CAPITAL ECONOMICS

GLOBAL ECONOMICS UPDATE

PMIs suggest DMs avoided recession in Q1

- **The flash PMIs for March suggest that not only did advanced economies avoid recession in Q1, but the outlook for activity has improved as well. However, we still think the hit from higher interest rates will intensify. And with services price pressures proving sticky, most central banks have a bit more work to do.**
- **The flash PMIs pointed to a relatively positive picture of activity in advanced economies, and suggest that sentiment has so far remained unaffected by the banking sector turmoil.** The composite PMIs rose in the US, euro-zone, and Japan, but fell slightly in the UK. (See Chart 1.) In all cases though, the PMIs were firmly above the 50 no-change mark. And, at face value, they point to DM GDP expanding by around 0.5% q/q in Q1, providing yet more evidence that DMs avoided a recession at the start of this year. (See Chart 2.)
- **The relative strength of the PMIs were almost entirely due to stronger growth in the services sector.** In the US and euro-zone, the services activity PMIs rose to 11- and 10-month highs, respectively, while in Japan it reached its highest level in nearly ten years. Even in the UK – where the PMI fell slightly from February – it remained firmly in expansionary territory. Meanwhile, the outlook for the services sector also looks relatively bright, with the new orders indices rising in all DMs in March. (See Chart 3.)
- **On the other hand, manufacturing activity appears to have been much weaker.** With the exception of the US – where the further easing of supply shortages lifted the output PMI above 50 for the first time in five months – output contracted across advanced economies. And unlike with services, the outlook for the sector is bleak, with the PMIs still pointing to a contraction in both new total orders and new export orders.
- **At least the ongoing weakness in demand for manufactured goods together with the continued easing of supply shortages has helped to further alleviate goods price pressures.** The further fall in the manufacturing output price index meant that sellers increased prices at their slowest rate since December 2020. But with demand for services still strong, those price pressures have remained more persistent. (See Chart 4.)
- **The upshot is that although economic activity in advanced economies appears to have been more resilient than expected in Q1, we think that the majority of the hit to activity from higher interest rates is still to come. And with services inflation still sticky, most central banks may still need to tighten policy further.**

Chart 1: Composite PMIs

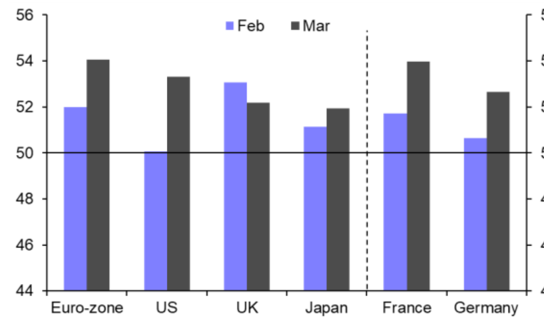


Chart 2: Flash DM Composite PMI & GDP

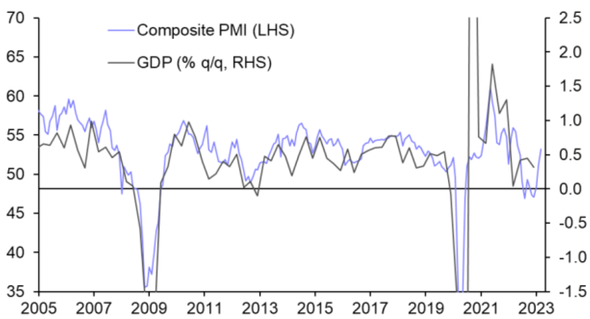


Chart 3: Services PMIs: New Orders

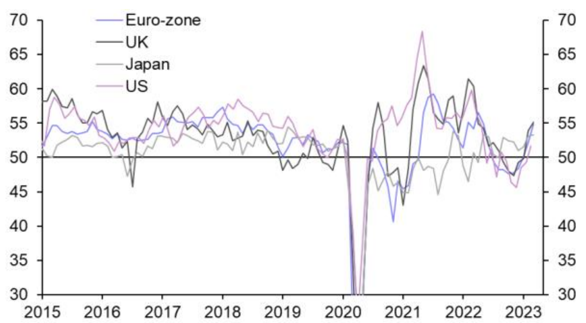
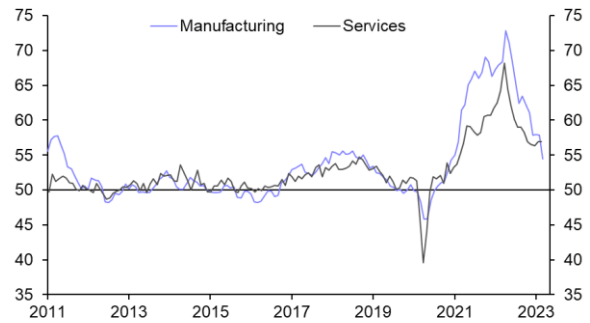


Chart 4: Flash DM PMI: Output Prices



Sources: S&P Global, Refinitiv, Capital Economics

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