

# Global economy

## Global growth at 21-month low in April

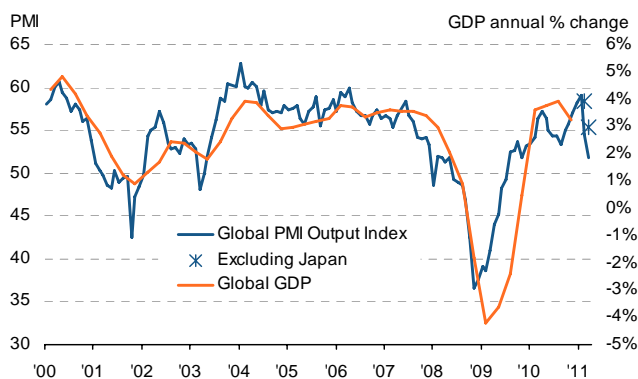
- **Global growth weakened to a 21-month low in April (or a seven-month low excluding Japan).**
- **Uneven, but solid, job creation.**
- **Input price pressures ease.**

The JPMorgan Global PMI, compiled by Markit, indicated the weakest rate of growth of the global economy since the recovery began in August 2009. Although much of the deterioration could be linked to the Japanese earthquake, the pace of expansion also slowed outside of Japan. A further easing in growth of new orders meanwhile suggests that the global economic growth rate could cool further in coming months.

### Growth slows

The Global PMI, which measures private sector output growth across manufacturing and services<sup>1</sup>, fell for a second successive month from February's five-year high, down from 54.5 in March to 51.8 in April.

### JPMorgan Global Manufacturing PMI

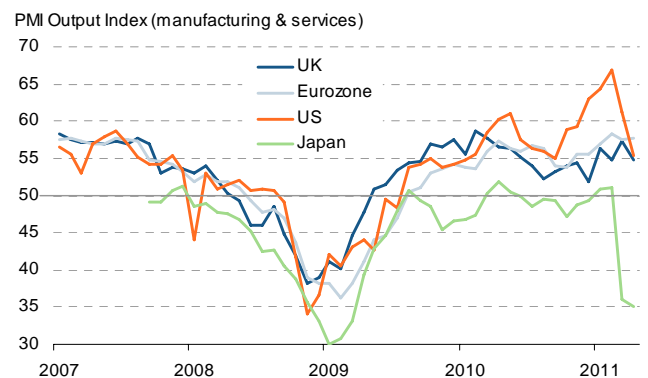


The steep deterioration in the rate of growth has largely reflected the disruptions to business caused by the Japanese earthquake of 11 March. However, even excluding Japan, the PMI surveys indicated the weakest growth for seven months in April, signalling a slowdown of approximately half of the magnitude that

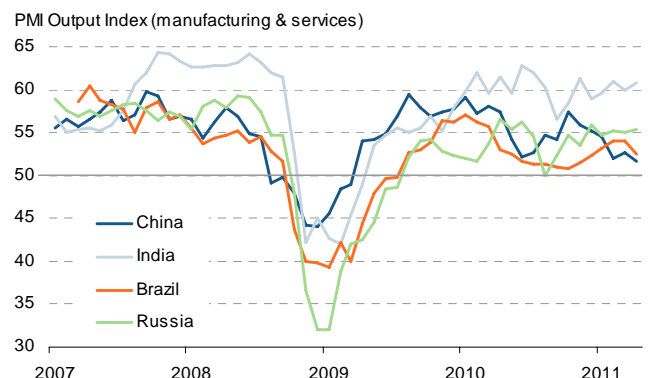
the index including Japan has registered since the quake struck. Reassuringly, despite the decline, the index excluding Japan is still consistent with global gross domestic product (GDP) rising at an annual rate of 2.5%–3.0% at the start of the second quarter, having signalled a rate of approximately 3.5% during the first quarter (including Japan, the quarterly GDP growth rate signalled in April was approximately 1.5%–2.0%).

Most notably, among the world's major G4 (developed) and BRIC (emerging) economies, a steep cooling in the rate of growth in the US non-manufacturing sector has been reported in the past two months, and growth also cooled in the UK, China and Brazil in April. The weakness is not universal, however, with the Eurozone continuing to grow at a strong pace, buoyed by surging growth in France and Germany, while India continued to boom and Russia saw ongoing robust expansion.

### Developed countries



### Emerging markets



<sup>1</sup> The exception is the US, where the PMIs cover the whole economy.

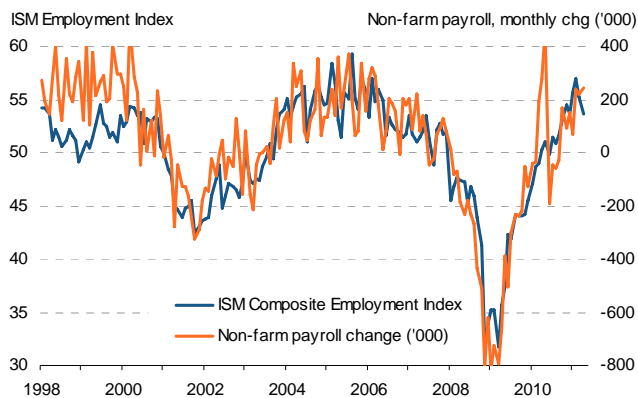
## Divergent trends in employment

The April PMI surveys also showed that the global economic recovery continued to create jobs, notably in the developed world. The Global PMI employment Index fell slightly for the second month running, but February's reading had been the strongest for three-and-a-half years and the index remained comfortably in expansionary territory, signalling the thirteenth successive monthly increase in staffing levels.

With the US consumer an important factor in the global recovery, solid US jobs growth has been particularly encouraging in recent months. US non-farm payrolls have risen by 700k in the past three months, the best period since the growth spurt in the spring of last year. The official payroll numbers tend to be very volatile, and revised after first release, but the latest improvement is supported by the ISM's all-sector PMI Employment Index having hit its highest level for over five years in February.

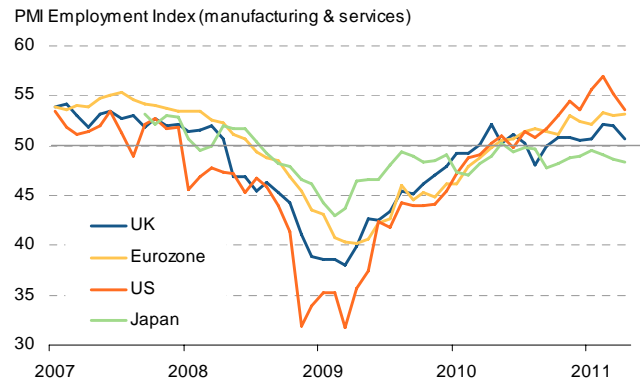
Although the PMI surveys signalled a slower rate of employment growth in the US for the second successive month in April, the data remain consistent with payroll growth of approximately 150–200k per month which, even at the lower end, is sufficient to pull the US unemployment rate down.

### US non-farm payrolls and the PMI



Strong job creation also continued to be reported in the Eurozone, though payroll growth was largely limited to France and Germany. More worryingly, the UK barely saw any increase in employment – hitting hopes that the private sector will make up for scheduled public sector redundancies in coming months – and rising job losses were reported in Japan.

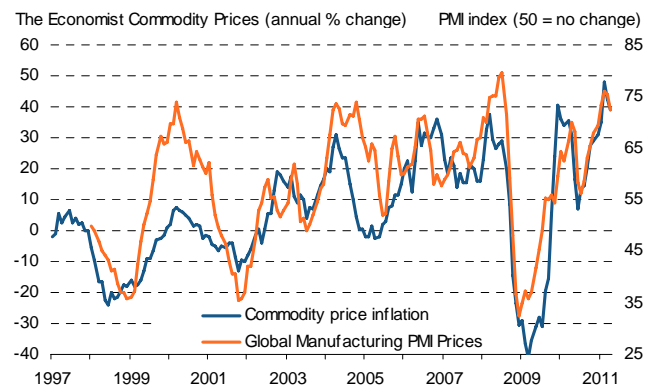
## Employment



## Price pressures ease

In many cases, companies reported that their appetite to take on extra staff continued to be affected by the rising cost of many inputs, especially oil and other commodities. This has been especially the case in manufacturing, where the Global PMI Input Price Index was close to a record high in February. However, the rate of input cost inflation moderated for the second month in a row in April, and recent steep falls in commodity prices in early-May, if sustained, should also help further alleviate cost burdens in coming months, thereby encouraging more firms to take on staff.

### Manufacturing input prices



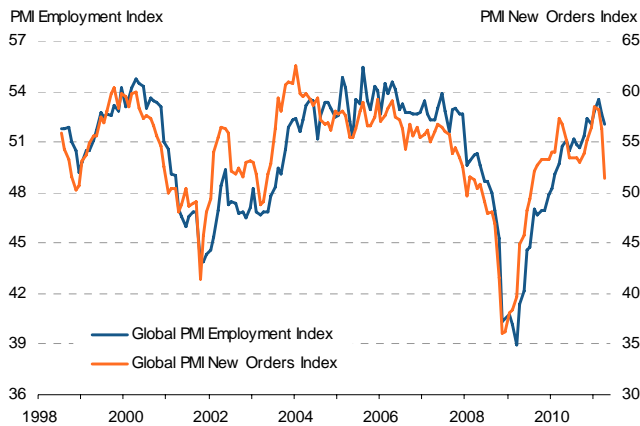
## New order inflows wane

While lower oil and other key commodity prices could help boost hiring, especially in manufacturing and transport-related industries, the employment trend is more likely to be dictated by order book growth. In this respect, the Global PMI showed the overall rate of new business growth to have slowed closer to stagnation in April. Only around half of the deterioration Japan could be attributed to the quake-related decline in Japan. Even excluding Japan, the inflow of new business was the

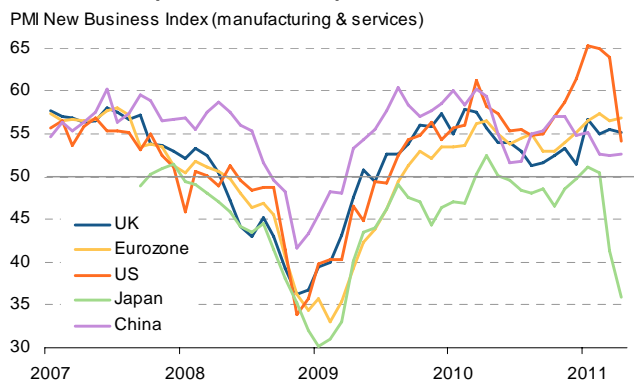
weakest since last September, easing for the third month running.

New business growth in the US slumped to the weakest since August 2009, and China has also reported only modest growth in recent months – most likely linked to ongoing efforts by the authorities to cool the overheating domestic economy.

**Global employment and new orders**



**New orders (new business)**



The weaker growth of new business is perhaps the greatest worry in respect to future output and employment growth, and suggests that the rate of global economic growth may have peaked in the first quarter. There are many uncertainties, however, notably the extent to which manufacturing supply chains outside of Japan may have been affected by the earthquake, and therefore hit production and order book growth. Against this, though, is the fact that rates of growth have slowed sharply in both manufacturing and services across the world in the past two months, and it is the service sector which has seen the strongest deceleration and which, in theory, should be little-affected by supply chain disruptions.

**Global output / activity**



Sources for all charts: Markit, JPMorgan, ISM.

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