



# GLOBAL ECONOMICS UPDATE

## PMIs show strong service sector activity driving growth

- **May’s PMIs suggest that activity in advanced economies has continued to hold up well amid a strong rebound in the service sector. Meanwhile, weak demand for manufactured goods is weighing heavily on the outlook for industry. And although this means that price pressures for manufactured goods have eased a lot, central banks will remain concerned over the stickiness in services price pressures.**
- The latest flash PMIs suggest that activity in advanced economies has remained resilient so far in Q2. Our estimate of the flash DM composite PMI rose slightly from 53.7 in April to 54.3 in May. The composite PMIs increased in both the US and Japan, where it reached its highest level in nearly 10 years, but fell slightly in the euro-zone and UK. Nonetheless, the PMIs remained firmly above the 50 no-change mark – implying that activity expanded – in all major advanced economies in May. (See Chart 1.)
- However, the recent resilience in activity has not been broad-based across sectors. Indeed, the strength of the composite PMIs was once again almost entirely due to strong activity in the service sector. Both the flash DM services activity and new orders PMIs rose to 13-month highs in May, while the employment PMI was still consistent with strong demand for labour in the sector. (See Chart 2.)
- On the other hand, the outlook for industry looks to have deteriorated further. The flash DM manufacturing output PMI fell back below the 50 no-change mark in May, while new total orders and export orders both contracted at an even faster pace than last month. (See Chart 3.) Japan was the notable exception, where manufacturing output and new orders both rose for the first time in 11 months.
- The weakness in manufacturing activity has continued to feed into lower price pressures. In fact, input prices now seem to be *falling* in the euro-zone, UK and US, which is contributing to much lower output price inflation for manufactured goods. (See Chart 4.) But the same can’t be said for services output prices, which according to the PMIs are still rising at historically elevated rates. (See Chart 4.) The stickiness in services price pressures is a key reason why we still expect the ECB to hike interest rates a bit further, and may add some pressure on the Bank of England to potentially do the same.

Chart 1: Composite PMIs

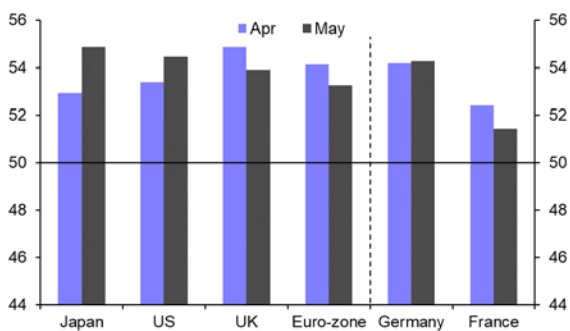


Chart 2: Flash DM Services PMI: Selected Sub-Indices

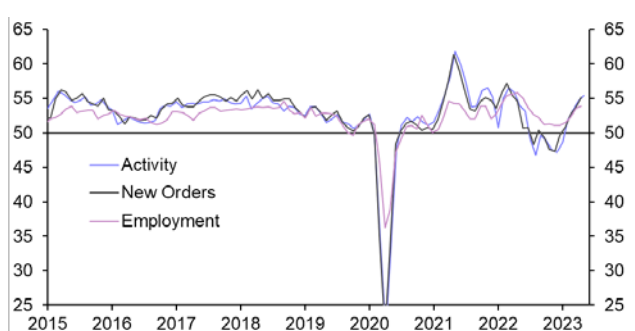


Chart 3: Flash DM Mfg. PMI: Selected Sub-Indices

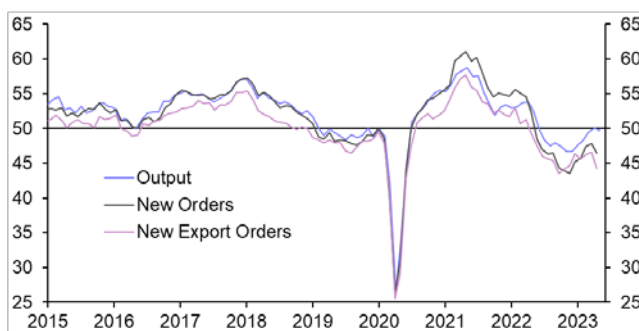
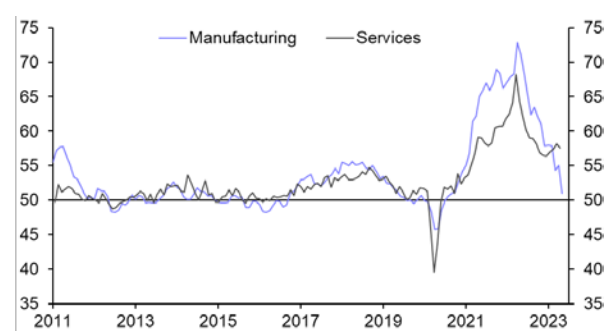


Chart 4: DM PMIs: Output Prices



Sources: S&P Global, Refinitiv, Capital Economics



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