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Markit Economic Research
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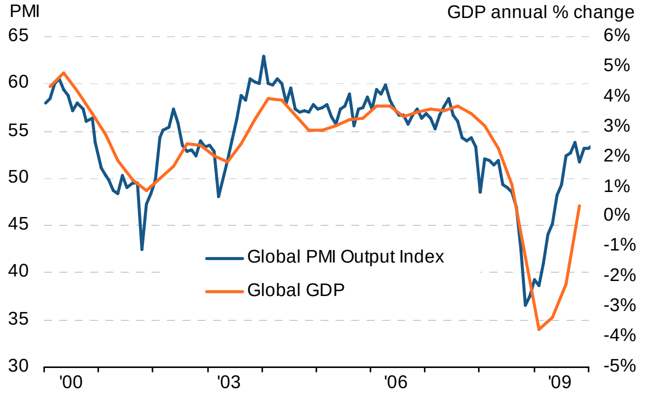
Global economy

Global PMI picks up in February to signal ongoing recovery in Q1, but growth remains biased towards manufacturing

Global recovery sustained in Q1

At 53.6 in February, the JPMorgan Global PMI Output Index, compiled by Markit, rose to its highest level since October 2009. The reading is consistent with global GDP expanding at an annual rate in excess of 2%. This suggests that the global recovery continued in Q1 despite business conditions being affected by adverse weather in many countries.

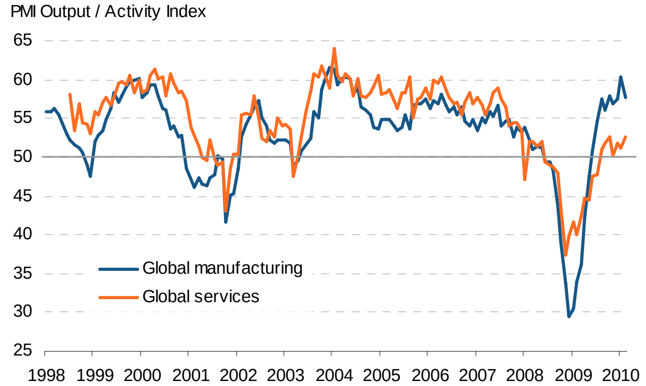
Global economic growth



Sources: Markit, JPMorgan.

However, the rate of growth remains well below that seen prior to the financial crisis, as lacklustre service sector expansion offset buoyancy in manufacturing. Although services growth was the fastest since December 2007, its output index (52.6) was again markedly lower than that of manufacturing (57.4).

Global manufacturing and services



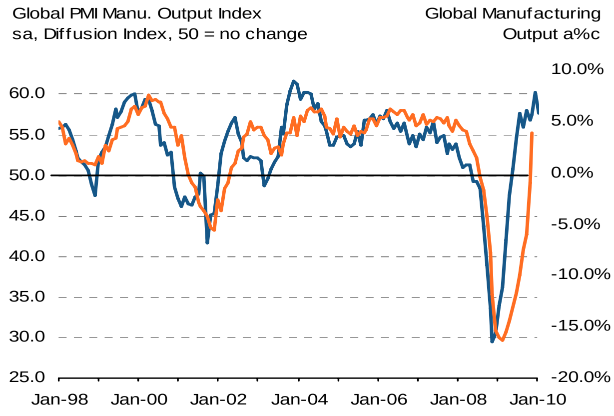
Sources: Markit, ISM, JPMorgan.

Manufacturing output growth remained well above its long-run average as producers continued to benefit both from inventory rebuilding and a further improvement in global trade flows. Service providers, on the other hand, struggled with ongoing deleveraging and a general reticence to spend among households and business consumers in the World's largest developed nations.

Manufacturing growth sustained

The Global Manufacturing Output Index is consistent with worldwide production rising at an annual rate of approximately 6%. Expansion is evident in almost all of the countries covered by PMI surveys, and all major nations saw ongoing strong rates of increase.

Manufacturing output

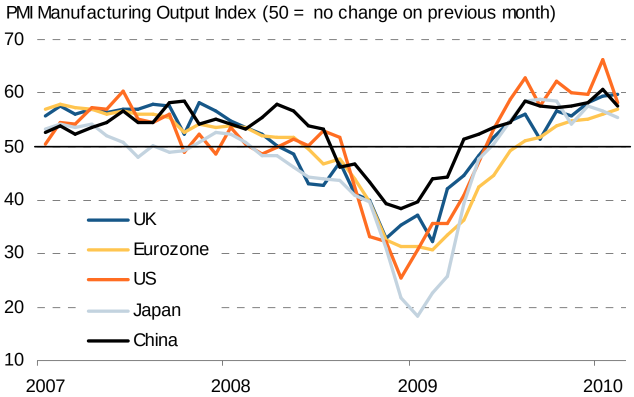


Sources: Markit, ISM, JPMorgan.

Growth of US and Chinese manufacturing output slowed from January's near six-year peaks, but remained robust by the historical standards of the two surveys. Growth in Japan also slowed, easing for the second successive month, yet also continued to run at a solid pace.

The UK and the Eurozone meanwhile both saw accelerating growth, with production buoyed in particular by rising export sales. The UK saw the fastest output growth since September 1996, while growth in the Eurozone was the strongest for three years, led by Germany.

Manufacturing output

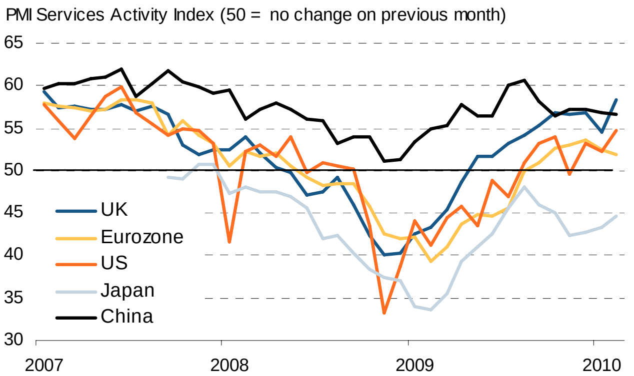


Sources: Markit, ISM.

Eurozone and Japanese service sectors show particular weakness

While service sector growth remained subdued on a global scale, national variations were increasingly evident. In particular, service sector growth accelerated in both the US and the UK, hitting the fastest rates since October 2007 and January 2007 respectively. In contrast, growth slowed in the Eurozone, while the Japanese service sector continued to contract, albeit at a reduce rate compared to January.

Service sector business activity



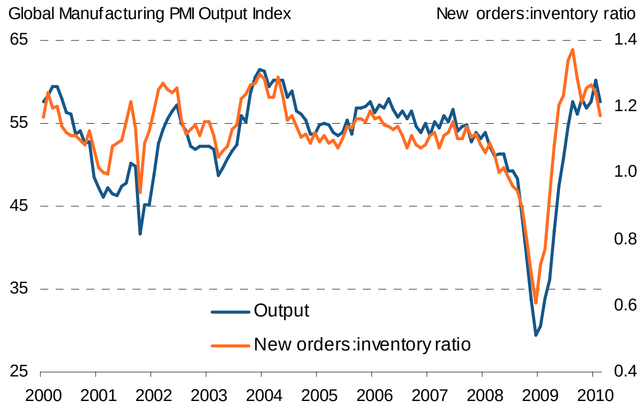
Sources: Markit, ISM.

Some of the bounce-back in UK service sector expansion could be attributed to better weather following the severe conditions seen in January, suggesting that underlying growth is weaker than the February reading indicated. Conversely, bad weather may have continued to hit business in northern Eurozone countries and some northern US states. However, irrespective of weather conditions, it seems likely that service sector growth in many countries has remained subdued during the first two months of 2010 compared to the growth seen in manufacturing. Given high levels of unemployment in the US, Eurozone and UK, services are likely to continue to act as a drag on global economic growth in coming months due to weak domestic demand in particular.

Weak services growth plus waning inventory cycle in manufacturing points to subdued growth in coming months

Furthermore, the global manufacturing new orders-to-inventories ratio fell to a ten-month low in February. This suggests that the rate of growth of global manufacturing output may soon peak if the waning effect of inventory rebuilding is not supplanted by a further strengthening of new orders for investment and consumer goods.

Manufacturing inventory cycle



Sources: Markit, ISM, JPMorgan.

The combination of weak service sector expansion and the waning of the inventory cycle in manufacturing therefore support the view that global economic growth will remain below pre-crisis levels in coming months.

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