

Week Ahead Economic Preview

Central bank meetings, US May CPI and China data in focus

3 June 2022

The week ahead finds **central bank meetings** unfolding in the **eurozone, Australia, India and Thailand** while a series of **inflation data** will be in focus, particularly **US CPI** and consumer confidence figures. **China** will also release **services PMI** and inflation data alongside **trade** numbers for May, which will be closely scrutinised as the virus situation showed early signs of improvements midway into the second quarter. Final **Q1 GDP** figures from the eurozone and Japan are also lined up in the week ahead.

US Federal Reserve Governor Christopher Waller in his speech this week struck a hawkish tone, highlighting his support for the Fed to further tighten policy rates by 50 basis points for upcoming meetings. This had reiterated the Fed's focus on inflation following the Fed minutes release last week. Certainly, findings from the latest PMI data showed US private sector expansion having been weighed by inflationary pressures while global manufacturing data reflected that supply constraints continued to exert upward pressure on costs for manufacturers. This had also been flanked by news of eurozone inflation hitting a record 8.1% in May, altogether underpinning the hawkish bias for central bankers gathering in the coming week, including the European Central Bank. Details for concluding the ECB's large-scale asset purchases and plans for raising rates at their July meetings are expected, making this one to watch. In APAC, the RBA, RBI and BoT may also raise their policy rates in reaction to recent inflationary trends.

Separately, in the data docket, US and China May inflation numbers will be in focus. Any surprises on the upside may further exert pressure on the market, especially with the consensus already pointing to a month-on-month jump for headline CPI. China's services PMI factory gate inflation will also be scrutinised amid nascent signs of easing COVID-19 disruptions. Moreover, China's May trade numbers will be one to watch after the sharp slowdown seen in April. Other economies releasing CPI figures in the coming week includes Taiwan, Thailand and the Philippines.

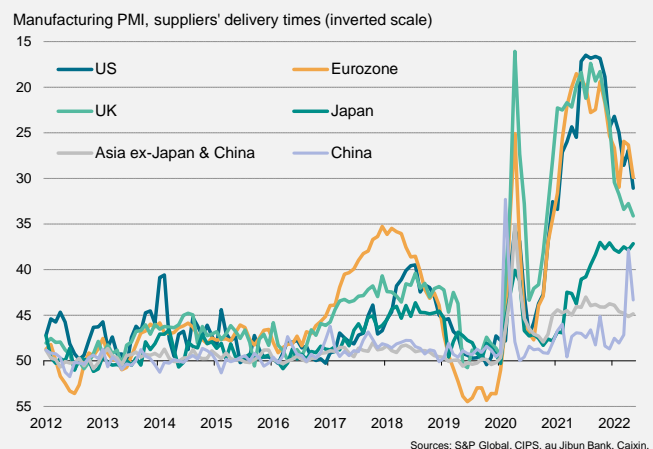
UK economy watchers will see the release of services and construction PMI surveys.

Easing supplier delays take some heat out of inflation

An encouraging signal from the May PMI surveys was an easing in the incidence of supplier delays reported in the US and Europe (see special report). Although the indices of supply chain delays generally remain worse than at any time prior to the pandemic, supplier delivery times lengthened in May at the slowest rate since January 2021 and October 2020 in the US and UK respectively, with the eurozone reporting the second-smallest lengthening since the start of 2021.

While tighter supply lines out of China were seen as the main cause of a worsening of lead-times in Japan and to a lesser extent in the rest of Asia, delivery delays also eased within mainland China, which bodes well for production capacity.

PMI supplier delay indicators



With China set to relax some of its COVID-19 restrictions in June, there is a likelihood of further improvements to the global supply situation in the coming months, which could help drive improved production gains around the world – and also take some of the heat out of prices.

However, the flip side of looser virus restrictions in China on the inflation picture will be reviving demand for many key raw materials, which could fuel another upswing in global commodity prices, notably including energy.

Key diary events

Monday 6 Jun

South Korea, Switzerland, Norway, New Zealand Market

Holiday

Hong Kong S&P Global PMI* (May)

China (Mainland) Caixin Services PMI* (May)

Thailand CPI (May)

Tuesday 7 Jun

Japan All Household Spending (Apr)

Philippines CPI (May)

Australia RBA Cash Rate (Jun)

Germany Industrial Orders (Apr)

Taiwan CPI (May)

United Kingdom S&P Global / CIPS Services PMI* (May)

United States International Trade (Apr)

Canada Trade Balance (Apr)

Wednesday 8 Jun

South Korea GDP Growth (Q1, revised)

Japan Current Account (Apr)

Japan GDP (Q1, revised)

India Repo and Reverse Repo Rate (8 Jun)

Switzerland Unemployment Rate (May)

Germany Industrial Output (Apr)

United Kingdom Halifax House Prices* (May)

Norway Manufacturing Output (Apr)

Thailand 1-Day Repo Rate

Taiwan Trade (May)

United Kingdom S&P Global / CIPS Construction PMI* (May)

Eurozone GDP (Q1, revised)

United States Wholesale Inventories (Apr)

Thursday 9 Jun

United Kingdom RICS Housing Survey (May)

China (Mainland) Trade (May)

Eurozone ECB Deposit and Refinancing Rate (Jun)

United States Initial Jobless Claims

Friday 10 Jun

China (Mainland) CPI, PPI (May)

China (Mainland) M2, New Yuan Loans, Loan Growth (May)

Malaysia Industrial Output (Apr)

Norway CPI (May)

United States CPI (May)

Canada Capacity Utilization (Q1)

Canada Unemployment Rate (May)

Canada Manufacturing Sales (Apr)

United States UoM Sentiment (Jun, prelim)

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

What to watch

North America: May CPI, June UoM sentiment

Following the May US labour market report, the May CPI reading will be hotly anticipated in the coming week. Refinitiv consensus currently points to an acceleration of CPI to 0.7% in May from 0.3% previously. This is in line with the [S&P Global Flash US Composite PMI](#) indications, which earlier pointed to further growth in cost burdens for private sector firms that have been again passed on to clients at a rapid pace. Given the Fed's focus on inflation, indications of worsening price pressures may garner further attention and policy reactions. As it is, the Fed has already indicated that more 50 basis points hikes are on the table.

Separately, the preliminary June University of Michigan Consumer Sentiment Index will be released next Friday with consensus expectations suggesting improvements. As far as the flash PMI future output index is concerned, private sector firms also reported improved confidence in May.

Europe: ECB meeting, eurozone Q1 GDP and Germany industrial orders

The ECB meets in the coming week against a backdrop of rising inflationary pressures. The market will be looking for the ECB to conclude their large-scale asset purchases and detail plans for raising interest rates in July, making this one to watch.

The UK S&P Global / CIPS Services PMI will also be released for May following the platinum jubilee weekend.

Asia-Pacific: RBA, RBI, BoT meetings, China trade and inflation data, Japan Q1 GDP, Taiwan, Thailand, Philippines CPI

Central bank meetings will be in abundance in the coming week for APAC economies. The Reserve Bank of Australia, Reserve Bank of India and the Bank of Thailand will all convene in the coming week to update monetary policy with tightening of policy rates not ruled out.

China's May trade, services PMI and inflation data will also be in focus after manufacturing PMI data showed signs of the worst being over with the recent COVID-19 lockdowns. A series of APAC CPI figures will also be in focus amid concerns over supply constraint issues which continued to plague the region.

Special reports:

Global Factory Output Falls for Second Month in May Amid China Lockdowns | Chris Williamson | [page 4](#)

Asia-Pacific Region Faces Rising Inflation Pressures | Rajiv Biswas | [page 8](#)

Recent PMI and economic analysis from S&P Global

Global	Global factory output falls for second month in May amid China lockdowns	2-Jun	Chris Williamson
	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
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 prices rebound	27-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:

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

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Special Focus

Global Factory Output Falls for Second Month in May Amid China Lockdowns

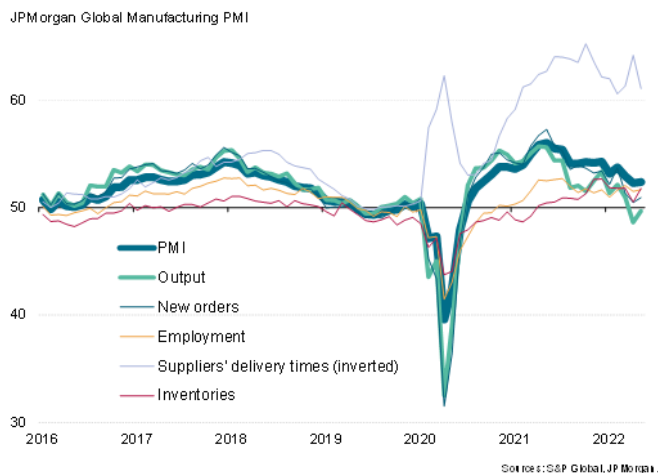
The JPMorgan Manufacturing Purchasing Managers' Index™ (PMI™), compiled by S&P Global, inched up from 52.3 in April to 52.4 in May, though remained at the second-lowest level recorded over the past 20 months. The subdued performance of the goods-producing sector was led by a slight decline in production for a second successive month, thanks principally to a further marked drop in output in mainland China amid ongoing lockdown measures.

Excluding China, global output rose solidly, helped by another strong US performance. That said, the rate of increase weakened since April, in part due to supply constraints, which in turn exerted further upward pressure on producers' input costs. At the global level, the incidence of supply chain delays and input cost inflation eased compared to April, however, helping to alleviate materials price inflation.

Prospects of improved global manufacturing performance therefore lie to a large degree in the hands of China's authorities and their approach to COVID-19, and signals of looser restrictions bode well for global supply, but in the meantime business optimism has sunk globally to the lowest since July 2020 amid concerns over supply constraints, soaring prices, the energy shock and future demand growth.

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



Global factory output falls

The weakest of the PMI's five components in May was again the Output Index, which edged up from 48.6 in April to 49.7 but remained below the 50.0 no change level to thereby register a second successive monthly fall, albeit only marginal, in worldwide factory production. The second quarter has consequently so far seen the worst global manufacturing performance since the second quarter of 2020, when initial COVID-19 lockdowns had hit worldwide output.

Global manufacturing output



Global trade flows meanwhile deteriorated, with new export orders dropping in May at a rate not seen since July 2020, down for a third straight month.

Global exports

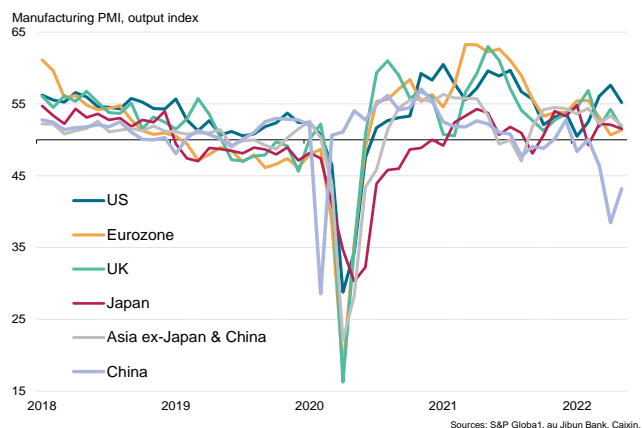


Mainland China reports further steep production decline

A key cause of the drop in output was a sharp downturn in factory production within mainland China for a third successive month, exacerbated in Europe by the Ukraine war. Although China's reported output drop in May was less

steep than that seen in April, it was still the third-quickest recorded since the height of the global financial crisis, reflecting ongoing efforts by the Chinese authorities to contain the spread of COVID-19. The decline in output seen across China in recent months is notable in being more severe than that seen in the early months of the pandemic by virtue of it being more protracted.

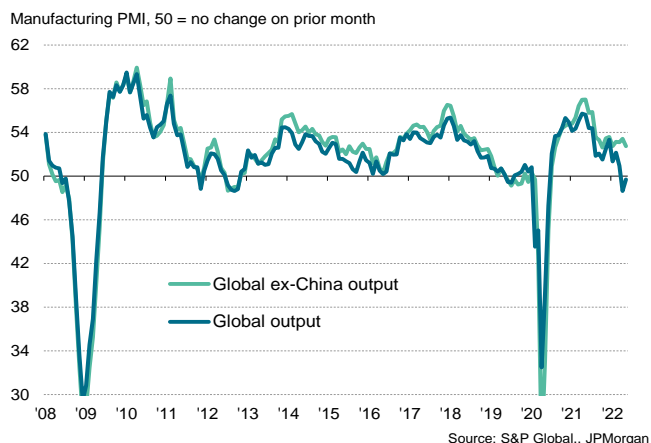
Manufacturing output by major economy



Growth slows outside of China but retains encouraging resilience

Excluding mainland China, global factory output continued to grow in May. The global-excluding-China PMI Output Index reading of 52.7 was in fact only marginally below the pre-pandemic average of 53.0. However, growth outside of China was fueled primarily by the US, with moderating and weak expansions seen in the UK, Japan and the rest of Asia as a whole, and the eurozone continuing to report only sluggish growth.

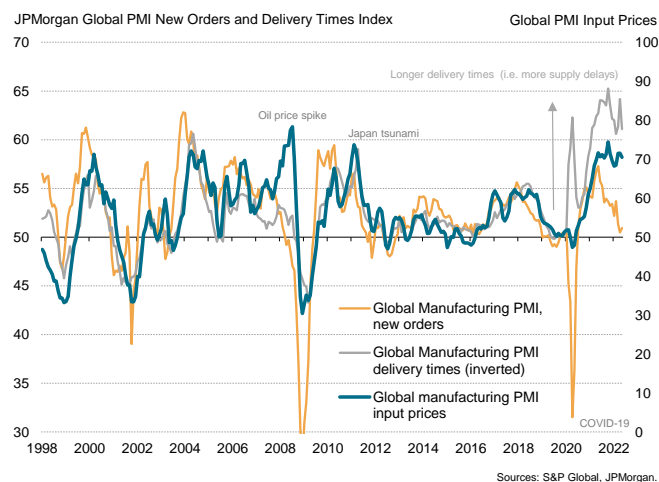
Global output excluding China



Shortages continue to drive up prices

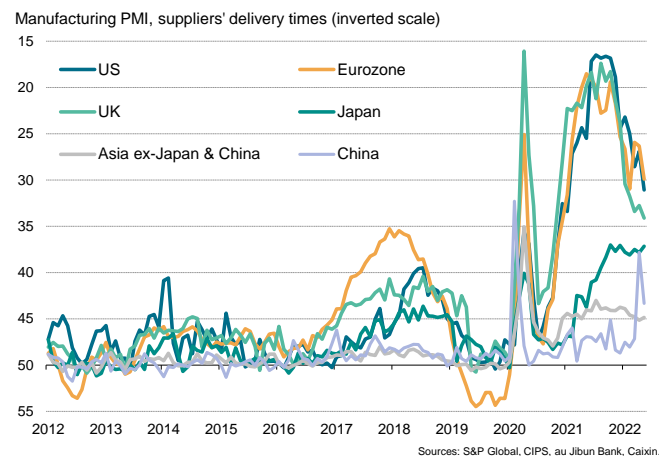
Further negative news came from the export decline feeding though to a picture of near-stalled overall order books for a second successive month, alongside another month of supplier delivery delays running at levels unprecedented prior to the pandemic. These delivery delays, although less pronounced than in April, fueled another steep rise in worldwide manufacturing raw material prices. The resulting rate of inflation of firms' material costs slowed slightly compared to April, thanks mainly to the recent slowing of demand, but remained among the highest seen over the past decade.

Global supply delays, demand and prices



Supply chain delays ease in the US and Europe

Manufacturing supplier delivery delays



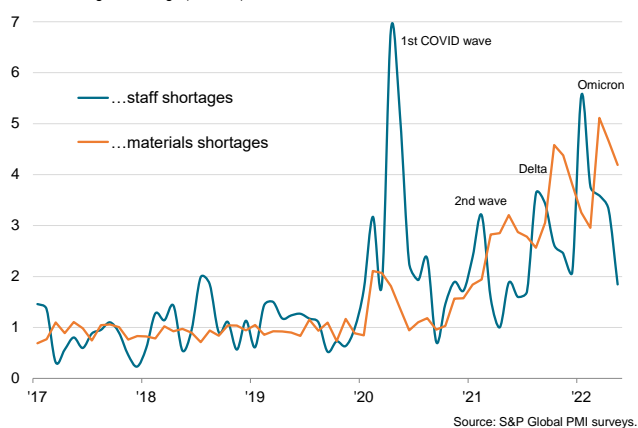
The incidence of supplier delays varied by region, however, with an encouraging reduction in the number of reported

delays evident in the US and Europe, which have been the worst affected in recent months. Supplier delivery times lengthened at the slowest rate since January 2021 and October 2020 in the US and UK respectively, with the eurozone meanwhile reporting the second-smallest lengthening since the start of 2021.

Impact of supply-side constraints on output

The number of manufacturers globally that reported materials shortages to have led to a reduction in production also fell in May, albeit remaining elevated at over four times the long-run average. At the same time, the diminishing impact of the Omicron wave on labour availability was evident, as the number of companies around the world reporting that production had fallen as a result of labour shortages fell to its lowest since July 2021, now running at just over twice the long-run average compared to a factor of almost six at the height of the Omicron wave at the start of the year.

Global manufacturers reporting lower output due to ...
Index, 1 = long run average (2005-20)



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, but with labour supply issues receding and material delays becoming less of an issue, and notably less widespread in the US and Europe compared to the average seen in 2021. These factors should in turn help to alleviate some of the elevated materials price pressures seen in recent months.

Future expectations at 22-month low

Looking ahead, manufacturing optimism fell to its lowest since July 2020, hinting that output growth could slow further in coming months. Companies reported ongoing concern over the global supply and energy situations amid the twin

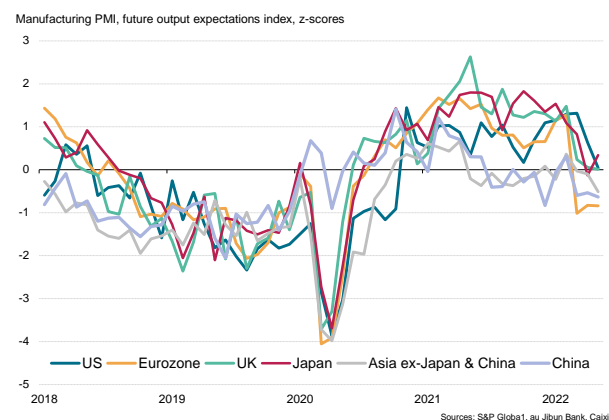
headwinds of the Ukraine war and China's lockdowns, with the associated surge in cost pressures and potential for more aggressive monetary policy tightening adding further downside risks to the outlook.

Global manufacturing future output expectations



Compared to long-run averages, business confidence is especially weak in the eurozone, reflecting the proximity of the Ukraine war and associated energy shock. Sentiment is also below normal in both China and the rest of Asia excluding Japan, the latter seeing improved optimism in May amid hopes of looser COVID-19 restrictions and export gains arising from a weakened yen. However, optimism in the US has fallen to a level merely in line with the long-run average, hinting that the recent robust US production performance could be on the wane.

Future output expectations by major economy

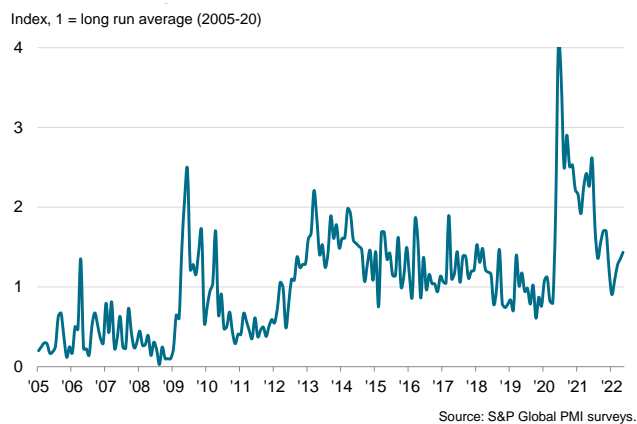


Outlook

With China reportedly set to ease some of its COVID-19 restrictions in June (announced after the May PMI data were collected), there is a likelihood of further improvements to the global supply situation in the coming months, which could help drive further production gains around the world and also

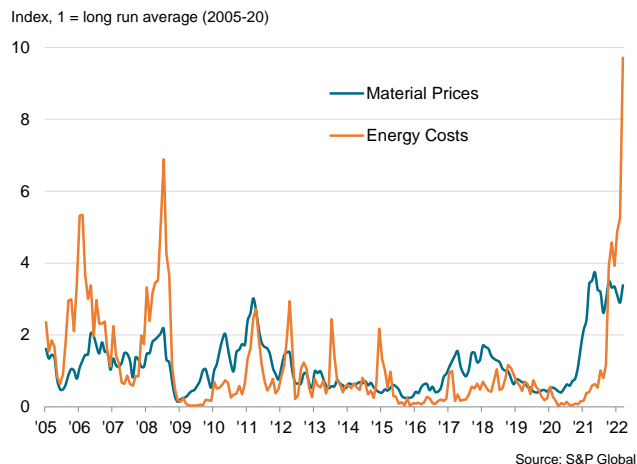
take some of the heat out of prices. However, the flip-side of looser virus restrictions in China on the inflation picture will be reviving demand for many key raw materials, which could fuel another upswing in global commodity prices.

Global manufacturers reporting higher orders due to demand recovery



Russia's invasion of Ukraine meanwhile shows no signs of ending soon and is continuing to disrupt supply chains in Europe, notably for food and energy, exerting sustained upward pressure on prices.

Manufacturers globally reporting higher costs due to rising...



Upcoming data will therefore be important in assessing the interplay of supply and demand on prices, as well as the extent to which the global manufacturing upturn has been undermined by weakened business optimism. The next flash PMI data will be published on 23rd June.

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Special Focus

Asia-Pacific Region Faces Rising Inflation Pressures

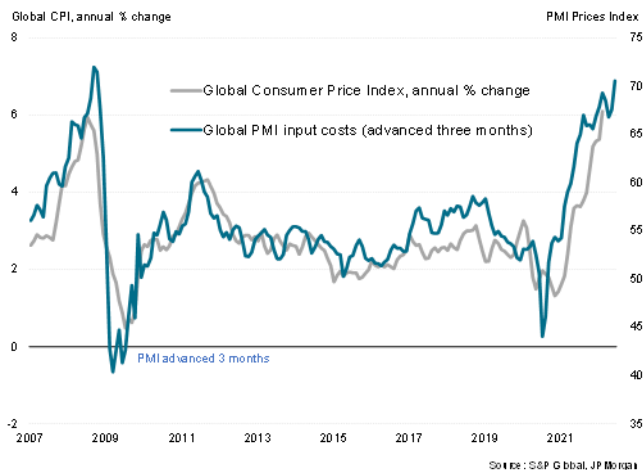
The Asia-Pacific (APAC) region has been hit by the impact of rising world energy and food prices during the first half of 2022. A key transmission channel is through higher world prices for a wide range of mineral and agricultural commodities due to disruptions caused by the Russia-Ukraine war and related sanctions on Russia. This is driving up inflation pressures as well as import bills for many APAC nations reliant on commodity imports, notably due to surging oil, LNG and coal prices. Higher world food prices are also contributing to inflationary pressures for some APAC developing countries.

In response to rising domestic inflation pressures, a growing number of APAC central banks have tightened monetary policy during recent months, with further monetary policy tightening expected from many APAC central banks during the second half of 2022.

APAC Inflation has been driven by rising world commodity prices

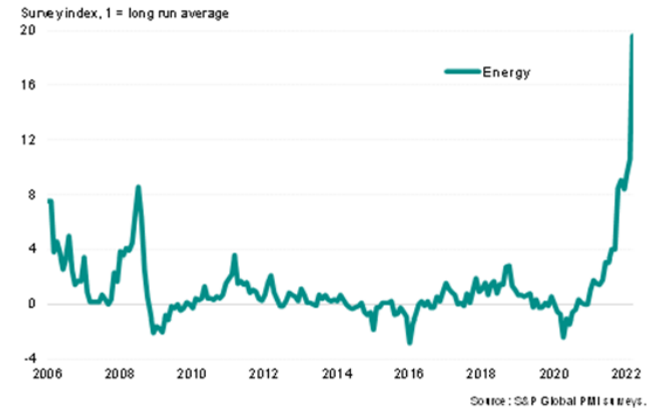
Global inflation pressures have intensified during the first half of 2022 due to the impact of the Russia-Ukraine war on world commodity prices, notably for energy and food. The latest JP Morgan Global Manufacturing PMI survey showed that inflationary pressures remained elevated in May, with rates of increase in input costs and selling prices among the highest in the survey's history.

Global composite PMI input prices and CPI



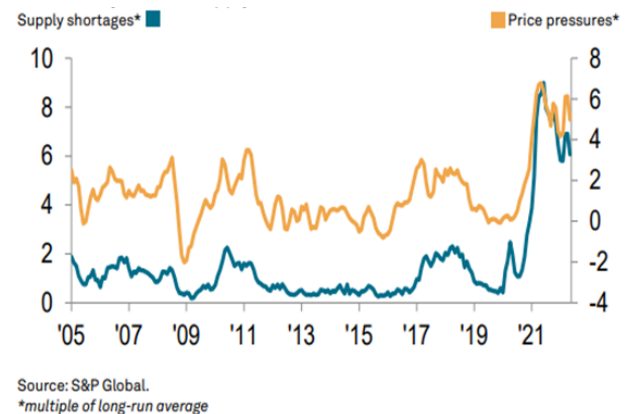
Surging prices for oil, natural gas and coal have been key drivers of rising input costs for many nations. The decision by EU leaders at the end of May to phase out 90% of Russian oil imports by the end of 2022 has further boosted world oil prices. Sharp increases in agricultural commodity prices for a wide range of commodities, including wheat, cotton, edible oils and sugar, have also contributed to the upturn in inflation pressures. This adds to inflationary pressures caused by global supply chain disruptions due to the COVID-19 pandemic during 2021, including to ports and shipping.

Global companies reporting higher energy prices



The Global PMI™ Commodity Price & Supply Pressures Index by S&P Global signalled that commodity prices in May were historically elevated, rising at five times the normal speed. Reports of higher prices for semiconductors, electrical items and transport remained among the highest in the history of the survey. The latter was also partially the result of a rise in global reports of transport shortages, which were the joint-highest in the survey history. Some firms surveyed reported that higher freight costs were exacerbated by strict COVID-19 restrictions in mainland China.

Commodity Price & Supply Pressures: All Items



Rising inflation pressures in ASEAN

Although inflationary pressures in most ASEAN economies were 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 surged.

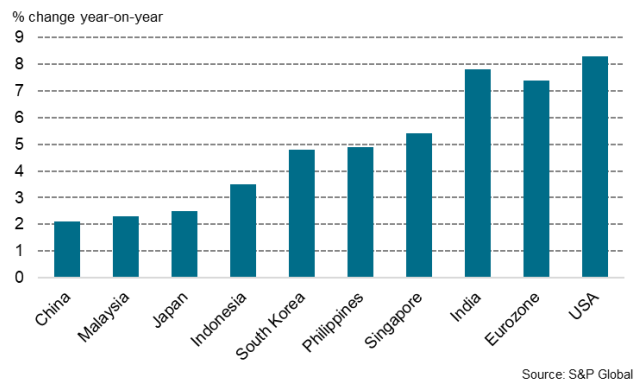
A growing number of ASEAN central banks have tightened monetary policy during the first half of 2022. The Monetary Authority of Singapore has already taken tightening measures in early 2022, with the headline CPI inflation rate having risen to 5.4% year-on-year (y/y) in April.

In Malaysia, domestic economic growth momentum has improved during the first half of 2022. Consequently, Malaysia's central bank, Bank Negara Malaysia (BNM), decided to begin reducing the degree of monetary accommodation. At its 11th May meeting, the Monetary Policy Committee decided to increase the Overnight Policy Rate (OPR) by 25 basis points (bps) to 2.00%. Despite the upturn in world commodity prices due to the Russia-Ukraine war, Malaysian CPI inflation pressures still remain contained, with the April CPI reading up only 2.3% y/y.

In its May Monetary Policy Statement, BNM assessed that headline inflation is projected to average between 2.2% - 3.2% in 2022. BNM assessed that given the improvement in economic activity amid lingering cost pressures, underlying inflation, as measured by core inflation, is expected to trend higher to average between 2.0% - 3.0% in 2022.

Inflation pressures have also been rising in the Philippines, with the CPI rising to 4.9% y/y in April. Responding to rising inflation and strong GDP data for the first quarter of 2022, the Monetary Policy Board of the Philippines central bank, Bangko Sentral ng Pilipinas (BSP), hiked its policy rate by 25bps to 2.25% on 19th May, the first rate hike since 2018.

APAC CPI inflation compared to US and EU



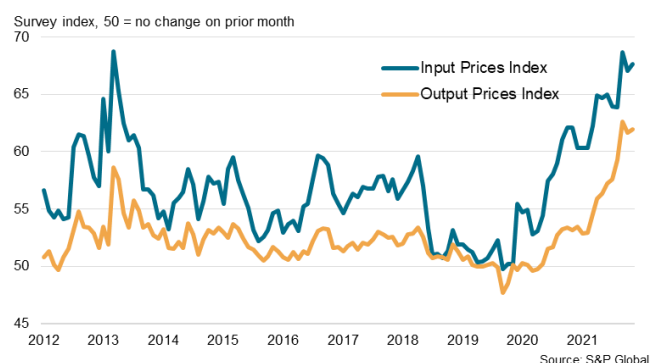
In Indonesia, CPI inflation pressures have also been gradually increasing, although the headline CPI inflation rate of 3.47% in April still remains within the BI 3.0%±1% CPI inflation target corridor. Consequently, BI kept its benchmark 7-day reverse repo policy rate unchanged at its May monetary policy meeting. However, BI has raised the reserve requirement by 1.5% to 5.0% on 1st March 2022 with a further 1.0% increase to 6.0% on 1st June 2022.

In order to curb domestic food price inflation pressures, Indonesia 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 for essential food products such as cooking oil. Crude palm oil prices had already been rising sharply during late 2021 and early 2022. However, the disruption of Ukrainian sunflower oil exports added to global demand pressures for palm oil as a substitute edible oil. The Indonesian restrictions on exports of palm oil were lifted in mid-May as palm fruit prices eased.

The Bank of Thailand is also confronted with rising CPI inflation pressures amidst a weak economic recovery, with annual CPI inflation in April having risen to 4.7% y/y.

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 have persisted. Companies surveyed reported that part of the cost burden was shared with clients through higher output prices.

ASEAN Manufacturing PMI Input and Output Prices



South Asian inflation pushed higher by energy and food prices

Significant and protracted energy price rises due to disruptions to world oil and gas markets as a result of the Russia-Ukraine war have created an important macroeconomic risk to the Indian economy. India imports 85% of its total oil requirements, and also imports LNG as well as coal. The cost of Indian oil imports has already surged even

prior to Russia's invasion of Ukraine. India's oil imports in the 2021-22 fiscal year reached USD 119.2 billion, almost doubling compared with USD 62.2 billion for the 2020-21 fiscal year.

Higher prices for energy and food commodity imports are driving up Indian input price and CPI inflation. India's CPI inflation rate has risen from 5.6% at the end of 2021 to 7.8% in April 2022, mainly reflecting higher oil and food prices. Food price inflation rose to 8.4% y/y in April, with vegetables prices up 15.4% y/y.

The S&P Global India Manufacturing PMI survey for May showed continued input price pressures in May, with companies reporting higher prices for electronic components, energy, freight, foodstuff, metals and textiles. Reflecting rising input cost pressures, output prices rose at their fastest pace since October 2013.

In response to rising inflation and improving growth momentum, the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) tightened monetary policy by raising the policy repo rate by 40bps to 4.40% on 4th May. The MPC assessed that there were significant upside risks to the inflation trajectory set out in their April statement.

Elsewhere in South Asia, several fragile developing countries – Pakistan and Sri Lanka – that have weak external accounts, large external debt burdens and low foreign exchange reserves, are already experiencing social unrest, partly reflecting the impact of rising energy and food prices. In Sri Lanka, the Colombo CPI index rose by 39.1% y/y in May 2022, with food price inflation up 57.4% y/y. In addition to the severe impact of surging food price inflation, Sri Lanka is also facing food shortages due to the decision of their government to stop importing chemical fertilizers in 2021, which has hit crop yields.

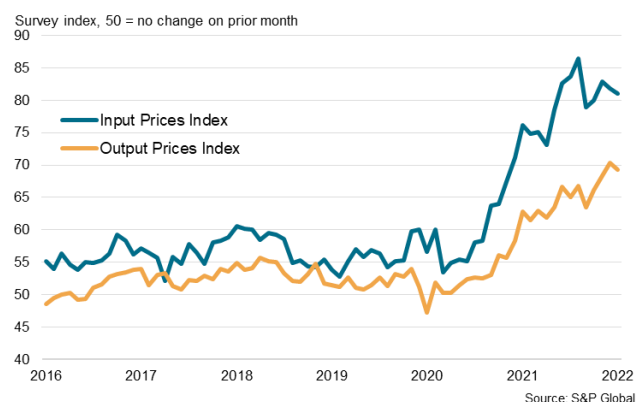
Australia and New Zealand tighten monetary policy

In Australia, the CPI inflation rate for the first quarter of 2022 rose to 5.1% y/y and was up 2.1% quarter-on-quarter (q/q). On 3rd May, the Board of the Reserve Bank of Australia (RBA) decided to tighten monetary policy by 25bps. In his Statement on the Monetary Policy Decision, RBA Governor Philip Lowe said that inflation has picked up significantly and by more than the RBA had expected. Governor Lowe stated that a 'further rise in inflation is expected in the near term, but as supply-side disruptions are resolved, inflation is expected to decline back towards the target range of 2% - 3%. The central forecast for 2022 is for headline inflation of around 6 per cent and underlying inflation of around 4% per cent.' The RBA inflation forecast is based on assumptions of further monetary tightening. An important factor in the RBA

assessment of the outlook for inflation is that wages growth is picking up in a tight labour market, in comparison with relatively subdued wages pressures in 2021. In April 2022, the Australian unemployment rate fell to 3.9%, which was the lowest rate since August 1974.

The latest S&P Global Australian Manufacturing PMI for May showed that both input costs and output prices continued to rise at rates amongst the fastest in their respective survey histories. Higher raw material, energy and transportation costs were some of the items contributing to the increase in overall input costs

Australia Manufacturing PMI Input and Output Prices Chart



In New Zealand, the CPI inflation rate reached a 30-year high of 6.9% in the first quarter of 2022. The Monetary Policy Committee (MPC) of the Reserve Bank of New Zealand – Te Pūtea Matua raised the Overnight Cash Rate by 25bps to 2.0% on the 25th May in response to rising inflation pressures. This followed a rate rise of 25bps at their April meeting, with the MPC agreeing to continue to raise the policy rate to a level that will bring CPI inflation to within the target range.

North Asia

CPI inflation pressures in China have remained contained, with the CPI up 2.1% y/y in April. This remains well below the Chinese government's annual target for 2022 for CPI inflation to average around 3%. Producer price inflation has been rising at a more rapid rate over the past twelve months, though the rate of increase has moderated from 13.5% y/y in October 2021 to 8.0% y/y in April 2022.

By comparison, the Caixin China Manufacturing PMI survey for May indicated that output prices have started declining, dropping to its lowest since April 2020 due to weak market demand. Due to the sharp slowdown in economic activity during recent months due to pandemic-related restrictive measures, China's State Council has indicated that monetary and fiscal policy tools would be used to stimulate economic

growth. On 25th April, the People's Bank of China (PBOC) cut the reserve requirement ratio by 25bps for all banks, followed by a cut in the 5-year loan prime rate by 15bps from 4.6% to 4.45% on 20th May.

In Japan, CPI inflation has picked up to 2.5% y/y in April, with the core CPI at 2.1% y/y, the first time it has exceeded the Bank of Japan's target of 2.0% since March 2015. The Bank of Japan (BOJ) has stated that it will continue expanding the monetary base until the year-on-year rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds 2% and stays above the target in a stable manner. In its April 28th Statement on Monetary Policy, the BOJ also expects short- and long-term policy interest rates to remain at their present or lower levels.

The latest May survey data from the au Jibun Bank Japan Manufacturing PMI signalled further rises in average cost burdens among Japanese manufacturers. The rate of input price inflation was substantial and the fourth-quickest in the survey history. Firms continued to partially pass on costs to clients to protect margins, as output prices rose at a further marked rate.

Outlook

Global transmission effects through higher prices for energy, metals and agricultural commodities are impacting APAC economies, pushing up inflation and increasing import costs, notably for Asian energy-importing nations. Supply chain disruptions have also pushed up prices for a range of key goods and services, including semiconductors, electrical items, autos and transport.

The near-term outlook is for further monetary policy tightening by many APAC central banks during the second half of 2022, reflecting the upturn in inflation pressures due to high global commodity prices and surging raw materials costs, as well as continuing supply chain disruptions.

There are still considerable downside risks to the global and APAC outlook from China's slowdown and rising global inflation pressures. The Russia-Ukraine war also remains an important downside risk, with potential for further dangerous escalation of the geopolitical confrontation between military powers in Europe.

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