

Week Ahead Economic Preview

Fed, ECB, BoE, BoJ meetings plus flash PMIs and China updates

December flash PMIs will be released in a week packed with **central bank meetings across the US, UK, eurozone, Japan** and more. Other scheduled economic releases include **US retail sales, UK inflation and labour market** data plus **eurozone industrial production**. In APAC, **China's industrial output and retail sales** will be published alongside **Japan's Q4 Tankan** survey.

Clues as to the impact of the COVID-19 Omicron variant will be sought in the coming week. Hopes that Omicron may be less detrimental to the economy than earlier variants has supported markets in recent sessions, but there remains much uncertainty. While the Omicron variant's developments look set to remain a key market driver in the short-term, the attention is expected to be split with the FOMC meeting. This is particularly so after recent upbeat economic data, with Fed chair Powell's recent hawkish comments shaking markets.

Over in Europe the BoE and ECB meet with no changes to monetary policy expected in the upcoming meetings amid concerns over the Omicron variant, though the BoE in particular may see differing views. This follows the RBA this week, stating that economic recovery in Australia is expected to push through the Omicron episode. UK inflation figures will also be eagerly awaited following [November's record PMI survey input cost inflation](#), with the monthly labour market report also viewed for signs of rising wage pressures.

China's retail sales and industrial production will meanwhile be updated and will come under scrutiny amid growing concerns over slowing growth.

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Early Omicron impact assessment

The first wave of major economic indicators since the news of the Omicron variant are issued in the coming week via the flash PMI surveys. Tracking business conditions in the US, eurozone, Japan, the UK and Australia between 6-14 December, the survey collection period clearly only provides very early insights since the new variant began to spread around the world, but we will be tracking four issues in particular.

First, the PMI data will be eyed for clues as to the impact of the new variant spread on services activity. November's PMI data showed service sectors growing robustly, especially in the US and UK, albeit with eurozone services data already turning lower on the back of rising COVID-19 case numbers.

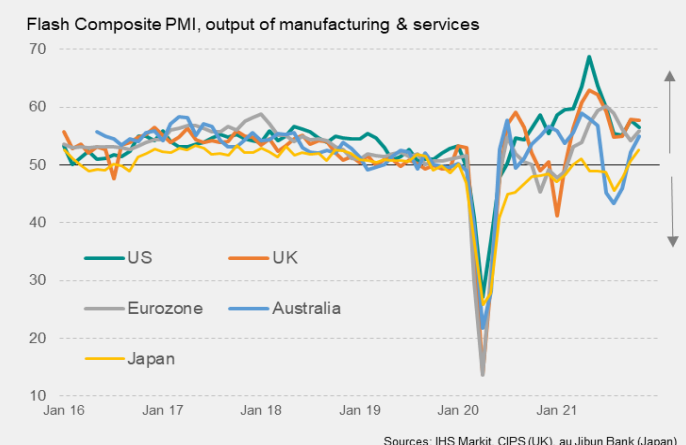
Second, the flash survey data will provide insights into whether supply chains are being disrupted by further COVID-19 waves. November data had shown encouraging signs of production reviving in Asia after Delta wave related disruptions, but rising Omicron waves could derail these recoveries.

Third, there are concerns that any diversion of spending away from services back to goods, and any renewed supply chain disruptions, could generate further upward inflationary pressures. Any drop in labour supply associated with rising infections could also push up wages. Hence the PMIs input cost and selling price indices will be keenly watched, especially after November's data showed a further acceleration of global input cost inflation.

Finally, the flash PMI survey's gauges on future output expectations will be assessed for any hit from Omicron to business sentiment, which could in turn feed through to weaker output, demand, hiring and investment trends.

Flash PMI data are published 16th December. A recap of November's data [is available here](#).

November flash PMI output indicators



Key diary events

Monday 13 Dec

Japan Tankan Index (Q4)
India CPI Inflation (Nov)

Tuesday 14 Dec

India WPI Inflation (Nov)
United Kingdom labour market report (Oct)
Eurozone Industrial Production (Oct)
United States PPI (Nov)

Wednesday 15 Dec

New Zealand Current Account (Q3)
China (Mainland) Retail Sales, Industrial Output and Urban Investment (Nov)
Indonesia Trade Balance (Nov)
United Kingdom Inflation (Nov)
Indonesia 7-Day Reverse Repo (Dec)
United States Import Prices (Nov)
United States Retail Sales (Nov)
Canada CPI Inflation (Nov)
United States Business Inventories (Oct)
United States Fed Funds Target Rate (15 Dec)

Thursday 16 Dec

Australia IHS Markit Flash PMI, Manufacturing & Services*
Japan au Jibun Bank Flash Manufacturing PMI*
UK CIPS/IHS Markit Flash PMI, Manufacturing & Services*
Germany IHS Markit Flash PMI, Manufacturing & Services*
France IHS Markit Flash PMI, Manufacturing & Services*
Eurozone IHS Markit Flash PMI, Manufacturing & Services*
US IHS Markit Flash PMI, Manufacturing & Services*
New Zealand GDP (Q3)
Japan Trade Balance (Nov)
Australia Employment and Unemployment Rate (Nov)
Philippines Policy Interest Rate (16 Dec)
Taiwan Discount Rate (Q4)
Switzerland SNB Policy Rate (Q4)
Norway Key Policy Rate (16 Dec)
United Kingdom BoE Bank Rate (Dec)
Eurozone ECB Deposit and Refinancing Rate (Dec)
United States Initial Jobless Claims
Canada Wholesale Trade (Oct)
United States Industrial Production (Nov)

Friday 17 Dec

Singapore Non-Oil Exports (Nov)
Germany Producer Prices (Nov)
Germany Ifo Business Climate (Dec)
Eurozone HICP (Nov, final)
Japan JP BoJ Rate Decision (17 Dec)

* Press releases of indices produced by IHS Markit and relevant sponsors can be found [here](#).

What to watch

Flash December PMIs

Flash PMIs for December will be released on Thursday across the US, UK, eurozone and APAC economies - Australia and Japan. [November PMIs showed that the global economy expanded at a faster pace](#) though signs of supply constraints persisted, particularly in the US and Europe, prior to the onset of the COVID-19 Omicron uncertainties. With COVID-19 cases having been rising into December, the flash PMIs will be eagerly awaited for an early indication on the health of the various economies and the supply chain situation.

North America: Fed FOMC decision, US retail sales

The final Fed FOMC meeting of 2021 takes place next week with the policy statement and Fed chair Jerome Powell's press conference to follow the conclusion of Wednesday's gathering. A more hawkish tone had been adopted by Fed chair Powell in his end-November speech, highlighting the intention to drop the 'transitory' view towards inflation while revealing that the Fed will consider accelerating their tapering of asset purchases. Further details will be investigated through the upcoming meeting, and especially views on the threats from the Omicron variant. IHS Markit continues to view the Fed's rate lift-off to take place from March 2023.

Europe: BoE, ECB meetings, UK inflation, eurozone industrial production

The Bank of England and European Central Bank are both expected to keep monetary policy on hold in their final meetings of 2021. While we expect the BoE to move in early 2022, the ECB may wait well into 2024 for their first interest rate hike. That said, the ECB is expected to provide more clarity on their pandemic asset purchases that are set to end March 2022. The BoE meeting is preceded by the monthly official employment report, which will be eyed in particular for the jobless rate post-furlough and earnings growth.

Asia-Pacific: BoJ, BI, BSP, CBC meetings, China production data, Japan Q4 Tankan survey

Several APAC central banks meet next week including the Bank of Japan, though no policy changes are expected given uncertainties over Omicron. China's November production data will meanwhile hopefully bring good news in the light of better PMI output data.

Special reports:

[US Consumer Goods Producers Report Highest Capacity Constraints Jingyi Pan | \[page 4\]\(#\)](#)

[Japan's Economy Rebounds as COVID-19 Delta Wave Declines Rajiv Biswas | \[page 6\]\(#\)](#)

Recent PMI and economic analysis from IHS Markit

Global	Monthly PMI Bulletin: December 2021	7-Dec	Chris Williamson, Jingyi Pan
	Global manufacturing buoyed by rising Asian output, but supply shortage and price gauges hold close to recent highs	1-Dec	Chris Williamson
	PMI surveys: how not to mis-measure manufacturing output	26-Nov	Chris Williamson
Europe	A solid-looking Eurozone PMI headline reading masks disappointing production growth as factories struggle with supply shortages	1-Dec	Chris Williamson
	UK Flash PMI points to sustained robust output and jobs growth in November, but firms' costs again rise at record rate	23-Nov	Chris Williamson
	Faster Eurozone economic upturn marred by record inflationary pressures and COVID-19 worries	23-Nov	Chris Williamson
APAC	Australia economy expands at faster rate as restrictions ease, but price pressures persist as costs surge higher	23-Nov	Jingyi Pan
Commodities	Weekly Pricing Pulse: Commodity prices dip on Omicron concerns	8-Dec	Michael Dall

IHS Markit Economics & Country Risk highlights

Supply Chain Crisis: What's Ahead for 2022 [On-Demand]



The Great Supply Chain Disruption will continue into 2022, with the potential for new, unexpected shortages that will hit companies and add to inflation. In the spring of 2021, IHS Markit went into the face of conventional wisdom and warned that the disruptions would get worse. Now, drawing on IHS Markit's proprietary knowledge and databases, our experts will lay out the challenges in 2022 for shipping and transportation, manufacturing, autos, computer chips, energy, agribusiness, metals, input costs, labor availability, geopolitics, ESG, and economic impacts - and how they all interact.

[Click here to watch this webinar now](#)

COVID-19 Variants' Impact

As the third year of the coronavirus disease 2019 (COVID-19) virus begins, a new variant is taking hold. Lineage B.1.1.529, also known as Omicron, emerged in the second half of November 2021, alarming markets and policymakers alike. In this Hot Topic, IHS Markit covers the impact of new COVID-19 variants on the global economy and outlook. For IHS Markit Connect subscribers only, non-subscribers can contact CustomerCare@ihsmarkit.com.

[Click here to read our strategic report](#)



A staff member talks to people waiting to be tested at a COVID-19 testing station during the first day of a national lockdown on 19 August 2021 in Wellington, New Zealand.
Hogan Hipkins/Getty Images

Semiconductor Shortage: Examining the Data Behind the Bottleneck



The news is filled with articles about the semiconductor shortage: how it's impacting car manufacturing, slowing electronics production, and delaying consumer purchases. But what's the real story? How do you pull the facts from the noise? Our research team pulls back the curtain to talk through what they were seeing and watching in the data as this shortage came to the forefront.

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

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Special Focus

US Consumer Goods Producers Report Highest Capacity Constraints

Jingyi Pan

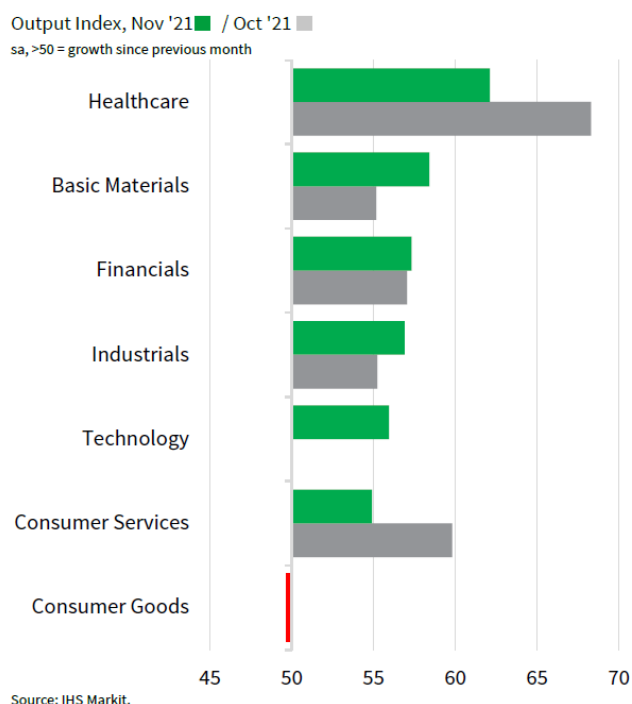
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US Sector PMI data showed that more sectors clocked growth in November compared to the prior month, although goods-producing industries appear to remain shackled by supply issues. As a result, price pressures persisted, carrying implications for monetary policy while the US economy grapples with the COVID-19 Omicron variant uncertainties.

Six of seven sectors tracked registered output growth

The latest IHS Markit US Sector PMI™ data revealed that six of the seven broad sectors tracked by the surveys reported higher output in November, up from five in October, with the Technology sector having returned to growth. Healthcare continued to lead the sectors, which perhaps comes as no surprise amid the slight pick-up in COVID-19 cases across the US.



Consumer Goods, on the other hand, persisted as the worst performer and remained in contraction. Worryingly however, rather than being demand led, the lowered output had been a reflection of the lingering supply chain crisis.

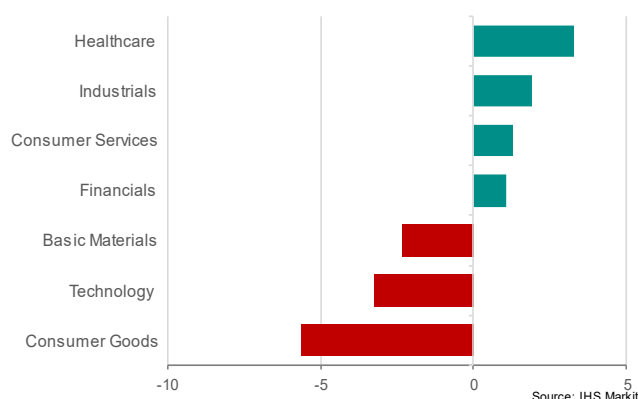
Goods-producing sectors reflect severe demand-supply gap

It had been noted that [global manufacturing, despite being supported by rising Asian output, had continued to face issues of supply shortages and price pressures](#) and that these were most prevalent across regions such as the US and Europe.

Studying the US Sector PMI sub-indices performance, one would find that output had indeed been lagging demand primarily across goods-producing sectors including most notably Consumer Goods but also Technology and Basic Materials. This is an important issue as highlighted in our [IHS Markit US Manufacturing PMI report](#). Despite some of these supply chain problems having eased in November, the extent to which production growth had been constrained is consistent with manufacturing acting as a drag on the economy during the fourth quarter. Similarly for US sectors, this will be something to continue scrutinising given the potential drag this could pose to output and thereby corporate earnings going into 2022.

As it is, our [IHS Markit Investment Manager Index](#) had demonstrated in early November that while risk sentiment improved towards consumer discretionary, industrial and basic materials sectors, supply line worries continued to limit the enthusiasm towards these to some extent.

US sectors output minus new orders indices



More severe price pressures seen for goods-producing sectors

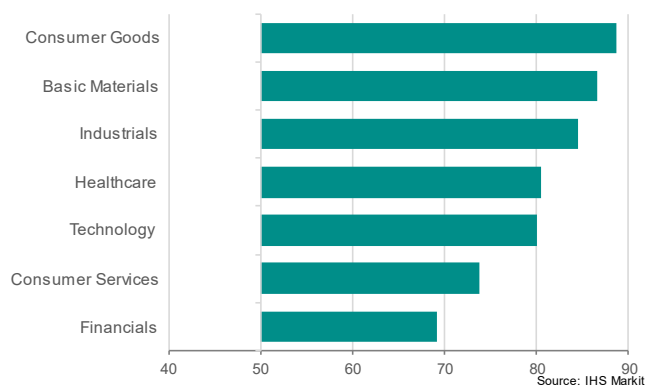
Of no surprise here, the demand-supply imbalance had thereby proven it is a sellers' market as input prices

surged across all seven sectors. This was most notable amongst the goods-producing sectors, led by the Consumer Goods sector in November.

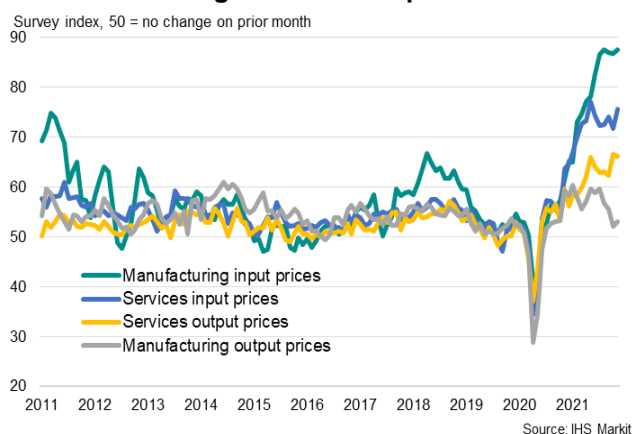
Meanwhile, consistent with the global trend, service sectors had similarly experienced higher costs, driven by greater material, energy and staff costs. This is also observed through the wider US manufacturing and services PMI price indices.

Although IHS Markit continues to view the issue of soaring inflation rates, particularly in the West, as a bigger problem in the short-term with headline inflation rates set to moderate from 2022 as supply bottlenecks clear and pent-up demand dissipates, the potential “second round” effects – whereby current elevated inflation rates could feed through to higher wages – should not be ignored. The potential for this to become a bigger problem will continue to be watched through the mix of US sector performance going forward.

US sectors input price indices



US manufacturing and services price indices



US Sector PMI data implications

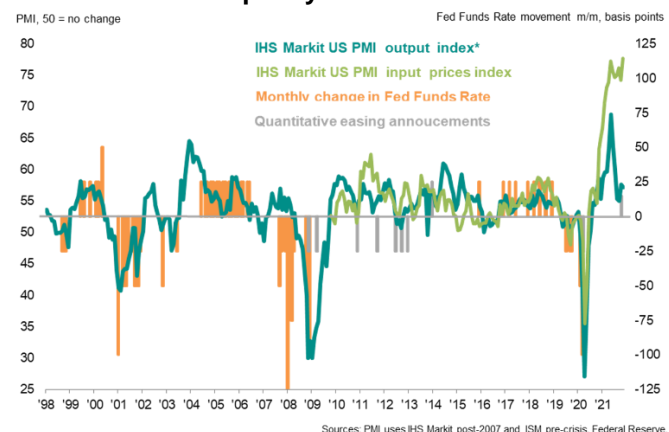
Amid the onslaught of supply chain woes, prices have been shown to remain elevated and the recent US central bank rhetoric also adopted a hawkish-tilt. Fed chair Jerome Powell in his end-November speech noted

that the Fed will look to drop the “transitory” view towards inflation while highlighting that tapering of asset purchases may be accelerated, inviting questions on interest rate hikes that are expected to follow.

While recent price performances perhaps draw added attention with regards to the risk of rising interest rates, the slowdown in output growth warrants caution with any lift-off plans. Fed chair Powell’s comments also took the market by surprise at a time when the COVID-19 Omicron variant was reported to be spreading, with the latest news pointing to more US states reporting the presence of the variant.

Even if the assumption of the vaccines holding their efficacy rates against the new Omicron variant is proven to be true, manpower disruptions with this potentially more virulent variant remains a lingering concern particularly for the US which is already facing a tight labour market. Not to forget that the demand-supply imbalance may also further worsen if the market deems there to be risks with the current shortages issues.

US PMI vs. FOMC policy decisions



All said, the US Sector PMI data will need to continue to be watched closely going forward for the differentials in sector performance to provide a more detailed picture of US economic performance. The [relevance to equity investments had been displayed](#) using a sub-set with the national sector data, but the logic similarly applies with watching relative momentum to derive better signals for one’s investment strategies.

Special Focus

Japan's Economy Rebounds as COVID-19 Delta Wave Declines

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Japan was hit by a severe COVID-19 wave during the third quarter of 2021, which resulted in third quarter GDP growth contracting by 0.9% quarter-on-quarter. However latest au Jibun Bank Purchasing Managers' Index survey results for October and November have shown a strong rebound in economic activity, as COVID-19 daily cases have fallen dramatically and the State of Emergency has been lifted.

The rapid rollout of COVID-19 vaccinations during the second half of 2021 is expected to have improved the resilience of the Japanese population to severe health implications from new COVID-19 waves. This should support the sustained recovery of private consumption spending, driving improved domestic demand and boosting the GDP growth outlook for 2022.

GDP contracts in Q3 2021 due to COVID-19 Delta wave

The Japanese economy suffered a significant negative shock in the third quarter of 2021, due to the impact of the COVID-19 Delta wave that hit the nation during July and August. Escalating daily new COVID-19 cases during late June and early July resulted in the Japanese government reintroducing a State of Emergency for Tokyo in early July. The State of Emergency was extended to additional prefectures in various phases during July, reflecting rising daily new cases. The pandemic wave peaked in late August, with daily new cases declining rapidly during September. Consequently, the State of Emergency was completely lifted across Japan from 1st October 2021.

However, the impact of the COVID-19 wave during the third quarter of 2021 resulted in Japan's GDP contracting by 0.9% quarter-on-quarter (q/q). On a year-on-year (y/y) basis, real GDP growth was up 1.2%. The severe COVID-19 wave and the State of Emergency measures resulted in a 1.3% q/q contraction in private consumption, albeit mitigated somewhat by a 1.0% q/q

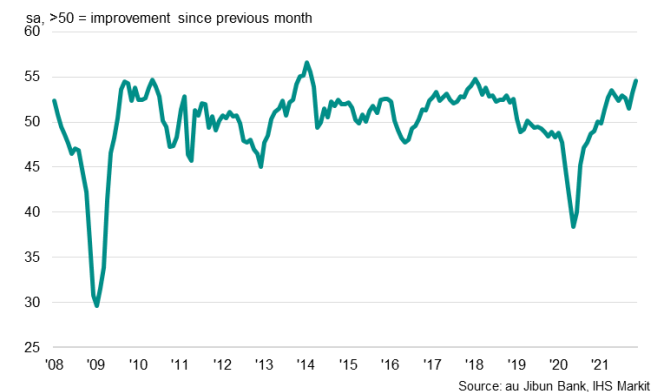
rise in public consumption spending. Overall, domestic demand fell by 0.9% q/q. Meanwhile exports also contracted 0.9% q/q, as supply chain disruptions, notably to supply of semiconductors, impacted on Japanese industrial output, notably in the auto sector.

au Jibun Bank PMI surveys signal rebounding economy

With the declining COVID-19 Delta wave and the removal of State of Emergency restrictions, economic activity has rebounded in Japan during the fourth quarter of 2021, helped by an upturn in private consumer spending. Japanese retail sales rebounded in October, up 1.1% month-on-month (m/m) in seasonally adjusted terms, the first increase in three months. Compared to a year earlier, retail sales rose by 0.9%. Merchandise exports rose by 9.4% y/y in October, despite the continued negative impact of supply chain disruptions on auto production and exports.

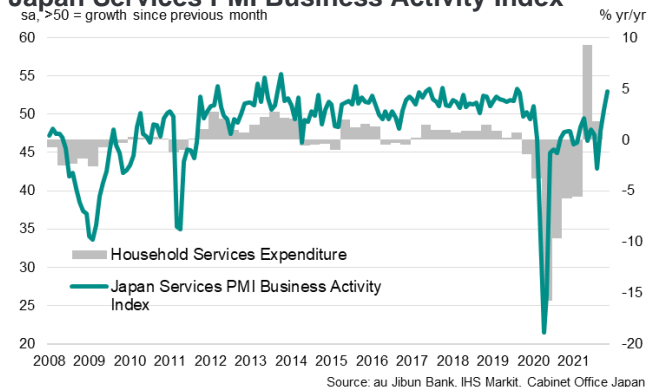
The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index (PMI) rose from 53.2 in October to 54.5 in November. This signalled the strongest improvement in the health of the Japanese manufacturing sector since January 2018. Japanese goods producers signalled a further expansion in new order inflows in November, the sharpest recorded for seven months.

au Jibun Bank Japan Manufacturing PMI



The Japanese service sector has also rebounded as companies saw activity lift following the lifting of state of emergency measures. Japan Services Business Activity Index rose sharply from 50.7 in October to 53.0 in November, the quickest for 27 months. Companies noted that demand strengthened as COVID-19 cases receded and restrictions were eased further. Moreover, the new export orders PMI index also returned to growth in November.

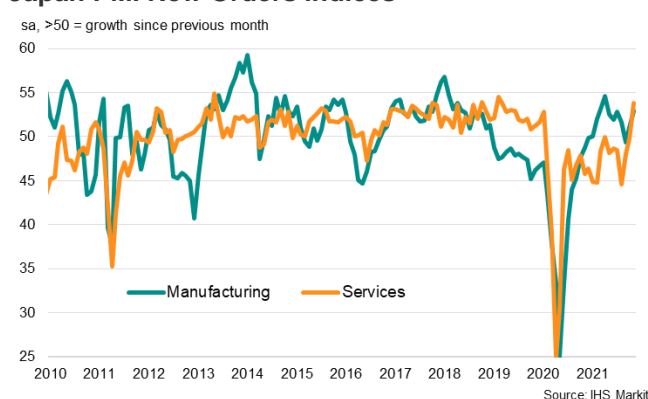
Japan Services PMI Business Activity Index



Japan's October industrial production was still down 4.7% y/y.

Supply chain disruptions continued to impact on Japan's manufacturing activity during November, with average lead times lengthening at a marked pace yet again. Delays in receiving shipments led manufacturers to increase purchasing activity at the quickest pace for six months in a bid to build safety stocks as demand recovered. As a result, stocks of purchases increased at the strongest pace since March 2014, while holdings of finished items rose at the sharpest rate for just over seven years.

Japan PMI New Orders indices



Japan Manufacturing Suppliers' Delivery Times



Supply chain disruptions

The economic impact of supply chain disruptions has hit manufacturing production in key sectors of Japanese manufacturing, notably in auto and electronics production. Japanese industrial production fell by 5.4% m/m in September, as semiconductors shortages hit auto production. Japanese auto output in September fell by 28% from the previous month, its biggest drop since April 2020, hit by the global chip shortage and disruption of auto parts supply from Southeast Asia. Toyota announced an estimated 40% drop in global auto production in September due to the impact of global semiconductors shortages as well as disruption to supply chains in Southeast Asian manufacturing hubs, including Vietnam. Toyota temporarily halted several auto assembly lines in Japan for periods during July and August due to disruptions to supply of auto parts from Vietnam. Japan's October export data showed that auto exports fell by 36.7% y/y, due to the disruption of auto production.

However, Japan's October industrial production posted an increase of 1.1% m/m, reflecting some easing of supply chain disruptions as factories in Southeast Asian manufacturing hubs such as Malaysia and Vietnam increased production as pandemic Delta waves eased.

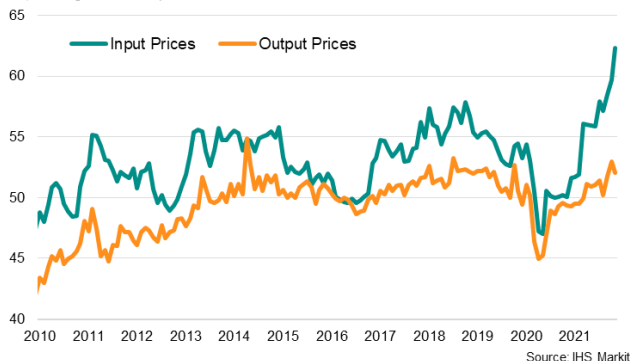
Input prices surge

Input cost inflation for the Japanese manufacturing sector strengthened further in November. The pace of inflation was rapid overall and the strongest since August 2008. Manufacturers widely linked a rise in average input prices with higher raw material costs. This reflected the sharp upturn in prices for many commodities during 2021, with oil, natural gas and coal prices having risen significantly during October and November. Concurrently, average prices charged for Japanese manufactured goods rose at a steep pace as firms sought to pass through increased cost burdens to clients. The rate of factory gate inflation eased, but was nonetheless the second-highest in over 13 years.

In the service sector, average cost burdens rose at an accelerated pace during November. Input prices have now risen consistently throughout 2021, with the rate of input price inflation in November the sharpest since August 2008 amid higher raw materials and wage costs. Companies indicated that the increase in input prices was partially passed through to customers, however some firms commented that some of the higher input costs were partially absorbed in margins to maintain competitive pricing for customers.

Japanese Composite PMI Input and Output prices

sa, >50 = growth since previous month



Economic outlook

The Japanese economy has rebounded in the fourth quarter of 2021, after a severe pandemic Delta wave caused a contraction in GDP in the third quarter. The rapid rollout of COVID-19 vaccinations during the second half of 2021 is expected to significantly reduce the vulnerability of the Japanese population to new COVID-19 waves from existing strains during 2022, although there are still considerable risks and uncertainties related to new COVID-19 variants. An estimated 77% of the population had been fully vaccinated by 6th December 2021.

Consequently, real GDP growth is expected to strengthen in 2022, as domestic demand recovers from the pandemic disruptions to private consumption and industrial production during 2021. In 2022, the Japanese economy is expected to grow at the fastest pace since 2010, as the rebound in private consumption, improving manufacturing output and government stimulus measures boost growth. While supply chain disruptions to global semiconductors production and other key manufactures are expected to persist during 2022, the severity of the disruptions is expected to gradually ease as the world's major manufacturing hubs continue to recover from the impact of the COVID-19 pandemic.