PMI™
by **S&P Global**

Week Ahead Economic Preview

FOMC & Bank of England meetings plus flash PMIs in focus

19 September 2022

Three of the largest five economies will hold their central bank meetings this week, including the US, Japan and the UK. Attention very much focuses on the Fed after last week's higher than anticipated inflation figure. Other scheduled central bank meetings include the Philippines, Indonesia, Hong Kong SAR, Switzerland, Brazil and Taiwan. The week will end with flash PMIs for the UK, US, Japan, Eurozone and Australia, which will give a key indication into economic performance at the end of the third quarter.

The US FOMC meeting returns as falling energy costs failed to offset surging prices in other categories, meaning inflation held higher than expected at 8.3%. Subsequently, the Fed's aggressive stance is expected continue with markets pricing in a third consecutive 75 bp hike, though a 100-point rise is also on the table. Interest rates are expected to reach 4.25% by the end of 2022.

Havin been postponed due to the death of Her Majesty Queen Elizabeth II, the Bank of England meeting will take place for which markets will be eager to see the assessed impact of the energy price cap on the bank's inflation projections. That said, the cap is unlikely to impact the bank's immediate policy decision, for which markets are predicting a 50-basis point hike. In contrast to the US, UK inflation figures came in lower than expected amid falls in fuel costs, resulting in the first CPI dip on an annual basis for almost a year. UK inflation none the less remain close to 40-year highs, with rising food costs a particular concern.
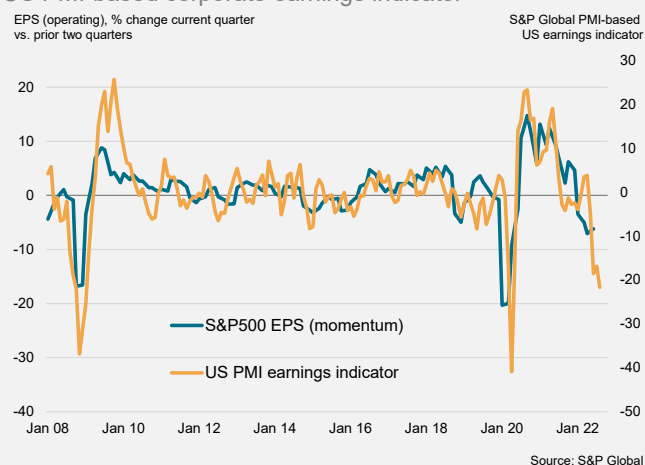
Flash PMIs will be eagerly awaited amid growing recession concerns. Latest IMI data released last week signalled almost 80% of US investors fear a recession. Flash PMIs will not only provide updates in demand, supply conditions and growth, but will also give an update on the inflation front. PMI price indices have retreated across the board in recent months amid easing supply delays and cooling demand, though remain elevated by historical standards. Also watch out for updated consumer confidence figures in Europe.

Finally, inflation figures for Japan will accompany BoJ policy decision, while Canada's retail sales and inflation data will also be released.

Corporate earnings come under pressure amid economic slowdown and sustained inflation

The coming week sees the updating of flash PMI data for the major developed economies, and as usual a key focus will be on the macroeconomic signals from the surveys in terms of GDP, production, employment and inflation. However, the surveys can also provide powerful tools for understanding corporate earnings momentum. By capturing changes in key business metrics such as sales, demand, pricing power, margins and productivity, the PMI surveys can provide very timely signals on underlying trends in profits and earnings, as the chart below illustrates for the US.

US PMI-based corporate earnings indicator

Source: S&P Global

This chart plots a simple composite indicator of earnings drawn from S&P Global's PMI data for the US against earnings per share growth momentum. The indicator, updated in this graphic to August, is currently pointing to the sharpest downward pressure on earnings since the global financial crisis, excluding the initial pandemic lockdown months. This reflects falling demand for goods and services, a margin squeeze from waning demand, declining productivity and a broad reduction of pricing power as supply runs ahead of demand for a wide variety of products and services.

The advantage of the PMI is that earnings indicators such as the above can be compiled for each country and major market sectors, making the upcoming PMI data for September all the more important to watch. Read more in our special report.

Key diary events

Monday 19 September
Japan Market Holiday / UK Market Holiday
Hong Kong SAR Unemployment Rate (Aug)
Eurozone Construction Output (Jul)
United States NAHB Housing Market Index (Sep)

Tuesday 20 September
Japan Inflation (Aug)
Australia RBA Meeting Minutes
Switzerland Balance of Trade (Aug)
Poland Employment Growth (Aug)
Spain Balance of Trade (Jul)
Canada Inflation Rate (Aug)
United Sates Building Permits (Aug)

Wednesday 21 September
Australia Westpac Leading Index (Aug)
Netherlands Consumer Confidence (Sep)
United Kingdom Public Sector Net Borrowing (Aug)
Eurozone ECB Non-Monetary Policy Meeting
United States Fed FOMC Interest Rate Decision, MBA
Mortgage Applications (16/Sep), Existing Home Sales (Aug)
Brazil Interest Rate Decision
New Zealand Balance of Trade (Aug)

Thursday 22 September
Japan BoJ Interest Rate Decision, Foreign Bond Investment
(Sep)
United Kingdom BoE Interest Rate Decision
Hong Kong SAR Interest Rate Decision, Inflation (Aug)
France Business Confidence (Sep)
Eurozone ECB General Council Meeting
Switzerland SNB Interest Rate Decision
Taiwan Interest Rate Decision
Philippines Interest Rate Decision
Norway Norges Bank Interest Rate Inflation Decision
Indonesia Interest Rate Decision
Thailand Balance of Trade
Canada New Housing Prices Index (Aug)
United States Continuing Jobless Claims (10/Sep)
Eurozone Consumer Confidence Flash (Sep)

Friday 23 September
Japan Market Holiday
S&P Global Worldwide Flash PMIs*
United Kingdom Gfk Consumer Confidence (Sep)
Netherlands GDP (Q2)
Singapore Inflation (Aug), Industrial production (Aug)
Spain GDP (Q2)
Switzerland Current Account (Q2)
Poland Unemployment Rate (Aug)
Canada Retail Sales (Jul)

* Press releases of indices produced by S&P Global and relevant sponsors
can be found **here**.

What to watch

Americas: US FOMC meeting, PMIs, housing data, jobless claims, plus Canada retail sales and inflation

The FOMC meeting is the highlight of the week with the Fed expected to announce yet another super-sized hike. Markets are pricing in another 75-bp addition to the Fed Funds Rate. Expectations on the pace of further hikes may, however, be affected by the flash PMIs, which indicated a marked downturn in business activity in August. Also watch the housing market data, including the NAHB index, which has weakened in recent months, and building permits data – where forecasts point to a third monthly contraction.

In Canada, retail sales and inflation will provide an update on the impact of recent aggressive Bank of Canada rate rises. Retail sales growth eased last month while falling gasoline prices relieved some pressure on the prices front.

The Central Bank of Brazil is also expected to implement another hike. The selic rate currently stands at 13.75%.

Europe: UK and eurozone PMIs and consumer sentiment, Spain & Netherlands Q2 GDP

Final Q2 GDP readings for Spain and the Netherlands will come to light on Friday, but it's the more up-to-date September flash PMIs for the UK and Eurozone which will garner most interest, as well as consumer confidence data. The latter is likely to indicate weak consumer sentiment amid the ongoing cost of living crisis. From a policy perspective, the Bank of England will inevitably hike aggressively again, but the rhetoric will be watched closely amid growing signs, not least from the PMI, of a potential recession.

Asia-Pacific: BoJ meeting, Japan and Singapore inflation figures, plus Hong Kong SAR policy rate

Japan and Singapore inflation figures will likely remain elevated. A central bank policy decision in Japan accompanies the inflation update, and the BoJ is expected to maintain ultra-low interest rates despite inflation rising above the target 2% rate (2.6% in August). Meanwhile, in Singapore, inflation is expected to run above-trend between 5-6% this year, with data last month pointing to a 7% rise. This increases the likelihood of a tightening of monetary policy in next month's review.

While Bank Indonesia's (BI) 25bp hike last month went against polls, this month a second consecutive increase is anticipated in efforts to keep inflation under control. It's southern-eastern counterpart – the Philippines – will likely see a 50-bps hike with the Bangko Sentral ng Pilipinas (BSP) set to retain its hawkish tone.

Special reports:

US | Chris Williamson | **page 4**

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Recent PMI and economic analysis from S&P Global

Global	New PMI Comment Tracker dataset reveals key insights into the global supply chain	09-Sep	David Owen
	Monthly PMI Bulletin: September 2022	08-Sep	Lewis Cooper
	Global economy slides into contraction, price pressures ease to 1½ year low	06-Sep	Chris Williamson
	Banking risk monthly outlook: September 2022	08-Sep	Natasha McSwiggan
Americas	US Weekly Economic Commentary: Growth recession	12-Sep	Akshat Goel Ben Herzon Ken Matheny

S&P Global Economics & Country Risk highlights

Weekly Pricing Pulse: Commodity sell-off as data continues to disappoint

Our Materials Price Index (MPI) fell 5.4% last week, with all but one of the index's ten sub-components declining. Markets are growing increasingly anxious about global growth, particularly in mainland China, and continued aggressive monetary tightening in the United States. This sparked the second largest weekly decline in the MPI this year and leaves prices 20% lower than the all-time high established in March 2022. **Click here to read our research and analysis**

Lockdowns and labor issues – the next wave of PMI insights

Local COVID-related lockdowns in mainland China, the war in Ukraine, labour shortages, and supply chain disruptions continue to negatively impact the global economy – especially in China and surrounding geographies. Our PMI surveys are showing some of the steepest reductions in overall Chinese business activity and new orders since the initial wave of the pandemic in 2020. Digging deeper into the underlying numbers, our PMI team discusses what this all means for manufacturing health, labor markets, and local policy. **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 the Solutions section of **www.ihsmarkit.com**. For more information on our PMI business surveys, please visit **www.ihsmarkit.com/products/PMI**

United States

Using S&P Global PMI survey data as an indicator of corporate earnings

PMI survey data produced around the world by S&P Global have an unrivalled reputation for providing advance insights into changing economic conditions, being widely used to anticipate changes in official macroeconomic data such as GDP, industrial production, inflation and employment. However, the surveys can also provide valuable, unique guidance on corporate earnings trends, as illustrated by the following case study from the United States.
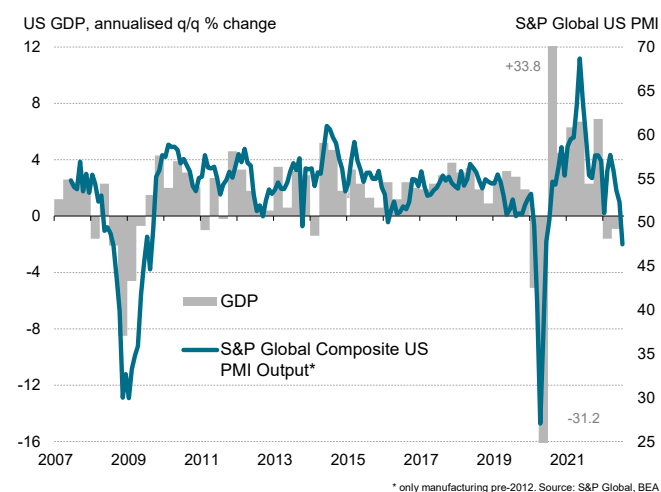
Our PMI-based US earnings indicator exhibits a 74% correlation with changes in reported earnings per share for S&P 500 companies, acting with a lead of several months over the publication of earnings updates to provide analysts with an important monthly steer on corporate performance, anticipating every turning point in earnings over the past 14 years and providing clear insights into actual earnings growth rates.
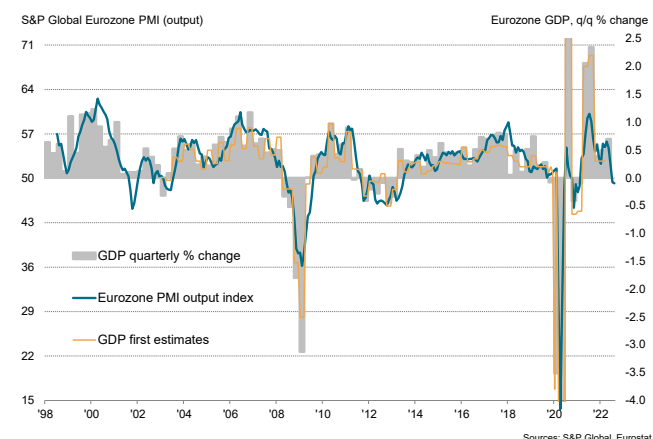
Looking beyond macroeconomics

S&P Global Purchasing Managers' Index (PMI) survey data are widely used around the world by policymakers, governments, investors and businesses as a guide to macroeconomic trends. The headline PMI data and its various sub-indices are commonly watched or incorporated into models to provide advance signals on key economic metrics such as GDP, production, employment, and inflation. As such, the PMIs are among some of the most market-moving economic data published each month.

To illustrate, our charts below plot the composite PMIs from S&P Global (covering output of both manufacturing and services) against GDP for the US and Eurozone. In both cases, it is evident that the PMI data provide useful guides to upcoming GDP data, which are released with a delay and tend to be more volatile than the PMI data, the latter providing a clearer trend to the underlying business cycle than the GDP numbers. Not only can GDP often be distorted by one-off factors such as large trade or inventory swings (as reportedly seen in the US during early 2022), the GDP data are invariably revised after initial publication, often significantly (see Eurozone GDP comparison chart), meaning misleading signals can be sent to economy watchers.

S&P Global composite PMI (manufacturing and services output) vs. US GDP

* only manufacturing pre-2012. Source: S&P Global, BEA

S&P Global composite PMI (manufacturing and services output) vs. Eurozone GDP
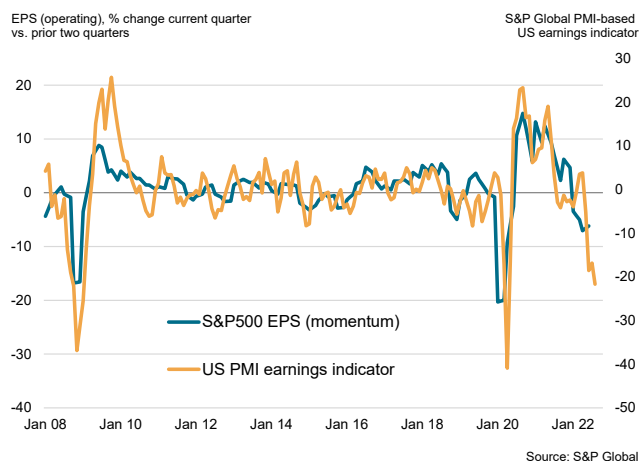

Sources: S&P Global, Eurostat.

However, the surveys can be used beyond the realm of macroeconomic analysis, most notably providing powerful tools for understanding corporate earnings momentum. By capturing changes in key business metrics such as sales, demand, pricing power, margins and productivity, the PMI surveys can provide very timely signals on underlying trends in profits and earnings.

Our chart below plots a simple composite indicator of US corporate earnings drawn from S&P Global's PMI data for the US against earnings growth momentum, as measured by the percentage charge in reported earnings per share (EPS) in any given quarter against the average earnings in the prior two quarters. This metric irons out some of the quarter-to-quarter
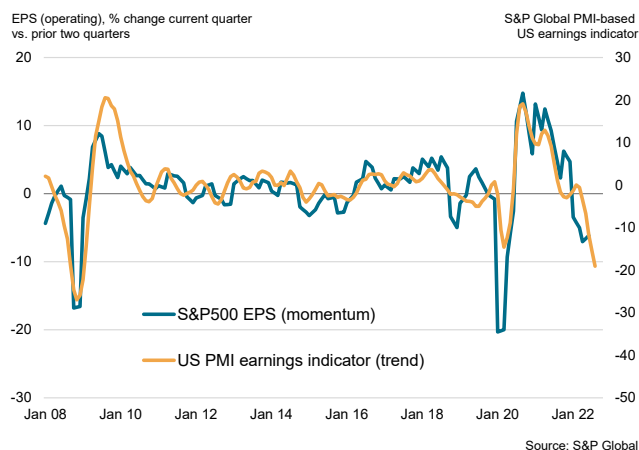
earnings volatility and tends to provide a better guide to actual underlying earnings momentum.

PMI-based corporate earnings indicator

EPS (operating), % change current quarter vs. prior two quarters

S&P Global PMI-based US earnings indicator

- S&P500 EPS (momentum)
- US PMI earnings indicator

Source: S&P Global

We can also look at the trend in the earnings indicator by likewise comparing latest PMI values against the prior six months. This process removes some of the volatility from the earnings indicator to improve the signal quality, and also improves the correlation with EPS, which reaches 74% with the monthly indicator published ahead of the EPS data.

PMI-based corporate earnings indicator, trend

EPS (operating), % change current quarter vs. prior two quarters

S&P Global PMI-based US earnings indicator

- S&P500 EPS (momentum)
- US PMI earnings indicator (trend)
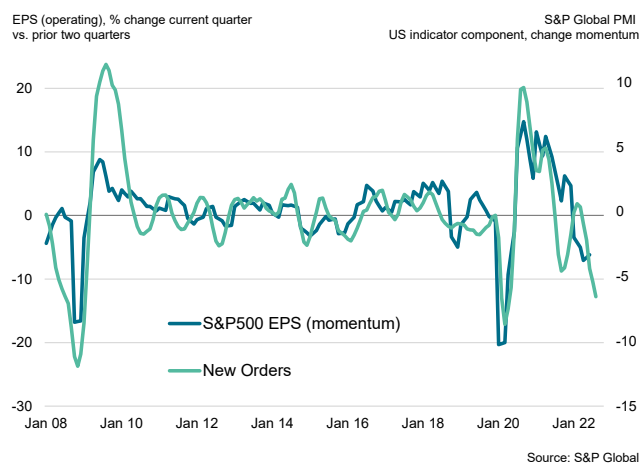
Source: S&P Global

Earnings under pressure

The PMI-based indicator, updated in these graphics to August, is currently pointing to the sharpest downward pressure on earnings since the global financial crisis (excluding the initial pandemic lockdown months in the first comparison).

This reflects falling demand for goods and services, a margin squeeze from cooling selling price inflation, declining productivity and a broad reduction of pricing power as supply runs ahead of demand for a wide variety of products and services.

In more detail, we look at the five components of the PMI-based earnings indicator below.
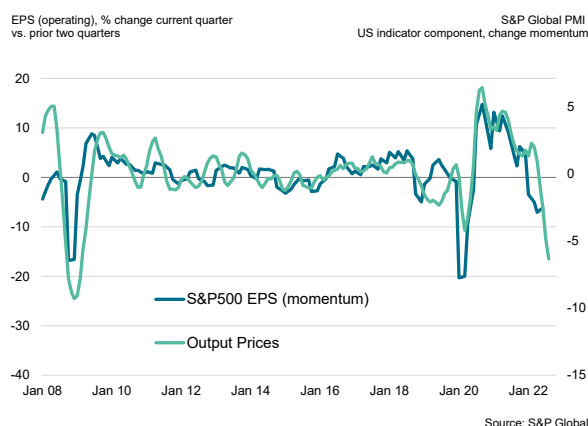
■ **New orders for goods and services (weight 34%)**

New order inflows provide an insight into recent demand conditions, and the survey data have signalled a drop in new orders for both goods and services in August, which means near-term demand growth is now exerting a negative influence on corporate earnings to a degree not seen since the initial months of the pandemic.
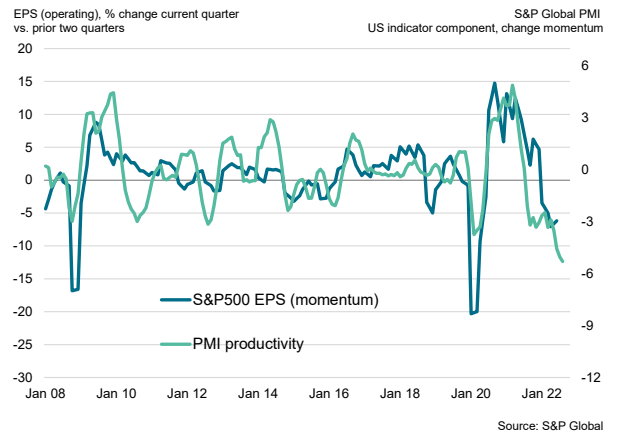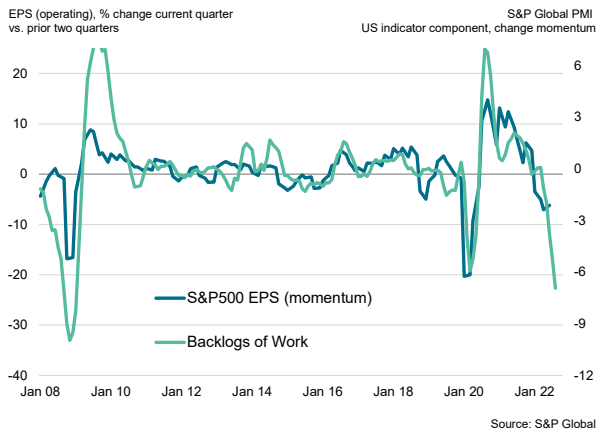
EPS (operating), % change current quarter vs. prior two quarters

S&P Global PMI US indicator component, change momentum

- S&P500 EPS (momentum)
- New Orders

Source: S&P Global

■ **Prices charged for goods and services (weight 24%)**

While output prices have risen sharply during the pandemic, recent months have seen the rate of increase cool markedly, meaning pricing power is now exerting the biggest drag on earnings since 2009, linked in turn to the recent deterioration in demand conditions.

EPS (operating), % change current quarter vs. prior two quarters

S&P Global PMI US indicator component, change momentum

- S&P500 EPS (momentum)
- Output Prices

Source: S&P Global

■ **Backlogs of uncompleted work (weight 24%)**

Backlogs of work indicate the extent to which demand is running ahead of supply, or vice versa. Whereas much of the pandemic period saw demand running ahead of supply, both for goods and services, the situation has now reversed, meaning companies are not only coming under pressure to reduce production (or business activity levels), but are also facing reduced pricing power. The drag to earnings from falling backlogs of work is now in fact the steepest recorded since the global financial crisis.

EPS (operating), % change current quarter vs. prior two quarters — S&P Global PMI US indicator component, change momentum

- S&P500 EPS (momentum)
- Backlogs of Work

Source: S&P Global

EPS (operating), % change current quarter vs. prior two quarters — S&P Global PMI US indicator component, change momentum

- S&P500 EPS (momentum)
- PMI productivity

Source: S&P Global

■ **Supplier performance (weight 10%)**

Supplier performance is measured by the PMI index of supplier delivery times and acts as a proxy for capacity constraints in the economy. Capacity constraints in turn provide a steer on pricing power – and in particular the shifting from a buyers'- to sellers'-market. The pandemic was characterised by supply delays which gave sellers increased pricing power, but in recent months these delays have started to moderate to the extent that a shift to a buyers-market is approaching. Hence the supply performance component of the indicator is now signalling a drag on corporate earnings performance, and to a degree not seen since survey data were first available in 2007.

EPS (operating), % change current quarter vs. prior two quarters — S&P Global PMI US indicator component, change momentum

- S&P500 EPS (momentum)
- PMI delivery times

Source: S&P Global

■ **Labour productivity (weight 7%)**

Output per hour is a key ingredient of corporate profitability and hence earnings growth, thus we use the ratio of the PMI surveys' output and employment sub-indices to provide a gauge of labour productivity in the earnings indicator. Across both manufacturing and services, August saw output decline yet employment continue to rise, albeit at a reduced rate. Hence the surveys are now indicating declining labour productivity in the US, which is therefore exerting a negative influence on earnings. The degree of this negative pull is the strongest recorded since survey data were first available in 2007.

Application to all major economies and stock market sectors

The advantage of the PMI is that earnings indicators such as the simple model described above can be compiled for each country and all major market sectors covered by the surveys. This can therefore provide an unrivalled tool with which to determine and benchmark corporate performance, to build sector rotation models and improve decision making - both from policy and investment perspectives.

S&P Global national PMI coverage

Manufacturing	Services	Whole Economy / *Non-oil	Construction
Australia	Australia	Egypt*	France
Austria	Brazil	Ghana	Germany
Brazil	China (mainland)	Hong Kong SAR	Ireland
Canada	France	Kenya	Italy
China (mainland)	Germany	Lebanon	United Kingdom
Colombia	India	Mozambique	
Czech Republic	Ireland	Nigeria	
France	Italy	Qatar*	
Germany	Japan	Saudi Arabia*	
Greece	Kazakhstan	Singapore	
India	Russia	South Africa	
Indonesia	Spain	Uganda	
Ireland	United Kingdom	United Arab Emirates*	
Italy	United States	Zambia	
Japan			
Kazakhstan			
Malaysia			
Mexico			
Myanmar			
Netherlands			
Philippines			
Poland			
Russia			
South Korea			
Spain			
Taiwan			
Thailand			
Turkey			
United Kingdom			
United States			
Vietnam			

S&P global market sector coverage

INDUSTRIES
Basic Materials
Consumer Goods
Consumer Services
Financial services
Healthcare
Industrials
Technology
Telecom Services

SECTORS
Autos & Parts
Banks
Basic Material Resources
Beverages
Beverages & Food
Chemicals
Commercial & Prof. Services
Construction Materials
Food
General Industrials
Healthcare Services
Household & Personal Use Products
Industrial Goods
Industrial Services
Insurance
Machinery & Equipment
Media
Metals & Mining
Other Financials
Paper & Forest Products
Pharmaceuticals & Biotech.
Real Estate
Software & Services
Technology Equipment
Tourism & recreation
Transportation

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Links to more resources

- **[Sign up to receive updated commentary in your inbox here](#)**.

- **[Calendar of upcoming PMI releases](#)**

- **[Running commentary on the PMI survey findings](#)**

- **[PMI Frequently Asked Questions](#)**

- **[Background to the PMIs (video)](#)**

- **[Understanding the headline PMI and its various subindices](#)**

- **[PMI data use-case illustrations](#)**, from nowcasting to investment strategy

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