Datanote: US S&P Global Composite PMI, February

In one line: Decision-making on hold until the federal policy outlook becomes clearer.

- The flash composite PMI dropped to 50.4 in February, from 52.4 in January, below the consensus, 53.2.
- The services PMI fell to 49.7, from 52.9, well below the consensus, 53.0.
- The manufacturing PMI rose to 51.6, from 51.2, slightly above the

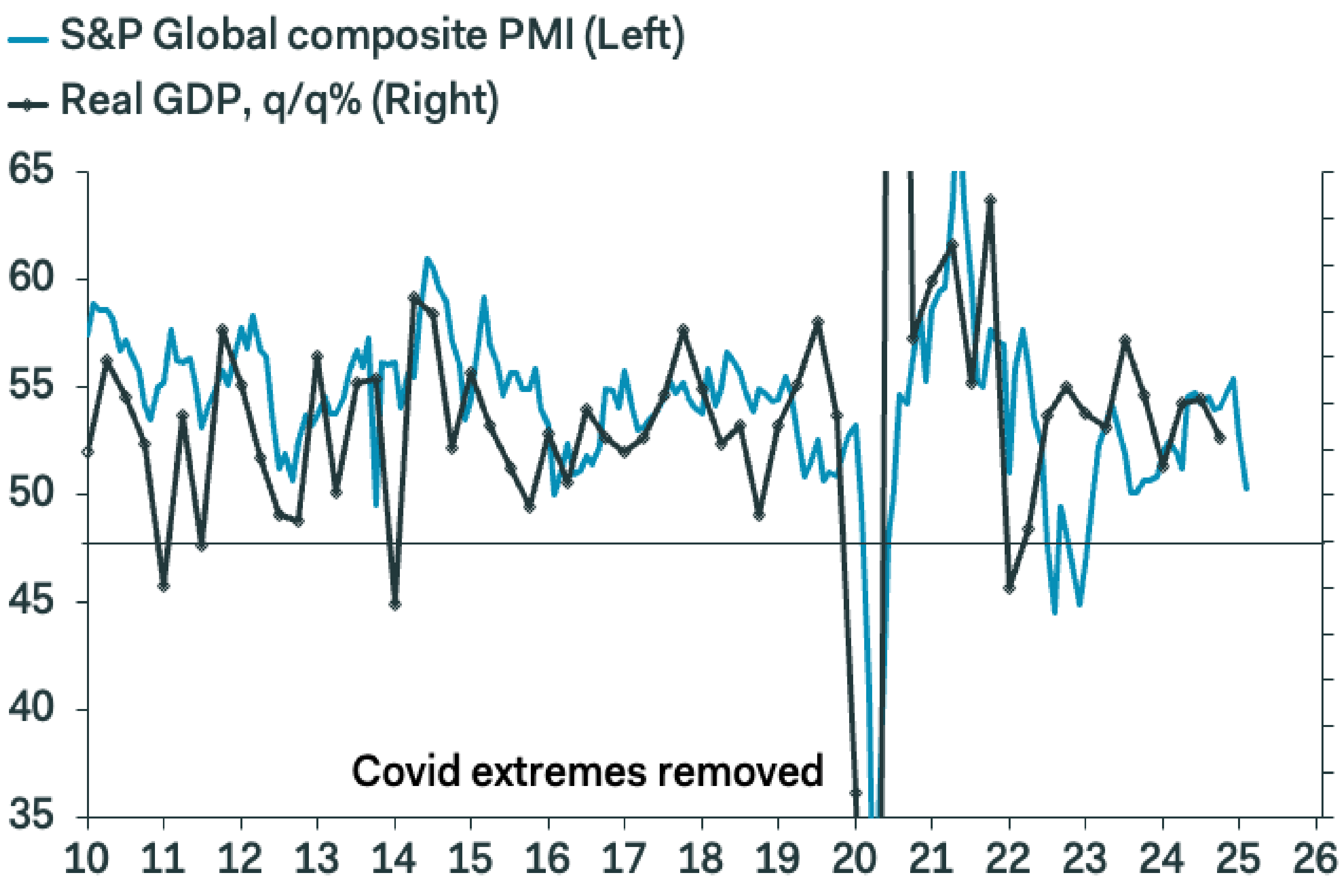
consensus, 51.4.

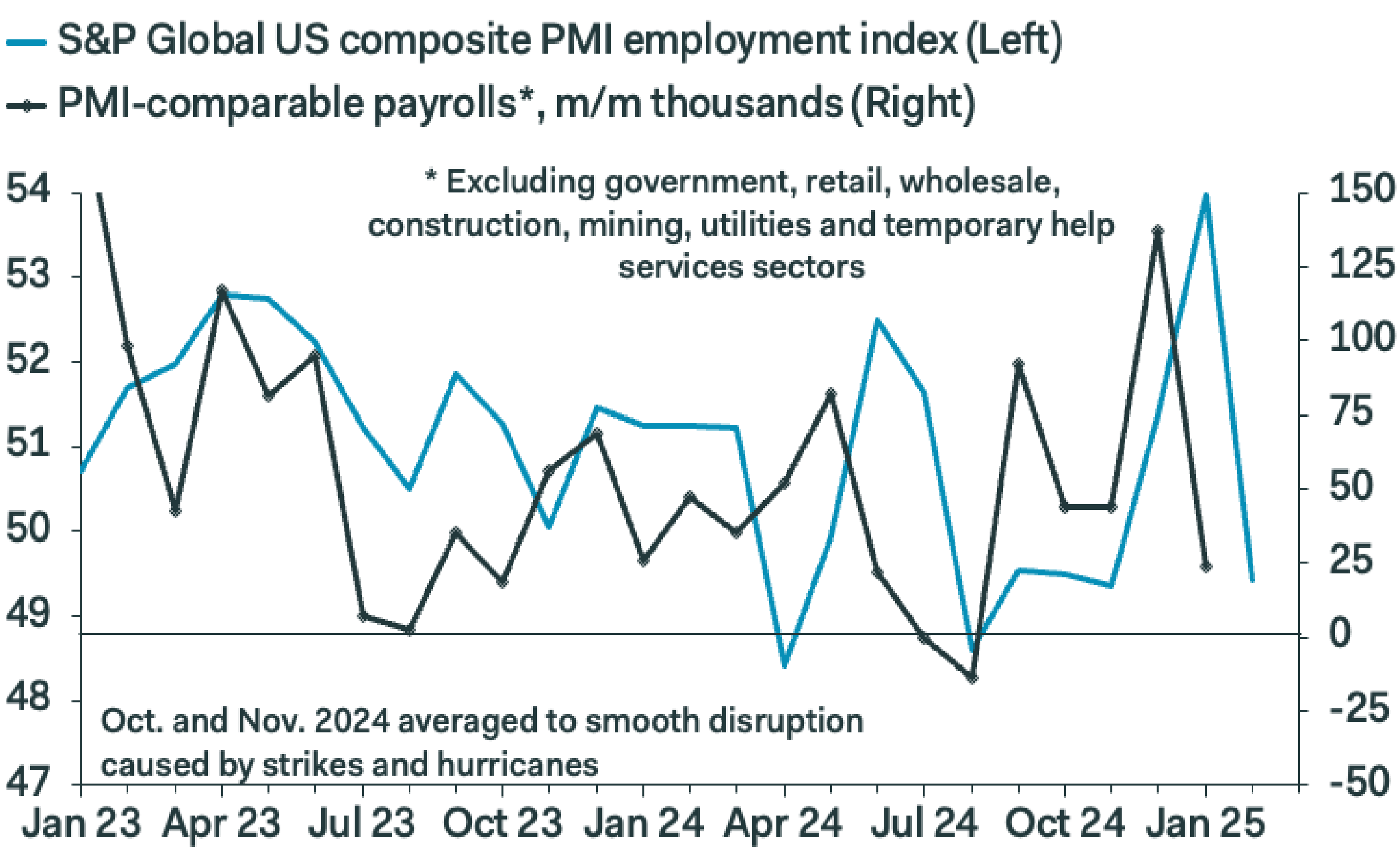
Uncertainty over the severity of federal spending cuts and tariffs has led to a sudden stop in decision-making, likely weighing materially on GDP growth in Q1. The composite PMI fell to 17-month low, while the future activity index dropped to its lowest level since December 2022, excluding September's pre-election dip. The Q1 average of the composite PMI is now consistent with GDP rising at an annualized rate of 1.8-

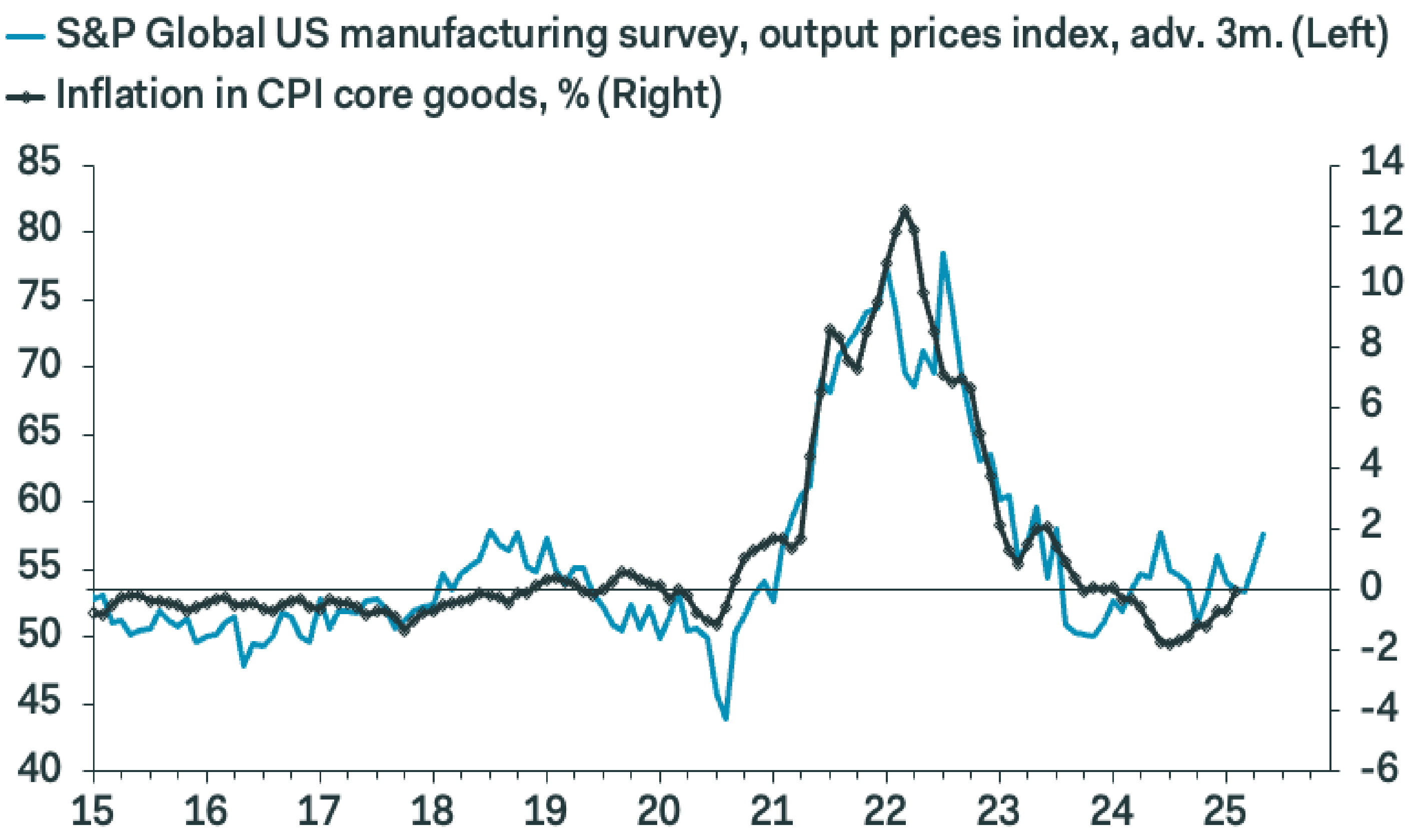
to-2.3% in Q1, depending on which period of past data is used to infer the relationship. Admittedly, the PMI has given an excessively downbeat steer in the past, most notably in 2022 when it erroneously pointed to a recession. But the relative weakness of January's retail sales, the recent fall in consumers' confidence and the unwinding of recent increases in the capex intentions indexes of the regional Fed manufacturing surveys in February all provide supporting evidence that political uncertainty is harming growth.

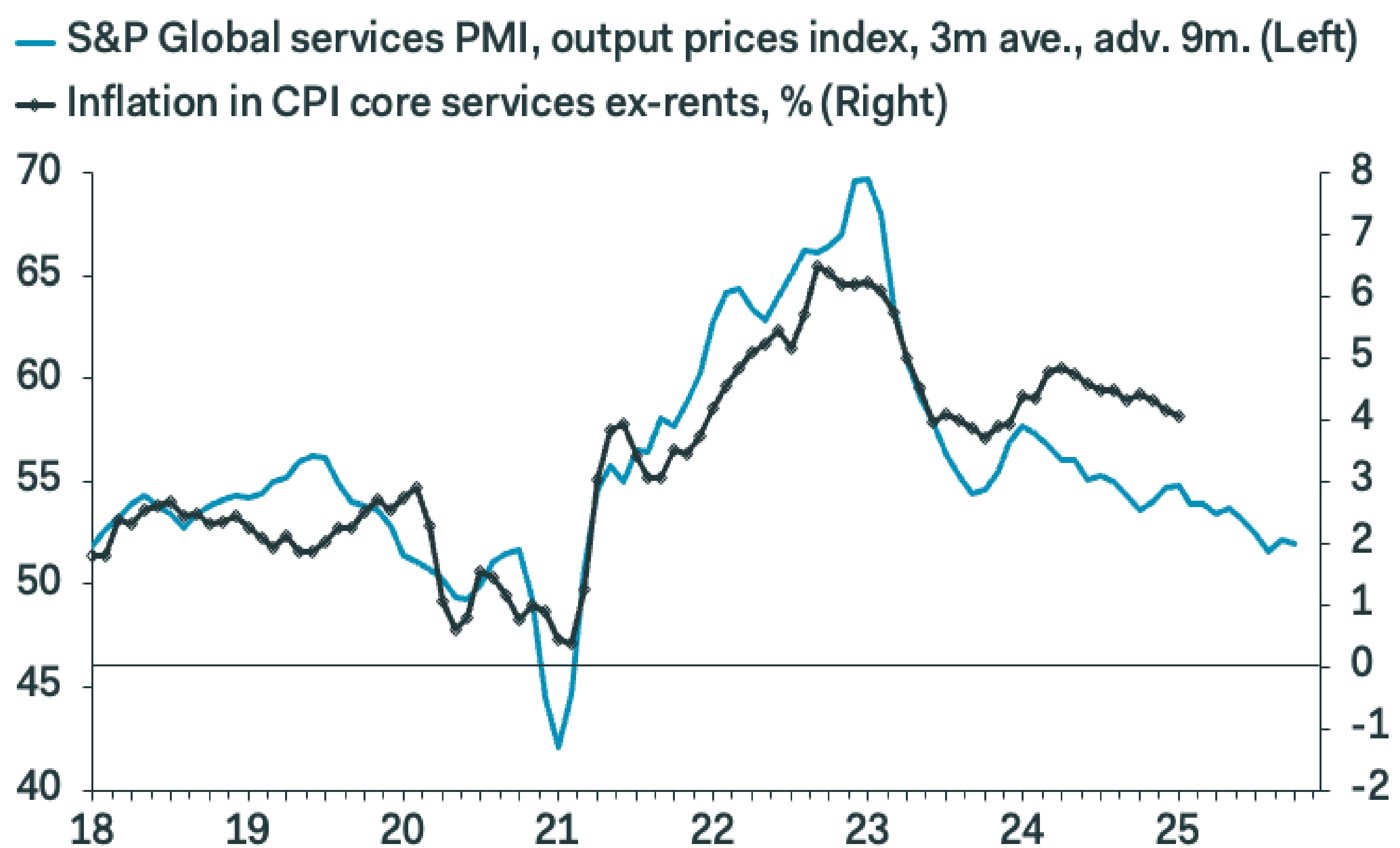
The drop in the composite employment index to 50.1 in February, from 52.0 in January, suggests that uncertainty is quickly feeding through to hiring decisions. That said, the very high level of the employment index in January was a poor bellwether for January payroll growth, and recent revisions to payrolls also have weakened the relationship between the PMI and the official data. Accordingly, we will wait for more reliable survey indicators before finalizing our forecast for February payroll growth.

Meanwhile, the rise in the output price index of the manufacturing to a 24-month high of 57.5 in February, from 55.4 in January, provides more evidence that inflation in CPI core goods prices will rise over coming months, even if no further tariffs are imposed. Taken literally, the 2.0pp increase in inflation in CPI core goods ex-autos prices implied by our third chart below would lift core CPI inflation by 0.3pp. Nonetheless, disinflation still looks well-ingrained in the services sector. The output prices index of the services survey fell to just 50.5 in February—its lowest level since April 2020—from 53.6 in January. Our final chart below shows that it points to an ongoing slowdown in our measure of core-core services inflation, which likely will offset the pick-up in core goods inflation ahead.


S&P Global composite PMI (Left)
Real GDP, q/q% (Right)
65
60
55
50
45
40
35
8
7
6
5
4
3
2
1
0
-1
-2
-3
-4
-5
-6
Covid extremes removed
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26


S&P Global US composite PMI employment index (Left)
PMI-comparable payrolls*, m/m thousands (Right)
* Excluding government, retail, wholesale, construction, mining, utilities and temporary help services sectors
54
53
52
51
50
49
48
47
150
125
100
75
50
25
0
-25
-50
Oct. and Nov. 2024 averaged to smooth disruption caused by strikes and hurricanes
Jan 23
Apr 23
Jul 23
Oct 23
Jan 24
Apr 24
Jul 24
Oct 24
Jan 25


S&P Global US manufacturing survey, output prices index, adv. 3m. (Left)
Inflation in CPI core goods, % (Right)
85
80
75
70
65
60
55
50
45
40
14
12
10
8
6
4
2
0
-2
-4
-6
15
16
17
18
19
20
21
22
23
24
25


S&P Global services PMI, output prices index, 3m ave., adv. 9m. (Left)
Inflation in CPI core services ex-rents, % (Right)
70
65
60
55
50
45
40
8
7
6
5
4
3
2
1
0
-1
-2
18
19
20
21
22
23
24
25