CAPITAL ECONOMICS

GLOBAL ECONOMICS UPDATE

PMIs still pointing to robust GDP growth

- **Once again the PMIs suggest that real activity in advanced economies continues to shrug off the effects of higher interest rates. According to the flash PMIs, GDP and employment growth both got off to a strong start in Q2, even amid the banking sector turmoil. But the flipside is that inflationary pressures are no longer easing, meaning that central banks will need to tighten policy a bit further.**
- The flash PMIs suggest that activity in advanced economies got off to a strong start in Q2, and that once again advanced economies seem to be dodging recessions. The flash DM composite PMI rose to 53.5 in April from 52.6 in March. The composite PMIs rose in the euro-zone, UK, and US, but fell slightly in Japan. (See Chart 1.) In all cases though, the PMIs remained comfortably above the 50 no-change mark, suggesting that activity expanded in April. In the euro-zone and UK, the PMIs were particularly strong, pointing to GDP growth of around 0.6% q/q and 0.4% q/q, respectively.
- Apart from in the US, where there was a broad improvement in activity across both the manufacturing and services sectors, the rise in the composite PMIs were entirely due to stronger growth in services. The flash DM services activity PMI rose to a twelve month high of 54.5 in April from 53.2 in March. (See Chart 2.) The outlook for the service sector is also very positive, with new orders growing at an even faster pace than they did last month. On the other hand, the outlook for industry remains bleak. The manufacturing output PMI remained below 50 in April, while new total orders and new export orders also continued to contract.
- On the back of the recent strength in activity and relatively positive outlook for the service sector, the PMIs also pointed to further employment growth. The composite employment PMIs rose in all major advanced economies in April (see Chart 3), driven by stronger jobs growth in the services sector.
- The flipside of the strength in both activity and employment was that inflationary pressures increased, with the services output price PMI rising for the third consecutive month. (See Chart 4.) This suggests that inflation in the services sector in particular remains historically high. **The upshot is that the latest PMIs reinforce our view that most central banks will need to hike rates further in order to stamp out sticky wage pressures and bring core inflation back to target.**

Chart 1: Composite PMIs

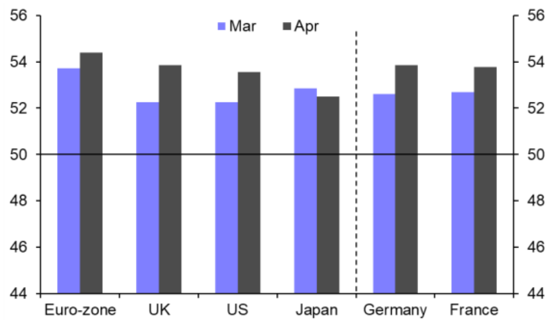


Chart 2: DM PMIs: Output

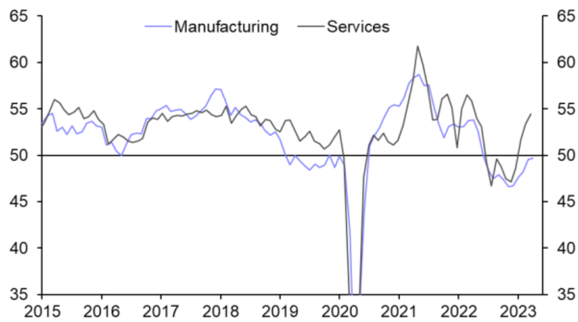


Chart 3: Composite PMIs: Employment

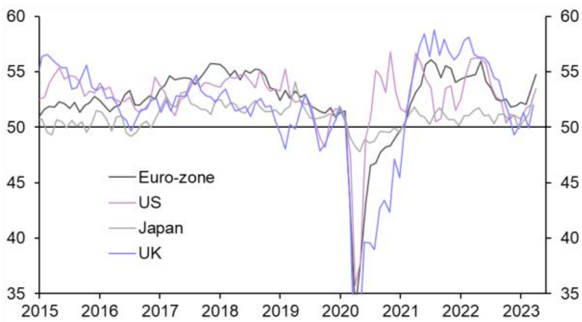
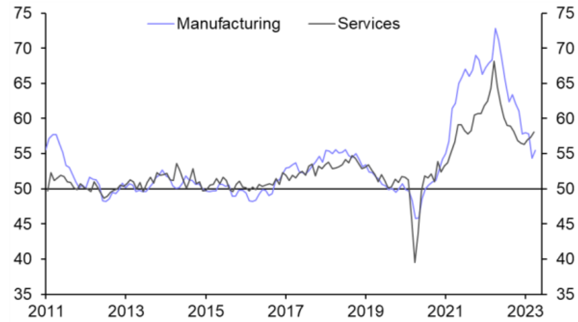


Chart 4: DM PMIs: Output Prices



Sources: S&P Global, Refinitiv, Capital Economics

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