

Global economic growth

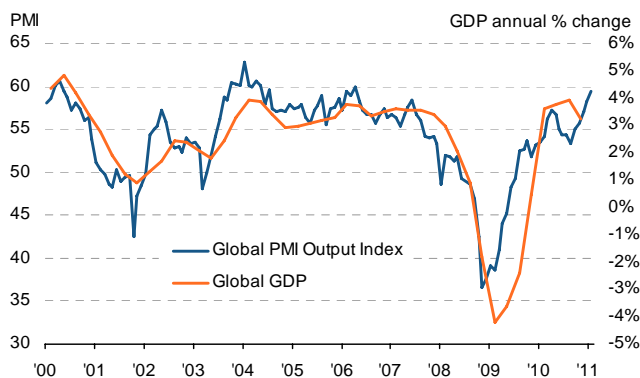
Growth at near five-year high in February

- **Global economy expands at fastest rate since April 2006.**
- **Improved trends in both manufacturing and services signal broad-based upturn.**
- **National service sector divergences highlight policy stimulus v. austerity.**

Fast and accelerating global economic growth was recorded by the PMIs in February. While the expansion is looking better-balanced between manufacturing and services, marked national divergences are still evident.

Policies to boost growth in the US appear to be raising domestic demand while also supporting export growth via a weakened currency. In contrast, policy tightening to fight inflation in China is showing signs of cooling domestic demand, which is also having an impact on its neighbours and trading partners. Deficit-fighting policies in countries such as the Eurozone peripheral nations and the UK meanwhile also appear to be hitting domestic demand and limiting economic growth.

JPMorgan Global PMI and GDP



Growth accelerates in both manufacturing and services

The JPMorgan Global PMI, compiled by Markit, rose from 58.3 in January to 59.4 in February. The improvement signalled the fastest rate of worldwide economic growth since April 2006, the pace having picked up sharply over the past five months from September's ten-month low. The PMI is consistent with

global gross domestic product (GDP) rising at an annual rate of 4% (with a 1.0% rise signalled so far for Q1 2011).

The upturn is also looking broad-based and more self-sustaining than the manufacturing-oriented growth spurt seen in the first half of last year. Both manufacturing and services are showing strong rates of expansion, each having rebounded convincingly from slowdowns seen in the third quarter of last year. Manufacturing growth in February closed in on the near-record peak seen early last year, when production was boosted by factories restocking their warehouses after the recession. Meanwhile, services expanded in February at the strongest pace since April 2006.

Global manufacturing and services



National divergences

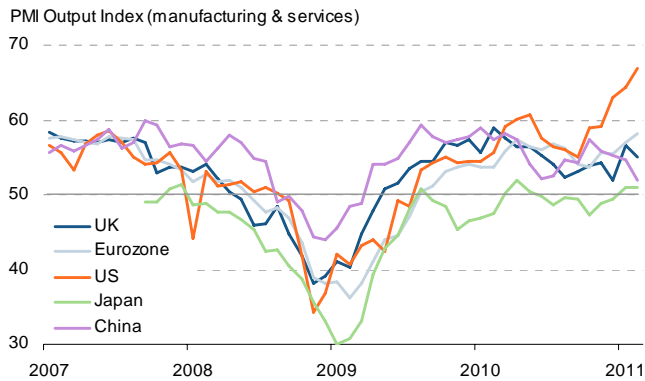
The upturn in the Global PMI has been driven to a large extent by a surge in US output. The weighted index from the ISM manufacturing and non-manufacturing surveys signalled the fastest rate of growth since January 2004's series record high.

Growth across both manufacturing and services also accelerated in the Eurozone, hitting the highest since July 2006. Although led by Germany, the PMI data also showed welcome renewed signs of life in the periphery¹. The UK is seeing a more volatile growth

¹ http://www.markit.com/assets/en/docs/commentary/markit-economics/2011/mar/EZ_Composite_ENG_1103_PR.pdf

trend, especially after business in certain sectors was disrupted by the adverse weather late last year, with near-record UK manufacturing growth accompanied by a more subdued pace of expansion in services.

Economic growth



Mixed trends in Asia

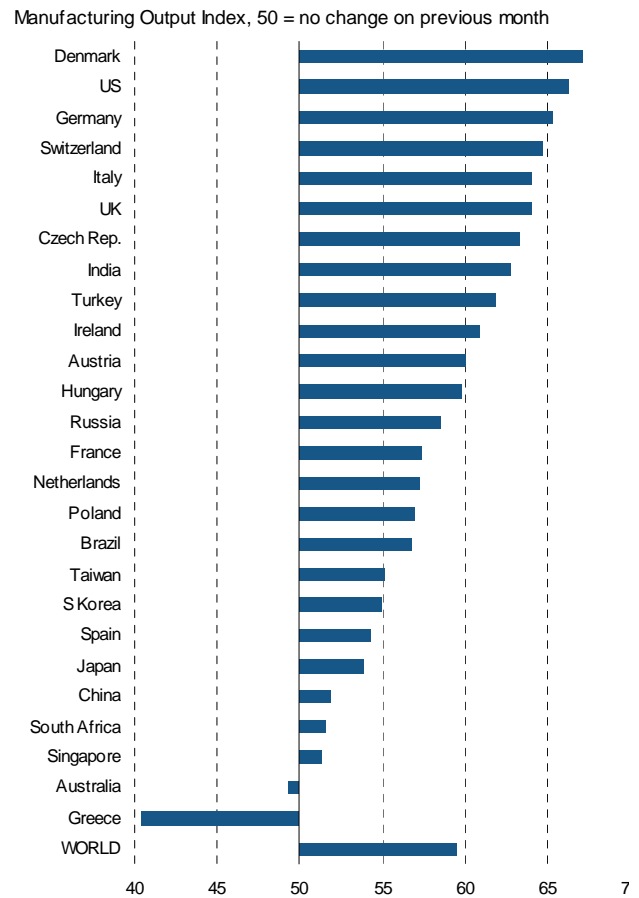
Recent months have seen signs of Japan returning to growth, albeit only weak, having contracted late last year. China, in contrast, has seen a slowdown in the pace of expansion in recent months, with growth easing again in both manufacturing and services in February to the weakest seen since early-2009 and late-2008 respectively. Slower (though still robust) growth was seen in Taiwan's manufacturing economy. India, however, continued to see very strong economic growth, with few indications that tighter policy has cooled demand.

Manufacturing led by the West

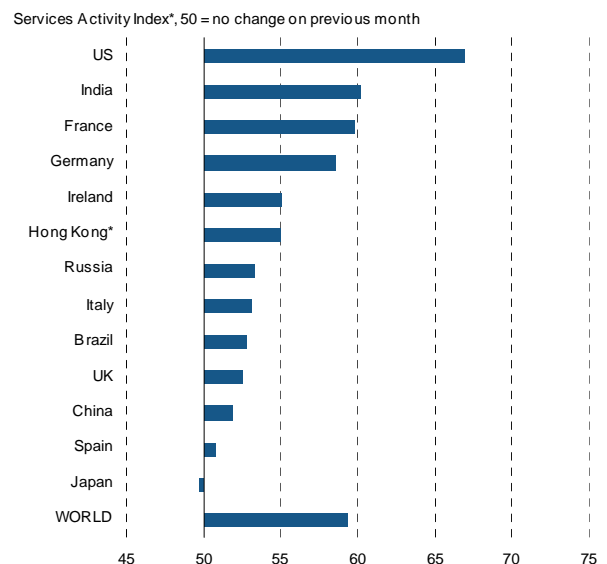
The global manufacturing growth ranking was led by Denmark, with the US a close second in terms of the pace of growth reported in February. US manufacturing was notable in that output grew at the steepest pace since last April's six-year peak, fuelled by exports which, buoyed by resurgent demand overseas and the weak dollar, showed the largest monthly rise since 1988².

The next four spots in the manufacturing output growth table were all occupied by developed European countries, reflecting a shift from emerging Asia as the driver of manufacturing expansion to the West. The Czech Republic was the top-placed emerging nation, at seventh place, followed by India.

Manufacturing output by country



Services activity* by country



² http://www.markit.com/assets/en/docs/commentary/markit-economics/2011/mar/global_trade_11_03_02.pdf

The ongoing plight of deficit-fighting Greece was highlighted by a further sharp drop in manufacturing output. The only other country to see lower production was Australia, where the fall was only slight. Australia's decline can be in part linked to the slowdown recorded in China. The slowdown in China also affected Singapore and South Africa, which both saw particularly weak manufacturing output growth.

Policy divergences highlighted by service sector growth

PMI survey coverage of services is less widespread than for manufacturing, covering 13 instead of 26 countries³. Of these 13, the US saw the strongest monthly expansion, with growth accelerating to the sharpest since early-2004, suggesting the renewed stimulus (dubbed "QE2") late last year is boosting domestic demand.

Japan was the only country to see a fall in services activity, reflecting still weak household confidence. Only very modest growth was seen in Spain, where domestic demand has been hit by budget-deficit reducing austerity policies. However, the increase contrasted with declines seen over the previous six months to suggest that domestic spending may be starting to at least stabilise. China's services sector also grew at a relatively modest pace according to the growth rankings, suggesting that inflation-fighting policies intended to cool demand are having an impact. The UK, where – like Spain – policies to reduce public spending are being implemented, also saw very subdued services growth.

³ Coverage in Hong Kong extends to the whole economy rather than just services and the US covers all non-manufacturing whereas all other surveys, conducted by Markit, cover privately traded services.

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