

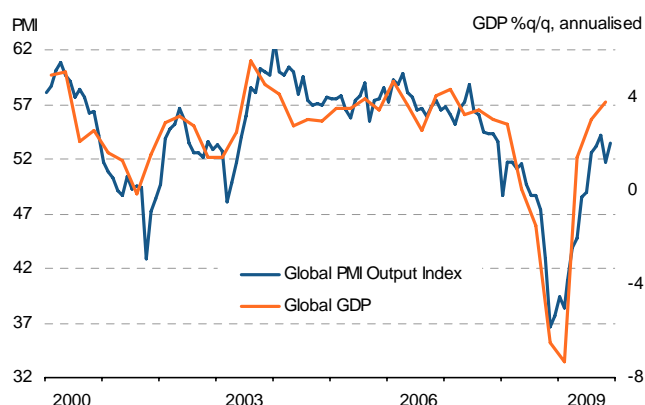
# Global economy

## Global growth rebound lacks conviction at year-end

### Global PMI picks up but remains subdued

The Global PMI, compiled by Markit for JPMorgan and based on PMI surveys covering both manufacturing and services, recovered some of November's lost ground, rising from 51.7 to 53.4 in December. The index has now been above 50, signalling expansion, for five months in a row. However, although the latest PMI reading was the second-best since 2007, the rate of growth signalled by the survey data remains well below that seen in the years prior to the onset of the financial crisis in 2007.

### Global GDP



### Services lag manufacturing

The source of the relative weakness of growth compared to that seen before the recession is clearly the service sector. The Global Services PMI Activity Index recorded just 52.1 in December, having slumped to 50.3 in November. Although services growth across Q4 of last year as a whole was the strongest since Q4 2007, the pace of expansion was only modest by historical standards. For example, the index averaged 58.0 in 2006 and 56.2 in 2007.

Manufacturing, on the other hand, ended the year on a strong note. The Global Manufacturing PMI Output Index rose from 56.8 in November to 58.2. This compares with average index readings of 56.1 in 2006 and 54.5 in 2007. The final quarter of 2009 was the best for manufacturing growth since Q2 2004.

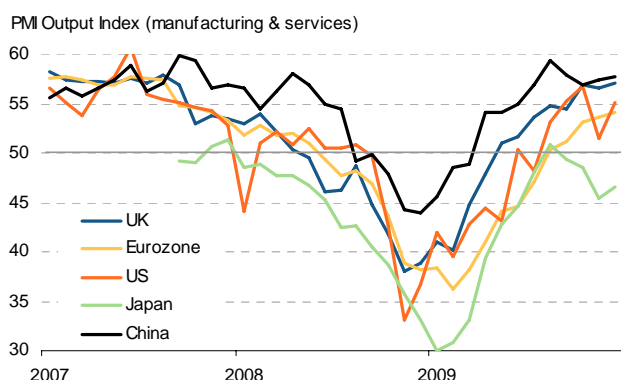
### Global manufacturing & services



### Signs of 'double-dip' in Japan and Spain

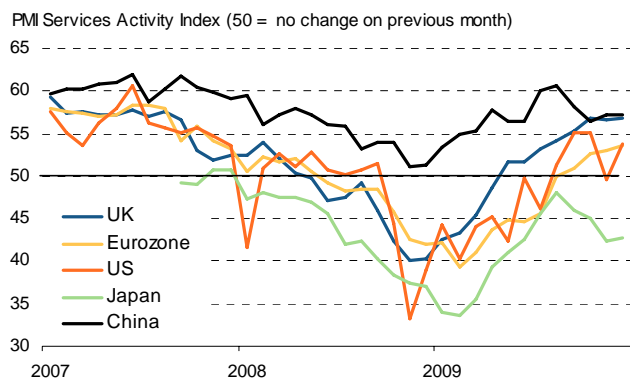
As well as strong divergences between global manufacturing and services, wide variations have appeared at a national level. In particular, the global recovery continued to be driven by emerging markets at the end of last year, led in turn by near record manufacturing growth in China during Q4. Meanwhile, the UK and the Eurozone both saw rates of expansion hit two-year highs, and the US saw growth accelerate. Japan, in contrast, stands out as an economy that continues to contract. According to the PMI data, Japan has only seen one month of expansion since its downturn began at the start of 2008, and that was a meagre rise last August. Since then, Japan has shown signs of sliding back into recession. While its manufacturing sector enjoyed a boost from rising global trade flows, services are declining at an alarming rate.

### Manufacturing & services by country

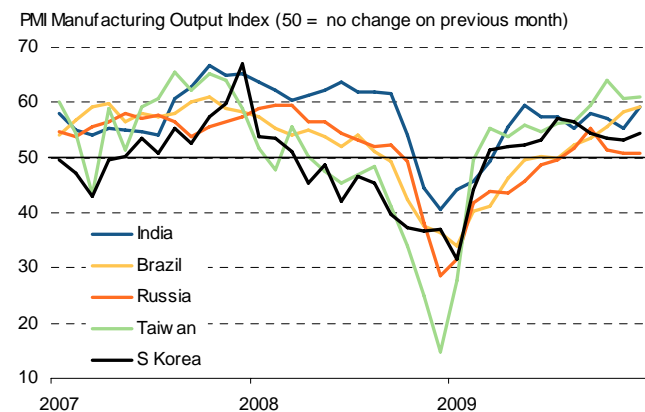
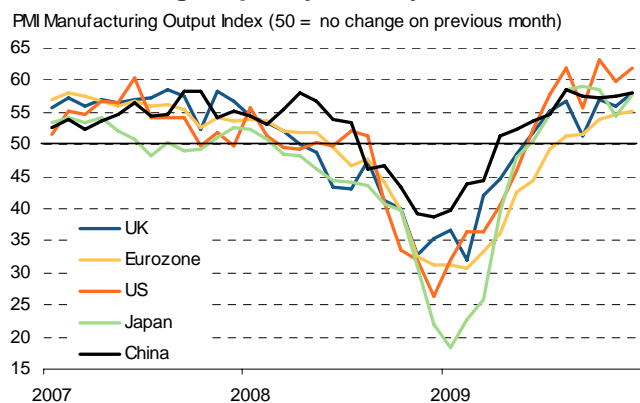


However, Japan is not the only country that is struggling amid the global upturn. Within the Eurozone, strong rates of expansion in France and Germany sit uneasily alongside a deepening recession in Spain, which has now seen combined manufacturing and services output fall for 24 consecutive months. The rate of contraction accelerated again in December. Even in Germany the recovery is heavily biased towards manufacturing, with the country's service sector suffering in the face of downbeat consumer sentiment.

**Service sector growth by country**



**Manufacturing output by country**



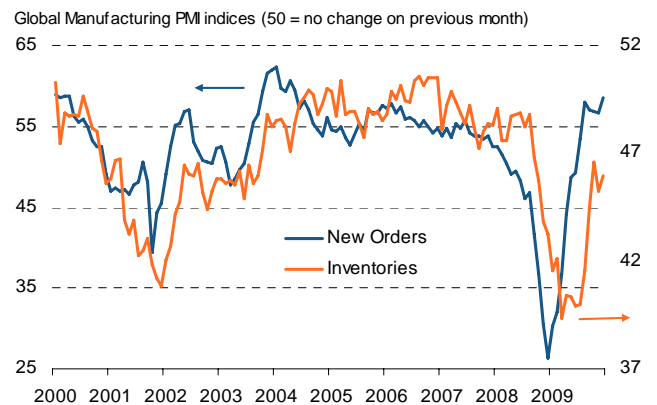
Sources: Markit, ISM.

Central and Eastern Europe is another area where growth remains lacklustre, with PMI data showing only weak returns to growth in Russia, Poland and the Czech Republic.

**Recovery in part driven by stock cycle**

The global recovery therefore continues to be driven principally by surging manufacturing growth, and this has in turn been a reflection of restocking. Inventories were slashed at record rates during the height of the crisis and companies are now moving towards rebuilding stock levels. Quantities of inputs purchased by manufacturers have risen in most major countries in recent months, increasing at the fastest rates for over two years in the UK and the Eurozone and rising at the quickest pace since 2004 in China, for example. While global stocks of inputs continued to fall in December, the rate of decline has approached its long-run average in Q4. This suggests that the boost to manufacturing production from the stock cycle might soon begin to wane, though some comfort can be gained from an improvement in the rate of growth of global manufacturing new orders in December.

**Manufacturing inventory cycle**



**Employment holds key to sustainable recovery**

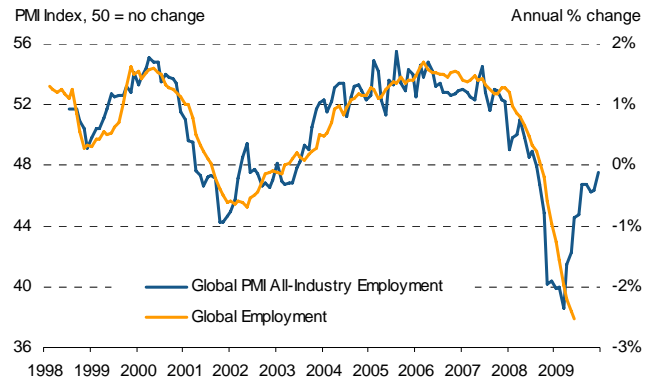
The sustainability of the global recovery therefore rests to a large extent on the ability of final demand (notably rising consumer expenditure and business investment) to help drive economic growth once the effects of the inventory rebuild have begun to falter. Employment data will provide a key indicator of final demand, as increased recruitment will not only boost personal incomes and job security, but is also a signal that

companies are starting to invest in the expansion of capacity again.

According to PMI data, which provide the earliest guide to world-wide labour market trends, overall employment across the private manufacturing and services sectors continued to fall in December. However, the rate of job losses was the lowest since August 2008. Manufacturing headcounts even rose (albeit only marginally) for the first time since March 2008. Employment in emerging markets has now risen for five consecutive months, with the rate of job creation hitting a 25-month high in December. Steep job losses continued to be recorded in the developed world, but even here the rate of decline eased sharply over the course of 2009.

A stabilisation of the employment market will help global services business activity expand at a pace that narrows the gap with the rate of growth currently enjoyed by manufacturers. However, if the inventory cycle loses its impetus too soon, it could be a case of manufacturing growth slowing to match the disappointing pace currently seen in services.

**Worldwide employment**



Sources: Markit, Ecwin.

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