Economic Preview: Week of 23 November 2020

Publication date: 20 November 2020

Week Ahead Economic Preview

- **Flash PMI surveys for the US, Eurozone and UK**
- **Updated Q3 GDP estimates for the US, Germany, France and Singapore**
- **FOMC minutes**

Flash PMI surveys will provide important mid-quarter insights into the state of the Eurozone, UK and US economies. The surveys will provide the first major clues as to how business conditions have changed in the aftermath of the US elections and at a time when the adverse impact of new lockdowns in many countries will have been countered by encouraging news on COVID-19 vaccines.

The US flash PMI will be noteworthy in providing the first post-election snapshot of the national economy. October data showed business growth accelerating to the strongest since May 2018, driven by the largest increase in services activity since April 2015 and a marked surge in confidence. Other key US releases include a fresh estimate of third quarter GDP, personal income, spending and prices, durable goods orders, home sales and house prices. The minutes from the last FOMC meeting are also released, at which policy was unchanged awaiting the election result, though with chair Powell emphasizing the importance of fiscal as well as monetary stimulus (page 3).

The Eurozone data will also be especially eagerly awaited after October's PMI showed the economy stalling as its third quarter rebound faded. The data raise the risks of a renewed downturn in the fourth quarter. There were marked variations, however, with Germany bucking the slowdown with strong factory-led growth. France and Germany also provide fresh estimates of their third quarter GDP rebounds.

In the United Kingdom, growth weakened markedly in October, and the further lockdown in November is expected to hit the economy hard, threatening a double-dip downturn. The data will also reveal the extent of business preparations and stockpiling ahead of the end of the Brexit transition period (page 4).

In Asia, industrial production releases in Japan, South Korea, Thailand, Singapore and Vietnam, plus China's industrial profits, are among the top picks, providing useful steers on the extent to which the region's manufacturers are pulling out of the downturn. Japanese retail sales and Singapore's GDP are also released, while South Korea's policymakers meet to set interest rates (page 5).

Special Reports

China: A new indicator highlights greater hidden volatility of China's economy in recent years (page 6)

India and RCEP: We look at the economic implications and outlook for India, which decided to step out of the new Regional Comprehensive Economic Partnership (RCEP) trade deal (page 9)

Upcoming PMI releases

22-23rd November: Flash PMIs (US, Eurozone, UK, Australia)

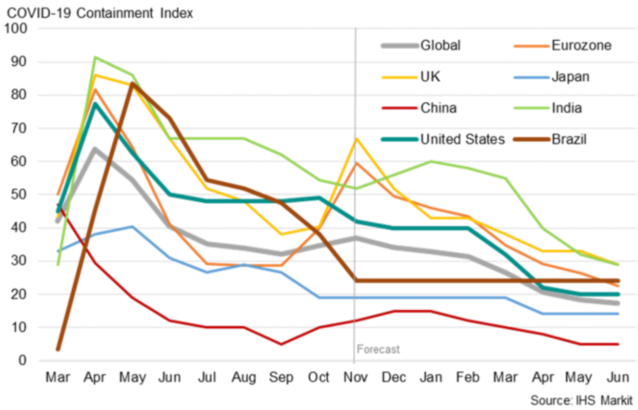
1st December: Final Global Manufacturing PMIs

3rd December: Final Global Services PMIs

4th December: Detailed Global Sector PMIs

COVID-19 containment*

The week ahead's economic data will be viewed in the context of increased COVID-19 containment measures in some countries, notably in the Eurozone and UK, where new lockdowns have been applied in some cases to tackle second waves of virus infections. In contrast, the US eased its containment measures in November, though China, Japan and Brazil remain the least 'locked down'.



* IHS Markit's COVID-19 Containment Index is based on a basket of measures applied by governments to control the spread of the pandemic, such as non-essential business closures, school closures and travel and mobility restrictions linked to social distancing policies. As these measures are tightened, the index rises towards 100 and a relaxation of measures causes the index to fall towards zero.

Chris Williamson

Chief Business Economist
IHS Markit

Email: chris.williamson@ihsmarkit.com

Economic Preview: Week of 23 November 2020

Publication date: 20 November 2020

Key diary events (UTC)

Monday 23 November

IHS Markit Flash PMI for US, Eurozone, UK (Nov)
Singapore inflation (Oct)
US Chicago Fed national activity index (Oct)
South Korea consumer confidence (Nov)

Tuesday 24 November

Germany GDP (Final, Q3)
France business confidence (Nov)
Hong Kong SAR exports, imports, trade balance (Oct)
Germany Ifo surveys (Nov)
US Case-Shiller home price (Sep), house price index
US Richmond Fed manufacturing index (Nov)
South Korea business confidence (Nov)

Wednesday 25 November

Singapore GDP, current account (Final, Q3)
Australia construction work done (Q3)
Malaysia inflation (Oct)
Thailand industrial output (Oct)
Vietnam FDI (Nov)
France unemployment claims (Oct)
US durable goods orders, new home sales (Oct)
US personal income and spending, PCE price index (Oct)
US GDP (2nd Est, Q3), goods trade balance (Adv, Oct)
US jobless claims (21-Nov), wholesale inventories (Adv, Oct), Michigan surveys (Final, Nov)
FOMC minutes
New Zealand exports, imports, trade balance (Oct)

Thursday 26 November

Australia private capital expenditure (Q3)
South Korea interest rate decision
Singapore industrial output (Oct)
Germany consumer confidence (Dec)
France consumer confidence (Nov)

Friday 27 November

China industrial profits (YTD, Oct)
UK housing prices (Nov)
France GDP (Final, Q3), inflation (Nov)
Italy business and consumer confidence (Nov)
Euro area consumer confidence (Final, Nov), economic sentiment (Nov)
Spain business confidence (Nov)
Brazil unemployment rate (Sep)
Japan retail sales (Oct)

For further information:

If you would like to receive this report on a regular basis, please email economics@ihsmarkit.com to be placed on the distribution list.

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

Click here for more PMI and economic commentary.

For all further information, please visit www.ihsmarkit.com

Saturday-Sunday 28–29 Nov

29/11: Vietnam industrial output, trade balance, inflation, retail sales (Nov)
29/11: Japan housing starts, construction orders (Oct)
29/11: South Korea industrial output, retail sales (Oct) 23:00 UTC
29/11: Japan industrial output (Prelim, Oct) 23:50 UTC

Economic Preview: Week of 23 November 2020

Publication date: 20 November 2020

United States Week Ahead

Flash PMIs, Q3 GDP second estimate, FOMC minutes and PCE prices

By Siân Jones

Economist, IHS Markit, London

Email: sian.jones@ihsmarkit.com

The economic calendar considers both backward-looking and up-to-date data, as both the Q3 GDP estimate and November business surveys are released. Meanwhile, PCE data will be scoured for clues as to the resilience of household expenditure and inflation in the fourth quarter. The minutes from the November FOMC meeting are also published, which saw a lack of action as policymakers sat on their hands awaiting the election result.

Flash PMIs

The flash PMI surveys for November will provide the first insights into national economic trends in the immediate aftermath of the election, including snapshots of the labour market, demand conditions, capacity constraints and business confidence. Although US firms were among the most upbeat regarding greater business activity over the next year globally in our Business Outlook survey, short term demand conditions remain highly uncertain, especially given high COVID-19 infection rates. The strong rebound in the third quarter is inevitably going to slow notably in the closing months of 2020 as pent-up demand dissipates, it's just a case of how much.

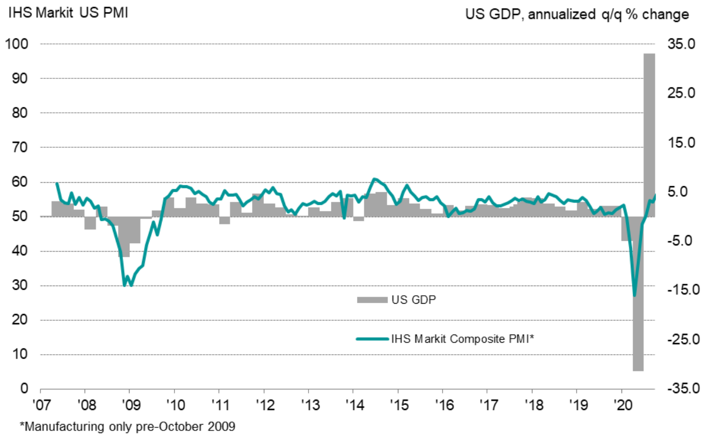
Q3 GDP 2nd estimate

The second estimate of third quarter GDP will meanwhile add some colour to the rebound picture. The record-breaking advanced estimate was encouraging following the unprecedented contraction in the second quarter, with many expecting little change to the earlier estimate. Additional pieces in the puzzle that have emerged since the advanced estimate point to the release of pent-up demand and improved investment spending.

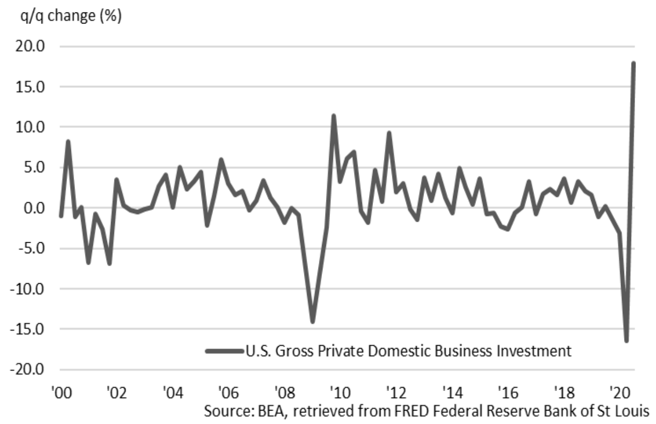
PCE Prices Index

The rate of increase in core and total PCE prices crept up in September, as the cost of services rose amid stronger consumer demand. Although personal spending rebounded in September following looser COVID-19 related restrictions, the resurgence in virus cases going into the fourth quarter is likely to have weighed on spending and price rises.

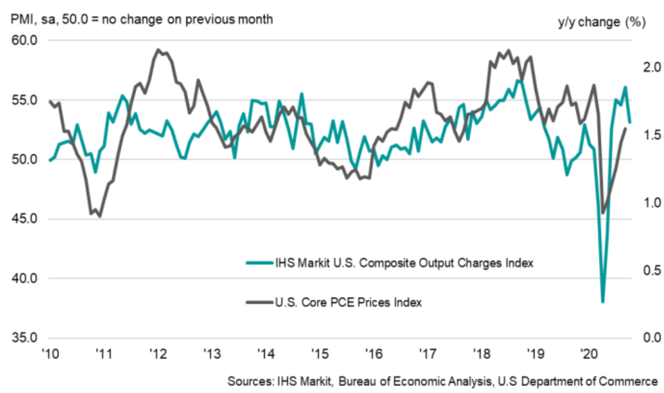
A substantial GDP rebound seen in Q3 is likely to slow notably in the Q4



A pick-up in business investment in the third quarter helped support renewed GDP growth



Core PCE price inflation may ease amid rise in virus cases and less stable consumer spending



Europe Week Ahead

Flash PMI data dominates agenda at start of next week

By Paul Smith

Economics Director, IHS Markit, London

Email: paul.smith@ihsmarkit.com

Next week kicks off with November flash PMI data, which will provide a first look at how European economies are faring in the face of renewed widespread restrictions on activity. The PMIs are followed by a host of separate business and consumer confidence figures across the region, plus final Q3 GDP estimates for Germany and France.

Eurozone

As policymakers continue to grapple with the unenviable task of managing the COVID-19 pandemic and maintaining some semblance of economic normality, November's PMI data will provide a timely update on how the recent tightening of restrictions is impacting business performance.

Given the new 'lockdown' measures, it feels a somewhat inevitability that next week's PMI figures will maintain their recent downward trend, particularly in those service industries dependent on social contact.

However, of notable interest will be the evolution of industry performance. Recent manufacturing PMIs in the Eurozone have shown some strength, especially in Germany, amid improved demand from key trading partners in Asia (notably China).

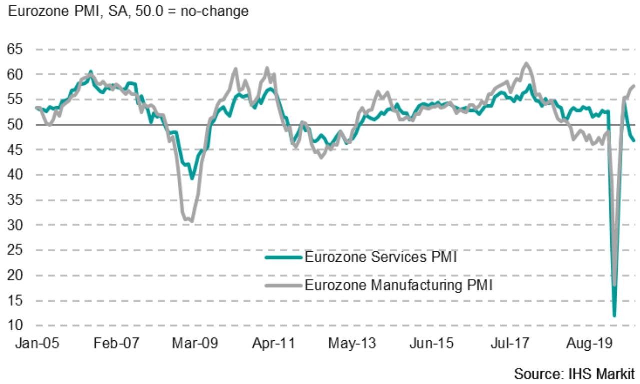
UK

Although the UK economy expanded 15.5% in the third quarter of the year, GDP remains nearly 10% lower than at the end of 2019. Moreover, the monthly GDP data confirmed what the PMIs have been telling us – that the economy is losing steam heading into the final quarter of the year, expanding in September at its slowest rate in the past five months.

The near-term outlook also looks bleak: England is currently in national lockdown, government messaging related to what will come in December is confused, and there is still no UK-EU trade deal in sight.

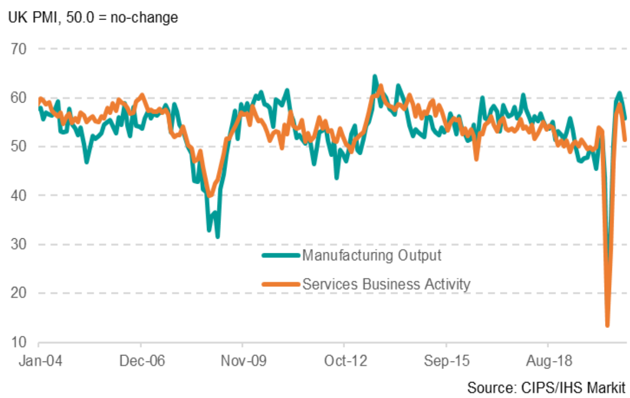
Faced with all of this – and growth already slowing further during October –another slide in the November PMIs seems likely next week, the only question being whether the fall will be large enough to signal a contraction in Q4 GDP.

The euro zone economy has shown a two-speed nature during recent months as manufacturing performs noticeably better than services



Germany industry has been a key driver of euro area growth, benefiting from a pick-up in trade with key Asian partners

UK economic growth has softened since the summer and, with a challenging winter ahead, a contraction in activity feels inevitable



Economic Preview: Week of 23 November 2020

Publication date: 20 November 2020

Asia Pacific Week Ahead

Japan data, Bank of Korea and Asia industrial output

By Bernard Aw

Principal Economist, IHS Markit, Singapore

Email: bernard.aw@ihsmarkit.com

In addition to the flash PMI data for the US and Eurozone, markets will also monitor a slew of Japanese economic statistics as well as a batch of industrial output data from a number of Asian economies. China's industrial profits will be eyed for fresh insights into the strength of the economic recovery. Monetary policy decision will come from South Korea. Other key Asian data highlights include sentiment surveys in South Korea and inflation figures in Singapore, Malaysia and Vietnam.

Japan data

With official GDP data showing a rebound in the Japanese economy during the third quarter, analysts will monitor a slew of October economic data releases, including retail sales, industrial production and housing starts for signs of a stronger recovery in the fourth quarter. Business sentiment continues to strengthen, with the latest Japan Business Outlook survey indicating that the degree of optimism in Japan reached a survey record, with both services and manufacturing firms projecting stronger output. That said, flash PMI data indicate that recovery momentum could be difficult to maintain.

Asia industrial output and inflation

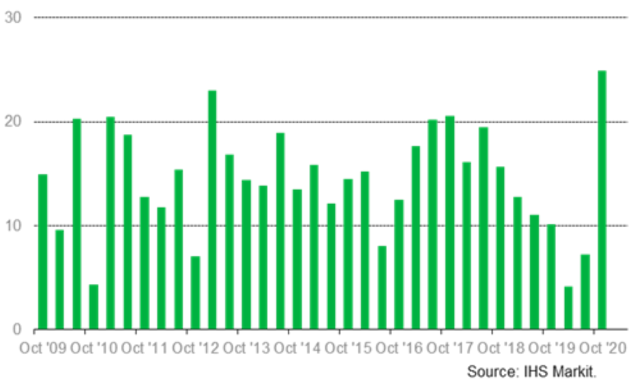
Amid a manufacturing-led recovery in Asia, eyes are on the release of industrial production data in Japan, Singapore, South Korea and Thailand, updated to October. Vietnam will issue November updates for industrial output, as well as for retail sales, trade balance and foreign direct investment. Meanwhile, Singapore, Malaysia and Vietnam will all publish their latest inflation numbers.

Bank of Korea

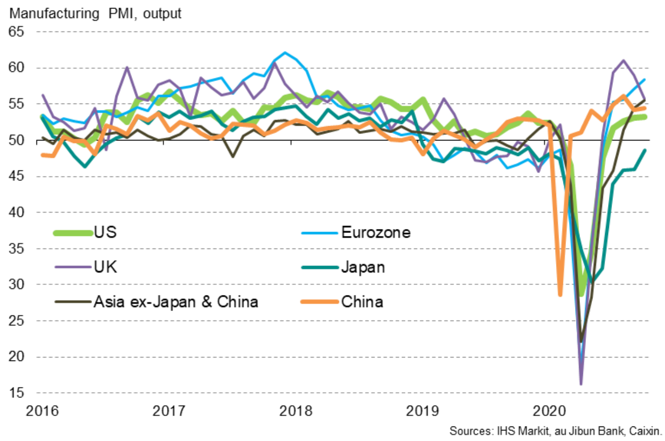
The Bank of Korea will convene to decide on monetary policy, with rate setters assessing the extent to which a re-tightening of COVID-19 containment measures in response to rising infections could dampen the economic recovery. PMI data showed factory output rose at the fastest pace for over seven years in October, supported by renewed sales growth. The current policy rate currently stands at a record low of 0.5%.

Japan business activity expectations

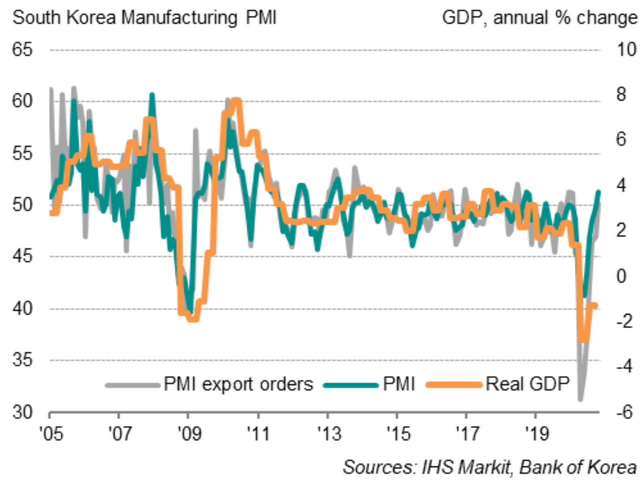
Survey % net balance of optimists less pessimists



PMI: Manufacturing output



Rate setters meet as South Korea PMI hints at further economic recovery



China Special Focus

New indicator highlights greater hidden volatility of China's economy in recent years

By Dr Paul Smith

Economics Director, IHS Markit

Email: paul.smith@ihsmarkit.com

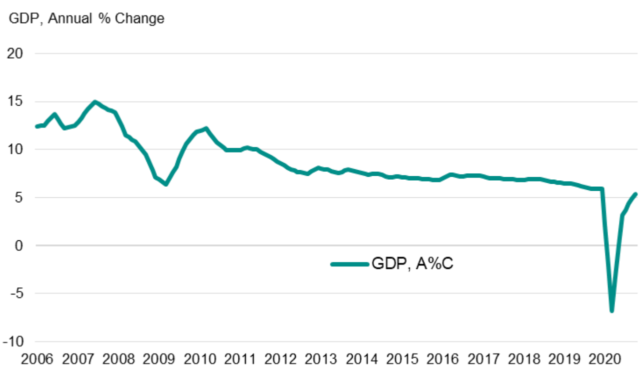
A new monthly GDP tracker helps to better understand cyclical economic developments in China, and shows greater volatility than the official GDP statistics in recent years. The tracker also reinforces the usefulness of survey data such as the monthly Caixin Composite PMI.

Tracking the economic cycle

Prior to the global pandemic, China's GDP growth figures exhibited a noticeable degree of stability, with underlying growth tending to ease in a gentle and broadly predictable pattern over the decade leading up to the start of 2020.

In contrast, higher frequency indicators – such as the Caixin China Composite PMI (compiled by IHS Markit) and, for that matter, many official data statistics – have described more typical cyclical changes in economic activity, for example indicating slowdowns in growth in 2015 and 2018.

China GDP: annual % change



Source: Datastream

With little cyclicality apparent in the official headline GDP growth statistics, in response – and as a means of providing timelier and higher frequency estimates of changes in GDP – there is a growing literature on alternative ways to track economic performance in China. Two such approaches have been undertaken by the San Francisco Federal Reserve Bank and the New York Federal Reserve Bank.

In this short note we closely follow the spirit of this recent work and construct our own benchmark indicator to track Chinese economic growth. Taking the common component from 12 high frequency indicators that all provide insight on Chinese economic developments, we create a useful benchmark to corroborate not just our own PMI survey data, but to better understand on a monthly basis cyclical trends in official Chinese data.

An alternative GDP growth indicator

There has been a notable development during recent years in the scope and range of economic indicators available for China. From these available data sources, we pick 12 that appear particularly useful in tracking economic activity. These include indicators of electricity production, industrial production, household consumption, freight traffic, trade and investment.[1] Note that the PMI survey data have been excluded as one of the intentions is to compare the performance of the new indicator against our own PMI, and to thereby create an time series against which PMI data can be more accurately benchmarked than GDP.

To create our high frequency alternative indicator of Chinese economic activity, we first need to disentangle the two principal forces that act on growth: longer-term structural *trend* changes and shorter-term *cyclical* developments.

This reflects the observation that China has grown and developed at a startling pace over the past 30 years or so but, as the economy undergoes a transition from being driven by high and rapid increases in capital investment to being primarily driven by consumption, growth rates have trended gently downwards. Indeed, double digit annual growth rates seen in the early 2000s have now given way – prior to the current COVID-19 pandemic – to gains typically in the region of 6-7%. However, this long-term trend can mask shorter-term changes in the business cycle, which tend to dominate our interest when understanding near-term economic developments.

[1] The full list of indicators relates to exports, industrial production, electricity production, retail sales, fixed asset investment, real estate investment, consumer confidence, civil aviation passenger numbers, rail passenger numbers, freight traffic volume, auto sales and floor space under construction.

We therefore first focus on extracting the cyclical component from our individual data series, by effectively removing the long-term trend in the data. We do this by transforming our individual data series into year-on-year growth rates (except consumer confidence, which we use annual level differences), before a process of detrending via a five-year centred moving average filter.

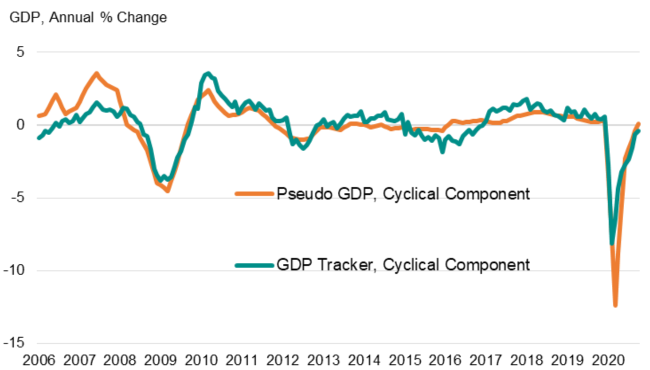
We then normalise all data series such that each series shows a broadly similar magnitude of volatility, and then finally derive an initial indicator of economic activity by extracting the common cyclical component from our 12-time series. This is achieved through the technique of principal component analysis.

Monthly GDP growth

To translate our derived monthly indicator into comparable annual GDP growth rates we have also constructed a 'pseudo' monthly GDP series from the official quarterly GDP data. Using interpolation techniques to estimate a monthly time-series from the quarterly GDP figures, this series is also detrended and the cyclical component extracted.

Linking this series to the first principal component of our high frequency indicators through linear regression provides us a new series of year-on-year growth estimates based on the set of alternative indicators. The results are charted below.

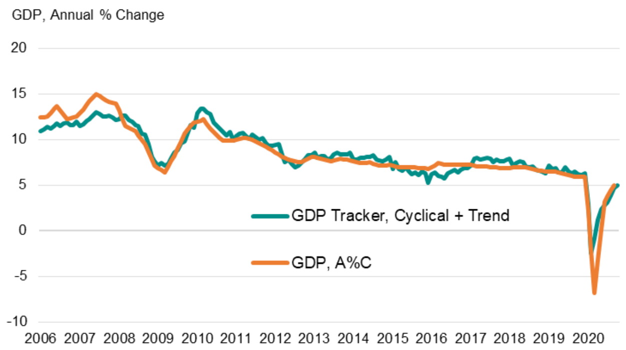
'Pseudo GDP' vs GDP Tracker, Cyclical Components



Source: IHS Markit

Finally, we can re-establish the linkage with the official quarterly GDP data by adding back in the long-term trend component to the GDP tracker. This is highlighted in the chart below.

Quarterly GDP Growth vs GDP Tracker, annual % change

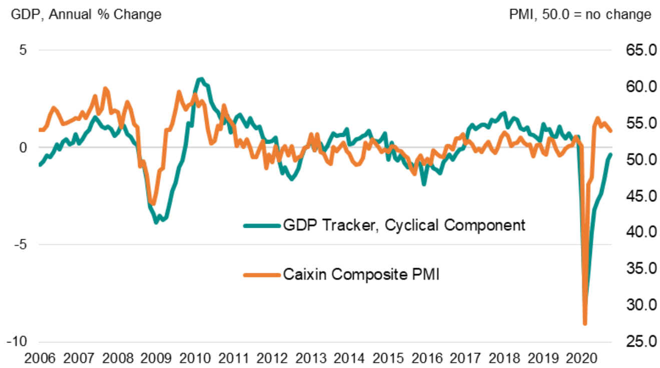


Source: IHS Markit, Datastream

From the two preceding charts we can see that China has indeed likely experienced some cyclicality in GDP growth relative to that indicated by the official GDP series. For instance, slower gains in economic output were seen during 2015, before a growth upturn occurred in 2016/2017. A further slowdown was again seen in 2018. These cycles broadly correspond with those signalled by the monthly PMI data (see chart below).

Whilst not directly comparable with each other – PMIs tend to measure underlying changes in activity as opposed to the year-on-year growth rates indicated by the GDP tracker, which is why the PMI figures sometimes have a noticeable lead – the positive relationship between the cyclical component of GDP and the Caixin Composite PMI reinforces the usefulness of the business survey data in understanding short-term economic developments.

Caixin Composite PMI vs Cyclical GDP Tracker, annual % change



Source: IHS Markit

October data

The latest mass release of official data confirms that the Chinese economy continued its recovery during October, led by gains in industrial production, retail and investment.

Taking the latest signal from the monthly data shows that the economy was growing at a year-on-year rate of just below 5.0% during October, signalling a positive start to the fourth quarter of 2020 – albeit one below pre-pandemic trends as the recovery in consumption continued to lag that seen in industry.

Recent PMI data have shown that growth, following a strong recovery from the aftermath of the lockdowns related to COVID-19 earlier in the year, has recently steadied – albeit at elevated levels which were last seen during 2011.

Expect official GDP growth to continue its recent trajectory into year-end before settling around a rate broadly equivalent to those seen before the pandemic.

For more information about the China GDP tracker and how to receive the data on a regular basis please contact economics@markit.com.

.

APAC
Special Focus

The RCEP trade deal: Is India left out in the cold?

By Rajiv Biswas

Asia Pacific Chief Economist, IHS Markit

Email: Rajiv.biswas@ihsmarkit.com

The new Regional Comprehensive Economic Partnership (RCEP) trade deal was signed by 15 Asia-Pacific governments on 15th November 2020. However, India – which was one of the original grouping of nations negotiating the deal – decided to step aside from the RCEP negotiations in 2019. As the RCEP members prepare for the ratification and implementation of the new trade agreement, the economic implications for India reflect a complex mix of factors.

RCEP will create the world's largest free trade area

RCEP is a regional trade liberalization initiative that will help to boost trade and investment flows among the 15 nations that have agreed to the trade deal. The 15 Asia-Pacific economies that make up the RCEP membership together account for around 29% of world GDP. The RCEP members comprise the 10 nations of ASEAN, plus China, Japan, South Korea, Australia and New Zealand. RCEP negotiations commenced in November 2012 and 15 RCEP member nations concluded negotiations on the text of the agreement on 4 November 2019. The RCEP agreement was signed by ministers at the 37th ASEAN Summit in Hanoi on 15th November 2020 and will now go through a ratification process by the member countries.

RCEP will be the world's biggest free trade agreement (FTA) measured in terms of GDP, larger than the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the European Union, the recent US-Mexico-Canada Free Trade Agreement or Mercosur.

Although tariff liberalization has already progressed significantly among the 15 RCEP members over the past decade through a wide network of FTAs, RCEP will further reduce tariff barriers. The scope of RCEP includes reducing tariffs on trade in goods, as well as creating higher-quality rules for trade in services, including market access provisions for service sector suppliers from other RCEP countries. The RCEP agreement will also reduce non-tariff barriers to trade among member nations, such as customs and quarantine procedures as well as technical standards.

RCEP significantly extends the scope of trade and investment liberalization through chapters that create a common rules of origin framework as well as strengthening intellectual property protection, trade in services and reducing barriers to investment.

While the RCEP deal is not as comprehensive as the CPTPP deal in terms of scope and range of trade issues covered, its membership includes a larger group of nations, notably reflecting the membership of China, which considerably boost the total GDP of RCEP members compared to the CPTPP membership. The RCEP also creates a trade liberalisation framework that can be built on and strengthened through further rounds of trade negotiations.

India's decision not to join RCEP

India, which had been one of the nations involved in the RCEP negotiations at an earlier stage, eventually decided in 2019 not to join the RCEP deal. India's decision not to join the RCEP deal reflects considerable domestic concerns amongst political parties as well as industry groups in India about the potential economic shock to Indian industries from dismantling tariff barriers for trade with the other RCEP member nations. However, the other RCEP members have left the door open for India to join at a later date.

While India would likely have benefited from many parts of the RCEP agreement, such as the common rules of origin provisions, India finally decided that the net costs outweighed the potential benefits for the Indian economy.

A particular concern was that India's manufacturing sector could face a flood of low-cost manufacturing imports from other RCEP countries that would result in the loss of Indian manufacturing jobs to East Asian countries. This became a highly charged political issue in India eventually resulting in the Indian government decision not to proceed with RCEP negotiations. This was very similar to what played out in the US over the TPP trade agreement, which triggered a political backlash during the 2016 US Presidential Election over fears that US jobs would be lost to Asian countries.

However, India does have various free trade agreements in place with various RCEP countries, including the ASEAN-India Free Trade Area (AIFTA), and the bilateral Comprehensive Economic

Economic Preview: Week of 23 November 2020

Publication date: 20 November 2020

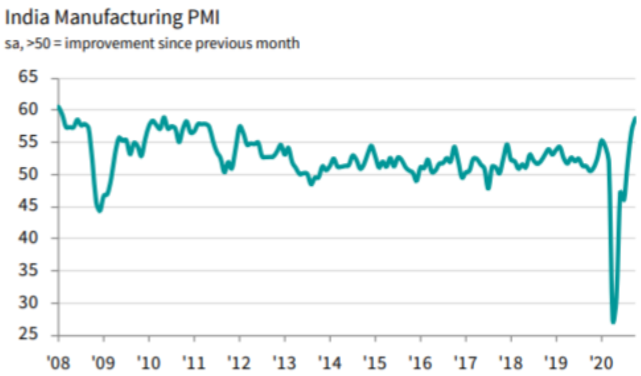
Partnership Agreements that India has in place with Japan, and South Korea, as well as having Comprehensive Economic Co-operations Agreements with Malaysia and Singapore. Therefore, India still obtains significant trade liberalization benefits from these FTAs even though it is not a member of the wider RCEP grouping.

India's economic rebound

After a severe economic contraction in the April-June quarter of 2020 due to pandemic-related lockdown measures, the Indian economy has shown improving growth momentum in the second half of 2020.

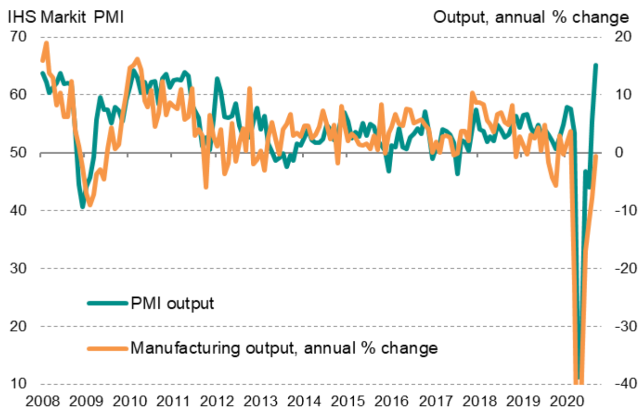
According to the most recent IHS Markit India Manufacturing Purchasing Managers' Index (PMI) survey of a broad cross-section of Indian manufacturing firms, conditions in India continued to improve in October 2020, with companies signalling the largest increase in output in 13 years amid a strong rebound in sales growth. The headline seasonally adjusted manufacturing PMI rose from 56.8 in September to 58.9 in October.

IHS Markit's India Manufacturing PMI



Source: IHS Markit.

Manufacturing output, PMI and official data compared

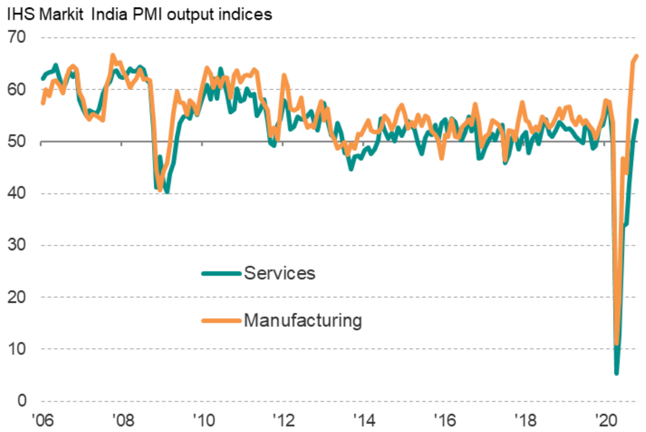


Source: IHS Markit

Sentiment has been boosted by a significant decline in daily new COVID-19 cases since mid-September. With lockdown restrictions having progressively eased, the reopening of various sectors in the economy underpinned positive sentiment towards the year-ahead outlook for manufacturing production, with the level of confidence at a 50-month high.

The seasonally adjusted India Services PMI Business Activity Index also rebounded in October to a level of 54.1, up from 49.8 in September. The upturn was supported by improved market conditions amid the loosening of COVID-19 restrictions.

India's service sector is also rebounding, though lags manufacturing



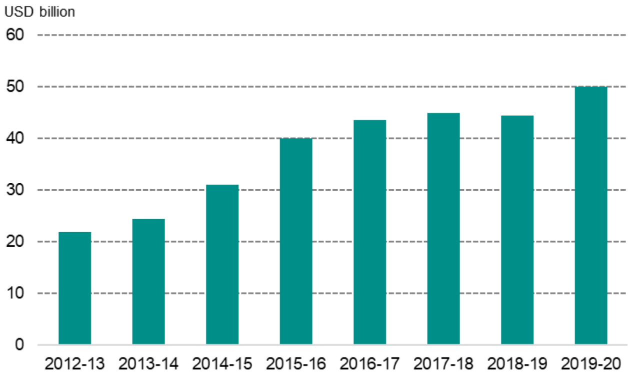
Source: IHS Markit

Meanwhile, hopes that a vaccine for COVID-19 will be rolled out underpinned positive sentiment toward the 12-month outlook for business activity. Firms had become upbeat for the first time in five months in the September survey, with confidence having risen further in October.

Foreign direct investment surge signals investor confidence in India

Over the past five years, total foreign direct investment (FDI) inflows into India have doubled, rising from USD 24 billion in 2013-14 financial year to USD 50 billion in the 2019-20 financial year. Although the moderating pace of economic growth during 2019-20 and the economic slump in the first half of 2020 due to the COVID-19 pandemic triggered concerns about a downturn in FDI, there has been a strong surge of new foreign investment inflows announced during 2020 year-to-date. During the first five months of the 2020-21 fiscal year from April to August 2020, India received FDI inflows of USD 35.7 billion, which was a record high for that time period and 13% higher year-on-year.

India: FDI inflows by country (FY2019-20)



Source: Indian government.

A major boost to investor confidence in the Indian medium-term economic outlook has come from new foreign direct investment into India by US technology companies. In mid-July, Google announced a USD 10 billion investment into Google India's Digitization Fund, to fund a wide range of investments in projects related to India's digitization. Out of that total, Google announced that USD 4.5 billion will be invested in Reliance Jio Platforms to develop digitization infrastructure and new mobile phones for the Indian consumer market. Facebook also committed USD 5.7 billion in Reliance Jio Platforms in April 2020. Amazon has also announced a USD 1 billion investment into India in early 2020. Consequently, total FDI into India by US technology firms in the first seven months of 2020 has already reached around USD 17 billion.

In mid-July, Walmart also announced that it is leading a USD 1.2 billion fresh capital injection by a group of investors into Flipkart, an Indian ecommerce company in which Walmart had previously acquired a majority stake.

India has also attracted large FDI inflows from multinationals for establishing and expanding R&D centres of excellence. Due to its large pool of highly skilled graduates in information technology, engineering and science, India has become a leading global R&D hub for multinationals, with around 150 large multinationals having already established significant R&D hubs in India. Technology firms are among the most important investors in India for R&D, with global tech giants such as Google, Microsoft, Apple, IBM, Cisco and SAP having large R&D centres in India. Samsung R&D Institute India in Bangalore is the largest R&D Center for the Samsung Group outside of South Korea. In the auto sector, Hyundai Motors has two R&D centres in India, while Mercedes Benz also has a major R&D hub in India. In the aerospace sector, Boeing, Airbus and General Electric also have significant R&D and IT hubs located in India.

Supply chain diversification

An extended process of supply chain diversification has been underway in the Asia-Pacific region since 2011, driven by a series of geopolitical and economic factors as well as natural disasters that have forced firms to reshape their supply chains.

For the past three decades, China has become the factory of the world for low-cost manufacturing. However, over the past decade, wage costs have been rising rapidly in coastal Chinese manufacturing hubs such as the Greater Bay Area that includes the manufacturing hubs of Guangzhou and Shenzhen. This has increased pressures for multinationals to reshape their supply chains over the past decade.

The US-China trade war and recent supply chain disruptions in China due to the pandemic have also resulted in renewed focus by multinationals to reduce their supply chain vulnerability to China by diversification of production locations.

The massive disruptions to industrial production worldwide caused by the COVID-19 pandemic have triggered another new wave of reconfiguration of global supply chains during 2020, as firms and governments seek to reduce vulnerabilities. In April 2020, the Japanese government announced a USD 2.3 billion subsidy program to assist Japanese companies to diversify their supply chains away from China following the COVID-19 supply chain disruptions.

In the first round of Japan's project subsidy announcements made in July, the 87 Japanese projects moving out of China were all either reshoring to Japan or relocating to Southeast Asia. In September, the Japanese government also included India and Bangladesh on the list of eligible nations to which Japanese firms could diversify their supply chains to in order to qualify for the subsidy program. Japanese firms have already been steadily investing in new manufacturing facilities as well as other investments such as infrastructure projects in India.

In September, the governments of India, Australia and Japan also announced a new initiative for regional cooperation on supply chain resilience in the Indo-Pacific. Details of this new initiative are currently being developed.

Reflecting a range of factors, including supply chain diversification as well as strong domestic demand in the Indian market, a number of major international firms in the electronics industry have announced plans to expand their capacity in India. With Apple iPhones already being manufactured in India, some major iPhone component manufacturers have announced plans to ramp up their investments in India.

In October 2020, the Indian Ministry of Electronics and Information Technology announced that a number of international mobile phone manufacturing companies had been given approval for new investment in manufacturing production in India. These include Apple contract manufacturing firms Foxconn, Pegatron and Wistron, as well as Samsung and Rising Star. Foxconn has announced plans for an additional USD 1 billion investment in India to expand its factory facilities in Tamil Nadu to increase production of mobile phones.

India's Medium-Term Economic Outlook

Following severe recessionary conditions in 2020, the Indian economic outlook is for a significant economic rebound, with GDP growth expected to be around 9% in the 2021-22 fiscal year. Over the medium-term economic outlook for the 2022-23 and 2023-24 fiscal years, continued GDP expansion at a pace of between 5% and 6% is expected.

The return to positive world and Asia-Pacific economic growth expected in 2021 will help to support an upturn in Indian exports of goods and services.

On the trade policy front, India is expected to continue to pursue bilateral trade negotiations with various Asia-Pacific nations in order to strengthen its trade ties. In 2018, India and Australia decided to re-engage on negotiations for a Comprehensive Economic Co-operation Agreement, with original negotiations having been launched in 2011, although the most recent round of talks was held in 2015.

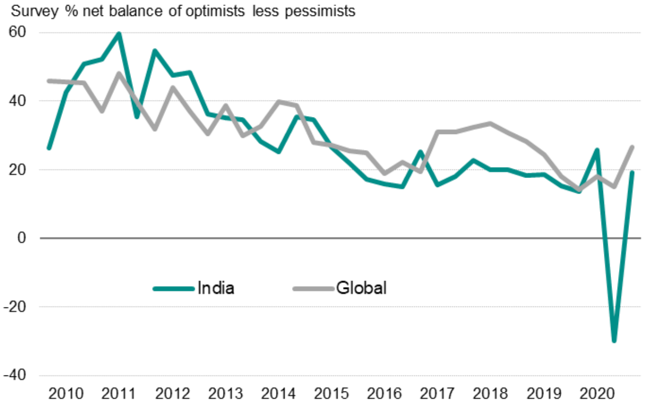
The Indian government has also sought to establish a review process for strengthening India's trade agreements with Japan and ASEAN, which comprise a large part of the RCEP grouping. A similar review process in underway for the India-South Korea Comprehensive Economic Partnership Agreement.

Consequently, India is expected to mitigate the negative economic impact of not being part of the RCEP agreement by its bilateral efforts to strengthen its existing network of FTAs with RCEP member nations as well as negotiating new free trade agreements with additional RCEP members.

Additional factors that are supporting the outlook for India's export sector are the strong inflows of foreign direct investment by leading global multinationals in key sectors, such as technology and electronics. The reshaping of global manufacturing supply chains is also expected to reinforce these flows over the medium-term economic outlook.

While India is not expected to seek accession to the RCEP agreement in the near-term, it has been invited by the RCEP grouping to participate in RCEP meetings with observer status, as well as to take part in economic co-operation activities with the RCEP grouping under the umbrella of the RCEP agreement.

IHS Markit Global Business Outlook survey



Source: IHS Markit