

Week Ahead Economic Preview

- Monetary policy meetings in the Eurozone, Brazil and Canada
- GDP for Japan, the Eurozone, UK and Russia
- US and China inflation rates
- Industrial production and trade updates

After PMI surveys showed global growth slowing in November, further clues of economic trends in the fourth quarter will be scoured from a host of industrial production and trade data. Third quarter GDP figures are also updated for Japan, the Eurozone and Russia, while the UK issues monthly GDP numbers for October.

Inflation numbers for the US, China and Germany will also be closely watched, albeit with policymakers likely to 'look through' any signs of upward price pressures in favour of providing support to help sustain recoveries. The ECB, Bank of Canada and the Central Bank of Brazil all meet to set interest rates during the week.

Brazil's central bank is eyed for change to its forward guidance after inflation spiked higher and the recovery showed signs of progressing well, though the bank sees the rise in prices as temporary. Meanwhile in Canada the central bank sees the possibility of a faster than previously expected recovery thanks to vaccine developments, but has also raised the spectre of a further rate cut if infection rates rise again.

In the eurozone, the ECB has fueled expectations that more stimulus could be in play. PMI data have disappointed and President Lagarde has stressed downside risks to the fourth quarter ([page 4](#)).

In the UK, markets will be watching Brexit talks and will also scrutinise the monthly GDP data for October after PMI numbers showed the economy being supported in part by pre-Brexit preparations ([page 4](#)).

In the US, we may see some upward pressure in consumer and producer price data, but the Fed's new policy framework allows a temporary inflation overshoot. Instead interest will focus on whether the economic recovery is being sustained via updates to consumer confidence, jobless claims, mortgage applications, the NFIB survey and consumer credit ([page 3](#)).

In Asia, China's updated trade, inflation, money supply and new loan data will be scoured for confirmatory signs that the recovery is accelerating after PMI data showed the strongest growth for over a decade. Japan's GDP data are meanwhile expected to show only a modest, partial recovery during the third quarter ([page 5](#)).

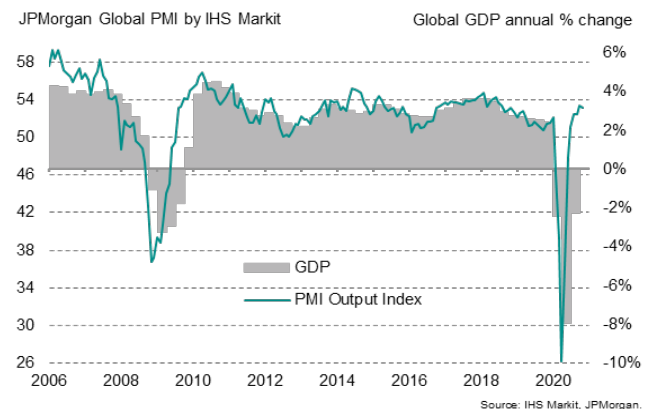
Special Reports

China: Will China join the CPTPP trade agreement? A look at how China joining the CPTPP could create significant momentum for a wider free trade agreement across the Asia-Pacific region ([page 6](#))

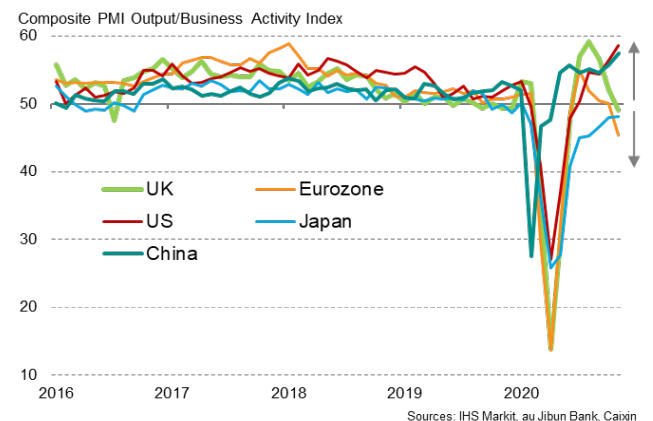
Upcoming PMI releases

- 16th December: Flash PMIs (US, UK, Eurozone, Japan, Australia)
- 4th-5th January: Final Worldwide Manufacturing PMIs
- 6th January: Final Worldwide Services PMIs
- 7th January: Detailed Global Sector PMIs

Global PMI data showed the economic recovery losing momentum amid rising virus cases



But there were marked variations, with the US and China faring well while Europe struggled



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Key diary events (UTC)

Monday 7 December

China trade balance (Nov)
Germany industrial production (Oct)
France current account (Oct)
United Kingdom Halifax house price index (Nov)
United Kingdom BRC retail sales (Nov)
US consumer credit (Oct)
Japan GDP, final estimate (Q3)
Japan household spending (Oct), bank lending (Nov)

Tuesday 8 December

Australia house prices (Q3), building permits (Oct)
Netherlands consumer price inflation (Nov)
Switzerland unemployment (Nov)
France trade balance (Oct)
Italy industrial production (Oct)
Eurozone GDP, 3rd estimate (Q3)
Eurozone employment (Q3)
Germany ZEW sentiment survey (Dec)
South Africa GDP (Q3)
Brazil consumer price inflation (Nov)
US NFIB survey (Nov)
US nonfarm productivity and unit labour costs (Q3)
Japan machinery orders (Oct)
Australia Westpac consumer confidence (Dec)

Wednesday 9 December

China consumer price inflation (Nov)
China producer price inflation (Nov)
Germany trade balance (Oct)
France consumer price inflation (Nov)
Spain industrial production (Oct)
Mexico consumer price inflation (Nov)
US MBA mortgage applications (week to 4 Dec)
US wholesale inventories (Oct)
UK MPC Financial Stability Report
Brazil monetary policy decision
Bank of Canada monetary policy decision and report
Japan producer prices (Nov)

Thursday 10 December

United Kingdom GDP including industrial production, construction and services output (Oct)
United Kingdom trade balance (Oct)
China money supply & new loans (Nov)
France industrial production (Oct)
Eurozone ECB monetary policy decision and press conference

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European Council Meeting
Sweden consumer price inflation (Nov)
Brazil retail sales (Oct)
US consumer price inflation (Nov)
US jobless claims (week to 5 Dec)

Friday 11 December

China FDI (Nov)
Germany consumer price inflation (Nov)
Italy industrial production and trade balance (Oct)
India industrial production (Oct)
India consumer price inflation (Nov)
Mexico industrial production (Oct)
US consumer confidence, Uni. Michigan (Dec prelim)
US producer price inflation (Nov)
Russia GDP, final estimate (Q3)

United States Week Ahead

Inflation, JOLTs and sentiment surveys

By Siân Jones

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Heading up the economic release calendar for the upcoming week are inflation, consumer and small business sentiment data plus updates to job openings and jobless claims.

Inflation

With greater indications that additional forward guidance may be published in the FOMC's upcoming December meeting, increases in CPI will be closely watched. [November PMI data signalled a notable uptick in private sector selling prices](#), as stronger demand supported new sales. Therefore, the rate of inflation is expected to have edged up midway through the fourth quarter. The rate of core inflation slowed in October, however, and stayed below the 2% Fed target rate. Although policy makers have relaxed their rules surrounding the target rate, the pace of price increase was well below those seen before the pandemic hit in the spring, meaning any acceleration in inflation is unlikely to concern the Fed unless sustained.

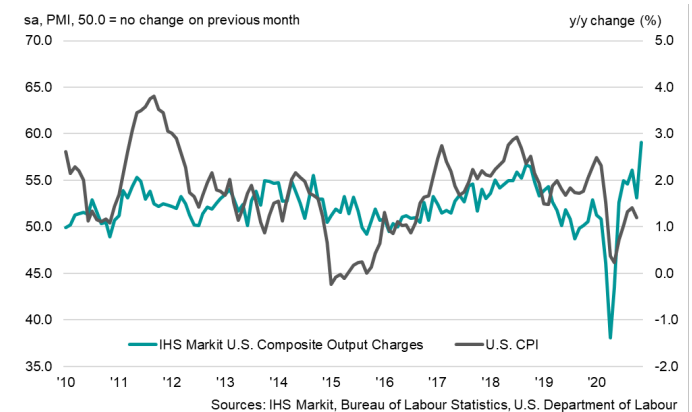
JOLTs

Of greater concern to the Fed will be the labour market. Worries have increased regarding the labour market recovery amid rising infection numbers in many states. While job openings, as measured by the JOLTS data, rose further in September they remained far lower than seen before the pandemic. Although slowly closing, the stubbornly wide chasm between pre- and post-pandemic labour market conditions is seen as a downside risk for the US economy.

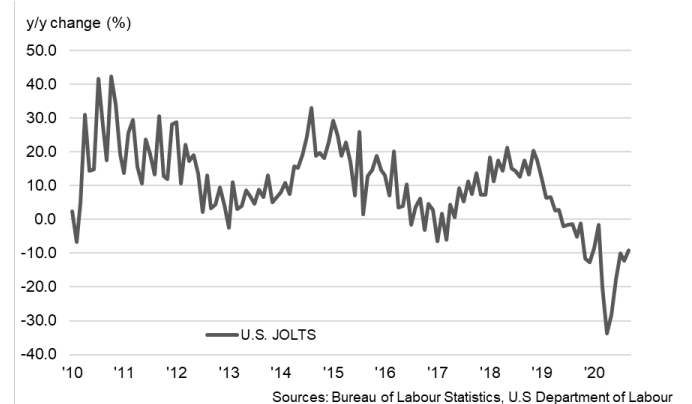
Sentiment surveys

In addition, both business and consumer sentiment surveys are released. The NFIB Small Business Optimism Index gauges confidence among independent companies, many of whom will have been badly hit by lockdown restrictions and stay-at-home measures. Meanwhile, the University of Michigan publishes their consumer expectations for economic conditions and inflation. Although business confidence has improved over the last few months, [according to PMI data](#), consumers remained more downbeat in their sentiment.

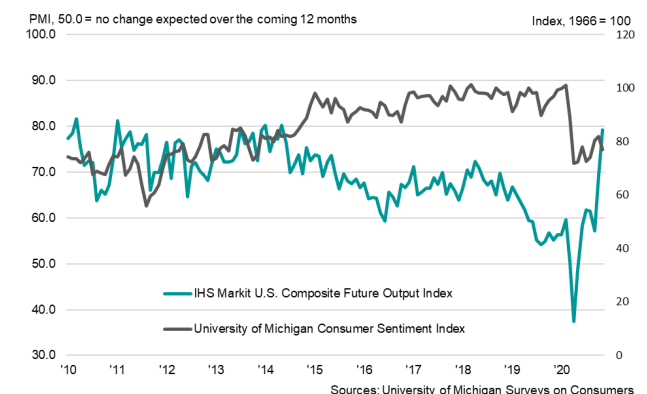
Inflationary pressures picked up in November, according to latest PMI data, as demand conditions allowed firms to pass on a greater proportion of higher cost burdens



Jolts (job openings) data indicated that the labour market recovery has struggled to gather momentum



Business sentiment strengthened notably during November amid vaccine hopes and an end to election uncertainty



Europe Week Ahead

ECB policy meeting, ‘big-four’ EZ industrial production, and UK GDP

By Paul Smith

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It's a busy week ahead in Europe with several key releases to watch out for. For the Eurozone, the ‘big four’ economies all release industrial production figures for October, whilst the European Central Bank (ECB) will announce its final policy decision of 2020. Over in the UK, house price figures, retail sales and the usual monthly data dump from the ONS covering industry, services and GDP figures are provided.

ECB and industrial production

Amid the backdrop of an economy losing noticeable momentum since the summer – accelerated in part by the recent tightening of COVID-19 activity measures – and persistent weakness in key inflation metrics, the European Central Bank is widely expected to deliver further monetary policy easing at its December meeting. Indeed, October’s policy statements and press conference effectively paved the way for further stimulus, most probably through the currently favoured tools of the central bank’s Pandemic Emergency Purchase Programme (PEPP) and its long-term liquidity provision to the financial sector.

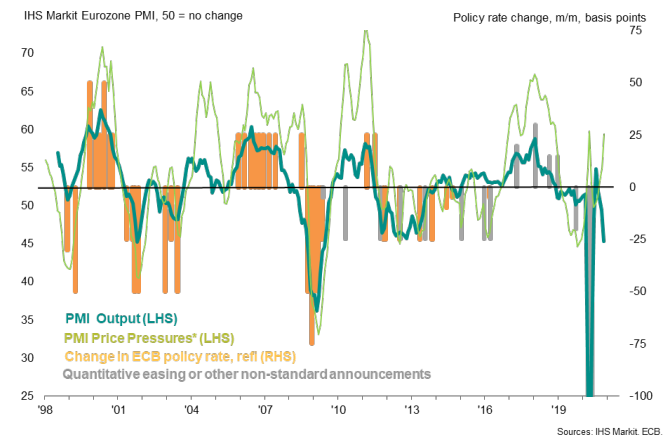
ECB growth concerns are mainly concentrated on the region’s services economies, where [activity is being hit especially hard](#) by the current restrictions on mobility and social contact. In contrast – and ahead of next week’s industrial production updates across the ‘big four’ economies of Germany, France, Italy and Spain for October – industry has continued to experience a solid recovery, albeit one that has softened recently on weakening consumer goods performance as domestic demand remains subdued in the face of the pandemic.

UK GDP

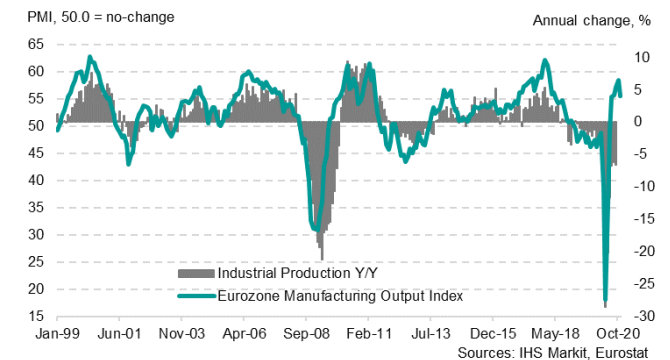
Over in the UK, October’s monthly GDP data are released, alongside detailed figures for industrial production plus construction and services output.

Although the timelier [PMI figures for November](#) have shown service sector output under pressure following the tightening of restrictions in England especially, October’s GDP data may well have been supported by pre-lockdown retail spending ahead of the downturn in November. Some pre-Brexit stock building may also be evident.

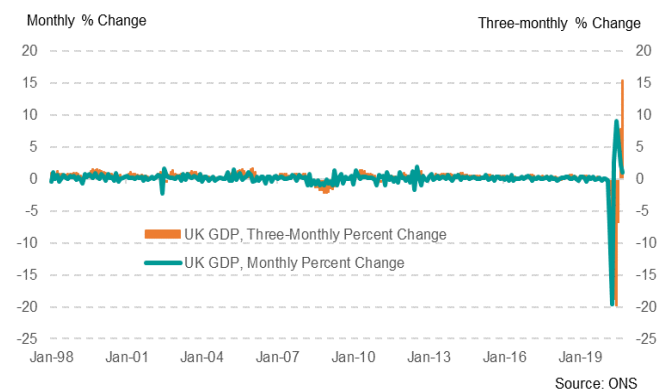
ECB to look through rising price pressures and focus on supporting growth, with more stimulus possible at the December meeting



Eurozone industry has staged a solid recovery to date, though growth has started to weaken, and output remains some 6% below February’s recent peak



UK GDP growth has eased steadily following the initial bounce in activity following the first national lockdown



Asia Pacific Week Ahead

China inflation, Japan household spending and India industrial production

By Paul Smith

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There's a steady flow of data to watch next week, especially amongst the region's largest economies. Final third quarter GDP for Japan is released, alongside October household spending and machinery orders data. There is also a stream of Chinese data including November inflation figures, whilst India reports October industrial production data.

China consumer prices

Inflation data out of China are likely to show a continuation of the broad disinflationary trend seen in recent months. October saw consumer prices increase by just 0.5% on the year, well down since the start of the year when prices were rising at an annual rate of 5.4%. That's raised fears of outright deflation, although notably the downturn has been driven in the main by food and energy; excluding these factors, the core rate has remained broadly steady at around 0.5% since the summer as consumer demand and the wider economy moves back towards its trend rate following the effective containment of the COVID-19 pandemic.

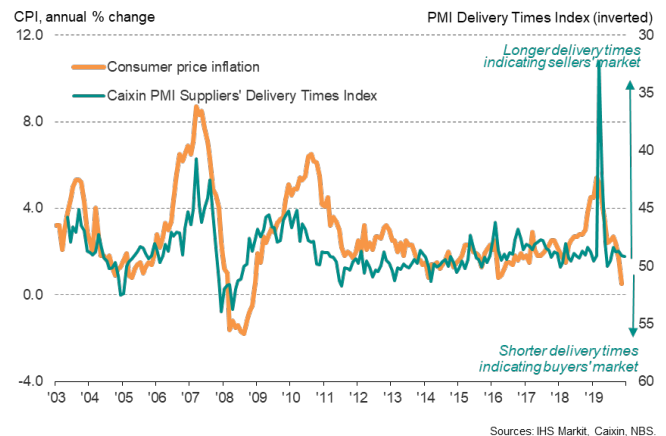
Japanese household spending

Final third quarter GDP data for Japan should confirm the strong rebound in national output from the heavy losses in the second quarter, although – as with many economies around the world – GDP remains well below pre-pandemic levels. Moreover, recent PMI data have suggested the Japanese recovery, whilst being maintained, remains rather tepid. Social distancing and weak household income remain a challenge and continue to suppress domestic demand gains. Next week's household spending data will therefore provide clues on any momentum (or lack of) in this crucial ingredient for the country's economic recovery.

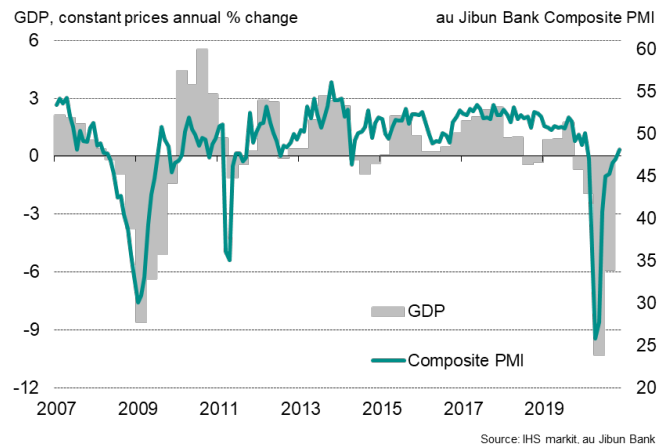
India industrial production

Whilst the resumption of consumer spending has been a challenge in the face of COVID-19, industrial recoveries have tended to be much swifter around the world. This indeed has been the broad experience of India, where manufacturing helped to deliver a better-than-expected GDP result for the three months to September. With the PMI pointing to a rapid expansion of output into November, another positive upturn should be expected with October's official industrial output data.

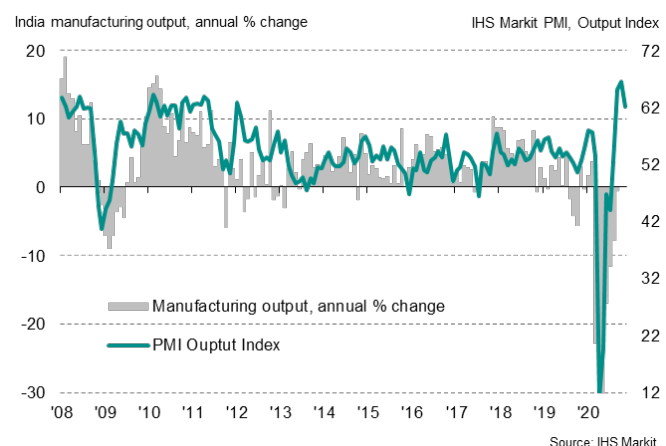
Inflation in China fell to just 0.5% in October, its lowest in more than a decade



Japan's PMI has indicated a subdued recovery in economic growth (GDP)



India's manufacturing sector is experiencing a strong upturn during the fourth quarter



APAC Special Focus

Will China join the CPTPP trade agreement?

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Chinese President Xi Jinping told the 27th APEC Economic Leaders' Meeting on 20th November 2020 that China will actively consider applying to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The CPTPP trade agreement entered into force in December 2018, and has eleven member nations, many of whom are also members of the new Regional Comprehensive Economic Partnership (RCEP) trade deal. The RCEP trade agreement was signed on 15th November 2020, creating the world's largest free trade agreement to further liberalize trade and investment flows.

With China already a member of RCEP, joining the CPTPP would create significant momentum for a wider free trade agreement across the Asia-Pacific region, as well as including some nations in the Americas that are already CPTPP members. Indeed, the geographic scope of the CPTPP could eventually extend even more widely. The UK has opened preliminary talks with the CPTPP countries to discuss the possibility of applying for membership of the CPTPP.

Comprehensive and progressive agreement for trans-Pacific partnership

The CPTPP trade agreement entered into force in December 2018, after the first six of the eleven member states had ratified the agreement. The eleven CPTPP members have a total GDP of around USD 11 trillion, creating a combined market equivalent to around 13 per cent of world GDP, with a population of around 500 million persons. Significant economic benefits are estimated to accrue to member nations as a result of tariff liberalisation under the CPTPP agreement.

However, as a state-of-art advanced multilateral trade agreement whose scope goes far beyond tariff liberalisation, the benefits also extend to greater access to some government procurement markets, improved environmental protection as well as stronger investment

protection provisions. The CPTPP is expected to deliver significantly improved market access and boost trade flows among the CPTPP member nations.

For Australia, New Zealand, Canada, Japan, Mexico and Singapore, which were the first six ratifying nations, the trade benefits of the CPTPP took effect from 30th December 2018. Vietnam has also ratified the CPTPP on 12th November 2018, and the CPTPP agreement took effect for Vietnam on 14th January 2019. For the remaining four CPTPP members, Brunei, Chile, Malaysia and Peru, the CPTPP will take effect 60 days after they ratify the agreement.

The US, which had been among the original 12 nations negotiating the predecessor Trans-Pacific Partnership (TPP) trade deal, is not among the CPTPP member nations, having pulled out of the TPP deal immediately after President Trump took office in 2017. Consequently, the US will not benefit from the expanded market access and trade liberalisation measures created by the CPTPP. Under the original TPP agreement, market access for US firms would have increased, notably in services, agriculture, and advanced manufacturing.

RCEP has created the world's largest free trade area

RCEP is a positive 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 ten 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 4th 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 governments.

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.

A key priority area for further RCEP negotiations is likely to be e-commerce, given the rapidly growing importance of online trade in many Asia-Pacific economies, since a substantial agreement was not achieved in the original RCEP framework.

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 deal is a further step by APAC governments to liberalize regional trade flows, following the implementation of both the Japan-EU Economic Partnership Agreement (EPA) and the CPTPP deals in quick succession during in 2019.

Once ratified and implemented by member nations, the RCEP free trade agreement will become a building block for further advancing trade liberalization in the Asia-Pacific, both through expanding the scope of the existing agreement and through the accession of other nations to the agreement.

Could China apply to join CPTPP?

President Xi Jinping has signalled that China may consider applying for accession to the CPTPP trade deal. From a big picture trade liberalization perspective for the Asia-Pacific region, that makes a lot of sense. It would create a platform for a giant mega trade deal across the Asia-Pacific that could merge both the CPTPP and RCEP into one common free trade platform for the Asia-Pacific.

A number of CPTPP members are already also members of RCEP, including Japan, Australia, New Zealand, Brunei, Malaysia, Singapore and Vietnam. If China eventually joins the CPTPP, this could be a key catalyst for the realization of the vision for the creation of the Free Trade Area for the Asia-Pacific (FTAAP). The FTAAP has been on the drawing board in APEC discussions for a new trade architecture for some years already.

If China is able to join CPTPP, it would be positioned very strongly as the biggest member economy at the centre of the world's largest free trade deal. However, all of the existing CPTPP members would need to approve China's accession, raising the risk that bilateral frictions between China and any CPTPP member could make China's accession more complicated.

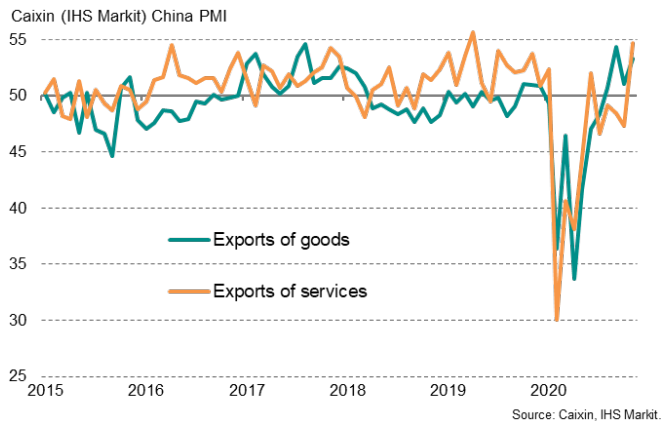
Furthermore, there are significant challenges for China to adapt its economy to meet the CPTPP standards, as CPTPP is a state-of-art trade agreement that includes chapters on many areas that are either not covered or lightly covered in the RCEP agreement. For China, joining CPTPP would mean further substantial international commitments in areas such intellectual property, reform of SOEs, environmental standards and investment dispute resolution mechanisms.

One of the most important challenges for China would be to undertake the necessary reforms of SOEs to meet CPTPP standards, given the key role that SOEs play in China's economy. The process of SOE reform has already been underway in China for many decades, and Premier Li has been driving a further wave of reforms over the past five years as part of the economic strategy to modernize China's economy and make it more internationally competitive. In October 2020, the Chinese government launched a new three-year action plan for SOE reform, with a strong focus on introducing greater competition between the public and private sectors in many industries that have been dominated by SOEs.

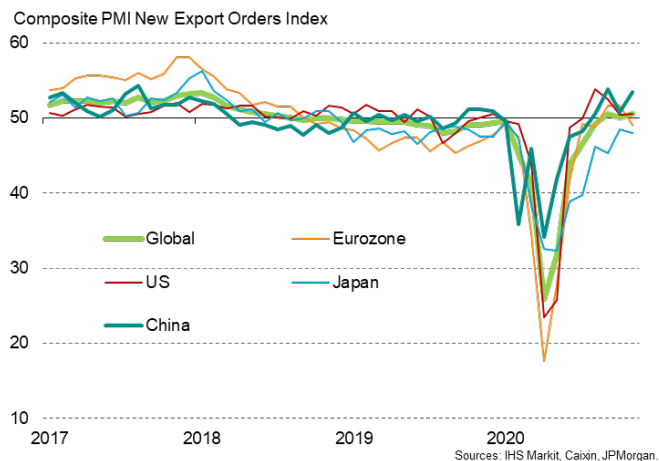
These reforms are part of the long-term strategy to improve the competitiveness of China's industries, as part of the transition towards a more high-technology economy. A key part of this strategy is a shift away from low-value added exports towards more technologically advanced segments of manufacturing as well as improving competitiveness in exports of services.

Given the strong commitment of the Chinese government to further SOE reforms, opening up accession negotiations for China to join the CPTPP could be timely from China's perspective. The process of accession negotiations is likely to be complex and take some years, given the many chapters of CPTPP. Furthermore, it is possible that any accession agreement for China to join CPTPP could include a transition period for China to meet the CPTPP standards on SOEs and competition. China may also have been favourably influenced by Vietnam's successful entry into the CPTPP, despite similar concerns about the large role of SOEs in Vietnam's economy.

China PMI Export Orders



China 's exports have led the global recovery



Future Asia-Pacific regional trade liberalization

The Asia-Pacific region is forecast by IHS Markit to account for around 60% of the increase in world GDP over the next decade, with total Asia-Pacific GDP forecast to account for around 40% of world GDP by 2030.

Consequently, the Asia-Pacific is expected to be the most dynamic region of the world economy over the next decade. Initiatives for further liberalization of trade and investment flows within the Asia-Pacific region are therefore a high policy priority for many Asia-Pacific governments, in order to boost exports and jobs growth in their own economies.

With the CPTPP already in force, the implementation of RCEP will help to further reduce barriers to regional trade flows within the Asia-Pacific region over the medium to long-term. The RCEP also creates a trade liberalization framework that can be built on and strengthened through further rounds of trade negotiations.

The possibility of China joining the CPTPP also creates the potential for eventually merging the CPTPP and RCEP into one giant free trade agreement spanning the Asia-Pacific region, also including some nations from the Americas.

Other countries could also potentially join the CPTPP grouping in future, with the UK actively discussing joining and several Asian nations also having expressed interest in joining, including the Philippines and South Korea.

However, two major economies, the US and India, are not part of either RCEP or CPTPP. For the US, although it was the initial driving force under the Obama Administration for the creation of the TPP, the forerunner of CPTPP, the Trump Administration decided that the US would withdraw from the TPP agreement, resulting in the other 11 members forming the CPTPP agreement.

A potential trade policy issue for the Biden Administration is that the implementation of RCEP will leave the US outside of both RCEP and CPTPP, the two major Asia-Pacific regional free trade agreements. However, US multinationals will be able to benefit from the RCEP provisions through their subsidiaries operating within member countries.

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.

If China and the UK formally apply to join CPTPP, this is likely to intensify the trade policy debate in the US about whether the US should consider applying for accession to CPTPP.

Global trade liberalization through the WTO has faced significant roadblocks for a protracted period. The Asia-Pacific region has become the driving force for trade liberalization over the past decade with the CPTPP and RCEP, as well as a large number of bilateral FTAs. If China and the UK do formally apply for accession to the CPTPP, this could trigger further far-reaching progress in trade and investment liberalization in the Asia-Pacific, likely encouraging other nations to join the Asia-Pacific mega FTA.