

Week Ahead Economic Preview

- Worldwide manufacturing and service sector PMI surveys, ISM US surveys
- US nonfarm payrolls
- RBA rate setting meeting

The economic diary for the coming week kicks off with global PMI surveys and concludes with US non-farm payrolls, interspersed with official releases including a variety of GDP, production and inflation reports plus the RBA rate setters' meeting.

The release of worldwide PMI surveys will provide an early snapshot into economic growth and inflation trends midway through the first quarter. [Flash February data](#) hinted at the strongest developed market expansion for three years, led by the US, which has contributed to further upward revisions to many forecasters' expectations for worldwide GDP in 2021.

Even in countries such as Japan, the UK and Eurozone, where COVID-19 containment measures have been tightened again this year, economies seem to be faring better than last year due in part to a revival in manufacturing, which has helped cushion the economic impact of further virus waves. Rising [global trade](#) has also boosted many Asian economies (see [special report](#)).

However, the growth spurt is being accompanied by rising prices, notably for industrial goods, due to near-record supply chain delays. These [delays and price hikes are linked to demand exceeding supply](#) as economic recoveries take hold. Insight from the PMIs will therefore be sought into the extent to which these inflationary pressures are developing, and if they might be spilling over to the service sector, which would augur for a potentially bigger impact on the longer term inflationary picture.

The spectre of inflation has continued to rattle bond markets, and higher yields have the potential to cause problems for policymakers eager to keep borrowing costs low. The focus this week turns to the Reserve Bank of Australia's policy decision. Markets will be looking for any signs that the central bank could be wavering from its commitment to keeping the policy rate low for several years despite [recent signs](#) of sharply rising price pressures and solid economic growth.

Special Reports

Taiwan: The combination of Taiwan's success in controlling COVID-19 and rapid growth in exports have resulted in Taiwan recording positive GDP growth in 2020, and the medium-term outlook is buoyed by electronics exports ([page 3](#))

Upcoming PMI releases

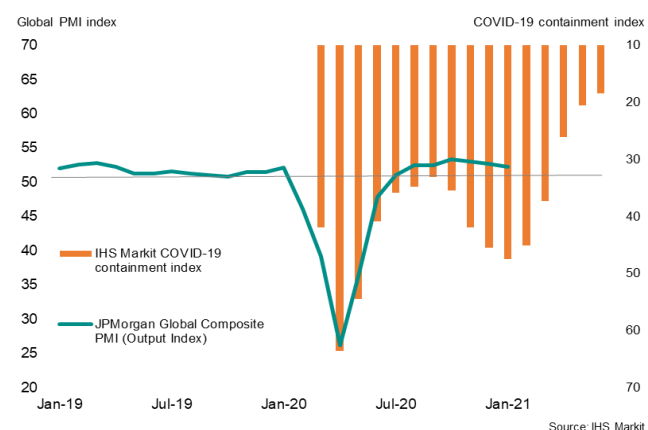
- 1st March: Final Worldwide Manufacturing PMIs
- 3rd March: Final Worldwide Services PMIs
- 4th March: Detailed Global Sector PMIs

The performance of the US economy will also be gauged by updates to the ISM surveys and the labour market, with nonfarm payrolls expected to rise by 110k – an improvement on the disappointing 49k increase seen in January but still indicative of a weak job market recovery, underscoring the deep scars left by the pandemic on sectors such as retail and hospitality.

The week also sees fourth quarter GDP updates for Australia, Brazil, Canada, the Czech Republic, Italy and South Korea.

Global PMI data suggest economies are becoming more immune to COVID-19 lockdowns

PMI surveys have indicated that economic growth has shown more resilience to COVID-19 containment in recent months, albeit with strong national variations. Flash data for February have indicated strong US growth contrasting with falling output in Europe and Japan.



* 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.

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Key diary events

Monday 1 March

Worldwide manufacturing PMI surveys (Feb)
South Korea trade balance (Feb)
Indonesia consumer price inflation (Feb)
France industrial production (Jan)
Italy consumer price inflation (Feb, prelim)
UK money supply and mortgage approvals (Jan)
Canada current account (Q4)
US construction spending (Jan)

Tuesday 2 March

Japan unemployment rate (Jan)
Australia building permits (Jan)
Australia RBA rate decision
Germany retail sales (Jan)
Germany unemployment (Jan)
Czech Republic GDP (Q4)
Eurozone consumer price inflation (Feb, flash)
Canada GDP (Dec/Q4)

Wednesday 3 March

Worldwide services and composite PMI (Feb)
Australia GDP (Q4)
Italy GDP (Q4)
Brazil GDP (Q4)
Eurozone producer prices index (Jan)
US APD payrolls (Feb)

Thursday 4 March

Worldwide detailed sector PMI (Feb)
Australia trade balance (Jan)
Australia retail sales (Jan)
South Korea GDP (Q4) and inflation (Feb)
Eurozone construction PMI (Feb)
UK construction PMI (Feb)
US weekly jobless claims
US productivity (Q4)
US factory orders (Jan)

Friday 5 March

Philippines inflation (Feb)
Germany factory orders (Jan)
France trade balance (Jan)
UK Halifax house prices (Feb)
Italy retail sales (Jan)
US employment report including nonfarm payrolls, unemployment, wages (Feb)
US trade balance (Jan)
Canada trade balance (Jan)
Brazil industrial production (Jan)

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APAC Special Focus

Taiwan economy boosted by surging electronics exports

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Taiwan's economy has been extremely resilient to the impact of the global COVID-19 pandemic. Surging global electronics new orders have helped to drive buoyant export growth, reflecting the dominant role of electronics products in its manufacturing output and exports. The combination of Taiwan's success in controlling domestic COVID-19 pandemic cases and rapid growth in exports have resulted in Taiwan recording positive GDP growth of 3.1% in 2020.

Taiwan's robust economic performance

Taiwan is in the rare position of having actually recorded a slight strengthening in GDP growth in 2020 compared with 2019, despite the severe global recession caused by the COVID-19 pandemic. Meanwhile almost every other economy in the world either plunged into recession or experienced a sharp growth slowdown in 2020 due to the economic shockwaves of the global pandemic.

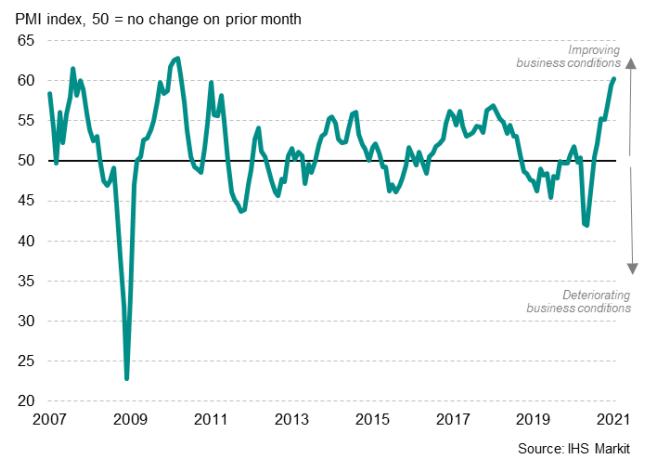
Taiwan's GDP year-on-year (y/y) growth rate was 5.1% in the fourth quarter of 2020, boosted by strong growth in exports. Global electronics demand remains buoyant in key markets in early 2021, with strong capital investment spending planned by Taiwanese semiconductors manufacturing firms. Consequently, Taiwan's GDP growth rate is forecast to strengthen further to 4.1% in 2021, which would be the fastest pace of economic expansion since 2014.

Taiwan's exports rose by 36.8% y/y in January 2021, with base year effects from the timing of the Lunar New Year holidays in January 2020 boosting the export figures. Taiwan's exports to mainland China and Hong Kong SAR rose by 57% y/y in January, also reflecting base year effects from the Lunar New Year holiday in 2020. Taiwan's exports to the US also showed rapid expansion in January, growing by around 22% y/y.

Driven by strong global electronics orders as well as the rebound in global auto production, Taiwan's electronics

and auto components manufacturing output has recorded rapid expansion, with industrial production up 9.9% y/y in December. The IHS Markit Taiwan Manufacturing Purchasing Managers' Index (PMI) rose from 59.4 in December to 60.2 in January, to indicate the strongest improvement in the health of the sector since April 2010. The PMI has now signalled an improvement in business conditions for seven successive months.

IHS Markit Taiwan Manufacturing PMI



Global electronics sector rebound boosts Taiwan's exports

The pandemic-driven surge in global electronics demand was a key factor underpinning Taiwan's strong economic performance in 2020, as the global shift to remote working and online shopping drove rapid growth in demand for computers, home electronics and smartphones. Despite the pandemic, which resulted in a sharp slump in world trade, Taiwan's exports actually rose by 4.9% y/y in calendar 2020, mainly due to strong exports of electronics, notably semiconductors.

An important factor supporting buoyant electronics output was strong exports to mainland China and Hong Kong SAR, which rose by 14.6% y/y in 2020, accounting for around 44% of Taiwan's total exports.

In the first half of 2020, Asian electronics production had suffered severe supply disruptions and slumping global demand due to the pandemic and lockdowns. However, the situation for Taiwan's electronics sector has now completely reversed. The strong rebound in global electronics demand continuing in early 2021 has created supply bottlenecks for Taiwan's electronics manufacturing firms, notably in the semiconductors industry, where Taiwan is a key global source of production. Global shortages of semiconductors have already resulted in disruptions to auto production for some major auto manufacturers during the first quarter of 2021.

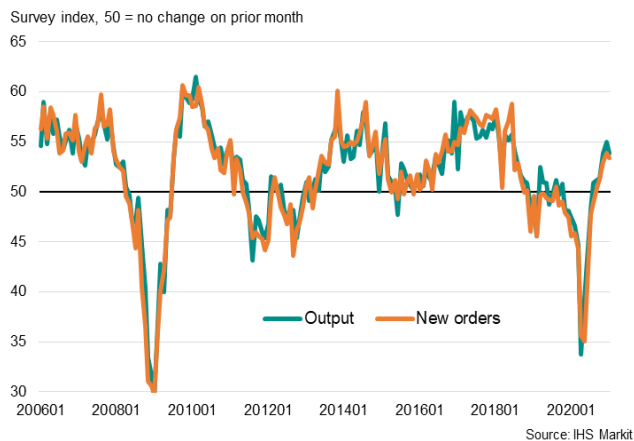
Economic Preview: Week of 1 March 2021

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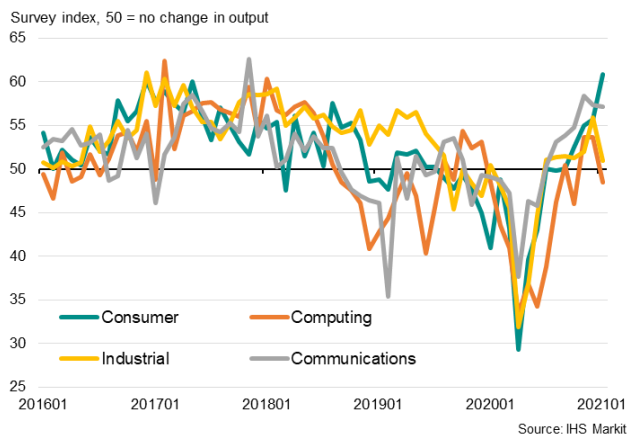


The IHS Markit Global Electronics PMI has signalled a strong rebound since mid-2020 as global lockdowns were eased and consumer spending rebounded in many major economies. However, the IHS Markit Global Electronics PMI new orders index rose from a calendar year-to-date low of 35.0 in May 2020 to 53.4 by January 2021, reflecting a significant recovery in new orders.

IHS Markit Global Electronics PMI

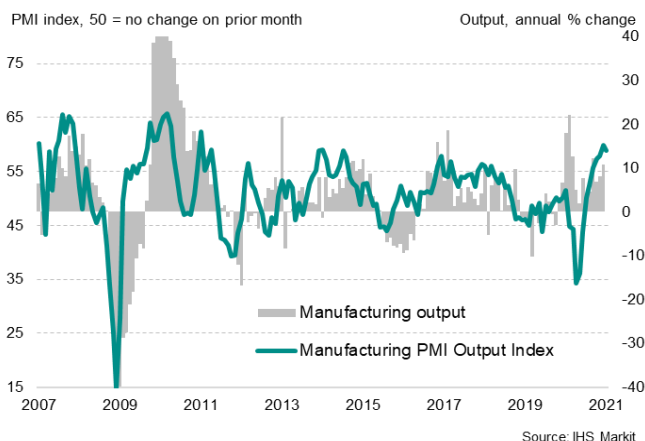


Global electronics PMI, output by sector

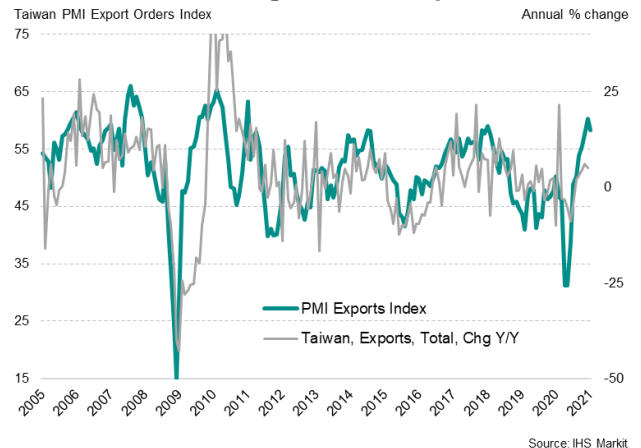


This rebound in global electronics demand has been reflected in the recent industrial production and exports data for Taiwan.

IHS Markit Taiwan Manufacturing PMI output index



Taiwan Manufacturing PMI new export orders



Taiwan faces semiconductors shortages as demand soars

Taiwan's exports of electronics products surged in January 2021, rising by 47.5% y/y to USD 13.3 billion. Exports of semiconductors rose by 46.3% y/y, while exports of optical devices rose by 53.5% y/y. Due to strong global demand for computers, TVs and auto electronics, a severe shortage of semiconductor chips has developed in recent months.

Chip stockpiling during 2020 due to US government sanctions on certain Chinese technology companies have also contributed to the shortages. Global auto manufacturers as well as smartphone producers are among the industry segments that have been impacted by these shortages. According to IHS Markit Automotive research, vehicle manufacturers are finding increased disruption to the supply of systems using semiconductors in the first quarter of 2021. Many automakers worldwide have reported disruptions to production due to shortages of semiconductors, including Ford, VW Group, GM, Honda and Mazda. (IHS Markit Automotive, 22nd February 2021, "Semiconductor Supply Issue: Light Vehicle Production Tracker").

The extent of the shortages of critical electronics components has become so severe that high level consultations have been held with Taiwan involving key industry bodies as well as government officials from major industrial economies including the US and Germany. On 24th February, US President Biden signed an executive order for a US government review of US supply chain vulnerability for critical materials, including for semiconductors.

Due to the severe global shortages of critical electronics components such as chips and panels, many electronics companies in Taiwan continued production through the Lunar New Year holidays, which is traditionally a very important long holiday in Greater China.

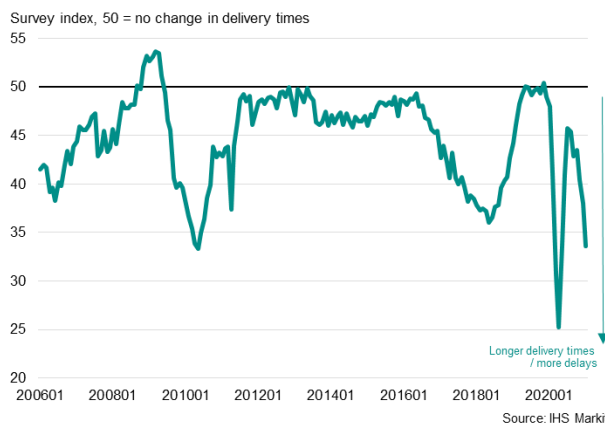
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The shortage of semiconductors has driven up capital expenditure plans, with Taiwan's TSMC, the world's largest chipmaker, having announced plans to increase capital spending on production and development of advanced chips to a range of USD 25 billion to USD 28 billion in 2021, a 60% increase on 2020. Taiwan's UMC, which also manufactures chips, is operating its semiconductor plants at full capacity, and plans to lift spending on new capital equipment by around 50% in 2021 in order to increase capacity.

Global electronics PMI, supplier lead times



Taiwan economic outlook in 2021

Taiwan has been one of the world's most resilient economies during the pandemic-triggered recession of 2020. Economic indicators at the beginning for 2021 signal improving growth momentum for the Taiwanese economy over coming months, as the world economy and global trade rebounds during 2021. According to the latest IHS Markit survey of business confidence in Taiwan, the 12-month outlook for manufacturing production rose to its highest since April 2014 at the start of 2021, reflecting strengthening new orders. IHS

Markit forecast that Taiwan's exports will increase by around 13% y/y in 2021.

At the outset of 2021, global electronics demand has recovered significantly from the lows of the first half of 2020, when lockdowns disrupted production and consumer spending. With an improving global economic recovery expected during the course of 2021 as COVID-19 vaccines are progressively rolled out, global demand for electronics products is expected to be strong this year.

The impact of the pandemic has accelerated the pace of digital transformation due to the global shift to working remotely, which has boosted demand for electronic devices such as computers, printers and mobile phones. The easing of lockdowns in many countries has also triggered a rebound in consumer spending, helping to boost demand for a wide range of consumer electronics. Meanwhile auto demand has also shown a rebound after slumping during the first half of 2020, which is boosting demand for Taiwan's auto electronics sector.

The medium-term economic outlook is also supportive for Taiwan's electronics industry, with sustained robust world economic growth forecast over 2022-2024. The outlook for electronics demand is also supported by major technological developments, including 5G rollout over the next five years, which will drive demand for 5G mobile phones. Demand for industrial electronics is also expected to grow rapidly over the medium term, helped by Industry 4.0, as industrial automation and the Internet of Things boosts rapidly growth in demand for industrial electronics. These factors underpin the medium-term outlook for Taiwan's electronics sector exports and capital expenditure, which will be key drivers of economic growth.