PMI™ by S&P Global

Week Ahead Economic Preview

Services PMIs to provide fresh economic insights as central banks brace for aggressive rate hikes

5 September 2022

Central bank meetings will dominate headlines this week with the Reserve Bank of Australia (RBA), European Central Bank (ECB) and the Bank of Canada (BoC) all set to assemble. S&P Global services and construction PMIs will meanwhile add to last week's manufacturing PMIs which indicated a general slowdown and even contractions in activity. Elsewhere Q2 GDP updates for Japan, Eurozone and Canada will be eyed by markets while inflation figures for mainland China are also released.

Inflation data across the globe has confirmed worryingly persistent price pressures. Central banks have employed hawkish monetary policies amid efforts to cool growth and curb price rises, and this week sees the ECB, BoC and RBA likely to step hard on the brakes again. In all cases, rate hikes are on the table. Canada is dubbed to hold the strictest stance though it remains to be seen whether a 50-, 75- or 100-point hike is implemented. RBA is set to continue its 50 basis-points hike trend. However, it's likely that the ECB will garner the most market interest, with an unprecedented hike of 75 basis points now priced in. Q2 GDP updates for the Eurozone will also be released and add colour on economic performance.

The central bank meetings come in a week in which services PMIs are updated. After manufacturing PMIs showed a broad-based slowdown and easing price pressures, the focus will shift to the resilience of consumer spending on services amid the rising cost of living and high interest rates. The surveys will also provide an insight into the pass through of higher energy costs and wages to selling prices.

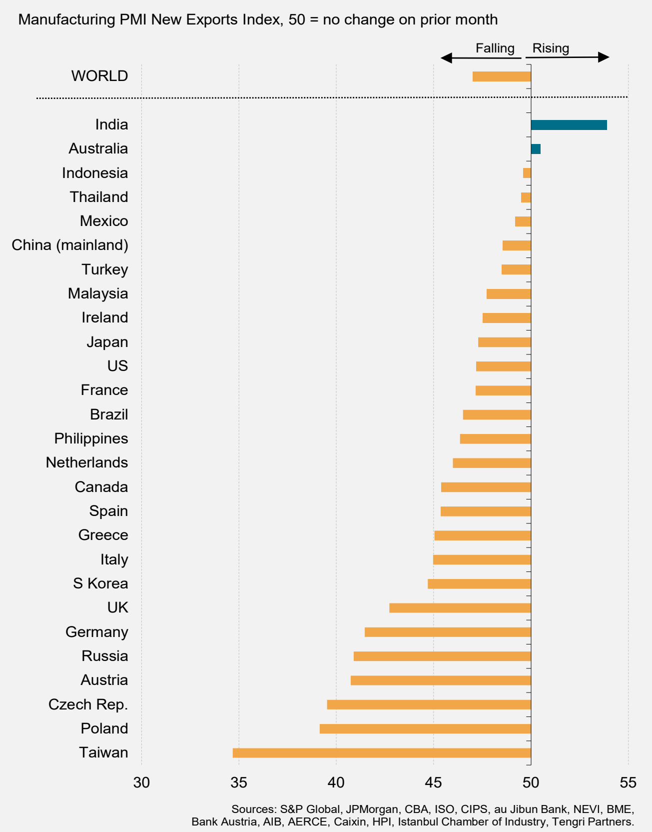
In Asia, a plethora of inflation data will be released, most notably for mainland China, Thailand and Taiwan. Mainland China's inflation rates are set to grow, but still remain weaker than those seen across the globe. Elsewhere, in Japan and Australia Q2 GDP growth rates will provide an indication into second quarter performance.

Finally, a relatively quiet week in terms of economic data for the US, whereas Canada sees a wealth of releases. Employment, inflation and GDP updates will be released for the latter, in addition to the central bank meeting.

Manufacturing under pressure as global trade shrinks

Worldwide services PMIs are released in the coming week, coming on the heels of the manufacturing PMIs. The factory gauges were disappointing (see special report), with global output in decline amid the rising cost of living and an accelerating downturn in global trade flows. In fact, only India reported any material growth of goods exports in August, with Australia registering only a marginal decline and all other economies suffering falling exports. Perhaps most disconcerting was the extent of the decline in Taiwan, often seen as a bellwether of near-term global trade flows, where the decline was by far the steepest of all economies surveyed.

Manufacturing PMI new export orders rankings



Key diary events

Monday 5 September
US Market Holiday
S&P Global Worldwide manufacturing PMIs*
Australian Retail Sales (Jul)
Thailand Core Inflation (Aug)
Singapore Retail Sales (Jul)
Switzerland GDP (Q2)
Eurozone Retail Sales (Jul)

Tuesday 6 September
S&P Global Construction PMIs*
United Kingdom BRC Retail Sales Monitor (Aug)
Japan Household Spending (Jul)
Philippines Inflation Rate (Aug)
Australia RBA Interest Rate Decision
Netherlands Inflation rate (Aug)
Germany Factory Orders (Jul)
Taiwan Inflation Rate (Aug)
Spain Consumer Confidence (Aug)

Wednesday 7 September
Australia GDP Growth Rate (Q2)
China Balance of Trade (Aug)
Japan Coincident Index Prel (JUL)
Germany Industrial Production (Jul)
United Kingdom Halifax House Price Index (Aug), BBA Mortgage Rate (Aug)
Italy Retail Sales (Jul)
Eurozone GDP (Q2)
United States MBA Mortgage Applications (02/SEP), Balance of Trade (Jul), Fed Beige Book
Canada Balance of Trade (Jul), BoC Interest Rate decision
Poland Interest Rate decision

Thursday 8 September
Japan GDP (Q2), Eco Watchers Survey (Aug)
Australia RBA Gov Lowe Speech, Balance of Trade (Jul)
Philippines Unemployment Rate (Jul)
France Non-Farm Payrolls (Q2), Balance of Trade (Jul)
Mexico Inflation Rate (Aug)
Switzerland Unemployment Rate (Aug)
Eurozone ECB Interest Rate Decision, ECB Press Conference
United States Jobless Claims (Sep), Consumer Credit (Jul)
New Zealand Electronic Retail Card Spending (Aug)

Friday 9 September
China Inflation Rate (Aug)
Netherlands Manufacturing Production (Jul)
France Industrial Production (Jul)
Brazil Inflation Rate (Aug)
Canada Employment Change (Aug)
United States Wholesale Inventories (Jul)
Russia GDP (Q2), Inflation Rate (Aug)

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

What to watch

S&P Global worldwide services PMIs

Following last week's manufacturing data – which revealed contractions in private sector activity across the UK, Eurozone, Japan, France, Germany and US – services PMI data will provide further insight into macroeconomic conditions. Flash data pointed to a general slowdown in activity, with some regions also registering outright declines. While the service PMIs will be watched with particular interest on Tuesday, also watch out for the construction and other detailed sector PMI releases mid-week.

Americas: Canada Q2 GDP, BoC interest rate decision, US mortgage applications and US balance of trade

This week sees a wealth of economic data and events for Canada with the BoC Interest Rate Decision arguably the most significant. A rate hike is certainly on the table, though it remains unclear on whether it'll be a 50-, 75- or even a 100-basis point hike after the previous meeting's 100bp shock. Q2 GDP updates will accompany the bank's decision.

Elsewhere balance of trade data for the US are forecasted to come in around the -\$72.3bn mark (down from -\$79.6bn). US mortgage application data will also be eyed by markets.

Europe: Eurozone Q2 GDP and ECB Interest Rate Decision

The ECB is set to unveil its latest interest rate decision on Thursday, and is sure to dominate headlines. After rising to a record 9.1% in August, CPI price pressures have showed no sings of easing. ECB officials warn a sacrifice is needed to tame surging inflation which will no doubt come in the form of another rate hike. A 75-basis point hike is now widely expected. The third Q2 eurozone GDP estimate will meanwhile reveal performance with annual growth forecast to moderate to 3.9%.

Asia-Pacific: RBA Interest Rate Decision, Japan Q2 GDP, China Inflation

Price pressures in Australia have not displayed any sigh of relief with the latest CPI at 6.1%. Reserve Bank meeting minutes pointed to further steps taken to normalise monetary conditions. Three consecutive 50.0 basis point hikes suggest a fourth is highly likely.

Elsewhere in Asia, China inflation figures will be highly anticipated by markets and Japan will release Q2 GDP updates.

Special reports:

Global Manufacturing | Chris Williamson | page 4

Recent PMI and economic analysis from S&P Global

Global	With inflation cresting, the global economy can achieve a soft landing	24-Aug	Sara Johnson
Africa	Inflation and unrest in sub-Saharan Africa	25-Aug	Jordan Anderson Langelihle Malimela Martin Roberts Thea Fourie Theo Acheampong
Europe	Eurozone manufacturing downturn set to gather pace as inventories accumulate at record pace	1-Sep	Chris Williamson
Americas	US Weekly Economic Commentary: No recession through July	30-Aug	Akshat Goel Ben Herzon Joel Prakken Ken Matheny

S&P Global Economics & Country Risk highlights

Weekly Pricing Pulse: Natural gas spike offsets otherwise weak commodity pricing

Our Materials Price Index (MPI) rose 2.9% last week, marking back-to-back weekly increases near 3% for the first time since early March. The recovery in prices was almost entirely driven by the energy component, however, with seven out of the index's ten subcomponents either decreasing or remaining flat. Even though the MPI jumped strongly last week, it is still 15.5% below its all-time high established in early March. **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

Global manufacturing

Global manufacturing PMI at 26-month low with downturn set to deepen

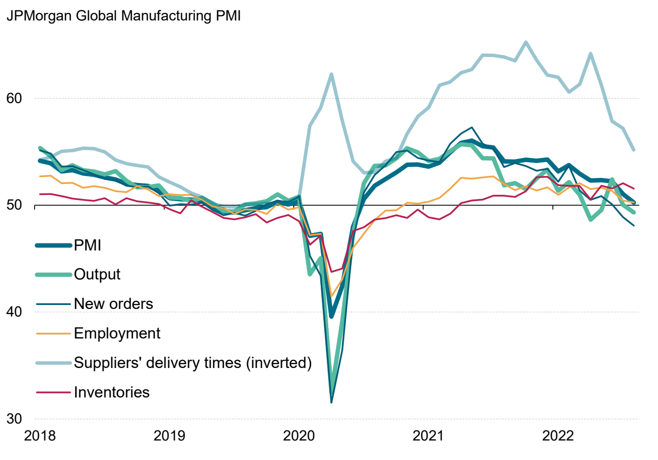
The JPMorgan Global Manufacturing Purchasing Managers' Index™ (PMI™), compiled by S&P Global, fell from 51.1 in July to 50.3 in August, its lowest since June 2020.

Output only rose in ten of the 30 economies for which data are available, and in five of those – including mainland China – the gains were only marginal. Production losses were meanwhile recorded in the United States, Eurozone, UK and Japan.

The survey's sub-indices, explored further in this paper, point to the production trend deteriorating in the coming months. Most notably, new orders continued to fall at an increased rate in August, and inventory levels continued to rise amid weaker than anticipated sales.

There was encouraging news on the inflation front, however, as weakening demand and improving supply led to a marked cooling of price pressures in the factory sector, with pricing power shifting from sellers to buyers.

Chart 1: Global manufacturing PMI and its five components

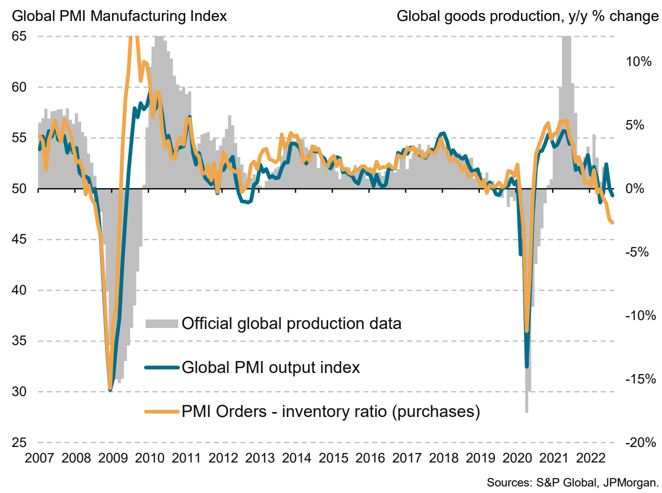


Global factories set for steepening downturn

The global manufacturing PMI survey's Output Index, which acts as a reliable advance indicator of actual worldwide output trends several months ahead of comparable official data (see chart 2), signaled a marginal drop in worldwide factory production in August, the third such decline seen over the past five months.

However, while modest at present, the downturn look set to gather momentum in the months ahead given marked deteriorations in other survey variables. Most importantly, the new orders to inventory ratio, a useful guide to near-term production trends, fell further in August, dropping to a level which, besides the initial pandemic lockdown months, was the lowest since April 2009, at the height of the global financial crisis.

Chart 2: Global manufacturing output



Only one-in-three economies report rising output

It is also noteworthy that, whereas the modest decline in output seen in April and May were driven largely by COVID-19 lockdown measures in mainland China, August's decline is more broad based. Of the 30 economies for which S&P Global PMI data are so far available for August (Vietnam is published on 5th September), only ten reported an increase in production. Furthermore, of these ten, only marginal gains were seen in five countries. In fact, output rose to any noteworthy extent only in Thailand and India, albeit with further modest but significant gains seen in Colombia, Indonesia and Russia (the latter enjoying a rebound in domestic demand).

Output meanwhile fell especially sharply in the UK, where the loss was only exceeded by the declines registered in Taiwan and Poland, as well as in the eurozone. Moderate declines were meanwhile seen in the US and Japan, while growth in mainland China slowed close to stalling after two months of post-'lockdown' rebound.

Chart 3: Manufacturing output in key economies

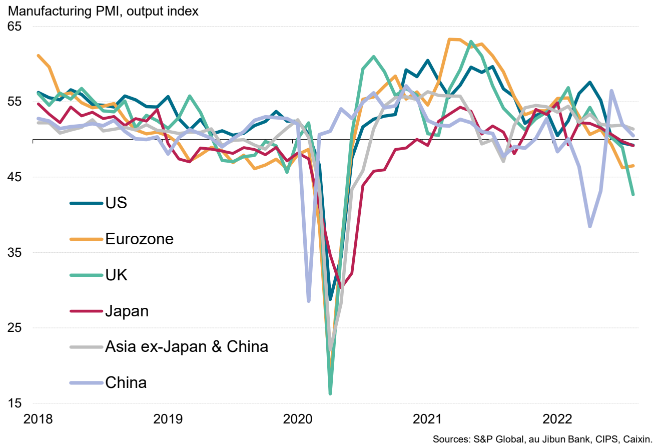
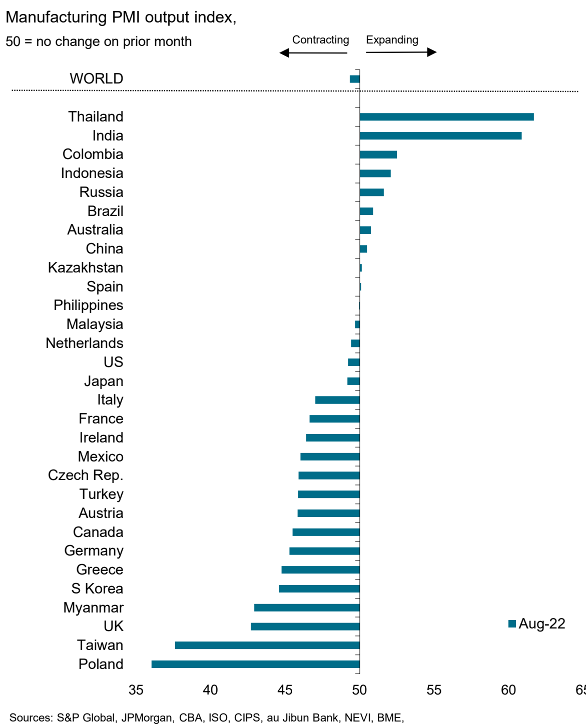


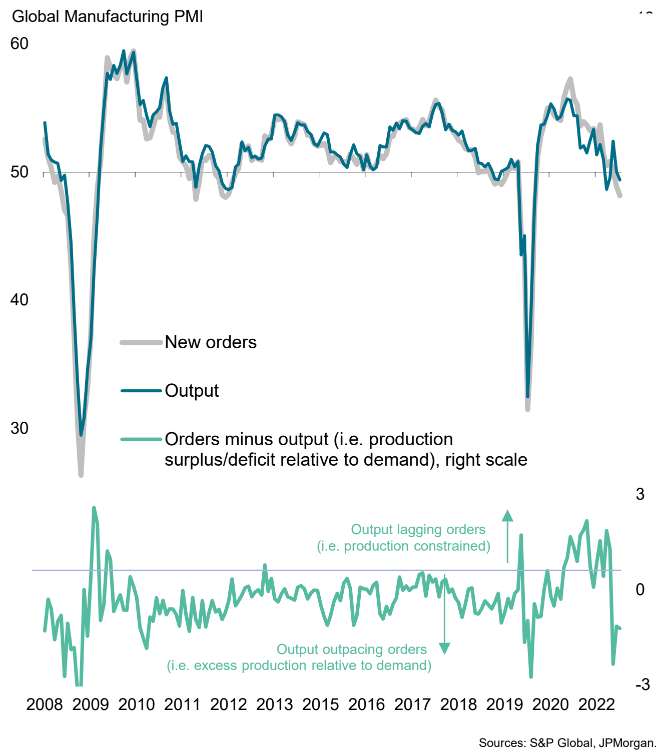
Chart 4: Manufacturing output by major economy



Orders fall faster than output as global trade slumps

To further understand the near-term trajectory of manufacturing output we first need to assess the health of current demand, and in this respect the latest PMI survey data showed inflows of new orders falling at an increased rate in August. The decline was in fact one of the largest seen over the past decade, albeit far smaller than the drops seen in the initial stages of the pandemic, and – importantly – exceeded the drop in output. This divergence between output and new orders in recent months (see chart 5) suggests that, absent a sudden revival in demand, manufacturers will need to adjust output down further in the coming months in line with the new, weaker, demand environment.

Chart 5: Global manufacturing output and orders



The deteriorating demand picture can in part be traced to a steepening downturn in global trade, as measured by the global PMI's new export orders index, which correlates well with official trade statistics, which are only available with a significant delay.

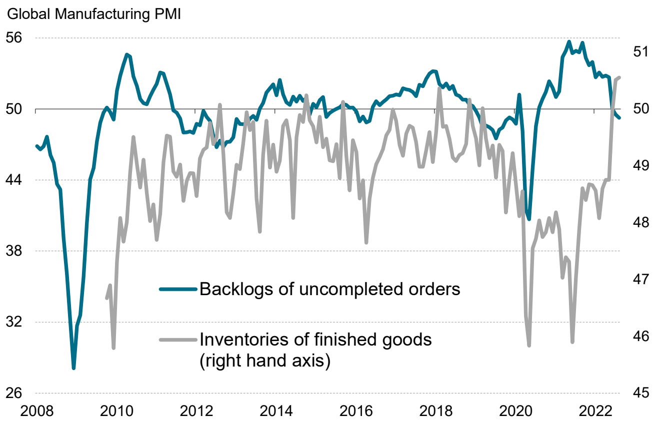
Chart 6 demonstrates the predictive power of the PMI export orders data against global trade, and points to trade flows falling in August at a rate not seen since the debt crisis of 2012 (excluding the early pandemic months).

Exports losses were recorded during August in the US, Eurozone, UK, Japan and mainland China. In fact only India, and to a lesser degree Australia, reported any export growth in August.

Chart 6: Global goods trade

Sources: S&P Global, CPB World Trade Monitor.

Chart 7: Capacity utilization indicators



Sources: S&P Global, JPMorgan.

Excess capacity

Dig down deeper into the survey data and the worrying signals start to multiply. There are two key indicators in particular which point to excess capacity developing in the manufacturing sector, reflective of the weakening of demand in recent months.

Frist, backlogs of orders (work in hand but not yet completed) fell for a second successive month. This marks a strong contrast with the record increases in backlogs of work seen during particularly busy spells over the past two years, which in turn reflected demand running ahead of production capabilities. In recent months, there is a reversal of this trend, with production capacity now running ahead of demand, meaning companies have been able to reduce their backlogs of work.

Second, inventories of finished goods rose in August at a rate unprecedented since comparable data were available in 2009, building on a prior record gain in July. This stock accumulation primarily reflects lower than expected sales and shipments to customers, rather than a deliberate stock-building, according to anecdotal evidence provided by survey contributors.

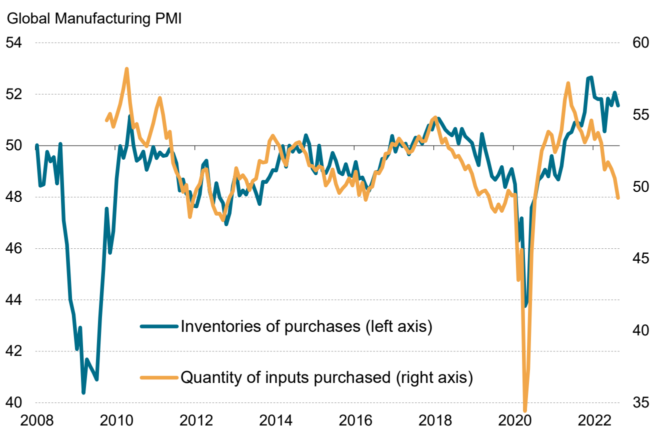
Such a stock build-up, alongside falling backlogs of work, suggests that companies will adjust production down in the months ahead.

Raw material buying falls amid unplanned stock build-up

Inventories of raw materials and other inputs are also rising at a rate seldom witnessed prior to the pandemic. However, whereas inventories of inputs were rising in 2021 due to deliberate stock building as producers focused on supply chain resilience, recent months have seen a growing number of companies report that inventories are now rising due to lower than anticipated use in production, in turn linked to disappointing sales levels.

In fact, inventories are now rising *despite* producers cutting back on their purchases of inputs, underscoring how low production levels are meaning warehouses are filling with unused raw materials.

Chart 8: Global manufacturing inventories of inputs, and input buying



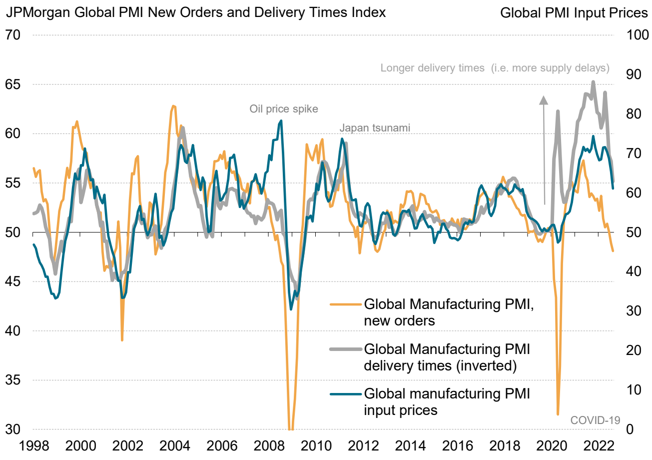
Sources: S&P Global, JPMorgan.

Prices rise at slowest rate for 20 months as supply constraints ease

A consequence of the recent fall in demand for goods and manufacturers' accompanying drop in demand for inputs has been an easing of supply constraints. Reports of longer supplier delivery times fell globally in August to the lowest for 22 months, with the incidence of delays running far lower than seen during much of the pandemic recovery period.

With demand falling and supply constraints easing, there has been a commensurate cooling of price pressures, as clearly demonstrated by chart 9. Many suppliers are offering better rates in order to sell unsold stock to manufacturers, and manufacturers themselves – often encumbered with planned high levels of inventory – are now often reluctant buyers.

Chart 9: Manufacturing prices, demand and supply



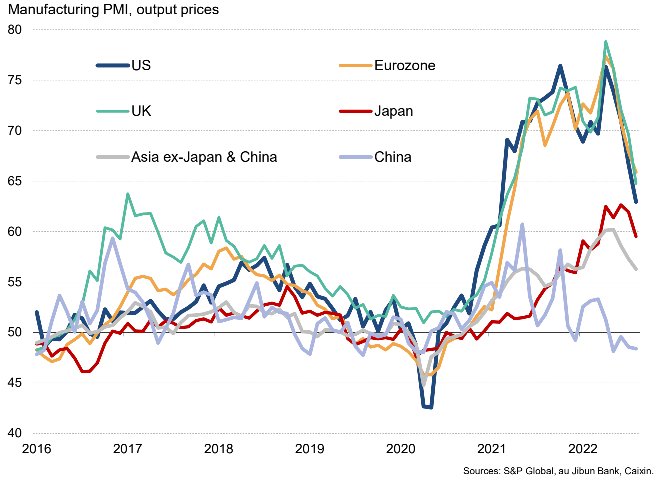
Sources: S&P Global, JPMorgan.

Pricing power shifting from sellers to buyers

Similarly, manufacturers are increasingly willing to reduce prices to win sales in the increasingly tough demand environment. Average prices levied for goods leaving the factory gate rose at the slowest rate for a year and a half in August as a result. Steep moderations in rates of selling price inflation were evident in the US, Eurozone and UK, as well as in Japan, with prices even continuing to fall in mainland China.

In short, pricing power is shifting from sellers to buyers as the manufacturing sector faces a period of falling demand and reduced production.

Chart 10: manufacturing selling prices



Sources: S&P Global, au Jibun Bank, Caixin.

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