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by S&P Global

Week Ahead Economic Preview

Worldwide April PMI data, Fed FOMC, BOE meetings, US payrolls

28 April 2022

A busy week ahead packs both **manufacturing and services PMI data releases for April** to provide an update on the health of the global economy alongside central bank policy meetings at both the **US Federal Reserve** and the **Bank of England**. Meanwhile April's **US labour market report** will be released on Friday with a string of **inflation figures** also due from APAC economies.

Despite some positive earnings surprises posted so far from US corporates, the global equity market remains weighed by concerns over multi-decade high inflation rates, rising interest rates and slowing global growth (see special report). The issue of slowing demand growth had become particularly prominent with new COVID-19 disruptions in mainland China and the Russia-Ukraine war. Further clues on the impact of these headwinds will be gleaned from the upcoming manufacturing and services PMI releases for April.

The focus also shifts to the central bank meetings, where policymakers in the US, UK and Norway are set to meet. In particular, the Fed and Bank of England are expected to continue on their rate hike cycles and any updates on their future policy paths will be closely watched amid growing worries that rising interest rates would hurt growth. As it is, April flash PMIs have already suggested that economic growth slowed in the US and UK as the strong pandemic rebound showed signs of fading.

In the official data docket, the April US jobs report will be the highlight. Consensus expectations point to strong job additions for April while the unemployment rate remains low, consistent with the Fed to continuing on their rate hike path.

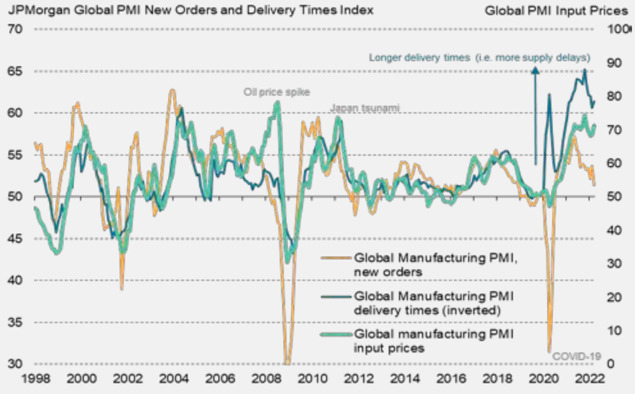
Meanwhile CPI figures across various APAC economies including Taiwan, Thailand and the Philippines will be released. Early flash PMI data from neighbouring Japan and Australia suggested that worsening price pressures persisted amid the Ukraine war and China lockdowns, further weighing on business sentiment and adding to cost of living concerns in April.

PMIs in focus for insights into demand and supply forces on commodity prices

Manufacturing PMIs due out in the coming week will be an important steer to commodity prices. Pandemic-related supply shortages coupled with rebounding demand have led to surging prices, with IHS Markit Materials Price Index (MPI) increasing 2.2% last week as the war in Ukraine and lockdowns in China further fanned fears of persistent supply shortages.

However, while supply appears to have deteriorated in April, the demand side of the equation is more uncertain: note that the March PMIs showed global manufacturing output growth slumped to an 18-month low, led by a slowdown in growth of new orders and a fall in global trade. The output and new orders indices from the global manufacturing PMIs will need to be watched alongside the suppliers' delivery times index to get a comprehensive steer on the demand and supply fundamentals for commodity prices.

Global PMI demand, supply and price indicators



Sources: S&P Global, JPMorgan.

One area of inflation that will be less susceptible to any cooling of industrial demand is of course food. The Russian invasion of Ukraine has exacerbated food inflation globally. Both countries are traditionally major exporters of agricultural commodities, but sanctions and the war itself have disruption global supplies of wheat, corn, and vegetable oils, sending prices soaring (read more in our Special Report on Food and Ag Commodity Inflation). The detailed sector PMI data showed food industry producer selling price inflation at an all-time high in March, and any further surge in global food price inflation will add to already-worrying cost of living pressures for those on lower incomes and developing countries.

Special Focus

Further Surge in Price Pressures in April Casts Mounting Shadow Over Global Growth Outlook

Preliminary PMI survey data showed economic growth slowing in the US and UK as strong pandemic rebounds showed signs of fading. In contrast, a reopening of economies in the eurozone and Japan helped drive improvements, helping to offset weakened manufacturing performances arising from fresh supply delays. Shortages of inputs were linked to the Ukraine war and lockdowns in mainland China.

A fall in backlogs of work in the UK meanwhile suggests the UK could underperform the US and eurozone in coming months as pent-up demand is depleted. However, in all four of the largest developed countries, future output expectations have slumped far lower than seen earlier in the year, attributable to increasing concerns about future economic growth amid the Ukraine war, policy tightening and the rising cost of living. The latter was underscored by the surveys signalling further steep inflationary pressures, with rates of inflation for goods at services once again at or near record highs across the developed world in April.

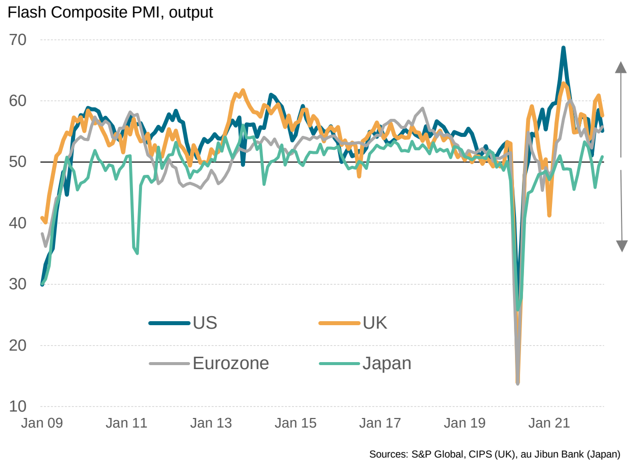
Developed world growth rates vary as economies re-open

The flash PMI survey output indices, which track current business activity levels, showed growth slowing in the UK and US, caused primarily by weaker service sector expansions. This reflected some cooling of demand for services compared to very strong rates of expansion seen in February and March, when these economies reopened from Omicron-related containment measures. Both the UK and US saw the near complete removal of any virus-related restrictions on activity in February and March.

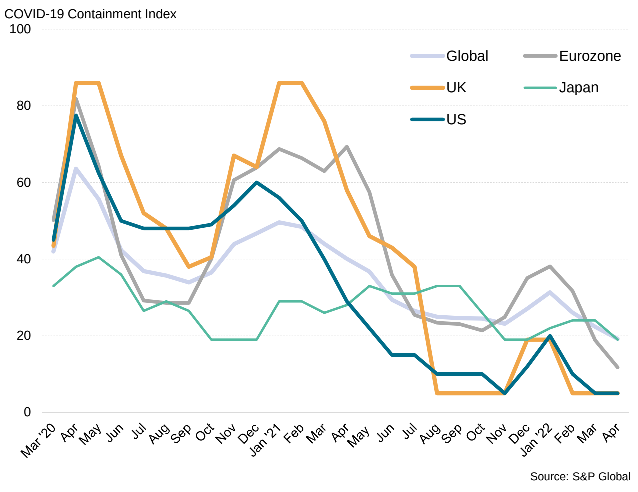
In contrast, the eurozone has seen COVID-19 containment measures relaxed later, and less aggressively than the US and UK. This has meant the boost to services such as travel, tourism and recreation has likewise occurred later in the eurozone, providing the main boost to eurozone economic growth in April at a time when these effects were fading in the US and UK.

In Japan, some easing of COVID-19 containment measures also helped lift the economy back into expansion territory, though with restrictions remaining tighter than in the US and Europe, the rate of expansion remained relatively subdued.

Current output growth



Degrees of COVID-19 containment

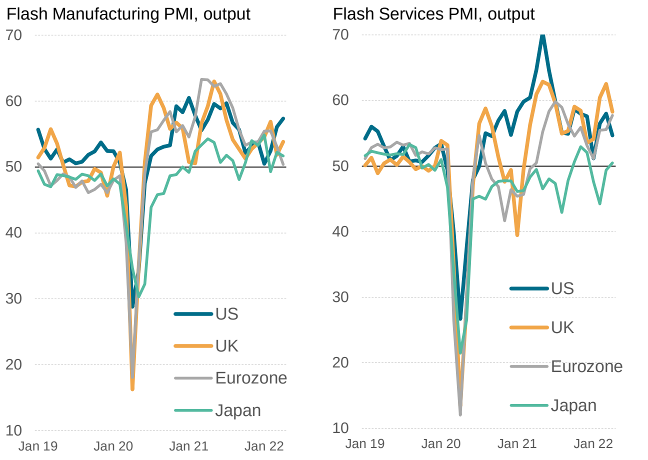


The survey data therefore suggest that the tailwind of looser health restrictions associated with the pandemic continues to drive the economic recovery in the world's major developed economies, albeit with these forces moderating in the US and UK.

Meanwhile, manufacturing in the US continued to benefit from pent-up demand from the pandemic and some moderation in the number of production constraints relative to the shortages seen last year, with a similar boost also recorded in the UK.

However, the eurozone saw manufacturing hit by worsening logistics issues as the proximity of the war in Ukraine disrupted supply lines. Most notable was an auto-sector-led drop in manufacturing output in Germany, which contributed to a near-stalling of factory output growth across the single currency area. Similarly, production in Japan continued to be restricted by supply shortages, emanating in part from new lockdowns in China.

Current output growth by sector

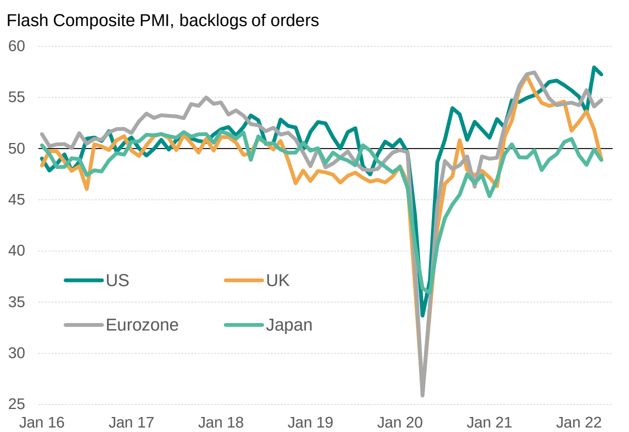


Source: S&P Global with au Jibun Bank (Japan), CIPS (UK)

Backlogs of work hint at UK weakness ahead

Some major clues as to what the future holds can be gleaned from the PMI survey's backlogs of work indices. These indicators track the amount of work in hand that companies are reporting, which in turn reflects the extent to which recent demand has exceeded their operating capacity. As such, the backlogs of work indices provide powerful signals of how busy companies are likely to be in coming months.

Backlogs of work



Sources: S&P Global, au Jibun Bank (Japan)

These indicators showed the US continuing to see an unprecedented build-up of uncompleted orders in April, after a record rise in March. Similarly, eurozone companies reported a further strong rise in backlogs, hinting at sustained output growth in coming months – especially if supply bottlenecks ease.

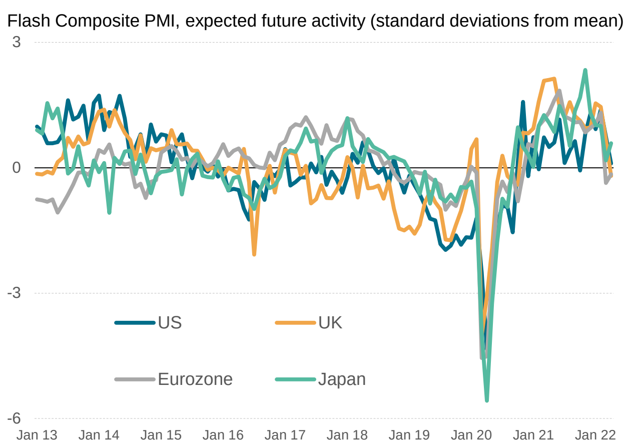
Conversely, the UK saw backlogs of work fall for the first time since February 2021, suggesting the output slowdown has further to run. Similarly, Japanese growth may remain subdued in the coming months absent a renewed upturn in demand, given a slight fall in levels of outstanding business during April.

Optimism subdued

Forward-looking signals are also being sent by the PMI survey's future output expectations indices. Unlike the other PMI series, these data are subjective, based on views among companies relating to their own expected output in 12 months' time, so in theory presenting a longer time horizon for the outlook than the backlogs of work indices.

Sentiment for the next 12 months picked up in the Eurozone and Japan, in April albeit merely remaining close to long-run averages. Steep falls were meanwhile seen in the US and UK, leaving the US index just above its long-run average and the UK index just below its mean. Hence all four surveys are now signalling forward expectations of much weaker growth than had been indicated earlier in the year (prior to March, all four had seen their future expectations indices running at least one standard deviation higher than the long run mean).

Future output expectations



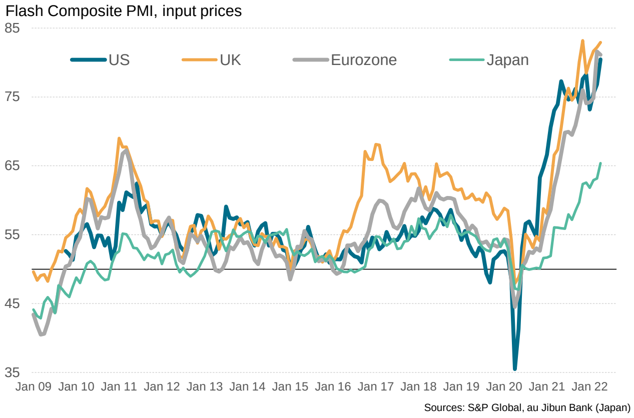
Sources: S&P Global, CIPS (UK), au Jibun Bank (Japan)

Price indicators at unprecedented levels

Business expectations were dampened in all cases in part by concerns over rising prices, notably for energy, not just in terms of the impact on companies' costs but also on the impact on customers, as rising inflation poses a key threat to future spending power.

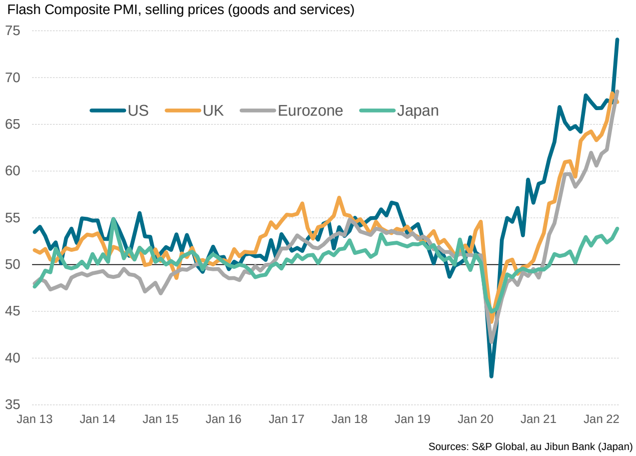
Inflation is already running at multi-decade highs in the US, eurozone and UK, and with the PMI survey data signalling a further surge in companies' costs in April, such elevated inflation readings look likely to persist in coming months. Average input costs across manufacturing and services rose at a record rate in both the US and Japan in April, with near-record rates seen in the eurozone and UK.

Input costs



These higher costs fed through to another surge in prices charged to customers. New record rates of increase for average prices levied for goods and services were reported in the US and eurozone, with a near-record high also reported in the UK (where an easing in the rate of increase was often linked to customers kicking back on price hikes). Japan likewise saw rate of selling price inflation accelerate, reaching the highest since the consumption tax hike of April 2014.

Selling prices



Growth risks tilted to the downside amid multiple headwinds?

In addition to rising prices and the cost-of-living squeeze, firms are also concerned over the prospect of rising interest rates as central bank seek to anchor inflation expectations. The Ukraine war and lingering effects of the pandemic, especially via ongoing lockdowns in China, represent further major concerns among many PMI survey respondents. While the reopening of economies from COVID-19 containment measures still represents a welcome tailwind for the coming months, the big question will be the extent to which whether these mounting headwinds may prevail.

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Special Focus

South Korea's Economy Moderates due to COVID-19 Wave

South Korean GDP growth moderated to a pace of 0.7% quarter-on-quarter (q/q) in the first quarter of 2022, compared with growth of 1.2% q/q in the fourth quarter of 2021. The slowdown reflected the impact of the escalating COVID-19 Omicron wave in the first quarter of 2022, which resulted in weakening household consumption.

The export sector has remained strong during early 2022, supported by buoyant global demand for electronics and auto exports. However, a key risk to South Korea's manufacturing sector outlook is from weakening global demand for South Korea's exports. Moderating economic growth in China in 2022 due to pandemic-related lockdowns in large Chinese cities is a key risk, as China is South Korea's largest export market. Weakening economic growth in the European Union (EU) due to the macroeconomic shocks from the Russia-Ukraine war is another key risk for South Korea's manufacturing export sector. Overall, South Korea's GDP growth rate is forecast to moderate to 3.0%, with downside risks to the outlook due to moderating global growth.

Overall, sustained economic expansion is expected to continue in 2022, at a pace of around 3%. However, the COVID-19 pandemic still remains a key risk to the near-term economic outlook. The high level of two-dose COVID-19 vaccination rates and rapid booster rollout in recent months are expected to help containment of the pandemic during the rest of 2022.

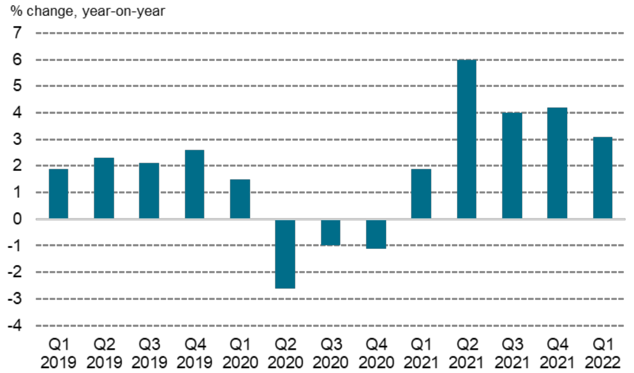
GDP growth moderates in Q1 2022

On a year-on-year (y/y) basis, GDP growth moderated 3.1% y/y in the first quarter of 2022, compared with 4.2% y/y in the fourth quarter of 2021. Measured on a q/q basis, GDP growth moderated to 0.7% q/q in the first quarter of 2022, compared with 1.2% q/q in the fourth quarter of 2021.

A key factor driving the slowdown in growth in the first quarter of 2022 was weak consumption, which contracted by 0.4% q/q. Private consumption declined by 0.5% q/q, while government consumption showed zero growth q/q.

Compared to a year ago, final consumption expenditure rose by 5.1% y/y in the first quarter of 2022, moderating from 6.8% y/y in the fourth quarter. For the 2021 calendar year, final consumption grew by 4.1% y/y, after contracting by 2.4% y/y in 2020.

South Korea GDP growth



Source: Bank of Korea

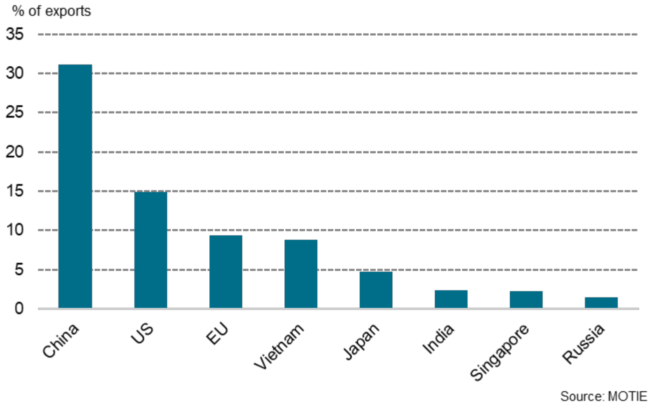
Manufacturing output showed strong growth in the first quarter of 2022, up 3.4% q/q, strengthening significantly compared to expansion at a pace of 1.1% q/q and 3.6% y/y in the fourth quarter of 2021. For calendar 2021, manufacturing output showed rapid expansion, growing at a pace of 6.6% y/y.

A key driver for the expansion in manufacturing output during 2021 and early 2022 has been the rebound in manufacturing exports. Stronger economic growth in major economies such as the US, China, EU and UK linked to the rollout of vaccination programs during 2021 helped to boost South Korean new export orders from its key export markets. In the fourth quarter of 2021, exports of goods and services rose by 6.8% y/y, with the pace of export growth strengthening in the first quarter of 2022, to 9.0% y/y.

South Korean exports reached a record high of USD 645 billion in 2021, rising by 26% y/y. Exports to China rose by 23% y/y, with exports to the US rising by 29% y/y and exports to the EU up 34% y/y. Exports to ASEAN also surged, rising by 22% y/y. Exports of semiconductors rose by 29% y/y, while exports of petrochemicals rose by 55% y/y. South Korea's auto exports rose by 24% in value terms in 2021, reaching USD 46.5 billion.

However, latest manufacturing survey evidence signalled some moderation in manufacturing growth in March. At 51.2 in March, the seasonally adjusted S&P Global South Korea Manufacturing Purchasing Managers' Index (PMI®) fell from 53.8 in February, indicative of some slowdown in the pace of expansion in the manufacturing sector.

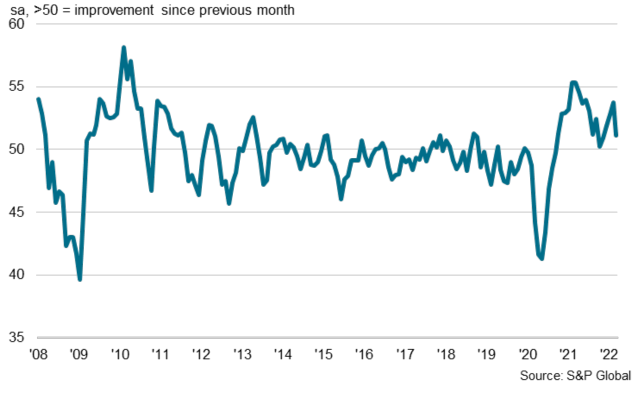
South Korea's export markets

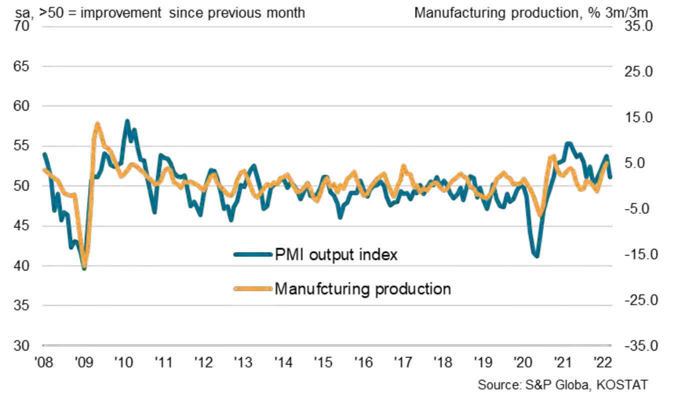


In the latest survey results, South Korean manufacturers signalled that new orders broadly stagnated in March. Although new orders increased for the eighteenth month running, the rate of increase was the joint-softest in the sequence as demand was affected by rising prices and supply chain issues. Rising geopolitical tensions hindered both total new order inflows as well as export orders, with the latter falling at the fastest pace since July 2020.

The Russia-Ukraine war is a significant downside risk for South Korean exports, even though Russia is a relatively small export market for South Korea. As the EU is one of South Korea's largest export markets, weakening economic growth in the EU due to the macroeconomic shocks from the Russia-Ukraine war is an important risk for South Korea's manufacturing export sector. Moderating economic growth in China due to the impact of pandemic-related restrictive measures on domestic demand is another key risk for South Korean exports, since China is South Korea's largest export market.

South Korea Manufacturing PMI





The transmission effects of the Russia-Ukraine war have also been felt through higher raw materials input price pressures for manufacturing firms, as well as weaker export orders, due to greater uncertainties about the outlook as a result of the war.

Supply chain disruptions have continued to hold back activity and demand in the manufacturing sector. Material shortages and rising input costs were exacerbated by delays in sourcing and receiving inputs.

Latest data pointed to a further rise in input prices for by South Korean manufacturers, with costs rising at the fastest pace for three months. Businesses widely reported sharp rises in the cost of raw materials amid higher raw material prices, particularly for oil and semiconductors. The South Korean All Items Producer Price Index rose by 8.8% y/y in March, with the sub-index for coal and petroleum products rising by 69.7% y/y. The manufacturing PMI survey showed that output prices also increased at a rapid rate as firms sought to pass higher costs on to clients.

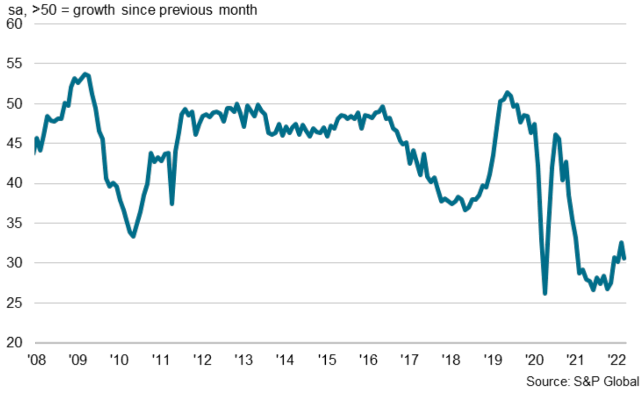
Confronted with rising inflation pressures, The Bank of Korea (BOK) Monetary Policy Board again hiked its policy rate by 0.25bp to a level of 1.50% at its April Monetary Policy Meeting. This was the fourth 25bp rate hike since August 2021. The incoming new Bank of Korea Governor Rhee Chang-Yong has stated that inflationary pressures are growing while the growth outlook is weakening. He highlighted the Russia-Ukraine war, moderating Chinese economic growth and US Fed monetary policy tightening as key headwinds to economic growth in 2022.

The BOK said in their April Monetary Policy Decision statement that consumer price inflation has risen significantly to the lower-4% level due to soaring prices of petroleum products as well as increasing prices of industrial products and personal services. Looking ahead, the BOK forecast that consumer price inflation will remain high in the 4% range for some time.

South Korea's CPI inflation rate has risen to 4.1 percent y/y in March 2022, after averaging 2.5 percent in 2021, which

There were sustained pressures on global electronics supply chains during March, as signalled by the seasonally adjusted Suppliers' Delivery Times Index posting 30.6, deteriorating further compared with the reading of 33.4 in February and far below the 50.0 no-change mark. The supplier delivery times continued to be very protracted, with firms primarily attributing this to insufficient inventories levels at suppliers. However, average lead times narrowed somewhat, to the shortest for 14 months amid reports of easing bottlenecks.

S&P Global Electronics PMI: Suppliers' Delivery Times Index



Near-term economic outlook

South Korean GDP growth was 4% y/y in 2021, with continued firm expansion at a pace of around 3% forecast for 2022 by S&P Global Market Intelligence. The economic recovery in 2021 was driven by consumption growth and merchandise exports.

South Korea has made very rapid progress with its COVID-19 vaccination program during the second half of 2021 and early 2022. By early April 2022, around 86% of the total population had received two doses. South Korea is also a global leader is booster rollouts, with 68.3% of the population having received booster shots.

Despite the very rapid pace of vaccinations in recent months, and the significant easing of the recent Omicron wave that hit South Korea in February and March, there are continuing downside risks from new COVID-19 waves hitting South Korea. The current COVID-19 outbreaks that have hit various cities in China also remain a key risk to the near-term outlook due to the importance of China as a key export market for South Korea.

Inflationary pressures also remain an important risk to the outlook for 2022. This reflects a number of factors, including higher input prices, supply chain disruptions and high shipping freight rate costs, which have contributed to rising input price inflation pressures. Consequently, the Bank of Korea has signalled that some further tightening of monetary policy is likely in 2022. Higher policy rates are also expected to help curb risks of a property sector bubble.

An additional challenge is that the recovery of South Korean trade in services is expected to be delayed and protracted, with continued international travel restrictions in some key markets in the Asia-Pacific region, notably mainland China which has been a key source of international tourism visitors prior to the pandemic. The current pandemic restrictions and lockdowns in various parts of China will continue to constrain any early recovery in Chinese tourism visits to South Korea.

Medium-term outlook and key risks

Over the medium-term outlook, South Korean exports are expected to grow at a rapid pace, helped by the sustained strong growth of intra-regional trade within APAC, as China, India and ASEAN continue to be among the world's fastest-growing emerging markets. South Korea's strong competitive advantage in exporting key electronics products, notably semiconductors and displays, as well as autos and auto parts, are expected to be an important positive factor underpinning export growth.

The rapid growth of South Korean exports is also expected to be strengthened by the APAC regional trade liberalization architecture. This includes the large recent RCEP multilateral trade agreement and major bilateral FTAs. The RCEP trade deal, which South Korea has ratified, entered into effect from 1st January 2022 for the first ten ratifying members, and from 1st February 2022 for South Korea.

South Korea is also actively evaluating the possibility of applying to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) trade agreement and has begun unofficial bilateral talks with the CPTPP member nations to prepare for its potential formal membership application. The South Korean Government signed the written resolution for South Korea's CPTPP application at the 228th Economic Ministers' Meeting held on April 15. The South Korean government plans to proceed with domestic procedures for CPTPP application and report to the National Assembly in accordance with commercial treaty laws prior to an official submission of its CPTPP application.

A key macroeconomic risk to the South Korean economy over the medium to long-term outlook continues to be from the high level of household debt as a share of disposable income. This has risen to 200% by 2020, the fifth highest amongst all OECD countries. A key factor driving this debt ratio higher has been large mortgage lending flows for residential property purchases. This has fuelled rising property prices and has led to fears of a speculative property bubble. Such a high household debt ratio creates macroeconomic vulnerability to further significant monetary policy tightening in a high inflation scenario.

Managing the energy transition towards renewable energy is also a key policy priority for South Korea. South Korea has already been at the forefront globally in planning initiatives to develop hydrogen as a key future fuel source for domestic power generation.

Among South Korea's greatest economic challenges will be long-term demographic ageing, which will have severe implications for South Korea's economy and society. The number of seniors aged 65 or over has already reached 16.5% of the population and by 2025 is projected to rise to 20% of the population. Meanwhile the working age population (aged 15 to 64) is declining as a share of the total population, from 71.4% in 2021 to a projected 55.7% by 2041.

Demographic ageing has already contributed to the moderation of South Korea's potential GDP growth rate from around 7% per year in the mid-1990s to around 2.5% per year by 2021. South Korea's potential growth rate could drop to a range of around 1% to 1.5% per year by 2050 due to demographic ageing.

Consequently, structural reforms to increase the potential growth rate will be a key policy priority over the medium term. These reforms would include policy changes to lift the labour force participation rate, improve services sector productivity, accelerate digitalization and further boost the adoption of industrial automation.

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