CASE STUDY

Markit PMI™

Providing early insight into economies and sectors on a comparable worldwide basis.

The challenge

History is littered with examples of policymakers and investors being misled by poor quality official economic data. Warnings of changing economic conditions have often been sent too late, or the wrong signals sent due to deficiencies in the data. Examples range from the US Fed's failure to grasp the severity of the 1930s Great Recession to the European Central Bank's recognition of the full extent of the weakness of the euro area economy in 2008 and false worries of a 'triple-dip' recession in the UK in 2012.

The fault might lie in the sheer time it takes to publish statistics such as GDP, or in the infrequent publication of quarterly numbers. Wild, volatile swings in the data may mean it's hard to discern a signal from all of the noise. Sometimes, there's simply been a lack of data altogether, such as a dearth of timely indicators on the service sector.

Other problems arise because analysts are having to make decisions based on data that have been compiled by different sources using very different methodologies across different economies. There is, for example, a huge international variation in the methodology used to calculate GDP. This means that not only are true international comparisons difficult to achieve, but also that it is a challenge to use international data to examine global or regional industry trends.

Economic policy, asset allocation, currencies and business decisions all continue to be adversely affected by a lack of timely, reliable and comprehensive economic data that analysts can use to readily compare economic performance between countries and sectors.

Markit's PMI™ (Purchasing Managers' Index™) surveys are one of the most closely-watched economic indicators in the world. Fast release of PMI data provides a critical advantage over less timely, volatile and revision-prone official economic datasets.

Timely release combined with impressive historical accuracy means PMI data are a critical input to enable market participants to navigate global economic trends in real-time and help central banks to avoid policy errors.

Widely considered as an essential economic barometer for policymakers worldwide, its track record of providing reliable first indicators of economic health means that PMI data move markets.

The solution

Over the past 25 years, Markit's team of economists have been developing a unique suite of economic indicators covering every major developed and emerging market economy.

These high-frequency data are compiled and published rapidly to provide the first indications of economic trends every month.

World-leading survey techniques are used to ensure accurate, reliable data are published using a consistent methodology in all countries and sectors.

The result is a database that provides users with early insights into macro trends such as GDP, trade, inflation and labour market changes well ahead of official data releases. Markit's PMI database is also valued for its unique ability to generate a deep understanding of sector trends across the global economy. Access to the unique, in-depth PMI time-series datasets for industry sub-sectors and regions is used to drive asset allocation models, investment decisions and performance analysis among financial market and corporate participants.

Key benefits

Relevant

PMI surveys are watched by central banks, economists and financial markets around the world. The data provide the first signals of economic trends and steer financial markets, making them must-have data for all serious investors and economy watchers.

International

Available for over 30 countries, with more than 24,000 companies surveyed every month. The data cover roughly 85% of global GDP. PMI surveys are conducted internationally using a consistent methodology.

Factual

Based on responses to questions on actual business conditions, rather than opinion or confidence-based measurements, the PMIs tell you what's really happening right now in the global economy.

Timely

Among the first economic indicators published every month and not revised after initial publication, giving users confidence in the early signals sent by the PMIs.

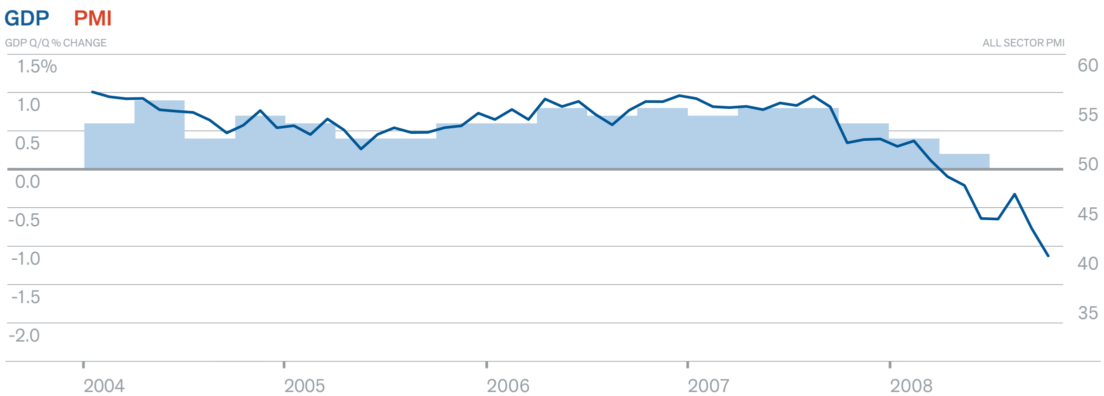
Broad indicator suite

Cover tangible economic themes including: output; orders; exports; employment; inventories, supplier performance and price trends across almost all aspects of private sector business activity worldwide.

Unique deeper insights

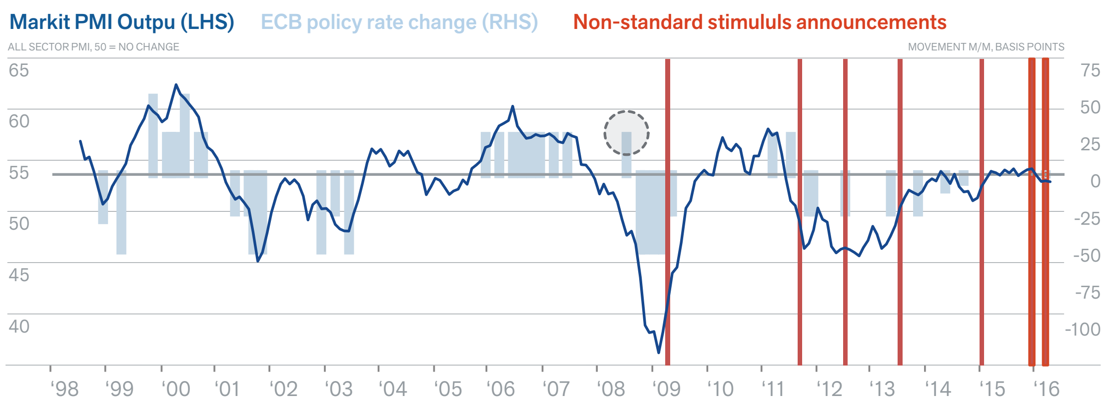
In addition to national economic indicators, the PMIs provide unique indicators of industry performance, giving deeper insights into sectors as diverse and banking, healthcare, media, telecoms, autos and pharmaceuticals.

Advance warning of UK recession



The PMI gave over six months' advance warning of the UK's 2008-9 recession. On October 3rd 2008, the UK PMI signalled an economic contraction for a seventh successive month. Not only was the survey providing the first indications of recession, but the PMI was also warning that the downturn was of a severity never seen before in the 18 year history of the survey. It wasn't until later that month, on October 24th, that official data showed the economy moving into decline (and not even a recession) as GDP was reported to have moved into contraction in the third quarter. Revised GDP data now agree with the PMI that the recession in fact started in the second quarter.

Warning of Eurozone policy errors



On July 3rd 2008, the ECB hiked its main policy interest rate to 4.25%, worried about a build-up of inflationary pressures. The latest GDP print available to policymakers at the time showed the eurozone economy having grown at a reassuringly robust 2.0% annualised rate in the first quarter. However, the eurozone PMI had already fallen to 47.8, signalling a second successive monthly contraction of the region's economy and the steepest downturn since 2001, suggesting the rate hike had been a policy error. Worse was to come and GDP data soon fell sharply, prompting the ECB to rapidly reverse the rate hike with the most aggressive policy easing seen in Europe's history. The rate hike has proved to be one of the few times that the ECB failed to heed PMI warning signals.

Helping spot misleading economic signals in the US

Markit's PMI data have provided a reliable insight into the underlying trend of US economic growth, avoiding the volatility that has been seen in official GDP data in recent years. Importantly, the PMI have provided reassuring signals that the unusual weakness in the economy depicted by GDP data in the first quarters of 2014 and 2015, and which unsettled policymakers at the time, were in fact misleading signals, and that the underlying trend remained one of robust expansion.

More information

For more information on the products and services from Markit, please contact us at **sales@markit.com** or call one of our sales offices:

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