PMI™ by S&P Global

Week Ahead Economic Preview

Manufacturing PMIs and Russia, UK and US GDP data to reveal economic trends

24 June 2022

The start of the new month brings fresh global manufacturing data in the form of the PMIs. The surveys will provide an important update on broader factory sector performance in June after the flash PMIs painted a downbeat picture for the major developed economies.

The preliminary June PMI data showed factory orders falling for the first time in two years in the US with renewed declines also seen in the UK and Japan. The eurozone – closest to the war in Ukraine – saw orders fall for a second successive month. The deteriorating manufacturing demand picture, alongside a worsening trend in services growth, led to an immediate recalibration of market pricing for interest rate paths in the US and Europe, and also saw commodity prices come under pressure.

The final manufacturing PMI will provide an all-important missing piece of the June picture via updated production numbers for mainland China. In particular, analysts will be assessing whether the relaxation of some COVID-19 containment measures will have helped global supply chains improve further, especially across Asia.

CPI data is meanwhile expected for the Eurozone and Indonesia, with inflation expected to remain elevated at record levels in the former. At the same time, policy makers will be keeping a close eye on Eurozone unemployment figures, which has fallen continuously over the year to signal a tightening labour market.

Since its invasion of Ukraine and the subsequent stringent sanctions, Russia's economic conditions have deteriorated sharply. Latest Russian GDP, unemployment and retail sales data will detail how the country has fared in May.

Updated first quarter GDP figures for the US and UK will also come to light this week and will reveal more details and granularity into the economic trends in the first quarter of the year, partly reflecting the impact of the war.

Elsewhere, Brazil, Japan and South Korea industrial production data will be updated and be gleaned for the impact of global supply constraints and price pressures.

Central bank policy enters uncharted territory

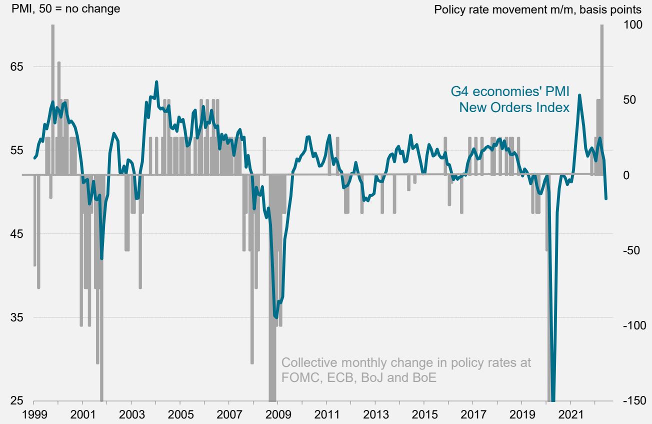
We are in unchartered territory as far as central bank policy is concerned, according to S&P Global's PMI survey data. The provisional flash PMI data for June (see special report) covering the US, Eurozone, UK and Japan showed business activity growth slowing sharply as a result of a severe worsening of demand conditions.

New orders in fact fell on aggregate across these major developed economies for the first time since the initial pandemic lockdowns in the second quarter of 2020. However, demand is now falling not because of COVID-19 containment measures, but because the soaring cost of living is hitting just as the economic boost from the reopening of economies from the Omicron wave is starting to fade.

Historical analysis of the surveys' leading indicators, such as manufacturing orders-to-inventory ratios and companies' future output expectations, are now consistent with economic contractions in the US and Europe in the third quarter, absent a sudden revival in demand. This, as our chart shows, would be an unprecedented demand environment in which to be hiking interest rates.

However, a welcome side-effect of the downturn in demand has been an easing of price pressures. Although still elevated, the PMI survey gauges of inflationary pressures in both manufacturing and services have generally fallen from recent peaks. It therefore seems that slowing demand is already doing so of the job of tighter monetary policy.

Developed world demand and central bank policy



* GDP weighted average of US, Eurozone, UK and Japan PMI data. Source: S&P Global

Key diary events

Monday 27 Jun
Bank of Japan Summary of Opinions (Jun)
United States Durable Goods (May)

Tuesday 28 Jun
Germany GfK Consumer Confidence (Jul)
Italy Industrial Sales (Apr)
Mexico Unemployment (May)
South Africa Consumer Confidence (Q2)
South Korea Consumer Confidence (June)
United States CB Consumer Confidence (Jun)
United States Goods Trade Balance (May)
United States House Price Index (April)

Wednesday 29 Jun
Australia Retail Sales (May)
Eurozone Consumer Confidence (Jun)
Japan Retail Sales (May)
Russia GDP (May)
Russia Industrial Production (May)
Russia Retail Sales (May)
Russia Unemployment (May)
Spain CPI (Jun)
Spain Retail Sales (May)
United States GDP (Q1)

Thursday 30 Jun
Brazil Unemployment (May)
Canada GDP (April)
China NBS Manufacturing/Non-Manufacturing PMI (Jun)
Eurozone Unemployment (May)
France CPI (May)
Germany CPI (Jun)
Germany Retail Sales (May)
Germany Unemployment (Jun)
Japan Industrial Production (May)
South Korea Industrial Production (May)
United Kingdom GDP (Q1)

Friday 01 Jul
Hong Kong, Canada Market Holiday
Worldwide Manufacturing PMIs, incl. global PMI* (Jun)
Brazil Industrial Production (May)
Eurozone CPI (Jun)
India Balance of Trade (Jun)
Indonesia CPI (Jun)
Italy CPI (Jun)
Japan Tankan Survey (Q2)
Japan Unemployment (May)
Mexico Business Confidence (Jun)
South Korea Balance of Trade (Jun)
United Kingdom Nationwide House Price Index (Jun)
United States ISM Manufacturing PMI (Jun)

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

What to watch

June Global Manufacturing PMIs

After June's flash PMI's pointed to a weakening factory sector, attention will shift to final global manufacturing PMI data for June, notably for Asia and especially in terms of the signals for supply chains and prices.

Americas: US and Canada GDP, Brazil and Mexico unemployment, Mexico consumer confidence

Final US GDP estimates for Q1 as well as estimates for GDP growth for Canada in May are expected. Prior data showed the US economy contracting at a 1.4% annualised rate in the first quarter, but inventories and trade were seen as major drags, meaning the headline understated the underlying health of the economy. Current estimates suggest a rebound to 0.8% growth in the second quarter, averting recession. But recent PMI data have suggested a new downturn in the third quarter is a rising possibility. US durable goods orders, Conference Board consumer confidence, trade numbers and house price data are also all updated.

Europe: Eurozone unemployment, Consumer confidence and CPI, UK GDP

Labour market data for the Eurozone are pending, with country-level data for France and Germany scheduled. Alongside these two, Italy will see the release of inflation data as well as Eurozone level inflation data. Russia will see the release of a plethora of data covering industrial production, retail sales and the labour market.

Revised UK first quarter GDP data are also issued, providing fresh granularity on spending and investment trends.

Asia-Pacific: Japan Tankan Survey, industrial production, employment and retail sales plus retail sales for South Korea and Australia

The impact of changing COVID-19 restrictions in mainland China – as well as the sustained impact of its zero covid policy on supply chains – will be eagerly assessed though updated PMI numbers. Meanwhile the closely watched Tankan survey of manufacturers for Q2 is scheduled for Japan, which PMI data have suggested will have improved yet remain constrained by supply conditions. Japan also see official statistical updates for industrial production, retail sales and employment.

South Korea and Australia will also see consumer spending on retail figures released, while India will release figures on imports and exports for June.

Special reports:

Philippines| Rajiv Biswas | page 4

Flash PMI Overview | Chris Williamson | page 7

Recent PMI and economic analysis from S&P Global

Global	Global PMI: What to watch in the flash PMIs for June	20-Jun	Chris Williamson
	The global economic climate is shifting, as fighting inflation gains urgency	23-Jun	Sara Johnson
Asia-Pacific	Japan's economy picks up speed in June as services revive, but manufacturing slows and prices surge	23-Jun	Chris Williamson
Europe	Eurozone economic stagflation risk rises in June as demand stalls and price surge continues	23-Jun	Chris Williamson
	UK recession risk rises as business confidence slumps amid cost-of-living crisis in June	23-Jun	Chris Williamson
Commodities	Weekly Pricing Pulse: Growth fears spark broad sell-off on commodity markets	23-June	Michael Dall

S&P Global Economics & Country Risk highlights

Europe's road to recession

Market consensus expectations for real GDP growth rates in the EU and eurozone through 2023 look increasingly unrealistic. Household real incomes are taking a hammering, while supply chain disruptions are impeding the industrial sector. The broadening of the EU's sanctions against Russia is aggravating concerns related to energy supply and prices. Persistently high and broad-based inflation is also forcing central banks, including the European Central Bank (ECB), to step up their policy tightening. An intensification of energy and monetary policy-related headwinds would materially raise the likelihood of recession in Europe. **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, labour 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.ihsmarkit.com**. For more information on our PMI business surveys, please visit **www.ihsmarkit.com/products/PMI**

Special Focus

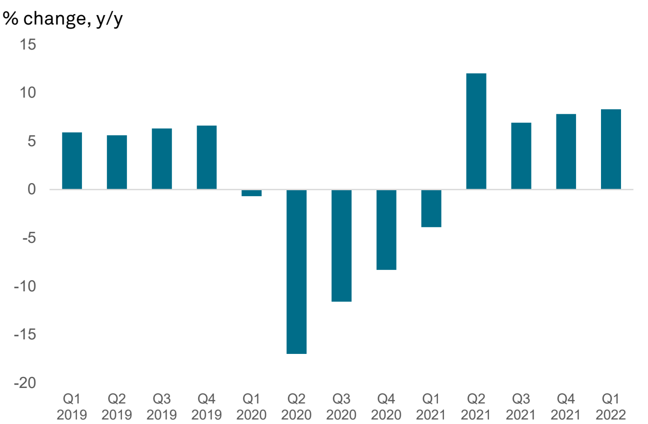
Philippines

Philippines Economy Resilient Despite Global Headwinds

The Philippines economy has continued to show rapid expansion in early 2022, with first quarter GDP growth up 8.3% year-on-year (y/y). This followed a GDP growth rebound of 5.6% in 2021, despite the negative impact of the COVID-19 Delta wave that hit the nation in the second half of 2021. However, the Philippines is facing external headwinds from rising world inflation, notably from higher world oil prices, as well as moderating global economic growth. As the Fed and ECB tighten monetary policy due to rising inflation pressures, this is expected to result in weakening growth momentum in the US and EU, which will also act as a drag on growth for the Philippines' export sector.

Over the decade ahead, rapid economic growth is forecast for the Philippines economy. By 2033 the Philippines is set to join the ranks of a small group of countries in the Asia-Pacific region that have a GDP exceeding one trillion dollars. This will result in a significant transformation of the structure of the Philippines economy, with substantial expansion in the size of the domestic consumer market. This will help to drive foreign direct investment inflows into the Philippines, as multinationals build up their local presence in a wide range of manufacturing and service sector industries

Philippines GDP Growth, 2019 -2022



Source: S&P Global, PSA

Strong growth in early 2022

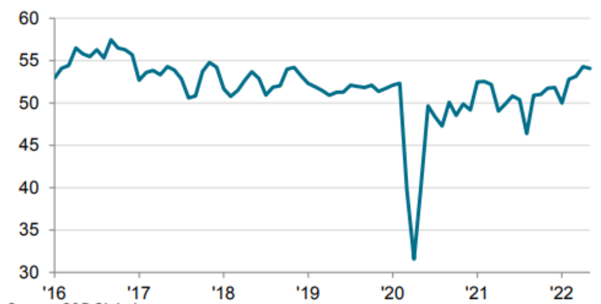
The Philippines economy has shown strong growth momentum in early 2022, with GDP growth rising to 8.3% year-on-year (y/y) in the first quarter of 2022. The easing of domestic COVID-19 restrictions allowed the rebound of household consumption spending, which helped to drive strong economic growth. Household consumption expenditure grew by 10.1% y/y in the first quarter of 2022, while gross capital formation rose by 20% y/y.

The S&P Global Philippines Manufacturing PMI® continued to show strong expansion in May, at 54.1, similar to the 54.3 reading in April. The latest headline index reading signaled a sustained positive growth momentum across the manufacturing sector, at a pace that was the second fastest since November 2018.

Production volumes and intakes of new orders grew at solid rates, helped by strengthening domestic demand. The ongoing COVID-19 recovery and the relaxation of the pandemic restrictions in the Philippines resulted in improved domestic demand conditions, according to panellists.

Philippines Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.
Data were collected 12-24 May 2022.

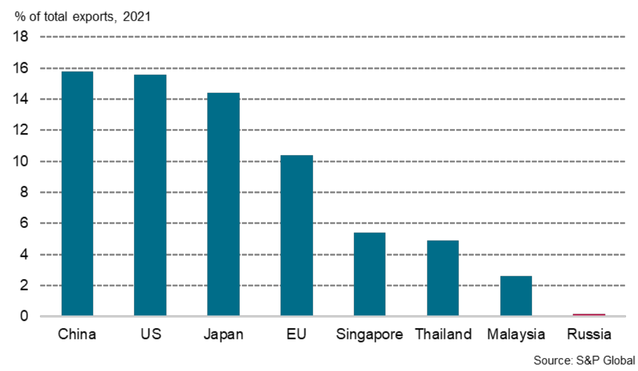
Companies surveyed regarding the 12-month outlook for output indicated expectations of expansionary conditions. Easing COVID-19 containment measures underpinned business confidence, with forecasts of stronger demand conditions and rising output in the coming months. Firms remained upbeat amid hopes of a further expansion in production and greater client demand in the coming 12 months.

Deteriorating current account deficit

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

Despite the global headwinds due to the impact of the Russia-Ukraine war and also the slowdown in mainland China, merchandise exports have been resilient during the first four months of 2022, showing growth of 8.9% y/y in value terms.

Philippines export markets



However, imports soared during the first four months of 2022, rising by 26.7% y/y, with energy import costs rising by 134% y/y.

The surging price of world oil and gas is expected to be an important factor contributing to a further sharp deterioration in the current account balance for calendar 2022. In June 2022, the Philippines central bank, Bangko Sentral ng Pilipinas (BSP), revised down its current account projection for 2022 to a deficit of USD 19.1 billion or 4.6% of GDP due to a widening trade deficit, as the economic recovery and rising oil prices pushed up imports. This was a significant downward revision from its March 2022 projection of a current account deficit of USD 16.3 billion, or 3.8% of GDP. The BSP expects that the current account deficit will be USD 20.5 billion, or 4.4% of GDP.

In 2020, the current account surplus reached a record high of USD 11.6 billion or 3.2% of GDP, boosted by the sharp slump in imports due to the severe contraction in domestic demand. However, the current account shifted back to a deficit of USD 6.9 billion in 2021, or 1.8% of GDP, as growth recovery triggered higher domestic demand and rising imports.

An important stabilizing factor for the Philippines economy has been overseas worker remittances by Filipinos working abroad, which remained quite stable during 2020, down only 0.8% y/y, and equivalent to around 10% of GDP. However, an estimated 600,000 Filipino workers were repatriated in the twelve months since May 2020 as a result of job losses in their host countries, raising concerns about the impact on remittance flows during 2021. Remittances sent home by workers are an important factor supporting domestic consumer spending in the Philippines. Despite concerns about job losses for workers abroad due to the impact of the pandemic on many industries such as tourism and aviation, remittances data continues to show resilient remittance inflows for 2021. Remittances by workers abroad rose by 5.1% y/y in 2021, to a record high of USD 34.9 billion.

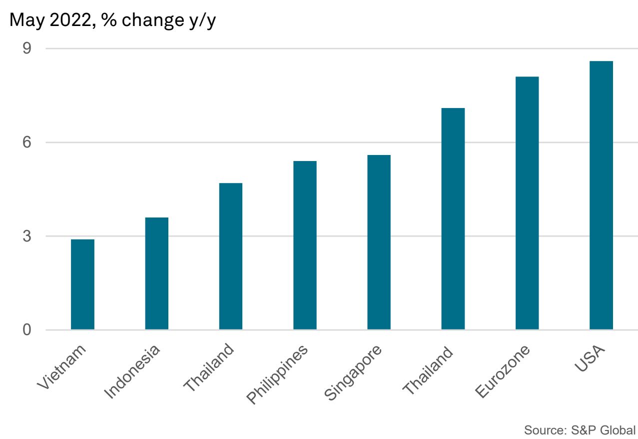
Rising inflation pressures

During the first half of 2022, inflation pressures have been rising in the Philippines. Both average cost burdens and output charges rose markedly during May, according to the latest S&P Global Philippines Manufacturing PMI survey.

Bangko Sentral ng Pilipinas (BSP) is facing escalating headline CPI inflation pressures driven by rising energy and food prices, with the May CPI surging to 5.4% y/y from 4.9% y/y in April. CPI inflation has moved even further above the BSP inflation target range of 2% to 4%. Consequently, the BSP hiked its policy rate by 0.25bps on 20th May, the first rate hike since November 2018.

The Philippines peso has also depreciated against the USD during the first half of 2022, from 51.0 per USD on 1st January to 54.4 per USD by 22 June. As the US Fed has tightened monetary policy aggressively in recent months, this has increased the relative attractiveness of the USD and US fixed income assets.

ASEAN CPI Inflatio n compared to US & EU



Philippines economic outlook

Despite the impact of the COVID-19 Delta wave in the second half of 2021, GDP growth for calendar 2021 rebounded to 5.6% y/y. Strong growth momentum has continued in early 2022, with GDP growth of 8.3% y/y in the first quarter of 2022.

Easing of pandemic-related travel restrictions has allowed the commencement of a gradual reopening of domestic and international tourism travel. If sustained during the second half of 2022 and into 2023, this would provide an important boost to the economy. Prior to the pandemic, in 2019, gross direct tourism value added as a share of GDP was estimated at 12.7% of GDP, including both international and domestic tourism spending. International tourism spending was estimated at Peso 549 billion, while domestic tourism spending was estimated at Peso 3.1 trillion. Due to the importance of domestic tourism in the overall contribution of tourism to GDP, the recovery of domestic tourism could be a significant growth driver in the latter part of 2022 and in 2023.

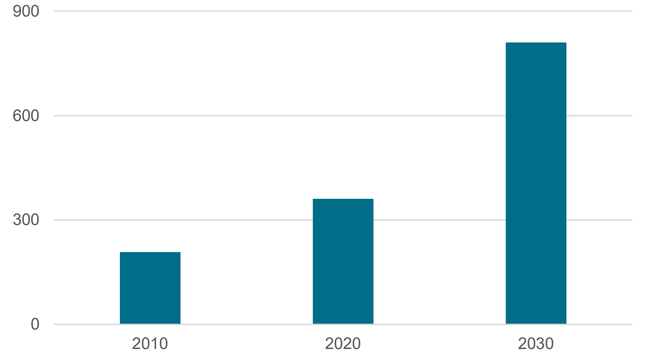
Stronger GDP growth of around 7% y/y is expected in 2022, helped by strengthening private consumption spending, an upturn in government infrastructure spending and improving remittance inflows.

Over the next decade the Philippines economy is forecast to continue to grow rapidly, with total GDP increasing from USD 360 billion in 2020 to USD 810 billion in 2030. A key growth driver will be rapid growth in private consumption spending, buoyed by strong growth in urban household incomes.

By 2033, the Philippines is forecast to become on the Asia-Pacific region's one trillion-dollar economies, joining mainland China, Japan, India, South Korea, Australia, Taiwan and Indonesia in this grouping of the largest economies in APAC.

Philippines GDP

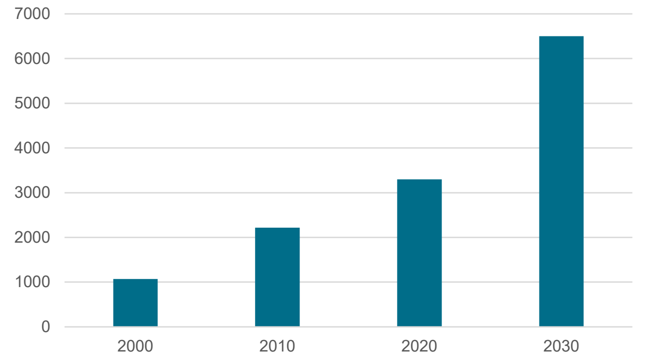
USD billion, nominal terms



Source: S&P Global.

This strong growth in the size of the Philippines economy is also expected to drive rapidly rising per capita GDP, from USD 3,300 in 2020 to USD 6,500 by 2030. This will help to underpin the growth of the Philippines domestic consumer market, catalyzing foreign and domestic investment into many sectors of Philippines industry.

Philippines per capita GDP (USD)



Source: S&P Global.

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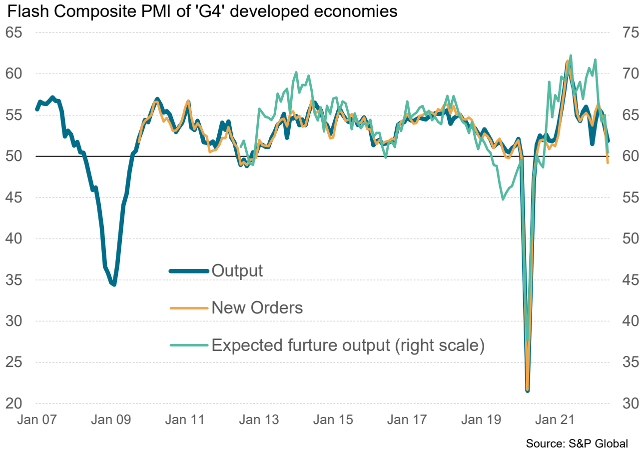
Flash PMI overview

Flash PMI data signal increased stagflation risks as growth weakens amid soaring cost of living

Early PMI survey data showed economic growth slowing sharply in the US, Eurozone and UK during July, with further weakness likely in coming months. Forward-looking indicators, such as survey gauges of new order inflows and business expectations of output in the coming year, have fallen to levels indicative of the US and European economies contracting in the third quarter absent a sudden revival of demand. However, with central banks providing forward guidance of more interest rate hikes to come, demand looks set to soften further rather than revive, adding to the likelihood of economies moving into recession.

Inflationary pressures meanwhile remain elevated – a factor commonly cited by companies as causing the recent weakening of demand for non-essential goods and services in particular. However, the flash PMIs for June also indicated some softening of price pressures, notably in the manufacturing sector, linked to an easing of supply constraints and reduced demand. In other words, the softening of demand is already doing some of the work of higher interest rates, hence markets are likely to rein in their expectations of the extents to which the major central banks might need to tighten policy.

Major developed economies, current output and forward-looking indicators

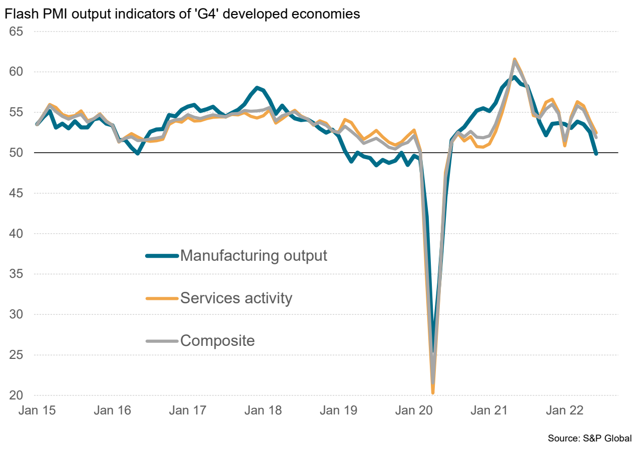


UK and US lead developed world slowdown

Provisional PMI survey data indicate that aggregate growth across the four largest developed economies – the 'G4' – slowed sharply in June to the weakest since the pandemic lockdowns in January. The flash PMI survey output indices from S&P Global collectively registered 51.9, down from 53.5 in May to indicate a third successive month of slowing growth.

Manufacturing across the G4 slipped into a marginal decline, registering contraction for the first time since the early hit from the pandemic in June 2020, and service sector growth weakened to the slowest since January. Excluding months in which governments stepped up COVID-related containment measures, June saw the worst service sector performance since late 2019.

G4 output by sector



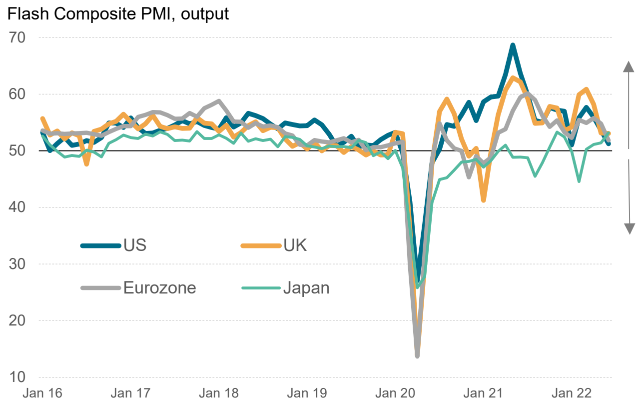
The US reported the slowest expansion of the G4, with the S&P Global flash PMI for the US dropping from 53.6 in May to 51.2 in June, its lowest since January's lockdowns and the second-lowest over the past two years. Factory output fell for the first time since May 2020 and service sector growth sank to its lowest since January. At its current level, the US PMI is broadly consistent with annualized GDP growth of just under 1% (around 0.2% quarterly).

The flash S&P Global Eurozone PMI® Composite Output Index also fell sharply, down from 54.8 in May to 51.9 in June, indicating that the rate of growth has now moderated for two consecutive months to hit its lowest in the current 16 month recovery period. The eurozone index is now comparable to quarterly GDP growth of just 0.2%, down from 0.6% at the end of the first quarter. As in the US, eurozone manufacturing contracted, albeit only modestly, for the first time in two years and service sector growth slowed sharply.

Growth meanwhile held steady in the UK, as the flash composite PMI was unchanged at 53.1 in June, yet this nevertheless represents a marked weakening in the rate of expansion since earlier in the spring, with the PMI broadly consistent with GDP rising at a modest quarterly rate of just over 0.2%. UK manufacturing production slipped into decline for the first time in 17 months, though the service sector retained a modest rate of expansion.

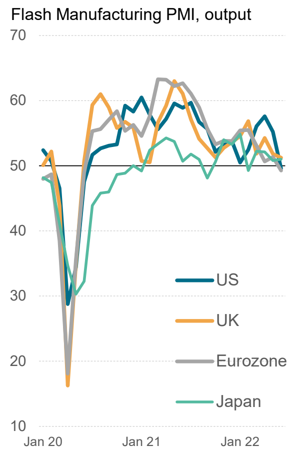
The strongest growth in the G4 was consequently recorded in Japan. The au Jibun Bank composite PMI™, compiled by S&P Global, rose from 52.3 in May to 53.2 in June, its highest since last November and the fourth-best reading since the start of 2014. June's further improvement signals a return to growth for the economy after GDP contracted 0.1% at the start of the year. However, the economic upturn was uneven, being fueled by rising demand for services while exports fell and factory output growth ground to a near-halt.

Current output growth

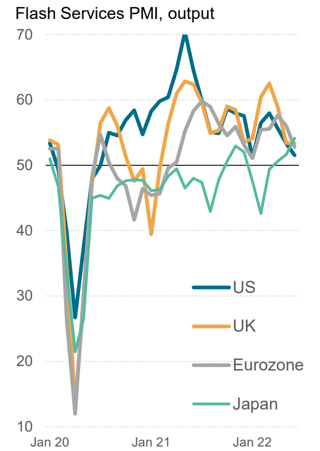


Sources: S&P Global, CIPS (UK), au Jibun Bank (Japan)

Manufacturing



Services



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

Demand falters

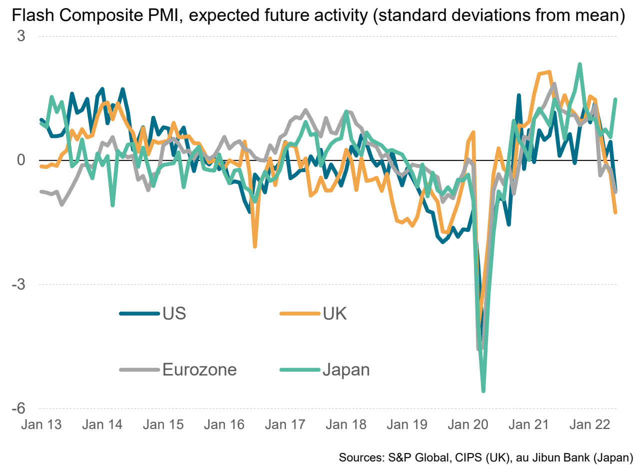
Although output continued to rise across the four economies on average, albeit at a reduced rate, the pace of expansion looks set to weaken further in July, as new business inflows across the monitored economies fell in June for the first time in two years. This lack of new demand hints at contraction in the third quarter. New order inflows fell most sharply in the US, and stalled in the eurozone. Only a marginal gain was seen in the UK.

While a more sizeable improvement was recorded in Japan, this is part reflects the later reopening of the Japanese economy from the Omicron variant than in Europe and the US.

Across the West, growth had been buoyed by increased spending on consumer services such as travel, tourism, recreation and hospitality in prior months, as pandemic-related restrictions were wound down after the Omicron wave. This surge due to pent-up demand is already starting to fade and in some places reverse, blamed in many instances on the rising cost of living. While Japan is still benefitting from this stimulus in June, the experience in the US and Europe hints at the boost fading in coming months.

New orders growth

Future output expectations



Future prospects deteriorate

Adding to the gloom for the months ahead were the survey gauges of companies' future output expectations. With the exception of Japan, business sentiment sank sharply lower. By historical standards, the steepest drop in future expectations was seen in the UK, followed by the eurozone and US. All three gauges are now at levels which have in the past heralded imminent economic downturns.

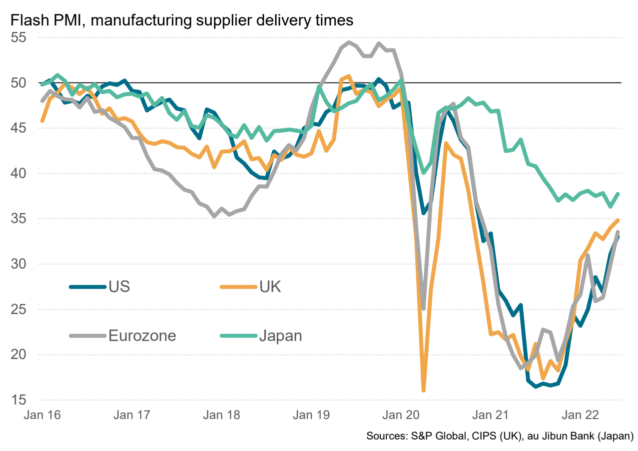
In general, companies grew more downbeat due to growing concerns over the rising cost of living and high energy prices in particular, with an accompanying concern over tightening financial conditions. Tight supply conditions and uncertainty caused by the Ukraine war, were also widely cited, as well as broader worries regarding general economic growth in the year ahead.

Japan bucked this gloomier trend, however, with future output expectations climbing to a seven-month high. Companies were hopeful of more demand from the economy reopening and easier supply conditions out of mainland China in the months ahead.

Has inflation peaked?

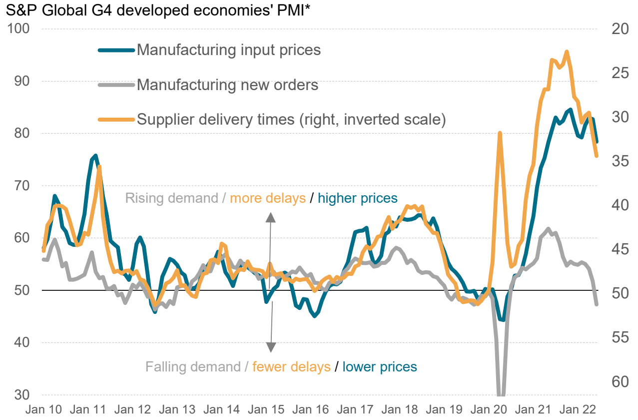
A positive development from the recent cooling of demand was a reduction in the number of new supply delays reported in June. Average supplier delivery times lengthened in June to the least extents since late-2020 and early 2021 across Europe and the US, and even eased slightly in Japan amid some opening up of trade with China due to looser pandemic restrictions.

Supplier delays



A consequence of the moderating supply chain squeeze and weakening demand environment was a reduction in pricing power among suppliers. Across the G4, average factory input costs rose in June at the slowest rate since May 2021, despite the rate of increase remaining elevated.

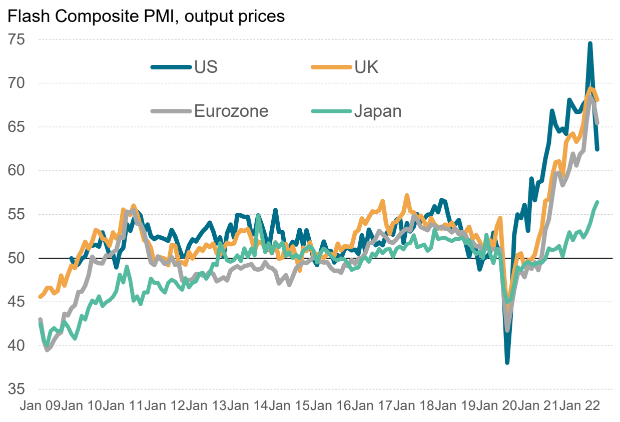
Manufacturing demand, supply and prices



* GDP weighted average of the US, UK, Eurozone and Japan. Source: S&P Global

The moderation of input cost inflation for goods, as well as the broader calming of demand conditions, in turn fed through to slower rates of inflation for average prices charged for both goods and services in the US, eurozone and UK. The exception was again Japan, where the rate of inflation hit a new record high, reflecting Japan having lagged in the current cycle.

Good and services selling prices



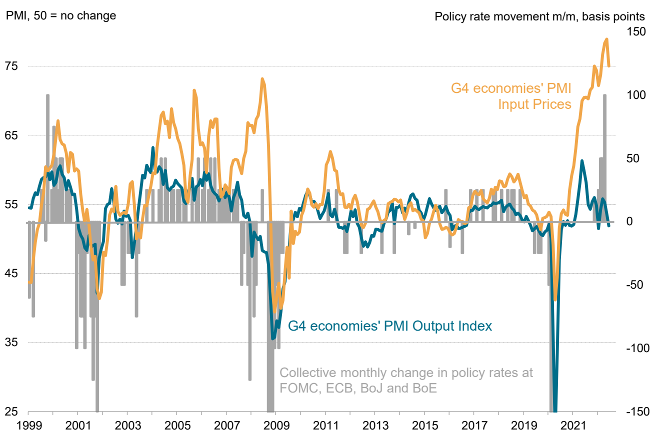
Sources: S&P Global, CIPS (UK), au Jibun Bank (Japan)

Central bank policy runs stagflation risk

The weakening PMI data come at a time when central banks have been ratcheting-up their hawkish stances, most notably at the FOMC and ECB and to a lesser extent the Bank of England. Already, the PMIs and their forward-looking components are signalling a high likelihood of third quarter GDP contractions in the US, eurozone and UK. Clearly any further dampening of demand which could result from further policy tightening now runs an increased risk of the slowdown turning into an even steeper economic contraction.

Meanwhile, the recent cooling of demand is already showing signs of helping to calm inflationary pressures, though it remains early days and overall rates of inflation look set to remain elevated in the coming months even if peaks are soon reached.

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



Source: S&P Global

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Links to more resources

- Sign up to receive updated commentary in your inbox here.
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- Running commentary on the PMI survey findings
- PMI Frequently Asked Questions
- Background to the PMIs (video)
- Understanding the headline PMI and its various subindices
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