

Week Ahead Economic Preview

- People's Bank of China policy meeting
- US, UK, Spain and Netherlands third quarter GDP updates, plus US PCE data
- Key indicators for Japan

A curtailed week due to Christmas nevertheless sees some important economic data releases. The week commences with a focus on the People's Bank of China policy rate meeting, with clues sought as to when some of the emergency pandemic support will be unwound. Although the Caixin PMI surveys indicated the strongest rates of economic growth and job creation seen for over a decade in November, policymakers are juggling these encouraging signs against concerns over a strengthening yuan, deflation and credit risks following significant recent defaults in China's USD 4 trillion domestic corporate bond market.

US GDP data are also released during the week, providing more detail on economic trends in the third quarter. Prior data showed the economy having rebounded at an annualised rate of 33.1% in the third quarter, though we are tracking a more modest rate of around 5.6% in the fourth quarter. Updates to durable goods orders, new and existing home sales, consumer sentiment, jobless claims and personal spending and income data will give more insights into the economy's resilience mid-way through the fourth quarter, while PCE price data will be eyed for inflation signals.

In Europe, final third quarter GDP data are likewise released for the UK (currently estimated as showing a 15.5% quarter-on-quarter rebound) and will give more colour on business investment and consumer spending in particular. Public sector borrowing data are meanwhile scheduled to further reveal the ongoing cost of the pandemic. Third quarter GDP numbers are also updated for the Netherlands and Spain.

Brexit developments will also remain firmly in focus, as the UK government strives to seek a trade agreement with the EU before the Brexit transition period ends on 31st December. Sterling has risen sharply on encouraging news that the deal is in sight.

The week closes with a batch of indicators that will provide updated guidance on Japan's economic health in November, including retail sales, inflation, housing starts and the unemployment rate. Like many other countries, Japan's recovery continues to be constrained by falling service sector activity, [according to PMI data](#), but manufacturing is showing signs of stabilising.

Special Reports

Flash PMI surveys reveal COVID-19 impact: IHS Markit PMI data indicated a narrowing divergence of economic trends among the major developed economies in December, linked largely to variations in COVID-19 restrictions. Growth slowed in the US but the data improved in the eurozone and UK as lockdowns eased, though rising case numbers add across-the-board downside risks to the near-term outlook. ([page 3](#))

Upcoming PMI releases

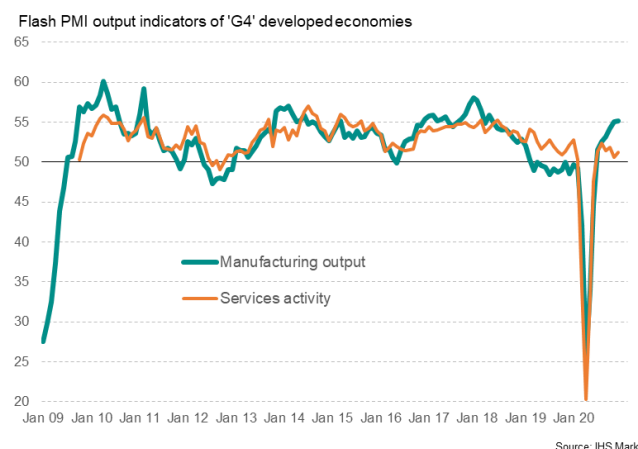
4th-5th January: Final Worldwide Manufacturing PMIs

6th January: Final Worldwide Services PMIs

7th January: Detailed Global Sector PMIs

Finally, to all of our readers we send Season's Greetings and hope that 2021 sees the world turn the tide against COVID-19, helping restore health and happiness to all. The Week Ahead team will be taking a holiday break and returning on 8th January. In the meantime, our next PMI data are released between 4-7th January, providing updates to worldwide business conditions in December. Our special report on [page 3](#) summarises the key findings from the preliminary 'flash' surveys, which pointed to a narrowing of growth divergences in the main developed economies, largely reflecting variations in virus restrictions.

Although service sector output remained subdued in December among the 'G4' developed economies, manufacturing continued to show encouraging growth



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Key diary events

Monday 21 December

China PBoC interest rate decision
Germany GfK consumer confidence (Dec)
Eurozone consumer confidence (Dec)
Italy trade balance (Oct)
US Chicago Fed activity index (Nov)

Tuesday 22 December

Australia retail sales (Nov)
Thailand trade balance (Nov)
UK GDP final estimate (Q3)
UK public sector borrowing (Nov)
Canada average weekly earnings (Nov)
US GDP (Q3)
US existing home sales (Nov)

Wednesday 23 December

Japan BOJ meeting minutes
Australia trade balance (Nov)
Japan leading indicator (Oct)
Thailand monetary policy meeting
Spain GDP (Q3)
US MBA mortgage applications
Canada GDP (Oct)
US core PCE, personal spending & income (Nov)
US FHFA house price index (Oct)
US University of Michigan inflation expectations (Dec)
US new home sales (Nov)

Thursday 24 December

Netherlands GDP (Q3)
Taiwan unemployment (Nov)
Canada building permits (Nov)
US jobless claims
US durable goods orders (Nov)

Friday 25 December

Japan CPI (Nov)
Japan unemployment rate (Nov)
Japan retail sales (Nov)
Japan housing starts (Nov)
US University of Michigan consumer sentiment (Dec)

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Global Economy Special Focus

Flash PMI surveys show narrowing of US-European growth differentials

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IHS Markit's flash PMI data indicated a narrowing divergence of economic trends among the major developed economies in December, linked largely to variations in COVID-19 restrictions. A loosening of lockdown restrictions in Europe boosted PMI levels in the Eurozone and UK, while tighter measures in the US pulled the PMI lower. The US nevertheless continued to outperform the European economies, while Japan trailed further behind, albeit seeing its downturn ease further.

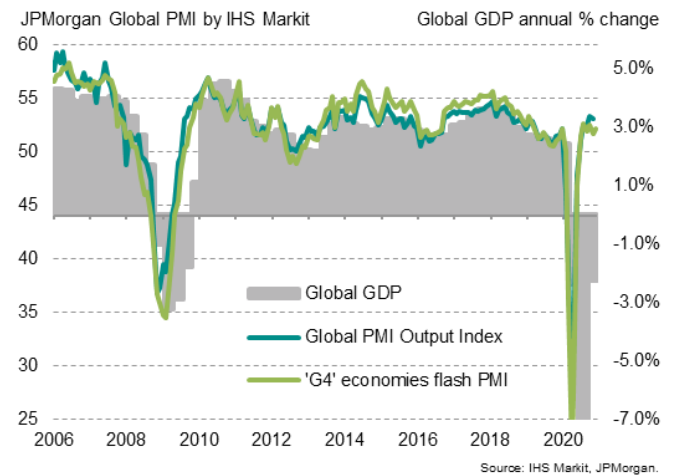
Service sectors were once again the hardest hit from social distancing measures, but better news came from the manufacturing economy, where output growth accelerated to show a strong expansion, helping ensure that the economic impact from the pandemic in the fourth quarter will be far more muted than seen earlier in the year at the height of the global lockdowns. COVID-19 containment measures will likely continue to inhibit growth in the coming months, but business sentiment about the year ahead has improved on vaccine news, brightening the longer-term picture.

Developed world growth accelerates

Flash PMI surveys for the US, Eurozone, Japan and UK, which collectively account for approximately half of global GDP, indicated an expansion of business activity for the sixth consecutive month in December, with the rate of expansion accelerating slightly compared to November. At 52.2, the G4 economies' flash PMI output index¹ rose from 51.6 in November. However, the latest reading remained below the recent highs seen in August and October, and also remained well below the long-run survey average of 53.5 seen in the five years prior to the pandemic. The reading therefore hints at an ongoing, but relatively sluggish, economic expansion.

¹ The flash PMIs are based on around 80% of the total number of survey replies usually received. As such, they provide the first, internationally comparable, insights into how economic conditions are changing. Currently, flash PMI are produced for the United States, the eurozone, Japan, the United Kingdom and Australia, encompassing manufacturing and service sectors in each economy. These survey data can in turn be weighted together according to each country's GDP to form international aggregates. Weighting the US,

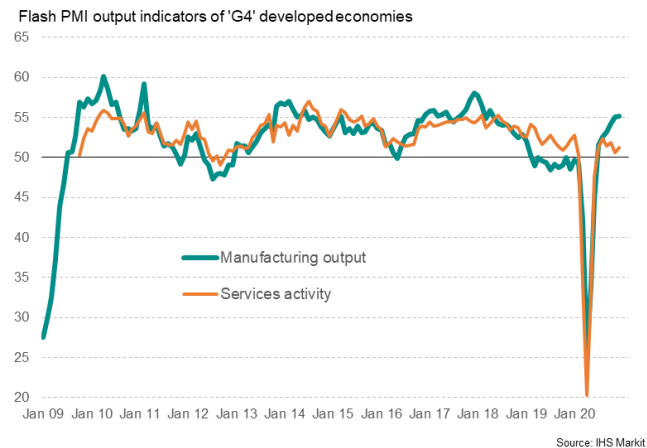
Flash G4 PMI output index and global economic growth



Faster manufacturing growth contrasts with sluggish service sector

The headline index masked strong variations by sector, and a deeper dive into the data reveals an ongoing marked underperformance of the service sector, which continued to be constrained by COVID-19 related restrictions. Although manufacturing output rose collectively across the G4 economies at the strongest rate since April 2018, growth of service sector output remained very modest, rising at only a slightly faster rate than the near-stalled pace seen in November, which had been the weakest since the sector's recovery began in August.

G4 economies' output



US outperformance fades

There were also marked variations in performance by country, though the differentials narrowed compared to November, largely reflecting variations in government measures applied during the month to tackle resurgent waves of COVID-19

eurozone, UK and Japan PMIs together, for example, creates a "G4 developed world" series of indicators, covering output, new orders, employment, inflation etc.

Because the four largest developed economies account for approximately half of global GDP (at market prices), the G4 flash PMI output index acts as both a good indicator of the Global PMI as well as global GDP growth. Since 2007, when IHS Markit's US PMI series was first included in the global PMI database, the flash PMI has exhibited a 94% correlation with annual percent changes in global GDP with the PMI acting with a lead of one quarter.

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infections. Importantly, in all cases the PMIs are signalling a far more subdued economic impact from COVID-19 in the fourth quarter than seen at the height of the pandemic in the second quarter of 2020.

November had seen the **United States** lead the expansion, with activity buoyed by a relatively low tightening of COVID-19 containment measures during the month compared to October, as well as heightened activity around Thanksgiving and a notable boost of reduced political uncertainty following the Presidential election. A more severe tightening of virus containment measures in December, and growing concerns over virus case numbers, has since [pulled the PMI down](#) from its highest level in over five years, though the index continues to signal robust growth. The survey data therefore add to the likelihood of the economy having continued to expand in the fourth quarter, building on the recovery seen in the third quarter. Service sector growth has nevertheless slowed especially markedly, and manufacturing output growth has also weakened, although in both cases the rate of expansion has exceeded the G4 averages, most notably in the service sector.

In Europe, the [flash Eurozone composite PMI](#) meanwhile remained in contraction territory, albeit registering only a very marginal decline in output after November's steep drop. In contrast to the tightening of COVID-19 restrictions seen in the US, Eurozone containment levels were eased slightly, though they remained severe in some member states. Hence the service sector continued to act as a major drag on the region. Brighter news also came from manufacturing, where the rate of expansion accelerated to one of the fastest rates seen in recent years, buoyed in particular by surging growth among German producers.

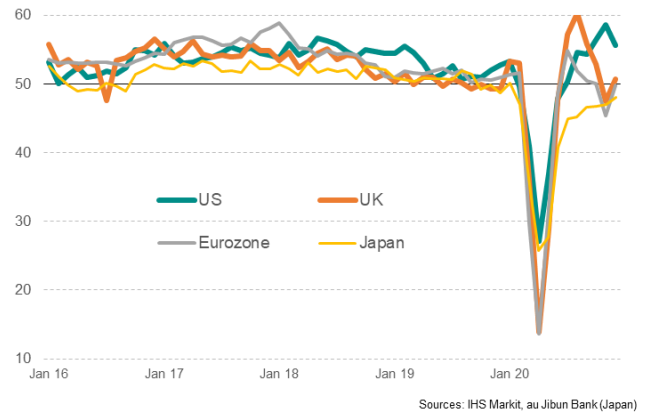
The **United Kingdom** managed to marginally outperform the Eurozone, as its [composite PMI edged back into growth](#) territory after a national lockdown led to a contraction of business activity in November. Service sector activity stabilised but it was the manufacturing sector that saw the strongest performance, benefitting in part from a pre-Brexit stockpiling boost.

In contrast to the fourth quarter expansion seen in US, both the Eurozone and UK are consequently likely to have seen GDP contract in the fourth quarter.

Meanwhile in **Japan**, the equivalent [au Jibun Bank PMI](#) – also compiled by IHS Markit – remained in contraction territory but signalled the weakest decline since the pandemic-related downturn began back in February. An easing in the service sector's downturn was accompanied by news of the manufacturing sector approaching stabilisation.

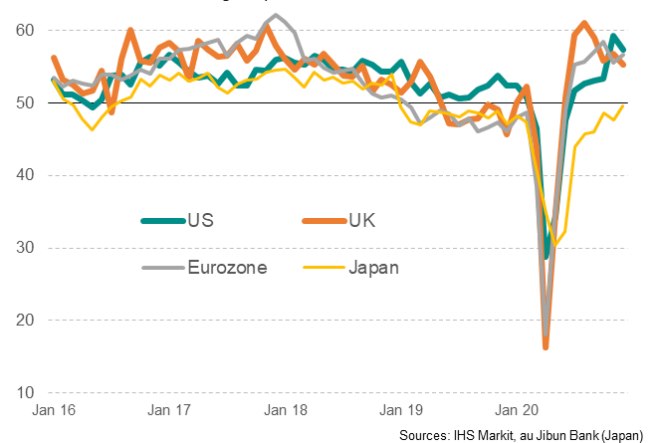
Output in the G4 economies

Flash Composite PMI, output



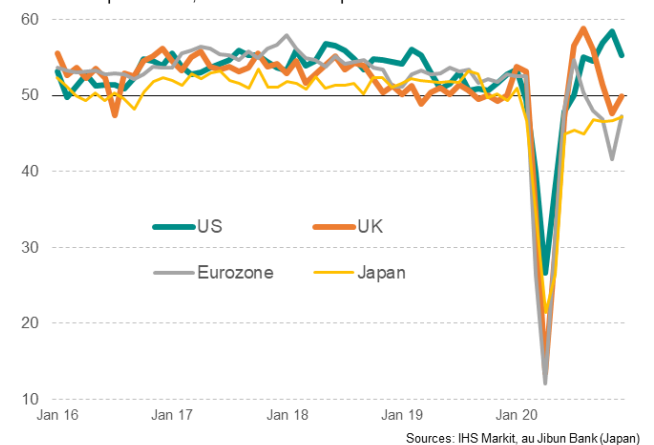
Manufacturing output

Flash PMI, manufacturing output



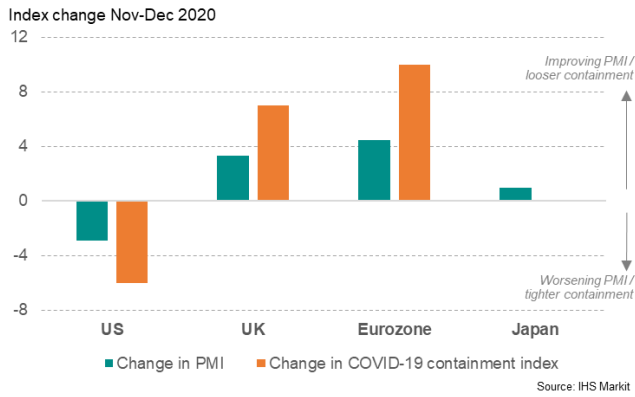
Services output

Flash Composite PMI, service sector output



The survey data therefore paint a picture of economic conditions improving where COVID-19 containment measures were eased (the UK and Eurozone), and deteriorating where containment measures were tightened (the US). Japan's PMI was relatively unchanged, reflecting no significant change in its virus restrictions during the month.

Changes in composite PMI and COVID-19 containment

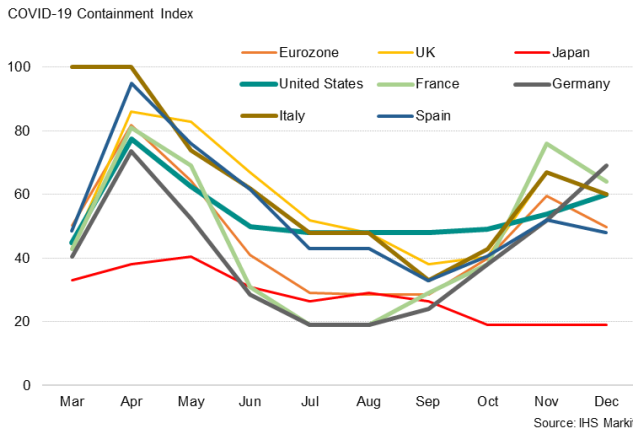


Virus holds key to recovery paths

Looking ahead, COVID-19 containment indices are expected to signal a modest easing of restrictions globally in January and February, including in the US and Europe, before a more meaningful relaxation of measures in March. However, the overall degree of containment is set to remain significant, thereby acting as a drag on the global economy, and further spikes in virus cases after the Christmas holidays could see restrictions tighten again rather than ease.

More positively, hopes of vaccines being rolled out quickly have risen, which has boosted business expectations for the year ahead. Sentiment among the G4 economies hit a post-pandemic high in November and has fallen back only slightly in December, remaining elevated by recent standards. While rising COVID-19 numbers may therefore present some speed bumps in the recovery path in the near-term, the longer-term outlook has brightened in recent months.

COVID-19 containment



* COVID-19 containment index is based on information relating to issues such as closures of schools, non-essential shops and restaurants, as well as restrictions on public gatherings, internal mobility and external borders. We also forecast how these are expected to change in coming months, based primarily on government announcements. A reading of 100 means severe restrictions while a reading of zero indicate no restrictions.

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