

Global economy

Global GDP growth shows further signs of peaking

Global growth loses impetus

The Global PMI, compiled by Markit for JPMorgan and based on PMI surveys covering both manufacturing and services, fell from October's 23-month peak of 54.2 to register 51.6 in November. The index has now signalled expansion for four successive months to suggest a continuation of the global economic recovery in Q4, but the latest rate of growth was the weakest seen over this period.

While the fall in the index was not a complete surprise (last month we noted how signs of a possible peaking in growth had become apparent¹), the extent of the fall was (2.6 index points).

Easing in US may be overstated

The decline in the index raises concerns about the durability of the recovery and the possibility of the world economy moving back into recession next year. However, the drop in the index in November most probably overstates the easing during the month. This is because the single largest contributor to the fall in the Global PMI was a steep (5.6 point) drop in the US (ISM) non-manufacturing Business Activity Index (which we use as a proxy for US services). This index signalled that the sector had slipped back into contraction in November following strong growth in previous months. However, this is the most volatile of all the major PMI surveys, and monthly index movements need to be treated with caution. (This index fell back markedly in July, for example, only to resume its upward trend in August.) Encouragingly, the New Business Index for the ISM non-manufacturing survey was barely changed on October's 24-month high, pointing to further growth of business activity in coming months.

On the other hand, while the latest US non-manufacturing survey may have overstated any weakness, it is evident that growth may indeed have peaked in many countries.

¹ http://www.markit.com/assets/en/docs/commentary/markit-economics/nov%2009/global%20economy_12_11_09.pdf

Chart 1: Global GDP



Chart 2: PMI services activity

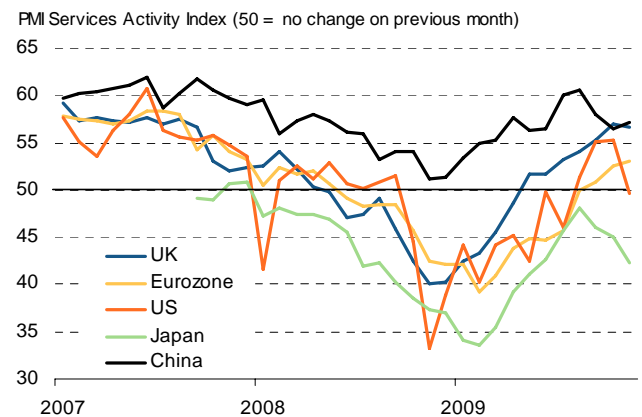
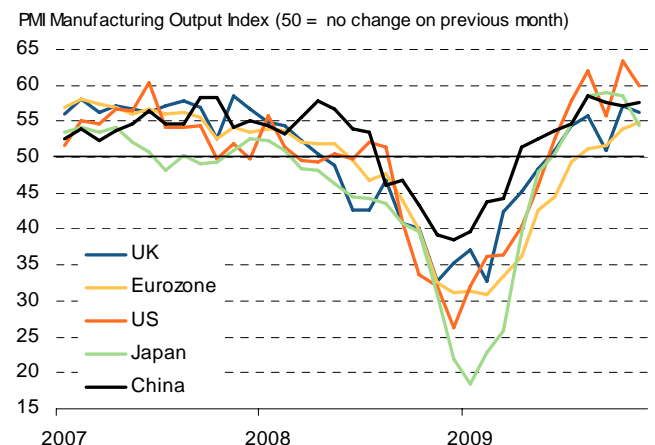


Chart 3: PMI manufacturing output



Sources: Markit, ISM, JPMorgan.

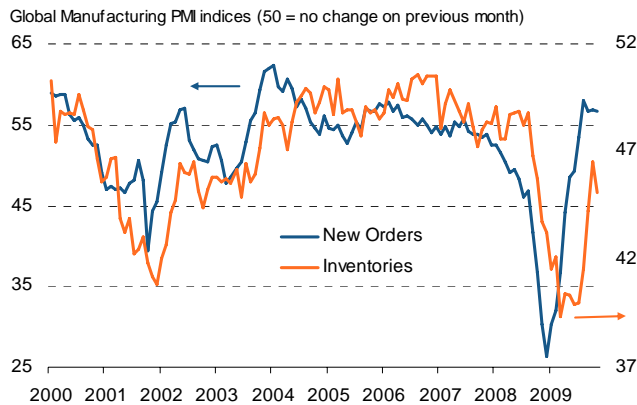
Only Brazil and the Eurozone show convincing signs that their growth rates continued to accelerate.

Recovery needs to be broad-based

Manufacturing has provided the main impetus to the global recovery, and continued to do so in November. The Global Manufacturing Output Index fell back slightly from October's five-year high but remained at a level consistent with the annual rate of growth of worldwide production running at around 6% per annum. Production has now risen for six consecutive months.

One of the key drivers of the manufacturing upturn has been the inventory cycle. Stocks were cut sharply at the height of the downturn as firms sought to reduce overheads and prepare for lower levels of production. This destocking process continued in November, but at a much reduced pace (stocks of inputs at manufacturing firms showed the smallest falls in 2009-to-date in October and November), and 'intermediate' goods-producing firms, which supply inputs to other companies, have enjoyed strong growth in recent months as a result.

Chart 4: Manufacturing inventory cycle



Sources: Markit.

But it is only a matter of time before inventories return to more normal levels, meaning 'final' demand for consumer goods, for plant and machinery from businesses and for goods used by the construction industry will need to replace the rebuilding of inventories as the main driver of growth.

To avoid a 'double-dip' scenario, whereby the global economy falls back into recession next year as the growth impetus from government stimuli and the inventory rebuilding wane, the recovery needs to become more broad-based. In this respect, the fact that services are failing to pick up growth momentum

on the back of the manufacturing-led upturn is a concern. Japan's services economy, for example, has failed to show any return to growth this year and its rate of decline is now gathering pace again. The sector contracted at the fastest rate for six months in November.

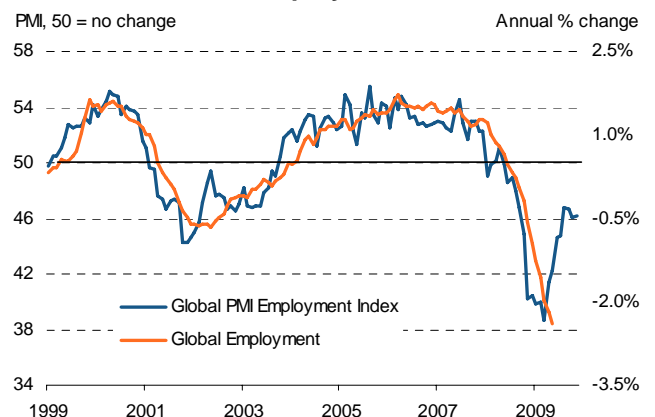
Chart 5: Manufacturing and services



Sources: Markit.

Likewise, companies clearly remain in cost-cutting mode, as evidenced by a further marked fall in worldwide employment in November. Moreover, the rate of job losses has failed to ease in recent months (though it remains well below the peak seen earlier in the year). Not only does this suggest that businesses are still reluctant to commit to new investment in plant, machinery and other capital expenditures, but also indicates that consumer morale – and therefore spending – is likely to remain subdued.

Chart 6: Worldwide employment



Sources: Markit.

Thus, while the latest Global PMI data probably exaggerate the slowing in growth in November, the data do suggest that a growth peak is becoming increasingly apparent and raise questions about the durability of the recovery.

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