

Global economy

Global economic growth resurgent at end of 2010

- **Global PMI hit eight-month high in December, reflecting surge in US.**
- **Employment up 1% year-on-year.**

The worldwide PMI surveys suggested a sharp acceleration in global GDP growth to an annual rate of just over 3.5% at the end of 2010. The growth spurt will further calm any lingering fears of a double-dip recession. However, some signs of underlying weakness remain. Job creation is still subdued overall, while the resurgence in the global service sector has been overly reliant on the US.

Global GDP growth above 3.5%

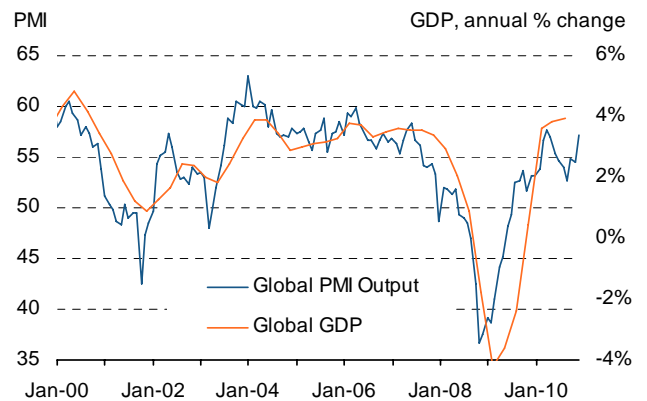
The JPMorgan Global PMI (compiled by Markit) rose to an eight-month high of 57.1 in December, up from 54.5 in November, consistent with global GDP rising at an annual rate above 3.5%, well up on the 2.0% pace signalled back in September and therefore helping to quell fears of a global double-dip recession.

Faster rates of expansion were seen in both the manufacturing and service sectors in December, with services seeing the faster growth for the second month running. Services activity rose for the seventeenth consecutive month and at the fastest pace since July 2007. Manufacturing production, meanwhile, rose at the quickest rate for six months. This bodes well for the sustainability of the recovery, as there are now increasing signs that (at the global level at least) the manufacturing-led recovery is starting to transmit itself across to service providers.

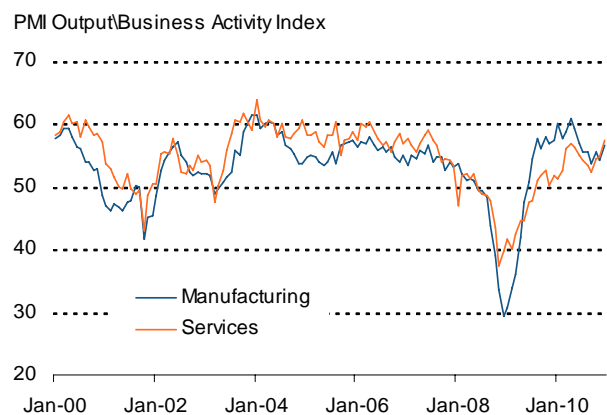
Global growth spurt led by US

An area of concern, however, is that the acceleration in global economic expansion at the end of last year was heavily centred on the US. The rate of expansion in the US picked up sharply to its highest since December 2004, with the PMI output indices for manufacturing and non-manufacturing both rising by between 5-7 points over the month. The US was especially important for the improvement in the global services economy, with the US Business Activity Index

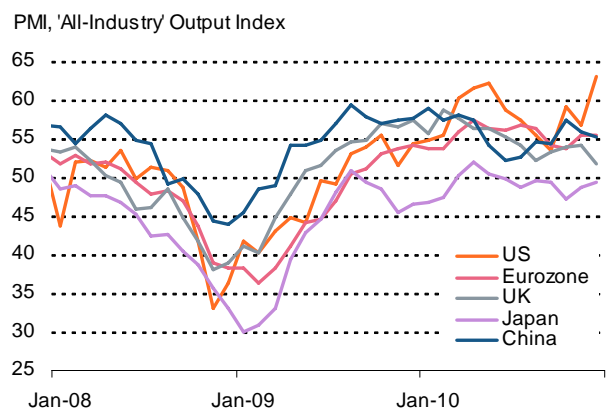
Global PMI and Global GDP



Global PMI: Manufacturing and services



National PMI: Major economic regions



over 11 points higher than the weighted average for the other nations covered. This leaves the global recovery, especially within services, highly vulnerable to a slowdown in the US non-manufacturing sector. We would also urge caution in reading too much into this growth surge, as the US non-manufacturing data tend to be more volatile than other PMI data, especially around the turn of the year.

It was also the case that the outperformance of the service sector relative to manufacturing was not replicated in most other major economies, including the Eurozone, China, the UK and India. This meant that growth was generally well below that signalled for the US in the other major regions covered by the survey.

Manufacturing and service sector divergences were especially important in Europe. Economic growth in the single currency area steadied at November's three-month high, but strong expansions in Germany and France contrasted with a marked slowdown in Italy and contractions in Spain and Ireland. Growth in the UK was only modest, mainly due to a weather-related decline in service sector activity. In contrast, UK manufacturing output rose at the fastest pace since May.

In emerging markets, growth slowed in both China and India but nevertheless remained strong. More modest growth was seen in Brazil and Russia, though both saw an improvement on the rate seen in November.

Job creation continued to disappoint

The ongoing recovery led to further job creation in December, with employment rising for the tenth month running, but the rate of increase remained disappointingly modest. The latest Global PMI Employment Index reading is broadly consistent with employment rising at a rate of 1% year-on-year.

Where jobs growth was recorded, this was mainly centred on the manufacturing sector, although a slight increase was also signalled by service providers.

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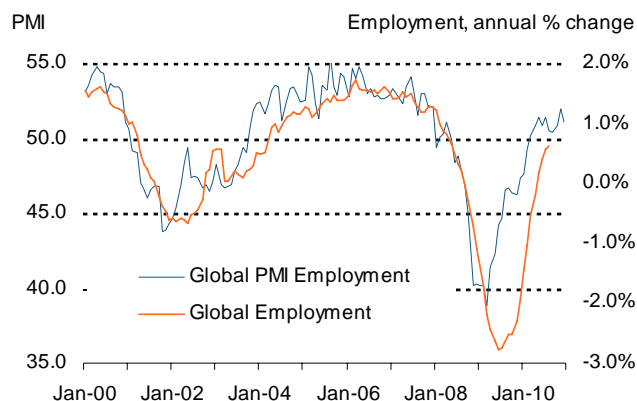
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Global Employment



Growth of employment slowed in both the US manufacturing and non-manufacturing sectors (which again raises concerns about whether the December output surge represents a data outlier). A solid increase seen at US manufacturers was nonetheless the weakest since March, while at non-manufacturing companies only a marginal rise was reported. These findings came alongside a disappointing increase in non-farm payrolls (reported by the US Bureau of Labor Statistics) of only 103,000, below expectations of a 150,000 rise and barely sufficient to keep up with population growth.

Jobs growth also slowed in Western Europe. The Eurozone saw a modest rise in employment as a strong gain in Germany, and moderate rise in France, were offset by job losses in Italy, Spain and Ireland. The UK, meanwhile, saw only a marginal increase in employment, as near survey record job creation in manufacturing contrasted with further losses in services.

Chinese and Indian companies continued to expand their payroll numbers, whereas in Japan employment fell for the seventh month running.

Chart sources: Markit, JPMorgan, HSBC, ISM, Ecwin