

Week Ahead Economic Preview

Services PMIs and US non-farm payrolls to feed recession-risk and policy debate

04 July 2022

This week, services PMI data for all major developed and emerging economies will be in focus, coming on the heels of last week's manufacturing PMIs to thereby give a more comprehensive overview of the latest growth and inflation signals. US, China, Eurozone and UK composite PMIs will take centre stage, building the economic picture for June ahead of the US employment report on Friday. The central bank meeting in Australia will meanwhile form the main monetary policy focus alongside the release of the latest FOMC minutes.

Fears of recession rose following the worldwide manufacturing PMIs, which indicated weaker performances in the US, UK, EZ and Japan. Even a rebound in manufacturing output in mainland China disappointed, failing to be accompanied by a robust improvement in demand. There were, however, tentative signs of improvements on the price front, with inflationary pressures easing amid fewer supply constraints (see box).

The release of service sector PMI data this week will therefore add to insights into the degree to which rebounding activity in the consumer sector can withstand the headwinds of rising inflation, growing economic gloom and tighter financial conditions amid rising interest rates. Clues as to path of the latter in the US will also be gleaned from the non-farm payroll report and the latest FOMC minutes. The FOMC hiked the Fed Funds rates by 75 basis points at its last meeting and noted that another hike of the same increment could be made at the upcoming meet in order to tackle 40-year high inflation, though markets have been pricing in less aggressive longer-term rate picture following recent disappointing economic data. June's non-farm payrolls is therefore likely to provide another material steer for Fed watchers.

This week also sees a central bank meeting for Australia, with investors, eyeing decisions on interest rates. It's widely expected that policymakers will increase efforts to rein in on escalating inflation by lifting interest rates by 50 basis points.

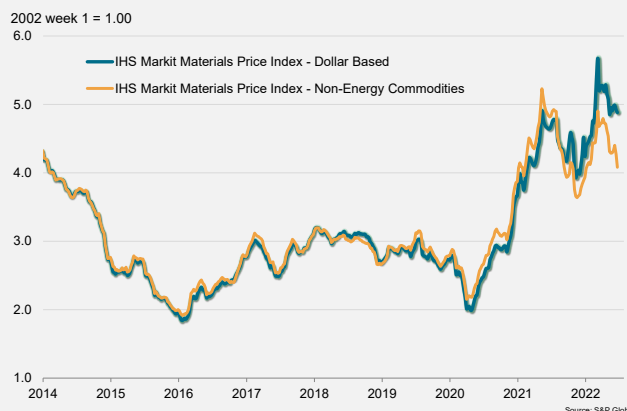
Inflation focus shifts to service sector after signs of easing industrial price pressures

Global manufacturing growth continued to weaken in June, according to the latest PMI data. The JPMorgan PMI – compiled by S&P Global – now at its lowest since August 2020 (see special report). The deterioration took place despite an easing of COVID-19 restrictions in China (which allowed mainland manufacturing activity to rise at the fastest rate for over a year), reflecting weakened factory trends in the US, Europe and across much of Asia.

More encouragingly, the alleviation of China's pandemic restrictions contributed to a further easing of supply chain delays, which – alongside a stalling of global demand growth for manufactured goods – has helped cool price pressures, albeit with energy providing further upward pressure on costs.

Our Materials Prices Index shows global prices down 14% from their pandemic peak in the week ending 20 June, and some 22% lower if energy is excluded, underscoring the steepness of the recent commodity price drops. Copper, for example, is now trading below \$8000 per ton for the first time for almost one and a half years. However, as our chart shows, even excluding energy, commodity prices clearly remain elevated by historical standards on average, and oil and gas continue to be supported by supply concerns. Nonetheless, the non-oil commodity market should feed through to lower CPI inflation in the second half of 2022. The attention of course shifts to the extent to which service sector costs are being driven higher by rising wages and fuel costs. For that, we await the coming week's service PMI data.

Global Materials Prices



Key diary events

Monday 04 July

US Market Holiday

S&P Global Canada Manufacturing PMI (Jun)
S&P Global Singapore Manufacturing PMI (Jun)
S&P Global Australia Services & Composite PMI (Jun)
Germany Balance of Trade (May)
South Korea Inflation (Jun)
Switzerland Inflation (Jun)
Turkey Inflation (Jun)

Tuesday 05 July

Worldwide Services PMIs* (Jun)
Australia Retail Sales (May)
Brazil Industrial Production (May)
France Industrial Production (May)
Mexico Consumer Confidence (Jun)
Reserve Bank of Australia Interest Rate Decision (Jul)
Singapore Retail Sales (May)
Spain Consumer Confidence (Jun)
United States Factory Orders (May)

Wednesday 06 Jul

S&P Global United States Services PMI** (Jun)
S&P Global Eurozone Construction PMI (Jun)
S&P Global France Construction PMI (Jun)
S&P Global Germany Construction PMI (Jun)
S&P Global Italy Construction PMI (Jun)
S&P Global/CIPS United Kingdom Construction PMI (Jun)
S&P Global Hong Kong SAR Manufacturing PMI (Jun)
Eurozone Retail Sales (May)
France Retail Sales (May)
Germany Factory Orders (May)
Spain Industrial Production (May)
United States FOMC Minutes
United States ISM Non-Manufacturing PMI (Jun)

Thursday 07 Jul

Australia Balance of Trade (May)
Brazil Retail Sales (May)
Canada Balance of Trade (May)
Canada Ivey PMI (Jun)
Germany Industrial Production (May)
Japan Household Spending (May)
Mexico Inflation (Jun)
Switzerland Unemployment (Jun)
United Kingdom Halifax House Price Index (Jun)
United States Balance of Trade (May)

Friday 08 Jul

Brazil Inflation (Jun)
Canada Unemployment (Jun)
France Balance of Trade (May)
Italy Industrial Production (May)
Russia Consumer Confidence (Q2)
Russia Inflation (Jun)
United States Non-Farm Payrolls (Jun)

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

** Includes Composite PMI

What to watch

June Global Services and Composite PMIs

Amid the lingering implications of COVID-19 and intensifying inflationary pressures, worldwide services and construction PMIs will be watched intently this week for indications of how the global economy has fared at the end of the second quarter. In recent months, the service sector has been outperforming the goods sector, with the latter hampered by material and staff shortages. However, June's PMI data will be eagerly assessed for any signs of weakening demand spreading to services as the pandemic rebound fades amid the cost-of-living crisis and tighter financial conditions, with the feed-through of higher price to wages also a key area of concern.

Americas: US and Canada non-farm payrolls and trade balance, Brazil inflation and industrial production

The start of the third quarter brings US and Canada non-farm payrolls and trade balances. Recent [survey data](#) have indicated some pull-back in firms' hiring as the demand environment weakened in June. Any deterioration in the rate of payroll additions will naturally add to recession risk in the US, while wage growth will also be eyed as any uplift could add to the Fed's enthusiasm for more aggressive policy tightening. Meanwhile, Brazil will release their Industrial production and retail figures for May. This will be followed by inflation data for June, which is expected to be elevated given recent tensions.

Europe: Eurozone retail sales, industrial production statistics for France, Germany, Italy and Spain, UK house prices

June PMI manufacturing data pointed to concern across Europe with the UK and Eurozone PMIs at or near 2-year lows. In fact, all Eurozone countries saw weaker improvements in their PMIs, and in some cases reported contractions in output. Industrial production data for Germany, France, Italy and Spain will therefore be closely watched.

Asia-Pacific: Australia interest rate decision, South Korea inflation, Japan household spending

The Reserve Bank of Australia will meet in the coming week to discuss changes to policy. It's anticipated that there will be a further tightening of monetary policy with policy rate set to rise to 1.35%.

Meanwhile, South Korea inflation data are also expected this week while Japan will release household spending figures.

Special reports:

APAC Economy | Rajiv Biswas | [page 4](#)

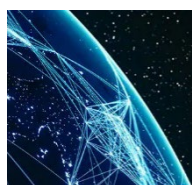
Global Manufacturing | Chris Williamson | [page 8](#)

Recent PMI and economic analysis from S&P Global

Global	US vs Eurozone food inflation	30-Jun	Lee Bridgett
Asia-Pacific	Mainland China manufacturing surges back into growth in June, supplier performance improves, prices fall	1-Jul	Chris Williamson
	Philippines economy resilient despite global headwinds	30-Jun	Rajiv Biswas
Europe	Eurozone manufacturing downturn signalled as demand falls sharply in June	1-Jul	Chris Williamson

S&P Global Economics & Country Risk highlights

Why is mainland China sticking with “zero-COVID” policy?



Mainland China's zero-Covid policy is increasingly unsuitable to contain the much more infectious new coronavirus disease 2019 (COVID-19) variants, yet is likely to remain unchanged this year. The policy has exacted heavy tolls on the economy, as containing outbreaks of the new variants requires extreme restrictions, including citywide lockdowns. Zero-covid policy lockdowns in the spring of 2022 caused disruptions to the Chinese economy not seen since the severe economic contraction in the first quarter of 2020 owing to the initial Covid outbreak in Wuhan. [Click here to read our research and analysis](#)

Lockdowns and labor issues – the next wave of PMI insights



Local COVID-related lockdowns in mainland China, the war in Ukraine, labour shortages, and supply chain disruptions continue to negatively impact the global economy – especially in China and surrounding geographies. Our PMI surveys are showing some of the steepest reductions in overall Chinese business activity and new orders since the initial wave of the pandemic in 2020. Digging deeper into the underlying numbers, our PMI team discusses what this all means for manufacturing health, labor markets, and local policy. [Click here to listen to this podcast by S&P Global Market Intelligence](#)

For further information:

For more information on our products, including economic forecasting and industry research, please visit the Solutions section of www.ihsmarkit.com. For more information on our PMI business surveys, please visit www.ihsmarkit.com/products/PMI

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APAC economy

The Ascent of APAC in the Global Economy

Over the past two decades, the Asia-Pacific (APAC) region has played an increasingly important role in the world economy. The weight of APAC in global GDP has risen from around 27% in 2000 to around 37% by 2021. This has resulted in a substantial rebalancing of the global economy from West to East, driven heavily by the rapid increase in the size of China's economy.

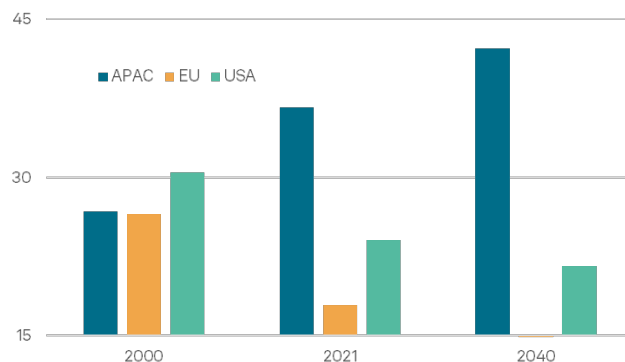
By 2040, the economic weight of the APAC region is forecast to rise further to around 42% of world GDP, driven mainly by the further economic expansion of China, India and the ten Southeast Asian countries comprising ASEAN. The rising economic weight of APAC has far-reaching economic implications, notably due to the growing economic importance of APAC consumer markets as drivers of world demand growth.

The shift from West to East

The total GDP of the APAC region has risen from 9 trillion in 2000 to 35 trillion by 2021, with APAC now accounting for around 37% of world GDP. Since 2000, the weight of APAC in world GDP has increased by 10 percentage points, which is a relatively rapid upwards shift in the share of the APAC region in the global economic pie.

In contrast, the weight of the European Union (EU) has declined significantly, from 26.5% of world GDP in 2000 to 17.9% in 2021, with the UK "Brexit" from the EU having accelerated the relative decline in the overall weight of the EU. Even if UK GDP is added to the EU total, the share of EU plus UK in world GDP in 2021 is 21.3%, which is still significantly lower than in 2000. The weight of the US in world GDP has also declined from 30.5% in 2000 to 24.1% by 2021, albeit still significantly larger than China.

APAC % share of World GDP



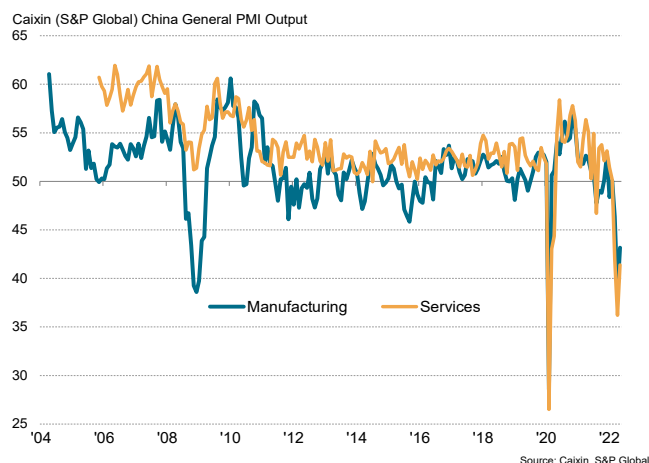
Source: S&P Global.

China's economic ascendance

The rapid growth of China's economy over the past two decades has been a major driving factor for the increasing economic weight of APAC in the world economy. China's weight in world GDP has risen from 3.6% in 2000 to 18.6% by 2021, measured in nominal USD terms. During the same period, Japan's relative economic weight in the world economy has declined from 14.8% in 2000 to 5.2% in 2021, as the impact of demographic ageing and rising government debt levels have acted as a structural drag on the pace of Japan's economic growth over the past two decades. Consequently, there has been a very significant economic rebalancing within the APAC region, with the growth in the size of China's economy outweighing the declining relative weight of Japan's economy.

However, the pace of China's economic growth has also slowed significantly since 2010, as ageing demographics and the declining marginal productivity of capital have contributed to a gradual moderation in the pace of growth. The COVID-19 pandemic has also created tremendous disruptions to the pattern of economic growth during 2020-2022.

Mainland China PMI (output)



As China's ageing demographics increasingly impact on the nation's long-term potential growth rate, the outperformance of Chinese economic growth relative to world growth is expected to gradually narrow over the next decade and beyond. Whereas China's GDP growth rate significantly exceeded world GDP growth over the period from 2000-2021, this gap is forecast to narrow significantly over the next two decades.

China: the great convergence



This will result in a levelling out of China's share of world GDP, at around 20.6% of world GDP by 2040 based on latest long-term growth forecasts, which is only slightly higher than its share of world GDP in 2021.

India has become the world's fifth largest economy

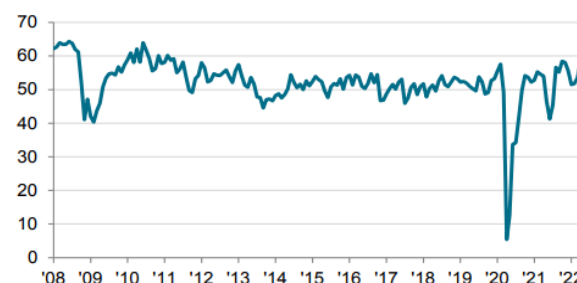
In 2021, India's GDP marginally exceeded UK GDP, making India the world's fifth largest economy. Unlike China, India has a relatively youthful demographic profile, which will help to underpin India's long-term growth rate over the next two decades.

Although India's relatively rapid pace of economic growth in the past decade was heavily disrupted due to the COVID-19 pandemic in 2020-21, rapid growth is expected to resume over the medium-term outlook. Latest S&P Global PMI survey data for India indicate that a strong economic rebound has been underway during the first half of 2022.

Service sector growth continued to strengthen in May 2022, with companies reporting the quickest increase in business activity since April 2011. The upturn was supported by a substantial pick-up in new business growth as demand continued to recover following the reopening of the economy after COVID-19 lockdowns.

S&P Global India Services Business Activity Index

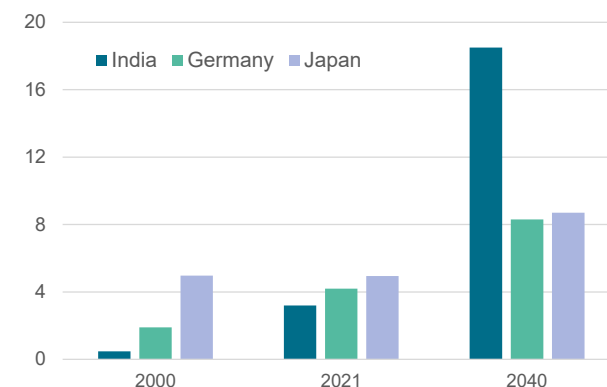
sa, >50 = growth since previous month



Over the past two decades, the size of India's economy has risen from 1% of world GDP in 2000 to 3.3% by 2021 and is projected to rise further to 7.4% by 2040. By 2040, India's GDP is projected to overtake both Germany and Japan, which would place India as the world's third largest economy after the US and China.

India's GDP compared to Germany and Japan

USD trillion, nominal terms



ASEAN is APAC's third growth engine

The ASEAN region comprising 10 nations of Southeast Asia had a combined GDP of USD 3.3 trillion in 2021, amounting to 3.4% of world GDP.

Improving domestic demand in ASEAN has helped to support the rebound in economic growth momentum during the first half of 2022, despite the global headwinds from the Russia-Ukraine war, rising inflation and China's economic slowdown. Over the long-term, despite the protracted negative economic shocks caused by the COVID-19 pandemic, the ASEAN region is expected to continue to be one of the fastest growing regions of the world economy. This rapid pace of growth will be driven by both exports and domestic demand.

S&P Global ASEAN Manufacturing PMI

sa, >50 = improvement since previous month



Source: S&P Global.

Over the next two decades, ASEAN's exports will be boosted by strong growth in exports to other fast-growing Asia-Pacific markets, notably China and India. Mainland China and Hong Kong SAR together accounted for 22.6% of ASEAN exports of goods in 2020. Intra-ASEAN trade is also increasingly important, with intra-ASEAN exports accounting for 21% of total ASEAN merchandise exports in 2020.

Domestic demand will also be an increasingly important growth driver, as the rapidly growing consumer markets of populous ASEAN nations, notably Indonesia, Philippines and Vietnam, help to drive consumption spending. Strong investment expenditure will also be an important factor supporting growth, through a combination of rapid growth in public infrastructure spending, strong private investment growth and buoyant foreign direct investment inflows.

Helped by this combination of growth drivers, total ASEAN GDP measured in nominal USD terms is forecast to more than quadruple over the next two decades, increasing from USD 3 trillion in 2020 to USD 13.3 trillion by 2040. This will make the combined GDP of the ASEAN economies much larger than the GDP of Japan or Germany by 2040, highlighting the increasing importance of ASEAN region as one of the world's largest consumer markets. By 2040, ASEAN's share of world GDP is projected to increase to 5.4% of world GDP.

Japan's ageing demographics

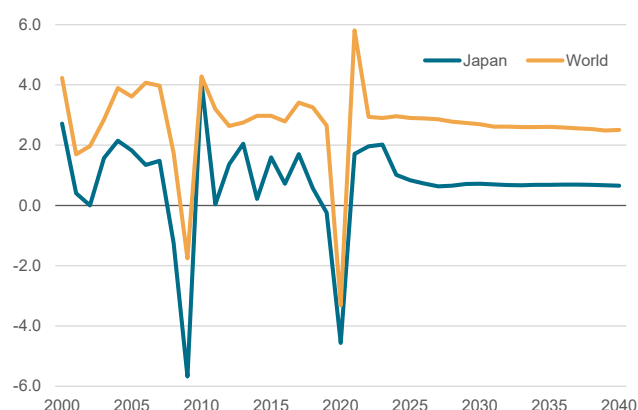
APAC's rising share of world GDP has occurred at a time when Japan's share of world GDP has been falling dramatically. Between 2000 and 2021, Japan's GDP measured in nominal US dollar terms showed no increase. Ageing demographics has been a key factor contributing to this decline, with Japan's population having contracted each year since 2010, with 11 successive years of population declines recorded by 2021. The total decline in Japan's population in the year to October 2021 was 644,000 persons, with the total population at 125.5 million, compared with 128 million in 2010. Furthermore, the demographic profile of Japan's population is also ageing, with the population of working age having fallen to 59.4% by 2021.

According to Japan's National Institute of Population and Social Security Research medium fertility population projection, Japan's population will decline to around 111 million by 2040, down a further 14.5 million persons compared with 2021. Such severe population decline and demographic ageing are having far-reaching consequences for Japan's economy and labour force, with its share of world GDP projected to decline further by 2040.

Japan's very high and rising levels of government debt have also acted as a long-term drag on economic growth, as fiscal consolidation has been a key government economic policy priority.

Japan's declining share of world GDP as measured in US dollar terms has been compounded by exchange rate effects during the past decade, as the Japanese yen has depreciated from 88 per USD in 2010 to 110 by 2021, with an even more severe depreciation to 135 per USD by mid-2022.

Japan's lost decades: real annual GDP growth vs. World GDP growth



Source: S&P Global.

APAC long-term outlook

The weight of the APAC region in world GDP has risen from 27% in 2000 to 37% by 2021, with a further increase to 42% projected by 2040. This economic shift from West to East

has far-reaching implications for multinationals worldwide, as APAC consumer markets become increasingly important drivers of global demand growth.

The shift in economic weight from West to East has reflected the rapid economic ascent of China in the world economy since 2000, as well as the declining economic weight of the EU, which has already fallen from 26.5% of world GDP in 2000 to 17.9% by 2021. Over the next two decades, the share of the EU in world GDP is expected to moderate further, to around 14.2% by 2040. Meanwhile, the role of the US in the world economy is expected to remain broadly stable, with its share of world GDP changing from 24.1% in 2021 to 21.6% in 2040.

The three main growth engines for APAC's economic growth over the next two decades are China, India and ASEAN. The rapid growth in household incomes of Asia's populous emerging markets of China and India will be key drivers for world consumption growth. In addition, consumer markets in populous Southeast Asian nations, notably Indonesia, Philippine and Vietnam, will also grow at a rapid pace.

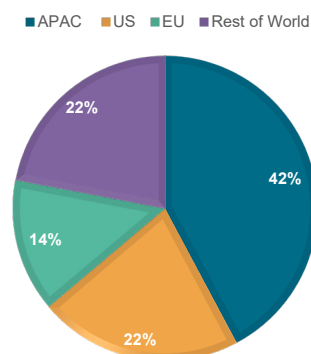
APAC GDP growth outpaces global growth



However, with the APAC region, demographic ageing is having a significant impact on long-term potential

economic growth for a number of APAC's largest economies, particularly in Northeast Asia. Japan is suffering the most severe impact from demographic ageing and population decline, which has already significantly reduced Japan's potential long-term growth rate. South Korea is also facing similar demographic challenges due to demographic ageing. Of greatest significance to the global economy is the gradual slowing of China's long-term potential growth rate due to its ageing population and declining marginal productivity of capital.

APAC % share of world GDP by 2040



Source: S&P Global.

However, more youthful demographic profiles in other major Asian emerging markets, notably in India, Indonesia, Philippines and Vietnam, will help to mitigate the impact of ageing demographics in Northeast Asia. Consequently, overall APAC economic growth is forecast to continue to outpace global growth over the next two decades, helping to drive APAC's continued economic ascendancy in the world economy.

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Global manufacturing

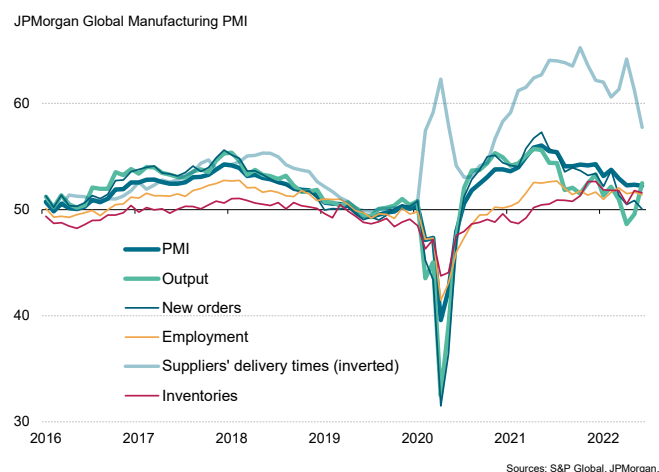
Global manufacturing PMI hits lowest since August 2020 despite China rebound

The JPMorgan Manufacturing Purchasing Managers' Index™ (PMI™), compiled by S&P Global, nudged lower in June, down from 52.3 in May to 52.2, its lowest since August 2020. The deterioration took place despite an easing of COVID-19 restrictions in China – which allowed mainland manufacturing activity to rise at the fastest rate for over a year – and reflected weakened factory trends in the US, Europe and across much of Asia.

More encouragingly, the alleviation of China's pandemic restrictions contributed to a further easing of supply chain delays, which – alongside a stalling of global demand growth for manufactured goods – helped cool price pressures, albeit with energy providing further upward pressure on costs.

A further downturn in business expectations for future output, alongside some key forward-looking indicators from the survey sub-indices, meanwhile hints at further manufacturing weakness in the coming months, along with a commensurate hint of further weaker price pressures.

In this analysis we look beyond the headline PMI to provide deeper insights into the current health of manufacturing around the world and the outlook for goods price inflation.



Global factory output returns to growth

The global manufacturing PMI survey's Output Index, which acts as a reliable advance indicator of actual worldwide output trends several months ahead of comparable official data (see chart 1), registered an increase in production for the first time in three months in June. The rate of growth signalled is commensurate with annual production growth of approximately 2.5% and was the strongest recorded since last December.

Chart 1: Global manufacturing output



Improvement limited to China

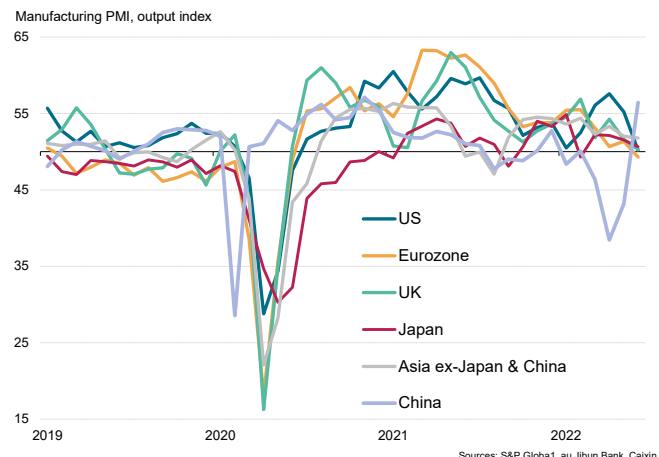
However, production trends varied markedly around the world in June. Of the major economies, only mainland China reported an improving production trend, with output rebounding sharply from three months of lockdown-induced contraction to register the strongest expansion since November 2020. It was also one of the strongest expansions seen for over a decade.

In contrast, output fell into decline in the eurozone for the first time in two years and came close to stalling in both the United States and United Kingdom, where steep slowdowns led to the worst performances for over two years.

Japan likewise reported near-stalled production growth, its worst performance since January's Omicron-related restrictions had led to a mild downturn. Meanwhile, the

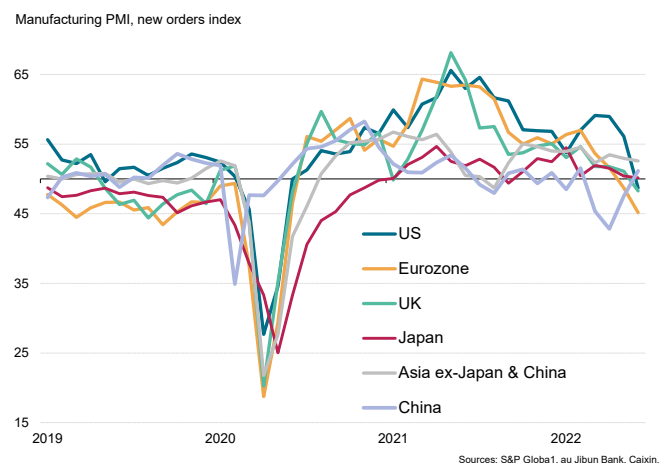
rest of Asia as a whole suffered the weakest expansion since the COVID-19 Delta wave disruptions of August 2021.

Chart 2: Manufacturing output by major economy



Growth of new orders likewise generally deteriorated, with declines registered in the eurozone, US and UK. Even China only saw a modest revival of demand, and near-stagnation was seen in Japan and across the rest of Asia as a whole. Notably, in all cases bar the latter, new orders growth fell below that of output.

Chart 3: Manufacturing new orders by major economy



Manufacturing excluding mainland China

Excluding the rebound recorded in China, the global factory trend therefore looked less impressive. In fact, excluding China, factory output growth came to a near standstill in June, registering the weakest performance since June 2020, while new orders fell for the first time in two years.

It's notable that, even with China included, global new orders barely rose in June, underscoring how China's

upturn appears to have largely reflected a re-opening of production and supply capabilities rather than any fundamental improvement in demand conditions, which appear to have deteriorated globally.

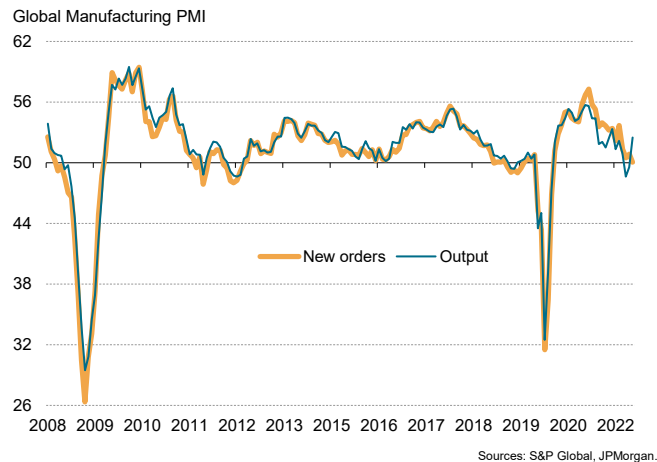
Chart 4: Manufacturing trends excluding China



Excess capacity?

The resulting June global divergence of factory output and new orders is usually high (see chart 5), which is observed most prominently with the inclusion of China but is also running at the highest for two years even if China is excluded from the comparisons.

Chart 5: Global output and new orders divergence



This divergence between output and new orders, the latter acting as a proxy for demand, provides signals with regard to capacity utilisation within manufacturing. As chart 6 illustrates, new orders are lagging output growth to an extent only exceeded in recent history by the depths of the global financial crisis and the initial months of the pandemic, pointing to a marked excess of production over demand. This thereby hints at falling production in coming months (chart 7).

Similarly, global backlogs of work (orders received but not yet completed by manufacturers) stopped growing in June for the first time in two years, underscoring the extent to which the demand recovery appears to be faltering.

Chart 6: Capacity utilisation indicators

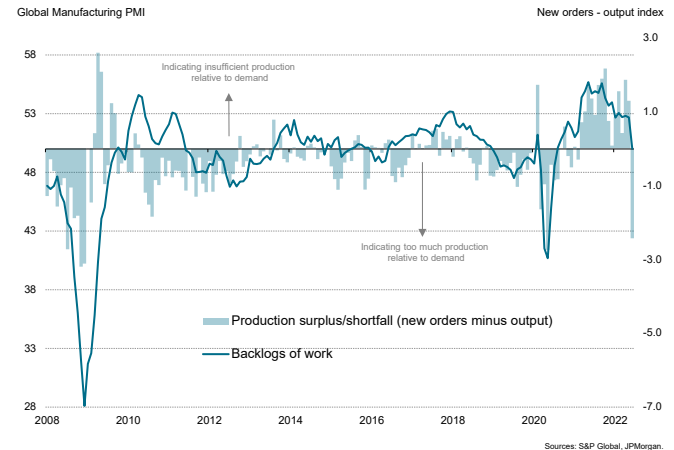
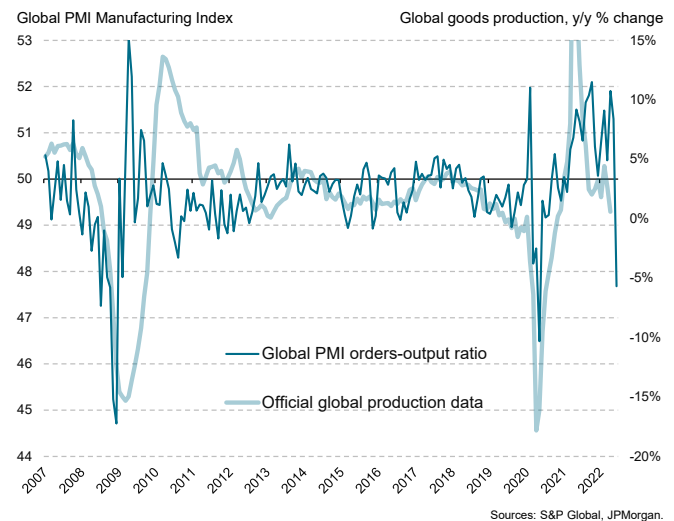


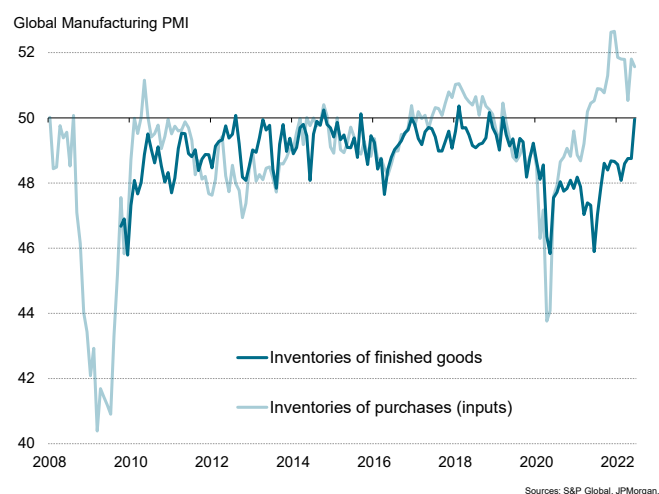
Chart 7: Global manufacturing output and PMI production requirement indication



Inventory build-up

June also saw an increase in the number of companies reporting rising inventories of unsold stock due to weaker than expected final sales. Although inventories overall were unchanged from May, there is a long-term trend of cost-driven inventory reduction evident in the manufacturing sector, meaning rising inventory levels are extremely rare. June was in fact the first time since March 2019 that inventories of finished goods failed to decline (chart 8).

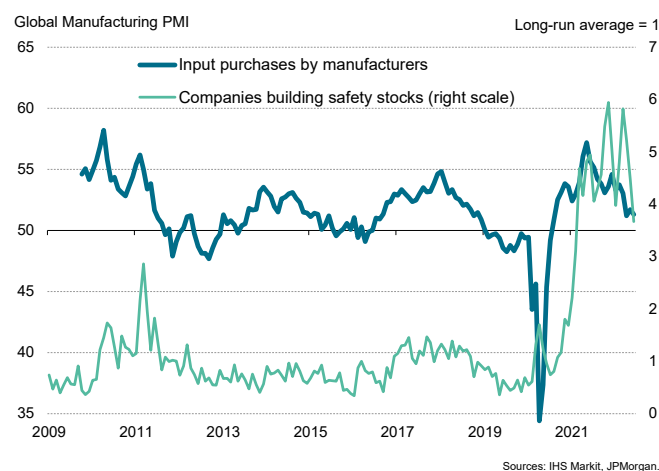
Chart 8: Manufacturing inventories



Similarly, inventories of inputs rose sharply due in part to an increase in the number of companies reporting that fewer inputs were used in production than had been anticipated. Although there is also evidence of continued stock accumulation in some firms where future supply shortages are feared, the incidence of companies building up safety stocks has also fallen, and is now running at the lowest since February 2021.

Measured overall, input buying by manufacturers consequently grew in June at one of the slowest rates seen over the past two years (see chart 9).

Chart 9: Manufacturing input buying and safety stocks

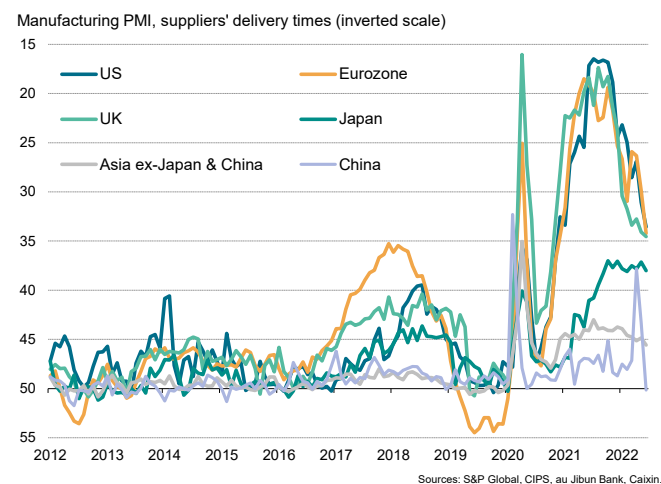


Supply shows signs of improving

With the Chinese authorities easing some COVID-19 restrictions in June, supplier lead times improved – albeit only marginally – in China for the first time since December 2018. However, the incidence of supplier delays meanwhile

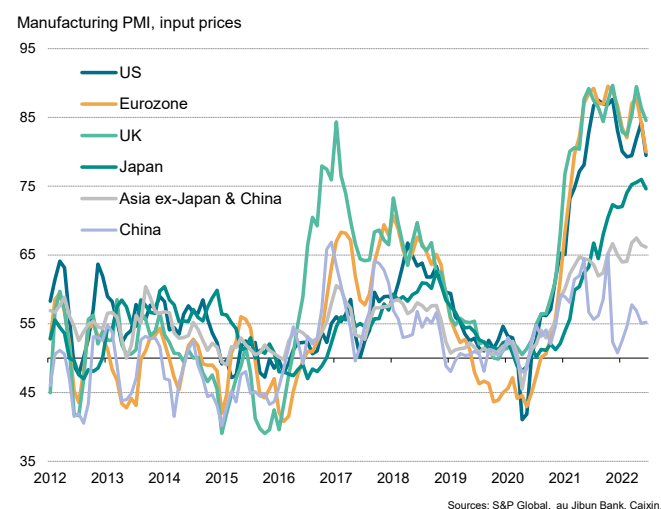
also eased in the US, UK, Eurozone, Japan and the rest of Asia as a whole, reflecting a combination of improved supplier performance, easing shipping delays and weaker demand.

Chart 9: Manufacturing supplier delivery delays



The reduced number of supply delays had a beneficial effect on prices charged by these suppliers to manufacturers. However, in some cases, weaker demand for inputs shifted pricing power from the supplier to the buyer. Input price inflation consequently moderated in all major economies with the exception of China, where the rate of inflation nonetheless remained especially modest.

Chart 10: Manufacturing input prices

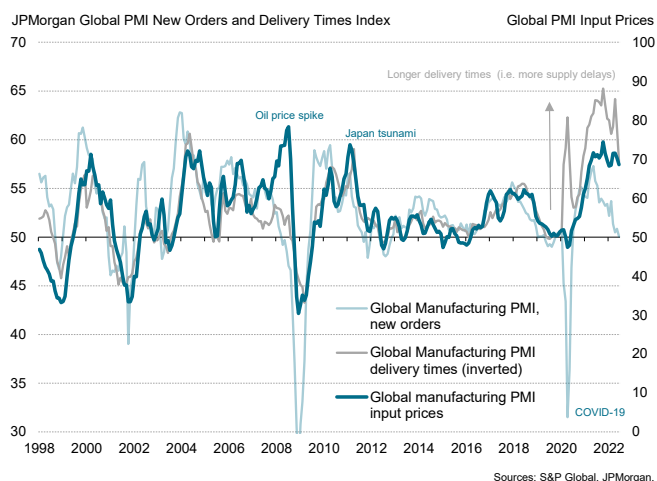


Downward pressure on industrial prices

Collectively, the global manufacturing sector consequently saw the smallest degree of supplier delays since November 2020 as well as an overall moderation of input cost inflation

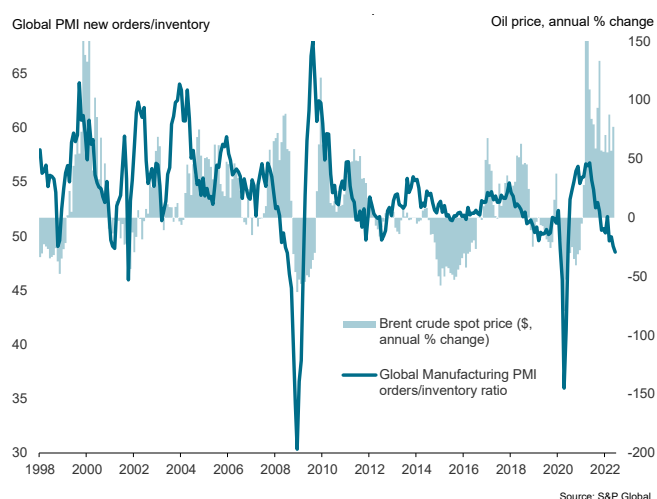
to the lowest since February. However, with supply delays remaining elevated by historical standards despite the latest improvement, the overall rate of input cost inflation likewise remained high. Nonetheless, with demand having now stalled, even including China's 'rebound', prices are clearly likely to come under further downward pressure.

Chart 11: Global supply delays, demand and prices



One area of persistent upward pressure on prices has been energy, prices for which have soared since Russia's invasion of Ukraine with further supply problems threatening to present ongoing issues in Europe as the year goes on. As chart 12 suggests, the oil price remains high despite the recent cooling of demand growth, which is very unusual. Thus, any signs of the conflict easing in Ukraine could therefore lead to a material weakening of price support to oil and energy more broadly.

Chart 12: Global manufacturing and oil prices



Future expectations at two-year low

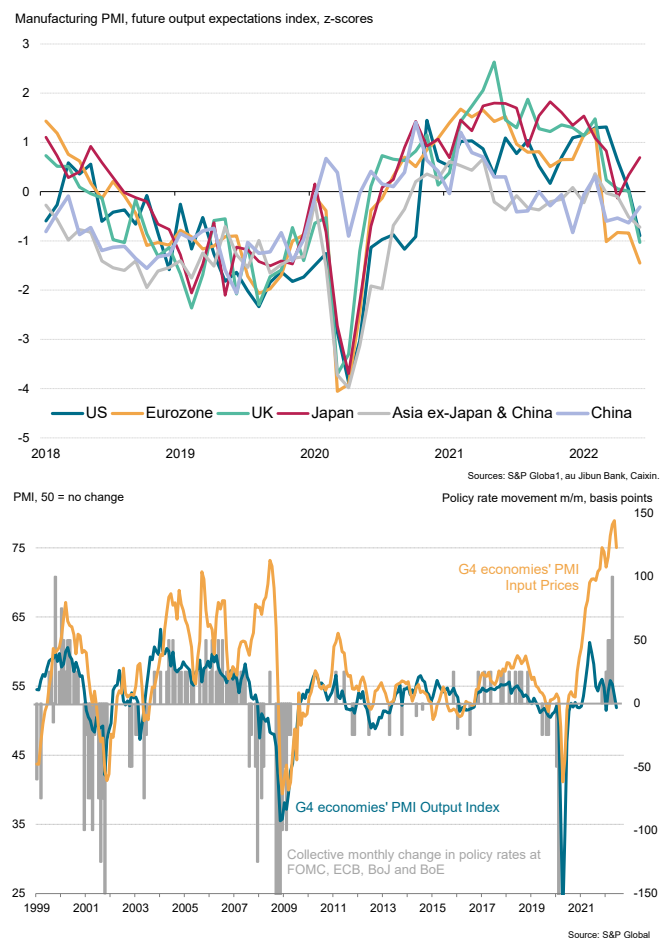
Looking ahead, manufacturing optimism deteriorated further in June, dropping to its lowest since June 2020 and is now running below the long-run trend for the third successive month. Companies reported growing concerns over the economic outlook, the rising cost of living, the Ukraine war and rising interest rates. These issues stand as key downside risks which point to no imminent improvement in the overall global manufacturing picture, but therefore also bodes well for further downward pressure on prices. However, concerns stemming from future supply shortages and an intensification of the Ukraine war could lead to persistent price inflation for some key inputs including energy and food.

Chart 13: Global manufacturing future output expectations



Compared to long-run averages, business confidence was again especially weak in the eurozone in June, reflecting the proximity of the Ukraine war and rising worries over energy supply in particular, but has also weakened considerably in the US, the UK and in Asia, with notable exceptions of China and Japan.

Chart 14: future output expectations by economy



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