

### THE SHORT-TERM OUTLOOK FOR GLOBAL GROWTH: A PMI-BASED ASSESSMENT

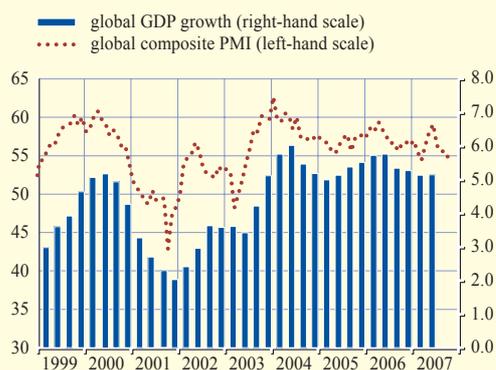
As national accounts data are released with a substantial lag, it is crucial to look at survey evidence to obtain more timely guidance about the global economy. In the present situation, which is characterised by continued economic uncertainty, such data can provide particularly valuable insights. When taking a forward-looking perspective, reference is commonly made to the OECD composite leading indicator (CLI), but even the present economic situation is difficult to assess on the basis of available national accounts statistics. For most industrialised countries, for instance, only preliminary data or estimates for GDP growth have been released for the third quarter and no national accounts data will be available before January 2008 that will allow developments in economic activity in the fourth quarter to be gauged.

The Global Purchasing Managers' Index (PMI) enables a more timely assessment of global growth conditions to be made. It is a composite indicator of global business conditions consisting of indices for the global manufacturing and services sectors. It is based on surveys of some 10,000 purchasing executives around the world. The survey respondents are asked about the evolution of output in their organisations over the previous month. The net balance of survey responses is converted into a – seasonally adjusted – diffusion index with a level of 50 being the threshold value between economic contraction and expansion. In terms of country coverage, the PMI includes most OECD countries as well as a number of large non-OECD countries (most notably China and Russia).

Overall, there is close co-movement between the PMI and global economic growth (see the chart). The PMI mirrored the global economic boom recorded in 1999-2000, and then the slowdown in global growth associated with the bursting of the new technology bubble. It also reflected the subsequent recovery in global economic activity. In fact, since 2004 global economic conditions have been rather buoyant by historical standards, as the global economy

#### Global composite PMI and output growth

(PMI: diffusion index, seasonally adjusted; GDP: annual rates of growth, in percentages)



Sources: ECB and NTC Economics.

Note: Last observation refers to October 2007 for the PMI and Q2 2007 for GDP.

has expanded at a significantly faster pace than the average rate seen in the previous twenty years. After having declined between June and September 2007, the PMI levelled off in October close to the levels recorded six months earlier. It has remained well above the threshold value of 50, indicating continued solid global expansion.

A more systematic analysis of the indicator properties of the PMI with respect to global GDP growth confirms that it provides a reliable and timely guide to global economic conditions.<sup>1</sup> At the current juncture, the PMI-based model does not provide evidence of any sharp deterioration in real economic activity in the second half of 2007.

<sup>1</sup> Testing the direction of causality shows that developments in the PMI lead changes in global growth, rather than the reverse, and this is a precondition for the PMI to be a useful indicator. Furthermore, a dynamic specification of the PMI-based model provides an accurate guide to global economic conditions.