

Week Ahead Economic Preview

Flash PMI, Fed minutes, US core PCE and UK inflation data

19 May 2023

Flash PMI for May will be released in the coming week for a first look at economic conditions midway into the second quarter. Additionally, Fed minutes from the FOMC's May meeting will be eagerly anticipated while, on the economic data front, GDP will be due from several economies including the US, Germany, Taiwan and Singapore. Inflation data are also expected from the US, UK, Singapore and Malaysia.

Risk sentiment has been frail at the start of the week, affected by concerns around the US debt-ceiling, though this was not unexpected with the [S&P Global Investment Manager Index](#) having precluded this likelihood across the month of May.

That said, the attention in the coming week may be split with economic fundamentals amid a flurry of economic releases and the US Fed minutes from their early May meeting due. Specifically, the May FOMC meeting re-emphasised the Fed's focus on the evolution of inflation, thereby shifting the attention to the Fed's favourite inflation gauge – the core PCE data – which is updated on Friday, in addition to scrutinising the minutes for further insights into the Fed's interest rates outlook.

The series of flash PMI data for May will also help to better inform the market of current economic conditions with sub-indices such as business activity and price indices to watch for growth and inflation developments. With a marked divergence between manufacturing and service performance persisting on a global scale in April, it will be of interest to assess whether current expansions across major developed economies will continue as this can affect the already delicate risk sentiment across markets.

As well as the UK flash PMI, inflation data will be keenly watched by the Bank of England after selling price inflation for goods and services reaccelerated in April according to PMI indications. This was primarily driven by service sector price increases amid higher demand for services.

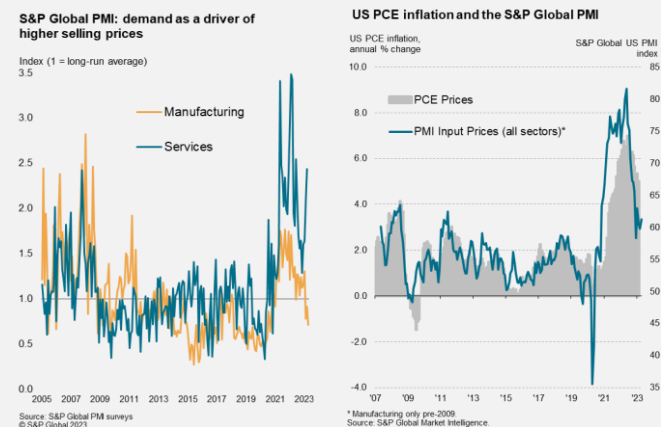
Finally, in APAC, Bank of Korea and Bank Indonesia will convene to update monetary policy, though no changes are expected according to consensus.

Diverging inflation pressures

In addition to revealing a marked divergence between strong service sector expansions – led by post-pandemic spending by consumers – and subdued manufacturing growth, the various flash PMI surveys for the major developed economies – due to be updated for May in the coming week – have signalled a corresponding shift in inflationary pressures from goods to services.

Measured globally, the surveys have shown demand acting as a driver of higher prices in the service sector to an extent not exceeded since 2007 in recent months, barring some months seen during the reopening of economies after lockdowns in 2021 and early 2022.

In contrast, demand is now acting a driver of higher selling prices for goods to the lowest extent seen since September 2020, in fact acting as a disinflationary force compared to its long run average.



The PMI data have a good track record of accurately anticipating changes in official inflation data, with the input cost gauges in particular tending to act with a lead of several months on CPI and other inflation measures. Hence the stickiness of some of these PMI price indicators have been a cause for concern and need to be watched closely in the upcoming flash releases.

The S&P Global US PMI input cost index, covering both manufacturing and services, for example, showed a reacceleration of cost pressures in April to a four-month high. The US survey's index of selling price inflation for US goods and services gathered pace for a third straight month. All of which suggests the Fed's closely watched PCE inflation gauge, also updated this week, could likewise prove stubbornly elevated.

Key diary events

Monday 22 May

Canada Market Holiday
Japan Machinery Orders (Mar)
China (Mainland) 1Y and 5Y Loan Prime Rate (May)
Taiwan Export Orders (Apr)
Hong Kong Inflation (Apr)
Eurozone Consumer Confidence (May, flash)

Tuesday 23 May

Australia Judo Bank Flash PMI, Manufacturing & Services*
Japan au Jibun Bank Flash Manufacturing PMI*
UK S&P Global/CIPS Flash PMI, Manufacturing & Services*
Germany HCOB Flash PMI, Manufacturing & Services*
France HCOB Flash PMI, Manufacturing & Services*
Eurozone HCOB Flash PMI, Manufacturing & Services*
US S&P Global Flash PMI, Manufacturing & Services*
South Korea Consumer Confidence (May)
Singapore CPI (Apr)
Taiwan Industrial Production (Apr)
Eurozone Current Account (Mar)
United States New Home Sales (Apr)
United States Building Permits (Apr)

Wednesday 24 May

South Korea Business Confidence (May)
United Kingdom Inflation (Apr)
Germany Ifo Business Climate (May)
United States Fed FOMC Minutes (May)

Thursday 25 May

South Korea BOK Interest Rate Decision
South Korea PPI (Apr)
Germany GDP (Q1, final)
France Business Confidence (May)
Indonesia BI Interest Rate Decision
United States GDP (Q1, 2nd est.)
United States Initial Jobless Claims (May 20)
United States Pending Home Sales (Apr)

Friday 26 May

Japan Tokyo CPI (May)
Singapore GDP (Q1, final)
Australia Retail Sales (Apr, prelim)
Thailand Balance of Trade (Apr)
Malaysia CPI (Apr)
Singapore Industrial Production (Apr)
Taiwan GDP (Q1)
United Kingdom Retail Sales (Apr)
France Consumer Confidence (May)
United States Personal Income and Consumption (Apr)
United States Core PCE Price Index (Apr)
United States UoM Sentiment (May, final)

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

What to watch

May flash PMI releases

The first indications of May economic conditions come from the upcoming flash PMI releases for major developed economies including the US, UK, eurozone, Japan and Australia. All due Tuesday, May 23rd.

April's PMI surveys revealed better than anticipated performances, supported primarily by service sector growth across major developed economies. Whether the latest resurgent demand for services can continue to buoy growth, or if we will see a revival in manufacturing sector growth, will all be studied through the upcoming flash releases. Furthermore, supply chain, labour market and inflation updates will also be gleaned through the PMI sub-indices. *Read more in our special report this week.*

Americas: Fed FOMC minutes, Q1 GDP, core PCE, personal income and spending figures

Minutes from the latest May Federal Open Market Committee (FOMC) meeting will be published next week for insights into the Fed's thoughts.

Separately, a second estimate of the US Q1 GDP will be released while the Fed's preferred inflation gauge, the core PCE index, will be updated for April following weaker than expected headline CPI data. Amid the outperformance in consumer services, according to the [S&P Global US Sector PMI](#), personal income and spending figures will also be of interest to assess the depth and continuity of the current growth spurt.

Europe: UK inflation, Germany GDP, Ifo data,

Besides the PMI figures, UK inflation data will be eagerly watched with the consensus pointing to higher year-on-year inflation, though falling on a monthly basis. A divergence in survey gauges of manufacturing and services selling price inflation was observed in April and the official data will be assessed for corresponding changes. UK retail sales are also updated.

Asia-Pacific: BOK, BI meetings, Taiwan GDP, Singapore CPI, GDP

In APAC, Bank of Korea (BOK) and Bank Indonesia (BI) will decide interest rates though no changes are expected according to consensus. Other tier-1 data releases include GDP from Taiwan and Singapore while April CPI will also be due from Singapore and Malaysia.

Special reports:

Previewing the May Flash PMI Surveys: Assessing Growth Resilience and Inflation Indicators | Chris Williamson | [page 4](#)

Malaysian Economy Shows Sustained Expansion in Early 2023 | Rajiv Biswas | [page 7](#)

Recent PMI and economic analysis from S&P Global

Global	Monthly PMI Bulletin: May 2023	9-May	Chris Williamson, Jingyi Pan
	Inflation trends diverge as service sector growth spurt drives global growth to 16-month high	9-May	Chris Williamson
	Global factory output inches higher as supply improvements offset falling demand	4-May	Chris Williamson
	Electronics sector reports greatest improvement in supply chains since 2001	2-May	Chris Williamson
Africa	Load shedding programme weakens business capacity and outlook in South Africa in April	9-May	David Owen
Europe	Eurozone flash PMI signals strong start to second quarter thanks to resurgent service sector	21-Apr	Chris Williamson
	UK economic growth hits highest for a year according to April flash PMI surveys	21-Apr	Chris Williamson
Asia-Pacific	Taiwan economy slumps into recession	11-May	Rajiv Biswas
	India's economy continues to expand as inflation moderates	5-May	Rajiv Biswas
	Resurgent service sector in mainland China drives strong economic growth at start of second quarter	5-May	Chris Williamson
Commodities	Weekly Pricing Pulse: Widespread drop in materials prices amid sluggish manufacturing demand	5-May	Thomas McCartin

S&P Global Economics & Country Risk highlights

Vulnerable housing and real estate markets



The tightening of global monetary conditions is driving a softening of house prices, which in some key markets are expected to decline in 2023 and 2024. House prices experienced sharp increases in most developed economies during the last decade as record-low interest rates supported demand for property. Borrowers' affordability, and therefore demand for housing, is being negatively impacted by higher borrowing costs. The degree of impact varies by market.

[Click here to read our research and analysis](#)

PMI Insights: Inflation trends, China re-opening, top 10 indicators



Tune in for the latest trends seen in our Purchasing Managers Index data. Economists on our Purchasing Managers' Index team use the prism of our PMI datasets to look at some of the most important themes in the global economy at the start of 2023. These include inflation, the recent reopening of China's economy, and supply chain risks.

[Click here to listen to this podcast by S&P Global Market Intelligence](#)

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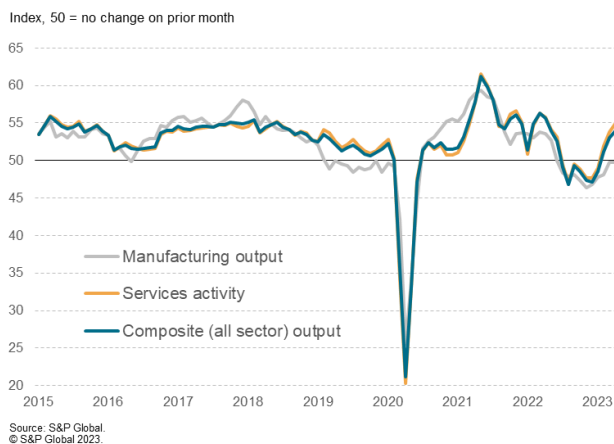
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Special Focus

Previewing the May Flash PMI Surveys: Assessing Growth Resilience and Inflation Indicators

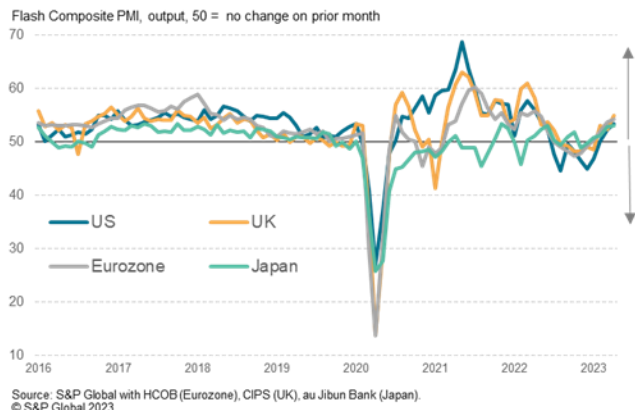
Ahead of the flash PMI releases for the US, Eurozone, UK, Japan and Australia, released on 23rd May, we recap on the latest survey findings from the April S&P Global PMI surveys and pick five key themes to watch in the upcoming releases.

Flash PMI output indicators of 'G4' developed economies



Will resurgent demand for services continue to boost economic growth?

Flash PMI output indicators of 'G4' economies



April's surveys pointed to better than anticipated performances, beating expectations in all four major economies. US output rose for a third successive month and at the fastest rate for 11 months as growth accelerated in both manufacturing and services. The UK and eurozone saw

their best performances for 12 and 11 months respectively, albeit heavily skewed towards services as factory output fell in both cases. Japan's upturn meanwhile slowed amid a further slide in factory output but, having now seen services-led growth for four months, Japan's economy is also faring well overall.

In all cases, the robust growth picture seen in April was driven by resurgent service sector activity, with demand for services recovering sharply most notably among consumers thanks to a post-pandemic tailwind for travel and tourism. However, financial services activity has also meanwhile stabilised after a marked downturn last year - notably in the US - amid an improvement in financial conditions. However, these financial conditions are now tightening again, especially in the US. There are also question marks over how long the consumer will retain an appetite to spend on services in the face of headwinds such as the increased cost of living and the further hikes in interest rates imposed in the US and Europe.

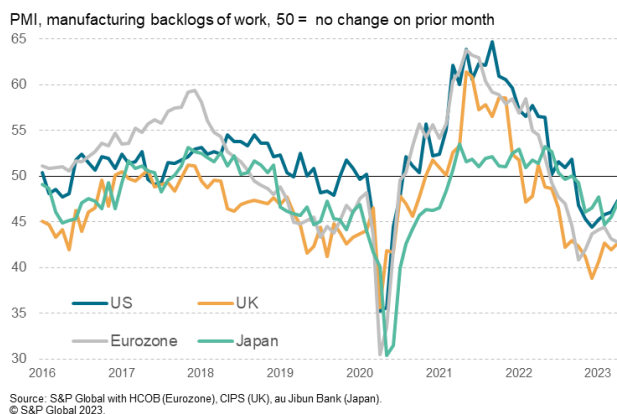
We will therefore be eager to gauge the rate of growth of service sector new business inflows and respective business activity growth rates for clues as to the ongoing resilience of these important drivers of economic expansions.

Can manufacturing growth revive?

Manufacturing output has stabilised across the G4 economies as a whole over the past two months, representing an improvement on the downturn seen late last year, but this better situation principally represents healing supply chains. Worryingly, new orders inflows continued to fall in April, acting as a drag on production growth.

The improved supply situation has enabled factories to reduce their backlogs of orders, which had accumulated at an unprecedented rate during the pandemic as component shortages curbed production. However, these backlogs will eventually be depleted and, in the absence of new order inflows, could mean production will fall again in the months ahead.

Flash PMI manufacturing backlogs of orders



An additional drag on the manufacturing sector has been an unwinding of safety stocks – many of which are components manufactured by other companies. Safety stock building hit record levels amid supply fears during the pandemic, but is now acting as a negative influence on global production as companies seek to reduce these inventories for cost considerations in response to weak sales.

Worldwide safety stock building



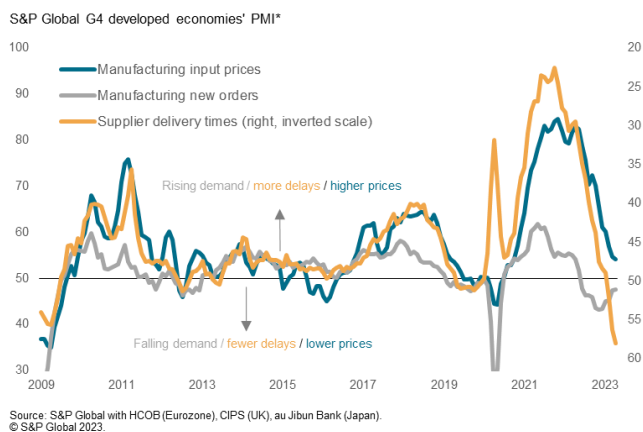
In addition to watching the manufacturing new orders and backlogs of orders data, the May manufacturing inventory and input purchasing data will therefore be important to watch to assess whether this inventory unwind is showing signs of being completed.

Are supply chains continuing to heal?

The extent to which supply chains are continuing to heal will also be revealed, as this will not only have a bearing on the extent to which manufacturers can expand production but also on producer price inflation.

Easier supply means fewer price pressures, so recent months have seen the improving supply situation accompanied by a marked cooling of manufacturing input cost inflation. Falling demand has naturally also helped reduce inflation pressures.

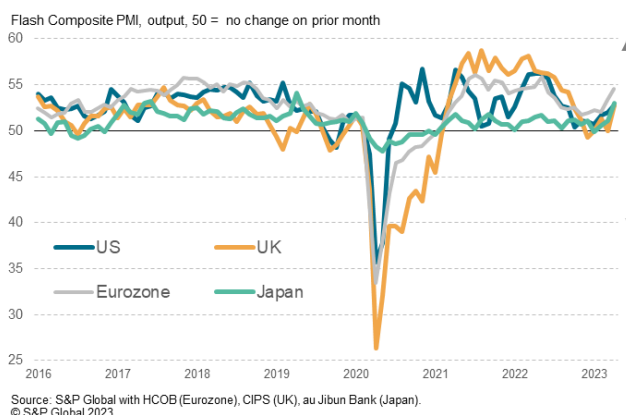
Flash PMI supply, demand and price indicators



The May flash PMI Suppliers' Delivery Times Index data will therefore be an important barometer of the supply chain stress and provide a valuable insight into inflation trends within the goods producing sector in particular.

How resilient are labour markets?

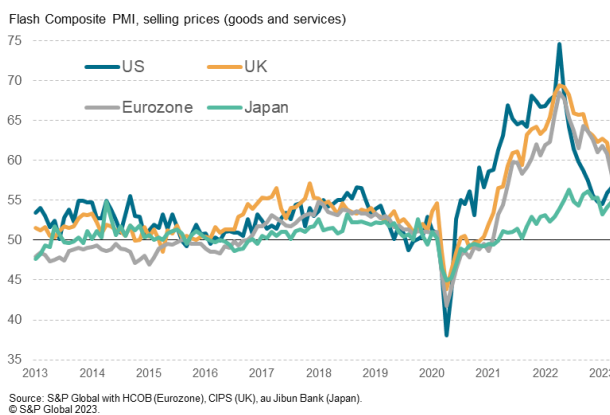
Flash PMI employment indicators of 'G4' economies



Looking beyond manufacturing, a key source of inflationary pressure has been the labour market, with upward wage growth a major concern in the US and Europe. Jobs growth accelerated in all G4 economies in April, led by accelerated hiring in the service sectors. Upcoming Employment Index data will therefore be keenly awaited to gain further insights into whether strengthening demand for staff poses further upside risks to labour market tightness and wage pressures.

How sticky does inflation look?

Flash PMI selling price indicators



Determining the broader inflation trends for selling prices amid the various supply chain, energy market and labour market cost factors will clearly be important, especially after April PMI surveys showed some surprising upward trends.

In the US, average selling price inflation for goods and services accelerated for a third successive month in April, hitting a seven-month high. The rate of inflation also reaccelerated in the UK and hit an all-time high in Japan. The eurozone bucked the trend, thanks mainly to its greater

exposure to recent energy price falls after the spikes seen last year, but even in the eurozone the overall rate of increase remained elevated by historical standards, thanks mainly to higher service sector charges.

May flash PMIs

May's flash PMI data will consequently be eagerly anticipated for signs that the recent resurgent economic growth seen in the major developed economies of the world has continued into the middle of the second quarter, to thereby allay fears of imminent recessions. However, the sustainability of these upturns remains under close scrutiny, and the details of the breadth and quality of growth - especially in relation to demand conditions as indicated by new orders and backlogs of work indices - will be crucial in assessing whether recessions might be seen later in the year. The surveys' Future Output Indices will also provide guidance on business optimism about the outlook for the year ahead.

These growth and demand dynamics will naturally have bearings on inflation which - although showing signs of peaking - continues to reflect stubborn stickiness, notably in the service sectors. Watch out for the Suppliers' Delivery Times Index and Employment Indices for supply chain and labour market cost developments, as well of course as the Input Cost and Selling Price/Charge Indices.

Chris Williamson

Chief Business Economist
S&P Global Market Intelligence
London
T: +44 779 5555 061
chris.williamson@spglobal.com

Special Focus

Malaysian Economy Shows Sustained Expansion in Early 2023

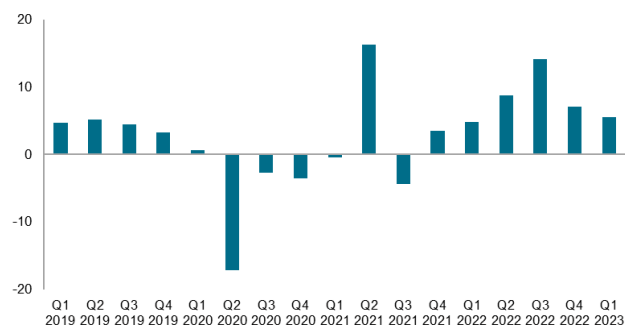
The Malaysian economy grew at a pace of 5.6% year-on-year (y/y) in the first quarter of 2023, showing continued rapid expansion after annual economic growth of 8.7% in 2022. The buoyant pace of economic growth in 2022 was the fastest annual GDP growth rate since 2000.

The pace of expansion of the Malaysian economy is expected to moderate during 2023 due to a number of headwinds, including the impact of high base year effects and slowing merchandise export growth. However, an important positive factor is expected to be the continued gradual recovery of international tourism visits from Asia, the Middle East and Europe.

Malaysian economy maintains positive momentum in Q1 2023

The Malaysian economy grew at a pace of 5.6% y/y in the first quarter of 2023, after growing at 7.1% y/y in the fourth quarter of 2022. Measured on a quarter-on-quarter (q/q) basis, the Malaysian economy grew by 0.9% q/q in the first quarter of 2023, marking a sharp turnaround after contraction of 1.7% q/q in the fourth quarter of 2022.

Malaysia GDP growth
% change, year-on-year

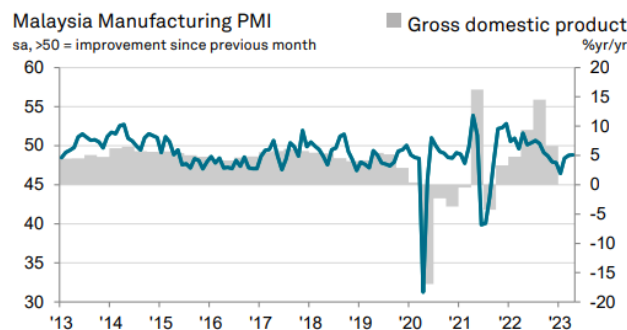


Source: S&P Global Market Intelligence

Helped by strong domestic demand, the Malaysian services sector continued to show rapid growth of 7.3% y/y in the first quarter of 2023, following growth of 9.1% y/y in the fourth quarter of 2022. The pace of expansion in the construction sector also remained strong, growing by 7.4% y/y in the first quarter of 2023, after rapid growth of 10.1% y/y in the fourth quarter of 2022. However, growth in the manufacturing sector has moderated in recent quarters, growing by 3.2% y/y in the first quarter of 2023, similar to the 3.9% y/y pace in the fourth quarter of 2022.

The seasonally adjusted S&P Global Malaysia Manufacturing Purchasing Managers' Index (PMI) was unchanged at 48.8 in April, signalling that business conditions remained challenging for firms. That said, the index was at its joint-highest level since September 2022, suggesting a tentative recovery in operating conditions in recent months.

S&P Global Malaysia Manufacturing PMI



Sources: S&P Global, Department of Statistics Malaysia.

During 2022, an important positive factor for the Malaysian manufacturing sector was the strength of manufacturing exports. Overall, Malaysian merchandise exports has performed strongly during 2022, with exports rising by 25% y/y. Exports of manufactured goods rose by 22% y/y during 2022, boosted by exports of electrical and electronic products, which rose by 30%.

Rising world commodity prices also boosted commodities exports, with mining exports up by 68% y/y due to strong exports of oil and gas, while agricultural exports rose by 23%.

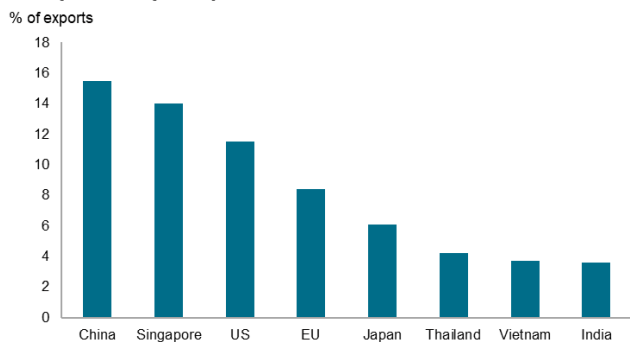
In 2023, the pace of export growth is expected to moderate, reflecting base year effects as well as the economic slowdown in key markets, notably the US and EU. Goods exports in the first quarter of 2023 rose by 2.8% y/y, with the pace of export growth moderating significantly compared with 2022.

As mainland China is Malaysia's largest export market, accounting for 15.5% of total exports, the continuing rebound in mainland China's economy during 2023 may help to mitigate the impact of softening merchandise exports to the US and EU.

However international tourism is expected to strengthen during 2023, as tourist arrivals from major tourism markets in ASEAN, Middle East and Europe continue to recover, while Chinese tourist arrivals gradually improve. Tourism Malaysia is targeting 16.1 million international visitor arrivals for 2023, a 60% increase compared with the estimated 10.1 million international visitor arrivals in 2022. This compares with the pre-pandemic level of 26.1 million international visitor arrivals in 2019. In 2019, total domestic and international tourism

was estimated to have accounted for around 16% of gross value added in Malaysia's total GDP.

Malaysia's major export markets

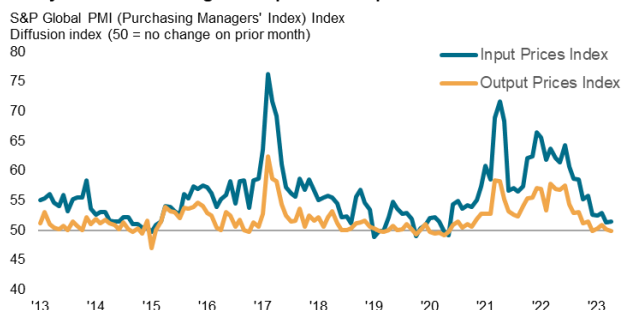


Source: Matrade; EC

Inflation pressures have been gradually easing

Reduced demand for inputs helped lead to an improvement in vendor performance, with improved capacity at suppliers and a lack of port congestion also aiding a reduction in lead times. Suppliers' delivery times shortened for the fourth successive month and to one of the greatest extents in the past decade. There were further signs of raw material prices levelling off in April as input costs rose only slightly. The rate of inflation was broadly in line with the 34-month low posted in March.

Malaysia Manufacturing PMI: Input and Output Prices



Source: S&P Global Market Intelligence, S&P Global PMI surveys © S&P Global 2023.

In Malaysia, CPI inflation pressures have begun to gradually moderate, easing to a pace of 3.4% in March 2023, compared with 4.5% y/y in September 2022.

During 2022, Malaysia's central bank, Bank Negara Malaysia (BNM), had reduced the degree of monetary accommodation in a series of tightening steps. The most recent monetary policy tightening was on 3rd May 2023, when the Monetary Policy Committee decided to increase the Overnight Policy Rate (OPR) by 25 basis points (bps) to 3.0 percent.

The MPC expects that both headline and core inflation will moderate over the course of 2023, averaging between 2.8% and 3.8%. However, core inflation will remain at elevated levels amid firm demand conditions. Existing price controls and fuel subsidies will continue to partly contain the extent of upward pressures to inflation.

Moderating global electronics demand adds to headwinds

The electrical and electronics (E&E) sector has been an important driver of Malaysia's manufacturing exports. Exports of E&E products, which accounted for 38% of merchandise exports, rose by 30% y/y in 2022. This rapid growth was driven by robust global demand for semiconductors, reflecting technological trends such as 5G rollout, cloud computing, and the Internet of Things. Exports of integrated circuits grew by 33% y/y in 2022, while exports of parts for integrated circuits rose by 120% y/y. The combined exports of integrated circuits and parts accounted for 58% of Malaysia's total exports of E&E products in 2022.

The global electronics manufacturing industry slowed in the second half of 2022 due to the weakening pace of economic growth in the US, EU and China.

Malaysian exports of electrical and electronic products fell by 4.4% year-on-year in March 2023.

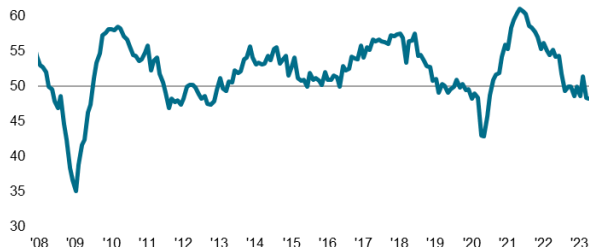
Recent S&P Global survey data indicates that the global electronics manufacturing industry is facing headwinds from the weakening pace of global economic growth. The headline seasonally adjusted S&P Global Electronics PMI fell from 51.4 in February to 48.4 in March, weakening further in April to 48.2. This signalled renewed deterioration in operating conditions across the global electronics manufacturing sector as key consumer markets for electronics, notably the US and EU, remained weak.

Malaysian exports of electrical and electronic products fell by 4.4% year-on-year in March 2023. Malaysia's E&E industry is expected to face continuing soft economic conditions during 2023, compared with the very rapid pace of expansion in 2022. The latest data indicated a renewed contraction in the global electronics sector, reflecting further declines in new orders and output.

Continued...

S&P Global Electronics PMI

S&P Global PMI (Purchasing Managers' Index) Output Index
Diffusion index (50 = no change on prior month)



Source: S&P Global Market Intelligence, S&P Global PMI surveys
© S&P Global 2023.

Demand conditions for the global electronics industry have remained weak during early 2023. Subdued client demand weighted on new business placed with electronics manufacturers, as new orders fell for the ninth time in the past ten months. Inflationary pressures and global economic uncertainty were often cited by panellists as factors dampening demand.

New orders in the Consumer Electronics segment fell at the fastest pace for six months, while there was a renewed decline in Industrials, the first since January. Computing saw a slower contraction while demand conditions for the Communications segment stabilized.

S&P Global Electronics PMI New Orders Index

S&P Global PMI (Purchasing Managers' Index) Index
Diffusion index (50 = no change on prior month)



Source: S&P Global Market Intelligence, S&P Global PMI surveys
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Economic outlook

The Malaysian economy rebounded strongly during 2022, with economic growth momentum boosted by the easing of COVID-19 restrictive measures as well as buoyant exports of electrical and electronic products, palm oil products as well as oil and gas exports.

In 2022, higher world oil and gas prices as a result of the Russia-Ukraine war boosted Malaysian energy exports and contributed to higher fiscal revenues. Malaysia also benefited from higher average palm oil prices, due to disruptions to world edible oil markets, including Ukrainian exports of sunflower oil.

During 2023, growth momentum is expected to moderate due to base year effects and the slowdown of merchandise exports. However, the reopening of international borders across the Asia-Pacific region, notably in mainland China, will help the continued gradual recovery of the international tourism industry, which was an important part of the Malaysian economy prior to the pandemic. This will help to mitigate the impact of slower growth for merchandise exports. Domestic demand is expected to be resilient in 2023, helped by the improvement in labour market conditions. Easing of restrictions on entry of migrant labor will also gradually help to support industry sectors that are reliant on foreign workers.

There are a number of downside risks to the near-term growth outlook, particularly due to the slowdown in world growth. Malaysia's export sector is vulnerable to protracted weak economic growth momentum in the US and EU, which together account for around one-fifth of total exports. However, the easing of COVID-19 restrictions in mainland China could help to boost Malaysian exports to this key market, which is Malaysia's largest export market and accounts for around 15% of total exports.

Despite the slowdown in global electronics orders in recent months, the medium-term economic prospects for Malaysia's electronics industry are favourable. The outlook for electronics demand is underpinned by major technological developments, including 5G rollout over the next five years, which will drive demand for 5G mobile phones.

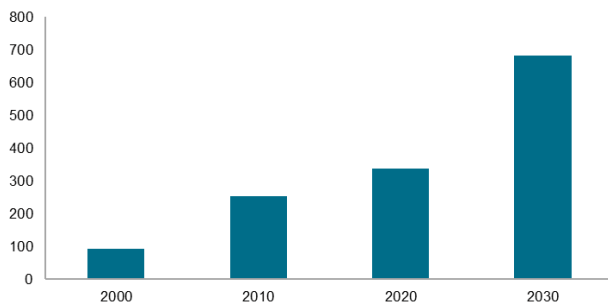
Demand for industrial electronics is also expected to grow rapidly over the medium term, helped by Industry 4.0, as industrial automation and the Internet of Things boosts rapidly growth in demand for industrial electronics.

Malaysia's competitiveness as a global electronics hub has been highlighted by the decision of a number of electronics multinationals to invest in large-scale new projects. Intel is investing USD 7 billion in a new semiconductors packaging plant in Penang, which is estimated to be completed by 2024 and create thousands of new jobs in Malaysia. Infineon Technologies is constructing a new state-of-the-art wafer fab module in Kulim, with around Ringgit 8 billion of investment. The new module, which is expected to be completed in 2024, will add significant manufacturing capacity in power semiconductors.

Continued...

Malaysia long-term GDP forecast

USD billion



Source: S&P Global Market Intelligence

Overall, the medium to long-term growth outlook for Malaysia remains favourable, with total nominal GDP measured in USD terms forecast to rise from around USD 400 billion in 2022 to USD 680 billion by 2030 and USD 780 billion by 2032. Meanwhile per capita GDP is projected to rise from USD 12,000 in 2022 to USD 18,600 by 2030, which will help to drive the growth of the domestic consumer market.

Rajiv Biswas

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

rajiv.biswas@spglobal.com

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CONTACT US

Chris Williamson

Chief Business Economist
S&P Global Market Intelligence
London

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

The Americas

+1-877-863-1306

EMEA

+44-20-7176-1234

Asia-Pacific

+852-2533-3565

Jingyi Pan

Economics Associate Director
S&P Global Market Intelligence
Singapore

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

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