The Telegraph

Global recession scare fades as stimulus revives manufacturing

'This is just the beginning of a long recovery for the West after five years of post-crisis blues. We've turned bullish,' says Lombard Street Research

Charles Dumas said there is a huge overhang of pent-up demand in the US for cars Photo: AFP

By Ambrose Evans-Pritchard

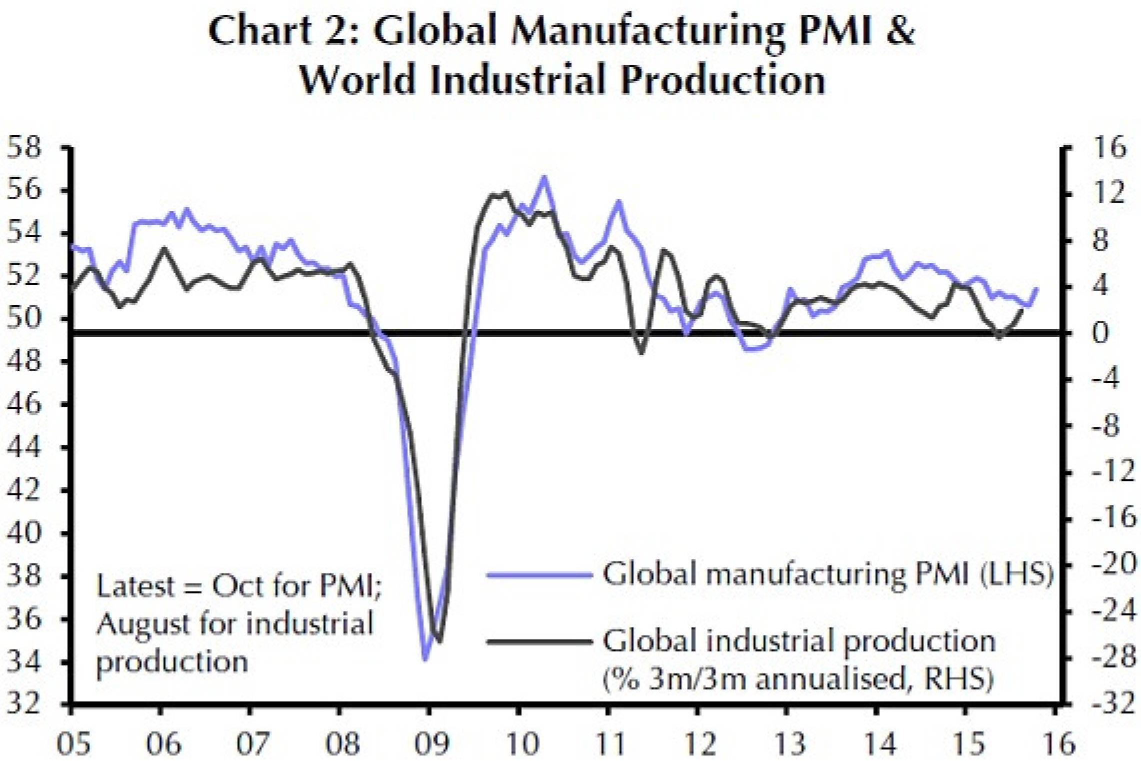
8:06PM GMT 02 Nov 2015

The first green shoots of global manufacturing recovery are emerging as Europe, the US and Japan shake off the recession scare, and China comes back to life after a deep industrial slump.

The JP Morgan/Markit index of global factory orders rose to a seven-month high of 51.9 in October and output rose to 51.4, fuelled by a wave of monetary stimulus across the world and an end to fiscal austerity in the West.

Fears that the world's fragile economy is being sucked into deflationary vortex appear overblown as a fresh mini-cycle gathers strength. "Global growth is holding up much better than many seem to fear," said Andrew Kenningham from Capital Economics.

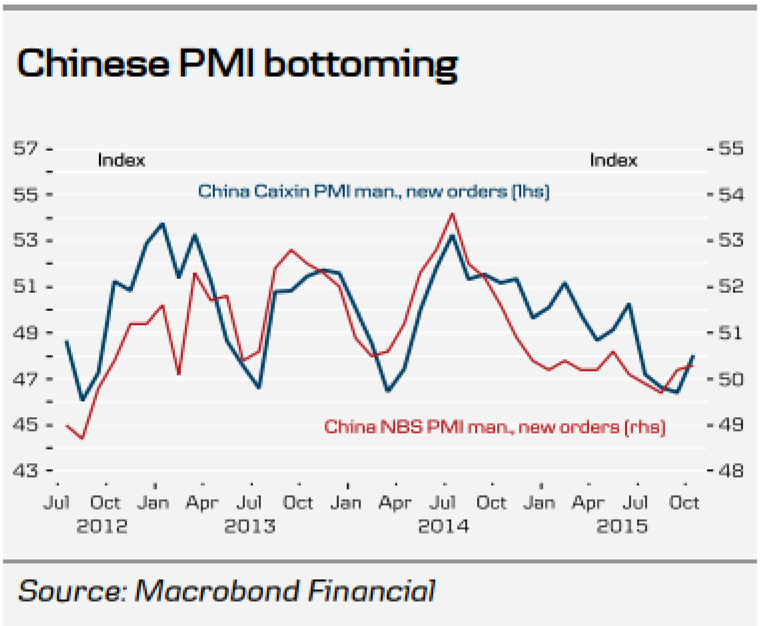
“We think this is just the beginning of a long recovery for the whole Western world after five years of post-crisis blues. We’ve turned relatively bullish,” said Charles Dumas from Lombard Street Research.



Japanese industry has shaken off its mid-year malaise with the strongest data in a year, suggesting that East Asia may at last be through the worst.
Britain’s PMI index rocketed to a 16-month high of 55.5 and is now the strongest in the world, despite the overvalued pound. India, Russia and Vietnam all eked out expansion, and central European states led by Poland and the Czech Republic once again brushed off the emerging market slowdown.

China remains a battleground between bulls and bears, each delving into the country’s opaque data for evidence to prove their case. Yet it is clear that the Chinese economy is no longer deteriorating after hitting a brick wall at the start of the year, chiefly due to botched fiscal reform.

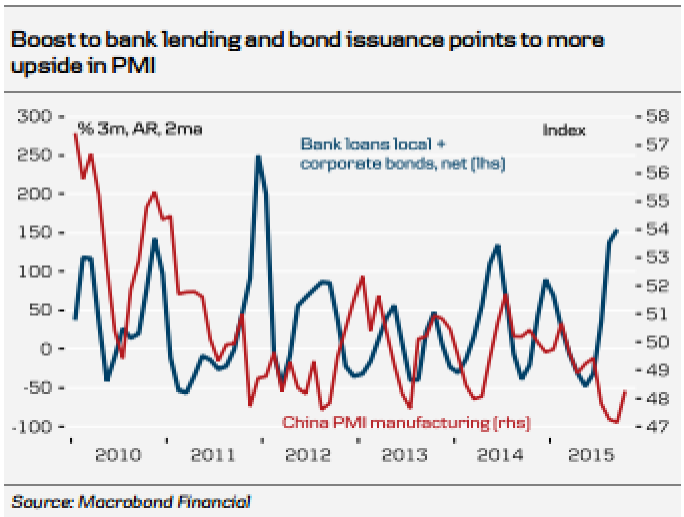
“Chinese PMI manufacturing for October showed clear signs of bottoming,” said Allan von Mehren from Danske Bank.



“This underpins our view that China has hit the cyclical trough. We expect further improvement in the coming months, which should give support to emerging market assets and risk assets in general,” he said.

The Caixin PMI index of Chinese factory output saw the biggest one-month jump for 15 months in October. The delayed effects of fiscal stimulus and interest rate cuts are feeding through into the broader economy.

Danske Bank said credit is growing at the fastest rate in four years – if bond issuance is included – and is likely to drive a spike in industrial output for the next six months or so, spurred further by a revival of the housing market in the Eastern cities.



Credit is surging in China

Better times are already clearly visible in the country’s **freight data**, watched by experts who no longer trust the official GDP growth figures. Total freight shipments jumped to 4.1bn tonnes in September from a nadir of 3.8bn in June, amounting to an annualised growth rate of around 30pc over the three-month span.

Rail freight has failed to recover, causing much excitement among those who track the so-called Li Keqiang index, an alternative measure of GDP named after the prime minister. It relies on rail freight, electricity use and credit growth to discern the true growth rate.

However, all three indicators have been overtaken by events. Road freight is 12 times larger than rail, and is growing briskly. The shift to green energy and a service economy has greatly reduced electricity intensity of GDP. Bond issuance has distorted the credit data.

In the eurozone, Markit’s manufacturing gauge rose to 52.3 in October, lifted by the triple effects of the weak euro, cheap oil and quantitative easing by the European Central Bank.

New export orders ticked up to a four-month high and the M1 money supply is growing at a blistering pace of 11.7pc, suggesting that a tidal wave of liquidity is building up in the system. “The eurozone is clearly enjoying a cyclical upswing,” said Mr Dumas.

In the United States, new factory orders and output both jumped in October for the first time since the summer downturn, a sign that US industry has at last overcome the most powerful exchange rate shock since the mid-1990s. “There are signs of stabilisation,” said James Knightley from ING.

The dollar has risen 16pc in trade-weighted terms since July 2014, and is up 25pc since mid-2011. A recent study by the New York Federal Reserve found that a 10pc rise in the dollar typically shaves 0.5pc off GDP over the following year, with manufacturing bearing the brunt.

The closely-watched **ISM index** of factory output is still sluggish. It slipped slightly to 50.1 in October and is hovering uncomfortably close to the boom-bust line of 50, but the headline figure is distorted by the lingering price effects of the commodity crash. Fed officials say the abrupt slowdown in the third quarter was chiefly due to an inventory effect that will be cleared out of the system over the next few months.

Mr Dumas said there is a huge overhang of pent-up demand in the US for cars and houses that will soon have to be satisfied. Auto sales averaged 17m a year over the decade leading up to the global financial crisis, but have since fallen back to 14m as drivers eke out a little more use from old models.

“If car demand returns to pre-2007 levels, then America is 20m vehicles short. They are going to be selling a lot of cars,” he said.