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Markit Economic Research

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Global economy

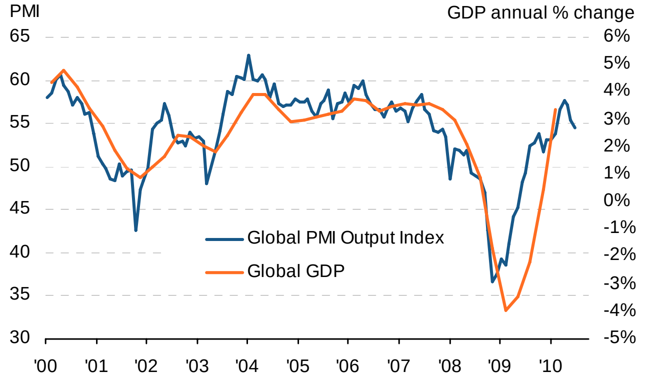
Falling or flying? Global PMI suggests global upturn is losing altitude

The monthly flow of data is being scrutinised to see if the global economy has received sufficient stimulus to take off on a sustained recovery, or whether growth will splutter and stall once the initial momentum from stimuli wanes. The PMI survey data for July suggest that the upturn is losing altitude, with growth slipping for the third month running. However, strong national divergences are apparent.

Global economic growth at five-month low

The JPMorgan Global PMI Output Index, compiled from national PMI manufacturing and service sector survey data by Markit, fell for the third successive month in July. This suggests that the rate of global GDP growth will have slowed as we move into the second half of the year, with 2010 Q2 representing a growth peak in the recovery (the strongest quarter of growth for three years). Compared with a peak of almost 4% in April, we estimate that the annual rate of worldwide GDP growth slowed to perhaps 2.5% in July.

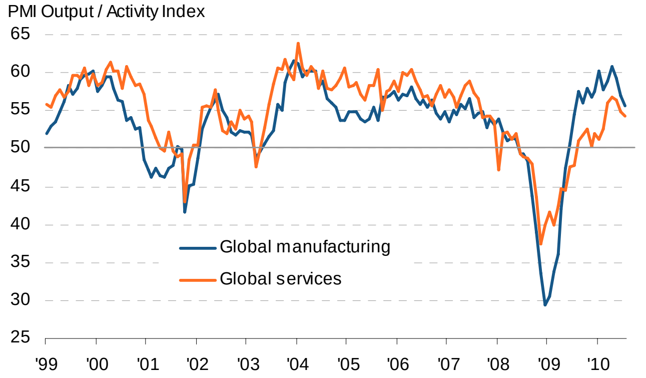
Global economic growth



Sources: Markit, JPMorgan.

Growth slowed for the third consecutive month in both manufacturing and services in July, dropping to 12- and five-month lows respectively.

Manufacturing v. services output



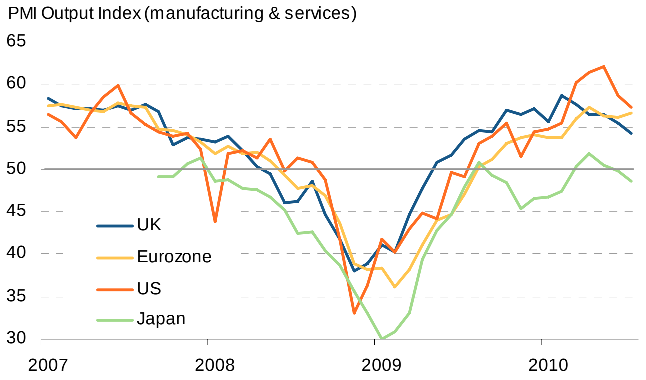
Sources: Markit, JPMorgan.

Divergent national growth trends

Composite PMIs (covering manufacturing & services) continued on downward paths in the US, UK and Japan in July, although the latter was the only G4 economy to see contraction. The US still leads the G4 growth table, with the rate of growth remaining strong by historical standards, followed closely by the Eurozone, which was boosted by a German growth spurt.

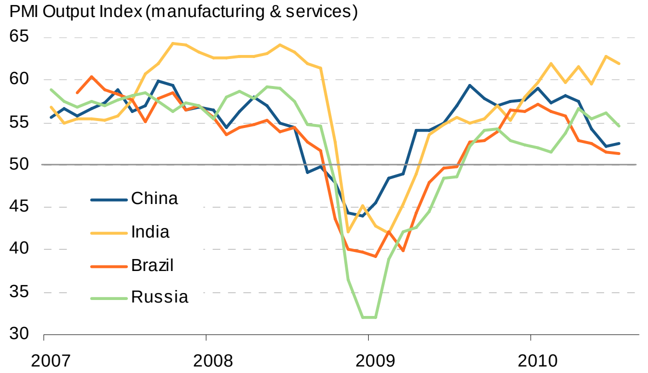
Among the BRICs, PMIs were particularly weak again in Brazil and China, possibly linked to policy tightening as central banks seek to ward off inflationary pressures, with manufacturing output contracting in China. India's growth remained resilient, in contrast, soaring at a near-record rate for the PMI survey.

G4 economic growth



Sources: Markit, ISM.

BRIC economic growth



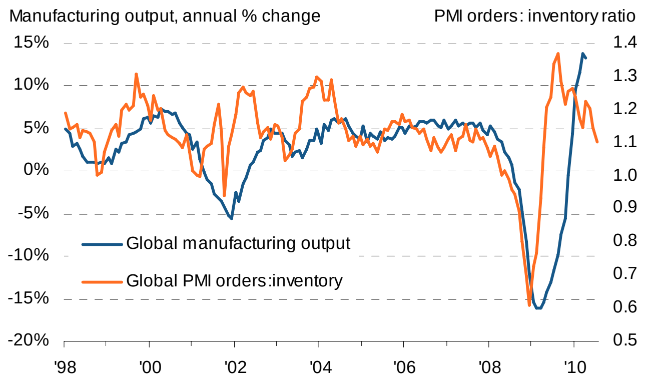
Source: Markit.

Manufacturing cools to more sustainable pace

A slowdown was expected in manufacturing, reflecting a moderation from surging rates of expansion in many countries as companies rebounded from the depths of the recession, often boosted by stimulus measures and inventory building. However, encouragingly, the rate of growth remains just above the average recorded throughout 2006-07.

The PMI new orders:inventory ratio has been particularly useful in tracking the manufacturing sector's recovery. This ratio suggests that, having reached almost 14% back in March, the year-on-year rate of growth of global manufacturing production is likely to have slowed to a more sustainable 4-5%.

Manufacturing



Sources: Markit, JPMorgan.

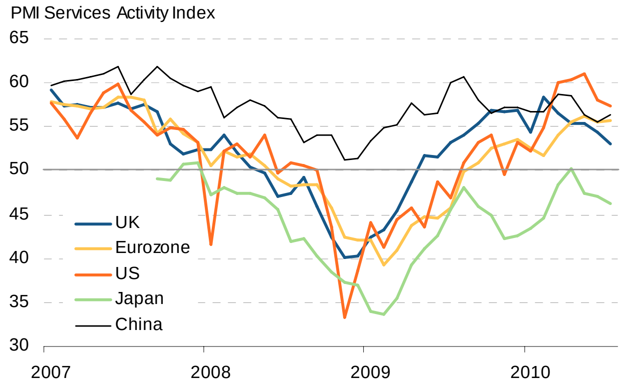
Services disappoint

In contrast to the anticipated slowing in manufacturing, the failure of the service sector to show signs of renewed strength, having failed to regain the rate of growth seen prior to the financial crisis, is becoming an increasing concern in the recovery.

For the recovery to become truly sustainable, the initial stimulus-related boost evident in manufacturing has to spill over to the wider economy via increased spending by producers, job creation and improved business and consumer confidence. The services PMI data provide an important indicator of this transmission, and the slower growth that has been evident in recent months suggests that the recovery may not be gaining enough momentum to be sustainable.

Slower service sector growth is particularly evident in the UK, where business and consumer confidence appears to have been knocked hard by austerity measures announced in the emergency Budget of 22 June, but deteriorations have also been recorded in the US[1] and Japan.

Service sector business activity[1]

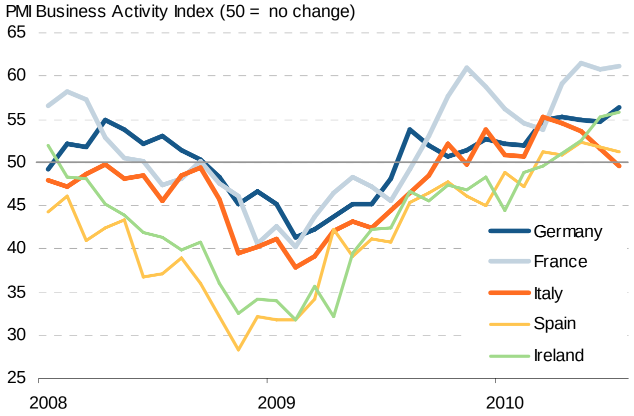


Sources: Markit, ISM.

Countries showing greatest resilience in terms of service sector growth are China and India, as well as Germany and France. Increasingly divergent trends are apparent in the Eurozone, however, largely due to contrasting trends in the service sector, with services activity slipping back into contraction in Italy and nearing stagnation in Spain. However, hopes that austerity-hit economies can still recover are raised by a strengthening of service sector growth in Ireland.

[1] It should be borne in mind that the ISM-produced US PMI surveys are different to those of other countries in that the 'services' survey covers all non-manufacturing, including the state sector.

Service sector growth in the Eurozone



Source: Markit.

Slower growth in prospect

For many countries, the lacklustre service sector performance can be linked to the reluctance of companies to take on extra staff. The Global PMI Employment Index is currently registering only very modest employment growth, with job creation largely confined to manufacturing.

With manufacturing output slowing and service sector growth constrained or weakened by stubbornly high unemployment and concerns about future economic prospects in many developed countries, the pace of global economic expansion looks set to slow in the second half of the year, and the risk of double-dip recessions has risen for the most vulnerable countries.

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