

# Week Ahead Economic Preview

Fed FOMC, BoE, BoJ meetings, US and China May data

10 June 2022

Central bank meetings will be in focus in the coming week with the **US Fed**, the **Bank of England** and **Bank of Japan** all due to update their monetary policy decisions in the coming week. In the data docket, US retail sales, industrial production and PPI data will be watched midway into the second quarter. Likewise in China, where retail sales and industrial output figures will be released. In the UK, April GDP data and the monthly labour market report will be eagerly awaited.

Following the US CPI data release this week, the Fed's FOMC meeting will be the highlight in the coming week. Market sentiment remains weak at present amid concerns over stubborn inflation and the impact of high prices on growth, with recent US PMI data pointing to slowing business activity amid rising prices and softer demand. While a 50 basis point hike appears to be the forgone conclusion at this point according to the CME FedWatch tool, the Fed's rhetoric and projection will be eagerly followed for indications on the path forward and the resultant impact that will play into growth forecasts.

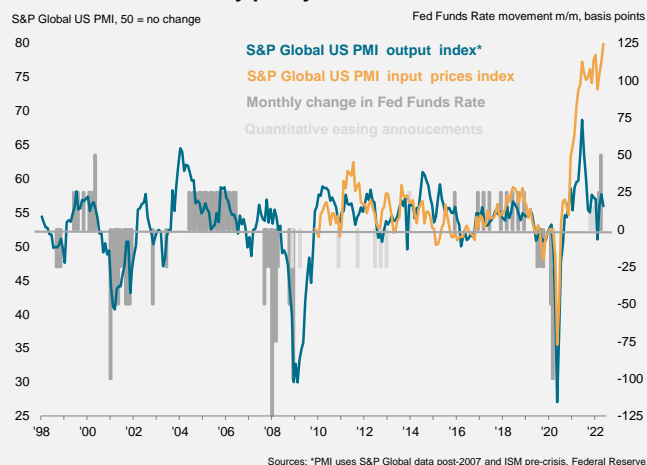
Meanwhile the UK, faced with slowing growth according to the S&P Global / CIPS UK PMI, may see the Bank of England take a more cautious 25 basis point hike amid fears of tipping the economy into recession. For the Bank of Japan, despite USD/JPY hitting a two-decade high, driven by yield differentials, any lifting of interest rates is not expected. Japan had also only recently seen [growth catching up towards other developed world economies](#), after virus restrictions were gradually eased.

A busy week of economic releases also brings retail sales and industrial production data from the US and China, two countries running at differing speeds in May. While some slowdown in the US may be the case amid cost pressures, a slower deterioration of conditions had been seen for mainland China in May's PMI surveys which, if supported by the official data, could see inventor focus shift more positively towards China, and also anticipate some easing of global supply constraints.

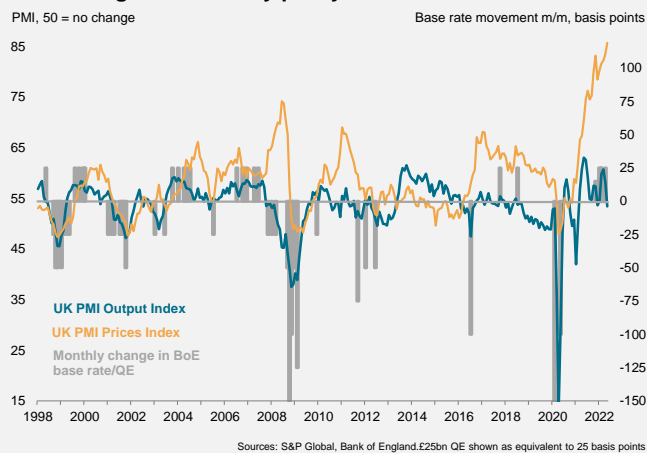
## BoE and Fed policy meetings in focus

Policy announcements are due in the coming week from the US FOMC and the Bank of England. A 50 basis point hike is penciled in for the FOMC as policymakers seek to rein-in inflation at a time of still-robust business activity growth. In the UK, the policy decision is less clear-cut. While inflation is likewise at a multi-decade high, UK growth is faltering, meaning there's a greater risk that tighter policy could spark a recession in the UK compared to the US.

### United States monetary policy and PMI indicators



### United Kingdom monetary policy and PMI indicators



## Key diary events

### Monday 13 Jun

*Australia Market Holiday*

United Kingdom monthly GDP, incl. Manufacturing, Services and Construction Output (Apr)

United Kingdom Goods Trade Balance (Apr)

Norway GDP (Apr)

India Industrial Output (Apr)

### Tuesday 14 Jun

Australia Home Price Index (Q1)

Germany HICP (May, final)

United Kingdom Labour Market Report (May)

India CPI, WPI (May)

Germany ZEW Economic Sentiment (Jun)

United States PPI (May)

Canada Manufacturing Sales (Apr)

### Wednesday 15 Jun

New Zealand Current Account (Q1)

Japan Machinery Orders (Apr)

South Korea Export and Import Growth (May)

China (Mainland) Retail Sales, Industrial Output, Urban Investment (May)

Indonesia Trade (May)

Eurozone Industrial Production (Apr)

Eurozone Reserve Assets Total (May)

Canada House Starts (May)

United States Retail Sales (May)

United States Business Inventories (Apr)

United States Fed FOMC Meeting

### Thursday 16 Jun

Australia RBA Monetary Policy Statement (Jun)

New Zealand GDP (Q1)

Japan Trade (May)

Australia Unemployment Rate (May)

Switzerland SNB Policy Rate (Q2)

United Kingdom BOE Bank Rate (Jun)

United States Building Permits (May)

United States Housing Starts (May)

United States Initial Jobless Claims

Canada Wholesale Trade (Apr)

Taiwan Discount Rate (Q2)

### Friday 17 Jun

New Zealand Manufacturing PMI (May)

Singapore Non-Oil Exports (May)

Eurozone HICP (May, final)

Canada Producer Prices (May)

United States Industrial Production (May)

Japan BOJ Rate Decision

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

## What to watch

### North America: Fed FOMC meeting, US retail sales, industrial production and PPI data

The June Fed FOMC meeting unfolds with the Fed's policy decision, post-meeting statement and projections all due Wednesday. A 50 basis point hike is widely expected and has been supported by recent Fed officials' rhetoric. This is against the backdrop of elevated US inflation in April with the latest [S&P Global US Composite PMI](#) data likewise pointing to further rapid price gains in May.

Growth figures will be in focus after Fed chair Jerome Powell commented in May that the central bank wants to see economic growth slowing in the attempt to tame inflation. US data of interest in this respect includes retail sales and industrial production as well as housing market data.

### Europe: BoE meeting, UK April output and labour data, German ZEW survey

The Bank of England also convenes in the coming week and markets are fully pricing-in a 25 basis point rise in June with further hikes expected drive rates up to 2.5% from the current 1% by the end of the year. However, UK recession risks have risen, adding uncertainty to the rate path as weaker growth will help to tame inflation. This also comes after private sector output growth slowed for a second month running in May, according to the [S&P Global / CIPS UK PMI](#) data. Fresh UK GDP data for April and a full round-up of labour market data, including wage growth, will therefore be important to watch for any signs of growth faltering and second-round inflation effects.

### Asia-Pacific: BoJ meeting, China retail sales and industrial output figures, India inflation data

The Bank of Japan also updates their monetary policy decision. With the BoJ sticking to keeping interest rates low while developed world central banks, including the Fed, tightens monetary policy, currency fluctuations had been in focus. How the BoJ positions themselves in such an environment will be in focus.

Other key data due includes China's May retail sales and industrial output figures after PMI data showed improvements in readings, albeit in contraction territory.

## Special reports:

**Global Price Pressures Hold Near Record High Amid Unprecedented Rise in Service Sector Costs** | Chris Williamson | [page 4](#)

**APAC Electronics Sector Faces Headwinds from Surging Input Prices and Supply Chain Delays** | Rajiv Biswas | [page 8](#)

## Recent PMI and economic analysis from S&P Global

Global	<a href="#">Global price pressures hold near record high amid unprecedented rise in service sector costs</a>	8-Jun	Chris Williamson
	<a href="#">Global sector PMI data show economic growth being led by surging demand for consumer services, while banking and auto makers see steepest declines</a>	7-Jun	Chris Williamson, Jingyi Pan
	<a href="#">Global growth inches higher in May as loosened COVID restrictions boost demand for services and downturns ease in China and Russia</a>	7-Jun	Chris Williamson
	<a href="#">Global factory output falls for second month in May amid China lockdowns</a>	2-Jun	Chris Williamson
	<a href="#">Headwinds stifle developed world expansions in May</a>	24-May	Chris Williamson
	<a href="#">Inflation pressures and GDP resilience under scrutiny with May flash PMIs</a>	20-May	Chris Williamson
	Europe	<a href="#">Weak eurozone PMI readings signal second quarter manufacturing downturn</a>	2-Jun
<a href="#">UK economy slows to a crawl in May as inflation pressures hit new high</a>		24-May	Chris Williamson
<a href="#">Eurozone economy shows resilience in May thanks to buoyant service sector, as price pressures ease from April high</a>		24-May	Chris Williamson
Asia-Pacific	<a href="#">Reduced COVID-19 impact supports services growth in Japan and Australia but manufacturing sector under pressure from supply constraints</a>	24-May	Jingyi Pan
Commodities	<a href="#">Weekly Pricing Pulse: Commodity prices rebound</a>	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](#)

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Special Focus

# Global Price Pressures Hold Near Record High Amid Unprecedented Rise in Service Sector Costs

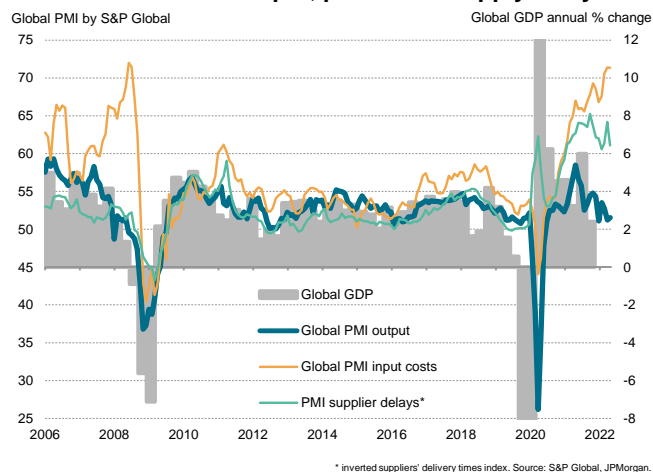
The latest PMI data compiled for JPMorgan by S&P Global revealed an unwelcome mix of sluggish global economic growth and soaring business costs in May. Although global supply chains showed tentative signs of healing, taking some pressure off raw material cost inflation, May saw service sector cost inflation hit a new all-time high as companies struggled amid tight labour markets and energy prices surged higher. Worryingly, the steepest rise of all was recorded for food manufacturing, where the rate of cost inflation was at an unprecedented high to suggest that the cost-of-living crisis is showing no signs of abating yet.

Developments in China and Ukraine meanwhile added uncertainty to the inflation outlook, albeit with risks tilted towards persistent elevated inflation.

The following survey data reflect information provided by panels of over 30,000 companies in 45 countries and tell the story of the current inflation picture in a dozen key charts.

## Subdued growth and soaring costs

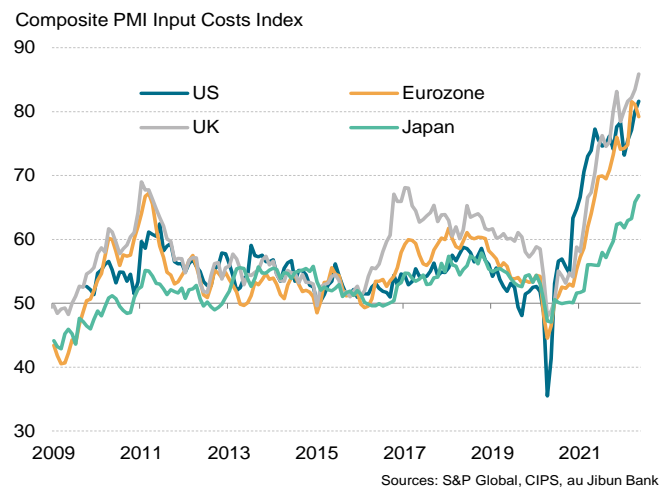
Chart 1: Global PMI output, prices and supply delays



Although global output growth picked up slightly in May, it remained at one of the weakest levels seen so far in the pandemic recovery period, according to S&P Global's PMI business survey data. At the same time, the survey's gauge

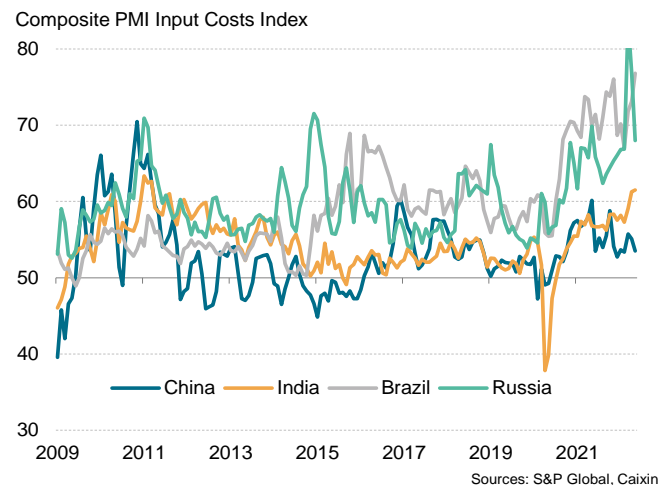
of input cost inflation hit the second highest since the commodity price surge of 2008-09, easing only marginally from April's peak.

Chart 2: Input costs in major developed economies



While the UK and US are reporting the steepest cost increases of the world's major economies, with new record rates of inflation witnessed in May, costs are also rising at unprecedented rates in Japan and Brazil and at near-record rates in the eurozone, India and Russia, albeit with the eurozone and Russia reporting easing in their rates of inflation. Meanwhile price pressures remained relatively subdued in China, linked to low demand arising from lockdowns and reports of government price interventions.

Chart 3: Input costs in major emerging markets

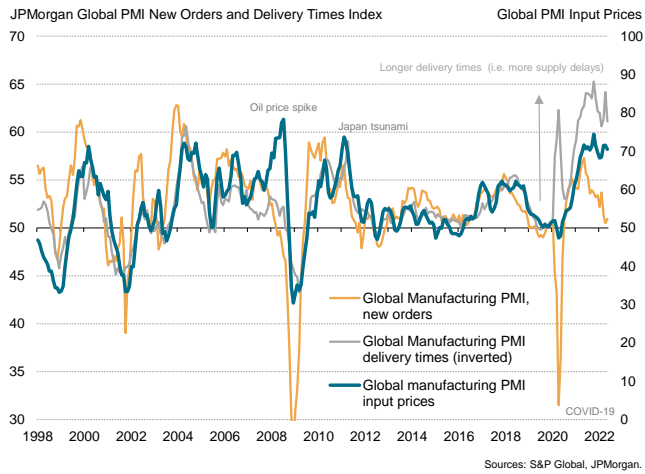


## Potential peak in manufacturing cost growth

The path of inflation by sector has been notable over the pandemic. Price rises were initially led by manufacturing,

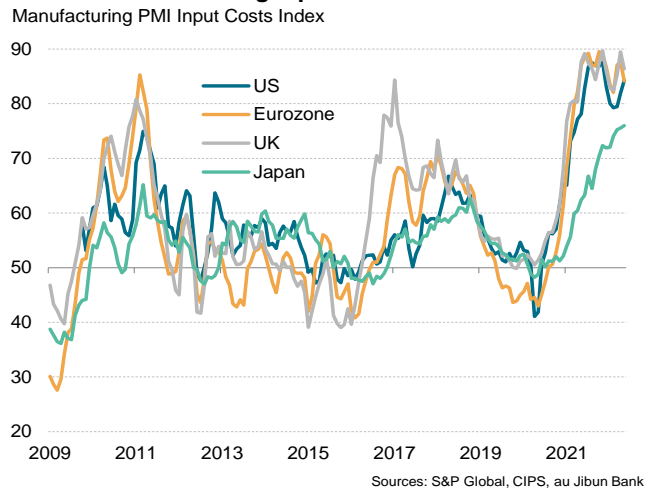
with surging industrial material prices stemming from a combination of supply bottlenecks and buoyant demand in 2020 and much of 2021. In recent months, manufacturing input cost inflation remained elevated, but has shown signs of levelling off, and even easing slightly, due to a peaking in the number of supply delays and a commensurate cooling of demand.

**Chart 4: Manufacturing prices, supply and demand**

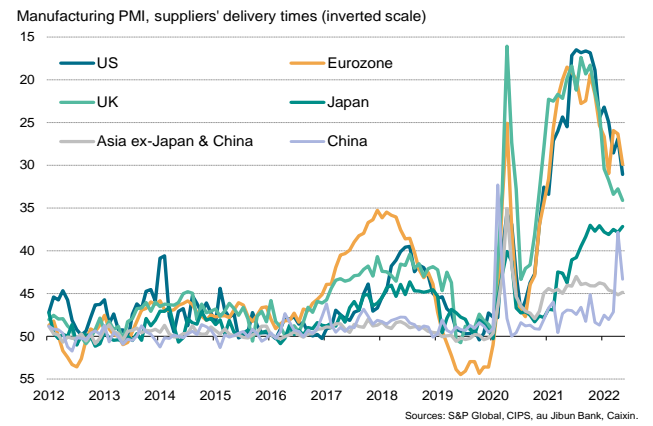


Manufacturing input cost inflation remained highest in Europe and the US (see chart 5), where supply chains delays also remained the most widely reported (see chart 6). However, there has been a notable reduction in the number of supply delays reported in recent months in the US, eurozone and UK compared to peaks seen in 2021, which helped bring raw material inflation rates down from 2021 peaks. It is a different situation in Japan, however, and many other Asian economies, where supply chain disruptions emanating out of China's recent lockdowns have caused unprecedented supply delays in recent months and a further acceleration of input cost inflation.

**Chart 5: Manufacturing input costs**



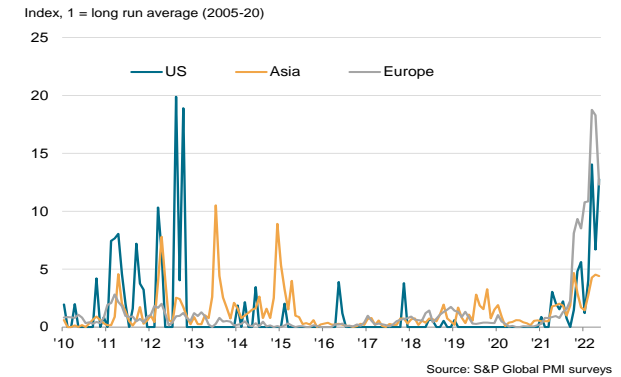
**Chart 6: Manufacturing supply chain delays**



**Energy costs bring new pressures**

**Chart 7: Energy prices in manufacturing**

**Manufacturers reporting higher costs due to rising energy prices**



While supply chains have shown signs of taking some heat out of factory input costs in recent months, energy prices have added to cost pressures, notably in Europe and the US, the latter feeling the heat more than Europe in May (see chart 7).

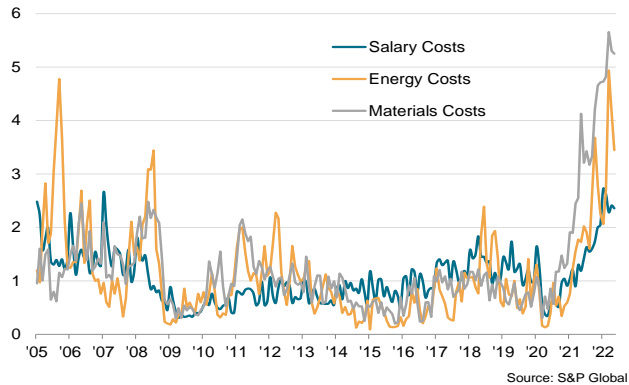
Energy prices are meanwhile also causing major cost concerns in the service sector, which reported upward pressures from material prices and staff costs. All three factors have driven service sector costs up by degrees rarely seen since data were first available in 2005 (see chart 8).

**Continued...**

**Chart 8: Service sector cost drivers**

**PMI services respondents reporting higher costs due to rising ...**

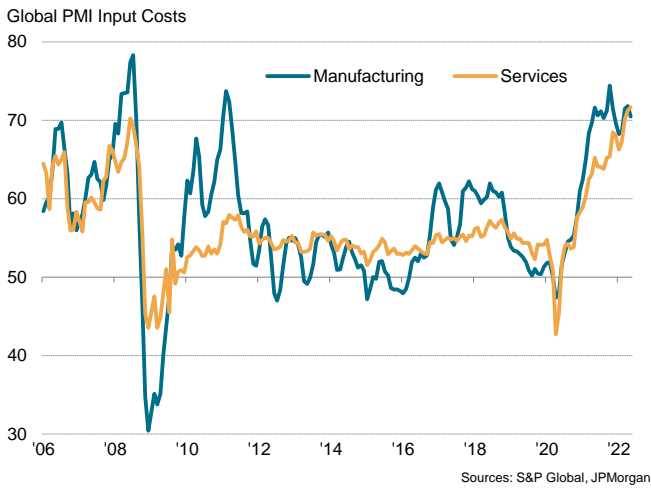
Index, 1 = long run average (2005-20)



**Service sector input cost inflation exceeds that of manufacturing**

As a consequence, May saw service sector inflation measured globally exceed that of manufacturing for the first time in almost two years, with services costs rising at the steepest rate ever recorded by the PMI surveys (chart 9).

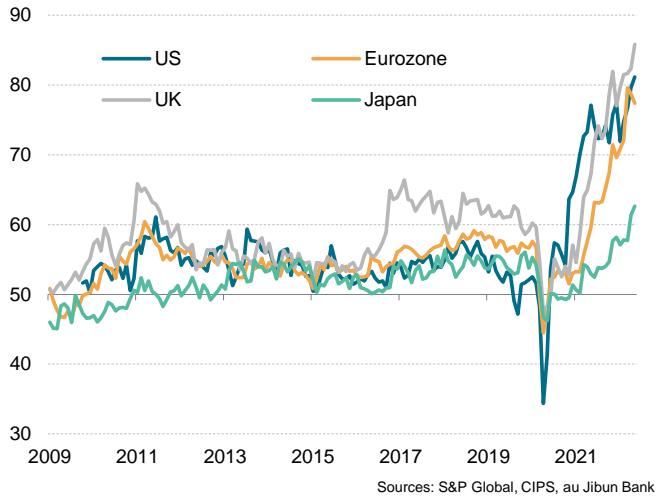
**Chart 9: Global input price inflation by sector**



Of the major developed economies, the UK reported the steepest rise in service sector costs as the rate of inflation hit a new all-time high. This was followed by the US, which also saw a record increase. Costs pressures eased in the eurozone but merely from April's record high, while Japan also saw a more muted but still unprecedented increase.

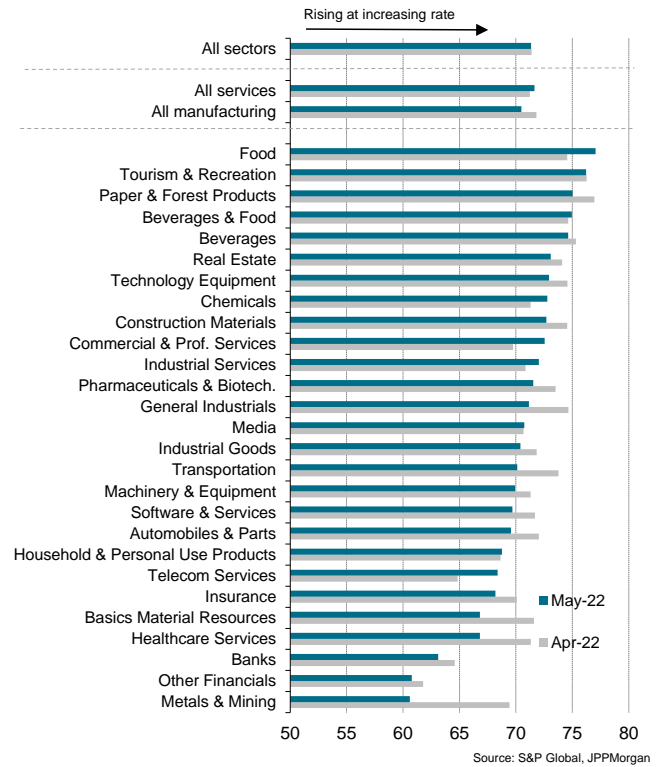
**Chart 10: Services input price inflation**

Services PMI Input Costs Index



**Food inflation hits new high**

**Chart 11: Global input price inflation by sector**



Looking in more detail at global cost pressures by sector, the highest rate of inflation was recorded by food manufacturers, where the rate of increase hit the highest since comparable data were first available in 2009.

The second highest rate of increase was recorded in the tourism and recreation sector, with companies struggling to

expand to meet demand and have reported surging labour, fuel and other costs –including food inputs.

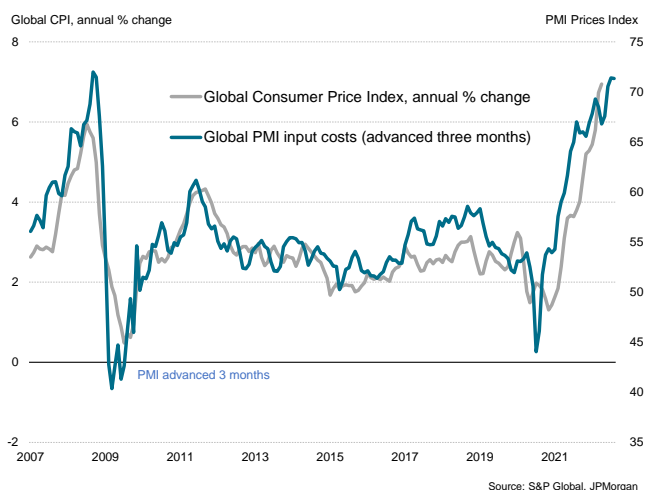
## Outlook

The survey data therefore indicated that global inflation is likely to accelerate in annual terms in May and June, though potentially cooling slightly thereafter, albeit remaining very elevated - above 6% - in the second half of 2022.

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**Chart 12: Global PMI input and output price inflation**



Despite supply chain pressures having somewhat alleviated, taking some of the heat out of raw material prices, service sector cost inflation is accelerating as firms struggle to hire or retain staff while soaring energy costs add to price pressures.

The key unknowns as we look to the future will be the war in Ukraine and the COVID-19 situation in China. With any resolution to the war looking unlikely in the near term, energy prices look set to remain high and food price inflation could worsen as supply from Ukraine continues to be disrupted. In mainland China, lockdown restrictions now appear to be easing, which should help restore some supply chain capacity to the global manufacturing network, and therefore ease some global supply chain associated price pressures. However, any sudden upturn of economic growth in China will likely add to commodity price inflation, potentially offsetting some of the beneficial supply chain impact.

In short, risks seem tilted toward the adverse global supply situation, keeping pressure on prices for some time to come, though uncertainties are unusually high.

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Special Focus

# APAC Electronics Sector Faces Headwinds from Surging Input Prices and Supply Chain Delays

The global electronics industry has experienced some moderation in growth momentum during recent months. This reflects a number of headwinds related to both demand and supply factors. Tighter COVID-19 containment measures have contributed to weaker consumer demand in China, notably due to the protracted lockdown of Shanghai. The global electronics industry also continues to struggle with lengthy supplier delivery times for some components and raw materials, as well as pricing pressures for critical materials.

Despite these headwinds, electronics exports from major Asia-Pacific (APAC) economies have remained very strong in the first half of 2022, helped by continued buoyant demand in many key global markets, albeit the mainland China market has been heavily disrupted by COVID-19 restrictions in recent months. Large backlogs of new orders for electronics products are expected to underpin expansion in the global electronics industry during the second half of 2022.

## APAC electronics exports remain buoyant

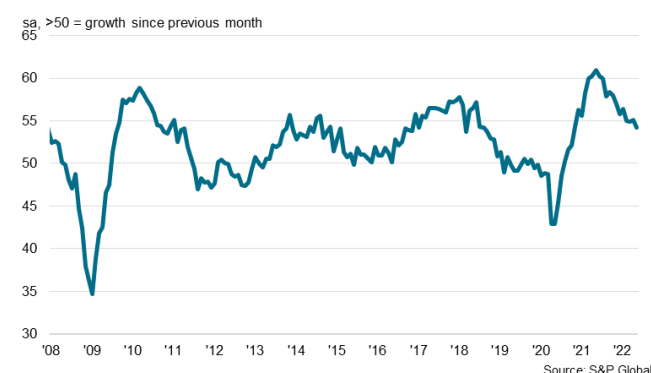
Electronics exports have continued to show strong growth in a number of major APAC electronics manufacturing hubs in April and May. In South Korea, exports of semiconductors rose by 15% year-on-year (y/y) in May, while exports of computers rose by 29% y/y. Taiwan's exports of electronics components rose by 25.9% y/y in May, while exports of semiconductors rose by 28.3% y/y.

In Japan, exports of semiconductors rose by 9.6% y/y in April, while exports of audio-visual apparatus rose by 59.1% y/y. Southeast Asian economies also recorded strong growth in electronics exports in April. In Singapore, electronic exports grew by 12.8 per cent y/y in April 2022. Singapore's exports of integrated circuits grew by 13.4% y/y in April, while exports of parts of integrated circuits rose by 94.2% y/y. In Malaysia, exports of electrical and electronics products grew by 27% y/y in April 2022, accounting for around 37% of total merchandise exports.

## Global electronics manufacturing continues to expand

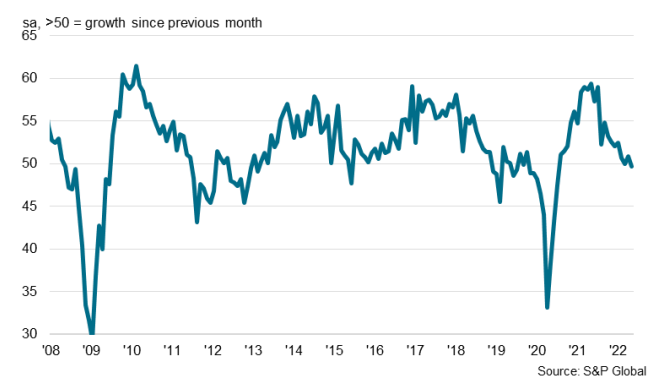
The global electronics manufacturing industry continued to show expansion in May 2022, albeit moderating from recent highs. The latest S&P Global Electronics PMI survey results for May continued to show positive expansionary conditions for global electronics producers. The headline seasonally adjusted PMI in May was 54.2, still showing expansionary conditions, albeit down from 55.1 in April.

### S&P Global Electronics PMI



The Electronics PMI Output sub-index indicated falling production levels at global electronics manufacturers in May for the first time since July 2020 during the latest survey period. The downturn was driven by firms in the consumer and communications sectors. Material shortages were widely cited as a constraint on output in May, as well as weak demand and COVID-related disruptions such as China lockdowns.

### S&P Global Electronics PMI Output Index

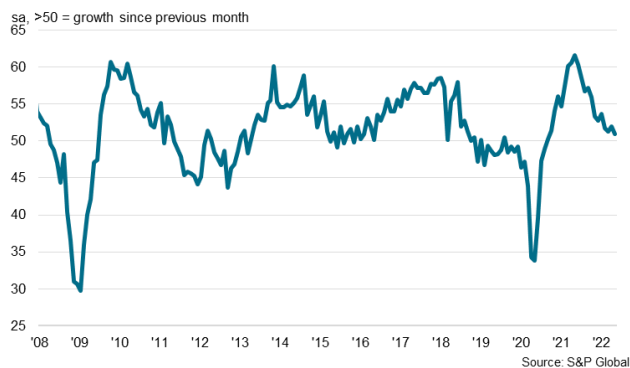


The seasonally adjusted Global Electronics New Orders Index remained slightly above the 50.0 no-change mark, but was at its lowest since September 2020. The May reading signalled subdued growth in global demand for electronic goods. While some companies reported bulk purchases from customers due to supply issues, other firms saw their new



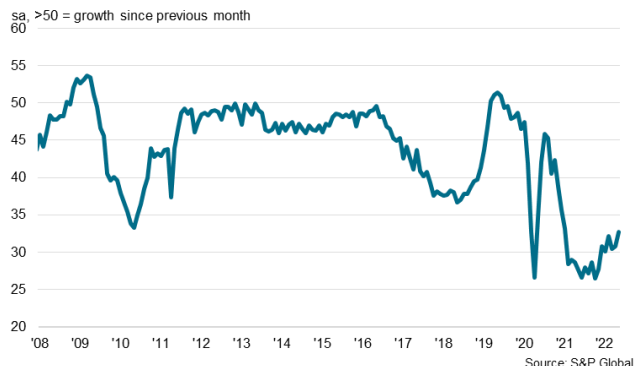
business intakes curtailed by competitive pressures, rising costs and uncertainty. This reflected weaker demand in China due to pandemic-related restrictions, as well as the impact of Russia's invasion of Ukraine and the associated uncertainty of war, which weighed on consumer sentiment and demand in some markets.

### S&P Global Electronics PMI New Orders Index



Average lead times on the delivery of inputs continued to lengthen drastically during May, as evidenced by the respective seasonally adjusted index posting well below the 50.0 no-change mark. Shortages of inventories at suppliers, COVID-19 disruptions in China and logistic issues were cited by surveyed companies.

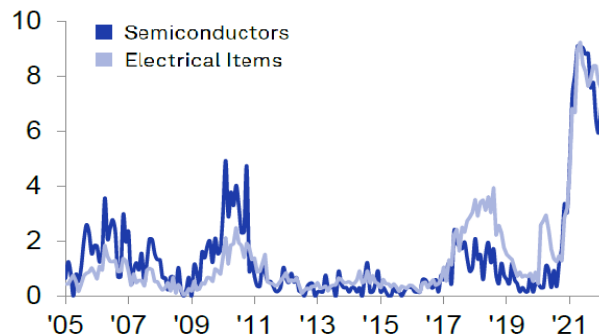
### S&P Global Electronics Suppliers' Delivery Times Index



Industry supply shortages for the semiconductors and electrical products industries remained far above their long-run average. Although there had been some early signs of easing pressures, the latest survey data indicates a renewed upturn in supply shortages following the latest COVID-19 restrictions in some parts of China.

### Global electrical and electronics industry supply shortages

Supply shortages, multiple of long-run average

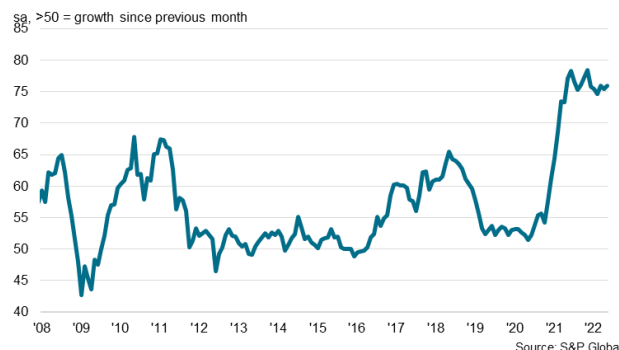


### Input price pressures remain severe

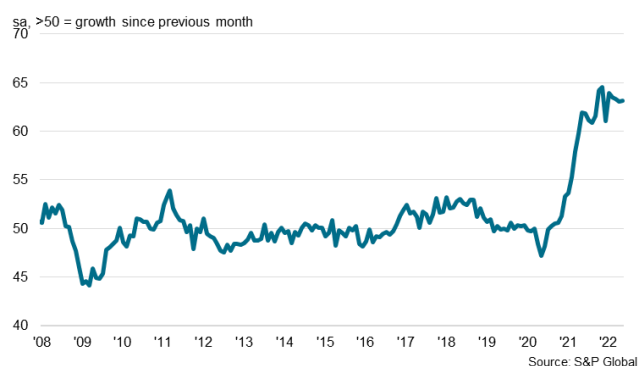
Global electronics manufacturers observed a further substantial increase in their cost burdens, as the Input Prices PMI sub-index rose to a six-month high to signal a rate of input price inflation that was among the fastest on record. According to companies participating in the survey, the rise in costs was primarily due to raw materials, although energy, transport, as well as exchange rate pressures were also mentioned by some firms.

In recent months, there have been widespread reports of increasing raw material prices due to substantial supply and demand imbalances. Plastics, chemicals, electronic components, metals, energy and oil were all widely cited by firms as sources of rising input prices. In response to rapid cost inflation, a significant proportion of global electronics manufacturers raised their prices charged during the latest survey period.

### S&P Global Electronics Suppliers' Input Prices Index



## S&P Global Electronics Suppliers' Output Prices Index



## Electronics sector outlook

A number of headwinds are impacting upon the near-term outlook for the APAC electronics industry. The protracted lockdown in Shanghai during April and May has hit consumer demand. China's retail sales contracted by 11.1% y/y in April due to COVID-19 related restrictive measures in a number of other Chinese cities. China's auto industry has also been disrupted, with temporary shutdowns of some auto plants while national auto sales fell by 46% in April compared to the previous month.

However, despite headwinds, prospects for the global electronics industry are for continued expansion, as signalled in the May S&P Global Electronics PMI Survey. Lengthy production backlogs for some key electronics products, notably semiconductors, will be an important factor supporting electronics output during H2 2022.

The impact of the COVID-19 pandemic has accelerated the pace of digital transformation due to the global shift to working remotely, which has boosted demand for electronic devices such as computers, printers and mobile phones. The easing of lockdowns in many countries has also triggered a rebound in consumer spending, helping to boost demand for a wide range of consumer electronics. Spending on consumer electronics has also been boosted by fiscal stimulus measures in many OECD countries that have provided significant pandemic relief payments to support households in many large economies, including the US, UK, Japan and Australia. Meanwhile global auto demand has also shown a rebound during 2021 after slumping during the first half of 2020, which is boosting demand for auto electronics, albeit contributing to intensifying supply-side problems related to semiconductors shortages.

The medium-term economic outlook is also supportive for the electronics industry, with sustained global economic expansion forecast over 2023-2024. With shortages of semiconductors disrupting manufacturing supply chains in 2021, the importance of having domestic electronics

production capacity for critical electronics components has become a national priority for major industrial nations, including the US, EU and China. For the US and EU, reducing reliance on Asian semiconductors production has become a key strategic priority over the next decade. A key risk is excessive global vulnerability to semiconductors supply from South Korea and Taiwan, which are major electronics production hubs but also potential geopolitical flashpoints in the Asia-Pacific region. Military tensions in the Taiwan Strait and South China Sea escalated during 2021, highlighting these vulnerabilities.

The outlook for electronics demand is also supported by major technological developments, including 5G rollout over the next five years, which will drive demand for 5G mobile phones. Demand for industrial electronics is also expected to grow rapidly over the medium term, helped by Industry 4.0, as industrial automation and the Internet of Things boosts rapidly growth in demand for industrial electronics. Competition amongst leading technology nations in strategic electronics production has also intensified. Consequently, strategic global competition amongst the world's leading high-technology nations is also likely to play a greater role in reshaping the global electronics industry landscape over the next decade.

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