PMI™

by S&P Global

Week Ahead Economic Preview

Consumer sentiment data under spotlight as inflation trends diverge

26 September 2022

Flash PMIs last week provided a much-anticipated insight into the macroeconomic environment for the US, UK, Eurozone and Australia. The flash Japan PMI released this week completes the set while PMI data for mainland China – released at the end of the week – will be the first of September's final manufacturing survey releases. The US will once again be in the spotlight with GDP, consumer sentiment, durable goods orders, housing market and jobless claims data on the agenda. Sentiment data for Germany, France, South Korea, Italy and the Eurozone will also be eyed.

The latest flash PMIs revealed promising signs for the US, where the fall in output eased notably from August amid cooler price pressures, while in Australia output growth quickened. Conditions in Europe were more concerning, however, with the downturn deepening in both the Eurozone and the UK and price pressure showing greater persistence. Concerns over the availability and prices of energy have added to fears of energy rationing in Europe, with an emergency euro area energy meeting pencilled in for Friday, alongside unemployment and inflation releases.

In the UK, final Q2 GDP figures will be announced where sharp moderations in growth are expected by markets. Last week, the BoE hiked rates by another 50 bps, the UK government has since announced large stimulus packages to boost UK growth. Nevertheless, sterling and gilts have plunged, concerned about the effectiveness and cost of the government's new measures.

In the US, last week saw the FOMC hike by another 75 bp, pushing US interest rates at a 14-year high. This week, US durable goods orders will likely reveal a 1.1% contraction. Final Q2 GDP numbers are also due, with a 0.6% contraction forecast, which follows a 1.6% fall in Q1. The downward trend is expected continue with inflation near 40-year peaks. Sentiment and PCE price data on Friday will bring an end to this week's US data releases.

Also watch out for German sentiment data, Japanese industrial production figures, China's industrial profits and Australian retail sales.

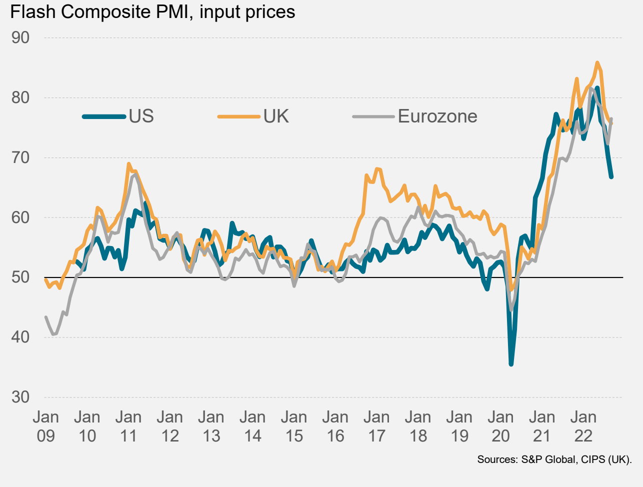
Inflation trends diverge

Flash PMI survey data showed a broad-based economic malaise across Europe and the US in September. Output trends worsened in the Eurozone and UK, suggesting both economies are in recession, with forward-looking indicators such as new orders and future expectations pointing to worsening trends in the fourth quarter. However, while the output gauges for US manufacturing and services also remained in contraction territory, rounding off one of the worst quarters snice the global financial crisis, the rate of contraction moderated.

This divergence between worsening output trends in Europe and signs of the downturn easing in the US can be at least in part traced to differences in inflationary pressures.

In particular, input cost inflation accelerated in the Eurozone and remained worryingly high in the UK, the latter notably seeing a sharp upward spike in manufacturing raw material prices. In contrast, input cost inflation in the US cooled sharply to a 20-month low. These cost differentials point to an easing in the impact of the recent cost of living crisis in the US while the situation seems to be worsening in Europe, where energy prices have soared far higher than in the US. Notably, the only sign of improved conditions in Europe was seen in France, where the government has taken the greatest action in softening the blow of soaring European energy costs on households.

Flash PMI survey input cost indices



Key diary events

Monday 26 September
S&P Global au Jibun Flash Japan PMI (Sep)
Singapore Industrial Production (Aug)
Germany Ifo Business Climate (Sep)
Hong Kong Balance of Trade (Aug)
Mexico Economic Activity (Jul)
United States Chicago Fed National Activity Index (Aug)
South Korea Consumer Confidence (Sep)

Tuesday 27 September
China Industrial Profits YTD (Aug)
France Unemployment Benefits Claims (Aug)
Brazil Copom Meeting minutes
Mexico Balance of Trade (Aug), Unemployment Rate (Aug)
United States Durable Goods Orders (Aug), House Price Index (Jul), CB Consumer Confidence (Sep)

Wednesday 28 September
BoJ Monetary Policy Meeting Minutes, Coincident Index (Jul)
Australia Retail Sales (Aug)
Germany GfK Consumer Confidence (Oct)
France Consumer Confidence (Sep)
Thailand Interest Rate Decision
Italy Business Confidence (Sep), Industry Sales (Jul)
United Sates MBA Mortgage Application (Sep), Goods Trade Balance (Aug), Retail Inventories Ex Autos (Aug), Pending Home Sales (Aug)
Russia Unemployment Rate (Aug)
South Korea Business Confidence (Sep)

Thursday 29 September
Japan Foreign Bond Investment (Sep)
New Zealand ANZ Business Confidence (Sep), Building Permits (Aug)
Thailand Industrial Production (Aug)
Spain Inflation Rate (Sep), Business Confidence (Sep)
Euro Area Consumer Confidence (Sep)
Germany Inflation Rate (Sep)
Canada Average Weekly Earnings (Jul), GDP (Jul)
United States GDP (Q2), Jobless Claims (Sep), PCE Prices (Q2), GDP Price Index (Q2)

Friday 30 September
Japan Unemployment Rate (Aug), Industrial Production (Aug), Retail Sales (Aug)
Eurozone Emergency Energy Meeting, Inflation Rate (Sep), Unemployment Rate (Aug)
China Caixin Manufacturing PMI (Sep)
Indonesia Inflation Rate (Sep)
Japan Consumer Confidence (Sep), Housing Starts (Aug)
Germany Retail Sales (Aug), Unemployment Change (Sep)
United Kingdom GDP (Q2), Mortgage Approvals (Aug)
France Inflation Rate (Sep)
Italy Unemployment Rate (Aug), Inflation Rate (Sep)
Poland Inflation Rate (Sep)
United States Core PCE Price (Aug), Michigan Consumer Sentiment (Sep)

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

What to watch

Americas: US National activity Index, Durable goods orders, Sentiment and Canada GDP

A number of releases for the US will add colour to last week's flash PMI releases. US durable goods orders will reveal the impact of high inflation on demand after flash PMIs revealed a struggling manufacturing sector, albeit with easing supply delays. The Chicago Fed activity index – out Monday – is also likely to indicate a subdued economic environment. The week ends with the University of Michigan consumer sentiment data where the recovery is expected to continue from June's recent low, preceded by Conference Board data on the Monday.

Elsewhere, policymakers in Canada will watch GDP readings for July with a particularly close eye. Final Q2 GDP figures for the US will likely confirm a mild decline.

Europe: Germany, France, Italy sentiment data, Spain, France, Italy and Eurozone Inflation, UK GDP

The ongoing war in Ukraine and the profound impacts on European nations will likely have continued to weigh on sentiment. Data for Germany, France and Italy will be followed by markets to gauge an understanding in confidence.

Inflation figures will be widely anticipated, however, with attention very much focusing on the Eurozone. The intensification of the war and the direct and indirect impact on energy prices will likely push the latest inflation figure to 9.4% in the Eurozone (edging up from 9.1%).

With the pound coming under intense pressure, UK GDP could be another trigger for market selling if the data disappoint.

Asia-Pacific: Thailand Interest rate decision, Australia retail sales, Indonesia inflation data and China PMI

Thailand's central bank will convene where gradual rate hikes are expected. With inflation at a 14-year high a relatively hawkish stance is expected with markets expecting a 75 bp hike. Industrial production data for Thailand will also be released this week.

Elsewhere, S&P Global China manufacturing PMI will provide the first insight into manufacturing conditions on China's mainland. We forecast 3.3% YoY growth for 2022. China industrial profits data on Tuesday should give an indication on the sectors performance.

Also watch out for Australia retail sales data, Japan consumer sentiment, and Indonesia inflation data.

Special reports:

Eurozone | Chris Williamson | page 4

Malaysia | Rajiv Biswas | page 7

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
	Tightening financial conditions will slow global economic growth and inflation	22-Sep	Sara Johnson
Americas	US Weekly Economic Commentary: Growth recession	12-Sep	Akshat Goel Ben Herzon Ken Matheny
	Using SP Global PMI survey data as an indicator corporate earnings	16-Sep	Chris Williamson
APAC	APAC Electronics Industry Faces Global Headwinds	15-Sep	Rajiv Biswas

S&P Global Economics & Country Risk highlights

Weekly Pricing Pulse: Commodity prices rise in a calm week for energy markets

Our Materials Price Index (MPI) increased 0.8% last week, with six of the ten sub-components rising. The scale of week-to-week price changes was much smaller than 3.6% average change over the last four weeks. The lower volatility reflected a comparatively quiet week in energy, steel, and nonferrous metals markets. **Click here to read our research and analysis**

Insight from our Purchasing Managers' Index data: Australia, Taiwan and more

Our economists discuss dominant themes through the lenses of our Purchasing Managers' Index data sets. What are the recent trends in the Australian private sector economy? What does the data from Taiwan, a bellwether of global manufacturing, tell us? How is tighter monetary policy impacting real estate and other sectors? Where are we seeing supply constraints? **Click here to listen to this podcast by S&P Global Market Intelligence**

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Special Focus

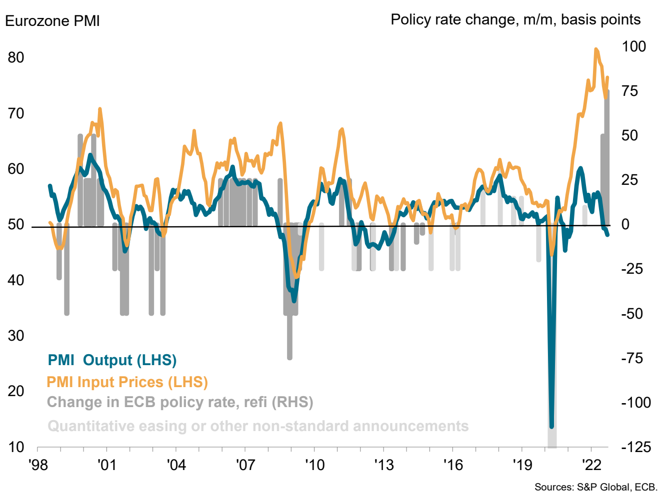
Eurozone

Eurozone downturn deepens in September as price pressures intensify

The Eurozone economic downturn deepened in September, with business activity contracting for a third consecutive month, according to preliminary survey data. Forward-looking indicators, such as new order inflows, backlogs of work and future output expectations, point to the decline gathering further momentum in coming months. At the same time, inflationary pressures picked up, fueled by rising energy costs.

The data therefore suggest that the challenge facing policymakers of taming inflation while avoiding a hard landing for the economy is becoming increasingly difficult.

Eurozone PMI output and costs vs. ECB policy changes



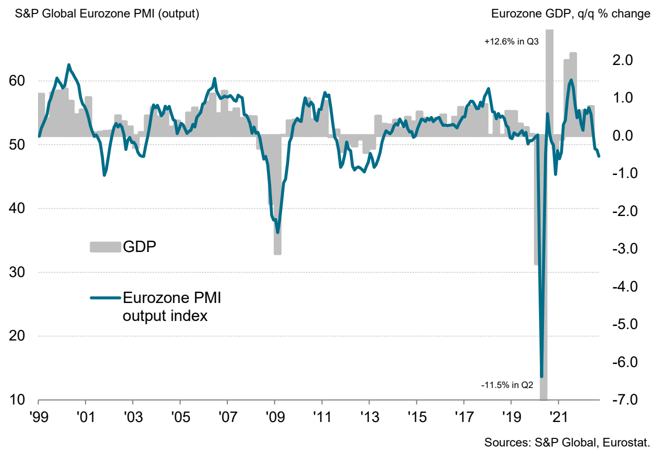
PMI falls further into negative territory

The **S&P Global Eurozone PMI®** fell from 48.9 in August to 48.2 in September, according to the preliminary 'flash' reading based on approximately 85% of usual survey responses. The reading was in line with economists' expectations.

The PMI has now registered below the neutral 50.0 level for three successive months, thereby signalling a continual economic decline throughout the third quarter, with the rate of contraction gathering pace in September to reach the fastest since January 2021. Excluding the pandemic shocks, the latest reading was the lowest since May 2013.

These early PMI readings indicate an economic contraction of 0.1% over the third quarter as a whole, with the rate of decline having accelerated through the three months to September to reach a comparable quarterly rate of -0.2%, setting the scene for a weak start to the fourth quarter.

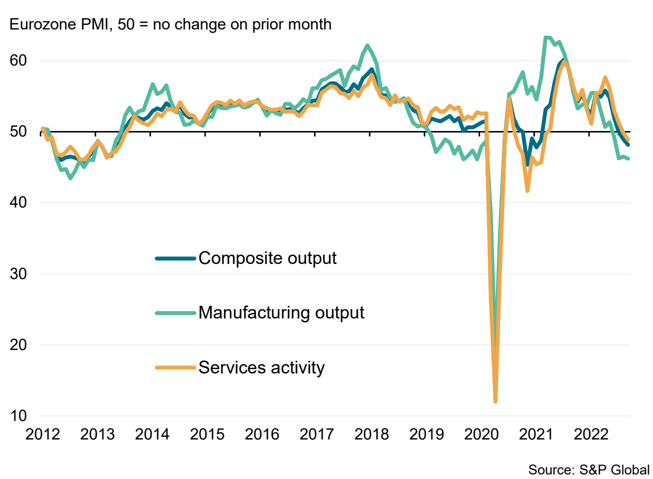
Eurozone PMI vs. GDP



Manufacturing led the downturn, with factory output falling for a fourth straight month. Moreover, the rate of decline quickened slightly to the fastest since May 2020. At 48.5, the headline manufacturing PMI was slightly below expectations of a decline to 48.7.

Service sector output also fell, down for a second consecutive month, contracting at a rate not seen since February 2021. The sector's headline business activity index, at 48.9, was only slightly below consensus expectations of 49.0. The service sector decline was notable in being the sharpest since 2013 excluding the falls seen as a result of pandemic containment measures, led by steepening losses for travel, tourism, recreation, real estate and insurance.

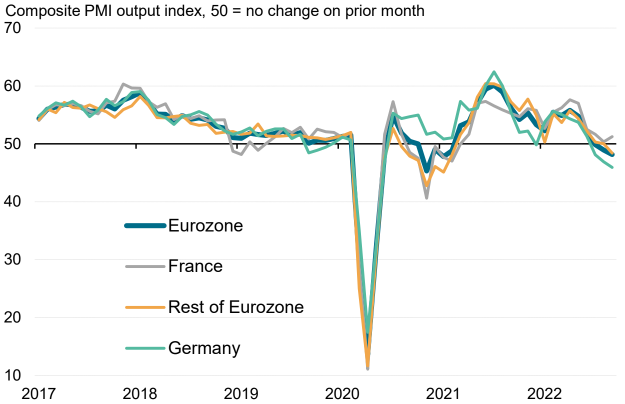
Eurozone manufacturing & services output



Germany leads downturn

Germany is facing the toughest conditions, with the economy deteriorating at a rate not seen outside of the pandemic since the global financial crisis. Germany's composite PMI sank to 45.9, its lowest since May 2020 and, excluding the pandemic, its weakest since June 2009.

Output by region within Eurozone



Source: S&P Global

Besides the initial COVID-19 lockdown in early-2020, Germany's service sector decline was also the severest since June 2009. Manufacturing output continued to fall across Germany, albeit with the rate of decline moderating thanks in part to reduced supply chain constraints.

Output rose only modestly in France, the composite PMI registering 51.2 to beat expectations. Although the increase exceeded the near-stalling seen in August, the survey has indicated a marked slowing in French growth during the third quarter compared to the second quarter. An acceleration of service sector growth helped offset a deepening manufacturing downturn. French factories reported a drop in output which, barring the initial collapse during closures at the start of the pandemic, was the largest since March 2013.

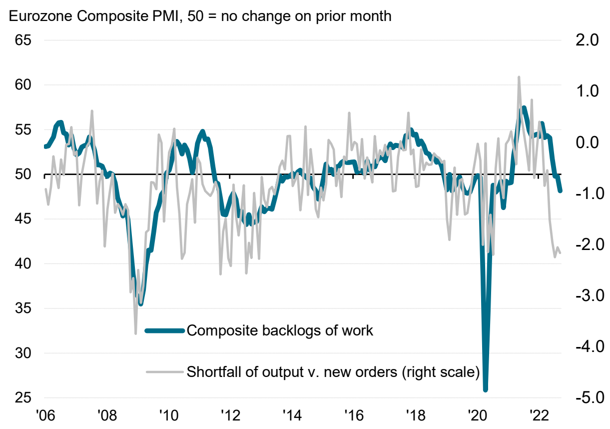
Elsewhere across the region, output fell for the first time since February 2021, as a third successive monthly drop in manufacturing production was accompanied by the first fall in service sector activity since January.

Demand slumps amid cost-of-living crisis

New orders for goods and services meanwhile fell sharply for a third straight month, the rate of loss accelerating to a pace not seen since April 2013 barring periods of pandemic restrictions. Manufacturing orders fell especially severely, but service sector new business inflows also fell at an increased rate, in both cases declining faster than output to hint at a further acceleration of output losses in October.

Similarly, backlogs of uncompleted orders fell at a steepening rate, down for a third month in a row. An accelerated decline in manufacturing was joined by a renewed fall in services. Such declines point to excess capacity relative to demand growth.

Eurozone excess capacity indicators

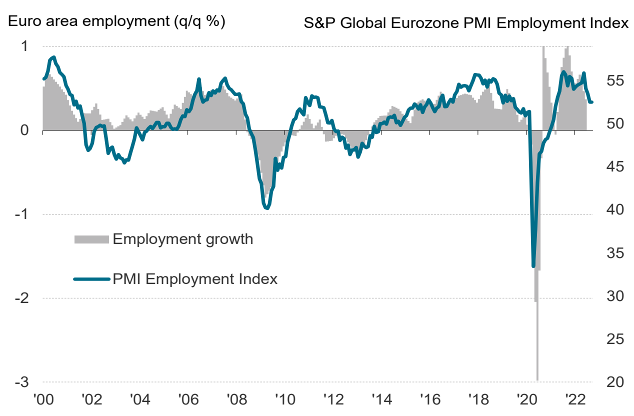


Source: S&P Global

Job gains stuck at 1½ year low

While employment growth was unchanged during the month, August's gain had been the lowest for 17 months. The recent cooling in the job market reflects increased caution in respect to hiring amid rising costs and growing economic uncertainty.

Eurozone employment



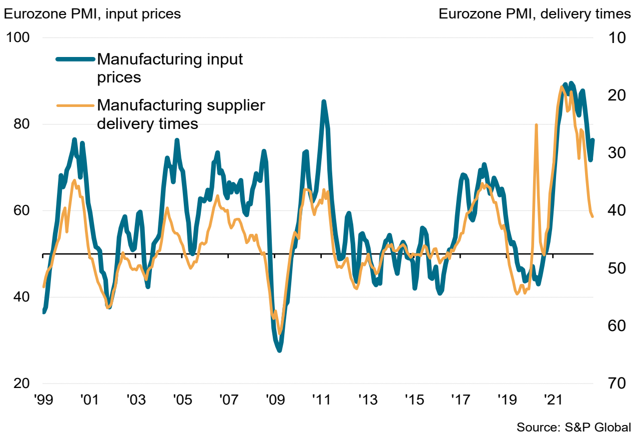
Sources: S&P Global, Eurostat.

Supply constraints ease, but rising energy costs add to producers' woes

Although factory output was again constricted in many cases by component shortages, with some evidence of energy market developments also limiting production capabilities, supplier delivery times lengthened to the smallest extent since October 2020 amid reports of fewer component shortages and improved logistics and shipping in some sectors.

While easing raw material supply constraints helped alleviate some inflationary pressures, rising energy prices were widely blamed on a renewed acceleration of input cost inflation across both manufacturing and services. The overall increase in costs was the steepest since June.

Eurozone manufacturing input costs and supplier delays

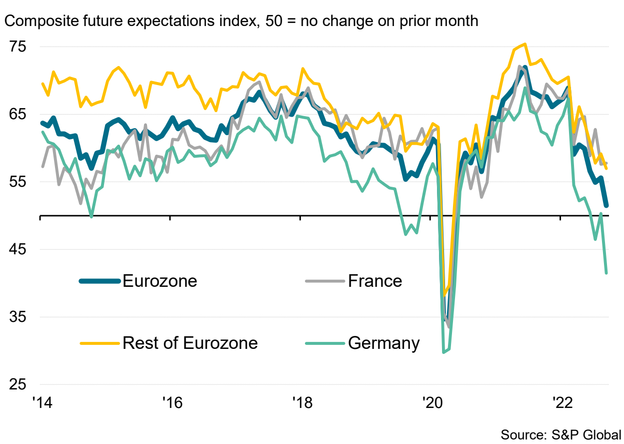


Higher cost pressures meant that, after four months of cooling, the rate of increase of prices charged for goods and services also accelerated to the sharpest since June as firms sought to protect margins.

Business optimism slumps lower

Looking ahead, business expectations for the coming year slumped sharply lower, dropping to the weakest since May 2020 and, excluding the pandemic, the lowest since November 2012.

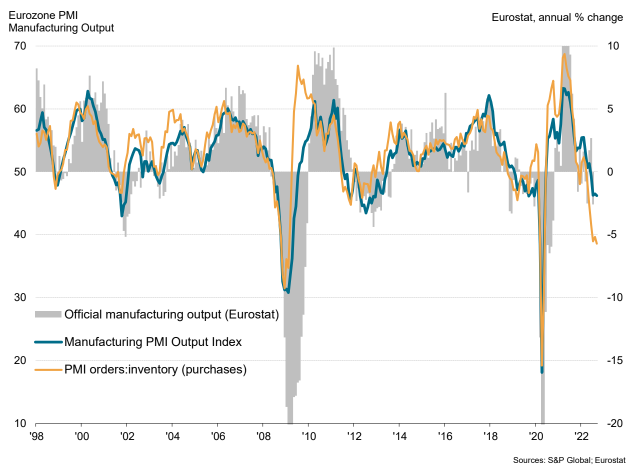
Eurozone business expectations



By far the steepest collapse in confidence was evident in Germany. In contrast, a slight improvement in future sentiment was recorded in France and a comparatively resilient mood was seen in the rest of the region as a whole, albeit in both cases down sharply from earlier in the year

The gloomy outlook principally reflected concerns over soaring energy prices and the detrimental impact of rising inflation on firms' costs and customer demand. Higher interest rates, the Ukraine war, and ongoing supply chain shortages were also widely cited, as was a further shift towards destocking in manufacturing, both among producers and their customers. Note that the survey's manufacturing new orders to inventory ratio, a key gauge of future production and an important bellwether of upcoming GDP data, has fallen to depths rarely seen before to hint strongly at worse to come in the months ahead.

Eurozone manufacturing



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Malaysia

Malaysian Economy Boosted by Buoyant Consumption and Exports

The Malaysian economy has shown a strong recovery from the protracted impact of the COVID-19 pandemic, with GDP in the second quarter of 2022 up 8.9% year-on-year (y/y). An easing of COVID-19 restrictions has helped drive a rebound in private consumption. Exports have also shown strong growth, helped by rising world commodity prices and buoyant growth in manufacturing exports.

However, the Malaysian economy faces increasing uncertainties and downside risks for the remainder of 2022 and early 2023 from weakening growth momentum in the US and EU as well as the slowdown in mainland China.

Malaysian economy rebounds

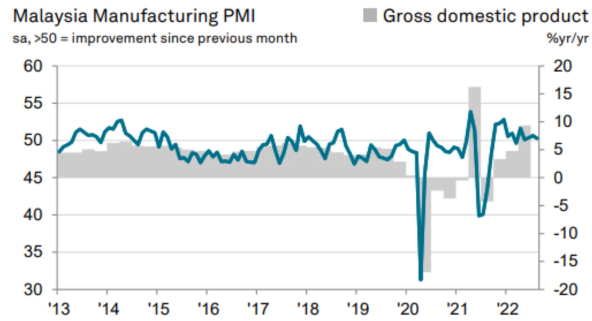
The Malaysian economy grew at a pace of 8.9% y/y in the second quarter of 2022, supported by a 18.3% y/y increase in private consumption, with domestic demand growing by 13.0% y/y.

Malaysia GDP growth

Source: S&P Global.

Helped by improving domestic demand, the Malaysian services sector grew at 12.0% y/y and the manufacturing sector grew at a pace of 9.2% y/y in the second quarter of 2022.

The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index™ (PMI) slipped from 50.6 in July to 50.3 in August, albeit still signaling a modest expansion in the sector. The latest reading is representative of a gradual slowdown in growth of manufacturing production and GDP towards the end of the third quarter, following sustained rises throughout the second quarter of the year.

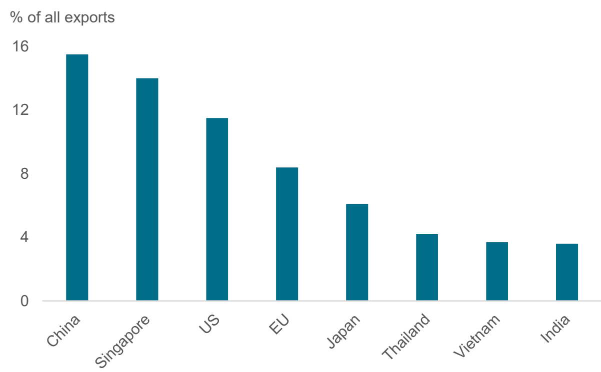


Sources: S&P Global, Department of Statistics Malaysia.
Data were collected 12-24 August 2022.

An important positive factor for the Malaysian manufacturing sector during 2022 has been the strength of manufacturing exports. The Malaysian export sector has performed strongly during the first eight months of 2022, with exports rising by 30% y/y. Exports of manufactured goods rose by 26.7% y/y during the first eight months of 2022, while exports of agricultural goods rose by 41% due to strong global palm oil prices. Rising world commodity prices also boosted commodities exports, which rose by 69% in the first eight months of 2022 compared to a year ago.

However, a significant vulnerability for Malaysia's export sector is from weakening growth momentum in the US and EU economies, since the US and EU together account for 20% of Malaysia's merchandise exports. As mainland China is Malaysia's largest export market, accounting for 15.5% of total exports, the slowdown in China's economy is also a downside risk to Malaysia's near-term export outlook.

Malaysia's major export markets

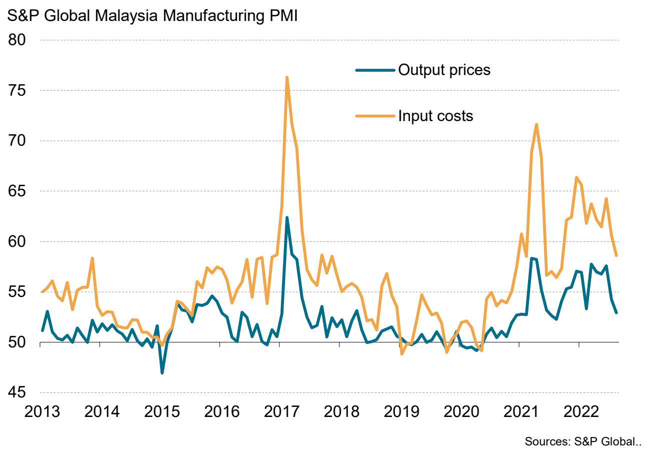


Source: S&P Global, Martrade, EC.

Inflation pressures

The latest Malaysia Manufacturing PMI survey showed that input costs increased for the twenty-seventh month running in August, reflecting higher raw materials and transportation prices. However, the pace of input price inflation eased for the second successive month as firms reported lower prices for a wide variety of inputs, most notably including oil. Manufacturers partially passed these savings through to clients, as output charges increased at the softest rate for 12 months.

Malaysia Manufacturing PMI: Input and Output Prices



With CPI inflation pressures having risen to a pace of 4.4% y/y in July, Malaysia's central bank, Bank Negara Malaysia (BNM), has continued to reduce the degree of monetary accommodation. At its 8th September meeting, the Monetary Policy Committee decided to increase the Overnight Policy Rate (OPR) by 25 basis points to 2.50%, the third 25bp rate hike so far this year.

In its September Monetary Policy Statement, BNM assessed that headline inflation would peak in 3Q 2022, moderating thereafter due to dissipating base effects and expected easing of global commodity prices. Underlying inflation, as measured by core inflation, is expected to average close to the upper end of the 2.0% - 3.0% forecast range in 2022, with some signs of demand-driven pressures amid the high-cost environment.

Subsequently the August CPI data showed that the inflation rate rose to 4.7% y/y, indicating continuing retail inflation pressures.

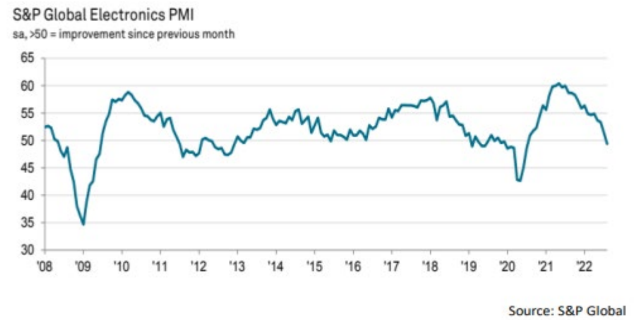
Moderating global electronics demand adds to headwinds

The electrical and electronics (E&E) sector has been an important driver of Malaysia's manufacturing exports. Exports of E&E products, which accounted for 36% of merchandise exports, rose by 49% y/y in August 2022. This rapid growth was driven by robust global demand for semiconductors, reflecting technological trends such as 5G rollout, cloud computing, and the Internet of Things.

However, the latest S&P Global survey data indicate that the global electronics manufacturing industry is facing headwinds from the weakening pace of global economic growth.

According to the headline S&P Global Electronics PMI survey, the global electronics composite index fell to 49.4 in August. The latest survey results indicate that the global electronics industry is now experiencing contractionary conditions for the first time in 26 months.

Global electronics PMI (business conditions)



The two principal sub-components of the Global Electronics PMI – new orders and output – both slipped deeper into contraction territory during August, while inventory levels increased due to sluggish sales and falling production requirements. Weakening economic growth momentum in the US and EU has impacted on consumer demand for electronics, with the economic slowdown in mainland China also contributing to the downturn in new orders.

S&P Global Electronics PMI New Orders Index

Economic outlook

The Malaysian economy has rebounded during the first three quarters of 2022, with economic growth momentum boosted by the easing of COVID-19 restrictive measures as well as buoyant exports of electrical and electronic products, palm oil products as well as oil and gas exports.

Higher world oil and gas prices as a result of the Russia-Ukraine war are also boosting Malaysian energy exports and contributing to higher fiscal revenues. Malaysia is also benefiting from higher palm oil prices, due to disruptions to world edible oil markets, including Ukrainian exports of sunflower oil.

The reopening of international borders is also helping the gradual recovery of the international tourism industry, which was an important part of the Malaysian economy prior to the pandemic. Easing of restrictions on entry of migrant labor will also gradually help to support industry sectors that are reliant on foreign workers.

However, there are a number of downside risks to the near-term growth outlook, particularly due to the slowdown in world growth. As mainland China is Malaysia's largest export market and accounts for around 15% of total exports, Malaysia's export sector is vulnerable to the impact of China's economic slowdown. Malaysia's export sector is also vulnerable to weakening economic growth momentum in the US and EU, which together account for around one-fifth of total exports.

Nevertheless, the medium-term economic prospects for Malaysia's electronics industry are favorable. The outlook for electronics demand is underpinned 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.

Malaysia's competitiveness as a global electronics hub has been highlighted by the decision of a number of electronics multinationals to invest in large-scale new projects. Intel is investing USD 7 billion in a new semiconductors packaging plant in Penang, which is estimated to be completed by 2024 and create thousands of new jobs in Malaysia. Infineon Technologies is constructing a new state-of-the-art wafer fab module in Kulim, with around Ringgit 8 billion of investment. The new module, which is expected to be completed in 2024, will add significant manufacturing capacity in power semiconductors.

Overall, the medium to long-term growth outlook for Malaysia remains favorable, with total nominal GDP measured in USD terms forecast to rise from USD 373 billion in 2021 to USD 720 billion by 2030. Meanwhile annual per capita GDP is projected to rise from USD 11,500 in 2021 to USD 20,000 by 2030, which will help to drive the growth of the domestic consumer market.

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