

Economic data released this week has provided some good news for the global economy. The Purchasing Manager Indexes (PMI) from around the world show manufacturing is at above long term averages or at multi-year highs.

The data suggests that economic growth will follow. Buoyed by [low interest rates](#) , and the [prospects of government stimulus](#) , firms are benefiting from a surge in new orders.

The [Australian PMI report](#) includes comments from manufacturers that suggest current demand is driven by higher commodity prices, infrastructure projects, the continued NBN rollout, and higher defence spending. But it also highlights concerns surrounding energy prices and security.

What is PMI?

The PMI is an [important indicator](#) for the health of the manufacturing sector, and is correlated with overall economic growth. The PMI is compiled from a survey of purchasing managers. These are executives who order raw materials and other supplies for their firms, and so have insight on output and corporate performance in the short term.

The PMI is an index [where 50 is the key level](#) . When readings are above 50 it indicates an increase in business activity, while a figure below 50 indicates contraction. Australia shows good signs with a PMI of 58, as do Canada and the United States.

In addition to the headline number, PMI reports also provide information on matters such as business conditions, new orders, employment, and prices. Looking at these components allows for a more nuanced view of how businesses are faring.

Manufacturing in good health almost everywhere

Across the globe, the manufacturing sector appears to be in good shape. Of the [recently released PMI surveys](#) , 46 are above 50, signalling expansion. Three more are very close to that important

benchmark. Even the UK, in the midst of [Brexit negotiations](#), has a positive outlook with a PMI of 54.2.

Of the sub-50 countries, Brazil and Greece are recovering from severe recessions and the survey results are improving. South Korea is in the midst of a political crisis following the [impeachment](#) of President Park Geun-hye, and so it is of little surprise that firms are holding back on new investment decisions.

Closer consideration of the PMI survey reveals why the outlook is generally positive. Increasing levels of new orders are the key driver of this expansion. This suggests that expansion will continue for a while as the orders are fulfilled. All told, orders are falling for only four countries.

In order to deal with the new orders, firms need to increase their labour capacity, either by asking workers to work longer, or by hiring new workers. The employment component of the US PMI is at the highest level since 2011, and firms appear to be finding it more difficult to find skilled workers.

The increase in employment is clearly a positive sign for economic activity.

Headwinds

But there could be some headwinds on the horizon, most notably inflation.

One concerning factor is the increase in price levels witnessed across the globe, even where the manufacturing sector is contracting. This is largely driven by the [substantial increases](#) in the price of raw materials in recent times.

In an effort to encourage growth, central bankers have maintained low interest rates. But there is a risk that price increases will lead to inflation, which will be difficult to rein in given extraordinarily low interest rates.

Beyond the gloomy headlines, this global index suggests manufacturing is in good shape

Written by The Conversation

The US PMI suggests American employers are struggling to find suitable workers. This also hints at possible future wage inflation. If this did occur, then central banks may be forced to raise rates more quickly than expected. This could stifle economic growth in the process.

There is also the risk that President Trump enacts the [protectionist trade policies](#) he called for on the campaign trail. Whether or how this impacts the US economy, the barriers and taxes would affect manufacturers elsewhere.

In the end, the PMI data released this week suggests the global economy will pick up speed in the coming months. This will translate into job creation. However, we, and especially central bankers, should keep an eye on prices, since a surge in inflation could derail prospects for growth.

Lee Smales does not work for, consult, own shares in or receive funding from any company or organization that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.

Read more <http://theconversation.com/beyond-the-gloomy-headlines-this-global-index-suggests-manufacturing-is-in-good-shape-75696>