PMI™ by S&P Global

Week Ahead Economic Preview

Non-farm payrolls, worldwide PMIs and central bank meetings in focus

1 August 2022

This week sees the release of worldwide manufacturing and services PMI data which will give an insight into global growth, inflation and labour market trends in key economies for the first month of the third quarter. June's PMIs and their early July flash readings have hinted at a deteriorating economic environment, showing business activity falling in the US and Eurozone as the cost of living crisis and tighter monetary policies hit demand. Elsewhere, China's Caixin PMI will be watched with particular interest to assess the ongoing impact of its zero COVID policy after June's encouraging rebound.

After last weeks' Fed 75 basis point hike, US markets will be eagerly awaiting non-farm payroll numbers which will help guide the future path of the Fed. The market is currently expecting a slowing in the pace of job gains with the latest figure expected to come in around the 260k mark (down from 372k). Meanwhile, the unemployment rate, is predicted to hold steady at 3.6%, while monthly earnings growth is also likely to hold at 0.3%.

Central bank meetings will meanwhile flow thick and fast this week, with Reserve Bank of Australia the first to make their rate decision with a 50 basis point hike now expected. Meanwhile, July [flash S&P Global / CIPS UK PMI] data pointed to a slowdown in growth and even a contraction in manufacturing output. The Bank of England is nevertheless projected to also hike their rate by 50 basis points.

The Reserve Bank of India (RBI) will meet for its quarterly monetary policy meeting on Thursday where it looks set to follow the general global trend of tightening monetary policy. Inflation rates have remained elevated which the RBI will look to control by hiking by their rate by 35 basis points.

Brazil's selic rate decision will be another interesting central bank meeting to follow. In our baseline focus, we anticipate that GDP will decline in Q3 and Q4 (QoQ). Risks to policy continuity, coupled with high inflation, tight monetary policies, and a weaker external environment have increased the likelihood of recession.

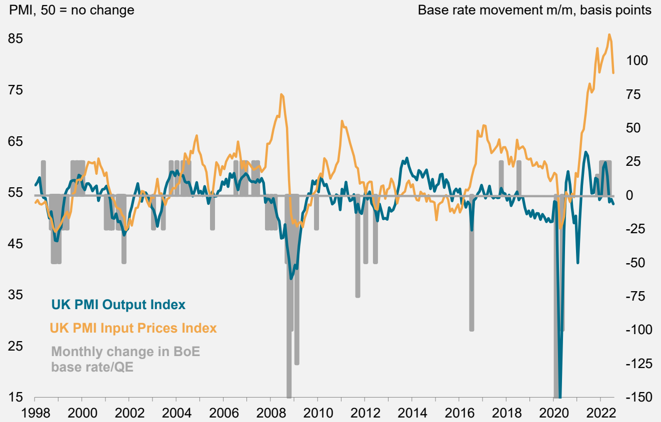
Bank of England to hike rates to highest since 2008

Among the various central bank policy meetings in the coming week, the most important will be the gathering of the Bank of England's Monetary Policy Committee. Concerned over the rapid rise of consumer price inflation to a four-decade high of 9.4%, and emboldened by increasingly aggressive policy stances at the FOMC and ECB, the BoE is set to hike interest rates by another 50 basis points. The rise would be the largest since 1995 and means the MPC will have tightened policy for a sixth successive meeting to take Bank Rate to 1.75%, its highest since late 2008.

With a 50bp August rate hike already priced in, the focus shifts to the future policy path. Our forecasters here at S&P Global Market Intelligence expect further 25 bp hikes in September, November and December, as well as in February 2023, taking the policy rate to a peak of 2.75%, reflecting the anticipated stickiness of elevated inflation in the UK. Although PMI data have indicated a tentative peaking in price pressures, household energy prices are expected to rise sharply into the winter, keeping inflation uncomfortably above the bank's 2% target and adding to fears of a wage-price spiral.

However, this projected rate path is contingent on the UK experiencing only a mild recession. GDP is expected to contract slightly in Q2 and Q3 2022 before marginal growth returns from late-2022 thanks to the government's support package for households. The PMI data, including additional colour in the coming week, will be an important gauge of how likely that growth projection looks.

Bank of England policy changes vs. UK PMI



Sources: S&P Global, Bank of England.£25bn QE shown as equivalent to 25 basis points

Key diary events

Monday 1 August
Worldwide Manufacturing PMIs (Jun)
South Korea Balance of Trade (Jul)
Indonesia Inflation (Jul)
Germany Retail Sales (Jun)
United Kingdom Nationwide Housing Prices (Jul)
Italy Unemployment Rate (Jun)
Hong Kong SAR GDP (Q2)
Euro Area Unemployment (Jun)
US ISM Manufacturing PMI (Jul), Construction Spending (Jun)

Tuesday 2 August
South Korea Inflation Rate (Jul)
Australia RBA Interest Rate Decision
Spain Unemployment Change (Jul)
Switzerland Consumer Confidence (Q3)
Hong Kong SAR Retail Sales (Jun)
Spain Consumer Confidence (Jul)
India Balance of Trade (Jul)
Canada Manufacturing PMI (Jul)
New Zealand Unemployment Rate (Q2)

Wednesday 3 August
Worldwide Services PMI** (Jul)
Australia Retail Sales (Jun)
Germany Balance of Trade (Jun)
Switzerland Inflation Rate (Jul)
Italy Retail Sales (Jun)
Euro Area Retail Sales (Jun)
US MBA Mortgage Applications (Jul)
Brazil Industrial Production (Jul), Interest Rate Decision
United States ISM non-Manufacturing PMI (Jul)

Thursday 4 August
Australia Balance of Trade (Jun)
India RBI Interest Rate Decision
Netherlands Inflation Rate (Jul)
United Kingdom Interest Rate decision
Canada Balance of Trade (Jun)
Czech Republic CNB Interest Rate Decision
United States Balance of Trade (Jun), Jobless Claims (Jul)

Friday 5 August
Japan Household Spending (Jun), Coincident Index (Jun)
Philippines Inflation Rate (Jul)
Australia RBA Statement on Monetary Policy
Indonesia GDP Growth Rate (Q2)
Singapore Retail Sales (Jun)
Germany Industrial Production (Jun)
United Kingdom Halifax House Price Index (Jul)
France Balance of Trade (Jun), Industrial Production (Jun)
Italy Industrial Production (Jun)
China Current Account (Q2)
Canada Unemployment Rate (Jul), Ivey PMI (Jul)
United States Non-farm Payrolls (Jul), Unemployment Rate (Jul), Consumer Credit (Jun)

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

What to watch

Manufacturing and Services PMIs

This week sees the release of S&P Global's manufacturing and services PMIs which will be watched with particular interest given the movement towards tightening central bank policies, surging inflation and growing macroeconomic uncertainty. Flash PMIs pointed to a slowdown of growth in the UK, Australia and Japan while the US and Eurozone registered outright contractions. There will be a particular focus on mainland China on Monday where the S&P Global/ Caixin PMI will give a first economic insight into performance at the start of Q3.

Americas: US Construction spending, ISM Survey's, Balance of Trade. Canada Ivey PMI and unemployment

Last week saw some key events and releases for the US, namely the Fed FOMC meeting and GDP data, which pointed to a second quarter contraction and subsequently a technical recession. This week, US non-farm data is in focus, in addition to US construction spending, PMIs, ISM surveys and balance of trade data.

Elsewhere, Canada's Manufacturing PMI will be released on Tuesday and will reveal the sector's performance amid the Bank of Canada's hopes of a soft landing. Employment has also been a topical subject in Canada with latest figures – released Friday – set to shed light on the jobs front.

Europe: Industrial production data for Germany, France and Italy. Eurozone Retail sales and UK house prices

Industrial production figures for Germany, France and Italy will be released on Friday, following the S&P Global Manufacturing PMIs. Growth is likely to have slowed across the three nations in June, with latest Flash PMIs hinting at a broader eurozone deterioration in July. Retail sales figures for the end of the second quarter will shed light on spending trends for the Eurozone as a whole, in the heat of surging inflation and growing uncertainty.

The UK meanwhile has the BoE meeting which will no doubt steal the focus. One eye will be kept on the Halifax House Price Index for signs of the property market cooling.

Asia-Pacific: Indonesia and Hong Kong SAR Q2 GDP

GDP data for Indonesia and Hong Kong SAR are set to dominate APAC releases in the coming week. Our forecasts point to a 3.8% rate of growth (slowing from 5.01% YoY) in Indonesia. More concerningly, in Hong Kong SAR our estimates predict a second consecutive contraction at -0.84% (although slowing from Q1 decline of 4%)

Special reports:

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Recent PMI and economic analysis from S&P Global

Global	Flash PMI data signal developed world economic decline at start of third quarter	26-Jul	Chris Williamson
	A global recession can be avoided, but risks are high	25-Jul	Sara Johnson
APAC	Economic growth in Japan close to stalling in July led by renewed manufacturing decline, price pressures cool from record highs	25-Jul	Chris Williamson
Europe	Eurozone falls into contraction in July, price pressures ease	25-Jul	Chris Williamson
	UK economy slows in July amid manufacturing decline, but price pressures ease	25-Jul	Chris Williamson

S&P Global Economics & Country Risk highlights

Weekly Pricing Pulse: Weak demand weighs on commodity markets

Our Materials Price Index (MPI) declined another 1.1% last week, its sixth consecutive weekly decline. The sell-off was again broad with seven out of ten subcomponents falling, highlighting the downward momentum in commodity prices over the past four months -- the MPI is now 21% lower than its all-time high established back in early March. Commodity prices, as measured by the MPI, are now 6.4% lower than in July of last year. **Click here to read our research and analysis**

Inflationary pressures in the Sub-Saharan Africa region

Increased pricing pressures are being felt across the Sub-saharan Africa. Banks have hiked their policy rates by 100, 150 and even 200 bases points dependent on the market. Utilizing our nowcasting PMI data and our forecasting data our regional experts delve into the key differentiators between SSA data and our developed markets data to get a better picture of the underlying pressures impacting the local economies and what we can expect in the months ahead. **Click here to listen to this podcast by S&P Global Market Intelligence**

For further information:

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Special Focus

APAC

APAC Electronics Industry Expansion Moderates Amidst Pricing Pressures

By Rajiv Biswas, Asia-Pacific Chief Economist, S&P Global Market Intelligence

The latest S&P Global Electronics PMI survey shows that expansion in the electronics sector is continuing, albeit growth momentum has gradually moderated during the first half of 2022, with new orders having slowed. The global electronics industry continues to struggle with protracted supplier delivery times and pricing pressures for critical materials, although supplier delivery times have shown gradual improvement in recent months.

APAC electronics exports remain strong in first half of 2022

The global electronics industry has shown positive expansion since mid-2020, as the COVID-19 pandemic has driven strong demand for consumer electronics for remote working and home entertainment. However, the pace of expansion has shown some moderation in the first half of 2022. Nevertheless, electronics exports have continued to show strong growth in a number of major APAC electronics manufacturing hubs during the first half of 2022.

South Korea's exports of information and communications technology (ICT) goods grew by 18.9 percent year-on-year (y/) to USD 123 billion in the first six months of 2022, accounting for 35% of total South Korean exports. South Korean exports of semiconductors rose by 21% y/y, reaching USD 70 billion. In Japan, exports of semiconductors rose by 18.7% y/y in the first six months of 2022.

Taiwan's exports of electronics products rose by 15% y/y in June. Information and communication technology product new orders in June showed buoyant growth, rising by 22 percent y/y to USD 17 billion.

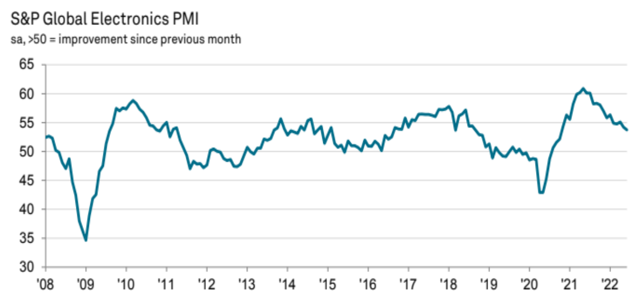
Southeast Asian economies also recorded strong growth in electronics exports. In Malaysia, exports of electrical and electronics products rose by 32% y/y during the first six months of 2022, helped by strong demand from the US. Vietnam also recorded buoyant electronics exports, with exports of phones and components rising by 16.4% y/y in the first six months of 2022, reaching a total of USD 29.2 billion.

India has also become a significant exporter of electronics products, with total electronics goods exports for the previous fiscal year 2021-22 up 42% y/y to USD 12.4 billion. India's Ministry of Electronics and Information Technology has set out a five-year roadmap to boost India's annual electronics exports to USD 120 billion by 2026, with the domestic market for electronics products targeted to reach USD 180 billion by 2026.

Pace of global electronics expansion moderates

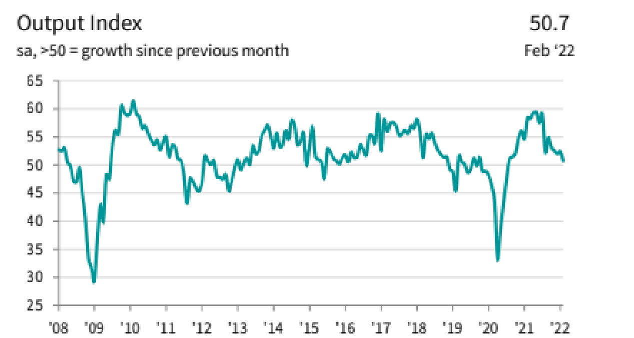
The global electronics manufacturing industry continued to show expansion in June 2022, although the pace of growth has gradually moderated. The headline S&P Global Electronics PMI fell to 53.7 in June, reaching its lowest level for 20 months. The latest survey results continued to show positive expansionary conditions for global electronics producers, though slowdowns in both output and new orders growth weighed on the pace of expansion.

The June survey data signaled a further slowdown in output growth at global electronics producers, with the Electronics PMI Output sub-index moderating to 50.3, just slightly above the neutral mark. New orders also fell to 50.3, marginally above the 50.0 mark that indicates the threshold between expansion and contraction.

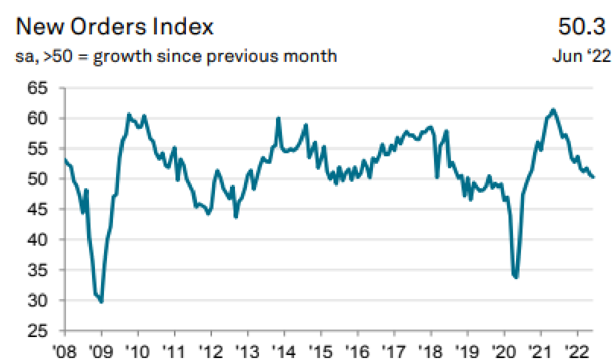


Source: S&P Global.

S&P Global Electronics key sub-indices

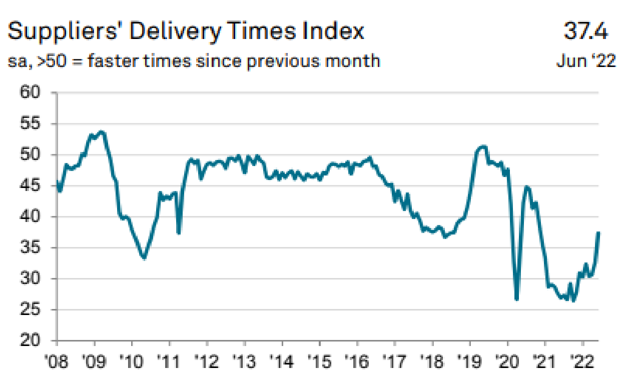


Source: S&P Global Electronics PMI Survey



Source: S&P Global Electronics PMI Survey

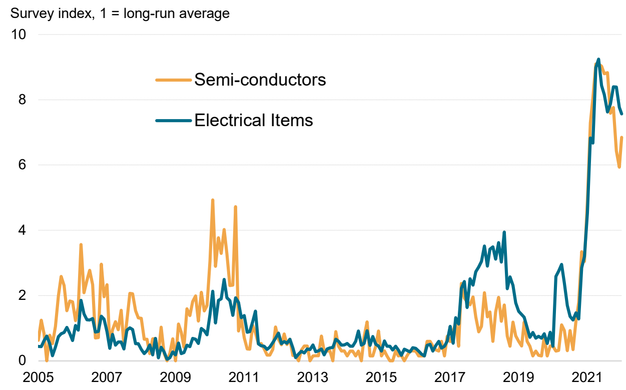
There were continuing pressures on global electronics supply chains during June, as signaled by the seasonally adjusted Suppliers' Delivery Times Index posting 37.4, still far below the 50.0 no-change mark. Supplier delivery times continued to be very protracted for the electronics industry. Raw material shortages and issues with transport were often cited by survey respondents, with companies also commenting on continued disruptions in China and strikes by workers in their supply chains.



Source: S&P Global Electronics PMI Survey

Industry supply shortages for the semiconductors and electrical products industries remained far above their long-run average, although these shortages showed some signs of easing in recent months.

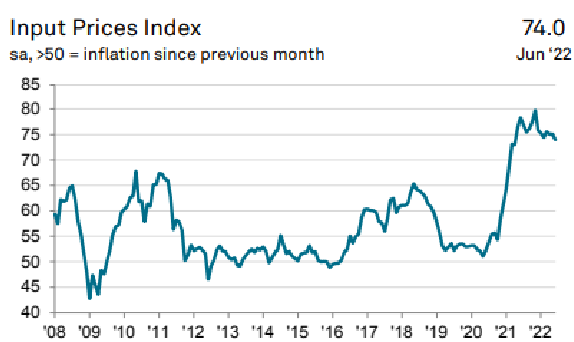
Companies worldwide reporting shortages

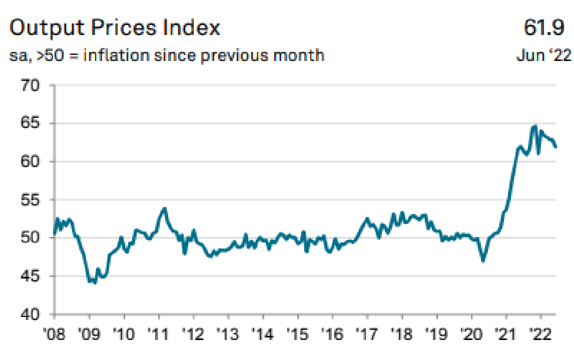


Source: S&P Global PMI surveys.

Inflation pressures remain severe

Global electronics manufacturers continue to face intense cost pressures, according to June survey data. Increases in international raw material prices and rising supplier fees were commonly mentioned reasons for sustained inflationary pressures. Overall, input costs rose at one of the steepest rates in the series history, with the Input Prices PMI sub-index at 74.0 in June, albeit having eased slightly from recent peaks.





Source: S&P Global Electronics PMI Survey

Due to continued high input pricing pressures, many companies have at least partially passed on costs to their clients. The Output Prices PMI sub-index recorded 61.9 in

June, still signaling very high output price pressures compared to the survey's history in the past decade.

Electronics outlook

The near-term outlook for the APAC electronics industry is for continued expansion, as signaled by the most recent 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 the second half of 2022. However, growth momentum has been moderating in recent months. Slowing growth momentum in the key markets of the US and EU are also expected to act as a drag on electronics new orders during the second half of 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 the rebound in global demand for autos during 2021 after the slump during the first half of 2020, has boosted 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 strong world economic growth forecast over 2022-2024. 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. India is also trying to establish a commercial semiconductors manufacturing sector, to reduce its heavy reliance on imported semiconductors.

A key risk of concern to many governments is excessive global vulnerability of manufacturing supply chains 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 have escalated since 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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Flash PMI overview

Flash PMI data signal developed world economic decline at start of third quarter

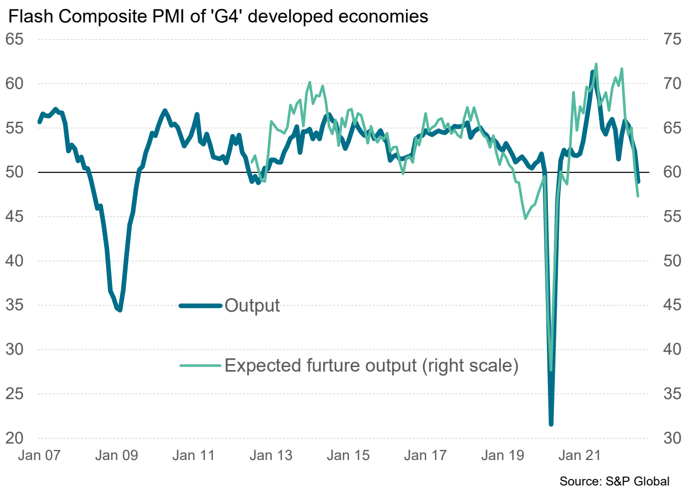
Early PMI survey data showed economic output contracting in the US and Eurozone during July, with growth meanwhile slowing in both the UK and Japan. Collectively, output across these four largest developed world economies consequently fell for the first time since June 2020. If pandemic months are excluded, this was the worst developed world economic performance for a decade.

Forward-looking indicators, such as new orders and the orders-to-inventory ratio, suggest the deterioration in output growth could gain further momentum in the remainder of the third quarter.

Although inflationary pressures remained elevated, weaker demand led to an alleviation of supply constraints and lower price pressures. Average selling price inflation for goods and services fell in all four economies as a result.

The July flash PMI coincide with a significant tightening of financial conditions as central banks raise interest rates to fight off decades-high inflation. Such rate hikes threaten to push economic activity further lower in the coming months, but the cooling of price pressures already evident may help to moderate the pace of rate hikes later in the year.

Major developed economies, current and expected future output



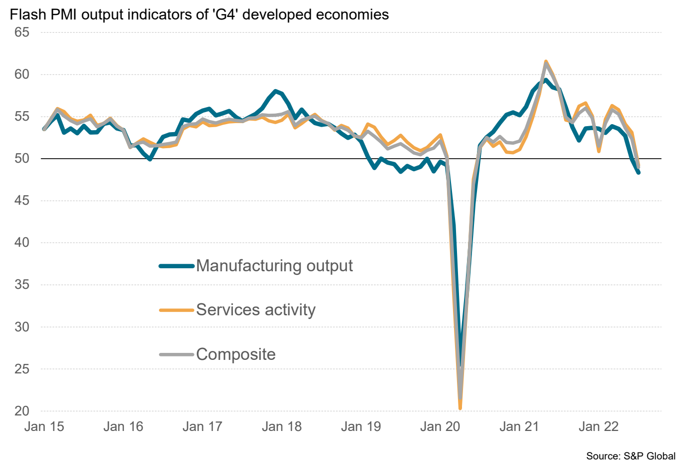
Developed world output falls

Provisional PMI survey data indicate that economic output across the four largest developed economies – the 'G4', including the US, Eurozone, Japan and the UK – fell in July for the first time since the initial pandemic downturn in the second quarter of 2020. The GDP-weighted flash PMI survey output indices for the G4 collectively registered 49.0, down from 52.4 in July, dropping below the 50.0 level to indicate a renewed fall in output. Excluding the COVID-19 lockdown months, the July reading was the lowest since October 2012.

Manufacturing across the G4 fell for the first time June 2020, having stalled in June, with new orders down for a second month running. Excluding the pandemic lockdown months, July's fall in new orders for goods was the steepest seen over the past decade.

Service sector output also fell across the G4 for the first time since June 2020 as the surge in demand for services seen earlier in the year as economies reopened from Omicron-related containment measures faltered to near-stagnation.

G4 output by sector



With new orders generally continuing to weaken, the near-term outlook for output is one of a steepening downturn, which is corroborated by a further fall in the surveys' future output expectations index, which sank sharply in July to a two-year low.

The US reported the worst performance of the G4 in July, the S&P Global flash PMI for the US dropping from 52.3 in June to 47.5, its lowest since May 2020. Excluding pandemic lockdown months, output is falling at a rate not seen since 2009 amid the global financial crisis, with the survey data indicative of GDP falling at an annualised rate of approximately 1%. Manufacturing stalled and the US service sector's rebound from the pandemic moved into reverse, as the tailwind of pent-up demand was countered by the rising cost of living, higher interest rates and growing gloom about the economic outlook.

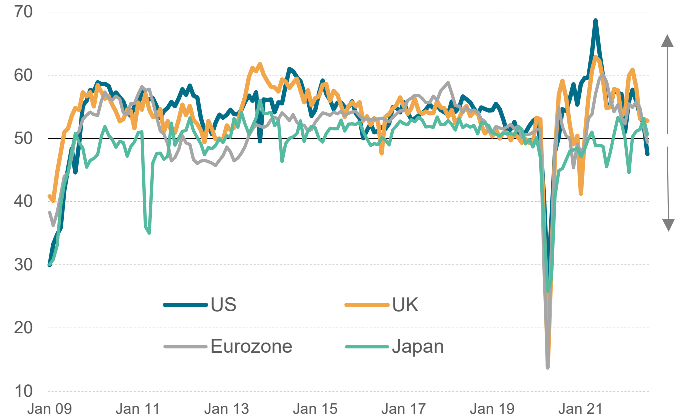
A renewed downturn was also seen in the eurozone. The flash S&P Global Eurozone PMI fell from 52.0 in June to 49.4 in July, signalling contraction for the first time since February 2021. Excluding pandemic months, July's fall in output was the first since June 2013, indicative of the economy contracting at a 0.1% quarterly rate. An accelerating downturn in manufacturing was accompanied by a near-stalling of service sector growth as the rising cost of living continued to erode the tailwind of pent-up demand from the pandemic. Although only modest at present, a steep loss of new orders, falling backlogs of work and gloomier business expectations all point to the rate of decline gathering further momentum.

UK economic growth meanwhile deteriorated to slowest since the lockdowns of early-2021, the composite flash PMI dropping from 53.7 in June to 52.8 in July. Although not yet in decline, with pent-up demand for vehicles and consumer-oriented services such as travel and tourism helping to sustain growth in July, the UK PMI is now at a level consistent with just 0.2% GDP growth. Forward-looking indicators suggest worse is to come. Manufacturing conditions deteriorated for the first time in one-and-a-half years and raw material purchasing has slumped. While service providers continued to outperform in July, the latest expansion was the weakest for 17 months.

July's preliminary PMI survey results for Japan also signalled a significant loss of growth momentum. While second quarter growth had been boosted by the reopening of the economy from Omicron-related containment, July has seen this rebound fade leading to much-reduced service sector growth and a renewed fall in manufacturing output. The headline au Jibun Bank PMI fell from 53.0 in June (its highest level since last November and one of the highest readings seen since 2014) to 50.6, its lowest since March. As with the other economies, the details found in the Japanese survey's sub-indices, such as new orders and inventories, point to the trend deteriorating further in August.

Current output growth

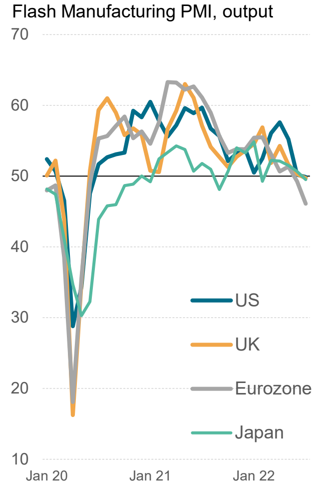
Flash Composite PMI, output



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

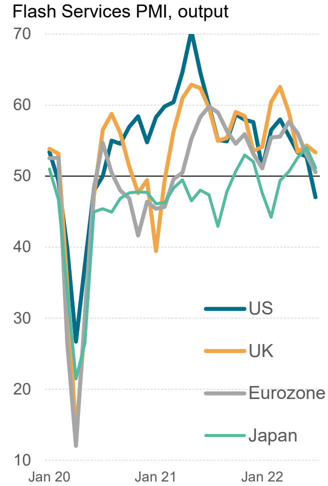
Manufacturing

Flash Manufacturing PMI, output



Services

Flash Services PMI, output



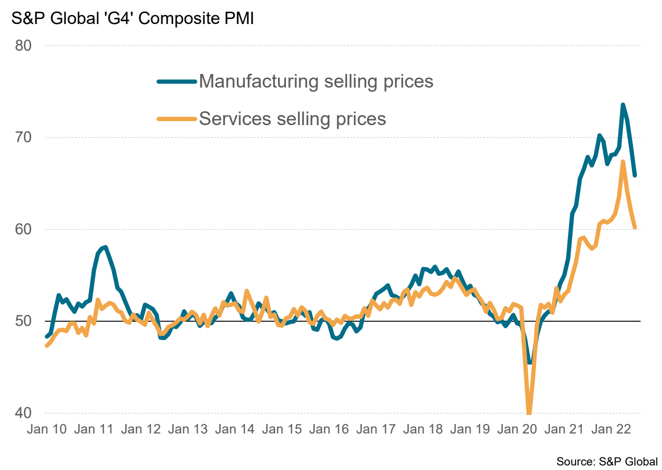
Source: S&P Global (with au Jibun Bank in Japan).

Looking across all four major economies, July saw the largest ever monthly rise in inventories of finished goods recorded since comparable data were available in 2007, often reflecting reports of weaker than expected sales and underscoring the recent deterioration of demand conditions. The new orders to inventory ratio – a useful gauge of near-term growth trends – consequently fell across the board, hinting at weaker manufacturing output growth in the coming months.

Service sector input cost inflation also cooled, down to a five-month low across the G4. These reduced cost pressures in turn helped bring down average selling prices for both goods and services in July, hinting at a broad-based easing of inflationary pressures.

Manufacturing orders-inventory ratios

Good and services selling prices

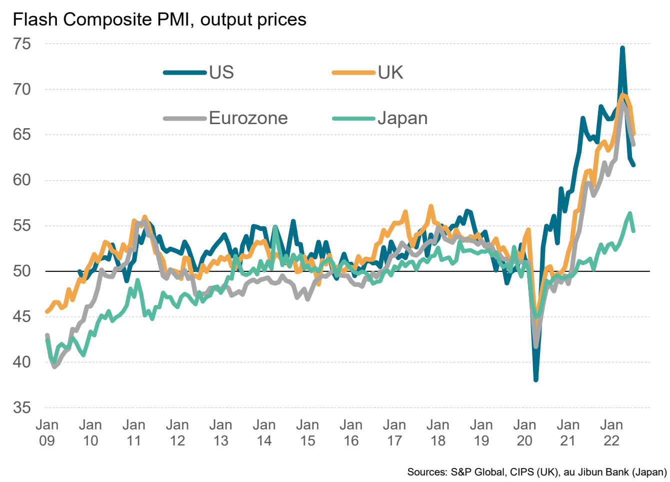


Demand weakness alleviates price pressures

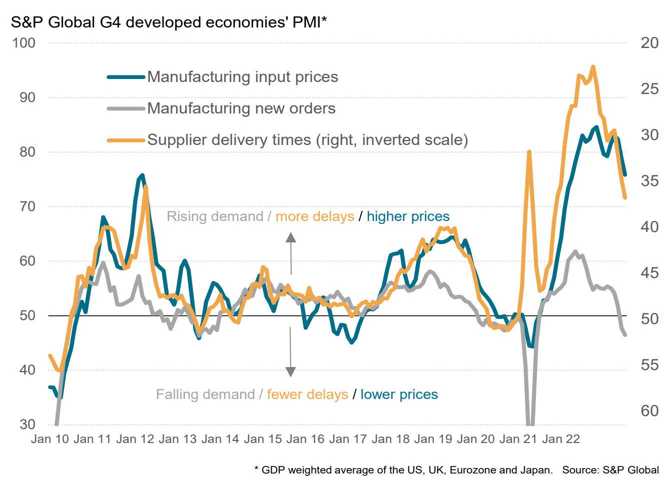
A positive from the recent weakening of demand signalled by the surveys was an alleviation of supply constraints, which in turn helped to moderate price pressures. July saw average supplier delivery times lengthen across the G4 to the smallest extent since November 2020. Average manufacturing input prices grew at the slowest rate since April 2021.

Average selling prices for goods and services hit a 16-month low in the US, a six-month low in the UK, a five-month low in the eurozone and a three-month low in Japan.

Good and services selling price inflation



Manufacturing, demand, supply and prices



Central bank policy adds to recession risk

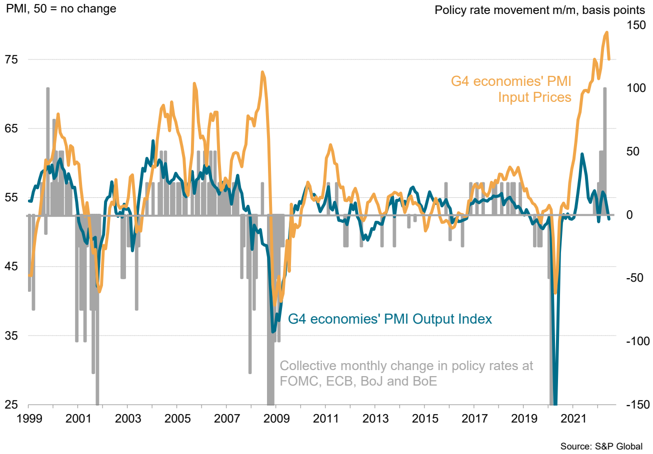
With output and demand growth as weak as signalled by the PMIs in July, central banks would traditionally be seeking to stimulate the economy. However, the July flash PMI data coincide with a further tightening of monetary policy across the developed world as central banks seek to control consumer prices inflation, which is running at the highest for four decades in the US and Europe.

In the US, the Fed has tightened policy by 180 basis points (bp) with a further 75bp hike anticipated this week. The Bank of England has meanwhile already hiked on five occasions, totalling 115 basis points, with the pace of tightening set to step up with a 50bp hike expected at its August meeting, and the ECB has raised its main policy rate by 50 points with a further hike of at least 50 bp signalled for September.

The concern is that these rate hikes, designed to dampen demand growth, will drive the pace of economic activity lower in the coming months, pushing economies into recessions.

Encouragingly, the recent easing of price pressures suggest that the major central banks may be able to ease back on the pace of tightening as the year proceeds and inflation rates cool.

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



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Links to more resources

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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
- PMI data use-case illustrations, from nowcasting to investment strategy
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