

Global economy

Developed world sees growth rebound while emerging markets struggle

- **Global PMI hits two-and-a-half year high, but improvement focused on developed world**
- **Record divergence between developed and emerging world growth in Q3**

The pace of global economic growth picked up in August to the fastest since early-2011, according to [PMI data](#). The Global PMI rose from 54.0 in July to 55.2 in August; roughly consistent with annual growth of global GDP picking up to 3% at the start of the third quarter compared to 1.6% in the second quarter.

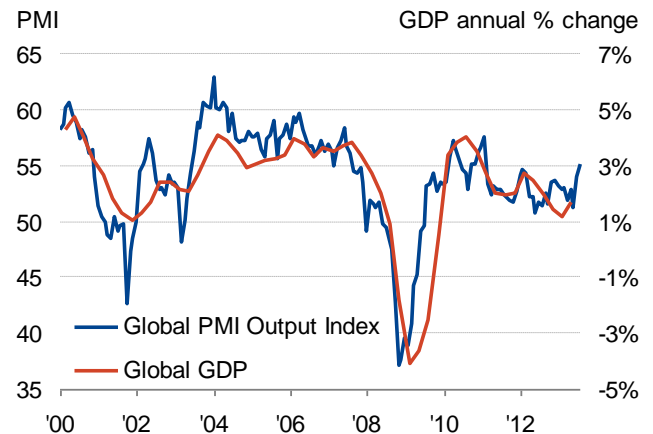
However, the PMI surveys also reveal a record divergence between faster developed world growth and an ongoing near-stagnation in emerging markets in the third quarter.

The weighted average of the PMI Output Index from the developed world countries rose to its highest since February 2011 in August, signalling strong and accelerating growth. The equivalent index for the emerging markets meanwhile signalled only a very marginal expansion following a modest decline in July. The near-stagnation seen in the third quarter so far is the weakest economic performance in the emerging markets since 2009.

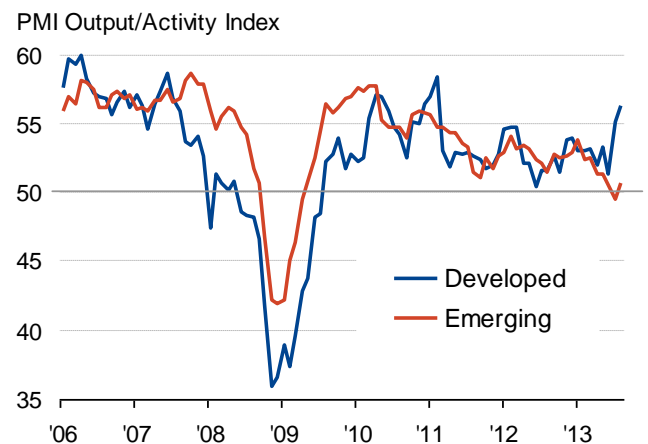
Equity markets continued to reflect the widening divergence between strengthening growth in the developed world and disappointing economic trends in emerging markets. The latter have also suffered from growing risk aversion as investors weigh up the implications of the US Fed tapering its quantitative easing programme. The FTSE emerging markets equity index has fallen 8% since the start of May while the developed world index has risen 3.4%.

The developed world PMIs brought a stream of brighter news. The composite PMI for manufacturing and services in the US rose to its highest for two-and-a-half years, while the equivalent for the UK hit a record high for the second month running. The eurozone PMI indicated the long-suffering region is recovering and Japan's index signalled sustained robust expansion.

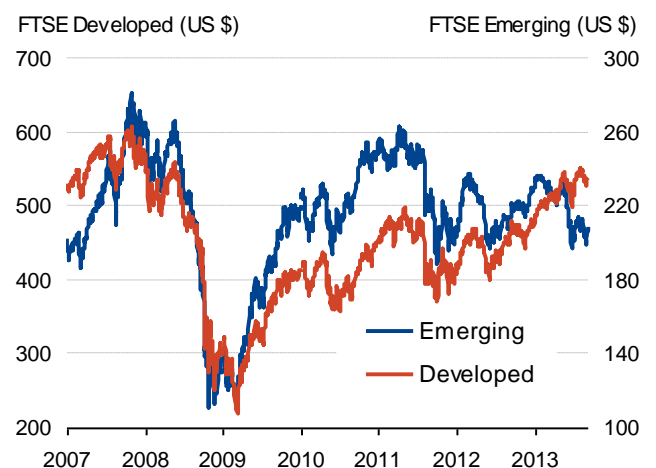
Global GDP and the PMI business surveys



Developed v emerging world PMIs



Developed v emerging world equity markets



China meanwhile continued to more or less stagnate, as did Russia, although both headline indices signalled a modest return to growth in August. PMIs for India and Brazil signalled ongoing declines, the former seeing the steepest drop in business activity since March 2009.

Widespread developed world upturn

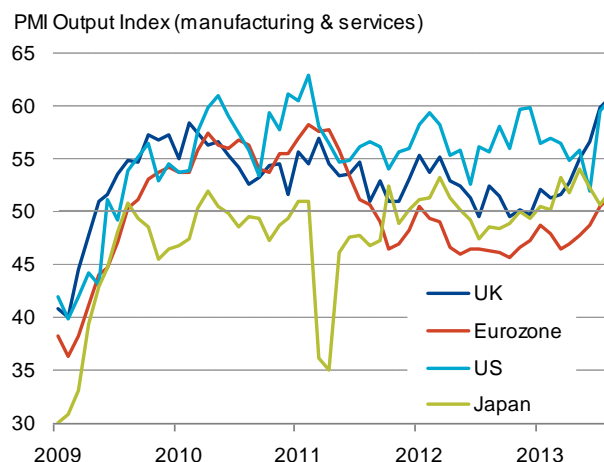
The US economy grew 0.6% in Q2 (2.5% annualised), up from 0.3% in Q1, and PMI data point to faster growth in Q3. The all-sector PMI rose to 60.6 in August, its highest since February 2011. Manufacturing output rose, buoyed by exports, alongside rising activity in the non-manufacturing sector. Non-farm payrolls disappointed, but still rose enough to help bring the unemployment rate down to 7.3%, its lowest since 2008.

The UK all-sector PMI hit a record-high for a second month running in August, suggesting that economic growth could accelerate from 0.7% in Q2 to over 1% in Q3. The strength of the upturn comes as a surprise to many – including the Bank of England, which has said it expects to keep interest rates at 0.5% until 2016. Unemployment, however, remains high at 7.8%, and the economy is still 3.2% smaller than before the crisis.

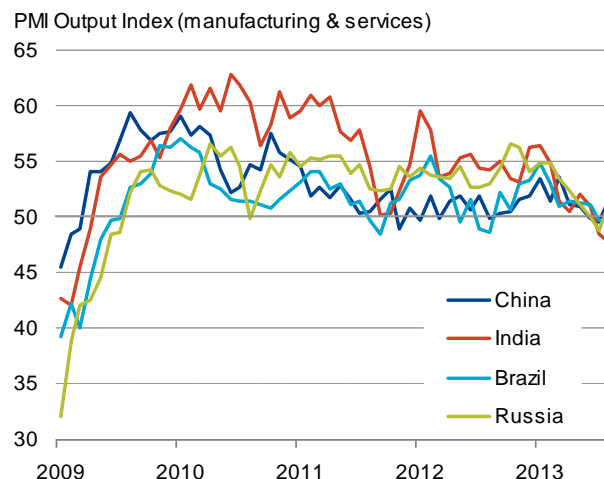
The Eurozone PMI signalled growth for a second month running in August, raising hopes that the region is reviving from its longest ever recession. Spain and Italy have joined Germany in returning to growth, and the rate of decline has eased sharply in France. However, the ECB judges the recovery as “very, very green” and sees rates staying low for an “extended period”, being “ready to act” if more stimulus is needed.

Japan grew much faster than previously thought in Q2, with GDP growth revised up from 0.6% to 0.9%, confirming the most upbeat message that had been signalled by the PMI. The latter also suggests the “Abenomics”-fuelled robust growth has persisted into Q3.

Developed world PMIs



Emerging market PMIs



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