

# Global economy

## Global economic growth revives to nine-month high in December

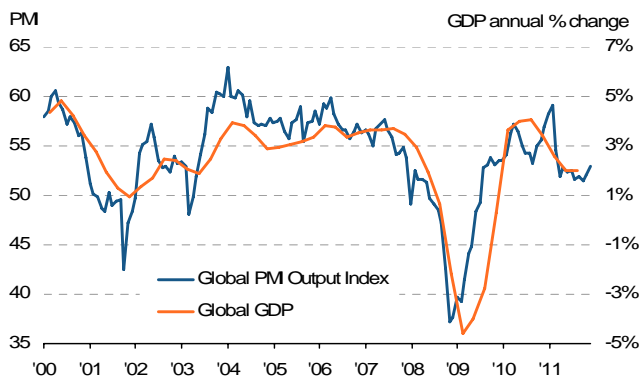
- **Global PMI ends 2011 on 9-month high**
- **Growth of output exceeds that of new orders, raising concerns for outlook**
- **Growth generally centred on the US**

The global economy finished 2011 with an uplift in the rate of growth. December's purchasing manager surveys from around the world signalled the strongest monthly expansion of private sector economic activity since March.

The JPMorgan Global PMI™, compiled by Markit from its worldwide surveys, rose for the second month running in December. Up from 52.0 in November to a nine-month high of 53.0, the increase took the average reading for the fourth quarter up to 52.1 compared with 52.0 in the three months to September.

However, the rate of growth remained modest in comparison with the strong rate of increase seen at the start of the year. The average expansion seen in the final quarter overall was broadly similar to the meagre gains seen in the previous two quarters, and consistent with worldwide GDP growth of approximately 2%.

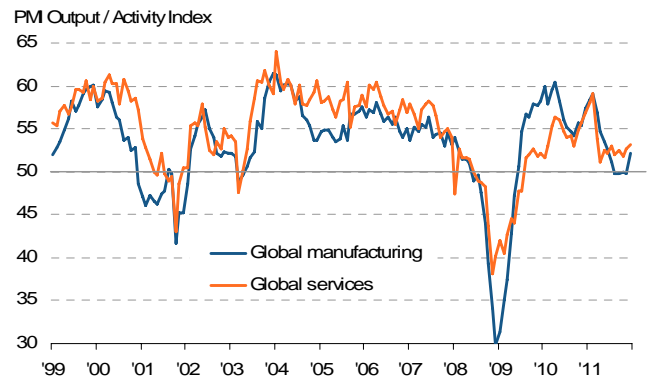
### Global economic growth



Sources: Markit, ISM, JPMorgan, EcoWin.

Manufacturing enjoyed its first month of expansion since July, while service sector growth accelerated to the fastest since March. However, in both cases the rate of expansion remained lacklustre compared to earlier in the year.

### Global manufacturing and services

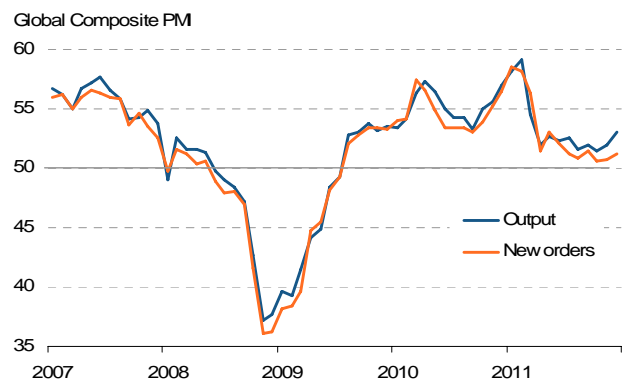


Sources: Markit, JPMorgan.

### Unsustainable expansion?

A concern is that the upturn may prove unsustainable because output has been expanding at a stronger pace than new orders. This suggests companies were again reliant on back-orders to fuel expansion. The extent to which output across both sectors grew faster than new orders in December has only been exceeded in three months since the survey began in 1998. Manufacturing orders in particular rose only very marginally, while inflows of new business in services increased only modestly.

### Global output and new orders

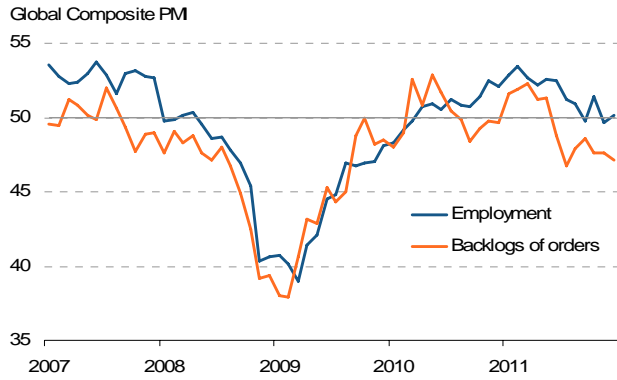


Sources: Markit, JPMorgan.

Concerns about the ongoing weak growth of new orders and the further drop in backlogs resulted in companies holding their staffing levels more or less unchanged in December. Modest growth in

manufacturing payrolls was almost entirely offset by a decline in service sector employment.

### Global employment and backlogs of orders



Sources: Markit, JPMorgan.

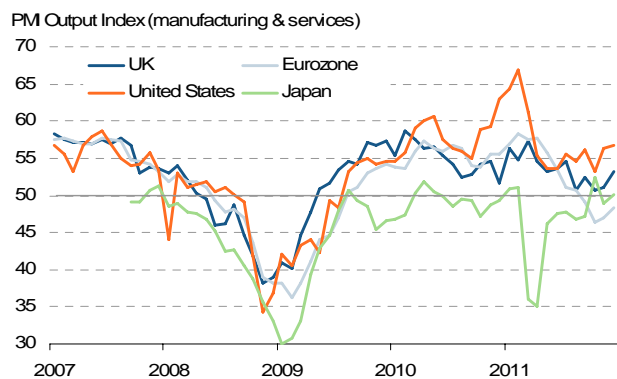
### Global growth led by US

Looking at the major economies, global growth was largely driven by the **United States**, with signs of ongoing weakness – and in some cases contraction – evident in many other economies.

The weighted average of the ISM manufacturing and non-manufacturing surveys for the US showed the fastest rate of expansion since March, reflecting strong growth in both sectors, particularly manufacturing. The surveys are roughly consistent with US GDP expanding by 0.7% (or close to 3% annualised).

Growth also accelerated in the **United Kingdom** in December, led by services, to reach a five-month high. The uplift offset some of the weakness seen in previous months to suggest that the economy probably stagnated in the fourth quarter, dragged down primarily by a contracting manufacturing sector.

### Developed world



Sources: Markit, ISM, JPMorgan.

The **Japanese** PMI surveys meanwhile showed some signs of the economy stabilising in December, having contracted in November. However, an overall picture of weak growth (0-0.5%) is suggested for the final quarter of 2012 as a whole.

The worst performance in December, and for the fourth quarter as a whole, was seen in the **Eurozone**. Although the PMI rose to a three-month high in December, the surveys signalled contraction for the fourth successive month. GDP is likely to have contracted by approximately 0.5-0.6% in the final quarter of 2011. A return to (modest) growth in Germany and stabilisation in France contrasted with further marked downturns in Italy and Spain in December.

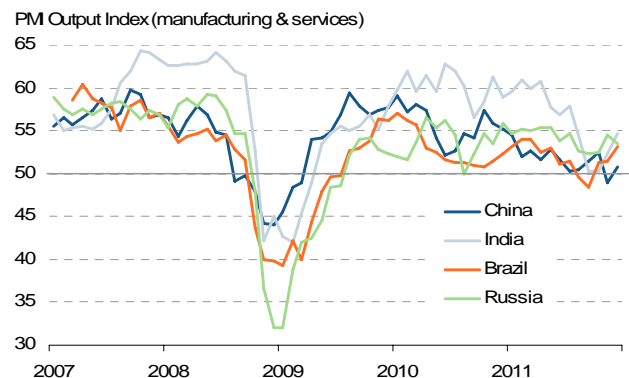
### Signs of life in emerging markets

Among the largest emerging economies, **Indian** companies reported the greatest improvement in business conditions in December, with growth hitting a five-month high. This was followed by **Russia** and **Brazil**, which both saw modest rates of expansion (though the rate of expansion eased in the former).

**China** reported the weakest growth of the four dominant emerging market nations in December, though saw a return to growth following a one-month slide into contraction in November.

Looking at the final quarter of 2011 as a whole, the PMI surveys suggest that growth was the weakest since 2009 Q1 and 2009 Q2 in China and India respectively, while growth in Russia ticked up marginally from the third quarter. Brazil meanwhile saw a return to growth following the contraction seen in the third quarter.

### Emerging markets



Sources: Markit, HSBC.

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