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PMI: Uneven recovery

- **Uneven PMI data suggest a long way to go for recovery**
- **More solid growth in US, UK and China**
- **Eurozone and Japan lost steam**

Summary

Latest PMI data were uneven across major economies and across sectors, suggesting a long road to recovery. A reading above 50 indicates expansion of activity and vice versa. PMIs may not be the most accurate indicators to predict hard economic data, what it offers is the particular industry's short-to-medium term direction (up or down) and is a reliable gauge of business sentiments in general.

Composite

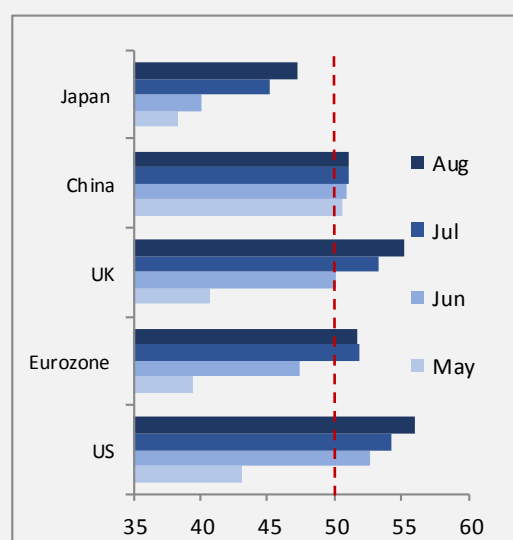
The JP Morgan Global Composite Index rose to 52.4 in August, a 17-month high; supporting view of firmer recovery across the globe. This reflected faster growth of output, new business and future output. Employment has remained adamantly below 50, confirming labour market's struggle to return to pre-pandemic levels. The Global Manufacturing PMI picked up to 21-month high of 51.8 in August while the Services PMI rose to 51.9, its highest in seven months.

Manufacturing

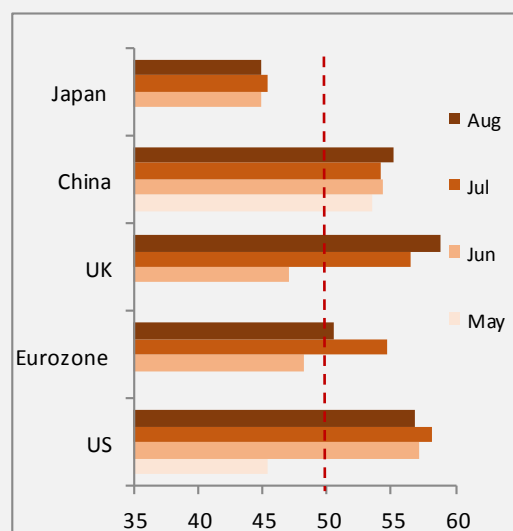
The US ISM manufacturing index has continued to advance for the third consecutive month (August: 56.0), supported by the further climb in new orders, productions and new exports orders which are all positive signs of firmer demand. A similarly robust reading was noted in the Markit UK PMI. The Eurozone PMI has also risen back up to above 50 but did not experience an impressive gain. China's official NBS manufacturing gauge has also been holding steadily a tad above 50 whereas Japan's and South Korea's both remained sub-50.

Services

The trend looks to be similar in the services sector where PMI recorded very solid reading in the US, UK and China but lost momentum in the Eurozone and Japan. Sentiment within the industry was reportedly weaker, despite increases in staffing levels. This could be attributed to changes in consumers' demand for services after having experiencing months of lockdown.

Figure 1: Manufacturing PMI


Source: Bloomberg

Figure 2: Services PMI


Source: Bloomberg

Sectoral Performance

Looking at sectoral breakdown, healthcare services, automobile & parts and real estate are the bright spots. The growth in the vehicle sector came as factories return to production post lock-down. Upbeat housing market indicators across the US, UK, Australia confirmed that demand hasn't died down amidst a pandemic. In the US, demand for housing originates from millennials whose jobs were well secured and have the flexibility to work from home. The recent surge in homebuilding activities are signs of supply trying to keep up with robust demand. Despite the reopening of economies, growth in beverages & food continued to be modest, either because consumers are still wary to dine out at restaurants or having adjusted to eating in. Tourism & recreation unsurprisingly remained at the bottom rank.

Outlook/ Conclusion

Looking ahead, we expect growth to be uneven across major economies. The slower rate of infection **in the US** recently has given rise to more optimism despite the absence of new extended stimulus program.

In the UK, the immediate concern is on the upcoming expiry of the pandemic job protection program which is expected to push the economy into a scenario of massive unemployment.

Eurozone meanwhile is likely to experience very unequal progress towards normality with some countries still recording high infection rate.

China on the other hand is expected to move forward albeit not without obstacles. Latest indicators still suggest the economy's struggle to climb back to pre-pandemic state of expansion.

Japan is likely to fall back behind its peer as lacklustre global demand dampened its manufacturing industry and poor local demand weighing on its services sector.

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