IHS Markit

11 February 2022

Week Ahead Economic Preview

Fed minutes, UK, China inflation data and eurozone, Japan GDP

The week ahead finds the focus on the **January US Fed FOMC minutes**, while **UK and China January inflation data** will be key economic figures to track. Fourth quarter **GDP** readings from the **eurozone and Japan** are also lined up while **US releases retail sales, industrial production and PPI data** through the week.

US equity investors remain risk averse according to our latest February IHS Markit Investment Manager Index™ (IMI™), concerned with the macro environment and policy tightening at a time of escalating geopolitical tensions. Next week's Fed minutes will therefore be scoured for further insights on the Fed's path post the expected March rate hike. As far as January's survey data suggested, the US continues to experience strong price increases, but the global economy could see inflation pressures persist as growth slows, highlighting the possibility that central bankers could be hiking into a slowdown. US housing market, retail sales and industrial production will therefore be keenly eyed for clues as to the US growth trajectory.

Policymakers in the UK are meanwhile divided as to how aggressively to tighten policy, and a batch of statistics ranging from inflation to the labour market and retail sales will add to the UK policy debate.

Meanwhile, ahead of the Winter Olympics in January China had seen the Omicron wave disrupting manufacturing sector operations. Manufacturing output fell, though price pressures eased in tandem, pointing to lowered producer prices readings in the upcoming release this week.

Chris Williamson
Chief Business Economist, IHS Markit
chris.williamson@ihsmarkit.com

Jingyi Pan
Economics Associate Director, IHS Markit
jingyi.pan@ihsmarkit.com

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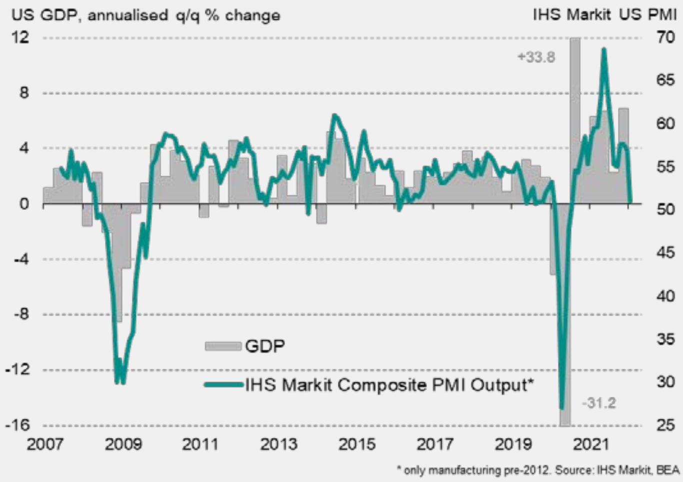
Gauging the Omicron impact in the US

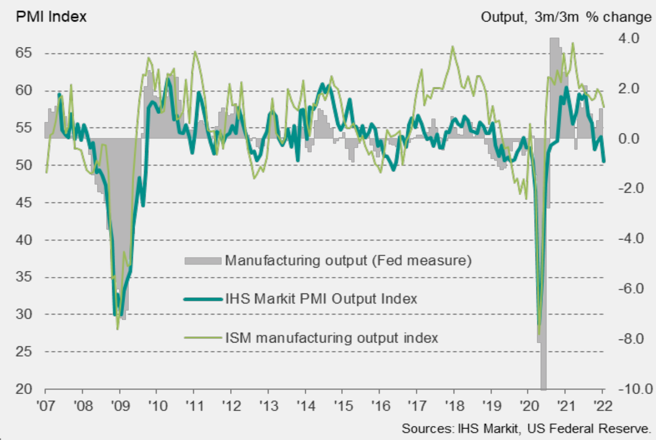
Two key releases in the coming week will be industrial production and retail sales for the US, which will provide insights into economic trends and GDP growth in the first quarter so far. The official data follow IHS Markit and ISM survey gauges showing the US economy being hit by the surge in COVID-19 cases linked to the Omicron variant in January. However, the two surveys give markedly different pictures of the extent of the hit, with the ISM survey indicating a far less marked slowing than the IHS Markit index. The former has tended to overstate manufacturing performance in recent years, suggesting the IHS Markit index is providing a more accurate picture of a factory sector that is reeling under the disruptions caused by the latest virus wave.

Read more about the latest signals here with a more in-depth analysis of how the ISM and IHS Markit surveys compare here .

US GDP and the IHS Markit PMI (manufacturing & services)



US manufacturing vs. IHS Markit PMI and ISM surveys



Key diary events

Monday 14 Feb

Japan Market Holiday
India Inflation (Jan)

Tuesday 15 Feb

Australia RBA Minutes (Feb)
Japan GDP (Q4)
South Korea Export Growth (Jan)
Indonesia Trade (Jan)
United Kingdom Labour Market Report (Dec)
Germany ZEW Economic Sentiment (Feb)
Eurozone GDP (Q4, flash)
United States PPI (Jan)

Wednesday 16 Feb

Thailand Market Holiday
China (Mainland) CPI, PPI (Jan)
United Kingdom Inflation (Jan)
Norway GDP Growth (Q4)
Eurozone Industrial Production (Dec)
United States Retail Sales (Jan)
Canada CPI Inflation (Jan)
Canada Manufacturing Sales (Dec)
Canada Wholesale Trade (Dec)
United States Industrial Production (Jan)
United States Fed FOMC Minutes (Jan)

Thursday 17 Feb

Japan Machinery Orders (Dec)
Japan Trade (Jan)
Australia Employment (Jan)
Singapore Non-Oil Exports (Jan)
Philippines Policy Interest Rate (17 Feb)
United States Housing Starts (Jan)
United States Initial Jobless Claims

Friday 18 Feb

New Zealand PPI (Q4)
Japan CPI (Jan)
Singapore Budget (2022)
United Kingdom Retail Sales (Jan)
Canada Retail Sales (Dec)
United States Existing Home Sales (Jan)
Eurozone Consumer Confidence (Feb, flash)

* *Press releases of indices produced by IHS Markit and relevant sponsors can be found here.*

What to watch

- **North America: Fed minutes, US retail sales, industrial production, PPI**

  January's Federal Open Market Committee (FOMC) minutes will be scrutinised for details of the Fed's tightening path. A hawkish tone adopted by Fed chair Jerome Powell in his press conference coupled with recent comments from Fed members have led to heightened speculation of a 50-basis point hike in March, which will be steeper than earlier expected. Any further suggestions of the likelihood will be key, although IHS Markit continues to forecast only a 25-basis point hike for the March FOMC meeting.

  Meanwhile January retail sales, industrial production and PPI data will also be released in the coming week, ones to watch after survey gauges indicated that the US manufacturing sector and services have been affected by the Omicron variant's disruptions.

- **Europe: Eurozone Q4 GDP, consumer confidence, UK labour and inflation data, German ZEW survey**

  The new estimate for Q4 GDP from the eurozone will be in focus next week with the consensus pointing to sluggish 0.3% quarterly growth.

  Meanwhile with IHS Markit/CIPS UK PMI data for January showing services selling prices inflation at a survey-record high, the official UK CPI update is likely to rise from the current 5.4% annual rate and add to the odds of a further imminent Bank of England rate hike. UK retail sales and labour market data are also released to add further to the policy debate among an MPC which is split on how quickly to raise interest rates.

- **Asia-Pacific: China inflation, Japan Q4 GDP**

  CPI and PPI figures will also be due from China in the coming week for a month where the manufacturing powerhouse saw output fall into decline amid the Omicron wave. In turn, price pressures in the manufacturing sector eased, which is in line with the consensus view for PPI to fall to 9.4% from 10.3% previously, in part reflecting government intervention.

  Japan Q4 GDP will be due on Tuesday with the consensus pointing to a rebound to 1.4% growth following the third quarter's -0.9% print.

Special reports:

Global Economic Slowdown Led by Slump in Consumer Services Activity **Chris Williamson** | **page 4**

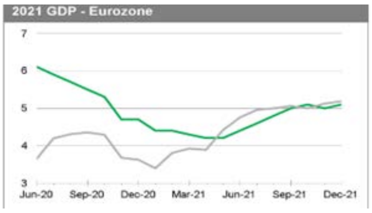
Australia: Surging Exports Drive Trade Surplus **Rajiv Biswas** | **page 6**

Recent PMI and economic analysis from IHS Markit

Global	[Monthly PMI Bulletin: February 2022]	8-Feb	Chris Williamson, Jingyi Pan
	[Global food price inflation reaches all-time high amid record supply shortages]	7-Feb	Chris Williamson
	[Global economy sees inflation pressures persist as growth slows]	7-Feb	Chris Williamson
	[Omicron wave pushes global economic growth to 1½ year low in January]	7-Feb	Chris Williamson
US	[U.S. manufacturing production hit by Omicron, but survey gauges differ on scale of January slowdown]	2-Feb	Chris Williamson
	[US economy accelerated prior to Omicron, but renewed weakness apparent]	27-Jan	Chris Williamson
APAC	[China manufacturing sector falls into decline amid Omicron wave, job losses accelerate]	31-Jan	Chris Williamson
Commodities	[Weekly Pricing Pulse: Strength in energy offsets softness in broader commodity markets]	2-Feb	Thomas McCartin

IHS Markit Economics & Country Risk highlights

Top-10 economic predictions for 2021 – An accuracy assessment



The following is an evaluation of IHS Markit's "Top-10 economic predictions for 2021", published in December 2020.For each of the 10 predictions, a brief characterisation and an explanation of what occurred over the year and how it contrasts with our prediction is included to add further detail.

For IHS Markit subscribers, one can contact CustomerCare@ihsmarkit.com for access.

[Click here to read our strategic report]

US regional economic expectations for 2022: Employment, housing, and inflation

Regional US economies made strides in their post-pandemic recoveries over the course of 2021, but the unpredictable evolution of the virus threw a wrench in many states' rebounds. Here is a look at our headline expectations for 2022.

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[Click here to read our research and analysis]

Get Your Money's Worth: Using PMI Data to Assess Currency Valuation

Our PMI data have long been used to accurately nowcast by relying on its early release -- well in advance of comparable official data -- and its standardized methodology. Our analysts are now using these same attributes to explore how PMI data could help establish whether a currency is over, under, or valued just right.

[Click here to listen to this podcast by IHS Markit Economics & Country Risk team]

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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

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PMI™ By IHS Markit

Special Focus

Global Economic Slowdown Led by Slump in Consumer Services Activity

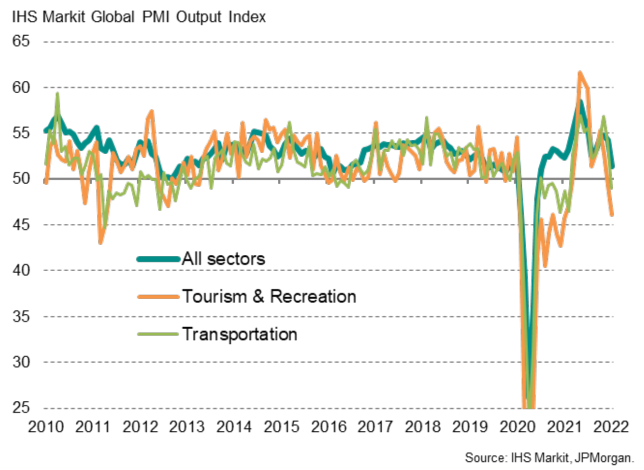
Chris Williamson

Chief Business Economist, IHS Markit

Email: chris.williamson@ihsmarkit.com

IHS Markit's PMI data showed worldwide economic growth faltering to the lowest for one and a half year in January as the Omicron wave disrupted business activity. Detailed sector data from the PMI reveal how consumer-facing industries were the hardest hit, with tourism and recreation reporting by far the steepest downturn. However, many other sectors saw output trend deteriorate during the month amid widespread staff and materials shortages, as well as weakened demand, though these may also be the sectors poised to rebound the fastest once the Omicron wave passes.

Global PMI output indices



Source: IHS Markit, JPMorgan.

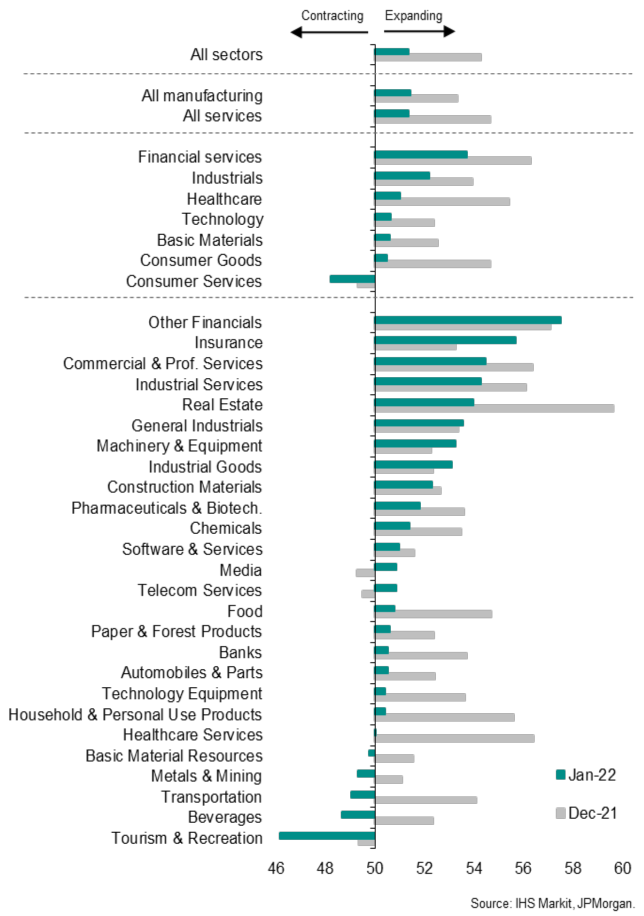
IHS Markit's global sector PMI data cover every major developed and emerging economy, based on monthly questionnaires completed by a panel of over 30,000 companies in over 40 countries. The survey data are best known for providing the first indications of national and global economic trends, but also provide unique insights in detailed sectors of the global and regional economies.

Of the 26 detailed sectors and sub-sectors covered by the global PMI database, five reported falling output in January, with the steepest decline reported by tourism & recreation services companies, followed by drinks manufacturers and then transportation companies. Metals & mining and basic material resources firms also reported falling production levels. Output growth meanwhile slowed in a further 14 of the 26 sectors.

Consequently, output growth slowed in six of the seven broad industry classifications from which the detailed sectors are drawn, while consumer services recorded a further decline in output.

The strongest growth was meanwhile reported by financial services firms, led by non-banking ("other") financial services and insurance, two of only seven sectors which saw output growth accelerate during the month.

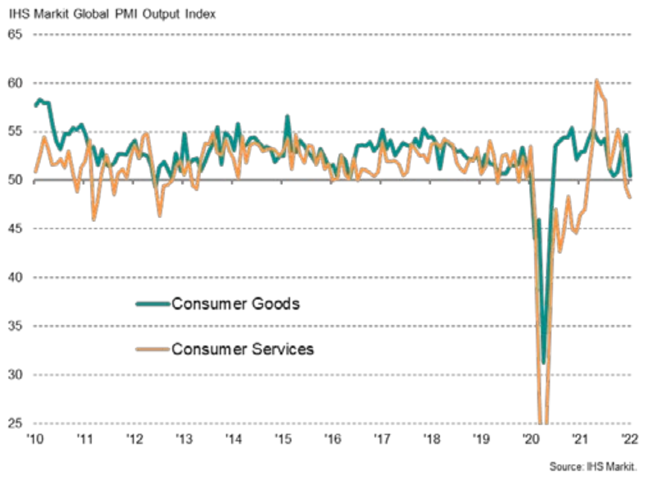
Global PMI output index sector rankings



Source: IHS Markit, JPMorgan.

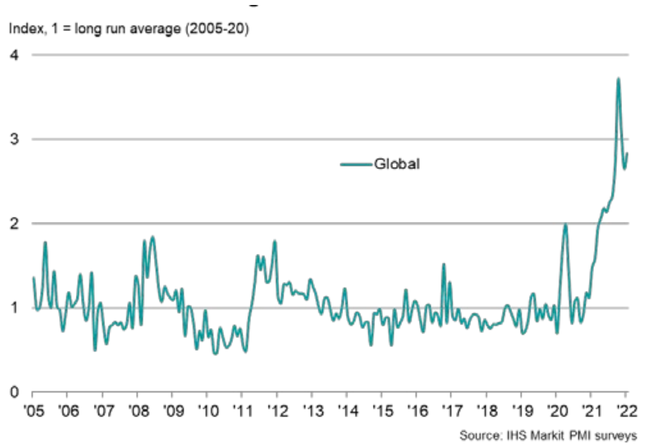
The January data coincided with the Omicron wave of the COVID-19 virus which led to increased consumer caution as well as greater government virus containment measures. With record number of infections recorded in many countries, the downturns in tourism, recreation, transportation and the wider consumer services industry grouping were the steepest since the lockdowns of early-2021.

Global PMI consumer output indices



However, an additional impact of the pandemic was on the supply of both materials and staff, with illness and government health protection measures once again stymieing output across the world. The proportion of companies reporting that business activity was constrained by either staff or materials shortages rose in January, remaining below last October's peak yet running far higher than at any time prior to the past few months.

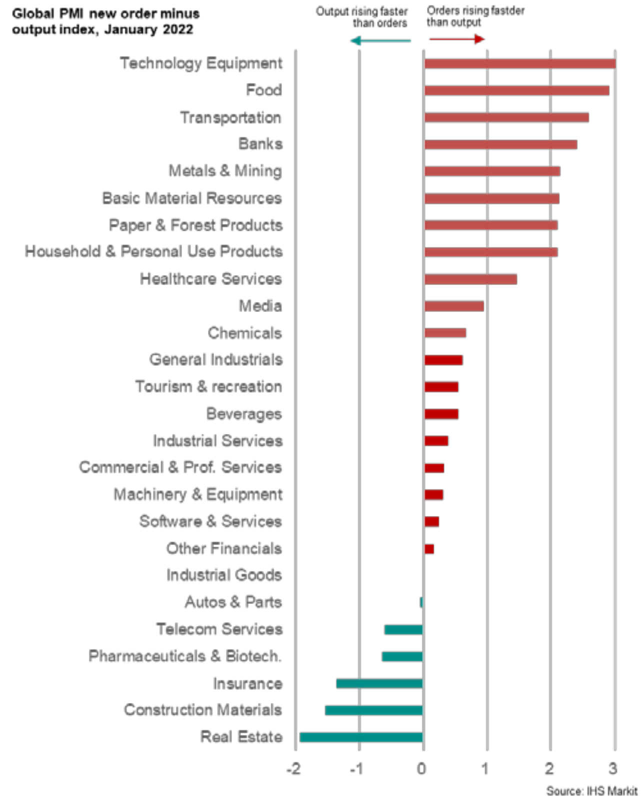
Global companies reporting lower output due to material or staff shortages



To get an indication of which sectors are seeing the greatest constraints on their activity, we can compare the latest change in output against the latest change in demand, the latter measured by the survey's gauge of new orders. If new orders are rising faster than output is growing, the survey data suggest that activity is being constrained, most likely by supply shortages or COVID-19 restrictions.

The analysis reveals that tech equipment manufacturers are the most constrained at present, followed by food manufacturers and transportation services.

Most constrained sectors



It is perhaps no surprise that some of these most constrained sectors are also seeing the steepest price rises, as constrained supply feeds through to improved pricing power. [This is perhaps of greatest concern in the food sector, given the importance of food prices to the cost of living and social stability, with January seeing a record increase in prices charged for food globally.]

More encouragingly, these are likely to also be the sectors that rebound most sharply when the Omicron wave, and its associated health restrictions ease, pointing to improved revenue growth for these companies.

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Special Focus

Australia: Surging Exports Drive Trade Surplus

Rajiv Biswas

Asia Pacific Chief Economist, IHS Markit

Email: rajiv.biswas@ihsmarkit.com

Australian exports in calendar 2021 were buoyed by higher prices for a range of key Australian commodities, notably iron ore and coal. This has helped to deliver monthly trade surpluses throughout 2021. For calendar year 2021, the total annual trade surplus for goods and services amounted to AUD 122 billion, up 66% year-on-year.

Despite the impact of ongoing trade frictions with China since 2020, Australia's merchandise exports to China also recorded strong growth, rising by around 21 percent year-on-year. Consequently, Australia's bilateral trade surplus with China widened significantly in 2021, to an estimated USD 64 billion.

Australia's exports buoyed by higher commodity prices

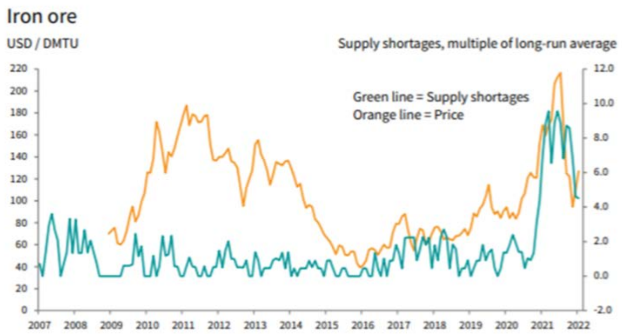
Rising prices for key Australian commodity exports helped to boost total Australian resources and energy exports by 29% in the 2021 calendar year. Trade statistics from the Australian Bureau of Statistics (ABS) indicated that Australian resources and energy exports reached AUD 349 billion in 2021.

High iron ore prices during 2021 were a key factor that boosted total Australian export values, notably during the first half of 2021.Total iron ore exports were estimated at AUD 154 billion for calendar 2021, up 32% on the previous year.

The Australian iron ore price reaching a peak of USD 237 per tonne in May 2021 as supply-side disruptions persisted for Brazilian iron ore exports. Although Australian iron ore prices fell significantly during the second half of 2021, there has been another price rebound during early 2022, pushing the iron ore price back to around USD 150 per tonne by mid-February 2022, up 24% month-on-month (m/m) in January 2022 and 55% higher over the previous three months.

The rebound in iron ore prices reflected a number of factors, including traditional renewed Chinese demand following the end of the Lunar New Year holiday season, as well as news that Chinese authorities had delayed the government target for steel industry peak carbon emissions from 2025 to 2030.

Iron ore price and supply shortages



Source: IHS Markit Price & Supply Monitor, February 2022

Mainland China's imports of Australian LNG have also reached record levels. In the 2020-21 financial year, Australian LNG exports to mainland China reached 30.7 million tonnes, up 7.3% year-on-year (y/y). This has made mainland China the largest LNG export market for Australia.

China-Australia trade frictions

Mainland China has become by far the largest export market for Australia, accounting for 39% of Australia's total goods exports by 2019-20, according to the Australian Bureau of Statistics. The importance of mainland China as an export market for Australia has increased dramatically over the past two decades, with Australian exports of goods and services to mainland China having grown from just AUD 8.8 billion in the 2000-01 financial year to AUD 168 billion in the 2019-20 financial year.

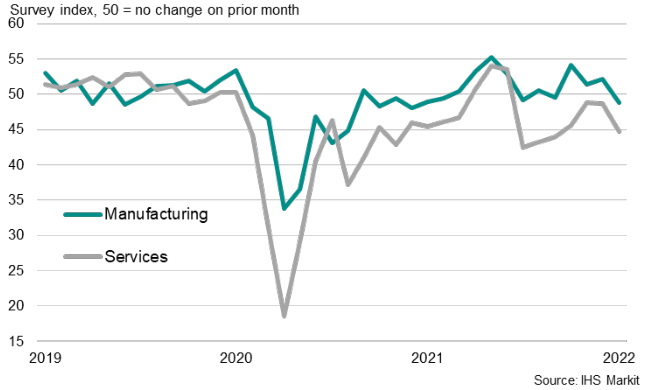
Consequently, Australia has become increasingly vulnerable to trade sanctions by China on its exports. Due to escalating frictions on a wide range of issues, bilateral trade tensions have increased significantly during 2020-21.

In May 2020, the Chinese government imposed punitive tariffs on Australian exports of barley to China, amounting to a combined 80.5% tariff on Australian barley. China's General Administration of Customs said barley shipments from Australia would be halted after they stated that pests were found on multiple occasions.

There has been a more intense escalation in trade measures by China in relation to Australian products since early November 2020. These measures, which included unofficial guidelines to Chinese importers as well as other non-tariff measures such as customs procedures, created considerable concern amongst Australian exporters of a wide range of products. The scope of the Chinese policy measures included coal, beef, seafood and wine, three product categories for which mainland China is Australia's largest end market.

With key Australian exports of services such as international education and tourism to mainland China already having been disrupted due to the COVID-19 pandemic and the hard border closures during 2020 and 2021, the focus of China's trade policy actions has been on Australian exports of goods.

IHS Markit Australia PMI export orders



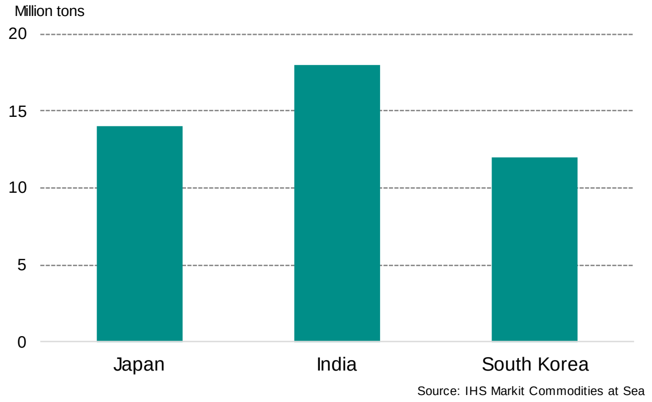
However, the impact on some Australian export sectors has been mitigated by diversification of exports towards other major markets. This has been particularly notable for Australian coal exports.

Even during 2019, there had been some temporary disruptions of Australian coal shipments to certain Chinese ports, with long delays in permission to unload Australian coal cargoes at Chinese ports. These disruptions became much more severe during the second half of 2020. The situation deteriorated further in 2021, with Chinese imports of Australian coal coming to a complete halt, apart from permission to unload some coal cargoes that had been waiting at Chinese ports.

As a result, China's imports of Australian coal fell from 73 million tonnes in 2020 to just 5 million tonnes in 2021. According to IHS Markit Commodities at Sea tracking of cargoes, there were no new Australian shipments of coal to mainland China in 2021. However, this was almost entirely offset by increased Australian coal export shipments to the key markets of India, Japan and South Korea, as well as higher exports to a number of other markets worldwide.

Furthermore, due to surging world prices for seaborne traded coal, the total value of Australian coal exports worldwide actually rose by USD 14 billion in 2021, up 41% y/y. Consequently, the impact of the loss of the China coal market in 2021 was relatively easily absorbed by Australia's coal industry.

Increase in Australian coal shipments in 2021

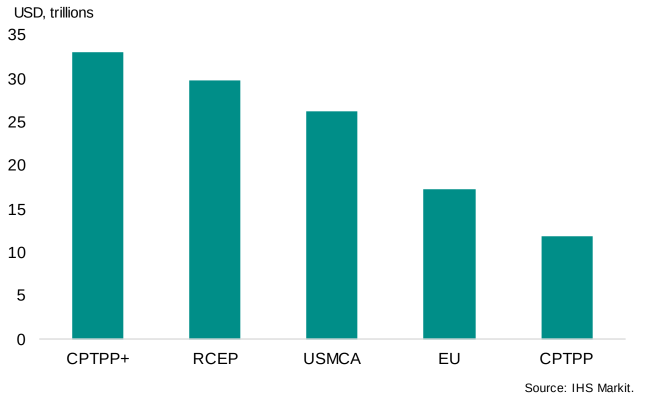


However, for some other Australian exports like wine and rock lobster, China has become such a dominant export market that it has proven to be very difficult to diversify exports to other markets. Australian wine exports to China fell by 97% y/y in 2021, resulting in total Australian wine exports declining by 30% in 2021.

The outlook for China-Australia trade relations

The current state of China-Australia bilateral trade frictions may be characterized as asymmetric in nature since Australia has not responded with retaliatory bilateral trade measures. Instead, Australia has sought redress through established WTO trade dispute resolution processes in relation to China's anti-dumping and countervailing duties imposed upon Australian wine and barley exports. However, since total Australian exports to China have actually risen by around 21% in value terms in 2021, Australia has been able to demonstrate a certain sangfroid in spite of the bilateral trade tensions.

Size of regional FTAs by total GDP



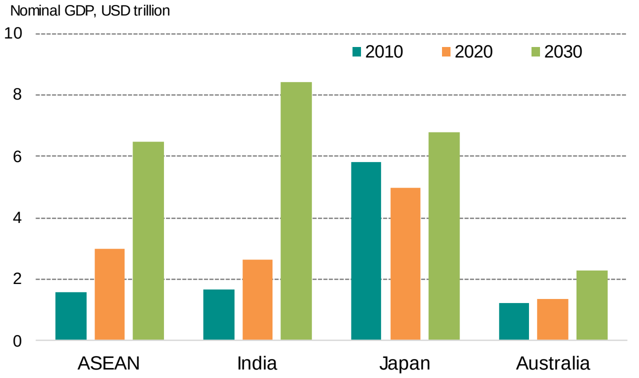
In the medium term, it is to be hoped that China and Australia can repair bilateral trade ties and improve economic co-operation, particularly since both are members of the recently implemented Regional Comprehensive Economic Partnership (RCEP) mega trade deal for the Asia-Pacific region. RCEP is a trade liberalization initiative among 15 Asia-Pacific economies which together account for around 29% of world GDP. The RCEP members comprise China, Australia, the 10 ASEAN members, plus Japan, South Korea, and New Zealand.

Moreover, China has also applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), another mega trade deal, of which Australia is already a member. A rapprochement between China and Australia on bilateral trade frictions would therefore help to strengthen the foundations of future regional trade liberalization initiatives in the Asia-Pacific region.

Australia's trade diversification

Australia has a growing network of free trade agreements with key trade partners, including through Australia's membership of the RCEP and CPTPP, which will help Australia's export diversification. One important recent FTA is the bilateral free trade agreement with Indonesia, the Indonesia-Australia Comprehensive Economic Partnership Agreement, which is expected to significantly improve market access for Australian exports to this nation, which is one of the world's largest emerging markets.

Size of ASEAN and India economies by 2030



Source: IHS Markit.

Despite the tremendous challenges of significantly diversifying its export markets, Australia will benefit from its proximity to many large consumer markets across the Asia-Pacific region. India is already the world's sixth largest economy, with GDP amounting to around USD 3 trillion, with its consumer market forecast to grow strongly over the next decade. The ASEAN region has also become a very large consumer market with a total regional GDP of USD 3 trillion and a population of around 660 million. The combined GDP of ASEAN and India reached USD 6 trillion by 2020, or around four times larger than Australia's GDP. By 2030, the combined GDP of ASEAN and India is forecast to reach USD 15 trillion, making these markets high priorities for Australia's export diversification strategy over the decade ahead.