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Week Ahead Economic Preview

Policy in focus amid FOMC, BoE, ECB meetings, global PMIs and US payrolls

27 January 2023

A busy week ahead sees eagerly anticipated central bank meetings in the US, UK and eurozone accompanied by some of the most important monthly economic data releases. The latter include US labour market and eurozone inflation data as well as worldwide manufacturing and services PMIs, all of which will help assess growth and inflation conditions around the globe at the start of 2023. The week also sees updates to Q4 GDP from Germany and inflation figures from Germany, South Korea and Indonesia.

The start to 2023 had been positive so far for US equity investors with the three most widely followed indices in the US – the S&P 500, Dow Jones Industrial Average and the Nasdaq Composite – in green (as of January 25) despite lukewarm earnings performance in the early part of the earnings season. With that said, a series of economic events may test the market in the coming week, namely in the form of the first Fed meeting of 2023, the January jobs report and worldwide manufacturing and services PMI readings.

To a large extent, hopes for a more dovish Fed amid the recent softening of inflation pressures and weak business survey data have fuelled positive risk sentiment in the market. Whether this positivity can be sustained will depend to a large extent on the tone adopted in the upcoming FOMC meeting and post-meeting press conference. A 25-basis point rise in fully priced in by the markets, but more important is what comes next. Markets are pricing in the possibility of Fed rate cuts in late 2023, but the Fed has so far clearly sought to dismiss these hopes.

The Bank of England and European Central Bank are meanwhile both expected to raise rates by 50 basis points. Despite falling demand plaguing growth for both economies, still elevated inflation rates continue to force the hand of central bankers, with the hawks encouraged further by diminished recession risks, as suggested by PMI data in the eurozone and, to a lesser degree, the UK.

Finally, worldwide manufacturing and services figures will provide a comprehensive overview of economic conditions in January, especially in Asia and notably mainland China, where COVID-restrictions have been recently eased. All of which will carry event risks in the coming week.

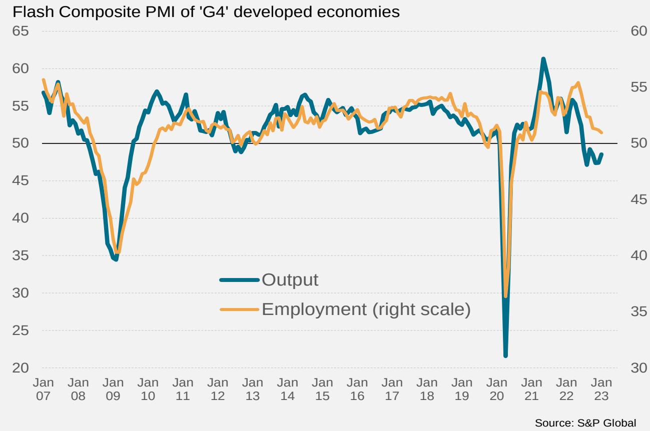
Flash PMIs signal reduced recession risks

Ahead of the publication of final worldwide PMI data for manufacturing and services in the week ahead, some encouragement came from the flash PMI numbers. Across the four major developed economies, output continued to contract on average (see chart) but at a slower rate than in December. The eurozone even staged a marginal return to growth. Forward looking indicators such as new orders and business expectations were on the whole even more encouraging.

Recession risks have therefore eased considerably since the dark days of the autumn, when soaring gas prices threatened to hit consumption in Europe while mainland China remained heavily locked down by COVID-19 restrictions and inflation rates were continuing to rise. In the UK, a botched fiscal budget had added to market stress. Since then, all of these factors have reversed, helping buoy markets and stem the downturns in global demand and economic activity.

Also encouraging is the fact that, despite the drop in output recorded by the flash PMIs, employment continues to rise, albeit at a much-reduced rate compared to a year earlier, as firms continue to seek staff to fill long-held vacancies. The big question is the extent to which this labour market resilience persists and helps sustains strong wage growth in spite of slower economic growth, which will of course be hawkish from a central bank perspective.

Global recession risks have eased



Key diary events

Monday 30 January
New Zealand Trade (Dec)
Germany GDP (Q4, flash)
United Kingdom Nationwide House Price (Jan)

Tuesday 31 January
South Korea Industrial Output and Retail Sales (Dec)
Japan Unemployment Rate (Dec)
Japan Industrial Output and Retail Sales (Dec)
Australia Retail Sales (Dec)
China (Mainland) NBS Manufacturing PMI (Jan)
Thailand Manufacturing Production (Dec)
Germany Import Prices (Dec)
Germany Retail Sales (Dec)
Thailand Current Account (Dec)
Switzerland Retail Sales (Dec)
Taiwan Export Orders (Dec)
United Kingdom Mortgage Lending and Approvals (Dec)
Eurozone GDP (Q4, flash)
Germany HICP (Jan, flash)
Canada GDP (Nov)
United States Consumer Confidence (Jan)

Wednesday 1 February
Malaysia Market Holiday
Worldwide Manufacturing PMIs, incl. global PMI* (Jan)
New Zealand Labour Cost Index (Q4)
Taiwan Industrial Output (Dec)
Eurozone HICP (Jan, flash)
Eurozone Unemployment Rate (Dec)
United States ADP National Employment (Jan)
United States ISM Manufacturing PMI (Jan)
United States JOLTS Job Openings (Dec)
Indonesia Inflation (Jan)
United Kingdom Halifax House Prices* (Jan)
United States Fed Funds Target Rate (1 Feb)

Thursday 2 February
South Korea CPI (Jan)
Australia Building Approvals (Dec)
Germany Trade Balance (Dec)
United Kingdom BOE Bank Rate (Jan)
Eurozone ECB Deposit Rate (Feb)
United States Initial Jobless Claims
United States Factory Orders (Dec)

Friday 3 February
Worldwide Services, Composite PMIs, inc. global PMI* (Jan)
Hong Kong Retail Sale (Dec)
Norway Unemployment (Jan)
Eurozone Producer Prices (Dec)
United States Non-Farm Payrolls, Unemployment Rate, Average Earnings (Jan)
United States ISM Non-manufacturing PMI (Jan)
United Kingdom Reserve Assets (Jan)

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

What to watch

Worldwide manufacturing and services PMI data

Worldwide manufacturing and services PMI data due next week will provide the first look into global economic conditions at the start of 2023. This follows the flash figures from major developed economies including the US and eurozone which saw diverging indications whereby the eurozone found recession risks to be fading while the US saw added recession signals. UK flash PMI data likewise pointed to steeper declines at the start of year.

Meanwhile Japan saw its private sector return to growth at the start of 2023 while demand growth was renewed in Australia, suggesting better conditions in APAC which we will be studying with the full set of PMI data from the region at the start of February. Mainland China PMI data will be the most anticipated after shallower declines were observed in December with the easing of restrictions.

Americas: Fed FOMC meeting, US January jobs report, Canada GDP

The US Federal Open Market Committee (FOMC) meets amid the consensus pointing to a 25 basis points (bps) hike. Post-meeting comments from Fed chair Jerome Powell will be the highlight, however, eyed for further guidance on the Fed's path in 2023. Meanwhile January's non-farm payrolls, unemployment rate and wage growth figures will be due for insights into the labour market which have been the Fed's focus amid concerns over wage growth's contribution to overall inflation. Indications from the S&P Global Flash US Composite PMI suggested that the labour market remains tight in the US, though the pace of jobs growth has slowed.

Europe: BoE, ECB meetings, Germany Q4 GDP, CPI, eurozone CPI

The Bank of England and European Central Bank meet to set monetary policy rates with both central banks expected to lift rates by 50 bps according to consensus.

On the data front, besides PMI data, Germany's Q4 GDP will be released while inflation figures from both Germany and the eurozone are keenly anticipated.

Asia-Pacific: South Korea and Indonesia CPI

In APAC, we will be seeing inflation figures updated from South Korea and Indonesia. That said, the focus is expected to be with the January PMI data from mainland China and rest of Asia after China's easing of COVID-19 restrictions.

Special reports:

US January's Flash PMI Data Add to Recession Signals | Chris Williamson | **page 4**

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	US January's flash PMI data add to recession signals, but also point to rising cost pressures	25-Jan	Chris Williamson
Europe	Eurozone recession risks fade as PMI returns to growth territory in January	24-Jan	Chris Williamson
	Flash UK PMI data signal steeper economic decline at start of year, but prospects brighten	24-Jan	Chris Williamson
	UK labour market cools as recruitment downturn intensifies	11-Jan	Chris Williamson
Asia-Pacific	Philippines economy shows strong expansion	20-Jan	Rajiv Biswas
	Singapore economic expansion moderates as global economy slows	17-Jan	Rajiv Biswas
Commodities	Weekly Pricing Pulse: Commodity prices ease at start of 2023	12-Jan	Michael Dall

S&P Global Economics & Country Risk highlights

The global economic outlook brightens as inflation eases

As 2023 begins, the global economic outlook appears a bit brighter. After a 3.0% expansion in 2022, world real GDP is now projected to increase 1.9% in 2023, up from last month's forecast of 1.6% growth. Recessions in Europe and the United States will likely be milder than previously expected, and mainland China's acceleration will be quicker following the abrupt end of its COVID containment policies.

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Special Focus

US January's Flash PMI Data Add to Recession Signals, but also Point to Rising Cost Pressures

The US economy has started 2023 on a disappointingly soft note, with business activity contracting sharply again in January according to the latest business survey data from S&P Global. Although moderating compared to December, the rate at which output is declining is among the steepest seen since the global financial crisis, reflecting falling activity across both manufacturing and services.

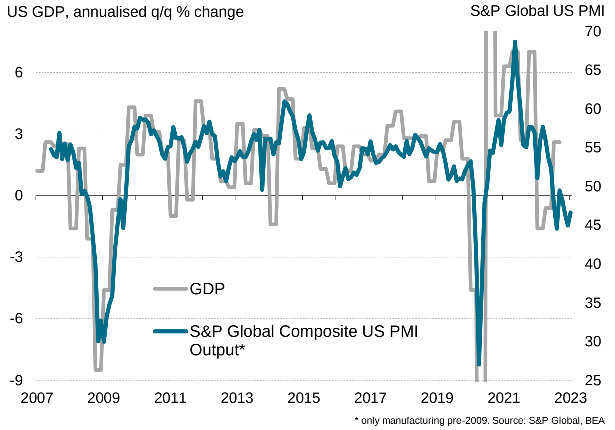
Jobs growth has also cooled, with January seeing a far weaker increase in payroll numbers than evident throughout much of last year, reflecting a hesitancy to expand capacity in the face of uncertain trading conditions in the months ahead. Although the survey saw a moderation in the rate of order book losses and an encouraging upturn in business sentiment, the overall level of confidence remains subdued by historical standards. Companies cite concerns over the ongoing impact of high prices and rising interest rates, as well as lingering worries over supply and labor shortages.

The worry is that, not only has the survey indicated a downturn in economic activity at the start of the year, but the rate of input cost inflation has accelerated into the new year, linked in part to upward wage pressures, which could encourage a further aggressive tightening of Fed policy despite rising recession risks.

Below we list five key areas of focus from the latest survey data.

1. US recession risks persist

US composite PMI output index vs. GDP



The headline PMI output index covering both manufacturing and services rose in January, but only improved in the context of December's reading having been the second-lowest since the global financial crisis (if early pandemic lockdown months are excluded). The index registered 46.6, up from 45.0 at the end of 2022. The sub-50 reading means the contraction in activity was solid overall, albeit the slowest since last October.

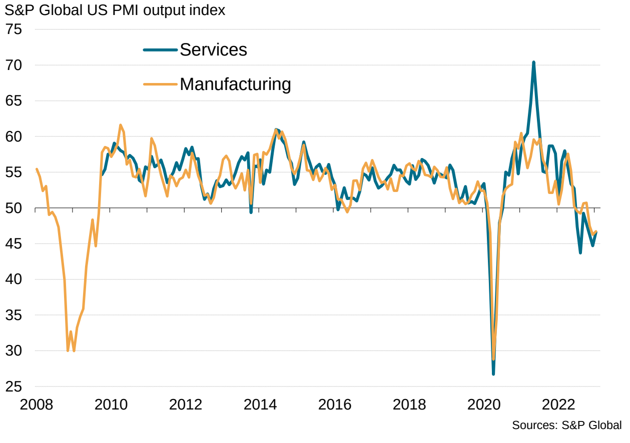
Other early economic activity indicators, including those compiled by the Philadelphia Fed and the New Yok Fed, have likewise been flashing red warning lights on the health of the economy in January, pointing to a subdued start to the year and, like the PMI, commensurate with falling GDP.

Higher frequency official data, such as industrial production and retail sales, have meanwhile also started to corroborate the PMI survey signals of the economy hitting a soft patch, with both manufacturing output and retail sales falling into decline at the end of last year.

2. US sectors show broad based downturn

Goods producers and service providers recorded similar rates of decline in the flash January PMI survey, pointing to a further broad-based weakening of the economy. Although both sectors reported the rate of output decline to have eased slightly, linked to weaker rates of loss of new orders in both cases, in each sector the downturn remained historically strong.

US services and manufacturing output



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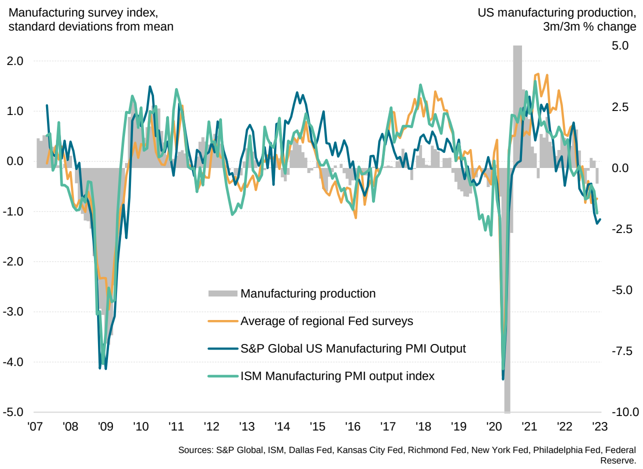
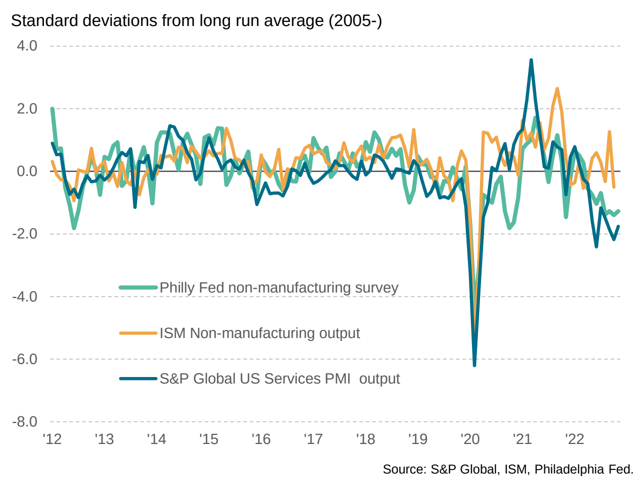
Manufacturing survey comparisons



Services survey comparisons

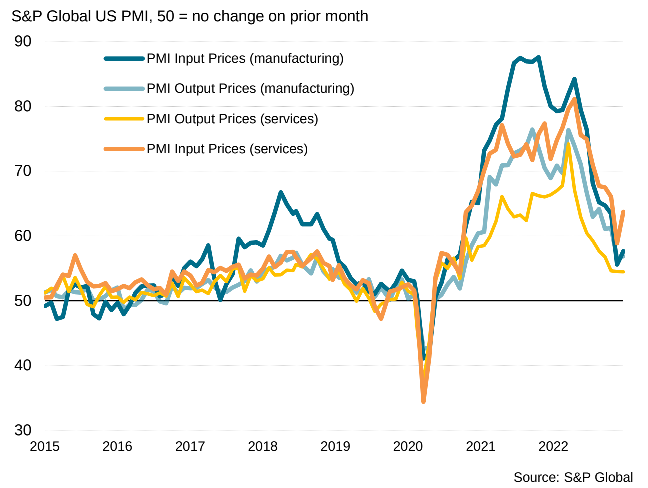


3. US inflation gauges tick higher

Despite demand continuing to fall in January, the survey brought signs of inflation pressures picking up again. Bringing to an end a seven-month sequence of moderating input price rises, January's data indicated a faster increase in cost burdens at private sector firms. Although well below the average rise seen over the prior two years, companies reported persistent upward pressure on costs from hikes in vendor prices and higher wage bills.

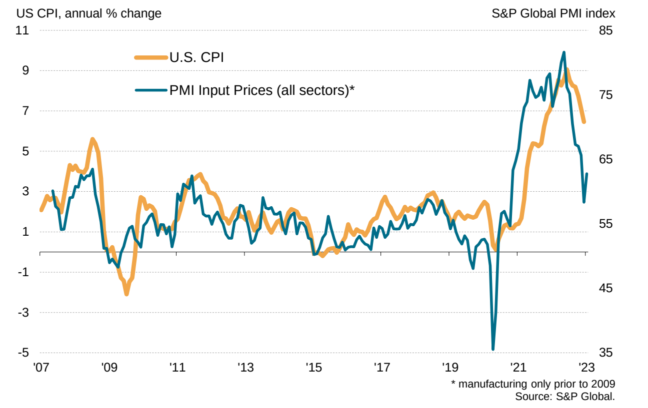
The rate of selling price inflation likewise ticked higher in manufacturing during January, and held steady in services. Although efforts to remain competitive and offer concessions to customers dampened output price hikes, companies also reported the need to pass historically elevated costs on to clients where possible.

US PMI input cost and selling price gauges



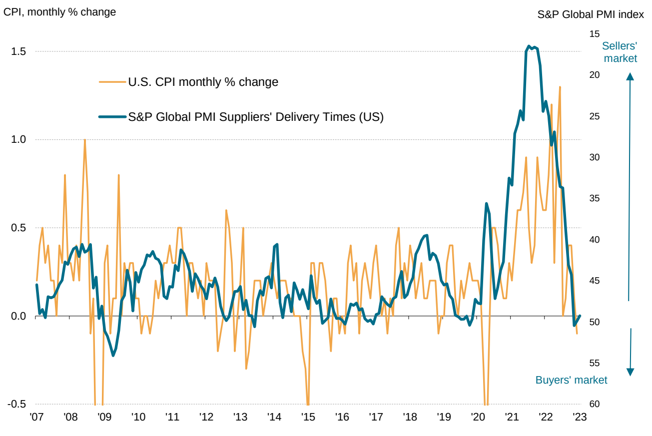
It remains to be seen if January's upturn in the price gauges proves the start of a resurgent upward trend, or whether it represents a higher than normal number of companies setting new list prices at the start of the year. However, even with the latest upturn, the survey gauges are consistent with consumer price inflation cooling further from its current rate of 6.5% in the coming months.

US input costs vs. annual CPI inflation



The cooling of inflation has been a function of falling demand (as measured by the sustained decline recorded by the PMI new orders index at 47.9 in January) but also reflects an alleviation of pandemic-related supply chain stress. Average supplier delivery delays rose only marginally in January, and have now been broadly unchanged over the past three months, marking a major change to the widespread supply delays that plagued the US (and global) economy this time last year.

US supplier delivery times vs. monthly CPI

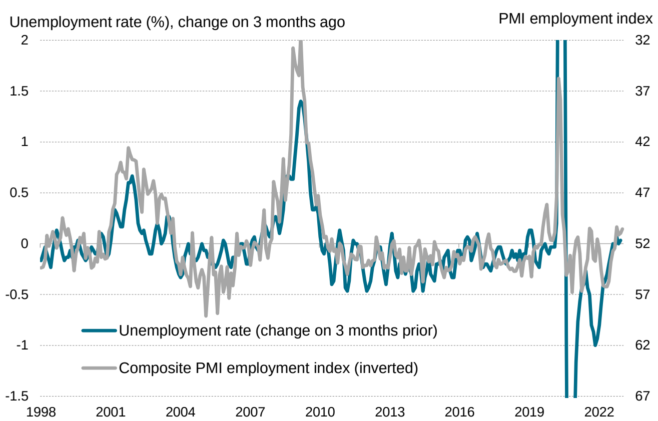


Source: S&P Global.

4. US labour market remains tight

However, instead of emanating from supply chains, the survey responses indicate that a key impetus to cost growth is now coming from staff costs via rising wages and salaries. The service sector input cost index (which includes wages) and the employment indices will therefore be important inflation barometers to watch in the months ahead. Importantly, even with the downturn in orders and output seen during the month, employment continued to rise marginally in January as many firms sought to fill long-standing vacancies, left empty due to widespread staffing availability issues. That the PMI survey has shown a marked cooling in jobs growth in recent months is of course noteworthy, and a sign of economic stress, but so is the fact that even the reduced rate of jobs growth is not consistent with any material rise in unemployment.

US unemployment and the PMI employment index

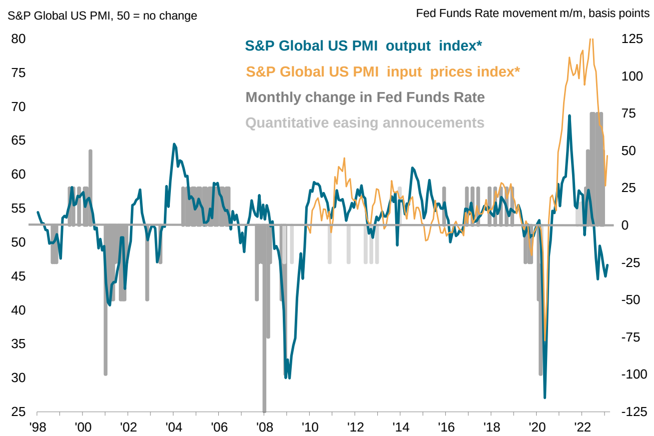


Sources S&P Global (PMI uses ISM prior to 2009)

5. Fed policy impact assessment

The 'big picture' from the survey is therefore that the economy continues to face a risk of recession, and yet inflationary pressures are showing signs of remaining stubbornly elevated, thanks in part to the tight labour market. As prior weak survey data have failed to discourage the FOMC from aggressive rate hikes, with policymakers citing a preference to tackle inflation, January's continued fall in output will likewise likely be dismissed. Instead, the rising cost gauges suggest the majority on the FOMC will consider there to be more work to do in taming price pressures.

US PMI output and price data vs. FOMC policy changes



Sources: *PMI covers both manufacturing & services. uses S&P Global data post-2007 and ISM pre-crisis..

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