PMI™ by S&P Global

Week Ahead Economic Preview

January flash PMI to shed light on conditions at start of year

20 January 2023

January flash PMI data from major developed economies will be unveiled in the coming week for the earliest indications of economic conditions at the start of 2023. Other key data releases to watch include **US Q4 GDP, core PCE and personal income and consumption** data. APAC economies such as Australia, New Zealand and Singapore will also update **inflation figures** and South Korea and the Philippines release **Q4 GDP** data. Meanwhile **central bank meetings** will be held in **Canada and Thailand**.

The flash PMI data for January will be highly anticipated for indications of recession risks and price trends at the start of the year (see box). The US PMI data will be especially interesting to watch, with recent data having shown a steep cooling in the rate of economic growth. In contrast, official data up to the end of last year have shown surprising resilience, as will likely be confirmed with the publication of fourth quarter GDP data, but there remains great uncertainty as to whether this growth can persist into the new year.

Europe's data calendar is light with the exception of the PMI surveys. December's PMIs for both the Eurozone and UK surprised to the upside, with both economies showing signs of downturns moderating to thereby assuage worries over possible deep recessions.

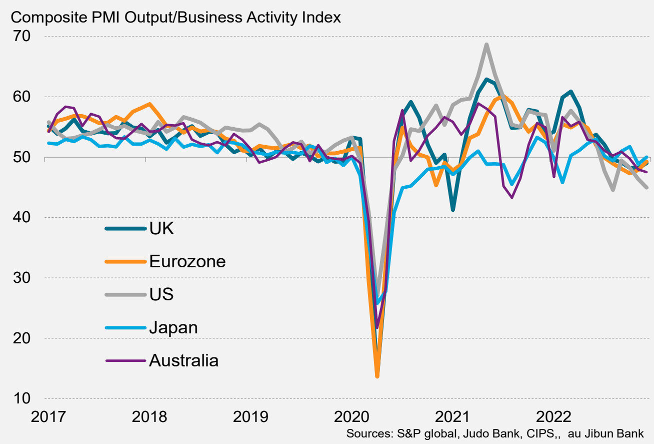
In APAC, December's PMIs had shown signs of business confidence lifting on the back of looser COVID-19 restrictions in mainland China. January's surveys will be eagerly scoured for signs of actual business activity being buoyed in the region by China's policy shift. Despite rounding off the weakest growth in decades at 3.0% in 2022, China's 2.9% year-on-year (y/y) GDP growth in Q4 beat expectations owing to an earlier than expected recovery of demand. December retail sales and industrial output also outperformed expectations, congruent with indications from the Caixin PMIs.

Finally, the Bank of Canada and Bank of Thailand convenes in the coming week while the Bank of Japan also releases their summary of opinions from this week's meeting that saw no further changes to monetary policy settings. The Bank of Canada meeting is widely viewed as a 'live' meeting with uncertainty over further increases to the overnight policy rate as the central bank balances the extent to which they would need to tightening monetary conditions.

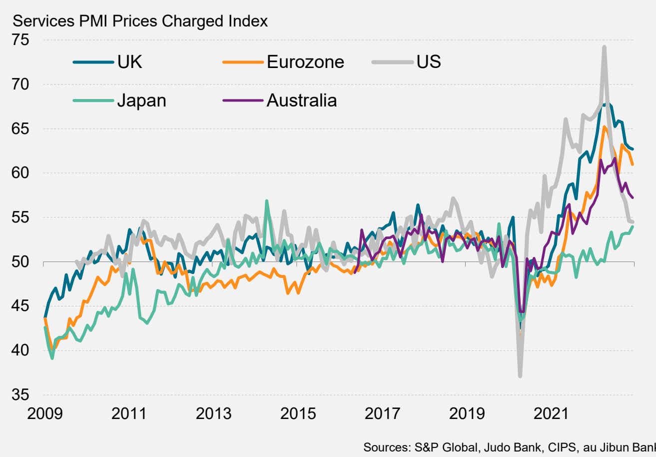
Flash PMIs to guide recession risks and inflation rates

Flash PMI surveys will first and foremost be scoured for indicators of recession risks, notably in the US and Europe. While the latter saw business activity decline at a steepening rate in December, the UK and Eurozone both saw signs of activity stabilising. Second on the list of indicators to watch will be service sector inflation rates, for which the US has seen a far sharper cooling than evident in Europe, as these are key gauges of second-round inflation effects.

European recession risks eased in December



Service sector PMI inflation rates have varied



Key diary events

Monday 23 January
China, Hong Kong, Taiwan, South Korea, Indonesia, Malaysia, Singapore Market Holiday
Japan BOJ Meeting Minutes (Dec)

Tuesday 24 January
China, Hong Kong, Taiwan South Korea, Malaysia, Singapore Market Holiday
Australia Judo Bank Flash PMI, Manufacturing & Services*
Japan au Jibun Bank Flash Manufacturing PMI*
UK S&P Global/CIPS Flash PMI, Manufacturing & Services*
Germany S&P Global Flash PMI, Manufacturing & Services*
France S&P Global Flash PMI, Manufacturing & Services*
Eurozone S&P Global Flash PMI, Manufacturing & Services*
US S&P Global Flash PMI, Manufacturing & Services*
Thailand Customs-Based Trade Data (Dec)
Germany GfK Consumer Sentiment (Feb)
United Kingdom CBI Trends (Jan)

Wednesday 25 January
China, Hong Kong, Taiwan Market Holiday
New Zealand CPI (Q4)
Australia Composite Leading Index (Dec)
Australia CPI (Q4)
Japan Leading Indicator (Nov, revised)
Singapore Consumer Price Index (Dec)
United Kingdom PPI (Dec)
Thailand 1-Day Repo Rate (25 Jan)
Germany Ifo Business Climate New (Jan)
Canada BoC Rate Decision (25 Jan)

Thursday 26 January
Australia, China, Taiwan, India Market Holiday
Japan BOJ Summary of Opinions (Jan)
South Korea GDP (Q4)
Japan Services PPI (Dec)
Philippines GDP (Q4)
Singapore Manufacturing Output (Dec)
Norway Labour Force Survey (Dec)
United Kingdom CBI Distributive Trades (Jan)
Canada Business Barometer (Jan)
United States Durable Goods (Dec)
United States GDP (Q4, advance)
United States Initial Jobless Claims
United States New Home Sales (Dec)

Friday 27 January
China, Taiwan Market Holiday
Japan CPI, Overall Tokyo (Jan)
Australia PPI (Q4)
Australia Export and Import Prices (Q4)
United States Personal Income and Consumption (Dec)
United States Core PCE (Dec)
United States UoM Sentiment (Jan, final)
United States Pending Home Sales (Dec)

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

What to watch

January flash PMIs

The first set of flash PMIs for 2023 will be unveiled on Tuesday across developed economies including the US, UK, eurozone, Japan and Australia. We have witnessed global business activity contracting for the fifth consecutive month in December, with developed economies exhibiting mixed trends. While the downturn in Europe moderated, allaying recession fears, business conditioned worsened in the US. January's flash data will therefore help assess whether recession risks have altered in the new year and provide updates on inflation trends. Japan and Australia's performance will also be examined, with the easing of restrictions in China having hopefully buoyed APAC activity.

Americas: Bank of Canada meeting, US Q4 GDP, core PCE, personal income and consumption data

The Bank of Canada convenes for the first time in 2023 after having raised the policy rate by 50 basis points to 4.25% in December. Expectations for a further lifting of rates had been bolstered by strong jobs data, but this hawkishness has been offset by a further cooling of inflation. A 25 basis point hike is still expected, but a pause should not be ruled out.

In the US, the first estimate of Q4 GDP will also be released on Thursday which looks set to contrast with recent weak survey data. The current consensus indicates that the US economy likely grew at a 2.8% rate in Q4, slowing from the 3.2% growth previously. December core PCE, a key metric watched by the Fed, is meanwhile expected to stay unchanged at a 0.2% month-on-month. Also watch out for durable goods orders and housing sales data.

Europe: German Ifo business climate, UK PPI

Besides the flash PMI releases, a relative light data calendar is expected for Europe in the coming week with the German Ifo business climate and UK PPI figures to be of greatest interest.

Asia-Pacific: Australia, New Zealand and Singapore CPI, South Korea and Philippines GDP, Bank of Thailand meeting

Several tier-1 data will be due in APAC including inflation figures from Australia and Singapore. Separately, following China's indications of slowing Q4 growth, GDP figures will also be out from South Korea and the Philippines.

Special reports:

Recession Risks and Inflation Indicators: Previewing January's US Flash PMI Data | Chris Williamson | page 4

Philippines Economy Shows Strong Expansion | Rajiv Biswas | page 7

Recent PMI and economic analysis from S&P Global

Global	Monthly PMI Bulletin: January 2023	8-Jan	Jingyi Pan
	Global business activity contracts for fifth successive month as demand downturn accelerates	6-Jan	Chris Williamson
	Global downturn led by slump in financial services as borrowing costs ratchet higher	6-Jan	Chris Williamson
	Global price pressures cool further as end of 2022 sees manufacturers cut capacity: 10 key charts	4-Jan	Chris Williamson
Americas	Expectations of further Fed tightening in December, as PMI survey data suggest policy is helping cool inflation and reduce demand	9-Dec	Sian Jones
Europe	UK labour market cools as recruitment downturn intensifies	11-Jan	Chris Williamson
	Eurozone recession fears ease as flash PMI signals slower rate of contraction for second month	16-Dec	Chris Williamson
	Flash UK PMI data signal cooling inflation and moderating downturn, but jobs are cut amid uncertain outlook	16-Dec	Chris Williamson
Asia-Pacific	Singapore economic expansion moderates as global economy slows	17-Jan	Rajiv Biswas
	ASEAN manufacturing outlook for 2023 softens as demand remains lacklustre	4-Jan	Jingyi Pan
Commodities	Weekly Pricing Pulse: Commodity prices ease at start of 2023	12-Jan	Michael Dall

S&P Global Economics & Country Risk highlights

Top 10 economic predictions for 2023

Efforts by central banks to subdue inflation will dominate the economic landscape in 2023, producing a pronounced slowdown in global economic growth, according to the annual Top 10 Economic Predictions by S&P Global Market Intelligence.

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Special Focus

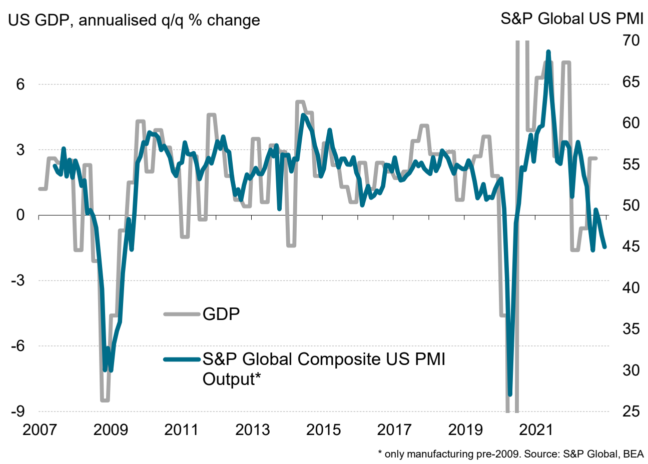
Recession Risks and Inflation Indicators: Previewing January's US Flash PMI Data

Amid speculation that the US could be slipping into a recession, upcoming flash PMI data will be eagerly assessed to gauge the business climate in the opening month of the year. The surveys from S&P Global have been sending especially weak signals for output and demand growth, albeit with labour markets remaining relatively resilient, which has in turn led to a marked cooling of inflationary pressures. Putting all of the signals together will provide insights into the potential future path of monetary policy.

Below we list the five key areas of analysis to focus on for the upcoming survey data.

1. US recession risks

US composite PMI output index vs. GDP



The headline output number from the PMI survey is typically always the first port of call when assessing the current underlying economic climate, and the recent PMI data from S&P Global have been mostly gloomy. In December the composite output index covering manufacturing and services hit the second-lowest since the global financial crisis if early pandemic lockdown months are excluded. While backward-looking GDP estimates are so far showing surprising resilience for the fourth quarter in the face of Fed rate hikes, the PMI is an early warning indicator that all is not well in corporate America. Any further weakness in January would add fuel to recession worries.

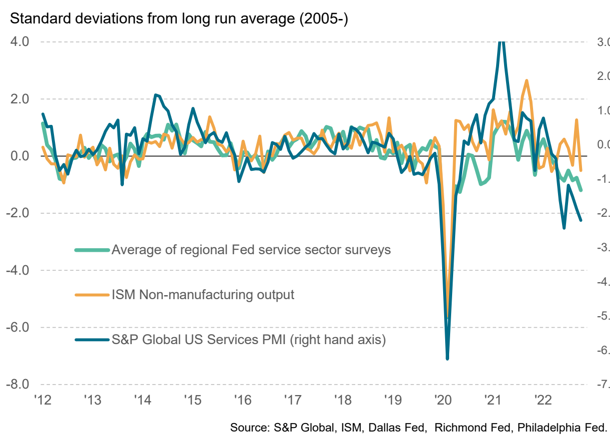
2. US sector trends

While the plethora of manufacturing surveys have sent a consistent message of industrial malaise, the picture has been more varied for the service sector. However, a plunge in the volatile ISM non-manufacturing index in December has brought the institute's gauge somewhat more back into line with the other surveys, albeit with the service sector index from S&P Global showing a particularly worryingly pace of contraction.

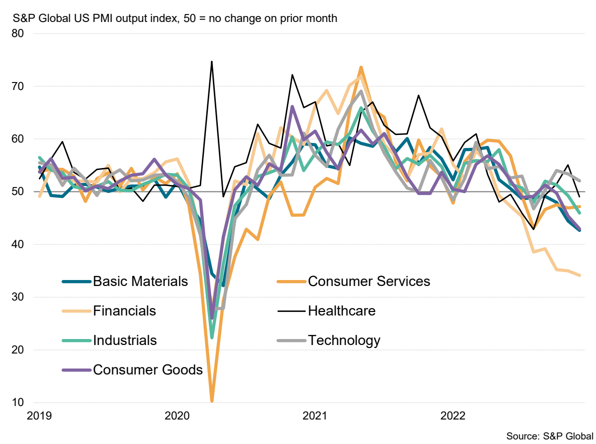
However, note that, unlike the ISM survey, the S&P index excludes government-provided services (which tend to sustain growth in a recession) and energy (which has been performing well since the Ukraine war) - and instead focuses on more cyclical corporate-provided services, both B2B and B2C.

The S&P services PMI data will therefore likely be a key gauge to watch in terms of testing the broader US business community's resilience in the face of higher borrowing costs. Note that financial services had led the decline in the closing months of 2022, adding to evidence that high interest rates are taking their toll.

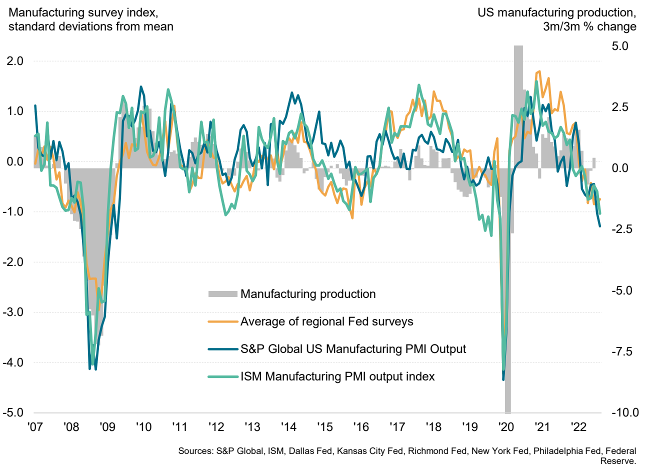
US services survey comparisons



US sector output



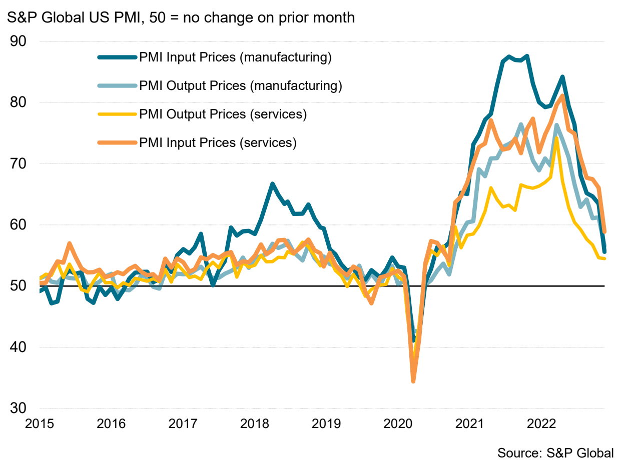
US manufacturing survey comparisons



3. US inflation gauges

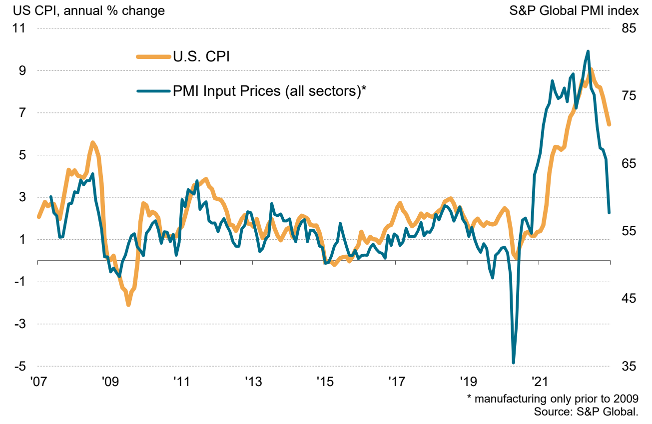
Another important aspect of the PMI surveys will be the inflation indicators. Perhaps most eagerly awaited will be the input cost indices - especially for services, as this gauge includes staff costs.

US PMI input cost and selling price gauges



Both the manufacturing and service sector input cost indices have fallen sharply in recent months, down across both sectors as a whole to a two-year low, boding well for inflation to cool–perhaps markedly–in the early months of 2023 from its current rate of 6.5%.

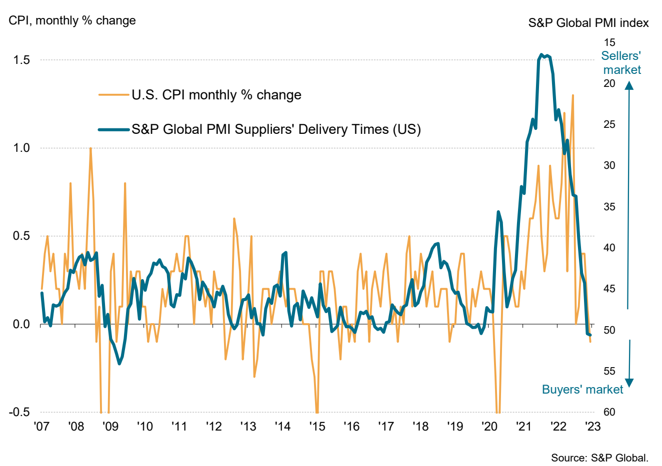
US input costs vs. annual CPI inflation



The cooling of inflation has been a function of demand (as measured by the PMI new orders index, which fell to a new post-pandemic low in December) being subdued in part by higher interest rates. However, weaker price pressures are also reflective of improving supply. December's survey showed average supplier delivery delays having eased markedly, to an extent which signifies the start of a theoretical shift from the sellers'- to a buyers'-market.

We therefore stress the need to not only watch the various PMI input cost and selling price gauges, but also closely monitor the suppliers' delivery times index.

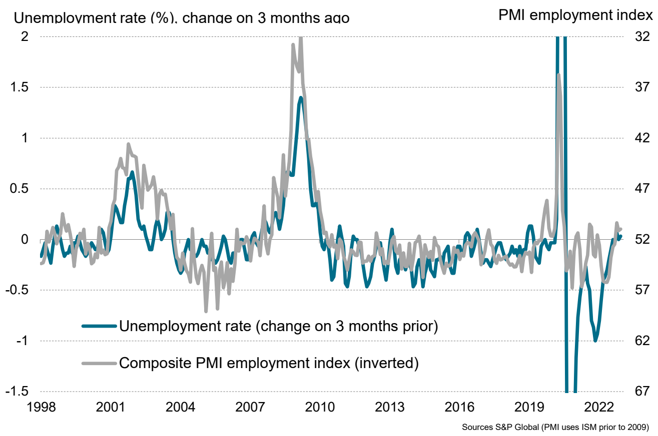
US suppliers' delivery times vs. monthly CPI



4. US labour market

The economic picture is of course not complete without a labour market update, and the employment index from the PMI will help shed some light on the hiring trend at the start of the year. Recent survey data have signaled a marked cooling in the rate of employment growth, albeit with firms continuing to take on staff on average up to the end of the year. This is consistent with the labour market remaining broadly stable and hence showing encouraging resilience. There is as yet no evidence of employment starting to fall and unemployment starting to rise, as had been seen in the downturns of the early-2000s and the global financial crisis, meaning January's data will be keenly awaited for any indications of growing caution in relation to hiring.

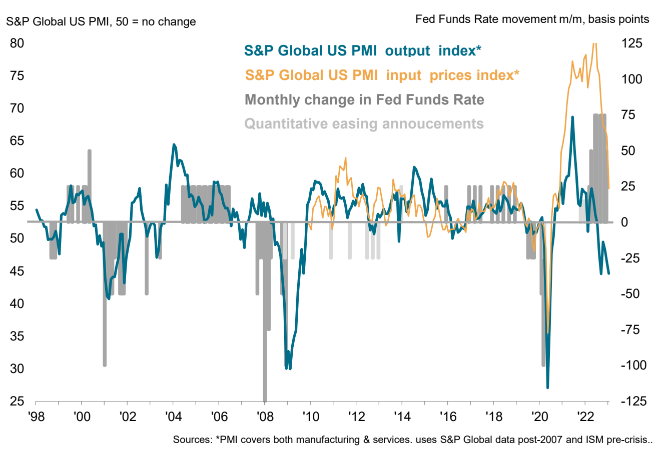
US unemployment and the PMI employment index



5. Fed policy impact assessment

The other 'big picture' signals from the survey will be the assessment of the impact of recent FOMC policy tightening, and the likely future path of rate hikes. Markets are pricing in a less aggressive rate hike path after lower than expected inflation in December, and any further deterioration in the upcoming PMI output data alongside a further moderation of cost pressures will help us assess whether a hike pause could be in play late in the year. Alternatively, sticky input cost inflation in particular will suggest the Fed has more work to do.

US PMI output and price data vs. FOMC policy changes



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Special Focus

Philippines Economy Shows Strong Expansion

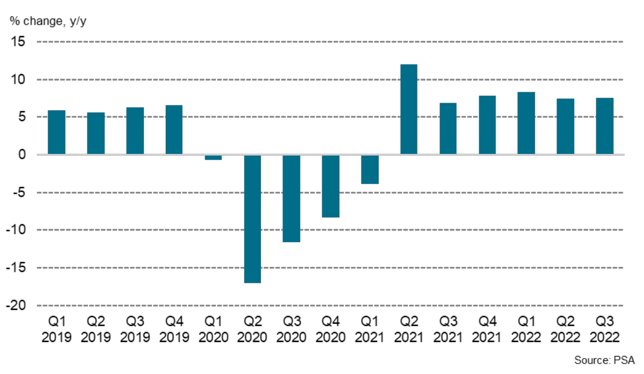
The Philippines economy has rebounded strongly during 2022 from the negative impact of the COVID-19 Delta wave that hit the nation in the second half of 2021. In the third quarter of 2022, GDP growth was up 7.6% year-on-year (y/y), after rising by 7.5% y/y in the second quarter. The latest S&P Global Philippines Manufacturing PMI reached a six-month high in December 2022, signaling sustained growth across the Philippines manufacturing sector.

Over the decade ahead, rapid economic growth is forecast for the Philippines economy. By 2034 the Philippines is set to join the ranks of a small group of countries in the Asia-Pacific region that have a GDP exceeding one trillion dollars. This will result in a significant transformation of the structure of the Philippines economy, with substantial expansion in the size of the domestic consumer market. This will also help to drive foreign direct investment inflows into the Philippines, as multinationals build up their local presence in a wide range of manufacturing and service sector industries.

Strong growth in early 2022

The Philippines economy has shown strong growth momentum during 2022, with GDP growth rising to 7.6% y/y in the third quarter of 2022. The easing of domestic COVID-19 restrictions during 2022 has allowed the rebound of household consumption spending, which helped to drive strong economic growth. Household consumption expenditure grew by 8.0% y/y in the third quarter of 2022, while gross capital formation rose by 21.7% y/y.

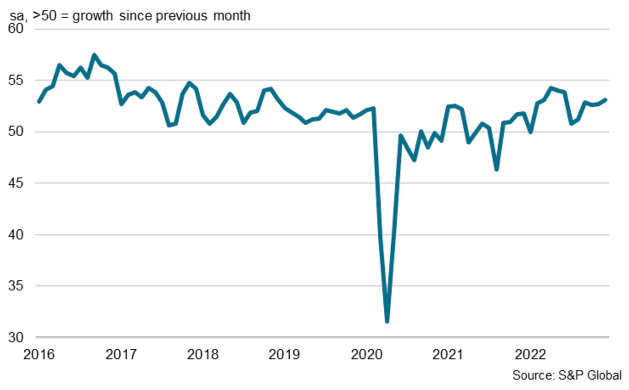
Philippines GDP growth, 2019-2022



The S&P Global Philippines Manufacturing PMI continued to post above the 50.0 no-change mark that separates growth from contraction in December 2022. The headline index rose from 52.7 in November to a six-month high of 53.1 in December.

A solid expansion in production levels was reported during December as rate of growth quickened, indicating the fastest rise in output levels since June. The data pointed to domestic demand being the driving force behind the latest upturn in incoming new business, as foreign orders contracted for the tenth month running.

Philippines Manufacturing PMI



Deteriorating current account deficit

Merchandise exports have continued to record strong expansion, rising by 13.2% y/y in November 2022, showing resilience to the impact of the slowdown in mainland China, which is a key export market. An important driver for merchandise exports has been electronics exports, which rose by 22.9% y/y in November, accounting for 64% of total merchandise exports. For the first eleven months of 2022, merchandise exports rose by 7% y/y.

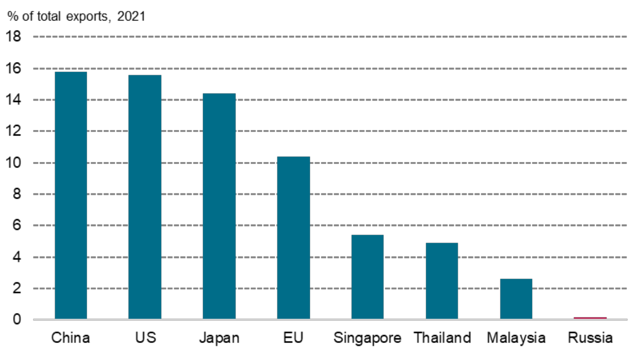
However, imports have shown even more rapid growth, rising by 20.3% y/y in the first eleven months of 2022. Consequently, the trade deficit for the first eleven months of 2022 rose to USD 53.7 billion, compared with USD 37.1 billion in the same period of 2021.

The transmission effects from weaker growth in the US and Western Europe are a vulnerability for the Philippines export sector in 2023, since the US accounted for 15.6% of total exports and the EU accounted for 10.4% of total Philippines exports in 2021.

In 2020, the current account surplus reached a record high of USD 11.6 billion or 3.2% of GDP, boosted by the sharp slump in imports due to the severe contraction in domestic demand. However, the current account shifted back to a deficit of USD 6.0 billion in 2021, or 1.5% of GDP, as growth recovery triggered higher domestic demand and rising imports.

Imports soared during 2022, with surging prices for world oil and gas being important factor contributing to a further sharp deterioration in the current account balance for calendar 2022. In December 2022, the Philippines central bank, Bangko Sentral ng Pilipinas (BSP), revised down its current account projection for 2022 to a deficit of USD 20.5 billion or 5.1% of GDP due to a widening trade deficit, as the economic recovery and rising oil prices pushed up imports. This was a significant downward revision from its March 2022 projection of a current account deficit of USD 16.3 billion, or 3.8% of GDP.

Philippines export markets



Source: S&P Global

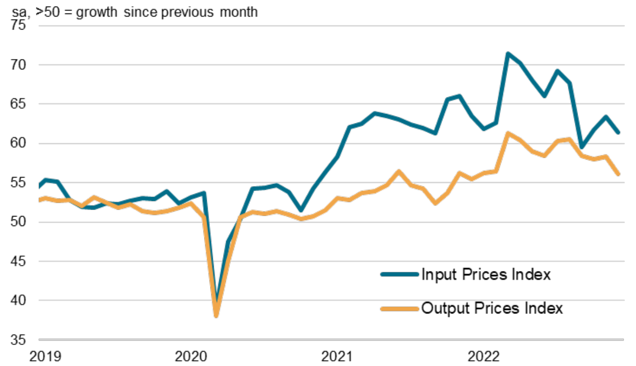
An important stabilizing factor for the Philippines economy has been overseas worker remittances by Filipinos working abroad, which remained quite stable during 2020 despite the COVID-19 pandemic, down only 0.8% y/y, and equivalent to around 10% of GDP. Remittances sent home by workers are an important factor supporting domestic consumer spending in the Philippines. Despite concerns about job losses for workers abroad due to the impact of the pandemic on many industries such as tourism and aviation, remittances data continues to show resilient remittance inflows for 2021. Remittances by workers abroad rose by 5.1% y/y in 2021, to a record high of USD 34.9 billion. In the first eleven months of 2022, remittances by workers abroad rose by 3.4% y/y, to USD 32.7 billion.

Rapid growth in exports from the IT-BPO sector have also become an important boost for the Philippines economy and for total exports. IT-BPO exports have risen from USD 9.5 billion in 2010 to USD 25.1 billion by 2021, according to BSP estimates.

Rising inflation pressures

During 2022, inflation pressures have been rising in the Philippines, with higher energy prices having been a key factor pushing up the CPI inflation rate. Both average cost burdens and output charges rose markedly during 2022. However, according to recent S&P Global Philippines Manufacturing PMI surveys, there has been some easing of price pressures during the fourth quarter of 2022, although rates of inflation remain high and an ongoing threat to demand. In December, the pace of increase in cost burdens was the slowest for three months, whilst firms raised their selling prices at the softest rate for a year in December amid efforts to drive sales.

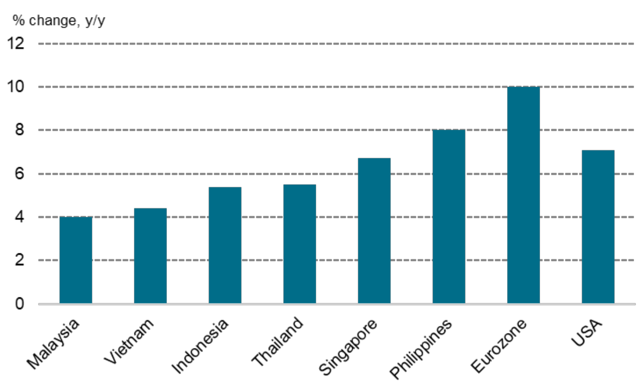
Philippines PMI Input and Output Prices



Source: S&P Global

Bangko Sentral ng Pilipinas (BSP) has faced rising headline CPI inflation pressures driven by rising energy and food prices, with the December CPI having risen to 8.1% y/y, compared with 3.0% y/y in January 2022. With CPI inflation having moved significantly above the BSP inflation target range of 2% to 4%, the BSP has tightened monetary policy by a total of 350bps during 2022. The rate hike of 0.25bps on 20th May was the first rate hike since November 2018. Faced with rising headline CPI inflation pressures, the BSP continued to tighten monetary policy during the second half of 2022, closing the year with hikes of 75bps on 17th November and a further 50bps on 16th December. This pushed the policy rate to 5.5% by the end of 2022. In its November 2022 Monetary Policy Report, the BSP expected that the CPI inflation rate would likely peak in the fourth quarter of 2022, moderating back to within the BSP inflation target range by the third quarter of 2023.

ASEAN CPI inflation compared to US & EU, November 2022



Source: S&P Global

The Philippines peso had depreciated against the USD during much of 2022, from 51.0 per USD on 1st January to

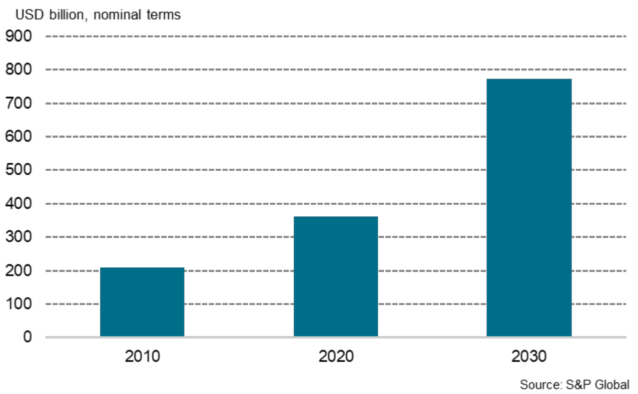
59.2 per USD by 10 October, as the US Fed tightened monetary policy aggressively, which increased the relative attractiveness of the USD and US fixed income assets. However, since mid-October the PHP has rebounded, rising to 55.7 by end-December 2022 and 54.7 by mid-January 2023.

Philippines economic outlook

Despite the impact of the COVID-19 Delta wave in the second half of 2021, GDP growth for calendar 2021 rebounded to 5.6% y/y. Strong growth momentum has continued in 2022, at a pace of over 7% y/y in the second and third quarters of the year.

Easing of pandemic-related travel restrictions during 2022 has also allowed a gradual reopening of domestic and international tourism travel. If sustained during 2023, this would provide an important boost to the economy. Prior to the pandemic, in 2019, gross direct tourism value added as a share of GDP was estimated at 12.7% of GDP, including both international and domestic tourism spending. International tourism spending was estimated at Peso 549 billion, while domestic tourism spending was estimated at Peso 3.1 trillion. Due to the importance of domestic tourism in the overall contribution of tourism to GDP, the recovery of domestic tourism could be a significant growth driver in 2023.

Philippines long-term GDP outlook



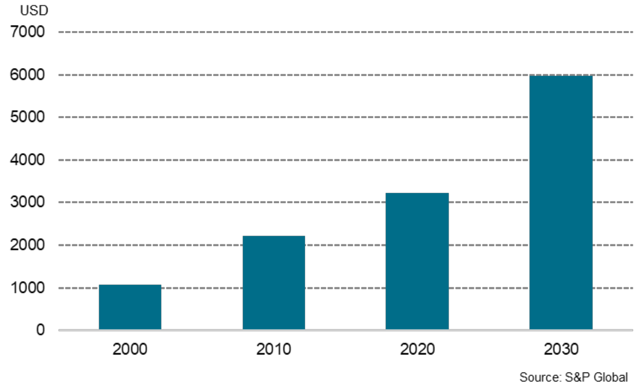
Continued rapid GDP growth of around 5.6% y/y is expected in 2023, helped by continued strong private consumption spending, an upturn in government infrastructure spending and improving remittance inflows.

Over the next decade the Philippines economy is forecast to continue to grow rapidly, with total GDP increasing from USD 400 billion in 2021 to USD 830 billion in 2031. A key growth driver will be rapid growth in private consumption spending, buoyed by strong growth in urban household incomes.

By 2034, the Philippines is forecast to become on the Asia-Pacific region's one trillion-dollar economies, joining mainland China, Japan, India, South Korea, Australia, Taiwan and Indonesia in this grouping of the largest economies in APAC.

This strong growth in the size of the Philippines economy is also expected to drive rapidly rising per capita GDP, from USD 3,500 in 2021 to USD 6,400 by 2031. This will help to underpin the growth of the Philippines domestic consumer market, catalysing foreign and domestic investment into many sectors of the Philippines economy.

Philippines per capita GDP



The Philippines will also benefit from its membership of the recently implemented RCEP trade deal, particularly due to its very favourable 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, particularly into low-cost manufacturing hubs such as the Philippines.

Consequently, the outlook for the Philippines economy over the next decade is very favourable, with significant progress in economic development expected. Rapidly rising per capita GDP and standards of living will help to underpin a broad improvement in human development indicators and should deliver a significant reduction in share of the population living in extreme poverty over the decade ahead.

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