

Week Ahead Economic Preview

Key inflation, industrial production and retail sales updates to guide recession risks

12 September 2022

A period of mourning observed to mark the death of Queen Elizabeth II takes place and means a scheduled policy meeting at the Bank of England has now been deferred to the 22nd September. Official GDP, inflation and job market data releases remain in the diary, causing the economic spotlight to fall on the UK as the week commences. Elsewhere, a busy economic calendar includes industrial production and retail sales data for the US and mainland China, as well as US and eurozone inflation numbers, plus a clutch of other industrial production and CPI updates around the world.

July's GDP update for the UK will help gauge recession risks amid a troubled currency, persistent high prices and rising economic uncertainty. Our forecasts point to a slowdown in growth in Q3 (1.86% v 2.91% in Q2), with the [PMI having entered contraction territory](#) in August. UK labour market statistics will also be eagerly assessed, both for second-round inflation effects in the wages data as well as for indications on the overall tightness of the job market, notably through vacancies. Recent [recruitment survey data](#) have hinted at a cooling job market.

Industrial production data meanwhile flows thick and fast, with a number of G7 and Asian economies releasing latest figures. Among those most watched will be the US, Japan, the UK and mainland China where August Manufacturing [PMIs](#) revealed contractions in output in the former three economies as well as a slowdown in China. China's retail sales data will also be keenly awaited, with lockdowns likely to have continued to constrain spending.

Elsewhere, inflation data for the Eurozone, US, UK, Germany, France and Spain will be updated. Eurozone inflation is set to be confirmed at 9.1%, the highest on record. In the US, while figures are projected to remain high, forecasts indicate a moderation (8.1%, down from 8.5%). In the UK, the energy crisis has been a particular concern for businesses and households alike. Inflation entered double digits and is forecast to prove sticky, remaining high at 10.5%, though recent announcements to help households with soaring energy costs suggests inflation will peak lower than previously anticipated.

Global real estate sees slumping demand amid tightening financial conditions

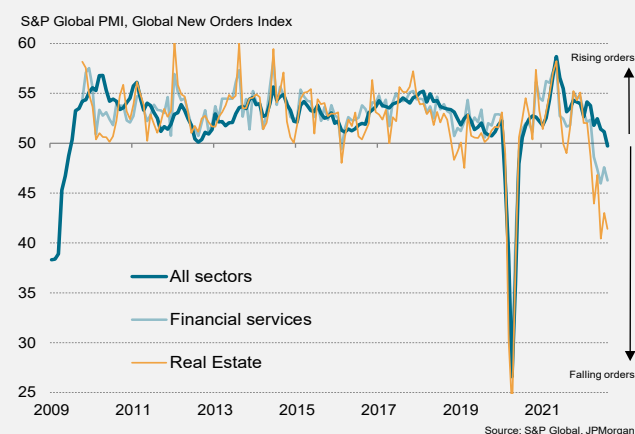
With the world's major central banks remaining firmly in aggressive tightening mode, it's no surprise to see demand for real estate coming under pressure, though the scale of the slump is becoming a growing concern.

S&P Global's detailed sector PMI showed new orders for real estate services to have fallen worldwide for a sixth month running in August, with the rate of decline running in recent months at a pace far surpassing anything seen since the global financial crisis, excluding the initial pandemic lockdowns. The broader financial services sector is likewise seeing a downturn of an intensity not seen since data were first available in 2009, barring the 2020 lockdowns, led by falling activity and demand in the US.

Deteriorating financial services performance can be traced to the rise in borrowing costs associated with tightening monetary policy, which has further to run. The ECB last week hiked its key policy rates by 75 basis points with further hikes signalled into the new year. The FOMC and Bank of England are likewise anticipated to continue to further ratchet up their policy rates aggressively as we head into 2023.

Any swift turnaround in the financial services sector therefore looks unlikely, and the performance of the sector will need to be monitored closely for signs of stress in the coming months, as worsening financial services trends can easily spill-over to the real economy, notably via defaults and reduced lending.

Global PMI new orders



Key diary events

Monday 12 September

Mainland China Market Holiday

United Kingdom Gross Domestic Product (Jul), Industrial Production (Jul), Manufacturing Production (Jul)
Italy Industrial Production (Jul)
China New Yuan Loans (Aug)
India Industrial Production (Jul)

Tuesday 13 September

Australian Westpac Consumer Confidence (Sep)
United Kingdom Employment (Aug), Unemployment Rate (Jul), Claimant Count (Aug)
Spain Inflation Rate (Aug)
Eurozone SEW Economic Sentiment (Sep)
Germany Harmonized Index of Consumer Prices (Aug), ZEW Economic Sentiment (Sep), Inflation (Aug)
United States Consumer Price Index (Aug)

Wednesday 14 September

United States MBA Mortgage Applications (Sep), Producer Price Index (Aug), NAHB Housing Market Index (Sep)
Brazil Retail Sales (Jul), Business Confidence (Sep)
United Kingdom CPI (Aug), Retail Price Index (Aug)
Hong Kong SAR Industrial Production (Q2)
Eurozone President von der Leyen speech
New Zealand Gross Domestic Product (Q2)
Japan Industrial Production (Jul), Merchandise Trade Balance (Aug)

Thursday 15 September

Australia Consumer Inflation Expectations (Sep), Employment Change (Aug), Unemployment Rate (Aug)
Netherlands Unemployment Rate (Aug)
France Inflation Rate (Aug)
Eurozone Balance of Trade (Jul)
China Foreign Direct Investment (Aug)
~~United Kingdom Bank of England Minutes, BoE Interest Rate Decision-Postponed to 22 September~~
United States Retail Sales (Aug), Initial Jobless Claims (Sep)
Industrial Production (Aug), Business Inventories (Jul)
New Zealand Business PMI (Aug)
Indonesia Balance of Trade (Aug)

Friday 16 September

Eurozone Inflation Rate (Aug)
South Korea Unemployment Rate (Aug)
Italy Balance of Trade (Jul)
Russia Interest Rate Decision, CBR Press Conference
Australia HIA New Home Sales (Aug)
Mainland China Industrial Production (Aug), Retail Sales (Aug)
United Kingdom Retail Sales (Aug)
United States Michigan Consumer Sentiment Index (Sep)

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

What to watch

Americas: US industrial production, CPI, consumer sentiment, retail sales

The US sees the release of CPI, University of Michigan consumer sentiment, retail sales and industrial production data. CPI data will be keenly eyed for further signs of the rate of increase having peaked, and the impact of high inflation (and rising borrowing costs) on consumers will be parsed from the sentiment data. Likewise, following stalled growth in July, retail sales will also be watched closely amid recent Fed hikes and the ongoing cost of living crisis. Analysts are meanwhile looking for a 0.8% rise in industrial production, albeit both ISM and PMI data showing some signs of manufacturing conditions starting to come under pressure

Europe: Spain and France inflation data and Germany sentiment data, UK GDP

A scheduled Bank of England monetary policy decision has been postponed due to the Queen's death, though the week sees with monthly GDP from the UK, which will be assessed for recession risks, as well as updated consumer price numbers, which recently struck a four-decade high, plus labour market statistics.

A wealth of official European industrial production data will also be released which will provide insight into manufacturing health of some of the largest economies. Forecasters predict that Eurozone, UK, and Italian figures are likely to adhere to the current downward trajectories, especially given the contractionary nature of their respective manufacturing PMIs.

Eurozone inflation data will also be a standout release in Europe this week, including details for Germany, France and Spain. Large energy reserves in France have made it less susceptible to recent shocks with inflation much lower than the EU as a whole. Predictions anticipate a moderation from 6.1% to 5.8% in August.

Asia-Pacific: China industrial production and retail sales, plus Japan production and trade updates

In APAC, India, mainland China, Japan and Hong Kong SAR industrial production figures will be released. Forecasters expect that China's manufacturing production will expand by only 0.2% amid the constraints of the ongoing zero COVID-19 policy. Retail sales for August are also likely to look weak.

In addition to the industrial production data, balance of trade figures for Japan will reveal export and import conditions, all of which are under scrutiny given the weakening of the yen to quarter-century lows.

Special reports:

Global economy | Chris Williamson | [page 4](#)

APAC | Rajiv Biswas | [page 8](#)

Recent PMI and economic analysis from S&P Global

Global	New PMI Comment Tracker dataset reveals key insights into the global supply chain	09-Sep	David Owen
	Monthly PMI Bulletin: September 2022	08-Sep	Lewis Cooper
	Global economy slides into contraction, price pressures ease to 1½ year low	06-Sep	Chris Williamson
	Banking risk monthly outlook: September 2022	08-Sep	Natasha McSwiggan
Europe	UK economy slides into contraction in August, prospects darken	05-Sep	Chris Williamson
Americas	US Monthly GDP Index for July 2022	02-Sep	Ben Herzon William Magee
	US Weekly Economic Commentary: Strong labor markets in August	06-Sep	Akshat Goel Ben Herzon Joel Prakken Ken Matheny

S&P Global Economics & Country Risk highlights

Weekly Pricing Pulse: Commodity sell-off as data continues to disappoint



Our Materials Price Index (MPI) fell 5.4% last week, with all but one of the index's ten sub-components declining. Markets are growing increasingly anxious about global growth, particularly in mainland China, and continued aggressive monetary tightening in the United States. This sparked the second largest weekly decline in the MPI this year and leaves prices 20% lower than the all-time high established in March 2022.

[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.ihsmarket.com. For more information on our PMI business surveys, please visit www.ihsmarket.com/products/PMI

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Special Focus

Global economy

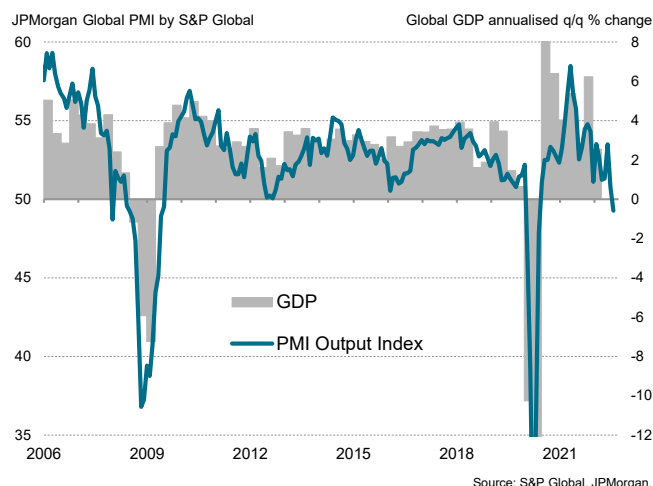
Global economy slides into contraction, price pressures ease to 1½ year low

Global economic output contracted in August for the first time since June 2020, according to the latest PMI survey data. Although only modest, the downturn reflects an increasingly broad-based deterioration of output and demand conditions both by sector and region. Companies are also taking a more cautious approach to cost control and employment in the face of the worsening economic climate.

More encouragingly, price pressures have abated, with the rate of inflation of firms' costs having now cooled for a third month in a row to reach the lowest for one and a half years.

The survey data therefore reflect how central banks are hiking interest rates into an economic downturn which, while bearing fruit in terms of helping lower inflation, is adding to the risk of a deepening global contraction and possible recession.

JP Morgan Global composite PMI

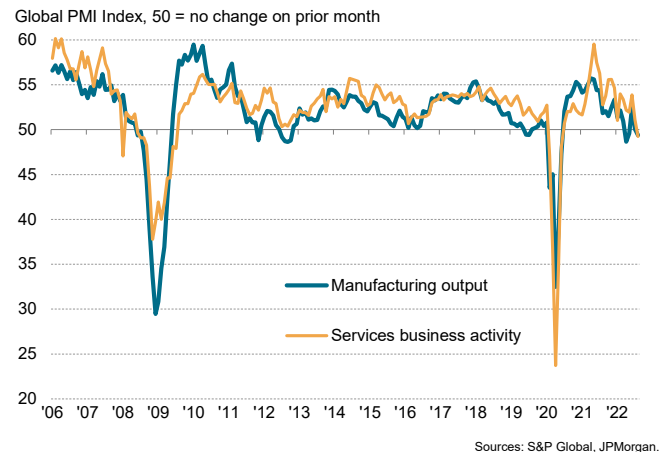


Manufacturing and services fall into decline

Global business activity contracted in August for the first time since the initial pandemic lockdowns of early 2020, according to PMI survey data compiled by S&P Global and sponsored by JPMorgan. The headline PMI, measuring output of both manufacturing and services, fell from 50.8 in July to 49.3 in August, dropping below the 50.0 no change level for the first time since June 2020. If lockdown months are excluded, the latest reading was the lowest since June 2009, during the global financial crisis.

Although at present the scale of the downturn remains far weaker than seen during the GFC, August saw output of both manufacturing and services fall into modest declines, reflecting an increasingly broad-based deterioration of global output and demand growth.

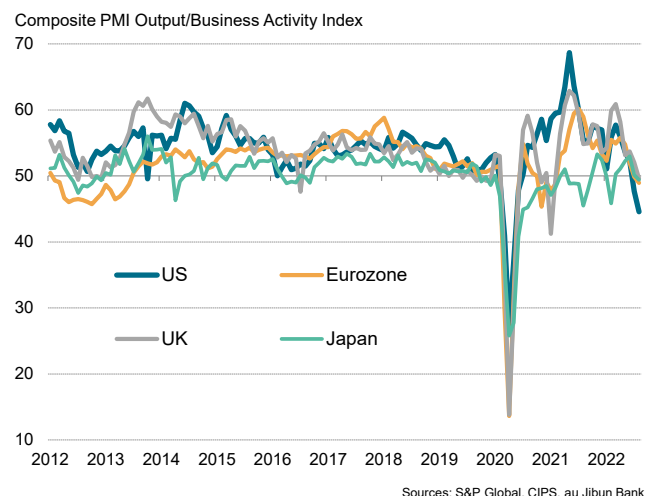
Global manufacturing and services output

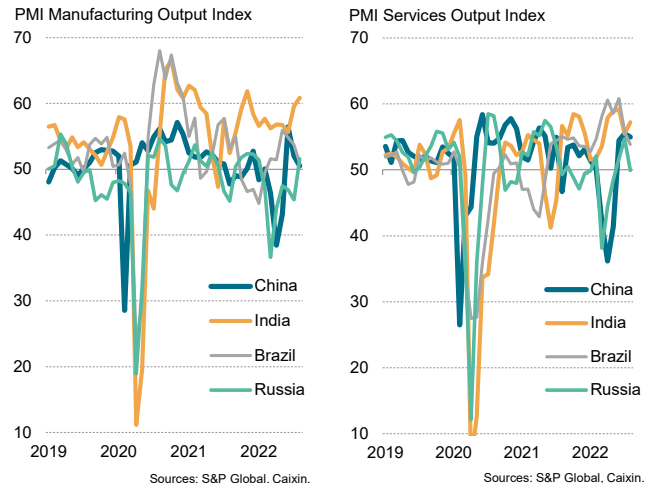
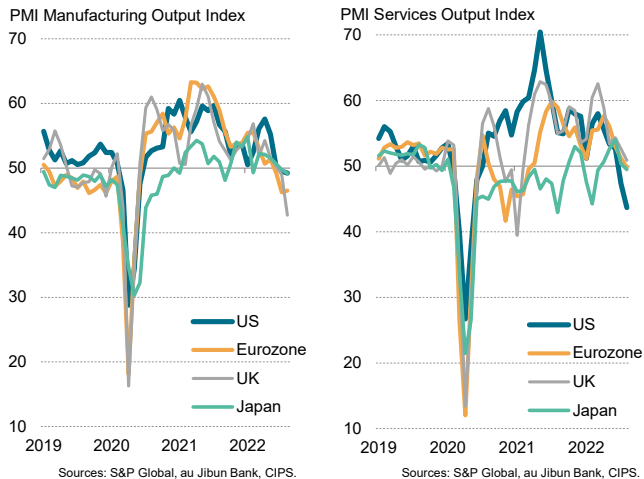


Downturns in all major developed economies

For the first time since early 2020, all four largest developed economies reported falling output. While the eurozone, UK and Japan all slipped into minor downturns, a steeper contraction was recorded in the US. All four reported lower manufacturing output levels, accompanied by either falling or largely stalled service sectors, with the US reporting by far the steepest service sector decline.

Developed market PMI output indices



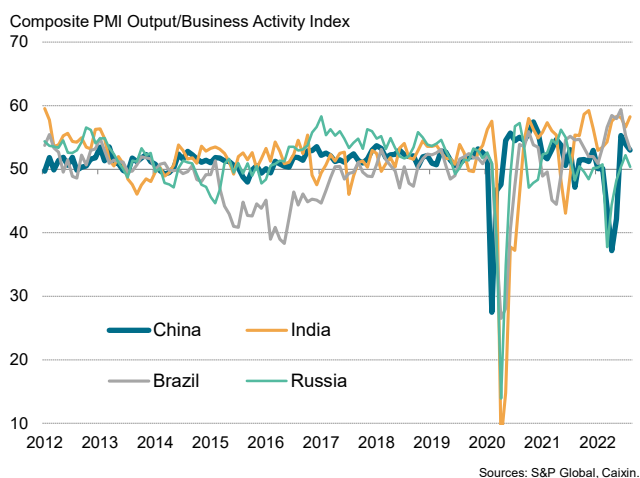


Growth trends meanwhile varied among the major emerging markets. While India reported strong and accelerating growth, enjoying one of its fastest expansions seen over the past decade, more moderate gains were seen in Brazil and mainland China, as in both cases robust service sector gains were offset by near-stalled manufacturing economies. In Russia, business activity barely expanded due principally to the impact of sanctions, which drove a further steep downturn in exports of both goods and services.

Falling demand

The main cause of deteriorating output trends was a weakening of the demand environment. New orders for manufactured goods fell globally in August, accompanied by a near-stalling of demand for services. Global exports of both goods and services also fell, leading the downturn in demand.

Emerging market PMI output indices



Global new orders



The principal cause of lost orders was higher prices and the cost-of-living crisis, as well as increased risk aversion from both households and business due to the darkening economic picture. Some countries also saw reports of higher interest rates hitting demand (notably in the financial services sector, and real estate in particular).

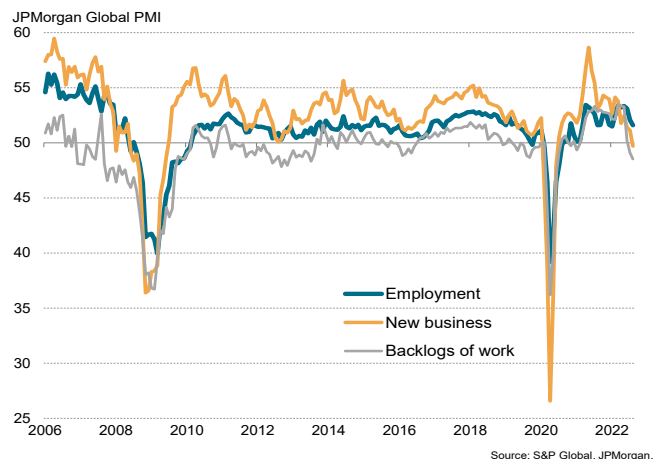
Excess capacity signals

Not only did inflows of new orders fall during August, but backlogs of work also declined, as the reduced influx of new work meant operating capacity levels were only maintained via the depletion of work placed in prior months.

Such a running-down of order book backlogs has two key implications.

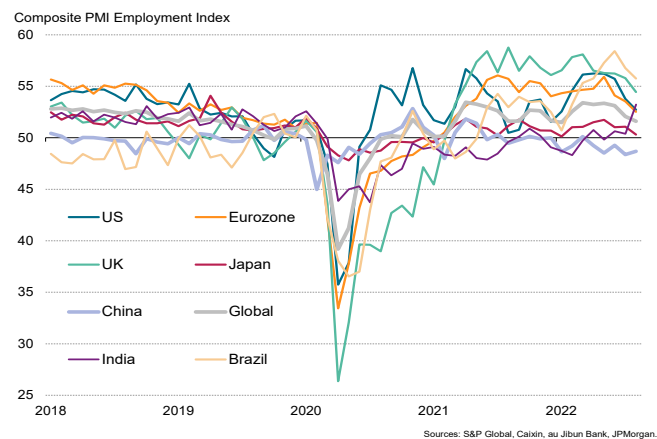
First, lower backlogs are usually followed by a slowdown in hiring as firms take a more cautious approach to staffing levels. August saw global jobs growth slacken to the weakest since January as a result.

Order books and employment



Mainland China reported the gloomiest labour market trend, with a further contraction of payroll numbers recorded in August. Employment growth slowed in all other major economies with the exception of India, which saw faster jobs growth.

Employment by major economy



Price pressures cool

Second, the drop in backlogs of work speaks to a wider issue of the demand and supply imbalance, and the resulting impact on prices.

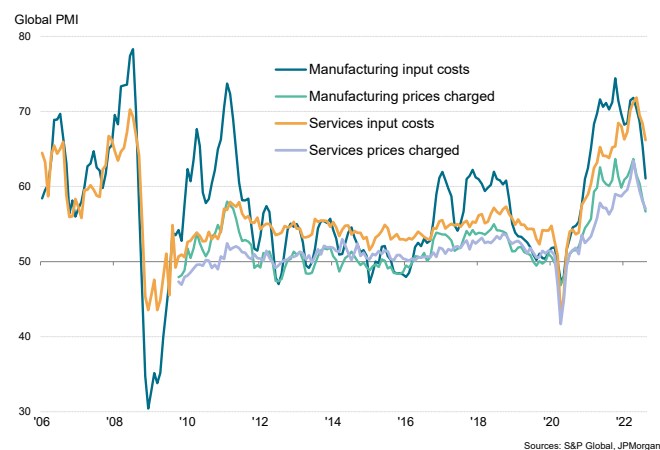
Whereas 2021 was characterized by demand running ahead of supply, with the latter constrained by pandemic-related raw material and labour shortages, 2022 is seeing a reversal of this imbalance: demand is now falling and supply conditions

improving. Hence price pressures are abating, both for goods and services.

Global input cost inflation has in fact now eased for three successive months to run at the lowest since March 2021, albeit remaining elevated by historical standards.

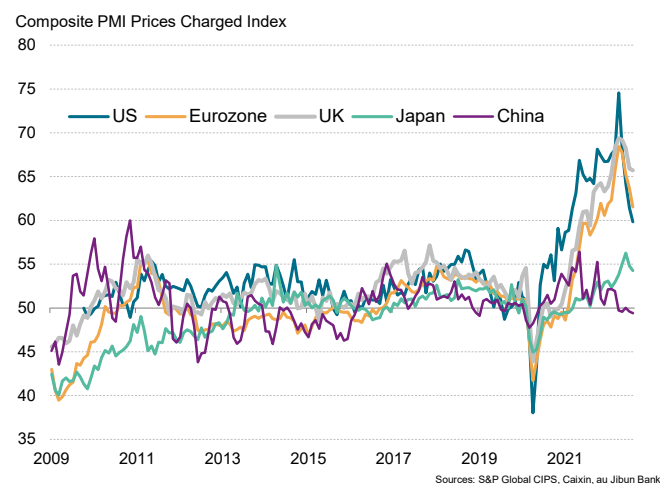
Lower input cost growth is also feeding through to lower inflation rates for goods and services selling prices. Measured globally, average prices charged for services rose at the slowest rate for a year in August, while goods prices rose at the slowest rate for a year-and-a-half.

Global cost and price pressures



Reduced input cost inflation and worsening demand fundamentals has led to falling selling prices in mainland China and considerably softer rates of selling price inflation in the eurozone and US. Selling price inflation also cooled in Japan and the UK, though the latter saw evidence of prices remain stickier than elsewhere.

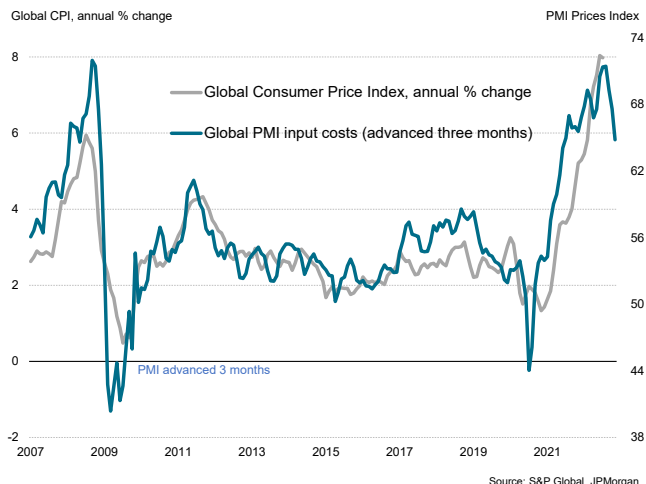
Selling price inflation rates



The August PMI surveys therefore suggest that global consumer price inflation should start to moderate in the months ahead, as

lower cost pressures feed through to lower wholesale prices and eventually filter through to the consumer.

Global consumer inflation and PMI prices



Links to press releases

[Global manufacturing PMI](#)

[Global services PMI](#)

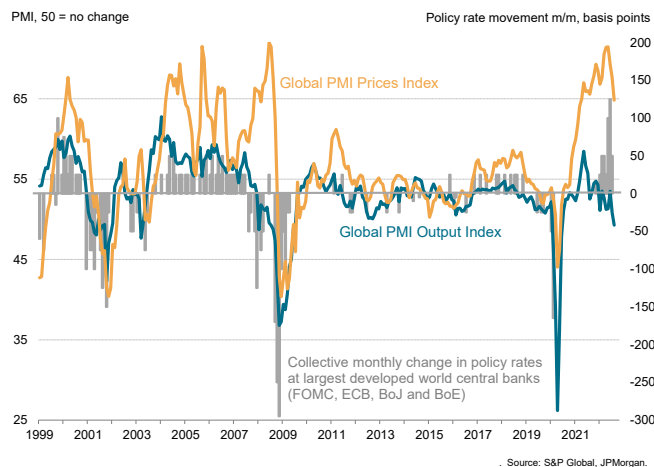
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Hiking into a downturn

The cooling of price pressures has followed the most aggressive monetary policy tightening seen across the world in modern history, with policymakers at the FOMC, ECB and Bank of England in particular ready to implement further rate hikes in the coming months to further tame inflation expectations, even at a cost of lower output. In this respect, the survey data clearly highlight the extent to which the global economy is starting to strain under the destruction of demand caused by high prices and tightening financial conditions, depicting an unprecedented scenario in recent history of central banks hiking interest rates aggressively in an environment of growing recession risk.

Monetary policy vs. global growth and prices



APAC

APAC Exports Remain Strong but Global Headwinds Intensify

Asia-Pacific exports have remained buoyant during the first seven months of 2022. Exports from APAC commodity exporting nations, notably Australia, Indonesia and Malaysia, have shown rapid growth. This reflects sharp rises in prices for key export commodities, such as coal, oil, LNG, and iron ore. APAC industrial economies such as mainland China and Japan have also recorded strong export growth during the year-to-date.

However, headwinds to APAC exports are increasing as economic growth momentum in the key export markets of the US and EU has slowed. Rising inflation, monetary policy tightening and the impact of higher energy prices have all contributed to weakening domestic demand in these markets. The near-term outlook is for intensifying headwinds to APAC exports in late 2022 and early 2023.

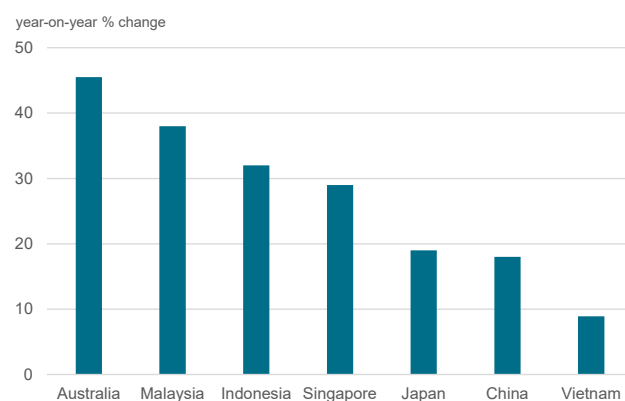
APAC commodity exports have surged

APAC commodity exporters have led the strong performance of APAC export values during 2022 year-to-date.

Australian exports were up by 45% year-on-year (y/y) in June 2022, as rising global commodity prices boosted the export values for coal, LNG and iron ore, with many other commodities also recording sharply higher export values. As a result of surging exports, Australia's current account surplus increased from AUD 2.8 billion in the January-March quarter of 2022 to AUD 18.3 billion in the April-June quarter of 2022. Consequently, the current account surplus for the 2021-22 financial year rose to AUD 50 billion.

Malaysia has also recorded strong export growth during 2022, with merchandise exports rising by 38% y/y in July. For the first seven months of 2022, Malaysian exports rose by 28% y/y. Exports of manufactures in July 2022 rose by 35.4% y/y. This reflected higher exports of electrical and electronic products, petroleum products, machinery, equipment and parts, manufactures of metal, optical and scientific equipment as well as chemicals and chemical products. Exports of mining goods surged by 100% y/y, underpinned by rapidly rising exports of LNG and crude petroleum.

APAC Exports in July 2022



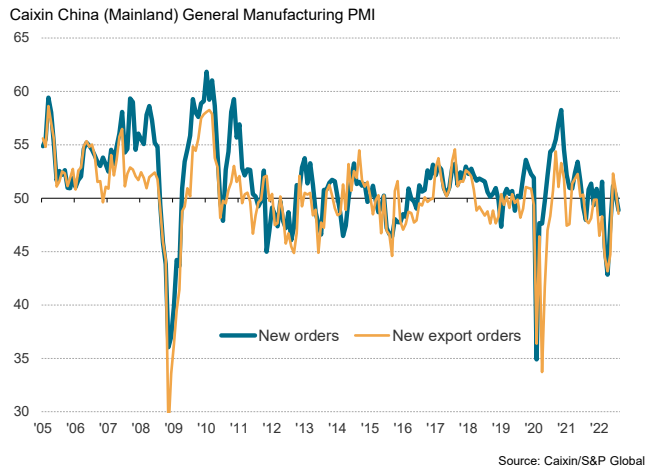
Source: S&P Global.

Indonesia has also benefited from the sharp increase in world prices for a number of its key commodity exports, notably thermal coal, LNG and palm oil. In July, merchandise exports rose by 32% y/y, boosted by a 94% y/y increase in mining exports. For the first seven months of 2022, exports were up by 36% y/y, which helped to post a cumulative trade surplus of USD 29 billion for the period.

Northeast Asian manufacturing exports have been strong

Although APAC commodity exporting nations have posted very substantial export growth rates this year, Asian industrial economies have also recorded rapid export growth. China's mainland exports rose by 18% y/y in July, with the trade surplus reaching a new record high of USD 101 billion for the month of July. China's exports to the US have grown strongly, up 19% y/y in the first half of 2022. However, the pace of China's export growth slowed in August to just 7% y/y, as the slowdown in the US and EU economies has begun to be reflected in moderating demand for Chinese exports.

China (mainland) Manufacturing PMI New Orders



Japanese exports remained strong in July, rising by 19% y/y, after growing by 15% y/y during the first half of 2022.

South Korea's exports in August saw a year-on-year expansion of 6.6 percent. Auto exports of finished vehicles rose by 36% y/y, helped by strong exports to the US. However, exports of mobile phones were down 21 percent y/y as shipments to key Asian markets such as China and ASEAN decreased.

Japan and South Korea Manufacturing PMI New Export Orders



However South Korean manufacturing exports are softening. In August, South Korean new manufacturing export orders fell at the fastest pace since July 2020 according to the S&P Global South Korea Manufacturing PMI, amid weaker global economic conditions, exacerbated by the Ukraine war and zero-COVID policies in China.

Reopening of borders is boosting APAC services exports

As APAC nations have been gradually reopening their borders for tourist visitors during 2022, the tourism industries of a number of APAC economies are gradually starting to recover.

Thailand recorded 3.1 million international tourist arrivals in the first seven months of 2022. This is compared with 40 million in calendar year 2019 prior to the pandemic. However international tourism had collapsed after April 2020, as the closure of international borders resulted in the complete halt of international tourism visits to Thailand. Consequently, the gradual recovery of international tourism during 2022 represents an important step towards rebuilding the economic contribution of tourism to the economy. Tourism had normally accounted for about 12% of Thai GDP prior to the pandemic.

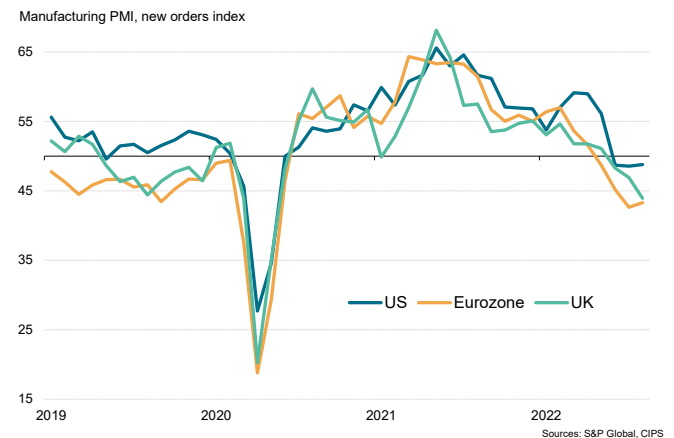
In Singapore, international visitor arrivals reached 1.5 million in the first half of 2022, compared with just 119,000 in 2021. The Singapore Tourism Board has estimated that international visitor arrivals will reach around 4 to 6 million in 2022, as tourism continues to strengthen during the second half of 2022.

In Australia, exports of services rose 13.7% in the April-June quarter, boosted by an upturn in education-related travel as international students were again able to enter Australia. This was the strongest rise since the Sydney Olympics boosted travel exports in September quarter 2000. However, the easing of travel restrictions also led to increased numbers of Australians travelling abroad.

Outlook

Despite the strength of APAC exports during the first seven months of 2022, global economic headwinds are intensifying, with US and Eurozone manufacturing new orders weakening in recent months. The downturn in US and EU manufacturing production will impact on Asian manufacturing supply chains during the remainder of 2022 and into early 2023.

US and European Manufacturing New Orders



The global electronics sector is also slowing, as reflected in the [S&P Global Electronics PMI](#) new orders sub-index for August. The

seasonally adjusted New Orders Index slumped further below the 50.0 no-change mark in August to 41.9, signaling a sharper deterioration in demand for electronic goods. August's decline was steep overall and the quickest in just over two years. Panellists frequently commented on general weakness in demand across major markets including Europe, the US and Asia.

Electronics are an important part of the manufacturing export sectors of many Asian industrial economies, including mainland China, South Korea, Japan, Singapore, Malaysia, Thailand and Vietnam. Consequently, the slowdown in global electronics new orders signals a softening outlook for the electronics export industries in many APAC economies.

APAC exports are therefore likely to face increasing headwinds in the remaining months of 2022 and into early 2023. The key US and EU export markets are slowing due to the impact of rising energy prices and monetary policy tightening. Mainland China, which has also become an important export market for many APAC countries, has also experienced a significant slowdown in growth momentum, which is already impacting on other APAC economies.

However international exports of tourism services by APAC economies are expected to show an improving recovery, as travel restrictions are gradually being eased by many APAC nations. Due to the importance of the tourism industry for many APAC nations, such as Thailand, Malaysia and Philippines, the gradual recovery in international tourism exports during 2022-23 will help to mitigate the global headwinds to manufacturing exports.

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