GLOBAL ECONOMICS UPDATE

PMIs continue to point to stagnation in DMs

- **The S&P Global PMIs have provided misleading signals about the strength of activity in the US and Europe this year. But, for what it's worth, the flash surveys for November suggest that DMs are ending 2023 on a weak note, with activity stagnating or falling a little, and US price pressures easing more than elsewhere.**
- Our estimate of the DM average composite PMI ticked up from 49.4 to 49.6 in November, keeping the index broadly where it has been since August. The US index was unchanged, and a fall in Japan was marginally outweighed by increases in the UK and euro-zone. (See Chart 1.)
- **Based on pre-pandemic relationships, this level of the DM PMI would suggest that q/q GDP growth will be close to zero in aggregate across the major advanced economies in Q4. But the relationship with the hard data has broken down in recent years**, with the surveys generally overstating the weakness of GDP growth considerably. (See Chart 2.) The one exception is Japan, where the composite PMI continues to track GDP growth well, albeit in y/y terms. When translated into what the survey implies about growth in q/q terms, it seems like Japan's economy is on course to stagnate in Q4, having contracted in Q3.
- **Business surveys have generally been painting a more downbeat picture about activity than what has been borne out by the official data, with the S&P Global PMIs among the most pessimistic.** For instance, indicators from the US's ISM surveys, the euro-zone's EC surveys, and the UK's quarterly CBI surveys have not understated GDP growth to quite the same extent. **So, bearing that caveat in mind, the broad take-away from this batch of PMIs is that the fortunes of major DMs don't seem to be on the cusp of a marked turnaround.** The forward-looking indicators point to further weakness ahead. (See Chart 3.)
- **On the inflation front, price pressures weakened further in the US, but ticked up in Europe.** (See Chart 4.) While the euro-zone input price index has been on an upward trend in recent months, the first fall in its employment PMI to below 50 since 2020 is a sign that the labour market is loosening. This would please Christine Lagarde who restated her concerns about persistent wage pressures in her speech this week. But **with price pressures higher and the employment index recovering for the second month in a row in the UK, the November PMIs underscore why the BoE is likely to end up cutting later than the Fed and ECB**.

Chart 1: Composite PMIs

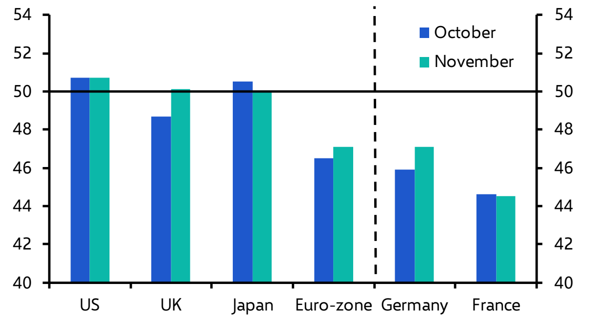


Chart 2: DM Composite PMI & GDP

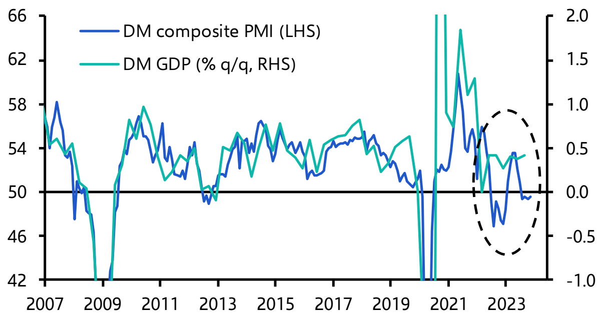


Chart 3: DM Composite PMI: Forward-Looking Indicators

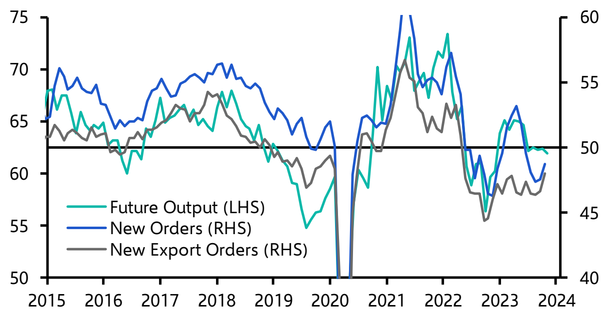
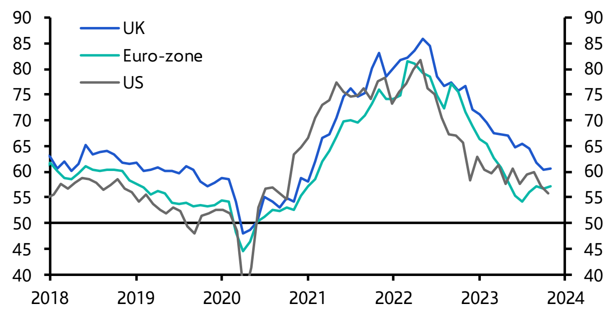


Chart 4: Composite PMIs: Input Prices



Sources: S&P Global, Refinitiv, Capital Economics

Simon MacAdam, Senior Global Economist, simon.macadam@capitaleconomics.com