

ECOWEEK

No. 18-32, 7 September 2018

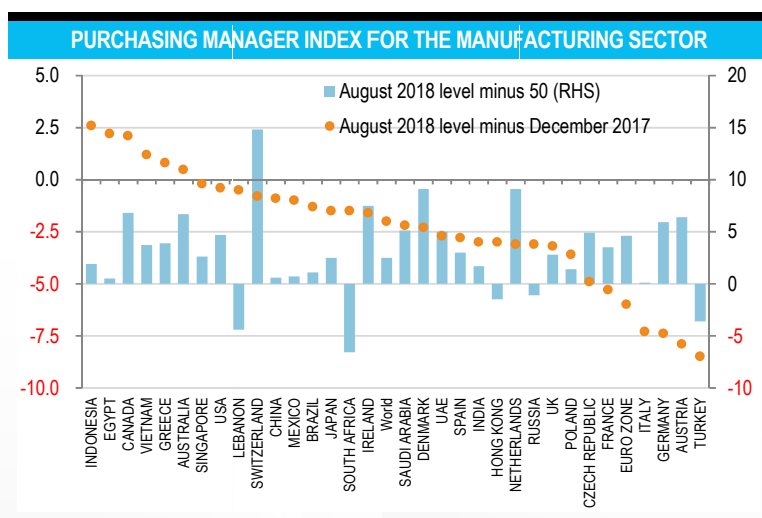
Global economy: Decline of manufacturing sentiment slows down

- Since the end of 2017, most countries have witnessed a decline of the Markit PMI index for the manufacturing sector
- The pace of decline is slowing however in the past 3 months compared to the previous 3 months
- This and the still high level of the index in many countries point towards an ongoing satisfactory growth pace

Although the manufacturing sector represents a shrinking part of economic activity, its cyclical nature makes it a useful indicator in checking the pulse of the economy. To this end, the Markit PMI is an often used indicator. In the vast majority of countries, it has witnessed a decline since the end of last year. Looking at chart 1, the biggest change occurred in Turkey, which is not a surprise given the market tensions in recent months. Most eurozone countries saw a decline in manufacturing sentiment. In some cases (Germany, France, Italy, Austria) and for the eurozone as a whole, the drop was significant but this occurred after having reached very high levels towards the end of 2017. Indeed, for most eurozone countries, the current levels remain well above 50 (the borderline between expansion and contraction in the manufacturing sector). Italy is an exception with the index at 50.1. In the rest of the world, sentiment remains above 50 as well in most countries.

For the US, the commonly used indicator is provided by the Institute for Supply Management. Since December 2017, the manufacturing ISM index has been fluctuating in a rather narrow range, between 57.3 (last April) and 61.3 (August). The August number represents a 3.2 percentage points increase from July. The same can't be said for most other countries: chart 2 shows that the average monthly change in the past 3 months is still negative in most cases although less than over the past 6 months.

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Source: Markit, BNP Paribas

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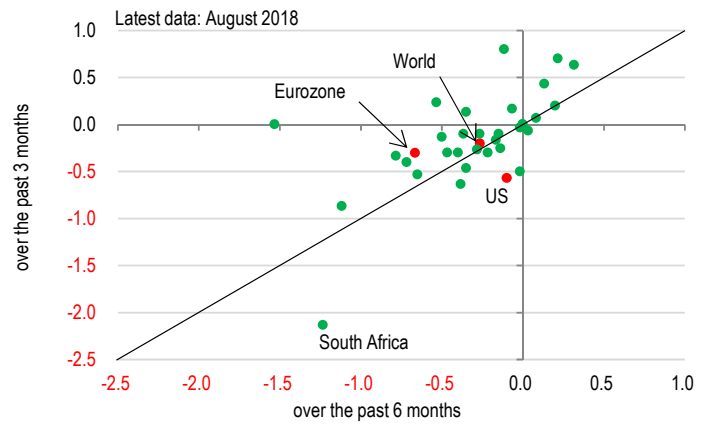
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This slowing negative momentum provides hope that manufacturing sector sentiment would stabilise although the jury is still out on this. On the positive side, in addition to the uptick in the US index, expectations of German companies have also increased as shown in the IFO index and China has taken measures to support growth. On the other hand, ongoing market tensions in developing economies cloud their economic outlook and this may end up weighing on exports of advanced economies. Most importantly however, lingering fears about a full-fledged trade war should cap the upside potential, if any, of manufacturing sentiment.

William De Vijlder

MANUFACTURING PMI MOMENTUM (AVERAGE MONTHLY CHANGE OF PMI)



Source: Markit, BNP Paribas

