

Week Ahead Economic Preview

Worldwide April PMI data, Fed FOMC, BOE meetings, US payrolls

28 April 2022

A busy week ahead packs both **manufacturing and services PMI data releases for April** to provide an update on the health of the global economy alongside central bank policy meetings at both the **US Federal Reserve** and the **Bank of England**. Meanwhile April's **US labour market report** will be released on Friday with a string of **inflation figures** also due from APAC economies.

Despite some positive earnings surprises posted so far from US corporates, the global equity market remains weighed by concerns over multi-decade high inflation rates, rising interest rates and slowing global growth (see [special report](#)). The issue of slowing demand growth had become particularly prominent with new COVID-19 disruptions in mainland China and the Russia-Ukraine war. Further clues on the impact of these headwinds will be gleaned from the upcoming manufacturing and services PMI releases for April.

The focus also shifts to the central bank meetings, where policymakers in the US, UK and Norway are set to meet. In particular, the Fed and Bank of England are expected to continue on their rate hike cycles and any updates on their future policy paths will be closely watched amid growing worries that rising interest rates would hurt growth. As it is, April flash PMIs have already suggested that economic growth slowed in the US and UK as the strong pandemic rebound showed signs of fading.

In the official data docket, the April US jobs report will be the highlight. Consensus expectations point to strong job additions for April while the unemployment rate remains low, consistent with the Fed to continuing on their rate hike path.

Meanwhile CPI figures across various APAC economies including Taiwan, Thailand and the Philippines will be released. Early flash PMI data from neighbouring Japan and Australia suggested that [worsening price pressures persisted amid the Ukraine war and China lockdowns](#), further weighing on business sentiment and adding to cost of living concerns in April.

PMIs in focus for insights into demand and supply forces on commodity prices

Manufacturing PMIs due out in the coming week will be an important steer to commodity prices. Pandemic-related supply shortages coupled with rebounding demand have led to surging prices, with [IHS Markit Materials Price Index \(MPI\)](#) increasing 2.2% last week as the war in Ukraine and lockdowns in China further fanned fears of persistent supply shortages.

However, while supply appears to have deteriorated in April, the demand side of the equation is more uncertain: note that the [March PMIs](#) showed global manufacturing output growth slumped to an 18-month low, led by a slowdown in growth of new orders and a fall in global trade. The output and new orders indices from the global manufacturing PMIs will need to be watched alongside the suppliers' delivery times index to get a comprehensive steer on the demand and supply fundamentals for commodity prices.

Global PMI demand, supply and price indicators



One area of inflation that will be less susceptible to any cooling of industrial demand is of course food. The Russian invasion of Ukraine has exacerbated food inflation globally. Both countries are traditionally major exporters of agricultural commodities, but sanctions and the war itself have disruption global supplies of wheat, corn, and vegetable oils, sending prices soaring (read more in our [Special Report on Food and Ag Commodity Inflation](#)). The detailed sector PMI data showed food industry producer selling price inflation at an all-time high in March, and any further surge in global food price inflation will add to already-worrying cost of living pressures for those on lower incomes and developing countries.

Key diary events

Monday 2 May

UK, China (Mainland), Taiwan, Singapore, Indonesia, Malaysia, Thailand Market Holiday

Worldwide Manufacturing PMIs, incl. global PMI* (Apr)

Germany Retail Sales (Mar)

United States ISM Manufacturing PMI (Apr)

Tuesday 3 May

China (Mainland), Japan, Singapore, Malaysia, Indonesia

Philippines Market Holiday

South Korea CPI (Apr)

Australia RBA Cash Rate (May)

Germany Unemployment Change (Apr)

Eurozone Producer Prices (Mar)

Eurozone Unemployment Rate (Mar)

United States Factory Orders (Mar)

United States JOLTS Job Openings (Mar)

Wednesday 4 May

China (Mainland), Japan, Indonesia Market Holiday

Worldwide Services & Composite PMI* (4-5 May)

Australia Retail Sales (Mar)

Germany Trade (Mar)

United Kingdom Mortgage Lending and Approvals (Mar)

Eurozone Retail Sales (Mar)

United States ADP National Employment (Apr)

United States International Trade (Mar)

Canada Trade Balance (Mar)

United States ISM Non-manufacturing PMI (Apr)

United States FOMC meeting, Fed Funds Target Rate

Thursday 5 May

Japan, South Korea, Indonesia Market Holiday

Philippines CPI (Apr)

Australia Trade Balance (Mar)

Thailand CPI (Apr)

Germany Industrial Orders (Mar)

United Kingdom Halifax House Prices* (Apr)

Switzerland CPI (Apr)

Norway Key Policy Rate (5 May)

United Kingdom BOE Bank Rate (May)

United States Initial Jobless Claims

Friday 6 May

China (Mainland), Indonesia Market Holiday

Switzerland Unemployment Rate (Apr)

Germany Industrial Output (Mar)

Taiwan CPI (Apr)

United Kingdom S&P Global/CIPS Construction PMI* (Apr)

United States Non-Farm Payrolls, Unemployment Rate,

Average Earnings (Apr)

Canada Unemployment Rate (Apr)

* Press releases of indices produced by S&P Global and relevant sponsors can be found [here](#).

What to watch

Worldwide manufacturing and services PMIs for April

April PMI figures will be released in the coming week for a detailed assessment of the growth situation after [March data revealed slowing global growth](#). A boost from the pandemic reopening of western economies helped to cushion some of the blow from the Ukraine war and Omicron disruptions in March. With that said, [flash April data showed that a further surge in price pressures weighed on the global growth outlook](#). Full details of the global growth and inflation conditions will be anticipated with next week's data releases. Refer to our [calendar](#) for the full list of April PMI data and their release dates.

North America: Fed FOMC meeting, US April jobs report

The Fed convenes 3-4 May to update their monetary policy with the consensus currently pointing to a 50 basis points (bps) hike following the 25bps hike implemented in March. According to the CME Fed Watch tool, the market has fully priced in the 50bps hike for May and expects a further five to six 25bps hikes before the end of year. While no updates to economic projections will be anticipated in the upcoming meeting, the post meeting statement and Fed chair Jerome Powell's press conference will be closely watched for the Fed's rhetoric with recent concerns about inflation, slowing global growth and the implications of policy tightening.

April's labour market report will follow on Friday with the consensus suggesting a strong 400k addition to non-farm payrolls and unemployment rate to stay unchanged at 3.6%.

Europe: Bank of England, Norges Bank meetings

The Bank of England (BOE) convenes for the third time this year and is set to implement its fourth successive hike at 25bps according to consensus. [April's flash UK PMI survey pointed to rising inflationary pressures](#), backing the BOE's tightening stance. That said, signs of cooling economic growth had also been signalled, which may be further pressured by rising interest rates.

Asia-Pacific: Philippines, Thailand, Taiwan inflation

In APAC, a string of April CPI numbers will be anticipated across Taiwan, the Philippines and Thailand in addition to the PMI numbers. Further signs of rising price pressures amid the ongoing supply issues will be watched with the release of these figures.

Special reports:

Further Surge in Price Pressures in April Casts Mounting Shadow Over Global Growth Outlook | Chris Williamson | [page 4](#)

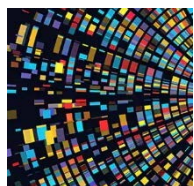
South Korea's Economy Moderates due to COVID-19 Wave | Rajiv Biswas | [page 7](#)

Recent PMI and economic analysis from S&P Global

Global	Further surge in price pressures in April casts mounting shadow over growth outlook	22-Apr	Chris Williamson
	Tide of rising prices stems economic recovery in Sub-Saharan Africa	8-Apr	David Owen
	Inflation outlook worsens as PMI data show steepest rise in global business costs since 2008	7-Apr	Chris Williamson
	Monthly PMI Bulletin: April 2022	7-Apr	Chris Williamson, Jingyi Pan
	War in Ukraine leads to drop in global business confidence	6-Apr	Andrew Harker
Europe	UK economic growth slows in April as outlook darkens and inflation pressures mount	22-Apr	Chris Williamson
	Eurozone growth accelerates as reviving services demand offsets near stalling of manufacturing, but prices rise at record rate	22-Apr	Chris Williamson
Asia-Pacific	Easing COVID-19 disruptions boost private sector output in Japan and Australia but business confidence declines on inflation concerns	22-Apr	Jingyi Pan
	Off sick: wave of COVID-19 infections in Vietnam hits workforce numbers	1-Apr	Andrew Harker
Commodities	Weekly Pricing Pulse: Commodity prices stay flat despite excitement in energy markets	20-Apr	Tal Dickstein

S&P Global Economics & Country Risk highlights

Supply resilience is key to avoiding a global recession



Recovery from the COVID-19 recession has been characterized by resilient demand amid a series of supply disruptions. The results have been the highest inflation rates in decades in the advanced economies. As monetary and fiscal policies pivot away from active stimulus to restraint, growth in aggregate demand will slow. Success in taming inflation and averting a global recession will depend on supply resilience.

[Click here to read our research and analysis](#)

Ripples and waves – February signals broad based improvements



Our PMI™ team digs into the February PMI survey results which indicate waning impacts from COVID-19 on the services economies and large bounces across the Globe. While several countries are still feeling the pressures from lockdowns and continuing waves of uncertainty, improving demand, capacity and business confidence are showing positive signs of improvement. What will this mean for sustained economic growth and are these ripples and waves strong enough to continue to improve with rising geopolitical turmoil?

[Click here to listen to this podcast by S&P Global Market Intelligence](#)

For further information:

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Special Focus

Further Surge in Price Pressures in April Casts Mounting Shadow Over Global Growth Outlook

Preliminary PMI survey data showed economic growth slowing in the US and UK as strong pandemic rebounds showed signs of fading. In contrast, a reopening of economies in the eurozone and Japan helped drive improvements, helping to offset weakened manufacturing performances arising from fresh supply delays. Shortages of inputs were linked to the Ukraine war and lockdowns in mainland China.

A fall in backlogs of work in the UK meanwhile suggests the UK could underperform the US and eurozone in coming months as pent-up demand is depleted. However, in all four of the largest developed countries, future output expectations have slumped far lower than seen earlier in the year, attributable to increasing concerns about future economic growth amid the Ukraine war, policy tightening and the rising cost of living. The latter was underscored by the surveys signalling further steep inflationary pressures, with rates of inflation for goods at services once again at or near record highs across the developed world in April.

Developed world growth rates vary as economies re-open

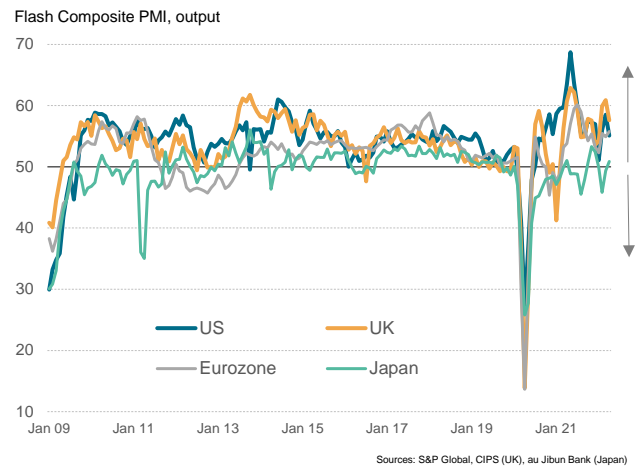
The flash PMI survey output indices, which track current business activity levels, showed growth slowing in the UK and US, caused primarily by weaker service sector expansions. This reflected some cooling of demand for services compared to very strong rates of expansion seen in February and March, when these economies reopened from Omicron-related containment measures. Both the UK and US saw the near complete removal of any virus-related restrictions on activity in February and March.

In contrast, the eurozone has seen COVID-19 containment measures relaxed later, and less aggressively than the US and UK. This has meant the boost to services such as travel, tourism and recreation has likewise occurred later in the eurozone, providing the main boost to eurozone economic growth in April at a time when these effects were fading in the US and UK.

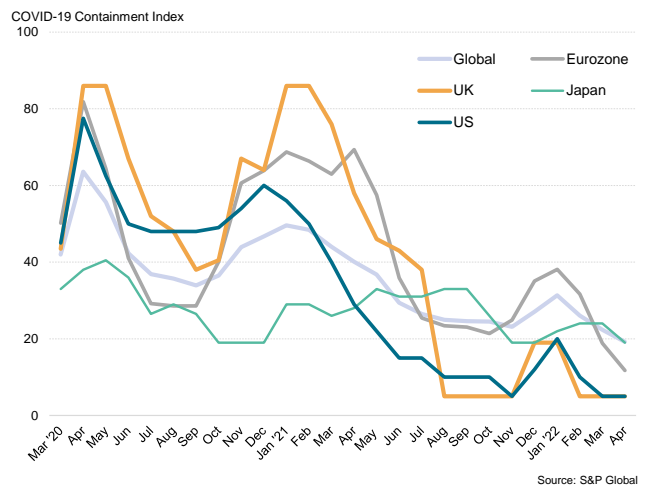
In Japan, some easing of COVID-19 containment measures also helped lift the economy back into expansion territory,

though with restrictions remaining tighter than in the US and Europe, the rate of expansion remained relatively subdued.

Current output growth



Degrees of COVID-19 containment



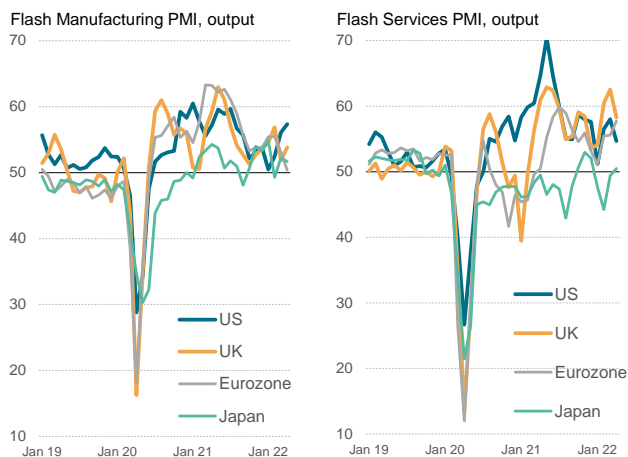
The survey data therefore suggest that the tailwind of looser health restrictions associated with the pandemic continues to drive the economic recovery in the world's major developed economies, albeit with these forces moderating in the US and UK.

Meanwhile, manufacturing in the US continued to benefit from pent-up demand from the pandemic and some moderation in the number of production constraints relative to the shortages seen last year, with a similar boost also recorded in the UK.

However, the eurozone saw manufacturing hit by worsening logistics issues as the proximity of the war in Ukraine disrupted supply lines. Most notable was an auto-sector-led drop in manufacturing output in Germany, which contributed to a near-stalling of factory output growth across the single

currency area. Similarly, production in Japan continued to be restricted by supply shortages, emanating in part from new lockdowns in China.

Current output growth by sector

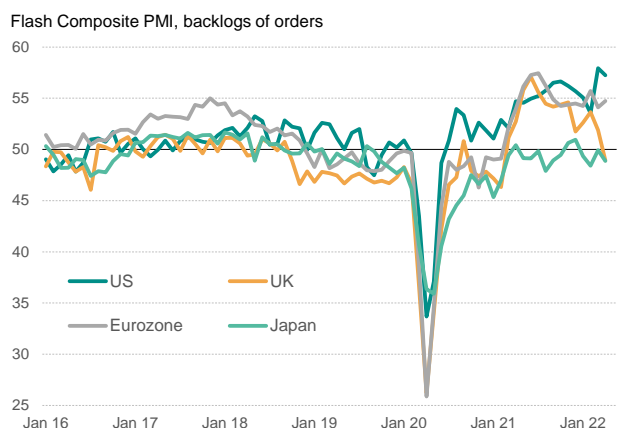


Source: S&P Global with au Jibun Bank (Japan), CIPS (UK)

Backlogs of work hint at UK weakness ahead

Some major clues as to what the future holds can be gleaned from the PMI survey's backlogs of work indices. These indicators track the amount of work in hand that companies are reporting, which in turn reflects the extent to which recent demand has exceeded their operating capacity. As such, the backlogs of work indices provide powerful signals of how busy companies are likely to be in coming months.

Backlogs of work



Sources: S&P Global, au Jibun Bank (Japan)

These indicators showed the US continuing to see an unprecedented build-up of uncompleted orders in April, after a record rise in March. Similarly, eurozone companies

reported a further strong rise in backlogs, hinting at sustained output growth in coming months – especially if supply bottlenecks ease.

Conversely, the UK saw backlogs of work fall for the first time since February 2021, suggesting the output slowdown has further to run. Similarly, Japanese growth may remain subdued in the coming months absent a renewed upturn in demand, given a slight fall in levels of outstanding business during April.

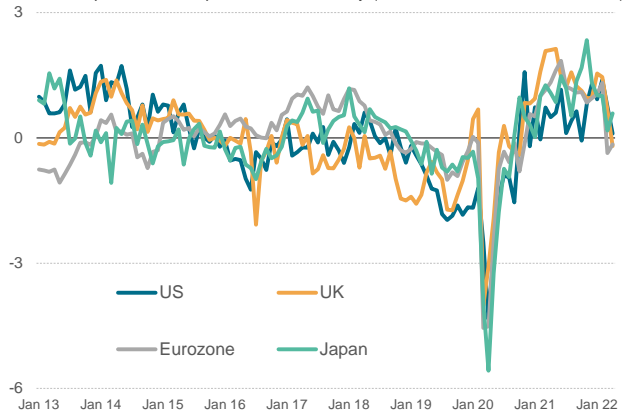
Optimism subdued

Forward-looking signals are also being sent by the PMI survey's future output expectations indices. Unlike the other PMI series, these data are subjective, based on views among companies relating to their own expected output in 12 months' time, so in theory presenting a longer time horizon for the outlook than the backlogs of work indices.

Sentiment for the next 12 months picked up in the Eurozone and Japan, in April albeit merely remaining close to long-run averages. Steep falls were meanwhile seen in the US and UK, leaving the US index just above its long-run average and the UK index just below its mean. Hence all four surveys are now signalling forward expectations of much weaker growth than had been indicated earlier in the year (prior to March, all four had seen their future expectations indices running at least one standard deviation higher than the long run mean).

Future output expectations

Flash Composite PMI, expected future activity (standard deviations from mean)



Sources: S&P Global, CIPS (UK), au Jibun Bank (Japan)

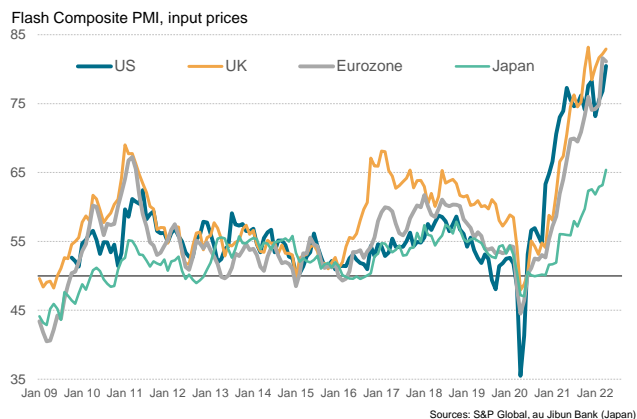
Price indicators at unprecedented levels

Business expectations were dampened in all cases in part by concerns over rising prices, notably for energy, not just in terms of the impact on companies' costs but also on the

impact on customers, as rising inflation poses a key threat to future spending power.

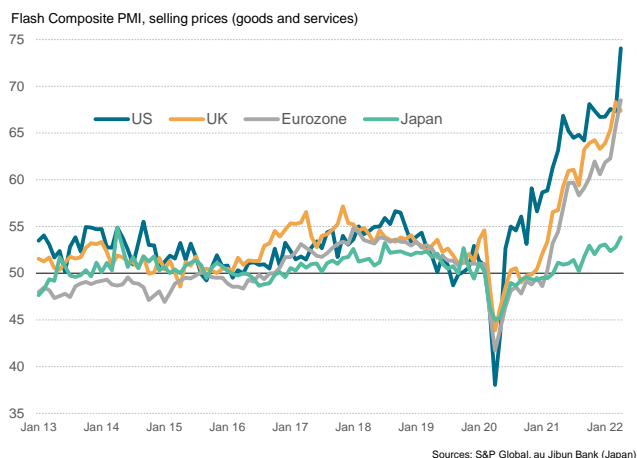
Inflation is already running at multi-decade highs in the US, eurozone and UK, and with the PMI survey data signalling a further surge in companies' costs in April, such elevated inflation readings look likely to persist in coming months. Average input costs across manufacturing and services rose at a record rate in both the US and Japan in April, with near-record rates seen in the eurozone and UK.

Input costs



These higher costs fed through to another surge in prices charged to customers. New record rates of increase for average prices levied for goods and services were reported in the US and eurozone, with a near-record high also reported in the UK (where an easing in the rate of increase was often linked to customers kicking back on price hikes). Japan likewise saw rate of selling price inflation accelerate, reaching the highest since the consumption tax hike of April 2014.

Selling prices



Growth risks tilted to the downside amid multiple headwinds?

In addition to rising prices and the cost-of-living squeeze, firms are also concerned over the prospect of rising interest rates as central bank seek to anchor inflation expectations. The Ukraine war and lingering effects of the pandemic, especially via ongoing lockdowns in China, represent further major concerns among many PMI survey respondents. While the reopening of economies from COVID-19 containment measures still represents a welcome tailwind for the coming months, the big question will be the extent to which whether these mounting headwinds may prevail.

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Special Focus

South Korea's Economy Moderates due to COVID-19 Wave

South Korean GDP growth moderated to a pace of 0.7% quarter-on-quarter (q/q) in the first quarter of 2022, compared with growth of 1.2% q/q in the fourth quarter of 2021. The slowdown reflected the impact of the escalating COVID-19 Omicron wave in the first quarter of 2022, which resulted in weakening household consumption.

The export sector has remained strong during early 2022, supported by buoyant global demand for electronics and auto exports. However, a key risk to South Korea's manufacturing sector outlook is from weakening global demand for South Korea's exports. Moderating economic growth in China in 2022 due to pandemic-related lockdowns in large Chinese cities is a key risk, as China is South Korea's largest export market. Weakening economic growth in the European Union (EU) due to the macroeconomic shocks from the Russia-Ukraine war is another key risk for South Korea's manufacturing export sector. Overall, South Korea's GDP growth rate is forecast to moderate to 3.0%, with downside risks to the outlook due to moderating global growth.

Overall, sustained economic expansion is expected to continue in 2022, at a pace of around 3%. However, the COVID-19 pandemic still remains a key risk to the near-term economic outlook. The high level of two-dose COVID-19 vaccination rates and rapid booster rollout in recent months are expected to help containment of the pandemic during the rest of 2022.

GDP growth moderates in Q1 2022

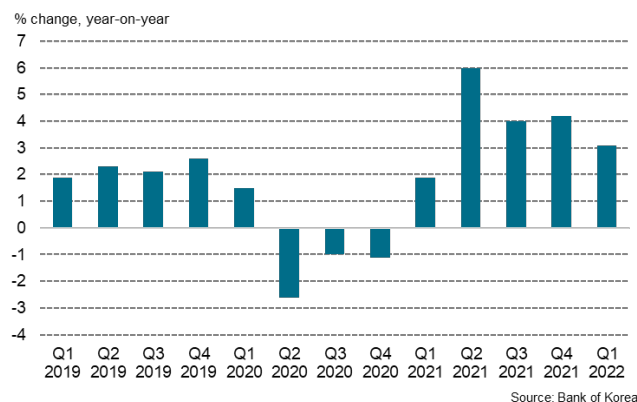
On a year-on-year (y/y) basis, GDP growth moderated 3.1% y/y in the first quarter of 2022, compared with 4.2% y/y in the fourth quarter of 2021. Measured on a q/q basis, GDP growth moderated to 0.7% q/q in the first quarter of 2022, compared with 1.2% q/q in the fourth quarter of 2021.

A key factor driving the slowdown in growth in the first quarter of 2022 was weak consumption, which contracted by 0.4% q/q. Private consumption declined by 0.5% q/q, while government consumption showed zero growth q/q.

Compared to a year ago, final consumption expenditure rose by 5.1% y/y in the first quarter of 2022, moderating from 6.8% y/y in the fourth quarter. For the 2021 calendar year,

final consumption grew by 4.1% y/y, after contracting by 2.4% y/y in 2020.

South Korea GDP growth



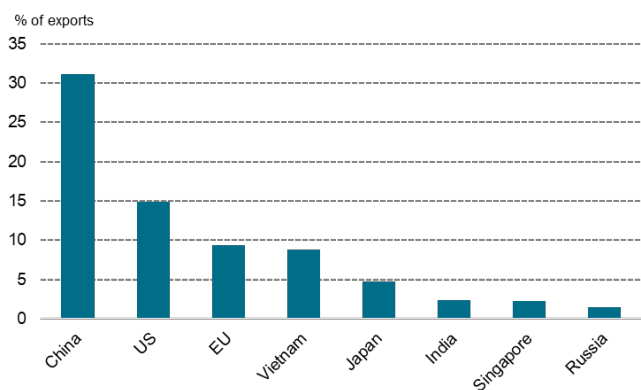
Manufacturing output showed strong growth in the first quarter of 2022, up 3.4% q/q, strengthening significantly compared to expansion at a pace of 1.1% q/q and 3.6% y/y in the fourth quarter of 2021. For calendar 2021, manufacturing output showed rapid expansion, growing at a pace of 6.6% y/y.

A key driver for the expansion in manufacturing output during 2021 and early 2022 has been the rebound in manufacturing exports. Stronger economic growth in major economies such as the US, China, EU and UK linked to the rollout of vaccination programs during 2021 helped to boost South Korean new export orders from its key export markets. In the fourth quarter of 2021, exports of goods and services rose by 6.8% y/y, with the pace of export growth strengthening in the first quarter of 2022, to 9.0% y/y.

South Korean exports reached a record high of USD 645 billion in 2021, rising by 26% y/y. Exports to China rose by 23% y/y, with exports to the US rising by 29% y/y and exports to the EU up 34% y/y. Exports to ASEAN also surged, rising by 22% y/y. Exports of semiconductors rose by 29% y/y, while exports of petrochemicals rose by 55% y/y. South Korea's auto exports rose by 24% in value terms in 2021, reaching USD 46.5 billion.

However, latest manufacturing survey evidence signalled some moderation in manufacturing growth in March. At 51.2 in March, the seasonally adjusted S&P Global South Korea Manufacturing Purchasing Managers' Index (PMI®) fell from 53.8 in February, indicative of some slowdown in the pace of expansion in the manufacturing sector.

South Korea's export markets

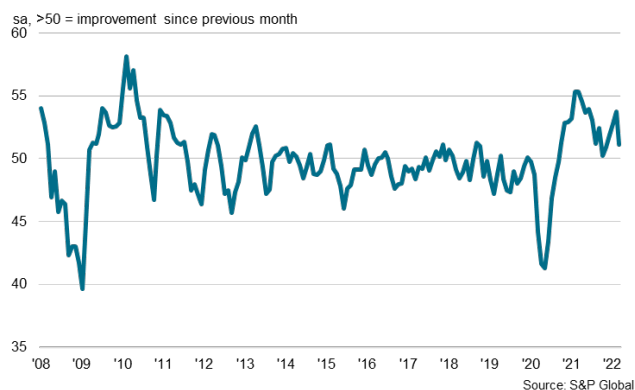


Source: MOTIE

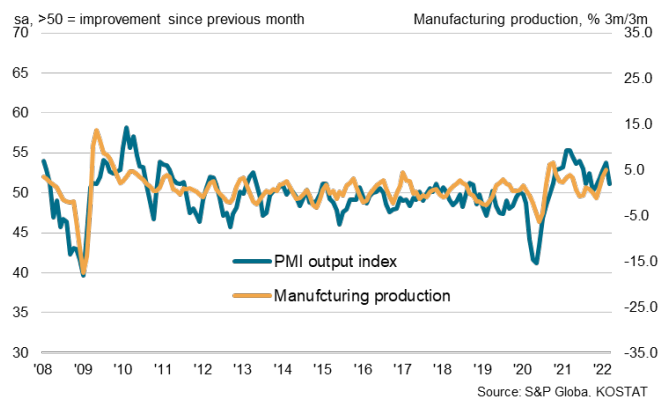
In the latest survey results, South Korean manufacturers signalled that new orders broadly stagnated in March. Although new orders increased for the eighteenth month running, the rate of increase was the joint-softest in the sequence as demand was affected by rising prices and supply chain issues. Rising geopolitical tensions hindered both total new order inflows as well as export orders, with the latter falling at the fastest pace since July 2020.

The Russia-Ukraine war is a significant downside risk for South Korean exports, even though Russia is a relatively small export market for South Korea. As the EU is one of South Korea's largest export markets, weakening economic growth in the EU due to the macroeconomic shocks from the Russia-Ukraine war is an important risk for South Korea's manufacturing export sector. Moderating economic growth in China due to the impact of pandemic-related restrictive measures on domestic demand is another key risk for South Korean exports, since China is South Korea's largest export market.

South Korea Manufacturing PMI



Source: S&P Global



Source: S&P Global, KOSTAT

The transmission effects of the Russia-Ukraine war have also been felt through higher raw materials input price pressures for manufacturing firms, as well as weaker export orders, due to greater uncertainties about the outlook as a result of the war.

Supply chain disruptions have continued to hold back activity and demand in the manufacturing sector. Material shortages and rising input costs were exacerbated by delays in sourcing and receiving inputs.

Latest data pointed to a further rise in input prices for by South Korean manufacturers, with costs rising at the fastest pace for three months. Businesses widely reported sharp rises in the cost of raw materials amid higher raw material prices, particularly for oil and semiconductors. The South Korean All Items Producer Price Index rose by 8.8% y/y in March, with the sub-index for coal and petroleum products rising by 69.7% y/y. The manufacturing PMI survey showed that output prices also increased at a rapid rate as firms sought to pass higher costs on to clients.

Confronted with rising inflation pressures, The Bank of Korea (BOK) Monetary Policy Board again hiked its policy rate by 0.25bp to a level of 1.50% at its April Monetary Policy Meeting. This was the fourth 25bp rate hike since August 2021. The incoming new Bank of Korea Governor Rhee Chang-Yong has stated that inflationary pressures are growing while the growth outlook is weakening. He highlighted the Russia-Ukraine war, moderating Chinese economic growth and US Fed monetary policy tightening as key headwinds to economic growth in 2022.

The BOK said in their April Monetary Policy Decision statement that consumer price inflation has risen significantly to the lower-4% level due to soaring prices of petroleum products as well as increasing prices of industrial products and personal services. Looking ahead, the BOK forecast that consumer price inflation will remain high in the 4% range for some time.

South Korea's CPI inflation rate has risen to 4.1 percent y/y in March 2022, after averaging 2.5 percent in 2021, which

was the highest annual average for a decade. Core CPI inflation excluding energy and food rose to 2.9 percent y/y in March, the fastest pace since June 2009.

The Monetary Policy Board of the BOK assessed at its April meeting that consumer price inflation will remain high in the 4% range for a considerable time, exceeding the previous path projected and running substantially above the February forecast of 3.1% for the year overall. Core inflation is forecast to remain around 3% for a considerable time.

This is considerably above the BOK's inflation expectations in its Monetary Policy Decision statement in January, when the BOK expected headline CPI inflation to remain above the mid-2% level for the 2022 year overall, with core CPI inflation forecast to run above 2% this year.

The decision to continue to tighten monetary policy also reflected BOK concerns about potential risks to financial stability due to the rapidly rising level of household debt as a share of GDP. Property prices have been rising rapidly, notably in Seoul and nearby areas, while household loan growth has accelerated. South Korea's household debt-to-GDP ratio is estimated to have reached 103.8% of GDP by the end of 2021.

Electronics sector boosts South Korean exports

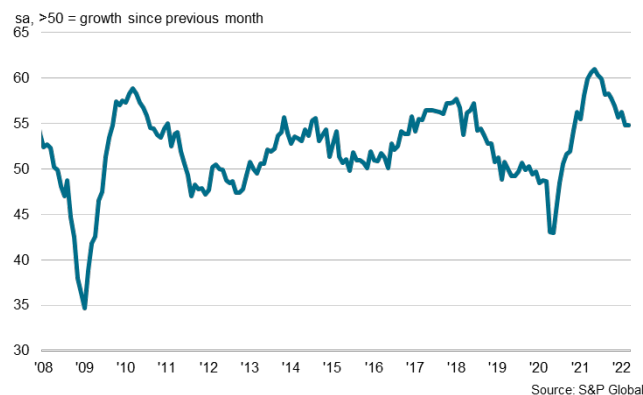
The electronics manufacturing industry is an important part of the manufacturing export sector for South Korea which is one of the world's leading exporters of electronics products to key markets such as the US, China and EU. As Vietnam is an important production hub for South Korean electronics multinationals such as Samsung and LG for a wide range of electronics products such as mobile phones, Vietnam is also a key export market for South Korean electronics components.

The strong rebound in world consumer markets, notably in the US, China and Western Europe, are continuing to drive growth in demand for electronics during early 2022. This has resulted in buoyant growth in household spending on electronics products as well as products that are intensive users of electronics, notably autos.

South Korea's exports of information and communications technology (ICT) goods grew by 33.6 percent to USD 23.3 billion in March 2022. ICT exports accounted for 36.6% of South Korean merchandise exports in March. Exports of semiconductors rose by 38% y/y in March, boosted by exports of memory chips, which rose 34% y/y while exports of system chips rose by 54% y/y. Exports of displays also showed rapid growth of 45% y/y, as exports of OLED panels grew by 69% y/y.

The global electronics manufacturing industry has continued to show expansion in the first quarter of 2022, albeit moderating from recent highs. The latest survey results for March continued to show positive expansionary conditions for global electronics producers. The headline seasonally adjusted PMI in March was unchanged from February's 15-month low, recording 54.8 for a second month in a row.

S&P Global Electronics PMI



The strength of South Korean ICT exports has been boosted by rapid growth in exports to the world's largest consumer markets. ICT exports to China reached USD 10.6 billion in March 2022, up 29 percent from the same period last year. Exports to China were driven by strong demand for semiconductors, which rose by 31 percent y/y, displays which rose 22 percent y/y and mobile phone parts, which rose by 66 percent y/y.

ICT exports to Vietnam in March 2022 rose by 49% percent y/y, to USD 3.5 billion. This reflected strong growth in exports of semiconductors, which rose by 59 percent y/y, and displays, which rose by 74 per cent y/y. However mobile phone exports declined by 61 percent y/y.

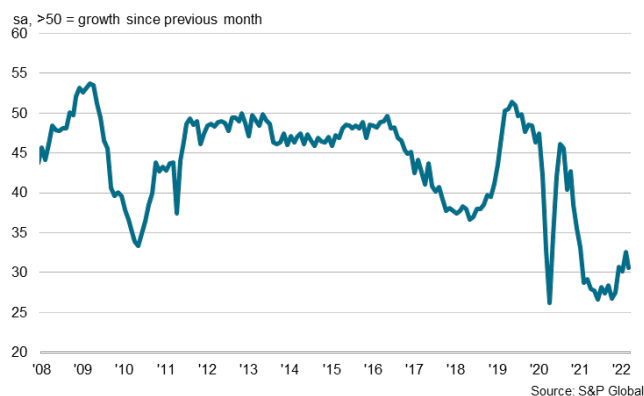
ICT exports to the United States grew by 38 per cent y/y, reaching USD 2.8 billion. This was driven by exports of semiconductors, which rose by 45% y/y, and computers and peripherals, which rose by 25 percent y/y.

Korean ICT exports to the European Union (EU) also showed buoyant growth, rising by 27 per cent y/y to reach USD 1.4 billion. Exports of semiconductors rose by 27 percent y/y, while exports of computers and peripherals were up 58 percent and exports of mobile phones rose by 56% y/y.

The outlook for the global electronics industry for the remainder of 2022 continues to be impacted by lengthy suppliers' delivery times, notably for supply of semiconductors. Low stock levels at suppliers, excessively high demand for inputs and logistics issues were mentioned as causes of prolonged delivery times.

There were sustained pressures on global electronics supply chains during March, as signalled by the seasonally adjusted Suppliers' Delivery Times Index posting 30.6, deteriorating further compared with the reading of 33.4 in February and far below the 50.0 no-change mark. The supplier delivery times continued to be very protracted, with firms primarily attributing this to insufficient inventories levels at suppliers. However, average lead times narrowed somewhat, to the shortest for 14 months amid reports of easing bottlenecks.

S&P Global Electronics PMI: Suppliers' Delivery Times Index



Near-term economic outlook

South Korean GDP growth was 4% y/y in 2021, with continued firm expansion at a pace of around 3% forecast for 2022 by S&P Global Market Intelligence. The economic recovery in 2021 was driven by consumption growth and merchandise exports.

South Korea has made very rapid progress with its COVID-19 vaccination program during the second half of 2021 and early 2022. By early April 2022, around 86% of the total population had received two doses. South Korea is also a global leader in booster rollouts, with 68.3% of the population having received booster shots.

Despite the very rapid pace of vaccinations in recent months, and the significant easing of the recent Omicron wave that hit South Korea in February and March, there are continuing downside risks from new COVID-19 waves hitting South Korea. The current COVID-19 outbreaks that have hit various cities in China also remain a key risk to the near-term outlook due to the importance of China as a key export market for South Korea.

Inflationary pressures also remain an important risk to the outlook for 2022. This reflects a number of factors, including higher input prices, supply chain disruptions and high shipping freight rate costs, which have contributed to rising input price inflation pressures. Consequently, the Bank of Korea has signalled that some further tightening of monetary

policy is likely in 2022. Higher policy rates are also expected to help curb risks of a property sector bubble.

An additional challenge is that the recovery of South Korean trade in services is expected to be delayed and protracted, with continued international travel restrictions in some key markets in the Asia-Pacific region, notably mainland China which has been a key source of international tourism visitors prior to the pandemic. The current pandemic restrictions and lockdowns in various parts of China will continue to constrain any early recovery in Chinese tourism visits to South Korea.

Medium-term outlook and key risks

Over the medium-term outlook, South Korean exports are expected to grow at a rapid pace, helped by the sustained strong growth of intra-regional trade within APAC, as China, India and ASEAN continue to be among the world's fastest-growing emerging markets. South Korea's strong competitive advantage in exporting key electronics products, notably semiconductors and displays, as well as autos and auto parts, are expected to be an important positive factor underpinning export growth.

The rapid growth of South Korean exports is also expected to be strengthened by the APAC regional trade liberalization architecture. This includes the large recent RCEP multilateral trade agreement and major bilateral FTAs. The RCEP trade deal, which South Korea has ratified, entered into effect from 1st January 2022 for the first ten ratifying members, and from 1st February 2022 for South Korea.

South Korea is also actively evaluating the possibility of applying to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) trade agreement and has begun unofficial bilateral talks with the CPTPP member nations to prepare for its potential formal membership application. The South Korean Government signed the written resolution for South Korea's CPTPP application at the 228th Economic Ministers' Meeting held on April 15. The South Korean government plans to proceed with domestic procedures for CPTPP application and report to the National Assembly in accordance with commercial treaty laws prior to an official submission of its CPTPP application.

A key macroeconomic risk to the South Korean economy over the medium to long-term outlook continues to be from the high level of household debt as a share of disposable income. This has risen to 200% by 2020, the fifth highest amongst all OECD countries. A key factor driving this debt ratio higher has been large mortgage lending flows for residential property purchases. This has fuelled rising property prices and has led to fears of a speculative property bubble. Such a high household debt ratio creates

macroeconomic vulnerability to further significant monetary policy tightening in a high inflation scenario.

Managing the energy transition towards renewable energy is also a key policy priority for South Korea. South Korea has already been at the forefront globally in planning initiatives to develop hydrogen as a key future fuel source for domestic power generation.

Among South Korea's greatest economic challenges will be long-term demographic ageing, which will have severe implications for South Korea's economy and society. The number of seniors aged 65 or over has already reached 16.5% of the population and by 2025 is projected to rise to 20% of the population. Meanwhile the working age population (aged 15 to 64) is declining as a share of the total population, from 71.4% in 2021 to a projected 55.7% by 2041.

Demographic ageing has already contributed to the moderation of South Korea's potential GDP growth rate from around 7% per year in the mid-1990s to around 2.5% per year by 2021. South Korea's potential growth rate could drop to a range of around 1% to 1.5% per year by 2050 due to demographic ageing.

Consequently, structural reforms to increase the potential growth rate will be a key policy priority over the medium term. These reforms would include policy changes to lift the labour force participation rate, improve services sector productivity, accelerate digitalization and further boost the adoption of industrial automation.

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