

Week Ahead Economic Preview

US, China inflation data, China trade and UK output figures in focus

6 May 2022

Inflation data will be the key focus in the coming week with figures due from both the **US and China** for April. A series of **Fed appearances** will also be anticipated following the May Fed FOMC meeting, as will US consumer sentiment data. Meanwhile **China** releases a series of data including **trade data** against the backdrop of lingering COVID-19 disruptions. The **UK's March GDP data** and **eurozone industrial production** figures are also lined up in the week ahead.

US equities rallied following the May Fed FOMC meeting this week, whereby the Fed executed the biggest interest rate hike in 22 years. The rally represented a sigh of relief from both the avoidance of a potentially bigger May hike of 75 basis points (bps) and Fed Chair Jerome Powell's reassurance that they are not considering 75bps hikes at upcoming meetings. That said, the Fed remains committed to curbing inflation and the latest PMI data suggested that price pressures in the US private sector further intensified in April. As such, next week's CPI and PPI releases for April will be in focus with any indications of larger-than-expected price increases potentially ones to spook the market. Comments from Fed speakers will also be scrutinised in the coming week for any suggestions that the Fed may hike more than the 25bps currently priced in by the market for the June meeting, and the extent to which policymakers can engineer a soft landing for the economy.

In APAC, a barrage of economic data will be due from China, with the focus on both the inflation figures and trade data. Recent COVID-19 social distancing measures in mainland China continued to severely dent economic growth according to the latest PMI figures. Indications of diverging trends for factory gate and consumer price inflation appeared to be the case for April, making this one to watch. Meanwhile trade data are likely to suggest persistent disruptions from the ongoing lockdown restrictions.

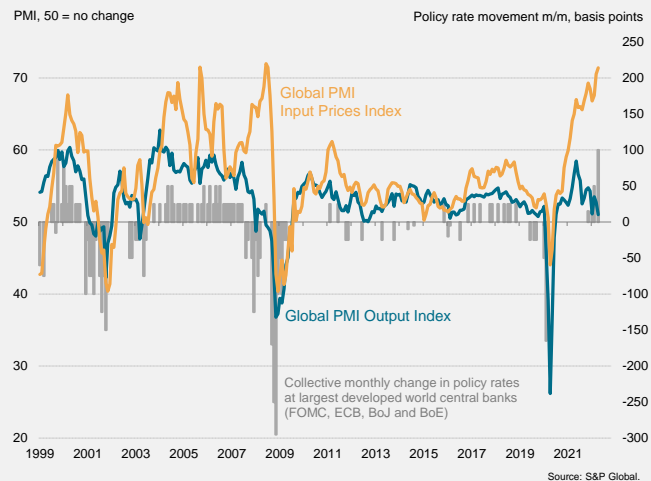
Finally, following the Fed, Bank Negara Malaysia (BNM) is expected to bring its overnight policy rate up by 25bps according to our forecast. A series of GDP and CPI data will also be released from Southeast Asian economies including Indonesia and the Philippines.

Policymakers juggle soaring inflation with rising recession risks

The past week has seen policy tightened by central banks in the US and UK as inflation continues to hit multi-decade highs. Recent PMI data showed official CPI inflation rates could yet rise further, after the April data showed a further acceleration in both costs and selling prices for goods and services around the world. New record selling prices increases were seen in the US, eurozone and UK. However, at the same time, the surveys showed the pace of global economic growth slowing amid the twin headwinds of the Ukraine-Russia war and new COVID-19 lockdowns in mainland China.

Central banks are therefore facing an unenviable task of controlling inflation while minimizing the damage to the economy from tighter policy, but it is evident from the latest PMI data that the risk of a global economic downturn in the coming months has risen. Risks are highest in Europe, but growth looks set to weaken further in all major developed economies: business optimism has slumped lower across the board and growth looks increasingly reliant on a post-lockdown rebound in spending on consumer services, which by definition will prove temporary. Higher interest rates will also not help alleviate inflation in the near-term, which is being driven by supply side factors and energy prices. If anything, higher borrowing costs will merely add to the cost of living crisis and subdue consumer spending further. Just how quickly growth slows will therefore be a key factor to assess in the next few months.

Global PMI demand, supply and price indicators



Key diary events

Monday 9 May

China (Mainland) Market Holiday
Japan BOJ Meeting Minutes (Mar)
Japan au Jibun Bank Services PMI* (Apr)
China (Mainland) Trade (Apr)
Indonesia Inflation (Apr)
Norway Manufacturing Output (Mar)
Taiwan Trade (Apr)
Eurozone Sentix Index (May)
Canada Building Permits (Mar)
United States Wholesale Inventories (Mar)
Indonesia GDP (Q1)

Tuesday 10 May

Japan All Household Spending (Mar)
Australia Retail Trade (Q1)
Malaysia Industrial Output YY (Mar)
United Kingdom Business Investment (Q1)
United Kingdom Goods Trade Balance (Mar)
Norway Consumer Price Index (Apr)
Germany ZEW Economic Sentiment (May)
China (Mainland) M2, New Yuan Loans, Loan Growth (Apr)

Wednesday 11 May

China (Mainland) CPI and PPI (Apr)
Germany CPI (Apr, final)
Malaysia Overnight Policy Rate (11 May)
United States CPI (Apr)

Thursday 12 May

Japan BOJ Summary of Opinions (Apr)
United Kingdom RICS Housing Survey (Apr)
United Kingdom GDP, incl. Manufacturing, Services and Construction Output (Mar and Q1)
Japan Current Account (Mar)
Philippines GDP (Q1)
India CPI (Apr)
India Industrial Output (Mar)
United States Initial Jobless Claims
United States PPI (Apr)

Friday 13 May

New Zealand Manufacturing PMI (Apr)
Norway GDP (Q1)
Eurozone Industrial Production (Mar)
United States Import Prices (Apr)
United States UoM Sentiment (May, prelim)

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

What to watch

North America: US inflation data, Fed speakers

US April CPI and PPI figures will be in focus following the Fed FOMC meeting this week where emphasis on curbing inflation had been reiterated. While Fed Powell did push back against the likelihood of a larger 75 basis point increase in future meetings, the Fed chair nevertheless acknowledged that 'some pain' may be felt with the central bank keen to curb the surging inflation. The extent to which prices have surged in April will therefore be closely watched. The latest [S&P Global US Composite PMI](#) revealed that inflationary pressures further intensified in April.

In addition, a series of Fed appearances are lined up in the week ahead that would provide an update to the Fed's thoughts post the May FOMC meeting.

Europe: UK Q1 GDP, Eurozone industrial production, German ZEW survey

UK March and Q1 GDP data will be released, alongside quarterly growth data. According to the [S&P Global / CIPS UK Composite PMI](#), private sector output growth quickened in March, supported by an acceleration in service sector growth as the manufacturing expansion slowed.

Separately, eurozone industrial production data for March will be released on Friday. This follows the [S&P Global Eurozone Manufacturing PMI](#) update which showed both the manufacturing PMI and output index falling to multi-month lows on the back of heightened geopolitical tensions and intensifying supply chain pressures.

Asia-Pacific: China April trade, inflation and money supply data, BNM meeting, Indonesia GDP and CPI data, Philippines GDP and India inflation

In APAC, a series of China data releases, including trade, prices and money supply figures, will be updated for April.

Attention will be on China's inflation figures following price increases reported in the manufacturing sector, according to the Caixin Manufacturing PMI, suggesting higher factory gate inflation. On the other hand, services selling prices eased per the Caixin Services PMI. Trade data will also be watched after PMI export orders declined across both the manufacturing and service sectors in April.

Special reports:

Worldwide Factory Output Falls for First Time Since June 2020 as Supply Conditions Worsen | Chris Williamson | [page 4](#)

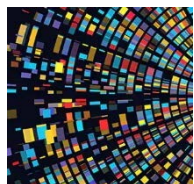
Economic Impact of Russia-Ukraine War on the ASEAN Region | Rajiv Biswas | [page 8](#)

Recent PMI and economic analysis from S&P Global

Global	Worldwide factory output falls for first time since June 2020 as supply conditions worsen	3-May	Chris Williamson
	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
Commodities	Weekly Pricing Pulse: Softening demand pushes commodity prices lower	5-May	Thomas McCartin

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](#)

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Special Focus

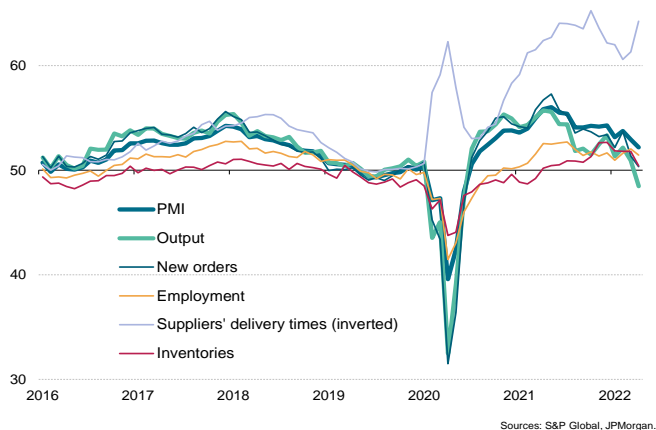
Worldwide Factory Output Falls for First Time Since June 2020 as Supply Conditions Worsen

The JPMorgan Manufacturing Purchasing Managers' Index™ (PMI™), compiled by S&P Global, fell from 52.9 in March to a 20-month low of 52.2 in April. The deterioration in the performance of the goods-producing sector was led by a renewed decline in production, which fell for the first time since June 2020, thanks principally by a steeping rate of output loss in mainland China amid fresh lockdown measures. Encouraging, excluding China, global output growth accelerated slightly in April. However, China's downturn, combined with disruptions caused by the Ukraine war, also led to a worsening global supply situation, which in turn pushed price pressures higher and led to a further drop in global business expectations for output in the year ahead.

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 coming months.

JP Morgan Global Manufacturing PMI

JPMorgan Global Manufacturing PMI

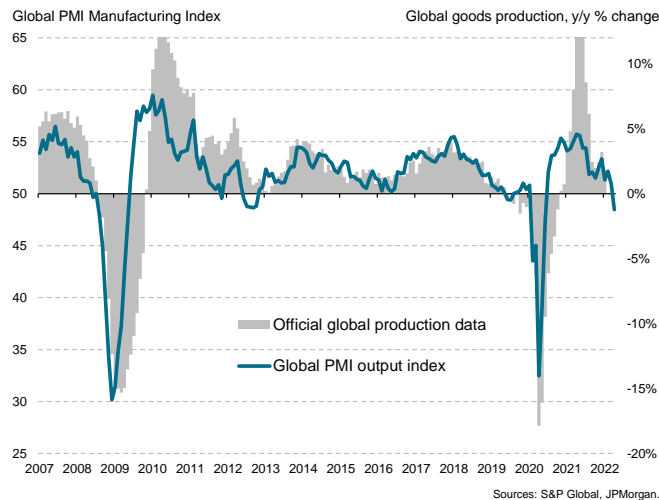


Global factory output falls in April

The weakest of the PMI's five components in April was the Output Index, which fell from 50.9 in March to 48.5. These readings indicate that the global manufacturing sector went from a position of near-stalled output at the end of the first quarter to one of declining production at the start of the second quarter. This represents the first global contraction since June 2020, during the initial phase of the pandemic.

Prior to the pandemic, output has not fallen at this rate since the global financial crisis.

Global manufacturing output



Global trade firmly in decline

April also saw global new orders almost stall, registering only a marginal increase which was the smallest since June 2020. The demand slowdown was due in part to a second consecutive monthly drop in global trade flows. The past two months have seen the sharpest loss of new export orders since the early months of the pandemic.

Global exports

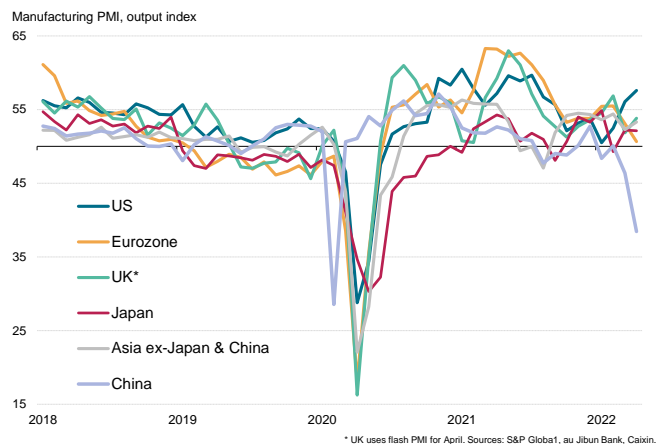


Mainland China reporting worst growth spell on record

A principal driver of the slowdown in output and demand was a severe downturn in mainland China, where output and new

orders fell sharply for a second month, in both cases with the rate of decline accelerating to the fastest since the initial pandemic decline seen in February 2020. However, whereas the initial pandemic decline in China merely lasted one month, China has now reported falling output in three of the past four months, with the latest back-to-back declines representing the worst production performance since data collection began in 2004.

Manufacturing output by major economy



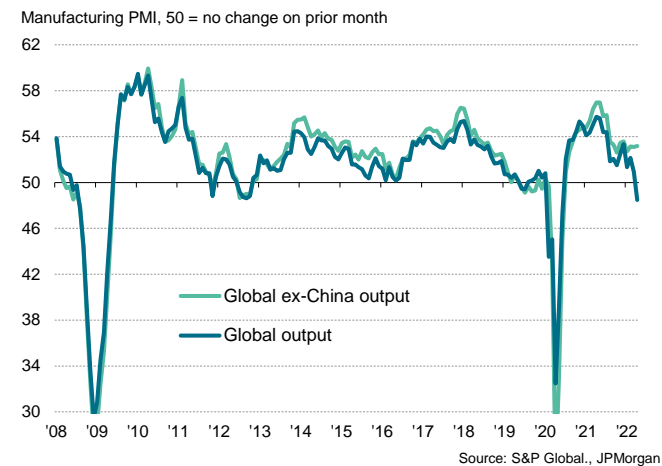
Growth more resilient outside of China

It's a more encouraging picture outside of China. Excluding mainland China, global output growth in fact accelerated marginally in April to the fastest since December, albeit remaining well below the average pace recorded last year. The improvement was driven by the US, where output rose at the strongest rate since July of last year, and to a lesser extent the UK, which also reported improved growth. Japan meanwhile reported a sustained, though still sluggish, recovery from a brief Omicron-related downturn in February, while the rest of Asia as a whole also reported an improvement on March's slowdown.

However, in addition to the downturn in China, the overall global expansion was weighed on by a near-stalling of production in the eurozone, which was in turn fueled by a renewed decline in German production, reflecting the impact of the Ukraine war on those economies closest – both geographically and economically – to the conflict.

Note that PMI data for Russia are not updated for April until 4th May, but March's data had shown Russia registering the steepest contraction of all economies covered by the PMI, and one of the sharpest downturns on record, mainly reflecting the impact of sanctions following the invasion of Ukraine.

Global output excluding China



Supply chain delays worsen

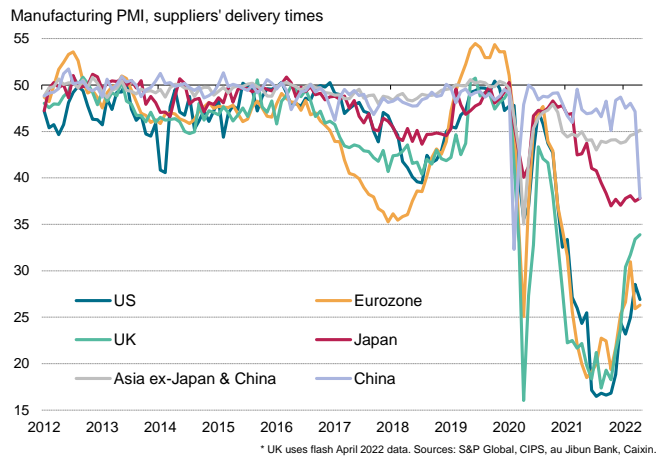
A further visible impact of the lockdowns in China was evident in supply chains. Average supplier delivery times lengthened in April at a rate exceeded only once – last October – in the history of the PMI surveys. The worsening supply chain performance was driven by a severe lengthening of lead times in China, though delivery delays also worsened in the US and remained especially widespread in Europe.

The overall supply chain situation therefore remains one of supply delays continuing to be reported to an extent far exceeding anything previously recorded prior to the pandemic, albeit with delays somewhat less prevalent than the average seen in 2021.

Manufacturing supplier delivery delays



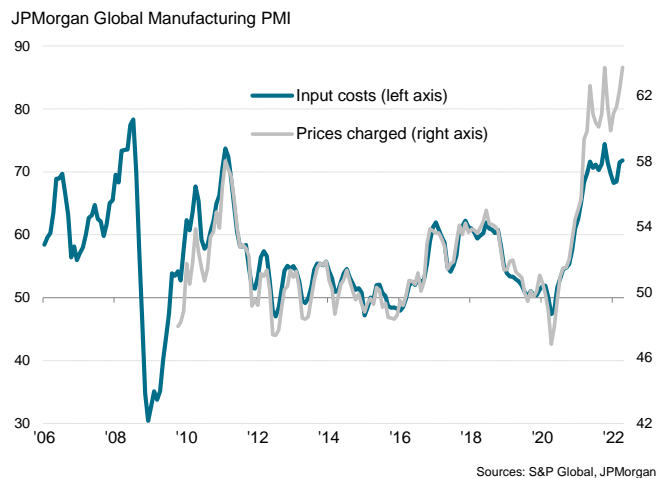
Manufacturing supplier delivery delays



Price indicators signalling rising inflationary pressures

The worsening supply situation led to further upward pressure on prices, with global manufacturing input price inflation accelerating for a third successive month in April to register an increase exceeded only once – last October – in the past 11 years. These additional cost pressures, as well as further wage costs and shipping prices, were passed on to customers in the form of a steepening rate of increase in average selling prices for manufactured goods, the rate of inflation for which rose to the joint-highest on record (since 2009).

Global manufacturing input and output prices



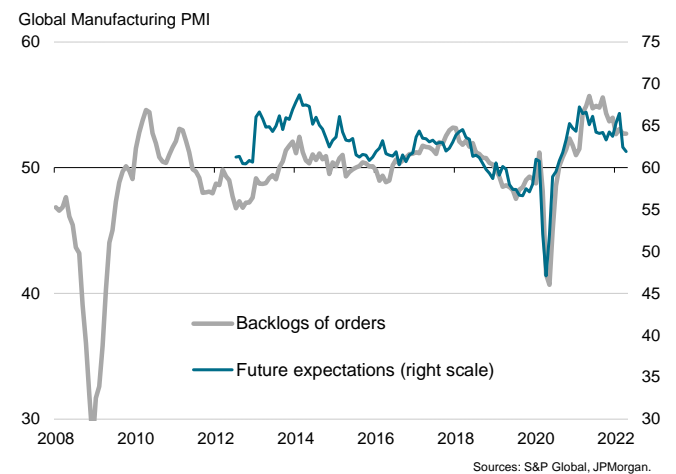
Future expectations deteriorate to 19-month low

Looking ahead, the further surge in cost pressures and supply delays, combined with geopolitical risks linked to Russia, led to a gloomier outlook.

On one hand, a further rise in backlogs of work reflected the fact that supply delays meant new orders growth continued to run ahead of production growth globally in April, therefore suggesting some near-term support to production in coming months if supply constraints ease. On the other hand, the rises in backlogs in March and April have been the smallest since early 2021, even if China is excluded. This reduced rate of growth of uncompleted orders hints at a broader slowing production trend.

Similarly, while future output expectations remained in positive territory in April, the degree of optimism was the lowest since September 2020, having fallen sharply since the start of the year. Companies' concerns were generally focused on rising prices and the potential hit to demand, as well as on-going supply constraints and increasing concerns about future economic growth prospects.

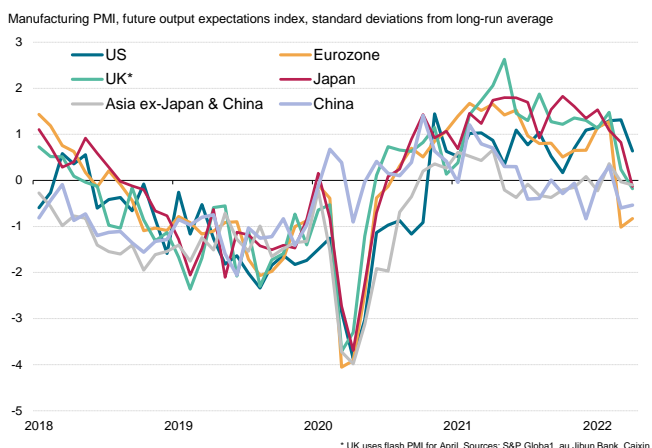
Global manufacturing order book backlogs and future output expectations



Only the US now sees future optimism above long run average

Future output expectations among the major economies are holding up best relative to their long run averages in the US, though even here prospects are their gloomiest since last October. Sentiment has meanwhile fallen below long run averages in the eurozone and China over the past two months, with only marginal uplifts seen in April, and have now slipped below long run means in the UK, Japan and the rest of Asia (excluding Japan and China).

Future output expectations by major economy



Outlook

The situations in China and Russia will be key to the outlook. In terms of China, lockdowns due to the government's zero-covid policy have led to a more severe manufacturing disruption amid the Omicron wave than seen during the initial COVID-19 outbreak in 2020. The current downturn in China is showing signs of extending the global supply chain crisis, and we may not yet be seeing the full impact of these disruptions. The longer the lockdowns continue, the more strained the closed-loop systems at facilities in and near China's ports will become, especially as supply into these 'bubbles' is showing signs of deteriorating.

Russia's invasion of Ukraine is meanwhile not only disrupting supply chains in Europe, notably Germany, but is also putting marked upward pressure on energy availability and prices. The conflict also shows no signs of ending soon, adding to downside growth risks both in Europe and in the wider global economy and upside inflation risks.

A third unknown is the policy reaction to rising inflation. While annual rates of inflation may soon start to fall, reflecting the fact that inflation is measured on a year-on-year basis, the supply disruption out of China and the Ukraine war add to risks of more persistent elevated readings through the year, raising the likelihood of more aggressive central bank policy tightening. The extent to which this plays out will of course depend on the durability of demand in this environment.

PMI updates to track the course of supply and demand over the coming months are available to all.

[Sign up to receive updated commentary in your inbox here.](#)

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Special Focus

Economic Impact of Russia-Ukraine War on the ASEAN Region

Latest S&P Global Purchasing Managers' Index (PMI) surveys for April show that the Southeast Asian economies have been resilient to the global economic shockwaves from Russia's invasion of Ukraine so far. The direct trade exposure of many ASEAN economies to Russia and Ukraine is very low as a share of total trade. However, the global economic transmission effects are increasingly impacting on Southeast Asian economies as the war has become more protracted. Notably, the negative economic impact of the Russia-Ukraine war on GDP growth in the EU in 2022 will be a drag on exports of the ASEAN economies to Europe.

A key transmission channel is through higher world prices for a wide range of mineral and agricultural commodities due to disruptions caused by the Russia-Ukraine war and related sanctions on Russia. This has resulted in surging oil, LNG and coal prices, as well as higher world food prices. Although consumer inflation pressures have been moderate in many ASEAN countries at the outset of 2022, in contrast to surging inflation in the US and EU, there are signs of rising inflation pressures amongst ASEAN nations.

International economic sanctions on Russia are also expected to impact on bilateral trade flows, as measures such as US and EU financial sanctions on Russian banks increasingly disrupt trade with Russia.

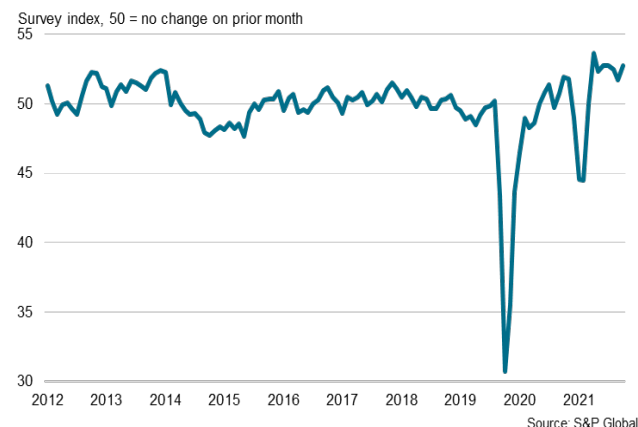
ASEAN economies remain resilient to Russia-Ukraine war

Leading economic indicators for April continue to show that many ASEAN economies have so far remained resilient to the Russia-Ukraine war. Latest PMI surveys for ASEAN economies have indicated that business conditions for output and new orders have been driven by other key factors, notably changes in domestic COVID-19 restrictions. For many ASEAN economies, easing COVID-19 waves during February and March have allowed the easing of COVID-19 restrictions.

Overall, the ASEAN region is expected to show resilient real GDP growth of 4.7% in 2022. This followed expansion of 3.7% in 2021 as the ASEAN economies rebounded from the global recession in 2020, albeit the momentum of recovery

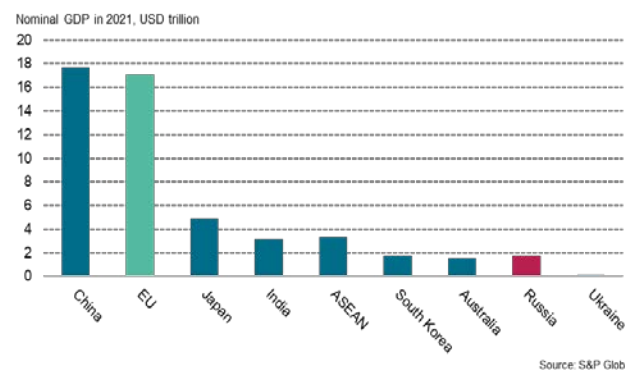
was constrained by the new COVID-19 Delta waves that hit the Southeast Asian region during the third quarter of 2021.

S&P Global ASEAN Manufacturing PMI



The continued resilience of the ASEAN economies was reflected in the latest S&P Global ASEAN Manufacturing PMI survey, which showed that operating conditions across the ASEAN manufacturing sector improved in April. The sector gained growth momentum as the rate of expansion quickened to the second-fastest since the survey began in July 2012. The headline PMI was boosted by upticks in three of its subcomponents – new orders, output and employment. The headline figure rose from 51.7 in March to 52.8 in April, signalling a seventh successive month of improvement in the health of the sector. In addition, April marked the first month whereby all seven ASEAN countries registered growth in their manufacturing sectors.

Size of APAC economies compared to Russia, Ukraine and EU



For many ASEAN economies, Russia and Ukraine are relatively small trade partners, limiting the direct vulnerability of ASEAN exports to the deep economic recessions forecast for Russia and Ukraine in 2022 due to the Russia-Ukraine war and international sanctions on Russia. However, the negative economic impact of the Russia-Ukraine war on economic growth in major ASEAN export markets, notably the EU, will have greater negative effects on exports of the

ASEAN economies. The S&P Global Market Intelligence forecast for EU GDP growth in 2022 has been downgraded from 4.3% in the February 2022 forecast published just before the Russian invasion of Ukraine to 2.5% in the April 2022 forecast.

The size of the Russian economy in 2021 was comparable to a medium-sized OECD developed country such as South Korea and about half the size of ASEAN GDP, while the size of the Ukraine economy in 2021 was significantly smaller than Vietnam's GDP. Indeed, due to the deep recession forecast for the Russian economy in 2022, the size of the Indonesian economy is forecast to slightly exceed Russia's GDP, measured in nominal USD terms, for the first time.

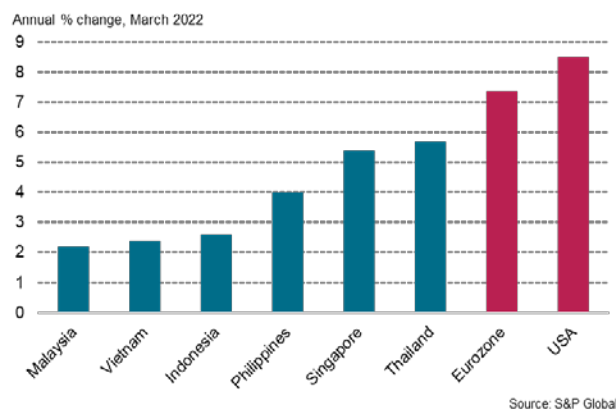
Inflation pressures

Although inflationary pressures in most ASEAN economies have been relatively moderate at the outset of 2022 compared with the US and EU, concerns amongst many ASEAN central banks about rising inflation have been increasing. The Russia-Ukraine war has heightened these concerns as world commodity prices have risen further.

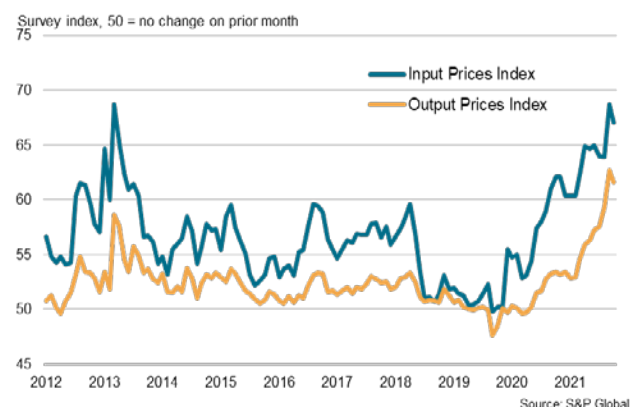
This is expected to result in gradual tightening of monetary policy by a number of ASEAN central banks during 2022, with the Monetary Authority of Singapore already having taken tightening measures as headline CPI inflation has risen in early 2022. The Bank of Thailand is confronted with rising CPI inflation pressures amidst a weak economic recovery, with annual CPI inflation in March having risen to 5.7%, the fastest pace in 13 years.

According to the April S&P Global ASEAN Manufacturing PMI survey, price pressures for ASEAN manufacturers remained elevated as ongoing input shortages, higher fuel and raw material prices, global inflation and supply-side challenges persisted. Companies surveyed reported that part of the cost burden was shared with clients through higher output prices.

ASEAN CPI inflation compared to US and EU



ASEAN PMI Input and Output Prices

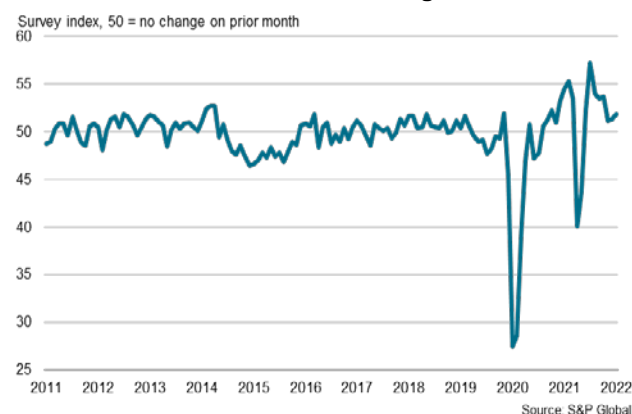


Indonesia

The Indonesian economy is the largest among the 10 ASEAN member nations. Economic growth momentum in the first quarter of 2022 has remained firm, helped by continued recovery of the domestic economy. However, Indonesia's central bank, Bank Indonesia (BI), has slightly lowered its GDP growth forecast for 2022 from a previous range of 4.7% to 5.5% to a range of 4.5% to 5.3%. This reflects their assessment that lower world growth will reduce Indonesian export growth, while higher world energy and food prices will also impact on domestic demand.

Latest manufacturing sector survey data has continued to signal expansionary conditions in Indonesia's manufacturing sector. The S&P Global Indonesia Manufacturing PMI posted 51.9 in April, up from 51.3 in March. This represented an eighth straight month of improving business conditions across the Indonesian manufacturing sector. Both output and new orders improved in April. New export orders also grew, although some firms reported that the war in Ukraine had weighed on total new export orders.

S&P Global Indonesia Manufacturing PMI



However, price pressures for the manufacturing sector have intensified as both input cost and output price inflation

accelerated in April. Indonesian manufacturers reported higher costs for inputs including raw materials and fuel, which they have continued to share with clients. The rates of inflation were also amongst the fastest in the survey's history.

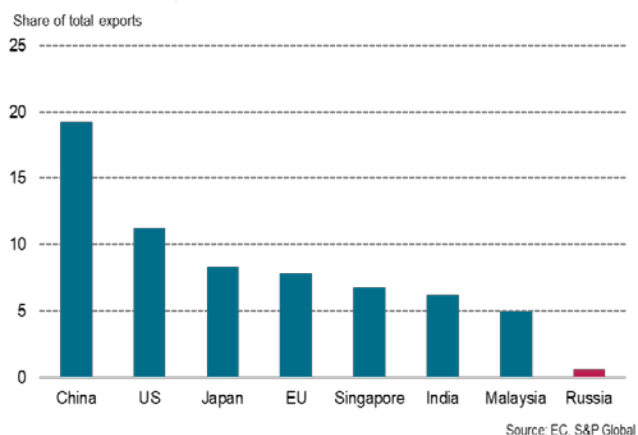
CPI inflation pressures have also been gradually increasing, although the headline CPI inflation rate of 2.64% in March remains well within the BI 3.0%±1% CPI inflation target corridor. Consequently, BI kept its benchmark 7-day reverse repo policy rate unchanged at its April monetary policy meeting. However, BI has raised the reserve requirement by 1.5% to 5.0% on 1st March 2022 and has announced that a further 1.0% increase to 6.0% will be implemented on 1st June 2022.

Russia is negligible in size as an export market for Indonesia, accounting for only 0.65% of total Indonesian merchandise exports in 2021. Ukraine is an even smaller export market, accounting for only 0.2% of Indonesian exports.

However, the indirect impact on Indonesia of weaker economic growth in the EU due to the Russia-Ukraine war is a more significant factor that will weigh on Indonesia's export sector in 2022, with the EU having accounted for around 7.8% of total Indonesian merchandise exports in 2021.

Moreover, Indonesia is a significant importer of wheat from Ukraine, amounting to an estimated USD 843 million in import value in 2021. Ukraine was the second largest source of wheat imports for Indonesia in value terms in 2021, with Australia being the largest source, at USD 1.4 billion. Out of total wheat imports of 11.5 million tons, Indonesia imported 3.1 million tons of wheat from Ukraine in 2021, with Australia having supplied 4.6 million tons to Indonesia. Indonesian wheat imports from Russia were negligible in 2021.

Indonesia's major export markets, 2021



The Russia-Ukraine war has also disrupted the global edible oils market, as Ukraine accounted for about 46% of world

sunflower oil exports. Crude palm oil prices had already been rising sharply during late 2021 and early 2022. The disruption of Ukrainian sunflower oil exports added to global demand pressures for palm oil. As a result, Indonesia has decided to ban the export of palm oil with effect from 28th April, in order to contain domestic inflation pressures from rising palm oil prices.

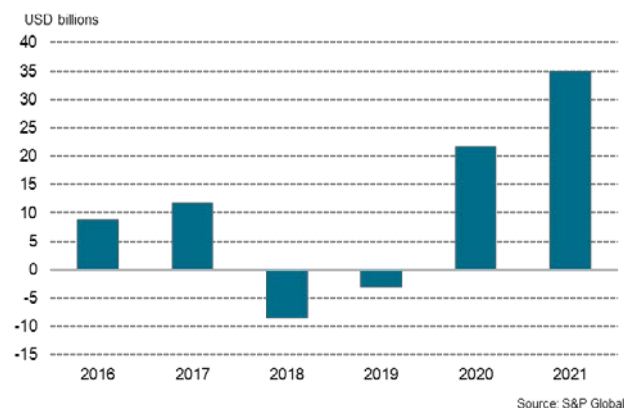
Palm oil is one of Indonesia's key exports, amounting to USD 28.5 billion in export revenues in 2021 and around 10% of total exports. Consequently, for the duration of the palm oil export ban, this will result in a significant loss of export revenues.

A mitigating factor for Indonesia has been the surge in world coal prices during 2021, with the Russia-Ukraine war adding to upward pressures on world coal prices. Indonesia exported 315 million metric tons of coal in 2021.

According to S&P Global Market Intelligence's Commodities at Sea analysts, Indonesian coal shipments were up 41% month-on-month (m/m) and up 37% year-on-year (y/y) in March 2022, as global buyers turned to Indonesian coal as an alternative supply to Russian coal due to the Russia-Ukraine conflict. Furthermore, the price of Indonesian coal has also surged. According to the Ministry of Energy and Mineral Resources of Indonesia, the monthly benchmark coal price (HBA) basis, 6300 GAR in April 2022 was announced at USD 288.40/t, a significant jump of 42% m/m from March 2022's USD203.69/t, reflecting sanctions on Russian coal by a number of nations due to Russia's invasion of Ukraine. Indonesia's coal exports surged to USD 3.9 billion in March 2022, up 150% y/y.

The strength of coal exports in March helped to push Indonesia's monthly trade surplus to USD 4.5 billion. Indonesia recorded a current account surplus of 0.3% of GDP in 2021, helped by an annual trade surplus of USD 35 billion.

Indonesia: Trade balance

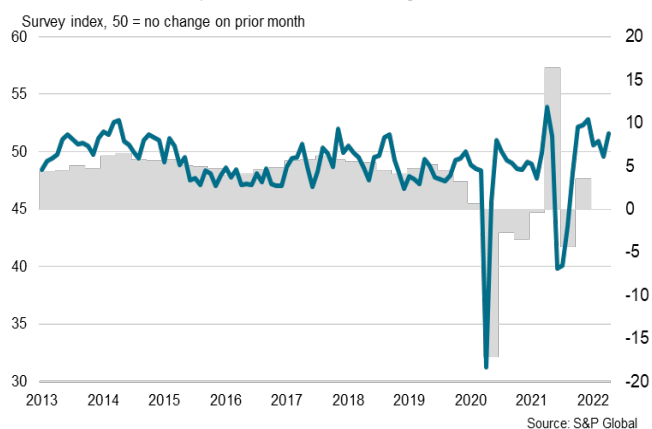


Malaysia

The Malaysian economy has shown improving momentum during early 2022, as COVID-19 related restrictions have continued to be eased. According to the latest S&P Global Malaysia Manufacturing PMI Survey for April, the Malaysian manufacturing sector reported a renewed increase in growth momentum at the start of the second quarter of 2022. Although output levels remained subdued, incoming orders recovered strongly to register the sharpest rise since April 2014 amid improved client confidence.

The seasonally adjusted S&P Global Malaysia Manufacturing PMI rose from 49.6 in March to 51.6 in April, indicating a renewed improvement in the health of the sector. The uptick in the headline figure was led by a sharp recovery in new order volumes, with growth of new business hitting an eight-year high. Firms noted that stronger client confidence had boosted demand in both domestic and external markets.

S&P Global Malaysia Manufacturing PMI



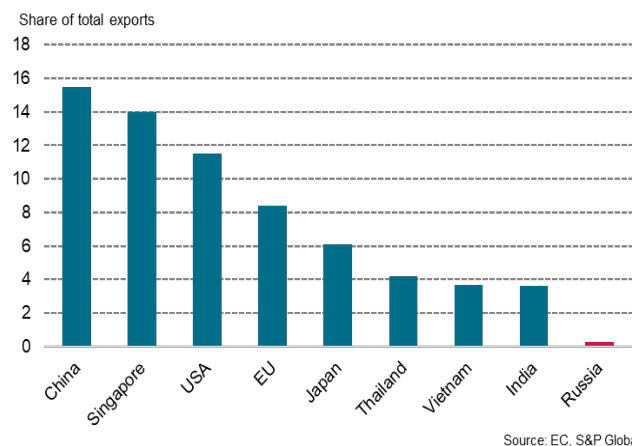
Input costs increased for the 23rd month running in April, reflecting higher raw material and transportation prices. The rate of inflation eased from March but remained marked overall. Manufacturers partially passed these higher costs to clients through higher output charges, which increased steeply once again.

Despite the upturn in world commodity prices due to the Russia-Ukraine war, Malaysian CPI inflation pressures still remain contained, with the March CPI reading up only 2.2% y/y.

The economic impact of the Russia-Ukraine war is expected to be felt in Malaysia's export sector due to the negative shock to world economic growth. Malaysia's direct exports to Russia are very small, accounting for around 0.3% of total Malaysian merchandise exports. However, a more significant vulnerability is from the negative economic shock of the Russia-Ukraine war on the economies of Western Europe,

since the EU accounts for 8.4% of Malaysia's merchandise exports.

Malaysia's export markets



As a major exporter of commodities, Malaysia is expected to benefit from higher world prices for some of its major commodity exports, notably oil and gas as well as palm oil.

Palm oil and palm-oil-based products accounted for 7.8% of Malaysia's merchandise exports by value in 2021. Helped by surging palm oil prices, Malaysia's exports of palm oil and palm oil based agricultural products rose by 70% y/y in the first quarter of 2022. Exports of palm oil based manufactured products also rose strongly in the same period, up 54% y/y. Malaysian crude palm oil prices hit a record high in March following Russia's invasion of Ukraine, easing somewhat in late March, but rose again to similar levels after Indonesia banned palm oil exports in late April.

Philippines

The Philippines economy has shown strong growth momentum in early 2022. According to the April S&P Global Philippines Manufacturing PMI survey, the manufacturing sector saw the strongest improvement in operating conditions for more than four years in April. This reflected improving domestic demand as the economy rebounds from the impact of the pandemic. The manufacturing sector benefited from upturns in output and new orders as pandemic-related restrictions eased.

The S&P Global Philippines Manufacturing PMI increased from 53.2 in March to 54.3 in April, marking the third successive month whereby the headline figure posted above the 50.0 no-change mark that separates growth from contraction. Moreover, the latest reading was the highest since November 2017 and pointed to a solid improvement in overall operating conditions.

Business confidence amongst companies surveyed regarding the 12-month outlook for output improved to a four-month high in April. Easing COVID-19 containment measures underpinned forecasts of stronger demand conditions and rising output in the coming months.

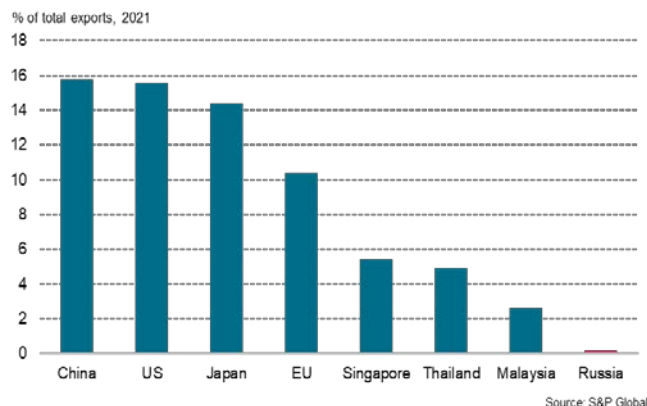
S&P Global Philippines Manufacturing PMI



However, both manufacturing input price and output charge inflation remained elevated, with rates of increase easing only slightly from the record highs seen in March. Bangko Sentral ng Pilipinas (BSP) is facing escalating headline CPI inflation pressures driven by rising energy and food prices, with the April CPI surging to 4.9% y/y, well above the BSP inflation target range of 2% to 4%.

As with most other ASEAN nations, direct trade exposure to Russia is very limited. For the Philippines, merchandise exports to Russia amounted to just 0.2% of total exports in 2021. However, the indirect transmission effects from weaker growth in Western Europe are a greater vulnerability for the Philippines export sector, since the EU accounted for 10.4% of total Philippines exports in 2021.

Philippines export markets



ASEAN outlook

The global macroeconomic shocks from the Russia-Ukraine war are continuing to reverberate through the world economy. While Southeast Asian nations have been relatively resilient to the initial shocks, the duration and potential further escalation of the war create considerable uncertainties for the near-term outlook.

As Russia and Ukraine account for a relatively low share of total exports for most ASEAN economies, the direct vulnerability of the Southeast Asia region to deep economic recessions in Russia and the Ukraine in 2022-23 is relatively limited.

However, a much greater vulnerability for the ASEAN region is from the macroeconomic shocks to major economies in the EU from the Russia-Ukraine war, notably through higher energy prices and potential disruption of Russian oil and gas supplies to the EU. Due to the importance of the EU as a key export market for many ASEAN economies, a significant slowdown in EU economic growth would be a key vulnerability for ASEAN exports.

As the Chinese mainland economy has also experienced a significant slowdown in March and April 2022 due to the impact of COVID-19 related lockdowns in a number of major cities, including Shanghai and Shenzhen, this creates a double blow to ASEAN's export sector in the near-term.

Global transmission effects through higher world commodity prices for energy, metals and agricultural commodities are also impacting ASEAN economies, pushing up inflation pressures and increasing import costs, notably for ASEAN energy-importing nations such as Thailand and the Philippines. Consequently, a number of ASEAN central banks are expected to begin tightening monetary policy during the remainder of 2022.

Therefore, while the base case scenario is for continued resilient growth in the ASEAN region, there are still considerable downside risks to the global and ASEAN outlook from the Russia-Ukraine war and the potential for further dangerous escalation of the geopolitical confrontation between military powers in Europe.

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