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Markit Economic Research

11/10/2011

Global economy

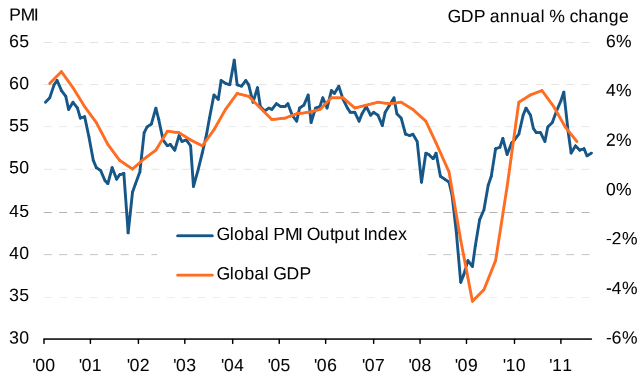
Global economy sees weakest quarter for two years in Q3

- **Global PMI rose in September but failed to prevent Q3 average dropping to weakest for two years**
- **Weakness evident in emerging and developed world**
- **Asia-ex Japan contraction bodes ill for global growth in Q4**

Purchasing surveys signalled a slight uptick in the rate of global economic growth in September, but the rise was insufficient to prevent the average growth rate for the third quarter slipping to the lowest for two years. The surveys therefore point to a second successive quarter of sub-2% worldwide GDP growth.

The JPMorgan Global PMI edged up from a 25-month low of 51.5 in August to 52.0 in September, but the rate of increase was nevertheless still the second-weakest seen since the recovery began in August 2009.

Global economic growth



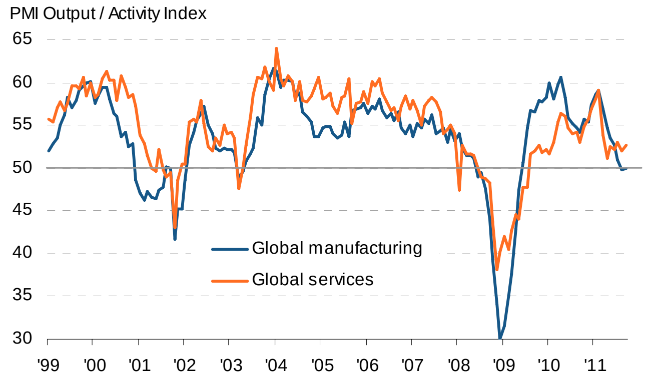
Sources: Markit, ISM, JPMorgan.

Manufacturing stagnation

Manufacturing stagnated, having contracted marginally for the first time since mid-2009 in August. Furthermore, manufacturers reported that inflows of new orders fell for the third month running, dropping at the fastest rate since May 2009, to suggest that production may fall again in coming months unless demand revives. However, the rate of loss of new orders remained far weaker than the steep declines seen at the height of the financial crisis in 2008-9.

Service sector growth meanwhile picked up modestly but, like manufacturing, has seen a steep deterioration in performance since earlier in the year.

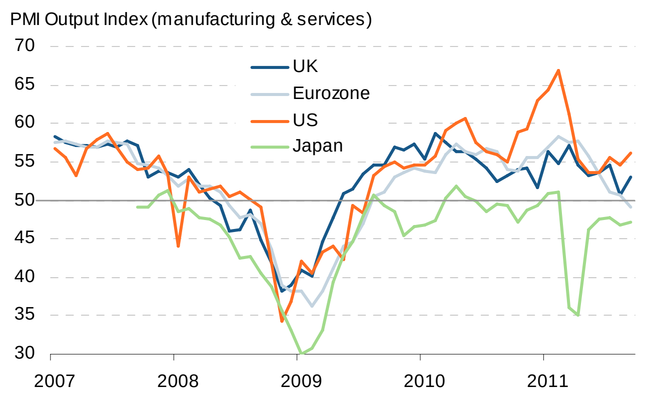
Global manufacturing and services



Eurozone and Japan contract

Among the largest developed economies, September PMI data showed the Eurozone sliding back into decline for the first time in just over two years, led by accelerating contractions in the periphery and near-stagnation in both France and Germany.

Developed world



Better news came from the US and UK, with both seeing faster growth than August. However, rates of expansion remained lacklustre, and other indices from the survey (such as employment and backlogs of work) suggested that the upturn may prove short-lived.

Japan also continued to decline, with the rate of contraction remaining solid in September as the country's manufacturing sector reported a fall in production for the first time in five months. Producers blamed the decline on weak export demand and the strong yen.

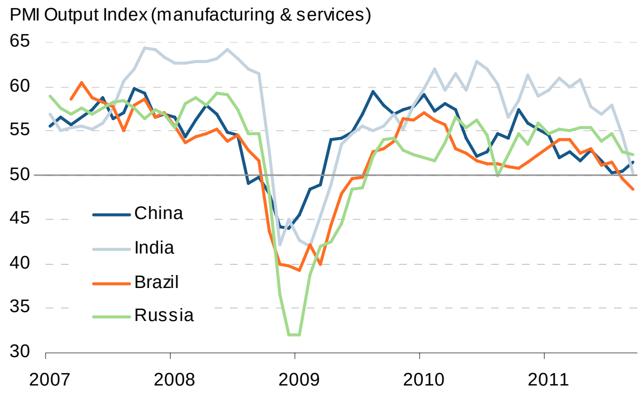
Broad-based emerging market slowdown

Among the largest emerging economies, Brazilian companies reported the worst performance, seeing output across manufacturing and services contract for the second successive month, with the rate of decline advancing to the fastest since May 2009.

India saw an especially steep deterioration in growth compared with its rapid pace of expansion during the first half of the year, with output almost stagnating in September. Service sector activity even fell, albeit only slightly, for the first time since April 2009.

Growth also slowed in Russia, dropping to the weakest for year. That left China as the only BRIC to see an upturn in the pace of expansion, although the rate remained very weak.

Emerging markets

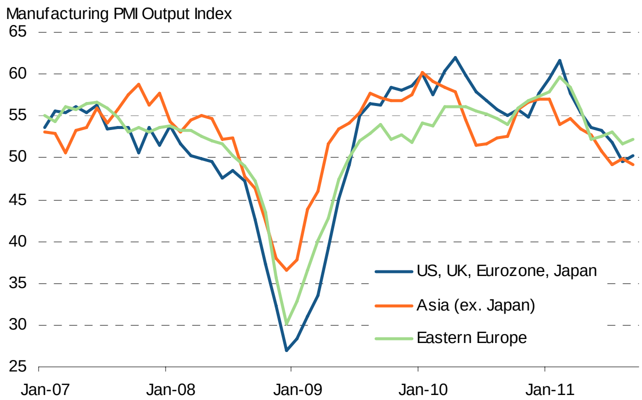


Sources: Markit, HSBC.

Asia ex-Japan contraction

Since the onset of the financial crisis, manufacturing growth has been led by emerging Asia. Output in the main developed economies of the US, UK, Eurozone and Japan has followed a trend mapped out by Asia ex-Japan with a delay of several months. With production falling slightly for the second time in three months in Asia ex-Japan, the September PMIs therefore bode ill for developed world production as we move into the final quarter of the year.

Manufacturing output



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