

Week Ahead Economic Preview

Fed, BoE meetings, US payrolls, eurozone GDP and global PMIs

26 January 2024

Central bank meetings remain in the spotlight with the US Fed and the Bank of England both set to convene in the coming week. At the same time, several key data releases are expected including the US labour market report plus euro area GDP and CPI data. While the US data are expected to support signs of a soft landing, the eurozone looks set to have fallen into recession. Worldwide manufacturing PMI will also be due for detailed insights into conditions in the goods producing sector, especially in terms of shipping delays.

The first Federal Open Market Committee (FOMC) meeting of the year will be eagerly awaited for clues as to when the Fed will pivot. At the time of writing, market pricing for chances of a March rate has fallen below 50%, but signs of solid fourth quarter growth and lower inflation have appeared. This has encouraged sentiment around a soft landing for the US economy, and should allow rates to move lower in the first half of 2024. Non-farm payroll numbers, plus wage and unemployment data, will provide fresh insights into the economy's health and feed further rate speculation.

In contrast to the rosy-looking US economic performance, GDP data are set to show the eurozone having fallen into a mild technical recession late last year, with the downturn looking particularly concerning in Germany. Policymakers at the ECB have nevertheless been "encouraged" by signs of the downturn bottoming out from the January flash PMI, with inflation also cooling in line with expectations. But whether the ECB has scope to rate cuts in the first half of the year remains highly debated.

Besides the Fed, the Bank of England, likewise convenes in the coming week, but faces greater challenges. While early PMI data showed surprising strength in growth, the survey also pointed to worryingly stubborn price pressures, hinting at reduced scope for any near-term loosening of policy. Rhetoric coming through from the BoE will therefore be keenly watched, especially with the Red Sea disruptions amounting to considerable risks for inflation.

Finally, detailed manufacturing PMI figures from around the globe will be anticipated on Thursday, February 1. With emerging economies having fared relatively better than developed economies at the end of 2023, we will be watching if this outperformance carried forth into 2024.

Red Sea delays add to manufacturing woes

January's flash PMI data showed manufacturers reporting growing issues with supply chains amid intensifying disruptions to shipping in the Red Sea. Across the four largest developed economies, the US, Eurozone, Japan and the UK, average supplier delivery times lengthened in January for the first time in a year.

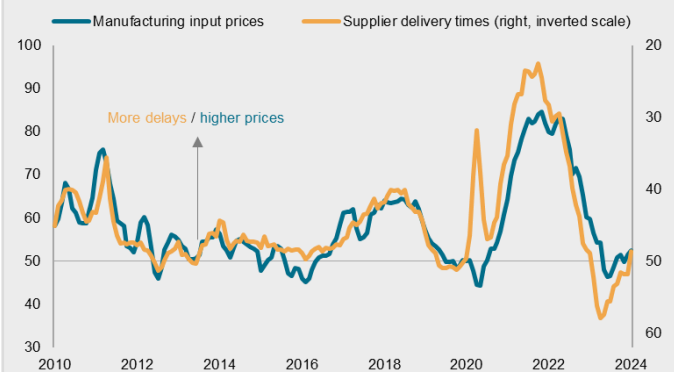
Some countries were more affected than others. The UK was worst hit, with lead times lengthening to a degree not seen since the pandemic-related supply issues of September 2022. But longer deliveries were also reported in the US and the eurozone for the first times in a year, and Japan's delivery delays hit a ten-month high.

The delays come at a time where attacks by Houthi rebels have led increasing numbers of shipping companies to transport goods from Asia to Europe via the Cape of Good Hope rather than the Suez Canal. This extended journey typically lengthens the delivery route by at least 10 days. Delays in January were most widely reported for textiles and vehicle manufacturing.

Following the adage that "time is money", the lengthening of supplier lead times was accompanied by a rise in manufacturers' input costs across the G4 for the first time in nine months. Although only modest, January's input price rise was the largest since April of last year and could concern policymakers if the disruptions persist in the coming months and fuel further price rises. The UK saw a particularly marked rise in prices.

Full global manufacturing PMI data published in the coming week will therefore be eyed for more insights into the impact of the shipping delays.

G4 economies manufacturing supply chains and prices



Data compiled January 24, 2024.
PMI of 50 = no change on prior month. G4 is a weighted average of US, Eurozone, UK and Japan.
Source: S&P Global PMI, HCOB, au Jibun Bank.
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Key diary events

Monday 29 Jan

New Zealand Trade (Dec)
Singapore MAS Monetary Policy Statement

Tuesday 30 Jan

Japan Unemployment Rate (Dec)
France GDP (Q4, prelim)
Spain GDP (Q4, flash)
Italy GDP (Q4, advance)
United Kingdom Mortgage Lending and Approvals (Dec)
Eurozone GDP (Q4, flash)
Eurozone Economic Sentiment (Jan)
Mexico GDP (Q4, prelim)
United States S&P/Case-Shiller Home Prices (Nov)
United States JOLTs Job Opening (Dec)
United States CB Consumer Confidence (Jan)

Wednesday 31 Jan

South Korea Industrial Production (Dec)
Japan BoJ Summary of Opinions (Jan)
Australia CPI (Q4)
China (Mainland) NBS PMI (Jan)
Philippines GDP (Q4)
Japan Consumer Confidence (Jan)
Germany Retail Sales (Dec)
United Kingdom Nationwide House Prices (Jan)
France Inflation (Jan, prelim)
Taiwan GDP (Q4, advance)
Hong Kong SAR GDP (Q4, advance)
Germany Unemployment Rate (Jan)
Germany GDP (Q4, flash)
Germany Inflation (Jan, prelim)
United States ADP Employment Change (Jan)
Canada GDP (Dec, prelim)
United States Fed FOMC Interest Rate Decision
Brazil BCB Interest Rate Decision

Thursday 1 Feb

Worldwide Manufacturing PMIs, incl. global PMI* (Jan)
South Korea Trade (Jan)
Australia Building Permits (Dec, prelim)
Indonesia Inflation (Jan)
Eurozone Inflation (Jan, flash)
Eurozone Unemployment Rate (Dec)
Italy Inflation (Jan, prelim)
United Kingdom BoE Interest Rate Decision
United States ISM Manufacturing PMI (Jan)

Friday 2 Feb

South Korea Inflation (Jan)
Australia Home Loans (Dec)
France Industrial Production (Dec)
United States Non-farm Payrolls, Average Hourly Earnings, Unemployment Rate (Jan)
United States UoM Sentiment (Jan, final)
United States Factory Orders (Dec)

* Access press releases of indices produced by S&P Global and relevant sponsors [here](#).

What to watch in the coming week

Worldwide manufacturing PMI for January

Following the flash PMI release, including [the inaugural HSBC Flash India PMI](#), which saw India's private sector economy grow at a strong pace at the start of 2024, worldwide manufacturing PMI will be due on Thursday to provide a comprehensive view into conditions across the global goods producing sector. Particular focus will rest on the impact of Red Sea shipping disruptions to manufacturing supply chains and prices (see box on page 1).

Americas: Fed FOMC meeting, US payrolls

While no changes in rates are expected at the first Federal Open Market Committee (FOMC) meeting of the year, taking place over January 30-31, hints of when a rate cut will occur will be closely watched. This is particularly with January's [S&P Global Flash US PMI](#) data indicating further cooling of inflationary pressures to below the Fed's 2% target and PCE data showing moderating inflation in the fourth quarter, despite a 3.3% GDP growth rate.

January's labour market report will also be released next week. Consensus expectations currently point to lower, but still substantial new payroll additions at the start of the year, and wage growth is meanwhile expected to slow from December, adding to recent welcome signs of a 'soft landing' for the US economy.

EMEA: BoE meeting, Euro area GDP, inflation

The Bank of England convenes in the week with no immediate changes to monetary policy expected. Analysts have pencilled in cuts from around mid-2024 according to a Reuters poll. Latest [S&P Global Flash UK PMI outlined better-than-expected growth for the UK economy](#) and stubborn price pressures at the start of 2024, which may deter the BoE from cutting interest rates as quickly as many expect. This is especially with supply disruptions in the Red Sea igniting inflation in the manufacturing sector.

Fourth quarter GDP figures will also be due for the eurozone, including details for France, Germany, Italy and Spain. A 0.1% contraction is widely expected for the eurozone, meaning the region will have fallen into a technical recession, led by a steep 0.3% decline in Germany. More up-to-date [HCOB Flash PMI data have so far showed the Eurozone downturn prolonging into the new year](#). Prices have started rising at a faster rate in January, precluding a still-elevated path for CPI. Eurozone inflation data are due Thursday alongside the manufacturing PMIs.

APAC: GDP updates, Australia CPI, Japan industrial production

Fourth quarter GDP updates are awaited for Hong Kong SAR, Taiwan and the Philippines, plus Australia's CPI reading will be due midweek with the consensus pointing to a lower reading compared to the 5.4% headline number.

Inflation figures will also be due from economies including Indonesia and South Korea, while Japan releases industrial production data.

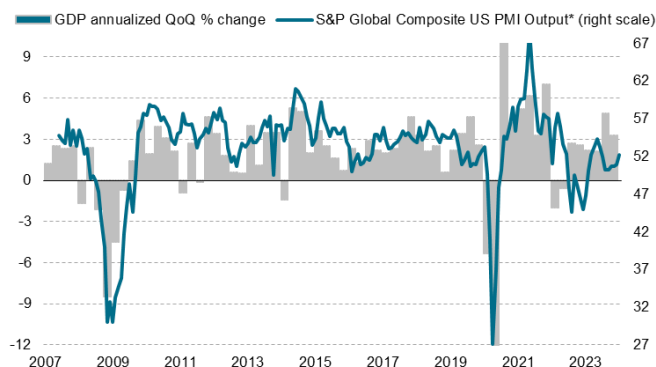
Week in review | Key economic developments from the past week

US economy grows faster than expected

Fourth quarter GDP showed the US economy growing faster than expected. Although the quarterly annualised growth rate cooled from 4.9% in the third quarter, the estimated 3.3% pace was above the 2% consensus. The data add to signs that the US economy showed encouraging resilience last year, in contrast to struggling performances in Europe. The [flash PMI survey data showed growth ticking higher again in January](#), hinting at further robust economic growth in the first quarter.

Even more encouraging was the detail on prices, with core PCE inflation running at 2.0% again in the fourth quarter, unchanged on the third quarter and underscoring speculation regarding the US economy's ability to chive a 'soft landing'.

US quarterly GDP growth and the PMI

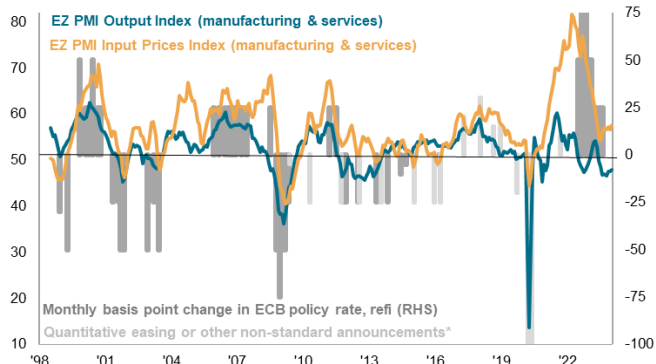


Data compiled January 25, 2024.
* PMI covers manufacturing only prior to 2009 but manufacturing & services thereafter.
Sources: S&P Global PMI, S&P Global Market Intelligence, BEA.
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ECB on hold... for much longer?

The European Central Bank kept monetary policy unchanged as expected, adding few clues as to the possible timing of a pivot to lower interest rates. Policymakers remains "data dependent", but seem not to have ruled out a cut as soon as April.

ECB monetary policy changes vs. PMI output growth and input prices

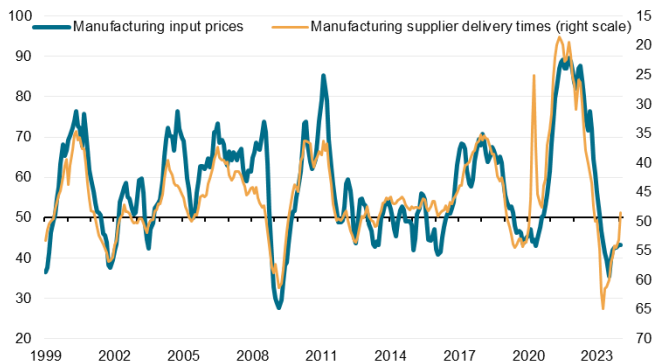


Data compiled January 24, 2024 including flash PMI January data.
PMI (Purchasing Managers' Index) based on 50 = no change on prior month. QE bars illustrative size only.
Sources: S&P Global PMI, S&P Global Market Intelligence, HCOB, ECB.
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While the economy skirted with recession late last year, PMI data have signaled a moderating downturn, especially in the beleaguered manufacturing sector. Meanwhile PMI data showed that, although disruptions to shipping in the Red Sea caused supply chains to Copyright © 2024 S&P Global Market Intelligence. All Rights Reserved.

lengthen for the first time in a year, manufacturing input costs continued to fall on average. However, [service sector cost growth accelerated during the month](#), contributing to the steepest overall rise in prices charged for goods and services since last May, the rate of inflation having now accelerated for three months from October's 32-month low. The ECB will want to see inflation, and in particular wage growth, moderate further.

Eurozone PMI, manufacturing prices and supply chains



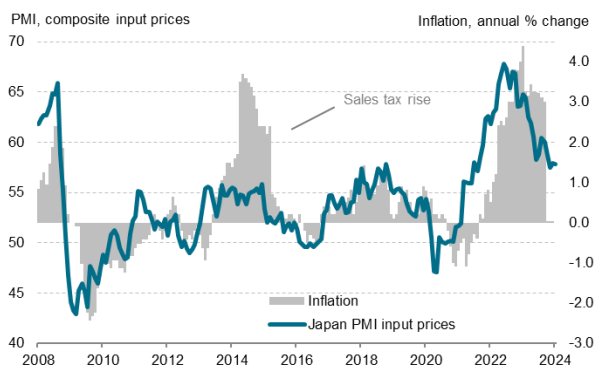
Data compiled January 24, 2024.
PMI (Purchasing Managers' Index) based on 50 = no change on prior month, covers goods and services.
Source: S&P Global PMI, S&P Global Market Intelligence, HCOB.
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Japan's inflation

The Bank of Japan kept interest rates unchanged as expected at its first monetary policy meeting of the year, providing little additional insights on when they are expected to exit the negative interest rate regime. Increased confidence in reaching the inflation target was however telegraphed via the projections where the core inflation outlook was maintained at around 2%, continuing to support convictions of rate hike as early as April 2024.

Recent headline CPI fell in December and is expected to drop further in the coming months given [indications from PMI price indices](#). Any sustained decline in price pressures may add to uncertainties over the BoJ's exit path, even if a lift off from current levels remains the base case scenario.

Japan inflation



Source: S&P Global PMI, au Jibun Bank, Japan Statistics Bureau via S&P Global Market Intelligence
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	Monthly PMI Bulletin: January 2024	12-Jan	Jingyi Pan
	Trade conditions remain in decline at end of 2023	8-Jan	Jingyi Pan
	Global PMI ends 2023 on brighter note, but wide divergences persist	5-Jan	Chris Williamson
	Global PMI data point to stalled descent of inflation	4-Jan	Chris Williamson
	Global factory job losses gather pace as demand weakness persists at close of 2023	2-Jan	Chris Williamson
EMEA	Eurozone prices rise at increased rate at start of 2024 as downturn moderates	24-Jan	Chris Williamson
	UK economy starts 2024 on stronger footing, but Red Sea shipping delays drive prices higher	24-Jan	Chris Williamson
Americas	US flash PMI signals steep fall in inflation at start of 2024	25-Jan	Chris Williamson
	Looser financial conditions boost economic growth in December and add hope to 2024 US outlook	5-Jan	Chris Williamson
Asia-Pacific	Japan's private sector returns to growth at start of 2024 while price pressures ease	24-Jan	Jingyi Pan
	ASEAN economic outlook in 2024	12-Jan	Rajiv Biswas

S&P Global Market Intelligence highlights

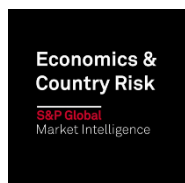
Shifting Sands: Economic Trends Impacting Global Economies in 2023-4



We study history to learn lessons from the past, helping us better understand the current environment and assess the likely future. Read this detailed review of some of the key signals from the Purchasing Managers' Index™ (PMI®) business survey data in 2023. With global and region-specific coverage and insights giving you an indication of what these trends mean for the global economy as we head into 2024.

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PMI Insights: A look at the Americas



The economists see quite a subdued picture in Canada from their latest survey results. Firms are concerned about high interest rates and how they may squeeze clients' budgets. The newly launched PMI for the Canadian service sector, which covers private sector services accounting for about half of the country's GDP, offers additional insights into business activity, new orders, employment and more.

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