



GLOBAL ECONOMICS UPDATE

PMIs show no hint of a rebound in industry yet

- **The latest PMIs suggest that the decline in global manufacturing activity has further to run. At least weak activity is weighing on price pressures, which should lead to further falls in core goods inflation globally.**
- The output component of the global manufacturing PMI ticked down slightly to 49.0 in July from 49.3 in June, which at face value suggests that global manufacturing activity contracted for the second consecutive month. The relative bright spot was the US, where the PMI rebounded to just above the 50 no-change mark, while the ISM survey equivalent – albeit still pointing to output contracting – increased too. But in China, the fall in the Caixin PMI was bigger than the slight rise in the official survey, with the average of the two suggesting that manufacturing output fell for the first month since January. And in most cases – most notably in the euro-zone – the PMIs were consistent with manufacturing activity contracting in July. (See Chart 1.)
- **The outlook for future activity was no better, with both the new total orders and new export orders sub-indices of the global manufacturing PMI falling further below 50.** (See Chart 2.) Demand for manufactured goods has been weak for some time now, with total orders and export orders falling for the past 13 and 17 months, respectively. And it doesn't look like demand will pick up any time soon. New export orders contracted at their fastest pace so far this year in July, partly due to a sharp fall in export orders from China.
- **Meanwhile, with supply shortages now back at their long-run average and a net majority of firms no longer reporting a lengthening in delivery times, there seems to be little scope for further improvements in supply to boost production.** (See Chart 3.) And considering that firms' backlogs of work have been falling for a little over a year now, most of the pent-up demand for manufactured goods since the pandemic has probably been met.
- **Weak demand and improved supply have weighed on goods price pressures.** Admittedly, both input and output price components of the global PMI ticked up in July. (See Chart 4.) But the PMIs still point to goods price deflation. While this will be welcome news to central banks, the ECB and Bank of England will probably want to see more progress in taming services price pressures before ending their hiking cycles.

Chart 1: Manufacturing PMIs: Output

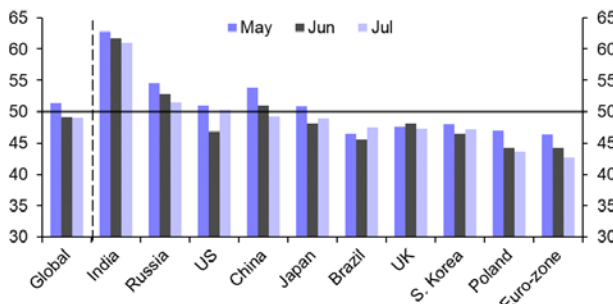


Chart 2: Global Mfg. PMI: New Orders & Export Orders

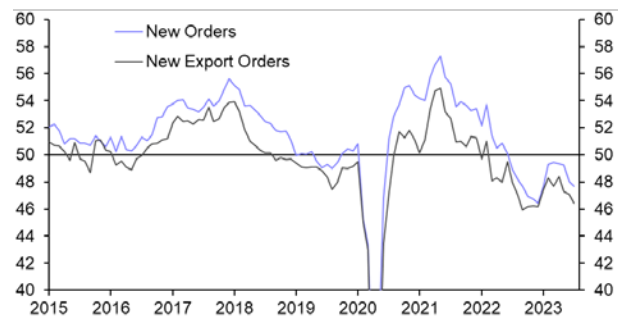


Chart 3: S&P Global Shortages Indicator & Global Mfg. PMI Suppliers' Delivery Times Index

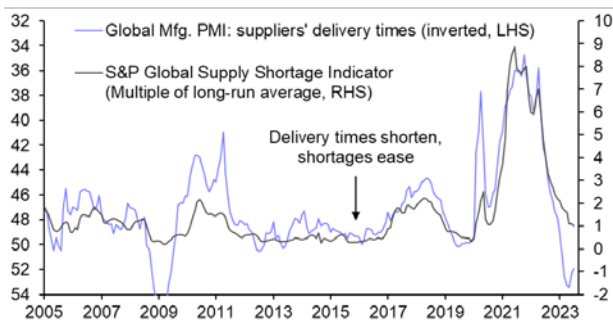
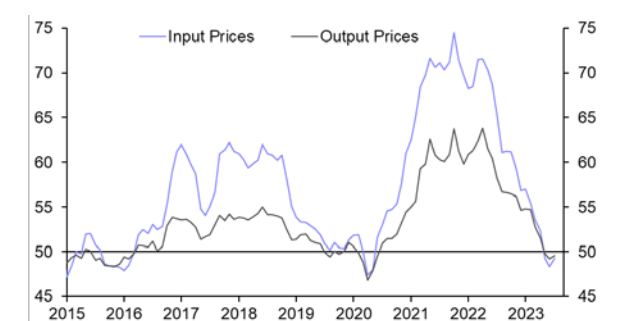


Chart 4: Global Manufacturing PMI: Prices



Sources: S&P Global, Refinitiv, Capital Economics



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