

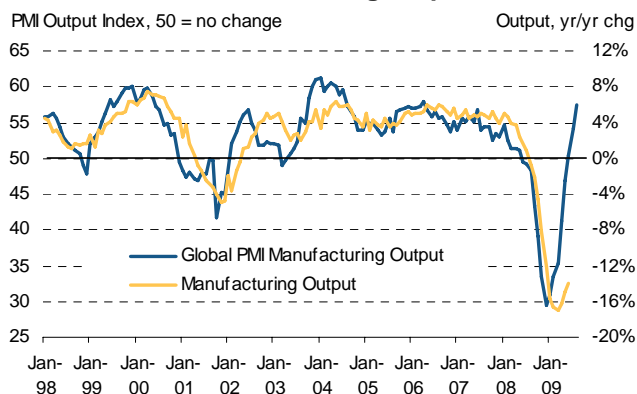
Global manufacturing

Manufacturing rebound gathers pace in August, with further expansion likely

- **Global manufacturing output rises for third month running in August.**
- **All main economies see strong rebounds in production.**
- **Further increase in momentum likely during the second half of the year.**

The global manufacturing rebound gathered further momentum in August. The JPMorgan Global Manufacturing PMI, compiled by Markit, rose above the 50.0 'no change' level for the first time in 15 months, recording the strongest improvement in business conditions since June 2007¹. Even more impressive were the gains signalled by the PMI output and new orders components, which showed the strongest increases since April 2006 and July 2004 respectively. Output has now risen for three successive months.

Chart 1: Global manufacturing output



The rebound in production has been widespread around the world, with synchronised upturns propelling growth in a reversal of the trend seen late last year and

in early 2009, when the synchronised nature of the downturn caused extreme rates of contraction.

While the rebound in production originally emanated from Asia, with output in China rising at an accelerating rate and for the fifth successive month in August, developed economies are also seeing growth surge.

Looking at the largest developed economies, PMI data suggest that output growth accelerated again in the US (a 46-month high), Japan (a 42-month high), the Eurozone (a 15-month high) and the UK (a 20-month high) in August. In terms of rates of growth, the US and Japan are seeing the strongest expansions, with the UK and Eurozone lagging. The latter registered only a modest gain in production, but disparities between the national trends within the Eurozone are marked, with strong growth in Germany and France contrasting with contractions in Spain, Italy and Ireland.

With the exception of Japan, the PMIs suggest that the rebound has not yet been fully captured by the official data (see page 3), meaning strong manufacturing gains are likely to translate into improved GDP figures in Q3.

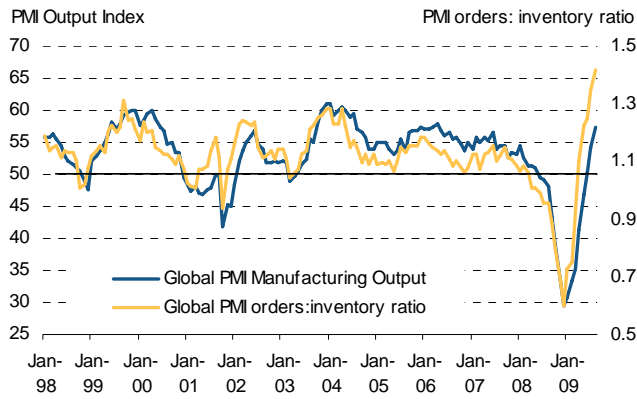
Current production gains appear to have been largely driven by government incentives (notably car scrappage schemes) and the purchasing of stocks by other companies where inventories have been run down. At the moment, however, this purchasing appears to be merely aimed at meeting current production or sales needs, rather than rebuilding stock levels, as highlighted by further steep falls in inventory levels in most countries.

The ratio of new orders to inventories in fact hit a record high in August, suggesting that the global manufacturing sector is likely to see further strong production gains in Q4. If the output index were to follow the strength of the upturn signalled by the new orders:inventory ratio, this would be consistent with annual global output growth of approximately 12% – a

¹
<http://www.markiteconomics.com/MarkitFiles/Pages/ViewPressRelease.aspx?ID=5487>

huge contrast to the 14% annual rate of decline seen in June (the latest period for which we are able to calculate global manufacturing output from official data).

Chart 2: Inventories and order books



However, as chart 3 shows, manufacturing has a long way to go before making up for the severe drop in production that has occurred during the downturn. During the recession, output fell by 15% in the US, 14% in the UK, 21% in the Eurozone and a staggering 37% in Japan. Even in Japan, where official data have registered the strongest rebound in production up to July, only 32% of the loss in production has so far been recouped since production troughed in February.

Chart 3: Manufacturing output levels

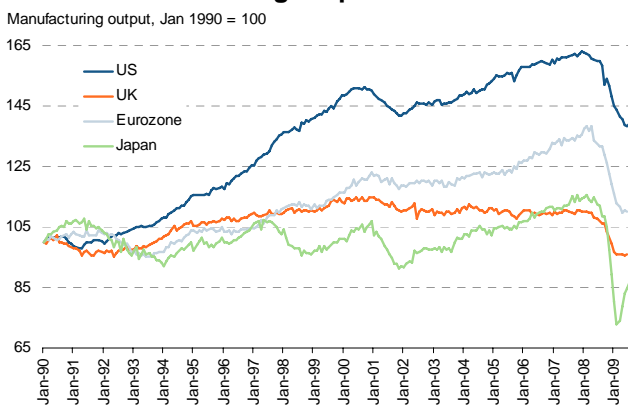


Chart 4: United States (ISM)

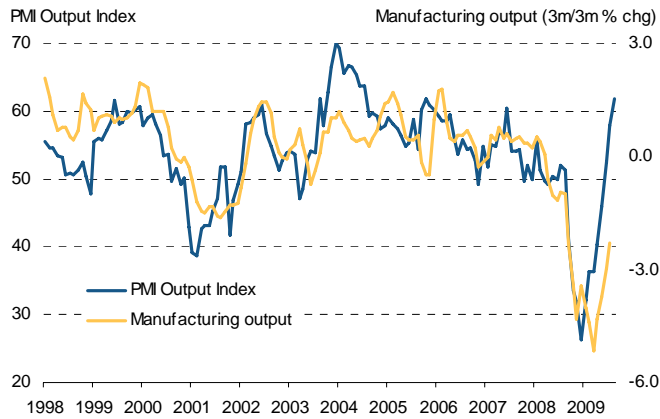


Chart 6: Eurozone (Markit)

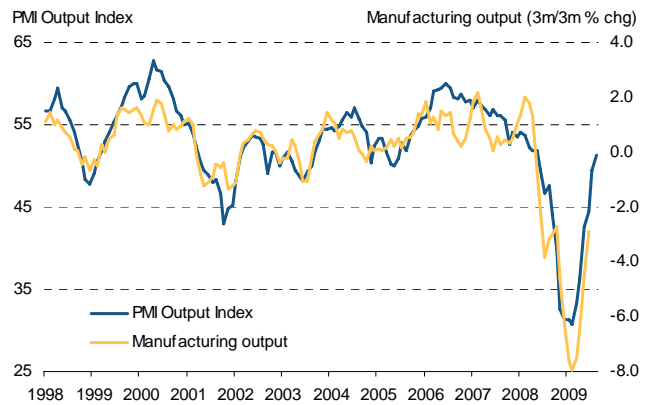


Chart 5: Japan (Nomura/Markit)

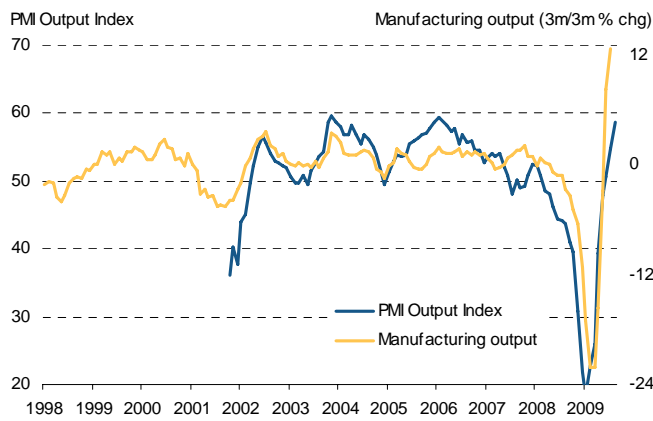
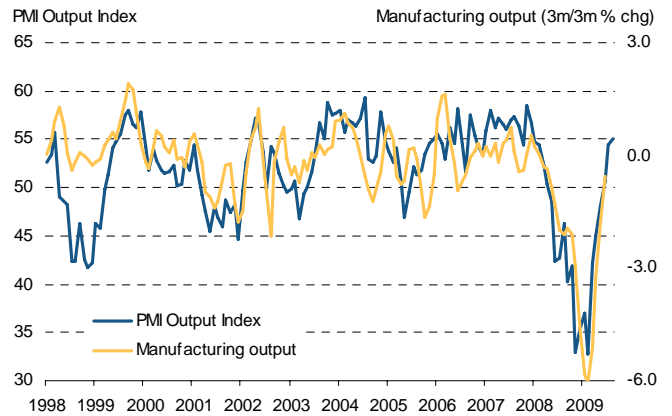


Chart 7: United Kingdom (CIPS/Markit)



Sources: Markit Economics, ISM, Ecwin.

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