

Week Ahead Economic Preview

Inflation updates and China GDP in focus

17 October 2022

The week ahead brings inflation data due for the EU, UK, Japan, Canada and Italy, plus China's third quarter GDP. Consumer sentiment data for the Eurozone and the UK, plus retail sales figures for the latter, will also be eagerly awaited to gauge the cost-of-living impact. US releases include industrial production and some key housing market data.

Mainland China data are set to take the spotlight with markets assessing the impact of changing COVID-19 restrictions. GDP data are set to show improved economic growth, with our forecasters pointing to a 3.5% year-on-year expansion in Q3. Retail sales and industrial production numbers will provide more timely high-frequency data on the evolving situation, and are also expected to show improved performance. However, any improvements in the recent past are overshadowed by concerns about the extent to which China's growth will remain subdued amid efforts to contain COVID-19, and these worries may dominate the week's PBoC policy meeting. Our economists are pencilling in just 3.3% GDP growth in 2022 and a 4.5% expansion in 2024.

Industrial production numbers will be the standout release for the US this week, with growth expected to moderate only slightly from August. But housing data will also be keenly eyed for the impact of soaring mortgage rates.

With the UK remaining a major area of investor concern, upcoming data releases will be eagerly assessed for recession risks. [September's PMI](#) signalled the fastest decline in UK output since January 2021 as the cost of living crisis continued to hit consumer spending. Inflation numbers – out Wednesday – are anticipated to remain close to 40-year highs, and retail sales numbers are likely to come under pressure. Consumer sentiment data will bring an end to the week for UK releases and are likewise set to remain sombre.

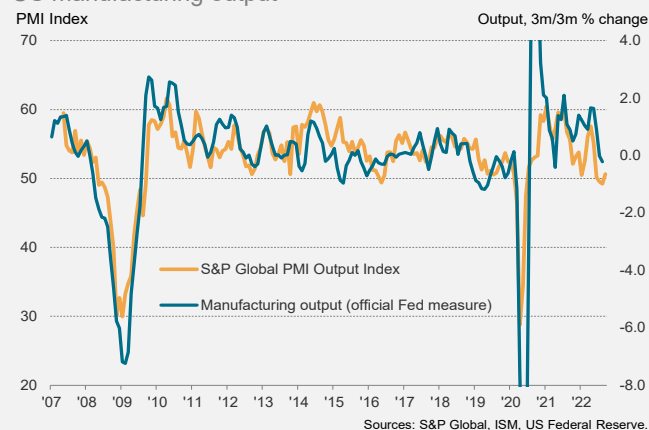
Inflation data for the Eurozone should confirm inflation at a 70-year peak of 10%, while economic sentiment is expected to remain in negative territory.

In Asia, industrial production and inflation numbers for Japan are out while the RBA meeting minutes will be poured over after their smaller than expected rate hike.

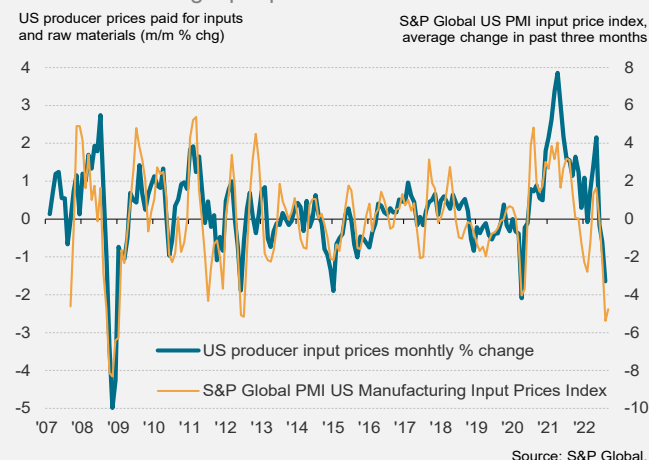
US manufacturing under the spotlight

Industrial production data due out for the US are likely to show the manufacturing output trend continuing to deteriorate, according to S&P Global PMI and ISM survey data. This weakening trend is important as not only does it add to growing signals of slower economic growth [both in the US and further afield](#), the weakening demand picture is contributing to lower inflationary pressures – in fact factory input costs are falling. This is in turn important as these lower costs should help bring consumer price inflation down.

US manufacturing output



US manufacturing input prices



Key diary events

Monday 17 October

Indonesia Balance of Trade (Sep)
Japan Industrial Production (Aug)
China FDI (Sep)
Italy Inflation Rate (Sep)
Canada BoC's Business Outlook Survey
United States Monthly Budget Statement (Sep)
New Zealand Inflation rate (Q3)

Tuesday 18 October

Australia RBA Meeting Minutes
China GDP Growth Rate (Q3), Industrial Production (Sep),
Retail Sales (Sep), Fixed Asset Investment (Sep)
Spain Balance of Trade (Aug)
Germany ZEW Economic Sentiment Index (Oct)
Italy Balance of Trade (Aug)
United States Industrial Production (Sep), NAHB Housing
Market Index (Oct)

Wednesday 19 October

Australia Westpac Leading Index (Sep)
China House Price Index (Sep)
United Kingdom Inflation Rate (Sep)
South Africa Inflation Rate (Sep)
Euro Area Inflation Rate (Sep)
United States MBA Mortgage Applications (Oct),
United States Housing Starts (Sep), Building Permits (Sep)
Canada Inflation Rate (Sep)

Thursday 20 October

Japan Trade Balance (Sep), Foreign Bond Investment (Oct)
Australia Unemployment Rate (Sep)
China PBoC Interest Rate Decision
Netherlands Consumer Confidence (Oct),
Netherlands Unemployment Rate (Sep)
Switzerland Balance of Trade (Sep)
France Business Confidence (Oct)
Indonesia Interest Rate Decision
Poland Employment Growth (Sep)
United States Jobless Claims (Oct),
US Philadelphia Fed Manufacturing Index (Oct)
New Zealand Balance of Trade (Sep)

Friday 21 October

United Kingdom Gfk Consumer Confidence (Oct),
United Kingdom Retail Sales (Sep)
Japan Inflation Rate (Sep)
Thailand Balance of Trade (Sep)
Canada Retail Sales (Aug)
Euro Area Consumer Confidence Flash (Oct)

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

What to watch

Americas: US industrial production, Canada inflation and retail sales

A number of key US data points will be released this week, notably including the industrial productions figures for September. PMIs in recent months have alluded to muted factory output performance, and markets are forecasting a 0.1% contraction in industrial production.

Canada's inflation and retail sales data will also be highly sought after, as economic woes continue to emerge in the form of weak employment numbers and a recession warning from the IMF. Retail sales fell 2.5% in July, but preliminary estimates suggest a 0.4% rebound is on the table. Inflation figures will also be watched for further signs of moderation.

Europe: EU sentiment and inflation, UK retail sales & inflation

With sentiment relatively weak across much of the global economy, latest EU and German consumer confidence figures are expected to remain subdued given persistent high inflation and growing economic gloom. In fact, the inflation figure – out Wednesday – will likely confirm a 10% rate of increase in September, the highest for 70 years. Outside the eurozone, UK data releases are expected to dominate headlines once again with inflation and retail sales figures likely to influence the already volatile market.

Asia-Pacific: China GDP, Industrial production, retail sales, Japan industrial production and inflation

A number of releases for mainland China will be eagerly anticipated to assess the impact of the region's zero-COVID policy and the associated restrictions. On the whole, restrictions have retreated over the third quarter, but the government is clearly retaining its strict approach. After moderating to 0.4% (YoY) in Q2 our forecasts point to a 3.5% expansion in GDP for Q3 (YoY). Industrial production and retail sales data are likely to signal growth remaining firmly in positive territory. The PBoC will also meet during the week to make a decision on interest rates while Indonesia's MPC will also convene.

Japan will also see industrial figures come to light, where the final release isn't expected to deviate to far from the previous estimate of 2.0% (YoY).

Special reports:

United Kingdom | Chris Williamson | [page 4](#)

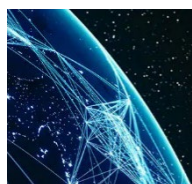
APAC | Rajiv Biswas | [page 7](#)

Recent PMI and economic analysis from S&P Global

Global	Global economy contracts for second month running amid tightening financial conditions	10-Sep	Chris Williamson
	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: Employment, hours grew in September	10-Oct	Akshat Goel Ben Herzon Ken Matheny
	US Monthly GDP Index for August 2022	04-Oct	Ben Herzon William Magee
APAC	ASEAN Foreign Direct Investment Inflows Reach Record High	06-Oct	Rajiv Biswas
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 drop despite OPEC intervention



Our Materials Price Index (MPI) fell another 4.3% last week, its fifth decline in the past six weeks. In a change from recent patterns the decline was narrow with only five out of ten subcomponents falling. That said, the change in commodity prices is clear with the MPI now 30.5% lower than its all-time high established back in early March. Commodity prices, as measured by the MPI, are now 11.2% 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

United Kingdom

Upcoming PMI data in focus as UK recession risks intensify amid market turmoil

October's flash PMI data for the UK will be eagerly awaited, given the growing chorus of concerns regarding the country's economic health and financial market stability.

A botched 'mini' budget in late September – that turned into one of the most disruptive government-induced economic shocks in recent memory – exacerbated downward pressure on sterling and gilts, leading to unprecedented intervention in the bond market by the Bank of England to help stave off a pension industry crisis. The additional upward pressure on already-elevated interest rate expectations meanwhile drove a further spike in mortgage rates.

As a consequence, many forecasters - including the International Monetary Fund - have downgraded the UK's economic outlook while simultaneously estimating that the UK will see higher and more persistent inflation than any of its peers.

Assessing the business situation under a new economic environment

Against this backdrop, S&P Global will be collecting the October PMI survey data. The vast majority of September's PMI questionnaires had been completed by participants prior to the mini budget, and in any event the PMI surveys ask respondents to compare the situation at mid-month versus one month ago, thereby missing the impact of the budget. However, the final September PMI numbers - which included late responses in the month - did show a marked deterioration in the business expectations index compared to the earlier flash numbers. This suggests that, while actual output levels were not immediately affected on balance by the budget shock, sentiment about the year ahead had darkened among businesses as a result of the uncertainty caused by the new government's economic strategy. This drop in confidence has fueled suspicions that the upcoming October data could show a deteriorating business situation.

Heightened recession risk

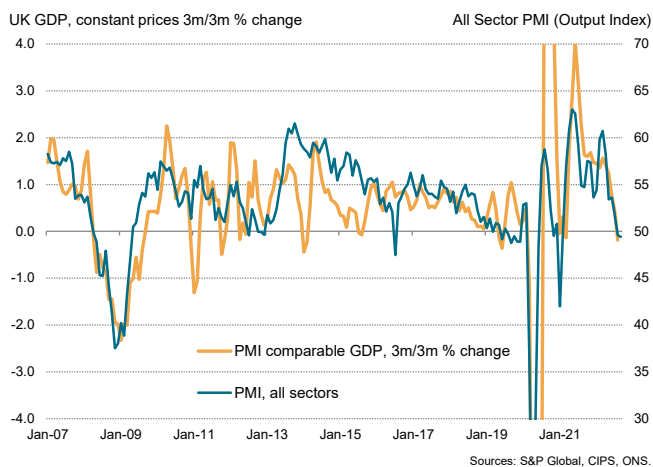
A weak set of October PMI numbers would be particularly market sensitive as they would increase the risk of the UK falling into recession.

Both the PMI and official GDP data hint strongly at the economy having already fallen into contraction in the third quarter, so a fourth quarter decline would meet the technical definition of a recession (two consecutive quarterly contractions).

As noted in our [September flash PMI report](#), the survey data were indicative of GDP falling at a quarterly rate of 0.25%. While subsequent GDP releases have been somewhat favorable in the sense that a 0.1% second quarter decline has now been revised away to show 0.2% growth, the latest August GDP numbers showed the economy contracting in the latest three months by 0.3%. Restricting GDP to comparable coverage of the PMI (excluding retail, government spending and energy) the official data showed a 0.2% quarterly rate of contraction.

The third quarter therefore looks highly likely to be one in which the UK economy contracted.

UK GDP and PMI survey output data compared



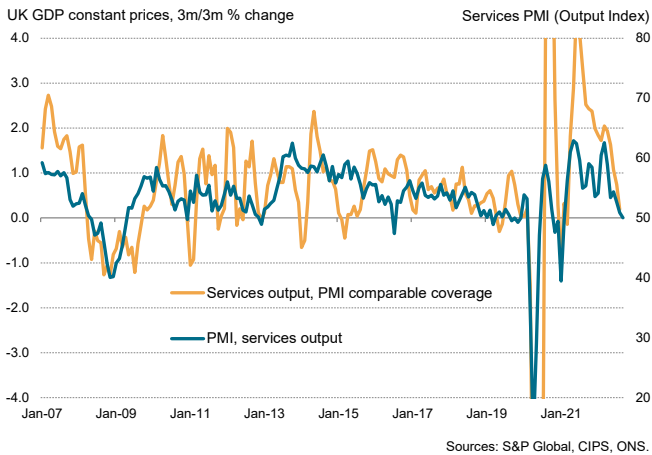
Broad-based malaise but manufacturing suffering steepest downturn

It is also worrying that the growing UK malaise is so broad-based, with the cost-of-living crisis and elevated price pressures hitting demand abroad a wide variety of industries.

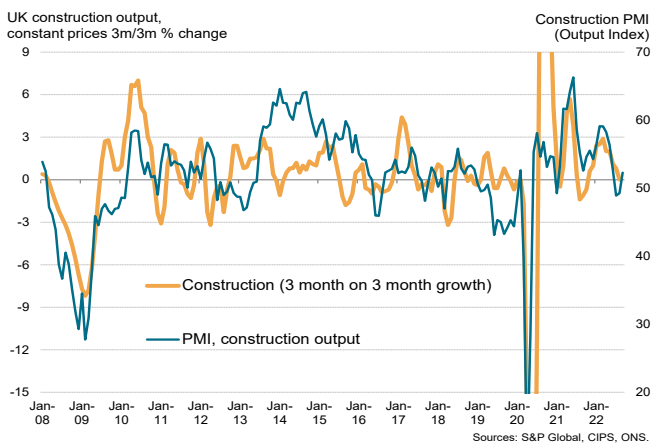
Both the PMI and official data suggest private sector services output growth has slowed sharply, with the PMI indicating a stalling of the expansion in September. Construction output is meanwhile also looking largely stalled in the third quarter.

For manufacturing, the data are even more worrying. Both the PMI and official data point to a third quarter downturn which, excluding the initial pandemic shutdowns, is looking to be the steepest since the global financial crisis.

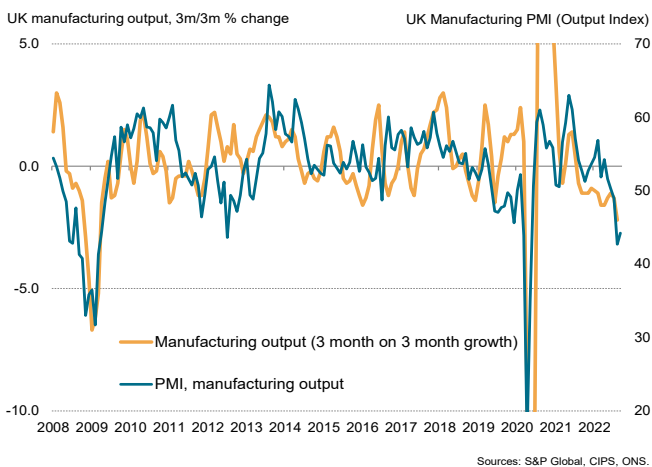
UK services output



UK construction output



UK manufacturing output



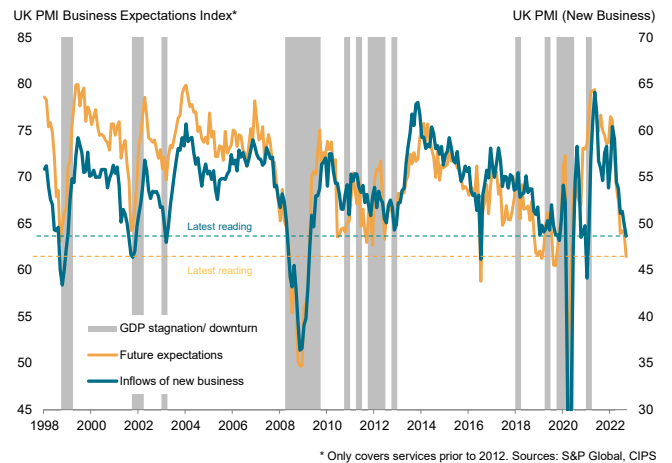
Gloomy outlook

Taking a closer look at the survey's forward-looking sub-indices, both the all-sector new orders index and the future expectations index from the UK PMI survey are now down to levels that signal

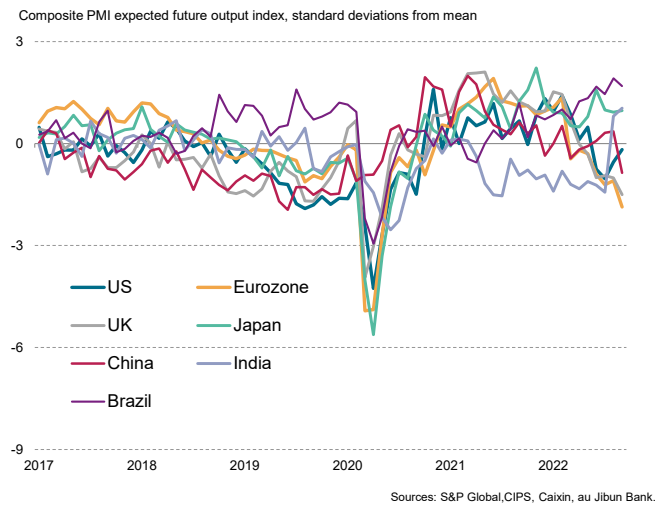
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worsening output trends in coming months, adding to fourth quarter contraction risks. In fact, both of these indices are at levels which have rarely been plumbed in the survey quarter-century history of the PMI, and are collectively signalling an economic outlook that has not been gloomier (barring the pandemic lockdowns) since 2009. These forward-looking subindices will be especially important to watch in the October release.

UK PMI forward-looking indicators



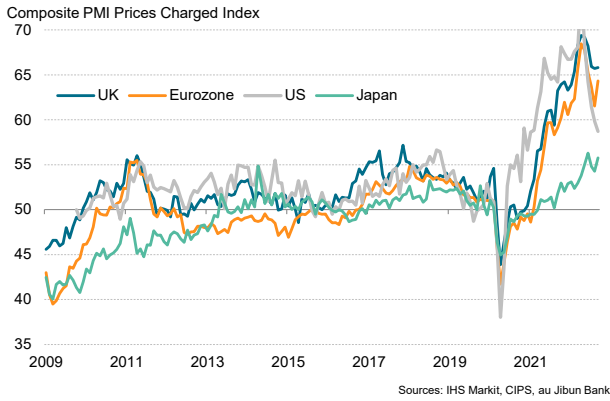
PMI future output expectations



Inflation running above peers

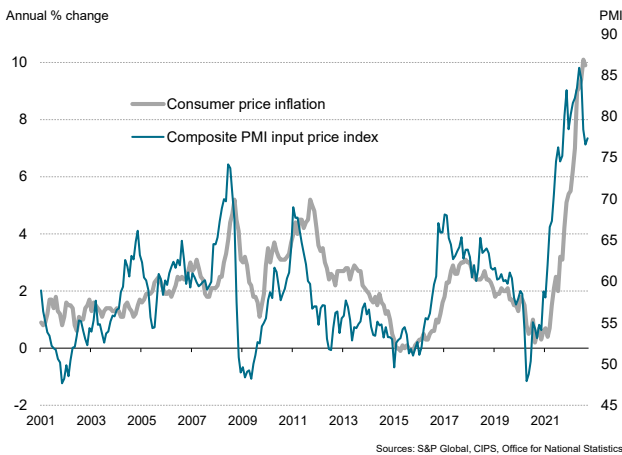
Speculation that the UK is suffering higher than average inflation among its peers is meanwhile supported by the recent PMI data. On average, prices charged for goods and services are rising at fastest rates in the UK than in the Eurozone and US. In fact, while the rate of increase has fallen sharply in the US from elevated levels earlier in the year, there are signs of resurgent rates of inflation in Europe.

PMI selling price indices



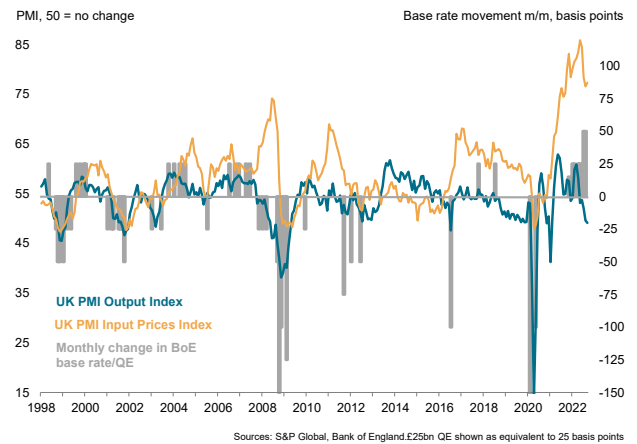
To get an idea of what these diverging PMI price trends mean for inflation, the drop in the US PMI price gauge pushes the annual inflation signal down below 5%, but for the UK the PMI price indices signal inflation reaccelerating to around 7%.

UK PMI prices and consumer price inflation



These inflation rate divergences are of course important as they will have a clear bearing on monetary policy decisions going forward. Although the US, Eurozone and UK are all seeing heightened recession risks, any easing of price pressures could allow policymakers to ease off with hiking interest rates. At the moment, this is therefore looking more of a possibility in the US than in Europe.

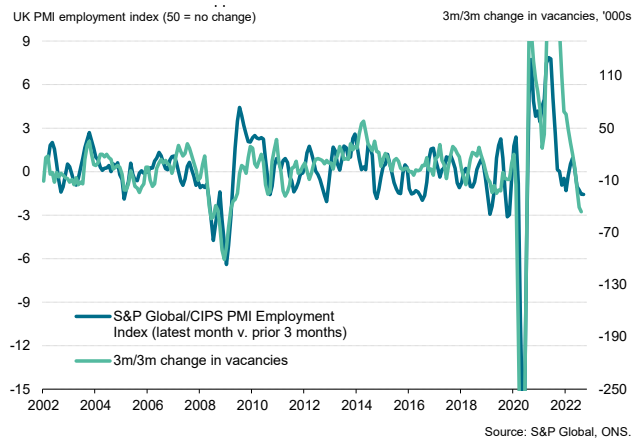
UK PMI price and output indicators vs. Bank of England policy



Job market will have a bearing on policy

A further indicator to keep an eye on in the upcoming PMI surveys is the employment index. This index measures actual changes in staffing numbers compared to the prior month, rather than hiring intentions, so acts as a coincident labour market indicator. However, the PMI signals are available ahead of official data. At present, both the PMI and official employment data are showing sustained robust jobs growth, albeit with rates of increase having slowed. This slowing is likely as much a consequence of labour shortages amid historically low unemployment rates, but there are signs that job vacancies are starting to fall, which - if reflected in another drop in the PMI's employment index - could encourage a more cautious stance at the Bank of England in relation to interest rate hikes.

UK employment indicators



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APAC

APAC Electronics Industry Continues to Face Headwinds

The latest S&P Global Electronics PMI survey for September 2022 indicated that the electronics sector was close to the neutral mark in terms of overall momentum. The electronics sector has slowed significantly during the first nine months of 2022, as economic growth momentum in the US, EU and China has weakened.

The electronics industry is an important part of the manufacturing export sectors of many Asian industrial economies, including mainland China, South Korea, Japan, Singapore, Taiwan, 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 electronics exporters face cooling demand

The global electronics industry had shown positive expansion since mid-2020 until mid-2022, as the COVID-19 pandemic created strong demand for consumer electronics for remote working and home entertainment. However, the pace of expansion showed some moderation during the first half of 2022, with the S&P Global Electronics PMI survey for the third quarter signaling weaker conditions.

South Korea's semiconductors exports in September fell by 5.7% year-on-year (y/y) to USD 11.5 billion. This reflected a high base effect and weakening consumer markets in the US, EU and China. This was a significant reversal compared with the first half of 2022, when South Korean exports of semiconductors rose by 21% y/y. Declining export values were due to lower semiconductors prices and weaker demand. Exports of mobile phones and components declined by 7% y/y in September, reflecting lower shipments to mainland China and Southeast Asia. Exports of display panels declined by 20% y/y.

In Taiwan, exports of electronics components rose by 2.4% y/y in September, with semiconductors exports rising by 3.5% y/y, albeit moderating significantly when compared with an increase of 14.4% y/y in August.

Japan's exports of semiconductors measured in quantity terms declined by 11% y/y in August, while exports of computers measured in quantity terms fell by 21% y/y. Exports of semiconductors to mainland China fell sharply, down 17% y/y in

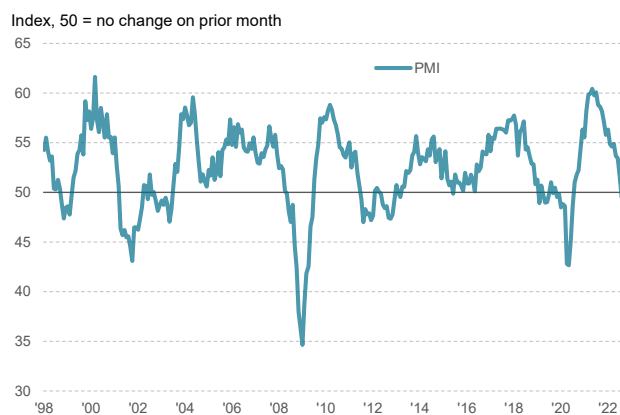
quantity terms, reflecting the slowdown in domestic demand in recent months due to Covid-19 restrictions. However, when measured in yen value terms, Japan's exports of semiconductors and computers showed strong rises in August. This reflects, to a large extent, the impact of sharp yen depreciation from 115 Yen per USD in early January 2022 to 145 Yen per USD by mid-October.

In Singapore, exports of electronics products declined by 4.5% y/y in August, with exports of integrated circuits down by 6.6% y/y and exports of disk media products down by 21.3% y/y.

Global electronics sector remains sluggish

The headline S&P Global Electronics PMI posted 50.2 in September, up slightly from 49.5 in August and fractionally above the 50.0 no-change mark to signal a marginal improvement in business conditions for global electronics manufacturers. The August survey results indicated that the global electronics industry was experiencing slightly contractionary conditions for the first time in 26 months, but the September survey shows a return to neutral conditions.

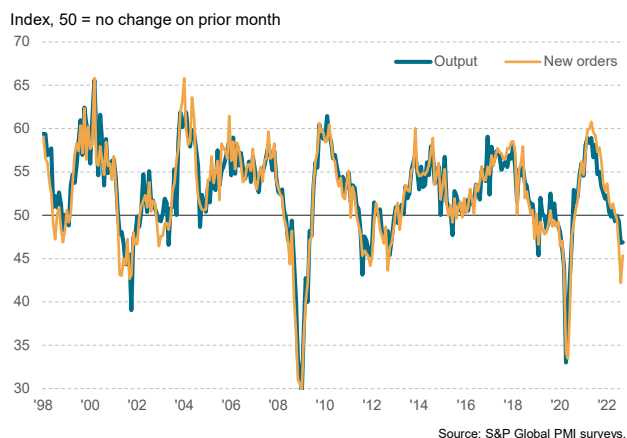
S&P Global Electronics PMI



Source: S&P Global PMI surveys.

However, the two principal sub-components of the Global Electronics PMI – new orders and output – both remained in contraction territory during September. Notably, orders continued to fall at a steeper pace than production, indicating a likelihood of production falling further in the near-term.

S&P Global Electronics PMI Output and New Orders

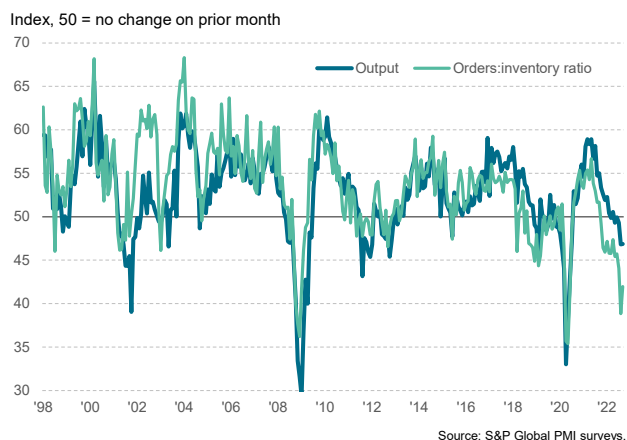


Global electronics firms reduced their purchasing activity for the second month running during September as a result, albeit modestly.

Anecdotal evidence indicated that the fall in input buying was a response to lower new orders 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.

The resulting new orders to inventory ratio, a key gauge of future production trends, remained deep in negative territory to add to downside near-term risks for the industry.

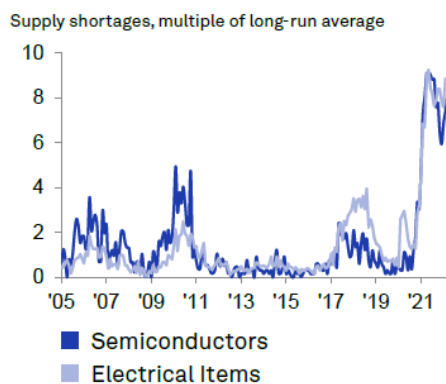
S&P Global Electronics PMI orders-inventory ratio



There were continuing pressures on global electronics supply chains during September, as signaled by the seasonally adjusted Suppliers' Delivery Times Index posting 41.8, still well below the 50.0 no-change mark. However there has been a significant reduction in delivery times since the beginning of 2022, as supply conditions in the sector have gradually improved.

Although industry supply shortages for the semiconductors and electrical products industries still remain far above their long-run average, these shortages have showed some signs of easing in recent months.

Electrical & Electronic

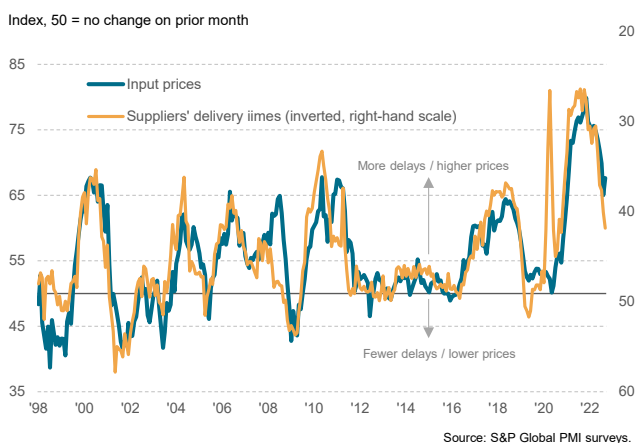


Source: S&P Global PMI surveys.

Inflation pressures remain high

Global electronics manufacturers faced intense cost pressures during the first half of 2022, due to increasing international raw material prices. After input price pressures eased back from a level of 74.0 in June to 65.0 in August, the September reading showed a renewed increase to 67.6. Higher raw material costs, energy prices and exchange rate fluctuations contributed to inflation pressures. After easing from 61.9 in June to 57.8 in August, output price pressures also picked up to 59.9 in September. However, it is clear that price pressures have cooled in the second half of 2022, in line with fewer supplier delays, in turn fueled by weakened demand.

S&P Global Electronics PMI prices and supplier delays



Electronics outlook

The APAC electronics industry is facing increasing headwinds in the near-term outlook, as signaled by the most recent S&P Global Electronics PMI surveys. Weakening growth momentum in the US and EU, combined with soft domestic demand growth in mainland China, are weighing on electronics new orders. However, production backlogs for some key electronics products, notably semiconductors, will continue to provide support for electronics output during the remainder of 2022 and early 2023, albeit supplier delivery times are easing. Electronics output and new orders have been moderating in recent months, as slowing growth momentum in the key markets of the US and EU are increasingly acting as a drag on electronics new orders.

The medium-term economic outlook remains supportive for the electronics industry. With shortages of semiconductors disrupting manufacturing supply chains in 2021, the importance of having domestic electronics production capacity for critical electronics components has become a national priority for major industrial nations, including the US, EU and China.

For the US and EU, reducing reliance on Asian semiconductor production has become a key strategic priority over the next decade. The US CHIPS and Science Act which was recently passed by US Congress and signed into law by President Biden provides for USD 50 billion of government funding for increasing US domestic production of semiconductors. In the EU, the European Chips Act is expected to mobilize an estimated Euro 15 billion of public and private investments into semiconductors, with a total of Euro 43 billion of policy-driven investment into the EU semiconductor industry by 2030. India is also trying to establish a commercial semiconductor manufacturing sector, to reduce its heavy reliance on imported semiconductors.

The outlook for electronics demand is also supported by major technological developments, including 5G rollout over the next five years, which will drive demand for 5G mobile phones. Demand for industrial electronics is also expected to grow rapidly over the medium term, helped by Industry 4.0, as industrial automation and the Internet of Things boosts rapidly growth in demand for industrial electronics.

Competition amongst leading technology nations in strategic electronics production has also intensified. Consequently, strategic global competition amongst the world's leading high-technology nations is also likely to play a greater role in reshaping the global electronics industry landscape over the next decade.

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