

**Markit Economics**

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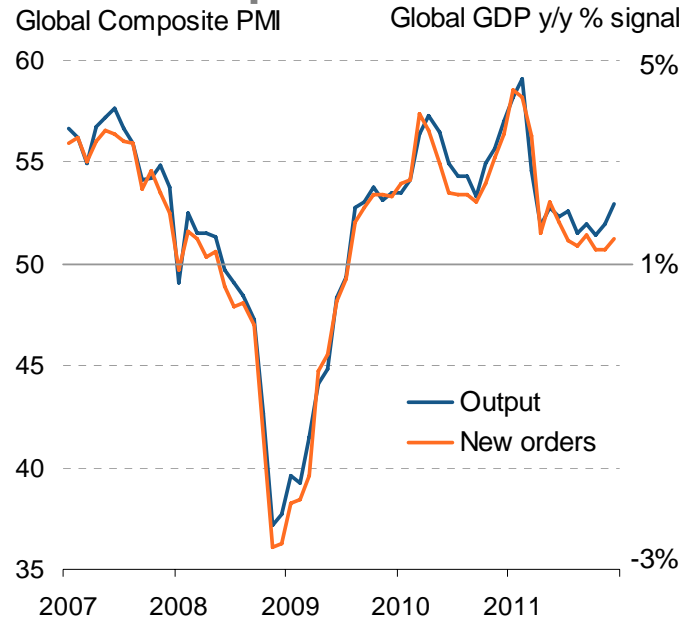
# Monthly economic overview

10 January 2012

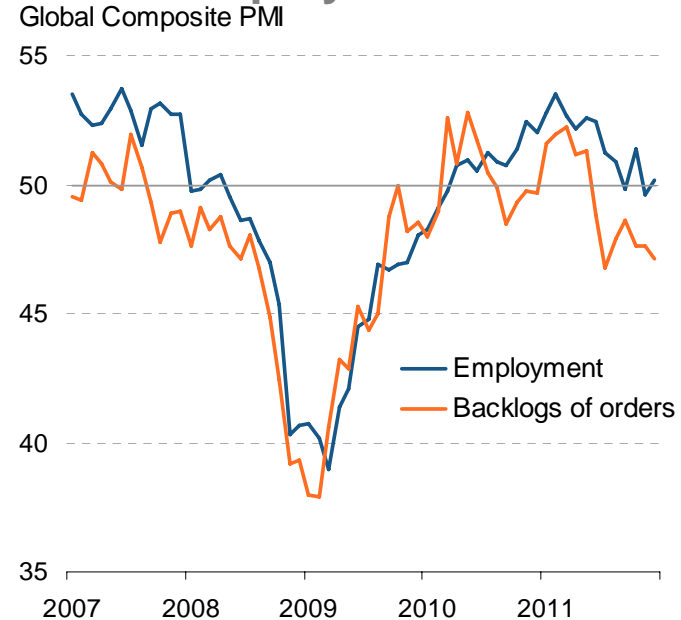
## Global economy picks up speed, but doubts linger

The worldwide manufacturing and services PMI surveys signalled the fastest growth of output for nine months in December. However, despite the rise, the surveys indicated annual global GDP growth of only 2%. Moreover, the increase in output was not matched by a commensurate rise in new orders, causing firms to keep employment levels unchanged and raising questions about the durability of the upturn.

### Global output and new orders



### Global employment

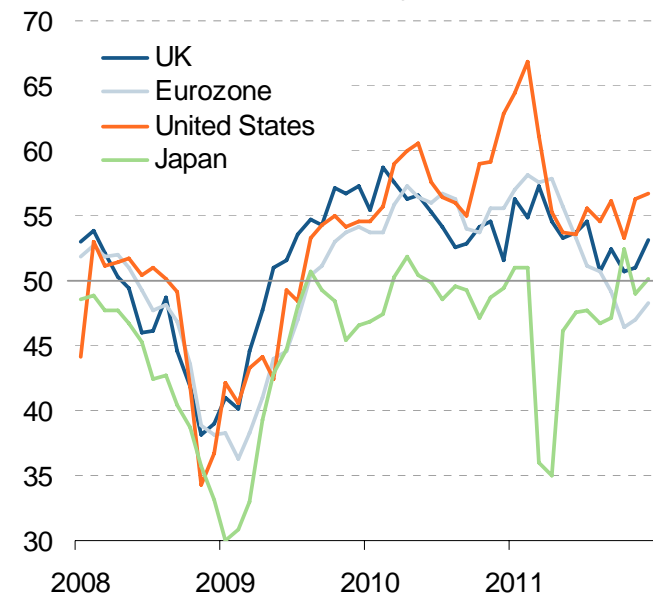


## Uneven upturn as stronger US contrasts with weak Eurozone

Global growth was largely led by the US and, to a lesser extent, the UK. The average of the ISM US survey output indices hit a nine-month high, while growth in the UK reached a five-month peak. The Eurozone, in sharp contrast, continued to contract, albeit at a reduced rate. Germany showed a return to modest growth, but output continued to fall sharply in Italy and Spain.

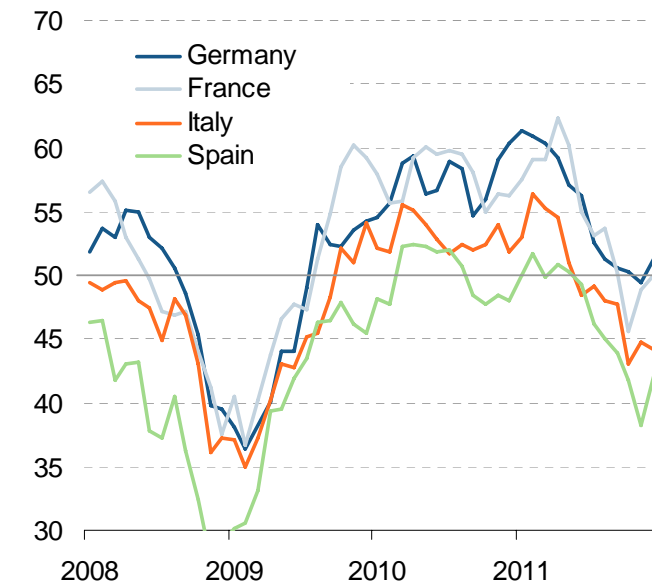
### Developed world output

PMI Output Index (manufacturing & services)



### Eurozone output

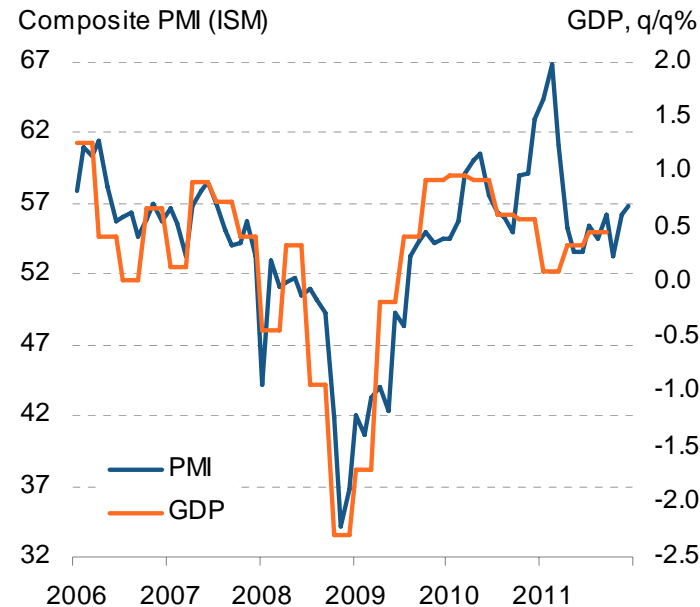
PMI Output Index (manufacturing & services)



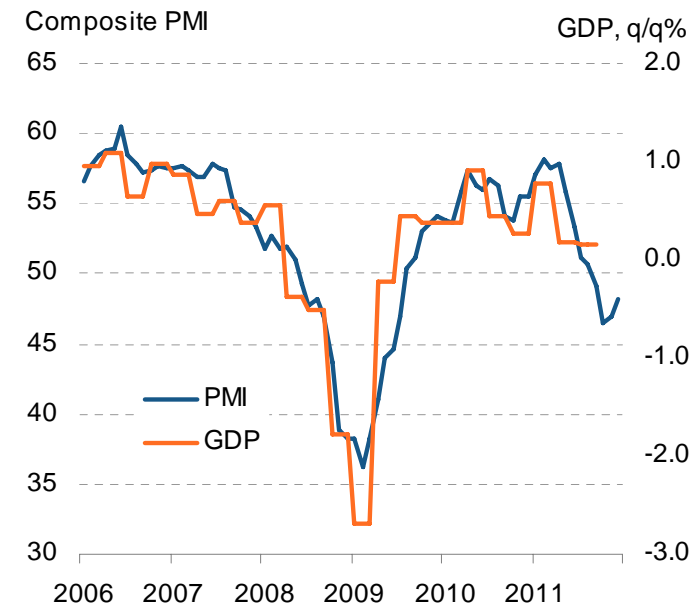
## US expands as Eurozone slides back into recession

The PMIs suggest that economic growth may have picked up to roughly 0.7% (c3% annualised) in the US, but the Eurozone may have contracted by 0.5%. The UK will meanwhile have stagnated, and Japan shown only modest growth (0-0.5%). These PMI signals are being corroborated by other data, which suggest some resilience of the US and (to a lesser extent) the UK in the face of the Eurozone crisis.

### United States GDP



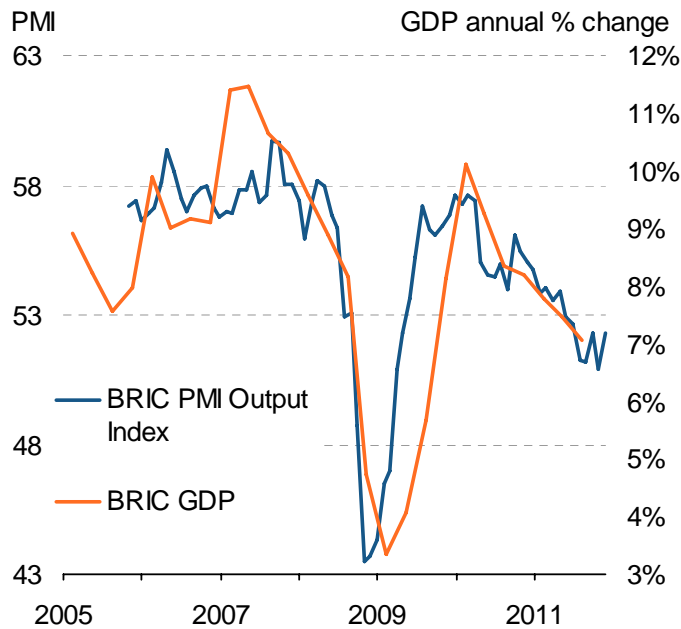
### Eurozone GDP



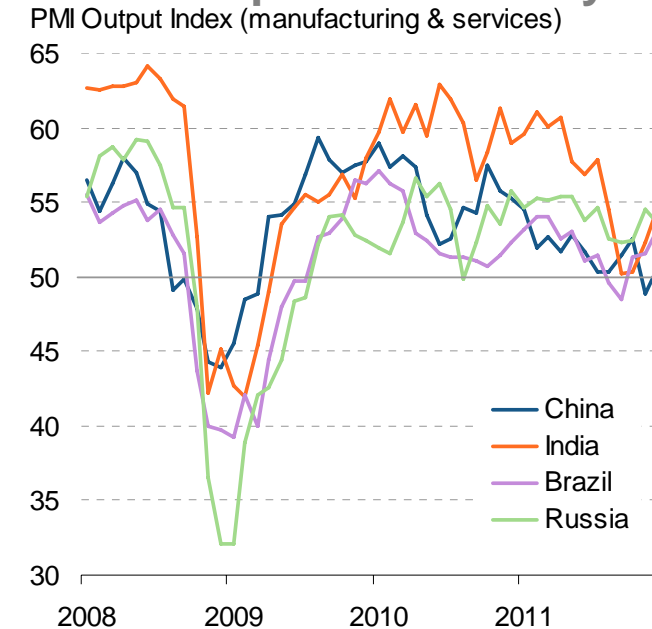
## Emerging markets show signs of life, but growth remains muted

Emerging market GDP looks to have risen at a sub-par pace in Q4, with annual growth in the BRICs running at c7% as weak demand from the developed world hit exports. All-sector PMIs turned up in India, Brazil and China in December, but for Q4 growth was the weakest since early-2009 in China and India. Growth ticked up in Russia from Q3, and Brazil saw a return to growth following a decline in Q3.

### ‘BRIC’ GDP



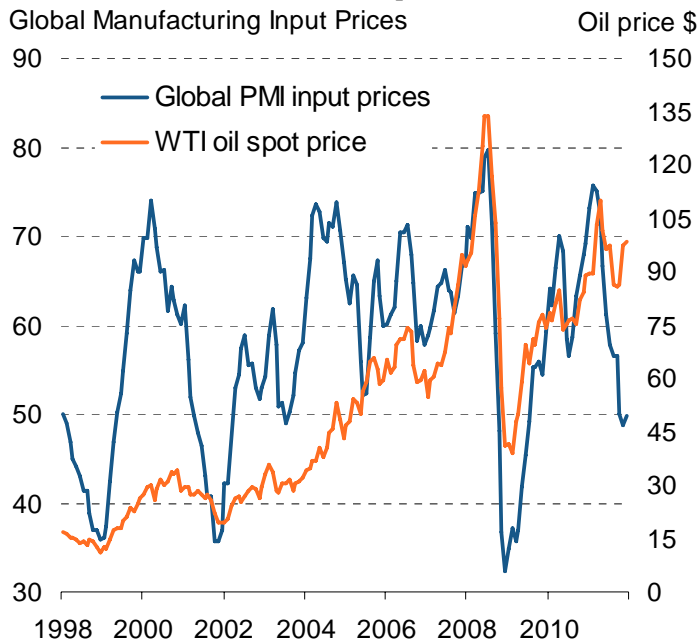
### ‘BRIC’ output: PMI surveys



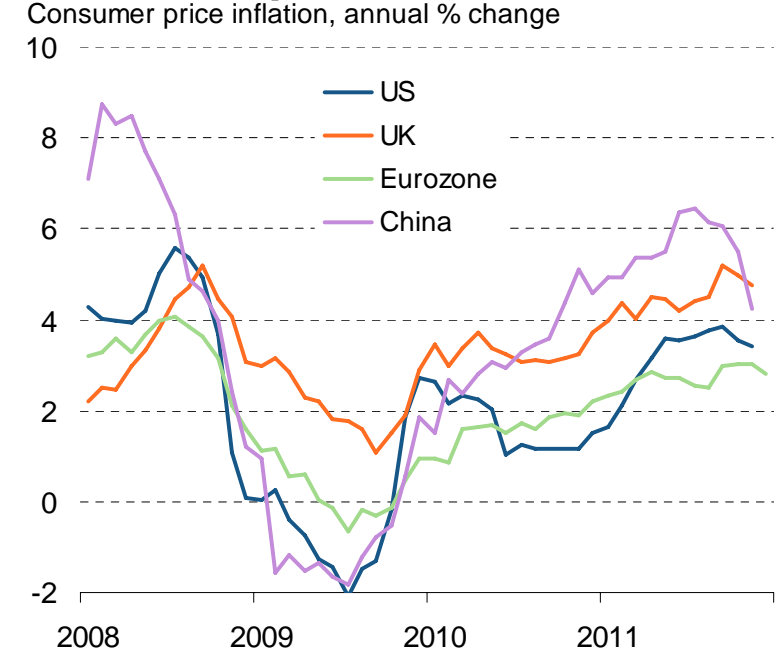
## Good news for inflation as manufacturing prices fall

The drop in demand for raw materials that accompanied the slowdown in manufacturing in 2011 resulted in a steep easing of price pressures. Producer input prices fell globally for the second month running in December. Although only slight, the fall contrasts with the near record rate of increase seen earlier in the year. Consumer price inflation is also already showing signs of easing in many countries as a result.

### Global industrial prices



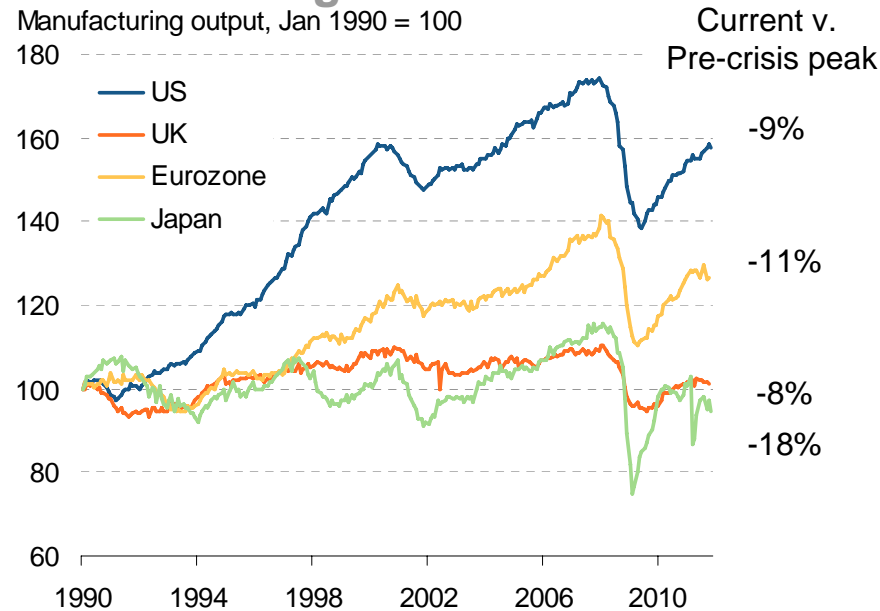
### Consumer price inflation



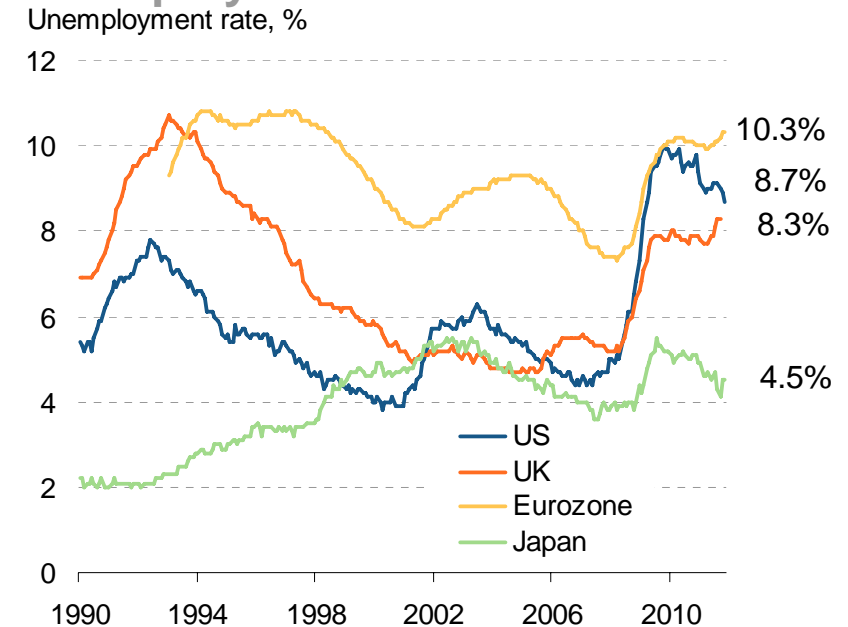
## Lacklustre recoveries highlighted by spare capacity

The lacklustre nature of last year's recoveries is highlighted by the fact that much spare capacity still exists. Manufacturing output remains well below pre-crisis peaks in the US, UK, Eurozone and Japan. At the same time, unemployment remains high, and has risen recently in the UK and Eurozone. The US labour market has shown surprising gains, in contrast, with the unemployment rate now down to 8.7%

### Manufacturing



### Unemployment

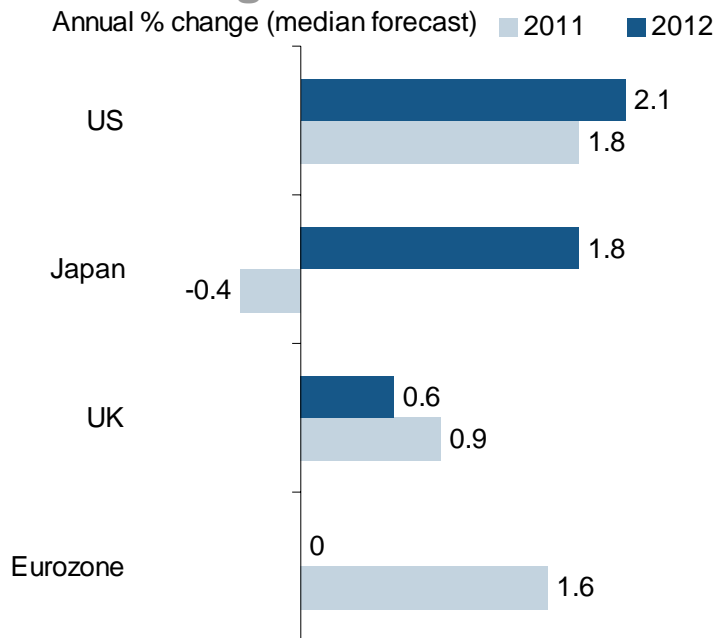


## Central banks & 2012 growth forecasts

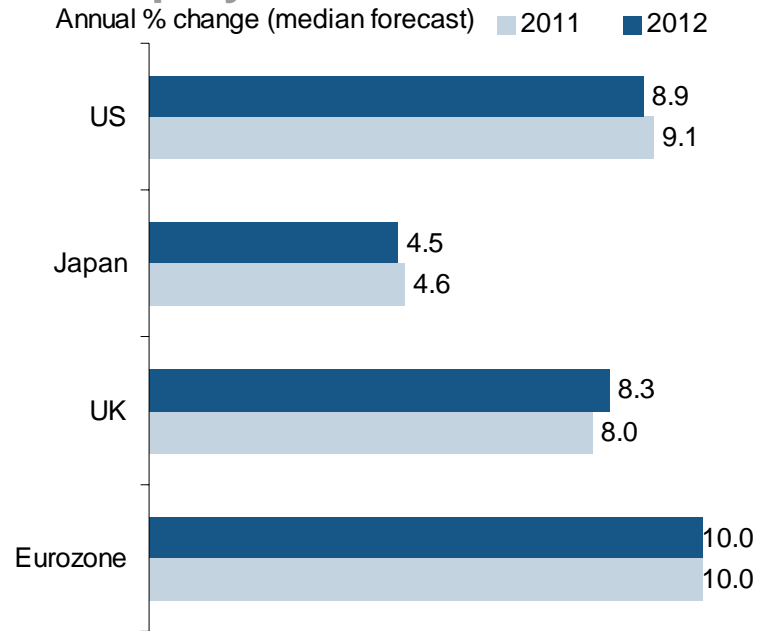
Looking ahead, the US and Japan are expected to see stronger growth in 2012, but the UK is set to see growth weaken to 0.6% and no growth is expected in the Eurozone, according to a Reuters poll.

Stubbornly high unemployment rates mean no increase in policy rates is expected for the US or the UK before at least mid-2013, though a further cut in the ECB refi rate to 0.75 is expected in early 2012.

### Economic growth forecasts



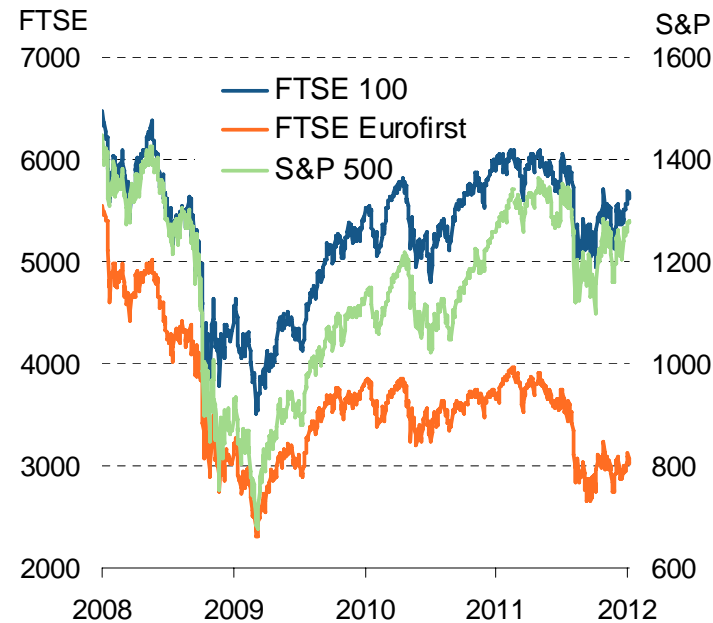
### Unemployment forecasts



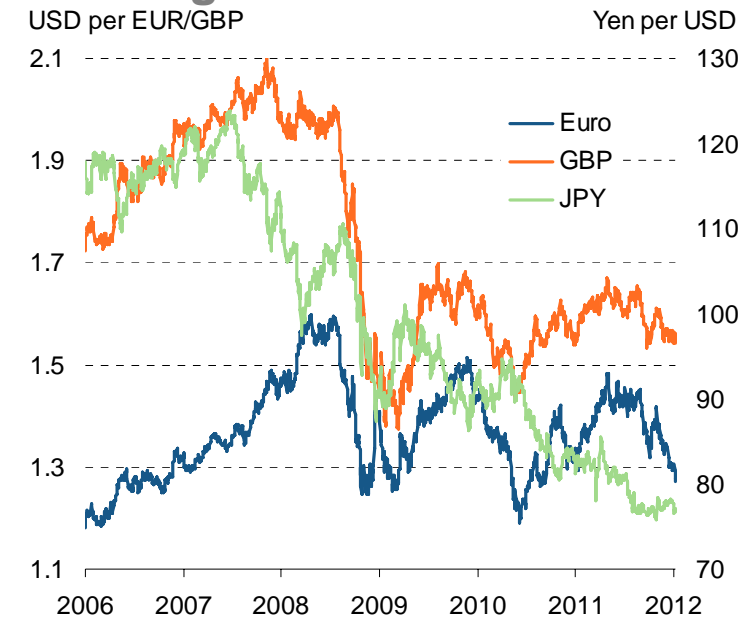
## Investors seek safe havens from euro crisis

The FTSE All World ended 2011 6.5% down on 2010, with equities giving up early gains to lose over a fifth of their value in China and India and drop 17% in Japan and the Eurozone. The UK's FTSE 100 fell 6% while the S&P500 pointed to no change in US stocks. Investors moved into the safe haven of the US dollar, shunning the euro in particular as worries about the region's debt crisis rolled on.

### Stock markets



### Exchange rates

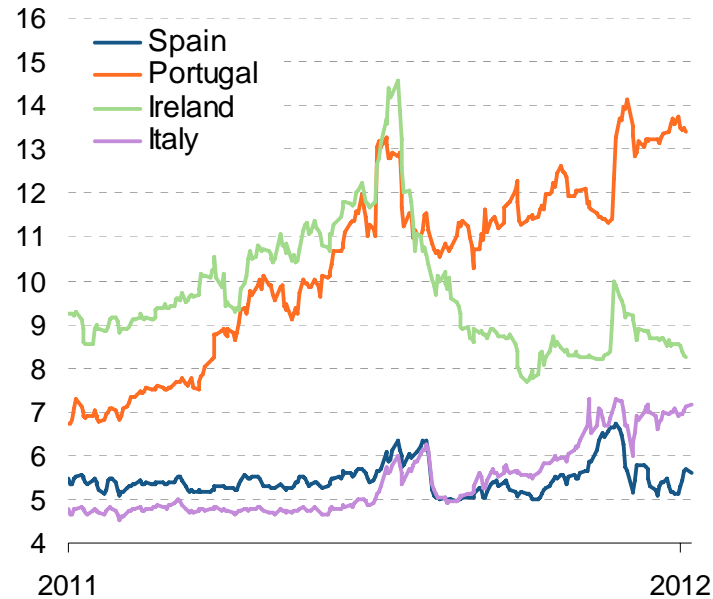


## Government debt markets highlight ongoing Eurozone crisis

Money also moved into perceived safe havens of US, UK and German government bonds, driving 10-year yields down to c2%. Worries about weak growth and deficits in the Eurozone's periphery meanwhile continued to put upward pressure on yields, with the focus on Italy, where the yield has pushed above the 7% level which is widely considered an unsustainably high borrowing cost.

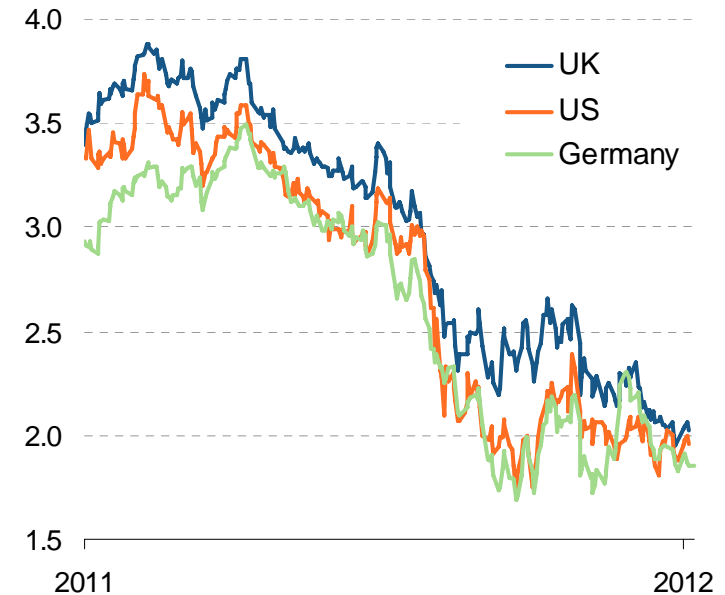
### Eurozone

10-year government bond yield



### Safe havens

10-year government bond yield



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