



IHS Markit™

Global PMI

Global economic growth kicks higher
at start of fourth quarter but outlook darkens

November 14th 2016

Global PMI at 11-month high in October

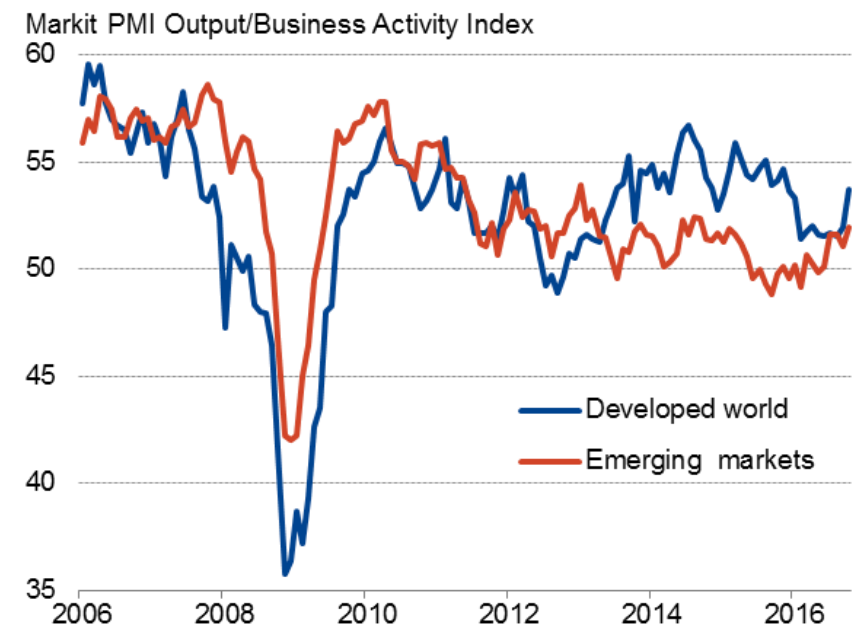
- Global economic growth kicked higher at the start of the fourth quarter, according to PMI survey data. The [JPMorgan Global PMI](#), compiled by IHS Markit, rose from 51.7 in September to an 11-month high of 53.3. The improvement means that the PMI points to annual global GDP growth (at market prices) accelerating above 2% at the start of Q4 and pulling out of the malaise that had been evident through the second and third quarters.
- Output and new orders both expanded at faster rates, with manufacturers and services providers seeing an improvement, while the recent drag from inventory reduction continued to ease. In manufacturing, inventories of both finished goods and inputs showed the smallest declines for over a year.

Global PMI & economic growth



Sources: IHS Markit, JPMorgan.

Developed & emerging market output

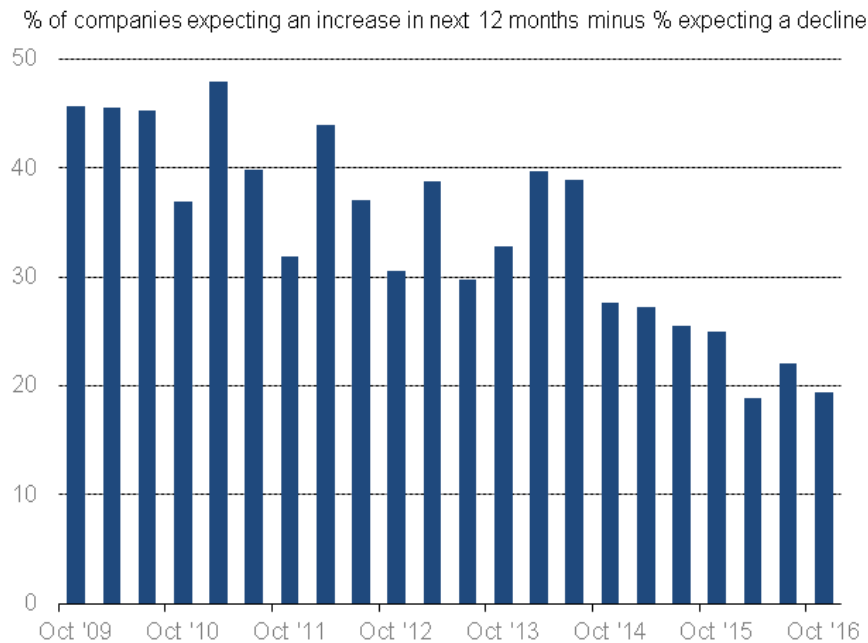


Source: IHS Markit.

Global business optimism at post-crisis low amid political worries

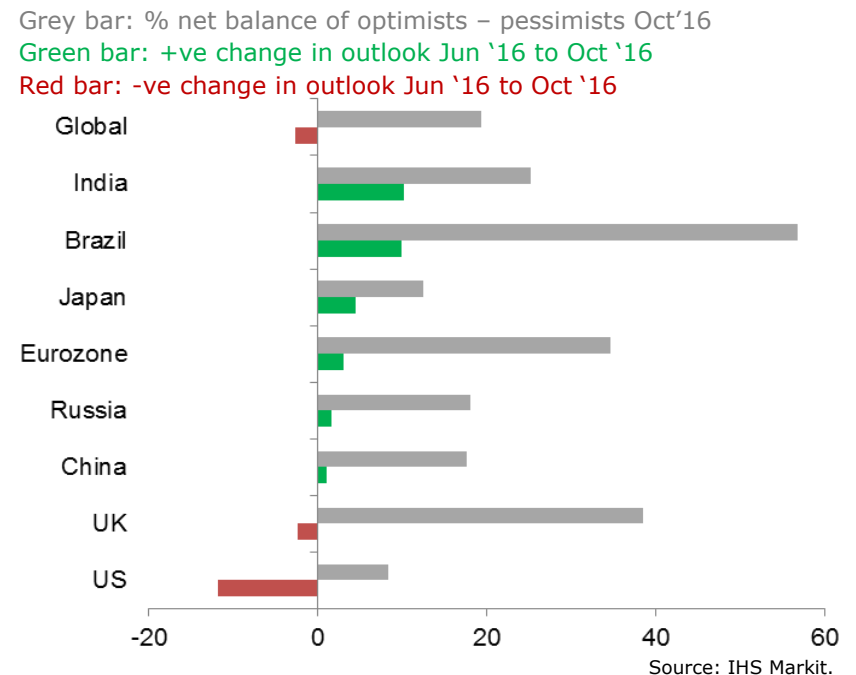
- Despite global growth lifting higher at the start of Q4, the October [Markit Global Business Outlook survey](#), which looks at expectations for the year ahead across 12,000 PMI-survey companies, recorded the joint-weakest level of optimism since data collection started seven years ago. The mood was darkened by reduced optimism among US and UK companies, mainly reflecting worries about how the US election and Brexit may affect business conditions in the coming year. However, optimism improved in Japan, Eurozone, China, Russia, India and Brazil.
- Global investment and employment intentions remain close to survey lows. Global profits were also under pressure as firms generally reported an inability to pass expected higher costs on to customers.

Global business optimism



Source: IHS Markit.

Countries ranked by change in optimism

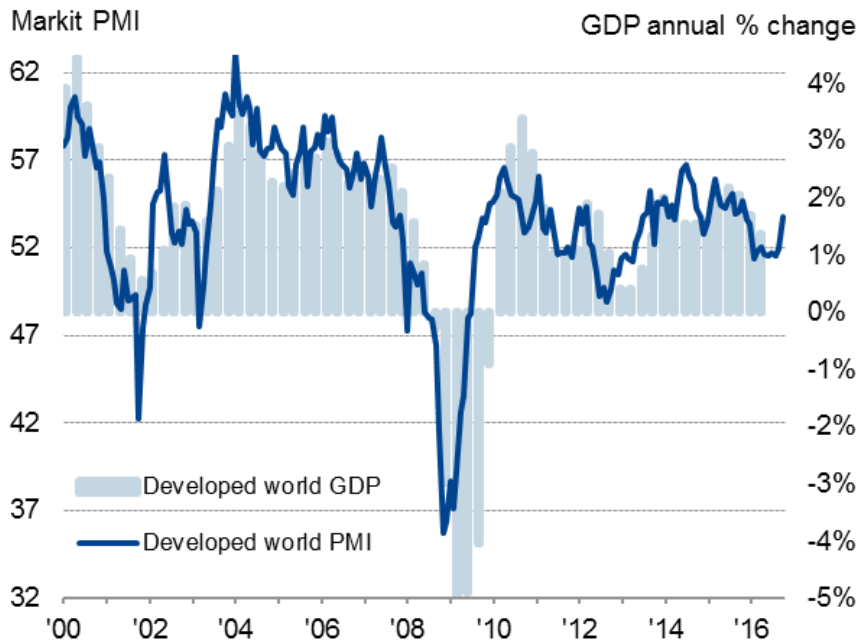


Source: IHS Markit.

Developed world growth buoyed by broad-based upturn

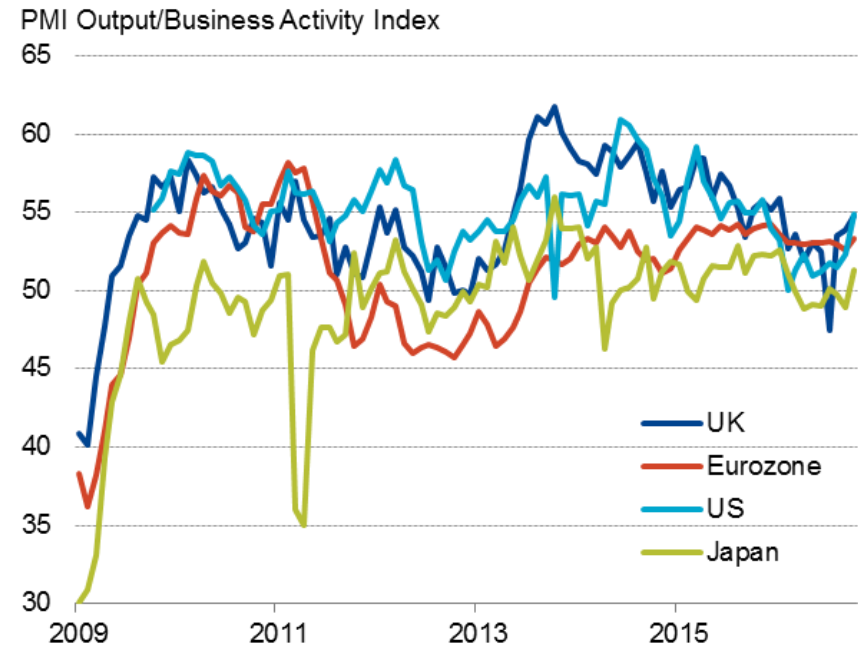
- Growth of developed world business activity was the highest for almost a year, helped by improvements in almost all of the major economies. At 53.8, the developed world PMI was consistent with almost 2% annual GDP growth and contrasted markedly with the 1% growth rate signalled in Q2 and Q3.
- US growth accelerated sharply to the highest since last November with a similar robust growth rate seen in the UK, where the expansion was the strongest since January. Eurozone growth also ticked higher, though failed to match the expansions seen in the US and UK. Japan continued to trail behind, but saw growth revive to register the largest monthly upturn since January.

Developed world PMI* & economic growth



Source: IHS Markit.

Developed world output



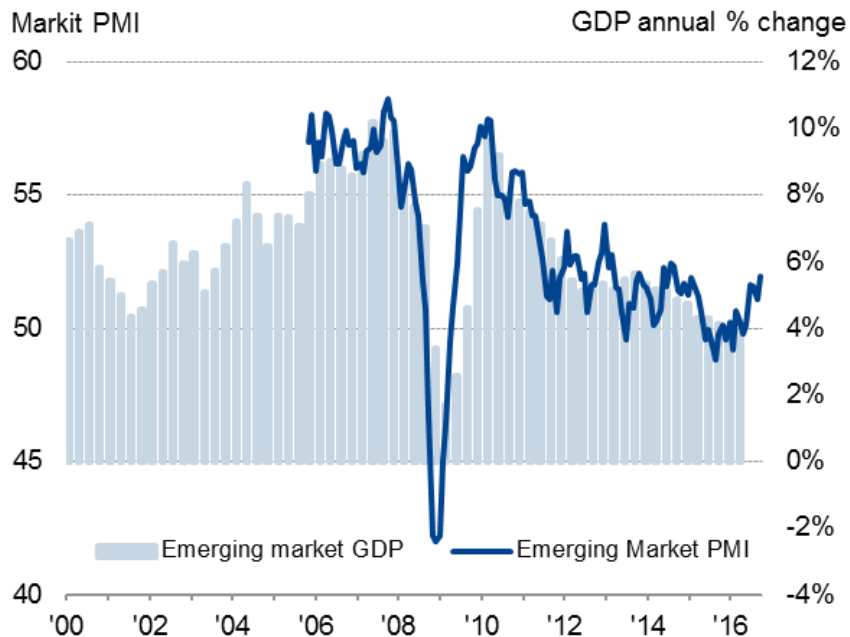
Sources: IHS Markit, CIPS, Nikkei.

* PMI shown above is a GDP weighted average of the survey output indices.

Emerging market PMI at 20-month high

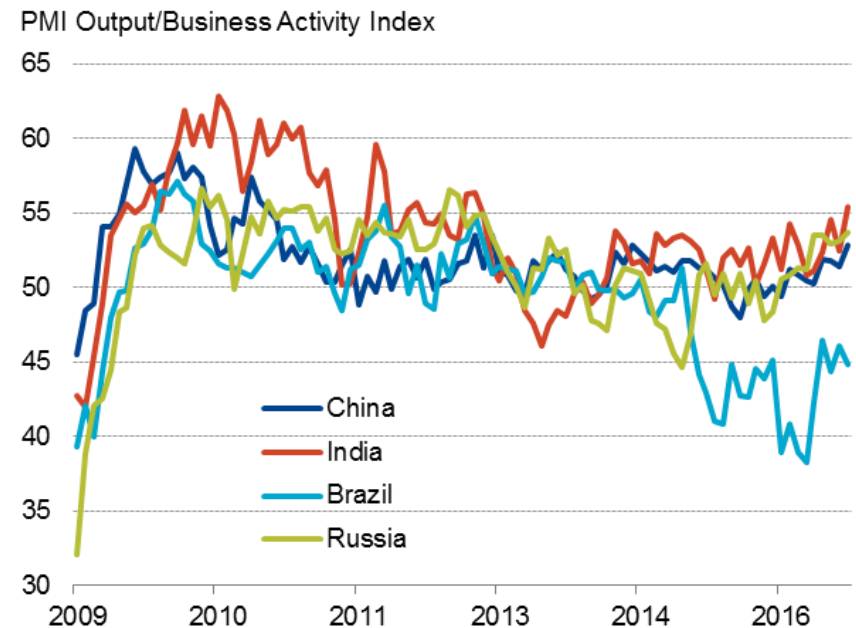
- While failing to accelerate to the same extent as the developed world, growth in emerging markets showed signs of picking up in October. The emerging market PMI, covering both manufacturing and services, hit a 20-month high of 51.9, a level consistent with GDP rising at an annual rate in excess of 5% at the start of Q4. The index has steadily risen throughout 2016 so far.
- Most striking was an acceleration of growth in China, Russia and India to the fastest for just over 3½ years. Brazil remained the Achilles heel, where the PMI dipped further into negative territory to signal an ongoing steep downturn in business activity, albeit up from the lows seen earlier in the year.

Emerging market PMI* & economic growth



Source: IHS Markit.

Emerging market output



Source: IHS Markit, Caixin, Nikkei.

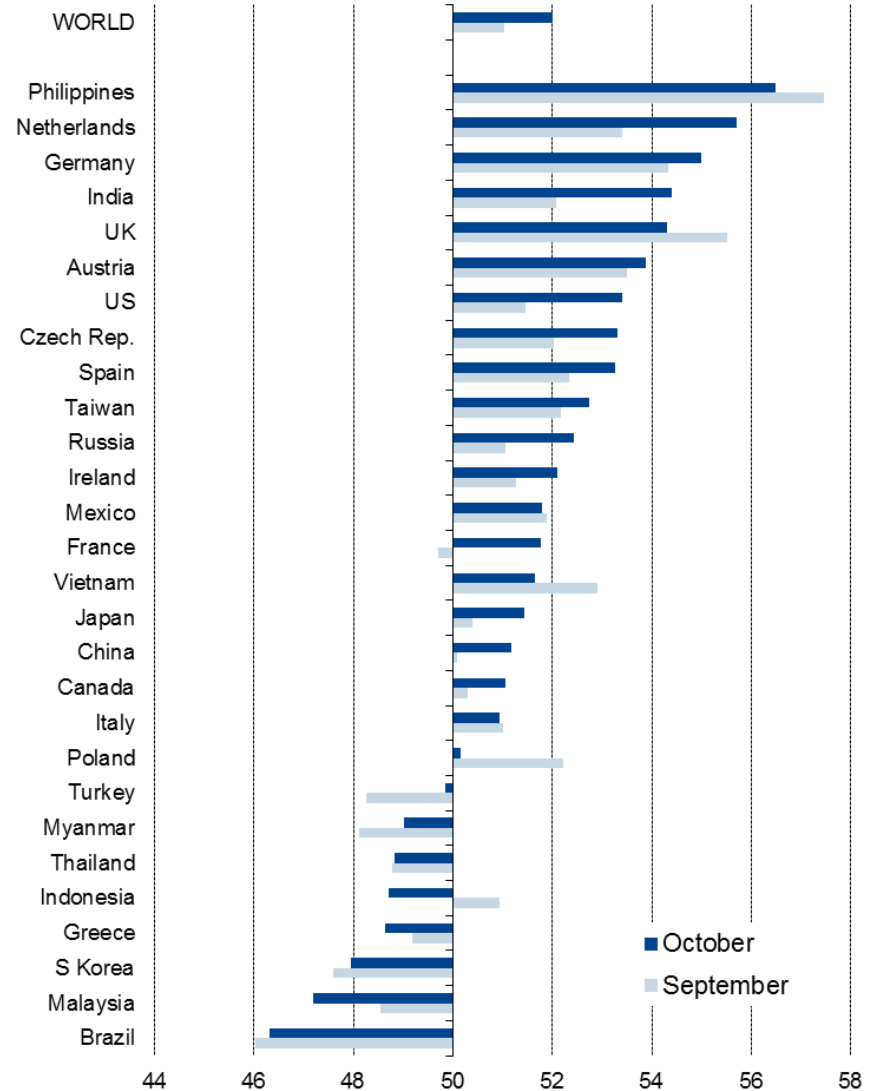
* PMI shown above is a GDP weighted average of the survey output indices.

Manufacturing PMI at two-year high

[PMI data](#) showed global manufacturing output rose at its fastest rate since October 2014. The Philippines once again topped the leader board with Brazil again at the bottom. However, key drivers of the upturn were the US and China, where the manufacturing PMIs hit 12- and 27-month highs respectively. Further support came from the Eurozone PMI hitting a 33-month high and the UK continuing to register solid growth. The Nikkei PMI for Japan also recorded its best performance for nine months. The weakest performing manufacturing sectors were generally in emerging markets.

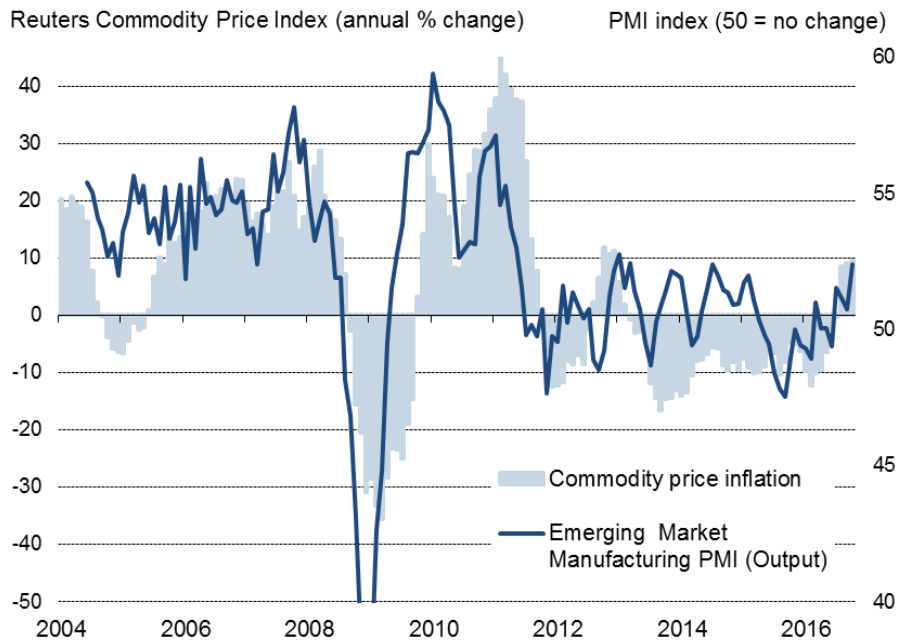


Manufacturing PMI, 50 = no change on prior month

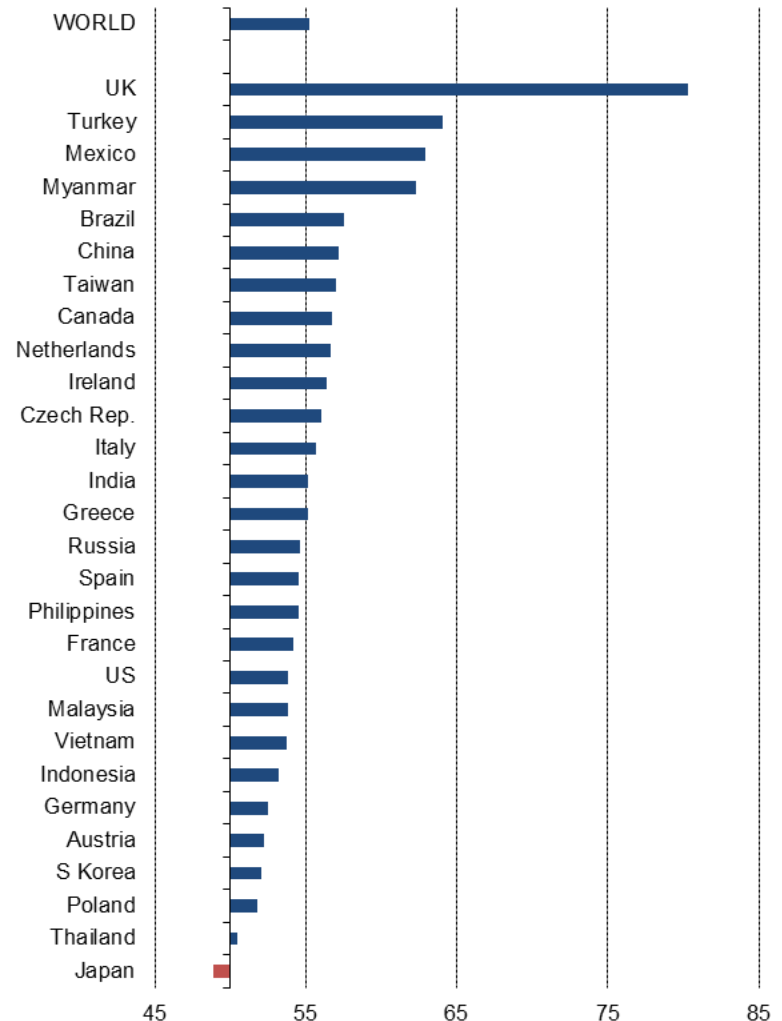


Global price pressures at near three-year peak

The global upturn has been accompanied by a firming of commodity prices, up over 9% on a year ago on average. [Manufacturing input prices](#) showed the largest rise since December 2013 as a result. Exchange rates clearly played a major role in driving price divergences. UK firms saw the steepest increase in costs of all countries by a wide margin, as the weaker pound drove up the price of imports. Conversely, Japan's strong yen meant it was the only country where manufacturers saw prices fall.



Manufacturing PMI Input Prices Index, 50 = no change on prior month

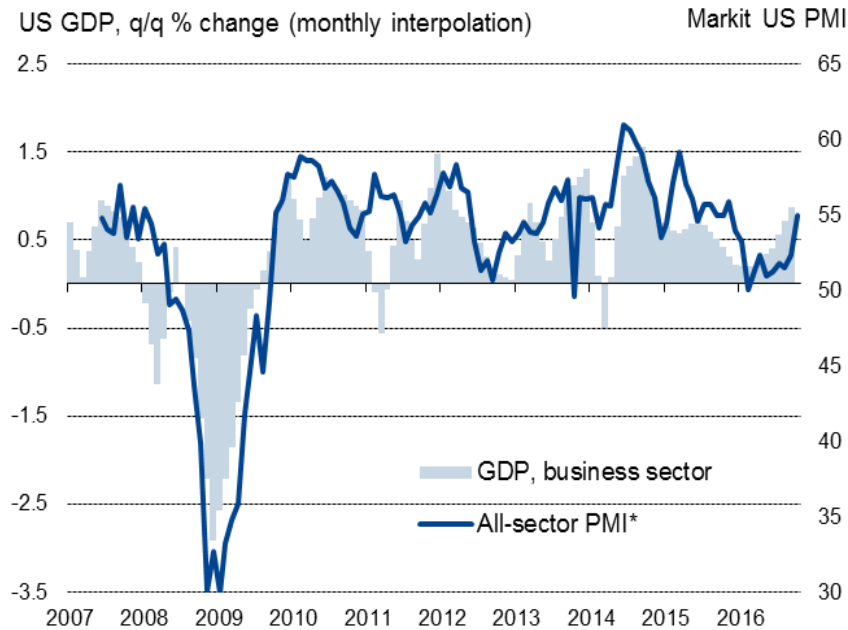


Sources: IHS Markit, JPMorgan, ISO, CIPS, NEVI, Nikkei, BME, Bank Austria, Investec, AERCE, Caixin, HPI, Thomson Reuters Datastream.
 * PMI shown above is a GDP weighted average of the survey output indices.

US PMI shows biggest gain for a year & job market strengthens

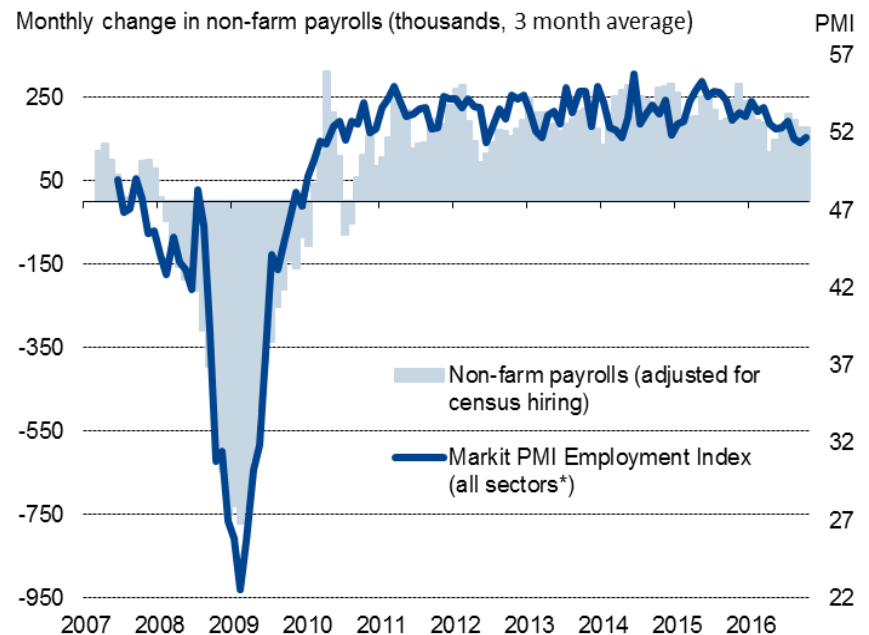
- Prior to the US election, a [solid US employment report](#) for October appeared to clear the path for a December Fed rate hike. News of another decent rise in non-farm payrolls and an uptick in pay growth came hard on the heels of business surveys showing the US economy having gained growth momentum in October. The economy grew at a 2.9% annualised rate in Q3, according to the initial estimate of GDP, and [IHS Markit's PMI business surveys](#) for October signalled the fastest rate of expansion for nearly a year.
- Markets have priced in a lower probability of the Fed hiking rates due to the election result, but with financial markets steady after Trump's victory and recent economic data strengthening, a December hike still looks a distinct possibility.

US PMI* & economic growth



Sources: IHS Markit, Commerce Department.

US job market



Sources: IHS Markit, Bureau for Labor Market Statistics.

* PMI shown above is a GDP weighted average of the survey output indices.

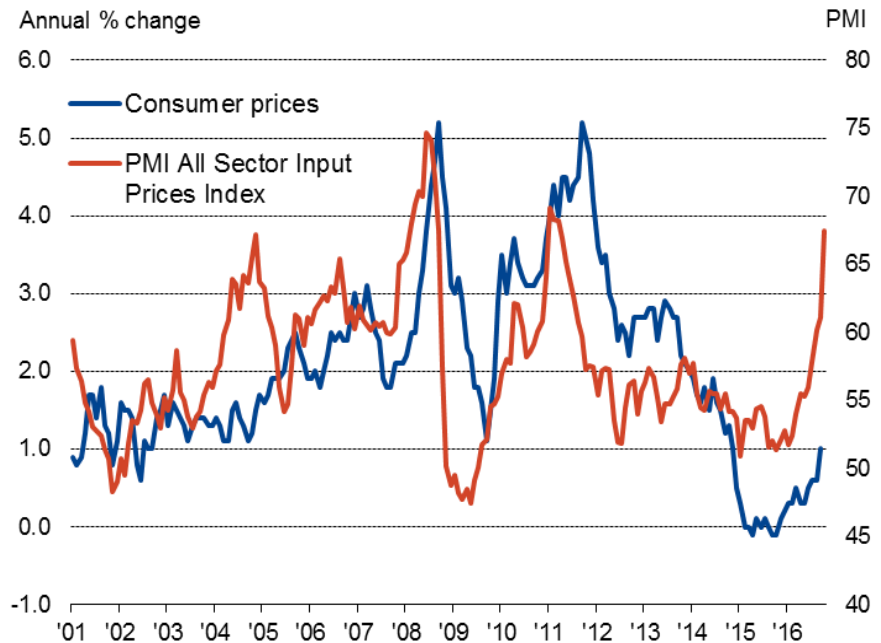
UK PMI at nine-month high, but prices also march higher

- The Bank of England upgraded its near-term growth outlook and moved away from a stimulus bias in terms of its next move in interest rates. The central bank’s more positive outlook follows the further improvement in the [UK PMI surveys](#) in October, with the all-sector Output Index at its highest since January and signalling 0.4-5% GDP growth. The upturn was spread across services, manufacturing and construction, with exporters benefitting in particular from the weak pound.
- However, the weakness of sterling lifted producers’ input costs at one of the fastest rates seen in over two decades of data collection. The October surveys also signalled the largest rise in average prices charged for goods and services since March 2011, threatening to push up [consumer price inflation](#), which had nearly hit a two-year high in September.

UK PMI* & interest rates



UK inflation

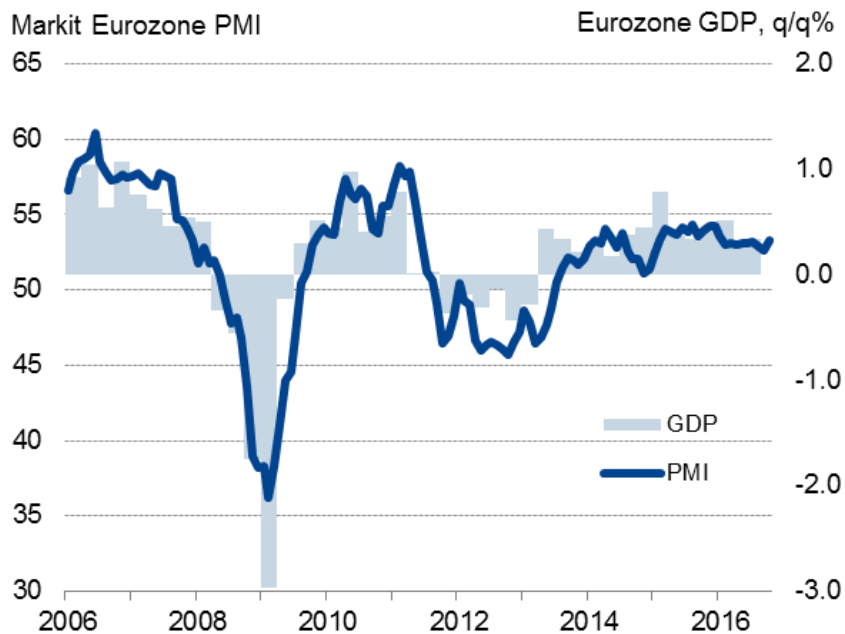


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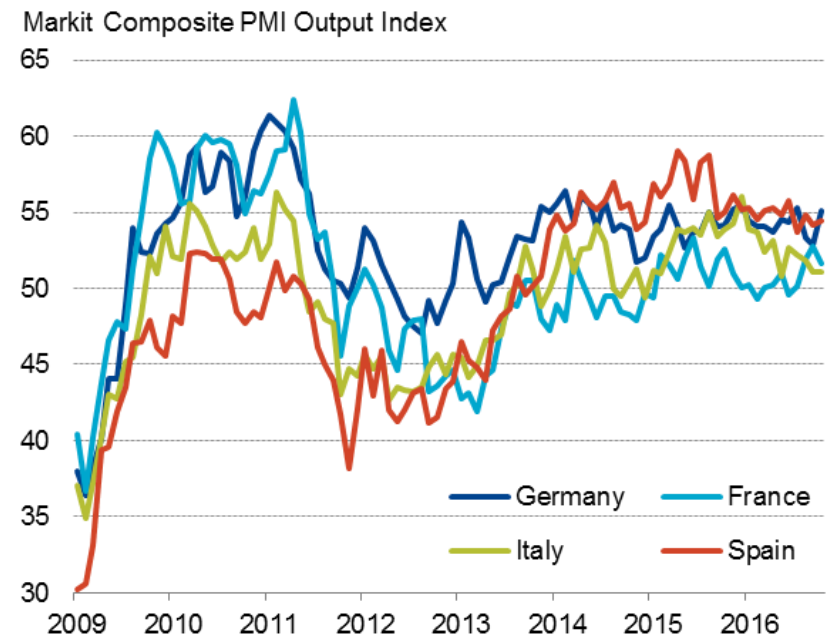
Eurozone growth edges up to nine-month high

- The October [Eurozone PMI](#) signalled a mere 0.3% GDP growth rate, suggesting Q4 could see growth unchanged on that seen in Q2 and Q3 despite the ECB's further efforts to stimulate the economy. However, with backlogs of work rising at the fastest rate for over five years, hiring showing tentative signs of accelerating and business confidence improving, there's a strong suggestion that growth will pick up as we move towards the end of the year.
- Germany has revived to return as the major growth driver, with a 0.5% GDP growth rate. Spain is also enjoying a growth rate of 0.6-0.7% as the PMI edged higher. France's PMI dipped in October but recent months have seen the best performance for a year. Italy is a major concern, however, with growth having ground almost to a halt.

Eurozone PMI* & economic growth



Big-four euro nations*



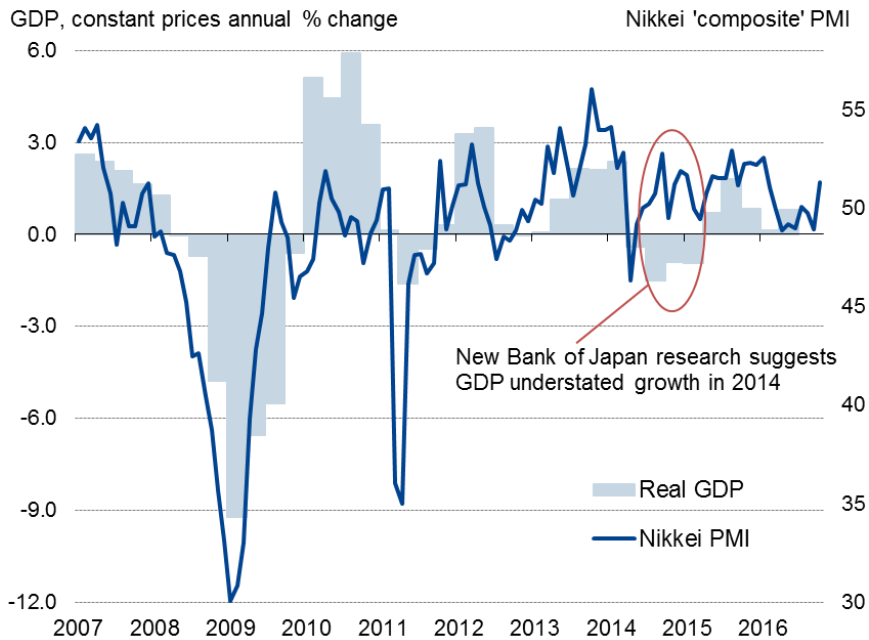
Sources: IHS Markit, Eurostat.

* PMI shown above is a GDP weighted average of the survey output indices.

Surveys show Japan's economy lurching back into life

- Japan's economy lurched back into life at the start of Q4. The composite output index from the [Nikkei PMI surveys](#), compiled by Markit, rose from 48.9 in September to a nine-month high of 51.3 in October. Although signalling only a modest expansion, the improvement raises prospects of the economy having gained momentum in Q4, with the PMI having signalled mild declines in Q2 and Q3 on average. Improved export trade was a key driver of the manufacturing upturn, while the service sector showed renewed expansion after two months of decline.
- [Recent research](#) based on work by the Bank of Japan highlights the value of the PMI as an alternative to GDP, the latter believed to have sent misleading signal in the past (notably a false signal of recession in 2014).

Japan PMI* & economic growth



Source: IHS Markit, Nikkei.

Japanese manufacturing and services



Sources: IHS Markit, Nikkei, Japan Cabinet Office.

* PMI shown above is a GDP weighted average of the survey output indices.

China GDP to pick up as PMIs signal best growth for 3½ years

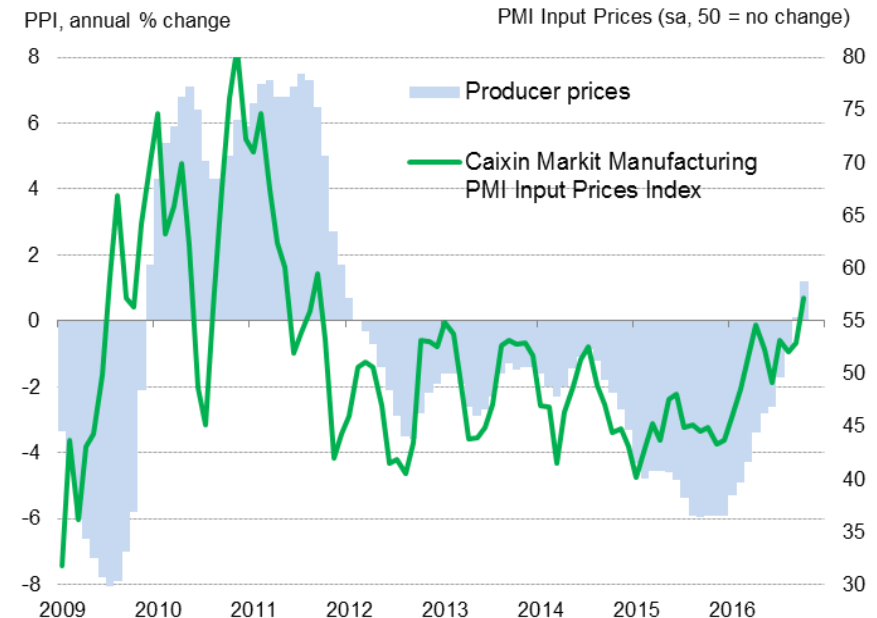
- China's economy pulled out of the slow lane in October, with rising domestic demand pushing the overall rate of economic expansion to fastest since March 2013 and boding well for an acceleration of GDP. October saw an [upturn in China's service sector growth](#) to the fastest for four months accompanied by an improvement in manufacturing. The [Caixin China Manufacturing PMI](#) indicated the fastest expansion of factory output in over five years.
- [Inflationary pressures also picked up](#). The October survey showed producers' input prices jumping to the greatest extent since September 2011. The upturn was swiftly confirmed by official data showing producer price inflation accelerating to 1.2% in October, its the highest since December 2011.

China PMI & economic growth



Source: IHS Markit, Caixin, NBS.

China producer prices



Source: IHS Markit, Nikkei.

* PMI shown above is a GDP weighted average of the survey output indices.

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