
Markit Economics

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Markit economic overview

PMI data highlight growing variations in likely policy paths

9 June 2015

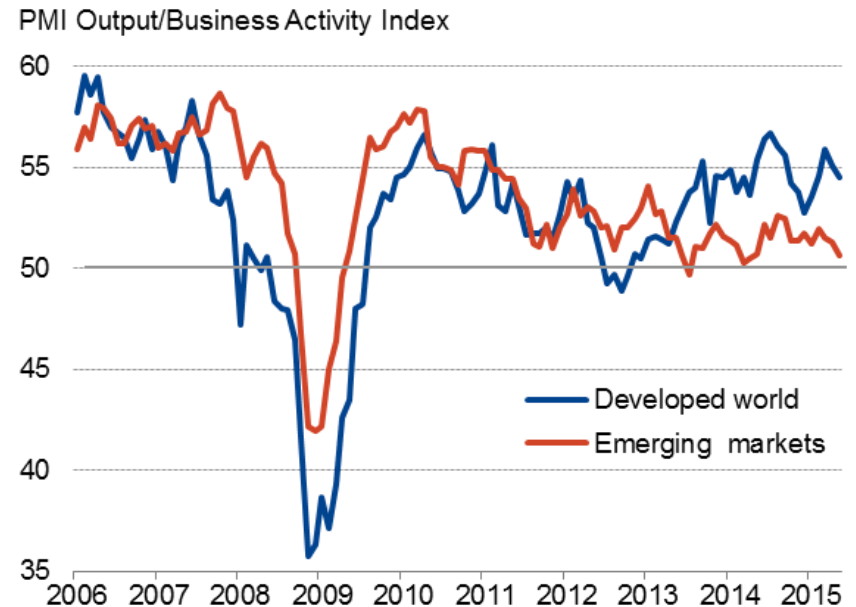
Global growth slows for second month running in May

Global economic growth edged lower for a second successive month in May according to [Markit's PMI survey](#) data, hitting the lowest since January. Despite near-stagnation of [emerging markets](#), the rate of expansion nevertheless remained reasonably robust, signalling annual global GDP growth of 2-2.5%, and sufficiently strong to encourage firms to boost employment at the fastest rate seen since the financial crisis.

Global PMI and economic growth



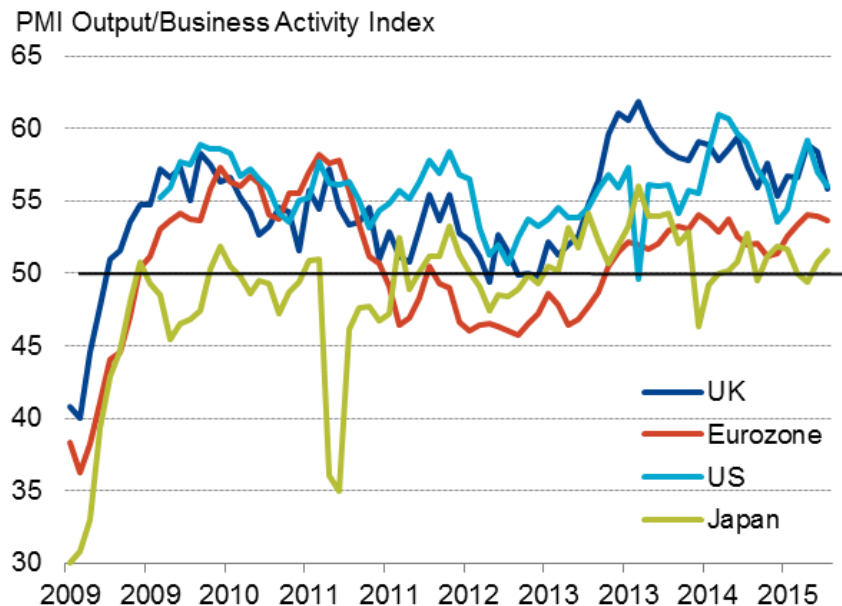
Developed v emerging markets



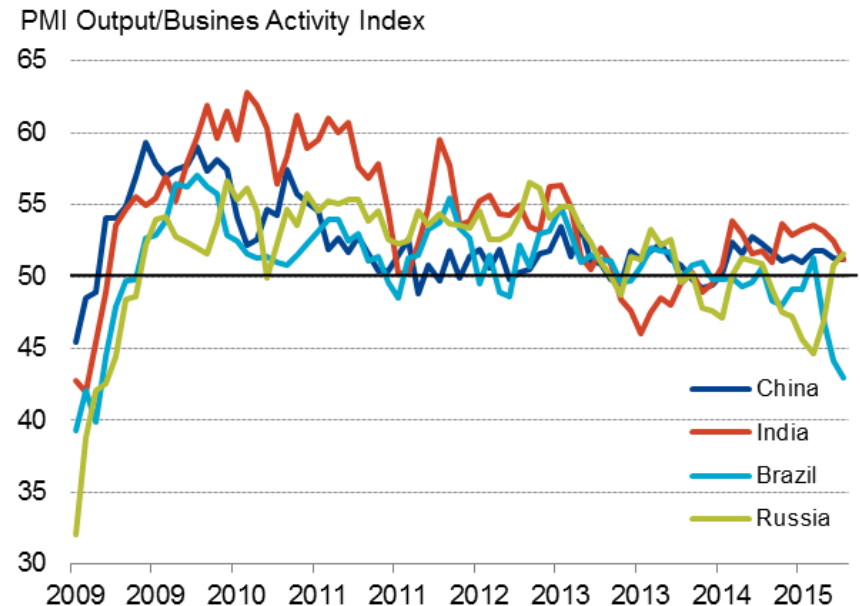
Asia and emerging markets remain weak links in global economy

May's global expansion was again underpinned by the US and UK, despite both seeing slower rates of growth with additional support from a steady but fragile revival of the eurozone. Weak growth continued to be seen across much of Asia, however, including China and Japan, and ongoing malaise was seen in many other emerging markets. A deepening downturn in Brazil remained a particular concern.

Developed world

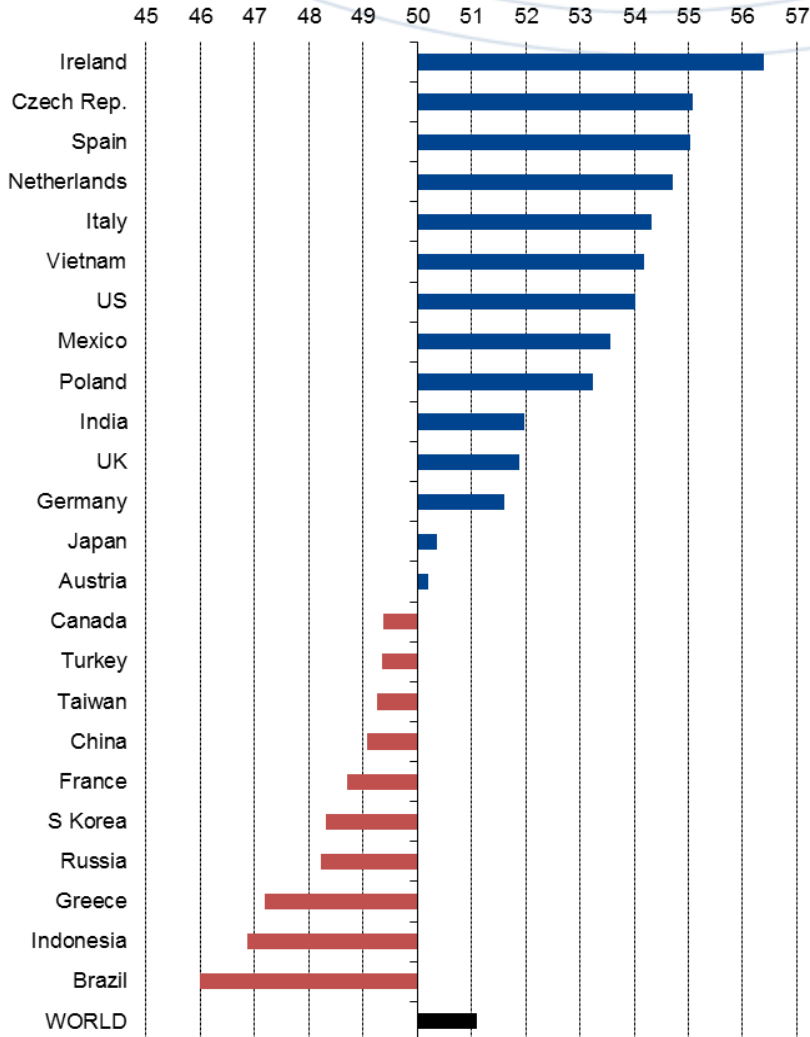


Emerging markets



Monthly economic overview

Manufacturing PMI, 50 = no change on prior month
Average reading in April and May



Eurozone nations dominate manufacturing rankings

So far in Q2, the [manufacturing PMI rankings](#) have been dominated by eurozone economies, led by Ireland but with Spain, the Netherlands and Italy all also featuring in the top five, all aided by exports being buoyed by a weaker euro.

Eastern European economies such as the Czech Republic and Poland are also benefitting from the euro area's revival.

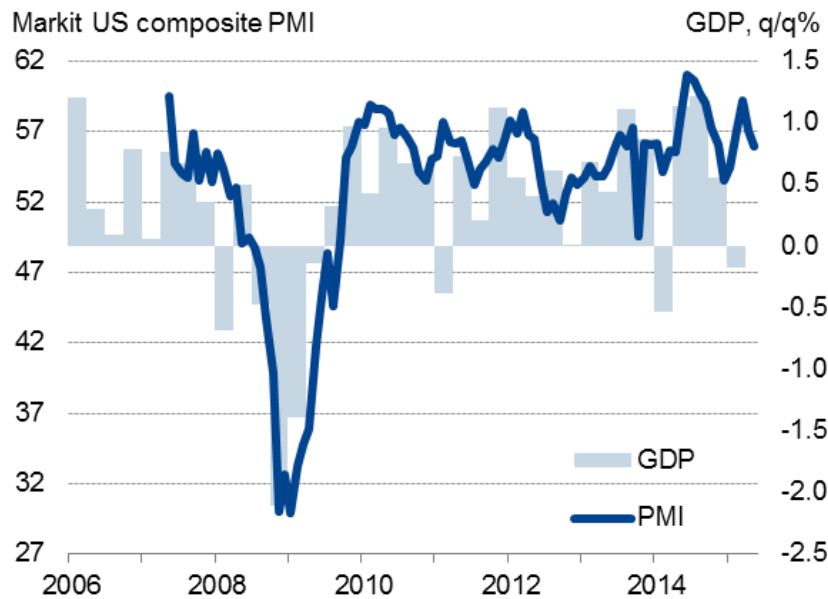
In contrast, the US and UK, bedevilled with stronger currencies, have moved down the rankings.

The dire state of Brazil's economy was illustrated by it slipping to the foot of the PMI rankings, while steep downturns in Greece and France highlighted how not all euro countries were benefitting from a weakened currency.

US economy set for Q2 rebound, but questions hang over strength of upturn

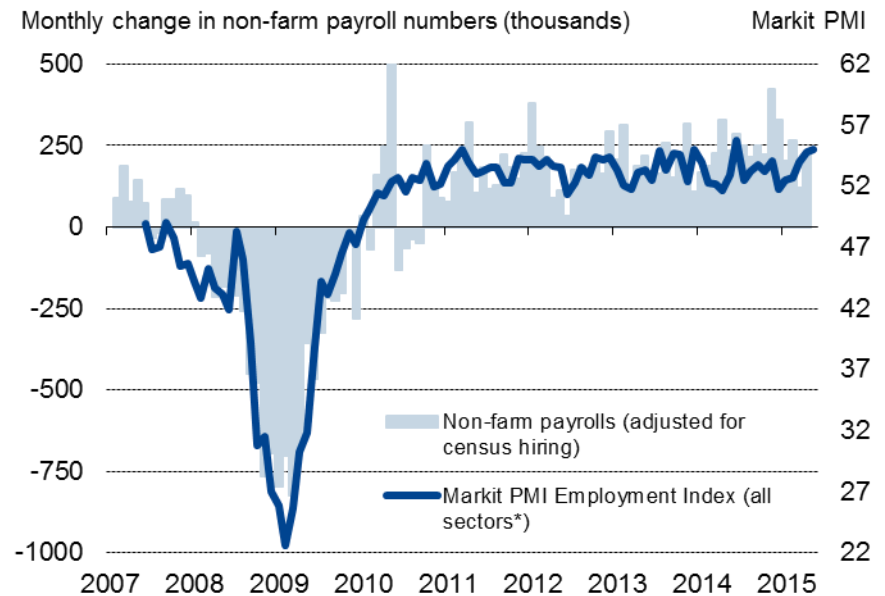
The US economy is growing again after a brief contraction in Q1. Markit's PMI data signal 2-3% annualised GDP growth in Q2 and job creation has boomed. A near post-crisis high in the PMI employment index was matched by a [280,000 non-farm payroll surge](#), raising the chance of a September rate hike. However, the surveys also show the strong dollar hurting exports and earnings, which could worry the Fed if it continues.

US economic growth (GDP v PMI)*



* pre-crisis PMI uses manufacturing data only.

US labour market

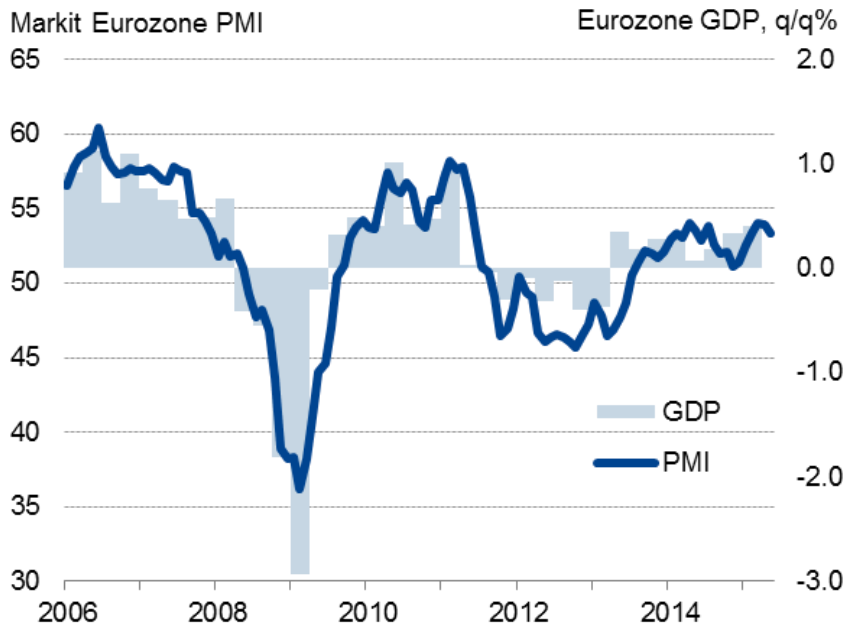


*Manufacturing only pre-October 2009

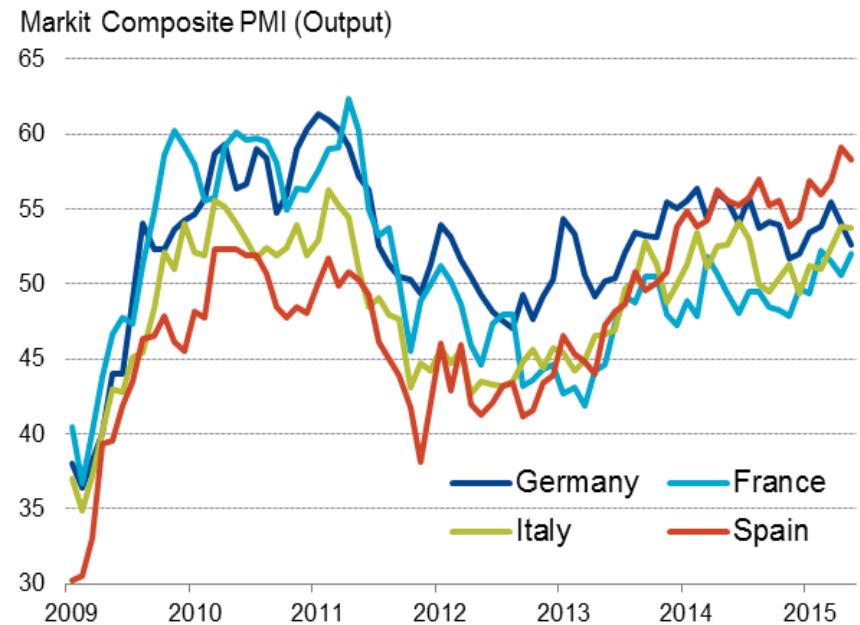
Solid PMI results support ECB view that eurozone recovery is 'on track'

The [ECB kept its foot firmly on the stimulus pedal](#) at its June meeting, dismissing suggestions that a revival in economic growth and signs of resurgent inflation may prompt a tapering of QE. Since the ECB announced its €1.1 trillion QE programme economic growth and inflation have surprised on the upside. The positive trend continued in May, with the PMI consistent with the region's GDP growing by 0.3-0.4% in Q2

Eurozone economic growth (GDP v PMI)



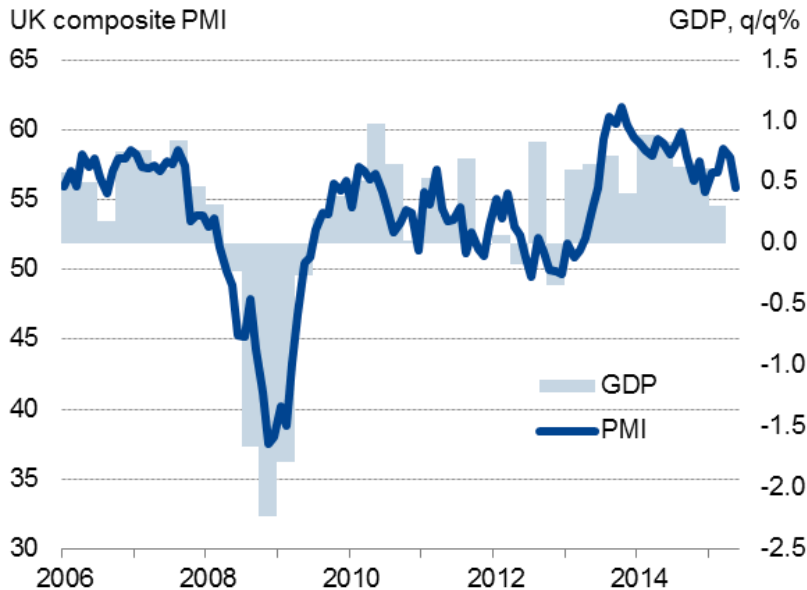
Eurozone's big-four member states



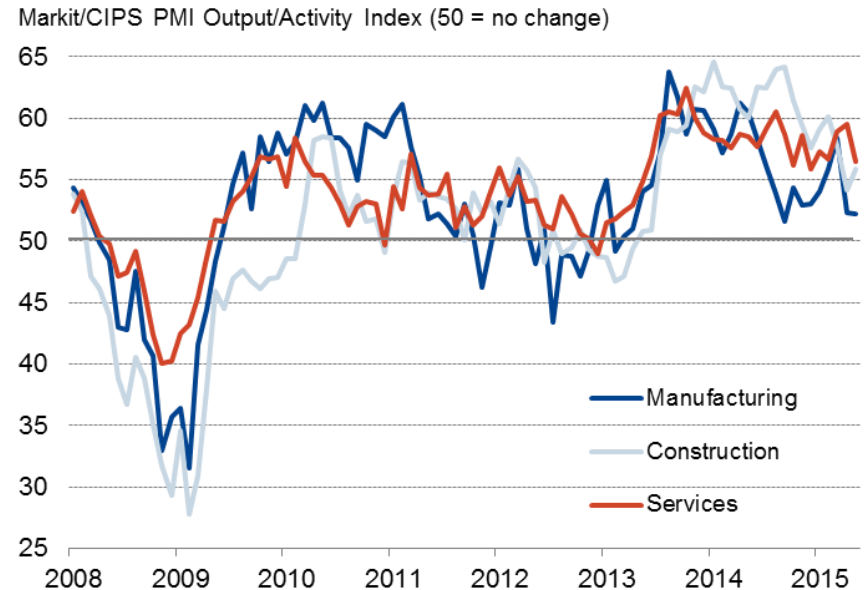
UK economic health in doubt as slowdown spreads to services

With [inflation falling negative](#) for the first time since 1960, a marked slowing in the rate of growth signalled by the [UK PMI surveys](#) raised doubts about the ability of the economy to rebound from weakness at the start of the year and effectively killed off the chance of any imminent interest rate hike. Disappointing rates of [manufacturing](#) and [construction](#) growth persisted into May, accompanied by a marked easing in services.

UK economic growth (GDP v PMI)



PMI (output) by sector



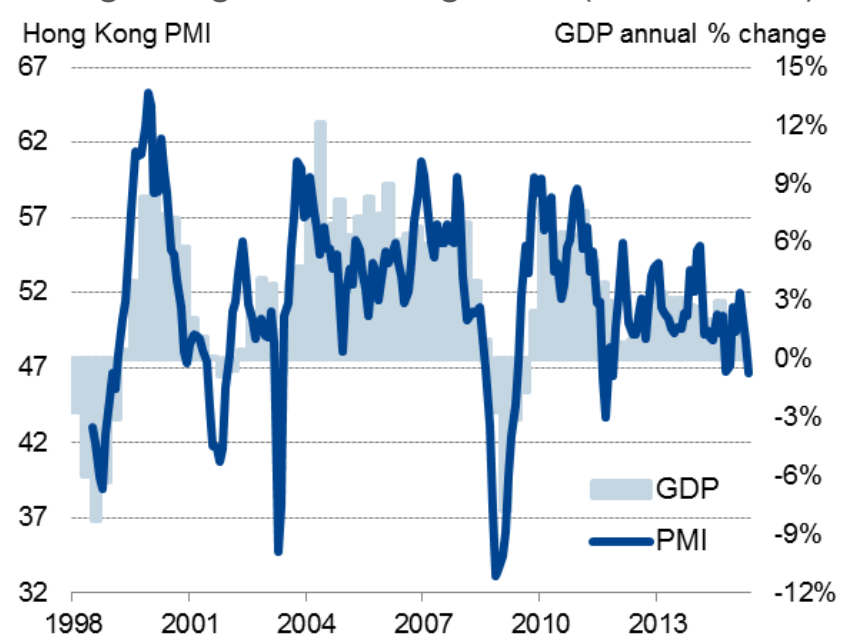
China slowdown spill-over to Asia intensifies

China's [manufacturing economy](#) contracted for a third successive month in May, acting as a drag on the composite PMI and suggesting economic growth could falter further in Q2. Exports fell at the fastest rate for almost two years. China's weakness is hitting growth across Asia. Most vividly, [Hong Kong firms](#) reported exports to China fell at the steepest rate since 2008, pushing the average Q2 PMI reading to a six-year low.

China economic growth (GDP v PMI)



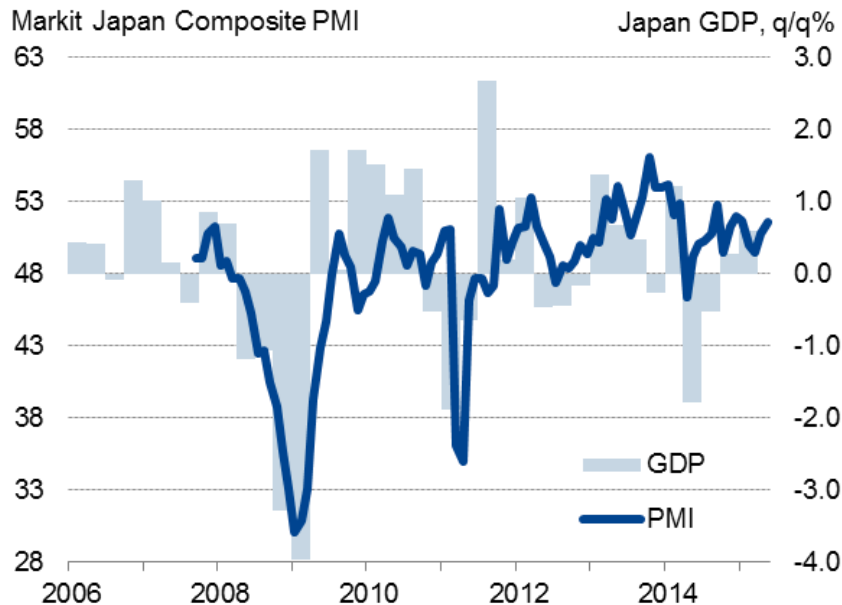
Hong Kong economic growth (GDP v PMI)



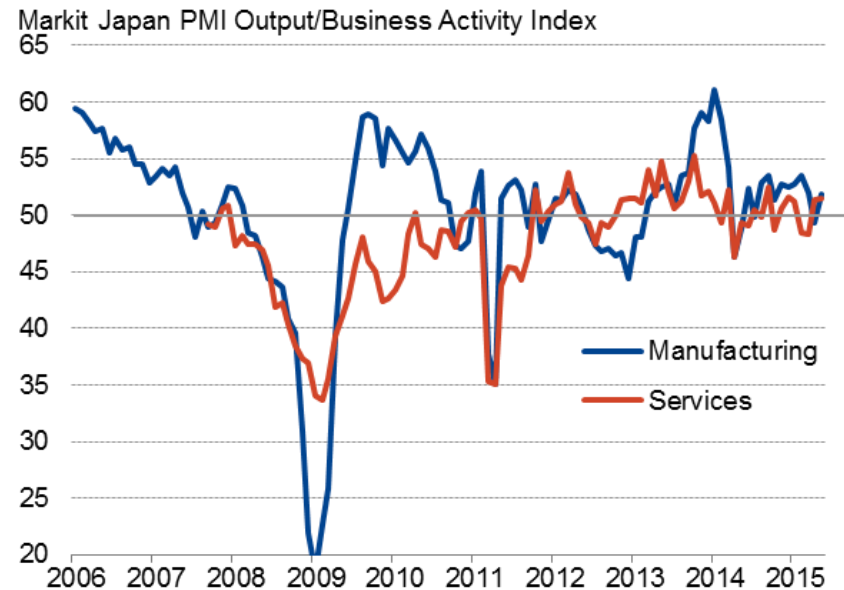
Further stimulus not ruled out in Japan as economy shows only moderate growth

Business activity picked up in Japan in May, with the all-sector PMI up to a four-month high to provide hope that the economy retained moderate growth momentum in Q2. However, exports have almost stalled and price pressures weakened, suggesting further stimulus from the Bank of Japan should not be ruled out. The export performance is especially worrying as the yen is down to a 13-year low against the US dollar.

Japanese economic growth (GDP v PMI)



Japan manufacturing and services

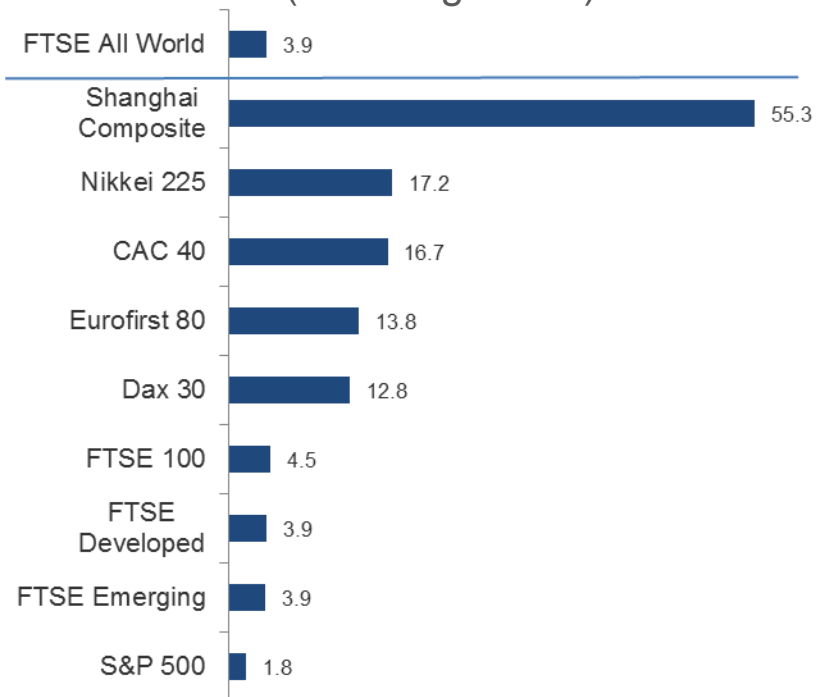


Financial markets

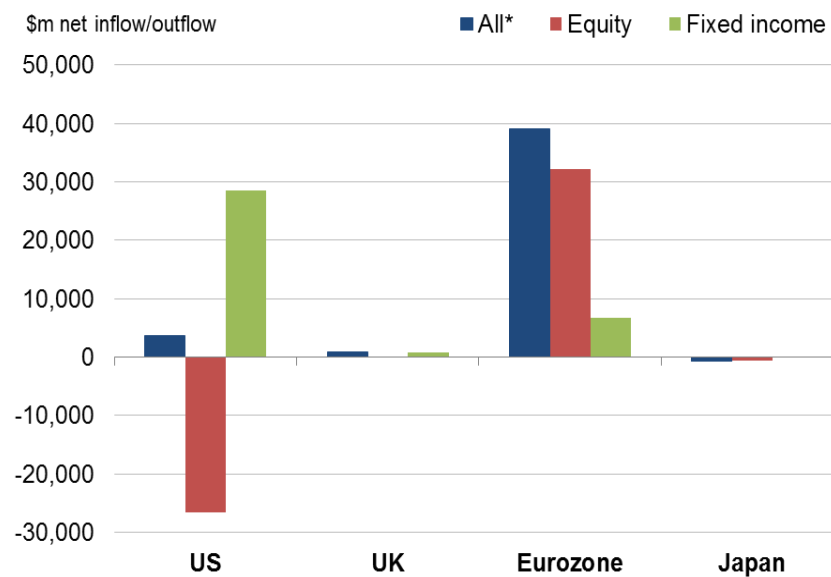
Investors fuel strong rallies in Asian and Eurozone stocks

Differing views on policy continued to drive stock market performance. Expectations of further stimulus in China and Japan helped propel Shanghai and Tokyo benchmarks higher. The tech-heavy Shenzhen Composite has more than doubled so far this year and the Shanghai Composite is up more than 50%. Elsewhere, ETF data highlight how the trend so far this year has been to shift from US equities, hit by rate worries and the strong dollar, into eurozone stocks. Eurozone bonds have suffered, however, seeing record net outflows in May.

Stock markets (% change YTD)



ETF flows in first five months of 2015



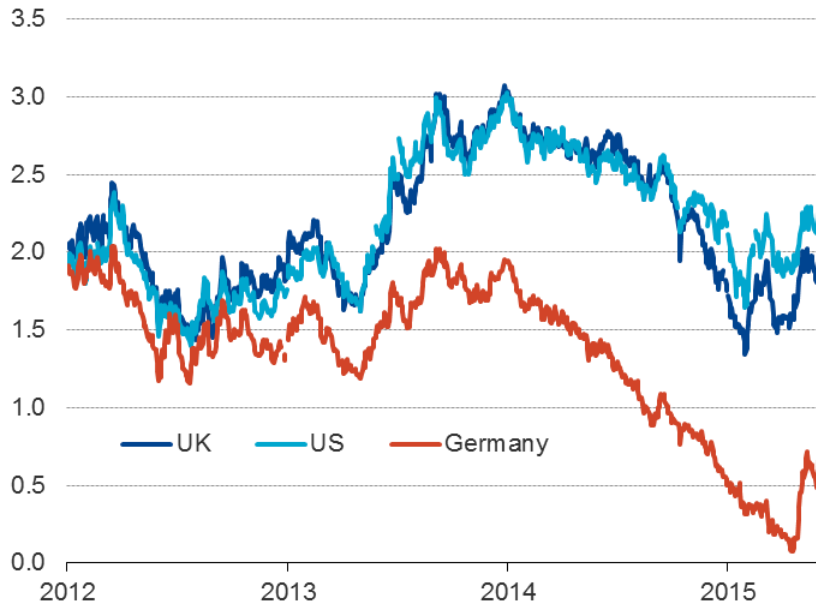
* Includes currency and alternative ETPs as well as equity and fixed income.
Source: Markit.

Bond market volatility rises

Bond markets slumped as investors priced in higher chances of interest rates rising in the US and UK later this year, and also pulled back on buying into the eurozone bond market after the rush into bonds driven by the ECB's QE announcement. Interest rate expectations have risen not just because of signs of stronger growth, but also because price pressures are picking up, linked in part to the one-third rise in the price of oil since the lows earlier in the year. The US dollar and sterling also continued to rally in the rate hike expectations, especially in comparison to policy stimulus in Japan and the Eurozone .

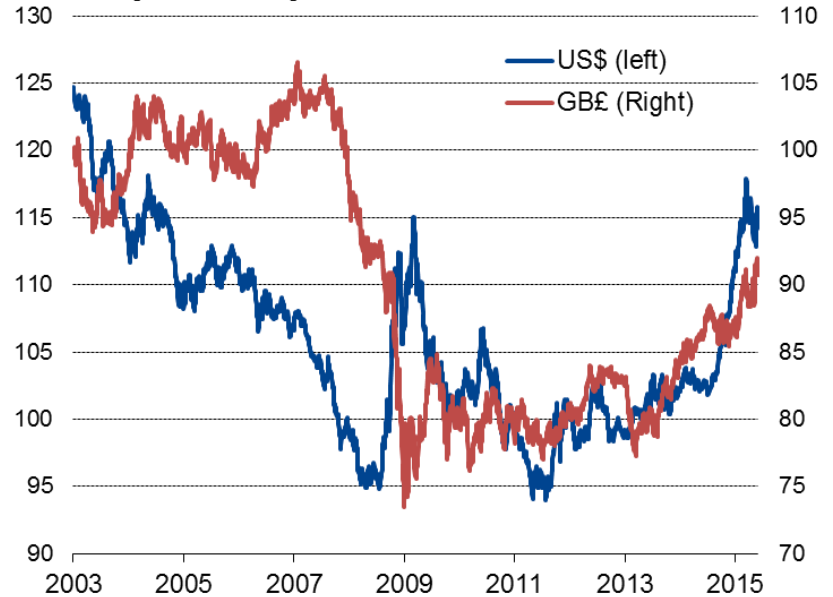
Government borrowing costs

10-year government bond yield, %



Exchange rates

Trade weighted exchange rates



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