

# Global PMIs Are Very Strong, But Does That Mean Anything For Stocks?

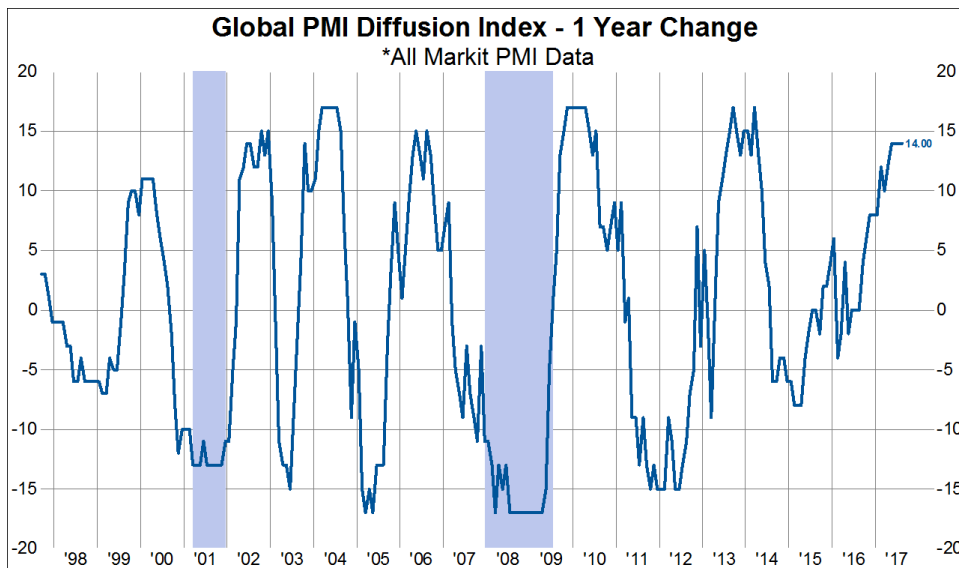
September 8, 2017

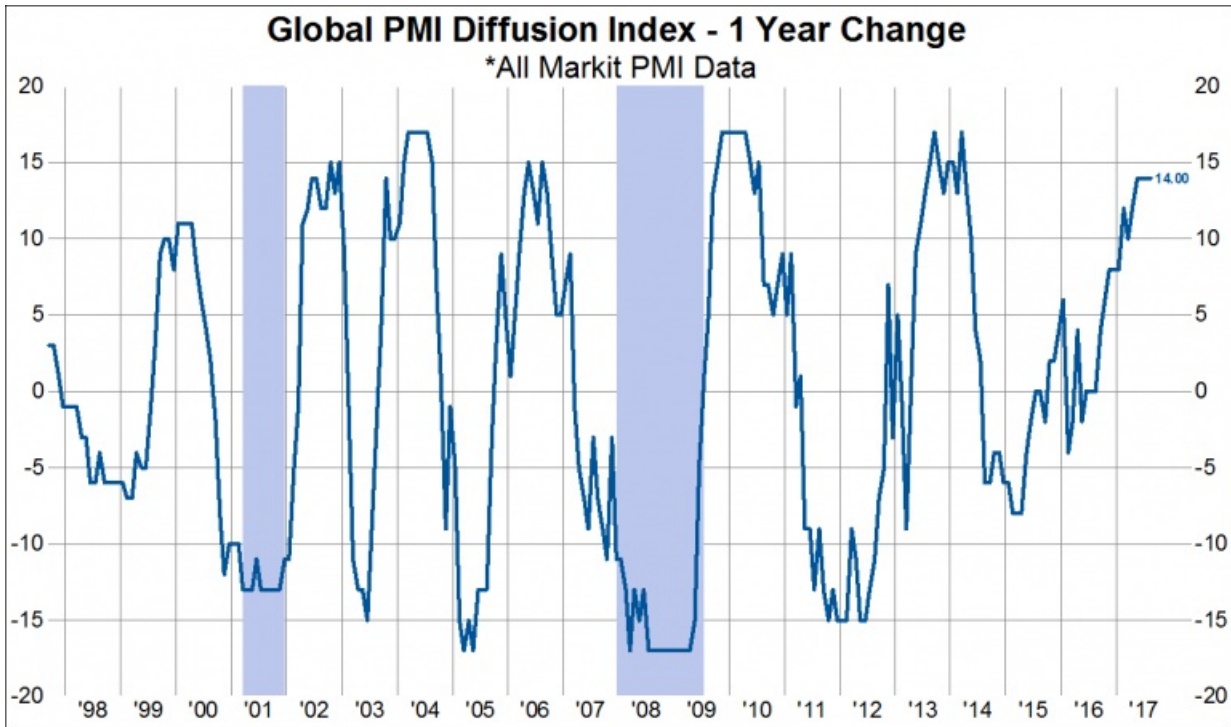
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The upturn in global PMIs over the last year has been substantial and for the first time in years the world's developed economies appear to be expanding in unison. As we can see in the table below, the color of the board has moved from red to green, indicating that nearly every major DM country is seeing improving PMIs.

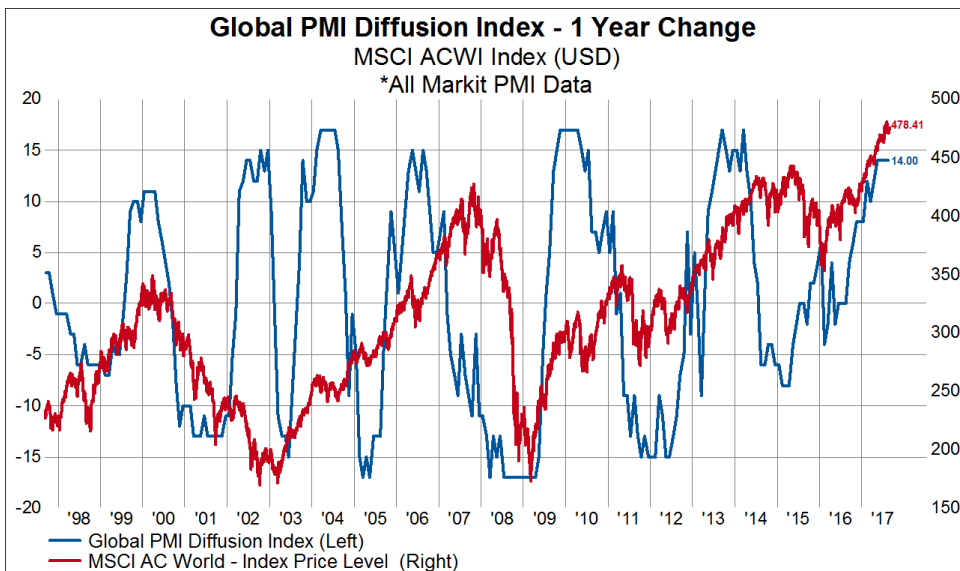
Market Manufacturing	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17	Jul 17	Aug 17
USA	52.0	51.5	53.4	54.1	54.3	55.0	54.2	53.3	52.8	52.7	52.0	53.3	52.8
Canada	51.1	50.3	51.1	51.5	51.8	53.5	54.7	55.5	55.9	55.1	54.7	55.5	54.6
Australia	46.9	49.8	50.9	54.2	55.4	51.2	59.3	57.5	59.2	54.8	55.0	56.0	59.8
Japan	49.5	50.4	51.4	51.3	52.4	52.7	53.3	52.4	52.7	53.1	52.4	52.1	52.2
New Zealand	55.0	57.4	55.1	54.4	54.5	53.2	55.7	58.1	56.7	58.2	56.2	55.4	
Singapore	49.8	50.1	50.0	50.2	50.6	51.0	50.9	51.2	51.1	50.8	50.9	51.0	51.8
Austria	52.1	53.5	53.9	55.4	56.3	57.3	57.2	56.8	58.1	58.0	60.7	60.0	61.4
Denmark	54.0	57.7	55.3	57.1	64.0	60.2	57.8	57.7	47.6	57.3	61.9	63.9	61.1
France	48.3	49.7	51.8	51.7	53.5	53.6	52.2	53.3	55.1	53.8	54.8	54.9	55.8
Germany	53.6	54.3	55.0	54.3	55.6	56.4	56.8	58.3	58.2	59.5	59.6	58.1	59.3
Greece	50.4	49.2	48.6	48.3	49.3	46.6	47.7	46.7	48.2	49.6	50.5	50.5	52.2
Ireland	51.7	51.3	52.1	53.7	55.7	55.5	53.8	53.6	55.0	55.9	56.0	54.6	56.1
Israel	57.0	52.1	51.1	54.3	67.2	62.6	61.2	54.8	52.0	56.2	50.3	54.3	
Italy	49.8	51.0	50.9	52.2	53.2	53.0	55.0	55.7	56.2	55.1	55.2	55.1	56.3
Netherlands	53.5	53.4	55.7	57.0	57.3	56.5	58.3	57.8	57.8	57.6	58.6	58.9	59.7
Spain	51.0	52.3	53.3	54.5	55.3	55.6	54.8	53.9	54.5	55.4	54.7	54.0	52.4
Switzerland	51.6	54.4	55.2	55.9	56.2	54.6	57.8	58.6	57.4	55.6	60.1	60.9	61.2
United Kingdom	53.2	55.3	54.2	53.4	55.8	55.3	54.6	54.3	57.0	56.4	54.3	55.3	56.9
Average	51.7	52.4	52.7	53.5	55.5	54.7	55.3	55.0	54.7	55.3	55.4	55.8	56.5

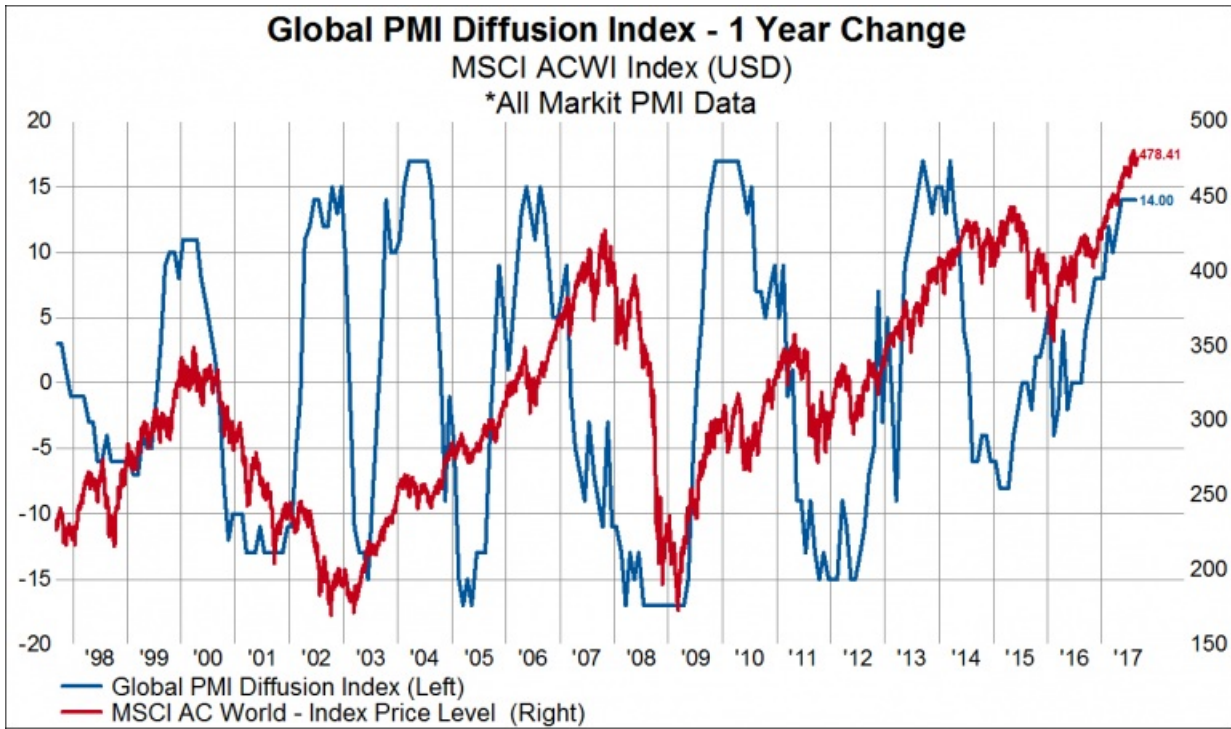
Another way to look at the trend in PMIs is to calculate a diffusion index by adding up the number of countries that have higher current PMIs than year-ago PMIs and then subtracting the number of countries that have lower current PMIs than year-ago PMIs. In essence, the diffusion index is a breadth indicator for PMIs. The level and trend of our diffusion index gives us a decent idea of how global growth prospects are evolving. The current high level of the index suggests that almost all of the world's DM economies are stronger now than a year ago and the trend still appears to be improving.



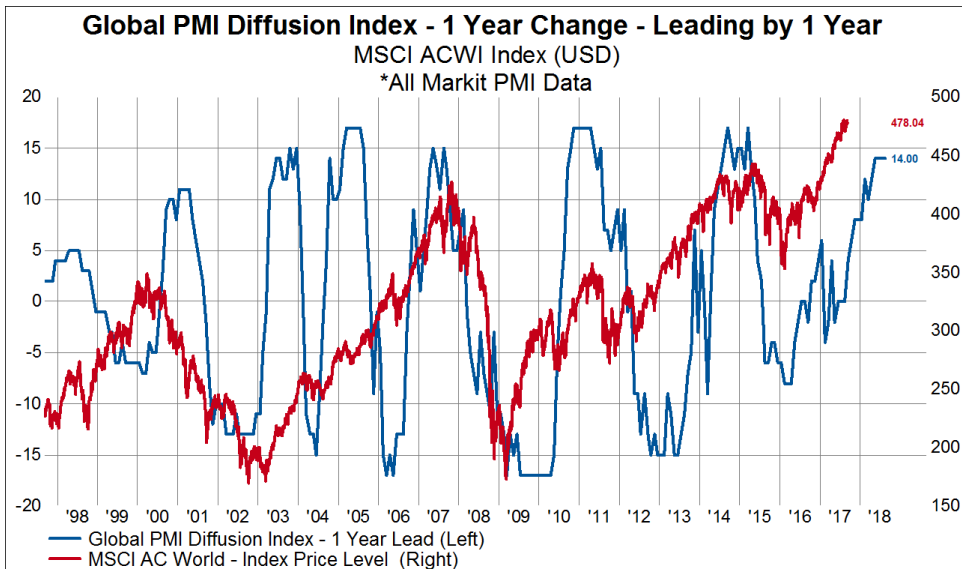


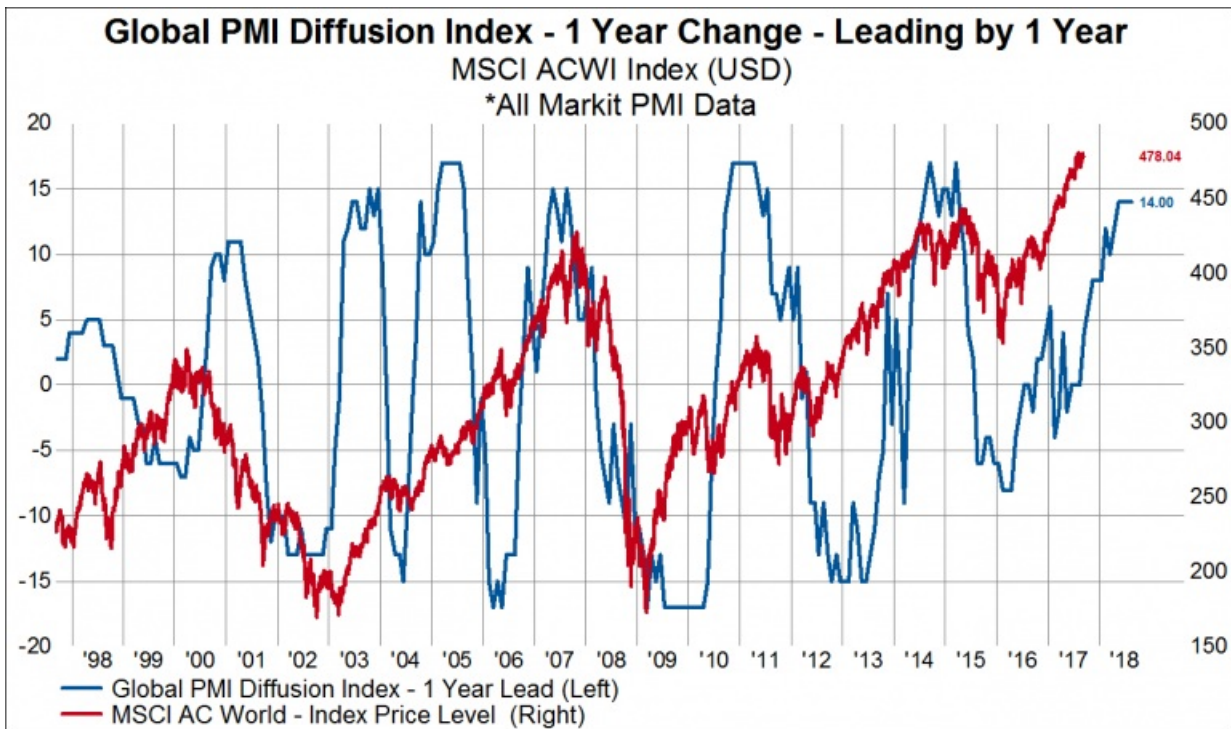
So what does this mean for stocks? We've heard some commentators suggest that the high level of global PMIs may be signaling an important peak in stocks, but the data doesn't exactly point to that. Instead, we find that important stock market peaks – like the ones seen in 2007, 2011 and 2015 – occur roughly one year after PMI breadth peaks. The next chart below clearly shows the blue line (the PMI diffusion index) leading the red line (MSCI ACWI in USD) by about 12 months.





When we apply a 1 year lead to the PMI diffusion index we can see the relationship even better.





The leading relationship between PMI breadth and global stocks suggests that this bull market could have more to run before it hits a major stumbling block, even if the PMI diffusion index were to peak now. That is not to say that a decent correction won't happen, can't happen or isn't needed, just that a major high may be out a bit further. In other words, strong and improving PMIs should be viewed favorably and are a positive prognostic indicator for stocks.

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