

# Global economy

## Global recovery moved up a gear in March, rounding off the strongest quarter for almost three years

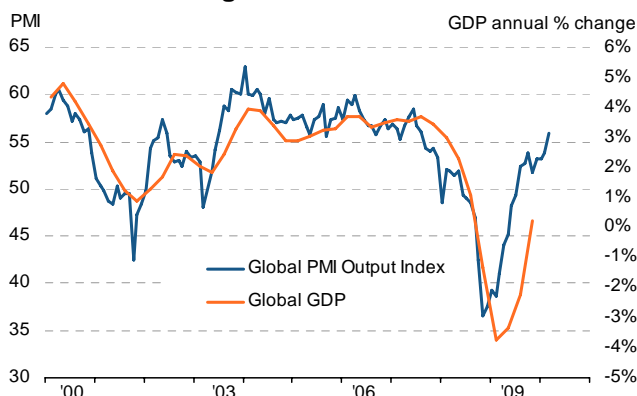
### Global growth strongest since 2007 Q3

Global economic growth accelerated in March, expanding at the fastest pace since July 2007 – when the first tremors of the impending financial crisis started to affect business conditions.

The JPMorgan Global PMI Output Index, compiled by Markit, signalled an expansion of activity for the eighth successive month in March to round off the strongest quarter since 2007 Q3.

Worldwide GDP growth therefore looks to have picked up markedly. Our analysis of official published data indicates that GDP rose at an annual rate of 0.3% in 2009 Q4, the first year-on-year increase since 2008 Q3, but the PMI data for Q1 are consistent with global GDP expanding at a year-on-year rate of around 2.5%, and that the pace may have picked up to approximately 3% by the end of the quarter.

### Global economic growth



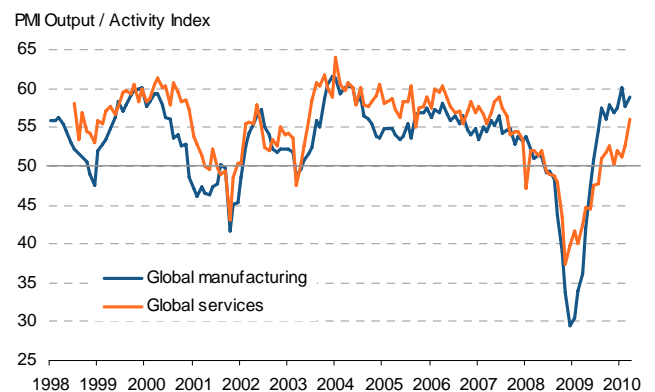
Sources: Markit, JPMorgan.

### Manufacturing led upturn

The rate of global GDP growth is therefore starting to approach that seen in the year prior to the crisis. Moreover, it is also becoming more well-balanced between manufacturing and services. While producers of goods are currently experiencing especially buoyant trading conditions, linked to the stimulus they have received from inventory rebuilding, growth also

accelerated sharply in services in March, reaching the fastest pace since August 2007. For Q1 as a whole, global manufacturing expanded at the fastest pace since 2004 Q2 while services grew at the sharpest rate since 2007 Q4.

### Global manufacturing and services

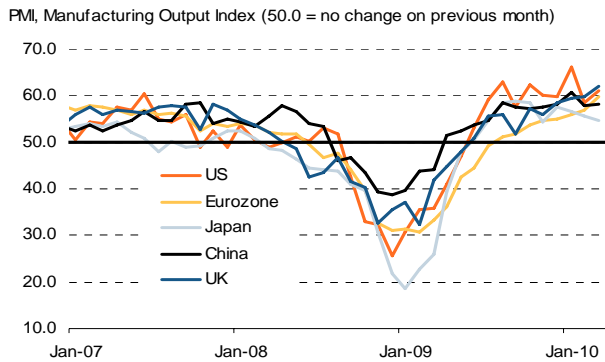


Sources: Markit, ISM, JPMorgan.

### Multi-year manufacturing highs in many countries

The manufacturing recovery appears to be in full swing in almost all major countries, helping drive the Global PMI Manufacturing Output Index to a level consistent with worldwide production rising at an annual rate of approximately 6% in March. Looking at average PMI Manufacturing Output Index readings in Q1, the US recorded the strongest expansion since 2004 Q2, UK growth reached the highest since 1994 Q3, China saw the sharpest increase since the PMI survey commenced in 2004, while Germany posted the strongest gain since 2006 Q2 and growth in France eased only slightly from last quarter's 10-year high. Gains were not universal, however, with Japan being notable in seeing a weakened rate of growth of manufacturing output for the second quarter running.

### Manufacturing output

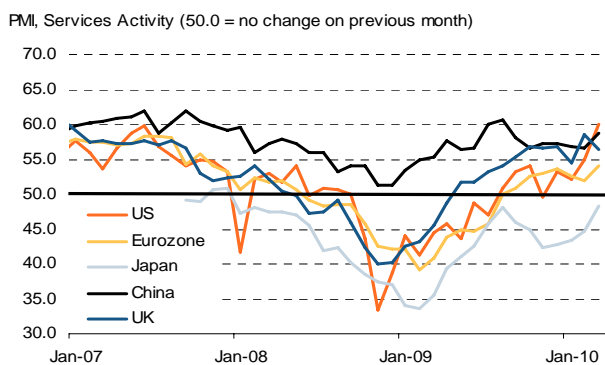


Sources: Markit, ISM.

### US and UK services strength contrast with weakness in the Eurozone and Japan

While service sector growth lagged manufacturing on a global basis, the differential narrowed markedly in the US due to a sharp improvement in the rate of growth outside of manufacturing in March to a four-year high, taking the Q1 average to the highest since 2007 Q2. UK service sector growth eased slightly in March but Q1 growth was only slightly weaker than Q4's three-year peak. Services growth in the Eurozone and Japan remained key areas of weakness, however, largely reflecting lacklustre consumer spending.

### Service sector business activity



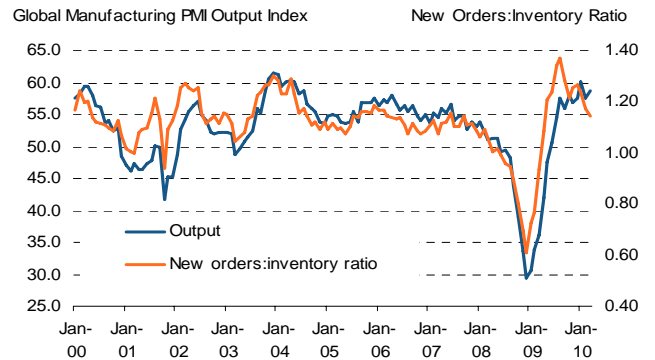
Sources: Markit, ISM.

### Final demand

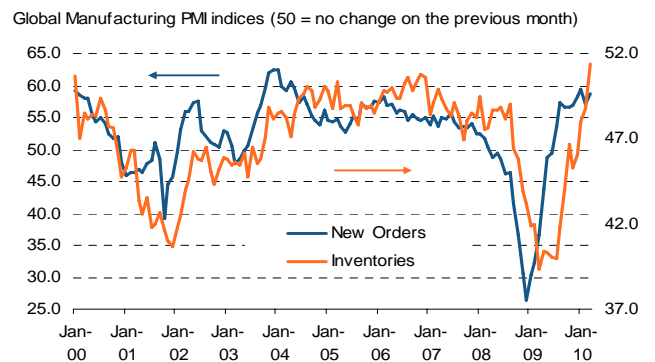
The performance of the service sector is likely to be important in sustaining economic growth in 2010. This is at least in part because the stimulus to manufacturing from inventory rebuilding will be, by definition, only temporary. Inventories rose in March for the first time since December 2006, while new orders rose at a similar rate to previous months. The resulting ratio of new orders to inventories fell to an 11-month

low, heralding a slowdown in manufacturing output growth.

### Manufacturing output and the inventory cycle



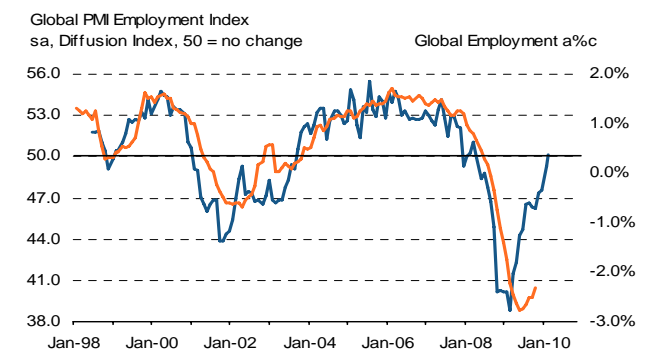
### Manufacturing orders and inventories



Sources: Markit, ISM, JPMorgan.

Unless service sector growth can accelerate to offset the waning stimulus from the manufacturing inventory cycle, global economic growth may weaken in coming months. On this front, the near-stabilisation of employment in March, according to the Global PMI, will raise hopes that consumer spending may indeed begin to improve in coming months. PMI data in fact showed that private sector staffing levels rose in March in the US, China and Germany and steadied in the UK.

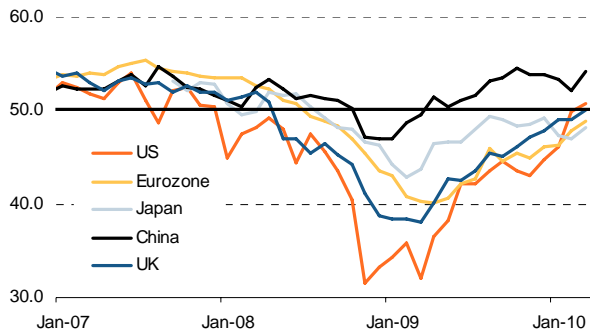
### Employment



Sources: Markit, ISM, JPMorgan.

## Employment by country

PMI, Manufacturing & Services Employment Index  
(50.0 = no change on previous month)



Sources: Markit, ISM.

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