

Week Ahead Economic Preview

Fed FOMC, BOE, BOJ meetings, US payrolls and global PMIs

27 October 2023

Key central bank meetings in the US, UK and Japan will be the highlights next week, alongside worldwide manufacturing and services PMI releases over the next two weeks. Several tier-1 economic releases are also expected, including non-farm payrolls in the US, while GDP figures are due from various parts of the world including the Eurozone, Canada, Taiwan and Hong Kong SAR.

Next week's US FOMC meeting will be the highlight of the week. This comes after convergence between economic indicators and equity market performance took place this week, with the October flash US PMI outlining improvements in economic performance (see special report), while the Q3 earnings season took some air out of the elevated tech sector that had buoyed equity market prices in recent months. Between increased market jitters over the impact of tensions in the Middle East and more positive flash PMI indications of easing price pressures, the Fed's views will be closely watched for guidance on their expected path forward for interest rates. The post-meeting release of the US October labour market report will also add to the equation, with expectations of slowing job additions following signals from the flash PMI. Any acceleration of wage growth will meanwhile complicate the situation.

Separately, the Bank of Japan meeting will also be in the spotlight amid expectations of tweaks to monetary policy settings, specifically the yield-curve control program. While [easing price pressures in Japan](#) should help to allay fears of any sooner-than-expected end to its negative interest rate policy, recent bond market volatility adds pressure for the BOJ to act. In contrast, the Bank of England is forecast to hold the bank rate steady at what is regarded as the peak level, according to consensus. This was as [flash PMI data signalled further economic contraction](#), though uncertainties have started to gather again on the inflation front.

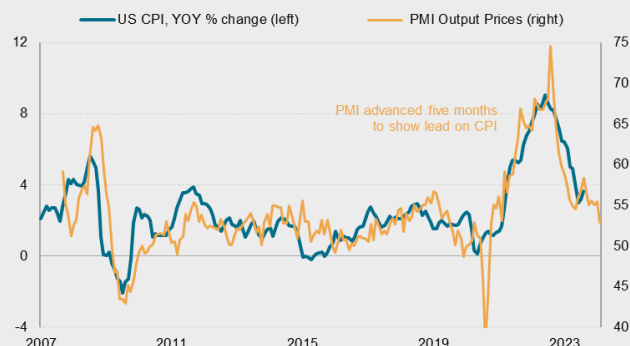
Finally, PMI data will be released over the next two weeks for detailed insights into economic conditions at the start of the fourth quarter. Following the flash PMI releases, which highlighted stalling growth in Japan and further downturns in Europe, APAC region performance will be closely watched, especially mainland China's performance.

Price pressures abate ahead of FOMC meeting

Flash PMI data signalled that price pressures cooled again in the US economy ahead of the penultimate Federal Open Market Committee (FOMC) meeting of the year, lending support to the consensus view that rates have peaked for the rest of the cycle.

In fact, flash PMI output prices data have, for the first time since the pandemic, put the Fed's 2.0% target on the radar, having dipped to the lowest level since June 2020. This was while the PMI Composite Output Index indicated a modest uptick in business activity (see special report).

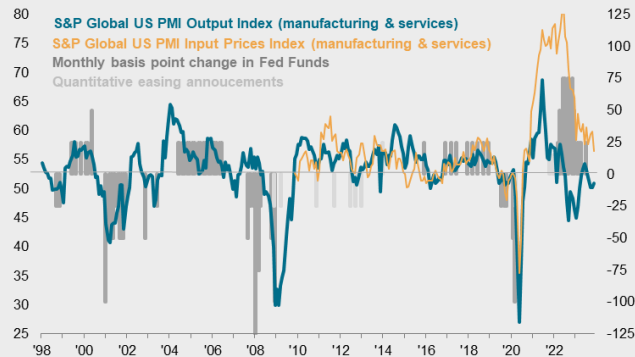
US inflation



Data compiled October 2023.
PMI covers manufacturing only pre-2009 but manufacturing & services thereafter.
Source: S&P Global PMI, BEA via S&P Global Market Intelligence.
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While this painted a rosier picture for the US economy and reflected the calibration of tools by the Fed to tame inflation, fresh uncertainties stemming from risks to inflation and growth amid tensions in the Middle East cloud the outlook. As such, we will be looking to the upcoming Fed meeting for further insights into central bankers' thoughts.

FOMC monetary policy vs. US PMI output and price indices



Data compiled October, 2023.
PMI based on 50 = no change on prior month, uses S&P Global data post-2007 and ISM pre-2007.
Source: S&P Global PMI, S&P Global Market Intelligence, ISM, FOMC.
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Key diary events

Monday 30 Oct

Australia Retail Sales (Sep, prelim)
United Kingdom Mortgage Lending and Approval (Sep)
Eurozone Consumer Confidence (Oct, final)
Germany Inflation (Oct, prelim)

Tuesday 31 Oct

South Korea Industrial Production and Retail Sales (Sep)
Japan Unemployment Rate (Sep)
Japan Industrial Production and Retail Sales (Sep, prelim)
China (Mainland) NBS PMI (Oct)
Japan BOJ Interest Rate Decision
Thailand Industrial Production (Sep)
Japan Consumer Confidence (Oct)
France Q3 GDP and Inflation (Oct, prelim)
Germany GDP (Q3, flash)
Taiwan GDP (Q3)
Hong Kong SAR GDP (Q3, advance)
Eurozone GDP (Q3, flash)
Eurozone Inflation (Oct, flash)
Italy Q3 GDP and Inflation (Oct, prelim)
Canada GDP (Aug)
United States House Price Index (Aug)
United States CB Consumer Confidence (Oct)

Wednesday 1 Nov

Worldwide Manufacturing PMIs, incl. global PMI* (1-2 Oct)
New Zealand Employment (Q3)
South Korea Trade (Oct)
Australia Building Permits (Sep, prelim)
Indonesia Inflation (Oct)
United States ADP Employment (Oct)
United States ISM Manufacturing PMI (Oct)
United States JOLTs Job Openings (Sep)
United States Fed Interest Rate Decision
Brazil BCB Interest Rate Decision

Thursday 2 Nov

South Korea Inflation (Oct)
Australia Balance of Trade (Sep)
Hong Kong SAR HKMA Interest Rate Decision
Malaysia BNM Interest Rate Decision
United Kingdom BOE Interest Rate Decision
United States Factory Orders (Sep)

Friday 3 Nov

Japan Market Holiday
Worldwide Services, Composite PMIs, inc. global PMI* (3-6 Oct)
Singapore Retail Sales (Sep)
Germany Trade (Sep)
Turkey Inflation (Oct)
Eurozone Unemployment (Sep)
Canada Unemployment (Sep)
United States Non-Farm Payrolls, Unemployment Rate,
Average Hourly Earnings (Oct)
United States ISM Services PMI (Oct)

* Access press releases of indices produced by S&P Global and relevant sponsors [here](#).

What to watch

Worldwide manufacturing and services PMI

Following the release of October flash PMI data, global manufacturing, services and composite PMI data will be updated over the next two weeks. Manufacturing PMIs will notably be due over November 1-2, while services and composite PMI releases follow over November 3-6.

Flash data pointed to an extension of [downturns in the UK](#) and [eurozone](#), while [Japan's private sector economy stalled](#) in October. The US flash PMI meanwhile reflected better growth conditions (*see special report*). Given the varied performance, global data will provide important insights into economic conditions at the start of the fourth quarter.

Americas: Fed FOMC meeting, US October labour market report, ISM PMI, consumer confidence

The Fed is expected to keep rates unchanged in the penultimate FOMC meeting of the year, with views on the path forward being the key focus. October's labour market report will also be released on Friday with the consensus pointing to slower new job additions, in line with indications from flash US PMI. That said, wage growth may accelerate to 0.3% month-on-month, though indications of waning overall CPI from flash PMI releases continue to support the Fed to remain on hold.

EMEA: BOE meeting, Eurozone, Germany inflation and Q3 GDP

Following the ECB and Fed FOMC meetings, the Bank of England concludes their monetary policy meeting on Thursday with the consensus pointing to no changes in rates. The focus then turns to Q3 GDP releases from the Eurozone and Germany, in addition to flash inflation figures for October. Further [moderation of price inflation in the Eurozone is expected according to PMI price trends](#), which precludes official data.

APAC: China PMI, BOJ, BNM, HKMA meetings

In APAC, PMI data, including both Caixin and NBS PMIs, will be the key focus for assessment of economic conditions in mainland China at the start of the fourth quarter.

Several central bank meetings will also take place in the region including in Japan where speculations have been rife on potential tweaks to the BOJ's yield curve control stance.

Special reports:

US Soft Landing Hopes Boosted as Flash PMI Lifts Higher and Price Pressures Abate | Chris Williamson | [page 4](#)

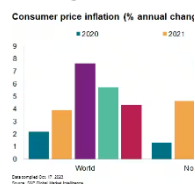
Australian Economic Growth Moderates Due to Tighter Monetary Policy | Rajiv Biswas | [page 7](#)

Recent PMI and economic analysis from S&P Global

Global	Emerging markets PMI signal growth momentum slowing at end of third quarter	12-Oct	Jingyi Pan
	Monthly PMI Bulletin: October 2023	9-Oct	Jingyi Pan
	Renewed fall in global demand fuelled by rising impact of higher interest rates	9-Oct	Chris Williamson
	Trade conditions continue to deteriorate at end of third quarter	9-Oct	Jingyi Pan
	Global PMI signals near-term downturn risks amid falling backlogs of work	5-Oct	Chris Williamson
EMEA	Flash PMI points to UK economic downturn extending into fourth quarter	24-Oct	Chris Williamson
	Rising recession risks as eurozone flash PMI falls in October, price pressures ease further	24-Oct	Chris Williamson
US	US soft landing hopes boosted as flash PMI lifts higher and price pressures abate	25-Oct	Chris Williamson
Asia-Pacific	Japan's flash PMI points to stalling private sector economy at start of fourth quarter	24-Oct	Jingyi Pan
	India's manufacturing output surges while inflation pressures ease	20-Oct	Rajiv Biswas

S&P Global Market Intelligence highlights

Rising uncertainty, rising risks



The Israel-Gaza war adds to already elevated uncertainty. A major escalation in the conflict would make a material difference to economic prospects and our forecasts. Impacts are already apparent via various channels, including higher energy prices.

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

PMI Insights: Extreme weather impact



2023 has delivered some extreme weather, from extreme heat in Southern Europe to a dry spell that affected crop yields in Southeast Asia and Australia, often with tragic human consequences. Extreme weather events like droughts and floods also present risks to economies and supply chains.

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

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Special Focus

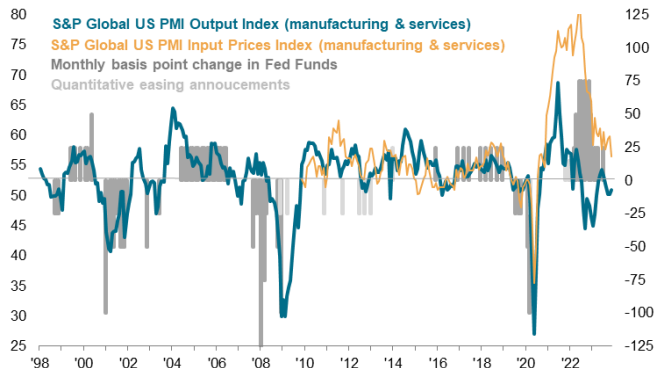
US Soft Landing Hopes Boosted as Flash PMI Lifts Higher and Price Pressures Abate

Hopes of a soft landing for the US economy will be encouraged by an improved situation seen in October, with headline flash PMI rising to a three-month high.

Future optimism also improved, in part due to hopes of interest rates having peaked, something which looks increasingly likely given a further cooling of inflationary pressures signaled in October.

The survey's selling price gauge is now close to its pre-pandemic long-run average and consistent with headline inflation dropping close to the Fed's 2% target in the coming months, something which looks likely to be achieved without output falling into contraction. That said, the tensions in the Middle East pose downside risks to already-weak growth and upside risks to inflation, adding fresh uncertainty to the outlook.

FOMC monetary policy vs. US PMI output and price indices



Data compiled October, 2023.
PMI based on 50 = no change on prior month, uses S&P Global data post-2007 and ISM pre-2007.
Source: S&P Global PMI, S&P Global Market Intelligence, ISM, FOMC.
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Slower growth

At 51.0 in October, the headline S&P Global Flash US PMI Composite Output Index rose from 50.2 at the end of the third quarter to signal a modest uptick in business activity. Growth in output was the strongest since July, albeit remaining only modest overall.

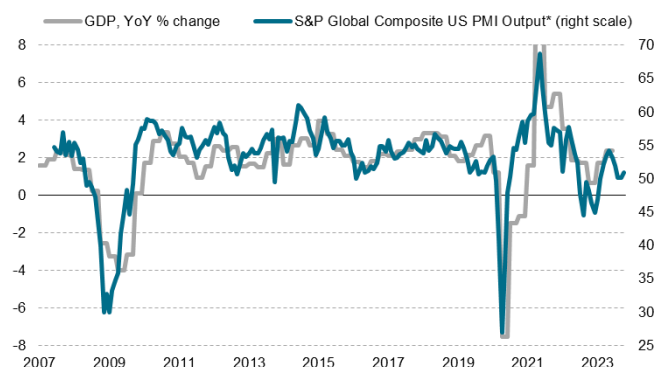
Given the S&P Global PMI survey has been among the most downbeat economic indicators in recent months, the upturn in US output growth recorded at the start of the fourth quarter is encouraging news. Future output expectations also turned up in October, despite rising geopolitical concerns and

domestic political tensions, climbing to the joint-highest for nearly one-and-a-half years.

The sustained growth recorded by the US PMI, albeit only modest, contrasts with downturns signaled by PMI surveys in the [Eurozone](#) and [United Kingdom](#) in October, to hint at an ongoing US economic outperformance.

However, the low PMI readings in recent months point to a more subdued picture of the US economy than the robust expansion seen in the second quarter, running at a level broadly consistent with annual growth in the region of 1.5% over the third quarter and into the start of the fourth quarter, which is also well below the likely GDP expansion anticipated in upcoming GDP data. The consensus is looking for 4% annualized GDP growth in the third quarter.

US quarterly GDP growth and the PMI

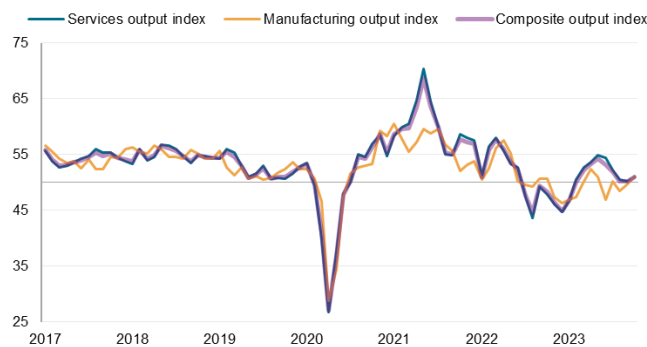


Data compiled October 24, 2023.
* PMI covers manufacturing only prior to 2009 but manufacturing & services thereafter.
Sources: S&P Global PMI, S&P Global Market Intelligence, BEA.
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Looking into the detail, production at manufacturing firms rose in October at the quickest pace since April, while output growth at service sector firms was the fastest in three months. The latter nevertheless continues to lag substantially behind the robust expansion seen earlier in the year, and is therefore a key element of the more subdued growth picture witnessed by the survey in recent months compared to that seen in the second quarter.

S&P Global flash PMI, United States

Diffusion index, 50 = no change on prior month, seasonally adjusted



Data compiled October 24, 2023.
PMI composite output index is a GDP-weighted average of manufacturing & services output indices.
Source: S&P Global PMI.
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Although some service providers highlighted a pick-up in domestic customer sales (overall exports continued to fall in October), many firms continued to note that high interest rates and challenging economic conditions weighed on client demand. Some mentioned smaller and less frequent orders being placed by customers.

As such, service sector new business fell for a third month running, albeit at a softer pace than seen in September.

In contrast, manufacturers reported the first rise in new orders since April. Some factories attributed this to the diversification of products and sales strategies, as well as some alleviation of the recent cost of living squeeze amid higher wage growth. The data therefore hint at a switch in spending and demand back towards goods and away from services.

US PMI order book indicators



Data compiled October 24, 2023.
PMI (Purchasing Managers' Index) 50 = no change on prior month.
Source: S&P Global PMI.
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Employment

While the flash PMI showed US businesses continuing to hire additional workers during October, the job gains slowed compared to September. The rate of employment growth was only marginal overall as many firms noted that voluntary leavers were not replaced due to uncertainty surrounding future demand conditions and efforts to make cost savings. Manufacturing firms even reported a fractional drop in staffing numbers on the month, despite the uptick in orders. This signaled the first decline in manufacturing jobs seen since July 2020.

US PMI employment indicators

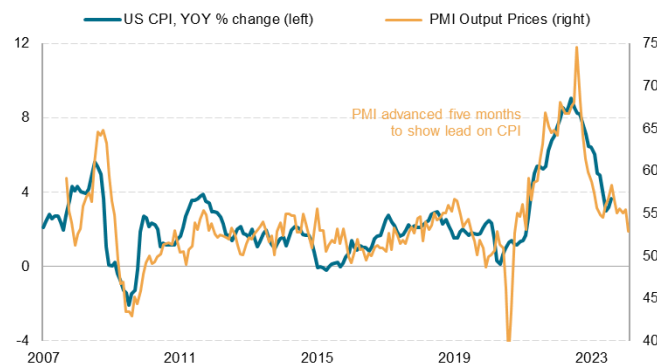


Data compiled October, 2023.
PMI (Purchasing Managers' Index) 50 = no change on prior month.
Source: S&P Global PMI.
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CPI on the wane

Firms' input cost inflation meanwhile fell sharply, dropping to the lowest since October 2020. Average selling prices for goods and services also rose at a reduced rate, posting the smallest monthly rise since June 2020. The latter hints at CPI inflation cooling further, with the Fed's 2% target coming into focus for the first time since the pandemic began.

US inflation

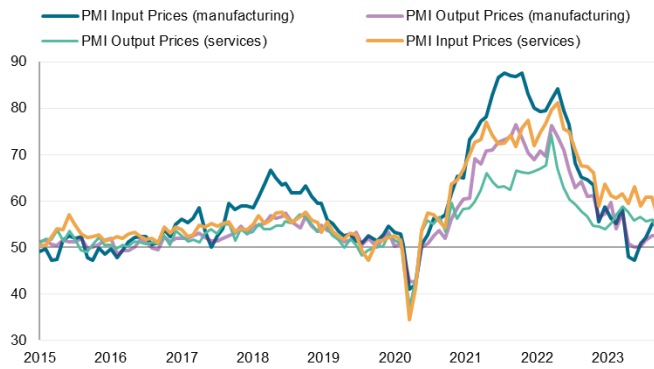


Data compiled October 2023.
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Weaker demand for inputs reportedly led suppliers to reduce material prices, therefore relieving some pressure on industrial cost burdens. The softer rise in costs was led by service providers, however, as hikes in oil and oil-derived material prices pushed up cost burdens in the manufacturing sector.

In terms of selling (output) prices, manufacturers continued to increase output prices at only a modest pace, while service providers reported a notable slowdown in charge inflation amid intense competitive pressures and growing customer requests for concessions.

US PMI survey price indices



Data compiled October 24, 2023 including flash PMI data for October.
PMI (Purchasing Managers' Index) Diffusion index, 50 = no change on prior month, seasonally adjusted.
Source: S&P Global PMI.
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[Access the full press release here.](#)

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Special Focus

Australian Economic Growth Moderates Due to Tighter Monetary Policy

Australian economic growth momentum has softened during 2023 due to the cumulative impact of monetary policy tightening since May 2022. The Judo Bank Flash Australia Composite PMI Output Index for October 2023 posted below the 50.0 no-change mark for the third time in the past four months during October, reflecting weak domestic demand, continuing high inflation pressures and the impact of monetary policy tightening.

Australian economy moderates in 2023

GDP growth rose by 3.4% year-on-year (y/y) in the 2022-23 financial year ending June 2023, helped by strong growth during the second half of 2022. However, growth momentum slowed down in the first two quarters of 2023, with GDP growth of 0.4% quarter-on-quarter (q/q) in both quarters, as rising interest rates having acted as a drag on growth.

Reflecting the impact of higher inflation and rising interest rates, total final consumption expenditure grew by just 0.1% q/q in the June quarter, although up 1.4% y/y.

However gross fixed capital formation showed positive momentum, rising by 4.7% y/y, despite the downturn in residential investment, which fell by 1.1% y/y. Total gross fixed capital formation rose by 2.4% q/q in the June quarter of 2023, helped by a 8.2% q/q increase in public investment, reflecting investment spending on large public infrastructure projects such as Snowy 2.0, the Western Sydney Airport, Inland Rail, Sydney's new metro and Brisbane's Cross River Rail.

Exports of goods and services were up 9.8% y/y in the June quarter, rising by 4.3% q/q. The healthy growth in real exports during the second quarter helped mitigate the impact of the 8.2% q/q fall in export prices due to moderating iron ore and energy prices. Rebounding exports of services from education and tourism helped to support export growth. Travel services exports reached 88 per cent of pre-pandemic levels in the June quarter of 2023, with total exports of travel services rising by 18.5% q/q.

Australian business conditions have weakened

October saw a renewed decrease in business activity in Australia, according to the Judo Bank Flash Australia Composite PMI Output Index, which posted below the 50.0 no-change mark for the third time in the past four months. At 47.3, down from 51.5 in September, the reading was the lowest in 21 months and represented a solid monthly decline in activity. Output was down across both the manufacturing and services sectors, with lower new orders and a drop in confidence in the business outlook, while cost pressures remained elevated.

Judo Bank Australia Manufacturing PMI

sa, >50 = improvement since previous month



Source: S&P Global PMI with Judo Bank.
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The Judo Bank Flash Australia Manufacturing PMI for October weakened to 48.0 in October from 48.7 in September, moving further below the 50.0 no-change mark and signalling an eighth successive monthly deterioration in business conditions. Latest data pointed to weaker output and new orders as demand conditions deteriorated. However, employment continued to increase, extending the current sequence of job creation to three years.

Judo Bank Australia Services PMI Business Activity Index

sa, >50 = improvement since previous month



Source: S&P Global PMI with Judo Bank.
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The Judo Bank Flash Australia Services PMI Business Activity Index showed a significant drop in October, falling back below the 50.0 no-change mark to 47.6, compared with 51.8 in September. Service sector activity has now decreased in three of the past four months, with the October decline the most marked in the year-to-date. The October survey results showed renewed reductions in total new

business and new orders from abroad, amid challenging market conditions and the impact of higher interest rates.

Inflation pressures remain high

The Judo Bank Flash Australia Composite PMI survey for October showed that input costs continued to rise rapidly, with the rate of inflation ticking up to a three-month high. Increased fuel costs pushed up input prices across both monitored sectors, while service providers also highlighted rising wages. Output prices also increased, but weaker customer demand impacted pricing power, resulting in the softest pace of charge inflation since March 2021.

While the Australian consumer price index (CPI) has moderated from a recent peak of 7.8% y/y in the December 2022 quarter, the CPI inflation rate remained high in the September 2023 quarter, at 5.4% y/y. The CPI inflation rate rose by 1.2% in the September 2023 quarter with auto fuel prices up 7.2% q/q and rents rising by 2.2% q/q.



Reflecting the upturn in inflation pressures since early 2022, the Reserve Bank of Australia (RBA) has tightened monetary policy by a cumulative increase in the policy cash rate of 400 basis points (bps) since May 2022. The most recent rate hike was by 25bps at the RBA's June 2023 meeting, which brought the cash rate target to 4.1%.

The RBA central forecast is for CPI inflation to moderate to 3.25% by the end of 2024, to be back in the 2% to 3% range by late 2025. The RBA central forecast for economic growth is for the economy to expand at a below-trend pace in 2024. GDP growth is forecast to moderate from 3% in 2022 to 1.5% in 2023 and 1.25% in 2024.

Rising interest rates due to monetary policy tightening by the RBA has put increasing pressure on the residential property sector. Dwelling investment is estimated by the Australian Treasury to have declined by 2.5% y/y in 2022-23, with a further decline of 3.5% y/y forecast for 2023-24. (Australian Treasury Budget Paper No. 1, May 2023).

The higher interest rates, on top of higher materials and labour shortages are also constraining growth in new housing construction. Housing rental costs are running at 13-year highs, boosted by net inward migration by returning international students, new migration and expatriate workers following the end of pandemic-era border controls.

Housing costs due to higher mortgage repayments as well as rising rents have weighed on private consumption as housing costs are consuming a larger proportion of disposable incomes. Mortgage interest payments by households almost doubled in 2022-23 compared to interest payments in the previous year. Discretionary household spending fell 0.5% q/q in the June quarter, which was the third quarterly fall in a row. Spending on furnishings and household equipment fell for the fifth quarter in succession, down 3.4% in annual terms. Retail sales fell 0.5% q/q during the June quarter.



However, the tight property market has also resulted in a renewed upturn in residential property prices in Australian cities, with rents rising rapidly due to extremely low rental vacancy rates in many cities.

Economic outlook

Economic indicators during recent months have signalled moderating economic growth momentum in the Australian economy, reflecting the cumulative impact of 400bps of monetary policy tightening. Rising interest rates, high inflation and rapidly increasing housing costs have resulted in a significant slowdown in consumption spending, with retail sales declining in the June 2023 quarter.

However, an important positive factor for domestic demand has been the continued strength of the Australian labour market. The unemployment rate was at 3.6% in September 2023, close to a 50-year low. The total number of persons in employment in Australia has risen from 13 million in September 2019 to 14.1 million in September 2023, a total increase of 1.1 million net new jobs. The high level of employment has helped to support the resilience of the economy.

However, continuing headwinds from high inflation and the cumulative increase in interest rates since May 2022 are expected to constrain GDP growth in 2024 to a pace of around 1.5%.

Economic growth momentum is expected to improve in 2025, as moderating inflation pressures allow some easing of monetary policy settings. This is expected to result in some upturn in domestic demand, with stronger private consumption and higher residential construction activity.

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