Economic Preview: Week of 8 March 2021

Publication date: 5 March 2021

IHS Markit

Week Ahead Economic Preview

- **Focus turns to policy meetings at ECB and Bank of Canada, plus BoE and RBA speeches, amid bond market turmoil**
- **US job markets and consumers in focus**
- **China trade data and Japanese GDP**

Special Reports

APAC: supply chain bottlenecks: Surging Asia-Pacific exports and strong rebound in demand have created supply bottlenecks (page 3)

Global: PMI survey data showed global growth accelerating in February as COVID-19 restrictions eased (page 7)

Upcoming PMI releases

24th March: Flash PMIs (US, Eurozone, UK, Japan, Australia)

1st April: Final Worldwide Manufacturing PMIs

5th April: Final Worldwide Services PMIs

6th April: Detailed Sector PMIs

Markets will seek guidance on central bank policy outlooks in the week ahead after recent data not only showed the global recovery gathering momentum in February, albeit with marked regional variations, but also showed rising inflationary pressures. A key global gauge of companies' input cost inflation rose to its highest for over 12 years in February, feeding through to the largest increase in average selling prices for goods and services for over a decade.

Interest rate meetings are held at the ECB and Bank of Canada, and will be closely watched amid growing concerns over rising bond yields. Despite recent market volatility, we continue to expect the ECB to deliver on its forward guidance, whereby pandemic-related (PEPP) net purchases are extended to at least March 2022 with reinvestments to at least the end of 2023. Similarly, in Canada, the central bank has pledged to keep interest rates at 0.25% until excess capacity is eroded, which at its last meeting the bank didn't expect to see until 2023.

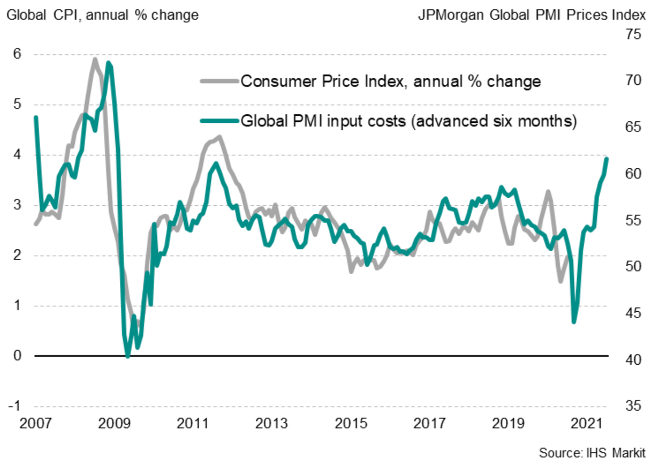
Speeches from BoE and RBA governors Bailey and Lowe are also scheduled for the week, and will be watched respectively for clues as to appetite for negative rates in the UK and for the Australian central bank's commitment to yield control after recent intervention in the bond markets.

In the US, the monthly budget statement is accompanied by job openings and jobless claims numbers, as well as the initial March reading of the University of Michigan's consumer sentiment indicator. The latter will be eyed for further signs of consumers boosting the economic recovery, which gained momentum in February amid further stimulus. Producer price data will also be watched after recent surveys showed signs of inflationary pressures building.

In Europe, a fresh estimate of fourth quarter GDP (currently thought to have shrunk 0.7%) is released alongside industrial production numbers for January. The latter are expected to show manufacturing helping ameliorate a downturn in the service sector during the first quarter. UK GDP data are also updated for January, with survey data hinting at a marked downturn as a new national lockdown hit activity, with business woes exacerbated by Brexit-related disruptions.

In Asia, China's trade numbers will come under scrutiny after recent signs of supply delays hampering trade flows and curbing exports. Inflation numbers are meanwhile expected to remain subdued. A new estimate of fourth quarter GDP is also due out of Japan, the earlier estimate having beaten expectations with a 3.0% q/q gain as the economy rebounded from COVID-19 restrictions, though more recent data have signalled some cooling of the recovery.

Global PMI data signal decade-high price pressures



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Key diary events

Monday 8 March

Japan bank lending (Feb)
Japan trade balance (Jan)
China trade balance (Jan-Feb)
Germany industrial production (Jan)
US wholesale inventories (Jan)

Tuesday 9 March

Japan GDP (Q4 final)
Japan machine tool orders (Feb)
Germany trade balance (Jan)
Italy industrial production (Jan)
Eurozone GDP (Q4)
Eurozone employment (Q4)
South Africa GDP (Q4)
US NFIB business optimism (Feb)

Wednesday 10 March

Australia building permits (Jan)
China consumer price inflation (Feb)
China producer price inflation (Feb)
China FDI, new loans and money supply (Feb)
France industrial production (Jan)
US consumer price inflation (Feb)
US monthly budget statement (Feb)
Bank of Canada policy meeting

Thursday 11 March

Japan producer price inflation (Feb)
Brazil inflation (Feb)
ECB policy meeting
US jobless claims
US job openings (JOLTS) (Jan)

Friday 12 March

Germany consumer price inflation (Feb)
Spain retail sales (Jan)
Spain consumer price inflation (Feb)
UK trade balance (Jan)
UK GDP, including industrial production, services and construction output (Jan)
Eurozone industrial production (Jan)
Brazil retail sales (Jan
India industrial production (Jan)
India consumer price inflation (Feb)
US producer price inflation (Feb)
US University of Michigan consumer sentiment (Mar)
Canada employment report (Feb)

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APAC
Special Focus

Surging APAC exports create shipping container shortages and supply chain bottlenecks

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APAC exports are forecast to show a strong rebound of 11.5% in 2021, after contracting by 5.1% in 2020. IHS Markit estimates that global trade volume contracted by an estimated -11.2% in 2020. A recovery is forecast in 2021 and 2022, with global trade volume to recover by 7.5% and 4.1%, respectively.

Surging Asia-Pacific exports have created shipping container shortages, with the price of containers on Asia-US and Asia-EU shipping routes having soared since mid-2020. Meanwhile, the strong rebound in global electronics demand has also created supply bottlenecks for electronics manufacturing firms, with shortages of semiconductors having already resulted in disruptions to auto production for some major auto manufacturers during the first quarter of 2021.

Recovery in APAC exports

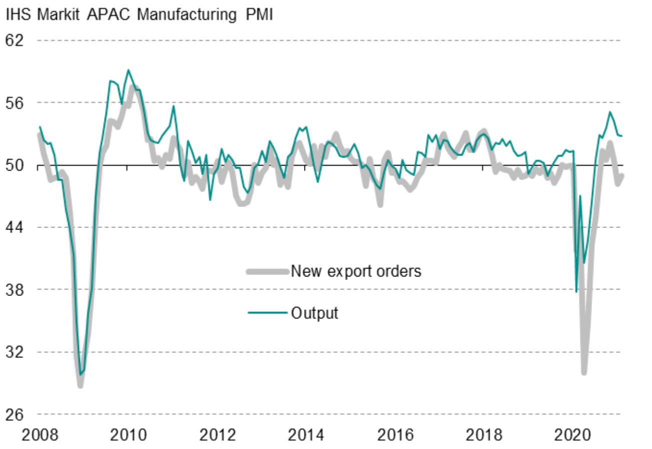
The Asia-Pacific (APAC) region experienced a severe recession in 2020 due to the COVID-19 pandemic, with APAC GDP contracting by an estimated 1.2% year-on-year (y/y). Pandemic-related lockdowns and travel bans had a severe negative impact on the economies of most APAC nations during the first half of 2020. However, during the second half of 2020, many Asia-Pacific economies had shown a significant recovery in economic momentum. This upturn was driven both by strengthening global export demand as well as the rebound in domestic consumption spending as a result of the easing of pandemic-related restrictions in many countries.

A strong economic recovery is expected in 2021, with APAC GDP growth forecast at 5.8%, based on expectations that the progressive rollout of COVID-19 vaccines during 2021 will help the gradual recovery of economic activity in many OECD and APAC economies.

A key factor underpinning the strong economic rebound in the APAC region is expected to be buoyant economic growth in China, which is forecast to grow at 7.6% in 2021. The Asia-Pacific recovery is expected to be broad-based, with most major Asia-Pacific economies forecast to show rapid growth in 2021.

Exports from many Asian economies have already shown a strong rebound since mid-2020 as consumer demand in the US and EU has strengthened. China's exports rose by 18.1% year-on-year in December 2020, while Japan's exports rose by 6.4% y/y, South Korean exports were up 11.4% y/y and Singapore's exports were up 12.8% y/y in January 2021.

APAC manufacturing output and new export orders



Sources: IHS Markit.

APAC export growth forecast, 2021

Source: IHS Markit.

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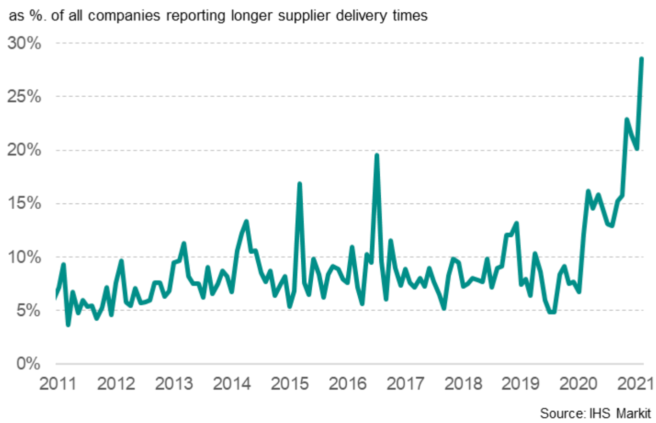
APAC shipping container shortages escalate

The current state of the container shipping market can best be explained by consumers in locked down countries in North America and Western Europe with money to spend embarking on a spending spree for Asian produced consumer goods. This has created logistical problems, resulting in supply chain bottlenecks and empty shipping containers in the wrong locations.

What was different this time round is that container shipping industry was, for the first time in years, in a much better position to ride out a crisis and weathered the COVID 19 hit far better than during the Global Financial Crisis. Industry consolidation over the last few years drove a newfound resolve by the shipping companies to exercise exceptional capacity discipline. Industry's pricing power, which has long been elusive, came back ferociously once demand started recovering. Demand destruction was short lived, recovery has been swift and exceeded expectations amid consumer demand shifts.

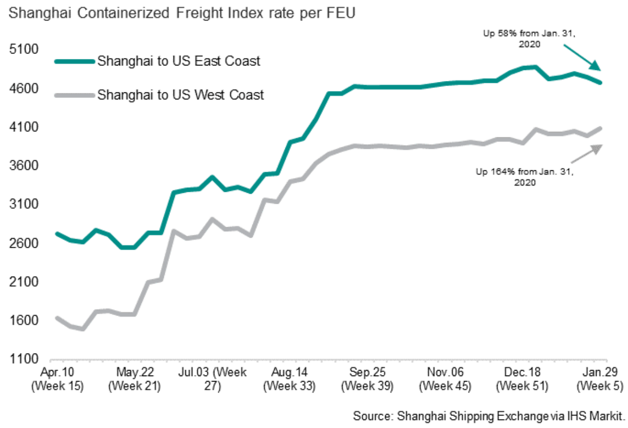
This demand surge has come at a time when container supply was scaled back, container positioning was all over the place and large bottlenecks have emerged.

Global manufacturers reporting of port or shipping delays

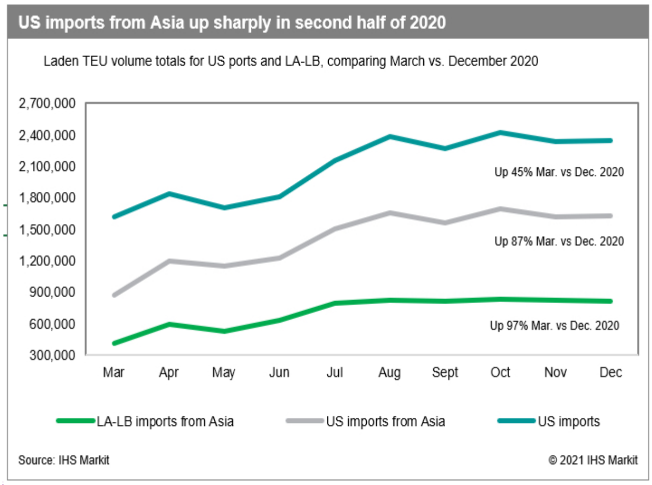


Particularly, In the second half of 2020, a shortage of empty containers in key exporting hubs in Asia and a delay in the return of containers to the quayside in the US have led to equipment shortages in key exporting regions and one of the key reasons for spot rates to scale record highs. Amid surging consumer demand, equipment imbalances and tight supply is driving record freight rates.

Spot rates from Asia to US East and West Coasts remain elevated



Container demand recovery is benefiting from stay-at-home consumer goods imports, which are getting higher wallet share amid consumer demand shifts. US imports during 2020 have been a tale of two halves. US imports from Asia declined 10.7% in the first half of 2020 from the same period in 2019, according to the IHS Markit PIERS database. US imports from Asia in the second half of 2020 were up 16.9% from the second half of 2019; imports for the calendar year ended up 4.1% higher. Asia-US container volume growth has far outpaced Asia-Europe and Intra-Asia demand.



There has been relentless growth in consumer demand and its positively impacting container demand. This is likely to sustain in H1 2021 and roll over in H2 2021. The data from the IHS Markit PIERS database, looking at some of the specific HS codes the US TEU imports have hit record, for stay-at-home goods, such as furniture, home improvements and consumer electronics. With another round of fiscal stimulus being implemented in the US by the incoming Biden Administration, consumer spending and container demand will remain strong.

US monthly container imports (TEU) – Electric, TV, Sound Equipment

Source: IHS Markit.

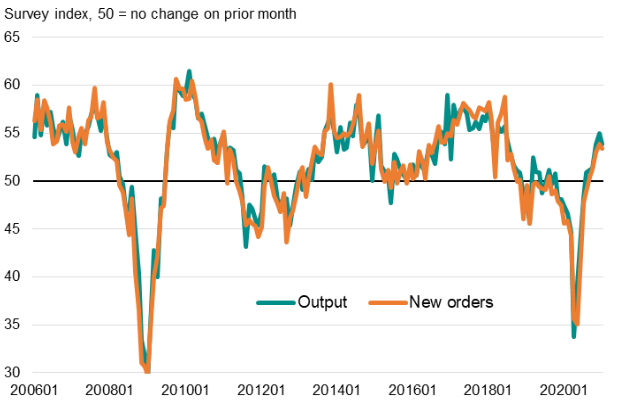
The biggest and most positive impact of record high spot rates will be on the annual contract freight rate increases which as could be as high as 40-50% this year. However, we expect demand growth should start to temper after the peak in H1 2021. Temporal dislocation of container boxes and high congestion will eventually be resolved but not before H2 2021 and spot rates should start peaking well before the industry fundamentals soften.

APAC Electronics Supply Chain Disruptions

In addition to the severe logistical problems to APAC shipping created by container shortages, the global electronics industry has also suffered from supply chain disruptions during late 2020 and early 2021.

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

IHS Markit Global Electronics PMI



Source: IHS Markit

However surging demand for semiconductors has outpaced production, resulting in semiconductors shortages that are impacting on production in key manufacturing industries such as autos.

The South Korean Ministry of Trade, Industry and Energy announced that South Korea's exports of information and communications technology (ICT) goods in December 2020 amounted to USD 18 billion, up 24.9% compared to the same period last year. Exports of semiconductors rose by 30% y/y, while exports of display panels rose by 31% y/y. Exports of mobile phones rose by 48% y/y.

South Korea's Ministry of Trade, Industry and Energy has projected that South Korean semiconductors exports in 2021 will rise by around 10% to USD 109 billion, due to buoyant global demand for electronics products.

With significant shortages of semiconductors having become evident during early 2021, this is expected to further boost South Korean semiconductors exports during 2021.

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 of2021. 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.

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, plans to lift spending on new capital equipment by around 50% in 2021.

Recent power disruptions in Texas due to severe winter weather has added to the supply chain disruptions to global semiconductors output, with Texan semiconductors plants of Samsung, NXP Semiconductors and Infineon Technologies among the semiconductors manufacturers whose production in Texas has been disrupted.

APAC Trade Outlook

The central case global economic scenario for 2021 is positive, with the world economy forecast to show improving momentum through the course of 2021 as COVID-19 vaccination programs are rolled out. Many of the world's largest economies, including the US, EU, Japan, China and India, are expected to be rapidly progressing with vaccination programs during the first half of 2021.

This should allow domestic demand to strengthen in these economies, with gradual easing of lockdown conditions in countries in this grouping that are currently experiencing significant new waves of COVID-19 cases. Consequently, this should help to support the strong rebound in world exports during 2021, which are forecast to grow 12.4% following a severe contraction of 10.3% in 2020.

However, there is increasing evidence that the strong rebound in manufacturing exports has created significant logistical problems, with shipping container costs for Asian shipments to the US and EU having soared. Meanwhile the global electronics industry is suffering from semiconductors shortages that are disrupting production in some industries, notably the automotive sector. However, these disruptions to global supply chains are expected to be temporary, with conditions expected to improve in the second half of 2021.

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Global economy Special Focus

Global growth accelerates as COVID-19 restrictions ease, led by US

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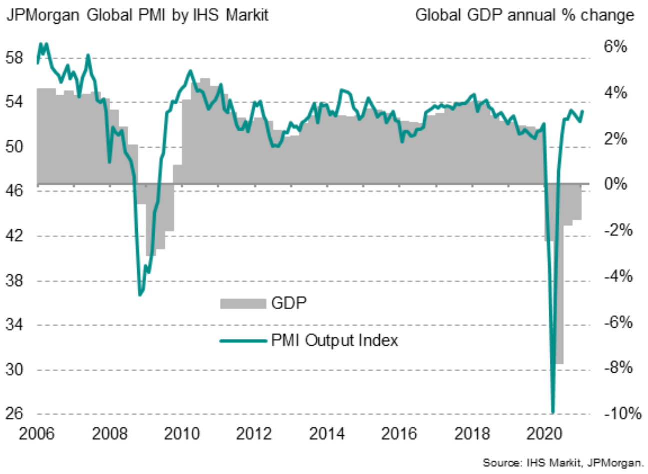
Global economic growth accelerated in February, according to the worldwide PMI surveys conducted by IHS Markit, with growth falling just short of last October's peak to signal the second-strongest expansion since August 2018. The upturn was led by the manufacturing economy, as further efforts to contain the coronavirus disease 2019 (COVID-19) pandemic continued to limit service sector growth, notably for consumer services

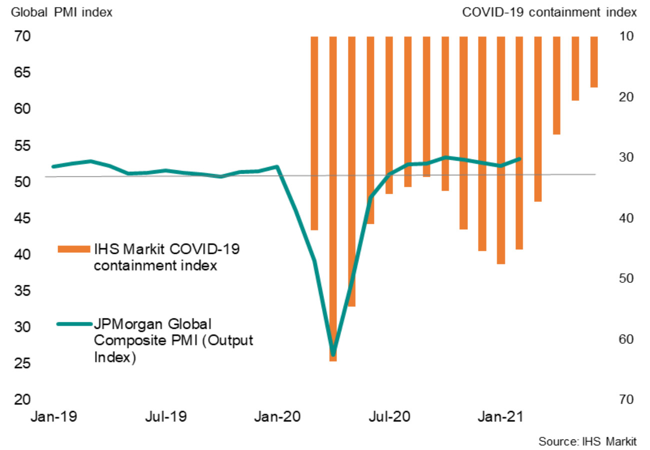
At 53.2, up from 52.3 in January, the JPMorgan Global PMI™ (compiled by IHS Markit) indicated rising output for the eighth straight month as demand continued to revive from the initial impact of COVID-19 lockdowns.

Global PMI and GDP



Whereas growth had slowed in the three months to January, primarily reflecting the re-introduction of measures to control further outbreaks of the virus in many countries, February saw restrictions ease on average. IHS Markit's Global COVID-19 Containment Index fell from 48 in January (which had been its highest since last May) to 45 in February.

Global PMI* and Covid-19 containment*



* 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.

Consumer services hardest hit but financial services boom

Manufacturing continued to lead the upturn, albeit with the rate of expansion remaining below the peak seen at the end of last year due in part to supply shortages, though still notching up one of the best performances seen over the past decade.

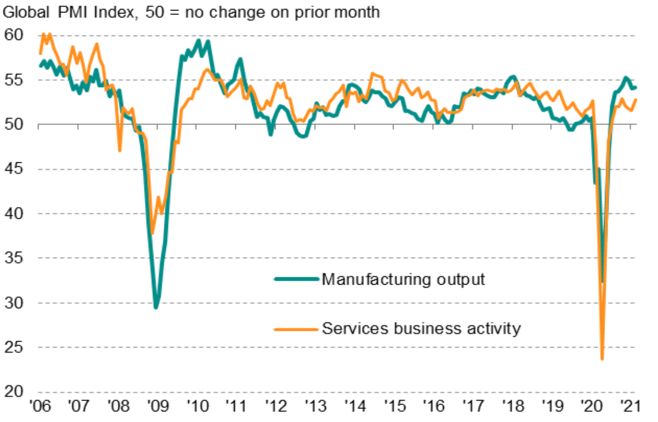
Leading the production upturn was a surge in output of investment goods, such as machinery and equipment, with the rate of increase the second-quickest over the past ten years, pipped only by last November's increase.

The weakest area of manufacturing remained consumer goods, reflecting ongoing retail closures and social distancing measures in many countries, although even here sustained and moderate growth was recorded.

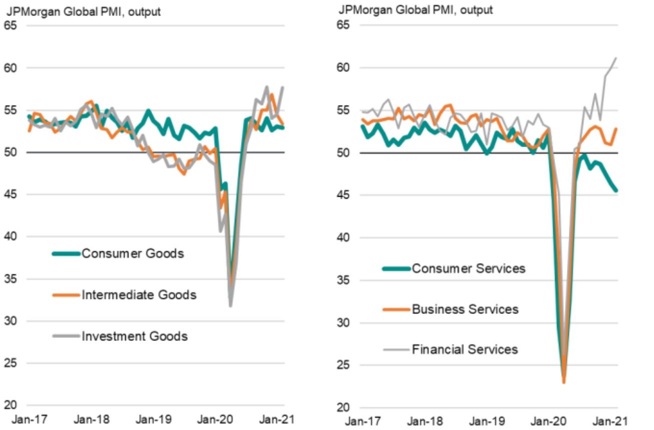
Growth of business activity in the service sector meanwhile lagged behind that of manufacturing again, principally due to an ongoing marked fall in cross-border trade in services (whereas exports of goods continued to rise). Service sector exports continued to be hit by COVID-19 restrictions on travel and tourism in particular.

Consumer services hence suffered by far the worst performance of all the broad sectors in February, with business activity deteriorating at the sharpest rate since last May. In contrast, output of business services and financial services accelerated, the latter notably quickening to the fastest recorded since comparable data were first available in 2009 as growth in recent months has surpassed the prior peak seen in 2012.

Global PMI output by broad sector

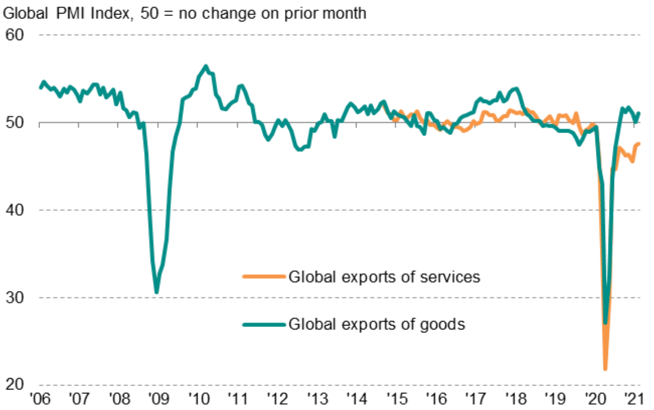


Sources: IHS Markit, JPMorgan.



Sources: IHS Markit, JPMorgan.

Global exports of goods and services



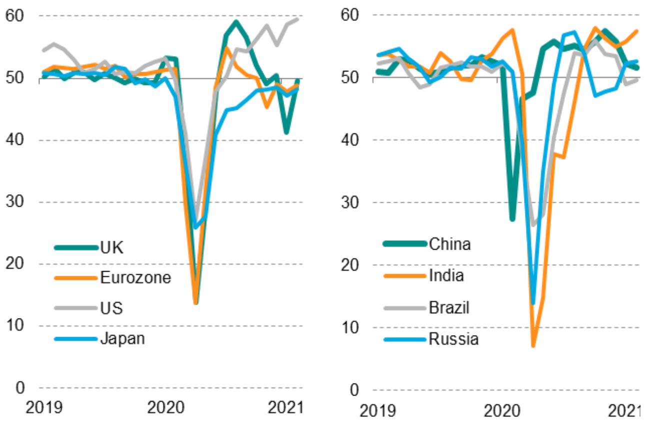
Sources: IHS Markit, JPMorgan.

US leads overall global expansion

Of the 12 major economies covered by IHS Markit's PMI surveys, the US recorded the fastest expansion, leading all other countries in terms of service sector growth and also recording a robust manufacturing expansion. The overall pace of US growth was the sharpest since August 2014.

India reported the second-fastest expansion, reporting a rate of increase exceeded only twice over the past nine years. India's manufacturing expansion was the sharpest of the major economies covered by the PMIs, while its service sector expansion was beaten only by that seen in the US.

Composite PMI Output/Business Activity Index



Sources: IHS Markit, JPMorgan, au Jibun Bank, Caixin.

Solid growth continued to be recorded in Australia and Russia, albeit with rates of expansion capped in particular by weakened service sector expansions, in turn often limited by COVID-19 related restrictions.

Growth in China meanwhile slowed to the weakest since in the current ten-month sequence of expansion, as rates of growth cooled in both manufacturing and services. At least some of the moderation could be explained by transportation shortages, though anecdotal evidence from survey respondents also hints at some of the slowdown having been due to tighter COVID-19 related travel restrictions.

While business activity also grew in Germany and Italy thanks to strong manufacturing performances, the eurozone as a whole suffered a fourth successive monthly decline in output due to falling levels of service sector activity in all four largest member states. The steepest downturn of all major economies was in fact seen in Spain, followed by France.

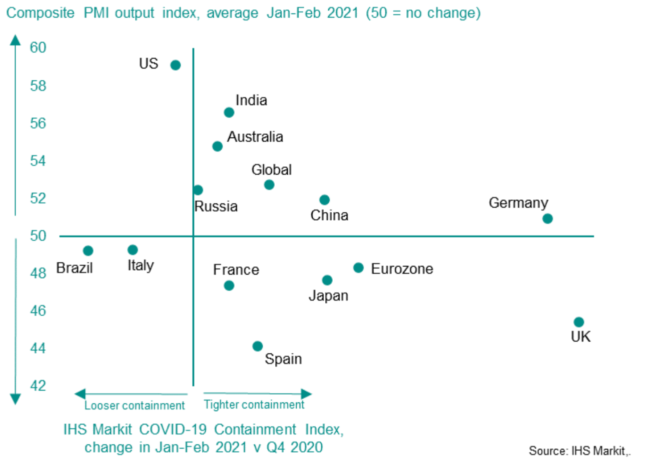
Japan and Brazil also reported falling output as service sector downturns offset manufacturing output growth. The former notably reported the largest factory output gain for over two years while the latter saw a continuation of the strongest manufacturing upturn seen over the past decade, albeit with the rate of expansion cooling from recent highs.

Finally, the UK reported a second successive monthly fall in output, though the rate of contraction eased markedly compared to that seen in January, when a harsh national lockdown was instigated to fight off rising virus infection numbers. However, manufacturing output almost stagnated for a second month running, registering the weakest performance of the 12 largest economies, as Brexit-related disruptions added to the challenges presented by the pandemic.

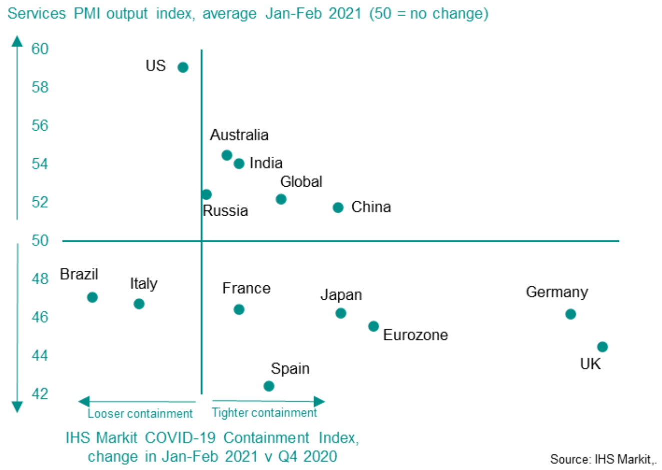
PMI readings and COVID-19 containment

Our chart below illustrates the change in COVID-19 containment measures so far this year compared to the fourth quarter of 2020, plotted against the average composite PMI reading so far this year. The UK and Germany have so far seen by far the most severe degrees of tightened virus restrictions, though Germany has fared much better than the UK, enjoying modest growth of output while the UK has seen a steep decline.

Only three countries have seen COVID-19 containment measures eased so far this year, though of these only the US has enjoyed strong growth.



If we restrict PMI coverage to just the service sector, which tends to be more heavily affected by COVID-19 restrictions than manufacturing, the relationship becomes clearer, with weaker PMI readings more common among those countries were containment measures have been tightened this year.



Notable outliers are Brazil and Italy, where faster growth would have been expected given the loosening of COVID-19 containment measures, especially in the former where restrictions are considerably below the global average. Spain has also underperformed somewhat given the relatively modest tightening of restrictions seen so far this year.

COVID-19 containment levels