

Global economy

Global economy making lacklustre progress in Q3 2011

- **Global PMI falls to lowest level in over two years in August**
- **Outlook darkens as new order inflows and job creation slow further**

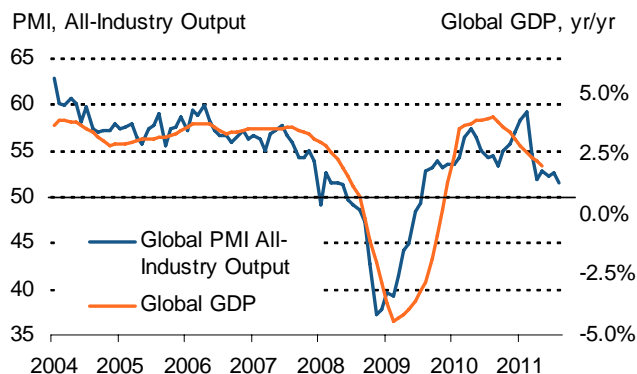
August PMI data signal that growth of the global economy has eased to its slowest since the recovery began two years ago. Manufacturers and service providers across the world – especially in developed markets – are facing a combination of weak domestic demand and declining international trade flows. Forward-looking indicators also suggest the near-term chances of a significant improvement in global economic growth look increasingly remote.

Global GDP growth to dip below 2%

The JPMorgan Global PMI Output Index – compiled by Markit – fell to 51.5 in August, to signal a resumption of the slower growth trend that has been evident since the index hit a five-year high in February. The August reading was the weakest seen since the index rose above the 50.0 neutral line two years ago.

The 7.6 point fall in the index since February has signalled a worryingly steep loss of momentum. The index is consistent with the annual rate of growth of global gross domestic product (GDP) running at around 1% in August, down from the 2.0% pace seen in the second quarter.

JPMorgan Global PMI

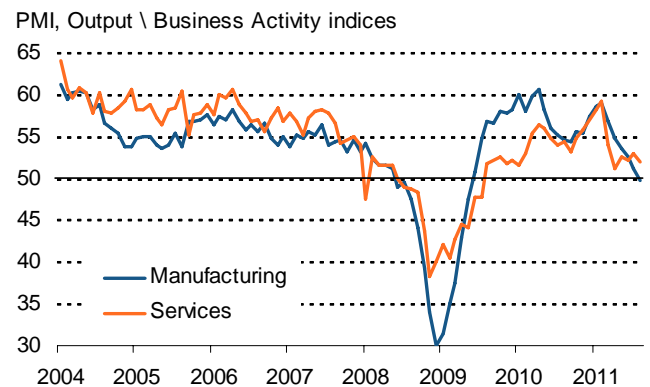


Broad-based growth slowdown signalled

The slowdown has been broad-based. August PMI data showed emerging market output expanding at the weakest pace since May 2009 and developed markets growth easing to the second-slowest monthly pace since the recovery began.

Manufacturing was the weaker link in the growth chain for both of these regions in August, as developed and emerging markets saw slight falls in manufacturing production. This represents a marked turnaround from the start of the year, when inventory rebuilding and a purple patch in global trade flows powered the economic recovery. Meanwhile, the global service sector fared only moderately better, with growth of business activity easing to a four-month low.

Global PMI Output by Sector



Looking in more detail by nation, rates of expansion in all-industry output eased in the US (two-month low), the Eurozone (weakest in two years), the UK (slowest since the recovery began in May 2009), India (27-month low) and Russia (11-month low). Activity in Japan contracted at the fastest pace since May and fell in Brazil for the first time in over two years. Growth in China, meanwhile, could only hold its ground at July's 28-month low.

New order inflows and jobs growth ease closer to stagnation

The tapering expansion of the global economy mainly reflected weaker growth of incoming new orders. August saw the smallest rise in total new work inflows since the recovery began.

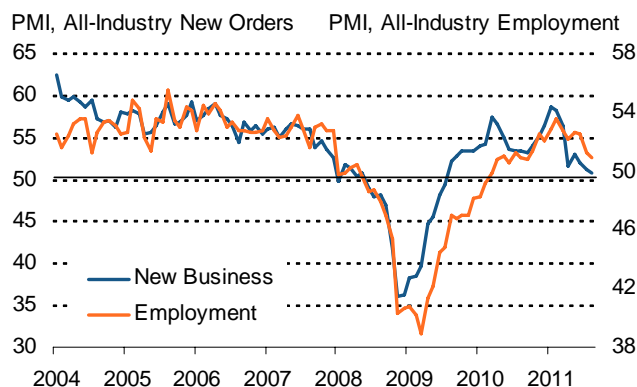
Manufacturing new orders declined for a second successive month, with export orders dropping for the first time since June 2009. Three of the world's largest exporting nations – Germany, China and Japan – reported lower levels of new export business, while the rate of increase in the US slowed sharply to near-stagnation. Global service sector new business performed only a little better, rising at the second-weakest pace in the past two years.

Global Goods Exports



The slowdown in new order growth is worrying on two counts. First, slower increases in new business usually filter through to output, suggesting that the outlook for GDP growth during the remainder of the year is weakening. Second, there is the possibility that companies may alter their hiring intentions as growth in new orders slows. There are signs that this may already be occurring in some nations.

Global New Orders and Employment indices



August saw global employment rise for the seventeenth successive month, with job creation seen in the US, the Eurozone, China, Brazil and Russia. However, the rate of jobs growth eased to a one-year low in the US, slowed in Brazil and Russia, and was unchanged from July in the Eurozone and China. Employment fell in the UK, Spain, Italy, Japan, India and Ireland.

Global employment may therefore still be rising, but this is only likely to continue if the trends in new orders and output strengthen in future.

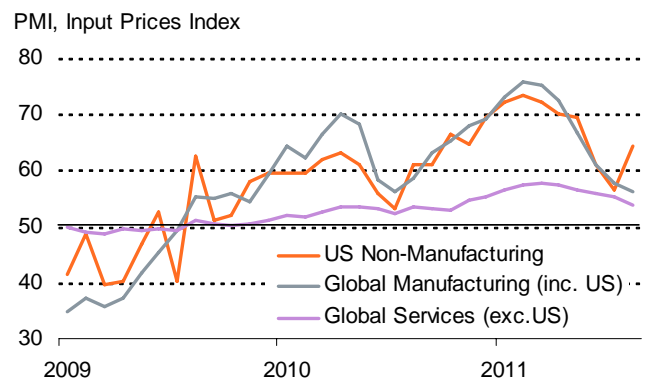
Increase in input price inflation driven by cost increases at US non-manufacturers

Average input price inflation accelerated for the first time in six months in August, taking the rate of increase up from July's one-year low. However, it is unlikely that the uptick seen at the headline level is signalling a shift back towards rapidly increasing price pressures. The acceleration was largely centred on the US non-manufacturing sector, masking a trend of decelerating cost increases seen (on average) elsewhere in the global economy.

US non-manufacturing companies saw the steepest increase in input price inflation in a year. In contrast, global manufacturers saw input prices rise at the slowest pace since July 2010 and global service providers (excluding the US) reported the slowest increase in costs since last October.

Input price inflation moderated in the Eurozone, Japan, the UK, Brazil and Russia. Apart from the US, China was the only nation to see any noticeable acceleration in the rate of growth of input costs.

Global Input Price indices



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