



# GLOBAL ECONOMICS UPDATE

## PMIs: Weak demand set to weigh on industry further

- **The latest PMIs suggest that not only did global manufacturing activity contract at the end of Q2, but the outlook for the manufacturing sector also seems to have deteriorated further. At least the improved supply-demand imbalance seems to be having an effect on price pressures, with a net majority of firms reporting that prices *fell* for the second consecutive month in June.**
- The output component of the global manufacturing PMI fell to 49.2 in June from 51.5 in May, which suggests that manufacturing activity didn't just slow at the end of Q2, it outright contracted for the first time in five months. With the exception of the UK, the output PMIs fell in all major economies. (See Chart 1.) The decline was largest in the US, which was echoed by the [further fall in the ISM survey](#) in June. And in most cases, but especially in advanced economies, the PMIs were below the 50 no-change mark.
- **Part of the explanation for the fall in global manufacturing output in June seems to be that firms have now largely worked through their backlogs of orders** which piled up during the period of acute product shortages in 2021 and early 2022. Backlogs of orders have been falling for the past year now. And a majority of firms are no longer reporting a lengthening in delivery times. (See Chart 2.)
- **The other factor weighing on activity has been weak global demand for manufactured goods, which looks to have deteriorated even further in June.** Both the total new orders and new export orders components of the PMI fell further below 50, suggesting that orders contracted at their fastest pace in five and six months, respectively. (See Chart 3.) Meanwhile, the future output index – which doesn't have any weight in the overall PMI but can be a useful gauge of sentiment – fell to its weakest level since November.
- **The fact that demand has weakened, while at the same time supply shortages no longer appear to be an issue, has helped to ease price pressures for manufactured goods considerably.** According to the price components of the PMI, both input and output prices fell for the second consecutive month in June. (See Chart 4.) This will be welcome news for central banks struggling with still-elevated inflation. **Though with core goods inflation having already fallen significantly in most cases, policymakers will remain more focused on what happens to services inflation, which has proven stickier.**

Chart 1: Manufacturing PMIs: Output

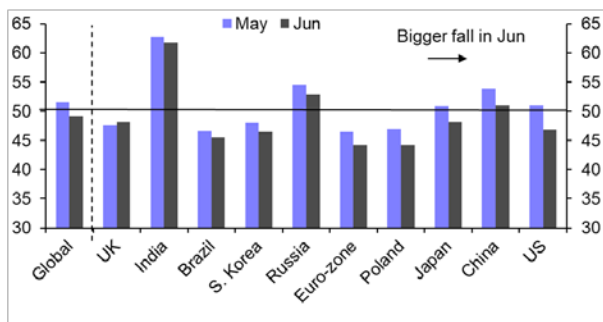


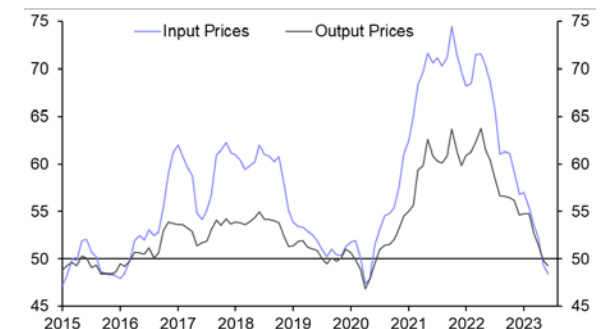
Chart 2: Global Mfg. PMI: Delivery Times & Backlogs



Chart 3: Global Mfg. PMI: Forward-Looking Components



Chart 4: Global Manufacturing PMI: Prices



Sources: S&P Global, Refinitiv, Capital Economics



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