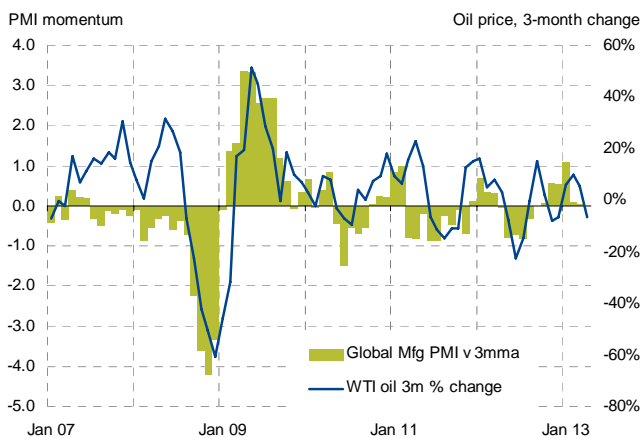


# Commodities

## Oil price fall linked to loss of global economic growth momentum

- Oil prices fall 9% in April so far
- PMI data suggest easing is due to weaker demand outlook

### Manufacturing PMI and Oil prices



Oil prices have fallen sharply, with Brent crude dropping below \$100 per barrel for the first time since last July and West Texas Intermediate down to \$88.3 per barrel. Both have fallen 9% so far in April.

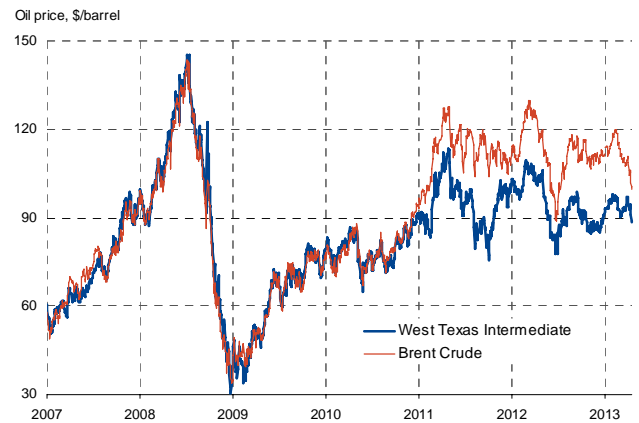
Prices change due to either perceived changes in demand or due to supply side factors, or sometimes merely due to speculation about future changes in demand and supply. The PMI data provide an insight into which factors are currently at play, and suggest that the latest price fall is linked to weakening global economic growth momentum.

Global manufacturing output rose an estimated mere 0.9% on a year ago in February, reflecting weaker growth rates in China and the US as well as falling production in the European Union and Japan. This weakness has been anticipated by the global manufacturing PMI which, at 51.2 in March, continues to run at a level consistent with sluggish manufacturing sector expansion. The PMI's output sub-index rose from 51.8 in February to 52.1 in March, but remains consistent with a disappointingly modest 1-2% annual rate of expansion of global goods production at the end of the first quarter.

Importantly, the PMI has lost its upward momentum, measured by the value of the PMI in the current month compared to its average over the latest three month period. This measure of growth momentum correlates well with changes in many commodity prices, including oil (see first chart on left), as it highlights changes in the demand environment in the global industrial economy. The PMI's momentum peaked in January and has since fallen, reaching its lowest since last September in the latest (March) survey period.

Rising oil prices in 2009-10 and early parts of the past few years had been justified by a pick up in global growth momentum, according to the PMIs. In contrast, price rises in 2007-8 had been driven by other factors, such as supply side issues and speculation.

### Oil prices



### Manufacturing PMI and global goods production



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