptick in its manufacturing PMI headline to 50.8 in December. Firms signalled stronger increases in output and new orders amid stronger demand, in particular domestic demand. However, firms remain cautious as business confidence regarding the year ahead outlook remains subdued and staffing levels were reduced. Contrary to the Caixin PMI, the NBS PMI deteriorated in December.

Services PMIs: Relatively resilient

The global services sector has proven to be relatively more resilient in 2023. After a slight drop in November, global services PMI rose to a five-month high of 51.6 in December, up from 50.6, with new orders and future business indices also rising.

In services too, Asia seems to be much more resilient than Europe. Mainland China recorded a solid increase in December service activity as new businesses expanded at the quickest pace since May 2023. As a result, firms increased employment for the first time in 3 months. Additionally, the future outlook index for the Chinese services sector also improved in December. India's services PMI data are yet to be released at the time of publication.

The US services sector also fared better at the end of 2023 with S&P services PMI rising to 51.4, the best reading since June 2023, up from 50.8 in November. This was led by increased output levels as demand conditions strengthened in December. Service providers recorded a steeper rise in input costs, and one that was historically elevated, as higher wages and food prices drove inflation. The ISM services index was not published at the time of publication.

Europe continues to underperform in the services sector as well. That said, the eurozone services PMI rose a tad to 48.8 in December, up from 48.7 and was notably a sharp upward revision from the flash reading that pointed to a more marked slowdown. Both overall activity and new orders fell in the region, although the fall in the latter was the smallest since last July. Services firms kept employment unchanged and remained optimistic about future business – the index for which rose to the highest level since mid-2023.

On the other hand, the UK services sector accelerated with the services PMI rising by 2.5pts to 53.4 in December. This has been supported by incoming new work which rose at the fastest pace in six months. Overall, while the pace of growth in Europe is more subdued than elsewhere, the data appear to have bottomed out.

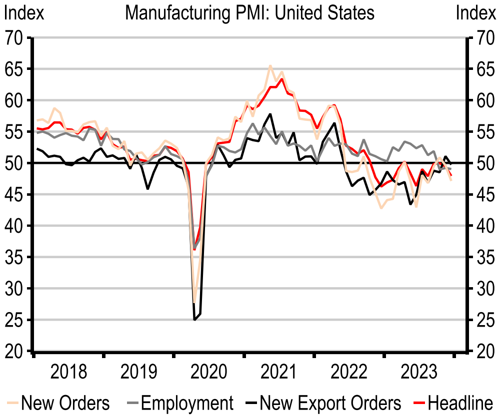
What does all this mean?

Global economic activity remains subdued, but the PMIs suggest that the worst is over. In 2024 the services sector may continue to be supported by positive real wage growth and favourable labour markets, but for a turnaround in the manufacturing sector, inventories still need to be drained or we need to see a pickup in goods demand. There remains scant evidence of this in the latest PMI data.

One thing we would like to keep an eye on is future readings for employment. We saw some reduction in staffing levels in December, in particular in the manufacturing sector. Whilst labour markets remain tight across the world, these surveys may give an early sign of that situation changing.

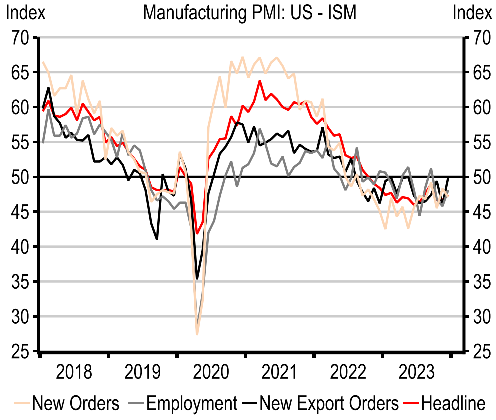
Manufacturing PMIs

6. In the US, manufacturing activity declined in December…



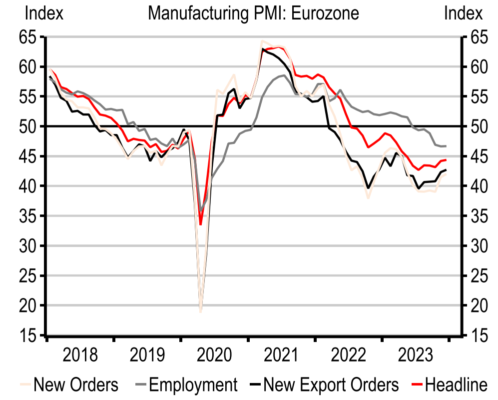
Source: S&P Global, HSBC, Macrobond

7. …while the ISM survey points to a moderation in the slowdown



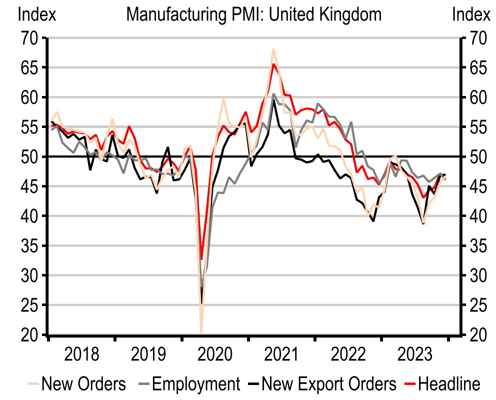
Source: S&P Global, HSBC, Macrobond

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



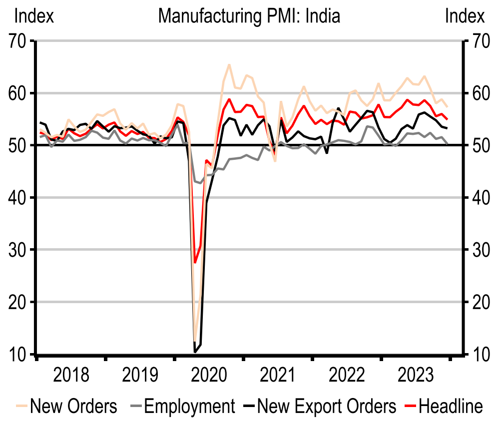
Source: S&P Global, HSBC, Macrobond

9. Meanwhile, the UK may be past the worst



Source: S&P Global, HSBC, Macrobond

10. Manufacturing conditions in India, although cooling, remain robust…



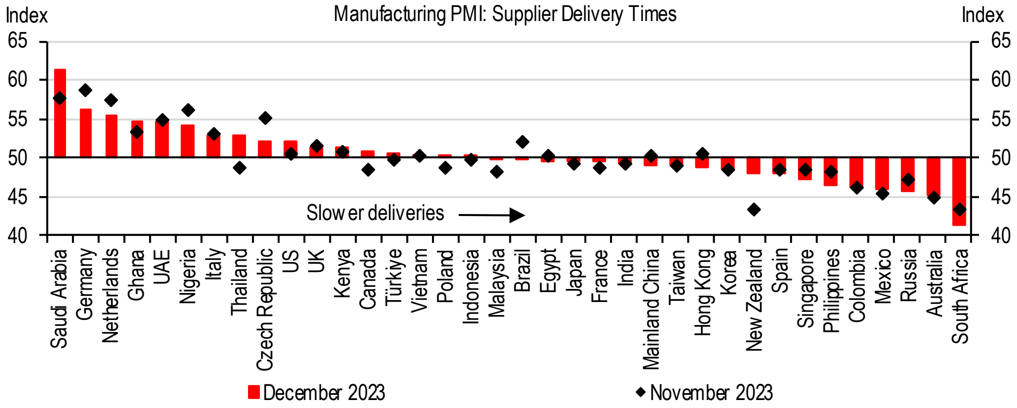
Source: S&P Global, HSBC, Macrobond

11. …while the Chinese manufacturing sector remains quite steady

Source: S&P Global, HSBC, Macrobond

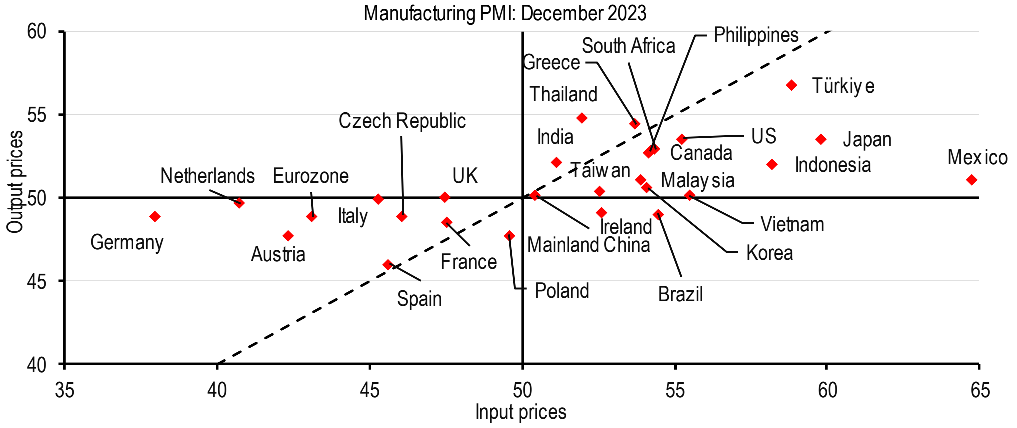
Other key trends in the manufacturing sector

12. Supplier delivery times suggest that supply chain issues are no longer a worry



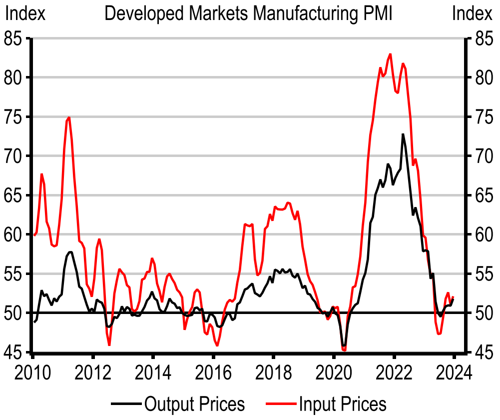
Source: S&P Global, Refinitiv Datastream

13. Input costs rose in some economies which were only partly translated to output charges



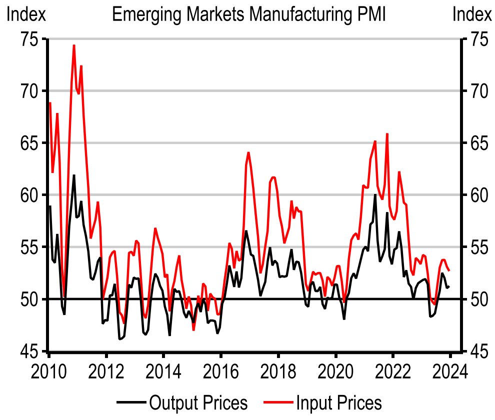
Source: S&P Global, HSBC

14. Input prices rose in developed markets…



Source: S&P Global, HSBC, Macrobond

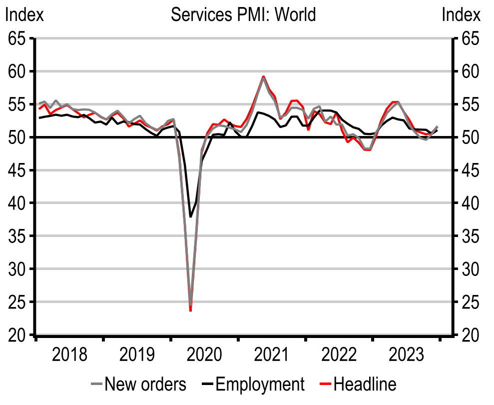
15. …and only marginally in emerging markets



Source: S&P Global, HSBC, Macrobond

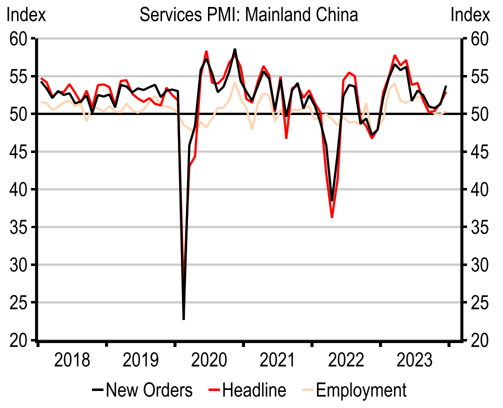
Services PMIs

16. The global services PMI ticked up in December…



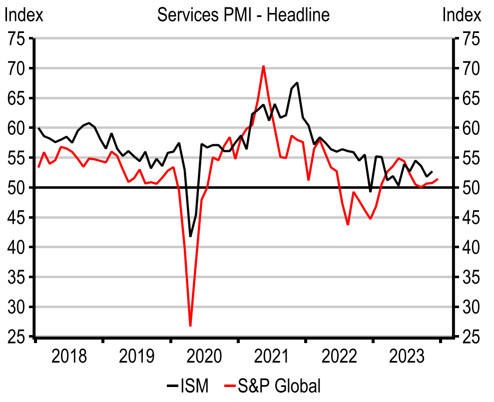
Source: S&P Global, HSBC, Macrobond

17. …with a small tick up in mainland China



Source: S&P Global, HSBC, Macrobond

18. The services sector in the US performed better supported by increased new orders…

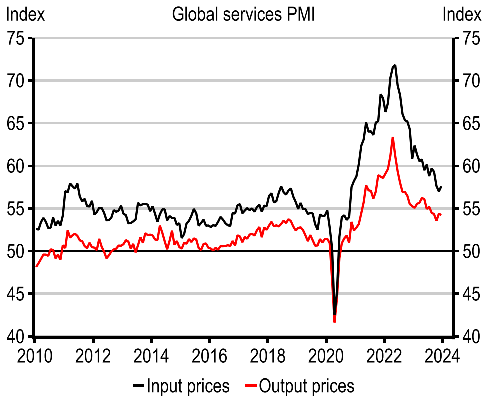


Source: S&P Global, HSBC, Macrobond

19. …but weakness is clearer in Europe

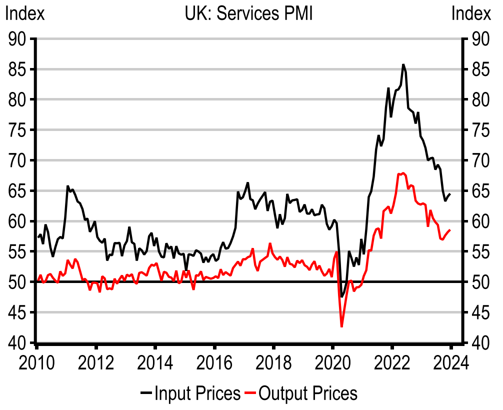
Source: S&P Global, HSBC, Macrobond

20. Unlike the manufacturing sector, services prices rose at a moderate pace…



Source: S&P Global, HSBC, Macrobond

21. …with some stickiness in services prices in Europe



Source: S&P Global, HSBC, Macrobond

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