

Global economy

Manufacturing momentum slows in March, prompts price cuts

- **Global PMI signals strongest quarter for nearly three years, but also shows slowing momentum**
- **Prices fall for first time in eight months**
- **China remains at foot of global league table**

Business conditions in the world's factories continued to improve in March, building on the recovery that has been evident over the past year. However, the rate of improvement slowed from the near-three-year high seen in February to the weakest for five months, and weaker growth of new orders suggests the pace of expansion could slow further.

The weakness of demand is meanwhile leading to lower inflationary pressures, with factories cutting their prices on average for the first time in eight months.

Wobbly BRICs subdue global PMI

The JPMorgan Global PMI™, compiled by Markit from its 24 national surveys, fell from 53.2 in February to 52.4 in March. PMIs fell in 16 countries and rose in only eight.

The US, Czech Republic and Ireland led the worldwide PMI rankings, followed by the UK.

Only three countries saw business conditions deteriorate, as signalled by sub-50 PMI readings. China saw the steepest decline, followed by Russia and then Greece, the latter slipping back in to decline after two months of growth at the start of the year.

Weakness was evident across the so called 'BRIC' emerging market economies. While China contracted for a third month running the Russian PMI has now signalled contraction in eight of the past nine months. Brazil and India meanwhile showed only modest growth, meaning a GDP-weighted BRIC PMI fell from 49.0 to 48.5, signalling the largest decline since last July and the third successive monthly deterioration in business conditions.

Contraction in the major emerging markets contrasted with ongoing robust, albeit slower, growth in the main developed countries.

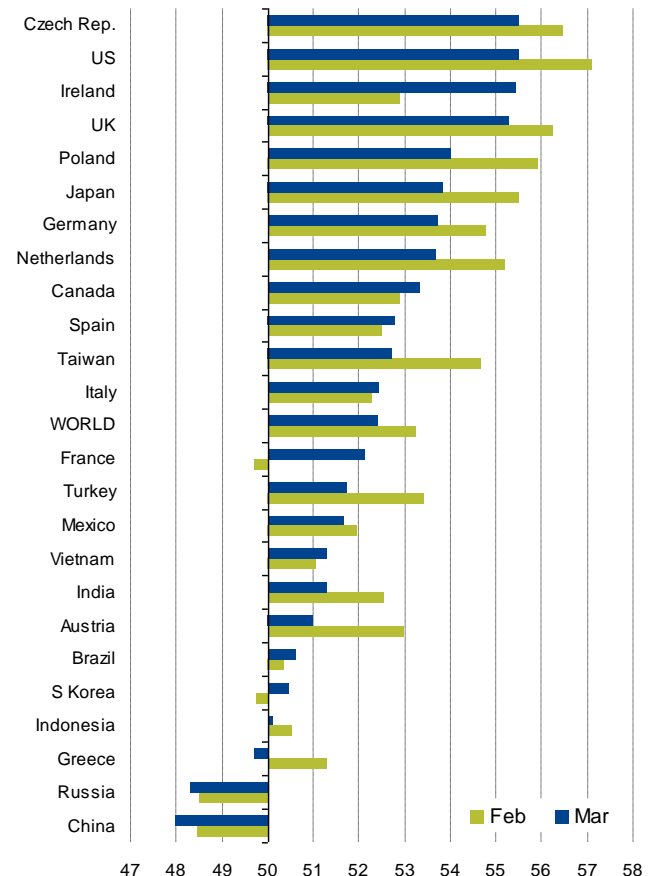
Global factory output



Sources: Markit, JPMorgan, Ecwin.

Countries ranked by manufacturing PMI™

Manufacturing PMI, 50 = no change on prior month



A GDP-weighted average of the US, UK, Eurozone and Japanese economies registered 54.4, down from 55.5 in February but remains sufficiently elevated by historical standards to complete the strongest quarter for three years.

Growth likely to slow further

Despite the decline in the global PMI, the robust developed world growth meant the March surveys rounded off the strongest quarter for worldwide manufacturing since the second quarter of 2011. The surveys are broadly consistent with global production increasing at an annual rate of 4% in the first quarter, easing to nearer 3% in March.

But several key indices suggest that the pace will continue to slow in the second quarter.

New orders rose globally at the slowest pace for five months, the pace weakening in all major developed economies including the US, UK, Eurozone and Japan. China meanwhile saw new orders fall for a second successive month, registering the largest decline since August 2012 and boding ill for growth in other Asian economies.

More encouraging was the global trend in hiring, with the PMIs registering the largest monthly increase in manufacturing employment since August 2011. However, employment is often a lagging indicator as far as general production trends are concerned, and more weight should be placed on the new orders signal.

Prices fall, notably in Asia and eurozone

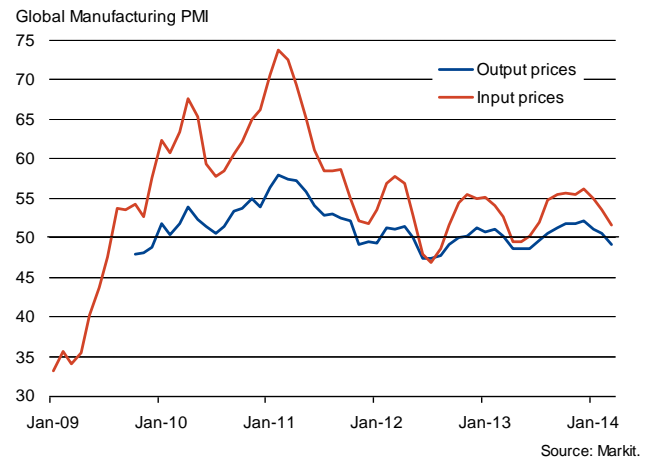
Prices charged by the world’s factories fell for the first time in eight months in March, though trends varied by country. Prices rose in 10 countries but fell in 14, with China seeing by far the steepest decline. Taiwan and South Korea also reported falling prices, and Japanese factories reported the first lowering of prices for six months, albeit only marginal.

However, the drop in prices was by no means confined to Asia: all eurozone countries surveyed saw prices fall with the sole exception of the Netherlands.

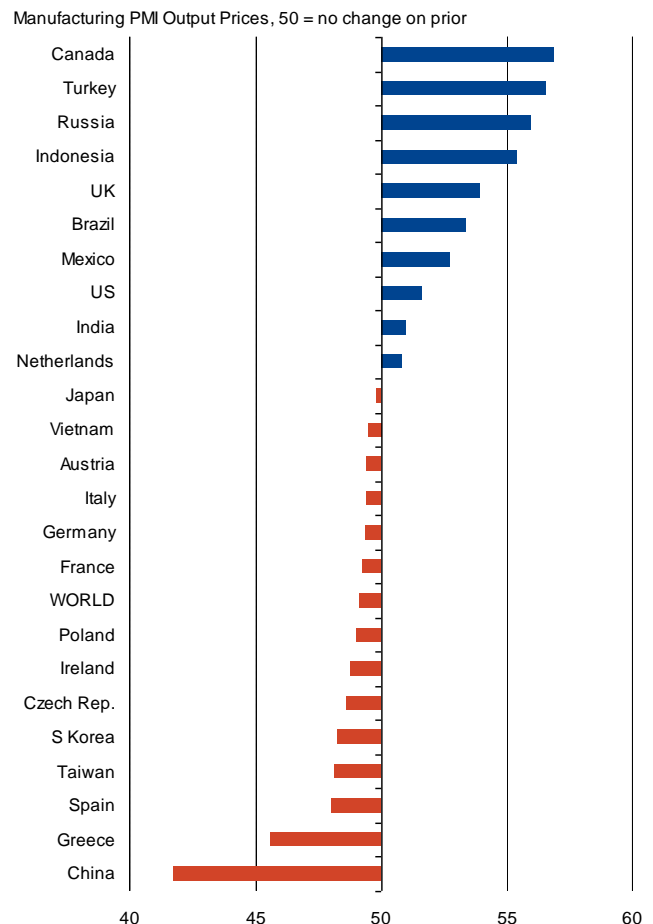
The lowering of factory gate prices in part reflects a reduced rate of increase of input prices. On average, global input prices rose at the slowest rate since June of last year, representing a marked contrast to the solid rate of growth seen at the end of last year.

Companies reported that suppliers were often willing to reduce prices in the face of weaker than anticipated demand. This shift to a buyer’s market was also indicated by the Suppliers’ Delivery Times Index, which showed the lowest incidence of supply chain delays for seven months.

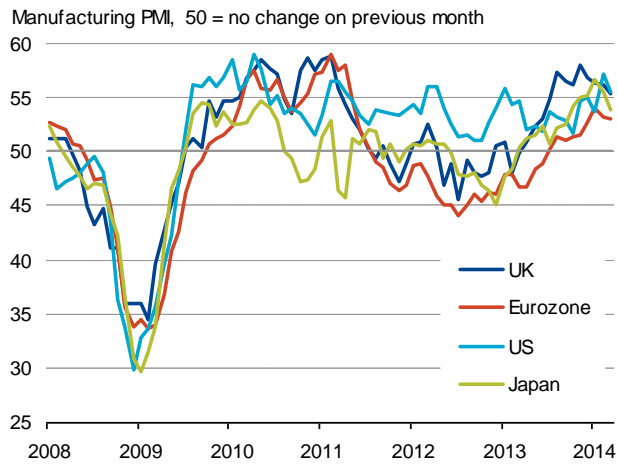
Input and output (factory gate) prices



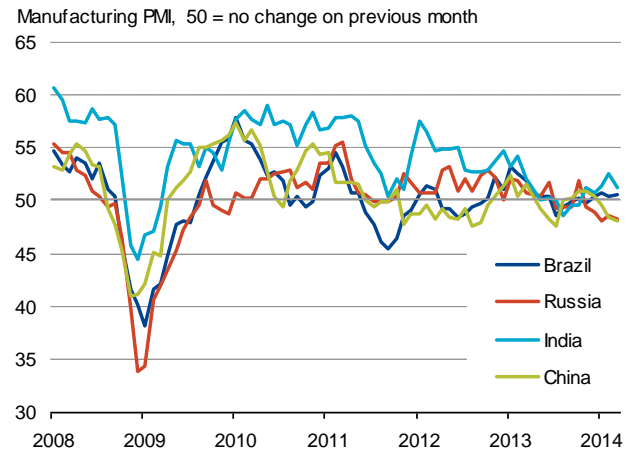
Countries ranked by factory gate prices



Manufacturing PMIs: developed world



Manufacturing PMIs: emerging markets



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