

# Week Ahead Economic Preview

Worldwide PMIs, BOE, RBA meetings and US payrolls in focus

28 July 2023

The week ahead features another busy schedule before the diary starts to quieten down for the holiday season. Highlights include global PMI surveys, US nonfarm payrolls, eurozone GDP and central bank meetings in the UK, Australia and Thailand, not to mention the ongoing US earnings season.

The policy focus shifts to the Bank of England and Reserve Bank of Australia in the coming week, as central bank watchers wait to see if policymakers follow the US Fed and ECB in hiking interest rates again. Another hike is widely expected for both banks. However, a rise by the RBA is by no means a done deal, and there is great uncertainty resting on whether the BoE will err on the side of caution and plump for a 25 rather than 50 basis point rise. Forward guidance will of course also be carefully scrutinised, alongside the Bank of England's Monetary Policy Report, to assess whether these will be the last hikes before a pause. Most likely is that policymakers are likely to keep options open by stressing the need to be data dependent.

The Federal Open Market Committee (FOMC) meeting unfolded largely in accordance with market expectations, seeing a 25 basis points hike and policymakers retaining their flexibility on the path forward as the data flow unfolds. A key factor that will continue to shape monetary policy expectations will therefore be the labour market update for July. Further indications of a tight labour market are expected, though the pace of nonfarm payroll additions is expected to slow. This is in line with flash PMI signals. A key focus will no doubt also be with wages, as any surprises on the upside pertaining to wage growth will potentially fuel concerns of stubborn inflation, and adds to risks of further Fed tightening in September.

In the eurozone, the ECB has retained a hawkish tone, hiking rates again in July to an all-time high for the single currency area. Justification for the rate rise will likely be lent weight by news in the coming week of eurozone GDP growth having picked up in the second quarter. However, the national accounts data are backward looking, and markets are likely to remain focused on the final PMI numbers, the flash estimate of which pointed to a deepening downturn in the third quarter.

Inflation figures from the eurozone, Indonesia, South Korea and Switzerland will also offer greater insights into price developments in various parts of the world.

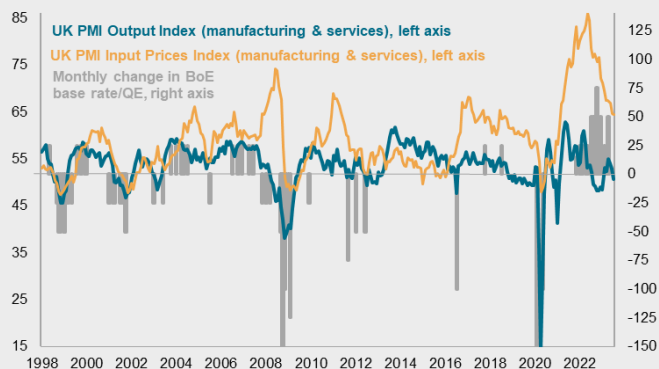
## UK recession?

The Bank of England comes under the spotlight in the coming week as its Monetary Policy Committee meets to set interest rates, a meeting which is accompanied by the updated projections for growth and inflation in the Bank's quarterly Monetary Policy Report. Although consumer price inflation showed a faster than expected cooling in June, the improving picture merely shifted market expectations to a quarter point rather than half point rate hike at the August meeting. After all, inflation has merely fallen to 7.9% against a target of 2%.

S&P Global Market Intelligence economists see the MPC having to hike rates further still later in the year as they seek to quash the stubbornly high inflation, in turn driven by rising wage pressures. The upshot will be a UK recession, albeit mild, according to our forecasting team; something which certainly seems to be a growing risk when the PMI data are charted against Bank of England policy rates (see chart). With the lagged impact of prior rate hikes appearing to take an increasing toll on business activity, growth of which came to a near stand-still in July according to the flash PMI data, the risks of GDP falling into decline look high as rates are hiked further.

The big question is whether the worsening economic outlook is enough to stay the Bank of England's hand and cause a pause in policy tightening after August. The final PMI data for July, also due out in the coming week, will therefore be eagerly assessed.

### UK monetary policy vs. flash PMI output and price indices



Data compiled 24 July 2023.  
PMI based on 50 = no change on prior month. Bank of England £25bn QE shown as equivalent to 25 basis points.  
Source: S&P Global PMI, S&P Global Market Intelligence, CIPS, Bank of England.  
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Read more about our recent forecasts: [Persistent headwinds hinder global growth prospects | S&P Global \(spglobal.com\)](#)

## Key diary events

### Monday 31 Jul

Japan Industrial Production and Retail Sales (Jun)  
Japan Consumer Confidence (Jun)  
China (Mainland) NBS PMI (Jul)  
Germany Retail Sales (Jun)  
Thailand Current Account (Jun)  
Thailand Retail Sales (May)  
Hong Kong SAR GDP (Q2, advance)  
Germany GDP (Q2, flash)  
Italy GDP (Q2, flash)  
Eurozone GDP (Q2, flash)  
United Kingdom Mortgage Lending and Approvals (Jun)  
United Kingdom Nationwide Housing Prices (Jul)

### Tuesday 1 Aug

Switzerland, Thailand Market Holiday  
Worldwide Manufacturing PMIs, incl. global PMI\* (Jul)  
Japan Unemployment Rate (Jun)  
South Korea Trade (Jul)  
Philippines PPI (Jun)  
Australia RBA Interest Rate Decision  
Australia Building Permits and Home Loans (Jun)  
Indonesia Inflation Rate (Jul)  
Hong Kong SAR Retail Sales (Jun)  
Eurozone Unemployment Rate (Jun)  
United States JOLTs Job Openings (Jun)  
United States ISM Manufacturing PMI (Jul)

### Wednesday 2 Aug

New Zealand Employment (Q2)  
South Korea Inflation (Jul)  
Japan BOJ Meeting Minutes (Jun)  
Thailand BOT Interest Rate Decision  
United States ADP Employment Change (Jul)

### Thursday 3 Aug

Worldwide Services, Composite PMIs, inc. global PMI\* (Dec)  
Australia Trade (Jun)  
Australia Retail Sales (Jun, final)  
Germany Trade (Jun)  
Switzerland Inflation (Jul)  
United Kingdom BOE Interest Rate Decision  
United States ISM Services PMI (Jul)

### Friday 4 Aug

Philippines CPI (Jul)  
Australia RBA Monetary Policy Statement  
Singapore Retail Sales (Jun)  
Germany Factory Orders (Jun)  
Eurozone Retail Sales (Jun)  
Canada Employment (Jul)  
United States Non-farm Payrolls, Unemployment Rate,  
Average Hourly Earnings (Jul)  
S&P Global Sector PMI\* (Jul)

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

## What to watch

### Worldwide manufacturing and services PMI for July

Following the release of flash PMI data, worldwide manufacturing, services and composite PMI data will be updated in the coming week to offer a comprehensive view of economic conditions around the world and across sectors.

Flash PMI from four largest developed world economies (the "G4") indicated cooling developed world economic growth at the start of the third quarter. This was accompanied by mixed signals on the prices front, which is significant given the implications for monetary policy trajectories (*see special report*). As such, worldwide PMI readings will be of interest to study the country-specific trends. Additionally, sector data, due August 4<sup>th</sup>, will offer more specific industry insights, with consumer resilience a key hotspot.

### Americas: US and Canada jobs reports, ISM PMI

Monthly labour market updates from the US will be due Friday with the consensus pointing to sustained solid non-farm payroll additions of around 184k, an unchanged unemployment rate of 3.6% and further wage growth of around 0.3%. This is in line with July's [S&P Global Flash US Composite PMI](#) indications, which suggested that higher salaries were keeping cost pressures on the rise.

### Europe: UK BOE meeting, Eurozone GDP

The Bank of England convenes with a difficult decision to make between falling inflation, as seen via June's official data, and a sustained rise in wage growth. Stubborn upward cost pressure in the service sector were further confirmed with more up-to-date [flash PMI data for July, though the overall pace of inflation looks set to cool further](#). Thus, while the BOE may opt not to lift interest rates by the expected 50 basis-points (bps) going into the meeting, a smaller 25 bps hike is not ruled out. The focus will be on the languages from the presser in terms of whether this will represent a peak.

Besides the final PMI readings, a second quarter eurozone GDP will be released, including national detail for Germany and Italy, as well as eurozone retail sales. In the UK, mortgage approvals will be eagerly awaited.

### Asia-Pacific: RBA, BOT meetings, China PMIs

In APAC, country and sector PMI will be due next week while the attention will also be on central bank meetings in Australia and Thailand. The RBA meeting is likely to be particularly interesting as analysts are divided on the likely decision, albeit with the odds leaning towards a further hike.

## Special reports:

**Flash PMI Signal Further Cooling of Developed World Economic Growth in July** | Chris Williamson | [page 4](#)

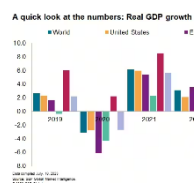
**APAC Merchandise Exports Remain Weak in First Half of 2023** | Rajiv Biswas | [page 8](#)

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

Global	<a href="#">Flash PMI signal further cooling of developed world economic growth in July</a>	25-Jul	Chris Williamson
	<a href="#">Emerging markets perform resiliently in the year-to-date despite growing cyclical headwinds</a>	20-Jul	Joseph Hayes
	<a href="#">Inflation and growth signals: what to watch for in the upcoming July PMI surveys</a>	19-Jul	Chris Williamson
Europe	<a href="#">United Kingdom flash PMI data point to cooler inflation as economy stalls</a>	24-Jul	Chris Williamson
	<a href="#">Eurozone flash PMI signals cooling inflation amid rising recession risks</a>	24-Jul	Chris Williamson
US	<a href="#">Flash US PMI signals growth slowdown but stubborn price pressures at start of third quarter</a>	24-Jul	Chris Williamson
Asia-Pacific	<a href="#">Japan's economic growth sustains in July though price pressures and outlook worsen</a>	24-Jul	Jingyi Pan
	<a href="#">Singapore economic growth weakens in first half of 2023</a>	21-Jul	Rajiv Biswas
Commodities	<a href="#">Weekly Pricing Pulse: The first half of 2023 ends with another week of falling prices</a>	6-Jul	Gregory Muller

## S&P Global Economics & Country Risk highlights

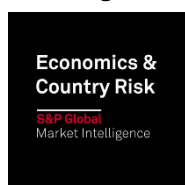
### Persistent headwinds hinder global growth prospects



While S&P Global Market Intelligence's global real GDP growth forecast for 2023 is unchanged at 2.4%, this masks regional divergence. Growth forecasts for 2023 have been revised markedly upward in North America, primarily reflecting the recent resilience of economic activity. In contrast, the forecasts for mainland China and parts of Europe have been revised down.

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

### PMI Insights: Divergent trends in goods and services



Our Purchasing Managers' Index team compiles data for more than 40 economies around the world. In this episode, the economists explore the divergence in the performance of the manufacturing and services sectors in countries including Australia and Greece. They zero in on how this is showing up in labour markets, looking at employment growth and wages.

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

### For further information:

For more information on our products, including economic forecasting and industry research, please visit <https://www.spglobal.com/>. For more information on our PMI business surveys, please visit [here](#).

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Special Focus

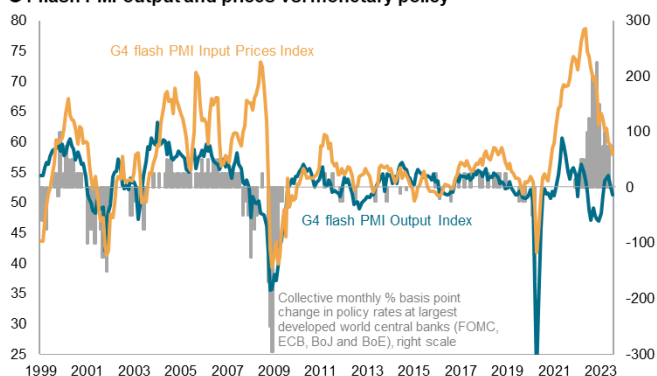
# Flash PMI Signal Further Cooling of Developed World Economic Growth in July

*Economic growth trends generally worsened at the start of the third quarter, according to the flash PMI surveys. US business activity growth slipped to a five-month low, the UK slowed to near-stagnation and the Eurozone fell into a steeper decline. Growth in Japan meanwhile held stuck June's four-month low. In all cases, encouragingly robust growth rates seen earlier in the year are showing signs of faltering as a persistent manufacturing malaise is accompanied by waning demand for services.*

*The flash survey price gauges are meanwhile sending mixed signals, with cooler inflation signaled in Europe but with signs of stickiness in the US around the 3% mark.*

*The extent to which inflation can close the gap from 3% closer to central bank 2% targets will be determined to a degree by labour markets. Resilient jobs growth and labour shortages have kept wage growth elevated in recent months. However, the latest PMI data point to a cooling in demand for staff, which looks set to intensify given a recent deterioration in order books and a sharp decline in business confidence across the G4 economies.*

**G4 flash PMI output and prices vs. monetary policy**



Data compiled July 24, 2023.  
PMI (50 = no change on prior month) covers manufacturing and services in the US, Eurozone, UK and Japan.  
Sources: S&P Global PMI, S&P Global Market Intelligence.  
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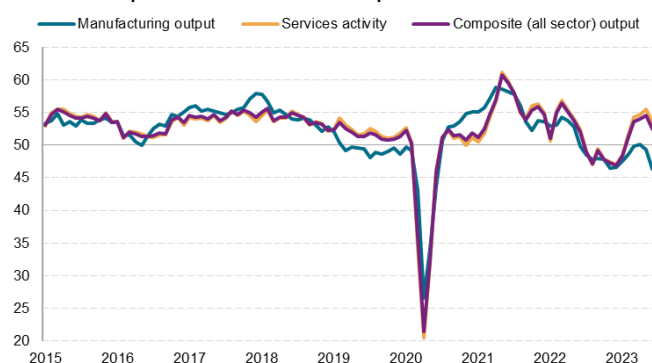
## Economic growth in the major developed economies slides to lowest since February

Business activity across the four largest developed world economies (the "G4") slowed for a second straight month in July, down to its weakest since February, according to the provisional 'flash' PMI data compiled by S&P Global. Although output rose for a sixth successive month in July, the overall expansion was only very modest to hint at a near-stalling of growth and potential downturn in the coming months if the current weakening trajectory persists.

Manufacturing output in the G4 economies contracted for a third consecutive month, and for the thirteenth time in the past 14 months. The rate of factory output decline remained among the sharpest seen since the global financial crisis, albeit easing slightly on June. New orders for goods likewise fell sharply, notably continuing to deteriorate at a steeper rate than output to hint at further production weakness in the coming months as producers face increasingly depleted order books.

The service sector meanwhile continued to lose growth momentum, expanding across the G4 in July at its slowest rate since February. New orders growth slowed especially sharply, pointing to a marked cooling of the resurgence of service sector demand seen earlier in the year.

**Flash PMI output indicators of 'G4' developed economies**

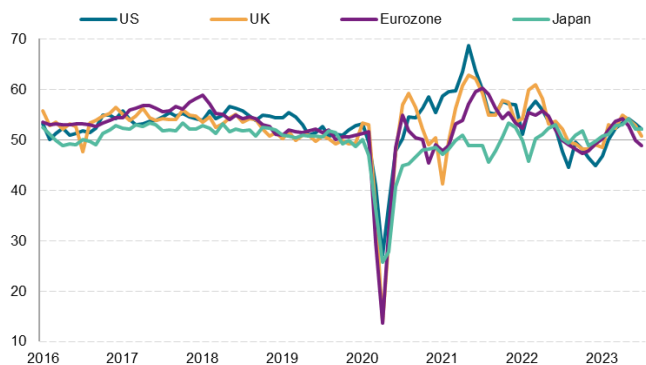


Data compiled July 24, 2023.  
G4 PMI covers the US, Eurozone, UK and Japan. 50 = no change on prior month.  
Sources: S&P Global PMI with HCOB, CIPS and au Jibun Bank.  
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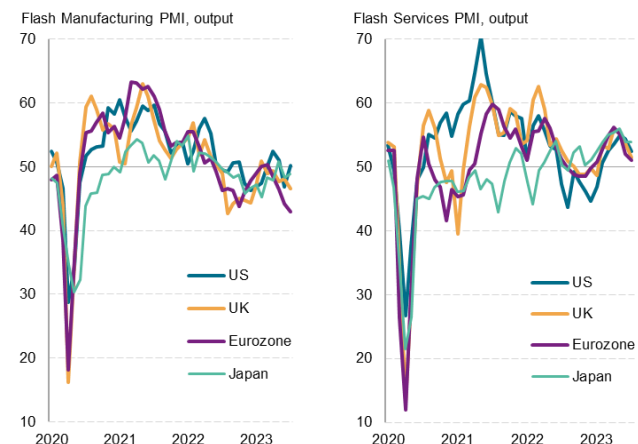
## Europe leads slowdown

Europe saw the steepest deterioration in performance, though growth also slowed in the US and remained subdued in Japan.

**Flash PMI output indicators of 'G4' economies**



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Sources: S&P Global PMI with HCOB, CIPS and au Jibun Bank.  
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Data compiled July 24, 2023.  
PMI 50 = no change on prior month.  
Source: S&P Global Market Intelligence with HCOB, au Jibun Bank, CIPS  
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The eurozone saw output fall for a second month, the contraction gathering pace on the marginal decline recorded in June to register the steepest downturn since last November. The PMI nonetheless signaled a decline commensurate with GDP falling at only a modest 0.1% quarterly rate in July. However, the region saw a steepening loss of new orders and a steep decline in business optimism, boding ill for output growth in the months ahead. Eurozone manufacturing output fell especially sharply and service sector growth came close to stalling amid a renewed decline in new orders.

Business output growth meanwhile came close to stalling in the United Kingdom, registering the smallest gain since the current upturn began in February. The latest composite flash PMI reading is consistent with flat GDP. An increasingly severe manufacturing downturn was accompanied by a near-faltering of service sector growth to a six-month low.

Growth remained more resilient in the United States, though nonetheless weakened sharply to the slowest for five months. The latest flash composite PMI reading is indicative of US GDP growing at a quarterly rate of just under 0.4% (1.5% annualized) in July, down from around 0.5% (2% annualized) in the second quarter. A largely becalmed

manufacturing economy was accompanied by a downshifting of service sector growth to the weakest since February.

Japan was the only G4 economy not to see its output trend worsen, though the rate of expansion merely held at a pace comparable to June's four-month low, down sharply from May. Manufacturing remained in decline and the service sector continued to lose growth momentum.

**Increasingly broad-based deterioration**

The July data therefore point to a continuation of the two broad themes that we identified in June, which are generating an increasingly broad-based deterioration in the pace of growth.

First, manufacturing continues to be hit by a post-pandemic shift in spend, notably from households, away from goods to services. This has been exacerbated by destocking, as companies unwind high inventory levels which had been built up in prior months in response to supply shortage worries. A further factor has been the sluggish economic rebound in mainland China so far this year, which has subdued demand for many goods, especially capital equipment.

Factories across the G4 as a whole are hence reporting that their backlogs of work, which had accumulated in the pandemic, have been depleted in recent months at a rate not seen since the global financial crisis, barring only the initial COVID-19 months, amid a dearth of new order inflows.

Second, the resurgence of growth in the service sectors of the G4 economies appears to be losing steam. While pent-up savings and pent-up post-pandemic demand for holidays and leisure had spurred strong service sector expansions in the spring, these upturns are showing signs of cooling, likely linked to the lagged impact of higher interest rates. The increased cost of living also continued to be widely cited by companies as a dampener on demand.

We will know more about these trends with the release of detailed sector data on 4th August. However, with interest rates widely expected to rise again in the US, Eurozone, UK – and the lagged impact of prior rates set to fully feed through to businesses and households – there are clearly further downside risks to the growth outlook.

**Mixed news on inflation**

While one further rate hike by the FOMC, ECB and Bank of England seem certainties given recent central bank rhetoric, the prospect of further rate hikes has become increasingly uncertain, given the recent PMI developments. However, although the flash PMIs signal a broad-based cooling of growth momentum and, in the case of Europe rising recession risk, news was mixed on price pressures.

In the Eurozone, average selling prices for goods and services rose at the slowest rate for just under two and a half years, led by the steepest drop in manufacturing prices since

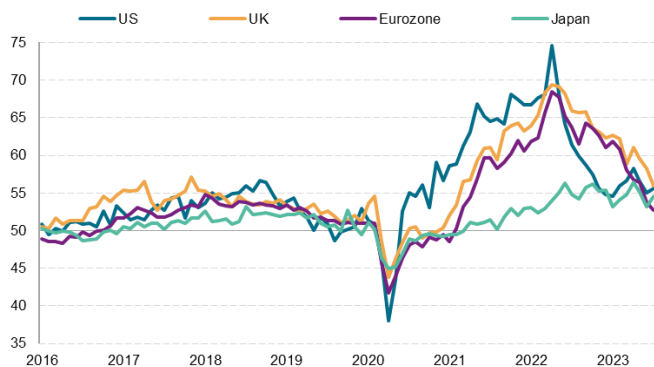
2009 (barring the pandemic). However, eurozone service sector selling price inflation also slowed, down to its lowest since October 2021.

UK selling price inflation meanwhile also sank to its lowest for nearly two-and-a-half years, with falling goods prices accompanied by a slowing in service sector inflation to the weakest since August 2021.

Although both in the Eurozone and UK services inflation remained elevated by historical standards, the survey data point to a further cooling of consumer price inflation in the months ahead to around the 3% mark.

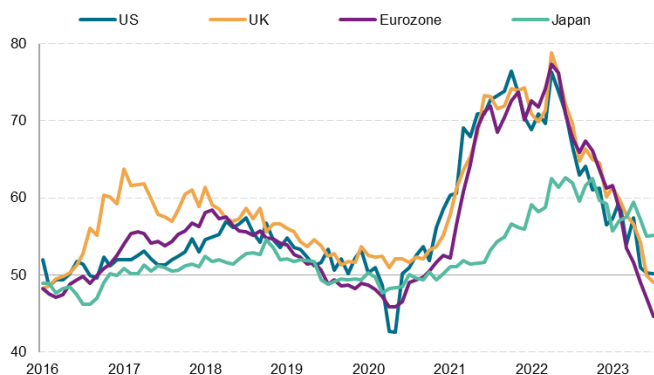
Of greater concern were upticks in selling price inflation in the US and Japan, linked in part to higher oil prices as well as upward pressures from wage growth. While the US survey data brought further encouragement in the form of largely unchanged goods prices, the persistence of stubborn service sector inflation points to consumer price inflation remaining sticky at around the 3% mark in the coming months.

Flash PMI output price indicators of 'G4' economies



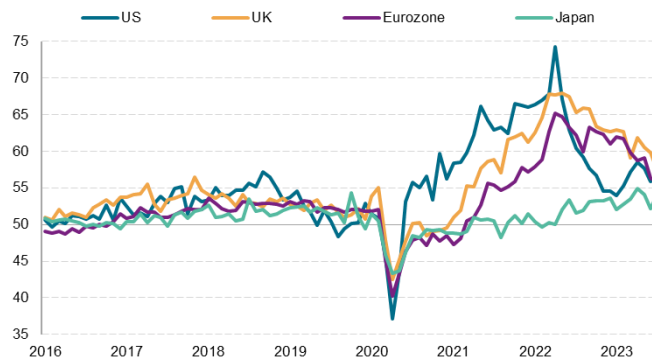
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Source: S&P Global PMI with HCOB, CIPS and au Jibun Bank.  
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Flash manufacturing PMI output prices



Data compiled July 24, 2023.  
PMI 50 = no change on prior month  
Sources: S&P Global Market Intelligence with HCOB (Eurozone), CIPS (UK), au Jibun Bank (Japan).  
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Flash services PMI output prices



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Sources: S&P Global PMI with HCOB (Eurozone), CIPS (UK), au Jibun Bank (Japan).  
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## Labour markets to hold clues to rate paths

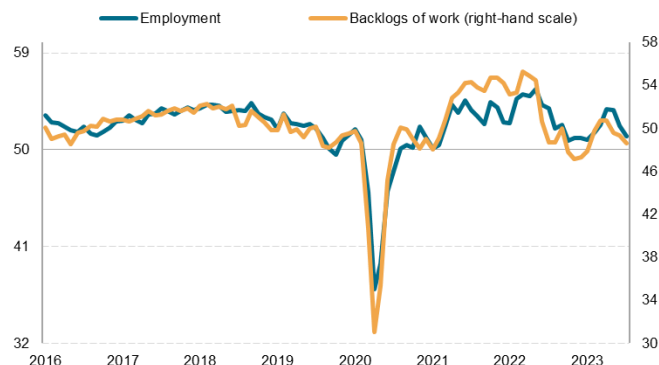
With the stickiness of inflation in the service sector largely linked to wages, the resilience of the labour markets in the major developed economies will likely hold important clues as to the future paths of inflation and central bank policy rates. However, July saw some cooling of the jobs markets.

Across the G4 economies as a whole, employment rose in July at the slowest rate since January, according to the flash PMIs. The overall rise was only modest, reflecting slower rates of net job creation in all four economies. Jobs growth came close to stagnating in Japan, sank to a 29-month low in the Eurozone, a six-month low in the US, and the joint-lowest for four months in the UK.

Moreover, in all four economies, falling levels of backlogs of work hint at further pressure on companies to reduce headcounts in the coming months, absent a revival of demand growth.

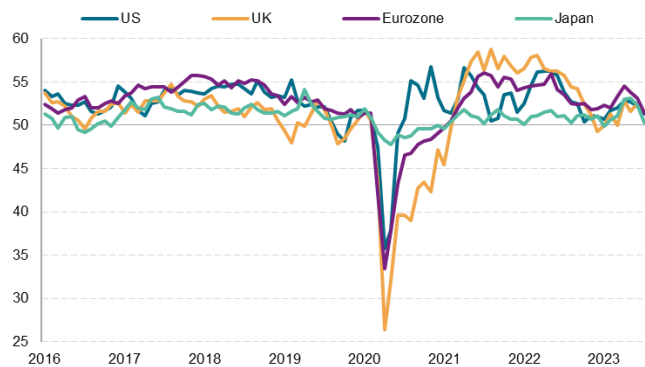
However, such a demand revival is not widely expected: companies' business expectations fell sharply across the G4 in July to the lowest so far this year, suggesting the focus will increasingly shift towards belt-tightening rather than business expansion.

Flash PMI employment and backlogs of work indicators of 'G4' economies



Data compiled July 24, 2023.  
PMI covers manufacturing and services. 50 = no change on prior month.  
Source: S&P Global PMI with HCOB, CIPS and au Jibun Bank.  
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**Flash PMI employment indicators of 'G4' economies**



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Sources: S&P Global PMI with HCOB, CIPS and au Jibun Bank.

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Special Focus

# APAC Merchandise Exports Remain Weak in First Half of 2023

APAC merchandise exports have declined significantly in the first half of 2023, due to weak demand in the US and Western Europe and sluggish economic recovery in mainland China. Latest evidence from S&P Global Purchasing Managers surveys for June also signalled that new export orders have remained weak across many APAC economies in mid-2023, indicating continuing headwinds in the second half of 2023 for APAC merchandise exports.

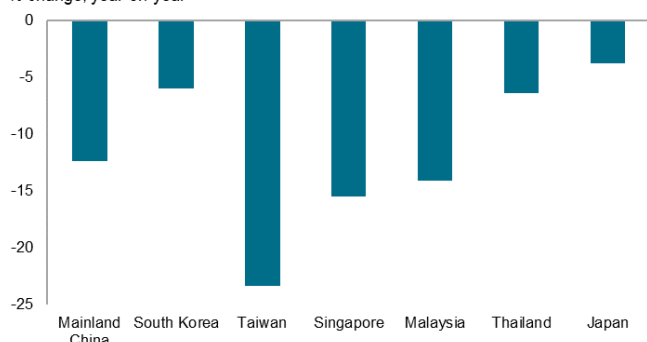
However, the gradual recovery of international tourism in the APAC region is resulting in improving service sector exports for economies such as Thailand, Malaysia and Singapore, helping to mitigate the negative impact of weak goods exports.

## APAC exports have slumped in the first half of 2023

The slump in APAC merchandise exports during the first half of 2023 reflects weak economic growth in the US and Western Europe, as well as sluggish recovery in domestic demand in mainland China.

### East Asian exports, June 2023

% change, year-on-year



Source: S&P Global Market Intelligence.  
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The downturn in global electronics orders has been a significant factor that has hit APAC exports. Electronics manufacturing is a significant part of manufacturing exports for many APAC industrial economies, including Japan, mainland China, South Korea, Malaysia, Singapore, Taiwan, Vietnam, Thailand and Philippines.

Manufacturing export orders in the G4 economies of the US, Eurozone, UK and Japan have continued to show contraction throughout the first seven months of 2023, according to latest PMI survey evidence.

### G4 Manufacturing new export orders

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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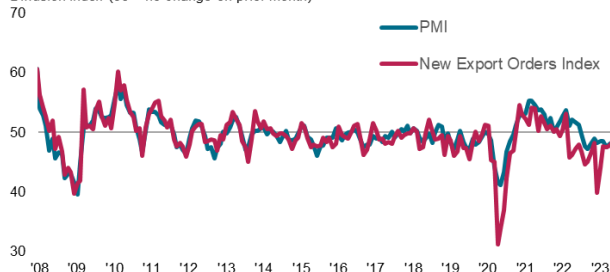
According to latest trade data from South Korea's Ministry of Trade, Industry and Energy, South Korea's merchandise exports showed a contraction of 6% year-on-year (y/y) in June 2023. For the first half of 2023, South Korean exports fell by 12.3% y/y. Exports of semiconductors fell by 28% y/y in June, reflecting weakening global demand for consumer electronics as well as falling NAND and DRAM prices, while exports of displays were down by 15.6% y/y. Petrochemicals exports also declined significantly, contracting by 22% y/y. However, auto exports were buoyant, rising by 58% y/y in June.

With the moderate pace of recovery continuing to constrain domestic demand in mainland China, total South Korean merchandise exports to that key market fell by 19% y/y in June. South Korean exports to ASEAN fell by 13.9% y/y in June, hit by impact of the slump in Vietnam's electronics exports on South Korean manufacturing supply chains. This indicated the important role of South Korean electronics firms in electronics and electrical goods manufacturing in Vietnam, with large-scale imports of electronics and electrical components from South Korea.

Reflecting the continued weakness of South Korean manufacturing exports, the seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI) dropped from 48.4 in May to 47.8 in June.

### S&P Global South Korea manufacturing PMI and new export orders

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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Mainland China's merchandise exports also recorded a large decline in June, falling by 12.4% y/y, reflecting weakness in



the key US and EU markets. Mainland China's exports to the US fell by 23.7% y/y in June measured in USD terms, while exports to the EU fell by 12.9% y/y. Mainland China's exports to ASEAN also fell sharply, declining by 16.9% y/y in June.

In Singapore, non-oil domestic exports fell by 15.5% y/y in June, with electronic exports declining by 15.9% y/y. Pharmaceuticals exports fell by 29.5% y/y, while petrochemicals exports contracted by 34% y/y.

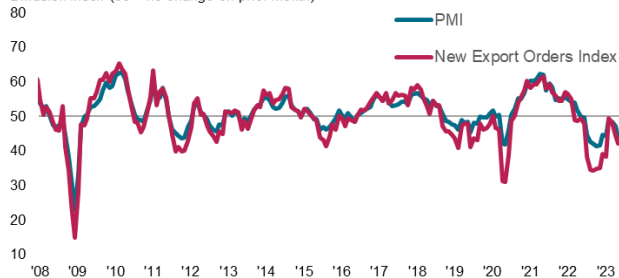
Strong exports were a key driver of Taiwan's rapid economic growth during 2021 and the first half of 2022. However, exports have weakened sharply since mid-2022. In the first six months of 2023, Taiwan's merchandise exports fell by 18% y/y, with exports in the month of June declining by 23.4% y/y. Total exports to mainland China and Hong Kong SAR were down by 26% y/y in the first half of 2023, with a decline of 22% y/y in the month of June. Mainland China and Hong Kong SAR together accounted for 37% of Taiwan's total exports.

The S&P Global Taiwan Manufacturing Purchasing Managers' Index (PMI) registered at 44.8 in June, similar to May's reading of 44.3, well below the neutral mark of 50.0. The reading remained consistent with very contractionary business conditions. The headline index has now posted in negative territory for just over a year. The latest PMI survey results showed that production at Taiwanese manufacturing firms fell for the fifteenth month in a row in June, and at a rapid pace. Companies frequently mentioned cutting output volumes due to a drop in sales.

The weakness of Taiwan's manufacturing sector was also reflected in Taiwan's Industrial Production Index for June, which fell by 16.6% y/y, with the manufacturing production index down by 17.2% y/y.

#### S&P Global Taiwan manufacturing PMI and new export orders

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



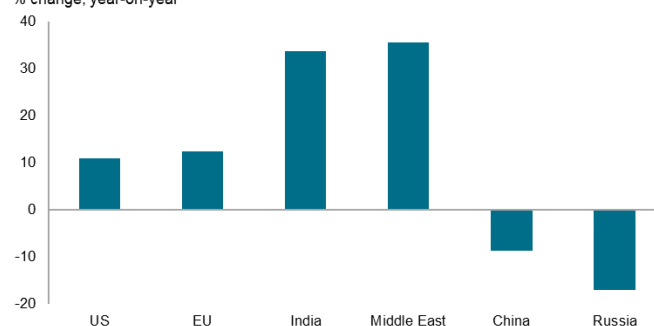
Source: S&P Global Market Intelligence, S&P Global PMI surveys  
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In contrast to other North-east Asian economies, Japan's merchandise exports in yen value terms have been relatively resilient during the first half of 2023, increasing by 3.1% y/y and rising by 1.5% y/y in the month of June. However, when measured in USD terms, June exports showed a small decline of 3.8% y/y. Japan's relatively resilient export

performance was helped by strong exports to the US, which rose by 11% y/y in the first half of 2023 in yen value terms. Exports to the US were buoyed a large rise in exports of autos, which increased by 36% y/y in the first half of 2023 in yen value and by 12% y/y in quantity terms. Japanese exports in yen value terms have been helped by the sharp depreciation of the Japanese yen against the USD since January 2022. The yen has declined from JPY 115 per USD on 1st January 2022 to JPY 140 per USD by 26th July 2023.

#### Japan's exports in H1 2023

% change, year-on-year



Source: S&P Global Market Intelligence.  
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Japan's exports to the EU in the first half of 2023 also showed strong growth in value terms, rising by 12.5% y/y, and remaining strong in June, with an increase of 15.0% y/y. Exports to the Middle East have also been buoyant, up by 35.6% y/y in the first half of 2023 and up by 30% y/y in June. However, the strong export growth to these markets was offset by weakness in APAC markets, with Japanese exports to mainland China down by 8.6% y/y in the first half of 2023 and declining by 11% y/y in June. Exports to South Korea fell by 6.1% y/y in the first half of 2023, while exports to Taiwan fell by 10.2% y/y. However, exports to India surged, rising by 33.7% y/y.

Amongst APAC commodity exporting nations, Malaysia had recorded rapid export growth in 2022, with merchandise 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 Malaysian goods export growth has weakened, reflecting base year effects as well as the economic slowdown in key markets, notably the US and EU. For the first half of 2023, goods exports fell by 4.5% y/y, with exports of agricultural goods down by 25% y/y due to lower exports of palm oil products. In June, goods exports fell by 14.1% y/y.

As mainland China is Malaysia's largest export market, accounting for 15.5% of total exports, the weak recovery in

China has constrained exports, with Malaysian exports to China down by 8.8% y/y in the first half of 2023. Exports to the US were more resilient during the first half of 2023, down only 2.2% y/y, helped by robust exports of electrical and electronic goods.

After strong growth in 2022, Indonesian exports have fallen sharply in recent months, with June exports down by 21% y/y. Reflecting lower global oil and gas prices, exports of oil and gas fell by 18.7% y/y. However other non-oil and gas exports also fell sharply, down by 21.3% y/y.

## Electronics sector downturn

The downturn in global electronics demand since mid-2022 has increasingly been impacting on APAC electronics exports, which are an important part of manufacturing exports for many APAC industrial economies.

S&P Global survey data indicates that the global electronics manufacturing industry is continuing to face headwinds from the weak pace of global economic growth. The headline seasonally adjusted S&P Global Electronics PMI posted 47.6 in June, down slightly from 47.9 in May to signal continued contraction in the global electronics sector.

Weakening global economic growth momentum has impacted on consumer demand for electronics, with soft demand in mainland China also contributing to weak new orders for electronics in many APAC economies.

### S&P Global Electronics PMI

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



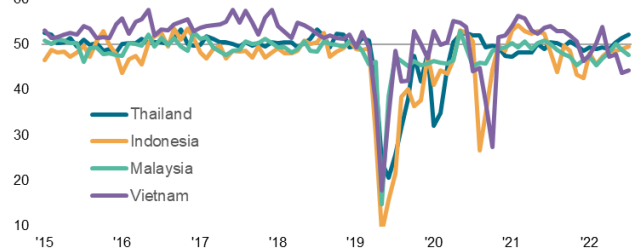
Source: S&P Global Market Intelligence, S&P Global PMI surveys  
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## APAC export outlook

Latest PMI surveys for G4 advanced economies as well as APAC economies in mid-2023 continue to indicate weak manufacturing orders, signalling continued headwinds for manufacturing exports in the near-term. In South Korea and Taiwan, export orders have been soft in recent months, particularly due to weak demand conditions for global electronics as well as chemicals.

### ASEAN manufacturing new export orders

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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However, some improvement in the electronics cycle could evolve during the second half of 2023 and early 2024, due to declining inventories of chips held by manufacturers as well as the rollout of new smartphone models for Christmas season sales in North America and Western Europe.

Furthermore, a mitigating factor to the downturn in merchandise exports is that service sector exports have been improving during the first half of 2023, notably in some APAC economies that have traditionally had large international tourism revenue prior to the COVID-19 pandemic. The reopening of international borders in many APAC countries during 2022 had already allowed a gradual restart of international tourism during the second half of 2022, but momentum has been building significantly during the first half of 2023.

Despite near term headwinds, the medium-term outlook for APAC exports remains favourable. An important support for APAC export growth will be rapid growth in intra-APAC trade, buoyed by rapidly rising consumer markets in large Asian emerging markets, including India, Indonesia, Vietnam and Philippines.

The medium-term prospects are also expected to be favourable for APAC electronics exports. 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.

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