

Global Economy

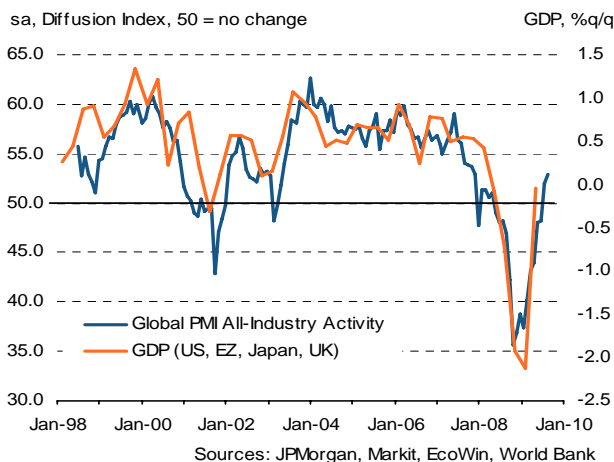
Global GDP rebound remained on track in Q3

- **PMI data point to world economy exiting recession in mid-2009...**
- **...but first phase of recovery is reliant on policy and declining margins.**
- **Service sector rebound gaining traction.**

At 52.9 in September, the JPMorgan Global All-Industry Output Index – which is compiled by Markit from surveys covering private sector manufacturing and services – reached its highest level since December 2007 and stayed above the neutral 50.0 mark for the second month running.

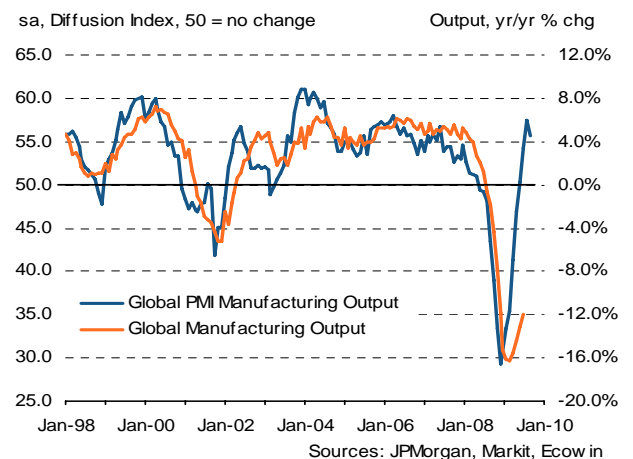
The average reading for Q3 (51.1) was well above that for Q2 (45.1) and suggested that the rebound of the global economy remained broadly on track. Comparing the PMI activity index against the combined GDP trend for the US, Eurozone, Japan and the UK (a comparable official quarter-on-quarter GDP growth rate is not available for China) suggests that growth of the big-4 developed economic regions averaged around 0.1%-0.2% q/q in the third quarter, the first increase since Q1 2008.

PMI data also suggest that each of the big-4 developed economies will have exited their respective recessions by Q3.



Growth recorded in world manufacturing and service sectors

Manufacturing continued to lead the recovery in September. The Global Manufacturing PMI Output Index fell slightly to 55.6, from a 40-month high of 57.4 in August, but still pointed to year-on-year growth of manufacturing production of around 4%. The performance of Asian manufacturers was generally better than that recorded elsewhere. According to PMI data, production increased at the fastest pace since February 2006 in Japan, remained elevated in China and reached a four-month high in India. The solid rebound in the US manufacturing sector continued, but the rate of expansion was much slower than in the previous month. European manufacturing continued to lag the global average. A notable exception was France, as French manufacturing production rose at the steepest pace for 34 months.



However, the global manufacturing PMI output index fell for the first time in nine months in September, signalling a slower rate of increase, and the forward-looking orders-to-inventory ratio, while remaining at an elevated level, also fell. The latest PMI surveys found that manufacturers generally remained on a cautious footing overall, reflected in solid reductions to inventory holdings and employment.

The nascent recovery in the global service sector – which exited its recession later than manufacturing – meanwhile gained traction in September. The expansion was mainly centred on the US and the UK, where rates of increase reached 23- and 24-month highs respectively. There was a return to growth for Eurozone services, with activity rising slightly for the first time since May 2008. However, there remained marked disparities between the euro nations. France saw services activity rise for the first time in a year and to the greatest extent since March 2008, and German service providers also reported growth of activity. In contrast, Italy, Spain and Ireland continued to record contractions.

The latest PMI data are therefore consistent with both the global manufacturing and services sectors having exited their respective recessions during the middle part of 2009 and point to the main developed economies coming out of recession in Q3. However, having experienced a strong rebound from the unprecedented economic retrenchment, the near-term outlook for the global economy is one of muted growth. However, demand is still being supported by monetary and fiscal stimuli and companies are sacrificing margins to stimulate sales. Looking further ahead, sustaining the rebound will depend on the impact and timing of the removal of these stimulus packages, while rising rates of unemployment will also be a headwind going forward.

Rob Dobson

Senior Economist

Markit

Tel: +44 1491 461 095

Email: rob.dobson@markit.com

For further information, please visit www.markit.com

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