

Week Ahead Economic Preview

- FOMC, Bank of England and Bank of Japan policy meetings
- China industrial production, retail sales, inflation and investment updates
- US industrial production and retail sales

The main events of the week ahead will be central bank policy meetings in the US, UK and Japan, which are accompanied by some key indicator releases, most notably including industrial production and retail sales data for the US and China.

The FOMC meets amid growing signs that the US economy is set for bumper growth in 2021, as well as a rise in inflationary pressures. It's a similar situation in the UK, where the Bank of England likewise convenes to set monetary policy, albeit with somewhat greater uncertainty over the growth outlook for the coming year. Many UK forecasters remain wary of upping their predictions for growth due to both COVID-19 and Brexit. Both FOMC and BOE meetings will nevertheless be watched closely for any signs that the improving outlooks, and recent upward pressures on bond yields, could potentially lead to policy accommodation being tapered earlier than previously signalled.

In Japan, markets have been speculating that recent bond yield gyrations could cause the Bank of Japan to tweak its asset purchase program. In particular, the bank could widen the bands of its yield curve control when it announces the findings of its policy framework review at its upcoming monetary meeting. The bank has meanwhile stressed the need for long-term rates to remain low to bolster the COVID-19 economic recovery.

However, it's China's monthly data dump that will set the scene for the week. Industrial production, retail sales, investment, house price and unemployment data are all released on Monday to cover the January to February period, encompassing the holidays. While the latest export data showed trade surging, PMI numbers have indicated a slowing in the pace of economic growth amid COVID-19 restrictions and logistics delays.

Elsewhere in Asia, trade, inflation, manufacturing output and service sector data are issued in Japan, with trade numbers likewise updated for India and Indonesia. The latter also sees its central bank meet to set monetary policy, having cut its main interest rate in February, as does Taiwan.

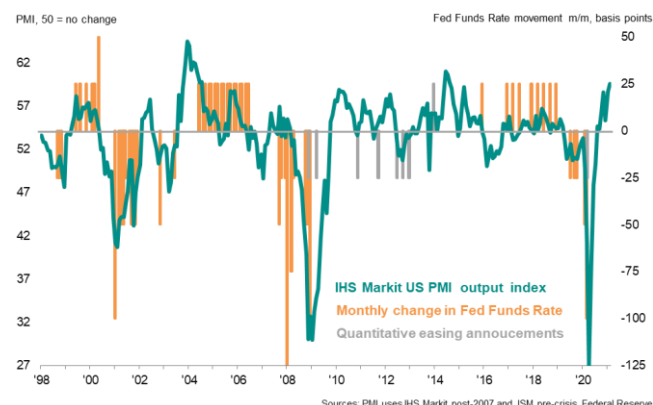
Special Reports

Surging global electronics orders drive East Asian exports: A number of East Asian economies, including mainland China, South Korea, Taiwan and Vietnam, are benefiting from surging global orders for electronics. ([page 3](#))

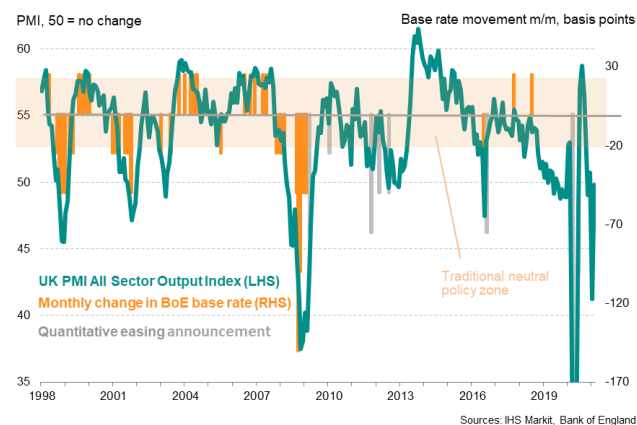
Upcoming PMI releases

- 24th March: Flash PMIs (US, Eurozone, UK, Japan, Australia)
- 1-5th April: Final Worldwide Manufacturing PMIs
- 5-7th April: Final Worldwide Services PMIs
- 8th April: Detailed Sector PMIs

The FOMC meets amid signs that the US recovery is gathering momentum even before fresh (record) fiscal stimulus



Talk at the Bank of England is likely to have shifted away from the prospect of negative interest rates but Brexit poses risks the outlook



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Key diary events

Monday 15 March

RBA Lowe speech
Japan machinery orders (Jan-Feb)
China industrial production (Jan-Feb)
China retail sales (Jan-Feb)
China fixed asset investment (Jan-Feb)
China house prices (Feb)
China unemployment (Jan-Feb)
Indonesia trade balance (Feb)
Japan tertiary index (Jan)
India trade balance (Feb)
US current account (Q4)
US Empire State manufacturing survey (Mar)

Tuesday 16 March

RBA meeting minutes
Australia house prices (Q4)
Japan industrial production (Jan)
Hong Kong SAR unemployment (Feb)
EcoFin meeting
France consumer price inflation (Feb)
Italy consumer price inflation (Feb)
Germany ZEW survey (Mar)
US retail sales (Feb)
US import and export prices (Feb)
US industrial production (Feb)
US business inventories (Jan)
US NAHB housing market (Mar)

Wednesday 17 March

Japan trade balance (Feb)
Spain trade balance (Feb)
Italy industrial orders (Jan)
Eurozone consumer price inflation (Feb)
US housing starts and building permits (Feb)
Canada consumer price inflation (Feb)
US FOMC monetary policy meeting
Banco Central do Brasil monetary policy meeting

Thursday 18 March

New Zealand GDP (Q4)
Australia employment and unemployment (Feb)
Netherlands unemployment (Feb)
Switzerland trade balance (Feb)
Italy trade balance (Feb)

Eurozone trade balance (Feb)
Eurozone labour costs (Q4)
UK Bank of England monetary policy meeting
Bank of Turkey monetary policy meeting
Taiwan monetary policy meeting
Bank Indonesia monetary policy meeting
Norway Norges Bank monetary policy meeting
US Philadelphia Fed manufacturing survey (Mar)
US weekly jobless claims

Friday 19 March

Japan consumer price inflation (Feb)
Australia retail sales (Feb)
Bank of Japan monetary policy meeting
Germany producer prices (Feb)
UK public sector borrowing (Feb)
Canada retail sales (Jan)
Russia monetary policy meeting
Russia unemployment (Feb)

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APAC Special Focus

Surging global electronics orders drive East Asian exports

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The strong upturn in global demand for electronics is continuing to drive East Asian electronics exports in early 2021. A number of East Asian economies, including mainland China, South Korea, Taiwan and Vietnam, are major exporters of electronics products and their manufacturing export sectors are benefiting significantly from surging global new orders for electronics.

However, 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.

The disruption to global semiconductors supply was an important trigger for the decision by President Biden to issue an executive order on 24th February for a US government review of US supply chain vulnerability for critical materials, including for semiconductors.

APAC electronics sector exports rebound

Asian electronics production suffered severe supply disruptions and slumping global demand due to the pandemic and lockdowns in the first half of 2020. However, the IHS Markit Global Electronics Purchasing Managers' Index (PMI™) has signalled a strong rebound since mid-2020 as global lockdowns have eased and consumer spending has rebounded in many major economies.

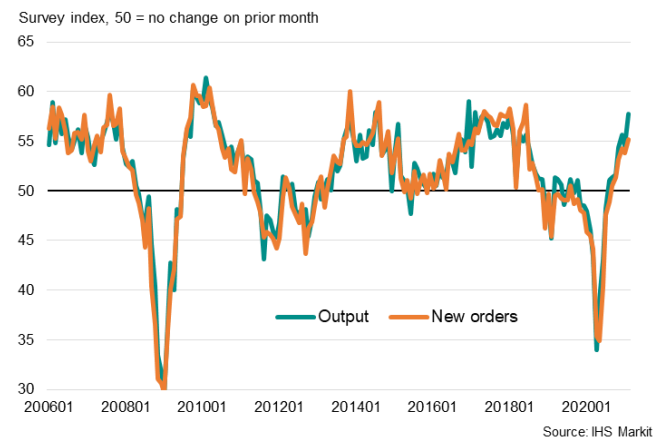
The electronics sector rebound is making an important contribution to the recovery of manufacturing exports and industrial production in many East Asian industrial economies. The electronics manufacturing industry is an important part of the manufacturing export sector for many Asian economies, including South Korea, mainland China, Japan, Malaysia, Singapore, Philippines, Taiwan, Thailand and Vietnam.

Furthermore, the electronics supply chain is highly integrated across different economies in East Asia.

The headline seasonally adjusted IHS Markit Global Electronics PMI rose to 57.4 in February, up from 55.2 in January. The latest reading pointed to quickest improvement in global electronics sector operating conditions since mid-2018, as both output and new order growth accelerated.

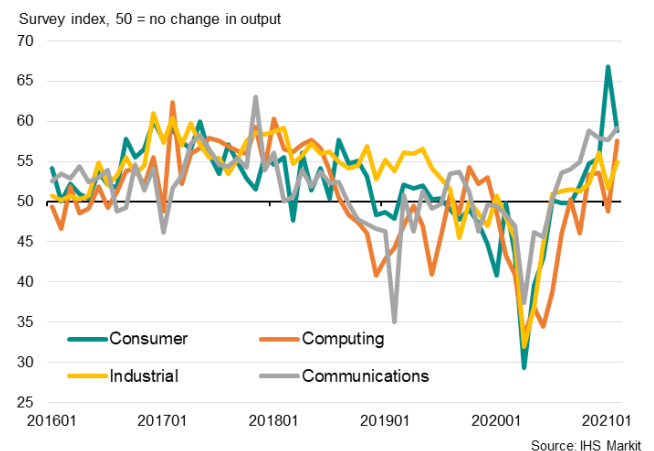
The IHS Markit Global Electronics PMI new orders index rose from a calendar year-to-date low of 35.0 in May 2020 to a level of 55.2 in February 2021, which showed the fastest pace of expansion in new orders since mid-2018. Output grew at one of the fastest rates for a decade as a result.

IHS Markit Global Electronics PMI



All four monitored sub-sectors continued to show expansion in output in February, led by the communications and consumer goods categories.

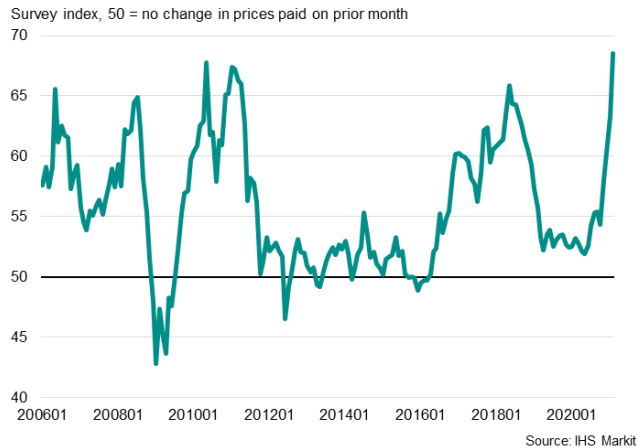
Global electronics PMI, output by sector



However, the rapid rise in electronics production has also triggered a sharp upturn in raw materials input prices for electronics firms in recent months. The IHS Markit Global Electronics PMI Input Prices Index has

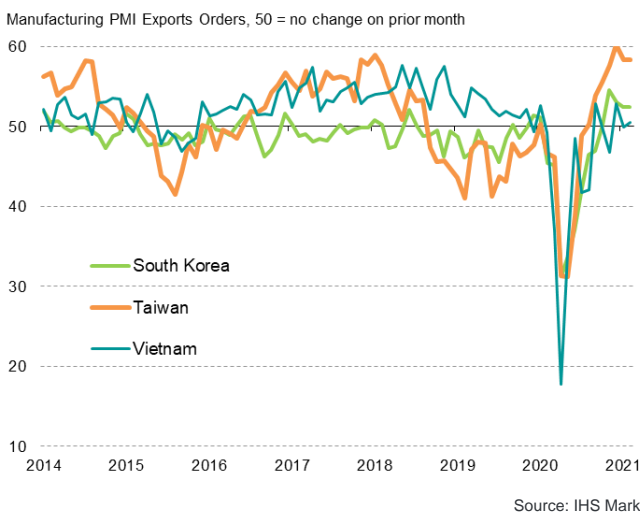
surged to 68.5 in February 2021 indicating the steepest rate of increase since data collection began in January 1998.

IHS Markit Global Electronics Input Prices Index



Due to the importance of electronics in the manufacturing industries of many East Asian economies, this rebound in global electronics demand has been reflected in the recent industrial production and exports data for many economies, including mainland China and South Korea.

East Asian Manufacturing PMI new export orders



Mainland China's electronics exports surge

China's exports for the combined January-February 2021 period soared by 60.6% year-on-year (y/y) according to trade data from China's General Administration of Customs. China's surging exports in the first two months of 2021 reflect low base year effects due to the pandemic-related shutdown of China's industrial production for most of February 2020, as well

as strong demand for electronics and PPE equipment in early 2021.

China's electronics exports were up 54.1% y/y in the January-February 2021 period, as global electronics demand has risen strongly due to the global shift to remote working and online shopping, which has resulted in surging demand for consumer electronics products such as laptops, mobile phones and wearables.

Buoyant South Korean electronics exports

The South Korean Ministry of Trade, Industry and Energy announced on 1st March that South Korea's total export value went up 9.5% to USD 44.8 billion in February. This rapid export growth was helped by exports of semiconductors which rose by 13.2% y/y in February. Exports of displays also showed rapid growth of 19.1% y/y, due to the recovery in the global smartphone market. Exports of mobile phones and parts rose 10.3% y/y, helped by new global model launches.

South Korea's outbound shipments of information and communications technology (ICT) products expanded 21.7% y/y in January, reaching USD 16.3 billion.

Reflecting the growing importance of Vietnam as a production hub for Korean electronics manufacturing multinationals, ICT exports from South Korea to Vietnam rose by 18.9% y/y in January, while ICT exports to the US also surged, growing by 23.9% 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 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

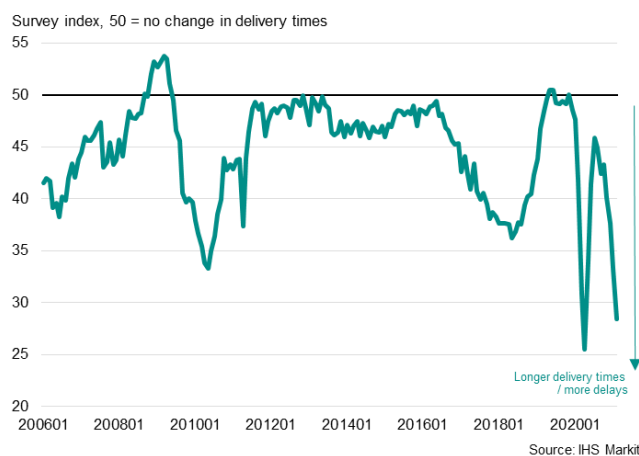
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have also contributed to the shortages. Global auto manufacturers as well as smartphone producers are among the industry segments that have been impacted by these shortages. According to IHS Markit Automotive research, vehicle manufacturers are finding 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, 8th March 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 USMC, which also manufactures chips, plans to lift spending on new capital equipment by around 50% in 2021.

Global electronics PMI, supplier lead times



ASEAN electronics exports rebound

Singapore’s domestic electronics exports rose by 13.5% y/y in January 2021, following an increase of 13.7% y/y in December 2020. In January, electronics exports to the US were up 7.5% y/y, while electronics exports to

South Korea rose by 42.3% y/y and to mainland China were up by 14.1% y/y.

In Vietnam, exports of computers, electrical equipment and parts rose by 46.2% y/y in January 2021, as global demand for computer equipment surged due to the pandemic and the shift towards remote working by workers worldwide. Exports of mobile phones and other telephone equipment soared by 125.8% y/y.

In Malaysia, exports of electrical and electronic products, which accounted for 41% of total merchandise exports, were up 13.1% y/y in January 2021.

APAC electronics sector outlook

In the first quarter of 2021, global electronics demand has rebounded 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 during 2021.

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. Spending on consumer electronics has also been boosted by fiscal stimulus measures in many OECD countries that have provided significant pandemic relief payments to support households in many large economies, including the US, UK, Japan and Australia. Meanwhile auto demand has also shown a rebound after slumping during the first half of 2020, which is boosting demand for auto electronics.

The medium-term economic outlook is also supportive for the electronics industry, with sustained strong world economic growth forecast over 2022-2024.

With shortages of semiconductors disrupting manufacturing supply chains in early 2021, the importance of having domestic electronics production capacity for critical electronics components has become a national priority for major industrial nations.

For the US and EU, reducing reliance of Asian semiconductors production is likely to be a key strategic priority over the next decade. 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.

Competition amongst leading technology nations in strategic electronics production has also intensified. In the US, President Biden's new executive order will trigger a review of US supply chain vulnerability to semiconductors. In the European Union (EU), the European Commission has set a goal to double semiconductors production within the EU from 10% of world production in 2020 to a projected 20% of world production by 2030, as part of the 2030 Digital Compass Plan.

Meanwhile mainland China, whose manufacturing sector is still heavily reliant on imported semiconductors, is also trying to strengthen its own domestic semiconductors manufacturing capabilities. Mainland China imported USD 350 billion of semiconductors in 2020, up 14.6% y/y. Boosting domestic manufacturing capacity for semiconductors is an important policy priority for the Chinese Government's 14th Five-Year Plan that runs for the 2021-2025 period.

Consequently strategic global competition amongst the world's leading high-technology nations is also likely to play a greater role in reshaping the global electronics industry landscape over the next decade.