

Global economy

PMIs show global economy picking up speed in May, but Q2 still looks weak

- **Global PMI rises from April's six-month low**
- **Japan and UK close gap with the US; eurozone downturn eases**
- **Emerging markets remain in weak patch**

Having hit a six-month low in April, global economic growth picked up again in May, according to PMI data. The JPMorgan Global PMI, produced by Markit, merely rose from 51.9 to 53.1, however, thereby still signalling only a modest pace of expansion of around 2-2.5% per annum – above that seen late last year but well below per-crisis rates. Global manufacturing continued to more or less stagnate, while services saw faster, though still subdued, growth.

PMIs rose in Japan, the UK, the US and the eurozone in May, albeit with the latter merely indicating a slower rate of decline. Meanwhile, the PMI for China fell to its weakest since last October and only modest expansions were again seen in other key emerging markets.

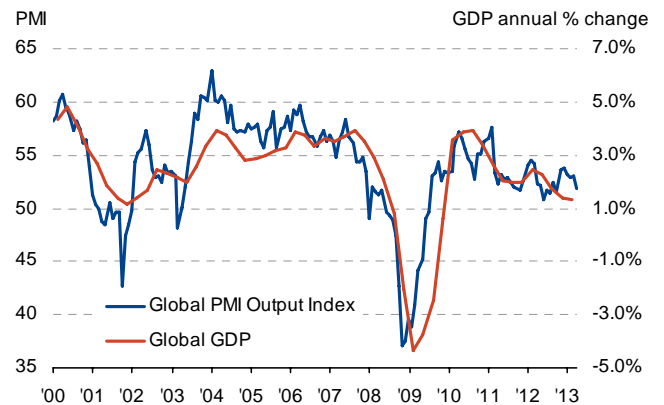
Developed world

Among the major developed countries, the US again saw the strongest pace of expansion in May – as has been the case over much of the past three years. The gap has narrowed significantly with the UK and Japan, however, both of which saw strong upturns in May.

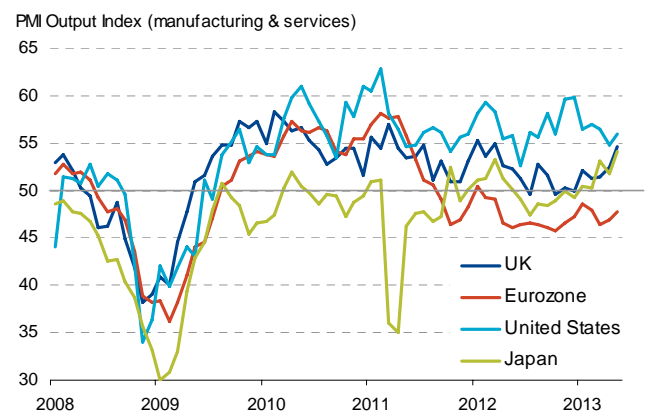
The all-sector PMI for the US rose from April's ten-month low, but the upturn was limited to the non-manufacturing sector (based on the ISM survey). Markit's survey showed that manufacturing output growth, on the other hand, slowed for a third month running to the weakest since last October. The data therefore suggest that US GDP growth will have slowed in the second quarter compared to the 0.6% quarter-on-quarter expansion seen in Q1.

While the US saw the strongest growth of the largest economies, the biggest change in business conditions was seen in Japan, where the pace of expansion rose to the fastest seen in the country's near six-year PMI

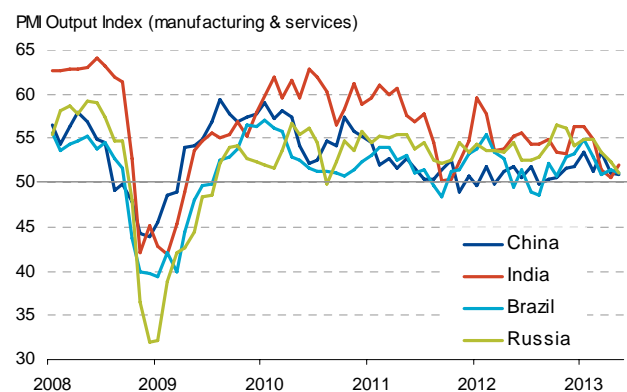
Global economic growth



Developed world all-sector PMIs



Emerging market all-sector PMIs



history. Second quarter GDP growth may even exceed the 0.9% rise seen in the first quarter.

Japan's manufacturing exporters bucked the wider trend of falling exports seen in the rest of Asia, enjoying the benefits of the yen's recent 20% depreciation, though much stronger growth in services suggests that the domestic economy is also benefitting from recent policy initiatives to boost growth.

The UK PMIs signalled the fastest growth for just over a year in May; led by the service sector. However, manufacturing and construction also expanded, signalling a welcome return of broad-based growth. The PMIs suggest economic growth will pick up from 0.3% in the first quarter to 0.5% in the second quarter.

The eurozone, in contrast, contracted once again, although the rate of decline moderated for a second successive month to raise hopes that the region's downturn in easing. Nevertheless, the euro area still looks to be on course to contract for a seventh time in the second quarter, with GDP down by a similar extent to the 0.2% fall seen in the first quarter.

Emerging markets

The PMIs also indicate that emerging economies are collectively undergoing one of the weakest growth patches seen since the 2008-09 crisis.

Only very modest rates of expansion were seen in China, Russia, Brazil and India, and all four are seeing weaker growth than the start of the year. Moreover, the rates of growth slipped closer towards stagnation in May, with the exception of India. Russia's growth rate was the weakest for just under three years, the expansion in China hit a seven-month low, and Brazil saw growth barely exceed the low seen back in March.

In China, manufacturing saw the weakest increase in output in the current seven-month growth spell, while services saw an ongoing sluggish expansion. The data added to gloomy views from the IMF and OECD, who both revised down their 2013 growth forecasts for China to 7.75% and 7.8% respectively.

Chris Williamson

Chief Economist

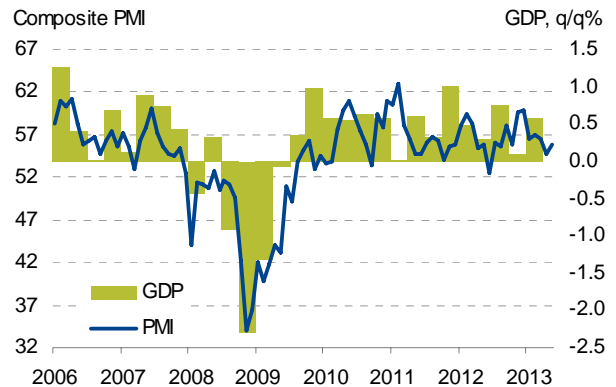
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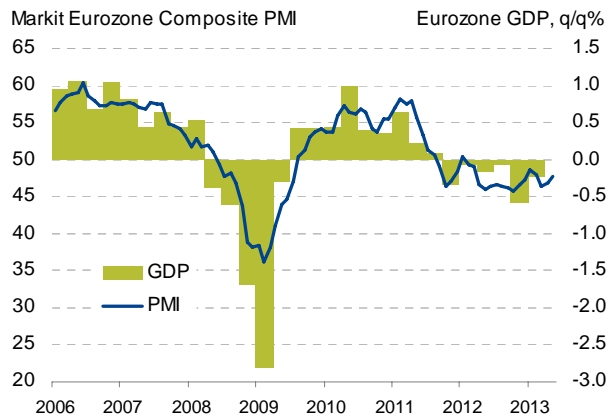
Email: chris.williamson@markit.com

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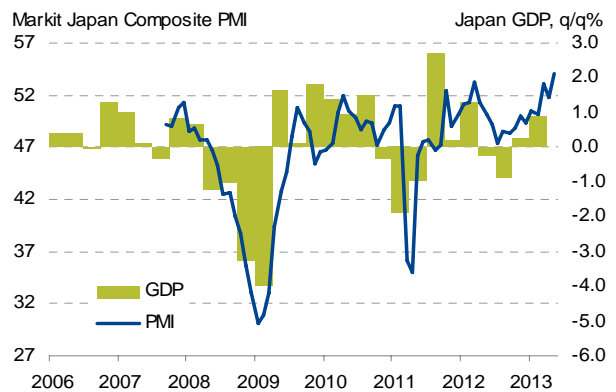
United States



Eurozone



Japan



United Kingdom

