

Global overview

Global PMI hits 34-month high in April. Stronger economic growth feeds through to the labour market, but also fuels rising price pressures.

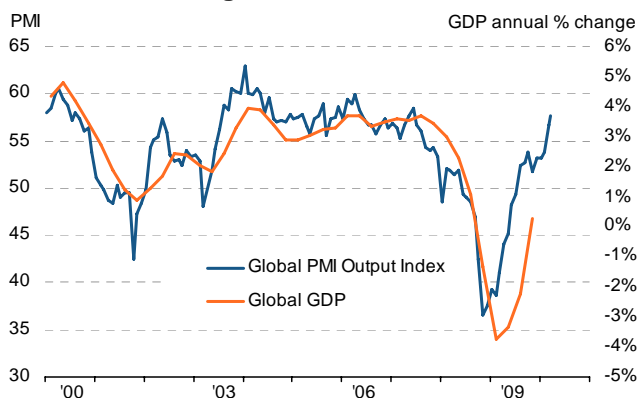
Global economy sees good start to Q2

Global economic growth continued to accelerate at the start of the second quarter, with growth also becoming better-balanced between manufacturing and services as well as developed and emerging nations.

The JPMorgan Global PMI Output Index, compiled from national PMI manufacturing and service sector survey data by Markit, rose from 56.7 in March to 57.7 in April – its highest reading since June 2007. The Index has now signalled a continual rise in output since the downturn ended in August of last year.

Our analysis suggest that the latest reading of the PMI is consistent with global GDP growing at an annual rate in excess of 3%, accelerating on the estimated 2.5% pace seen on average during the first three months of the year in Q1.

Global economic growth



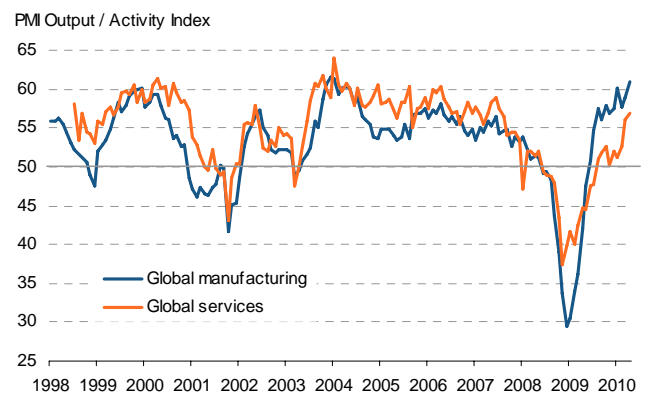
Sources: Markit, JPMorgan.

Manufacturing v. services

Manufacturers continued to lead the recovery, reporting the strongest pace of expansion since January 2004. But the service sector also reported that growth accelerated, rising to the fastest since July 2007. Growth of services activity remains well below that of manufacturing, where the rebuilding of inventories continued to support expansion in April, but the firmer pace of expansion in services confirms that the growth surge seen in March was not a one-off and

therefore adds to evidence that the recovery is becoming less fragile and less reliant on manufacturing.

Global manufacturing and services

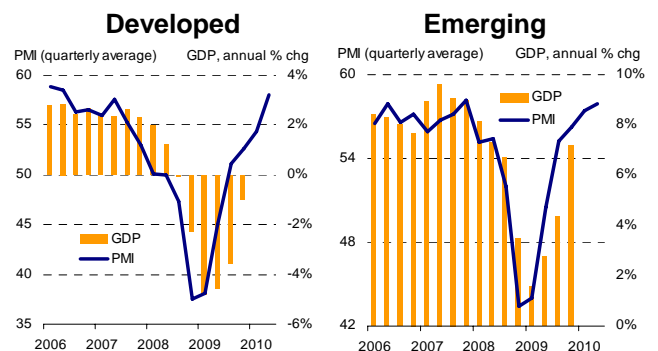


Sources: Markit, ISM, JPMorgan.

Developed v. emerging

The PMI Output Index for developed countries also overtook that for emerging markets for the first time since June 2007, led by a survey record rate of increase of manufacturing output in the former. However, in terms of GDP growth, the implications from the PMI data are that emerging markets continue to lead the global cycle. Comparisons of PMI indices with official data indicate that developed world output growth has accelerated to around 3% per annum, while the pace picked up to around 9% in emerging markets in April.

PMI 'All Sector' Output Indices and GDP



US and Eurozone

The main acceleration in growth in the last couple of months has been evident in the United States (where growth measured across both manufacturing and services in April was the fastest since August 2005).

However, both the Eurozone and the UK are also now growing at robust rates, the former expanding at the fastest pace for almost three years in April despite financial market jitters regarding government debt in peripheral countries.

UK manufacturers have meanwhile been reporting the strongest rate of expansion for 15 years in recent months, aided by the weakness of sterling. But signs of slower growth have been seen in the UK service sector (although volcanic ash clouds and the general election have disrupted business in many instances and underlying growth is likely to be more resilient than signalled by the services index).

China

Signs of weaker growth were also apparent in China during April, but whether this is a turning point or the extent to which this is due to deliberate policy tightening measures is not yet clear. We can only conclude that both manufacturing and services continue to expand at strong rates in China: at 57.7 in April the composite Output Index has fallen only slightly from January's peak of 59.0.

Japan

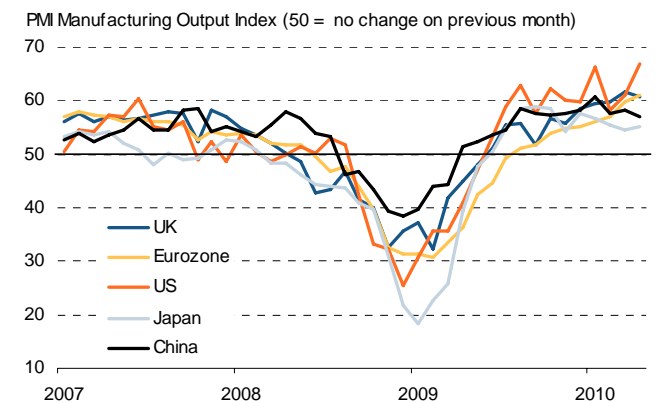
Elsewhere in Asia, surging manufacturing output growth was again recorded in Taiwan and South Korea, reflecting the ongoing buoyant global trade flows.

Good news was also received from Japan, where the combined output of manufacturing and services registered the first significant increase since December 2007, the service sector showing a welcome stabilisation following 27 months of continual decline.

Employment

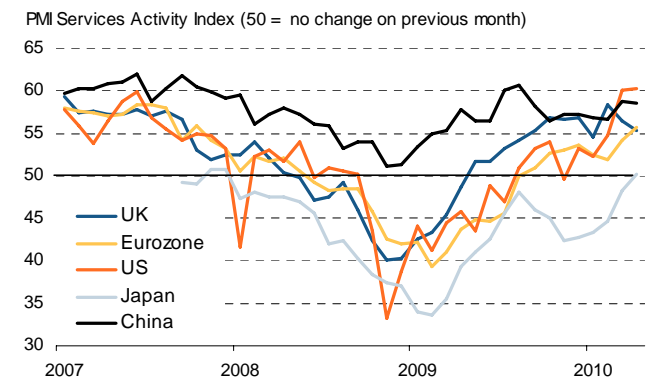
April's PMIs also presented encouraging labour market trends. Manufacturing employment rose worldwide at the fastest pace since May 2004, registering one of the largest monthly increases in staffing since data were first available in 1998. April also saw the first stabilisation of the global service sector workforce since payrolls began falling back in June 2008.

Manufacturing output



Sources: Markit, ISM.

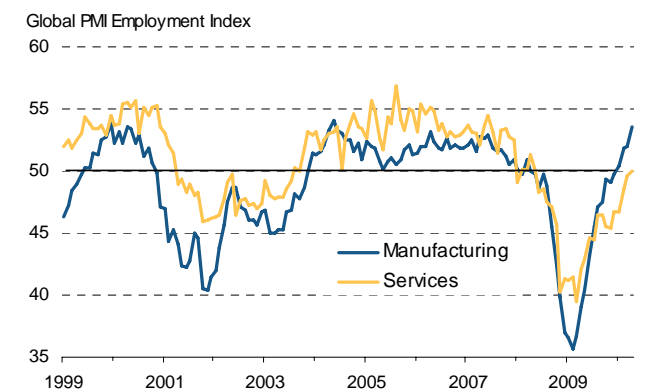
Service sector activity*



* US data cover all non-manufacturing sectors.

Sources: Markit, ISM.

Employment



Sources: Markit, ISM.

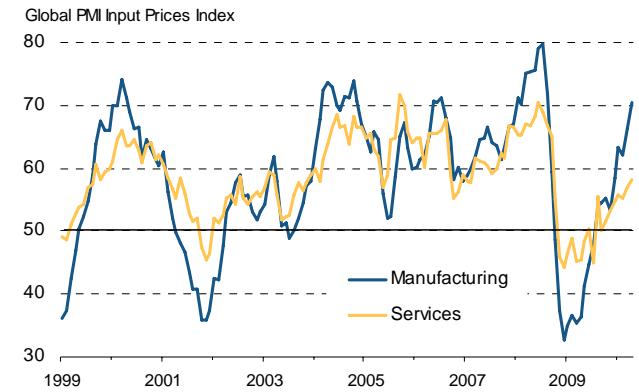
Measured across both sectors, the increase in employment globally was the largest for two years. Higher staffing levels in emerging markets were accompanied by employment growth in the US, Germany and the UK.

Inflation

The stronger growth has also been accompanied by an increase in inflationary pressures. The Global PMI data indicated that manufacturers' input costs rose at the sharpest rate since August 2008, the pace accelerating markedly compared to March, while input costs in the service sector showed the largest monthly increase since September 2008.

Faster growth of input costs were evident in all major countries covered by the PMIs. While linked to higher fuel prices in many instances, rising price pressures in a number of countries were also commonly associated with demand exceeding supply for many inputs.

Input Prices



Sources: Markit, ISM.

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