CAPITAL ECONOMICS

GLOBAL ECONOMICS UPDATE

PMIs raise recession risks again

- **August's flash PMIs support our view that both the euro-zone and UK will slip into recession in Q3 and imply that the US is now barely growing. And with output prices still easing gradually, the surveys strongly suggest that we are at or close to the peak in the monetary tightening cycle.**
- Our estimate of the DM average composite PMI fell from 51.0 in July to a seven-month low of 49.7 in August, leaving it back in recession territory. The composite PMIs fell sharply in the US, euro-zone and UK, while only Japan saw an improvement. (See Chart 1.) All the declines were worse than the consensus forecast. The headline indices for the euro-zone and UK now look consistent with falls in GDP of 0.3% q/q and 0.5% q/q, respectively. At 50.4, the US index is consistent with stagnation.
- **Japan still seems to be benefitting from a post-pandemic recovery in spending. But other advanced economies are apparently feeling the effects of tighter monetary policy.** In addition, we suspect that the tourism revival in the euro-zone has fizzled out and it is possible that Germany (where the PMI fell particularly sharply) is suffering from soft demand from China.
- By sector, most of the deterioration this month came in services activity, which is now barely expanding in the DMs on average. There was a smaller fall in the manufacturing index, but it is now even further below the 50 "no-change" mark. (See Chart 2.) The composite employment indices fell (except in Japan) and suggest that employment is now broadly flatlining.
- The DM average future output index edged up thanks to a rise in the US, but orders generally softened implying that further weakness is to come. (See Chart 3.) **This should all support a reduction in price pressures, and indeed the average output price index edged down again this month. But the renewed acceleration in input prices in the euro-zone will cause some concern and with price indices still a little high by past historic standards, it might still be some time before rate cuts are warranted.** (See Chart 4.)

Chart 1: Composite PMIs

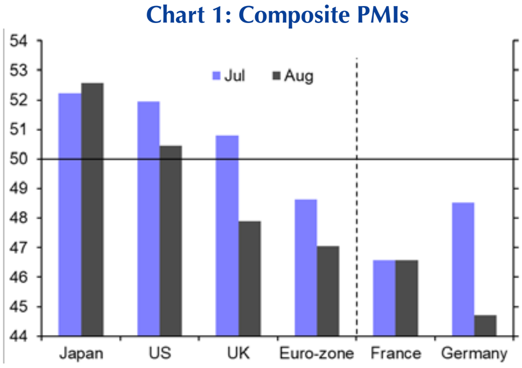


Chart 2: Flash DM PMIs: Output by Sector

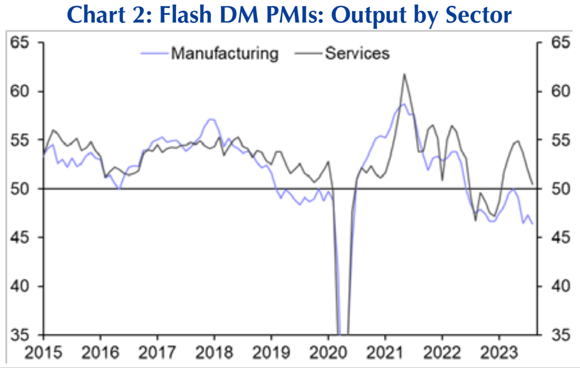


Chart 3: Flash DM PMIs: Forward-looking Indices

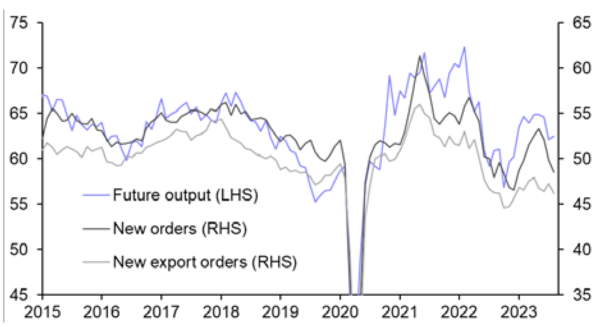
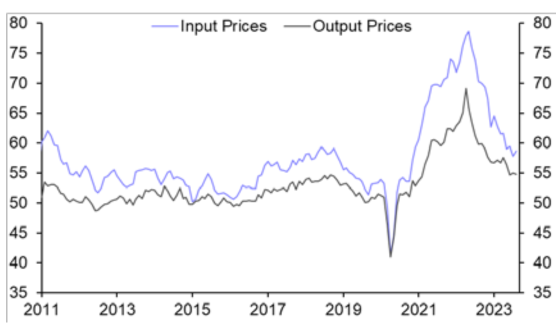


Chart 4: Flash DM PMIs: Input & Output Prices



Sources: S&P Global, CIPS, HCOB, au Jibun Bank, Capital Economics

Jennifer McKeown, Chief Global Economist, +44 (0)207 811 3910, jennifer.mckeown@capitaleconomics.com

TORONTO NEW YORK LONDON SINGAPORE

Email **sales@capitaleconomics.com** Visit **www.capitaleconomics.com**