



# GLOBAL ECONOMICS UPDATE

## PMIs show no sign of recovery on the horizon

- **October’s manufacturing PMIs suggest that global industrial activity continued to contract at the beginning of Q4 and forward-looking indicators point to further weakness ahead.**
- **The output component of the global manufacturing PMI fell from 49.7 in September to 48.9 in October, suggesting that industrial activity contracted for the third consecutive month.** However, the global aggregate masked differences in the strength of activity between economies. (See Chart 1.) At one end of the spectrum, **Russia’s output PMI rose further**, as strong government spending supported demand. Meanwhile, **India’s** PMI also remained exceptionally strong. At the other end, the output PMIs remained well below the 50 no-change mark – implying contractions – in Europe. And in **China**, the average of the official and Caixin PMIs fell unexpectedly, implying a fall in industrial activity in October. In the US, the small rise in the PMI was at odds with the fall in the **ISM index**, which indicated a slump in manufacturing.
- **Although the input price PMI rose again in October, we doubt this will lead to a marked rebound in global goods inflation.** For one thing, firms don’t appear to be passing on the latest rise in costs to customers, as the output PMI actually ticked down slightly. (See Chart 2.) And the increase in input prices can largely be attributed to the rise in oil prices, which we do not expect to be sustained.
- **What’s more, the forward-looking components of the PMIs suggest that demand is exceptionally weak, which should also weigh on underlying price pressures.** Indeed, new total orders have been contracting since the middle of last year, while falling export orders point to further **declines in world trade**. Meanwhile, sentiment towards future output fell to an 11-month low in October. (See Chart 3.)
- And with supply shortages seemingly a thing of the past, this should free up some spare capacity which will also help reduce core goods inflation. Indeed, a majority of firms are reporting shorter delivery times. And firms have been able to work through their large backlogs of orders. (See Chart 4.)
- **Altogether, the PMIs are still consistent with our forecasts for weaker global activity and inflation.**

Chart 1: Global Manufacturing PMI: Output

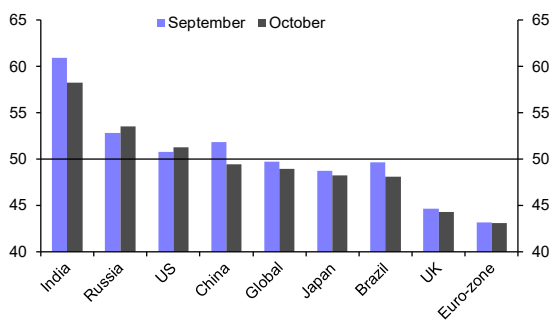


Chart 2: Global Manufacturing PMI: Prices

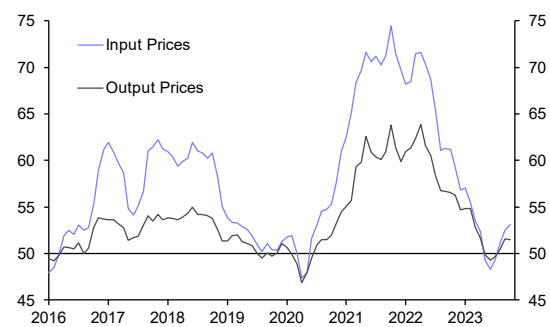


Chart 3: Global Mfg. PMI: Forward-Looking Indices

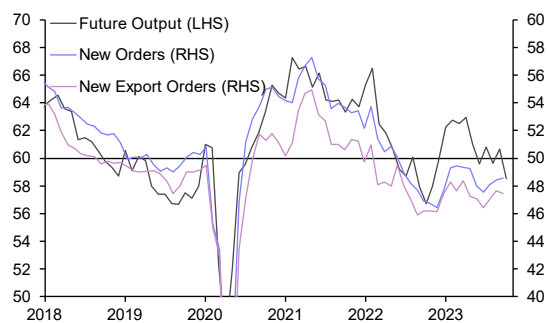
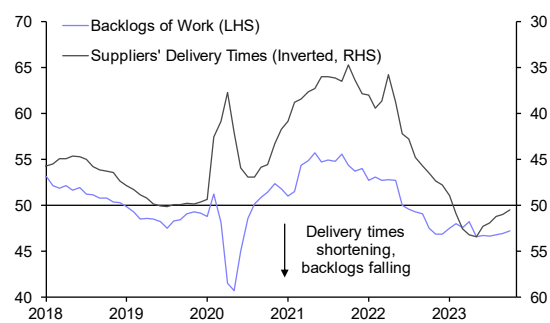


Chart 4: Global Mfg. PMI: Delivery Times & Backlogs



Sources: S&P Global, Refinitiv, Capital Economics

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