

Global Economy

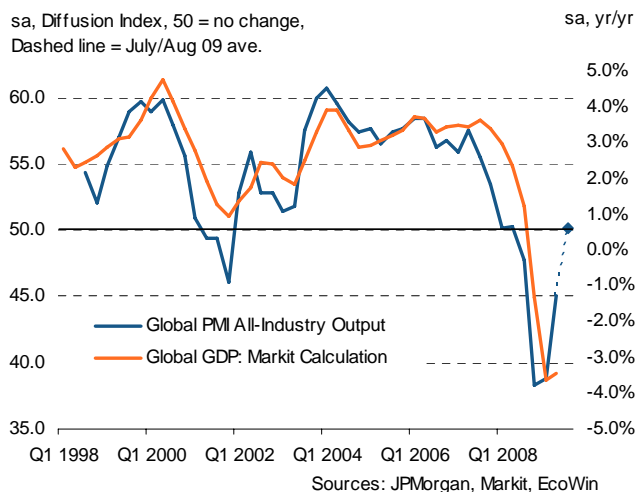
Global economy set to return to growth in Q3

- **PMI data point to annual growth of global GDP approaching 0.5% in Q3.**
- **Manufacturing leading the upturn...**
- **...but rebound in services underway.**

August data from the global PMI – compiled by Markit on behalf of JPMorgan – pointed to a broad-based rebound of the world economy. The headline Global All-Industry Output Index rose back above the neutral 50.0 mark for the first time since May 2008, posting a 20-month high of 52.1. The index readings so far in Q3 2009 are pointing to growth of global GDP approaching 0.5%-1.0% year-on-year, as shown in chart 1. This is a marked improvement on the 3.5% contraction recorded in Q2 (based on the latest available official data).

The Global All-Industry PMI is calculated from survey data covering manufacturing and service sectors. Companies are asked to assess if actual levels of production/business activity are higher, the same or lower than in the previous month.

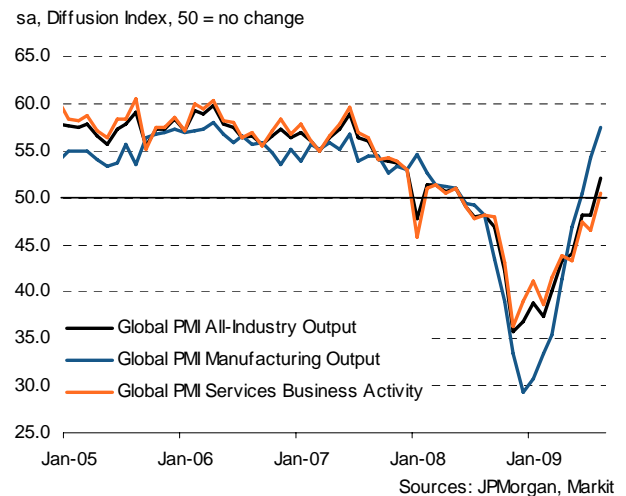
Chart 1: Global PMI vs Global GDP



Manufacturing, which was hit hardest during the height of the downturn, continued to lead the recovery (see chart 2). Global manufacturing production rose for the third month running in August, expanding at the fastest

pace since April 2006. A modest gain was also seen in services, the first for 15 months.

Chart 2: Global PMI – sector trends



National PMI data for the first two months of Q3 indicate that all major economies will exit, or have already exited, recession¹ during the third quarter of 2009 (see charts 4-9 at the end of this note).

The US manufacturing sector surged ahead in August, with its PMI Output/Activity Index above corresponding index readings posted elsewhere. The US non-manufacturing sector recorded growth for the first time since last September, but the rate of expansion was well below that seen for manufacturing. New orders moved substantially higher in the manufacturing sector and stabilised in the non-manufacturing sector.

In Japan, PMI data signalled that the performance of the service sector continued to lag well behind the resurgent manufacturing industry. While service sector activity fell for the twentieth month running, albeit to the weakest extent since February 2008, manufacturing output rose at the fastest pace for 42 months. The turnaround in the Japanese manufacturing sector has

¹ Based on the “at least two successive periods of quarter-on-quarter contraction in national GDP” definition of a technical recession, as opposed to that applied by the US Bureau of Economic Analysis.

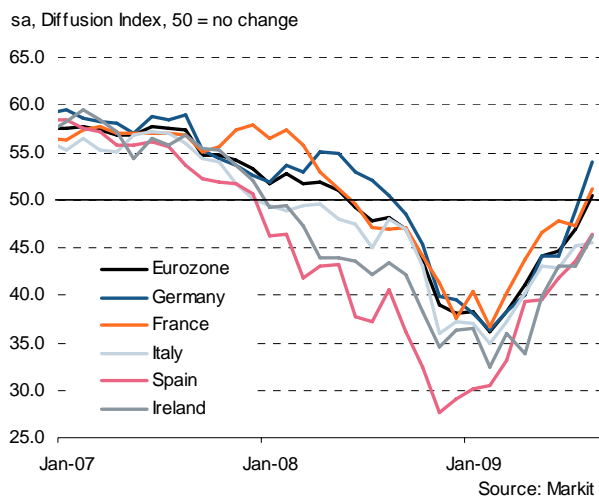
been remarkable, with its PMI Output Index rising by over 40 points since hitting a record low in January.

Elsewhere in Asia, the manufacturing sectors of China, India and Singapore continued to record solid growth of production in August. Rates of expansion in China and Singapore hit 22- and 60-month highs respectively. The Chinese service sector saw buoyant growth, with activity rising at the fastest pace for almost two years. Indian services also posted a solid increase.

PMI data for the UK manufacturing and service sectors meanwhile have also risen strongly in recent months, suggesting that the UK economy is positioned to return to growth in Q3 as well².

The Eurozone continued to lag behind the global trend in August. However, signs of improvement have become increasingly evident in recent months. The final Eurozone Composite Output Index has risen above its flash estimate in each of the past six months and moved above the 50.0 mark in August for the first time since May 2008. This indicates that the Eurozone is likely to have returned to growth in the third quarter, especially after official data showed that France and Germany already exited recession in Q2. However, marked disparities remain apparent between the euro area member states (chart 3).

Chart 3: Eurozone PMI – national variations



It is still the “big-two” which are leading the rebound in the Eurozone in Q3. PMI activity indexes for France and Germany hit their highest levels since May 2008.

² http://www.markit.com/assets/en/docs/commentary/markit-economics/sept%2009/Manufacturing_09-09-01.pdf

Growth in France was mainly centred on the manufacturing sector, whereas Germany reported broad-based gains across manufacturing and services. Overall expansion of the Eurozone economy in August was muted by the continued weakness of Italy, Spain and Ireland³.

Chart 4: US GDP vs US PMI

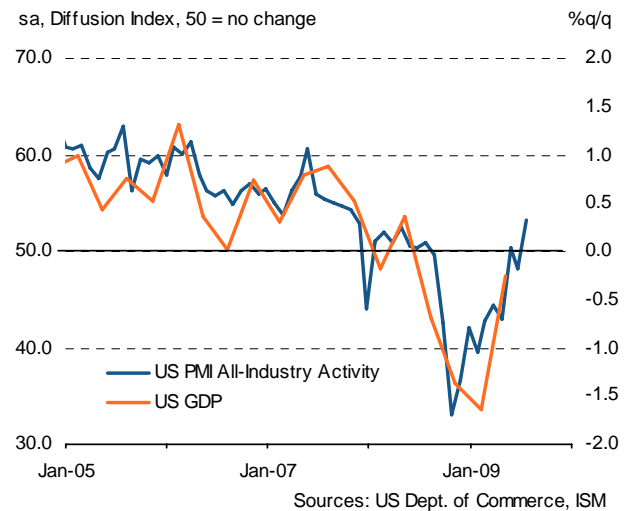
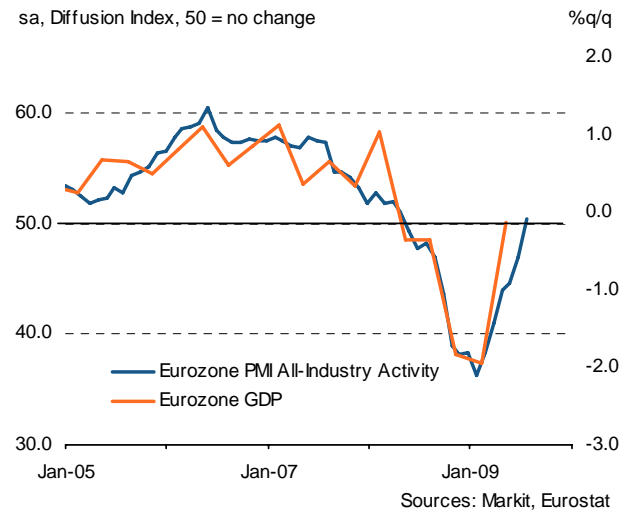


Chart 5: Eurozone GDP vs Eurozone PMI



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<http://www.markiteconomics.com/MarkitFiles/Pages/ViewPressRelease.aspx?ID=5443>

Chart 6: Japan GDP vs Japan PMI

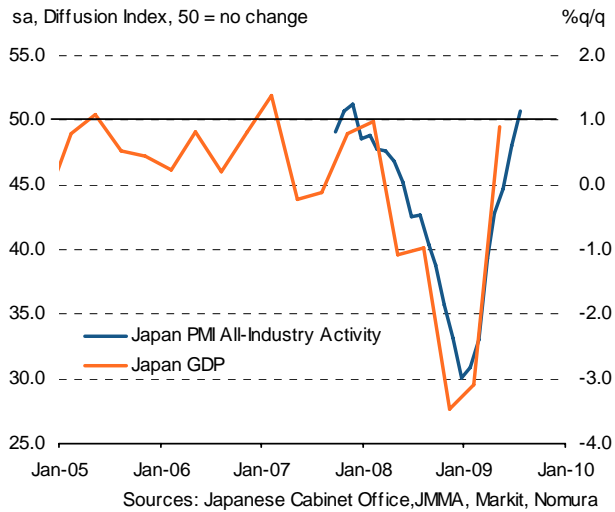


Chart 8: UK GDP vs UK PMI

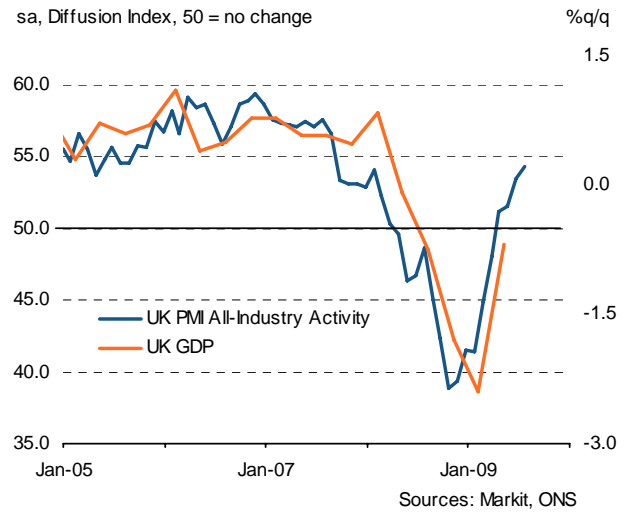


Chart 7: German GDP vs German PMI

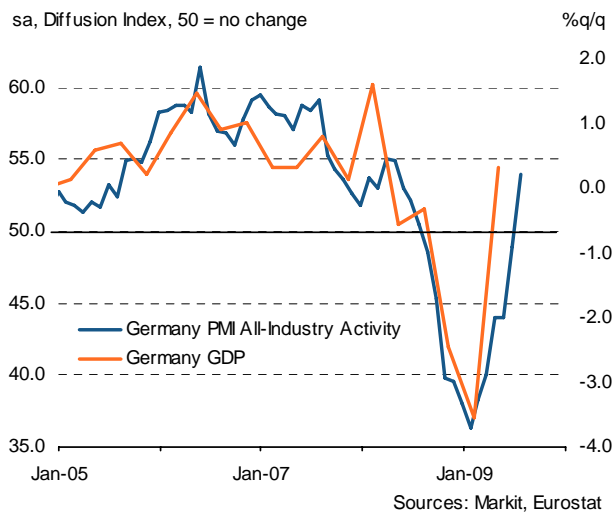
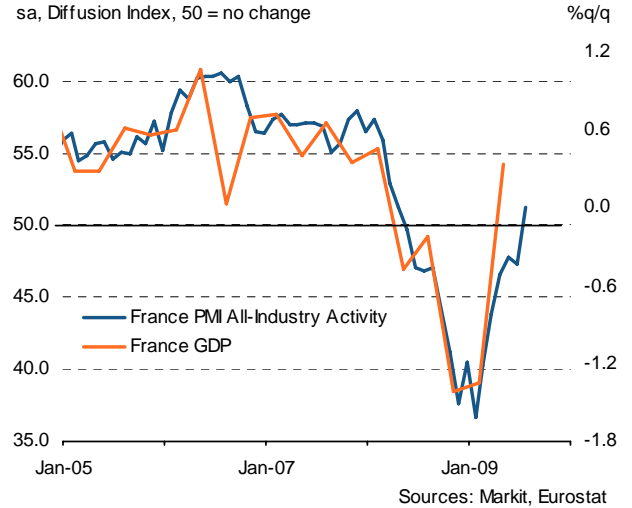


Chart 9: France GDP vs France PMI



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