PMI™ by S&P Global

Week Ahead Economic Preview

US core PCE, Eurozone inflation and China PMIs to watch

22 September 2023

A series of economic releases will be the highlight in the coming week ahead of worldwide manufacturing and services PMI updates at the start of October. Noteworthy indicators to watch in the coming week includes US core PCE and eurozone inflation readings for the latest inflation updates in these major developed economies. Final Q2 GDP readings from the US and UK will also be due while tier-2 data such as personal income and durable goods orders figures from the US will also be closely monitored. Ahead of the Golden Week holidays in mainland China, both NBS and Caixin PMIs will also provide insights into September business conditions.

The risk of higher-for-longer rates have risen in importance as a concern for market participants this week following the September Federal Open Market Committee (FOMC) meeting whereby Fed officials were found to anticipate less easing in 2024 than the market consensus. This was followed by the September flash US PMI which revealed that the US economy was close to near stagnation at the end of the third quarter, reflecting the impact from past rate hikes, though selling price inflation stayed historically elevated to support tighter-for-longer financial conditions. Against such a backdrop, the importance of data in guiding monetary policy is now more so than ever, and next week's core PCE, personal income, spending and durable goods data will provide further official confirmation of the US inflation and growth trends.

In Europe, September flash inflation reading from the eurozone will be highly watched given the European Central Bank's (ECB) hawkish remarks. While the latest PMI price data suggest further easing of inflation is expected, arriving at the 2% target level is still not guaranteed at the moment *(see box)*. UK Q2 GDP will also be updated again next week.

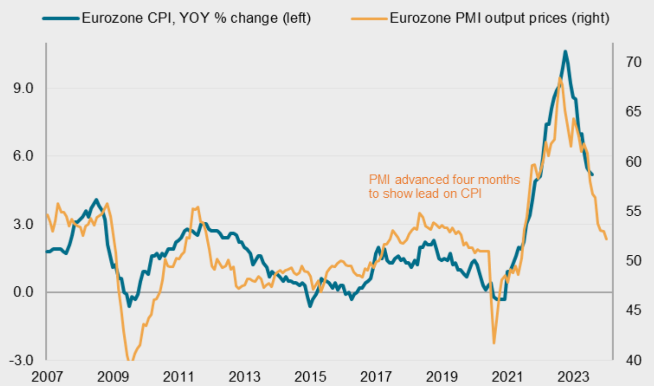
Finally in APAC, no surprises are expected at the Bank of Thailand meeting, but the mainland China PMI data due at the end of the week remain anybody's guess at this point. August's data showed further slowing of growth momentum in the mainland Chinese economy while business expectations for the year ahead also lowered, signalling added downside risks.

Eurozone September inflation data

The latest HCOB Flash Eurozone PMI indicated that output, covering both manufacturing and services, posted below the 50.0 neutral point for a fourth straight month in September. This signalled continued contraction for the eurozone through the third quarter, though perhaps not a surprise for this developed world economy given the trend we have observed for backlogs *(see special report)*.

Despite the ongoing slowdown, however, inflation remains key for central bankers with ECB policymakers highlighting the fact that inflation is still too high even after easing in recent months. As such, we look to the flash HICP data for September to get an official confirmation of price conditions at the end of Q3. As far as PMI price indices data, which preludes the trend for official inflation, have signalled, CPI is expected to further fall in the coming months including during September.

Eurozone inflation



Data compiled September 22, 2023, with September flash PMI data.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month, covers manufacturing and services.
Source: S&P Global PMI with HCOB, Eurostat via S&P Global Market Intelligence.

However, while selling price inflation offers some hopes that we will see headline CPI head more credibly towards the 2.0% target, input prices have risen at a faster rate in September. In fact, input cost inflation was found at the highest in four months, attributed in part to higher energy prices. While it remains to be seen whether added cost pressures may translate to higher selling prices or if businesses will grow more reserved in sharing cost burdens with their clients in a bid to retain and attract customers in the current climate. There is a degree of uncertainty over how long the ECB may keep rates elevated as has been the case with the Fed this week.

Key diary events

Monday 25 Sep
Singapore CPI (Aug)
Germany Ifo Business Climate (Sep)

Tuesday 26 Sep
South Korea Consumer Confidence (Sep)
Thailand Trade (Aug)
Singapore Industrial Production (Aug)
Hong Kong Trade (Aug)
United States S&P/Case-Shiller Home Price (Jul)
United States CB Consumer Confidence (Sep)
United States New Home Sales (Aug)

Wednesday 27 Sep
South Korea Business Confidence (Sep)
Japan BOJ Meeting Minutes
China (Mainland) Industrial Profits (Aug)
Taiwan Consumer Confidence (Sep)
Germany GfK Consumer Confidence (Oct)
Thailand BOT Interest Rate Decision
United States Durable Goods Orders (Aug)

Thursday 28 Sep
South Korea, Indonesia, Malaysia Market Holiday
Australia Retail Sales (Aug, prelim)
Thailand Industrial Production (Aug)
Eurozone Economic Sentiment (Sep)
Eurozone Consumer Confidence (Sep, final)
Germany Inflation (Sep, prelim)
United States GDP (Q2, final)
United States Pending Home Sales (Aug)

Friday 29 Sep
China (Mainland), South Korea, Taiwan, Market Holiday
Japan Unemployment Rate (Aug)
Japan Industrial Production, Retail Sales (Aug)
Japan Consumer Confidence (Sep)
Singapore PPI (Aug)
Germany Retail Sales (Aug)
United Kingdom GDP (Q2, final)
United Kingdom Nationwide Housing Prices (Sep)
France Inflation (Sep, prelim)
Thailand Current Account (Aug)
Turkey Trade (Aug, final)
Germany Unemployment Rate (Sep)
Hong Kong SAR Retail Sales (Aug)
United Kingdom Mortgage Lending and Approval (Aug)
Eurozone Inflation (Sep, flash)
Italy Inflation (Sep, prelim)
South Africa Trade (Aug)
Canada GDP (Aug, prelim)
United Core PCE (Aug)
United States Personal Income and Spending (Aug)
United States Wholesale Inventories (Aug, adv)
United States UoM Sentiment (Sep, final)
United States Goods Trade Balance (Aug, adv)

* Access press releases of indices produced by S&P Global and relevant sponsors here.

What to watch

Americas: US Q2 GDP, core PCE, personal income and spending, durable goods orders, consumer confidence

Following the Fed FOMC meeting this week where the emphasis remained upon data in guiding the Fed's interest rate path forward, especially with regards to the duration in which rates may stay elevated, we look to a series of data releases from the US including the final Q2 GDP reading and the Fed's favourite inflation gauge, the core PCE figure.

Consensus expectations currently point to the core PCE index to stay unchanged in August at 0.2% month-on-month (m/m), though earlier core CPI release did reveal slightly higher than expected reading at 0.3% m/m in line with PMI indications.

Meanwhile the personal income and spending reading will be of interest especially following the latest flash US PMI release which revealed that further weakness with regards to growth ensued at the end of the third quarter.

EMEA: Eurozone inflation, economic sentiment, German inflation, retail sales, Ifo business climate, UK Q2 GDP

September inflation reading from the eurozone will be the key release from the region in the coming week with forecasters looking for headline CPI to stay near unchanged from August's reading while the core reading may moderate slightly. This comes after the HCOB Flash Eurozone PMI release, which preludes the trend for the official inflation reading, showed further moderation of selling price inflation.

APAC: BOT meeting, China PMI releases, Japan industrial production and retail sales, Singapore inflation data

In APAC, the Bank of Thailand convenes in the coming week, though no changes to monetary policy settings are expected. A series of economic releases including Japan's industrial production and retail sales will also be scrutinised, though China PMI releases over the weekend are likely to be the highlights. NBS PMI data and Caixin PMI figures will be due Saturday and Sunday respectively ahead of the golden week holidays. The focus will be how mainland China's output conditions evolved at the end of the third quarter given the focus on growth.

Special reports:

Backlogs of Work Hint at Further Global Economic Weakness, but Also Lower Inflation | Chris Williamson | page 4

Prospects and Hurdles: Mexican Manufacturers on Nearshoring Horizon | Pollyanna De Lima | page 7

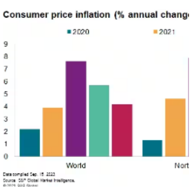
Singapore Economy Continues to be Hit by Slumping Exports | Rajiv Biswas | page 10

Recent PMI and economic analysis from S&P Global

Global	PMI as a tool for sector rotation investment strategies	15-Sep	Joseph Hayes
	Emerging markets PMI signals encouraging resilience in August	14-Sep	Jingyi Pan
	Monthly PMI Bulletin: September 2023	8-Sep	Jingyi Pan
	Modest deterioration in global trade conditions persists in August	8-Sep	Jingyi Pan
	Renewed fall in demand for consumer services bodes ill for growth but will pull inflation lower	8-Sep	Chris Williamson
	Global PMI data hint at stubborn inflation amid resilient pricing power for consumer services	7-Sep	Chris Williamson
	Developed world jobs growth cools further in August as emerging market hiring accelerates	7-Sep	Chris Williamson
EMEA	Eurozone flash PMI fuels further downturn worries as demand weakness intensifies	22-Sep	Chris Williamson
	Flash PMI signals deepening UK economic downturn in September	22-Sep	Chris Williamson
US	US flash PMI points to slowing economy expansion amid stubborn price pressures	22-Sep	Chris Williamson
Asia-Pacific	Japan's growth momentum and inflation pressures ease in September	22-Sep	Jingyi Pan
	Vietnam strengthens economic ties with US during President Biden's visit	15-Sep	Rajiv Biswas
Commodities	Weekly Pricing Pulse: Commodities up as supply concerns grow	24-Aug	Michael Dall

S&P Global Market Intelligence highlights

The outlook for inflation? It's sticky



The near-term outlook for inflation has deteriorated. S&P Global Market Intelligence's September forecasts for global consumer price inflation have been revised higher in both 2023 and 2024. Sticky core inflation rates, particularly for services, are a prime concern given generally tight labor market conditions and elevated wage and unit labor cost growth.

Click here to read our research and analysis

PMI Insights: Extreme weather impact

2023 has delivered some extreme weather, from extreme heat in Southern Europe to a dry spell that affected crop yields in Southeast Asia and Australia, often with tragic human consequences. Extreme weather events like droughts and floods also present risks to economies and supply chains.

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**.

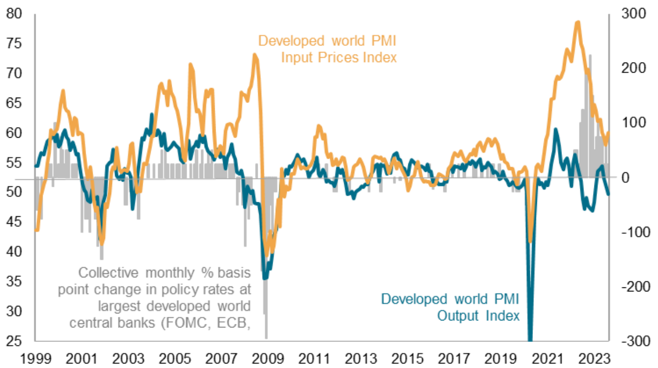
Special Focus

Backlogs of Work Hint at Further Global Economic Weakness, but Also Lower Inflation

As policymakers stress the need for further insights into developing economic trends, awaiting to learn the lagged impact of prior interest rate hikes, the coming week's timely flash PMI survey data should provide useful guidance on economic growth and inflation.

In this article we review the latest PMI signals and seek to assess what a key indicator, the PMI's backlogs of work index, tells us about the likely further path of the world's major economies.

Developed world PMI output and prices vs. monetary policy



Data compiled September 6, 2023.
PMI (50 = no change on prior month) covers manufacturing and services.
Sources: S&P Global PMI, S&P Global Market Intelligence.
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Data dependence amid uncertainty

Upcoming flash PMI data for the major developed economies will be especially closely watched by markets, given the widely cited 'data dependence' of the US Federal Open Market Committee (FOMC), European Central Bank (ECB) and Bank of England (BOE). All three central banks have made it clear that they are unsure of the near-term paths for growth and inflation, and hence the necessity of further rate hikes, and have underscored how their upcoming decisions will be swayed by the data flow.

To recap on the latest policy stance, the FOMC is widely expected to hold rates at its September meeting waiting for more news on the economy prior to likely hiking again in November. The Bank of England is meanwhile forecast to hike for a fifteenth successive time at its September meeting on Thursday, though may then sit on its hands to await more news, especially on stubbornly higher wage growth. The ECB has already hiked in September, for a tenth time, but hinted this may be its last. Alas, some of the ECB's more hawkish policymakers have already stressed that a December hike may be needed.

While it would be odd to think that a policymaker wouldn't always be data dependent to some extent, there's clearly an unusual amount of uncertainty around at the moment.

The upcoming PMI data should therefore help guide near-term policy, especially as the surveys are often referred to by policymakers, both in their assessments of global economic conditions and narrower national or regional trends.

Stagflation?

Worryingly, the latest signals have been hinting at the worst possible scenario for policymakers: stagflation. This unwelcome combination of stubborn inflation and no growth means that any further tightening of monetary policy adds to already-elevated recession risks.

To bring ourselves back up to speed on the latest PMIs, the surveys showed global economic growth slowing for a third successive month in August. The headline global PMI slipped to its lowest since the current global economic upturn began in February and signals annualized worldwide GDP growth of only around 1%. That compares dismally with a pre-pandemic average of 3%.

The PMI for the developed world was especially disappointing, falling into contraction territory for the first time in seven months in August, led by a third month of falling output in the Eurozone and a renewed decline in the UK. The US also came close to stalling, leaving Japan as the only major developed economy sustaining a robust expansion.

This regional divergence can of course be at least in part explained by the fact that Japan has not seen the policy tightening, nor cost-of-living crises, that Europe and the US have witnessed recently. Note that in the US and Europe, a key development in recent months has been the faltering of this year's recent revival of service sector growth. Previously-fast-growing consumer services and financial services sectors, which had enjoyed a post-pandemic growth spurt, are now seeing falling demand, often attributed to higher interest rates.

Manufacturing meanwhile remains in the doldrums, with output falling globally for a third month running in August. Although only modest, the current rate of production decline looks set to accelerate as demand – as measured by new orders inflows – is falling at a faster rate than production.

These weak demand conditions filtered through to a near-stalling of jobs growth in the developed world. This represents a major contrast to the strong job gains seen throughout much of the two and a half years prior to the summer.

The global PMI selling price index meanwhile fell from 53.7 in July to 53.4 in August, its joint-lowest since December 2020. The overall rate of inflation nevertheless remained elevated by pre-pandemic standards due to some bottoming-out of manufacturing prices, higher oil prices and stubborn wage-led service sector price gains.

As to what comes next, there are some PMI sub-indices which can give some clues as to future performance. One, in particular, the Backlogs of Work Index, is showing some interesting signals.

Backlogs of work hint at near-term risks to the downside

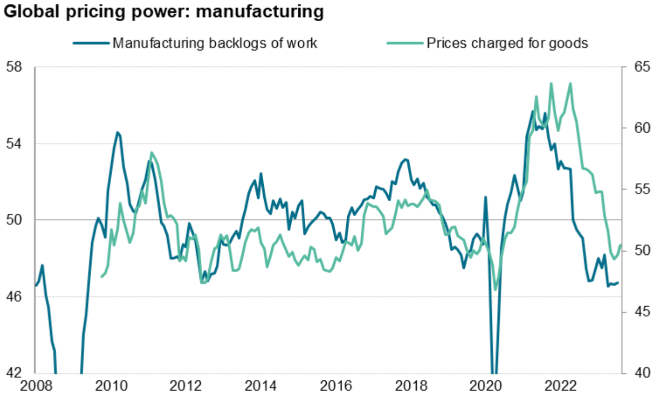
The PMI's Backlogs of Work Index measures the amount of orders that companies have received but have yet to work through. This pipeline, or stock, of work is a key gauge of how busy companies are likely to be in the coming months, absent any major changes in new order inflows. It is also a good guide to capacity utilization. If backlogs are rising, companies will generally expand their activity levels in the months ahead to meet these unfulfilled orders, increasing output and also often raising employment. Conversely, falling backlogs mean that companies may become worried that they are running out of work, and will hence moderate their output and even cut workforce numbers.

One other valuable application of the Backlogs of Work Index is therefore in also signaling pricing power: if backlogs are rising, it means firms are likely to be able to change more for their goods and services (as demand is exceeding supply), and vice versa when backlogs are falling.

So what are backlogs of work telling us at the moment?

Unfortunately, backlogs of work fell across the developed markets at a rate not seen for 14 years in August if the early lockdown months of 2020 are excluded.

Global pricing power: manufacturing



Data compiled September 2023 including PMI data to August 2023.
PMI index value of 50 = no change on prior month, covers manufacturing and services.
Source: S: S&P Global PMI with J.P. Morgan.
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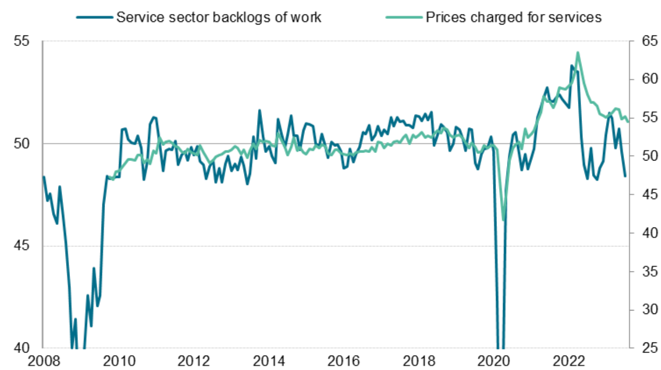
In manufacturing, backlogs of work in fact fell worldwide for a fourteenth consecutive month in August, reversing the unprecedented buildup of unfulfilled seen during the height of the pandemic. Improved supply chains have facilitated the manufacture of a broad variety of items after the constraints and shortages seen during COVID-19 lockdowns. However, with new order inflows for goods having likewise now fallen for 14 straight months, these backlogs are being rapidly depleted.

In the service sector, the pandemic trend has been different. Backlogs have tended to accumulate after the lockdown or containment measures were relaxed. One such period has been in early 2023, following the removal of restrictions by China. The resulting global surge in demand for services such as travel and tourism often meant companies could not meet the influx of orders resulting in backlogs. These backlogs peaked globally this year in March, and are now falling again, dropping in August at the fastest rate since last November. Exclude the pandemic months, and global service sector backlogs of work have not been falling this fast since 2012.

Global pricing power: service sector



Data compiled September 2023 including PMI data to August 2023.
PMI index value of 50 = no change on prior month, covers manufacturing and services.
Source: S: S&P Global PMI with J.P. Morgan.
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In both manufacturing and services, the recent declines in backlogs of work have been especially marked in the developed world.

Continued…

Outlook

Looking ahead, therefore, the steep reduction in developed world companies' backlogs of work hints at further downside risks to output, and also to employment. These pressures will add to recession risks. However, at the same time, the fall in backlogs of work signals reduced pricing power, meaning inflation may prove less sticky than many are currently fearing.

Hence, stagflation may be avoided, but the suggestion from the PMI data is merely that inflation pressures are cooling at the cost of a possible recession.

Access the global PMI press release here.

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Special Focus

Prospects and Hurdles: Mexican Manufacturers on Nearshoring Horizon

Nearshoring has become increasingly popular in recent years, particularly after the unprecedented disruptions to supply chains following the COVID-19 pandemic and the war in Ukraine. Mexico provides several nearshoring benefits including its proximity to the US, a well-developed infrastructure and a cost-effective labour pool. Mexico offers a large workforce of skilled professionals with a cost advantage over the United States, it has useful transport connections, investment incentives and a large number of trade agreements which can simplify trade and business operations for firms operating in North America.

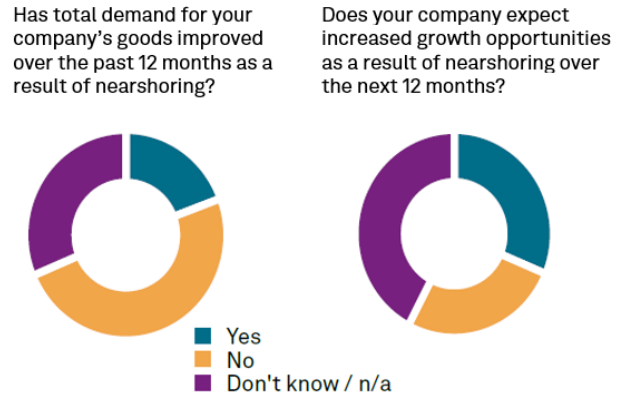
The S&P Global Mexico Manufacturing PMI™ panel includes around 350 manufacturers in Mexico, which were invited to take part in a special nearshoring survey in July 2023. Firms offered their insights surrounding the impact of nearshoring on order books, their expectations for the year ahead and anticipated challenges. This report also analyses the results by detailed sector, region and company workforce size.

Close to one-third of manufacturers forecast growth opportunities as a result of nearshoring

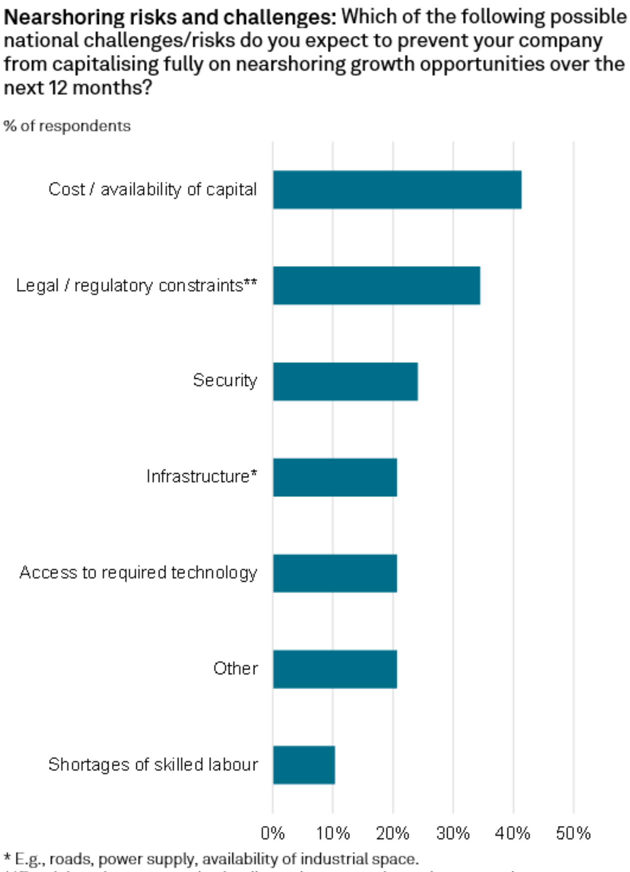
Nearshoring is defined as the practice of relocating suppliers closer to the domestic market. Interest in nearshoring, and reshoring (where supply is relocated to the domestic market), has increased since the pandemic in response to the widespread disruption of supply chains across international borders, and notably from Asia to the West.

Around one-fifth of Mexican manufacturing PMI respondents stated that total demand (domestic and exports) for their goods had improved in the 12 months to July as a result of nearshoring, with an even higher proportion (31%) of firms forecasting growth opportunities in the year ahead.

Nevertheless, Mexican manufacturers identified several challenges or risks likely to prevent their company from fully capitalising on nearshoring-related growth opportunities. The top concern among businesses was the cost and availability of capital (41% of firms), followed by legal and regulatory obstacles surrounding labour laws, intellectual property, data privacy and taxation (34%). Security came third, while labour shortages was only seen as a risk factor by one-in-ten respondents.



Source: S&P Global PMI



* E.g., roads, power supply, availability of industrial space.
**E.g., labour laws, protecting intellectual property, data privacy, taxation.

Source: S&P Global PMI

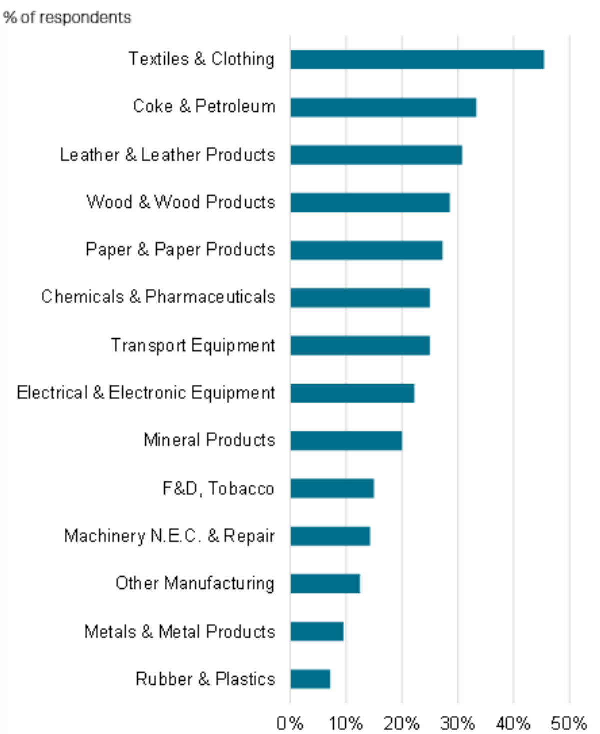
Textiles & Clothing firms experience greatest gain in new orders due to nearshoring

Of the 14 broad areas of the manufacturing industry, Textiles & Clothing recorded the largest proportion of firms (45%) signalling sales growth over the past 12 months as a result of nearshoring. Firms in the Coke & Petroleum and Leather & Leather Products sectors also experienced positive sales developments in the past 12 months, with 33% and 31% respectively noting increases.

One-quarter of all companies in the Transport & Equipment sector — which includes manufacturers of motor vehicles, railway, aircraft and motorcycles — attributed higher domestic and international sales in the past 12 months to nearshoring. At the bottom of the 'current demand' sub-sector rankings were Metals & Metal Products (10%) and Rubber & Plastics (7%).

The Coke & Petroleum segment saw the largest proportion of companies expecting growth opportunities in the year ahead (67%). Electrical & Electronic Equipment came second (56%), followed by Chemicals & Pharmaceuticals (39%). Concurrently, exactly 30% of Transport & Equipment firms were optimistic about growth opportunities. Leather & Leather Products came sixth (31%) and Textiles & Clothing tenth in the rankings (27%). Lowest ranked in the 'growth opportunities' hierarchy were Wood & Wood Products (14%) and Other Manufacturing (13%).

Nearshoring - sector breakdown: Has total demand for your company's goods improved over the past 12 months as a result of nearshoring?



Source: S&P Global PMI

Large firms set to benefit the most from nearshoring

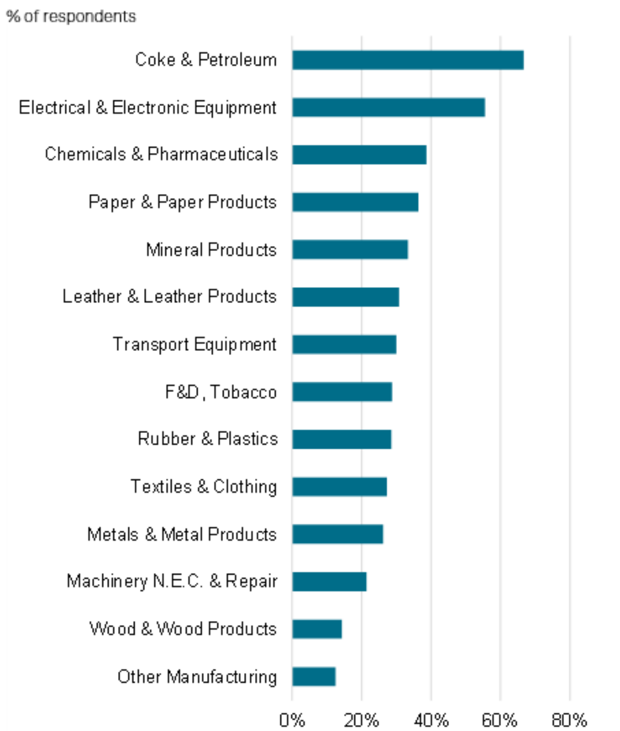
Exactly one-quarter of all large companies indicated that demand for their products had improved over the past 12 months due to nearshoring, while 44% foresee growth in the year ahead.

By comparison, only 8% of small-sized manufacturers linked sales growth in the 12 months to July to nearshoring. That said, 25% expect to benefit in the coming year.

When listing potential challenges, firms were most concerned about the cost and availability of capital. Additional qualitative evidence highlighted worries surrounding Chinese imports and challenges for local firms to price competitively.

With respect to medium-sized firms, around 26% of panellists suggested that their order books improved on account of nearshoring. Moreover, 30% forecast further opportunities in 12 months' time. The top concern in this group was legal and regulatory constraints.

Nearshoring - sector breakdown: Does your company expect increased growth opportunities as a result of nearshoring over the next 12 months?



Source: S&P Global PMI

Gulf Coast and Northern Mexico top the rankings for demand growth over last year owing to nearshoring

Breaking down the data by geographical regions, the largest proportion of manufacturers reporting demand growth as a result of nearshoring was located in the Gulf Coast (Nuevo León, San Luis Potosí, Tamaulipas and Veracruz). While 30% of firms had already experienced an upturn, 40% foresee opportunities over the course of the coming 12 months.

The North of Mexico (Baja California, Baja California Sur, Chihuahua, Coahuila, Durango, Sinaloa and Sonora) had the second-best outcome, with one-quarter of participants to the PMI survey attributing sales growth in the past 12 months in part to nearshoring and 32% signalling upbeat projections for the year ahead.

Circa 19% of panellists in the West region (Aguascalientes, Colima, Guanajuato, Guerrero, Jalisco, Michoacán, Nayarit, Oaxaca, Zacatecas) saw new order growth in the 12 months to July thanks to nearshoring, with 29% expecting to benefit from it in the coming year.

The lowest proportions of companies reporting higher sales volumes as a result of nearshoring were found in the East (7%) and Mexico City (17%). Nevertheless, a healthy percentage of firms in these areas anticipate growth opportunities in the year ahead (29% and 31% respectively).

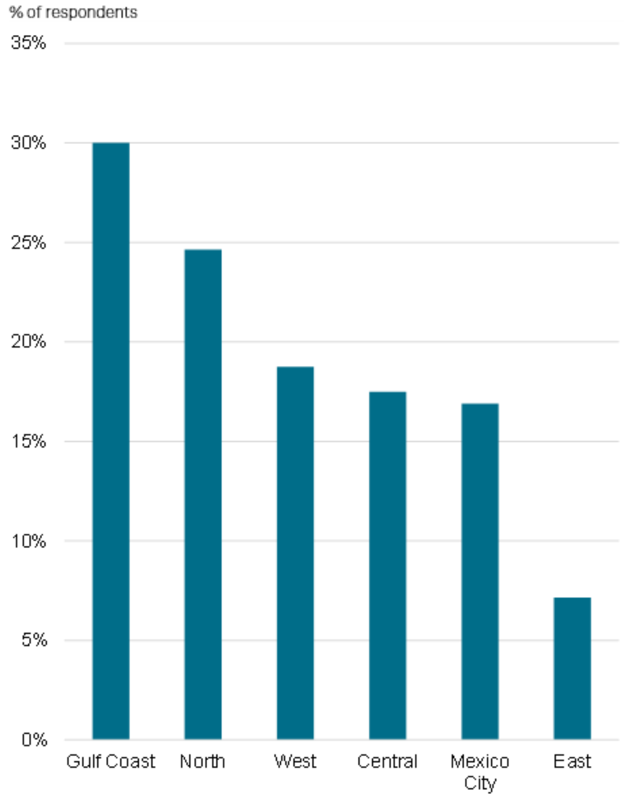
Summary

The results from the PMI survey are encouraging and validate favourable media reports regarding nearshoring to Mexico. Its close proximity to the US, logistical strengths, trade agreements, substantial labour force and competitive minimum wage present several advantages for firms looking to best serve the US market whilst minimising supply-chain disruptions and managing costs.

The data indicate varying growth and expectations among the different sectors, regions and company sizes, signalling that the Mexican economy appears poised to reap substantial benefits from influxes of foreign direct investment.

Nevertheless, by addressing the potential challenges highlighted by manufacturers, policymakers could play a pivotal role in helping the nation to further capitalise on growth opportunities presented by nearshoring. With this awareness, companies can navigate the nearshoring process in Mexico more effectively, ensuring they maximise the benefits of this strategic business trend.

Nearshoring - regional breakdown: Has total demand for your company's goods improved over the past 12 months as a result of nearshoring?



Source: S&P Global PMI

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Special Focus

Singapore Economy Continues to be Hit by Slumping Exports

Singapore's economic growth momentum in 2023 year-to-date has slowed significantly compared with annual GDP growth of 3.6% in 2022. A key factor driving the weakness of economic growth has been contracting manufacturing output and exports.

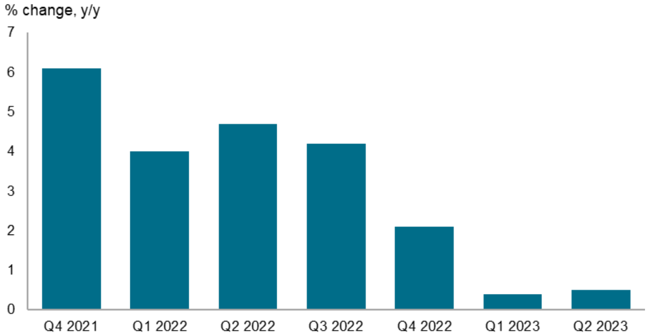
The near-term outlook is expected to remain constrained by weak demand in several important export markets for manufactures, notably the US and European Union (EU), with the pace of recovery in mainland China also weak. The service sector economy is expected to be more resilient, boosted by the continued recovery of international tourism travel in the APAC region.

Singapore economy weakens in first half of 2023

According to the statistics for Q2 2023 GDP released by Singapore's Ministry of Trade and Industry (MTI), Singapore's GDP growth rate was 0.5% year-on-year (y/y), improving on the 0.4% y/y pace in Q1 2023, but much weaker than the 3.6% annual GDP growth rate achieved in 2022.

Singapore real GDP growth

% change, y/y



Source: MTI via S&P Global Market Intelligence.
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Measured on a quarter-on-quarter basis (q/q), GDP growth was up 0.1% q/q in the second quarter of 2023, after contracting by 0.4% q/q in the first quarter of 2023. Consequently, Singapore narrowly avoided a technical recession as defined by two successive quarters of contracting quarter-on-quarter GDP.

Manufacturing output fell by 7.3% y/y in Q2 2023, following a decline of 5.4% q/q in Q1 2023. Manufacturing output also fell by 1.0% q/q in Q2 2023, after a contraction of 4.6% q/q in Q1 2023.

The construction sector was a bright spot amongst the goods-producing industries, with output up by 6.8% y/y in Q2 2023, after strong growth on 6.9% y/y in Q1 2023 and of 6.7% y/y in calendar 2022.

The service sector also showed positive growth of 2.6% y/y in Q2 2023, with output up 0.8% q/q. The removal of many COVID-19 restrictions since April 2022 and improving tourism flows supported buoyant growth in the accommodation segment, which grew by 13.0% y/y in Q2 2023 after growing by 21.8% y/y in Q1 2023.

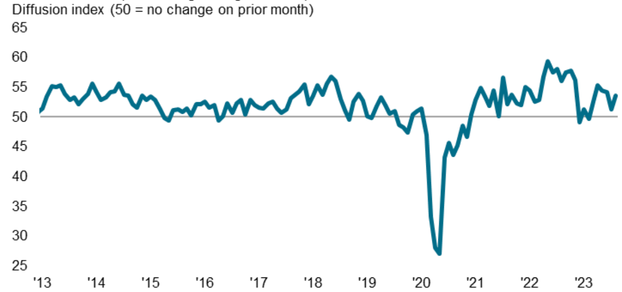
International tourism has rebounded during 2023, with international visitor arrivals having risen to 1.42 million arrivals in the month of July, up from the 1.13 million monthly arrivals in June. Total international visitor arrivals reached 7.7 million for the first seven months of 2023. The tourism rebound has been helped by strong tourism inflows from other APAC nations, notably Indonesia, Malaysia, India and Australia, also helped by a significant upturn in visitors from mainland China in July. The number of visitor arrivals is broadly on track to meet the Singapore Tourism Board's target of 12 million tourist visitors in 2023, about double the total tourism arrivals in 2022, which was estimated at 6.3 million.

Singapore's private sector expansion accelerated midway into the third quarter according to the latest S&P Global Singapore PMI data. Business activity rose in tandem with higher new orders, though export conditions remained weak.

The headline seasonally adjusted S&P Global Singapore Purchasing Manager's Index (PMI) - a composite single figure indicator of performance – rose to 53.6 in August, up from 51.3 in July. This signalled a sixth consecutive monthly improvement in private sector conditions and at a pace above the series average.

S&P Global Singapore 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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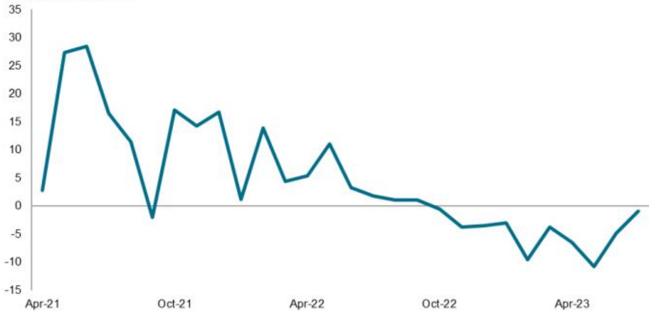
Manufacturing sector slowdown continues in third quarter of 2023

Latest statistics from Singapore's Economic Development Board showed that manufacturing output continued to weaken in July 2023 compared to the same month a year ago, albeit marginally, declining by 0.9% y/y. However, when measured on a month-on-month (m/m) basis, manufacturing output rose by 4.1% m/m.

There was a mixed picture across different industry segments. Electronics output rose by 5.1% y/y in July while chemicals output rose by 2.3% y/y. Transport engineering output rose by 20.7% y/y. However, precision engineering output fell by 7.6% y/y while biomedical manufacturing slumped by 22.6% y/y, due to a 42.4% y/y decline in pharmaceuticals output.

Singapore manufacturing output
% change, year-on-year



Source: Singapore EDB via S&P Global Market Intelligence.
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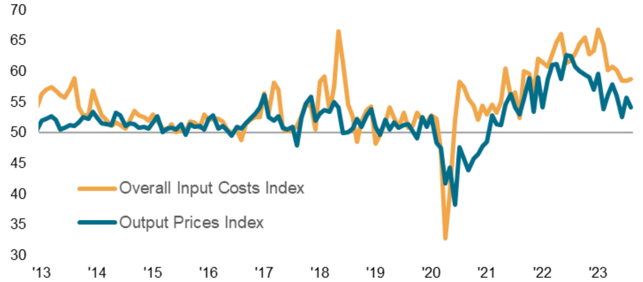
Reflecting the weakness of manufacturing sector new orders since mid-2022, Singapore's non-oil domestic exports (NODX) fell by 20.1% y/y in August, following a 20.2% y/y contraction in July, according to latest data released by Enterprise Singapore.

Exports electronics products fell by 21.1% y/y in August, while exports of non-electronic products also showed a steep decline of 19.9% y/y. Key export sectors recording large declines were exports of structures of boats and ships, which fell by 97.7% y/y, specialized machinery, which fell by 25.5% y/y, while exports of pharmaceuticals fell by 37.7% y/y. Exports of non-electronic products to mainland China fell by 16.1% y/y in August, with a decline of 26.1% y/y in exports to South Korea. Exports of non-electronic products to the US slumped by 37.2% y/y, reversing the strong increase of 39.2% y/y in July.

Inflation pressures have eased

According to the latest S&P Global Singapore PMI survey, overall input price inflation rose in August, with higher purchasing costs and wages both contributing to rising cost burdens for businesses. Consequently, private sector firms raised their selling prices again in August. The rates of both input cost and charge inflation, while still among the weakest in two years, continued to show increases.

Singapore PMI input cost and output prices
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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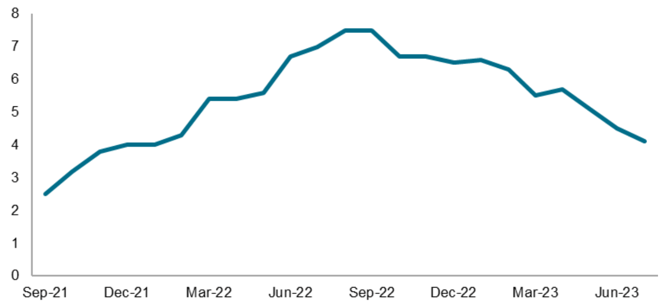
Singapore's headline CPI inflation rate moderated to 4.1% y/y in July compared with 4.5% y/y in June. The Monetary Authority of Singapore (MAS) Core Inflation measure fell to 3.8% y/y in July compared with 4.2% y/y in June.

Singapore CPI inflation
% change, y/y



As of Aug, 23, 2023.
Source: MAS, MTI via S&P Global Market Intelligence.
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Headwinds from moderating global electronics demand

The electronics manufacturing industry is a key segment of Singapore's manufacturing sector, accounting for 40% of the total weight of manufacturing output, dominated by semiconductors-related production. S&P Global PMI survey data since mid-2022 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 fell to 46.9 in August compared with 47.5 in July, continuing to signal contractionary conditions in the global electronics sector. The latest headline figure came amid the strongest contraction in new order volumes since November 2022, which also contributed to a solid fall in output.

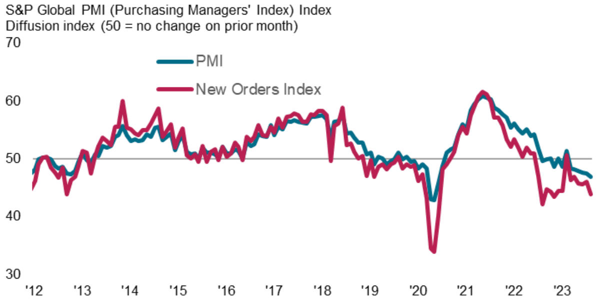
Weakening global economic growth momentum has impacted on consumer demand for electronics, with soft demand in mainland China also contributing to the downturn in new orders.

Singapore's electronics output rose by 5.1% in July, although electronics output was sharply down by 7.8% y/y in the first seven months of 2023. Semiconductors output, which accounts for the largest share of total electronics production in Singapore, rose by 5.8% y/y in July, although posting a decline of 7.4% y/y for the first seven months of 2023.

Singapore's non-oil domestic exports of electronics continued to show sharp declines in August 2023, falling by 21.1% year-on-year according to exports data released by Enterprise Singapore. Exports of integrated circuits fell by 28.5% y/y, while exports of PCs fell by 25.6% y/y.

Exports of electronics products to markets in Northeast Asia remained very weak in August, with electronics exports to mainland China declining by 17.8% y/y. Electronics exports to Japan were also weak, falling by 17.0% y/y, while electronics exports to South Korea fell sharply, by 41.9% year-over-year. However, electronics exports to the EU showed marginal positive growth of 1.0% y/y. Electronics exports to the US, which had shown a positive increase of 11.7% y/y in July, contracted marginally by 1.6% y/y in August.

S&P Global Electronics PMI and new orders



Source: S&P Global Market Intelligence, S&P Global PMI surveys
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Singapore's economic outlook

After a second year of rapid economic recovery from the pandemic in 2022, economic growth momentum has moderated significantly during 2023. GDP growth is forecast by S&P Global Market Intelligence to slow to 1.2% in 2023, a significant moderation in growth momentum compared with GDP growth of 3.6% in 2022 and 8.9% y/y in 2021.

Following the release of the revised second quarter GDP statistics, the Ministry of Trade and Industry also lowered its forecast for GDP growth in 2023 from a previous range of 0.5% to 2.5% to a lower range of 0.5% to 1.5%. According to the June 2023 Survey of Professional Forecasters produced by the MAS, the median GDP forecast for 2023 is for growth of 1.4%, significantly lower than the forecast from the March 2023 Survey, which was for GDP growth of 1.9% in 2023.

With continuing headwinds to global growth momentum in 2023 due to very weak growth in the US and EU and sluggish economic recovery in mainland China, the outlook for Singapore's manufacturing sector remains challenging. However, stronger exports of services, notably due to rising international tourist arrivals, will help to mitigate the impact of weaker growth in manufacturing exports.

The increase in Singapore's Goods and Services Tax by 1% from 7% to 8% implemented on 1 January 2023 has also acted as a slight drag on economic growth in 2023, raising fiscal revenue by an estimated 0.7% of GDP per year.

In 2023, taking into account the 1% increase in GST from 1st January 2023, headline and core CPI inflation are projected to average 4.5%–5.5% and 3.5%–4.5% respectively. MAS Core Inflation is projected by the MAS and MTI to moderate in the second half of 2023, as import costs remain low and tightness in the labour market eases. However, the MAS and MTI note upside risks to the inflation outlook from potential shocks to global food commodity prices as well as if persistent tightness in the labour market keeps upward pressures on wage rises.

The medium-term outlook for Singapore's manufacturing sector is supported by a number of positive factors.

Despite near-term headwinds, medium-term prospects for Singapore's electronics industry remains 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. Singapore also remains an attractive hub for supply chain diversification for some high value-added segments of the electronics industry, as electronics manufacturers continue to diversify their supply chains for production of critical electronics products, notably semiconductors. Reflecting these trends, in 2022, Singapore attracted significant new foreign direct investment inflows into electronics manufacturing.

In the biomedical manufacturing sector, a number of new manufacturing facilities are being built by pharmaceuticals multinationals. This includes a new vaccine manufacturing facility being built by Sanofi Pasteur and a new mRNA vaccine manufacturing plant being built by BioNTech.

The aerospace engineering sector is currently experiencing rapid growth as the reopening of international borders in APAC is boosting commercial air travel across the region. Singapore's role as a leading international aviation hub is likely to continue to strengthen over the medium-term, helped by strong growth in APAC air travel and its role as a key Maintenance, Repair and Overhaul (MRO) hub in APAC.

In the service sector, Singapore is expected to continue to be a leading global international financial centre for investment banking, wealth management and asset management. Singapore will also continue to be a key APAC hub for shipping, aviation and logistics, as well as an important APAC hub for regional headquartering.

However, an important long-term challenge for the Singapore economy will be from ageing demographics. In Budget 2023, the finance minister stated that a key issue for the Singapore economy over the medium to long term will be from demographic ageing, with Singapore having one of the world's fasted ageing populations. The proportion of Singapore's population that is currently aged over 65 years is one-sixth of the population, but this will rise to an estimated one-quarter by 2030. This will result in rising healthcare and social welfare costs and could gradually reduce Singapore's long-term potential GDP growth rate. The role of fiscal policy in addressing demographic ageing will continue to be a key focus for government policy over coming years as the economic impact of demographic ageing intensifies.

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