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Markit Economic Research

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Global economy

Worldwide PMIs highlight emerging market and developed world divergences

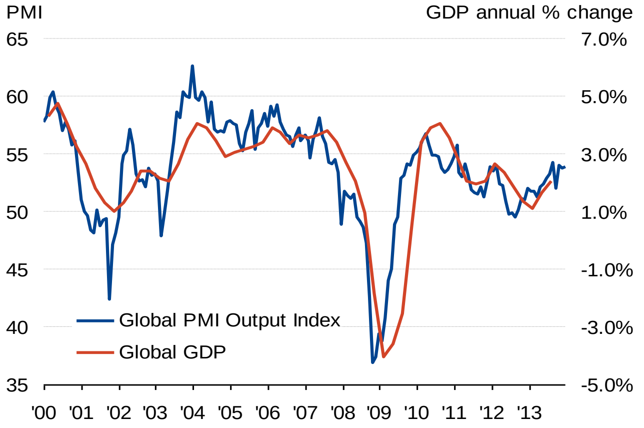
- **Global PMI™ rebounds but remains below September peak**
- **Manufacturing output and goods trade continue to grow**

The global economy maintained a robust pace of expansion in January, but the divergence between the growth rates in developed and emerging markets continued to widen.

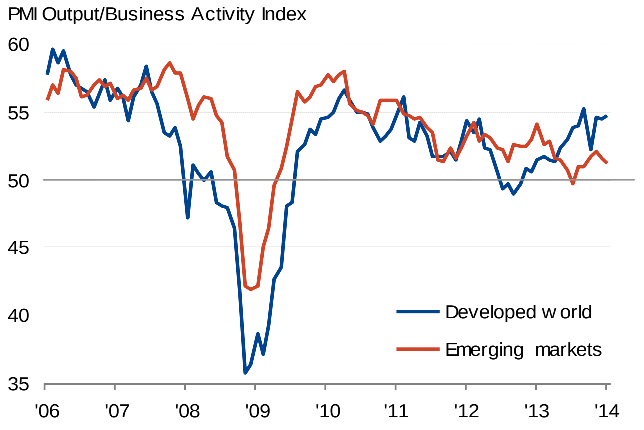
The JPMorgan Global PMI™, compiled by Markit from its business surveys, rose from 53.8 in December to 53.9 in January. With the exception of the US-shutdown related easing in October, the PMI has been signalling an annual rate of growth of global GDP of approximately 2-3% in recent months. However, while growth picked up to the second-fastest seen over the past three years in the developed world in January, the HSBC emerging markets PMI ("EMI") fell for a second successive month to the weakest since September.

The developed world has registered a stronger improvement in business conditions than the emerging markets over each of the past nine months. Historically strong rates of growth in the UK, US and Japan, plus a recovering eurozone, contrasted with near-stagnation across the four BRIC economies, which collectively saw the second-worst month since March 2009, according to the PMI surveys.

Global gross domestic product

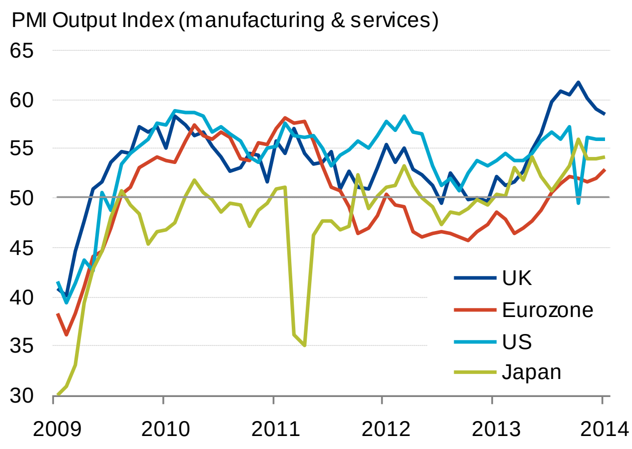


Developed and emerging markets

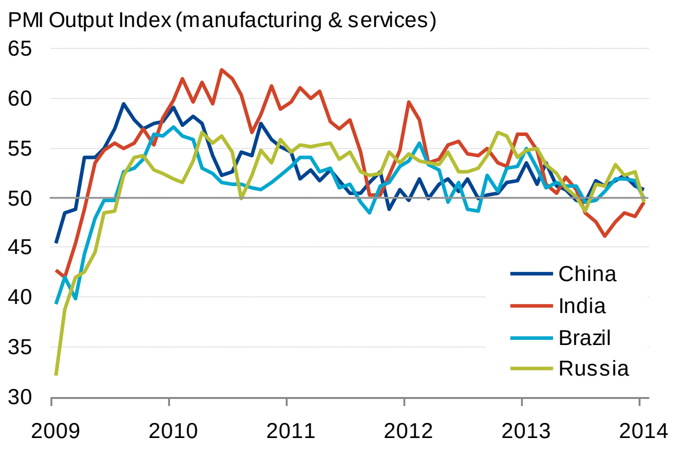


Source: Markit, HSBC.

Developed world



Emerging markets



The **United Kingdom** continued to lead the developed world PMI rankings, despite seeing its rate of expansion slow to the weakest since last June. The surveys suggest the country is on course for another 0.7-0.8% expansion in the opening quarter of 2014, continuing the best period of growth seen since the financial crisis struck. Survey respondents often linked the slowdown to abnormally heavy rainfall during the month, meaning a bounce-back may be seen in the pace of growth once the weather improves.

Weather was also a common theme in the **United States.** However, despite being battered by record low temperatures, the US economy maintained a robust pace of expansion in January, according to Markit's PMI surveys. The data point to the economy growing at a quarterly rate of at least 0.6% (3% annualised) in the first quarter if the pace is sustained in coming months.

The US surveys also signalled ongoing robust employment growth, broadly consistent with non-farm payrolls growing at the 200,000 per month approximate pace seen prior to December's surprise slowdown.

Japan's manufacturing PMI survey meanwhile showed the strongest rise in production since the survey started in 2001. Alongside ongoing, albeit slower, growth in the service sector, the manufacturing upturn meant the composite index for Japan rose marginally to register one of the strongest monthly expansions seen in the survey's six-year history.

A key factor behind the improving picture in the developed world has been the recovery of the **eurozone**, where the debt crisis and deep recession had dented global business confidence over the past five years. The eurozone PMI signalled the strongest pace of expansion for two-and-a-half years in January, with the upturn spreading across the region to encompass 'peripheral' countries such as Spain, Italy and Greece as well as Germany, which continued to lead the region out of its malaise.

In contrast to the upbeat picture seen in the major developed nations, the world's major emerging markets saw a near-stagnation of economic activity in January. The HSBC EMI, a weighted aggregate of all Markit's emerging market PMI surveys, fell from 51.6 in December to 51.4 in January. The equivalent BRIC index fell from 50.8 to 50.3.

China's manufacturing PMI registered a contraction for the first time in six months and its services economy suffered the second-worst month since data collection began in 2005. The data suggest that the world's second largest economy will have seen its economic growth rate slow further from the 7.5% annual rate recorded in the final quarter of last year.

Russia and **Brazil** meanwhile saw output of the combined manufacturing and services economies contract marginally for the first times in six and five months respectively. **India** suffered a contraction for the seventh successive month, although the rate of decline eased to the weakest seen over this period.

Decoupling?

The divergence between the developed and emerging worlds at least provides some evidence that the developed world can achieve robust growth in the absence of rapid growth in developing countries. However, the disappointing growth rates being recorded in the world's major emerging nations suggest that global economic growth looks set to be constrained in 2014 compared to pre-crisis rates.

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