

Global economy

Record outperformance of developed world over emerging markets

- **Global PMI highest since September 2013**
- **Developed world growth accelerates, despite further drop in business activity in Japan**
- **Emerging market growth picks up but remains close to stagnation**

The global economy grew in May at the fastest rate since last September. The JPMorgan Global PMI™, compiled by Markit, rose from 52.8 in April to 54.3, the joint-highest reading in just over three years.

Growth divergences between the developed and emerging markets widened, however, to the greatest extent seen since comparable data were first available in 2005. While the emerging markets saw a further near-stagnation of business activity, the developed world enjoyed the fastest growth since February 2011. The upturn in the latter was all the more remarkable given an ongoing decline in Japan, attributable to the April sales tax hike.

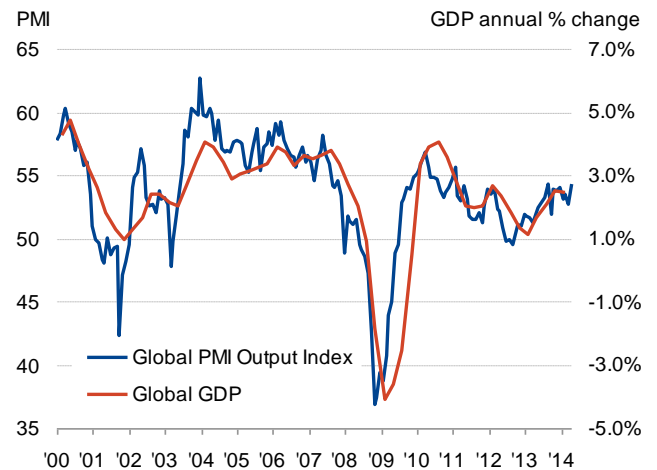
Developed world grows at fastest rate for over three years

Developed world growth accelerated in May to the fastest since February 2011, led again by the UK. The three [UK PMI](#) surveys are collectively signalling the strongest growth spell seen in the 16-years of data collection, despite the overall pace easing slightly in May. The survey also signalled record job creation. GDP looks set to grow by 0.8% again in Q2 and unemployment to fall further.

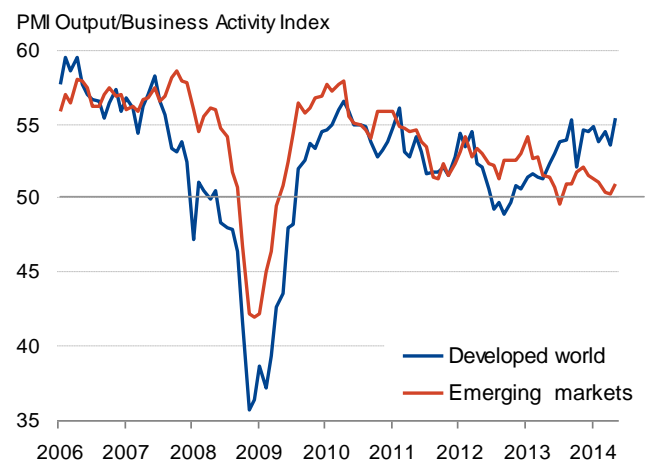
It was the US, however, that was perhaps the most noteworthy, enjoying one of the strongest expansions seen this side of the financial crisis as the pace of growth accelerated in manufacturing and services. The surveys suggest [GDP growth will rebound sharply](#) (c3.0%) after the 1.0% annualised fall seen in Q1

The euro area's PMI meanwhile fell from April's near-three year high, though remains consistent with GDP rising at a quarterly rate of approximately 0.5% in Q2. Growth slowed in Germany and France saw a renewed contraction of business activity.

Global gross domestic product



Developed world v emerging markets



There was better news in the region's periphery, however, with ongoing expansions seen in Spain and Italy.

PMI data, including the [new flash index](#), showed that [activity in Japan contracted](#) for a second month in May. The drop in activity was again largely linked to April's sales tax hike, although the adverse impact on spending waned during the month such that that overall decline in business activity was only modest. Firms also continued to take on more staff in the expectation of business rebounding in coming months after the initial impact of the April tax hike passes.

Emerging markets stagnate

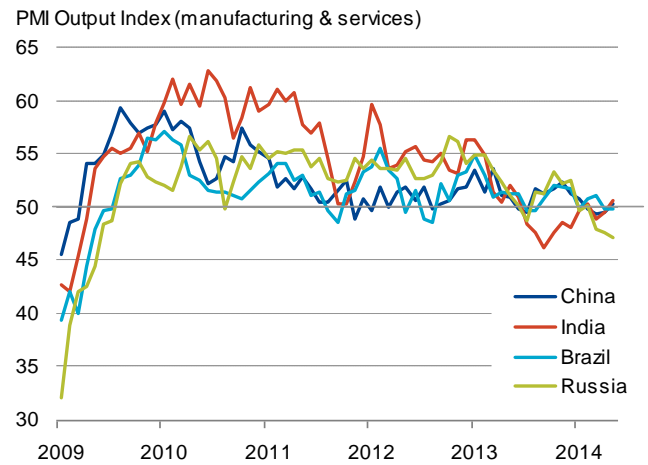
The emerging markets suffered another month of near-stagnation in May, continuing the ongoing malaise that has been evident over the past year. Although China and India saw returns to expansion, helping drive a very slight acceleration in overall emerging market growth to a three-month high, in both cases growth was only marginal. Business activity meanwhile fell again in Brazil and Russia, the latter seeing the steepest downturn since 2009 and the threat of renewed recession.

Markit's HSBC-sponsored PMI surveys for China signalled a marginal increase in activity in May after three months of decline, but continued to point to lacklustre domestic demand. The headline [manufacturing](#) index rebounded, with business activity supported by a four-year peak in export growth. With the [service sector PMI](#) remaining in modest growth territory, the upturn in the manufacturing survey allayed fears of a further slowdown in Q2 after annual GDP growth weakened to 7.4% in Q1.

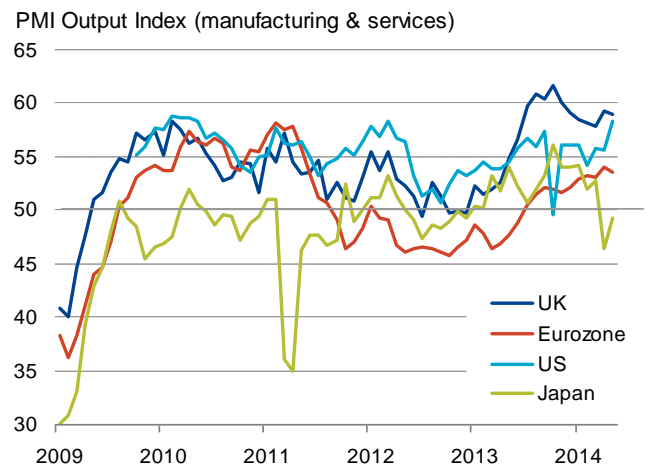
India also saw a marginal improvement in business activity after two months of decline, registering only the second expansion since June of last year. The stabilising of the economy bodes well after the marked rate of decline seen late last year.

An ongoing marginal downturn in business activity in Brazil was meanwhile accompanied by a steepening rate of decline in Russia, where output has fallen in four of the past five months with the rate of decline reaching the fastest in five years. While the near-stagnation of activity in China, India and Brazil is merely a big disappointment to countries that have in the past been associated with rapid expansions, the downturn in Russia suggests a renewed recession is on the cards.

Emerging markets (manufacturing & services)



Developed world (manufacturing & services)



Chris Williamson

Chief Economist, Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

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