CAPITAL ECONOMICS

GLOBAL ECONOMICS UPDATE

PMIs point to weaker activity and lower inflation

- **The October flash PMI surveys suggest that economic activity got off to a weak start in Q4, especially in Europe. And with weak activity taking some of the steam out of labour markets and inflation, we are growing more confident in our view that the Fed, ECB and Bank of England are done hiking policy rates.**
- Our estimate of the DM average composite PMI was unchanged at 49.4 in October. This marked the third consecutive month in which the PMI was below the 50 "no-change" level, which at face value, **suggests that economic activity contracted slightly this month.** There was some divergence between economies. The US was a bright spot, where the composite PMI pointed to a slight *expansion* in activity in October. On the other hand, the PMI fell sharply in Japan. And in the UK and euro-zone, the PMIs were still consistent with GDP *contracting*. (See Chart 1.)
- **The PMIs suggest that the service sector's resilience since the start of the year has finally come to an end.** The services activity component of the flash DM PMI fell below 50 for the first month since January, while the manufacturing output component remained deep in contractionary territory. **Meanwhile, the forward-looking components of the surveys suggest that worse is still to come, especially in Europe.** According to the PMIs, both new total orders and new export orders fell further in October. And in the euro-zone, orders fell at their fastest pace since the onset of the pandemic. (See Chart 2.)
- **Weaker activity seems to be taking some of the steam out of labour markets.** Admittedly, the PMIs point to slight rises in employment in October in the the US and Japan. But in both cases, the pace of employment growth has slowed since Q2. And in the UK and euro-zone – where high wage growth remains a key concern for central banks – the PMIs suggest that employment is now *contracting*. (See Chart 3.)
- **Price pressures have also continued to ease.** After rising in August and September on the back of higher fuel inflation, the input price component of the DM composite PMI fell sharply in October. The output price component also fell, and suggests that selling prices are now back to rising at pre-pandemic rates. (See Chart 4.) **The upshot is that the latest PMI surveys won't sway DM central banks to resume rate hikes.**

Chart 1: Composite PMIs

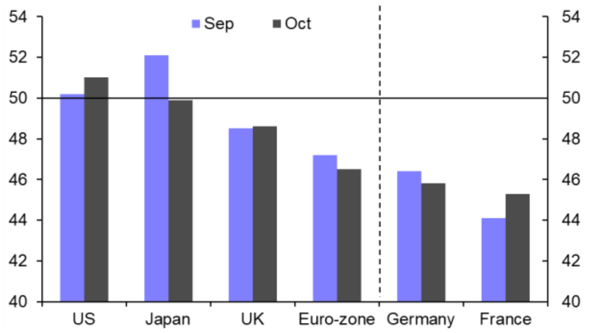


Chart 2: Flash Composite PMIs: New Orders

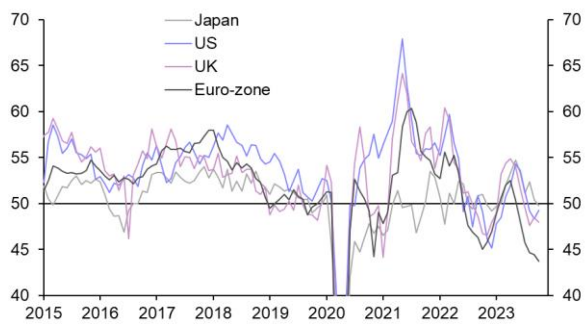


Chart 3: Flash Composite PMIs: Employment

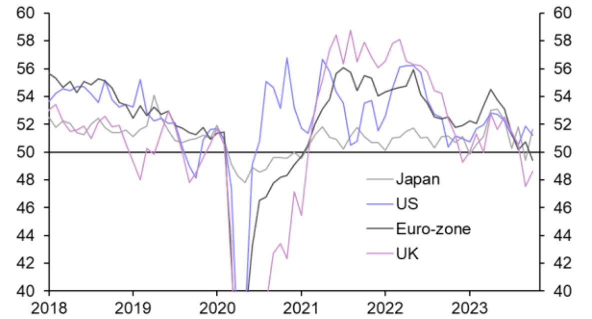
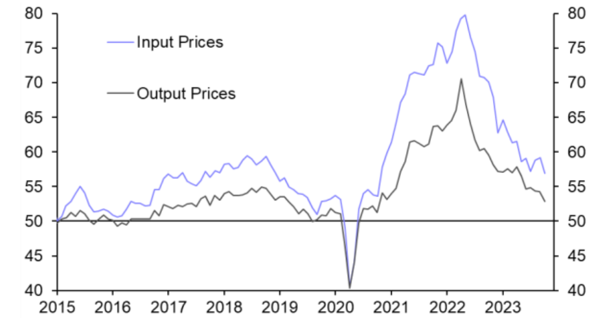


Chart 4: Flash DM Composite PMIs: Input & Output Prices



Sources: S&P Global, Refinitiv, Capital Economics

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