
PMI ANALYST

Follow the Money

January, 2023

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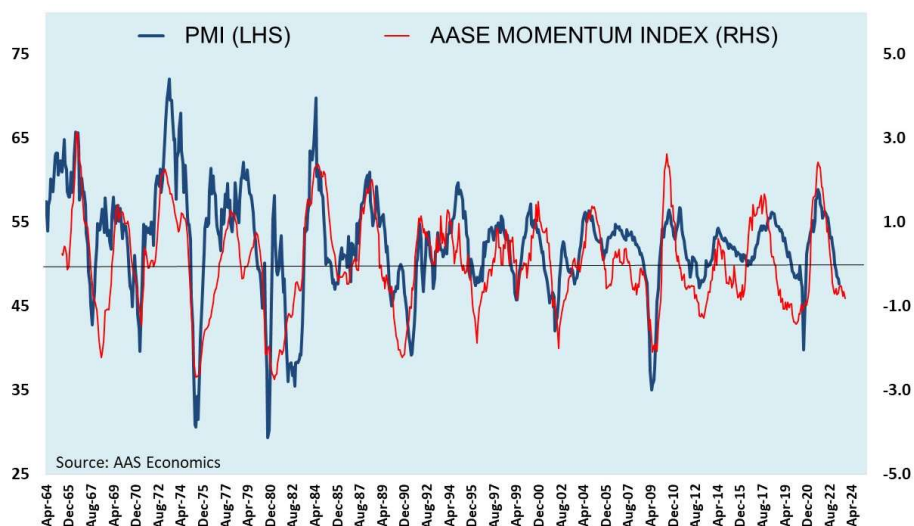
Overview

MANUFACTURING PMI OVERVIEW		
	Last	Month's Change
USA	48.4	-0.6
EUROZONE	48.8	1.5
GERMANY	47	0.3
UK	46.7	0.2
JAPAN	48.9	-0.5
CHINA	49	-0.4
AUSTRALIA	44.7	-4.9
BRAZIL	44.2	-0.1
RUSSIA	53	-0.2
INDIA	57.8	2.1
WORLD*	47.74	-0.6

* Composite of USA, Eurozone, UK, Japan, China

Chart of the Month

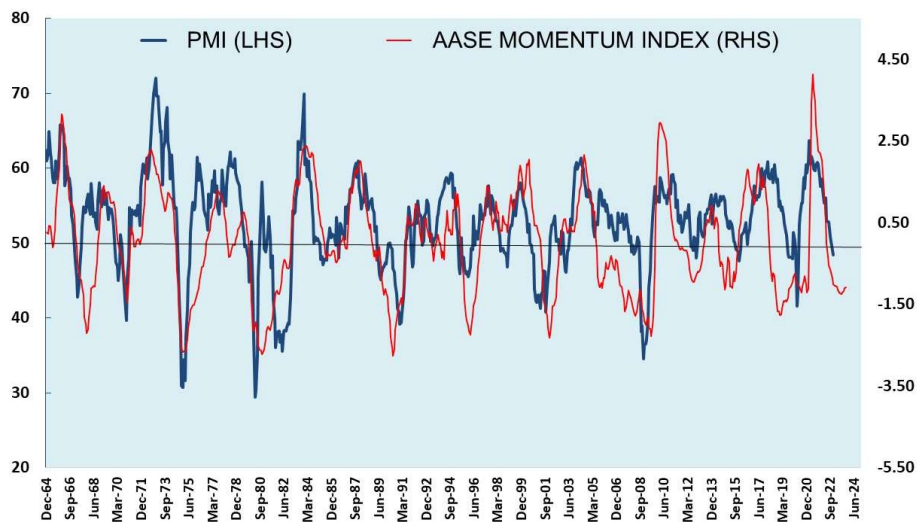
WORLD MANUFACTURING PMI v. AASE WORLD MONETARY MOMENTUM INDEX



US

Manufacturing PMI

US ISM MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 12 MONTHS



Last Value (Dec): 48.4
Previous Value: 49

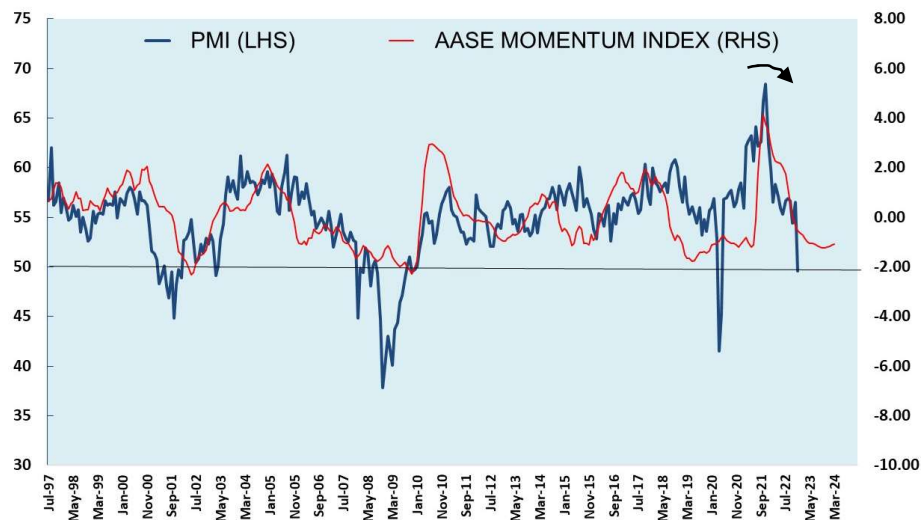
In forecasting PMIs, we construct for each country a combined money-supply-based index of the country (and for this we use our own proprietary measure of money supply derived from Austrian economics – *Adjusted Money Supply* or AMS) and several of that country’s major trading partners. This we call the *Momentum Index*, as it measures monetary momentum.

In the **US** the long-term average time lag, from 1982 to the present, between moves in our Momentum Index and those in the Manufacturing PMI has been around 12 months.

On the basis of these lags, we see the possibility of a continued loss in momentum in the US PMI in the months ahead. The manufacturing index stood for the second consecutive month below the expansionary 50 level in December.

Services PMI

US ISM SERVICES PMI v. AASE MOMENTUM INDEX LAGGED 16 MONTHS



Last Value (Dec): 49.6
Previous Value: 56.5

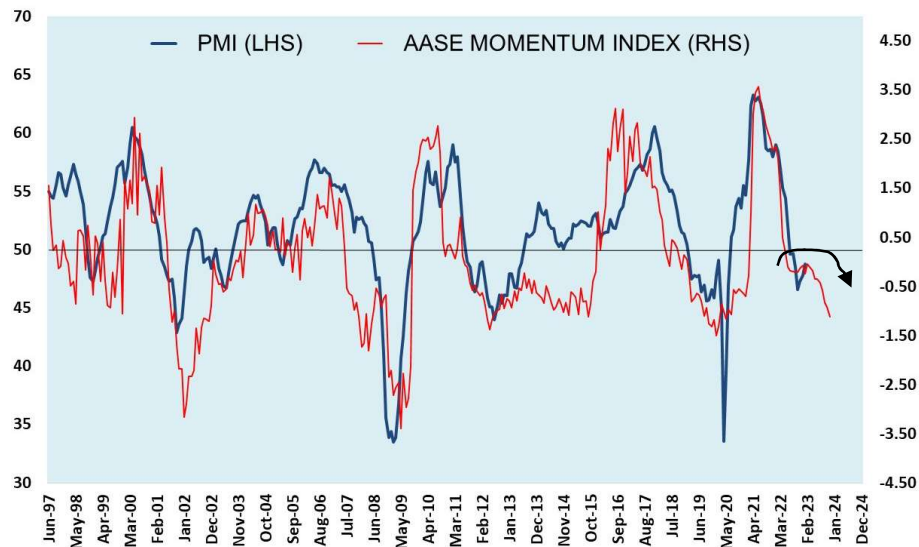
With regard to the Services PMI in the **US**, the average time lag, from 1997 to the present, between movements in our Momentum Index and those in the Services PMI has been around 16 months.

Our analysis suggests that the US Services PMI may continue to experience monetary headwinds ahead. The Services index fell sharply in December from the previous month.

Eurozone

Manufacturing PMI

EUROZONE MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 12 MONTHS



Last Value (Jan): 48.8

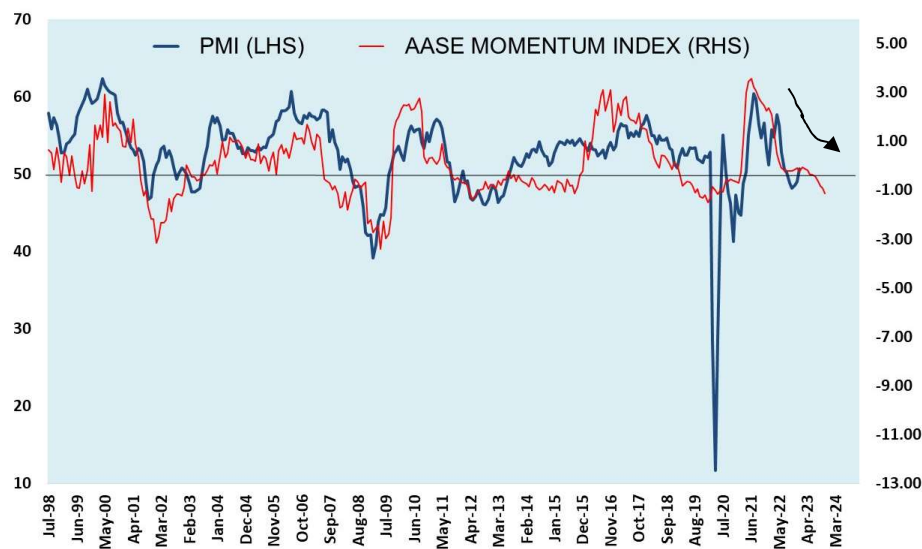
Previous Value: 47.8

Despite rising this month, the **Eurozone** Manufacturing PMI remains below the expansionary 50 level for the 7th consecutive month, currently at **48.8** in January. In April 2021 it peaked at **63.3**—the highest level since 1997.

Based on historically average time lags of around 12 months between our AMS-driven Momentum Index and the PMI, after a brief pause in the decline we are looking for the PMI to remain under pressure in 2023.

Services PMI

EUROZONE SERVICES PMI v. AASE MOMENTUM INDEX LAGGED 12 MONTHS



Last Value (Jan): 50.7
Previous Value: 49.1

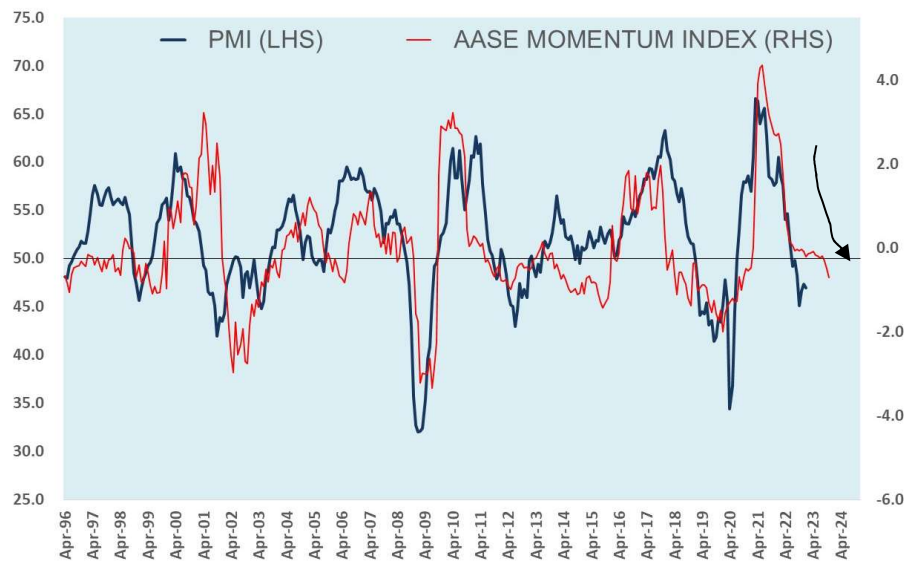
The Service sector PMI moved above the expansionary 50 level after four consecutive months below, edging up to **50.7** in January. The Eurozone Services PMI shows a similar time lag to that of the Eurozone manufacturing sector – on average at around 12 months – between our AMS-driven Momentum Index and the PMI itself.

This means that from a purely monetary perspective, the Eurozone services sector could stabilize in the short term before coming under renewed pressure further in 2023.

Germany

Manufacturing PMI

GERMANY MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 12 MONTHS



Last Value (Jan): 47
Previous Value: 47.4

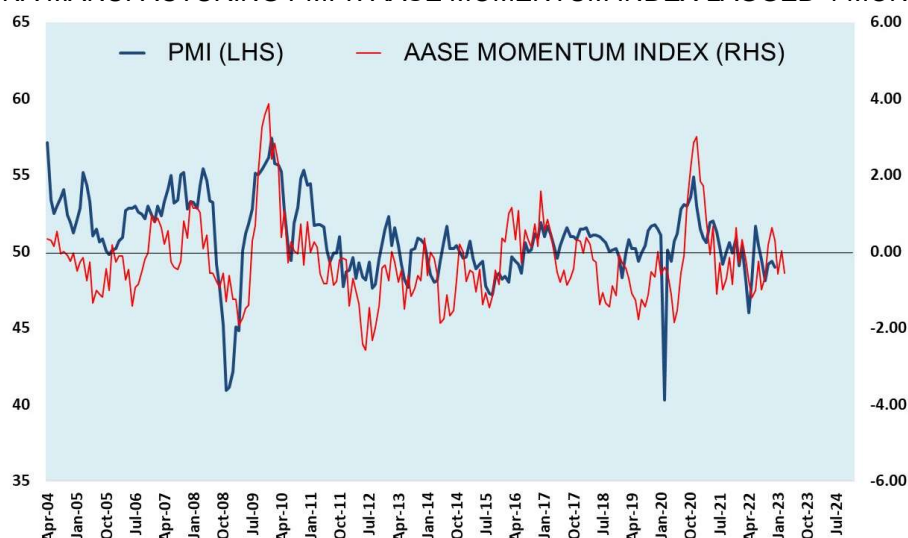
The German manufacturing PMI edged down slightly in January to **47**, and has remained below the expansionary 50 level for the 7th consecutive month. In March 2021 it stood at **66.6**. This underlying softening in the German PMI is in line with our lagged monetary Momentum Index.

Although there may be the possibility of short term stabilization (or even slight improvement), the Momentum Index suggests that the German manufacturing index should remain subdued as the year progresses.

China

Manufacturing PMI

CHINA MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 4 MONTHS



Last Value (Dec): 49
Previous Value: 49.4

Chinese Manufacturing PMI readings have been somewhat volatile in recent months, hovering just below the 50 threshold. For example, the Caixian manufacturing PMI has contracted for the 5th consecutive month and in December ticked down to **49** from **49.4** in the prior month. Similarly, the NBS manufacturing PMI edged down to **47** in December from **48** in the previous month.

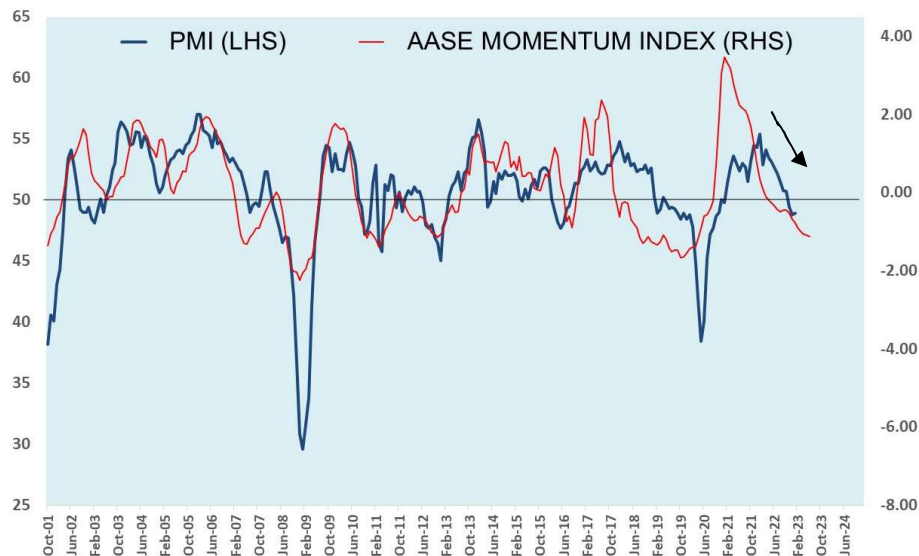
The average historical time lag between our Momentum Index and the Chinese Manufacturing PMI has been very short at around 4 months.

Our lagged monetary indicator suggests that the Caixian Manufacturing PMI should remain subdued in the coming months.

Japan

Manufacturing PMI

JAPAN MAUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 8 MONTHS



Last Value (Jan): 48.9
Previous Value: 48.8

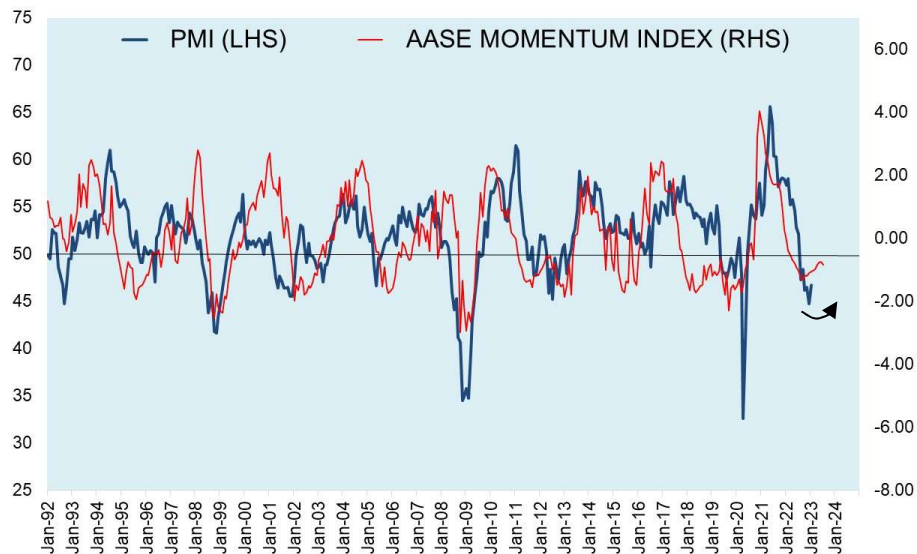
The Japanese Manufacturing PMI stood below the expansionary 50 level for the 3rd consecutive month, currently at **48.9** in January against **48.8** in the previous month. In January last year it stood at **55.4**.

The historical lag of around 8 months continues to suggest that the PMI should soften as we look ahead.

UK

Manufacturing PMI

UK MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 8 MONTHS



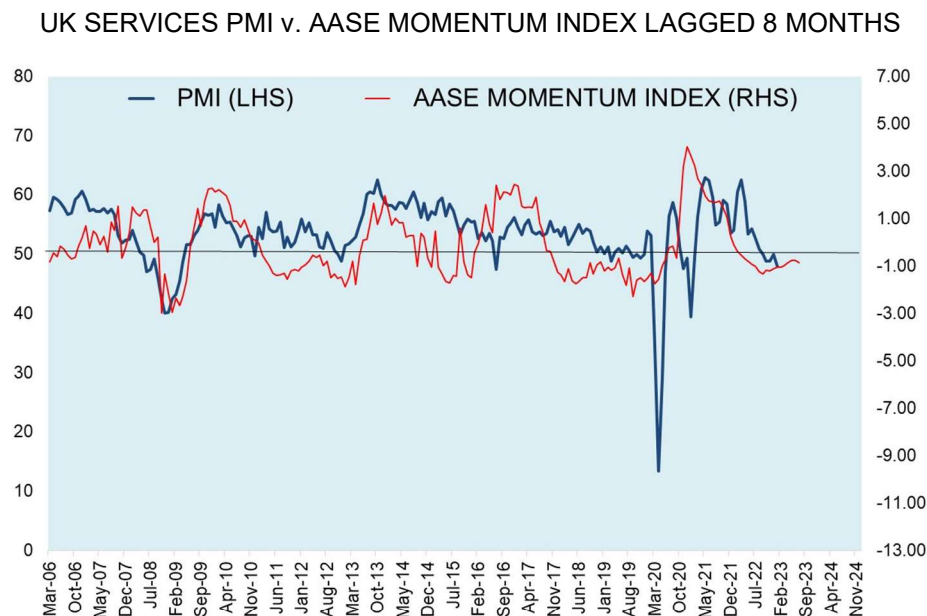
Last Value (Jan): 46.7

Previous Value: 44.7

Whilst the **UK** Manufacturing PMI stood below the 50 level for the 6th consecutive month, it edged up in January to **46.7** from **44.7** in December. In May 2021 it peaked at **65.6** and since then the underlying trend has visibly softened.

Based on historical lags of around 8 months between monetary momentum and the PMI we would expect the PMI to bounce in the months ahead although it is likely to remain below the expansionary 50 level.

Services PMI



Last Value (Jan): 48
Previous Value: 50

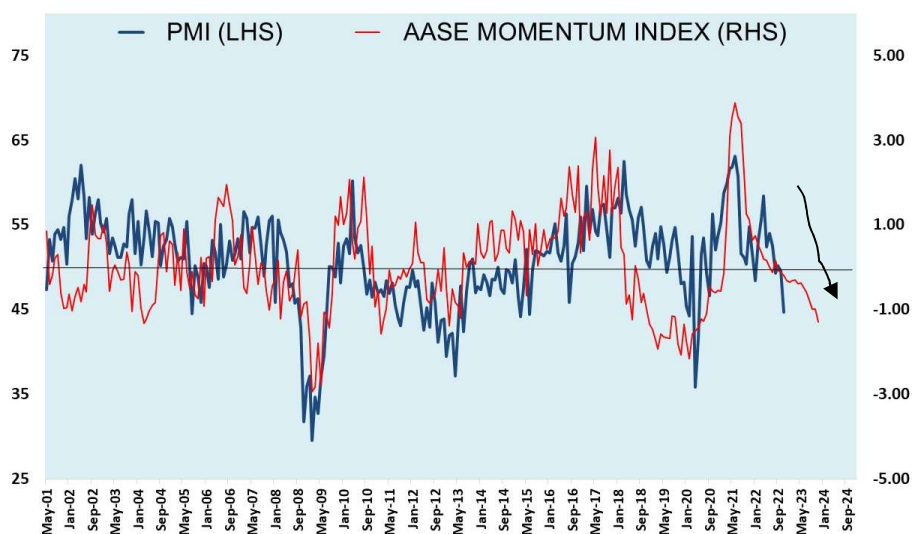
The **UK services sector** PMI index slipped below the expansionary **50** level in January to **48**. In March last year it stood at **62.6**.

As is the case with Manufacturing, our Services PMI model suggests that the Services index should remain subdued although it seems ready for a small bounce. This uses historical average lags of around 8 months from the Momentum Index to the underlying PMI.

Australia

Manufacturing PMI

AUSTRALIA MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 12 MONTHS



Last Value (Nov): 44.7
Previous Value: 49.6

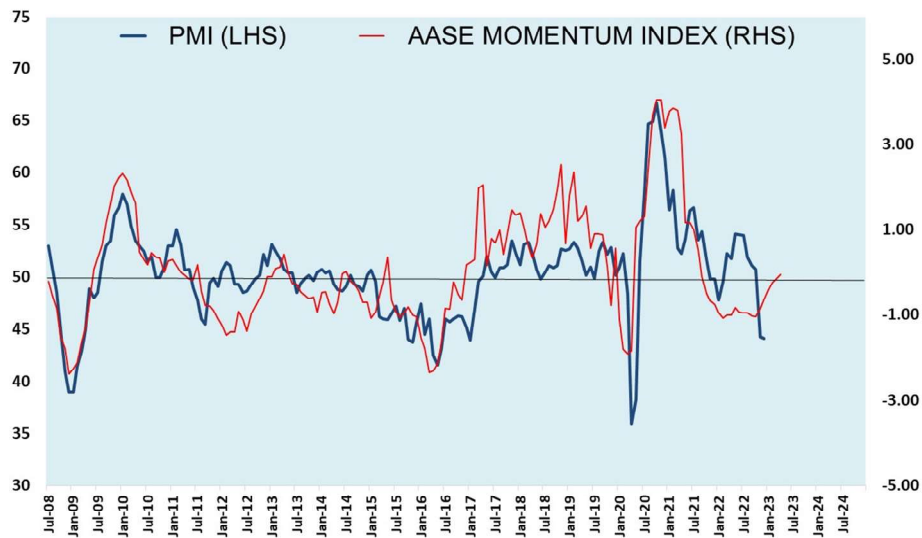
The **Australian** Manufacturing PMI fell sharply in November, down to **44.7** from **49.6** in the previous month. Note though that in June last year it stood at **63.2**.

Our lagged Momentum Index, with an optimal historical lag of around 12 months, points to the PMI remaining under pressure in the months ahead with no sign of rebound and, indeed, perhaps accelerating weakness towards year end.

Brazil

Manufacturing PMI

BRAZIL MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 6 MONTHS



Last Value (Dec): 44.2
Previous Value: 44.3

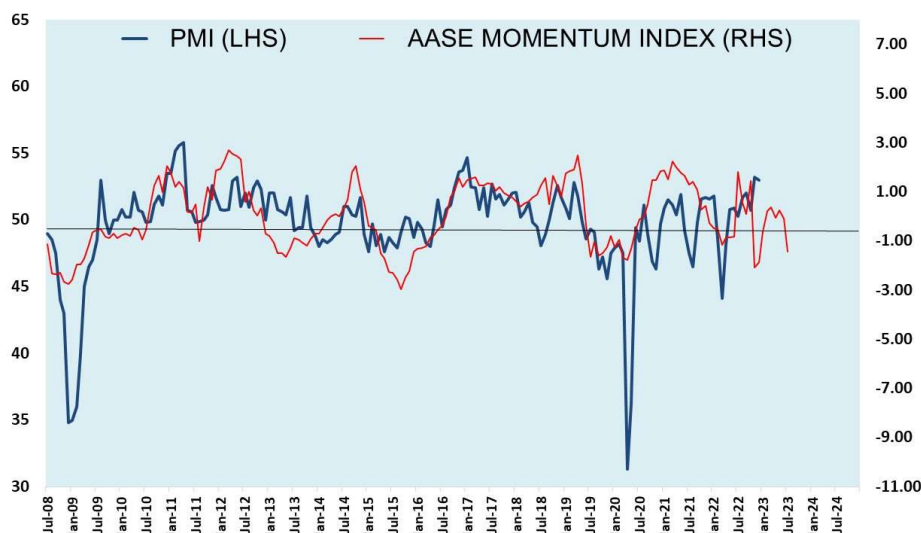
The **Brazilian** Manufacturing PMI also ticked down in December, falling to **44.2** from **44.3** in November and **50.8** in October.

Using our lagged Momentum Index, with an optimal historical lag of around 6 months, we can observe that the level of the Brazilian manufacturing Index may strengthen in the months ahead.

Russia

Manufacturing PMI

RUSSIA MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 9 MONTHS



Last Value (Dec): 53.0

Previous Value: 53.2

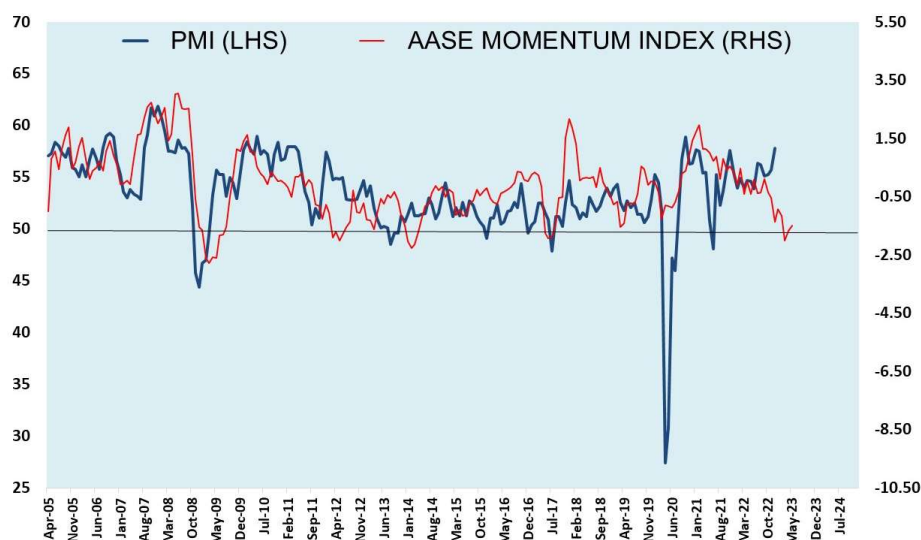
The **Russian** Manufacturing PMI edged down to **53** for the month of December from **53.2** in November. In March earlier this year it stood at **44.1** and since then we have observed a visible uptrend in the PMI.

A sanctions-induced slowdown may well continue but from a monetary perspective we are likely to see volatility ahead in the PMI with a weakening in the short term before a renewed bounce emerges. The lag between changes in Russian Manufacturing PMI and that of AMS momentum index has historically been around nine months.

India

Manufacturing PMI

INDIA MANUFACTURING PMI v. AASE MOMENTUM INDEX LAGGED 7 MONTHS



Last Value (Dec): 57.8
Previous Value: 55.7

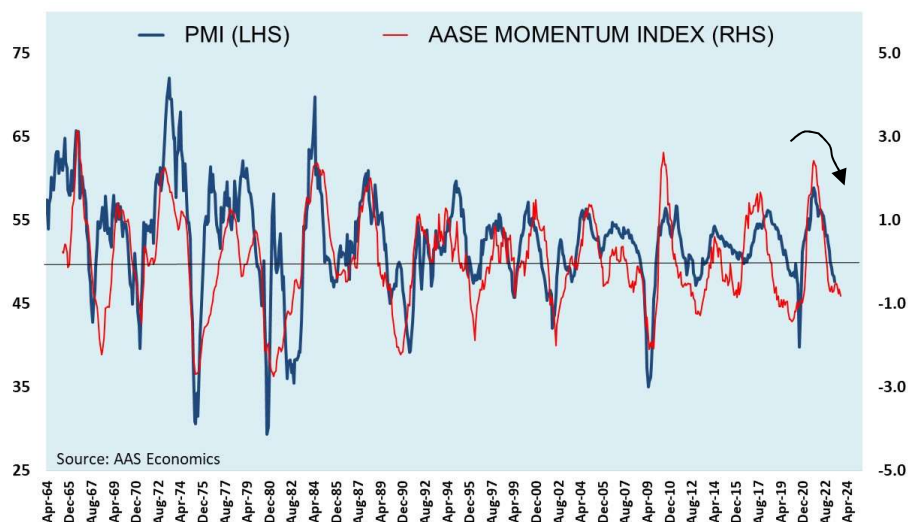
The **Indian** Manufacturing Index has strengthened in recent months. In December the PMI rose to **57.8** from **55.7** in November and **53.9** in June last year.

Based on the lagged momentum index for India, which leads the manufacturing sector by on average around 7 months, the indication is that the Manufacturing PMI may come under significant downward pressure as we move into 2023.

World

Manufacturing PMI

WORLD MANUFACTURING PMI v. AASE WORLD MOMENTUM INDEX



Last Value (Dec): 47.7
Previous Value: 48.3

Our World Manufacturing PMI is simply an average of the PMIs for the US, UK, Eurozone, China and Japan. After peaking at **59** in May 2021 world manufacturing activity has continued to decelerate. For the month of December, it fell to **47.7** from **48.3** in November – its fourth consecutive month below the expansionary 50 level.

Our Composite World Momentum Index is, likewise, the average of the Momentum Indices for each constituent geography.

This World Momentum Index, using the long-term historical lags of each of the constituent economies, is pointing towards the possibility of a very near-term pause in the manufacturing sector gloom but there is no sign of recovery for the first half of the year.

MORE INFORMATION

For more information, please contact AAS Economics
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