PMI™

by S&P Global

Week Ahead Economic Preview

Worldwide May PMIs, US non-farm payrolls, BoC meeting

27 May 2022

Worldwide PMI releases for May will be eagerly awaited with the turn of the month in the coming week. The first week of June also brings **US labour market report** on Friday. Meanwhile the **Bank of Canada** convenes to update their monetary policy settings. In the data docket, a string of **inflation** updates will be anticipated from the **eurozone, Germany** and various Asian economies. **GDP** figures from **Australia** and **India** will also be in focus.

Market sentiment remained lacklustre this week amid indications of slowing growth from flash PMI readings for major developed economies and the May Fed minutes, which provided little fresh impetus for equities. Disappointing high frequency UK PMI data weighed on GBP/USD though sterling did manage to retrace losses into the latter half of the week as the greenback lost grounds. The euro meanwhile regained some strength after the eurozone PMI remained encouragingly resilient. More detailed global PMI data for May will therefore be eagerly watched for broader growth and inflation trends in other parts of the world, perhaps most notably mainland China.

Meanwhile the May labour market report will be the key economic indicators to watch from amongst the upcoming US data releases. Another strong set of readings, including an expected 350k addition to non-farm payrolls, looks set to indicate a tight labour market. Such a positive trend had also been preluded by employment indicators from the May S&P Global Flash US Composite PMI. With that said, what may be of greater interest will be the wages and price picture, given the Fed's focus on inflation. The final PMI and ISM readings will therefore be assessed for the price indications and indications of supply conditions from key manufacturing hubs around the world.

Amongst central banks, the Bank of Canada is due to announce its monetary policy decision for June, with another rate hike following the March increase is widely expected. Other items to watch includes CPI numbers from the eurozone, Germany, South Korea, Indonesia and Thailand.

Manufacturing PMI surveys: what to watch

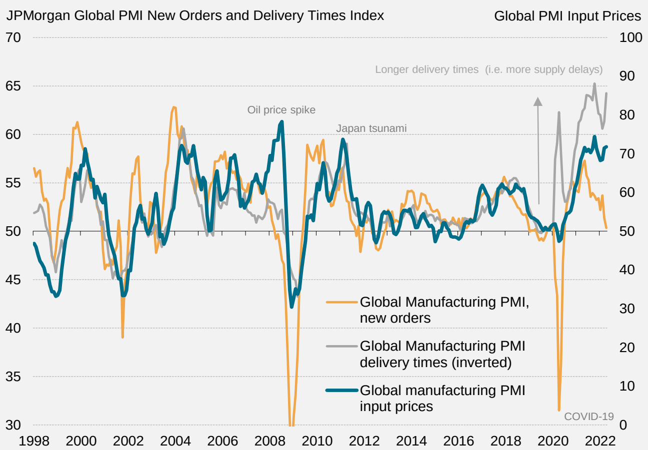
Upcoming PMIs due out in the coming week will provide an important steer to demand, supply and prices, and therefore also policymaking. While supply deteriorated in April to hand pricing power to sellers, as indicated by the global suppliers' delivery times index, the demand side of the inflation equation is more uncertain. Note that the April PMIs showed global manufacturing output falling globally amid a stalling in growth of new orders, the latter being the most up to date indicator of demand available.

The output and new orders indices from the global manufacturing PMIs will therefore need to be watched alongside the suppliers' delivery times index to get a comprehensive steer on the demand and supply fundamentals for commodity prices. Much will depend on the degree to which China's lockdowns persist, as these have muddied the global picture.

The degree to which the global expansion can be sustained will also be dependent on the extent to which demand from consumers can continue to recover after the current rebound, which has been fueled by economies reopening after the loosening of pandemic restrictions. The concern is that this rebound could fade quickly, especially if inflationary pressures remain elevated to add to the cost-of-living crisis.

It will also be important to watch the PMI backlogs of work indices, as these will give a guide as to whether current robust hiring will need to be sustained in the months ahead. The PMI future output expectations index will also give clues as to whether firms will remain keen on expanding capacity and additional hiring.

PMI demand, supply chain and price indicators



Sources: S&P Global, JPMorgan.

Key diary events

Monday 30 May
US Market Holiday
Thailand Manufacturing Production (Apr)
Eurozone Business Climate and Consumer Confidence (May)
Germany HICP Prelim (May)

Tuesday 31 May
South Korea Industrial Output (Apr)
Japan Unemployment Rate (Apr)
Japan Industrial Output, Retail Sales (Apr)
China (Mainland) NBS Manufacturing PMI (May)
United Kingdom Nationwide House Price (May)
Switzerland GDP (Q1)
Thailand Trade (Apr)
Germany Unemployment (May)
United Kingdom Mortgage Lending and Approvals (Apr)
Eurozone HICP (May, flash)
India GDP (Q4)
Canada GDP (Q1)
United States Consumer Confidence (May)

Wednesday 1 Jun
South Korea, Indonesia Market Holiday
Worldwide Manufacturing PMIs, incl. global PMI* (May)
Australia GDP (Q1)
Indonesia Inflation (May)
Germany Retail Sales (Apr)
Eurozone Unemployment Rate (Apr)
United States ADP National Employment (May)
United States ISM Manufacturing PMI (May)
United States JOLTS Job Openings (Apr)
Canada BoC Meeting (1 Jun)
United States Fed Beige Book

Thursday 2 Jun
UK Market Holiday
Australia Trade Balance (Apr)
Switzerland CPI (May)
Eurozone Producer Prices (Apr)
United States Initial Jobless Claims
United States Factory Orders (Apr)

Friday 3 Jun
UK, China, Taiwan Market Holiday
Worldwide Services & Composite PMI* for US, Japan, India, Russia, Eurozone, Brazil, Singapore, UAE, S Africa (May)
South Korea CPI (May)
Germany Trade (Apr)
Eurozone Retail Sales (Apr)
United States Non-Farm Payrolls, Unemployment, Average Earnings (May)
United States ISM Non-manufacturing PMI (May)

* Press releases of indices produced by S&P Global and relevant sponsors can be found **here**.

What to watch

Worldwide manufacturing and services PMIs for May

After flash May PMI data showed economic growth coming under pressure in major developed economies amid price pressures, detailed global PMI data for both manufacturing and many country's service sectors will be released in the coming week. The broader global PMI data are especially keenly awaited after economies such as the UK saw a significant surprise on the downside, with the flash PMI data showing inflationary pressures affecting economic conditions.

Refer to our PMI release calendar for the full schedule of monthly releases.

North America: May labour market report, BoC meeting

May's US labour market report will be released on Friday with Refinitiv consensus pointing to a 350k addition to non-farm payrolls, the unemployment rate to fall to 3.5% and average earnings growth to accelerate to 0.4% month-on-month, altogether reflecting tight labour market conditions and keeping the Fed's focus on targeting inflation.

Separately, the Bank of Canada is set to update their monetary policy. Following their March increase, another 50-basis point hike is expected according to our forecast for the BoC, which also sees their policy rate climb through the year.

Europe: Eurozone, Germany May inflation, unemployment rates

In the eurozone, May inflation and unemployment rates will be updated on Tuesday and Wednesday respectively. The S&P Global Flash Eurozone PMI reflected that price pressures eased from the April peak though remaining sharp by historical standards, while jobs growth surged, led by the region's rebounding services sector.

Asia-Pacific: Australia, India GDP, South Korea Indonesia, Thailand CPI, Japan employment data

In APAC, a couple of tier-1 data releases will be anticipated in the week ahead including GDP figures across Australia and India while South Korea, Indonesia and Thailand will update May inflation figures. This will be alongside the series of PMI figures that will shed light on May supply and inflation conditions in the wider APAC region, and most notably revealing the latest situation in mainland China among the ongoing effort to control the Omicron wave.

Special reports:

Flash PMI: Headwinds Stifle Developed World Expansions in May | Chris Williamson | **page 4**

Assessing the Economic Impact of the Indo-Pacific Economic Framework | Rajiv Biswas | **page 7**

Recent PMI and economic analysis from S&P Global

Global	Headwinds stifle developed world expansions in May	24-May	Chris Williamson
	Inflation pressures and GDP resilience under scrutiny with May flash PMIs	20-May	Chris Williamson
	Understanding… PMI new export orders index: Tracking worldwide trade flows and changing demand, by country and sector	19-May	Chris Williamson
	Global commodity price and supply indicators signal semiconductor shortage showing signs of peaking	17-May	Jingyi Pan
	Global PMI - special Russia-Ukraine war report	9-May	Chris Williamson, et al.
	Monthly PMI Bulletin: May 2022	9-May	Chris Williamson, Jingyi Pan
	Economic downturn spreads as more sectors report falling output and record price rises	6-May	Chris Williamson
Europe	UK economy slows to a crawl in May as inflation pressures hit new high	24-May	Chris Williamson
	Eurozone economy shows resilience in May thanks to buoyant service sector, as price pressures ease from April high	24-May	Chris Williamson
Asia-Pacific	Reduced COVID-19 impact supports services growth in Japan and Australia but manufacturing sector under pressure from supply constraints	24-May	Jingyi Pan
Commodities	Weekly Pricing Pulse: Commodity sell-off accelerates	20-May	Michael Dall

S&P Global Economics & Country Risk highlights

Serial disruptions threaten global economic growth

Russia's invasion of Ukraine, a wave of COVID-19 infections and lockdowns in mainland China, relentless inflation, and tightening financial conditions have disrupted production and stifled demand, causing the global economy to stall. Led by services, growth is expected to return at a moderate 2.5% annual pace in the final two quarters of 2022, with the lifting of COVID-19 restrictions in most regions.
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, labor 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:

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Special Focus

Headwinds Stifle Developed World Expansions in May

Early PMI survey data showed economic growth rates coming under pressure in the major developed economies as a boost to businesses from the post-Omicron loosening of COVID-19 restrictions was countered by mounting headwinds. Companies reported demand to have been subdued by soaring inflation and the mounting cost-of-living crisis, as well as by ongoing supply constraints and rising uncertainty about the economic outlook, especially given rising prospects of monetary policy tightening.

The impact of the headwinds varied by country, with the UK seeing growth slow most sharply and a marked slowing also recorded in the US. Growth remained more resilient in the eurozone, while Japan even saw growth lift slightly higher, albeit still lagging behind the other major developed economies.

Price pressures meanwhile intensified on average, thanks in part to higher energy prices, but the surveys also brought signs of a tentative peaking of industrial raw material price inflation, which could signal a broader peaking of inflation in coming months. PMI survey output comparisons

UK and US lead developed world slowdown

Growth across the four largest developed economies – the 'G4' – slowed in May to the weakest since the pandemic lockdowns of early 2021, according to the flash PMI survey output indices from S&P Global.

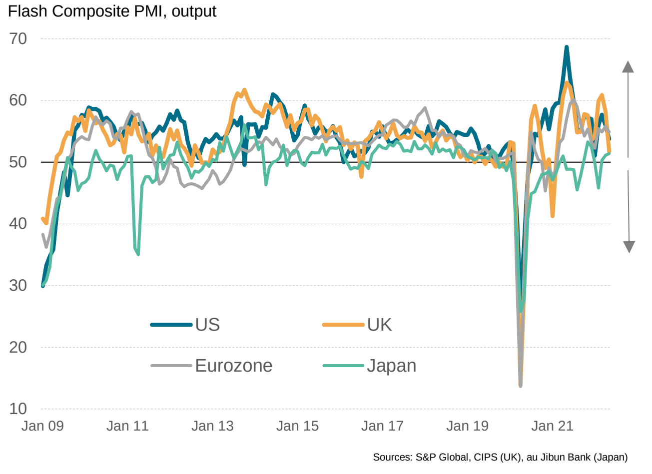
The UK led the slowdown, its composite PMI covering both manufacturing and services sliding some 6.4 points from 58.2 in April to 51.8, registering the worst performance since February 2021 and indicative of GDP rising at a quarterly rate of just 0.1%. Growth waned especially sharply in the UK's service sector, but factories also reported a slower rate of expansion.

Growth also slowed markedly in the US, the composite flash PMI down 2.2 points from 56.0 in April to 53.8, its lowest since January, though still broadly indicative of the economy growing at a quarterly rate of 0.5%. Both manufacturing and services reported weakened growth rates, though the former remained somewhat more robust.

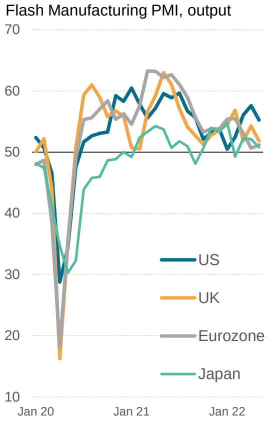
In the eurozone, a more resilient performance was recorded, with the composite flash PMI merely dipping 0.9 points from 55.8 to 54.9, thereby continuing to signal encouragingly robust quarterly GDP growth of approximately 0.6%. Although the eurozone's manufacturing sector remained largely becalmed, with near-stalled production growth recorded for a second month running, the service sector continued to report buoyant growth of business activity.

While Japan reported the weakest composite PMI of the G4 for the sixteenth successive month, it was the only economy to record an improved reading, with the PMI edging up from 51.1 in April to 51.4, its highest since December, as a strengthening trend in services offset a weakened manufacturing growth rate.

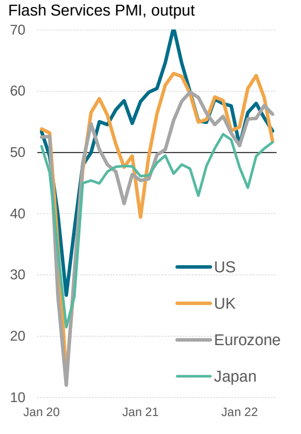
Current output growth



Manufacturing



Services



Source: S&P Global (with au Jibun Bank in Japan).

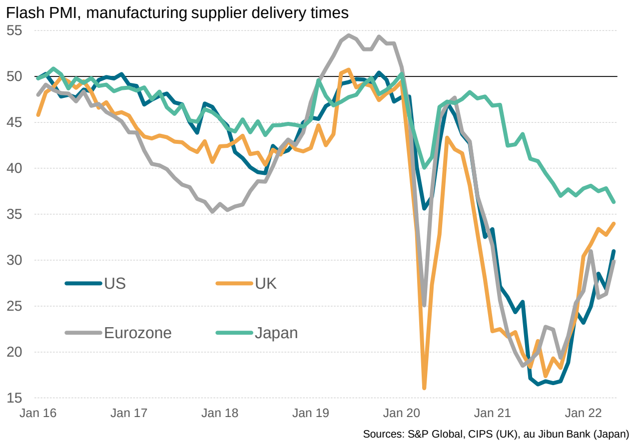
Consumer services rebound countered by headwinds

In all four economies, growth was buoyed by increased spending on consumer services such as travel, tourism, recreation and hospitality, as pandemic-related restrictions continued to be wound down both domestically and internationally.

The exception to the loosening of COVID-19 restrictions was mainland China, where efforts to control the Omicron variant led to further global supply chain disruptions. Alongside supply delays linked to the Ukraine war, China's lockdowns reportedly contributed to a slowing of manufacturing growth in all four economies. While the China impact most commonly reported in Japan, the Ukraine war impact was most heavily felt in the eurozone.

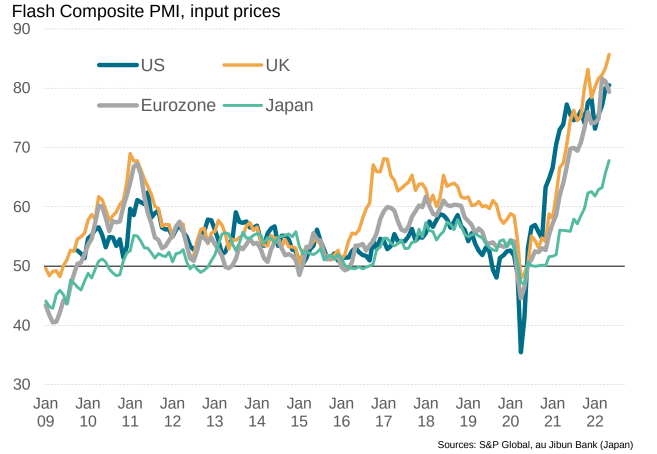
However, with the exception of Japan, supplier lead times lengthened to a lesser extent than in prior months, reflecting some moderation of broader global pandemic-related logistics and supply issues. It is nevertheless clear that supply shortages remain a clear and ongoing constraint.

Supplier delays



A further common factor dampening growth across manufacturing and services in all economies was the rising cost of living, with purchasing power having been dented across the globe by unprecedented price rises in recent months. The May surveys showed companies' costs increasing at historically elevated rates, with new record rates of inflation seen in the UK and Japan, albeit with the latter running behind all other G4 economies. Rates of increase eased in the eurozone and US, but merely from record highs in recent prior months.

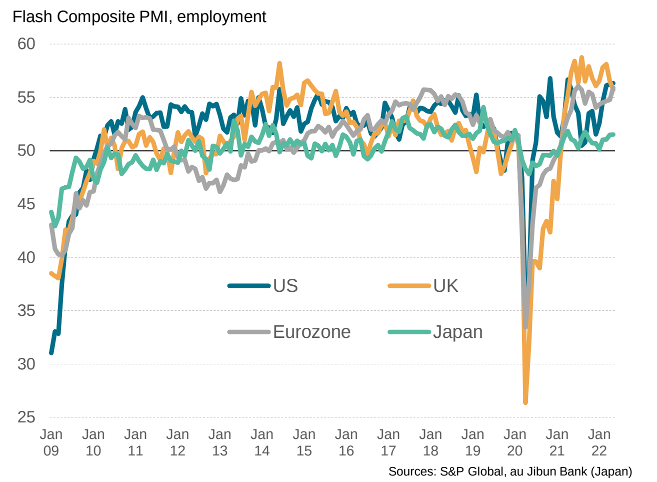
Input prices



Tighter job markets signalled amid buoyant hiring

One aspect of input cost inflation which has started to moderate is that of industrial raw material prices. Although still prevalent, supply delays have eased, taking some pricing power away from suppliers. However, May has meanwhile seen further upward pressure on costs from rising energy prices, resulting from the Ukraine war, as well upward pressure on wages due to the tightened labour markets. Employment rose across the G4 economies at the highest rate since comparable data were available in 2007, led by stronger hiring in the US and Eurozone and slower but still solid hiring in the UK, as firms sought to boost capacity.

Employment



Deteriorating forward indicators

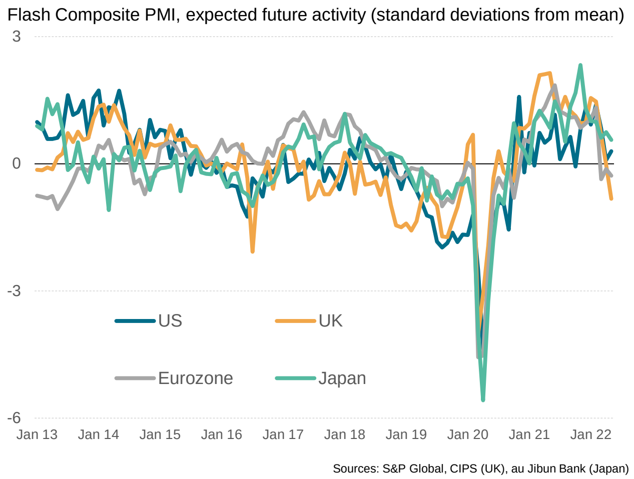
Whether such strong hiring will persist in coming months remains unclear. Employment is typically a lagging indicator, and the forward-looking indicators have turned down in recent months, casting a shadow of uncertainty over future hiring. In particular, new orders growth across the G4 has slipped to the lowest since February 2021, and backlogs of orders – the amount of work that companies have accumulated to sustain output in the months ahead – is also now rising at a slower rate.

Perhaps more importantly, business expectations regarding output in the coming 12 months have fallen since the outset of the Ukraine war, lifting slightly on average across the G4 in May but still running at a level not seen since late-2020.

Sentiment for the next 12 months has deteriorated most sharply in the UK, where companies have also grown increasingly concerned about the escalating cost of living crisis and prospects of aggressive monetary policy tightening. Sentiment also slipped lower in the eurozone, driven in part by rising concerns over the impact of rising energy costs and supply delays linked to the ongoing conflict. Japan's businesses also became gloomier in May, in part due to the knock-on effect of China's lockdowns on supply but also in part linked to rising costs, in turn sometimes associated with the weakened yen.

The only G4 economy to see business sentiment rise in May was the US, though even here confidence remains only marginally above the long-run average – and down sharply from earlier in the year – having been hit by concerns over rising borrowing costs, inflation and rising economic uncertainty.

Future output expectations

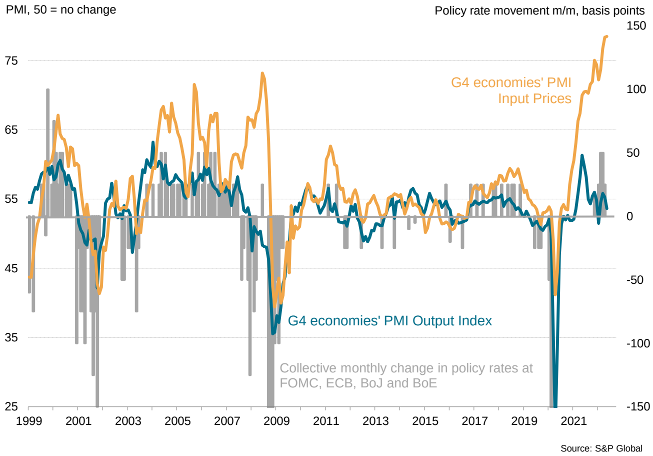


Growth risks tilted to the downside, but has inflation peaked?

With the inflation shock being most keenly felt in the UK, it's perhaps not surprising that the country has seen business optimism deteriorate to the greatest extent of the G4 economies. However, part of the slowing of output growth in the UK and US during May was in part a reflection of the rebound from pandemic restrictions starting to ease. With the eurozone and Japan having introduced restrictions to fight the Omicron variant later than the US and UK, and then relaxed these restrictions later, it's likely that these economies could likewise see their rebounds fade in coming months, following the pattern of the UK and US.

However, for all economies, the path of inflation and the cost-of-living crisis remains the principal concern, especially as central banks are prioritizing the need to rein in inflation expectations via monetary policy tightening. That said, there are some signs that supply-chain-related input cost pressures have peaked, providing some encouragement that broader inflationary pressures will likewise peak soon.

Flash PMI output and prices indices charted against G4 central bank monetary policy changes



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

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Special Focus

Assessing the Economic Impact of the Indo-Pacific Economic Framework

President Biden and 12 Asia-Pacific (APAC) partner nations launched the new Indo-Pacific Economic Framework for Prosperity (IPEF) during Biden's visit to Tokyo in late May 2022. The new IPEF will help the US to strengthen its economic engagement with APAC through a multilateral economic framework, after a protracted period of disruption following the decision of the Trump Administration in 2017 to withdraw the US from the Trans-Pacific Partnership (TPP) trade agreement.

While the IPEF does not focus on traditional trade liberalization measures such as tariff barriers, it does include four key pillars for economic co-operation with APAC nations, under the broad headings of 'Connected Economy', 'Resilient Economy', 'Clean Economy' and 'Fair Economy'. The planned focus areas will include facilitating the transition to clean energy, building resilient supply chains, strengthening the digital economy and implementing anti-corruption measures such as tax information exchange and identification of beneficial ownership. This creates a very dynamic work program in a number of high priority areas for economic reform for APAC economies.

The Indo-Pacific Economic Framework

The IPEF has been launched by the US with 12 APAC partner nations, including many of the APAC members of the original TPP agreement that was abandoned by the Trump Administration upon taking office in 2017. Although the TPP was later transformed into the CPTPP agreement by the other remaining member nations, the US has so far not indicated any political intent to apply to join the CPTPP.

The 12 partner nations of the IPEF in addition to the US are Australia, Brunei, India, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand and Vietnam. In terms of the US engagement with the ASEAN region, the IBEF includes 7 of the 10 ASEAN nations, including the six largest Southeast Asian industrial economies. Of particular significance is that Indonesia, Philippines and Thailand are among the partners, as these nations are not members of CPTPP at present. Unlike the CPTPP and its predecessor TPP, the IPEF does not include Canada and Mexico in its initial construct.

Mega trade deals in the Pacific region

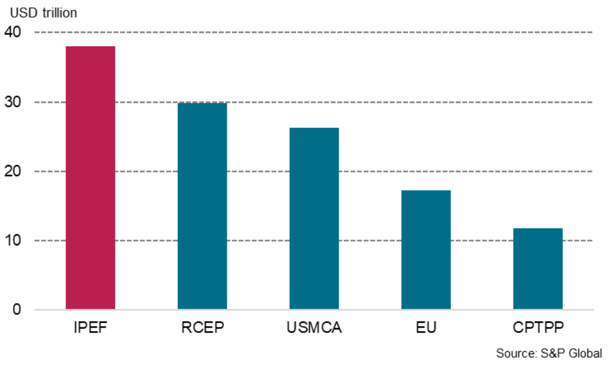
Since the US left the TPP in 2017, two mega trade deals have been implemented in the Pacific region, with the US not being part of either one. The IPEF agreement represents an important step forward by the US to re-engage with the APAC region through a multilateral economic platform.

The CPTPP trade agreement, the successor to the TPP, included four member nations from the Americas. CPTPP entered into force in December 2018, after the first six of the eleven member states had ratified the agreement. The eleven CPTPP members have a total GDP of around USD 11 trillion, creating a combined market equivalent to around 13 per cent of world GDP, with a population of around 500 million persons. Significant economic benefits are estimated to accrue to member nations as a result of tariff liberalisation under the CPTPP agreement. For Australia, New Zealand, Canada, Japan, Mexico and Singapore, which were the first six ratifying nations, the trade benefits of the CPTPP took effect from 30th December 2018. Vietnam ratified the CPTPP on 12th November 2018, and the CPTPP agreement took effect for Vietnam on 14th January 2019 and for Peru on 19th September 2019. For the remaining three CPTPP members, Brunei, Chile and Malaysia, the CPTPP will take effect 60 days after they ratify the agreement. Since the implementation of CPTPP, the United Kingdom and China have also formally submitted applications to join CPTPP. The CPTPP formally commenced accession negotiations with the UK in June 2021.

The other mega trade deal for the APAC region is the Regional Comprehensive Economic Partnership (RCEP). RCEP is a regional trade liberalisation initiative that will help to boost trade and investment flows among the 15 nations that have agreed to the trade deal. The 15 Asia-Pacific economies that make up the RCEP membership together account for around 29% of world GDP. The RCEP members comprise the ten nations of ASEAN, plus China, Japan, South Korea, Australia and New Zealand. RCEP negotiations commenced in November 2012 and 15 RCEP member nations concluded negotiations on the text of the agreement on 4th November 2019. The RCEP agreement was signed by ministers at the 37th ASEAN Summit in Hanoi on 15th November 2020. With the Regional Comprehensive Economic Partnership (RCEP) trade agreement having been ratified by the required number of countries, it was implemented on 1st January 2022.

In terms of total size of GDP of the partner countries, the IPEF is much larger than either RCEP or CPTPP, with its open architecture creating potential scope for future expansion into other areas of economic co-operation.

IPEF compared to major trade agreements by total GDP of member nations



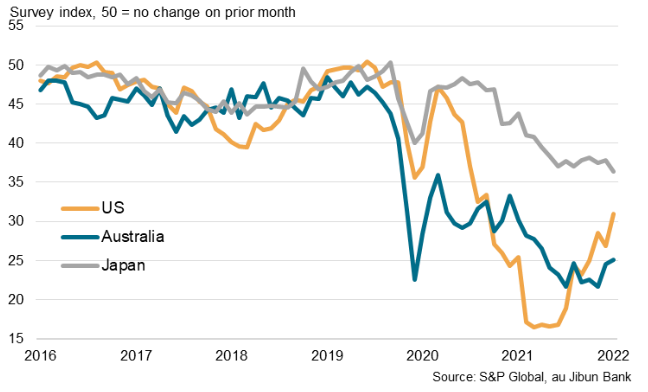
Economic impact of IPEF

Resilient Economy: One of the four key pillars for the IPEF is for a 'Resilient Economy', to build more resilient supply chains amongst the IPEF member nations. The COVID-19 pandemic has contributed to significant disruptions of global manufacturing supply chains since early 2020. In April 2022, average supplier delivery times lengthened at a rate exceeded only once – in October 2021 – in the history of the PMI surveys. The recent worsening supply chain performance globally has been driven by a severe lengthening of lead times in China.

Delivery delays also remained significant in some of the largest IPEF countries in May, including the US and Japan. Australia has also been impacted disruptions from the Russia-Ukraine war, lockdowns in China and flooding in some parts of Australia. Suppliers' delivery times continued to lengthen in May at a rate far exceeding the survey average.

Global manufacturing supplier delivery delays

US, Australia and Japan manufacturing supplier delivery times



Asia ex-Japan manufacturing supplier delivery times

Connected Economy: The US has outlined that a key objective will be to strengthen the digital economy through setting high quality standards in areas such as cross-border data flows and data localization. Addressing key issues such as data privacy and use of artificial intelligence will also be among the areas of focus. Google has stated that 78 million workers in the APAC region require digital skills training, with the potential for IPEF to contribute to co-ordinated action and strategies. Google has also advocated that IPEF could promote adoption of green digital infrastructure as well as secure digital infrastructure, such as through sound regulation of submarine cables.

Clean Economy: In line with the Biden Administration's policy decision in 2021 to rejoin the UN Paris Agreement on Climate Change and achieve net zero emissions in the US by 2050, the US will put energy transition at the forefront of its objectives for the IPEF. US policy priorities will be to work with IPEF partners on the transition to renewable energy, developing energy efficiency standards, building clean energy infrastructure and decarbonization initiatives.

Fair Economy: In line with global initiatives to achieve effective taxation, combat money laundering and deter corrupt practices, the US will also make the "Fair Economy" a key pillar for its IPEF objectives. Initiatives will include improving exchange of tax information among partners, criminalization of bribery, and implementing beneficial ownership standards to improve transparency.

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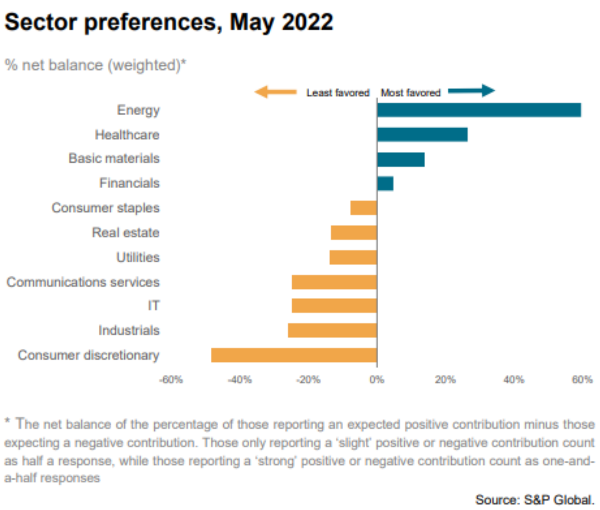

In parallel, an important global initiative supported by the US is the OECD/G20 Inclusive Framework on domestic tax base erosion and profit shifting (BEPS) agreed on 8 October 2021 on the Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy. The Two-Pillar Solution will ensure that multinational enterprises (MNEs) will be subject to a minimum tax rate of 15% and will re-allocate profit of the largest and most profitable MNEs to countries worldwide. 136 countries and jurisdictions, representing more than 90% of global GDP, have joined the Two-Pillar Solution establishing a new framework for international tax and agreed a Detailed Implementation Plan that envisages implementation of the new rules by 2023. Pillar One aims to ensure a fairer distribution of profits and taxing rights among countries with respect to the largest MNEs. Pillar Two puts a floor on tax competition on corporate income tax through the introduction of a global minimum corporate tax at a rate of 15% that countries can use to protect their tax bases.

The IPEF would become a forum for improving standards for effective taxation, combating money laundering and improving beneficial ownership standards among the IPEF partner nations.

Outlook for the IPEF

The launch of the IPEF has helped the Biden Administration to re-engage with the APAC region through a multilateral economic platform. The advantage of the IPEF open architecture is that it has allowed a number of nations that are not part of the CPTPP to become IPEF partners, notably India and Indonesia, two of the largest economies in the APAC region.

As the US and India are not members of either the CPTPP or RCEP, the IPEF multilateral platform gives these two leading global economic powers a new opportunity for multilateral engagement with many of the other economies in the APAC region, while avoiding potential policy issues that are politically sensitive domestically, such as lowering of tariff barriers.

The initial work agenda of the IPEF includes some areas of high priority for partner governments, notably climate change and the transition to clean energy. Building resilient supply chains is also an area that has become of increasing importance for many APAC governments due to the severe disruptions of critical supply chains during the COVID-19 pandemic.

Speaking at the IPEF launch, Malaysia's Senior Minister and Minister of International Trade and Industry, YB Dato' Seri Mohamed Azmin Ali, said IPEF will chart a new chapter for enhanced dialogue and consultation to advance the economic relations between the region and the US. Dato' Seri Azmin pointed out that priority should be given to supply chain resiliency, standards for the digital economy and technology as well as decarbonization.

The IPEF also has an open architecture, with the ability to incorporate additional areas of co-operation in the future. Furthermore, the number of partners that are part of the IPEF can also be expanded in future to include additional nations. President Biden said at the Tokyo launch that the IPEF will be "open to others who wish to join in the future." Also speaking at the IPEF launch, Indian Prime Minister Narendra Modi expressed India's commitment towards working with all Indo-Pacific countries for an IPEF which is both inclusive and flexible.

Since the US left the TPP, many APAC nations had wanted the US to re-engage with the APAC region through a multilateral economic framework. The IPEF is an important step forward for US re-engagement with the world's largest economic region, while also avoiding some of the political sensitivities created by the traditional free trade agreements such as RCEP and CPTPP.

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