



Is the global economy stabilising?

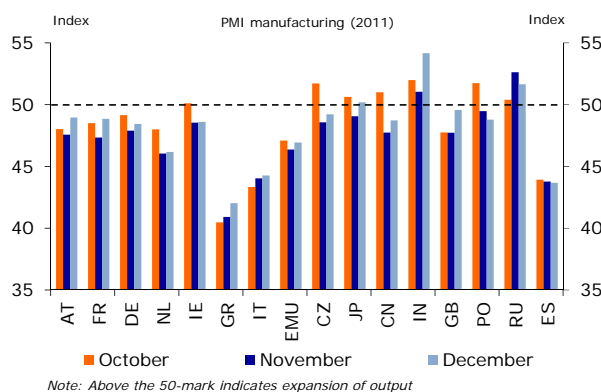
The December manufacturing PMIs have surprised on the upside. Although reading too much into a single month's data point is risky, we should take comfort that the deterioration in PMIs is nowhere close to what we witnessed at the height of the crisis in 2008-09.

Popping champagne bottles based on one month data is always a risky strategy. But we have to admit that the incoming data on producer sentiment for the month of December have surprised on the upside. More specifically, the recently released PMI figures for the manufacturing sector shows that purchasing managers in most major economies are becoming more upbeat concerning the economic outlook when compared to November 2011 (see figure 1). In the US, the rise in the manufacturing PMI to a six-month high means it has now reversed almost all of the fall seen last summer. The new orders sub-index –the most forward-looking component– rose to 57.6 from 56.7, suggesting that the economy is gaining some ground. Also in the UK producers are becoming more confident in the external outlook. The new export orders balance of the UK PMI increased from 49.0 to 53.5 – its highest level since April. Most striking is the rise in PMIs in the Eurozone even though the region is mired in a debt crisis.

Part of the improvement in producers' sentiment can be due to the fact that the depressing influence of higher commodity prices and the disruptions caused by the Japanese earthquake have faded. The swing into positive 'animal spirits' following the imposition of technocratic governments on Greece and Italy and actions taken by the ECB (e.g. unlimited provision of liquidity for 3 years) may also have played a role. But we must remind ourselves that the manufacturing PMIs in many countries still remain well-below the 50-mark that theoretically separates growth from contraction. What's more, with the mere exception of the US, the PMIs of the major economies are still trending downwards on a 3m/3m basis (i.e. when correcting for short-term volatility). This is why we have to be cautious about reading too much into a single month's data. The road to recovery in the West is still very long.

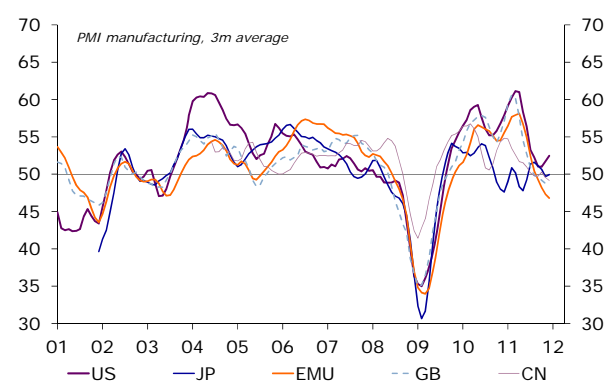
Our take: the rise in producer sentiment around the world is a welcome sign that the world economy is not falling off a cliff as some were fearing only a few months ago. We do take comfort that the deterioration in manufacturing PMIs is nowhere close to what we witnessed at the height of the financial crisis in 2008-09 (see figure 2). This is why we expect the US to continue to grow this year and the Eurozone to experience only a mild recession.

Figure 1: Signs of stabilisation?



Source: Reuters EcoWin

Figure 2: Macro outlook less worrisome than 2009



Source: Reuters EcoWin

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