

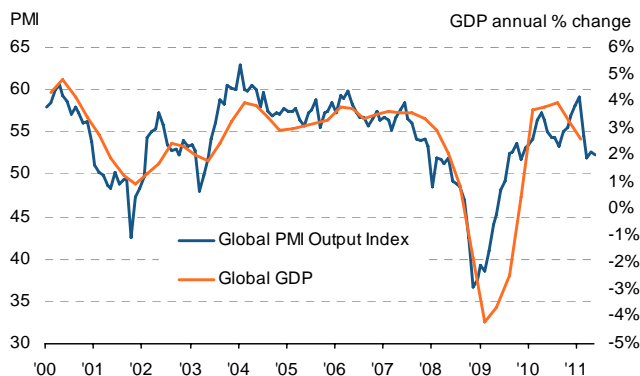
# Global economy

## Global economic growth weakest for almost two years in Q2

- **Broad-based Q2 global growth slowdown evident across all major sectors and countries.**
- **Counteracting forces leave uncertain outlook.**

The JPMorgan Global PMI, compiled by Markit, fell from 52.7 in May to 52.2 in June. The latest PMI, which measures private sector output growth across manufacturing and services in all major world economies, rounded off the weakest quarter since 2009 Q3.

### JPMorgan Global PMI



### Q2 growth weakest for nearly two years

The recent weakness of the PMI compared to the first quarter can be in part attributed to the devastation in Japan caused by the 11 March earthquake. However, PMI data show that, while Japan has undergone a near V-shaped recovery, the Global PMI remained well below February's peak in June and is consistent with growth of worldwide gross domestic product (GDP) running at an annual rate of just 2%.

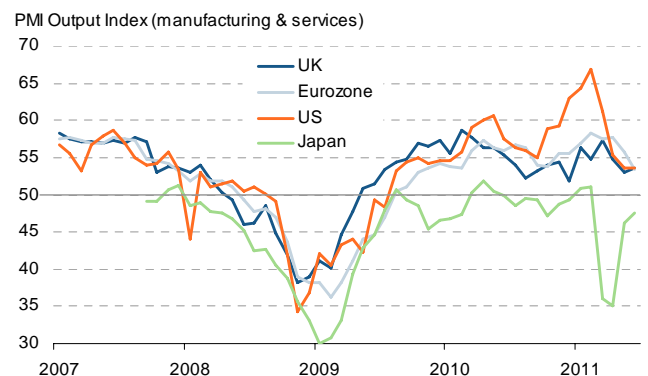
The slowdown is also broad-based. Global manufacturing growth was the slowest since June 2009, while services saw the second-smallest monthly expansion since January 2010. Both sectors have seen steep downturns in growth since earlier in the year.

### Global manufacturing and services



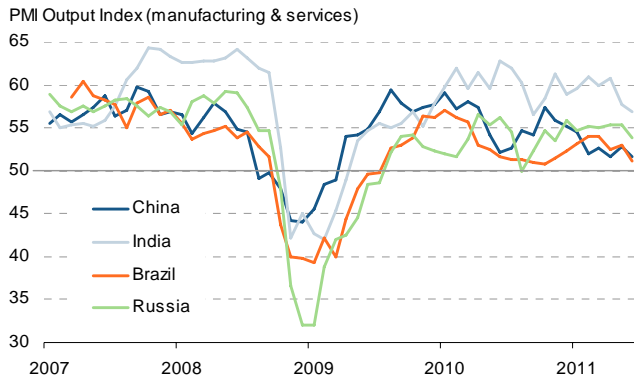
In the developed world, the rebound in the Japan index has been countered by a sharp downturn in the rate of US growth in Q2, with the pace hitting a 22-month low in June, as well as a weaker rate of expansion in the Eurozone. Italy and Spain, two of the heavily indebted countries in the Eurozone's periphery, saw PMIs signal contraction, while even the region's powerhouse of Germany showed an easing in its rate of expansion, due to a marked slowdown in manufacturing. Growth meanwhile remained subdued in the UK, failing to revive much from May's five-month low.

### Developed countries



China also continued to disappoint in June, with output of the combined manufacturing and service sectors showing the smallest rise since the country's recovery started in April 2009. Growth also slowed in India, Brazil and Russia, hitting nine-, eight- and seven-month lows respectively.

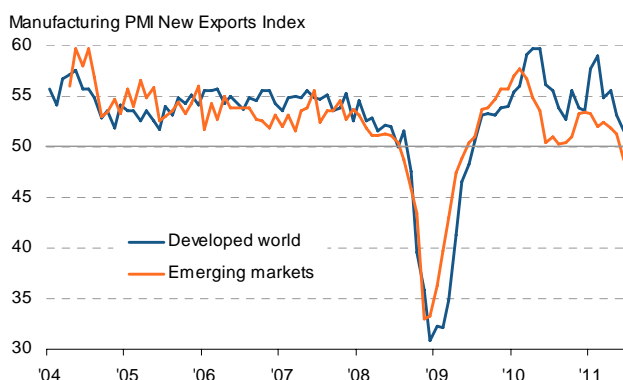
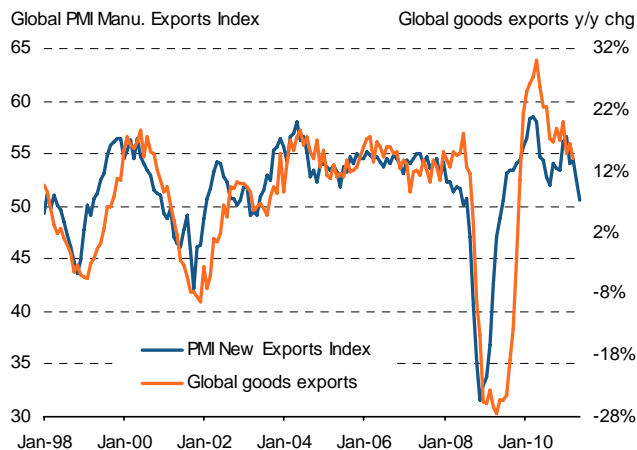
### Emerging markets



### Global exports stagnate

The June PMI surveys showed a near-stagnation of worldwide manufacturing exports – the worst reading since exports began rising in July 2009. This weakening in global trade flow growth is a key factor behind the disappointing performance in many of the manufacturing surveys. Exports in the UK, German and French manufacturing sectors, for example, showed only marginal or modest growth in June, while Japanese, Brazilian and Chinese exports fell and only small increases were seen in Taiwan and South Korea. US exports showed better resilience, but even there the increase was the weakest for almost two years.

### Global manufacturing exports



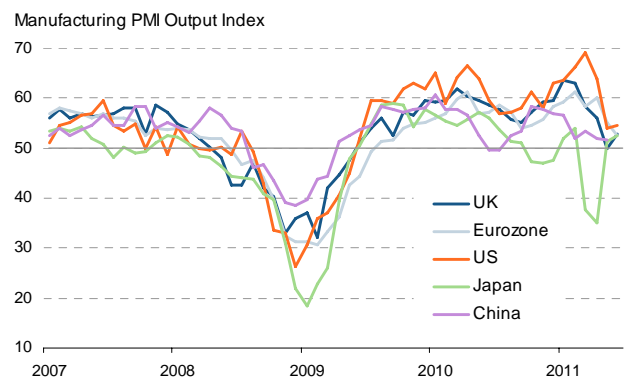
### Counteracting forces leave uncertain outlook

As of June, the survey data suggest that the global economy's soft patch showed no signs of abating, and one of the key drivers of the recovery – global trade flows – almost disappeared.

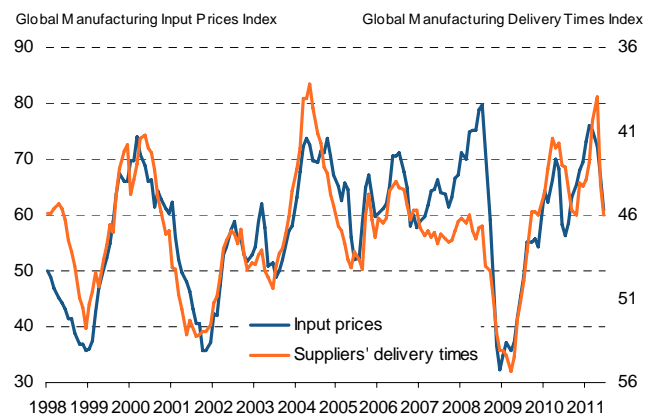
The hopes are that reconstruction in Japan should boost growth in the world's third largest economy, and that the restoration of properly functioning supply chains will feed through to better manufacturing data in the second half of the year. Likewise, lower commodity prices should help boost demand in the world's rich economies.

There is evidence in the PMI surveys that all three of these supportive factors have begun to come into play. Suppliers' delivery times, for example, having shown a near-record lengthening in April, indicated the fewest manufacturing supply chain constraints for eight months in June. The survey also showed that global producer input price inflation has cooled sharply since peaking in February, sliding to a ten-month low in June on the back of lower oil and other commodity prices.

### Manufacturing output



### Supplier delivery times

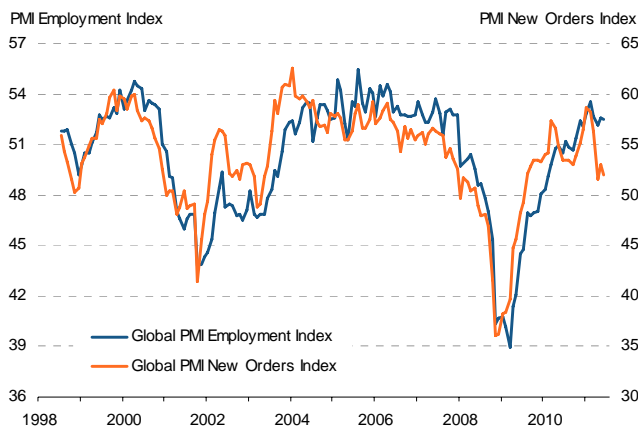


However, the concern is that ongoing caution by consumers in the West, policy tightening in emerging markets (notably China), stubbornly high consumer price inflation and a lack of corporate investment in both capital and labour will counteract these positive factors.

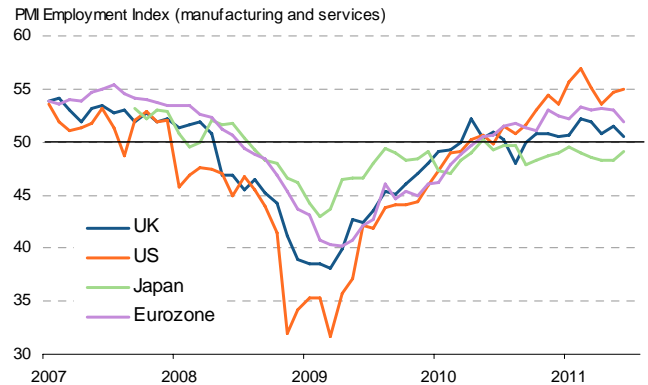
The recent PMI data suggest that global employment growth is likely to slow in coming months, given sluggish inflows of new business, which will constrain growth of consumer spending in the world's rich economies. UK and Eurozone labour force growth is already showing signs of weakening, while headcounts continue to be cut in Japan (and have failed to show any growth during the global recovery).

ISM data meanwhile point to ongoing payroll growth in the US in June, and suggest that the disappointing 54k rise in official payroll numbers may have understated true hiring. But, as with the global picture, weaker growth of new orders in the US looks likely to translate in renewed labour market weakness sooner or later.

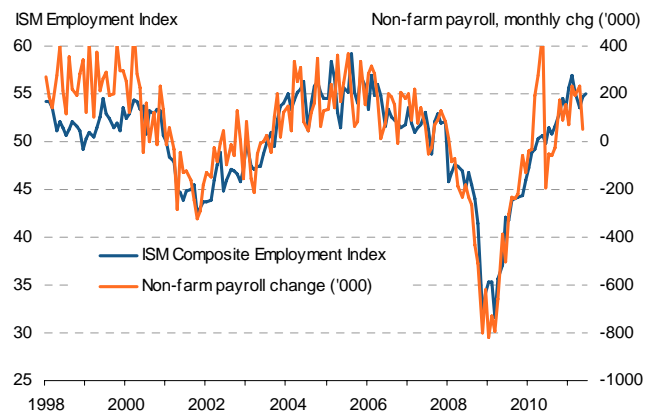
**Global new orders and employment**



**Employment**



**ISM and US non-farm payrolls**



Sources for charts: Markit, JPMorgan, ISM, BLS.

**Chris Williamson**

Chief Economist

Markit

Tel: +44 20 7260 2329

Email: [chris.williamson@markit.com](mailto:chris.williamson@markit.com)

For further information and other commentary notes, please visit [www.markit.com](http://www.markit.com)

The intellectual property rights to this report herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index™* and *PMI™* are trade marks of Markit Economics Limited. Markit and the Markit logo are registered trade marks of Markit Group Limited.