

## BUSINESS SENTIMENT: LOSS OF MOMENTUM BUT NO CHANGE IN DIRECTION

The S&P Global PMI surveys are a key input in the assessment of the cyclical environment. Judging by the manufacturing PMI, many countries have seen a weakening of momentum in the second quarter of 2024 versus the first quarter. However, for most countries, the level of the PMI in June is still higher than in December 2023. Moreover, 17 countries out of 31 still have a PMI of 50 or higher, which reflects ongoing growth in economic activity. Focusing on the Eurozone and using the composite PMI to take into account the important role of services, it is reassuring to see that in June, although dropping from the 52.2 level recorded in May, the composite PMI was still in 'real GDP growth territory' at 50.9. A drop below 50 might fuel a narrative of slow growth, at best, with an increased risk of negative quarterly numbers. However, the combination of ongoing disinflation, the ECB that has started a rate cutting cycle and structural investment needs -green and digital transition- leads us to think that the recent loss of momentum of survey data does not represent a change of direction for the Eurozone business cycle.

In the assessment of the cyclical environment, business surveys play an important role. A key input are the S&P Global PMI surveys because of their broad coverage, their timeliness, and their close correlation with real GDP growth. Chart 1 compares the momentum of the manufacturing PMI data for the second quarter of this year with that of the first quarter<sup>1</sup>. Most countries are above the diagonal line, which reflects a loss of momentum in the second quarter versus the first. Is this a source of concern? Before answering this, let's remember that the PMI questionnaire asks whether, in the case of output, the survey participant has a higher, unchanged or lower level of production compared to the previous month<sup>2</sup>. A loss of momentum thus implies a less dynamic growth environment, that is the balance of companies reporting a higher output has decreased. Nonetheless, before drawing any firm conclusions, one needs to check whether the recent momentum measure is positive (though less than before) or even negative and, secondly, where this leaves us in terms of latest reading of the PMI level.

On the first point, starting from the upper left quadrant and moving clockwise, some countries with strong positive momentum in the first quarter recorded a partial reversal in the second quarter (Italy, Greece, United States). In the Eurozone, after a strong performance in the early part of the year, manufacturing business sentiment stagnated. Many countries, benefited from positive momentum in the first and second quarter. This also applies to the world manufacturing PMI. France did great in the first quarter but saw hardly any progress in the second one. The Netherlands, Spain and the UK delivered a particularly strong performance in both quarters. In Egypt and Japan, a slightly negative momentum in the first quarter was followed by a positive evolution in the second quarter. Finally, three countries recorded negative momentum in the first and second quarter: UAE, Mexico and Saudi Arabia.

On the second point, table 1 compares the manufacturing PMI in December 2023 with the index in June 2024. In December 2023, out of 31 observations -30 countries and the world index -, only 10 had a score of 50.0 or higher, with the world index at 49. In June 2024, 17 countries were at 50.0 or higher, with the world index at 50.9, and 70% of countries had a manufacturing PMI higher than in December 2023.

The level of the PMI matters considering its correlation with real GDP growth. Chart 2 shows this for the Eurozone. The composite PMI is used because this gives a better representation of economic activity, given the importance of services<sup>3</sup>.

### S&P GLOBAL MANUFACTURING PMI

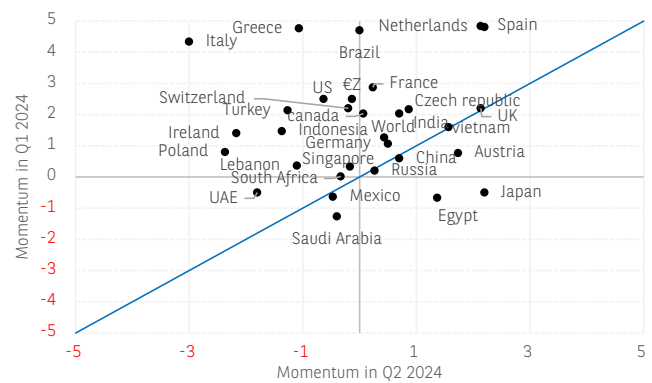


CHART 1

SOURCE: S&amp;P GLOBAL, BNP PARIBAS

### EUROZONE COMPOSITE PMI AND ECONOMIC GROWTH

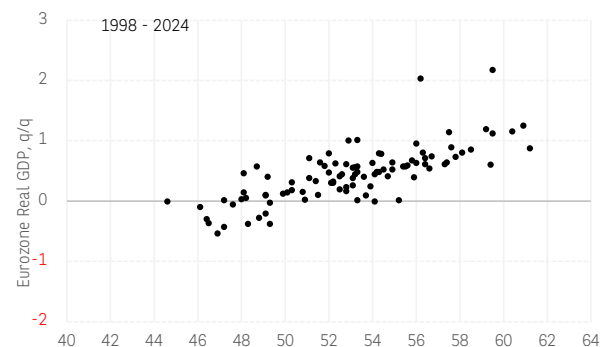


CHART 2

CHART EXCLUDES OUTLIERS

SOURCE: REFINITIV, S&amp;P GLOBAL, BNP PARIBAS

<sup>1</sup> Momentum is defined as the average PMI value for the most recent three months minus the average for the previous three months.

<sup>2</sup> Source : S&P Global website. The resulting index values are "bounded between 0 (all companies respond lower) and 100 (all companies respond higher), with a theoretical no-change mark at 50 (all companies respond "the same" or equal proportions respond up as do for down)."

<sup>3</sup> The S&P Global composite PMI is available for fewer countries than the manufacturing PMI, which is why chart 1 and table 1 are based on the latter.



Clearly, whether the composite PMI is above or below 50 matters a lot. Below 50, real GDP growth is usually lower but also more often negative. Above 50, growth is higher and there are no negative quarters. Indeed, since the third quarter of 1998 – when the composite PMI for the Eurozone was first published – quarters with negative real GDP growth, correspond with a composite PMI below 50. In this respect, it is reassuring to see that in June the composite PMI, was still in ‘real GDP growth territory’ at 50.9.

However, after increasing from 49.2 in February to 50.3 in March and 51.7 in April, it peaked at 52.2 in May. A drop below 50 might fuel a narrative of slow growth, at best, with an increased risk of negative quarterly numbers. However, the combination of ongoing disinflation, the ECB that has started a rate cutting cycle and structural investment needs -green and digital transition- leads us to think that the recent loss of momentum of survey data does not represent a change of direction for the Eurozone business cycle.

William De Vijlder

### S&P GLOBAL MANUFACTURING PMI: COUNTRY RANKING

#	Country	Dec 2023	Country	June 2024	Country	June minus Dec
1	SAUDI ARABIA	57.5	INDIA	58.3	SPAIN	6.1
2	UAE	57.4	SAUDI ARABIA	55	NETHERLANDS	5.9
3	INDIA	54.9	RUSSIA	54.9	VIETNAM	5.8
4	RUSSIA	54.6	VIETNAM	54.7	UK	4.7
5	INDONESIA	52.2	UAE	54.6	BRAZIL	4.1
6	MEXICO	52	GREECE	54	CANADA	3.9
7	GREECE	51.3	BRAZIL	52.5	USA	3.7
8	SOUTH AFRICA	50.9	SPAIN	52.3	CZECH REPUBLIC	3.5
9	CHINA	50.8	CHINA	51.8	INDIA	3.4
10	SINGAPORE	50.5	USA	51.6	FRANCE	3.3
11	World	49	MEXICO	51.1	GREECE	2.7
12	VIETNAM	48.9	World	50.9	JAPAN	2.1
13	IRELAND	48.9	UK	50.9	World	1.9
14	EGYPT	48.5	NETHERLANDS	50.7	AUSTRIA	1.6
15	BRAZIL	48.4	INDONESIA	50.7	EGYPT	1.4
16	LEBANON	48.4	SINGAPORE	50.4	EURO ZONE	1.4
17	USA	47.9	JAPAN	50	CHINA	1
18	JAPAN	47.9	EGYPT	49.9	SWITZERLAND	0.9
19	TURKEY	47.4	CANADA	49.3	TURKEY	0.5
20	POLAND	47.4	TURKEY	47.9	ITALY	0.4
21	SPAIN	46.2	LEBANON	47.8	RUSSIA	0.3
22	UK	46.2	IRELAND	47.4	GERMANY	0.2
23	CANADA	45.4	EURO ZONE	45.8	SINGAPORE	-0.1
24	ITALY	45.3	ITALY	45.7	LEBANON	-0.6
25	NETHERLANDS	44.8	SOUTH AFRICA	45.7	MEXICO	-0.9
26	EURO ZONE	44.4	FRANCE	45.4	INDONESIA	-1.5
27	GERMANY	43.3	CZECH REPUBLIC	45.3	IRELAND	-1.5
28	SWITZERLAND	43	POLAND	45	POLAND	-2.4
29	FRANCE	42.1	SWITZERLAND	43.9	SAUDI ARABIA	-2.5
30	AUSTRIA	42	AUSTRIA	43.6	UAE	-2.8
31	CZECH REPUBLIC	41.8	GERMANY	43.5	SOUTH AFRICA	-5.2

TABLE 1



## EUROZONE: S&amp;P GLOBAL COMPOSITE PMI AND REAL GDP GROWTH

	Eurozone real GDP growth (q/q, in %)	S&P Global Eurozone composite PMI*
Q3 2018	0.0	54.1
Q2 2008	-0.4	49.3
Q4 2022	0.0	49.3
Q1 2012	-0.2	49.1
Q1 2003	-0.3	48.8
Q2 2020	-11.1	48.5
Q4 2011	-0.4	48.3
Q4 2023	-0.1	47.6
Q4 2012	-0.4	47.2
Q3 2008	-0.5	46.9
Q1 2013	-0.4	46.5
Q2 2012	-0.3	46.4
Q3 2012	-0.1	46.1
Q2 2009	0.0	44.6
Q1 2009	-3.1	38.3
Q4 2008	-1.8	38.2
Q1 2020	-3.4	29.7

TABLE 2

\* LAST MONTH OF THE QUARTER

