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Week Ahead Economic Preview

US consumers, FOMC minutes and European stagflation risks in focus

10 October 2022

This week, a number of key economic releases will add insights to macroeconomic conditions in the US, UK and Eurozone after PMI survey data hinted at further global recession risks and persistent inflation, albeit with some encouraging rays of light.

US retail sales and inflation data will be high on the agenda for many this week. Retail sales figures in the US have been hard hit by the growing cost of living, though inflation data should indicate a further moderation in inflationary pressures, notably after easing cost pressures were indicated by PMI surveys. Consumer sentiment data will meanwhile provide a timely gauge into how households are coping with rising mortgage costs and the ongoing cost of living squeeze. Recent data have shown some signs of sentiment reviving, but the impact of rising interest rates may not yet be fully reflected. In that respect, the FOMC meeting minutes will also be eagerly assessed for guidance on the Fed's appetite for further rate hikes.

With the UK driving much of the market turmoil in recent weeks, the FX and gilt markets will be watching political developments as PM Truss seeks to restore some authority, and will be eager for more clues as to growing recession risks. UK unemployment, industrial production and GDP data will be released, with the latter in particular likely to add to signs that the economy contracted again in the third quarter. Eurozone watchers will keep a close eye on industrial production and German inflation data where in the latter the 70-year high is expected to be confirmed, presenting a picture of rising stagflation risks.

Key releases for mainland China will also be keenly awaited by markets this week amid signs that ongoing COVID-19 containment measures likely continued to restrain economic activity, though also suppressed price pressures. Data updates include inflation and balance of trade. Watch out also for Q3 GDP figures for Singapore, where forecasters expect a relatively solid expansion. The Bank of Korea will also convene to make another key policy decision, with rate hikes on the table.

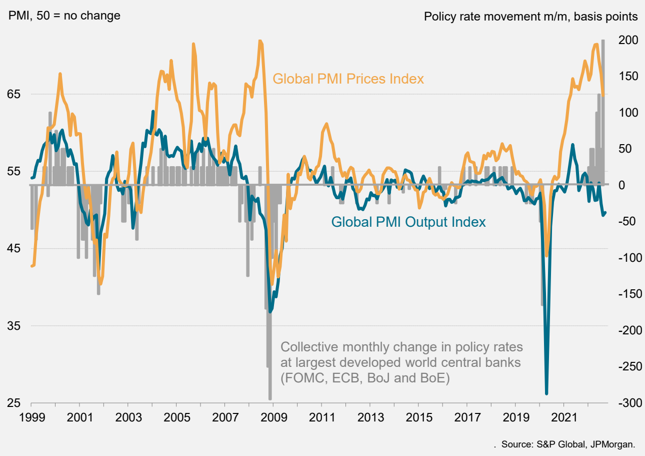
Global cost pressures fall further to hint at moderating inflation amid rising recession risk

The September PMI surveys indicated a second month of falling global economic activity, rounding off the worst calendar quarter since 2009 if pandemic lockdown months are excluded. Inflationary pressures, as measured by the PMI input cost index (which covers average prices paid for a variety of inputs including raw materials, energy, rents, bought-in services and wages) remained elevated, but encouragingly fell to their lowest for one-and-a-half years.

The situation of course varies geographically, with the drop in inflationary pressures most evident in the US. Easing supply constraints, inventory drawdowns, lower oil prices and cooling demand took pressure off firms' costs, as did the stronger dollar. However, the energy crisis linked to the Ukraine war meanwhile meant cost pressures re-accelerated in Europe, exacerbated by weakened sterling and euro currencies. A similar currency effect was evident in Japan, where price pressures also rose.

The data will nonetheless fuel debate as to whether policymakers, notably in the US, will start to see their aggressive policy tightening as helping cool inflationary pressures. The concomitant increased risk of a global recession could potentially also further encourage a change in tone as to the required degree of further tightening. The upcoming FOMC minutes, as well as US consumer confidence and retail sales data, will provide further guidance in this respect.

Global output, input prices and key policy decisions



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Key diary events

Monday 10 October
Canada & Japan Market holiday
Indonesia Consumer Confidence (Sep)
Netherlands Manufacturing Production (Aug)
Finland Industrial Production (Aug)
Austria Industrial Production (Aug)
Greece Inflation Rate (Sep), Industrial Production (Aug)
United States Fed Evans Speech
New Zealand Electronic Retail Card Spending (Sep)

Tuesday 11 October
United Kingdom BRC Retail Sales Monitor (Sep), Unemployment Change (Aug)
Australia Building Permits (Aug)
Philippines Balance of Trade (Aug)
Indonesia Retail Sales (Aug)
Czech Republic Inflation Rate (Sep)
Hungary Core Inflation (Sep)
Italy Industrial Production (Aug)
Brazil Inflation Rate (Sep)

Wednesday 12 October
Australia Westpac Consumer Confidence Index (Oct)
Japan Machinery Orders (Aug)
South Korea Interest Rate Decision
United Kingdom GDP (Aug), Balance of Trade (Aug), Industrial Production (Aug), Construction Output (Aug),
Eurozone Industrial Production (Aug)
Mexico Industrial Production (Aug)
United States MBA Mortgage applications (Oct), PPI (Sep), FOMC minutes
India Industrial Production (Aug), Inflation (Sep)

Thursday 13 October
Japan Bank Lending (Sep), PPI (Sep)
Australia Consumer Inflation Expectations (Oct)
Germany Inflation (Sep), Current Account (Aug)
China New Yuan Loans (Sep)
United States Inflation (Sep), Jobless claims (Oct)
Brazil Business Confidence (Oct)

Friday 14 October
South Korea Unemployment Rate (Sep)
Japan Foreign Bond Investment (Oct)
Singapore GDP Growth (Q3)
China Inflation (Sep), Balance of Trade (Sep)
France Inflation (Sep)
Spain Inflation (Sep)
Eurozone Balance of Trade (Aug)
India Monetary Policy Meeting Minutes, Balance of Trade (Sep)
United States Retail Sales (Sep),
US University of Michigan Consumer Sentiment (Oct)

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

What to watch

Americas: US Inflation, retail sales, consumer sentiment and FOMC meeting minutes

Another busy week for the US sees key economic data come to light with attention on inflation figures. Markets are forecasting inflation at 8.1% in September, easing from 8.3% in August. The energy crisis is still having profound implications on prices, but latest PMI releases suggest inflation pressures are starting to moderate. Meanwhile, retail sales and consumer sentiment data will shed light on household trends amid rising interest rates and the ongoing cost of living squeeze. Forecasts point a modest 0.2% increase in sales, but it will be especially interesting to see if the pessimism continues to ease. How the FOMC assessed the economic situation when hiking interest rates by another 75 basis points in September will meanwhile be revealed in the meeting minutes.

Europe: UK unemployment, GDP, industrial production, EZ industrial production and Germany inflation

The UK dominated headlines last week following market turmoil on the back of new tax decisions. This week, UK economic releases will be high on the agenda with GDP and labour market data providing an update on the country's performance. Unemployment data – out Tuesday – is expected to remain low despite growing price pressures on firms and businesses. GDP and industrial production data, meanwhile, will likely point to slowdowns in growth and will likely add to growing signs of recession.

Elsewhere in Europe, industrial production and trade data for the eurozone will likely remain weak, while a 10% inflation rate for September is expected to be confirmed in Germany.

Asia-Pacific: India industrial production, inflation, Singapore Q3 GDP, China inflation and balance of trade

APAC watchers are treated to a number of releases including Singapore's Q3 GDP estimate. Latest PMI data for Singapore have remained strong, with the country topping the ASEAN rankings in recent months. China inflation and balance of trade data will also be watched with the latter expected to take a hit from a combination of virus-containment measures and weak global demand.

In India a strong industrial production performance is expected while inflation figures will loiter around the 7% mark. The Bank of Korea will meet to set interest rates, where they will likely not shy away from another hike despite a slowdown in September's inflation rate.

Special reports:

Global manufacturing | Chris Williamson | page 4

APAC | Rajiv Biswas | page 8

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Recent PMI and economic analysis from S&P Global

Global	Tightening financial conditions will slow global economic growth and inflation	22-Sep	Sara Johnson
	Worldwide industrial price pressures rise as higher energy costs and strong dollar offset impact of cooling supply chains	04-Oct	Chris Williamson
	Global manufacturing PMI falls into contraction territory for first time since 2020 lockdowns	04-Oct	Chris Williamson
Americas	US downturn eases in September amid cooling price pressures and fewer supply delays	26-Sep	Chris Williamson
	US Weekly Economic Commentary: Likely to tip into recession	04-Oct	Akshat Goel Ben Herzon Ken Matheny
	US Monthly GDP Index for August 2022	04-Oct	Ben Herzon William Magee
Europe	Eurozone downturn deepens in September as price pressures intensify	23-Sep	Chris Williamson
	UK recession risks rise as flash PMI surveys signal deepening downturn in September	23-Sep	Chris Williamson
MENA	UAE non-oil sector maintains robust growth despite faltering global economy	05-Oct	David Owen

S&P Global Economics & Country Risk highlights

Weekly Pricing Pulse: Commodity prices down amid bond market turmoil

Our Materials Price Index (MPI) fell another 1.9% last week, its fourth decline in the past five weeks. The sell-off was again broad with eight out of ten subcomponents falling, highlighting the downward momentum in commodity prices over the past seven months -- the MPI is now 27.3% lower than its all-time high established back in early March. Commodity prices, as measured by the MPI, are now 3.8% lower than in October of last year. **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

Global manufacturing

Worldwide industrial price pressures rise as higher energy costs and strong dollar offset impact of cooling supply chains

The global manufacturing PMI survey found average input costs rising at an increased rate for the first time in five months in September, hinting at stubbornly persistent inflation within the worldwide factory sector. The renewed upswing in price pressures is being driven by higher energy prices and currency fluctuations, and as such was principally focused on Europe and Japan.

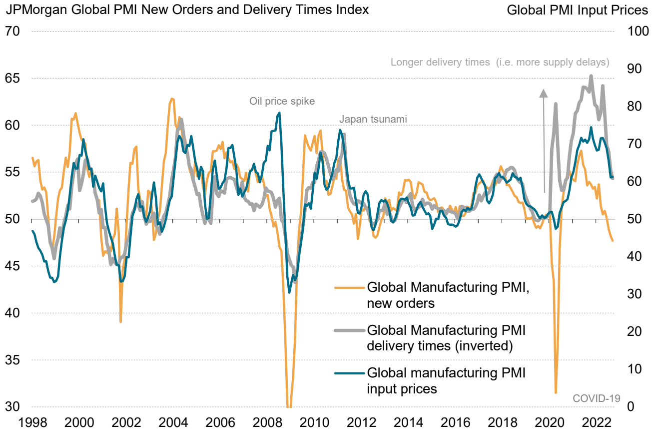
Encouragingly, supply chain cost pressures and wage pressures eased, helping bring down factory cost inflation in the US, mainland China and many other economies.

Elevated input cost inflation

The input cost index from the JPMorgan Global Manufacturing PMI survey, compiled by S&P Global, edged higher in September, indicating a slightly faster rate of price increase.

Albeit only modest, the acceleration in price growth contrasted with slower rates of inflation in the prior four months, and leaves the index signalling persistent inflationary pressures at an elevated level. While down sharply compared to the peaks seen earlier in the year, the latest reading was among the highest seen since early 2011.

Global manufacturing demand, supply and prices



Sources: S&P Global, JPMorgan.

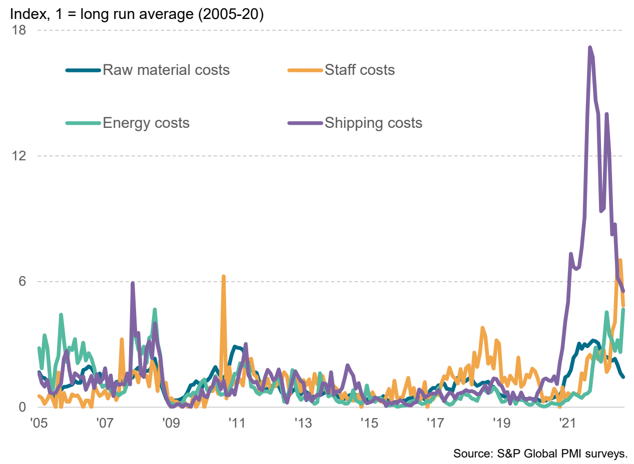
The failure of input cost inflation to moderate further occurred despite demand falling sharply during the month, and despite a sustained easing of supply side constraints. The PMI survey's gauge of new orders indicated falling demand for a third successive month with the rate of order book loss accelerating to the fastest since April 2009, excluding pandemic lockdown months.

This cooling of demand helped to alleviate supply chain constraints. The survey's supplier delivery times index showed the incidence of delays moderating in September to the lowest for two years.

Record energy price pressures

A deeper dive into the reasons provided by manufacturers worldwide for their costs to have risen also suggested supply chain price pressures have moderated, as have wage pressures. But energy-fueled cost increases have risen to a survey high.

Reasons cited worldwide for higher factory input costs



Source: S&P Global PMI surveys.

The number of firms reporting that costs had risen due to higher raw material prices has fallen to just 1.4 times its long run average. That's down from 3.2 times the long run average a year ago.

With demand for inputs falling, shipping costs have meanwhile also dropped sharply. The number of manufacturers citing input prices to have been driven higher by shipping costs remains

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elevated at 5.5 times the long run average in September, but this compares favourably with a peak to 17.2 times the long run average a year ago.

Staff costs likewise remain an elevated factor in driving input prices higher on average globally, but September saw a welcome sign of these wage pressures cooling from August's survey record high.

In contrast, the number of companies reporting average input costs to have been driven up by energy prices rose in September, jumping to 4.7 times the long run average – the highest seen since data were first available in 2005.

Cost pressures rise most in Europe and Japan

Europe accounted for eight of the top 10 countries with the steepest input cost rates, with Japan also seeing especially sharply rising costs (though Myanmar once again saw the steepest rise).

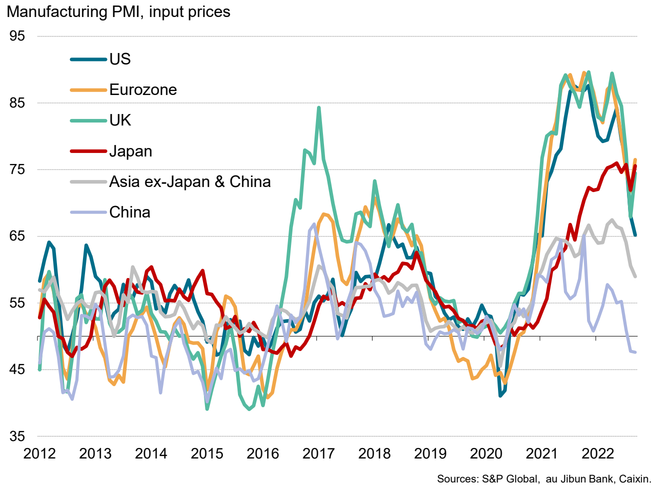
The biggest month-on-month upturns in price pressures were also recorded in Europe, with the increase in the rate of inflation led by Italy, followed by Greece, Spain and the UK. Strong upturns were also seen in Myanmar, Turkey, Austria, France, Japan and Germany. Currency weaknesses – notably against the US dollar – were often reported as having driven up import prices, though in Europe the biggest factor by far was the surging cost of energy.

At the other end of the scale, input costs fell in Taiwan and mainland China, often linked to weak demand amid ongoing COVID-19 containment measures.

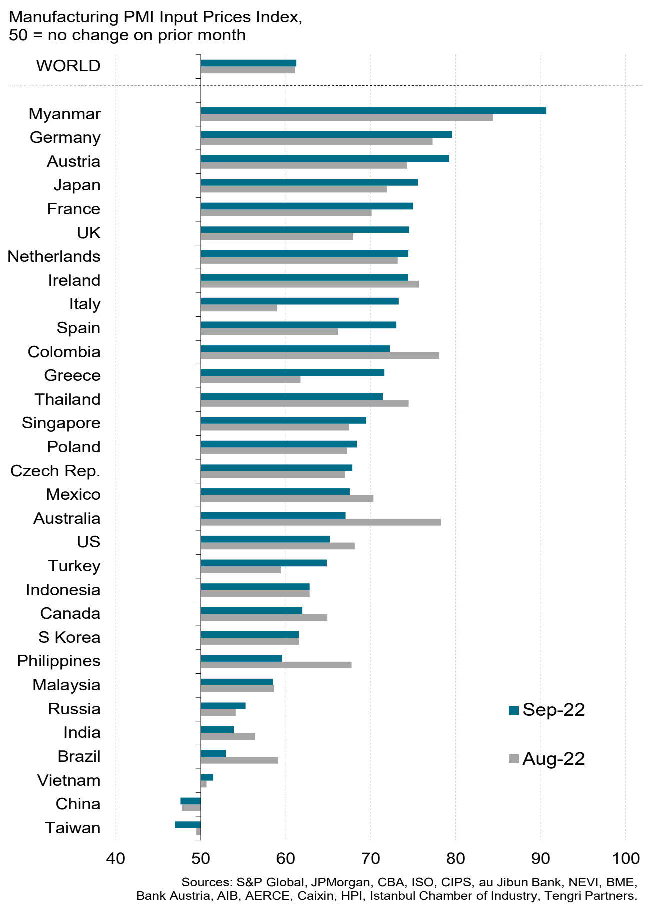
While the strong dollar drove up import and energy prices in many countries, the surging greenback was notable in helping to moderate input cost inflation in the US.

Rates of increase also cooled markedly in Australia, the Philippines, Brazil, and Colombia, with more modest easings seen in Canada, Mexico, India and Ireland. In many cases, these softer rates of inflation reflected a combination of slowing demand growth and fewer supply chain constraints.

Manufacturing input cost inflation in key economies



Manufacturing input cost index rankings



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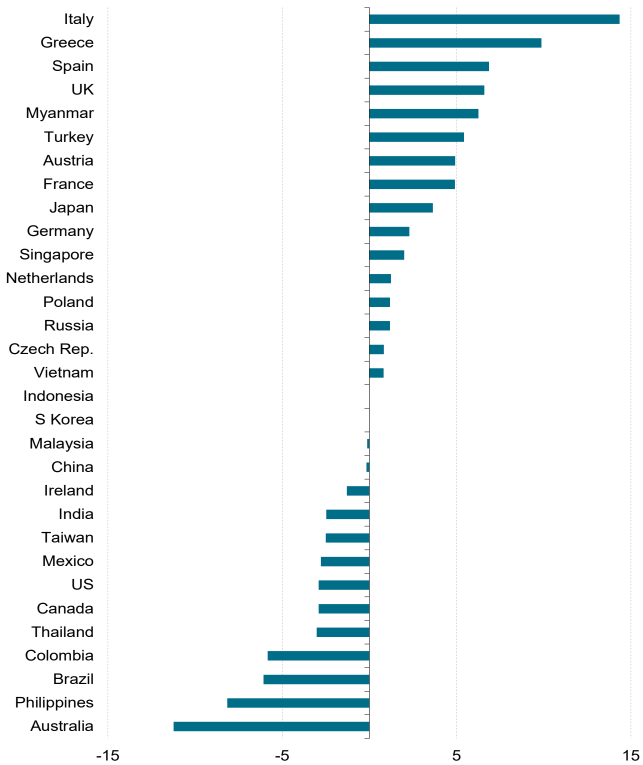
Input cost inflation rate change, September 2022

Manufacturing PMI Input Prices Index change in September compared to August



Sources: IHS Markit, JPMorgan, CBA, ISO, CIPS, au Jibun Bank, NEVI, BME, Bank Austria, AIB, AERCE, Caixin, HPI, Istanbul Chamber of Industry, Tengri Partners.

Supply delays at two-year low

Although energy costs have risen, the recent slump in demand for raw materials, in turn linked to lower new order inflows into factories, has taken substantial pressure off supply chains, with the incidence of delays worldwide falling to the lowest since September 2020.

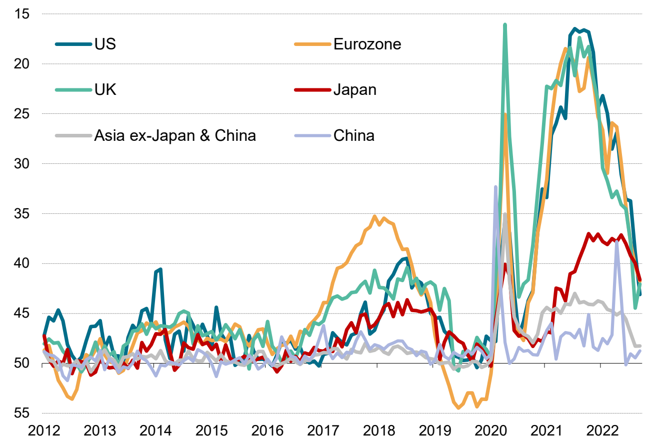
The most significant easing of supply chain delays was seen in Australia, but marked reductions in the number of delays were also seen across North America and the eurozone, albeit with delays worsening considerably in Spain and Italy. The UK was also notable in seeing supply issues flare up again, often linked to port strikes and Brexit factors, but in all cases the incidence of delays remains far below prior pandemic peaks.

While several European countries saw production of inputs being constrained by energy shortages, this was often outweighed by the broader improvement in global supply and logistics conditions.

However, it should be borne in mind that this improvement in global supply is to a large degree a function of falling global trade flows and weakening demand, as explored further in our accompanying note on global manufacturing output and demand trends.

Supplier delivery times in key economies

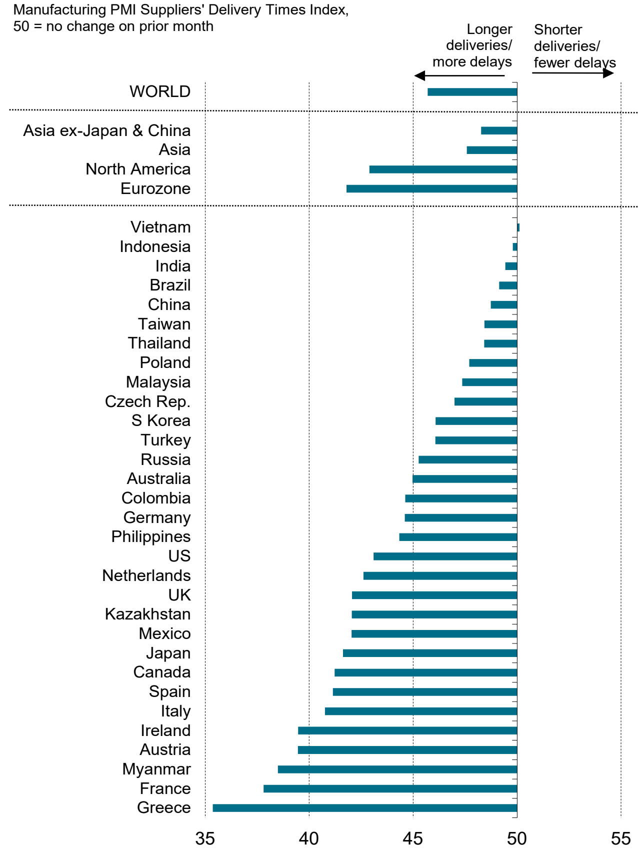
Manufacturing PMI, suppliers' delivery times (inverted scale)



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

Supplier delivery times index rankings

Manufacturing PMI Suppliers' Delivery Times Index,
50 = no change on prior month



Sources: S&P Global, JPMorgan, CBA, ISO, CIPS, au Jibun Bank, NEVI, BME, Bank Austria, AIB, AERCE, Caixin, HPI, Istanbul Chamber of Industry, Tengri Partners.

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Monthly change in supplier delivery times index

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ASEAN

ASEAN Foreign Direct Investment Inflows Reach Record High

Foreign direct investment (FDI) inflows into the ASEAN region for the 2021 calendar year reached a record level of USD 174 billion, equaling the pre-pandemic high recorded in 2019.

Key drivers for rising FDI inflows into Southeast Asia include diversification of manufacturing supply chains by multinationals, as well as new investments to tap rapidly growing consumer markets in ASEAN.

Strong FDI inflows into electronics manufacturing, and also projects related to electric vehicles, were important contributors to the high level of FDI inflows recorded in 2021.

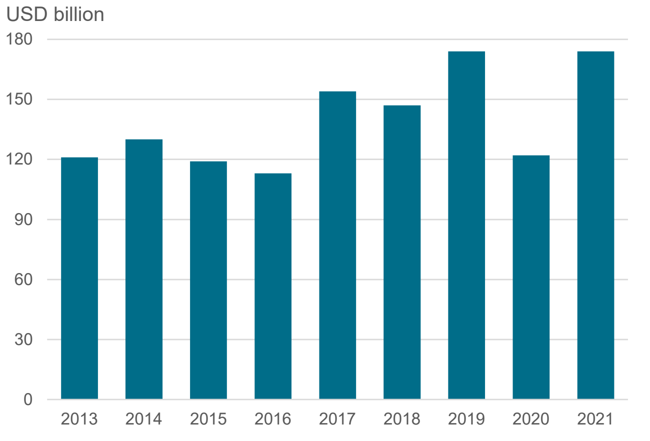
ASEAN FDI inflows have grown rapidly

FDI inflows into the ASEAN region have grown steadily over the past decade, albeit temporarily disrupted during 2020 due to the pandemic. The total annual level of FDI inflows has risen from around USD 120 billion per year during 2013-2015 to an annual level of USD 174 billion in both 2019 and 2021.

Strong FDI investment inflows in 2021 were helped by rapid growth in manufacturing FDI, which rose from USD 19 billion in 2020 to USD 45 billion in 2021. This was boosted by large investments in electronics manufacturing as well as FDI into electric vehicle (EV) manufacturing and EV battery plants. Indonesia has become an important hub for EV battery manufacturing as it has the world's largest nickel reserves as well as a being a large Asian manufacturing hub for autos.

The electronics industry is already an important part of the manufacturing export sectors of a number of ASEAN economies, including Singapore, Malaysia, Thailand, Vietnam and Philippines. Consequently these countries have been attracting new FDI inflows into the electronics sector as multinationals try to expand their production capacity given strong growth in global electronics demand since 2020.

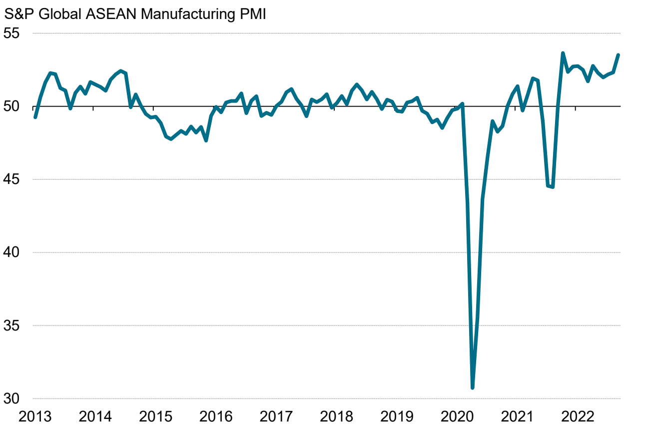
ASEAN FDI inflows



Source: ASEAN Secretariat, S&P Global.

In the near-term, FDI inflows to the ASEAN region are also expected to be supported by the resilience of Southeast Asia to the slowdown in the US and EU during 2022. Manufacturing conditions across the ASEAN region improved at the quickest pace for nearly a year in September 2022, according to latest S&P Global PMI data. Companies signaled steeper increases in output, new orders, purchasing activity and employment, while business confidence remained historically strong. The headline ASEAN Manufacturing PMI rose from 52.3 in August to 53.5 in September, to signal an improvement in the health of the ASEAN manufacturing sector for the twelfth successive month.

ASEAN Manufacturing PMI



Source: S&P Global

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Firms across the ASEAN manufacturing sector registered sharp and accelerated increases in production and new business at the end of the third quarter, according to the PMI survey data. Notably, the rates of expansion were the quickest seen since both output and sales returned to growth last October 2021. The surveys found improved demand conditions and increased production schedules led firms to expand their payroll numbers for the third month in a row.

This highlights the increasing importance of domestic demand within the ASEAN region as growth driver, which has helped to mitigate the impact of weakening growth momentum in the US and EU. In 2020, an estimated 21% of total ASEAN merchandise trade was intra-regional trade between ASEAN nations. Intra-ASEAN investment also was the second largest source of FDI into ASEAN in 2021, amounting to an estimated USD 21 billion.

ASEAN New Export Orders

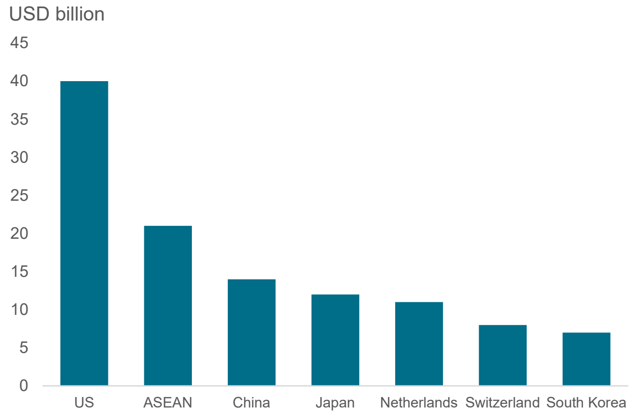
Source: S&P Global

China's trade and investment ties with ASEAN

The importance of intra-regional trade between ASEAN and other countries in the Asia-Pacific region has also become increasingly important as a driver of ASEAN exports. Notably, China-ASEAN bilateral economic ties have grown at a very rapid rate over the past three decades. Bilateral trade in goods between mainland China and ASEAN has risen at a remarkable rate, increasing from just USD 9 billion in 1991 to USD 685 billion in 2020. In 2020, ASEAN also surpassed the EU to become mainland China's largest trading partner for the first time. From the ASEAN perspective, mainland China has already been the largest market for ASEAN exports for the past 12 years. In 2021, bilateral trade between China and ASEAN recorded strong growth of 19.1% y/y.

Bilateral investment ties have also strengthened significantly. China's direct investment in ASEAN rose from an estimated USD 7 billion in 2020 to reach USD 13.6 billion in 2021, according to ASEAN statistics.

ASEAN FDI in 2021 by Source



Source: ASEAN Secretariat, S&P Global.

Outlook

Over the long term, the ASEAN region is expected to continue to be one of the fastest growing regions of the world economy. Total ASEAN GDP, measured in nominal USD terms, is forecast to more than double over the next decade, increasing from USD 3 trillion in 2020 to USD 6.4 trillion by 2030. Over the next decade, the ASEAN region will be one of the three main growth engines of the APAC region, together with mainland China and India. The rapidly growing size of the ASEAN consumer market will become an increasingly important magnet for FDI inflows as multinationals establish manufacturing and services capacity in Southeast Asia to tap the domestic demand in the region.

Supply chain diversification is also expected to be an important factor supporting FDI inflows into ASEAN over the medium-to-long-term. Faced with severe global supply chain disruptions in recent years due to natural disasters and more recently due to the COVID-19 pandemic, multinationals are increasingly focused on diversifying supply chains to reduce vulnerability to such disruptions. Supply chain problems due to the Russia-Ukraine war and the disruption of pipeline gas supplies for the EU may also reinforce diversification of some manufacturing supply chains towards the ASEAN region.

ASEAN nations will also benefit from their membership of the Regional Comprehensive Economic Partnership (RCEP), which is a positive regional trade liberalisation initiative that will help to boost trade and investment flows among the 15 nations that have agreed to the trade deal. The 15 Asia-Pacific economies that make up the RCEP membership together account for around 29% of world GDP. The RCEP members comprise the 10 ASEAN members, plus China, Japan, South Korea, Australia, and New Zealand.

Following considerable disruption to Asia-Pacific trade flows during 2018-2021 due to the US-China trade war and the impact of the pandemic, the implementation of RCEP will help to further

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reduce barriers to regional trade flows within the Asia-Pacific region over the medium to long-term. The RCEP also creates a trade liberalisation framework that can be built on and strengthened through further rounds of trade negotiations, including through the potential accession of other nations to the RCEP agreement.

Although tariff liberalization has already progressed significantly among the 15 RCEP members over the past decade through a wide network of FTAs, RCEP will further reduce tariff barriers. The scope of RCEP includes reducing tariffs on trade in goods, as well as creating higher-quality rules for trade in services, including market access provisions for service sector suppliers from other RCEP countries. The RCEP agreement will also reduce non-tariff barriers to trade among member nations, such as customs and quarantine procedures as well as technical standards.

One important advantage of the RCEP is its very favorable rules of origin treatment, which provide cumulative benefits that will help to build manufacturing supply chains within the RCEP region across different countries. This will help to attract foreign direct investment flows for a wide range of manufacturing and infrastructure projects into the RCEP member nations. A number of RCEP member nations with strong manufacturing hubs are well-positioned to benefit from increased foreign direct investment inflows into the APAC region due to the rules of origin benefits of the RCEP.

Therefore, the long-term outlook for FDI inflows into the ASEAN region remains very favorable across a broad range of industry sectors in manufacturing and services.

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