

Global manufacturing

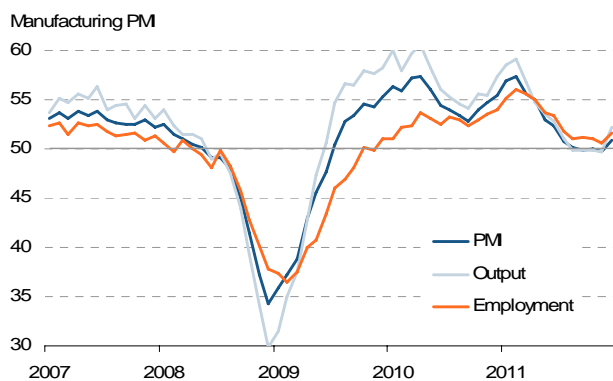
PMI climbs to six-month high, led by US upturn

- Worldwide manufacturing ended 2011 with strongest growth for six months
- Upturn in US contrasted with stagnation or deteriorating conditions in many other major countries
- Eurozone outlook toughest of all major economies

Purchasing surveys signalled the first improvement in worldwide manufacturing conditions for four months in December. However, trends varied markedly around the globe, with US producers providing one of the few encouraging bright spots in an otherwise downbeat series of national reports.

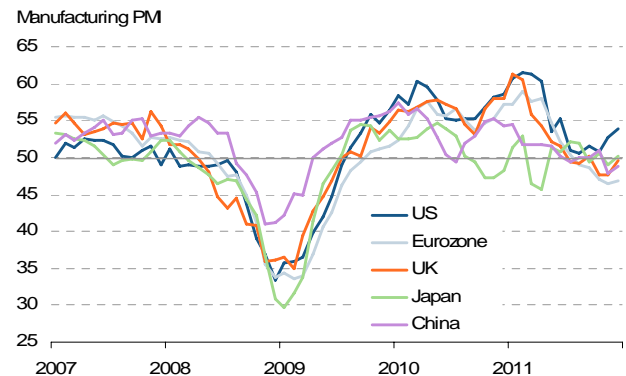
The JPMorgan Global Manufacturing *PMI™* rose from 49.7 in November to 50.8 in December, its highest level since June and the first month that the index has been above the 50.0 no-change level since August. The index – a composite measure of activity based on five survey questions relating to output, new orders, employment, inventories and supplier performance – nevertheless continued to signal only a very modest rate of manufacturing expansion, with a lack of new order growth suggesting that activity may remain subdued in coming months.

Global manufacturing indicators



Sources: Markit, ISM, JPMorgan.

Manufacturing PMIs for main economies



Sources: Markit, ISM, HSBC, JMMA

Production driven by order book backlogs

At the global level, output rose for the first time since July, though the increase was driven by firms eating into their backlogs of orders, which fell for the seventh month running. Inflows of new orders were more or less unchanged during the month, having fallen over the previous four months. Manufacturers cannot rely on backlogs of work to drive production growth indefinitely, so a revival of new order inflows will be needed to ensure a sustained upturn in production over the coming months.

The uncertain outlook prompted manufacturers to continue to run down their inventory levels in order to cut costs, though more reassuringly they also took on more staff. The increase in staffing levels was the strongest since July, though once again the rate of job creation was only modest overall. Employment growth since the mid-year has been far lower than in the first half of 2011.

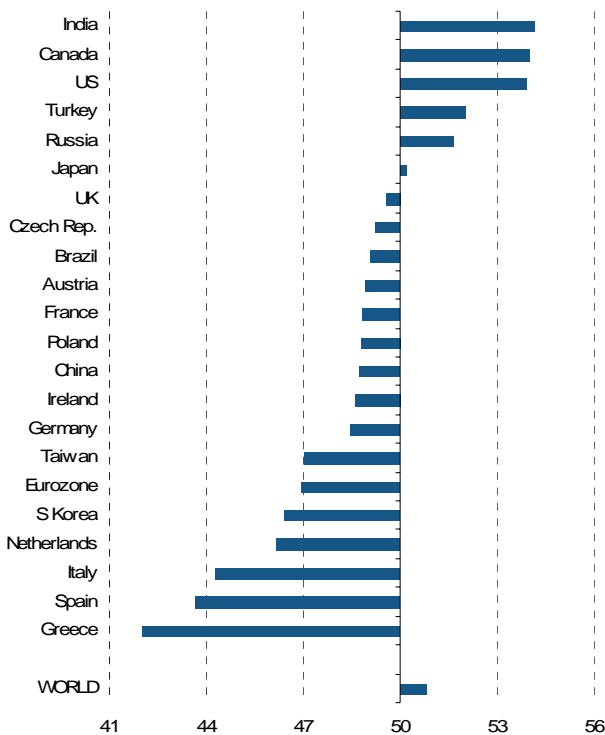
Prices fall for second month

The reduced demand for raw materials that accompanied the slowdown in manufacturing growth during 2011 resulted in a steep easing of price pressures. Producer input prices fell globally for the second month running in December. Although only slight, the fall contrasts markedly with the near record rate of increase seen earlier in the year.

Growth led by North America

The overall ongoing near-stagnation of manufacturing sector activity in December masked some striking national variations. PMIs picked up in almost all major economies, including the US, China, Germany, France, the UK, Canada, India and Brazil, but in many cases, the surveys continued to point to falling activity, merely at a reduced rate of decline.

Countries ranked by manufacturing PMIs (Dec '11)



Looking at the major developed economies, the euro area contracted for the fifth successive month, led by steep downturns in southern member states. Meanwhile, some signs of production stabilising were seen in France and Germany. The UK and Japan more or less stagnated, representing an improvement on

slight downturns in previous months. In stark contrast, the US PMI rose for the second month in a row to hit a six-month high. US producers reported the steepest increases in output and new orders for eight months, driven by stronger domestic demand (although export orders also showed an improving rate of growth). US manufacturers also took on extra staff at the fastest rate for six months.

In the major emerging markets, growth was led by India, where the PMI hit a six-month high. Modest growth was also reported in Russia for the third month running. In Brazil, the PMI edged higher towards the 50.0 neutral level, but continued to signal deteriorating business conditions. Likewise in China, conditions worsened for the second month running, albeit at a reduced rate.

Mixed outlook

It is likely that divergent national trends may persist for some time. The eight-month high of new order growth in the US sits in stark contrast to steep falls in orders in the Eurozone (including Germany), China and to a lesser extent Japan.

The forward-looking new order-to-inventory ratio provides a useful guide to production trends in coming months and further highlights national divergences. The ratio hit an eight-month high in the US, but fell in most other major economies. Three- and seven-month lows were seen in the UK and Japan respectively, while a 16-month low was reported in China. In a worrying sign that the Eurozone looks set for tough times ahead, the ratio hit a 32-month low across the region as a whole and in Germany.

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