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Data boost from economic giants

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A surprise bounce in manufacturing activity in the world's two biggest economies in August cheered investors as it ended the bleak run of US economic data over the summer.

Global stock markets surged as investors took global surveys of manufacturing output to show that the world economy was still recovering rapidly and the chances of a double-dip recession had receded.

At the London close, the FTSE All-World index had reversed most of its 3.5 per cent fall in August and was up 2.7 per cent on the day. There were gains of more than 2 per cent in European and stock markets. In the US the S&P 500 added 2.95 per cent, to 1,080.29, and the Nasdaq Composite gained 2.97 per cent to 2,176.84.

The exuberance was linked by analysts to better than expected surveys of purchasing managers of manufacturing companies.

David Hensley, director of global economics co-ordination at JPMorgan, said the figures showed that any slowdown in the third quarter "will not be too excessive".

He added: "While conditions will continue to cool as the year progresses, there looks to be sufficient traction remaining to sustain the recovery."

Economists had expected US manufacturing to slow further in August, but the closely watched figures from the Institute of Supply Management pointed to **an acceleration of output growth** even as separate regional surveys painted a more downbeat picture.

Commenting on a rise in **the US purchasing managers' index** from 55.5 in July to 56.3, Norbert Ore, chairman of the ISM manufacturing business survey committee, said: "The production and employment indexes experienced the greatest gains, while new orders continued to grow but at a slightly slower rate."

The US surprise was matched by **an unexpected bounce in the equivalent PMI indices in China**, now the world's second-biggest economy. Amid fears that the Chinese economy could slow down sharply in the second half of the year because of government tightening measures, the PMI index compiled by HSBC rose to a three-month high of 51.9 in August, from 49.4 in July, while the official index also rose, to 51.7 from 51.2.

India's PMI remained strong while there were declines elsewhere in Asia.

Eurozone manufacturing PMIs were revised slightly higher confirming robust growth. But the pace of expansion was slowing.

Across the world, the global manufacturing PMI indicated manufacturing activity continued to rise for the 15th month in a row although it indicated the most rapid phase of the recovery was over.

The big question is whether the economic momentum will be sustained next year when advanced economies rein in their budget deficits.

The **International Monetary Fund** on Wednesday indicated that there was little choice about making plans now for deep spending cuts and higher taxes in the medium term, but argued against attempts for a "quick fix".

"Business as usual' won't cut it," said Jonathan D. Ostry, deputy director of the IMF's Research Department. "Governments may get little or no warning about imminent spikes in borrowing costs or curtailed access to markets as public debt rises".

US jobs data are published tomorrow and are expected to show a 41,000 rise in non-farm private sector jobs in August.

Additional reporting by Ralph Atkins in Frankfurt, Justine Lau in Hong Kong and Geoff Dyer in Beijing