



# GLOBAL ECONOMICS UPDATE

## PMIs: Weak demand weighing on price pressures

- Although activity in the manufacturing sector looks to have improved somewhat in May, that was mainly due to stronger growth in some large emerging markets. The outlook for industry remains bleak, with new export orders in particular falling sharply. The good news is that goods price pressures have eased significantly, to the point that a net majority of firms are now reporting that prices are falling outright.
- The output component of the global manufacturing PMI survey rose slightly from 50.8 in April to 51.5 in May, pointing to faster growth in industrial activity so far in Q2. However at a regional level, the surveys differed. The output indices fell in several major advanced economies including the US, euro-zone and UK. On the other hand, the PMIs rose in some large emerging markets, namely China and India, where it reached a 31-month high. (See Chart 1.) In several cases though, the PMIs remained below the 50 no-change mark, suggesting that manufacturing activity was still contracting in many parts of the world.
- Despite the improvement in current output, the PMIs suggest that weak global demand for manufactured goods is still weighing on the outlook. The total new orders component of the global PMI ticked down further below 50, and would have fallen much further had the S&P Global index for the US fallen as far as the respective ISM survey index, which plunged to cycle lows. The contraction in new export orders seems to have actually accelerated (see Chart 2), consistent with further declines in world trade. Meanwhile, sentiment also looks to have deteriorated, with the future output index falling to a five-month low in May.
- At least the weak demand for manufactured goods has helped to further improve demand-supply imbalance. The S&P Global Supply Shortages Indicator fell to its lowest level in 33 months, while the net share of firms reporting longer delivery times was its smallest since April 2009. (See Chart 3.) Stocks of finished goods fell slightly, but this seems to have been a result of backlogs of orders being cleared further.
- The combination of weak demand and improved supply has continued to feed through into lower price pressures. Both the input and output price indices of the global manufacturing PMI fell below 50 in May, which suggests that prices actually fell for the first time in three years. (See Chart 4.)

Chart 1: Manufacturing PMIs: Output

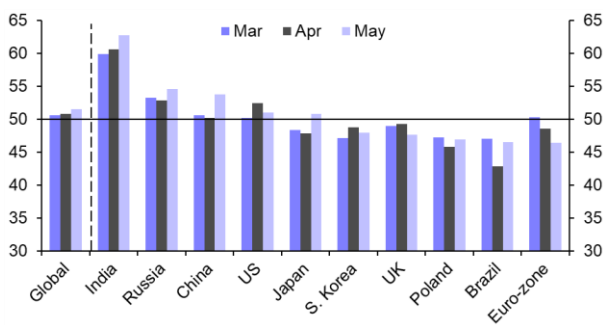


Chart 2: Global Mfg. PMI: Forward-Looking Components

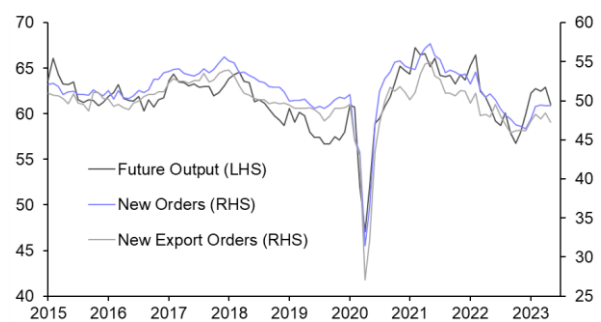


Chart 3: S&P Global Supply Shortages Indicator & Global Manufacturing PMI Suppliers' Delivery Times

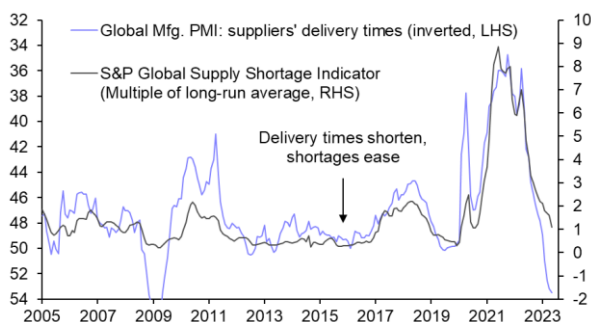
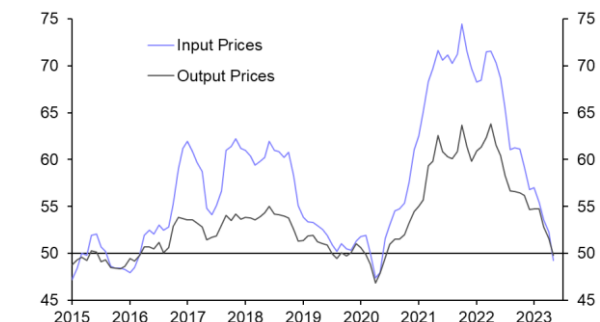


Chart 4: Global Manufacturing PMI: Prices



Sources: S&P Global, Refinitiv, Capital Economics



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