PMI™

by S&P Global

# Week Ahead Economic Preview

## Worldwide PMIs, Fed, BoE, RBA meetings, US payrolls data

28 October 2022

**Worldwide manufacturing and services PMI** data will be eagerly anticipated next week for the first indications of early Q4 performance around the globe. Intertwined with the PMI data releases will be **central bank meetings** across the US, UK, Norway, Australia and Malaysia with further rate hikes expected, especially from the US Federal Reserve. A series of tier-1 economic data including **October US payrolls** and **eurozone Q3 GDP and October flash CPI** figures will also be anticipated.

The release of October flash PMIs reinforced concerns of economic slowdown this week with the US and Europe facing heightened risks of recession according to the latest data (see special report). Next week's update on worldwide manufacturing and services data will therefore shed light on whether the rest of the regions face similar pressures at the start of the final quarter of 2022.

Central bankers meanwhile are caught in the crosswinds between elevated price pressures and slowing global economic growth. Despite so, most are set to remain in their resolute to tame inflation with central banks from US to Australia due to raise rates in the meetings next week. The Fed, in particular, is expected to institutionalise another 75-basis points hike, although their path thereafter appears a little less certain. As such, the Fed's rhetoric will be closely watched for hints on the magnitude of future rate hikes. October's payrolls data will also be an important piece of information and may offer indications on the level of concern necessitated from central bankers as the US labour market look set to soften against weaker demand as signalled by the latest PMI data.

Meanwhile the Bank of England is just as certain to act to tame the elevated, albeit easing, price pressures domestically. Despite the lingering uncertainties on the politics front, whereby stability in the months ahead is yet to be guaranteed even with a change of Prime Minister, the BoE looks set to raise rates further into a recessionary environment.

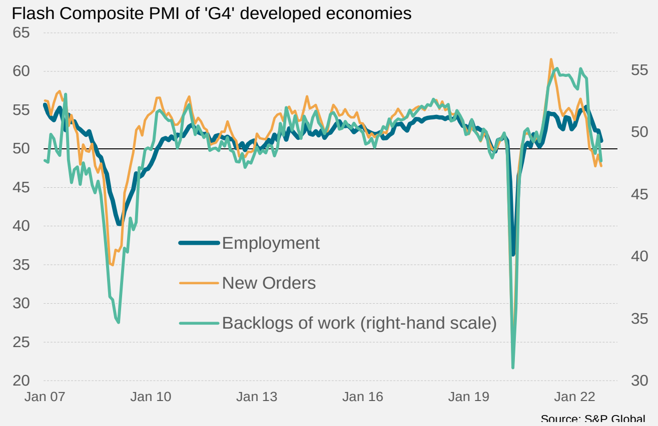
### Labour markets set to soften as downturns gather pace

Some comfort has been drawn from the resilience of labour market data amid growing signs of recession, with sustained hiring in key developed economies allaying fears of a deep downturn. However, that resilience is now showing some cracks.

One of the features of the pandemic was a substantial buildup of order book backlogs at companies, where shortages of raw materials and shipping delays prevented firms from meeting customer demand. The auto sector is perhaps the most well-documented example of such an inability to meet demand, due to the lack of semiconductors. These backlogs have been a welcome source of continued growth in 2022, facilitated by improving supply lines.

However, the October flash PMI data reveal that these backlogs have been falling in recent months. The rate of decline has in fact accelerated markedly at the start of the fourth quarter to the steepest for a decade (if the early pandemic shock is excluded). The problem is that there is a dearth of new orders being placed from customers to replace these back-orders. Companies are thus growing concerned that costly excess capacity is now developing. Hence, according to the October flash PMI data, the rate of job creation slowed across the four largest developed economies to the lowest since February 2021, representing a major downshifting of hiring since the survey peaks seen during the second quarter of the year. US jobs are already being cut. Final PMI data due out in the coming week will help further reveal the extent of the global hiring slowdown and give more clues as to the potential depths of recessions.

Developed world employment and order books



## Key diary events

**Monday 31 October**
*Philippines Market Holiday*
South Korea Industrial Output (Sep)
Japan Industrial Output (Sep)
China (Mainland) NBS Manufacturing PMI (Oct)
Thailand Manufacturing Production and Trade (Sep)
United Kingdom Mortgage Lending and Approvals (Sep)
Eurozone HICP (Oct, flash)
Eurozone GDP (Q3, flash)
United Kingdom Nationwide House Price (Oct)

**Tuesday 1 November**
*Philippines Market Holiday*
Worldwide Manufacturing PMI Surveys* (Sep)
Australia RBA Cash Rate (Nov)
Indonesia Inflation (Oct)
Hong Kong Retail Sale (Sep)
United States ISM Manufacturing PMI (Oct)
United States JOLTS Job Openings (Sep)

**Wednesday 2 November**
South Korea CPI (Oct)
Japan BOJ Meeting Minutes (Sep)
Philippines Manufacturing PMI* (Oct)
Germany Trade (Sep)
Germany Unemployment (Oct)
Germany S&P Global/BME Manufacturing PMI* (Oct)
Eurozone S&P Global Manufacturing PMI* (Oct)
United States ADP National Employment (Oct)
United States Fed Funds Target Rate (2 Nov)

**Thursday 3 November**
*Japan Market Holiday*
Worldwide Services & Composite PMI Surveys* (Sep)
Australia RBA Meeting Minutes (Nov)
Australia Trade Balance (Sep)
Malaysia Overnight Policy Rate (Nov)
Switzerland CPI (Oct)
Norway Key Policy Rate (Nov)
Eurozone Unemployment Rate (Sep)
United Kingdom BOE Bank Rate (Nov)
United States International Trade (Sep)
United States Initial Jobless Claims
Canada Trade Balance (Sep)

**Friday 4 November**
Japan au Jibun Bank Services and Composite PMI* (Oct)
Philippines CPI (Oct)
Thailand CPI (Oct)
Germany Industrial Orders and Manufacturing Output (Sep)
Germany S&P Global Services and Composite PMI* (Oct)
Eurozone S&P Global Services and Composite PMI* (Oct)
United Kingdom S&P Global/CIPS Construction PMI* (Oct)
Eurozone Producer Prices (Sep)
United States Non-Farm Payrolls, Unemployment, Average Earnings (Oct)
Canada Unemployment Rate (Oct)

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

## What to watch

**October manufacturing and services PMIs**

Worldwide manufacturing and services PMIs will be released in the coming week following the October flash PMI updates, which revealed heightened recession risks in the US and Europe (see special report). Meanwhile Japan was the only major developed world economy to reflect expansion, buoyed by service sector improvements. Overall confidence across US to Japan nevertheless slumped while the job market softened. Manufacturing, services and composite PMI data will therefore be tracked across the world for indications on the health of the global economy at the start of the fourth quarter.

**Americas: Fed FOMC meeting, October payrolls data**

A busy week ahead for the US economic calendar is packed with both the November Fed FOMC meeting and labour market data. The latest consensus pointed to another 75 basis points (bps) rates hike by the US Federal Reserve even as the latest flash PMI data showed the US private sector falling sharply into contraction territory. Indications on the path post the 2 November meeting will be closely observed and we expect the pace of rate hikes to slow, subjected to changes in the inflation outlook.

On the labour market developments, the consensus calls for a 200k addition to non-farm payrolls in October, easing from the 263k registered for September. Unemployment rate is expected to tick up slightly to 3.6% while average hourly earnings is expected to continue rising at a pace of 0.3% month-on-month (MoM).

**Europe: Eurozone Q3 GDP, inflation data, UK, Norway interest rate decisions**

Besides PMI data to allude to October economic conditions, the market will be looking to official eurozone Q3 GDP data and October flash inflation figures next week.

Central bank decisions in the UK and Norway will also be unveiled with the market expecting a 75-bps hike by the Bank of England to 3.0%. While the elevated price pressures will drive the BoE to move, the central bank will be hiking into a contractionary environment.

**Asia-Pacific: Australia, Malaysia interest rate decisions**

Central bank decisions in Australia and Malaysia will be anticipated in the coming week. For the Aussie central bank, cash rate is expected to tick up further by 25-bps to 2.85%

## Special reports:

**Flash PMI Data Signalled Heightened Recession Risks in the US and Europe** | Chris Williamson | **page 4**

**South Korea's Economy Slows in Third Quarter of 2022** | Rajiv Biswas | **page 9**

## Recent PMI and economic analysis from S&P Global

| | | | |
|---|---|---|---|
| **Global** | Flash PMI data signalled heightened recession risks in the US and Europe | 25-Oct | Chris Williamson |
| | Demand Shortfall indices suggest manufacturing downturn could accelerate rapidly | 20-Oct | David Owen, Maryam Baluch |
| | Flash PMI data to highlight recession risks and varying inflation trends at start of fourth quarter | 18-Oct | Chris Williamson |
| | Monthly PMI Bulletin: October 2022 | 17-Oct | Lewis Cooper |
| | Global economy contracts for second month running amid tightening financial conditions | 10-Oct | Chris Williamson |
| **US** | Flash US PMI falls sharply in to contraction territory in October as optimism and demand slumps | 24-Oct | Chris Williamson |
| **Europe** | Germany leads steepening eurozone downturn in October | 24-Oct | Chris Williamson |
| | Flash UK PMI data signal increasing economic stress as downturn intensifies | 24-Oct | Chris Williamson |
| | Strength in official manufacturing data not set to last | 17-Oct | Chris Williamson |
| | Upcoming PMI data in focus as UK recession risks intensify amid market turmoil | 14-Oct | Chris Williamson |
| **Asia-Pacific** | Flash PMIs show renewed contraction of the Australian economy in October while Japan's service sector powers growth | 24-Oct | Jingyi Pan |
| | Australian economy under pressure amid strong inflation, but signs of price peak appear | 17-Oct | Laura Denman |
| **Commodities** | Weekly Pricing Pulse: Commodities down as demand prospects dim | 26-Oct | Michael Dall |

## S&P Global Economics & Country Risk highlights

**Trick-or-treaters will bag less loot as Halloween candy prices eat into sales volumes**

After months of scary headlines on rattled supply chains and possessed prices, US consumers are ready to bury the gloomy news and ring in the holiday season, starting with Halloween. The National Retail Federation expects spirits to be high this All-Hallows' Eve, with the share of families celebrating back to pre-pandemic levels. Just as with house prices they should beware-y of BOO-ming candy prices that are estimated to be up 14% from 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**

## For further information:

For more information on our products, including economic forecasting and industry research, please visit the Solutions section of **www.ihsmarkit.com**. For more information on our PMI business surveys, please visit **www.ihsmarkit.com/products/PMI**

**Special Focus**

# Flash PMI data signalled heightened recession risks in the US and Europe

*October flash PMI data showed economic contractions gathering pace in the US, eurozone and UK, leaving Japan as the only major developed world economy to muster any expansion at the start of the fourth quarter. However, even in the latter business confidence in the outlook has deteriorated to present a full house of downbeat sentiment for the year ahead across the largest advanced economies. This thereby hints strongly at the economic growth trend weakening further in the coming months.*

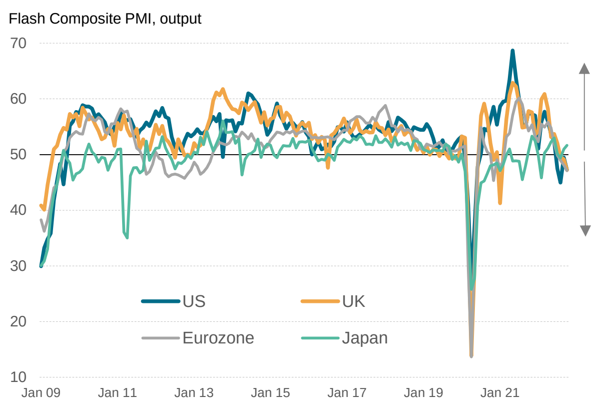
*Business investment and employment look set to also deteriorate amid the drop in confidence and signs of excess capacity developing.*

*One upside of the slowdown has been a further alleviation of supply constraints and reduced upward pressure on commodities. Although energy prices and wage costs continued to drive elevated rates of inflation for firms across the developed world, even these pressures look likely to moderate in the coming months. Markets will therefore be eager to see whether central bank policymakers react to the latest signals of rising recession risks and peaking - but potentially sticky - inflation.*

## Flash PMI data point to deepening downturn

The October flash PMI data showed the global economy at increased risk of recession amid headwinds from the cost-of-living crisis, tightening financial conditions and heightened risk aversion in response to growing economic gloom.

### G4 developed markets PMI output

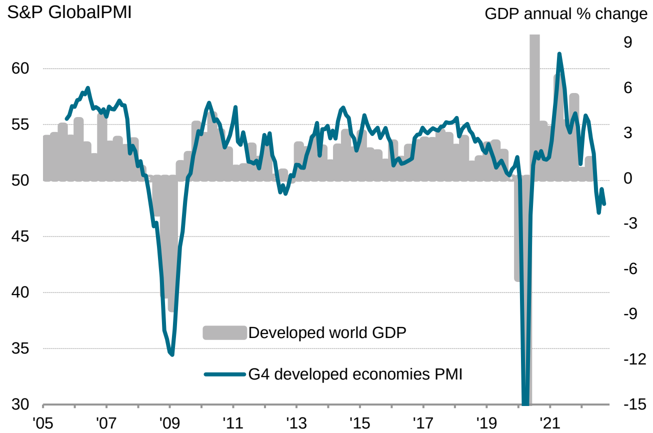



Sources: S&P Global, CIPS (UK), au Jibun Bank (Japan)

According to the early PMI survey data compiled by S&P Global, increasing rates of output decline were seen across the US, eurozone and UK, leaving Japan as the only one of the four largest developed economies – the 'G4' – to report growth. The past two months are notable in that this is the first period during which Japan las led the G4 in terms of the composite PMI output index since comparable data were available in 2009.

The combined picture across the G4 is therefore one of output falling for a third successive month, with the rate of contraction the second steepest seen since the global financial crisis in 2009, barring initial pandemic lockdown months.

### G4 developed markets PMI vs. GDP



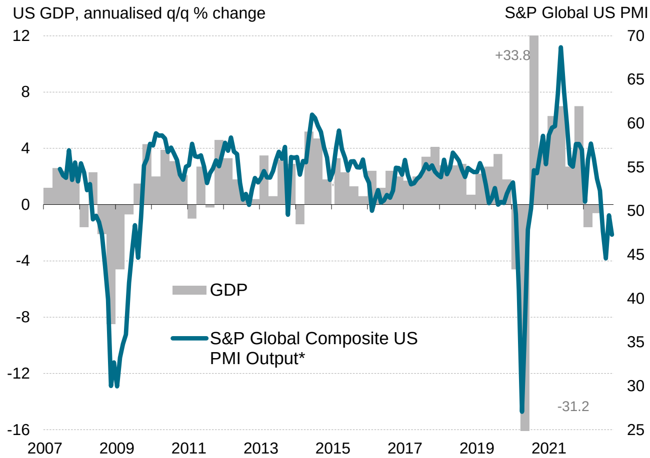

Source S&P Global, JPMorgan.

## US flash PMI lower at 47.3

The US economic downturn gathered significant momentum in October, according to the flash S&P Global PMI data, led by a downward lurch in services activity and a near-stalled manufacturing sector. The headline Flash US PMI Composite Output Index registered 47.3 in October, down from 49.5 in September. With the exception of the initial pandemic period, the rate of decrease was the second-fastest on record (behind August) and indicative of GDP falling at an annualised rate approaching 2%.

**Continued…**

### US GDP and the PMI




* only manufacturing pre-2012. Source: S&P Global, BEA

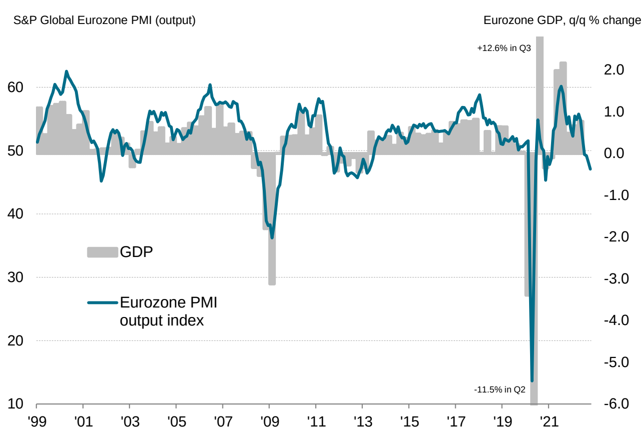
## Eurozone flash PMI drops to 47.1

The eurozone economy slipped into a steeper downturn at the start of the fourth quarter, the rate of decline hitting the fastest since April 2013 barring pandemic lockdowns as the flash PMI fell from 48.1 to 47.1. Manufacturing, and energy intensive sectors in particular, reported the steepest output loss, but services activity also continued to fall at an accelerating rate amid the ongoing cost-of-living-crisis and broad-based economic uncertainty.

Germany reported the steepest economic contraction while growth in France stalled.

October's headline flash PMI is consistent with GDP falling at a modest rate of around 0.3%, but demand is falling sharply and companies are increasingly growing worried over high inventories and weaker-than-expected sales, especially as winter approaches. The risks are therefore tilted towards the downturn accelerating towards the year-end.

### Eurozone GDP and the PMI

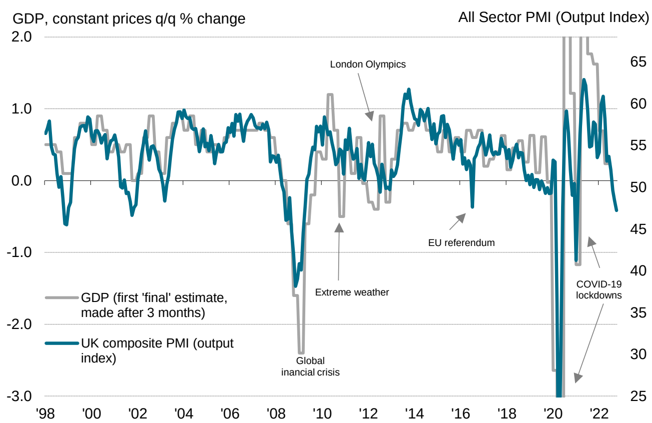



Sources: S&P Global, Eurostat.

## UK flash PMI falls to 47.2

In the UK, business activity fell for a third month running in October as heightened political uncertainty and financial market volatility added to the country's economic headwinds of the cost-of-living crisis and Brexit. The rate of decline accelerated to the fastest since January 2021 with the flash PMI down from 49.1 in September to 47.2. More importantly, if pandemic lockdown months are excluded, the decline was the steepest since the height of the global financial crisis in March 2009. Comparisons with GDP indicate that the latest PMI reading is broadly consistent with the UK economy contracting at a quarterly rate of 0.4%.

### UK flash PMI vs. GDP



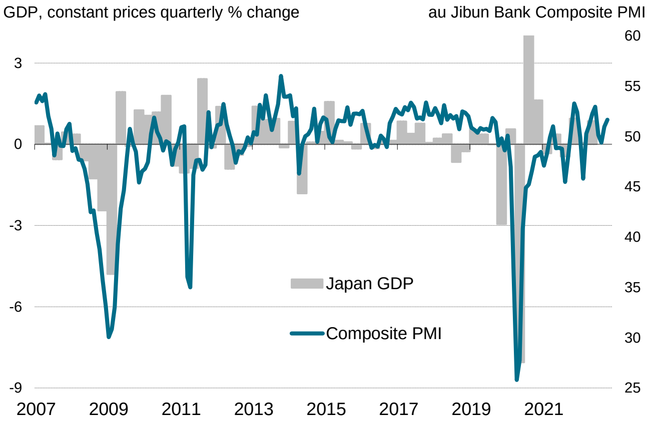

Sources: S&P Global, CIPS, ONS.

## Japan PMI edges up to 51.7

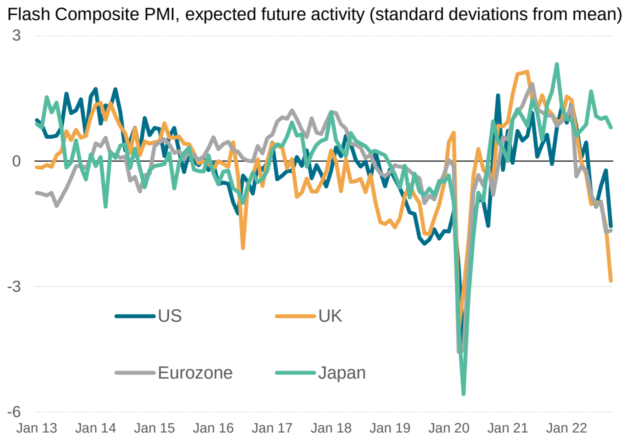
Japan bucked the trend of falling output observed in the US and Europe, the au Jibun Bank PMI (compiled by S&P Global) rising from 51.0 in September to 51.7 to register the strongest expansion since June. Faster service sector growth, linked to the reopening of the economy from COVID-19 restrictions, helped offset a further decline in manufacturing output.

**Continued…**

### Japan GDP vs. PMI




Source: S&P Global, au Jibun Bank

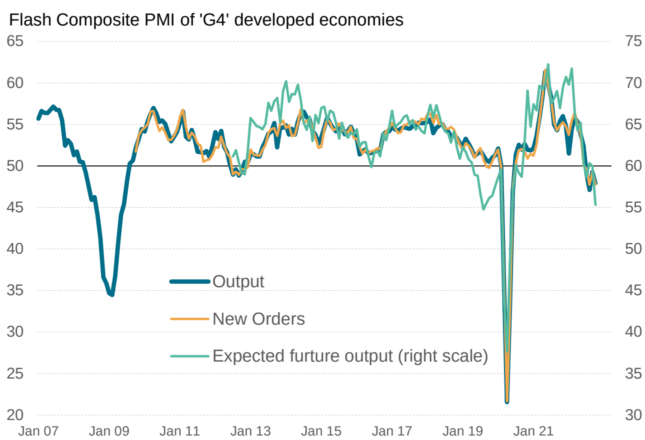



Sources: S&P Global, CIPS (UK), au Jibun Bank (Japan)

## Confidence slumps

Near-term growth prospects look to be skewed to the downside, with new orders inflows falling at an increased rate across the G4 on average in October, and firms' expectations about the year ahead slumping markedly. Future sentiment across the G4 is now the second lowest since comparable data were first available in 2012, if the early pandemic months are excluded.

### G4 forward looking indicators



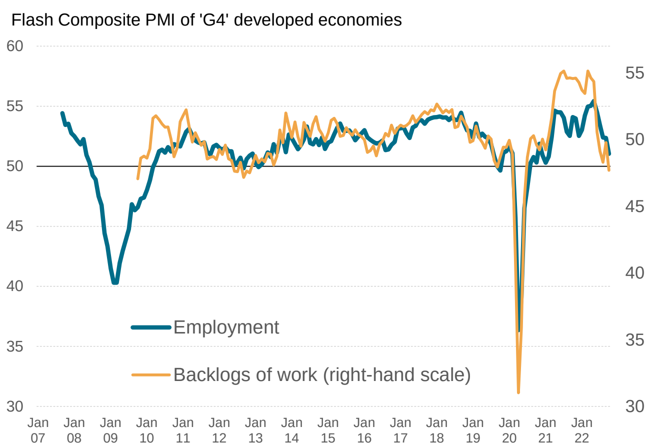

Source: S&P Global

Compared to long-run averages, business sentiment has collapsed especially sharply in the UK, with the latest slump reflecting the country's intensifying political crisis. However, sentiment also fell sharply in the US, fueled by the cost-of-living crisis and growing concerns about higher interest rates. Furthermore, business confidence remained worryingly low in the eurozone where the energy crisis compounded concerns over the rising costs of living. Even Japan saw sentiment about the year ahead weaken slightly amid concerns over a waning COVID-19 rebound.

## Job market softens

At the same time that business confidence has slumped, the flash PMIs signalled a fourth successive monthly drop in firms' backlogs of work across the G4 economies, with the rate of decline accelerating to one of the steepest seen over the past decade. Backlogs of work are a key indicator of capacity utilisation, and as such – alongside the PMI's future output expectations index – tend to provide a useful guide to upcoming investment and employment trends. In that respect the rate of job creation slowed across the G4 economies to the lowest since February 2021, representing a major downshifting of hiring since the survey peaks seen during the second quarter of the year.

### Global orders books and employment

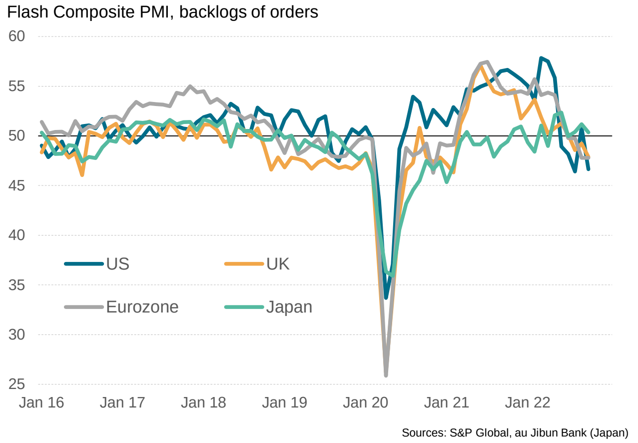



Source: S&P Global

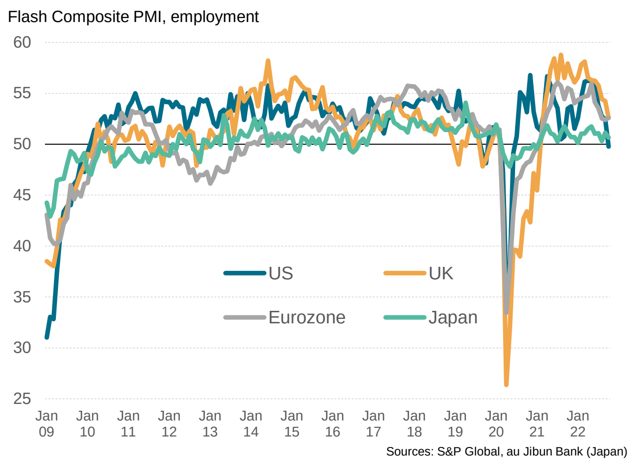
The hiring trend has deteriorated most markedly in the US, accompanied by an above-average drop in backlogs of work. The October flash PMI in fact registered a marginal drop in US employment for the first time since June 2020 (and, prior to the pandemic, since January 2010).

Jobs growth also softened sharply in the UK and remained weak in the eurozone, while only modest jobs growth was recorded in Japan.

### PMI backlogs of work indices




### PMI employment indices

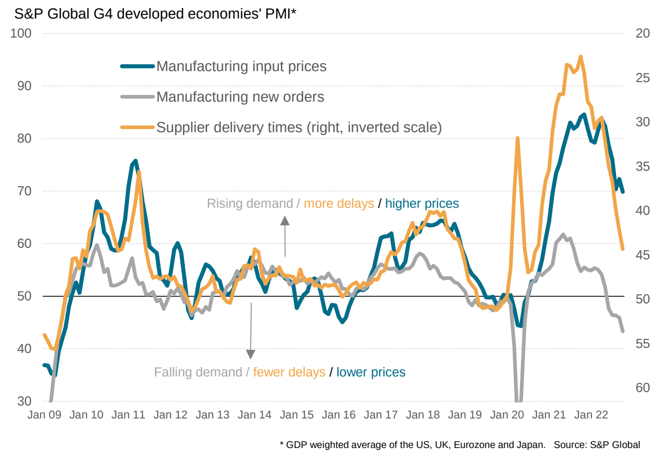



## Mixed inflationary trends

While all four major developed economies are seeing historically elevated inflation rates, the extent of continuing upward pressures varied by country.

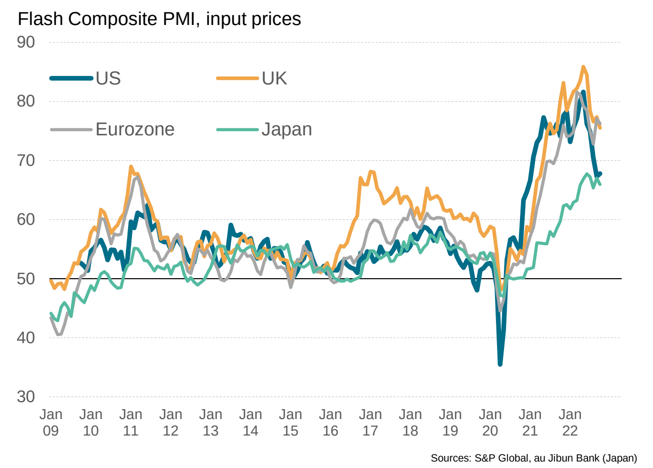
Across the developed world, input cost inflation has cooled as supply chain delays have eased, linked in turn to falling demand for inputs from manufacturers. This deterioration of demand is reflected in the steepest drop in manufacturing new order inflows seen across the G4 since 2009, barring the initial pandemic months. This has taken pressure off supply chains, resulting in the fewest supplier delivery delays seen across the G4 for just over two years. The pricing environment for many industrial inputs is therefore shifting from a sellers' to a buyers' market. Hence average input costs rose across the G4 manufacturing sector at the slowest rate for 20 months in October.

### Manufacturing input costs, supply and demand




However, service sector input cost inflation accelerated across the G4 on average, reflecting stubborn upward pressure from energy costs and wages. The stickiest upward pressures on costs are being seen in Europe, but in all G4 economies the rate of input cost inflation remains elevated by historical standards.

### Input cost inflation

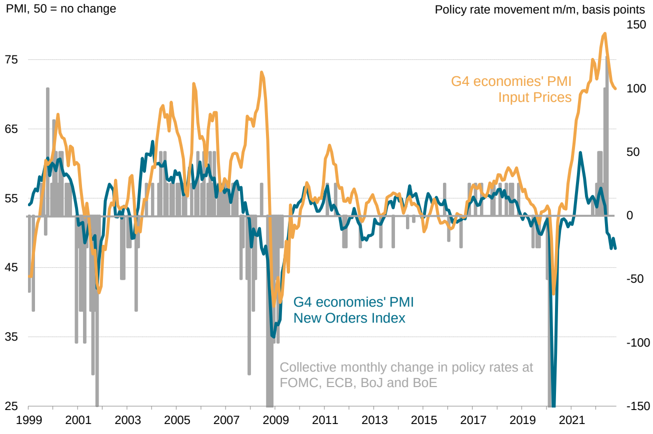



## Outlook

Looking ahead, the combination of falling demand, a shift toward inventory reduction and improving supply lines should all help further alleviate industrial price pressures. In the meantime, the cooling of the labour market should help soften upward wage pressures. Energy prices remain a major unknown and a concern, but even here recent data are pointing to lower gas prices in Europe and oil prices have fallen sharply since mid-year, which should help bring inflation down, including in the service sector.

However, a further uncertainty will be the degree to which central banks in Europe and the US continue to tighten monetary policy. Further steep interest rate hikes have been trailed by the FOMC, Bank of England and the ECB, and these rate hikes will inevitably cool demand further and reduce inflationary pressures. The big question is how long policymakers will feel comfortable with such aggressive policy tightening amid growing signs of economic contraction and peaking inflation.

**Developed economies, output, prices and interest rates**




Source: S&P Global

**Chris Williamson**
Chief Business Economist
S&P Global Market Intelligence,
London

T: +44 779 5555 061
chris.williamson@spglobal.com

**Special Focus**

# South Korea's economy slows in third quarter of 2022

*South Korean real GDP growth slowed to a pace of 0.3% quarter-on-quarter (q/q) in the third quarter of 2022, compared with growth of 0.7% q/q in the second quarter of 2022. On a year-on-year (y/y) basis, real GDP growth rose by 3.1% y/y in the third quarter of 2022. The slowdown reflected the impact of strong import expansion, which resulted in a negative contribution from net exports.*

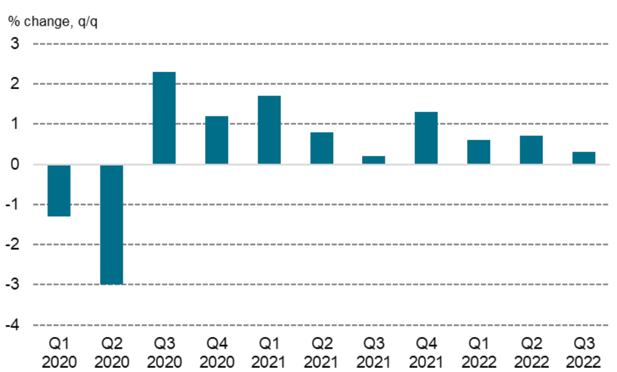
*Twin recessions in the US and the European Union (EU) have become a key downside risk for South Korea's manufacturing export sector in 2023. Mainland China is South Korea's largest export market, and weak economic momentum in the Chinese economy has also weighed on South Korean exports.*

## GDP growth momentum weakens due to net exports

South Korea's economic growth rate slowed significantly in the third quarter of 2022 despite strong private consumption growth. On a year-on-year (y/y) basis, real GDP growth rose by 3.1% y/y in the third quarter of 2022. Private consumption showed strong growth during the third quarter, rising by 1.3% q/q and up 5.9% y/y.

The weak GDP outturn reflected the negative impact of net exports. This was due to moderate expansion in exports, as semiconductors exports fell, while import growth was strong, boosted by rapid growth in consumer expenditure. Negative net exports were a key drag on growth momentum, with exports up by just 1.0% q/q while imports rose by 5.8% q/q.

**South Korea real GDP growth**



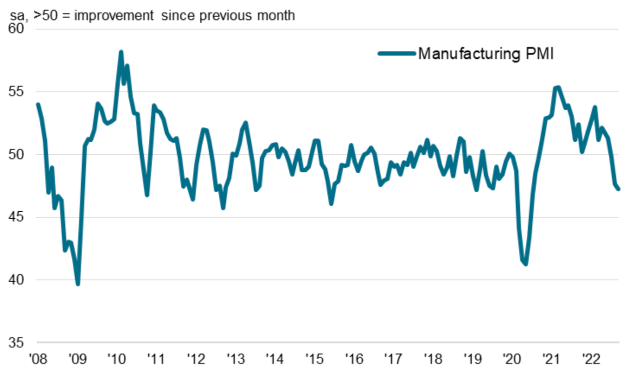

Source: Bank of Korea

Construction grew by 1.8% q/q in the third quarter of 2022, while services output rose by 0.7% q/q. Services output rose by 4.5% y/y and construction output rose by 2.1% y/y. Manufacturing output contracted by 1.0% q/q in the third quarter of 2022, as output of computer, electronic & optical products and chemical products decreased. This was the second successive quarter of contraction in manufacturing output, which fell by 0.7% q/q in the second quarter of 2022. Compared to a year ago, manufacturing output rose by 2.2% y/y.

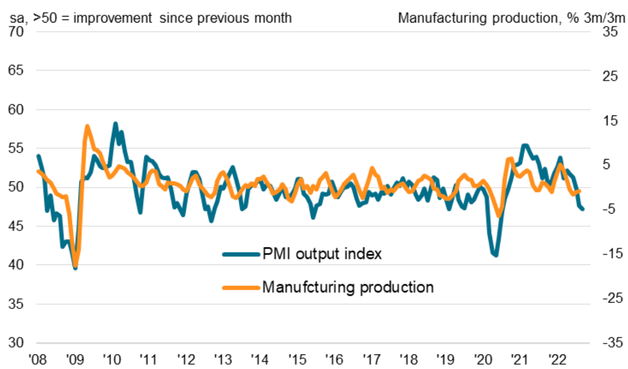
The seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) lost further momentum in September, falling to 47.3 from 47.6 in August.

For a fifth consecutive survey period, South Korean manufacturing output declined in September. Furthermore, the downturn accelerated as production fell at the quickest pace since the midst of the first COVID-19 outbreak over two years ago. According to anecdotal evidence, excess inventory levels, both at producers and their clients, order cancellations and sluggish sales led to the drop in output.

**S&P Global South Korea Manufacturing PMI**




Source: S&P Global

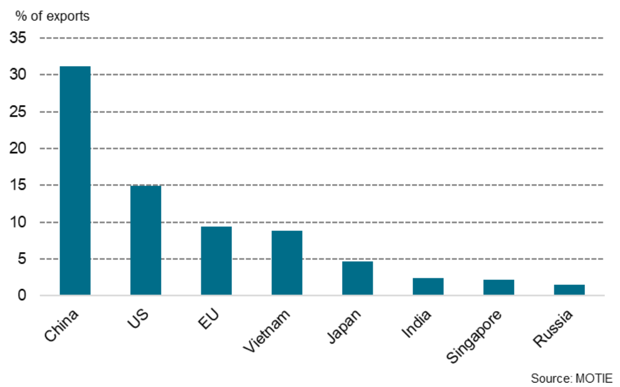



Source: S&P Global

The Russia-Ukraine war has impacted upon South Korean exports, even though Russia is a relatively small export market for South Korea. As the EU is one of South Korea's largest export markets, weakening economic growth in the

EU due to the macroeconomic shocks from the Russia-Ukraine war has become an increasing negative factor for South Korea's manufacturing export sector. Moderating economic growth in China due to the impact of pandemic-related restrictive measures on domestic demand has also contributed to weaker demand for South Korean exports, since China is South Korea's largest export market.

**South Korea's export markets**




Receding supply chain pressures fed through to input costs in September, with operating expenses rising at the weakest pace since January 2021, according to the September PMI survey. According to panellists, prices for certain raw materials fell. However, cost pressures remained historically elevated as won depreciation against the USD has pushed up prices for items purchased internationally. Subsequently, selling charges were raised to a weaker extent as some companies chose to be less aggressive in their price setting as input cost inflation slowed. Overall, selling prices increased at the softest pace since February 2021.

South Korean CPI inflation eased slightly to a pace of 5.6% y/y in September, compared with a recent peak 6.3% y/y in July. This compares with an average CPI inflation rate of 2.5 percent in 2021, which was the highest annual average for a decade.

On a month-on-month basis, CPI inflation was up 0.3% in September. Core CPI inflation excluding food and energy was up 4.1% y/y in September but was unchanged on a month-on-month basis.

At its 12th October meeting, the Monetary Policy Board of the Bank of Korea decided to raise the Base Rate by 50 basis points, from 2.50% to 3.00%. In its rate rise decision, the Monetary Policy Board decided that the policy response should be strengthened, as additional inflationary pressures and the risks to the foreign exchange sector have increased. This was despite the slight easing of South Korean CPI inflation to a pace of 5.6% y/y in September, compared with a recent peak 6.3% y/y in July.

The Monetary Policy Board assessed that consumer price inflation outlook is generally consistent with the August forecast of 5.2% in 2022 and 3.7% in 2023. However, the depreciation of the Korean won against the USD has increased the upside risks to inflation. The KRW has depreciated from 1,189 against the USD on 1st January to 1,428 by 12th October.

Due to the upturn in inflation pressures during 2022, the Bank of Korea has tightened monetary policy six times so far this year, having raised the Base Rate to 3.0%, bringing the total cumulative tightening to 200 bps since the beginning of 2022.

## Electronics sector downturn hits South Korean exports

The electronics manufacturing industry is an important part of the manufacturing export sector for South Korea which is one of the world's leading exporters of electronics products to key markets such as the US, China and EU. As Vietnam is an important production hub for South Korean electronics multinationals such as Samsung and LG for a wide range of electronics products such as mobile phones, Vietnam is also a key export market for South Korean electronics components.

Exports of South Korea's information and communications technology (ICT) goods for September amounted to USD 20.9 billion, accounting for 36.3 percent of South Korea's total merchandise exports. Deteriorating global economic conditions have resulted in lower exports of chips, displays, computers and peripherals, although mobile phone exports rose on the back of new model releases.

Semiconductors exports slid by 4.6% y/y to USD 11.7 billion in September as memory unit prices fell and demand for downstream industries slowed down. Memory chips dropped 16.8% y/y, but system chips were up 20.2% y/y. The export value of display products fell by 18.6% y/y to USD 2.0 billion as demand from downstream industries weakened due to contracting demand for OLED and LCD panels.

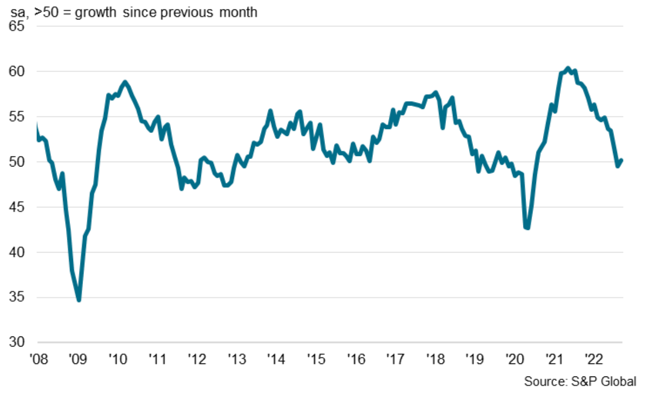
Mobile phone exports rose by 21.2% y/y to USD 1.5 billion, boosted by the release of new phone models, which pushed up exports of finished products by 23.5% y/y and high value-added parts up 20.4% y/y.

South Korean ICT exports to China shrank by 4.7% y/y in September to USD 9.7 billion, reflecting the impact of pandemic restrictions on China's domestic consumer demand and industrial output.

South Korean ICT exports to the EU fell for the first time in 25 months, down by 0.9% y/y to USD 1.1 billion due to reduced demand for semiconductors, computers and peripherals.

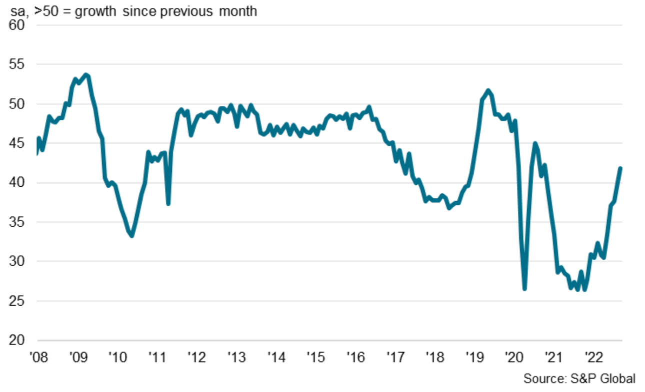
The downturn in South Korea's ICT exports reflects the slowdown in the global electronics industry. The headline seasonally adjusted S&P Global Electronics PMI has slowed significantly since mid-2021. The latest headline PMI for September was at 50.2, up slightly from 49.5 in August and fractionally above the 50.0 no-change mark to signal a marginal improvement in business conditions for global electronics manufacturers. The fractional overall improvement masked a further sharp reduction in new orders which resulted in a fifth successive decline in electronics output, according to the latest Electronics PMI survey.

**S&P Global Electronics PMI**




In line with lower factory requirements, input purchasing fell in September. Lower demand for raw materials and components helped alleviate some pressures on suppliers, reflected in reduced delays to suppliers' delivery times.

**S&P Global Electronics Suppliers' Delivery Times Index**




## Near-term economic outlook

South Korean GDP growth is estimated to moderate from 4% y/y in 2021 to 2.6% in 2022, according to the latest forecast by S&P Global Market Intelligence.

South Korea's export sector, which accounts for an estimated 38% of GDP, is expected to face increasing headwinds in late 2022 and during 2023 due to twin recessions in the US and EU, sluggish import demand in the mainland Chinese economy and a downturn in the global electronics cycle.

In its Monetary Policy Statement in October, the Bank of Korea (BOK), South Korea's central bank, estimated that GDP growth for 2022 is likely to be 2.6%, moderating to below 2.1% in 2023. Due to the upturn in inflation pressures during 2022, the Bank of Korea has tightened monetary policy six times so far this year, having raised the Base Rate to 3.0%, bringing the total cumulative tightening to 200 bps since the beginning of 2022.

Inflationary pressures remain an important risk to the near-term outlook. This reflects a number of factors, including higher input prices and supply chain disruptions, which have contributed to rising input price inflation pressures. Higher policy rates are also expected to help curb risks of a property sector bubble.

An additional challenge is that the recovery of South Korean trade in services is expected to be delayed and protracted, notably international travel restrictions in mainland China which has been a key source of international tourism visitors prior to the pandemic. The current pandemic restrictions and lockdowns in various parts of China will continue to constrain any early recovery in Chinese tourism visits to South Korea.

## Medium-term outlook and key risks

Over the medium-term outlook, South Korean exports are expected to grow at a rapid pace, helped by the sustained strong growth of intra-regional trade within APAC, as China, India and ASEAN continue to be among the world's fastest-growing emerging markets. South Korea's strong competitive advantage in exporting key electronics products, notably semiconductors and displays, as well as autos and auto parts, are expected to be an important positive factor underpinning export growth.

The rapid growth of South Korean exports is also expected to be strengthened by the APAC regional trade liberalization architecture. This includes the large recent RCEP multilateral trade agreement and major bilateral FTAs. The RCEP trade deal, which South Korea has ratified, entered into effect from 1st January 2022 for the first ten ratifying members, and from 1st February 2022 for South Korea.

A key macroeconomic risk to the South Korean economy over the medium to long-term outlook continues to be from the high level of household debt as a share of disposable income. This has risen to 200% by 2020, the fifth highest amongst all OECD countries. A key factor driving this debt ratio higher has been large mortgage lending flows for residential property purchases. This has fuelled rising property prices and has led to fears of a speculative property bubble. Such a high household debt ratio creates macroeconomic vulnerability to further significant monetary policy tightening in a high inflation scenario.

Managing the energy transition towards renewable energy is also a key policy priority for South Korea. South Korea has already been at the forefront globally in planning initiatives to develop hydrogen as a key future fuel source for domestic power generation.

Among South Korea's greatest economic challenges will be long-term demographic ageing, which will have severe implications for South Korea's economy and society. The number of seniors aged 65 or over has already reached 16.5% of the population and by 2025 is projected to rise to 20% of the population. Meanwhile the working age population (aged 15 to 64) is declining as a share of the total population, from 71.4% in 2021 to a projected 55.7% by 2041.

Demographic ageing has already contributed to the moderation of South Korea's potential GDP growth rate from around 7% per year in the mid-1990s to around 2.5% per year by 2021. South Korea's potential growth rate could drop to a range of around 1% to 1.5% per year by 2050 due to demographic ageing.

Consequently, structural reforms to increase the potential growth rate will be a key policy priority over the medium term. These reforms would include policy changes to lift the labour force participation rate, improve services sector productivity, accelerate digitalization and further boost the adoption of industrial automation.

**Rajiv Biswas**
Asia-Pacific Chief Economist
S&P Global Market Intelligence
Singapore

rajiv.biswas@spglobal.com

## Links to more resources

- Sign up to receive updated commentary in your inbox here.
- Calendar of upcoming PMI releases
- Running commentary on the PMI survey findings
- PMI Frequently Asked Questions
- Background to the PMIs (video)
- Understanding the headline PMI and its various subindices
- PMI data use-case illustrations, from nowcasting to investment strategy
- PMI podcasts
- How to subscribe to PMI data

**CONTACT US**

**Chris Williamson**
Chief Business Economist
S&P Global Market Intelligence
London

T: +44 779 5555 061
chris.williamson@spglobal.com

**Jingyi Pan**
Economics Associate Director
S&P Global Market Intelligence
Singapore

T : +65 6439 6022
jingyi.pan@spglobal.com

**The Americas**
+1-877-863-1306

**EMEA**
+44-20-7176-1234

**Asia-Pacific**
+852-2533-3565

**ihsmarkit.com/products/pmi**