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Global PMI

Global economy moved closer to recovery in Q2 2009

Global PMI data indicate that the world economy took a further step towards recovery in June. Although economic activity and new business continued to fall, rates of decline eased to the weakest since last August. The headline Global All-Industry Output Index – based on survey data collected on actual changes in output/business activity in 26 countries and compiled by Markit on behalf of JPMorgan – rose sharply to 48.1 in June.

The average index reading for Q2 2009 approached a level consistent with a stabilisation in global GDP. It was also well above the average for Q1, in line with expectations that the worst of the downturn has passed. To put the June figures in context, the indexes for activity and new business have regained all of the ground lost following the collapse of Lehman Brothers.

The ongoing recovery is mainly centred on emerging markets, especially in East-Asian manufacturing, and improvements in the Anglo-Saxon economies.

Amongst the emerging nations, manufacturing production rose in China, India and (to a lesser extent) Brazil. East-European manufacturing also approached stabilisation levels, led by marked gains in Turkey and a moderation in the rate of contraction in Russia[1].

PMI data also indicated that the US economy stabilised in June. US manufacturing production rose for the first time in ten months, while activity in the non-manufacturing sector held steady. There were meanwhile signs of further improvement in the UK, with activity rising in the manufacturing and service sectors.

Japan and the Eurozone continued to lag behind the rest of the world's major economies. The euro area saw a broad-based downturn across manufacturing and services, although rates of contraction for new orders and activity at an all-industry level eased to the weakest since last September. The downturn in France slowed again, but this was offset by the weak performances of Germany, Italy and Spain. While PMI data for Japan indicate that

Chart 1: Global GDP

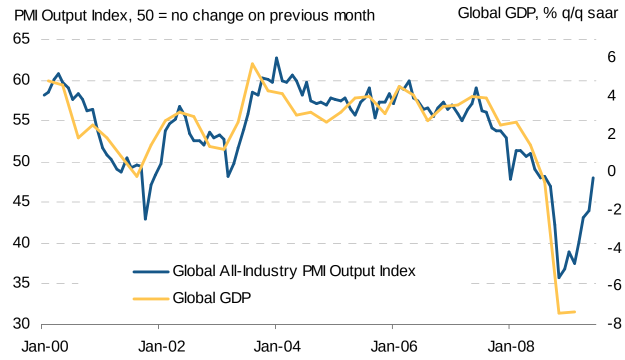


Chart 2: All-industry output by country

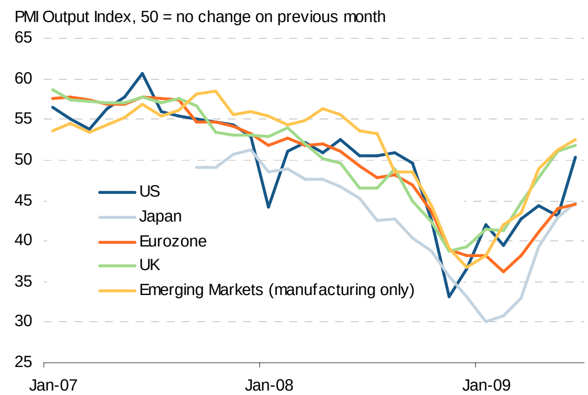
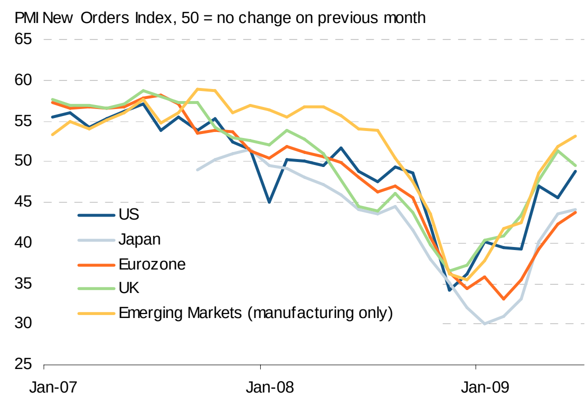


Chart 3: All-industry new business by country



Sources: Markit, Ecowin.

[1] http://www.markit.com/assets/en/docs/commentary/markit-economics/july%2009/EastEurope_Manu_09-07-03.pdf

manufacturing output rose for the first time since February 2008, the service sector is still mired in deep recession.

Return to growth in Q3?

Looking ahead, a return to growth of global GDP could be possible in Q3 2009. First, June PMI data pointed to synchronised improvements in the majority of the national new orders indexes for manufacturing and services. Although insufficient to be consistent with an outright increase in new business, the gains in these indexes do indicate that demand may be steadying.

Second, near-record shedding of global stock holdings – especially in developed markets – suggests that the inventory cycle will be supportive to manufacturing output in the near-term.

Third, business confidence regarding expected future activity levels remained buoyant in June compared to recent lows.

A return to growth of the global economy would of course be a welcome development. However, it is still worth noting that any recovery in Q3 is likely to be muted. Market conditions and credit availability remain tight, and the negative effect of job losses on consumer expenditure will become more prominent during the remainder of the year.

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