GLOBAL ECONOMICS UPDATE

PMIs suggest DMs are dodging recession again in Q1

- **The flash PMIs for February provided more evidence that advanced economies have remained more resilient than expected so far this year. Both the manufacturing and services sectors contributed to this strength, with improved sentiment and easing supply pressures improving the outlook in most countries except Japan. And price pressures have also continued to ease, though they remain elevated.**
- **The flash PMIs generally surprised to the upside this month.** In the UK, the composite PMI rebounded from 48.5 to 53.0, taking it above the 50-no-change mark for the first time since July, while in the US the jump from 46.8 to 50.2 brought the index above 50 for the first time since June. And the euro-zone also saw a chunky increase, with the composite PMI rising from 50.3 to 52.3. (See Chart 1.) These increases resulted from strength in both services and manufacturing with both output PMIs rising significantly in all three cases.
- **Japan was the exception on this front** – while the composite index did edge up slightly, this was entirely due to a rise in the services PMI. Meanwhile the manufacturing PMI fell deeper into contractionary territory with the output index falling to 44.9, the weakest reading since July 2020. (See Chart 2.) This was largely due to weak external demand, and remains consistent with our downbeat outlook for the economy in 2023.
- **The forward-looking components of the survey also seem to paint a relatively positive picture for most economies.** New orders edged into expansionary territory in both the UK and euro-zone, while a smaller majority of respondents reported falls in new orders in the US. (See Chart 3.) And sentiment also seems to still be improving, with the future output component rising in all major advanced economies.
- **The continued easing of supply shortages has alleviated price pressures.** The composite input price indices fell in all cases outside Japan, taking them well below their early-2022 peaks. Nonetheless, they remain elevated by past standards, despite the downward trend – especially in the services sector. (See Chart 4.)
- **While advanced economies are certainly holding up better than expected, we expect high interest rates to begin weighing on output sometime soon. And to the extent that activity (and ultimately underlying inflation) keep surprising to the upside, that will usher in an even more rate hikes from central banks.**

Chart 1: Composite PMIs

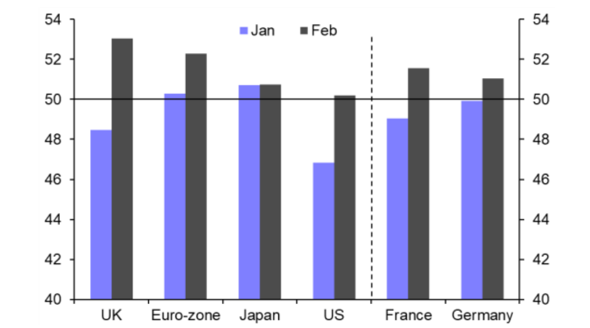


Chart 2: Manufacturing PMI: Output

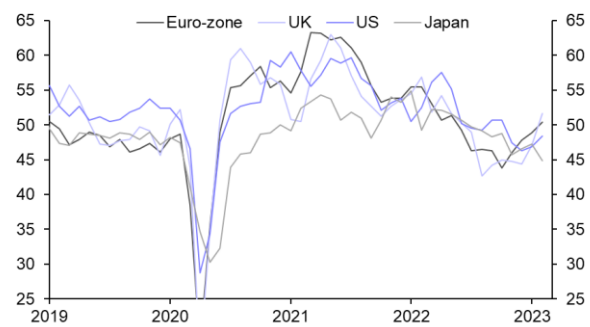


Chart 3: Composite PMIs: New Orders

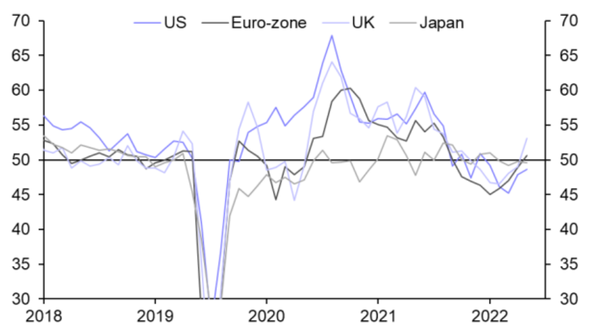
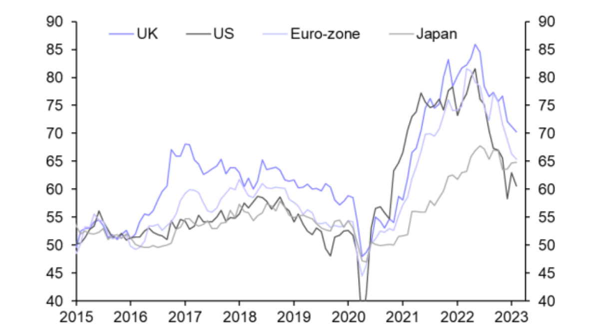


Chart 4: Composite PMIs: Input Prices



Sources: S&P Global, Refinitiv, Capital Economics

Leah Fahy, Assistant Economist, +44 (0)207 808 4694, leah.fahy@capitaleconomics.com

TORONTO NEW YORK LONDON SINGAPORE

Email **sales@capitaleconomics.com** Visit **www.capitaleconomics.com**