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Week Ahead Economic Preview

Inflation data in focus post the Fed FOMC meeting

24 March 2023

After the Fed meeting and March flash PMI releases, a series of economic data takes over as the highlights to watch amid increasing financial market stress. This includes the US core PCE data, eurozone inflation and early PMI figures out of some APAC economies. A number of central bankers will also be making appearances across the week, including Fed members, and their comments are expected to be closely watched for further insights into how financial stability could detract from the inflation focus.

The Fed FOMC meeting concluded largely in line with expectations this week, whereby the Fed struck a balanced tone between their banking sector concerns and its price stability restoration mission, much like the 25 basis points (bps) hike that was implemented. Furthermore, the Fed also carved out room for manoeuvring in upcoming meeting by loosely committing to further hikes.

That said, the summary of economic projections continued to reflect a median forecast for the target range to reach 5%-5.25% by the end of 2023, suggesting that the Fed's inflation focus remains little changed and therefore continue to be data-dependent. As far as the latest S&P Global Flash US Composite PMI is concerned, input cost pressures for firms have eased, but output price inflation rose, outlining the arduous journey in the inflation fight for the Fed. Next week's core PCE data for February will therefore be keenly assessed alongside indicators such as consumer confidence, personal income and consumption for a health check of the US economy.

Meanwhile March flash HICP figures for the eurozone will be due after S&P Global Flash Eurozone Composite PMI revealed that prices continued to rise sharply, albeit at a slower rate in March. In light of the European Central Bank's determination to bring inflation down from current elevated levels, the latest readings may continue to back the hawks.

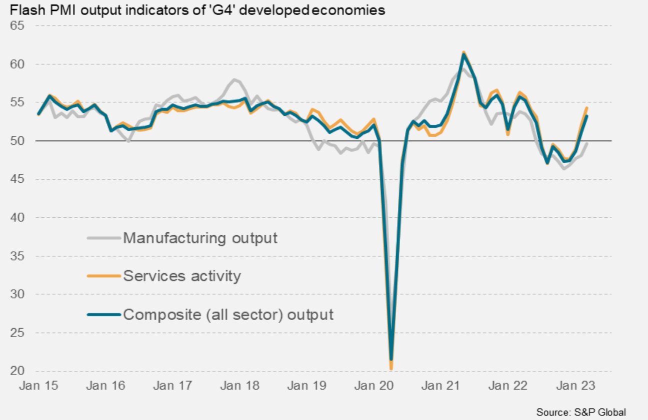
Finally, in APAC, we will watch the Bank of Thailand for any further hikes in March. More importantly, NBS PMIs from mainland China and S&P Global's Taiwan Manufacturing PMI will be released at the end of week, providing insights after Australia and Japan flash PMI revealed mixed signals for March.

Economic upturn on shaky foundations

Financial market impact of the flash PMIs was blurred by ongoing concerns over banking sector stress, but where a message was taken it was generally that the surveys continued to point to reduced near terms recession risks, with output growth accelerating across the world major developed economies on average.

However, drill down deeper and the cracks appear. In particular, developed world growth is being driven almost entirely by the services economy, which is surprising given the sector's exposure to higher interest rates and the impact of the cost-of-living squeeze on households. We therefore remain sceptical of the resilience of this upturn, especially as at least some of the recent impetus appears to be derived from short-term factors such as a warmer than usual start to the year and a post-pandemic tailwind for travel.

Meanwhile in manufacturing there were signs of the sector stabilizing after the slump of late last year, but this flat picture is being driven by improving supply rather than any fundamental upturn in demand,. In fact, new orders for goods continued to fall across the four largest developed economies on average, down for a tenth straight month. In short, manufacturers are maintaining production merely by eating into backlogs of work. In the absence of new demand, production growth will inevitably slow. The risk is that, with interest rates being hiked again in March in Europe and the US, such demand improvement looks unlikely. This would leave economic growth dependent on what looks like an unsustainable burst of life in the service sector.



Key diary events

Monday 27 March
Japan Service PPI (Feb)
Japan Leading Indicator Revised (Jan)
Eurozone M3 (Feb)
Germany Ifo Business Climate (Mar)
United Kingdom Nationwide House Price (Mar)

Tuesday 28 March
Australia Retail Sales (Feb)
United States CaseShiller Home Price Index (Jan)
United States Consumer Confidence (Mar)

Wednesday 29 March
Germany GfK Consumer Sentiment (Apr)
Norway Retail Sales (Feb)
Thailand 1-Day Repo Rate
United States Pending Sales Change (Feb)
Thailand Manufacturing Production (Feb)

Thursday 30 March
India Market Holiday
Switzerland KOF Indicator (Mar)
Eurozone Business Climate (Mar)
Eurozone Consumer Confidence (Mar)
Germany CPI (Mar, prelim)
United States GDP (Q4, final)
United States Initial Jobless Claims

Friday 31 March
South Korea Industrial Output (Feb)
South Korea Retail Sales (Feb)
Japan CPI, Tokyo (Mar)
Japan Unemployment Rate (Feb)
Japan Industrial Output (Feb, prelim)
Japan Retail Sales (Feb)
Taiwan S&P Global Manufacturing PMI* (Mar)
China (Mainland) NBS Manufacturing PMI (Mar)
Japan Housing Starts (Feb)
Germany Import Prices (Feb)
Germany Retail Sales (Feb)
United Kingdom Current Account (Q4)
Switzerland Retail Sales (Feb)
Thailand Trade (Feb)
Thailand Current Account (Feb)
Hong Kong Retail Sale (Feb)
United Kingdom GDP (Q4)
United Kingdom Business Investment (Q4)
Eurozone HICP (Mar, flash)
Eurozone Unemployment Rate (Feb)
Norway Unemployment (Mar)
United States Personal Income and Consumption (Feb)
United States Core PCE Price Index (Feb)
Canada GDP (Jan)
United States UoM Sentiment (Mar, final)

* Press releases of indices produced by S&P Global and relevant sponsors can be found **here**.

What to watch

Americas: US Q4 GDP final estimate, core PCE, consumer confidence, personal income and consumption figures, Canada GDP

Following the FOMC meeting, a series of economic data releases will be eagerly anticipated including the final estimate for US Q4 GDP and February's core PCE reading. While the Q4 GDP may be relatively backward-looking data, attention will be with the core PCE, consumer confidence and personal and incoming figures. A stronger than expected US CPI reading previously added pressure to the Fed prior to the eruption of the slew of banking sector issues. Developments on the Fed's favourite inflation gauge, the core PCE index, will likewise be key. Meanwhile personal incoming and consumption growth is expected to slow in February according to consensus expectations.

Canada GDP reading for January will also be due.

Europe: UK Q4 GDP, eurozone inflation, consumer confidence

Across the Atlantic, the UK updates Q4 GDP which saw a preliminary print of 0.4% year-on-year (y/y). More recent PMI figures offer some support, however, including the latest March S&P Global / CIPS Flash UK Composite PMI reading which indicated the UK may have returned to growth in Q1.

In the eurozone, post the flash PMI releases, we will get the flash HICP data and consumer confidence figures for March. Flash PMI data suggested that price pressures eased, though remained elevated by historical standards.

Asia-Pacific: Mainland China NBS PMI, Taiwan S&P Global Manufacturing PMI, Bank of Thailand meeting, Japan unemployment rate, Tokyo CPI

In APAC, mainland China's National Bureau of Statistics releases their PMIs while the S&P Global's Taiwan Manufacturing PMI will also be due ahead of the market holidays at the start of the new week. The PMI figures offer a first look into March economic conditions while S&P Global PMI figures for the wider APAC region will be updated over the course of the following week.

Meanwhile, the Bank of Thailand convenes in the final week of March and will be watched for any further action after four consecutive hikes.

Finally in Japan, Tokyo area CPI and nationwide unemployment figures are expected in the week.

Special reports:

Flash PMI Data Signal Accelerating Developed World Economic Growth in March | Chris Williamson | **page 4**

Thailand's Tourism Sector Drives Economic Recovery | Rajiv Biswas | **page 7**

Recent PMI and economic analysis from S&P Global

Global	Nigeria cash crisis hits activity in February	7-Mar	Andrew Harker
	Monthly PMI Bulletin: March 2023	7-Mar	Jingyi Pan
	Surging demand for consumer services drives global economic expansion in February	7-Mar	Chris Williamson
	Global employment picks up but persistent staff shortages drive up salary costs	7-Mar	Chris Williamson
	Global economic growth accelerates to eight-month high in February	6-Mar	Chris Williamson
Americas	US PMI data highlight ongoing plight of manufacturing amid falling demand and inventory reduction	1-Mar	Chris Williamson
Europe	UK economic resilience in March signalled by flash PMI	24-Mar	Chris Williamson
	UK wage growth cools amid uncertain economic outlook	17-Mar	Chris Williamson
Asia-Pacific	APAC region expected to be resilient to global headwinds in 2023	17-Mar	Rajiv Biswas
	Philippines amongst world's fastest growing emerging markets	10-Mar	Rajiv Biswas
Commodities	Weekly Pricing Pulse: Commodities edge higher despite market turmoil	16-Mar	Michael Dall

S&P Global Economics & Country Risk highlights

Banking stresses amplify economic risks

The S&P Global Market Intelligence forecast calls for world real GDP growth to slow from 6.0% in 2021 and 3.0% in 2022 to 2.2% in 2023 before picking up to 2.8% in 2024 and 2.9% in 2025. The slowdown in 2023 is centered in Europe and the Americas—regions that are fighting high inflation.

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PMI Insights: Inflation trends, China re-opening, top 10 indicators

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Click here to listen to this podcast by S&P Global Market Intelligence

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Special Focus

Flash PMI Data Signal Accelerating Developed World Economic Growth in March

Economic growth accelerated across the four largest developed economies on average in March, pointing to a surprising resilience of growth amid headwinds of higher interest rates, the cost-of-living crisis and recent stress in the banking sector.

However, growth is skewed heavily towards the service sector, with manufacturing continuing to suffer falling orders. While this weakness in demand has helped further drive down inflation in the manufacturing sector, March saw signs of stubbornly elevated service sector selling price inflation, and in some cases even accelerating inflation.

The resilience of growth and elevated inflation rates suggests central banks will lean towards further policy tightening in the coming months. But it remains to be seen whether growth resilience can persist as we await the lagged impact of prior rate hikes, including those seen in March, in an environment of squeezed incomes and increasing financial market uncertainty.

Economic growth revival driven by services

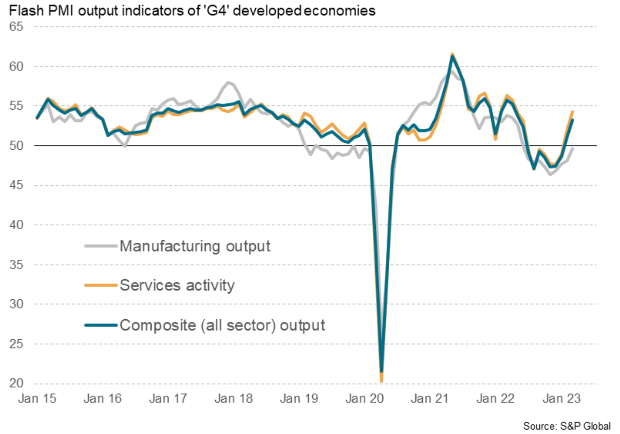
Business activity rose across the four largest developed world economies (the "G4") for a second successive month in March, according to provisional 'flash' PMI data, the rate of growth accelerating to the fastest since last May. The sustained upturn adds to signs that global recession risks have abated, for the near term at least, contrasting markedly with the gloomy picture presented by the surveys heading into last winter.

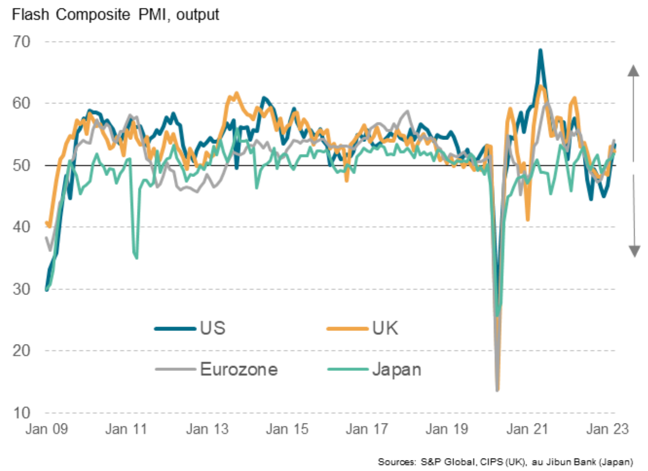
Moreover, growth was recorded in all four economies for a second moth running, indicating a broad-based geographical improvement. Growth hit ten-month highs in both the US and the Eurozone, while a nine-month high was recorded in Japan. Although growth slowed slightly in the UK, it was nevertheless the second-best seen over the past nine months.

It was a different story by sector, however, with growth largely limited to the services economy. Measured across the G4, service sector business activity grew at its sharpest pace since last April, building on the return to growth seen in January. Accelerating services growth was seen in all four economies bar the UK, where growth was also recorded but at a reduced rate compared to February, linked at least in part to labour shortages.

Manufacturing, on the other hand, saw output fall for a ninth successive month in March, dropping in all four economies bar the US, where a modest gain was reported. While the rate of decline moderated, this was in part due to improved supply availability rather than an upturn in demand for goods, with new orders falling in manufacturing for a tenth straight month, contrasting with improved demand growth for services.

Flash PMI output indices





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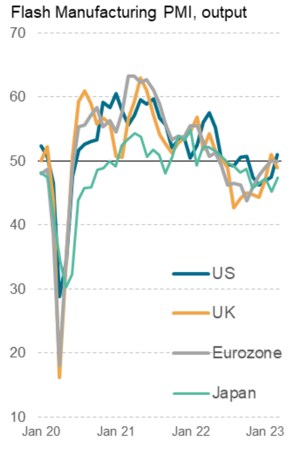
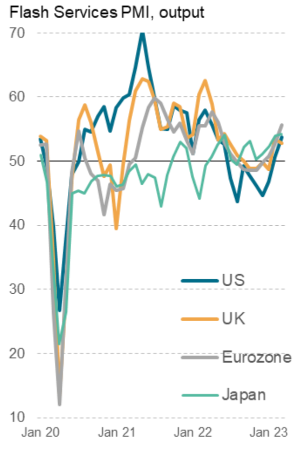




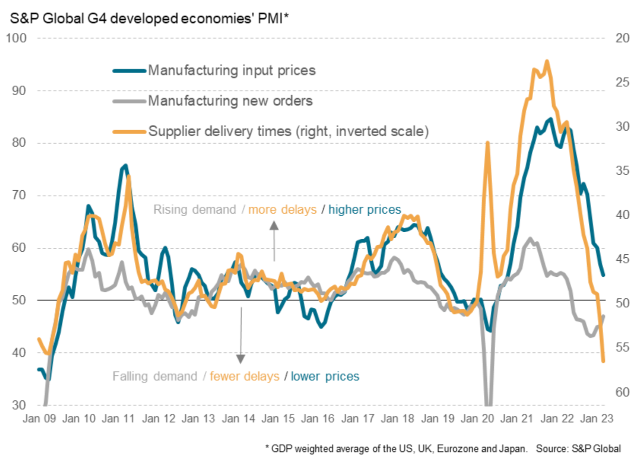
Source: S&P Global, au Jibun Bank, CIPS

Unprecedented improvement in supply conditions

The improvement in supply conditions during the month was especially notable, as average supplier delivery times shortened to the greatest extent seen since comparable survey data were first available in 2007. Faster deliveries reflecting an alleviation of pandemic-related logistical issues such as container shortages and port congestion, as well as the reopening of the Chinese mainland economy. However, suppliers were also less busy simply because of reduced demand for inputs from manufacturers around the world, in turn exacerbated by an ongoing trend towards inventory reduction. Stocks of inputs and other raw materials fell in March across the G4 for a fifth month in a row.

Price pressures driven by services

G4 flash PMI factory input costs and supply chains



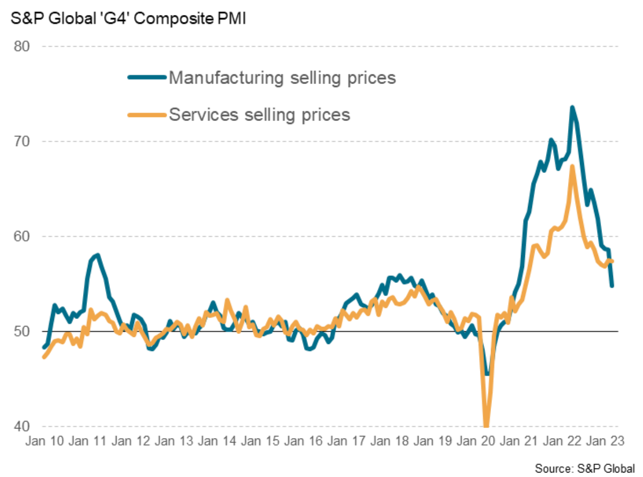
A corollary of more plentiful supply and falling demand was a further reduction in price pressures in the manufacturing economy. Input prices rose on average across the G4 at the slowest rate since October 2020. Factory input prices even fell in the eurozone, where lower gas prices have helped further alleviate cost pressures in recent months.

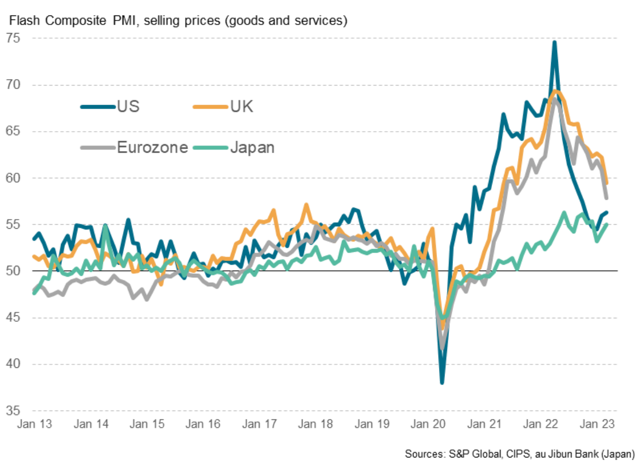
The reduced upward pressure on raw material prices helped drive a slower rate of inflation for goods leaving the factory gate on average across the G4, with manufacturing output prices rising at the slowest rate since December 2020.

However, while the G4 service sector as a whole also saw cost growth moderate further on average, prices charged for services rose at a slightly increased rate for a second month running in March. Higher rates of inflation were evident in the US and Japan and, although rates slowed in Europe (in part reflecting the gas price cooling), all four economies continued to see elevated rates of service sector selling price inflation.

Moreover, combined gauges of goods and services selling price inflation also consequently rose in both the US and Japan in March, and remained especially elevated in the Eurozone and UK, albeit down sharply from the peaks seen in the immediate aftermath of the invasion of Ukraine.

Selling prices





Outlook

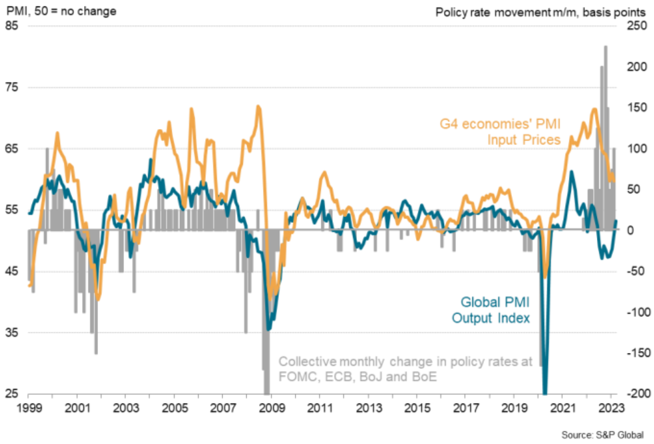
The March flash PMI data therefore point to encouraging resilience of economic growth across the four major developed economies, with output growth accelerating in the first quarter despite uncertainty caused by recent banking sector stress (the latest survey data were collected after 10th March) and despite the further tightening of monetary policy.

However, while the hiking of interest rates appears to have further helped cool inflationary pressures, aided by lower energy prices, a further 100 basis points of tightening in March by the combined major central banks of Europe and the US looks set to pose additional headwinds to demand in the months ahead.

The stubbornly elevated price gauges also imply a strong possibility of further rate hikes in the coming months, especially when viewed in the light of the resilient current growth picture.

Thus, while recession appears to have been averted for now, there remains a strong possibility of substantially weaker economic growth later in the year as the lagged impact of higher interest rates feeds through to the economy, at the same time that the cost-of-living crisis has eroded real incomes and uncertainty surrounding the banking sector haunts markets. The latter poses and especially important downside risk to growth, and will inevitably play a key role in determining the future path of demand as well as future policy decisions.

PMI data vs. central bank policymaking



Chris Williamson
Chief Business Economist
S&P Global Market Intelligence
London

T: +44 779 5555 061
chris.williamson@spglobal.com

Special Focus

Thailand's Tourism Sector Drives Economic Recovery

Thailand has shown a gradual economic recovery from the COVID-19 pandemic during 2022, helped by rising international tourism arrivals. Real GDP growth rose from 1.5% in 2021 to 2.6% in 2022, with growth momentum expected to improve further in 2023.

The latest S&P Global Thailand Manufacturing PMI survey results for February 2023 continued to signal expansionary conditions for manufacturing output and new orders. Due to the importance of international tourism for the Thai economy, the recovery of the tourism inflows is expected to be a key factor that will help to support improving economic growth momentum during 2023.

Thailand: Economic recovery from pandemic

Thailand recorded real GDP growth of 2.6% in 2022, representing a relatively modest pace of economic recovery from the recessionary conditions caused by the COVID-19 pandemic. Thailand's growth rate in 2022 was quite moderate in comparison with other large ASEAN economies such as Malaysia, Vietnam and Philippines, which posted very high growth rates as they rebounded from the pandemic.

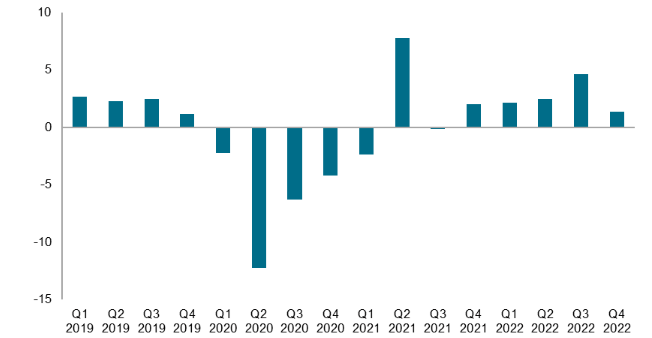
A key driver for improving economic growth in 2022 was the recovery of private consumption, which grew by 6.3% compared with just 0.6% y/y growth in 2021. Private investment growth also improved from a pace of 3% in 2021 to 5.1% in 2022. However public investment contracted by 4.9% in 2022, while government consumption was flat.

Strong growth in private consumption and investment as well as rising energy import prices helped to boost import growth, which rose by 15.3% in 2022, while exports rose by just 5.5%, measured in USD terms. Consequently, the trade balance narrowed from USD 32.4 billion in 2021 to USD 10.8 billion in 2022.

Due to the important contribution of international tourism to Thailand's GDP, a key factor that constrained the rate of recovery of the Thai economy in 2022 was the slow pace of reopening of international tourism, although this gathered momentum in the second half of 2022.

Thailand GDP growth

% change, year-on-year



Source: S&P Global Market Intelligence

Thailand's manufacturing sector has also shown some improvement in momentum, with the S&P Global Thailand Manufacturing PMI for February 2023 having shown strong expansion. The latest PMI data signalled further growth in output and new orders. The PMI rose for the third month running to 54.8 in February, from 54.5 in January indicating improving business conditions for the 14th consecutive month.

New orders for Thai manufactured goods expanded at the quickest pace in five months. The easing of COVID-19 disruptions supported the latest expansion. Foreign demand for Thai manufactured goods continued to shrink, however, amid challenging external conditions.

S&P Global Thailand Manufacturing PMI

S&P Global PMI (Purchasing Managers' Index) Index
Diffusion index (50 = no change on prior month)

Source: S&P Global Market Intelligence, S&P Global PMI surveys
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Thailand PMI new orders and new export orders

S&P Global PMI (Purchasing Managers' Index) Index
Diffusion index (50 = no change on prior month)

Source: S&P Global Market Intelligence, S&P Global PMI surveys
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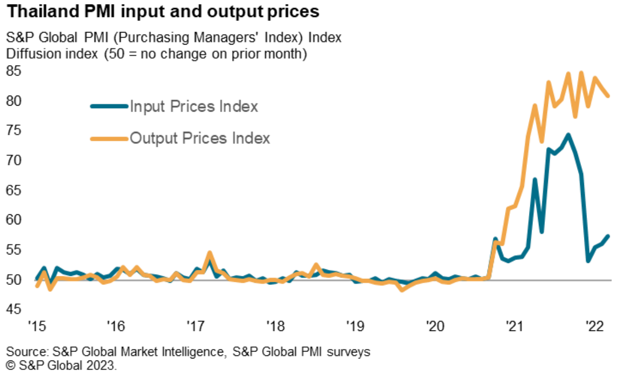
Meanwhile supply constraints persisted within the Thai manufacturing sector. Vendor performance deteriorated for the tenth straight month on the back of higher demand and transportation delays. Concurrently, input cost inflation rose in February, reflecting higher raw material costs and heightened shipping cost pressures.

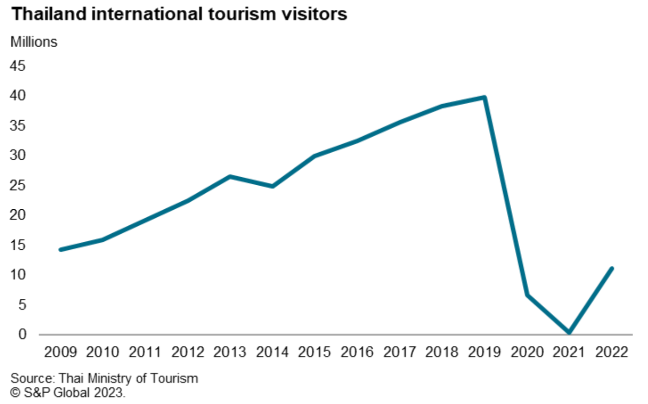


Thailand's headline CPI inflation rate has eased to 5.0% y/y in January 2023, compared with 7.9% y/y in August 2022. The Monetary Policy Committee (MPC) of the Bank of Thailand decided to raise the policy rate by 0.25% from 1.25% to 1.50% at their Monetary Policy meeting on 25 January 2023. This follows three 25bp rate hikes by the MPC in 2022, In 2022, the Monetary Policy Committee (MPC) decided to increase the policy rate three times by 25 basis points each in August, September and November. As a result, the policy rate stood at 1.25 percent compared to 0.50 percent at the end of 2021The MPC assessed that headline inflation will decline, while medium-term inflation expectations remain anchored within the target range.

Recovery of international tourism sector

International tourism was a key part of Thailand's GDP prior to the COVID-19 pandemic, contributing an estimated 11.5% of GDP in 2019. However, foreign tourism visits collapsed after April 2020 as many international borders worldwide were closed, including Thailand's own restrictions on foreign visitors.

As COVID-19 border restrictions were gradually relaxed in Thailand and also in many of Thailand's largest tourism source countries during 2022, international tourism showed a significant improvement during the second half of the year. The number of international tourist arrivals reached 11.15 million in 2022, compared with just 430,000 in 2021. However, the total number of visits was still far below the 2019 peak of 39.8 million, indicating considerable scope for further rapid growth in the tourism sector during 2023.



Thailand economic outlook

Despite the upturn in private consumption and international tourism arrivals in 2022, the overall pace of economic expansion was relatively moderate, at just 2.6%. Easing of pandemic-related travel restrictions during 2022 has also allowed a gradual reopening of domestic and international tourism travel, which gathered momentum in the second half of 2022.

With more normal conditions expected for international tourism travel in 2023, this should provide a significant boost to the economy. Due to the importance of tourism inflows from mainland China prior to the pandemic, the reopening of mainland China's international borders will be an important factor contributing to the further recovery of Thailand's tourism market.

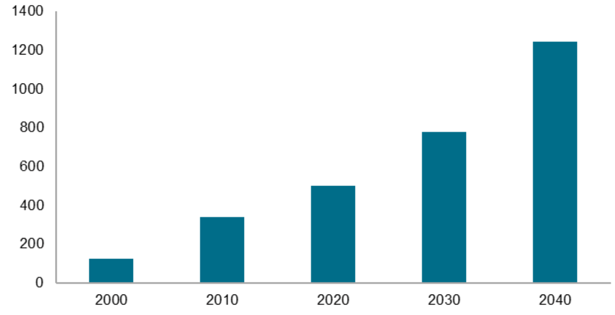
Helped by the continued recovery of the international tourism sector, some upturn in GDP growth to a pace of around 3.5% is expected in 2023.

Over the next decade Thailand's economy is forecast to continue to grow at a steady pace, with total GDP increasing from USD 500 billion in 2022 to USD 860 billion in 2032. A key driver will be rapid growth in private consumption spending, buoyed by rapidly rising urban household incomes.

The international tourism sector will continue to be a dynamic part of Thailand economy, buoyed by rapidly rising tourism arrivals the populous Asian emerging markets, notably mainland China, India and Indonesia.

By 2036, Thailand is forecast to become one of the Asia-Pacific region's one trillion-dollar economies, joining mainland China, Japan, India, South Korea, Australia, Taiwan, Philippines and Indonesia in this grouping of the largest economies in APAC. The substantial expansion in the size of Thailand's economy is also expected to drive rapidly rising per capita GDP, from USD 6,900 in 2022 to USD 11,900 by 2032. This will help to underpin the growth of Thailand's domestic consumer market, supporting the expansion of the manufacturing and service sector industries.

Thailand GDP
USD billion, nominal terms



Source: S&P Global

However, rising per capita GDP levels will also put pressures on Thailand's competitiveness in certain segments of its manufacturing export industry. Therefore, an important policy priority for nation will be to continue to transform manufacturing export industries towards higher value-added processing in advanced manufacturing industries.

One of the key economic and social challenges facing Thailand is its rapidly ageing population, which will result in a rising burden of health care and social welfare costs over the next two decades. This will be a drag on Thailand's long-term potential growth rate, making investment in technology and innovation increasingly important to mitigate the economic impact of demographic ageing.

Rajiv Biswas
Asia-Pacific Chief Economist
S&P Global Market Intelligence
Singapore

rajiv.biswas@spglobal.com

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CONTACT US

Chris Williamson
Chief Business Economist
S&P Global Market Intelligence
London

T: +44 779 5555 061
chris.williamson@spglobal.com

Jingyi Pan
Economics Associate Director
S&P Global Market Intelligence
Singapore

T : +65 6439 6022
jingyi.pan@spglobal.com

The Americas
+1-877-863-1306

EMEA
+44-20-7176-1234

Asia-Pacific
+852-2533-3565

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