

Week Ahead Economic Preview

Eurozone, Japan inflation and US, China data in focus

11 May 2023

The week ahead sees a packed economic calendar with key releases due from the US to mainland China, notably for both including industrial production and retail sales figures. The eurozone also updates Q1 GDP alongside inflation and industrial production figures, while the labour market report is out from the UK. Central bankers in both the US and Europe will be watched for comments particularly with regards to the economic and monetary policy outlook.

The attention had recently been split between gauging economic performance, watching the US inflation data, and keeping an eye on US debt-ceiling discussions. As evident from the latest [S&P Global Investment Manager Index](#), politics has emerged a top concern for money managers in May, outweighing jitters over monetary policy and macroeconomic implications for US equity market performance.

That said, while concerns over the US debt-ceiling linger into the coming week, we also have a series of economic data that will be worth watching, especially given the [widening divergence between manufacturing output and services activity globally](#). US and mainland China retail sales and industrial production will be especially closely watched for official updates at the start of the second quarter. While services outperformance had been driven by consumer services demand, consumer goods have lagged according to the latest [S&P Global Sector PMI](#).

Amid the divergence in inflation trends between manufacturing and services, eurozone, Japan and Canada inflation figures will also be scrutinised for any evidence of service-led inflation, especially as central bankers around the world mull the trajectory for monetary policy into the second half of the year. The data follow softer CPI and core CPI for April in the US.

Finally, April's UK labour market report will be released next Tuesday following early indications from the KPMG and REC *Reports on Jobs* showing that the labour market had cooled, especially in London. Official numbers will be watched for implications following the Bank of England meeting this week, notably in relation to wage pressures.

Japan's tale of two economies

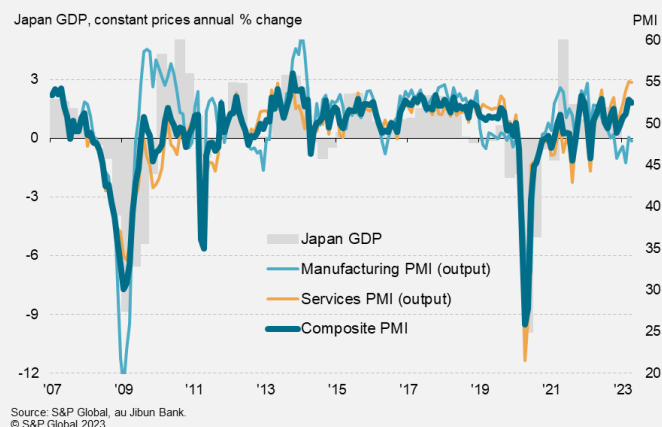
First quarter GDP data are published for Japan in the coming week, and we are expecting growth to have accelerated. According to Refinitiv, the consensus is for a mere 0.1% quarter-on-quarter gain after a flat fourth quarter of 2022, but PMI data have been encouragingly robust in recent months. The output index from the au Jibun Bank PMI, covering output across both manufacturing and services and compiled by S&P Global, averaged 51.6 in the first three months of the year. That was up from an average of 50.1 in the final three months of 2022.

The economic situation is by no means clear-cut, however, as there is an historically [wide divergence between the manufacturing and services sectors](#). While service sector growth has been running at near record highs in recent months, including at the start of the second quarter, manufacturing remains in decline.

The ongoing plight of the goods producing sector is a concern, given the importance of manufactured exports to the Japanese economy. The PMI survey showed new export orders for Japanese goods falling for a fourteenth consecutive month in April. On the other hand, exports of services soared at the fastest rate since comparable data were first available in 2014. These exports in part reflect the reopening of economies after the pandemic, which has facilitated cross-border travel.

The question, of course, is for how long can this boom in service sector exports counter the drop in goods trade. Past experience suggests that these growth spurts prove short-lived, though this time hopefully there will not be another COVID-19 wave to take the wind out of its sails.

Japan PMI and economic growth



Key diary events

Monday 15 May

Japan PPI (Apr)
South Korea Trade (Apr)
Thailand GDP (Q1)
Indonesia Trade (Apr)
India Trade (Apr)
Eurozone Industrial Production (Mar)

Tuesday 16 May

South Korea Import and Export Prices (Apr)
China (Mainland) Industrial Production (Apr)
China (Mainland) Retail Sales (Apr)
China (Mainland) Unemployment (Apr)
United Kingdom Labour Market Report (Mar)
Germany ZEW Economic Sentiment (May)
Eurozone GDP (Q1, 2nd est.)
United States Retail Sales (Apr)
United States Industrial Production (Apr)
United States Business Inventories (Mar)
Canada CPI (Apr)

Wednesday 17 May

Norway Market Holiday
Japan GDP (Q1)
Japan Industrial Production (Mar)
Japan Capacity Utilization (Mar)
Singapore Non-oil Domestic Exports (Apr)
India WPI Inflation (Apr)
Australia WPI (Q1)
China (Mainland) House Prices (Apr)
Eurozone HICP (Apr)
United States Building Permits (Apr)
United States Housing Starts (Apr)

Thursday 18 May

Indonesia, Switzerland, Norway Market Holiday
Japan Trade (Apr)
Australia Employment Change, Unemployment Rate (Apr)
Philippines Interest Rate Decision
Hong Kong SAR Unemployment Rate (Apr)
United States Initial Jobless Claims (13 May)
United States Existing Home Sales (Apr)
United States Leading Index (Apr)

Friday 19 May

New Zealand Trade (Apr)
Japan CPI (Apr)
Malaysia Trade (Apr)
Taiwan Current Account (Q1)
Canada Retail Sales (Mar)

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

What to watch

Americas: US industrial production, retail sales data, Fed comments, Canada inflation

Following the weaker than expected CPI release this week, economic data including US industrial production and retail sales figures take the spotlight in the coming week. Consensus expectations point to better retail sales readings for April at 0.7% month-on-month (m/m). On the other hand, industrial production is expected to stall after a 0.4% m/m gain previously. This flat production reading runs counter to the indications from the [S&P Global US Manufacturing PMI](#) which showed the upturn in production at the fastest for close to a year, albeit modest overall. Also watch out for US data updates for inventories, housing starts, home sales and building permits. Besides economic readings, a series of Fed comments continued to be watched in the week for further insights into central bankers' views.

Canada inflation figures will also be due Tuesday.

Europe: Eurozone Q1 GDP, inflation and industrial production data, UK labour market report

The week ahead is packed with eurozone data releases including the second estimate of Q1 GDP as well as industrial production and inflation figures for April. Consensus expectations point to a slight uptick in the inflation rate from March, in line with the indications from the [HCOB Eurozone Composite PMI](#) for April.

Separately, the UK labour market report will be due Tuesday. According to the [KPMG and REC, UK Report on Jobs](#), permanent staff appointments fell at the fastest pace in over two years as demand shifted to temporary staff, signalling growing uncertainty about the economic outlook.

Asia-Pacific: Mainland China retail sales, industrial production, Japan GDP and CPI, Thailand GDP, BSP meeting

In APAC, mainland China releases retail sales and industrial production figures for April. Consensus expectations point to strong retail sales performance and higher industrial production growth. This is in line with [recent resurgence seen for service sector performance](#), according to the Caixin PMI, helping to drive economic growth in April, however. Japan's GDP and CPI will also be in focus in light of recent service sector strength (see box on page 1).

Special reports:

Inflation Trends Diverge as Service Sector Growth Spurt Drives Global Growth to 16-month High | Chris Williamson | [page 4](#)

Taiwan Economy Slumps into Recession | Rajiv Biswas | [page 8](#)

Recent PMI and economic analysis from S&P Global

Global	Monthly PMI Bulletin: May 2023	9-May	Chris Williamson, Jingyi Pan
	Inflation trends diverge as service sector growth spurt drives global growth to 16-month high	9-May	Chris Williamson
	Global factory output inches higher as supply improvements offset falling demand	4-May	Chris Williamson
	Electronics sector reports greatest improvement in supply chains since 2001	2-May	Chris Williamson
Africa	Load shedding programme weakens business capacity and outlook in South Africa in April	9-May	David Owen
Europe	Eurozone flash PMI signals strong start to second quarter thanks to resurgent service sector	21-Apr	Chris Williamson
	UK economic growth hits highest for a year according to April flash PMI surveys	21-Apr	Chris Williamson
Asia-Pacific	India's economy continues to expand as inflation moderates	5-May	Rajiv Biswas
	Resurgent service sector in mainland China drives strong economic growth at start of second quarter	5-May	Chris Williamson
	Factories slide back into decline and prices fall in Mainland China as boost from reopening economy fades	4-May	Chris Williamson
Commodities	Weekly Pricing Pulse: Widespread drop in materials prices amid sluggish manufacturing demand	5-May	Thomas McCartin

S&P Global Economics & Country Risk highlights

Vulnerable housing and real estate markets



The tightening of global monetary conditions is driving a softening of house prices, which in some key markets are expected to decline in 2023 and 2024. House prices experienced sharp increases in most developed economies during the last decade as record-low interest rates supported demand for property. Borrowers' affordability, and therefore demand for housing, is being negatively impacted by higher borrowing costs. The degree of impact varies by market.

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

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



Tune in for the latest trends seen in our Purchasing Managers Index data. Economists on our Purchasing Managers' Index team use the prism of our PMI datasets to look at some of the most important themes in the global economy at the start of 2023. These include inflation, the recent reopening of China's economy, and supply chain risks.

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

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Special Focus

Inflation Trends Diverge as Service Sector Growth Spurt Drives Global Growth to 16-month High

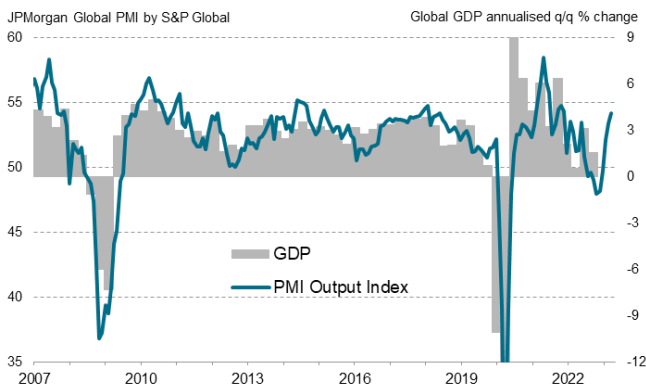
A further acceleration of services sector growth pushed the pace of global expansion to a 16-month high in April, according to the S&P Global PMI surveys based on data provided by over 27,000 companies. All major economies reported robust service sector growth, in all cases outperforming manufacturing which consequently remained broadly stalled on a global basis.

Resurgent post-pandemic demand for services has diverted spending from manufacturing, meaning bottlenecks have eased in the goods-producing sector but increased among service providers. Inflationary forces have likewise shifted as a result of these demand-supply imbalances, with the rate of inflation for goods falling further in April but reviving in the services sector.

The outlook for growth and inflation therefore rests to a large extent on the duration of this revival of service sector spending, notably among consumers, which will inevitably be tested by various headwinds.

Global output growth hits fastest since 2021

Global PMI vs. GDP



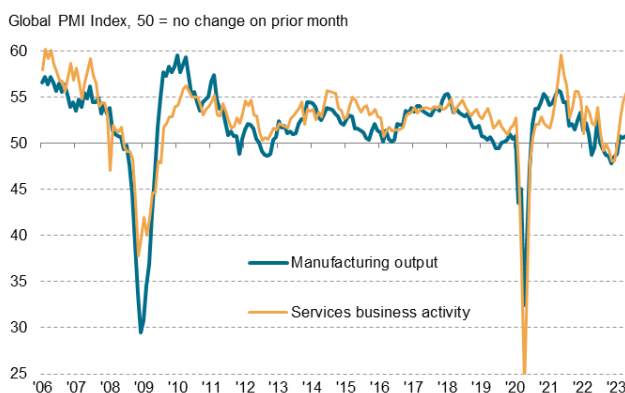
The Global PMI – compiled by S&P Global across over 40 economies and sponsored by JPMorgan – rose for a fifth straight month in April from 53.4 in March to 54.2, climbing to its highest since December 2021. The current reading is broadly consistent with annualized quarterly global GDP

growth of approximately 4%, representing a strong start to the second quarter.

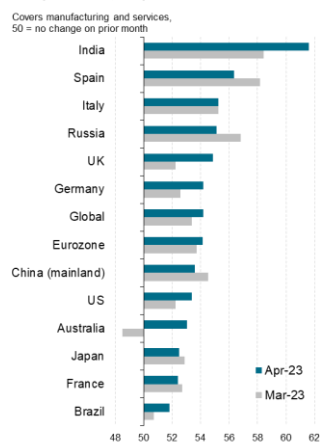
Widening divergence as faster services output contrasts with sluggish manufacturing

It was notable, however, that the expansion was again largely a reflection of resurgent service sector activity. While services output growth hit the fastest since November 2021, [only a modest gain was recorded for manufacturing output](#). The resulting divergence between the performance of the two sectors was one of the widest on record.

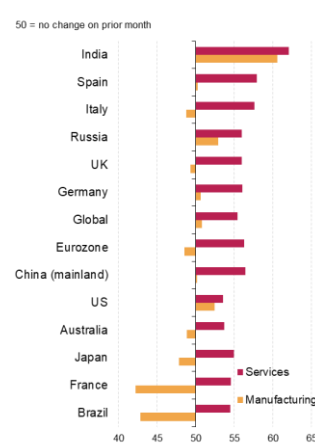
Global PMI output by sector



Composite PMI, output index



PMI, sector output index



The outperformance of services relative to manufacturing was evident in all of the 12 largest economies surveyed in April, in some cases to striking degrees. While all 12 reported growth of service sector activity, only India, Russia, the US and - to only a marginal extent – Germany reported higher manufacturing output.

Global service sector export growth at survey high

There was again an even greater sector divergence in terms of new order inflows, where the gap between services and manufacturing grew for the second month running. While manufacturing new orders fell for a tenth successive month in April, subdued by a further fall in global goods exports, service sector new business inflows grew at the steepest rate for just over a year, with exports registering the largest monthly gain since comparable global data were first available in 2014.

Global PMI new orders by sector



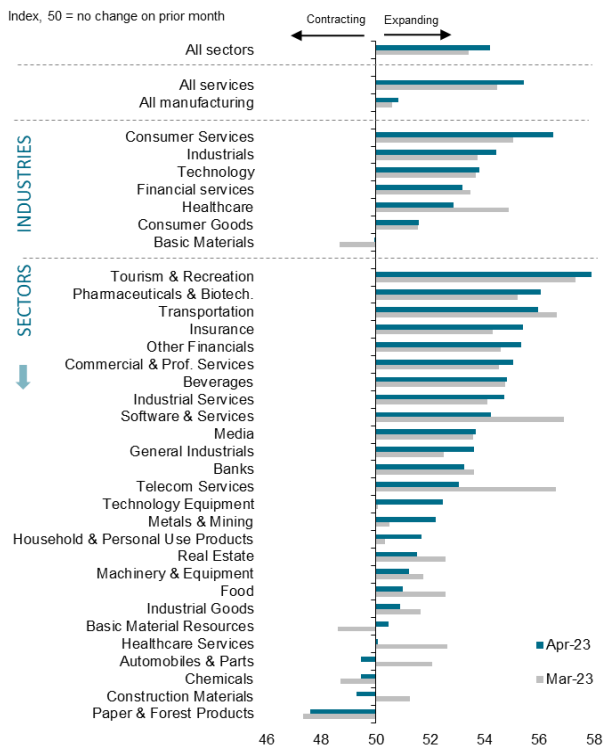
Surge in demand for consumer services

Drill down deeper into the data and the PMI survey showed the global upturn to have been led by resurgent output of consumer services businesses. Drilling down even deeper, one would find the fastest growing sub-sector was tourism & recreation. Transportation activity has also risen especially strongly.

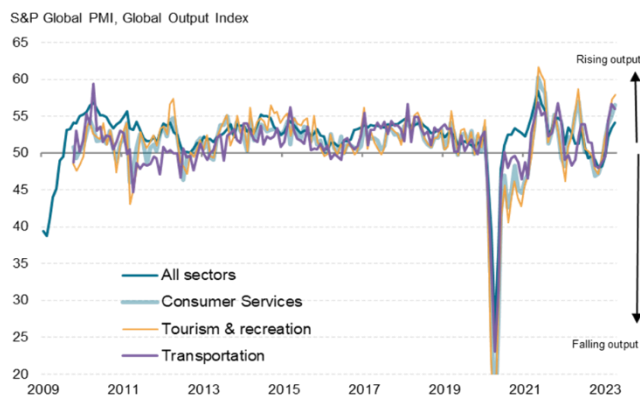
It's notable that, in marked contrast to the rebound in consumer services growth, consumer goods output rose only modestly in April, albeit improving on the stalled picture seen in March.

The data therefore point to a switching of spend towards consumer services, linked to greater demand for travel, tourism, and recreational activities. This leisure surge can be in turn traced to the reopening of the global economy after the pandemic, with 2023 being the first year of unrestricted global travel. Furthermore, with 2023 also having seen the removal of COVID-19 containment measures in mainland China, it is perhaps not surprising to see Asia reporting a stronger consumer services upswing in recent months, though noteworthy growth is also evident in Europe and, to a lesser extent, the US.

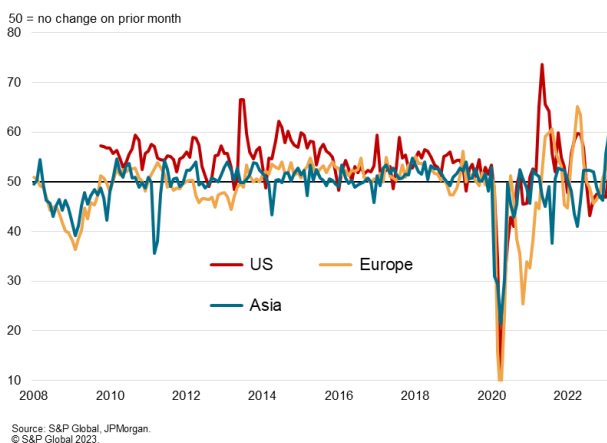
Global PMI sector output



Global PMI sector output: consumers on the move



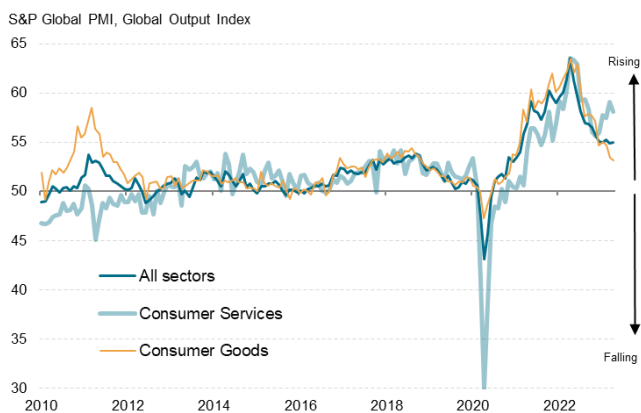
Consumer Services PMI Output Index



Diverging price trends for consumer goods and services

The divergent demand conditions manifested themselves in varying price pressures in the two sectors. While global selling price inflation for consumer goods slowed in April to the lowest since November 2020, growth of average rates charged for consumer services has re-accelerated in recent months compared to the slower rates seen at the turn of the year. Although still running in well below last year's highs and easing slightly in April, service sector inflation remains far higher than anything recorded prior to the pandemic since comparable global PMI data were available in 2009.

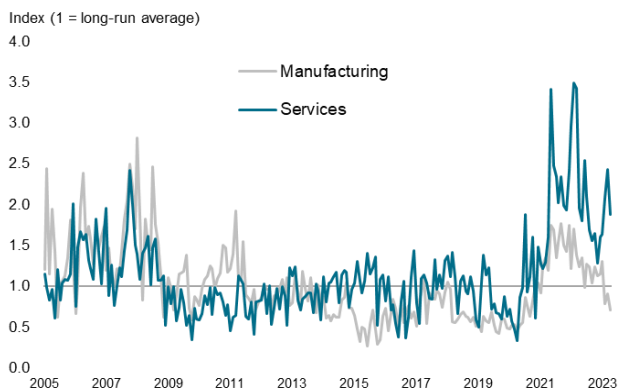
Global PMI sector output prices



Source: S&P Global, JPMorgan. © S&P Global 2023.

Greater pricing power for service providers

S&P Global PMI: demand as a driver of higher selling prices



Source: S&P Global PMI surveys © S&P Global 2023.

Analysis of the reasons cited by PMI respondents for higher selling prices reveals the role that demand is playing in driving diverging inflationary trends. The number of cases of higher demand being seen as the facilitator of increased prices has fallen sharply in the manufacturing sector, dropping below the long run average in April to sink to the lowest since September 2020. But in the service sector, barring the pandemic, the last time global service sector

demand-pull inflation forces were as strong as seen in recent months was 2008.

The divergence in pricing power is similarly explained by variations in backlogs of work. Backlogs reflect the amount of orders that companies have received which they have not been able to complete and provide or ship to customers. In manufacturing, component shortages led to an unprecedented accumulation of such outstanding orders, but recent supply chain improvements – combined with deteriorating demand – mean these backlogs are now falling. In the service sector, backlogs also rose during the pandemic, linked in most cases to a lack of available labour. However, whereas manufacturers are now reporting lower backlogs, service sector companies are struggling to cater to the post-pandemic surge in consumer demand for activities such as travel and tourism. Hence service sector backlogs are now rising again.

Thus, backlogs tell us that demand for services is rising faster than supply, pushing prices up. In manufacturing, the reverse is now the case. Hence inflation pressures have moved from goods to services.

Global backlogs of work



Sources: S&P Global, JPMorgan. © S&P Global 2023.

Outlook

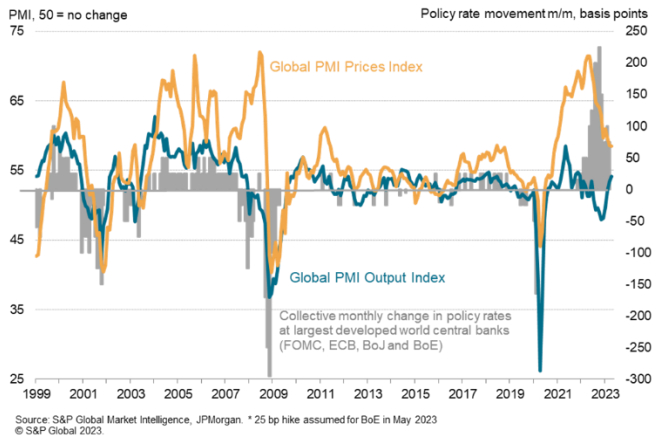
It now remains to be seen how long this surge in consumer services demand can persist for, as this will inform us of the stickiness of inflation.

With interest rates continuing to rise both in Europe and the US in May, there are clear downside risks to consumer spending as we move in to the second half of the year. Tightening financial conditions are also expected to lead to further credit market headwinds as we head through the year.

More encouragingly, interest rates will have likely peaked as we enter the second half of the year, as will have inflation rates. But policymakers stress the likelihood of interest rates remaining high for a prolonged period, and the damage from inflation on the cost of living will be felt for some time.

One upside is that the [inventory cycle in manufacturing](#) should become more supportive of growth in the third and fourth quarters. The second half of the year may therefore see a shift in in spending back to goods from services, albeit from a likely reduced overall pot of spending.

Global PMI output and prices vs. monetary policy



Access the global PMI press release [here](#).

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Special Focus

Taiwan Economy Slumps into Recession

Taiwan's export-driven economy has been hit by slumping exports, resulting in GDP contracting by 3.0% year-on-year (y/y) in the first quarter of 2023, following negative growth in the fourth quarter of 2022. With two consecutive quarters of negative growth recorded, Taiwan's economy has entered a technical recession.

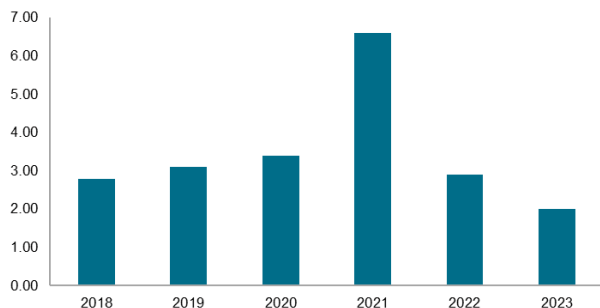
A key factor driving the export slowdown has been weak demand for Taiwan's electronics exports in key global markets, notably the US, EU and mainland China.

Taiwan slides into recession in early 2023

Taiwan's economy has recorded two successive quarters of negative growth during the fourth quarter of 2022 and the first quarter of 2023. This follows a period of strong economic expansion in 2021 and 2022. In 2021, annual GDP rose by 6.5% y/y. This was the fastest pace of annual economic growth since 2010, boosted by export growth of 29% y/y, with exports of semiconductors up by 27% y/y.

This was followed by continued positive GDP growth at a pace of 2.5% in calendar 2022, helped by strong global demand for electronics exports during most of 2022. Taiwan's merchandise exports rose by 7.4% y/y in 2022, buoyed by strong expansion in exports of electronics components, which rose by 16.4% y/y, while semiconductors exports rose by 18.4% y/y.

Taiwan: GDP growth rate
Annual % change



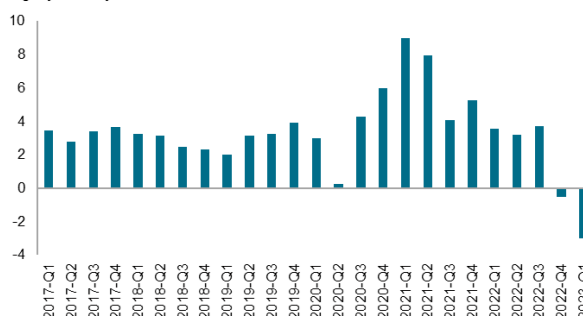
Source: S&P Global Market Intelligence

However, Taiwan's electronics sector exports, which are a key export, have weakened significantly during the second half of 2022 and early 2023, due to weak electronics demand in the US, EU and mainland China. The downturn in Taiwan's exports has been a key factor contributing to the economic slowdown.

Total merchandise exports fell significantly in the fourth quarter of 2022, contracting by 8.6% y/y. Taiwan's exports

have remained weak during early 2023, with merchandise exports in March 2023 contracting by 19.1% y/y. Exports to mainland China and Hong Kong SAR declined by 28.5% y/y in March. Mainland China is Taiwan's largest export market, accounting for 28% of Taiwan's total exports, while Hong Kong SAR accounts for a further 14% of Taiwan's total exports. Exports to the US also fell sharply in March, down by 20.7% y/y.

Taiwan GDP growth
% change, year-on-year



Source: S&P Global

Taiwan's manufacturing sector business conditions have remained weak during the early part of 2023. Industrial production fell by 14.5% y/y in March, with manufacturing output down by 15.2% y/y.

S&P Global Taiwan Manufacturing PMI
sa, >50 = improvement since previous month



Source: S&P Global.

The S&P Global Taiwan Manufacturing Purchasing Managers' Index (PMI) fell from 48.6 in March to 47.1 in April, to signal a decline in the health of the sector for the 11th straight month. Pushing the headline index further below the neutral 50.0 level was a deterioration in total new orders in April. The contraction in sales reflected weak demand, both at home and overseas, and relatively high inventory levels at some clients.

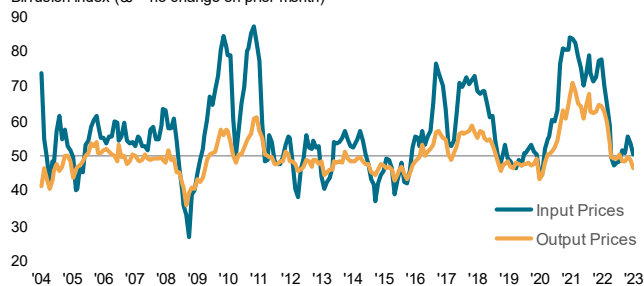
New export business likewise fell at the quickest rate since January and sharply overall. Muted demand conditions led firms to cut production volumes again at the start of the second quarter. The pace of reduction of output was significant overall and the quickest for three months. Lower production requirements drove firms to cut back sharply on their input buying, while they maintained a cautious

approach to their inventory holdings. Notably, stocks of both finished goods and pre-production items fell in the latest survey period.

Waning demand for inputs meanwhile added further downward pressure on prices. Moreover, average input costs rose at the weakest pace in five months and only marginally overall. Efforts to stimulate sales led companies to cut their average selling prices again in April.

Taiwan manufacturing PMI: Input and output prices

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 © S&P Global 2023.

Taiwan's consumer price index (CPI) inflation rate moderated to 2.4% y/y in March 2023, while core CPI excluding energy and food rose by 2.6% y/y, indicating retail inflationary pressures remain contained. Although inflation has been moderating in recent months, Taiwan's central bank raised its policy rate by 12.5% on 23 March 2023 in order to limit potential further inflation pressures, after having acted pre-emptively during 2022 with a series of modest tightening steps to contain inflation pressures.

The March 2022 tightening step of 25 basis points (bps) had been the first rate hike since June 2011, with the previous most recent change to policy rates having been a rate cut in March 2020 in response to the global COVID-19 pandemic. This was followed by a 12.5 bp increase in June 2022, a 12.5 bp hike in September 2022 and another 12.5 basis points in December 2022.

Global headwinds facing electronics industry

The near-term outlook for Taiwan's electronics sector remains weak, based on the latest S&P Global Electronics PMI survey results. At 48.2 in April, the headline seasonally adjusted PMI fell slightly from 48.4 in March to signal a sustained deterioration in operating conditions across the global electronics manufacturing sector at the start of the second quarter of 2023.

S&P Global Electronics PMI

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



Source: S&P Global Market Intelligence, S&P Global PMI surveys © S&P Global 2023.

The Global Electronics PMI output index showed a marginal positive reading in April, but has been weak for many months. The Global Electronics PMI new orders index remained in contraction territory in April, with a reading of 47.2, well below the neutral 50.0 mark. These readings signal continuing headwinds for the global electronics manufacturing industry in the near term.

S&P Global Electronics PMI Output Index

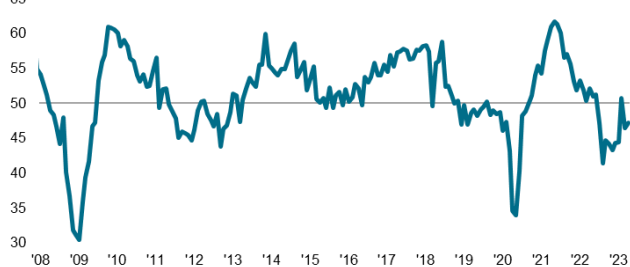
S&P Global PMI (Purchasing Managers' Index) Index
Diffusion index (50 = no change on prior month)



Source: S&P Global Market Intelligence, S&P Global PMI surveys © S&P Global 2023.

S&P Global Electronics PMI New Orders Index

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

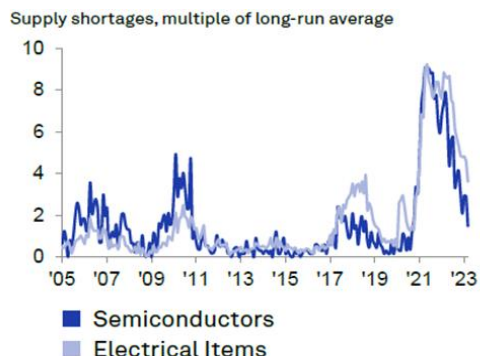


Source: S&P Global Market Intelligence, S&P Global PMI surveys © S&P Global 2023.

Global industry supply shortages for the semiconductors and electrical product industries have moderated in recent months, as supply-side bottlenecks have eased while weaker demand conditions have also contributed to improving supplier delivery times. The S&P Global Taiwan Manufacturing PMI Survey for April indicated that the weaker

demand environment supported a further improvement in supply chain performance. Average lead times for inputs shortened for the second month in a row, albeit not as quickly as that seen in March.

Global electrical and electronics industry supply shortages



Economic outlook

After rapid economic growth in 2021 and continued firm expansion in 2022, Taiwan's economy is forecast to moderate in 2023, mainly due to the downturn in exports. This reflects continued weakness in key markets for Taiwan's electronics exports, notably the US, EU and mainland China. Taiwan's export orders fell by 25.7% y/y in March 2023, signalling continued near-term weakness for the manufacturing export sector.

Taiwan's medium-term outlook remains for sustained positive expansion at a moderate pace, underpinned by improving global electronics demand during 2024 and 2025. The impact of the COVID-19 pandemic has accelerated the pace of digital transformation due to the global shift to working remotely, which has boosted demand for electronic devices, such as computers, printers and mobile phones.

The medium-term outlook for electronics demand is underpinned by major technological developments, including 5G rollout over the next five years, which will drive demand for 5G mobile phones. Demand for industrial electronics is also expected to grow rapidly over the medium term, helped by Industry 4.0, as industrial automation and the Internet of Things boost rapidly growth in demand for industrial electronics. Taiwan's electronics industry will continue to benefit from its leading role in production of advanced semiconductors as well as from its production of a wide range of other electronics products for consumer and industrial electronics.

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