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Supply shortage weighs down global output; price pressures to sustain

PMI REVIEW

A slippage in Aug'21 global manufacturing PMI suggests a modest fall in global output. Among the G20 economies, manufacturing PMI in the US and Europe remained expansionary but contracted sharply in key Asian economies as the rising incidence of the COVID-19 Delta variant disrupted production activities. The production downturn in Asian economies has led to supply shortages, especially in the US and Europe, and strong demand conditions have led to a rise in input prices. Continued demand-supply disparity (strong demand conditions in Western economies and disruptive manufacturing activities in Asian economies) due to differing vaccination rates and rising freight costs would further intensify price pressures in FY22.

Global manufacturing output declines in Aug'21:

- JP Morgan Global Manufacturing PMI slid to 54.1 in Aug'21 from 55.4 in Jul'21 - a modest 1.3% fall despite improved business conditions globally.
- The Global Manufacturing Output Index (indicates the changing production trend) fell sharply than the headline PMI by 2.5 points to 51.9 in Aug'21.
- Global PMI Surveys New Orders Index slipped to 53.6, lowest since Aug'20, indicating weakening demand growth. Production shortfall at levels not witnessed since 2006 further led to an unprecedented rise in work backlogs.

Output constrained by material supply shortages:

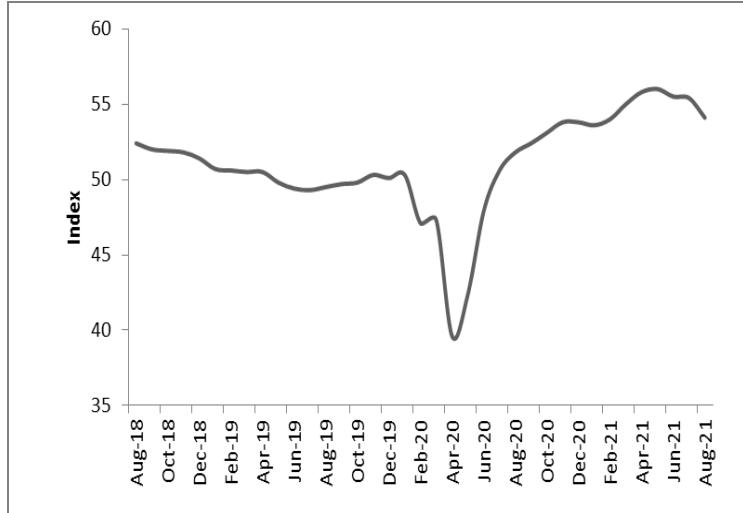
- As per the IHS Markit Survey, material and labour shortages in certain regions has curbed the production expansion capacity of companies. The number of companies reporting lower production due to material or staff shortages is five times the historical norm. The backlog of work due to labour shortage is four times the long term average.
- The IHS Markit Suppliers Delivery Times Index, indicating material supply delays, rose for the third consecutive month in Aug'21, recording a 25-year high. Supply chain delays are largely witnessed in the US and European economies.

Rising incidence of the Delta variant in Asia disrupts manufacturing output:

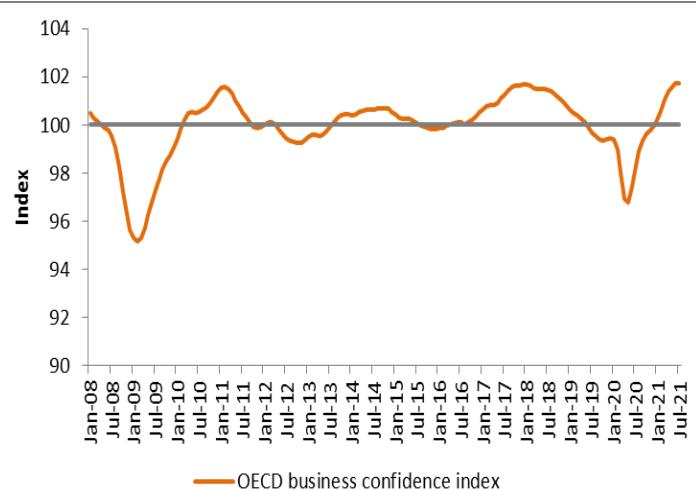
- Production activities in North America and Europe continued to increase at a strong rate, although there was some cooling in the expansion rate. In contrast, activity restrictions in key Asian economies battling the Delta variant along with low vaccination rates continue to dampen production capabilities. China's manufacturing PMI fell to 49.2 in Aug'21 from 50.2 in Jul'21, contracting for the first time since Apr'20 (*Exhibit 11*).
- Manufacturing PMI in ASEAN stood at 44.5 in Aug'21, marginally down from 44.6 in Jul'21. A steep contraction was seen in Myanmar (36.5) and Vietnam (40.2). Malaysia (43.4) and Indonesia (43.7) remained in the contractionary zone (below 50) in Aug'21.

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Exhibit 1: JP Morgan Global Manufacturing PMI softened to 54.1 in Aug'21...

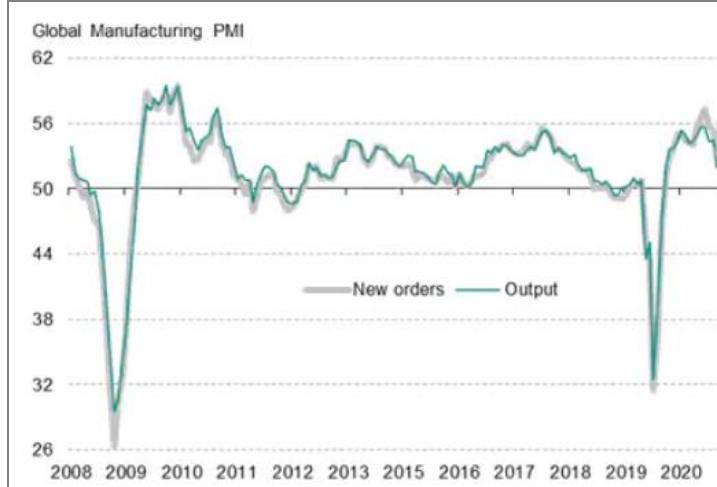


Source: Bloomberg, Systematix Research



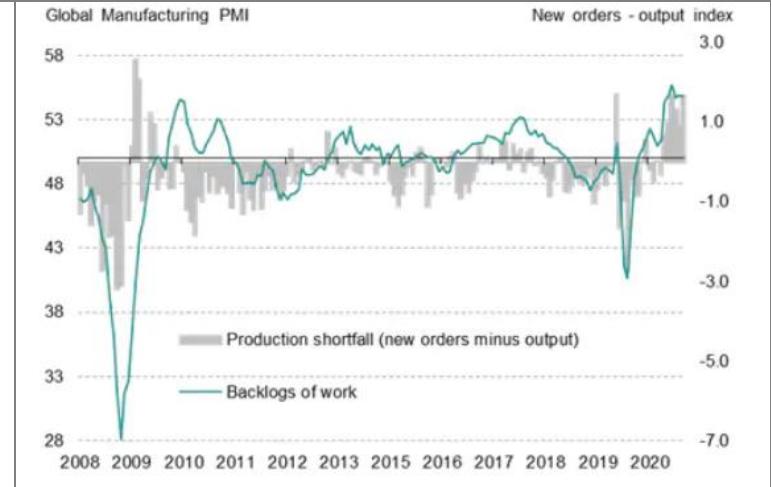
Source: OECD, Systematix Research

Exhibit 3: Global production slowed sharply vs. new orders



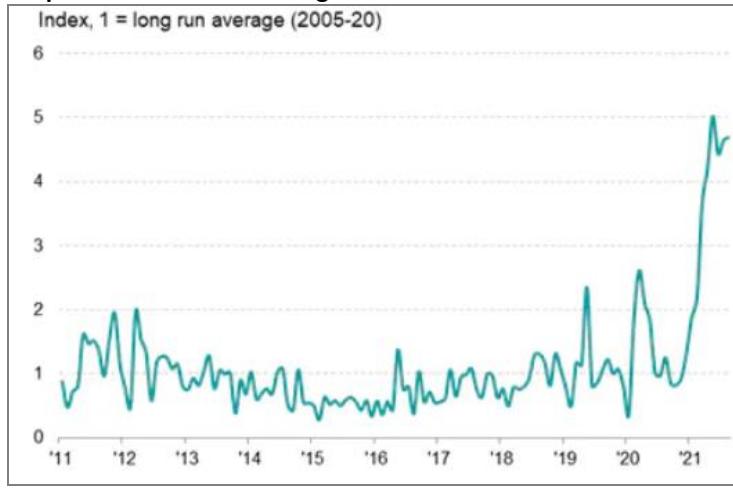
Source: IHS Markit, Systematix Research

Exhibit 4: Production shortfall led to a sharp rise in work backlog



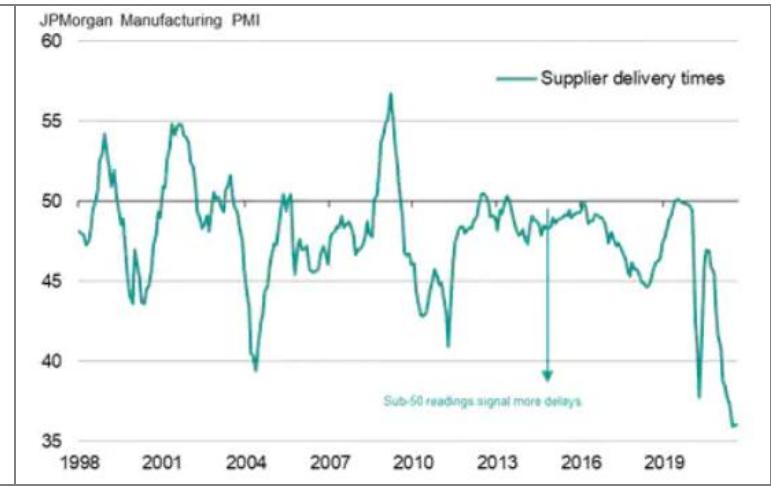
Source: IHS Markit, Systematix Research

Exhibit 5: Global manufacturers increasingly reporting a fall in output due to labour shortage



Source: IHS Markit, Systematix Research

Exhibit 6: Supply situation deteriorates at a record rate



Source: IHS Markit, Systematix Research

Exhibit 7: Supply chain delays largely impact the US and Europe



Exhibit 8: Rank-wise manufacturing PMI input prices

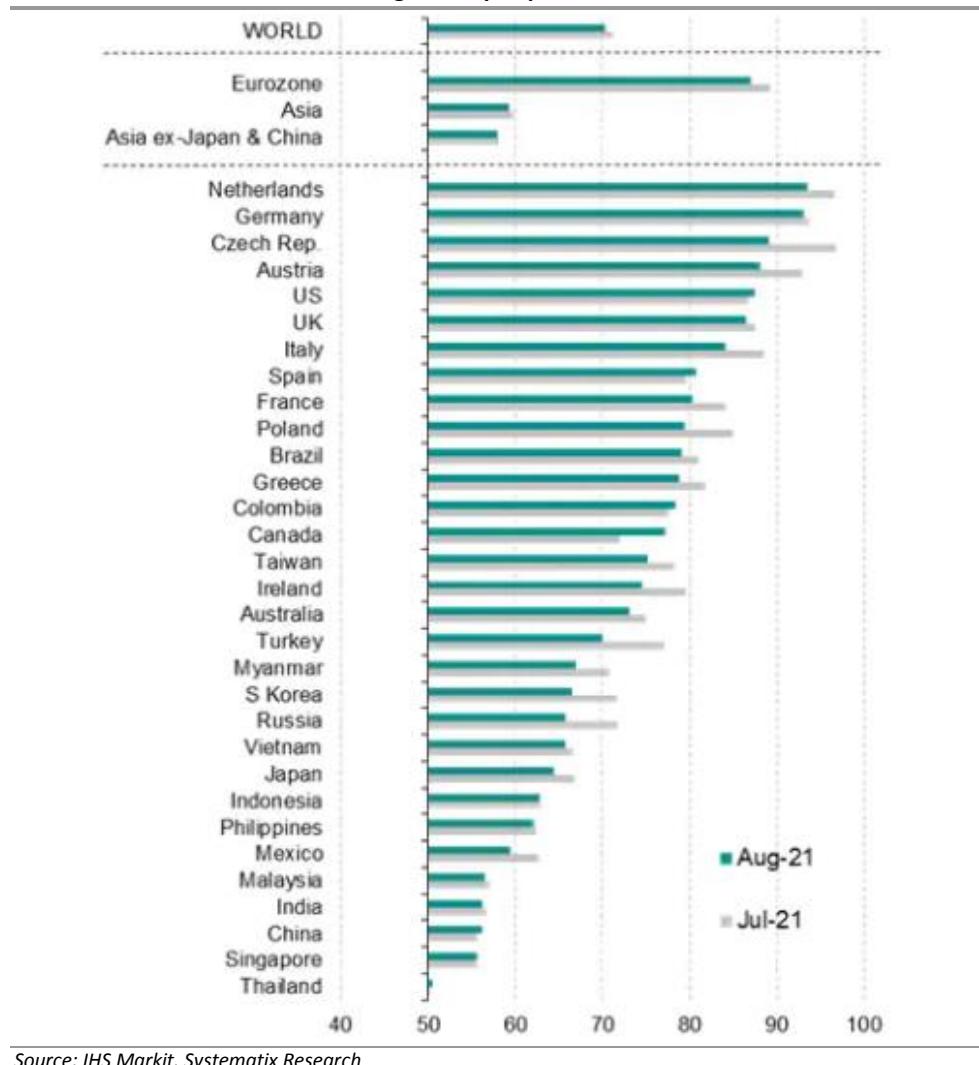
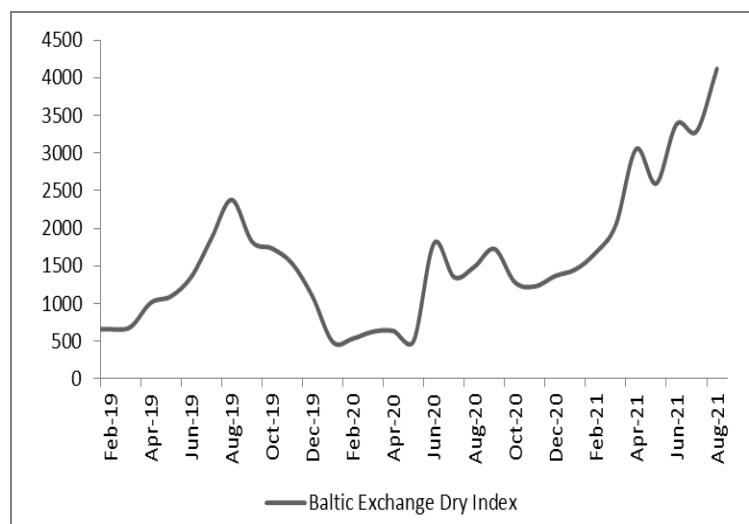
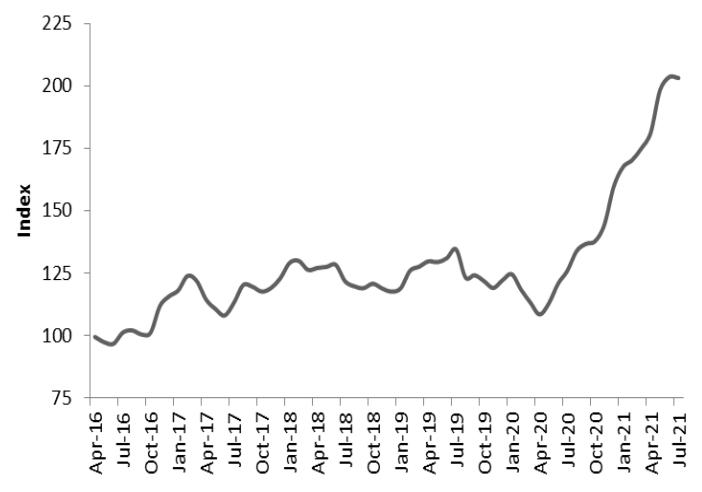


Exhibit 9: Increasing freight rates add to inflationary pressures

Source: Bloomberg, Systematix Research

Exhibit 10: Industrial input price index (2006 = 100) remain elevated

Source: IMF, Systematix Research

Exhibit 11: Trend in manufacturing PMI in G20 economies

Country	Aug'21	Jul'21	Jun'21	May'21	Apr'21	Mar'21	Feb'21	Jan'21	FYTD Changes
Switzerland	67.7	71.1	66.7	69.9	69.5	66.3	61.3	59.4	8.3
Netherlands	65.8	67.4	68.8	69.4	67.2	64.7	59.6	58.8	7.0
Germany	62.6	65.9	65.1	64.4	66.2	66.6	60.7	57.1	5.5
Euro Area	61.4	62.8	63.4	63.1	62.9	62.5	57.9	54.8	6.6
United States	61.1	63.4	62.1	62.1	60.5	59.1	58.6	59.2	1.9
Italy	60.9	60.3	62.2	62.3	60.7	59.8	56.9	55.1	5.8
United Kingdom	60.3	60.4	63.9	65.6	60.9	58.9	55.1	54.1	6.2
Spain	59.5	59.0	60.4	59.4	57.7	56.9	52.9	49.3	10.2
South Africa	57.9	43.5	57.4	57.8	56.2	57.4	53.0	50.9	7.0
France	57.5	58.0	59.0	59.4	58.9	59.3	56.1	51.6	5.9
Canada	57.2	56.2	56.5	57.0	57.2	58.5	54.8	54.4	2.8
Saudi Arabia	55.8	55.8	56.4	56.4	55.2	53.3	53.9	57.1	-1.3
Turkey	54.1	54.0	51.3	49.3	50.4	52.6	51.7	54.4	-0.3
Brazil	53.6	56.7	56.4	53.7	52.3	52.8	58.4	56.5	-2.9
Japan	52.7	53.0	52.4	53.0	53.6	52.7	51.4	49.8	2.9
India	52.3	55.3	48.1	50.8	55.5	55.4	57.5	57.7	-5.4
Australia	51.6	60.8	63.2	61.8	61.7	59.9	58.8	55.3	-3.7
South Korea	51.2	53.0	53.9	53.7	54.6	55.3	55.3	53.2	-2.0
Singapore	50.9	51.0	50.8	50.7	50.9	50.8	50.5	50.7	0.2
China	49.2	50.3	51.3	52.0	51.9	50.6	50.9	51.5	-2.3
Mexico	47.1	49.6	48.8	47.6	48.4	45.6	44.2	43.0	4.1
Russia	46.5	47.5	49.2	51.9	50.4	51.1	51.5	50.9	-4.4
Indonesia	43.7	40.1	53.5	55.3	54.6	53.2	50.9	52.2	-8.5

Source: Trading Economics, Systematix research

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