

Research Global

Global manufacturing PMI heading higher in H1

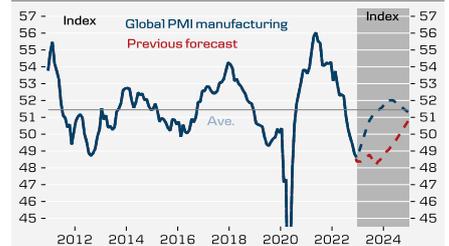
- We have changed our forecast for global PMI manufacturing and now look for a turn higher already in Q1 as many headwinds have eased. It suggests that a recession in H1 in the US and the euro zone is set to be mild and short. We have lifted our US GDP forecast to 0.3% for 2023 (-0.2%) and +0.9% for 2024 (0.5%).
- The manufacturing recovery is also set to drive stronger demand for commodities and revive some inflationary forces. This is set to challenge the ECB and the Fed and reinforces our expectations that we will see no rate cuts from them in 2023.

Following a surge in activity in 2021, the global manufacturing sector faced many headwinds in 2022: a) sharp rise in commodity prices that pushed up inflation and eroded consumers purchasing power, b) a significant tightening of financial conditions, c) rising uncertainty from Russia's aggression against Ukraine and d) a substantial slowdown of China's economy driven by the country's zero-covid policy. The drag on demand also led to inventory-build up with companies working to reduce inventories during the year.

However, going into 2023 many of the headwinds have eased and we now look for an earlier recovery of global manufacturing. First, commodity prices have moved lower and is set to push down inflation and lift real wage growth among households. Second, financial conditions have eased following a rally in both equity markets, declining credit spreads and lower bond yields. Third, China has left the zero-covid policy sooner and faster than expected, which we expect will unleash a strong increase in demand for consumer goods as well as private investments. Finally, we see some signs that the worst headwind from inventory adjustments will be easing soon.

At the same time many of our favourite leading indicators for global PMI have turned the corner reflecting some of the more positive factors above (see charts). Our "Growth tax" measure has moved from sharp contraction to decent tailwind. The short-term models in *MacroScope* leading indicators also point to a lift soon in global PMI. And in the euro zone, the German ZEW index has seen a decent rise over the past months. While some

Global PMI outlook: Earlier recovery



Source: Macrobond Financial, S&P, Danske Bank

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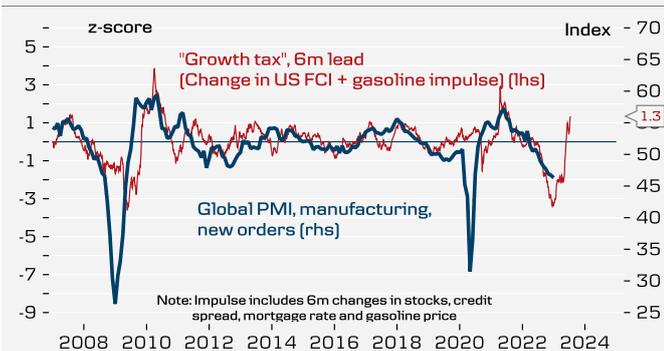
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Easing financial conditions and lower oil prices point to turn in global PMI manufacturing during H1 23



Source: Macrobond Financial, S&P, Bloomberg, Danske Bank

Global PMI recovery also to be supported by Chinese post-covid rebound



Source: Macrobond Financial, S&P, Danske Bank

commentators tend to dismiss the ZEW indicator as it is a survey of financial analysts and not companies themselves, it has historically proven to send good signals of turning points in the manufacturing cycle.

After flagging upside risks to our global PMI outlook for a while, we now see enough evidence of a turn to revise our baseline scenario higher. We expect global PMI to bottom out in the coming months and continue a move higher during H1 and into the second half of 2023. In 2024, we look for the Chinese recovery to lose some steam again and for PMI's to level off again

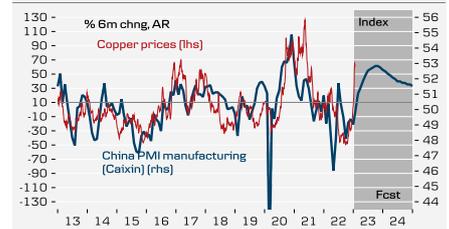
China rebound in Jan/Feb, US and euro to follow short after

On a regional basis, we look for Chinese PMI to move higher already in January as there is lots of anecdotal evidence that the covid surge has already peaked in late December (see more on *China growth update – More frontloaded recovery*, 18 January).

While the **US economy** cooled clearly towards the end of the 2022, easing financial conditions, slower underlying inflation and early signs of the global manufacturing cycle turning suggest that the risk of a hard landing has declined. **While we still expect modest GDP contraction in the coming quarters** and most leading indicators remain firmly at recessionary levels, **the downturn could turn out shallower and materialize slightly earlier than we have pencilled in before (Q2-Q3)**. Consequently, the recovery could also begin faster, which has led to a net positive revision to our GDP forecast. We now expect US GDP to grow by 0.3% in 2023 (from -0.2%) and 0.9% in 2024 (from +0.5%). Labour markets continue to create two-sided risks, as on one hand the strong employment situation supports consumer confidence amid otherwise high uncertainty, but on the other hand Fed needs to cool labour demand further to avoid prolonging inflation pressures from here.

Amid easing energy crisis fears and resilient labour markets, **euro area** leading indicators seem to have turned the corner for now and in the absence of a renewed external shock (i.e. attack on European energy infrastructure), **we think further upside for euro area PMIs lies in store in the coming months** from Chinese pent-up demand for both services and goods (see also *Euro macro notes - The China connection: short-term boost, long-term worry*, 12 January). We expect the tailwind to euro area activity to peak during the summer of 2023, while the delayed impact of ECB's monetary tightening leave the risk of a renewed setback in H2 23, before a gradual recovery takes shapes in 2024.

Dr. Copper points to strong manufacturing rebound in China



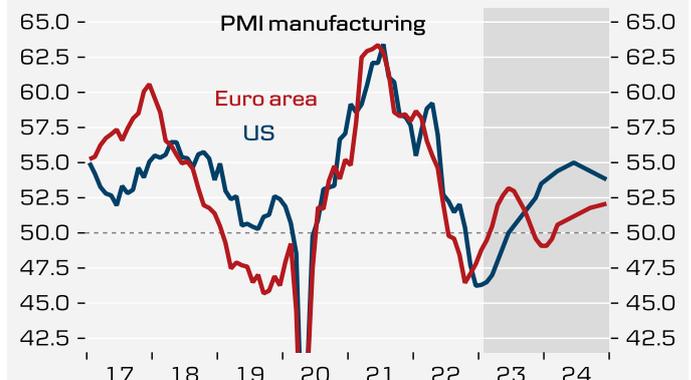
Source: Macrobond S&P, Financial, Danske Bank

MacroScope indicates near-term lift in global PMI soon



Source: Macrobond Financial, S&P, Danske Bank

US and euro area PMIs set to rebound in H1 23



Source: Macrobond Financial, S&P, Danske Bank

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Aila Mihr, Associate, Allan von Mehren, Director and Antti Ilvonen, Analyst.

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Report completed: 25 January 2023, 09:30 CET

Report first disseminated: 25 January 2023, 09.50 CET