

Global economy

Global GDP growth picked up in October, but signs appear of peak in rate of expansion

Global growth gained further traction

The Global PMI, compiled by Markit for JPMorgan and based on PMI surveys covering both manufacturing and services, has indicated that global output growth continued to gather momentum in October. The all-sector index rose to 54.2, registering the fastest rate of expansion since November 2007.

According to the PMI, the contraction of the global goods and services producing sectors started in June 2008 and lasted 14 months, peaking with a record rate of decline last November. Growth has since been recorded in each of the three months to October.

The PMI does not cover all sectors of the economy (such as the public/government and retail sectors), but nevertheless provides a reliable guide to growth of the whole economy, as measured by gross domestic product (GDP). The PMI suggests that global GDP growth has recovered sharply from the 7.5% annualised rate of contraction seen in Q1, growing at a rate in excess of 3% in recent months.

Manufacturing surge continued

Manufacturing continued to drive the global recovery, with PMI data consistent with the annual rate of growth of worldwide production turning around remarkably since the spring. From a 16.3% rate of contraction seen as recently as March, the rate of increase looks set to have exceeded 6% in October. The Global Manufacturing Output Index is currently at its highest level since July 2004, having now signalled expansion for five consecutive months.

Services upturn gathered pace

The upturn has also continued to broaden at the start of Q4, with service sector business activity levels expanding for the third successive month in October. The rate of growth accelerated to the fastest since December 2007, though remained well below that seen in manufacturing.

Chart 1: Global GDP



Chart 2: Global manufacturing and services

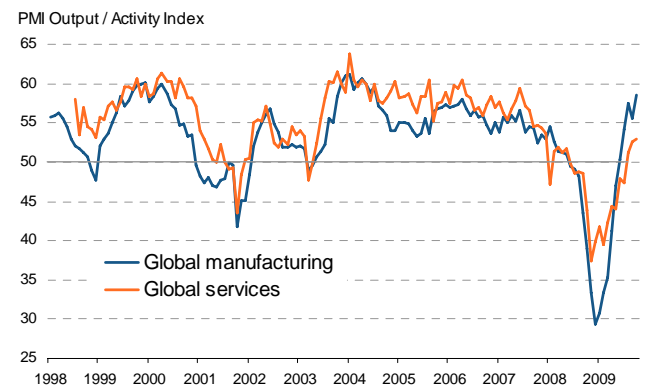
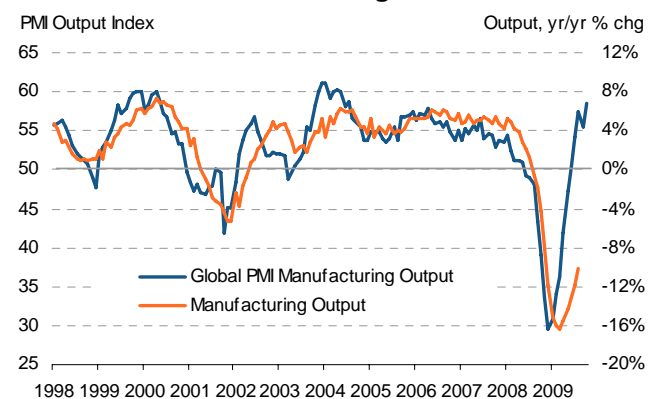


Chart 3: Global manufacturing



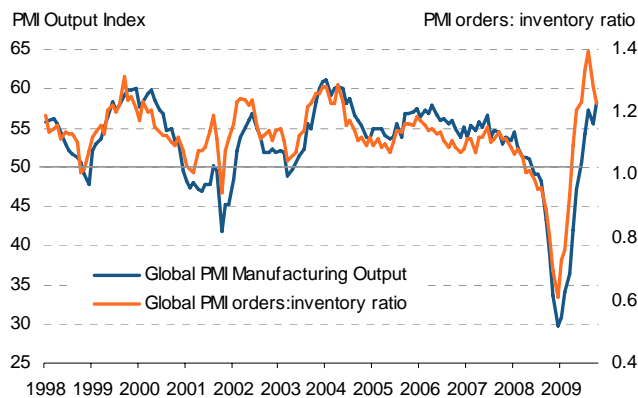
Sources: Markit, ISM, JPMorgan

Growth peak imminent?

The global recovery has been characterised by a manufacturing led rebound which began in Asia and which has fed through to the US and other developed nations. Inventory rebuilding combined with monetary and fiscal stimulus programmes have driven the turnarounds.

Signs are now appearing, however, to suggest that the rate of growth may peak around the end of this year. In particular, the new orders-to-inventory ratio, which has been a powerful indicator of the strong surge in manufacturing output as recovering levels of new orders contrasted with historically low inventory holding, fell for the second successive month in October. While not indicating a *contraction* of output, this ratio suggests that the rate of growth will ease because the shortfall of inventories compared with order books has narrowed.

Chart 4: Manufacturing inventory stimulus



In fact, in some Asian countries, notably China, a peaking in the rate of manufacturing output already may have occurred (see our Asian note on the commentary webpage¹). Similarly, service sector business activity has shown signs of peaking in Asia. The HSBC Services PMI for China, produced by Markit, has signalled an easing in the rate of growth for two consecutive months. The Nomura Services PMI for Japan has turned down for two months, dropping further into contraction territory. The Japanese service sector has not yet even glimpsed recovery.

In contrast, while growth has slowed in some Asian countries, rates of expansion continue to accelerate in the West. The ISM PMI survey in the US saw

manufacturing output and non-manufacturing growth rates hit five- and two-year highs respectively in October. Equivalent sectors expanded at the fastest rates for around two years in the UK, while the Eurozone private sector grew at its strongest since 2007 led by a resurgence of growth in France.

Chart 5: PMI All-Sector Output Index

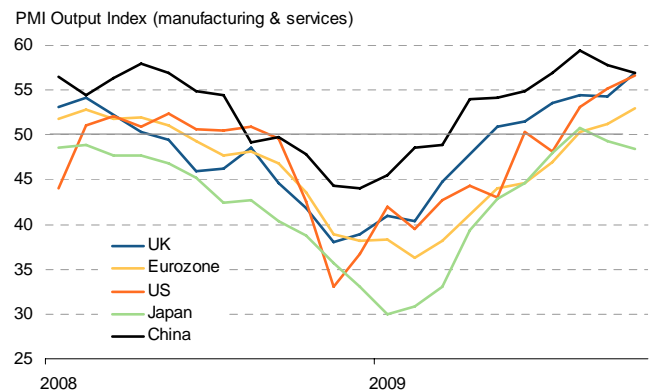


Chart 6: PMI services activity trends

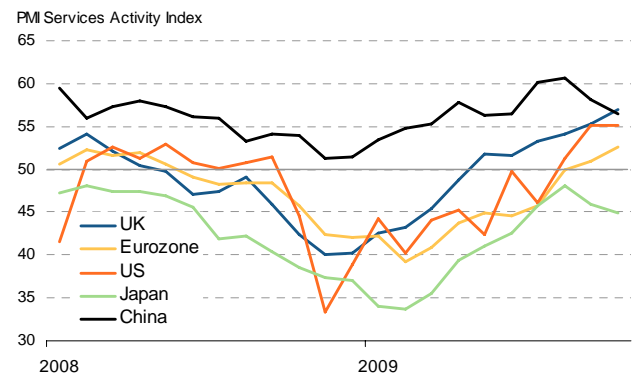
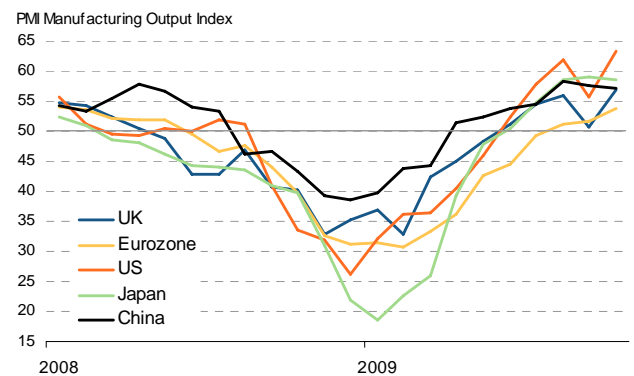


Chart 7: PMI manufacturing output trends



Sources: Markit, ISM.

The PMI data therefore suggest that we may be near the top of the growth surge that has occurred as global output has picked itself up from the ultra low operating levels seen during the recession. The data also

¹ <http://www.markit.com/en/about/news/commentary/markit-economics/markit-economics.page?>

suggest that the developed countries – in the west at least – have to some extent caught up with many emerging markets in terms of both manufacturing and service sector recoveries.

Forecasters remain cautious

Economic forecasts nonetheless continued to be revised up in October, notably by the IMF (for Asia), the European Commission for the EU and the Bank of England for the UK. This has largely reflected the quicker than anticipated recoveries, which have included signs that unemployment may not rise as much as previously feared in many countries, and in some instances the stabilisation of property markets. However, in most cases forecasters are being cautious in stressing that 2010 will see only modest and fragile recoveries.

GDP: Reuters poll of independent forecasters

(poll published 10 November)

GDP % change	2009	2010
US	-0.2	2.7
UK	-4.7	1.1
Eurozone	-3.9	1.1
Japan*	-3.2	1.2

* fiscal year

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