

Global manufacturing

PMIs point to broad-based easing in Global manufacturing downturn

Key findings

- Global manufacturing PMI lifts to five-month high in March.
- Inventory adjustment raises hopes of further recovery in coming months.

Easing in manufacturing downturn

In a welcome turn of events, having been surprised by the speed of the downturn last year, economists were generally caught napping by stronger than expected manufacturing PMI data for March. The JPMorgan Global PMI, compiled by Markit from purchasing managers surveys in some 26 countries, rose for the third month running to reach a five-month high.

The PMIs – especially Output Indices – have picked up in many countries recently, both developed and emerging markets, including the US, the Eurozone, the UK, Japan, China, Russia and India.

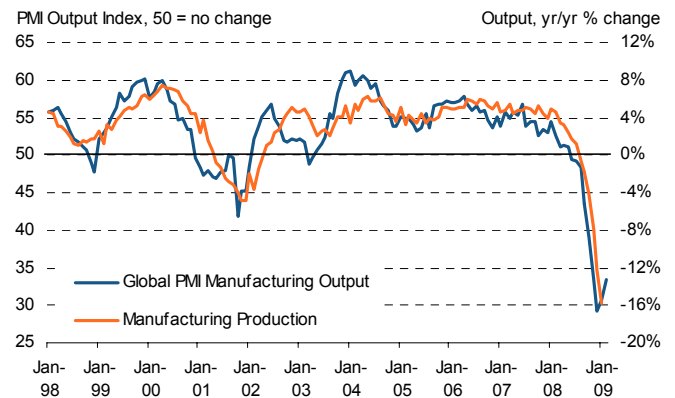
But PMI still signals double-digit rate of contraction

But these encouraging signs need to be put into some context. The Global PMI's Output Index remained well below the 50.0 neutral mark, so the upturn in this indicator merely points to an easing in the rate of contraction. The rate of decline also remains far stronger than anything seen prior to late-last year in at least the PMI's 11-year history, and probably since the Second World War. Pooling the latest government-produced data for the manufacturing sector shows global output fell almost 16% on a year ago in January. The PMI data suggest this only slowed to an annual rate of decline of approximately 12% in March.

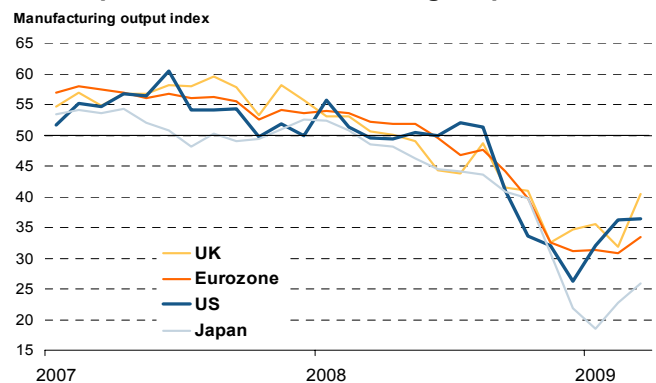
A return to growth therefore still seems a long way off. However, the latest data do provide further encouragement that the worst may be over, at least in terms of the rate of decline of manufacturing output and global trade. Other information from the PMI surveys suggests that output has fallen by more than demand,

so we are likely to see a further easing in the rate of decline in coming months.

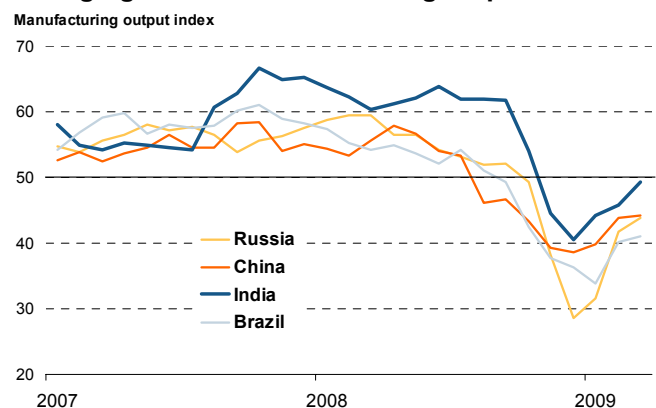
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Developed nations manufacturing output



Emerging markets manufacturing output



Sources: Markit, ISM.

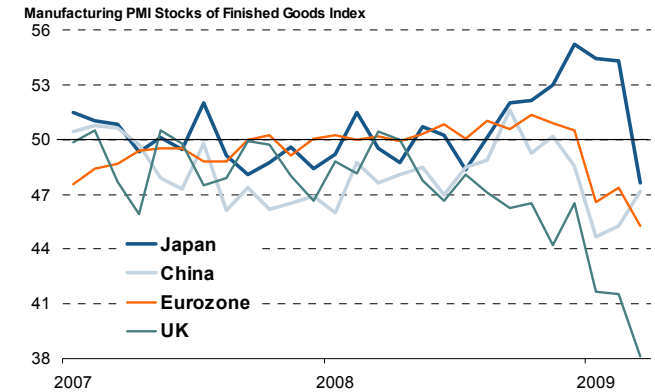
Steep falls in stock levels suggest output has fallen by more than demand

In particular, warehouse inventories have fallen at new survey record rates in many countries, as manufacturers have cleared unsold stock. This inventory adjustment has meant that output is likely to have fallen by more than underlying demand has warranted. This bodes well for output in Q2, and also means any upturn in demand should feed quickly through to higher output. In this latter respect, it should be noted that manufacturing new orders fell globally at the slowest pace for five months in March.

Data support forecasts of a return to growth by the end of the year

Though the risks remain to the downside, and much rides on stimulus plans and the restoration of functioning financial markets, the latest PMIs support the current consensus view that a return to growth for many of the world's major economies may be evident by the end of the year.

Stocks of unsold goods*



* Data not available for US.

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