

Week Ahead Economic Preview

- Worldwide manufacturing PMIs
- US nonfarm payrolls
- Eurozone inflation
- China NBS surveys, Japan's Tankan updated

Payrolls and PMIs dominate the economic agenda for the week ahead, with the ECB's latest analysis and eurozone inflation also in focus. Markets will be meanwhile watching for news of further stimulus in the US in the form of additional infrastructure spending.

The worldwide manufacturing surveys will be eyed for rising inflationary pressures, with markets eager to assess whether recent signs of rising prices will prove transitory – as policymakers are expecting – or more troublesome. The surveys have brought welcome signs of [factory output growth accelerating to the highest for nearly a decade](#) as economies have rebounded from virus-related shutdowns. Especially strong growth has been seen in the eurozone, where flash PMI numbers for March showed a 23-year survey record increase in production. But the [flash PMIs](#) also brought further signs of production being constrained – notably in the US – by escalating supply problems. Supply shortages have in turn fed through the [highest price pressures since 2008](#).

March's data will therefore be scoured in particular for clues as to whether supply is catching up with demand to alleviate some of the bottlenecks, especially in relation to supplier delivery times and shipping.

There will also be a big focus on the US, with non-farm payroll data released on Friday. Prior data showed an unexpectedly strong surge in employment as 379,000 new jobs were added in February and prior months' data were revised up markedly. The unemployment rate now stands at 6.2% compared to April's peak of 14.7%. With recent robust survey data pointing to upbeat business confidence, buoyed by the vaccine rollout and new \$1.9 trillion stimulus measures, hiring is likely to have remained solid in March.

Even more US stimulus looks to be on the cards, with President Biden earmarked to announce at least \$3 trillion of infrastructure spending on Wednesday. Any news of additional stimulus could be dampened, however, by countermeasures brought into play for the extra spending, especially tax hikes.

Special Reports

South Korea, Improving Growth Outlook in 2021: An in-depth analysis of prospects for the South Korean economy amid a global manufacturing recovery and ongoing virus related travel restrictions ([page 3](#))

Global economy, US leads developed world: Analysis of how US leads the developed world's expansion, followed by UK, as virus restrictions, vaccine roll-outs, business sentiment and stimulus lead to varying service sector trends ([page 6](#))

Upcoming PMI releases

1-5th April: Final Worldwide Manufacturing PMIs

5-7th April: Final Worldwide Services PMIs

8th April: Detailed Sector PMIs

In Europe, a revamped monthly Bulletin is published by the ECB in a week which sees preliminary inflation numbers issued for March. February's annual CPI came in slightly below expectations at 0.9%, but recent survey data hint that upward pressures are building.

In Asia, the NBS publishes its non-manufacturing PMI for mainland China alongside its factory survey, while Japan updates its retail sales, unemployment, industrial production and Tankan survey statistics.

Global consumer prices inflation*



* Chart shows official aggregated global consumer prices index (annual % change) charted against the global PMI input prices index, the latter extended to March 2021 using the flash PMI from the four major developed markets (US, eurozone, Japan and UK).

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Key diary events

Monday 29 March

Japan unemployment (Feb)
Japan retail sales (Feb)
UK money supply, mortgage approvals and consumer credit (Feb)
US Dallas Fed manufacturing survey (Mar)

Tuesday 30 March

Spain retail sales (Feb)
Spain consumer price inflation (Mar)
Italy price prices (Feb)
Eurozone industrial and consumer sentiment (Mar)
Germany consumer price inflation (Mar)

Wednesday 31 March

Japan industrial production (Feb)
Japan construction orders (Feb)
Japan housing starts (Feb)
China NBS PMI manufacturing and non-manufacturing (Mar)
India current account (Q4)
UK GDP, business investment and current account (Q4)
France consumer price inflation (Mar)
Germany unemployment (Feb)
Italy consumer price inflation (Feb)
Spain current account (Jan)
Eurozone consumer price inflation (Mar)
US Biden speech
US pending home sales (Feb)
Canada GDP (Jan)

Thursday 1 April

Worldwide manufacturing PMI surveys (Mar)
South Korea trade balance (Mar)
Indonesia inflation (Mar)
India trade balance (Mar)
Japan Tankan survey (Q1)
Australia trade balance (Feb)
Australia retail sales (Feb)
Germany retail sales (Feb)
European Central Bank Economic Bulletin
ISM manufacturing survey (Feb)
US construction spending (Feb)
US vehicle sales (Mar)
US jobless claims (weekly)

Friday 2 April

South Korea inflation (Mar)
France budget (Feb)
US non-farm payrolls, unemployment and wages (Mar)

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APAC Special Focus

South Korea: Improving Growth Outlook in 2021

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South Korea's GDP contracted by 1.0% year-on-year in 2020, albeit with the economic downturn mitigated by a strong rebound in exports in the final quarter of the year. The economic growth outlook for 2021 has been helped by surging auto and electronics exports, with GDP growth of 2.6% y/y forecast.

With world GDP forecast to rebound to positive growth of 5.2% y/y in 2021 after a contraction of 3.6% y/y in 2020, rising global new orders are expected to provide a strong boost to South Korea's export sector. The rebound in economic growth in major economies such as the US, China, EU, UK and Japan linked to the rapid rollout of vaccination programs during the first half of 2021 is expected to support improving South Korean new export orders from its key export markets. Strong global demand for electronics components, notably semiconductors, is also driving South Korea's electronics exports.

However, international travel restrictions are still expected to remain a major impediment to the recovery of international tourism and travel in the APAC region during 2021. This is expected to result in a more protracted and gradual recovery path for trade in services, notably South Korea's tourism and commercial aviation sectors.

Export-led rebound for South Korean economy

South Korea's GDP grew by 1.2% quarter-on-quarter (q/q) in the fourth quarter of 2020, following strong expansion of 2.1% q/q in the third quarter of 2020. The positive growth rate in the fourth quarter was mainly attributable to buoyant growth in exports, which rose by 5.4% q/q. South Korea's exports strengthened during the fourth quarter and rose by 12.6% y/y in December 2020.

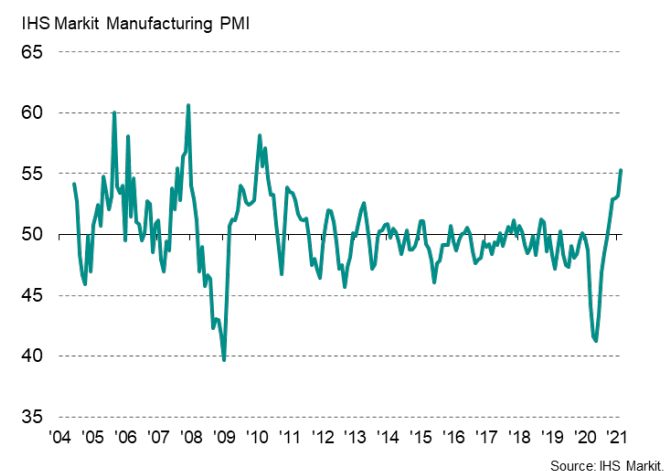
However, consumption expenditure remained weak, contracting by 1.2% q/q, as private consumption on food, restaurants, accommodation and transportation fell due to the ongoing impact of the COVID-19 pandemic on consumption spending.

Manufacturing output grew by 3.0% q/q in the fourth quarter 2020, reflecting increasing output of electronic, optical and chemical products, with strengthening business conditions in early 2021. The seasonally adjusted IHS Markit South Korea Manufacturing Purchasing Managers' Index (PMI) rose from 53.2 in January to 55.3 in February, signalling a strong improvement in the health of the manufacturing sector. Moreover, the February PMI reached the highest reading since April 2010.

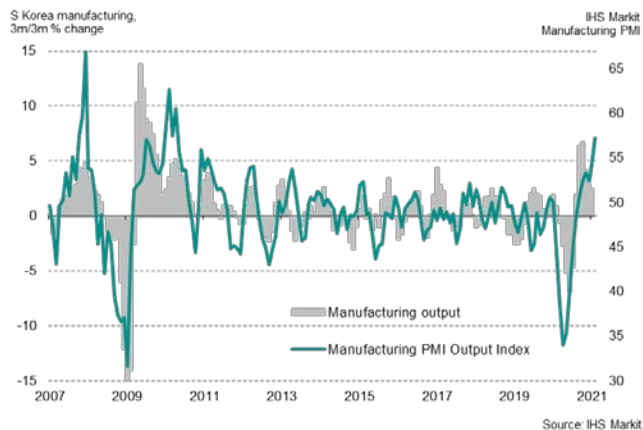
The pace of expansion highlighted the sustained recovery of the South Korean manufacturing economy in recent months, following disruption caused by the COVID-19 pandemic throughout much of 2020.

South Korean exports rose by 9.5% y/y in February, although the underlying growth is estimated to be even stronger after adjusting for a higher number of public holidays during February 2021 than the same month a year ago due to the timing of the Lunar New Year. After adjustment based on the actual number of working days, the underlying growth in exports in February was estimated to be 26.4% y/y. Strong exports of electronics and autos in early 2021 have helped to boost South Korea's manufacturing sector, with auto exports rising by 47% y/y in value terms in February.

South Korea Manufacturing PMI



South Korea manufacturing output



However, the February PMI data also pointed to a sharp acceleration in input cost inflation faced by South Korean manufacturers. Input price pressures intensified in the latest survey period and were the steepest in a decade as businesses widely reported sharp rises in the cost of raw materials. At the same time, output prices increased at the fastest pace since the survey began in April 2004, as firms sought to pass higher costs on to customers. Nevertheless, headline CPI inflation pressures are expected to remain contained in 2021 as these price rises prove largely transitory.

The South Korean central bank, Bank of Korea, expects that consumer price inflation will be somewhat higher than previously expected in 2021, largely reflecting the increase in global oil prices and gradual improvement in economic activity. Core inflation is forecast to run at around 1%. BOK Governor Lee Ju-yeol said CPI inflation will probably accelerate beyond the bank's previous 1.3% projection for 2021, although staying within the mid-to-upper 1% range in the second half of the year. He signalled that he did not expect that there would be any rush to tighten monetary policy.

Electronics sector exports rebound

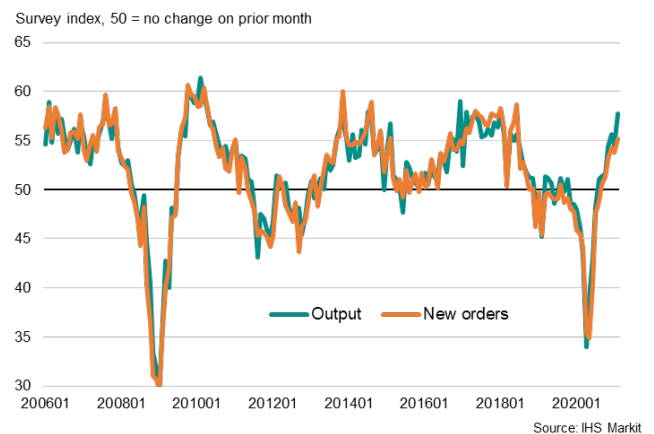
The electronics manufacturing industry is an important part of the manufacturing export sector for South Korea, which is a major global exporter of electronics products to key markets such as the US, China and EU. As Vietnam is an important production hub for South Korean electronics multinationals such as Samsung and LG for a wide range of electronics products such as mobile phones, Vietnam is a key export market for South Korean electronics components.

Despite severe disruptions to Asian electronics production and to global demand due to the pandemic during the first half of 2020, the IHS Markit Global

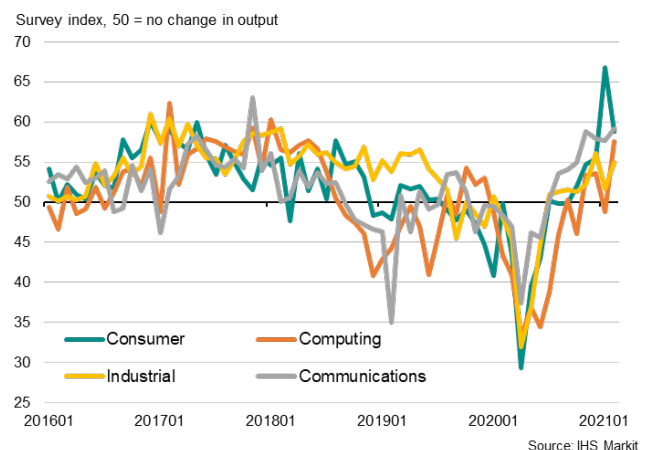
Electronics PMI has signalled a rebound since mid-2020. The Global Electronics PMI rose to 57.4 in February, up from 55.2 in January. The latest reading pointed to quickest improvement in global electronics sector operating conditions since mid-2018, as both output and new order growth accelerated. The health of all four monitored sub-sectors improved markedly in February, led by the communications category.

The global electronics PMI new orders index rose from a low of 34.9 in May of last year to a level of 55.2 by February, as global electronics new orders have rebounded with the recovery of consumer demand in key markets. The electronics sector rebound is making an important contribution to the recovery of manufacturing exports and industrial production in many Asian industrial economies including South Korea.

IHS Markit Global Electronics PMI



Global electronics PMI, output by sector



The South Korean Ministry of Trade, Industry and Energy has released statistics showing that outbound shipments of Korea's information and communications technology (ICT) goods in February stood at USD 15.3 billion, recording growth of 11.5% y/y.

Reflecting surging global demand for electronics, South Korean exports of semiconductors went up 13.2% y/y in February to USD 8.4 billion. Exports of memory chips rose by 12.6% y/y to USD 5.2 billion and exports of system chips were up 13.2% y/y to USD 2.7 billion. Exports of displays rose by 22.3% y/y, to USD 1.6 billion.

Exports of mobile phones and components also showed buoyant growth of 15% y/y, with components exports 23.3% y/y as Korean manufacturers shipped parts to Korean and other mobile phone manufacturing plants in other countries.

These rapid growth rates for electronics exports show much strong growth than for the calendar year 2020, when South Korea's ICT exports rose by 3.8% y/y, with exports of semiconductors up 5.6% year-on-year.

The 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.

The strength of South Korean ICT exports in early 2021 has been boosted by rapid growth in exports to China, which were up 13.6% y/y in February, amounting to USD 7 billion. Exports of ICT products to the European Union were also buoyant, growing by 14% y/y.

With significant global shortages of semiconductors having become evident during early 2021, this is expected to further boost South Korean semiconductors exports during 2021, given South Korea's role as a key global manufacturer of semiconductors.

The disruption to global semiconductors supply that has emerged during the first quarter of 2021 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.

South Korean economic outlook

The near-term outlook for the South Korean economy is for GDP growth to recover to a pace of around 2.6% y/y

in 2021, with continued firm expansion at a pace of 2.6% in 2022. The economic recovery in 2021 is expected to be boosted by strong growth of merchandise exports, helped in turn by buoyant growth of auto and electronics exports.

Domestic demand is expected to stage a more gradual recovery, as the rollout of COVID-19 vaccinations results in improving consumer confidence and rising consumption expenditure. South Korea commenced its COVID-19 vaccination program in late February, with the government aiming to have 25% of the population vaccinated by June 2021.

However, the recovery of South Korean trade in services is expected to be delayed and protracted, as international travel restrictions continue to constrain any early recovery in exports of tourism and commercial aviation, which are an important component of total services exports for many APAC economies.

Over the medium-term outlook, South Korean exports are expected to grow at a rapid pace, helped by the sustained strong growth of intra-regional trade within APAC, as China, India and ASEAN continue to be among the world's fastest-growing emerging markets. South Korea's strong competitive advantage in exporting key electronics products, notably semiconductors and displays, are expected to be an important positive factor underpinning export growth.

The rapid growth of South Korean exports is also expected to be strengthened by the regional trade liberalization architecture. This includes the large recent RCEP multilateral trade agreement and major bilateral FTAs. South Korea is also actively evaluating the possibility of applying to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) trade agreement and has begun unofficial bilateral talks with the CPTPP member nations to prepare for its potential formal membership application.

Global economy Special Focus

US leads developed world expansion in March

Chris Williamson

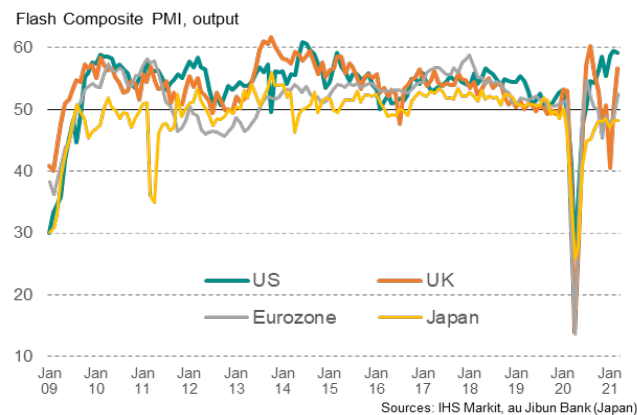
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Early indicators of economic performance in March point to the US outperforming among the largest developed economies, though growth resumed in the UK and eurozone leaving only Japan in decline.

The growth disparities in part reflected differing COVID-19 containment measures, but also vaccine roll-out progress and the accompanying lift to confidence has achieved in the US and the UK in particular. Stimulus measures likely also played a key role, notably in the US.

Output growth



US sees strongest expansion

Flash PMI survey data showed business activity in the **United States** rising sharply at the end of the first quarter of 2021, rounding off the economy's best performance since the third quarter of 2014. The IHS Markit composite PMI registered 59.1 compared to 59.5 in February, resulting in a first quarter average of 59.1. The quarterly average signifies strong economic growth of around 1.5%, or approximately 5% on an annualised basis, which builds on a 1.0% rise in the fourth quarter of last year.

Impressive growth was also recorded in the **United Kingdom** as business activity rebounded from two

months of contraction. The composite PMI jumped from 49.6 to 56.6, albeit still ending the first quarter with an average of 49.2, pointing to a modest decline of GDP after the 1.0% expansion seen in the fourth quarter.

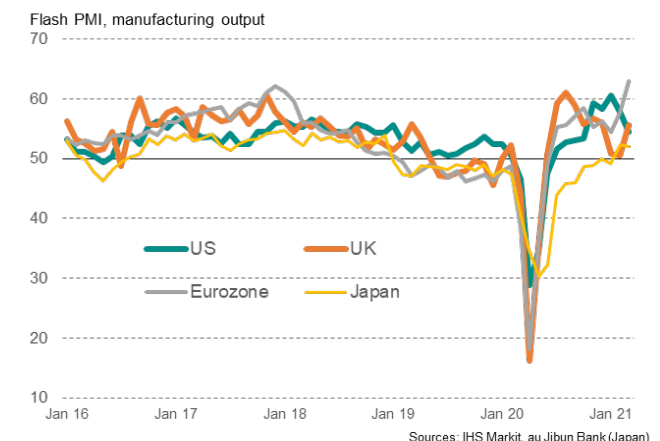
Growth also perked up in the **eurozone**, led by Germany, with the composite eurozone PMI rising from 48.8 in February to 52.5, registering the first expansion of business activity since last September. The first quarter average of the eurozone PMI, at 49.7, indicates a broadly stable economy, improving on the 0.7% fall in GDP seen in the fourth quarter.

Japan lagged behind the other major developed economies, with the au Jibun Bank PMI (compiled by IHS Markit) at 48.3 in March, up slightly from 48.2 in February to reach a three-month high but resulting in a first quarter average of just 47.9.

Manufacturing rises across the board

A common theme among all four economies is the recovery of manufacturing, which persisted into March, led by a record surge in factory production in the eurozone. Japan's producers reported the second-strongest gain since 2018, with March's growth falling just shy of that seen in February. Meanwhile, the UK saw a marked expansion of production after output came close to stalling in January and February.

Manufacturing output growth



The US bucked the improving manufacturing trend, recording the weakest expansion of production since last October. However, the slowdown appears temporary, linked mainly to supply disruptions – which hit a record high. Encouragingly, new orders rose at the sharpest rate since mid-2014, boding well for output in the coming months assuming supply can meet requirements. However, note also that supply constraints rose in the eurozone, Japan and the UK during March, hinting that production could also become

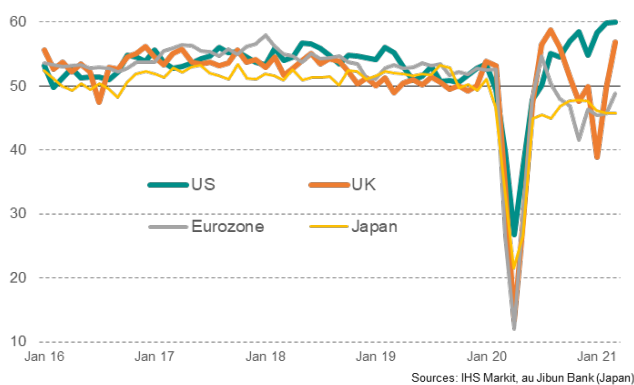
further constrained in these economies unless supply lines improve.

Divergent service sector trends

More disparate trends were seen in the service sector in March. In the US, business activity across service providers rose at a rate unequalled since mid-2014, with the rate of expansion accelerating slightly on an already-steep pace seen in February. A robust expansion was also seen in the UK after four months of continual decline. Activity continued to fall in the service sectors of the eurozone and Japan, however, dropping for the seventh and fourteenth successive month respectively, albeit with the rate of contraction in the eurozone easing to the weakest since the latest downturn began last September.

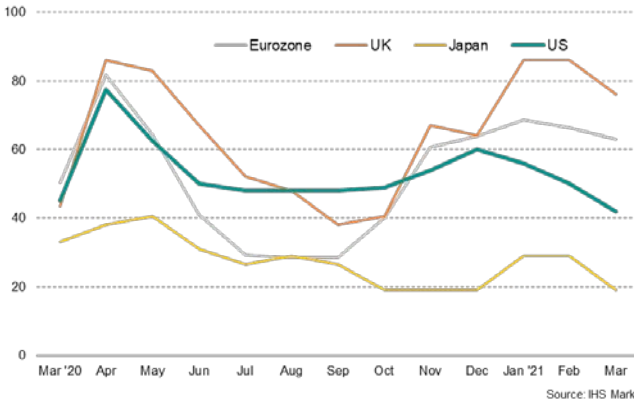
Service sector output growth

Flash PMI, service sector output



COVID-19 containment indices*

COVID-19 Containment Index



* 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.

The varying service sector trends can be linked to different government containment measures for COVID-19. In the US, containment has been eased markedly in the last two months, and are now the least restrictive

since the pandemic began. This has therefore provided a major boost to service sector activity, especially among consumer-facing companies.

Likewise in the UK, a third national lockdown was instigated in January but March saw schools reopening, facilitating more business activity and transportation. The eurozone also saw some easing of containment measures, albeit with many restrictions tightening towards the end of the month in some member states.

Japan has not fitted the pattern in relation to virus containment measures, but this has been evident for some time, and is in part thought to be due to its relatively greater reliance on foreign travel for key sectors such as tourism and exports. However, differing vaccine roll-outs and behavioural considerations also likely apply.

Both the US and UK have achieved high vaccine roll-out rates already, reaching 38% and 45% of the populations with at least one vaccine jab. This has facilitated more business activity, notably in the US, where adherence of COVID-19 restrictions has also been lower than other countries in many states. Japan, in particular, is estimated to have seen more voluntary social distancing among the population than the US.

By comparison, both the eurozone and Japan have so far struggled to vaccinate significant proportions of their populations. France, Germany and Italy, for example, have so far managed to only vaccinate 13% of their populations, whereas Japan has reached less than 1%, having only commenced with vaccinating health workers in mid-February.

Varying degrees of optimism

Anecdotal evidence from companies underscores how these differing vaccine progress rates have affected business sentiment. In the UK in particular, improved optimism about the year ahead (which hit an all-time high in March) has been linked to hopes that the vaccination programme will mean many businesses can return to something akin to normal trading in the not too distant future as the economy is opened up. This has already boosted demand for many goods and services as companies and households prepare for the coming months.

Similarly, in the US, signs of life returning to normal have helped boost spending, supercharged by additional stimulus. March saw an additional \$1.9 trillion fiscal package passed into law, with cheques already on their way to households.

In contrast, optimism relating to vaccination programmes has been far less evident in Japan and, to a lesser extent, the eurozone, contributing to weaker spending on services in particular. While both Japan and the eurozone look set to see growth accelerate in the second half of 2021 as vaccine roll outs gain momentum, an increasing risk of a third wave of infections in mainland Europe in particular presents a downside risk to the outlook for the region, especially if met with more aggressive containment measures.

Business expectations for output in the year ahead

Flash Composite PMI, future activity

