



# GLOBAL ECONOMICS UPDATE

## PMIs: Growth slowing but services inflation still high

- **June’s flash PMIs suggest that not only has activity in advanced economies slowed at the end of Q2, but the outlook has also deteriorated further. This is particularly true in the manufacturing sector, where orders have fallen sharply. Meanwhile, resilient employment growth in the service sector means that price pressures there remain elevated.**
- The latest flash PMIs suggest that activity in advanced economies weakened towards the end of Q2. Our estimate of the flash DM composite PMI fell to a five-month low of 52.0 in June from 53.7 in May. The PMIs fell in all major advanced economies, but remained comfortably above the 50 no-change mark outside the euro-zone. (See Chart 1.) The steep decline in the **euro-zone** PMI points to activity broadly stagnating in June. And activity looks to have contracted in France due to strikes.
- **The PMIs also suggest that the recent strength in services activity across advanced economies is starting to fade.** Although the flash DM services activity PMI still pointed to output expanding in June, the pace of growth looks to have slowed (see Chart 2), while growth in new orders also eased.
- **Meanwhile, the flash DM manufacturing output PMI fell even further below the 50 no-change mark. And the downturn doesn’t appear to have bottomed out just yet.** Despite the ongoing easing of supply constraints, weak demand for manufactured goods is weighing heavily on firms’ order books. According to the PMIs, new total orders fell at their fastest pace since the onset of the pandemic, while the fall in new export orders accelerated further. And sentiment about future output reached its weakest level since the start of the year. (See Chart 3.)
- **One area which has remained resilient is the labour market.** Although the employment PMIs fell slightly in most cases, they still point to solid employment growth, particularly for services. **This has continued to fuel strong wage pressures, especially in the UK.** Accordingly, the deceleration in input price inflation for services seems to have stalled in June. And although the output price PMI fell, it remained consistent with historically high rates of inflation. (See Chart 4.) Indeed, **the stickiness in services inflation is a key reason why we expect most DM central banks to hike interest rates a bit further in the coming months.**

Chart 1: Composite PMIs

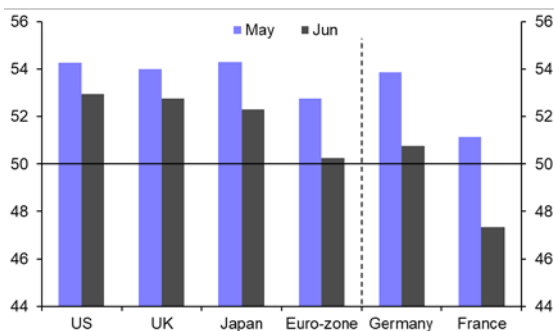


Chart 2: Flash DM PMIs: Output

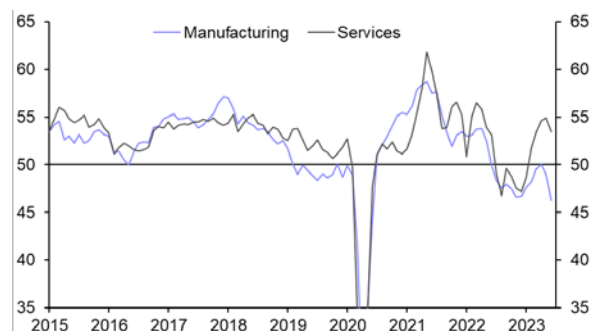


Chart 3: Flash DM Mfg. PMI: Forward-Looking Components

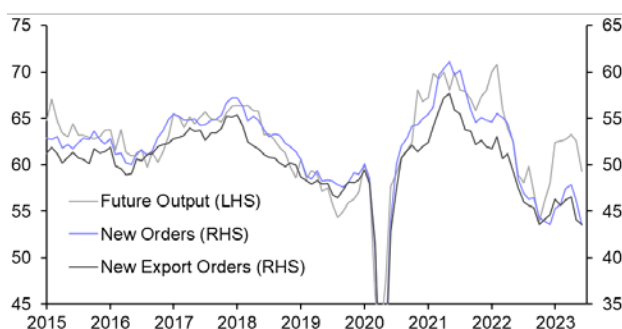
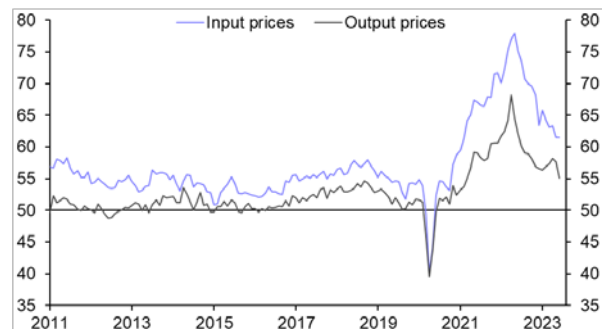


Chart 4: Flash DM Services PMI: Price Indices



Sources: S&P Global, Refinitiv, Capital Economics



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