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**Markit Economics**

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# Markit economic overview

Global growth hit by steepest EM downturn for six years

8 July 2015

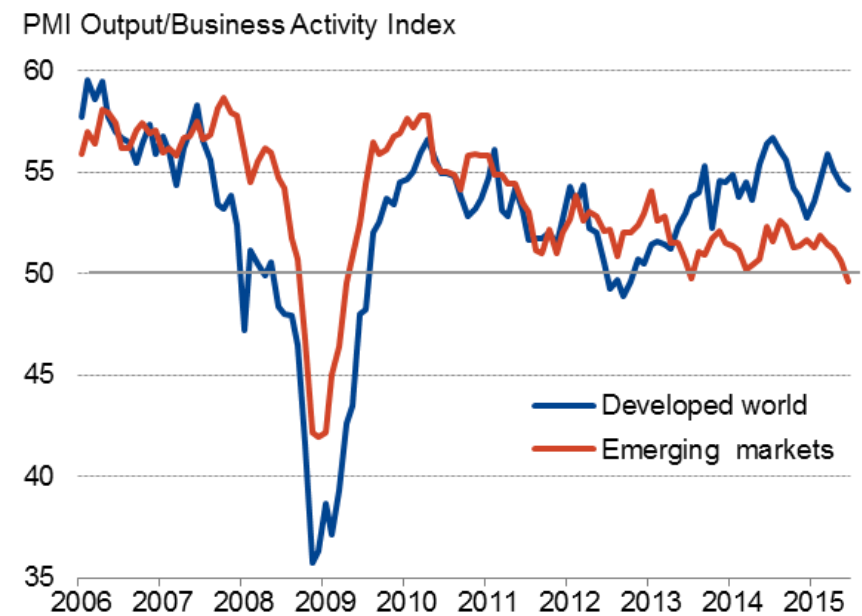
## Global growth slows as emerging markets see steepest downturn for six years

Global [economic growth slowed](#) for a third month running in June, according to PMI data. The JPMorgan Global PMI™, compiled by Markit, sank to its lowest since January, to signal a rate of global GDP growth of approximately 2% pa. Developed world growth hit the weakest since January, though remained solid. The same cannot be said for emerging markets, which saw the steepest downturn for just over six years.

### Global PMI and economic growth



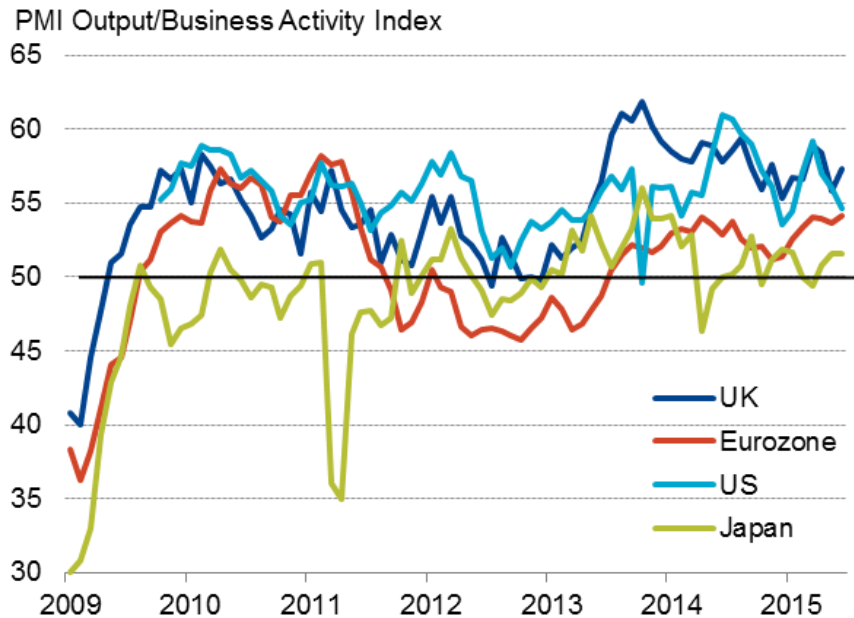
### Developed v emerging markets



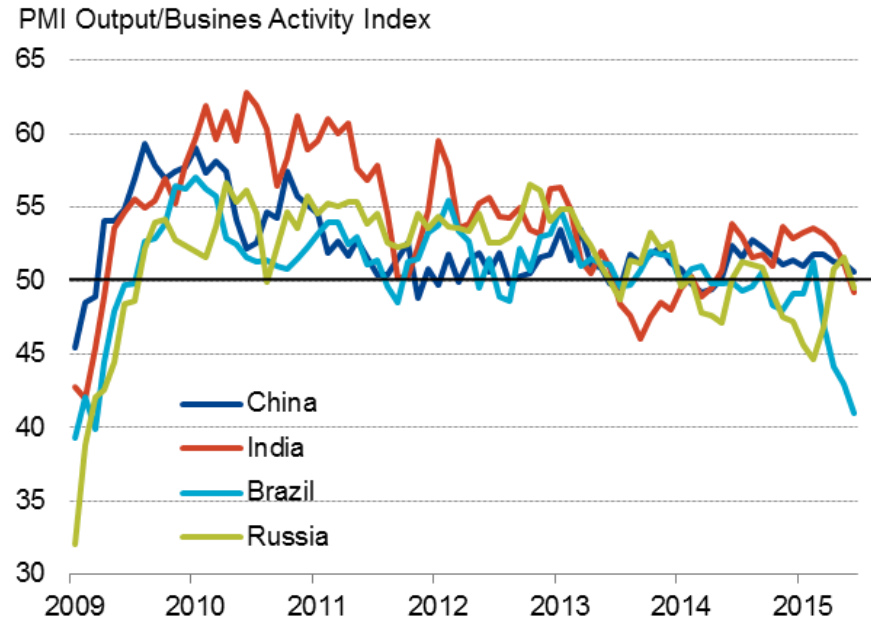
## US, UK and eurozone drive global upturn

Solid growth continued to be recorded in the US and UK, the former seeing a slowdown but once again driving the global economy due to its sheer size. Stronger growth in the eurozone added to the developed world upturn. Japan saw moderate growth but the pace of expansion slowed to near-stagnation in China, adding to signs of ongoing weakness in Asia. The deepening downturn in Brazil is also a growing concern.

### Developed world

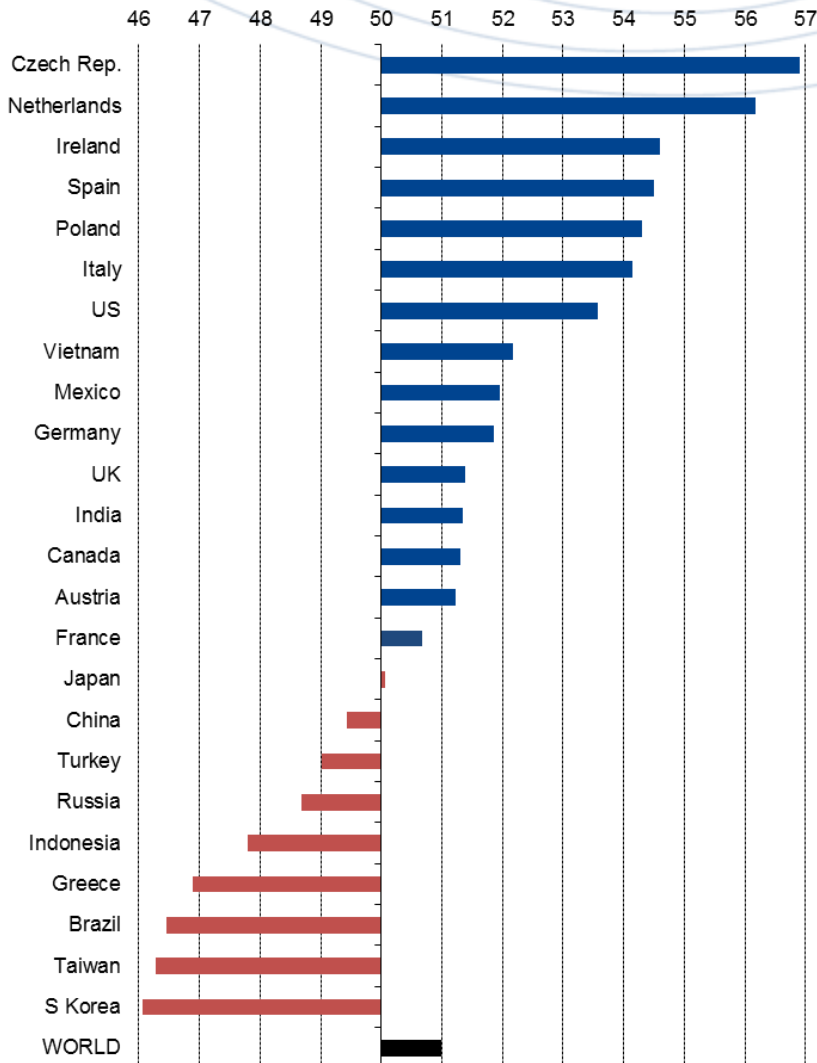


### Emerging markets



## Monthly economic overview

Manufacturing PMI, 50 = no change on prior month, June 2015



### South Korea and Taiwan sink to foot of manufacturing rankings

Global manufacturing activity slowed in June, led by weakness in Asia, which saw the joint-fastest downturn since July 2013. South Korea and Taiwan sank to the bottom of the worldwide manufacturing PMI rankings and China's factories remained in decline.

Growth also slowed in the US and UK, with firms often blaming strong currencies.

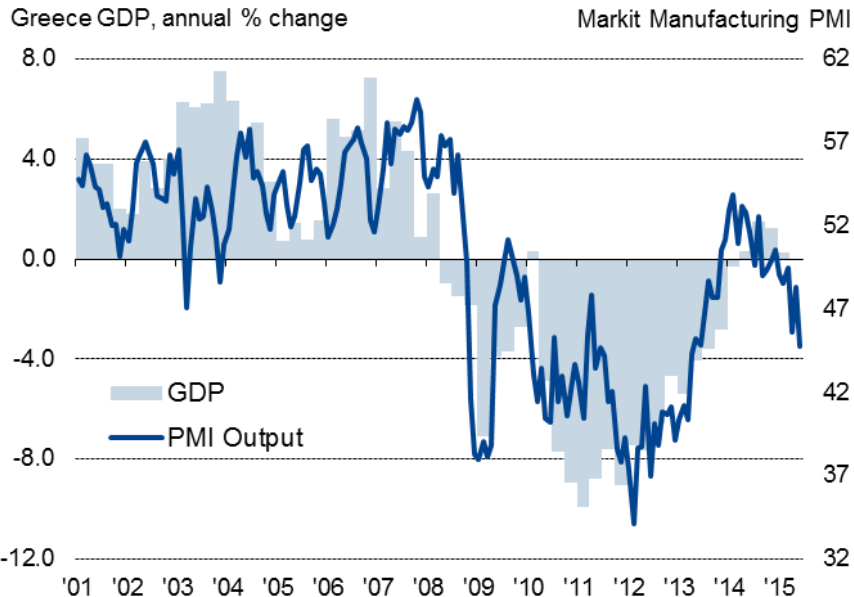
All euro area countries expanded (including France, for the first time in over a year) with the exception of Greece. Four of the top six fastest growing manufacturing economies all sat within the euro zone.

The increasingly dire states of the Greek and Brazilian economies were meanwhile illustrated by both countries remaining near the foot of the PMI rankings.

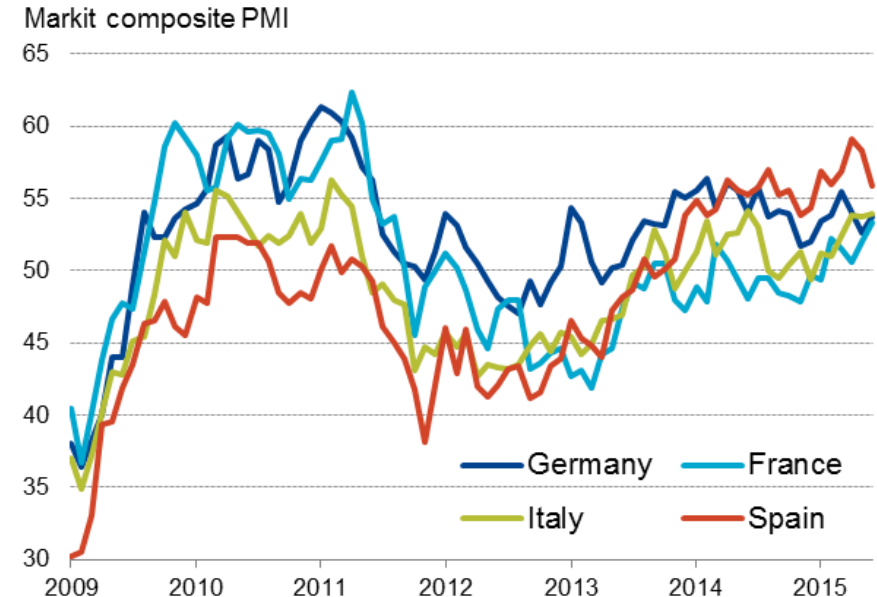
## Impact of escalating euro crisis so far limited to Greek economy

The crisis in [Greece took it's toll on its economy](#), with the PMI signalling the steepest drop in output for two years. Worse is likely to come as capital controls were imposed after talks with Greece's creditors broke down and a referendum rejected austerity, raising the chances of Greece's exit from the euro. However, PMI surveys for other euro countries remained robust, and the region as a whole grew at the [fastest rate for four years](#).

### Greece



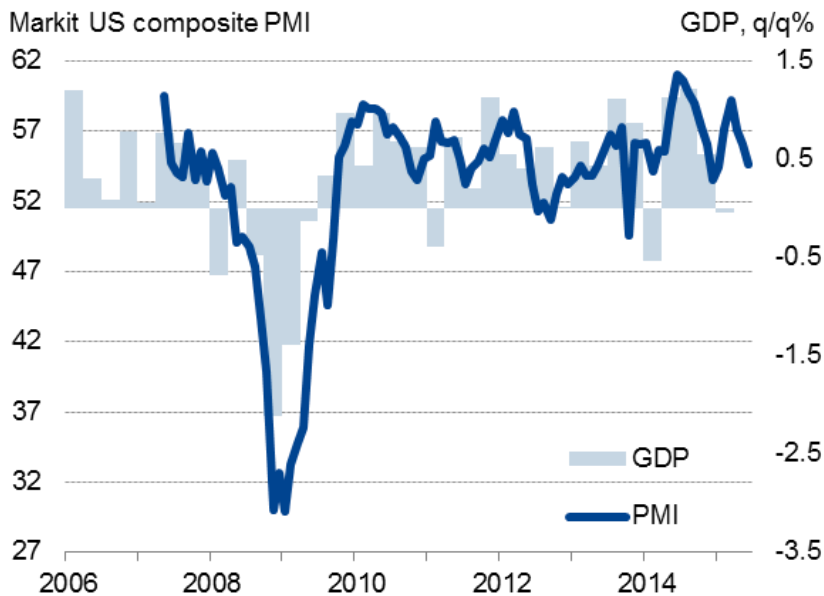
### Eurozone 'big-four'



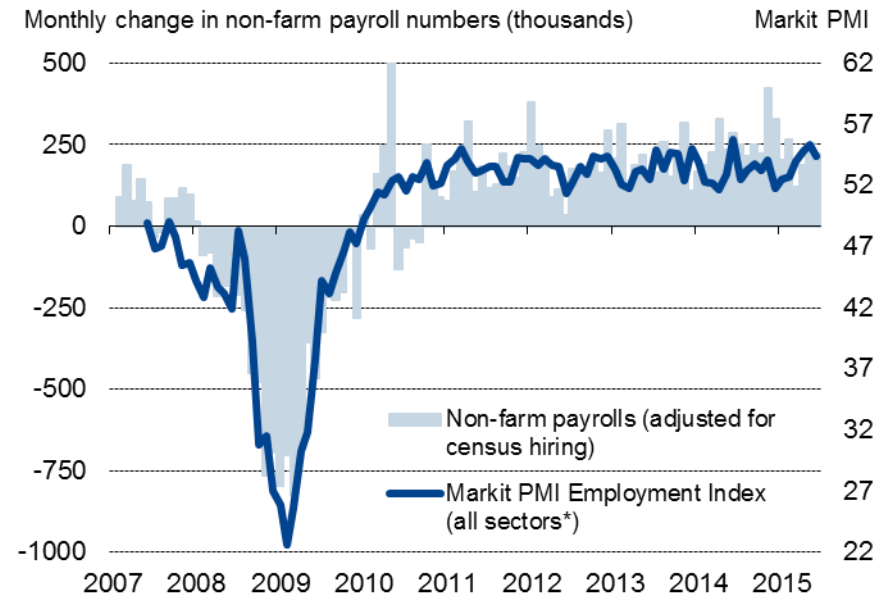
## US economy showing signs of renewed slowdown after Q2 rebound

Markit's US PMI data signal 2.5% annualised GDP growth in Q2 and correctly anticipated a further solid (>200k) rise in [non-farm payrolls](#) in June, raising the chance of a September rate hike. However, a rate hike this year is by no means guaranteed: the surveys are already suggesting that the pace of growth is slowing as we move towards the second half of the year, and pay growth remains disappointingly weak at 2.0%.

### US economic growth (GDP v PMI)\*



### US labour market

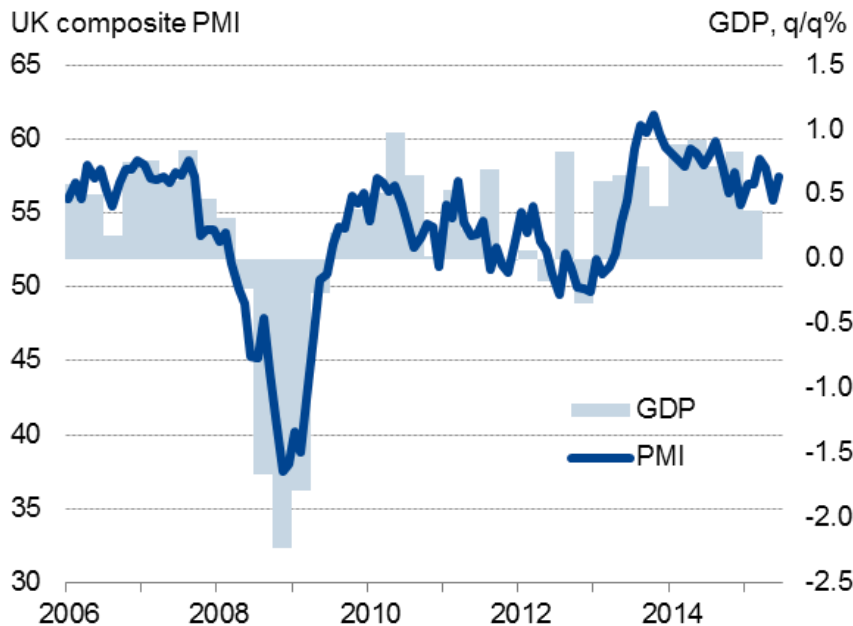


\* pre-crisis PMI uses manufacturing data only.

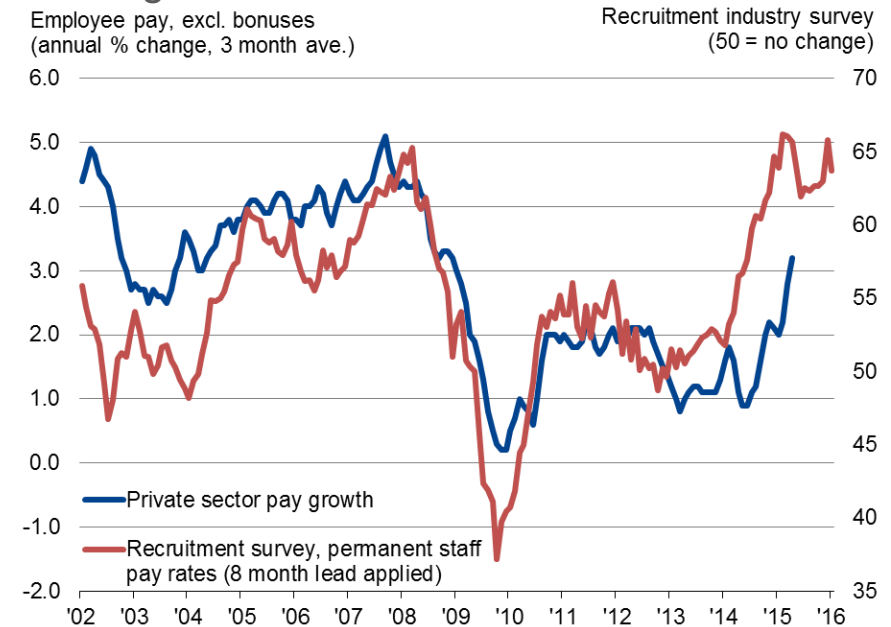
## UK sees post-election rebound

Economic growth [picked up in the UK](#) in June, with a recent slowdown likely to have been largely due to uncertainty surrounding May's general election. The economy is set to grow 0.5% in Q2, according to PMI data. With wage growth also picking up to its highest since 2008, expectations are growing that interest rates will rise later in the year, though [slower manufacturing growth](#) due to the strong pound remains a concern.

### UK economic growth (GDP v PMI)



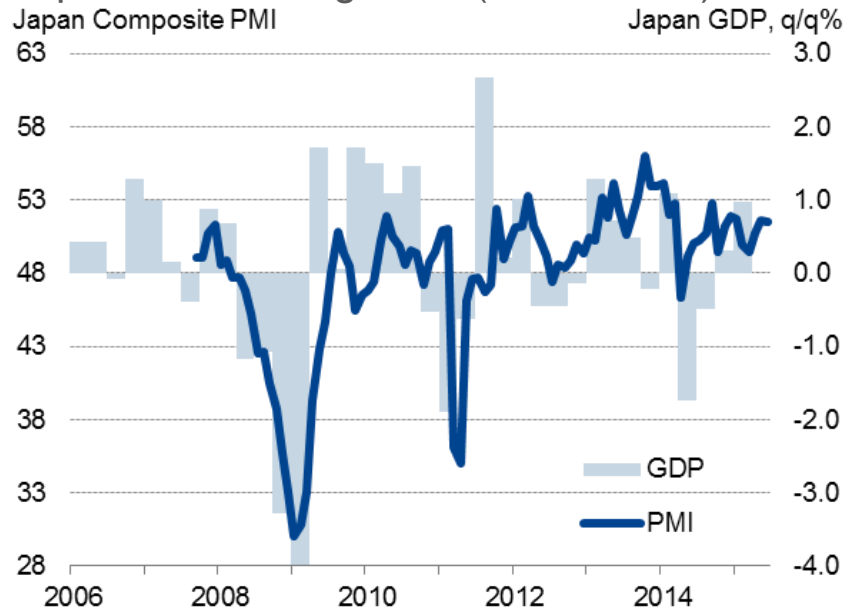
### UK wages



## Manufacturing woes drive ongoing weakness in China and Japan

Japan managed to muster another month of moderate growth in June, according to the Nikkei PMI surveys. But policymakers will be worried that [manufacturing looks to be in a renewed downturn](#) despite the weakened yen. China's factories are also struggling, offsetting service sector growth, with weak orders (especially for exports) causing firms to [cut employment](#) at the steepest rate since 2009.

Japan economic growth (GDP v PMI)



China economic growth (GDP v PMI)





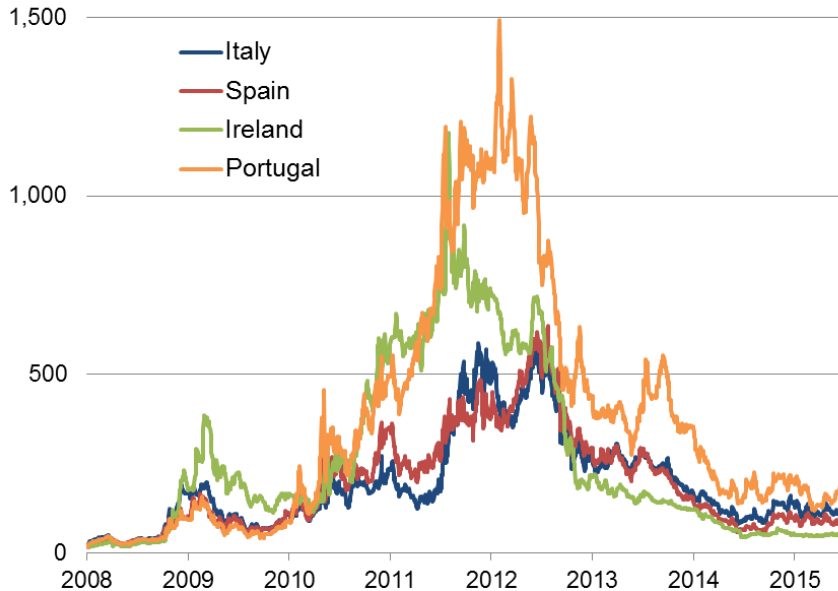
# Financial markets

## Markets on the watch for 'Grexit'

At the time of writing the Greek population has rejected austerity via referendum. So far, markets are unruffled, largely due to a widespread belief of little 'Grexit' contagion to other markets. Not only have the PMI surveys held up well for many countries, notably Italy and Spain, but credit default swaps signal little perceived risk of default in other 'periphery' countries and the euro remains off the lows seen earlier in the year.

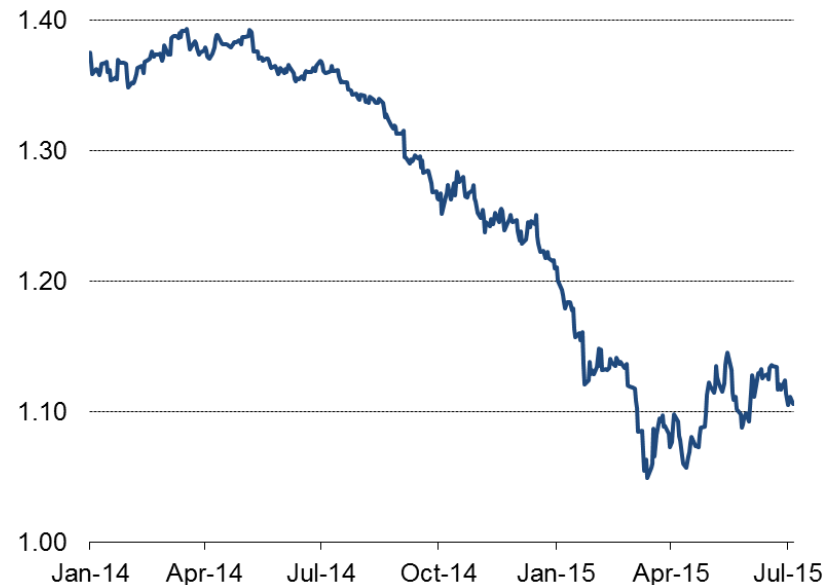
### Eurozone credit markets

Credit default swap spread, basis points



### Euro exchange rate

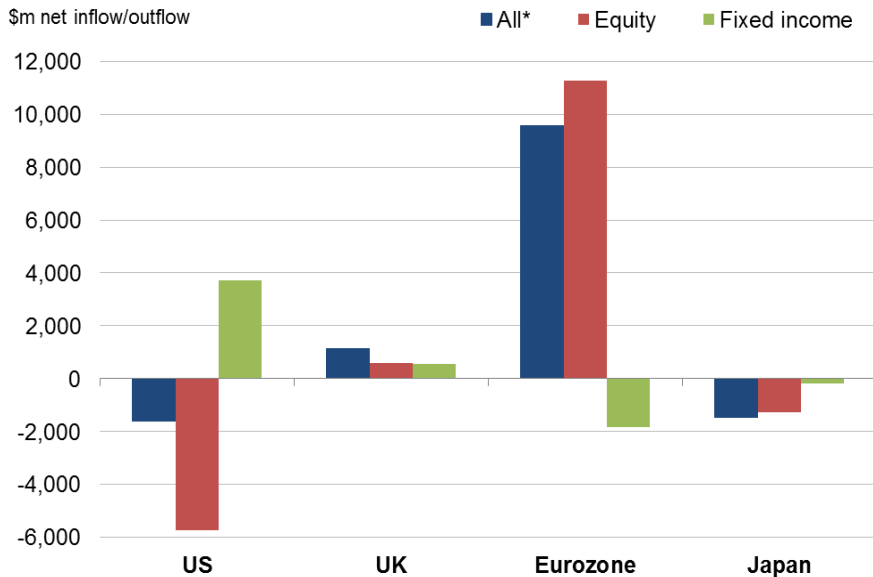
Euro / US\$



## Investors seek eurozone equity exposure, while stock markets in China fall

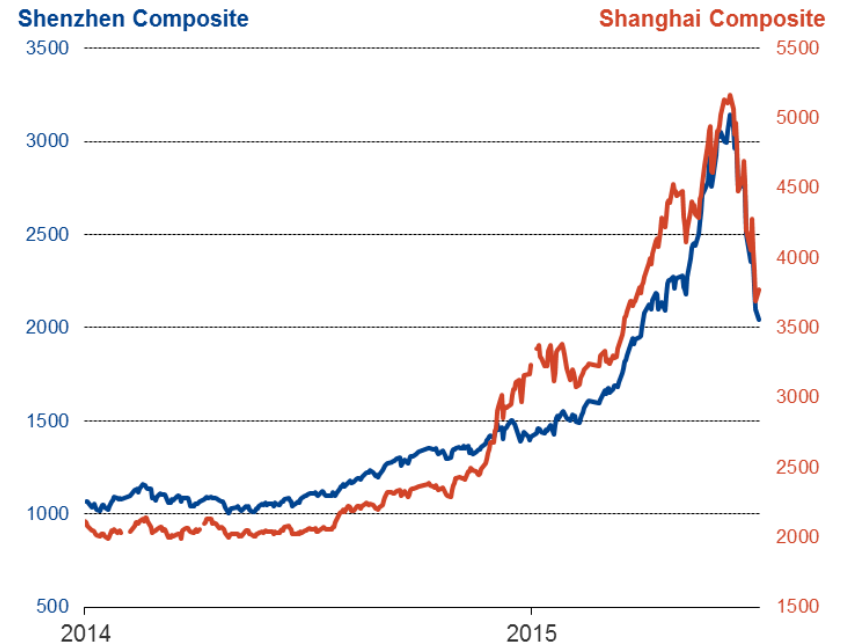
Investors were also unfazed by the Greek crisis according to exchange traded fund data, which showed strong net inflows into equity funds exposed to the single currency area in Q2. Eurozone-exposed fixed income funds saw a net outflow of \$1.8bn, but this more likely reflects payback from the \$6.9bn inflow seen in Q1 rather than Grexit worries. US equity funds also saw strong net outflows, albeit with inflows resuming by June amid growing sign that the economy picked up speed after the Q1 weakness. The main concern remains China, where volatile stock markets have fallen by more than a third since mid-June despite various measures implemented by the authorities to stem the collapse that followed a doubling of the markets in the prior year. China-exposed ETFs saw an \$8bn net outflow in Q2.

### ETF fund flows



\* Includes currency and alternative ETPs as well as equity and fixed income.

### China's stock markets



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