

Week Ahead Economic Preview

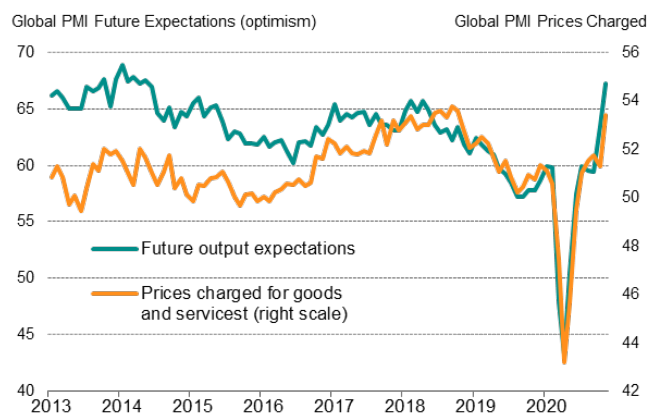
- Central bank meetings in the US, Japan and UK
- US and China industrial output and retail sales
- Flash PMIs for the US, Eurozone, Japan, UK and Australia

The coming week sees policy meetings at no fewer than ten central banks, including the FOMC, plus a wealth of data releases which will help steer views on current economic growth, employment and inflation trajectories.

Central banks line up to set policy in the US, Japan and UK, as well as in Russia, Switzerland, Norway, the Czech Republic, the Philippines, Indonesia and Mexico. Policymakers will be seeking to balance a brightening economic outlook following the development of Covid-19 vaccines, which have raised prospects of life moving closer to normal over the course of 2021, against signs of further long-lasting damage from the pandemic. While rising price pressures will be largely ‘looked through’, markets will also be eager to assess just how much inflationary pressure is judged to be in the pipeline.

The problems facing policymakers are encapsulated in [recent PMI data](#), flash numbers for which are updated during the week. The November PMIs showed the global economic recovery losing momentum as further waves of Covid-19 hit many countries, but prospects for the year ahead surged to the highest for over six years, mainly reflecting vaccine hopes. Supply delays were meanwhile cited as having pushed [goods prices higher](#) at a rate not seen for two years.

Global PMI data showed business optimism for the year ahead surging amid encouraging vaccine news, but price pressures have also picked up



Sources: IHS Markit, JPMorgan

Special Reports

APAC electronics: A look at how the Asia-Pacific electronics industry has seen a strong rebound during the second half of 2020, after being significantly impacted by disruptions caused by the Covid-19 pandemic in the first half of 2020 ([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

In the US, the FOMC meets for the first time since the Presidential elections and the encouraging news on vaccine roll outs, though the outlook remains clouded by uncertainty over the pandemic stimulus. Clarity is also needed on whether the economy has been hit again by rising Covid-19 infection rates, meaning the flash PMIs will be closely watched as the first indicators of national economic trends in December ([page 3](#)).

In the UK, the PMI data will give an insight into whether growth has been regained after November’s lockdowns, accompanied by official labour market and retail sales numbers. The data carry additional weight ahead of the MPC meeting, which comes alongside mixed views among policymakers on the resilience of the economy ([page 4](#)).

Flash Eurozone PMIs will meanwhile give added insight into how severe a fourth quarter downturn might be, given the additional measures implemented to fight the pandemic in recent weeks. The strength of Germany’s manufacturing sector, which has shown encouraging buoyancy, will be under particular scrutiny ([page 4](#)).

In Asia, China’s economy is in focus with key official data such as industrial production and retail sales updated. The releases follow news from the Caixin PMI that business activity grew in China during November at the fastest rate for over ten years. Japan, in contrast, is seeing a far more muted economic recovery, according to the PMI, for which December flash data will be updated during the week ([page 5](#)).

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Key diary events (UTC)

Sunday 13 December

Japan Tankan Survey (Q4)

Monday 14 December

China house price index (Nov)

Singapore unemployment (Q3)

Japan industrial production/manufacturing output (Oct)

Eurozone industrial production/manufacturing output (Oct)

India consumer prices (Nov)

Tuesday 15 December

Australia RBA meeting minutes

China industrial production (Nov)

China retail sales (Nov)

China fixed asset investment (Nov)

UK employment, unemployment, earnings (Oct)

France consumer prices (Nov)

Italy consumer prices (Nov)

India trade balance (Nov)

US import and export prices

US industrial production/manufacturing output (Nov)

Canada manufacturing sales (Oct)

Japan trade balance (Nov)

Wednesday 16 December

Japan au Jibun Bank flash PMI (Dec)

UK consumer prices (Nov)

UK producer prices (Nov)

Italy industrial orders (Oct)

Germany flash PMI (Dec)

France flash PMI (Dec)

Eurozone flash PMI (Dec)

UK flash PMI (Dec)

US flash PMI (Dec)

Eurozone trade balance (Oct)

US MBA mortgage applications (Dec 11 week)

Canada consumer prices (Nov)

US retail sales (Nov)

US business inventories (Oct)

FOMC meeting (plus press conference)

New Zealand GDP (Q3)

Thursday 17 December

Australia employment/unemployment (Nov)

Indonesia policy decision

Philippines policy decision

Switzerland rate decision

Norway rate decision

For further information:

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Czech rate decision

UK retail sales (Nov)

Eurozone consumer prices (Nov)

UK Bank of England MPC meeting

US building permits, housing starts (Nov)

US jobless claims (Dec 11 week)

Canada employment (Nov)

Mexico rate decision

Friday 18 December

Japan central bank policy decision

Spain trade balance (Nov)

Russia policy decision

UK current account (Q3)

Germany producer prices (Nov)

US current account (Q3)

Canada retail sales (Oct)

United States Week Ahead

Retail Sales, Industrial Production, Flash PMIs and FOMC meeting

By Siân Jones

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In what is shaping up to be a bumper week for economic data releases, we see a glimpse into how consumer spending and goods production has fared through the final few months of 2020. The release of retail sales, industrial production and flash PMI data will help survey the US economic landscape, whilst news from the final Fed meeting of 2020 will give insights into monetary policy as virus cases and restrictions rise once again.

Developments since the last FOMC meeting have been considerable. Although the size of pandemic fiscal stimulus continues to be debated, the FOMC gathering is the first since the election and vaccine breakthroughs. While the current policy stance is not expected to change, the economic projections will be keenly eyed to gauge monetary policy expectations for 2021.

Flash PMIs

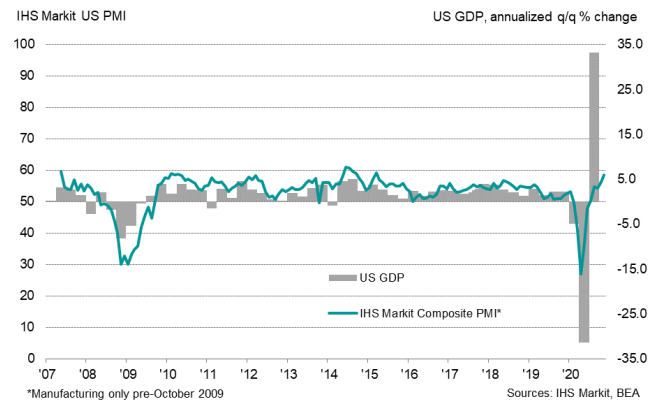
Following November's expansion signalled by the PMI surveys, markets will look to see if economic growth, as signalled by the [IHS Markit PMI](#), has been sustained into December. While vaccine news has been encouraging for the medium-term outlook, boosting business expectations for the year ahead to the highest for over five years, the short-term outlook remains uncertain. As virus cases rise once more and some states reimpose restrictions, the winter months could prove challenging while a vaccine roll out is awaited.

Retail sales and industrial production

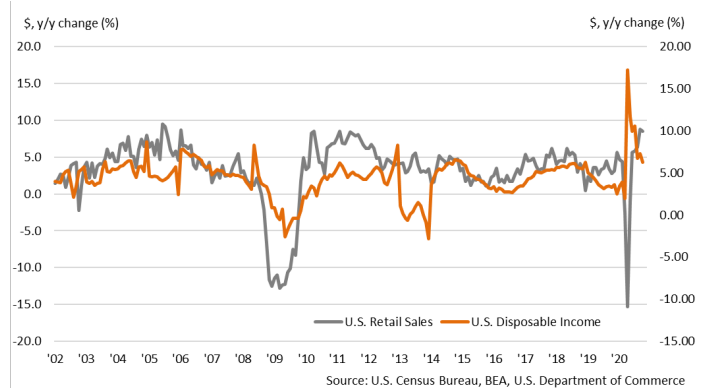
Consumer resilience amid the pandemic will be tracked via spending data. Retail sales rose at a slower annual pace in October, as vehicle sales stalled and consumers reined in their spending on hospitality and leisure. A weakened labour market and uncertainty regarding any future boost to unemployment payments casts a cloud over household spending, with the rate of personal savings remaining well above the historical average.

Official industrial production data will meanwhile provide an update on the factory sector. Producers registered a marked rise in output during November, according to November PMI data, as demand for goods rose. The expansion looks set to continue as consumers spend more on goods than services during the pandemic, but there are fears that the recovery might lose momentum.

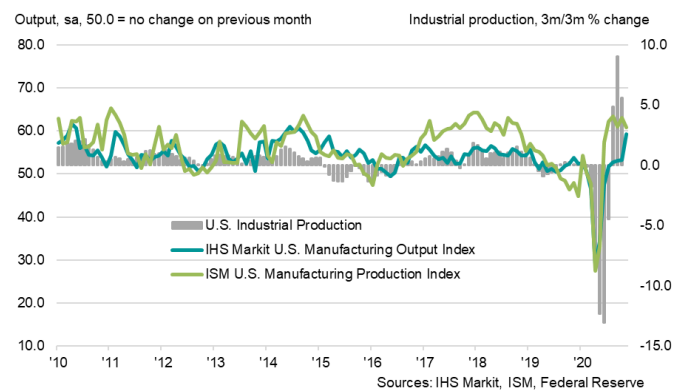
December 'flash' PMI data will signal whether the substantial upturn in economic activity can be sustained



Slower rise in disposable incomes indicates early warning of easing retail sales growth, as government support packages are phased out and virus cases rise again



Manufacturing performance improved in November, as demand for goods rose, according to PMI data



Europe Week Ahead

UK monetary policy, inflation, unemployment and flash PMIs

By Paul Smith

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As a tumultuous 2020 draws to a close, it's another busy week ahead in European economics. Eyes will primarily be on the UK, with labour market, retail sales, inflation and an interest rate decision all in the diary. Flash PMI numbers are also provided for December, not just for the UK, but also the Eurozone.

UK rate decision, official data and PMI

Following another week of wrangling over a post Brexit trade deal with the EU, there is plenty of economic data for the Bank of England's Monetary Policy Committee to mull over in its final meeting of the year. Faced with an economy [widely forecast to contract again over the fourth quarter](#), thanks to the broad-based lockdown of November, and inflation well below target, the Bank's policy rate will surely be kept close to zero heading into 2021 (and likely for many months to come). Markets will be looking instead at the MPC's views on the speed and shape of recovery in 2021.

The week also sees updates to UK retail sales, joblessness earnings and employment data, which will help guide the MPC's views on how resilient the household sector is looking. The government's furlough scheme has to date prevented the unemployment rate (current at 4.9%) from rising faster than previously expected.

The flash PMI data will meanwhile be closely be watched amid hopes for bounce in activity during December following November's lockdown-led plunge in service sector activity. Pre-Brexit stock piling may also provide a temporary boost.

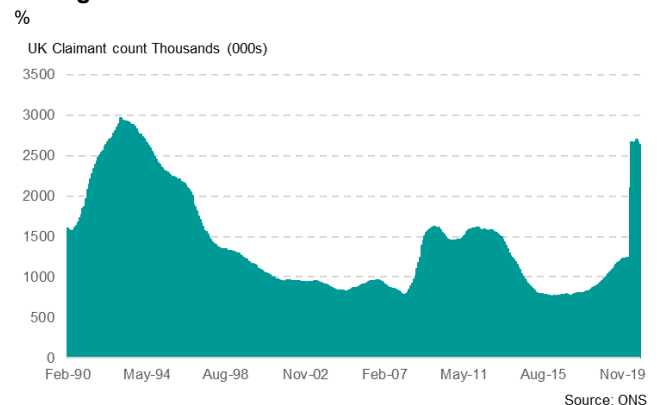
Eurozone PMI

Against a backdrop of a [renewed downturn in November](#), as rising manufacturing production was offset by falling services activity, next week's flash Eurozone PMI provides a timely opportunity to assess whether these trends continued into December. German data will be of particular interest, where manufacturing exporters have benefited noticeably from an uplift in global trade – and have once again become a key growth engine for the single currency area, helping to partially offset continued losses in social-contact sectors such as tourism and other hospitality services.

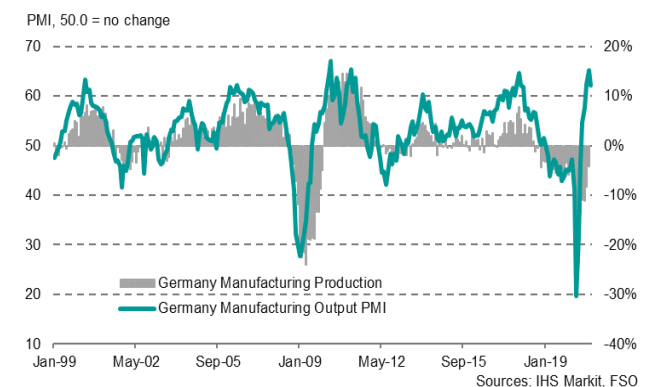
UK inflation remains well below trend ahead of the latest Bank of England meeting...



...whilst unemployment in the UK has risen, the government's furlough scheme has helped to prevent an even greater increase



German industry has been a noticeable bright spot for the Eurozone economy in recent months



Asia Pacific Week Ahead

Focus on China and Japan including BoJ monetary policy decision

By Paul Smith

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With a wide range of data releases next week, covering trade, industry and domestic developments, the focus in Asia will be on the region’s economic behemoths: China and Japan. The Bank of Japan also meets to set its latest monetary policy decision, whilst outside of the ‘hard’ data comes timelier survey data including our flash Japan Manufacturing PMI. Elsewhere, Australia reports November labour market data, whilst in New Zealand third quarter GDP numbers are released.

China industrial production, retail sales

China’s usual monthly release of a wide-ranging set of macroeconomic statistics should show the continuation of the country’s growth recovery during November. With export trade already reported to be up markedly (+21% year-on-year) and with the continuation of effective measures to contain the Covid-19 pandemic at home, key indicators such as industrial production and retail sales are set to maintain their upward trend. Production was running 6.9% ahead of a year ago in November, while retail sales were up 4.3%.

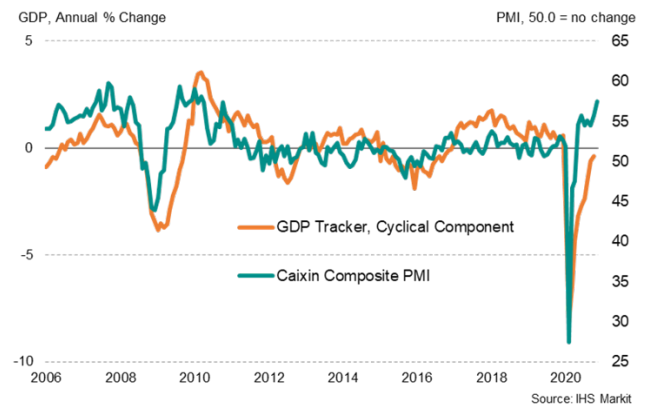
Indeed, the more-timelier Caixin PMI figures suggest that mainland China is again expanding at a cyclical rate above “normal”, and on the back of strengthening domestic and international demand the economy should have sufficient momentum to continue its positive growth trajectory into 2021.

BoJ, industry, trade, prices and PMI

Over in Japan there is a steady stream of economic data set for release covering trade, industry, and consumer prices. The quarterly Tankan survey will also be closely watched, as will the flash au Jibun Bank PMI figures, which are released ahead of the Bank of Japan’s monetary policy decision and [last month faltered](#).

As with most central banks around the world, the BoJ’s major concern is ensuring sufficient monetary support given the ongoing downside risks from the Covid-19 – and policymakers will subsequently be scouring the latest data for any signs of a worsening in the situation – especially given the rather subdued recovery to date. Whilst industry and trade have shown signs of improvement, with exports returning to year-ago levels in October and supportive for manufacturing in the near-term, domestic consumption remains disappointing.

China’s economy has recovered well from the effects of the pandemic earlier in the year

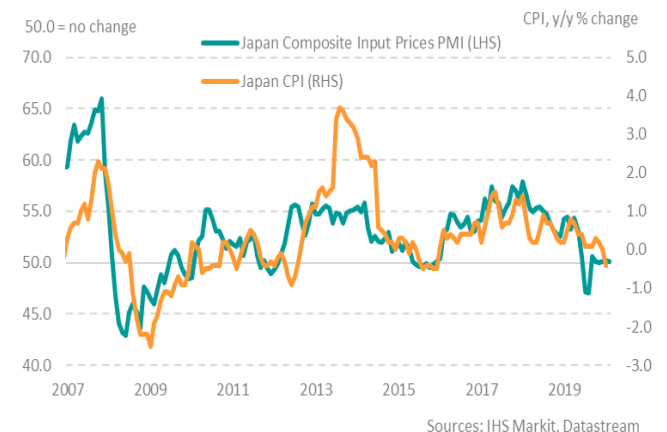


[Click here for details of our new China GDP tracker](#)

Japan’s manufacturing PMI has pointed to a steady, albeit unspectacular, recovery in industry as weak domestic demand weighs on the economy



Price developments in Japan remain muted according to both official and survey data



APAC Special Focus

APAC electronics sector closes 2020 with strong rebound

By **Rajiv Biswas**

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The Asia-Pacific electronics industry, which is a significant part of the manufacturing sector for many East Asian economies, has shown a strong rebound during the second half of 2020, after being significantly impacted by disruptions caused by the Covid-19 pandemic lockdowns in the first half of 2020.

The latest IHS Markit Purchasing Managers' Index (PMI) survey data shows a strengthening recovery in global electronics output, as the world economy and major consumer markets have gradually emerged from the severe economic slump in the first half of 2020. This recovery has been reflected in China's electronics exports data, which rose strongly in November, rising 24.8% year-on-year due to strong Christmas demand for consumer electronics in key global markets, notably the US and EU.

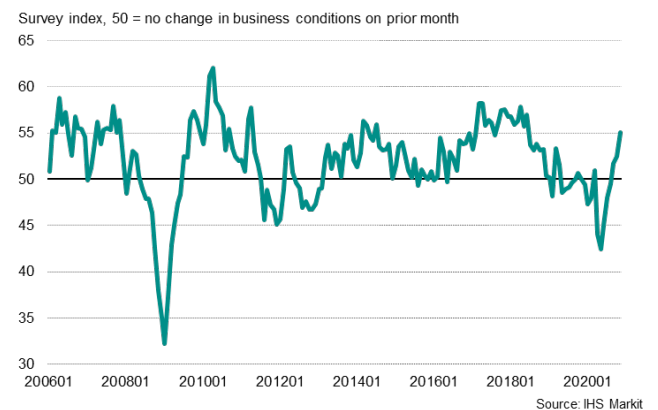
APAC electronics sector output rebounds after Covid-19 related disruptions

The electronics manufacturing industry is an important part of the manufacturing export sector for many East Asian economies, including China, South Korea, Taiwan, Malaysia, Singapore, Philippines, Thailand and Vietnam. Furthermore, the electronics supply chain is highly integrated across different economies, with China being an important supplier of intermediate electronics parts for a number of Southeast Asian electronics sectors. The complete shutdown of Chinese industrial production for a protracted period consequently created significant supply chain disruptions to the electronics manufacturing sector in many Southeast Asian economies during February and March.

As the impact of the pandemic widened in the Asian region during April, the headline IHS Markit Global Electronics PMI fell to 43.6 in April, down from 49.2 in March, to signal a sharp deterioration in business conditions faced by electronics manufacturers. The April reading pointed to the fastest decline since April 2009, with many businesses temporarily closed amid the

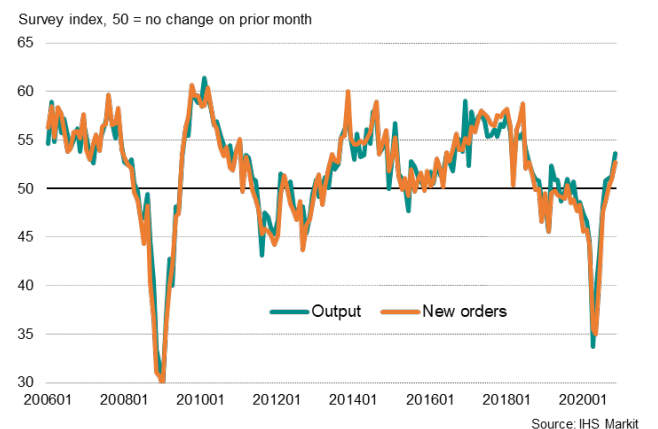
global Covid-19 outbreak. In addition to supply side disruptions to electronics output, widespread lockdowns of retail businesses in many major markets worldwide also disrupted consumer demand for electronics goods as well as products that have significant electronics components, such as autos. Extended periods of lockdown in major electronics manufacturing hubs, including China and Malaysia, as authorities tried to control the spread of the pandemic, resulted in disruption of industrial production and consumption, impacting on global supply chains.

IHS Markit Global Electronics PMI



However, since April, the IHS Markit Global Electronics PMI has showed significant improvement. The headline seasonally adjusted PMI rose to 53.4 in November, up from 51.8 in October. The latest reading pointed to the quickest improvement in the overall health of the global electronics sector for over two years, amid stronger increases in both output and new orders.

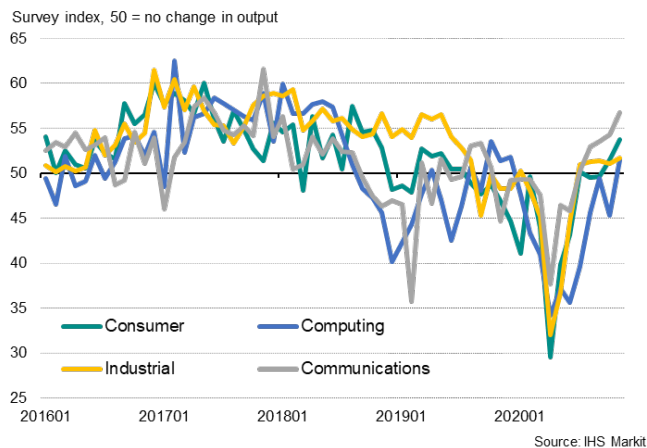
IHS Markit Global Electronics PMI, output and new orders



The global electronics PMI's new orders index rose from a near-12-year low of 35.0 in May to a level of 52.8 by November, reflecting a significant recovery in new orders.

Each of the four monitored sub-sectors recorded an improvement in business conditions during November, led by communications firms, with all four sub-sectors recording expansionary conditions. The strongest recovery has been in output for communications electronics, the index for which reached 56.7 in November, helped by improving demand for mobile phones.

IHS Markit Global Electronics PMI, output by product sector



A number of Asian economies have reported strong growth in electronics exports in the second half of 2020, as the global shift towards working from home and ecommerce retailing resulted in surging demand for laptops and smartphones from companies, governments, and households.

In Malaysia, production of electrical and electronic products fell by 34.2% y/y in April, as the government's strict lockdown measures resulted in a sharp contraction in industrial production. However, as the lockdown restrictions were eased from May onwards, production rebounded. In October, production of electrical and electronic products rose by 9.8% y/y, with electronics exports up 3% y/y.

In South Korea, semiconductor exports increased 16.4% y/y in November, boosted by newly launched mobile phone products as well as increasing sales of mobile phone parts.

Taiwan's exports of electronic components rose by 19.5% y/y in November, driven by strong demand for integrated circuits.

In Vietnam, exports of personal computers and related products rose strongly in the third quarter of 2020, up by an estimated 20% y/y, as the global shift to remote working boosted demand for personal computers. For the first ten months of 2020, exports of personal

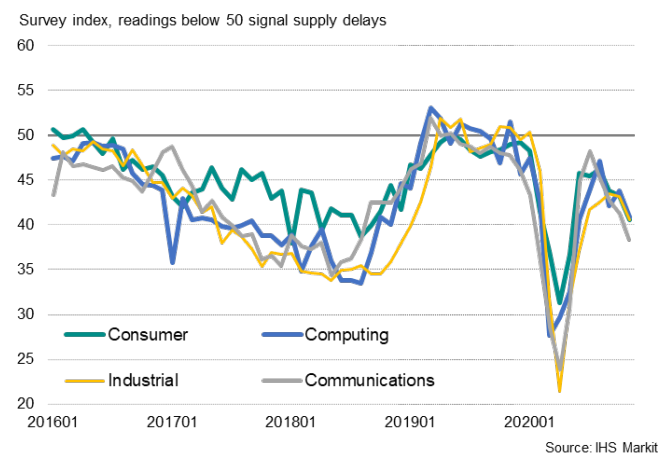
computers, electrical products and spare parts rose by 25% y/y.

Electronics industry suppliers' delivery times hit by supply chain disruptions

Due to the extensive disruption of manufacturing output in many leading electronics manufacturing hubs due to the Covid-19 pandemic, the situation in April reflected severe supply-side problems in electronics supply chains. April survey data pointed to input delivery times lengthening drastically. In fact, the rate at which vendor performance deteriorated in April to set a new survey record. During April, companies widely cited difficulties in obtaining inputs, particularly from the US, Europe and China.

Despite supply chain disruptions, there has been a considerable rebound in global electronics suppliers' delivery times in recent months, from a low of 24.9 in April to 46.0 by August. However, supplier delivery times have worsened again during the fourth quarter of 2020, with the November reading having declined again to 39.4, with companies reporting raw materials shortages amidst rising global electronics demand.

IHS Markit Global Electronics PMI, supply delays by product category



Reshaping of electronics supply chains in APAC

The process of diversification of manufacturing production and supply chains away from China has already been underway over the past decade, initially driven by rapidly rising manufacturing wage costs in coastal provinces of China. The escalating US-China trade war since 2018 has further intensified this process of supply chain diversification, as firms shifted some production of manufacturing exports for the US market away from mainland China in order to mitigate the impact of US tariff measures. The Covid-19 pandemic

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has become a further driver for this supply chain diversification process. All of these factors are continuing to reshape APAC supply chains for the electronics industry.

One of the biggest winners of the shift in electronics supply chains away from China over the past decade has been Vietnam. Vietnam has attracted large inflows of foreign direct investment into its electronics manufacturing sector, notably from South Korean electronics firms. The importance of Vietnam's electronics industry has risen dramatically, with the electronic industry's share of total GDP rising from around 5% in 2010 to around one-quarter of GDP by 2019, a key factor helping to drive rapid growth of both exports and GDP.

Total electronic and electrical manufacturing exports accounted for 33% of total Vietnamese merchandise exports in 2019. Vietnam has become the biggest foreign production hub for Samsung Electronics, which booked USD 66 billion of sales in 2018 out of its Vietnamese operations, which was equivalent to around 28% of Vietnam's GDP.

Vietnam's new EU-Vietnam Free Trade Agreement (EVFTA) which was implemented on 1st August 2020 will also help to boost Vietnam's electronics sector.

The Indian economy is also benefiting from new investment inflows into its electronics industry, linked to the rapid development of telecoms infrastructure. The rollout of 4G networks is helping to support the medium-term outlook for new smartphone sales, and will be further boosted by the development of 5G networks. The strong growth of India's mobile phone market is attracting a large number of foreign electronics firms to increase their manufacturing capacity in India.

The decision by Apple to increase its manufacturing of iPhones in India has resulted in a significant number of its component manufacturers also shifting production and diversifying supply chains to India. Apple component maker Wistron is hiring an additional 10,000 staff in India as it increases its local manufacturing capacity. This reflects the strong growth potential of India's domestic market as well as supply chain diversification away from China as US-China technology tensions have escalated in recent months. Apple suppliers Foxconn and Pegatron have also planned to significantly increase production capacity in India.

The estimated value of domestic Indian manufacturing of mobile phones reached USD 24.3 billion in the 2018-19 financial year, compared with just USD 3.1 billion in 2014-15. The overall exports of mobile handsets from

India were valued at USD 2.6 billion in the 2018-19 financial year, according to the Indian Department of Commerce.

APAC electronics sector outlook

The gradual easing of lockdown restrictions in many of the world's largest economies has resulted in a rebound of world consumer demand since June 2020. This is helping to boost demand for electronics products, as well as for a wide range of other consumer goods and industrial goods that utilize electronics components. New orders from the US and Europe for the Christmas season have also helped to support recovery in new orders for the electronics sector during the second half of 2020.

In 2021, world growth is expected to gradually strengthen through the year, with the global economy forecast to grow at a pace of 4.2% y/y. Most major economies are expected to show a significant rebound in economic activity as vaccine rollouts result in improving economic momentum. Consequently, global electronics demand for both consumer and industrial electronics is expected to strengthen in 2021.

Over the medium-term outlook, a number of factors should continue to support further recovery in the global electronics cycle.

Firstly, a return to positive economic growth in the world economy is forecast for 2021, which should help to boost consumer demand for electronics products. Continued positive economic expansion for the global economy is also forecast for 2022-2023.

Secondly, the rollout of 5G networks will support increasing demand for new model 5G smartphones over the next three years, helping to boost demand for communications electronics.

Thirdly, the continued development of industrial automation and increasing use of robotics and smart devices for industrial applications and new technologies such as autonomous vehicles will also help to boost demand for electronics components such as semiconductors.

These trends will help to boost output and exports in the electronics sectors for many Asian economies, with the East Asian region continuing to play a key role in global electronics supply chains.