Economic Preview: Week of 1 February 2021

Publication date: 29 January 2021

Week Ahead Economic Preview

- **Worldwide manufacturing and services PMIs**
- **US non-farm payrolls**
- **Central bank rate setting meetings include the UK, Australia and India**
- **Eurozone fourth quarter GDP**

A full economic calendar for the week kicks off with worldwide PMI surveys and closes with the monthly US nonfarm payroll report. Sandwiched between are policy decisions from three of the world's major central banks.

The PMI surveys will be closely watched, having shown escalating risks of double dip recessions in the eurozone and UK as tightening COVID-19 restrictions constrain economies again, albeit to markedly lesser extents than in early 2020. Global growth has shown encouraging resilience though, thanks to sustained strong expansions in many other economies, notably including the US and China. The weak spot remains consumer services, and in particular cross-border services, such as travel and tourism (a full overview of the December PMIs is available here)

For the US, economic insights into the performance of the economy from the IHS Markit and ISM manufacturing and services PMIs are accompanied by the official labour market data. Analysts are anticipating a renewed rise in nonfarm payrolls after the slide into decline recorded in December, but the jobs numbers are expected to remain subdued compared to prior months in the recovery (page 3).

In Europe, the Bank of England is expected to follow in the footsteps of the FOMC, stressing the need to policy to remain accommodative long into the future as the pandemic poses ongoing risks. In the UK, Brexit disruptions have added to the country's third lockdown woes, driving output sharply lower in January (page 4).

Similarly in Asia, the reserve banks of India and Australia are likely to lean towards dovish stances. Although both economies have shown strong rebounds since the initial impact of the pandemic, policymakers remain worried about the potential for renewed weakness amid further waves of the virus either at home or abroad. Supply delays have also muddied the water for policymakers somewhat, meaning recent PMI data will also be eyed for indications that supply constraints and associated spike in prices for many goods will have started to ease (more on page 5).

Special Reports

The Asia-Pacific Trade Outlook in 2021: APAC merchandise exports are forecast to show a strong rebound in 2021,bvut COVID-19 restrictions hint at a more protracted and gradual recovery path for trade in services (page 6)

Upcoming PMI releases

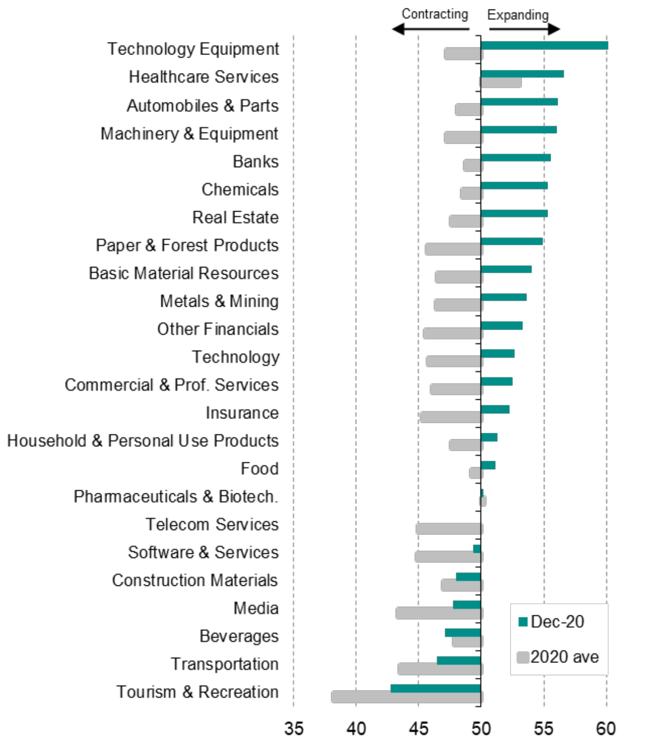
1st February: Final Worldwide Manufacturing PMIs

3rd February: Final Worldwide Services PMIs

4th February: Detailed Global Sector PMIs

Worldwide PMI data will not only reveal national winners and losers in terms of the ongoing economic effects of COVID-19, but will also give fresh insights into which sectors are recovering, and which remain heavily impacted.

IHS Markit Global PMI, sector output index



Source: IHS Markit

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Key diary events

Monday 1 February

Worldwide manufacturing PMIs (Jan)
South Korea trade balance (Dec)
Australia home loans (Dec)
Indonesia consumer price inflation (Dec)
Sweden GDP (Q4)
Germany retail sales (Dec)
Italy unemployment (Dec)
UK consumer credit, mortgage approvals and money supply (Dec)
Eurozone unemployment (Dec)
India trade balance (Dec)
US construction spending (Dec)
Brazil trade balance (Dec)

Tuesday 2 February

South Korea consumer price inflation (Dec)
France consumer price inflation (Dec)
Spain unemployment (Dec)
Australia interest rate decision
Czech Republic interest rate decision
Ireland consumer price inflation (Dec)
Italy GDP (Q4)
Eurozone GDP (Q4)

Wednesday 3 February

Worldwide services and composite PMIs (Jan)
Thailand interest rate decision
US total vehicle sales (Jan)
New Zealand labour market report (Q4)
Australia building permits (Dec)
ECB non-monetary policy meeting
Italy consumer price inflation (Dec)
Eurozone consumer price inflation (Dec)
Eurozone producer price inflation (Dec)
Poland interest rate decision
US mortgage applications

Thursday 4 February

Worldwide detailed sector PMIs (Jan))
New Zealand building permits (Dec)
Australia trade balance (Dec)
UK construction PMI
Eurozone retail sales (Dec)
UK Bank of England interest rate decision and meeting minutes
US jobless claims
US unit labour costs (Q4)
US factory orders (Dec)

Friday 5 February

Japan household spending (Dec)
Philippines consumer price inflation (Dec)
Australia RBA monetary policy statement
Australia retail sales (Dec)
Indonesia GDP (Q4)
India RBI interest rate decision
Germany factory orders (Dec)
France trade balance (Dec)
UK Halifax house price index (Jan)
Italy retail sales (Dec)
US employment report (Jan)
US trade balance (Dec)
Canada unemployment (Jan)
Canada trade balance (Dec)

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United States Week Ahead

PMIs and nonfarm payrolls

By Siân Jones

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The economic calendar for the first week of February is topped by the release of final PMI data for January, providing an early insight into the health of the US private sector, and closes with the monthly employment reporting, including non-farm payrolls, wages and unemployment data. Speeches from Fed policymakers Williams and Rosenberg will also be widely watched.

PMIs

PMI data from both IHS Markit and ISM will give a detailed picture of business conditions across the private sector. Earlier released 'flash' data signalled notable improvements both in services – aided in part by rising consumer spending, boosted in part by COVID-19 stimulus cheques – as well as the manufacturing sector, where reports of stronger demand and greater confidence in the outlook among customers led to the placing of orders previously put on hold due to the pandemic. Encouragingly, a number of firms also reported that a conclusion to the presidential election result had brought with it a reduction in uncertainty regarding the year-ahead outlook, boosting business activity.

The survey data will also be eyed for the impact of increasingly widespread shipping and supply chain delays, which have in turn led to increased prices, notably in the manufacturing sector.

Employment data

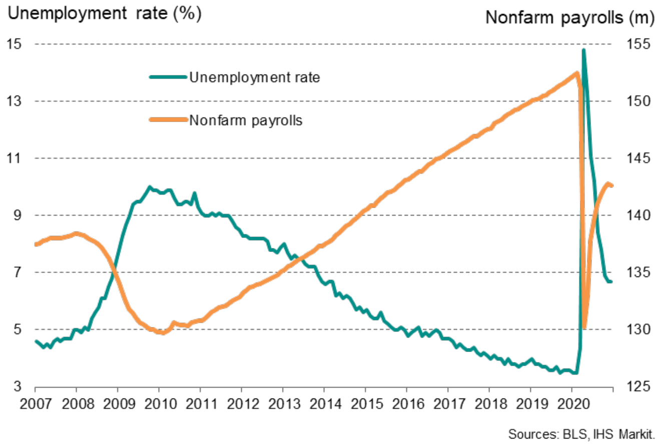
The economic release calendar is also packed full of updates to employment data, with the publication of updates to non-farm payrolls, ADP employment data, the rate of unemployment, average earnings and weekly jobless claims.

A rise in nonfarm payrolls is expected after the 140k fall in December, which was the first decline since April though consensus estimates are coming in slightly below 100k, hinting at a still-weak labour market. Employee earnings growth is meanwhile expected to have weakened and the unemployment rate held at 6.7% (its lowest since March).

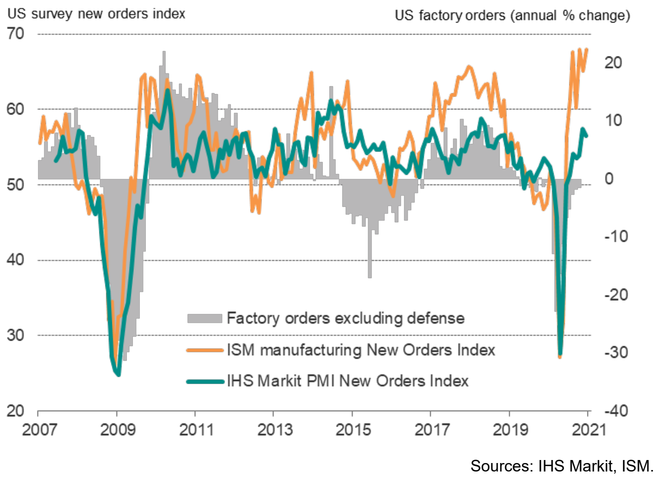
Watch out also for official construction spending, factory orders and trade data.

Private sector regained growth momentum at the beginning of 2021, according to January 'flash' PMI data

Nonfarm payrolls are expected to have risen relatively modestly in January, making up for only part of the 140k drop seen in December



Survey data point to solid underlying trends in factory orders growth



Europe Week Ahead

PMIs, BoE monetary policy, eurozone unemployment and GDP

By Paul Smith

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It's a busy week ahead in European economics, with a range of soft and hard data due for release. Highlights include January PMI numbers, fourth quarter Eurozone GDP, as well as December unemployment and retail sales data. The Bank of England also meets for the first time in 2021.

BoE monetary policy, housing market

BoE policymakers convene with the UK in another national lockdown and inevitable downward pressure on economic activity. The retail sector suffered its worst year on record in 2020, swathes of the hospitality sector remain shuttered and, according to January flash PMI data, the pace of economic contraction is currently the fastest since last May. Adding to the pain is the unwinding of Brexit stockpiling and severe delays in the receipt and export of goods due to a combination of the pandemic and the adjustment to the new trading terms with the EU.

Faced with all of this, policymakers will inevitably continue to provide loose monetary policy in January, and for many months to come. But with borrowing at rock bottom levels, plus ongoing tax incentives and structural demand changes for larger living spaces, the UK housing market has been supercharged. Whilst there were signs of a plateauing in activity at the end of 2020, expect various housing market statistics to remain robust this coming week.

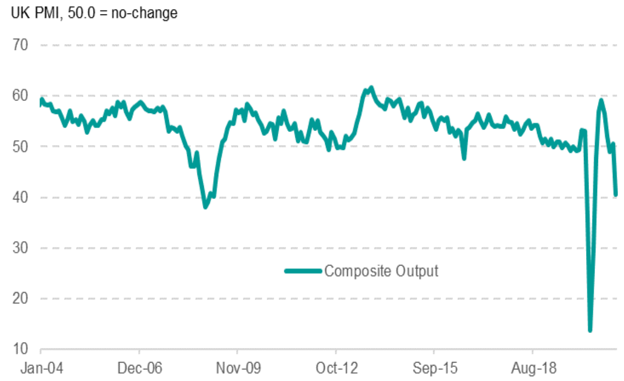
EZ GDP, PMI, retail sales, unemployment

In the eurozone, fourth quarter GDP for both the single currency area and Italy are released and look set to show quarterly declines, albeit at less severe rates than earlier in 2020, given the relatively better performance of PMIs compared to the initial months of the pandemic.

Detailed January PMI figures will also provide new insights into country level economic trends. Local restrictions designed to deal with COVID-19 have continued to weigh on activity levels, especially in the areas of hospitality and retail (December data for which are also released next week).

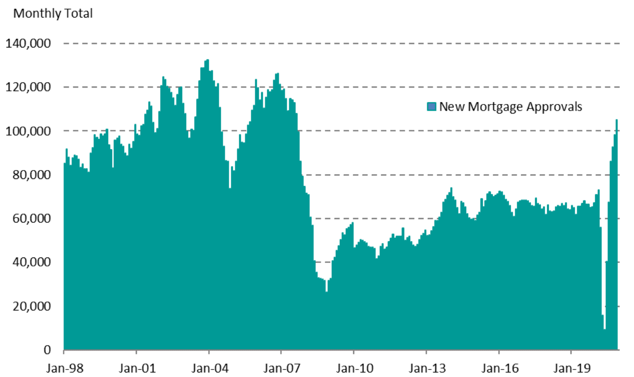
Finally, with joblessness continuing to rise, albeit at slower rates recently, on balance official December euro area unemployment figures seem likely to tick higher.

The Bank of England will meet for the first time in 2021 with the economy in the midst of a fresh downturn…



Source: CIPS/IHS Markit

…although loose monetary policy, tax incentives and structural demand changes have supercharged housing market activity to levels not seen since before 2008



Source: Bank of England

The Eurozone economy is expected to have contracted in the fourth quarter due mainly to ongoing weakness in retail and hospitality sectors

Source: Eurostat

Asia Pacific Week Ahead

India and Australia monetary policy decisions, plus APAC PMI data

By Chris Williamson

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A broad sweep of PMI data for Asia Pacific includes pan-regional manufacturing surveys plus service sector updates for China, Japan, India and Australia. The latter two countries also see monetary policy decisions during the week, as does Thailand.

Other data to watch include fourth quarter GDP for Indonesia, inflation updates from South Korea, the Philippines and Indonesia, as well as trade numbers for Australia, South Korea and India.

RBA to sound cautiously optimistic tone

The Reserve Bank of Australia is expected to hold interest rates at an all-time low of 0.1%, with the consensus also expecting an extension of the asset purchase programme which is set to end in April. The central bank is nevertheless likely to have been encouraged in terms of economic prospects, given recent upbeat survey data showing sustained strong growth at the start of the year, with sales supported by pent-up demand, particularly in manufacturing. Communication, including a speech by Governor Lowe will be watched, however, to gauge the level of concern over potential weakness from overseas.

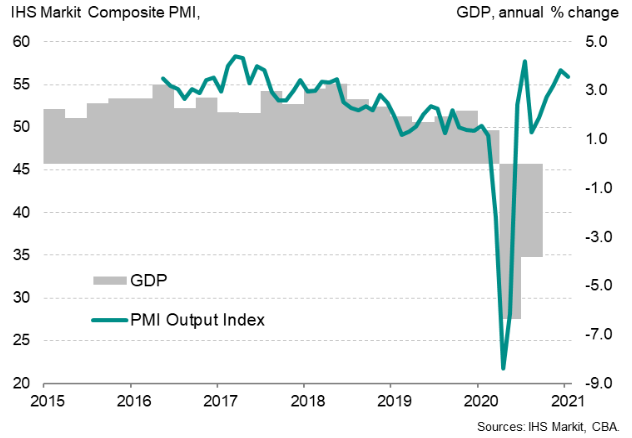
RBI faced with inflation constraint

The Reserve Bank of India meanwhile meets to set interest rates at a time of the economy showing some signs of softening again. Higher frequency indicators such as industrial production and the PMI surveys have weakened after springing back from the pandemic downturn in the first half of 2021. The concern is that inflation remains above the Bank's 4% target, albeit easing from 6.9% in November to 4.6% in December. PMI data for manufacturing and services will therefore be eagerly assessed, both in terms of economic growth and inflation trends. Input costs showed the sharpest rate of ncrease for over six years in December.

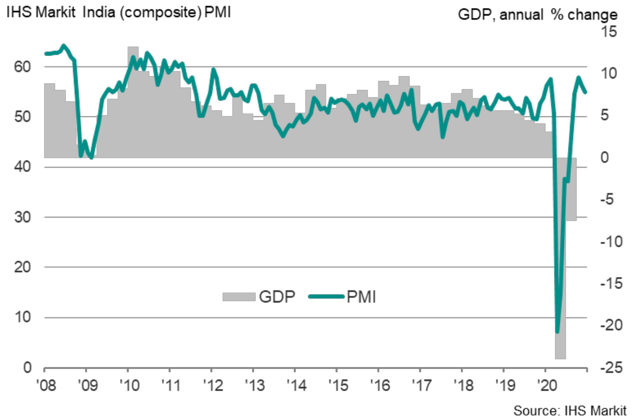
Asia manufacturing data

The PMI surveys will also be closely eyed for the latest indications of pan-APAC manufacturing and trade trends. While the region has seen factories enjoying strong growth in recent months, supply constraints and shipping delays have stymied trade for many goods (see special report on page 6).

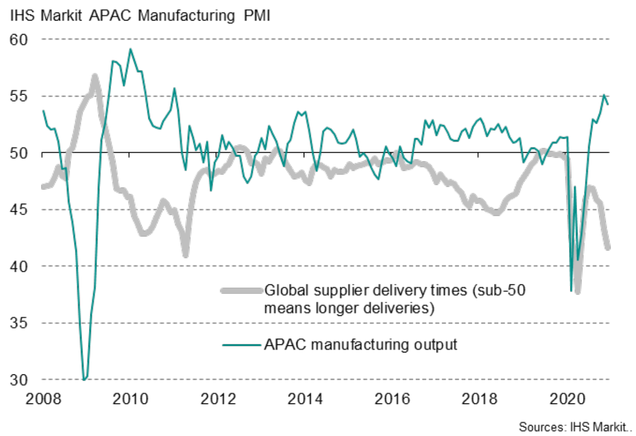
Australian policymakers meet amid signs of the domestic recovery remaining robust. An extension of the current quantitative easing programme is expected.



India's economy has rebounded sharply but is showing tentative signs of weakening again, putting pressure on the central bank to add more stimulus.



APAC manufacturing enjoyed strong growth in the latter half of 2020 but is being constrained by shipping delays and supply shortages



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APAC
Special Focus

The Asia-Pacific Trade Outlook in 2021

By Rajiv Biswas

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With world GDP forecast to rebound to positive growth of 4.4% y/y in 2021 after a contraction of 4.0% y/y in 2020, this is expected to provide a boost to the export sectors of many export-driven Asia-Pacific (APAC) economies. The rebound in economic growth in advanced economies such as the US, EU, UK and Canada linked to the rapid rollout of vaccination programs during the first half of 2021 is expected to support improving APAC new export orders to key export markets in North America and Europe.

This is expected to support the growth of exports of manufactured goods and commodities through the course of 2021. APAC merchandise exports are forecast to show a strong rebound of 9.4% y/y in 2021, after contracting by 3% y/y in 2020. IHS Markit estimates that global trade volume contracted by 11.2% in 2020. A recovery is forecast in 2021 and 2022, with global trade volume to recover by 7.5% and 4.1%, respectively.

However international travel restrictions are still expected to remain a major impediment to the recovery of international tourism and travel in the APAC region during 2021. This is expected to result in a more protracted and gradual recovery path for trade in services for many APAC economies.

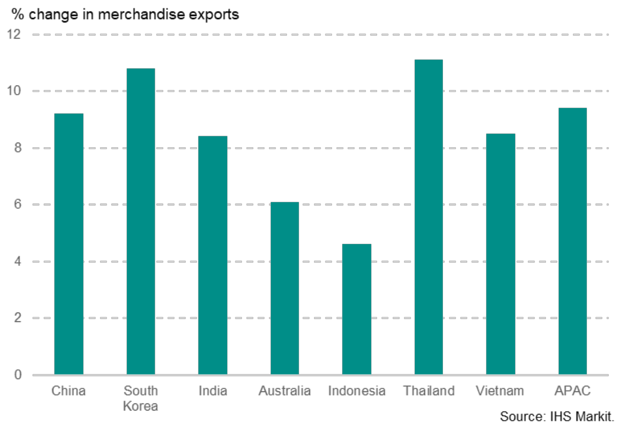
Recovery in APAC exports

The Asia-Pacific (APAC) region experienced a severe recession in 2020 due to the COVID-19 pandemic, with APAC GDP contracting by an estimated 1.5% year-on-year (y/y). Pandemic-related lockdowns and travel bans had a severe negative impact on the economies of most APAC nations during the first half of 2020. However, during the second half of 2020, many Asia-Pacific economies had shown a significant recovery in economic momentum. This upturn was driven both by strengthening global export demand as well as the rebound in domestic consumption spending as a result of the easing of pandemic-related restrictions in many countries.

A strong economic recovery is expected in 2021, with APAC GDP growth forecast at 5.7% y/y, based on expectations that the progressive rollout of COVID-19 vaccines during 2021 will help the gradual recovery of economic activity in many OECD and APAC economies.

A key factor underpinning the strong economic rebound in the APAC region is expected to be buoyant economic growth in China, which is forecast to grow at 7.5% y/y in 2021. The Asia-Pacific recovery is expected to be broad-based, with most major Asia-Pacific economies forecast to show rapid growth in 2021.

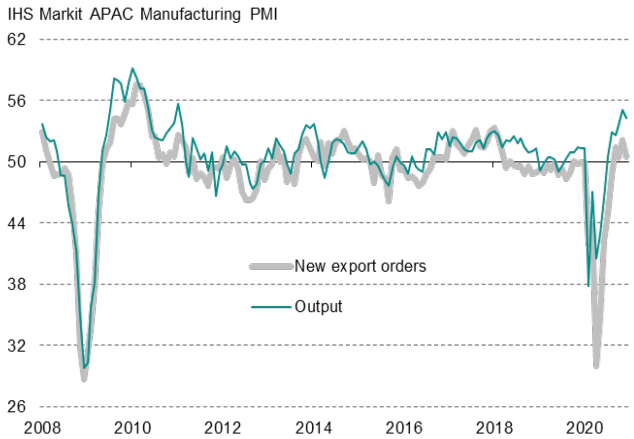
APAC Export Growth Forecast, 2021



Source: IHS Markit.

The improving economic momentum in the APAC region has been reflected by IHS Markit's APAC PMI survey index of manufacturing output, which has recovered strongly in recent months. The index has signaled the most robust expansion of production in a decade during the closing months of 2020, albeit with the rate of expansion cooling slightly in December 2020, though this was in part due to shipping delays caused by the sheer strength of demand.

APAC manufacturing output and new export orders



Sources: IHS Markit..

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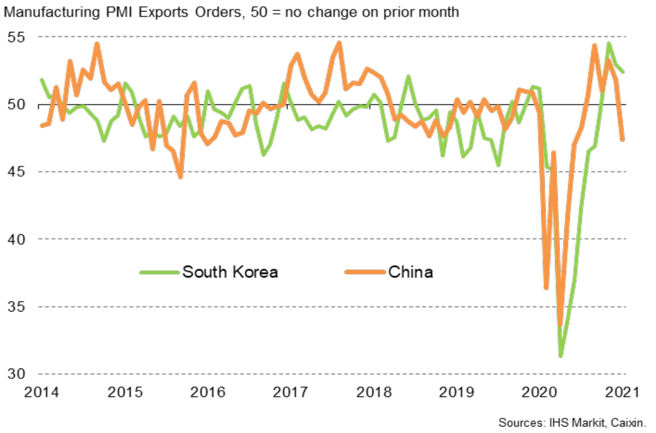
Manufacturing PMI: New Export Orders

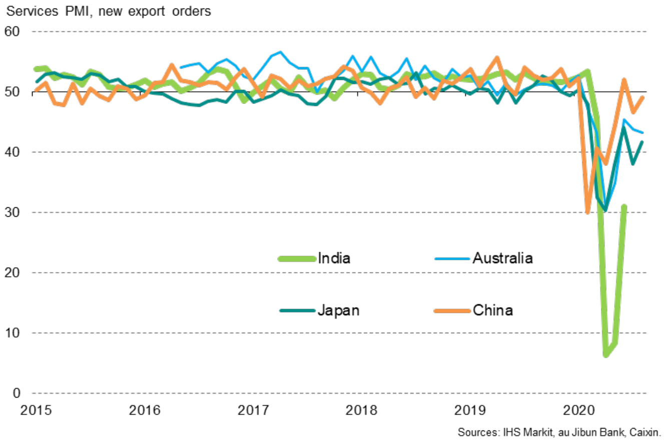


The export rebound has been reflected in recent trade data from many APAC economies. For mainland China, merchandise exports rose by 18.1% y/y in December 2020, following a 21.1% y/y growth rate in November. South Korea's exports have also rebounded, rising by 12.6% y/y in December 2020. Taiwan's exports rose by 12% y/y in December, the sixth consecutive month of positive export growth, buoyed by a 22.2% y/y rise in exports of electronics.

In the ASEAN region, Singapore's non-oil domestic merchandise exports have also shown an upturn, rising by 6.8% y/y in December, helped by a 13.7% y/y rise in electronics exports. Vietnam's merchandise exports showed buoyant growth in December, rising by 22.7% y/y, helped by rapid growth of 24.1% y/y for exports of computers and electrical equipment.

The recovery of APAC trade in services is expected to be much slower and protracted than for merchandise exports. International travel restrictions are still expected to remain a major impediment to the recovery of international tourism and business travel for many economies in the APAC region during 2021. The re-opening of international travel is expected to be more selective in the APAC region, on a bilateral basis between countries that have implemented widespread vaccination programs.

Services PMI New Export Orders



The path of APAC export recovery is therefore likely to be uneven across different industry sectors, with manufacturing and commodities exports leading the recovery, while some service sector exports such as the tourism and commercial aviation sectors are expected to have more gradual recovery paths.

APAC electronics sector exports rebound

The electronics manufacturing industry is an important part of the manufacturing export sector for many ASEAN economies, including Malaysia, Singapore, Philippines, Thailand and Vietnam. Furthermore, the electronics supply chain is highly integrated across different economies, with China being an important supplier of intermediate electronics parts for a number of Southeast Asian electronics sectors.

Despite severe disruptions to Asian electronics production and to global demand due to the pandemic during the first half of 2020, the IHS Markit Global Electronics PMI has signaled a rebound since mid-2020. The global electronics PMI new orders index rose from a calendar year-to-date low of 35.0 in May to a level of 54.3 by December, reflecting a significant recovery in new orders. The electronics sector rebound is making an important contribution to the recovery of manufacturing exports and industrial production in many ASEAN industrial economies.

This rebound in global electronics demand has been reflected in Singapore's electronics manufacturing exports. Singapore's domestic electronics exports rose by 13.7% y/y in December 2020, with electronics exports to the US up 20.4% y/y while exports to the EU rose by 17.5% y/y.

In Vietnam, exports of computers, electrical equipment and parts rose by 24.4% y/y in the eleven months to November 2020, as global demand for computer equipment surged due to the pandemic and the shift towards remote working by workers worldwide.

In Malaysia, exports of electrical and electronic products, which accounted for 40% of total merchandise exports, were up 23.6% y/y in November 2020. Malaysia's exports of electrical and electronic products to the rest of ASEAN rose by 36.6% y/y.

The Ministry of Trade, Industry and Energy announce that Korea's November exports of information and communications technology (ICT) goods amounted to USD 16.6 billion, up 15.8% compared to the same period last year.

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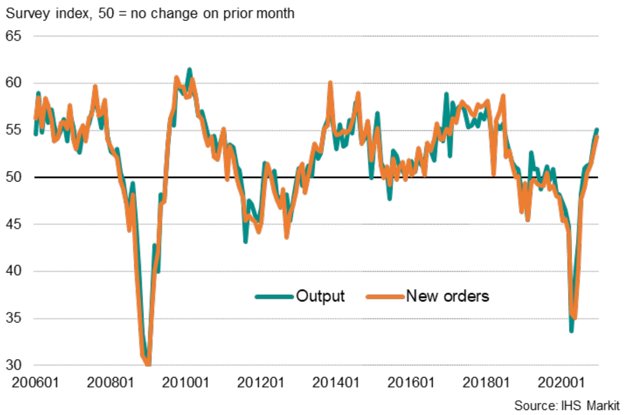
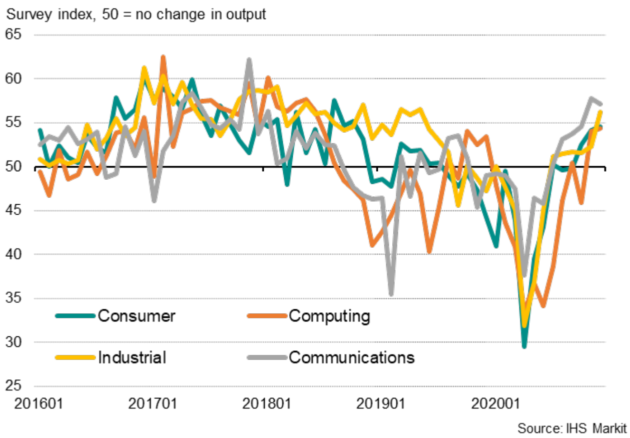
IHS Markit Global Electronics PMI, output and new orders



IHS Markit Global Electronics PMI, output by product type



APAC trade outlook

The central case global economic scenario for 2021 is positive, with the world economy forecast to show improving momentum through the course of 2021 as COVID-19 vaccination programs are rolled out. Many of the world's largest economies, including the US, EU, Japan, China and India, are expected to be rapidly progressing with vaccination programs during the first half of 2021.

This should allow domestic demand to strengthen in these nations, with gradual easing of lockdown conditions in countries in this grouping that are currently experiencing significant new waves of COVID-19 cases. Consequently, this should help to support the strong rebound in world merchandise exports during 2021, which are forecast to grow at a pace of 11.3% y/y following a severe contraction of 9.2% y/y in 2020.

With many of the East Asian economies, such as China, Japan and South Korea, having large manufacturing export sectors, the upturn in global trade will help to support the rebound of manufacturing exports. This will also support demand for industrial raw materials from APAC commodity-exporting nations such as Australia and Indonesia.

However, the recovery of APAC trade in services is expected to be delayed and protracted, as international travel restrictions continue to constrain any early recovery in exports of tourism and commercial aviation, which are an important component of total services exports for many APAC economies.

Over the medium-term outlook, APAC 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.

The rapid growth of APAC exports is also expected to be strengthened by the regional trade liberalization architecture. A wide range of bilateral and multilateral trade liberalization initiatives have either been implemented or are planned in APAC. This includes the large recent CPTPP and RCEP multilateral trade agreements and an increasing number of major bilateral FTAs such as the recent EU-Vietnam FTA and the Indonesia-Australia Comprehensive Economic Partnership Agreement.

However regional geopolitical tensions do pose risks to bilateral trade development between some APAC nations. The recent China-India border clash has impacted on bilateral trade and investment flows, while the China-Australia trade war has hit Australian exports of a wide range of commodities to China. Nevertheless, the long-term outlook for APAC trade growth remains very positive, boosted by the continued rapid long-term growth forecast for the APAC region over the next decade.