

Global economy

Record expansions in the UK and Japan push global growth to 2½ year peak

- **Global PMI highest since February 2011**
- **All four largest developed economies grow, led by record expansion in the UK and Japan**
- **Rising output in Brazil, Russia and China contrasts with downturn in India**

Business surveys pointed to the fastest pace of global economic growth for over two-and-a-half years at the start of the fourth quarter, led by record rates of expansion in the UK and Japan.

The Global PMI™ rose to a 32-month high of 55.5 in October, up from 53.6 in September and signalling worldwide GDP growth of approximately 3.0% per annum. While subdued by pre-crisis rates, the pace of global expansion has accelerated markedly since the near-stalling of growth seen earlier in the year. Annual global GDP slumped to just 1.1% in the first quarter.

Service sector growth picked up to its fastest since February 2011, while manufacturing output rose at a pace only marginally weaker than September's 28-month peak. The latter was buoyed by an upturn in global trade flows, with the New Exports Orders Index indicating the strongest increase since March 2011.

Broad-based expansion

The acceleration in the pace of global economic growth was broad-based by country, though the rates of expansion generally remained stronger in the developed world than in the emerging markets. The PMI covering both manufacturing and services in the rich-world rebounded to reach its highest level since February 2011. Meanwhile, the comparable index for the emerging markets hit a seven-month peak.

Looking at the largest countries, developed markets growth was led by the UK for the second month in a row, followed by the US and then Japan. All three saw faster rates of expansion. The eurozone bucked the trend with a slight easing in the pace of growth.

In the emerging markets, faster growth was seen in Russia, China and Brazil, but India contracted for a fourth consecutive month.

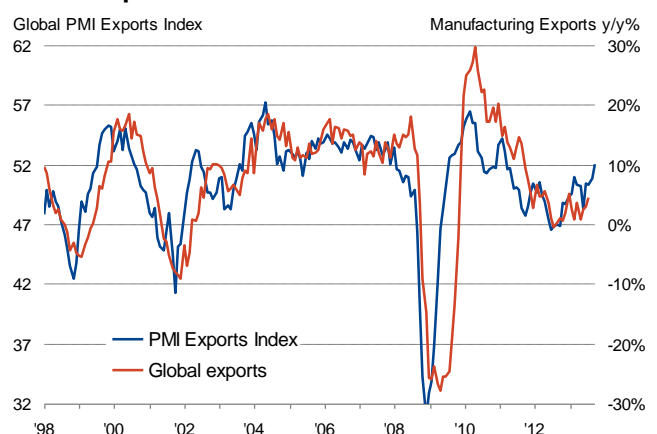
Global gross domestic product



Global manufacturing and services



Global exports



New US services index

Much of the variation by sector could be accounted for by the US, where manufacturing output growth sank to a 13-month low, most likely linked to disruptions and uncertainty caused by the government shutdown. In the services sector, however, the ISM non-manufacturing index (currently used as an indicator of services growth in the Global PMI) surprisingly rose.

The volatility of recent data suggests the Fed is likely to wait for a clearer picture of the economy to emerge before making any policy decisions. It therefore seems unlikely that the Fed will start tapering its \$85bn per month asset purchase programme until next year, possibly March.

Note that from the release of November data onwards, the Global PMI will use the new Markit US Services PMI™ series instead of the ISM non-manufacturing data, and will include revisions to the back data to October 2009.

UK leads developed world expansion

The UK all-sector PMI hit a record high in October, signalling the strongest monthly expansion since data were first collected in 1998. The data are consistent with quarterly GDP growth of at least 1.0%. The PMI Employment Index also hit a record high, raising expectations that unemployment will fall below the 7.0% threshold for higher interest rates sooner than the Bank of England's current guidance of late-2016.

While the UK upturn was led by services, construction and manufacturing were both also showing strong growth. In fact, the UK remained at the top of the global manufacturing PMI league table in October.

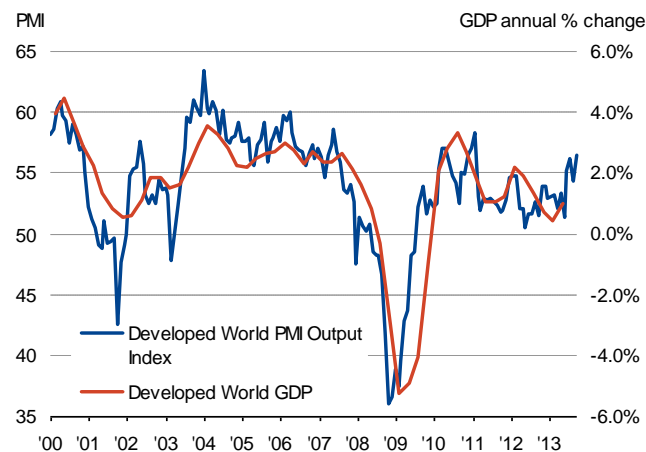
Japan stimulus boosts PMI to record high

Japan's all-sector PMI also hit an all-time high in October, signalling a marked upturn in GDP growth at the start of Q4. (Quarterly growth is signalled to have weakened slightly in Q3 from the 0.9% increase seen in Q2.) Services growth was the fastest in the survey's six-year history, while manufacturing growth was the strongest in over three years.

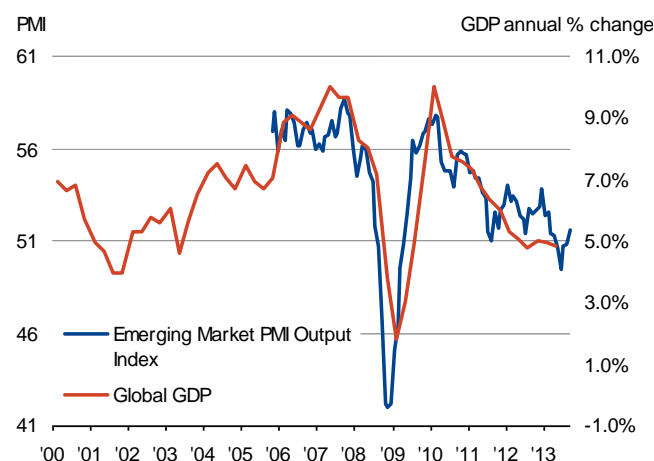
The improvement in the Japanese economy has to a large extent been attributed to the government's stimulus, dubbed "Abenomics", which has included the planned doubling of the country's monetary base by the Bank of Japan. The stimulus is also designed to end the deflation that has plagued Japan for over 15

years. Inflation also showed a welcome upturn in September, moving closer towards the 2.0% target.

Developed world output



Emerging markets output



Eurozone's sluggish recovery

The eurozone's recovery was seen to have taken a step-back in October, after the region's PMI fell slightly from September's 27-month high. The PMI is consistent with GDP rising by just 0.2% in Q3 and at the start of Q4. At the same time, a drop in inflation to just 0.7% has raised worries about deflation setting in. Expectations have therefore grown that the ECB may seek to reinvigorate the recovery via a cut in interest rates.

Mixed progress in the emerging markets

In the major emerging markets, modest growth in China, Russia and Brazil contrasted with an on-going downturn in India.

Economic growth picked up in China during Q3, with annual GDP growth up from 7.5% in Q2 to 7.8%. The PMI series also registered a further slight uptick in October, boding well for a further acceleration in Q4

GDP growth. Manufacturing output grew at the fastest rate for six months, buoyed by export orders rising at the quickest pace for 11 months, while services activity increased at the second-strongest rate since March.

Both Russia and Brazil also saw stronger rates of expansion. The former seeing the largest monthly gain in output of the combined manufacturing and services sectors since March, and the latter enjoying the biggest gain since February.

The surveys meanwhile indicated that India's economy contracted for a fourth successive month, ensnared in its worst downturn since 2009. Both manufacturing and services saw falling levels of activity. However, the overall rate of decline eased slightly in October, reflecting a slower rate of contraction in services.

Sources: Markit, JPMorgan, HSBC, ISM, EcoWin.

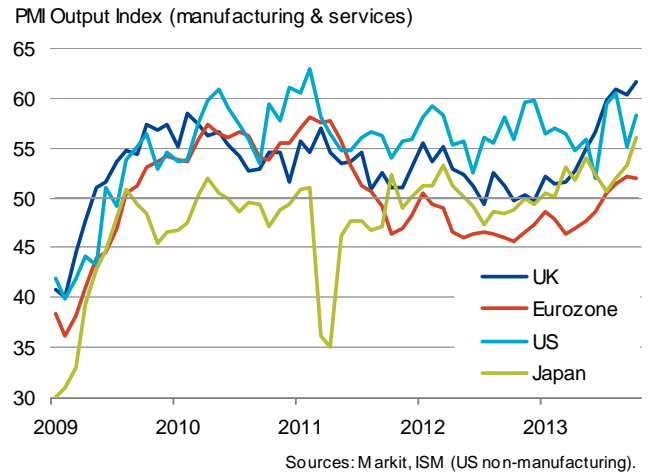
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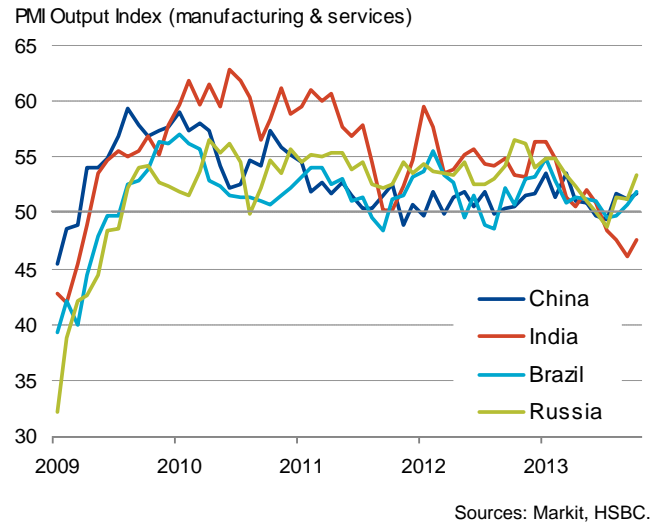
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Developed world

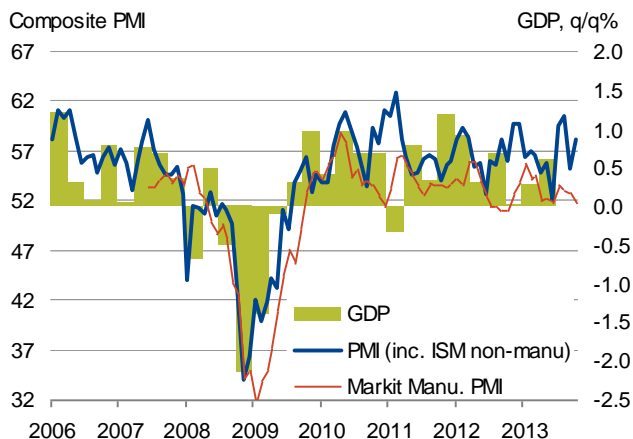


Emerging markets

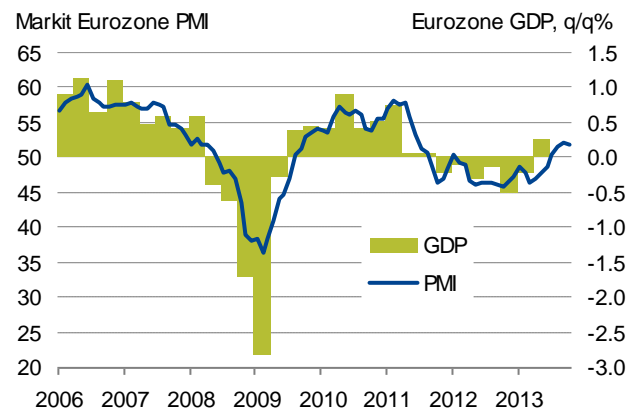


PMI and GDP comparisons

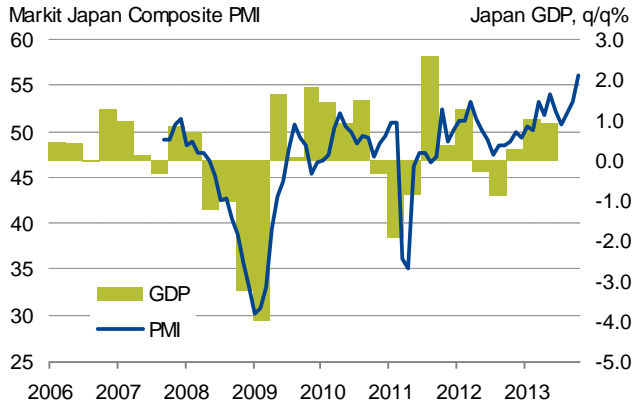
United States



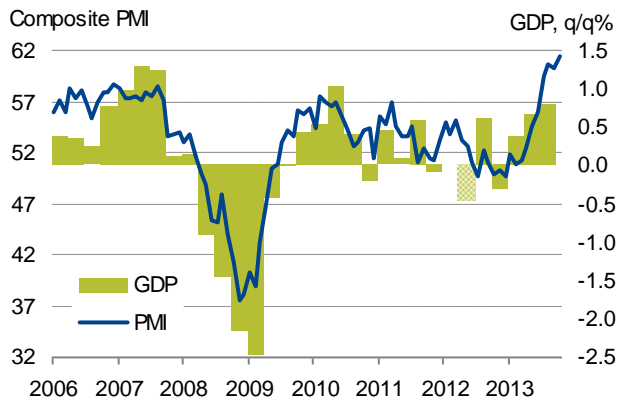
Eurozone



Japan



United Kingdom



China

