



GLOBAL ECONOMICS UPDATE

PMIs: Industry struggling but possibly past the worst

- **The broad-based improvement in the output components of February’s manufacturing PMIs suggests that the worst of the global industrial downturn is already in the rear-view mirror. That said, it is too early to call a durable turnaround in industrial demand, at least outside China where a rapid recovery is underway.**
- The output index of the global manufacturing PMI rose from 48.9 to 50.8 in February, driven by increases in most major economies. (See Chart 1.) **China’s** manufacturing sector performed particularly well which, combined with the strong batch of official non-manufacturing PMIs, adds to signs that China has embarked upon a rapid economic recovery. We were quick to **turn positive** on the prospects for China’s economy in 2023 in the wake of the U-turn on the zero-COVID policy. **But the PMIs suggest that China’s recovery is happening even faster than we anticipated, posing upside risks to our 5.5% annual GDP growth forecast.**
- **Even outside China, the rise in the global output index suggests that the worst of manufacturing downturns are behind us. That said, it would be premature to think this marks the start of a sustained turnaround.**
- For one thing, while output indices generally rose in February, many remain below the 50 no-change mark, suggesting that output is still contracting in many parts of the world, just at a slower pace.
- And even then, **output seems to be being supported more by easing shortages than by a marked improvement in demand.** Indeed, in contrast to 2021, when emerging product shortages prevented output growth from keeping up with growth in new orders, now the opposite is happening – output is holding up relatively well despite demand contracting at a faster pace. (See Chart 2.)
- **In the near term, industrial output could be further supported by easing product shortages, as illustrated by the continued declines in the suppliers’ delivery times and shortages indicators last month. (See Chart 3.) But beyond the next couple of months, we suspect that higher interest rates will impinge still further on final demand for manufactured goods, cutting short any nascent recovery in global manufacturing.**
- Finally, while input price pressures eased last month, the global output price index was unchanged at a high level. Given the improvements in supply conditions, the index will probably resume its descent before long.

Chart 1: Manufacturing PMIs: Output

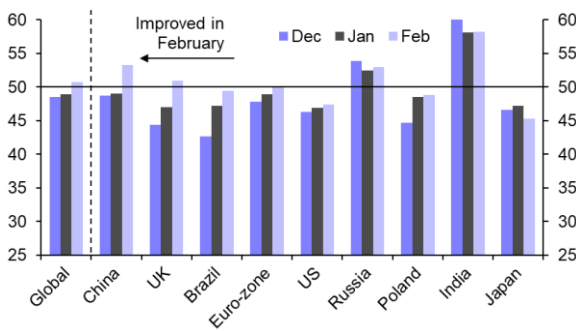


Chart 2: Global ex. China Mfg PMI: Output & New Orders

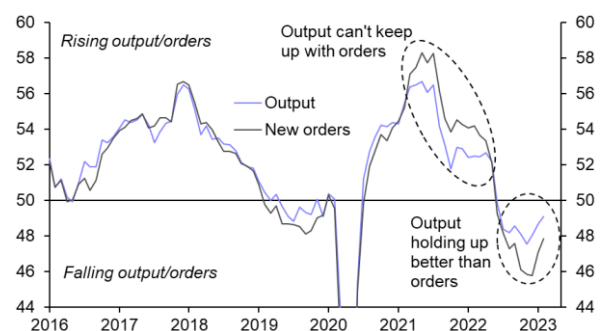


Chart 3: S&P Global Shortages Indicator & Delivery Times

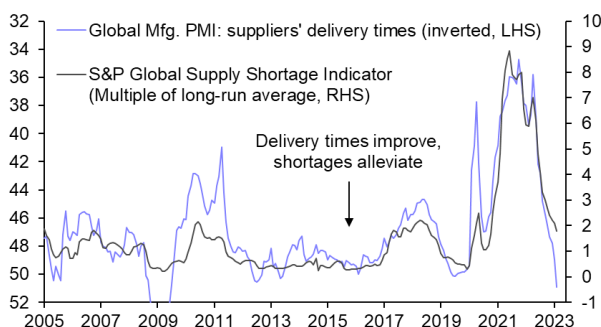
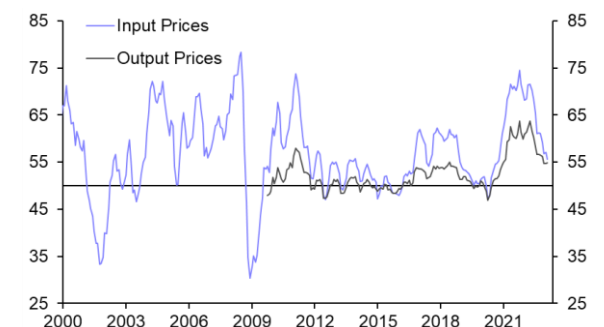


Chart 4: Global Manufacturing PMI: Prices



Sources: S&P Global, Refinitiv, Capital Economics



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