

# Global economy

## Global economy makes solid start to third quarter

- **Global PMI at three-and-a-half year high**
- **US and UK remain leading lights**
- **Asia data continue to disappoint**

The global economy made a solid start to the third quarter, as output growth accelerated to its fastest rate in almost three-and-a-half years. The further expansion in economic activity was underpinned by robust inflows of new orders, encouraging manufacturers and service providers to raise employment.

The JPMorgan Global PMI™, compiled by Markit, rose to 55.5 in July, up from 55.4 in June, and has now signalled expansion throughout the past 22 months. The latest PMI indicates that growth of global GDP is on track to tick higher from the 3% indicated for the second quarter.

The economic expansion also continued to filter through to the labour market, extending a sustained period of job creation that began in March 2010.

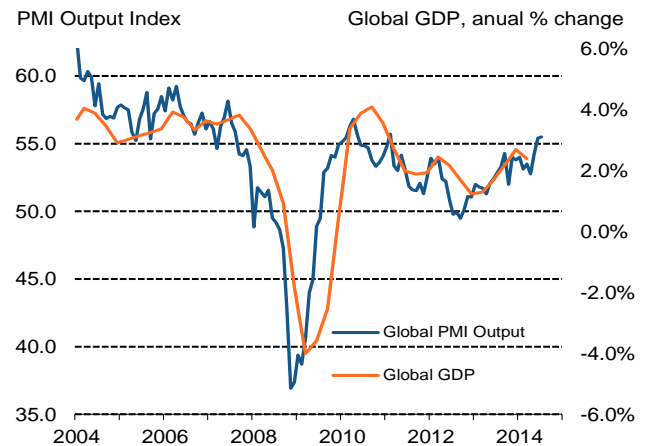
### Service sector strengthens; steady growth at manufacturers

July saw growth in the service sector accelerate to the fastest since April 2010. The latest PMI data provided some cautionary notes that the growth rate of global service sector output may be at, or near, its peak. Although the pace of expansion in new orders remained solid in July, it eased off from June's near seven-year high. Backlogs of work meanwhile decreased slightly and service providers' optimism dipped to a 20-month low.

A solid expansion was also signalled for manufacturing production, in the region of 4-5% on an annual basis, despite the pace of increase easing slightly from the previous month.

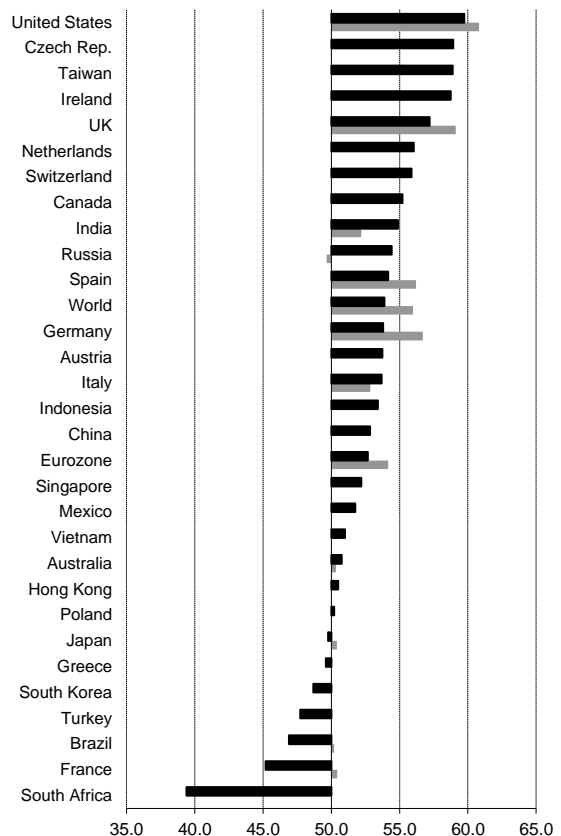
All-industry employment rose for the fifty-third successive month in July. However, the rate of increase eased from June's high, as the employment index gave back the gains achieved in the prior month. Rates of jobs growth slowed at both manufacturers and service providers alike, although the steeper increase was again registered in services. The increase in manufacturing pay rolls was only marginal.

### Global gross domestic product



### National PMI Output Rankings

DI, sa, 50 = no change  
Black: Manufacturing, Grey: Services



N.B. Data are ordered according to national manufacturing output indexes

Chart sources: Markit, J.P.Morgan, HSBC, Reuters EcoWin

## US and UK remain leading lights

The upturn was led by ongoing robust performances of the US and the UK. The rate of growth in the US was only marginally below June's (Markit) series-record high, indicative of GDP rising at a quarterly rate approaching 1%, while the UK also continued to expand at a pace that was among the highest in the survey's history. The UK PMI data point to GDP rising by 0.8% in the third quarter, assuming current levels are sustained in coming months.

The main notes of caution arising out of the US and UK surveys were the trends in employment. Although still among the fastest registered of the nations covered by the PMI surveys, jobs growth in the US and the UK eased sharply from June's record highs. While this may just represent payback from the previous stronger numbers, both countries need to see further solid job creation to help bring down unemployment in coming months.

## Eurozone growth ticks higher as domestic markets recover

The eurozone output index rose to a three-month high in July, suggesting that quarterly growth of GDP is running at a rate of 0.4% at the start of the third quarter.

Stronger readings from the euro area service sector surveys indicated improved conditions in the currency union's domestic markets, which offset an export-led slowdown at manufacturers. All-industry output growth accelerated in Germany and Spain, slowed in Italy, while France contracted.

Recent stimulus efforts from the ECB should help sustain the expansion, but the ongoing worry is that the current pace of growth remains insufficient to generate any substantial job creation. Faster growth is required if unemployment is to fall substantially from the current near-record high of 11.5%.

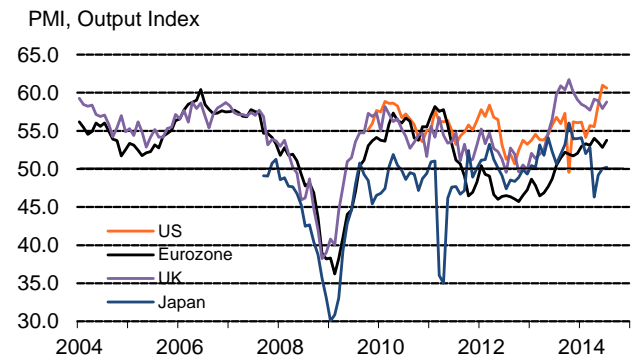
## Asia data provide mixed bag

Data from Asia's three-largest economies – China, Japan and India – provide a mixed picture for the region. Economic growth slowed in China and India, as stronger manufacturing growth was offset by slowdowns in services.

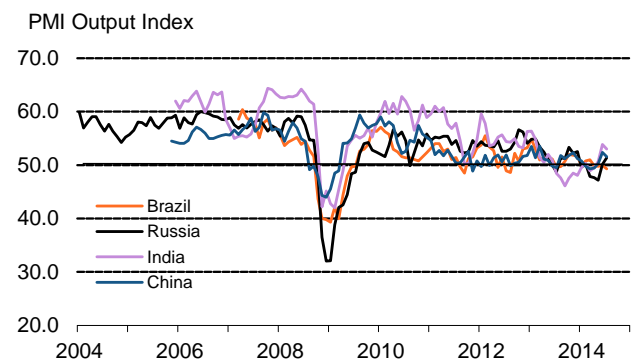
Japan meanwhile stagnated, as manufacturers and service providers continued to struggle with the after-effects of April's sales tax hike. However, the all-sector PMI rose marginally above the 50.0 break-even level for the first time since March, suggesting the economy is at least stabilising after the initial hit from the sales tax rise.

Elsewhere, Brazil remained in its funk, contracting slightly for a fourth successive month due to a near-stagnant service sector and deepening downturn at manufacturers. Russia continued its manufacturing-led bounce, but rising headwinds for the Russian economy may yet reverse the gains seen in recent months.

### Output: Main developed markets



### Output: BRIC nations



### Output: Eurozone nations

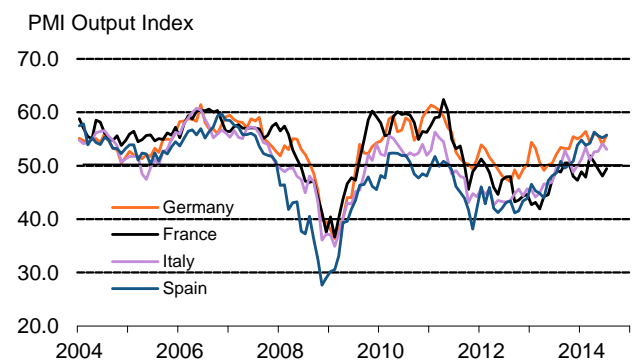


Chart sources: Markit, HSBC

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