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Markit Economic Research

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Global economy

Global growth slips as key economies hit by extreme winter weather

- **Global PMI™ hits four-month low as severe weather hits US, Japan and UK**
- **But developed world still enjoys stronger growth than languid emerging markets**

The global economy continued to grow in February, albeit with extreme weather causing a slowdown in the rate of expansion.

The JPMorgan Global PMI™, compiled by Markit from its worldwide business surveys, fell to a four-month low of 53.0 in February, down from 54.0 in January, signalling a slowing in the pace of global economic growth.

With the exception of last October, when the government shutdown hit the US economy, global growth was the weakest since last July.

Responses from survey contributors indicated that much of the easing could be attributable to weather-related disruptions as severe cold weather and snow hit several key countries, notably the US and Japan. This suggests that the underlying trend remained one of robust but still modest global expansion.

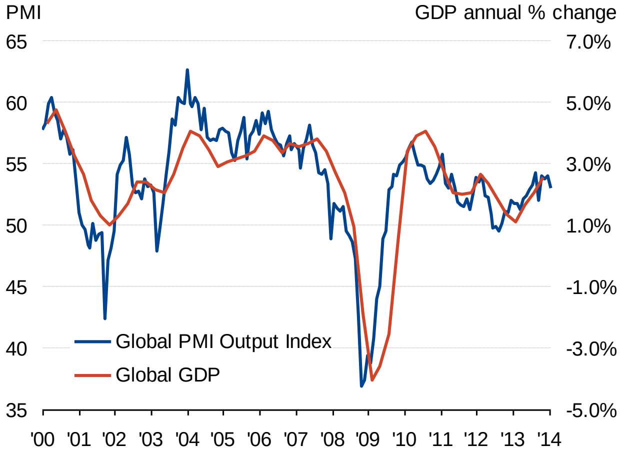
Importantly, even with the weather impact, the pace of global economic expansion remained above the average recorded last year, with the PMIs signalling an annual rate of global GDP growth of approximately 2.5% in the first quarter so far, identical to the near-two-year high seen in the final quarter of last year.

However, policymakers will inevitably be concerned by the slowdown and keen to see further evidence to reassure that the soft patch in developed world growth is indeed temporary, or whether growth is starting to wane in the face of the tapering of US stimulus, weak emerging market growth and growing tensions in the Ukraine.

Weather hits the US, Japan and UK

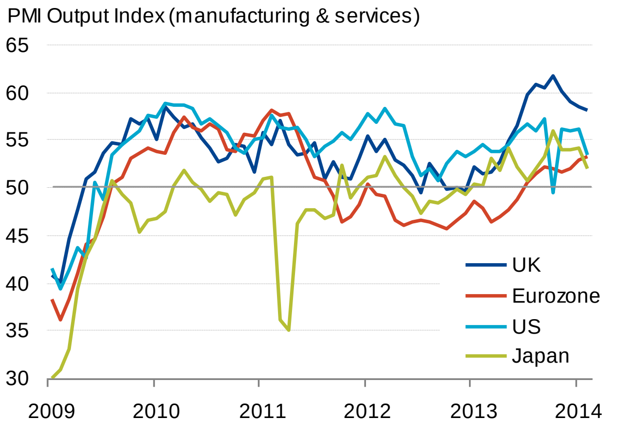
Growth slowed sharply in the US and Japan, in both cases commonly linked to extreme winter weather

Global gross domestic product



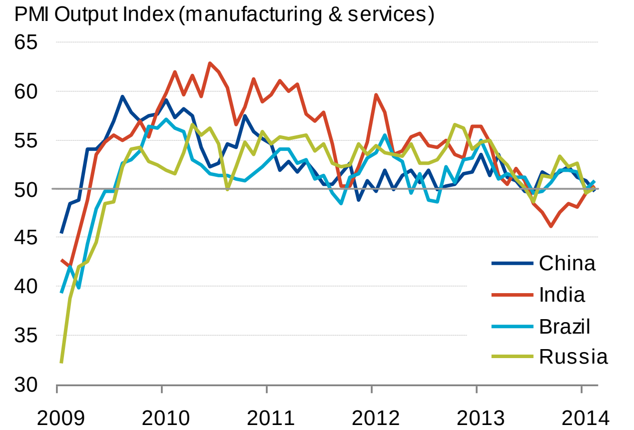
Sources: JPMorgan, Markit, Ecowin.

Developed world



Sources: Markit, CIPS, JMMA.

Emerging markets



Sources: Markit, HSBC.

hitting demand for domestic services. With the exception of the hit caused by October's shutdown, the US saw the smallest expansion of activity since December 2012. In Japan, the increase in activity was the smallest since last August. Reports of weather-related disruptions were also a factor behind an easing in the rate of growth signalled by the UK PMI surveys to the weakest since June.

The eurozone, on the other hand, continued to see growth gather momentum, with the surveys indicating the fastest pace of expansion since June 2011. Encouragingly, the upturn continued to spread from Germany to other countries including Spain and Italy. The rate of expansion in activity in Italy was the sharpest in nearly three years. France remained the laggard, contracting for a fourth successive month and declining at a faster rate than January.

Policymakers seek guidance on soft-patch

The weather related disruptions in the US and Japan come at unfortunate times, as policymakers seek insight into the resilience of the economies in the face of asset purchase tapering in the former and an upcoming sales tax rise in the latter. Analysis of the anecdotal evidence from the surveys indicates that, in both cases, the underlying rates of growth remain robust, suggesting policymakers will look through the current soft patch. However, there will undoubtedly be concern about the short-term impact on GDP numbers that seems inevitable in the first quarter.

The relative resilience of the UK data meanwhile adds to the prospect of the Bank of England being the first developed world Central Bank to tighten policy via an initial hike in interest rate, possibly as early as late-2014, should the recovery remain intact.

The ongoing recovery in the eurozone meanwhile takes pressure off the ECB to do more to stimulate growth, especially as the threat of deflation has shown signs of easing, given higher than anticipated inflation numbers in recent months.

Emerging market langour

Even with the weather hitting the US, UK and Japanese economies, growth in the developed world continued to exceed the ongoing languid pace that has been evident in most major emerging markets over the past year, with further malaise seen in each of the BRIC economies in February.

China saw output contract, albeit only slightly, for the first time in seven months. Falling output in the manufacturing sector was accompanied by only weak growth in the services economy. The disappointing PMI surveys raise the prospect of China struggling to grow by even a modest 7.5% in 2014.

Only marginal growth was meanwhile signalled in Russia, Brazil and India, the only comfort being that in each case this represented an improvement on the marginal declines recorded in January.

It is not just the BRIC emerging markets that remained in a general state of torpor. Manufacturing PMI surveys showed that many other emerging economies continued to show only marginal growth. The main exceptions are the emerging markets of central and eastern Europe, such as Poland and the Czech Republic, which appear to be benefitting from the growth upturn in Germany.

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