

Week Ahead Economic Preview

May manufacturing PMI, US payrolls and eurozone inflation

26 May 2023

Worldwide manufacturing PMI data will be keenly watched in the coming week alongside the May US labour market report. Other noteworthy release in the coming week includes inflation numbers from the eurozone and South Korea while GDP figures will be released across Canada, France, India and South Korea.

Political concerns remain front and centre for the market with US debt-ceiling woes even as recent flash PMI data signalled that the developed world growth took place at the fastest rate in 11 months during May (*see special report*). While developments on the US debt-ceiling front is expected to continue dominating headlines in the short-term, the longer-term focus sticks with economic fundamentals as we track the latest updates in the goods producing sector with the slew of manufacturing PMIs next week, and the services and composite figures due the following Monday, on June 5th.

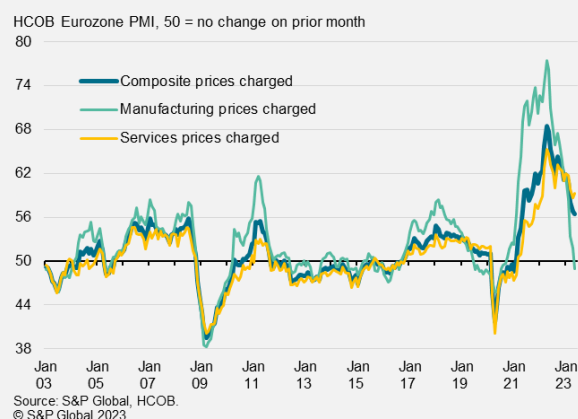
Of special interests from the May manufacturing PMI surveys will be the extent to which demand for goods waned in emerging economies through studying the PMI New Orders and New Export Orders sub-indices. This comes after data from major developed economies revealed sustained divergences between goods and services new business, with the former falling at the fastest rate since February among the G4 economies. Historically, divergences between manufacturing and services activity always fade eventually, hence it will be the demand component we will closely track for first signs of realignment.

May US non-farm payrolls will also be highly anticipated next week. While there are some expectations that the US Federal Reserve may be preoccupied with US debt-ceiling risks going into the June meeting, recent improvements in US economic conditions, as seen via the S&P Global Flash US Composite PMI, and still elevated inflation may keep the Fed on a tightening bias in their mid-year meeting. It will therefore be of importance to watch if the labour market data adds to this recipe for further interest rate hikes by the US central bank.

Eurozone price inflation

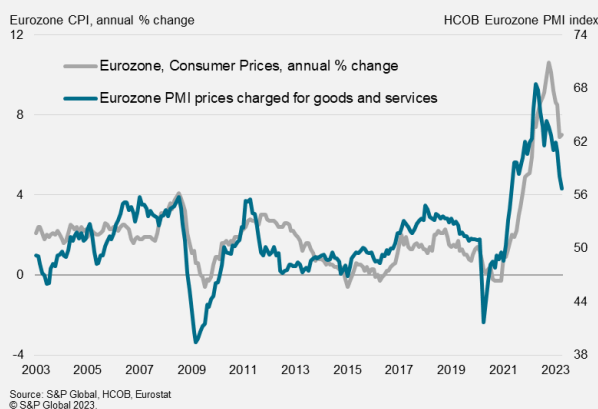
Official flash eurozone inflation data will be released after PMI figures revealed that price pressures further eased in May, though still elevated by historical standards. Softer inflationary pressures were accounted for by falling factory gate prices while charges for services climbed at a faster rate midway into Q2, altogether reflecting the persistent divergence in sector performance.

Eurozone PMI selling prices



With overall growth accelerating in the second quarter according to PMI indications and inflation staying elevated, the concern is that the ECB may continue to act, further aggravating the imbalance on hand. Eurozone CPI will be released alongside final PMI numbers next Thursday, 1st June.

Eurozone inflation



Key diary events

Monday 29 May

US, UK, Germany, Switzerland, Norway Market Holiday
Hong Kong Trade (Apr)

Tuesday 30 May

Japan Unemployment Rate (Apr)
Japan Jobs-to-application Ratio (Apr)
Australia Building Approvals (Apr)
Thailand Industrial Production (Apr)
Switzerland GDP (Q1)
Eurozone Consumer Confidence (May)
United States House Price Index (Apr)
United States Consumer Confidence (May)

Wednesday 31 May

South Korea Industrial Production (Apr)
South Korea Retail Sales (Apr)
Japan Retail Sales (Apr)
Japan Industrial Production (Apr)
Japan Consumer Confidence (May)
China (Mainland) NBS PMI (May)
France GDP (Q1, final)
Thailand BOT Interest Rate Decision
Thailand Current Account (Apr)
Germany Inflation (May, prelim)
India GDP (Fiscal Q3)
Canada GDP (Q1)
United States JOLTs Job Openings (Apr)
United States Fed Beige Book

Thursday 1 Jun

Indonesia Market Holiday
Worldwide Manufacturing PMIs, incl. global PMI* (May)
South Korea Trade (May)
Australia Capital Expenditure (Q1)
Australia Retail Sales (Apr)
Germany Retail Sales (Apr)
United Kingdom Mortgage Lending and Approvals (Apr)
Eurozone Unemployment Rate (Apr)
Eurozone Inflation (Apr)
United States ADP Employment Change (May)
United States ISM Manufacturing PMI (May)
United Kingdom Nationwide Housing Prices (May)

Friday 2 Jun

Singapore, Indonesia Market Holiday
South Korea GDP (Q1)
South Korea Inflation (May)
Australia Home Loans (Apr)
Singapore Retail Sales (Apr)
United States Non-farm Payrolls, Average Earnings,
Unemployment Rate (May)

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

What to watch

Worldwide manufacturing PMI release for May

Following the flash PMI releases, worldwide manufacturing PMI data will be released next Thursday to provide a comprehensive picture on economic conditions within the goods producing sector.

Flash PMI data for major developed economies revealed that growth remained skewed heavily towards the service sector (*see special report*), and it will be of interest to observe if this phenomenon remains widespread across the globe. Demand weakness within the manufacturing sector also remained a lingering concern which led to further abating of price pressures within the manufacturing sector. Whether such a trend persists on a global scale will be scrutinised with the series of manufacturing PMI data releases.

Americas: US labour market report, Canada Q1 GDP

Key US data due next week include the May non-farm payrolls, unemployment rate and average hourly earnings figures, in addition to PMI readings. Consensus expectations currently point to a 180k addition to non-farm payrolls, unemployment rate to tick up slightly to 3.5% and average hourly earnings growth to slow marginally to 0.4% month-on-month. [S&P Global Flash US Composite PMI](#) revealed solid improvements in employment levels in May, backing the abovementioned consensus expectation for a still-solid US labour market in May.

Europe: Eurozone inflation, employment figures, France Q1 GDP

Besides the PMI figures, May flash inflation data from the eurozone will be eagerly awaited next Thursday for the latest indications on price developments in the euro area. According to the HCOB Flash Eurozone PMI, average prices charged for goods and services rose at the slowest rate for 25 months in May. Official data will be watched for similar developments given the [strong correlations between PMI selling prices and eurozone CPI](#).

Asia-Pacific: Bank of Thailand meeting, India GDP, South Korea inflation and growth

In APAC, the Bank of Thailand meets with the possibility of a 25 basis points (bps) hike on the table according to consensus. Several tier-1 data will also be released in the region over the week.

Special reports:

Flash PMI Data Signal Fastest Developed World Growth for 11 Months Price Pressures Rise Further |

Chris Williamson | [page 4](#)

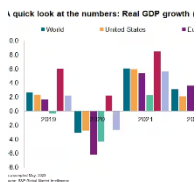
Thailand's Economy Rebounds in Early 2023 as Tourism Surges | Rajiv Biswas | [page 7](#)

Recent PMI and economic analysis from S&P Global

Global	Global goods trade shrinks while services trade remains on the rise in April	18-May	Jingyi Pan
	Previewing the May flash PMI surveys: assessing growth resilience and inflation indicators	17-May	Chris Williamson
	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
Europe	Eurozone Flash PMI at three-month low as steepening factory downturn offsets services revival	23-May	Chris Williamson
	Service sector drives sustained strong UK economic expansion in May, says flash PMI surveys	23-May	Chris Williamson
	Service sector drives growth in Spain as divergence with manufacturing widens	19-May	Laura Denman
Asia-Pacific	Japan May flash PMI data signal economic acceleration to fastest since 2013 midway into the second quarter	23-May	Jingyi Pan
	Malaysian economy shows sustained expansion in early 2023	19-May	Rajiv Biswas
	Japan flash PMI data awaited after GDP confirms survey data strength in first quarter	18-May	Rajiv Biswas
Commodities	Weekly Pricing Pulse: Commodity prices down as bearish sentiment remains	19-May	Michael Dall

S&P Global Economics & Country Risk highlights

An asynchronous global economic expansion



Despite the challenges of high inflation, tightening financial conditions and geopolitical conflicts, the global economy is likely to avert a recession. World real GDP growth picked up from an annual rate of 1.6% quarter over quarter in the final quarter of 2022 to 2.5% in the first quarter of 2023. Aside from a mild deceleration in the second quarter, this moderate growth pace will likely be sustained.

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

PMI Insights: Evolving trends in sub-Saharan Africa



Our Purchasing Managers' Index team compiles data for more than 40 economies around the world. In this episode, the economists unpack recent events in sub-Saharan Africa and discuss how the PMI data illuminate economic trends across the region. In for the latest trends seen in our Purchasing Managers Index data.

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

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Special Focus

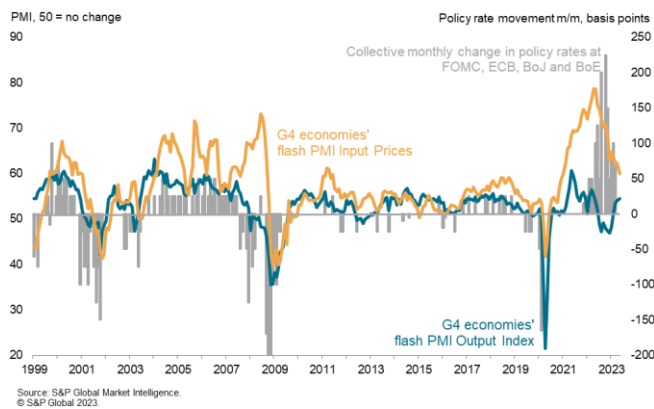
Flash PMI Data Signal Fastest Developed World Growth for 11 Months Price Pressures Rise Further

Economic growth across the four largest developed economies has accelerated to the fastest for 13 months in May, according to early 'flash' PMI data compiled by S&P Global. Growth was driven entirely by services, however, as manufacturers continued to report broadly stalled production.

Spending therefore continues to shift from goods to services, bringing with it a change in inflationary pressures. Prices for goods are falling amid excess supply, but prices charged for services continue to rise at a solid pace as a post-pandemic demand surge exceeds supply. Input costs and selling prices consequently continue to rise at elevated rates by historical standards, albeit having cooled markedly from last year's peaks.

Central bank rhetoric will need to be watched for their assessment of the stickiness of inflation and the resilience of growth. However, the strength of the service sector is likely to add to pressure on central banks to keep interest rates higher for longer, and in some cases perhaps even reach higher terminal rates, which will add to the likelihood of economic growth cooling as the year proceeds.

G4 developed economies' PMI output and prices v. central bank policy



Economic growth revival driven by services

Business activity rose across the four largest developed world economies (the "G4") for a fourth month running in May, according to provisional 'flash' PMI data. The rate of growth accelerated to the fastest since April 2022.

Growth was skewed heavily towards the service sector, where business activity rose at the fastest rate for 14 months across the G4 in response to an acceleration in growth of incoming new business, in turn reflecting resurgent post-pandemic demand. In contrast, manufacturing output fell slightly when measured across the G4, fueled by a steep and accelerating rate of loss of new orders.

Flash PMI output indicators of 'G4' developed economies

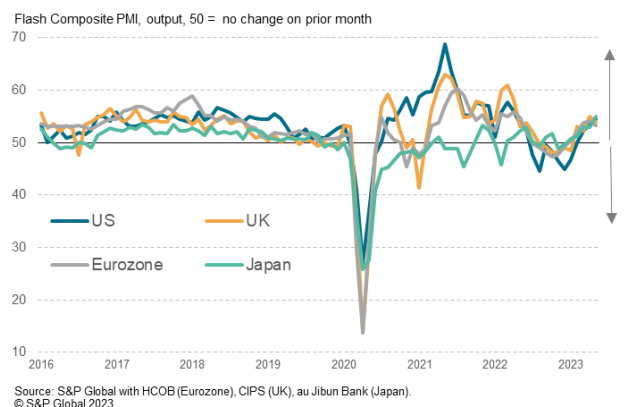


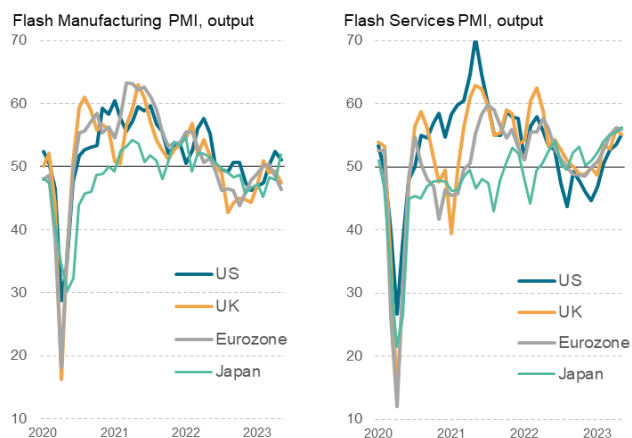
Growth was recorded in all four economies for a fourth straight month, indicating a synchronised and broad-based improvement geographically.

The strongest expansion was recorded in Japan, where output across manufacturing and services rose at a rate not seen since October 2013. Service sector growth hit a new survey high, accompanied by the first rise in factory output for 11 months.

Strong and accelerating growth was also seen in the US, where output across both sectors rose at the steepest rate for 13 months. An increasingly strong surge in US services activity was joined by a further rise in manufacturing output, albeit with the rise in factory production growth losing momentum to show only a modest gain.

Flash PMI output indicators of 'G4' economies





Source: S&P Global Market Intelligence with HCOB, au Jibun Bank, CIPS

In contrast, growth slowed in Europe, with expansions losing some steam from recent peaks in April in both the Eurozone and UK. Both economies nevertheless continued to report robust growth, albeit in both cases with service sector upturns losing some pace from impressive levels in April and with both economies reporting increasingly marked manufacturing downturns.

Demand shifts further from goods to services

Whereas inflows of new business across the G4 service sector grew at the sharpest rate for just over a year, rising strongly in all four economies, new orders at factories fell for a twelfth successive month, the rate of decline hitting the fastest since February. Only Japan saw an increase in new orders for goods, and even here the rise was only slight. The steepest decline – by some margin – was witnessed in the Eurozone.

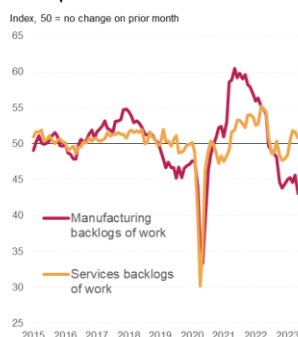
The diverging new order trends also led to a further contrast in backlogs of work, which rose for a fourth consecutive month in the service sector but fell in manufacturing at a rate not seen since the global financial crisis barring pandemic lockdown months. Backlogs fell in manufacturing in all four economies in May but rose in services in all cases.

Flash PMI new orders indicators of 'G4' developed economies



Source: S&P Global, JPMorgan © S&P Global 2023

Flash PMI backlogs indicators of 'G4' developed economies



Source: S&P Global, JPMorgan © S&P Global 2023

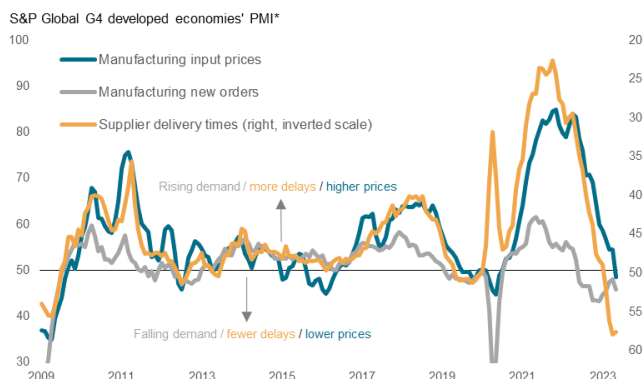
The survey data therefore add further to signs of a shift of spending away from goods towards services. This likely reflects the further reopening of the global economy in 2023 which, for the first year since 2019, allows unfettered cross border travel. This shift in spending is in turn leading to the development of excess capacity in manufacturing but is straining capacity in the service sector.

Prices fall in manufacturing but rise sharply again for services

Varying demand conditions and capacity constraints also played a role in determining inflationary trends. In manufacturing, the recent softening of demand for components has led to discounting and has been accompanied by lower energy costs. Input costs consequently fell on average across the G4 for the first time in almost three years, dropping all cases bar Japan.

These lower costs have been passed on to customers as goods producers seek to shore up weaker than anticipated sales. As a result, average selling prices for goods across the G4 rose in May at the slowest rate since October 2020. Selling prices even fell in the eurozone and barely rose in the US, leaving Japan and the UK with the steepest rates of increase, though even in these economies the rate of goods inflation moderated.

Flash PMI supply, demand and price indicators



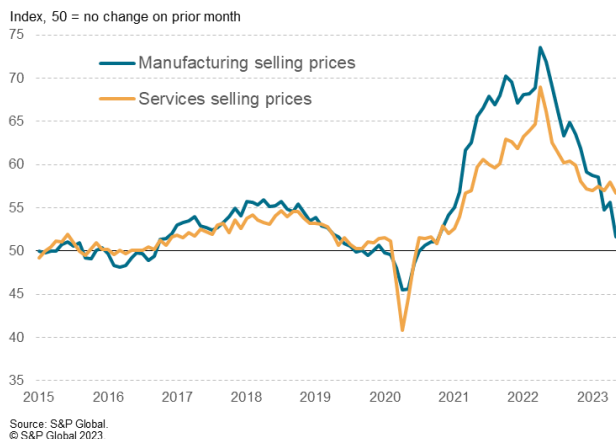
Source: S&P Global with HCOB (Eurozone), CIPS (UK), au Jibun Bank (Japan). © S&P Global 2023.

Inflationary pressures in the service sector proved more stubborn. Although average prices charged for services across the G4 service sectors declined from April, the rate of increase remained elevated by historical standards, not just greatly exceeding the survey average seen in the decade leading up to the pandemic but also exceeding any prior peaks seen over this period by a wide margin. Particularly stubborn service sector inflation was seen in the UK and eurozone, though elevated rates also continued to be recorded in the US and Japan.

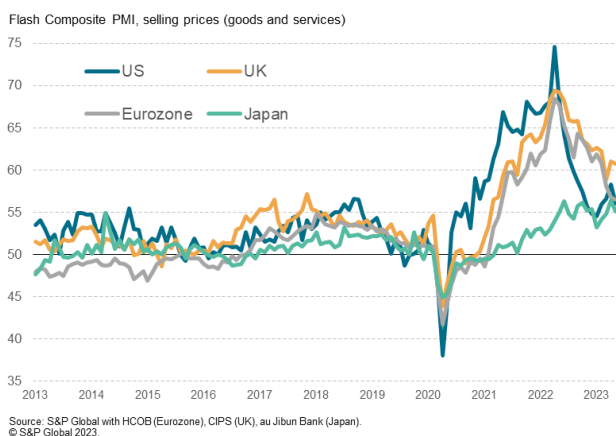
In contrast to manufacturing, which saw improved supply and weakening demand, the service sector saw further instances of companies being constrained by a lack of labour while

simultaneously reporting resurgent demand, hence pushing both costs and prices higher.

Flash PMI selling price indicators of 'G4' economies



Flash PMI selling price indicators



Recession averted, for now

The common theme in the May flash PMI data for the major developed economies is one where a post-pandemic revival of spending on services has helped sustain robust economic growth midway through the second quarter. This upsurge in demand has strained capacity at service providers, notably via difficulties in hiring, and hence led to stubbornly high cost and selling price inflation rates.

Spending has meanwhile been diverted away from goods, leading to a situation of excess supply which has in turn fueled increasing instances of price discounting as factories seek to reduce inventory levels.

A key question for the outlook therefore relates to the sustainability of this tailwind from the pandemic, which has spurred a shift in spending from goods to services. Higher interest rates are likely to take their toll eventually, especially if these signs of resilient economic growth encourage further rates hikes.

In manufacturing, destocking is likely to act as less of a drag once inventories are normalized, probably later in 2023, but it

remains to be seen how adversely affected demand for goods will be from other factors, such as the increased cost of living and higher interest rates.

We therefore retain the impression from the data that, while recession appears to have been averted for now, there remains a strong possibility of substantially weaker economic growth later in the year as the impact of higher interest rates – which are less likely to have peaked given May's flash PMI data – feeds through to the economy.

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Special Focus

Thailand's Economy Rebounds in Early 2023 as Tourism Surges

Thailand has shown a gradual economic recovery from the COVID-19 pandemic during 2022, helped by rising international tourism arrivals. Real GDP growth rose from 1.5% in 2021 to 2.6% in 2022, with growth momentum expected to improve further in 2023.

The latest S&P Global Thailand Manufacturing PMI survey results for April 2023 showed a strong upturn in manufacturing output and new orders. Due to the importance of international tourism for the Thai economy, the strong rebound in international tourism inflows evident in early 2023 signals that the tourism economy will be a key growth driver in 2023.

Thailand's economic recovery from the pandemic

The Thai economy has shown an upturn in economic growth momentum in early 2023, with first quarter GDP growth up by 2.7% year-on-year (y/y), compared with 1.4% y/y growth in the fourth quarter of 2022.

The strong first quarter growth rate was underpinned by rapid growth in private consumption, which rose by 5.4% y/y, helped by surging international tourism arrivals. Expenditure on services rose by 11.1% y/y due to buoyant spending in hotels and restaurants. However private investment grew at a modest pace of just 2.6% y/y, while public investment grew by 4.7% y/y.

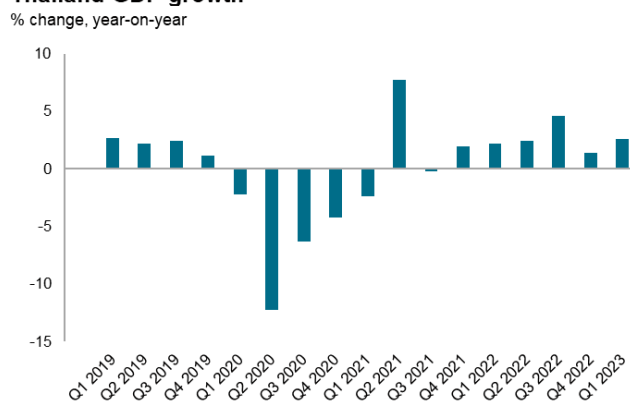
Thailand's growth rate in 2022 was quite moderate in comparison with other large ASEAN economies such as Malaysia, Vietnam and Philippines, which posted very high growth rates as they rebounded from the pandemic. Thailand recorded real GDP growth of 2.6% in 2022, representing a relatively modest pace of economic recovery from the recessionary conditions caused by the COVID-19 pandemic.

A key driver for improving economic growth in 2022 was the recovery of private consumption, which grew by 6.3% compared with just 0.6% y/y growth in 2021. Private investment growth also improved from a pace of 3.0% in 2021 to 5.1% in 2022. However public investment contracted by 4.9% in 2022, while government consumption was flat.

Strong growth in private consumption and investment as well as rising energy import prices helped to boost import growth, which rose by 15.3% in 2022, while exports rose by just

5.5%, measured in USD terms. Consequently, the trade balance narrowed from USD 32.4 billion in 2021 to USD 10.8 billion in 2022.

Thailand GDP growth



Source: S&P Global Market Intelligence

Due to the important contribution of international tourism to Thailand's GDP, a key factor that constrained the rate of recovery of the Thai economy in 2022 was the slow pace of reopening of international tourism, although this gathered momentum in the second half of 2022.

S&P Global Thailand Manufacturing PMI



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

The S&P Global Thailand Manufacturing PMI surged to 60.4 in April from 53.1 in March, signalling a rapid improvement in overall business conditions and the strongest performance in any month since the survey started in December 2015. The month-on-month increase in the headline PMI, at 7.3 points, was also by far the biggest on record (the next-largest upward movement was 4.8 points in May 2020).

Thailand PMI new orders and new export orders

S&P Global PMI (Purchasing Managers' Index) Index
Diffusion index (50 = no change on prior month)
70



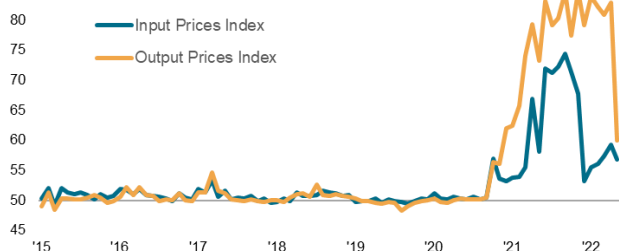
Source: S&P Global Market Intelligence, S&P Global PMI surveys
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A key factor driving the improvement in manufacturing operating conditions was a marked expansion in new orders during April. The rate of growth was the fastest on record and largely driven by domestic demand.

Despite rising demand for raw materials and components in April, manufacturers reported shorter suppliers' delivery times for the first time since April 2022. This reflected a wider recovery in regional and global supply chains. Price pressures eased in April, with input prices having increased at the slowest rate in three months.

Thailand PMI input and output prices

S&P Global PMI (Purchasing Managers' Index) Index
Diffusion index (50 = no change on prior month)
85



Source: S&P Global Market Intelligence, S&P Global PMI surveys
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Thailand's headline CPI inflation rate eased to 2.7% y/y in April 2023 compared with 5.0% y/y in January 2023 and 7.9% y/y in August 2022. The Monetary Policy Committee (MPC) of the Bank of Thailand decided to raise the policy rate by 0.25% from 1.25% to 1.50% at their Monetary Policy meeting on 25 January 2023, with a further 0.25% rate hike implemented on 29 March 2023. This follows three 25bp rate hikes by the MPC in 2022. In 2022, the Monetary Policy Committee (MPC) decided to increase the policy rate three times by 25 basis points each in August, September and November. The MPC assessed that headline inflation will likely return to the target range by mid-2023, with average CPI inflation projected to decline to 2.9% in 2023 and 2.4% in 2024.

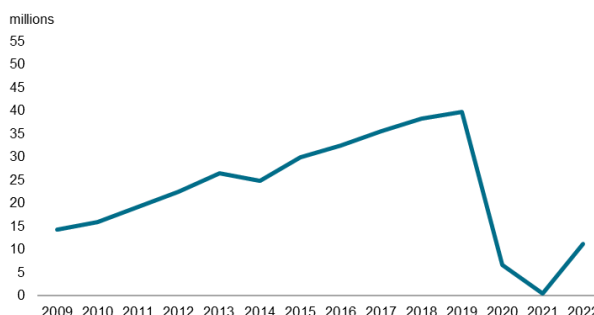
Recovery of international tourism sector

International tourism was a key part of Thailand's GDP prior to the COVID-19 pandemic, contributing an estimated 11.5% of GDP in 2019. However, foreign tourism visits collapsed after April 2020 as many international borders worldwide were closed, including Thailand's own restrictions on foreign visitors.

As COVID-19 border restrictions were gradually relaxed in Thailand and also in many of Thailand's largest tourism source countries during 2022, international tourism showed a significant improvement during the second half of the year. The number of international tourist arrivals reached 11.15 million in 2022, compared with just 430,000 in 2021. However, the total number of visits was still far below the 2019 peak of 39.8 million, indicating considerable scope for further rapid growth in the tourism sector during 2023.

International tourism arrivals in the first quarter of 2023 surged to 6.5 million visitors, which was more than half the total number of international tourist visits in 2022. Total tourism receipts in the first quarter for both domestic and international tourism spending was estimated at 499 billion baht, up by 127% y/y. The Tourism Authority of Thailand has increased its estimated target for international tourism visits in 2023 to 25 million, which is more than double the total number of international tourism arrivals in 2022.

Thailand international tourism visitors



Source: Thai Ministry of Tourism
© S&P Global 2023.

Thailand economic outlook

Despite the upturn in private consumption and international tourism arrivals in 2022, the overall pace of economic expansion was relatively moderate, at just 2.6%. Easing of pandemic-related travel restrictions during 2022 has also allowed a gradual reopening of domestic and international tourism travel, which gathered momentum in the second half of 2022.

With more normal conditions expected for international tourism travel in 2023, this should provide a significant boost

to the economy. Due to the importance of tourism inflows from mainland China prior to the pandemic, the reopening of mainland China's international borders will be an important factor contributing to the further recovery of Thailand's tourism market.

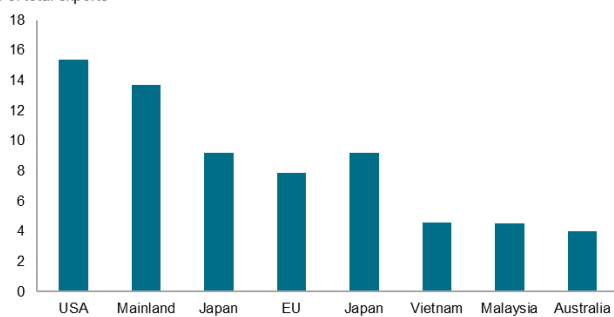
Helped by the continued recovery of the international tourism sector, some upturn in GDP growth to a pace of around 3.4% is expected in 2023.

Over the next decade Thailand's economy is forecast to continue to grow at a steady pace, with total GDP increasing from USD 500 billion in 2022 to USD 860 billion in 2032. A key driver will be rapid growth in private consumption spending, buoyed by rapidly rising urban household incomes.

The international tourism sector will continue to be a dynamic part of Thailand economy, buoyed by rapidly rising tourism arrivals the populous Asian emerging markets, notably mainland China, India and Indonesia.

Thailand's major merchandise export markets

% of total exports



Source: S&P Global; EC

By 2036, Thailand is forecast to become one of the Asia-Pacific region's one trillion-dollar economies, joining mainland China, Japan, India, South Korea, Australia, Taiwan, Philippines and Indonesia in this grouping of the largest economies in APAC. The substantial expansion in the size of Thailand's economy is also expected to drive rapidly rising per capita GDP, from USD 6,900 in 2022 to USD 11,900 by 2032. This will help to underpin the growth of Thailand's domestic consumer market, supporting the expansion of the manufacturing and service sector industries.

However, rising per capita GDP levels will also put pressures on Thailand's competitiveness in certain segments of its manufacturing export industry. Therefore, an important policy priority for nation will be to continue to transform manufacturing export industries towards higher value-added processing in advanced manufacturing industries.

One of the key economic and social challenges facing Thailand is its rapidly ageing population, which will result in a

rising burden of health care and social welfare costs over the next two decades. This will be a drag on Thailand's long-term potential growth rate, making investment in technology and innovation increasingly important to mitigate the economic impact of demographic ageing.

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