

Global economy

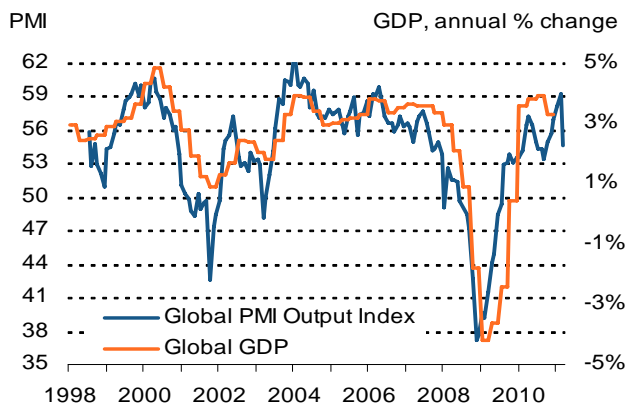
Global growth slows sharply as US cools and Japan contracts

March PMI data signalled a sharp slowdown in the rate of expansion of the global economy, mainly reflecting a marked contraction in Japan following the Tohoku earthquake and a significant easing in the main pillar of recent growth, the US.

Global GDP

The JPMorgan Global All-Industry PMI – compiled by Markit from national PMI survey data – fell sharply to a six-month low of 54.7 in March, down from February's near five-year peak of 59.2.

Global PMI vs. Global GDP



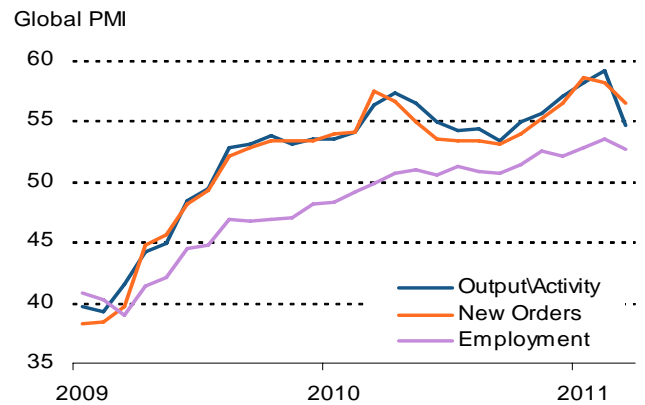
The underlying story is still of ongoing recovery, however, as for Q1 2011 as a whole the output index is consistent with global gross domestic product (GDP) rising by around 3.0% year-on-year, broadly in line with the consensus¹ view for a 2.9% increase. It is also worth noting that the slowing in new orders and employment during March was not as marked as for business activity.

March saw rates of expansion ease in both the manufacturing and service sectors, with growth slowing sharply to four and six-month lows respectively. The rates of increase would have been much higher

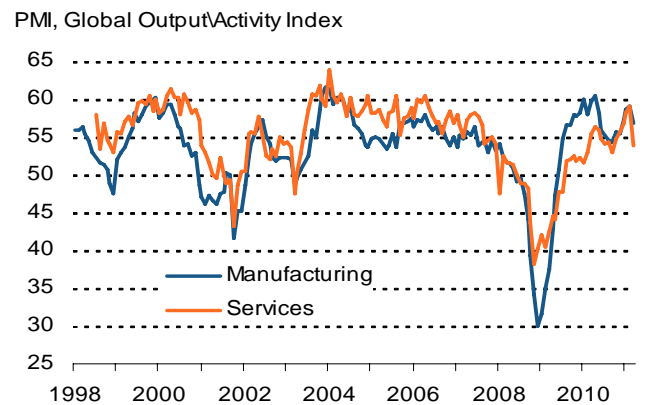
¹ The reading of 2.9% is based on a weighted average (not adjusted for PPP) of the Reuters consensus polls for the US, the Eurozone, China, Japan, the UK, India and South Korea. Please note that these polls were taken before the Tohoku earthquake in Japan. If the consensus for Japan is moved in line with the 0.5% quarter-on-quarter decline in GDP signalled by the PMI data, the global growth reading would be revised down to 2.7%.

without the impact of Japan, but growth would have been slower nonetheless. For example, if the output index for Japan had stayed at its February level, the Global Output Index would have still fallen to 57.3.

Global PMI: Output, New Orders and Employment



Output: Manufacturing vs. Services



US slows, Japan contracts, but growth steadies in Europe and Emerging Markets

National PMI data showed that the slowdown during March mainly reflected a weaker expansion in the US and a marked contraction in Japan.

The US saw its rate of expansion remain robust overall – and was still among the best performing nations in both manufacturing and services – but growth eased sharply from the seven-year peak reached in February. The Q1 PMI data suggest that US GDP may have

risen by over 1.2% (4-5% annualised) in the opening quarter.

The devastating impact of the Tohoku earthquake led to a marked decline in economic activity in Japan during March. Output fell sharply in both the manufacturing and service sectors, while export orders showed a slight decline. PMI data are consistent with around a 0.5% decline in Japanese GDP during Q1 2011, although this should hopefully improve once companies reopen and reconstruction begins. That said, the Japanese PMI data for March were based on only around two-thirds of the normal responses and, had the non-respondents that were directly affected by the quake completed questionnaires, we would assume that the survey results would have been far lower, posing downside risks to this Q1 GDP prediction.

Although growth eased slightly in the Eurozone during March, it remained close to February's four-and-a-half year peak. The PMIs are consistent with euro area GDP rising by about 0.8% over the first quarter of the year, led by Germany and France. Growth was also recorded in Italy and Ireland in March, but business activity stagnated in Spain. Domestic market strength was the key dividing line between the core and non-core nations. Germany and France saw strong growth of new business in manufacturing, services and new exports. In contrast, new orders received in the periphery were mainly centred on manufacturing, especially new exports.

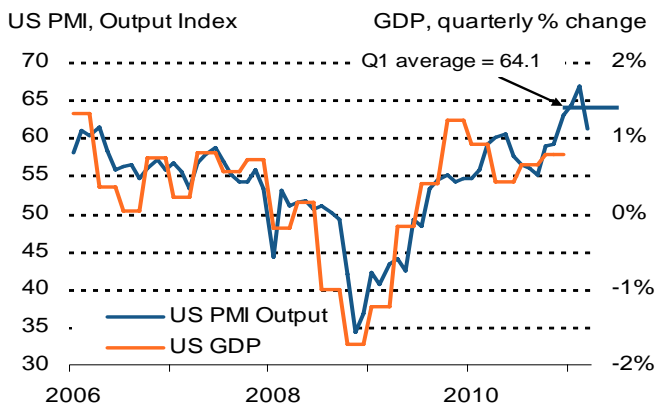
The UK expanded at the fastest pace for a year in March, suggesting that economic growth for the first quarter may turn out to have been as strong as 0.7-0.8%. Accelerated growth in the UK service sector offset a sharp slowdown in manufacturing, albeit from record highs at the start of the year.

Growth remained elevated in India and steadied at a solid clip in Brazil. China – which due to a later publication date was not included in the global services PMI – saw growth of business activity accelerate following February's marked slowdown, but insufficiently to recoup the momentum that had been lost. Nonetheless, China GDP is estimated to have risen at an annual rate of around 10% in Q1.

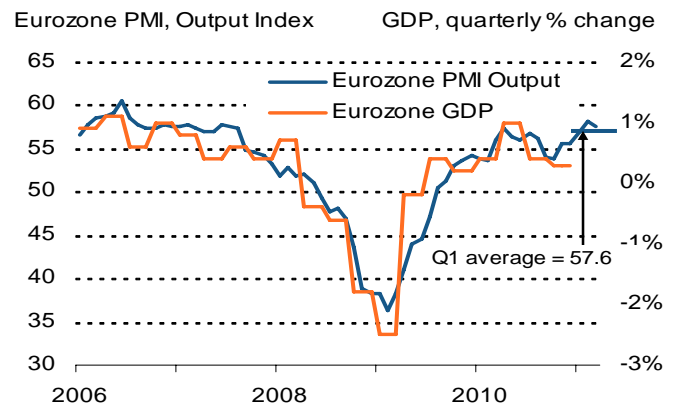
Expect growth to be sustained, but at a slower pace

The underlying picture is therefore still one of ongoing recovery. The combined output of the global manufacturing and service sectors expanded at the fastest rate in over four years during Q1 2011 as a whole, and the slowing in new orders and employment during March was not as marked as for business activity. But with a number of central banks looking to tighten monetary policy, and debt-laden nations grappling with weak domestic markets and austerity measures, it is possible that Q1 will have represented the peak of the current recovery phase.

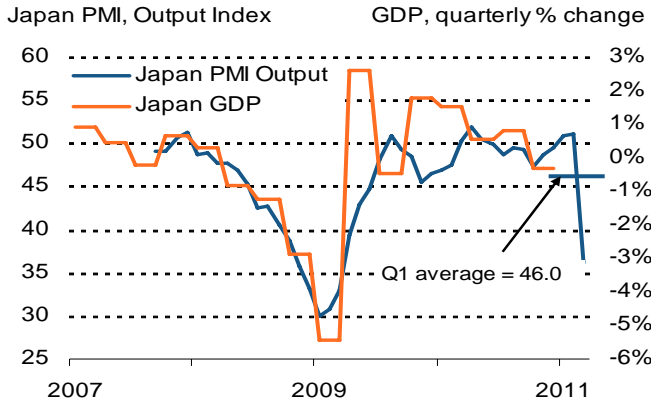
US GDP



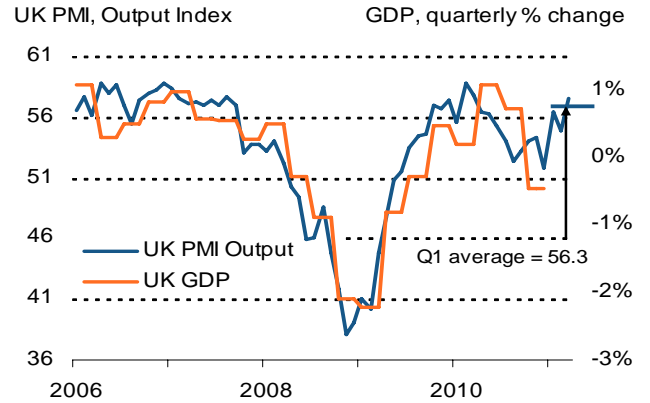
Eurozone GDP



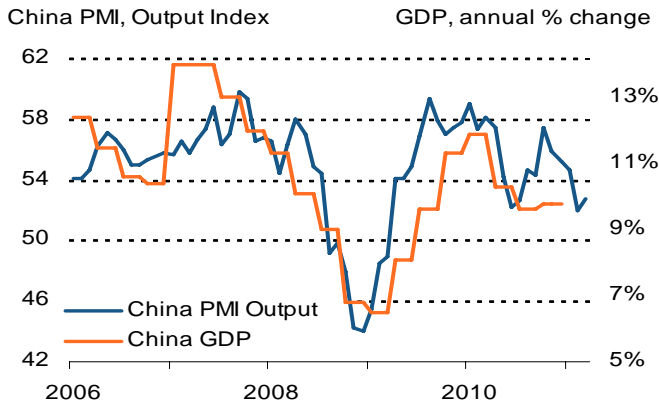
Japan GDP



UK GDP



China GDP



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