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Markit Economic Research

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Global economy

Global economic growth stays in low gear in May

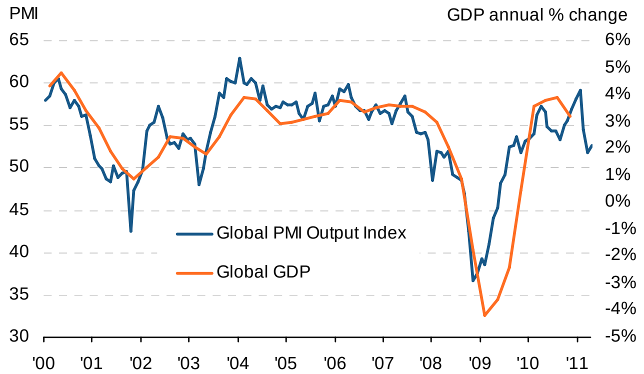
- **Global growth revives only modestly from 21-month low in April.**
- **Rebound in Japan offset by weakening trend in other major economies.**
- **Slowing linked to supply chain delays but also sluggish service sectors.**

The JPMorgan Global *PMI*™, compiled by Markit, rose in May from the 21-month low seen in April, but the upturn was only very modest and signalled a historically weak rate of worldwide gross domestic product (GDP) growth of just over 2%.

Global growth stays in low gear

The Global PMI, which measures private sector output growth across manufacturing and services, picked up from 51.8 in April to 52.6 in May. The data suggest only a very modest bounce-back from the low level reached in the aftermath of the Japanese earthquake, indicating that the annual rate of GDP has approximately halved from the estimate of 4% seen when the PMI peaked in February. With the exception of April, the rate of increase in May was weaker than at any time since the recovery began in August 2009.

JPMorgan Global Manufacturing PMI

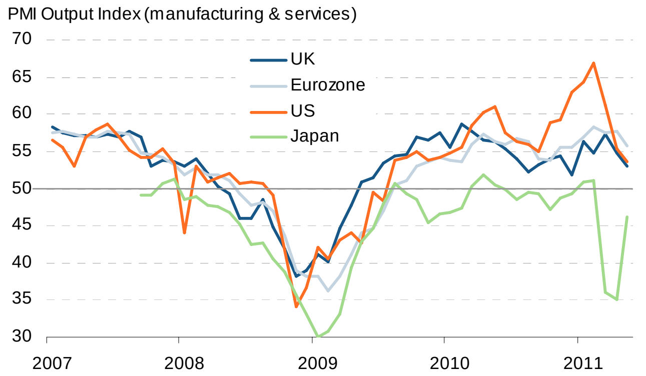


A strong bounce-back in the level of the Output PMI for Japan, which points to a reassuring V-shaped recovery for the country following the devastation caused by the 11 March earthquake and Tsunami, was countered by slower growth in the US, Eurozone and UK. Measured across both manufacturing and services, the US saw growth slow to the weakest since the recovery began in August 2009, while the Eurozone saw the slowest expansion so far this year. Even the hitherto strong-performing core of France and Germany saw marked slowdowns, while peripheral countries slid closer to stagnation.

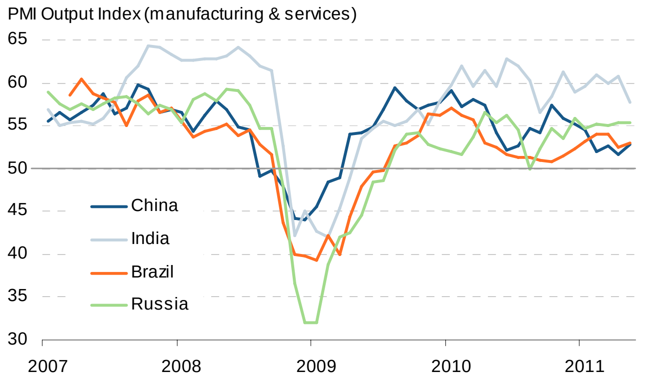
The UK meanwhile reported the weakest rate of growth for five months, led by an especially steep slowdown in manufacturing.

China's growth also disappointed, caused by further cooling in manufacturing. Elsewhere in Asia, manufacturing growth slowed sharply in Taiwan and was only modest in South Korea.

Developed countries



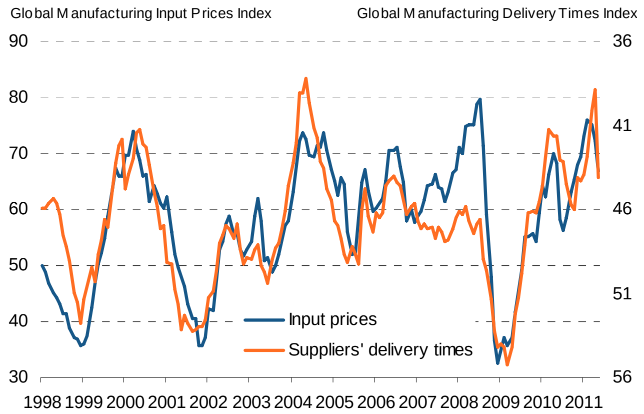
Emerging markets



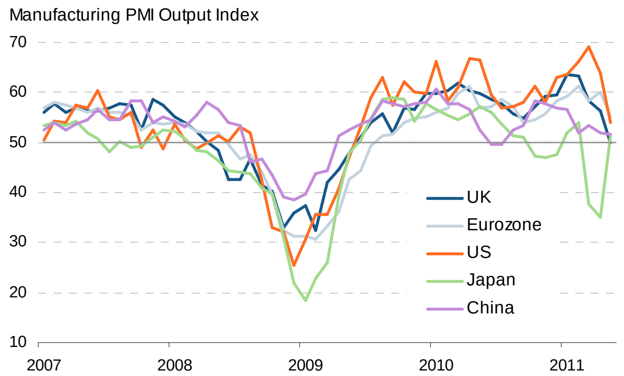
Supply chain delays

Anecdotal evidence from PMI survey respondents indicates that some of the easing in the rate of growth in manufacturing has reflected disruptions to supply chains caused by the Japanese earthquake of 11 March. Data on suppliers' delivery times show that, globally, delivery delays hit a near-record high in April. A reduction in the number of supply chain delays in May suggests that these disruptions may have become less of an issue, although it should be noted that the incidence of delays still remains high by historical standards and is consistent with ongoing – though moderating – upward price pressures in the supply chain.

Manufacturing supply delays and input prices



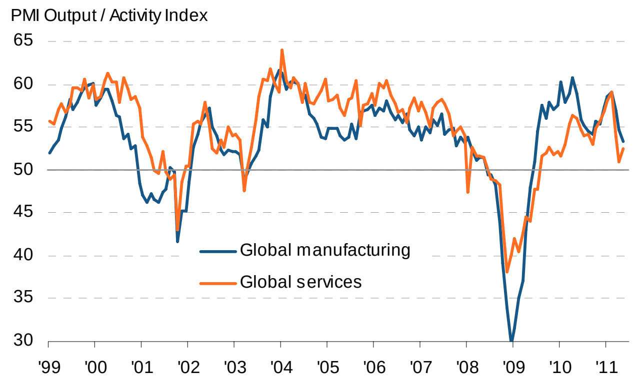
Manufacturing output – G4 plus China



Service sector weakness

The ongoing weakness of the survey data in May cannot be explained by manufacturing supply-chain delays alone, principally because growth has weakened since earlier in the year in services as well as manufacturing. Growth of business activity in global services slumped to a 21-month low in April and only a very modest upturn was evident in May. The rate of growth in services has also recently slipped back below that seen in manufacturing, which is something that was very unusual to see in the history of the global PMI prior to the financial crisis. This is most likely a reflection of ongoing deleveraging by households and consumers.

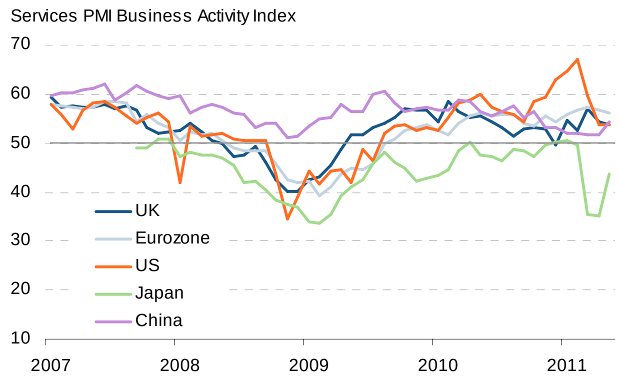
Global manufacturing and services



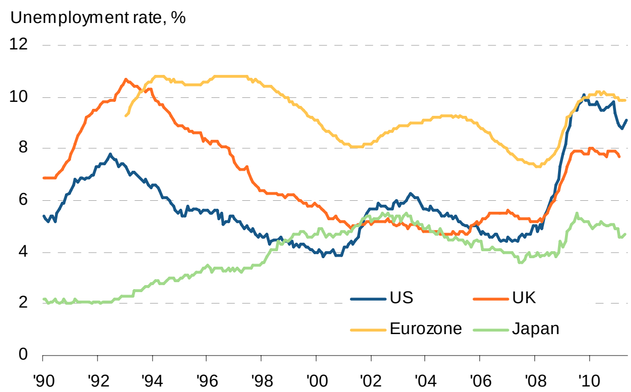
Business activity in the service sector slowed again in the US, Eurozone and UK, primarily reflecting weak domestic demand in these economies as consumer confidence remains subdued amid high unemployment and government spending cuts.

Services activity picked up slightly in China, but remained subdued in a reflection of recent policy tightening. A rebound in the index for Japan was reassuring to some extent, though disappointing in that activity continued to fall.

Service sector activity – G4 plus China



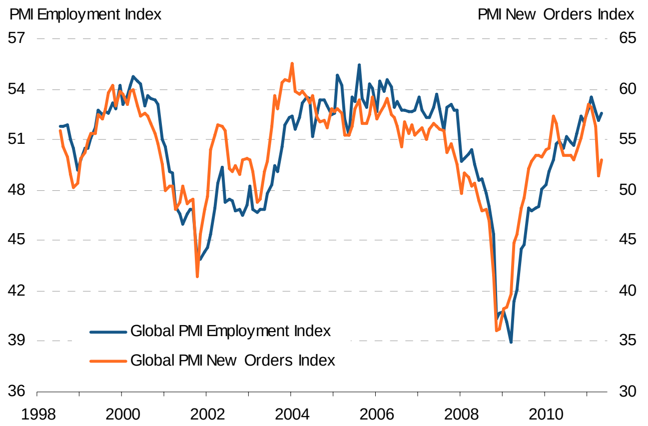
Unemployment



Unemployment to hold back global growth

The Global PMI's Employment Index remained at a robust level in May, but was below February's peak, and the forward-looking New Orders Index suggests jobs growth looks set to weaken. This bodes ill for consumer spending in the world's developed economies and suggests that the recovery rates look set to be constrained by poor domestic demand.

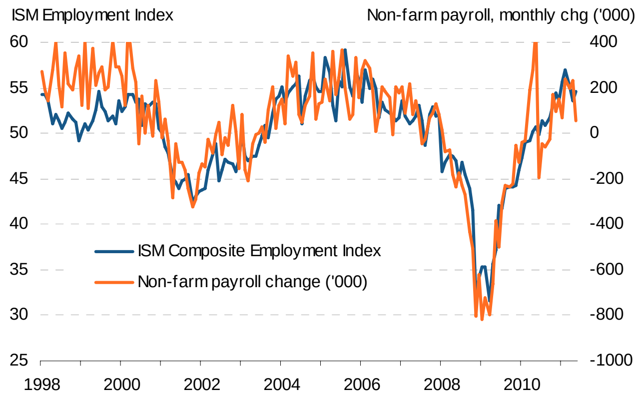
New orders and employment – global



US jobs data disappoint, with further weakness expected

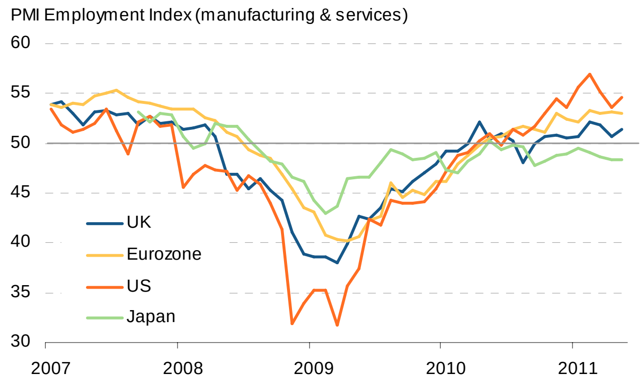
Especially disappointing news on employment came via the US non-farm payroll data, which showed employment rose by just 54k in May – well below the expectation of 195k and the average of 220k in the prior three months. Although having picked up slightly in May and running at a level consistent with around 150k jobs growth per month, the composite Employment Index from the ISM survey has fallen from its peak in February – when the payroll data also peaked at 235k. Furthermore, given the slowdown in demand (the ISM composite New Orders Index was nine points below the February peak in May), it is likely that the hiring trend will weaken in the US in coming months unless growth of new orders picks up again.

US non-farm payrolls



Meanwhile, jobs continued to be cut in Japan in May, and UK employment growth remained very lacklustre. Some resilience is evident in the Eurozone, although national labour market variations remained marked, with job creation being largely driven by Germany.

Employment



Sources for charts: Markit, JPMorgan, HSBC, ISM, BLS, Ecowin.

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