

# Week Ahead Economic Preview

## Focus on central banks as taper talk stirs

Central bank meetings across various APAC countries including New Zealand, South Korea and Indonesia will take place in the coming week and come at a time of varying economic trends around the world.

Whereas economies such as the United States and the United Kingdom are enjoying record growth spurts as covid restrictions are relaxed and vaccine progress continues at pace, other parts of the world – notably [across Asia Pacific](#) – are seeing their economies wane again as rising covid cases lead to renewed restrictions.

Thus, while the April Fed minutes alluded to potential tapering discussions if the US economy continues to boom in coming months, APAC central banks may be more guarded. However, even in the US we don't expect the interest rate lift-off to occur until 2024 and that large-scale asset purchase will continue at about current rates through this year, followed by a gradual taper next year. A series of Fed speakers commenting in the week ahead will certainly be watched for clarifications on the appetite for tapering.

In the meantime, we'll also look to a series of data releases to affirm the varying economic recovery trends as reflected in the recent slew of IHS Markit Flash PMIs. Specifically, revised US Q1 GDP is set to see an upward revision while consumer confidence further improves in May. Over in Asia, several key industrial production updates will be due across the likes of Singapore and Taiwan ahead of fresh manufacturing PMIs releases the following week.

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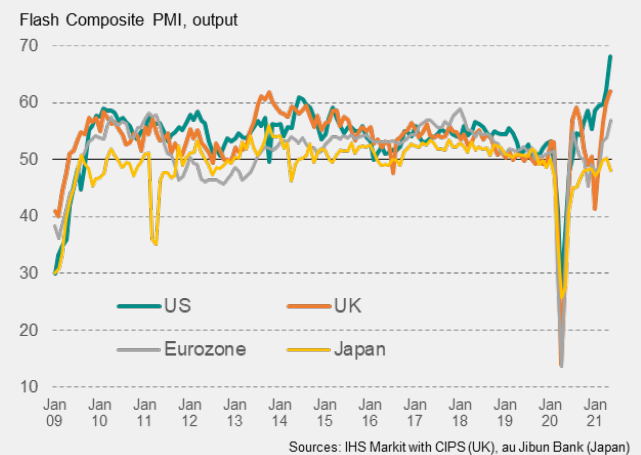
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### Recovery rates diverge

The US continued to drive the global economic rebound in May, according to [flash PMI data](#). Europe also saw growth accelerate. In contrast, Japan fell back into contraction amid emergency measures to curb a new wave of COVID-19 infections.

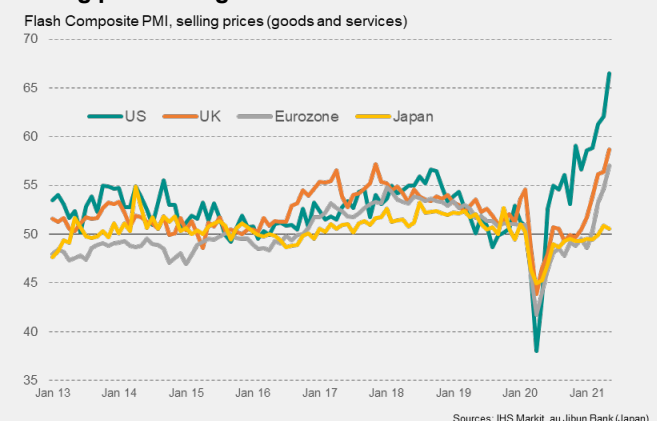
#### Output growth



### Inflation picks up in the US and Europe

A by-product of the economic rebound is inflationary pressure. In the US, the flash PMI data showed a rate of increase of average prices charged for goods and services far in excess of anything previously recorded. Selling price inflation also hit new survey highs in the UK and eurozone. But prices in Japan barely rose.

#### Selling prices for goods and services



## Key diary events

### Monday 24 May

*Germany Market Holiday*

New Zealand Retail Sales Volumes QQ (Q1)  
Thailand Manufacturing Production (Apr)  
Singapore Consumer Price Index (Apr)  
Taiwan Industrial Output YY (Apr)  
Taiwan Jobless Rate (Apr)

### Tuesday 25 May

Singapore GDP Final (Q1)  
Singapore Manufacturing Output (Apr)  
Germany GDP Detailed (Q1)  
Indonesia 7-Day Reverse Repo (May)  
Germany Ifo Business Climate (May)  
United States Consumer Confidence (May)  
United States New Home Sales (Apr)

### Wednesday 26 May

*Singapore, Malaysia, Indonesia, Thailand Market Holiday*

New Zealand Trade Balance (Apr)  
New Zealand Cash Rate (26 May)  
Malaysia Consumer Price Index (Apr)

### Thursday 27 May

South Korea Bank of Korea Base Rate (May)  
Bank Austria Manufacturing PMI\* (May)  
Australia Capital Expenditure (Q1)  
Germany GfK Consumer Sentiment (Jun)  
Euro Zone Business Climate (May)  
United States Durable Goods (Apr)  
United States GDP 2<sup>nd</sup> Estimate (Q1)  
United States Initial Jobless Claims

### Friday 28 May

Japan Unemployment Rate (Apr)  
Malaysia Trade Balance (Apr)  
Taiwan GDP (Q1)  
Euro Zone Economic Sentiment (May)  
Euro Zone Consumer Confidence Final (May)  
United States Personal Income (Apr)  
United States Personal Consumption (Apr)  
United States Core PCE Price Index MM (Apr)  
United States Chicago PMI (May)  
United States UoM Consumer Sentiment Final (May)

\* *Press releases of indices produced by IHS Markit and relevant sponsors can be found [here](#).*

## What to watch

- **Monetary policy meetings in New Zealand, South Korea and Indonesia**

Central bankers in Indonesia (Tue), New Zealand (Wed) and South Korea (Thu) will update their monetary policy decisions. No changes to policy rates are expected but some macroprudential tweaks might be announced. The focus may be on the Reserve Bank of New Zealand, with expectations of further tightening of mortgage lending restrictions to address the heated housing market.
- **Singapore April production and Q1 GDP**

Singapore's April industrial production reading will be watched after March saw a month-on-month decline. The IHS Markit [Singapore PMI](#) indicated growth continued in April at a softer rate as exports from abroad contracted for the first time since January. Singapore's revised Q1 GDP reading will also be released on Tuesday ahead of the production figures.
- **German Ifo business climate, Q1 GDP**

Economic sentiment in Germany will be tracked for whether a fourth consecutive month of improvement may be seen. Flash PMIs indicated that [Germany's recovery continued to gain speed in May](#) and that the business outlook remained positive. Separately, Q1 GDP details will also be due in the week.
- **US Q1 GDP (2<sup>nd</sup> estimate)**

Revised Q1 GDP will be released for the US towards the end of week with consensus estimates currently pointing to a slight uptick from the first reading. Overall, with ongoing vaccination progress in the country and easing of COVID-19 restrictions boosting confidence, growth looks set to have gained further pace in the second quarter. [Flash PMIs](#) indicated that the US output surged at a record rate in May.
- **US consumer confidence, spending and prices**

The PMIs had also shown US businesses remaining upbeat in May, so we'll be tracking the University of Michigan survey to find out if consumers share the same optimism. PCE data will also be eyed for signs that new stimulus is feeding through to the economy, and also the impact on prices.

## In the meantime...

while [flash PMI data](#) showed US and European economies benefitting from vaccine roll-outs and falling virus numbers, other parts of the world have again been hit by further covid waves:

**Special report: Asia-Pacific economies hit by new Covid waves | Rajiv Biswas | [page 4](#)**

## Recent PMI and economic analysis from IHS Markit

Global	<a href="#">US and European growth surges as economies reopen, but Japan slides back into contraction</a>	21-May	Chris Williamson
	<a href="#">Use-case illustrations for PMI by IHS Markit</a>	17-May	IHS Markit
	<a href="#">New case studies in active PMI™ investment strategies in Japan and the US</a>	17-May	Eliot Kerr, Paul Smith, Ph.D., Sian Jones
	<a href="#">New Global Container Port Performance Index (CPPI) Launched by the World Bank and IHS Markit</a>	7-May	Rahul Kapoor, Turloch Mooney
US	<a href="#">How Data and AI are Changing Investment Analysis</a>	5-May	Christine Chow
	<a href="#">Will Stocks Fall if Capital Gains Tax Rates are Raised?</a>	10-May	Alexander Yokum
	<a href="#">US monthly new retail vehicle registrations reach 10-year high in March; EV market share surpasses 3% for first time</a>	18-May	Tom Libby
Europe	<a href="#">Eurozone economy revives as demand surges at fastest rate for 15 years</a>	21-May	Chris Williamson
	<a href="#">Flash UK PMI hits record high in May as economy reopens</a>	21-May	Chris Williamson
	<a href="#">Why the recent jump in eurozone inflation has not changed the monetary policy outlook</a>	18-May	Ken Wattret
	<a href="#">EU asked to rein in manufacturers blamed for rising van emissions</a>	18-May	Cristina Brooks
APAC	<a href="#">Value exposures in European markets</a>	4-May	IHS Markit
	<a href="#">Flash Japan Composite PMI signals economy back in contraction amid virus wave</a>	21-May	Jingyi Pan
	<a href="#">Flash Australia PMI price gauges hit new highs as economy continues to revive</a>	21-May	Jingyi Pan
Commodities	<a href="#">Weekly Pricing Pulse: No relief yet for supply-short commodity markets</a>	5-May	Thomas McCartin

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# APAC Special Focus

## Asia-Pacific economies hit by new Covid waves

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*An increasing number of Asia-Pacific (APAC) economies have been hit by escalating Covid-19 waves during April and May, reflecting factors such as increased transmissibility of new Covid-19 virus strains as well as very low Covid-19 vaccination rates as a share of population in many APAC economies.*

*India's rapidly escalating new Covid-19 wave has become a terrifying human tragedy. A number of other Asian economies, including Japan, Malaysia, Philippines, Thailand, Singapore, Vietnam and Thailand have also been impacted by rising new daily Covid-19 cases. These new waves have triggered a wide range of new restrictive measures across many APAC economies, which will impact on domestic demand and the path of economic recovery in coming months.*

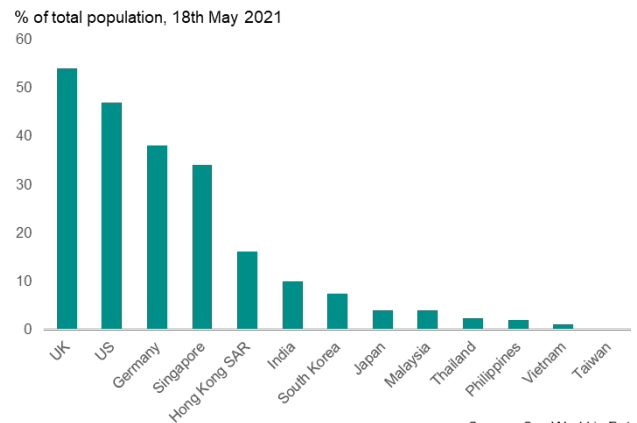
### New Covid waves hit APAC economies

While rapid vaccination rollout rates in some countries such as the US and UK have resulted in sharp decelerations in their domestic Covid-19 waves, many Asian economies with low vaccination rates have experienced substantial increases in daily new Covid-19 cases since March. In India, daily new Covid-19 cases rose from 15,700 on 2<sup>nd</sup> March to 414,000 by May 6<sup>th</sup>, before easing to 267,000 reported daily new cases by May 18<sup>th</sup>. In Japan, daily new cases rose from 1,000 on 1<sup>st</sup> March to 7,700 by 6<sup>th</sup> May, easing to 3,300 by May 18<sup>th</sup>. In Thailand, daily new cases rose from zero on 1<sup>st</sup> March to 9,600 on 17<sup>th</sup> May. A number of other Asian economies, including Malaysia, Philippines and Vietnam, have also seen significant increases in new Covid-19 cases. Taiwan, which had been extremely successful in containing new Covid-19 cases during 2020, has also been hit by a large number of new cases during May.

Covid-19 vaccination rates are extremely low in most Asian economies compared with global leaders in

vaccination rollout such as the US and UK. Even the APAC nations which are members of the OECD grouping of advanced economies, namely Australia, Japan, New Zealand and South Korea, have first dose vaccination rates which are very low compared to the US, UK and EU. In contrast, Singapore has led the APAC countries in achieving very high first dose vaccination rates that are comparable to the global leaders.

### First dose vaccination rates by country



The severe escalation in Covid cases across many APAC economies in recent weeks has been an unfolding human tragedy, with rising loss of life in many Asian countries, particularly in India, during April and May. Governments have responded with significant new restrictive measures to try to contain the new Covid waves. In India, many states and cities have imposed lockdown conditions since mid-April. Japan's central government declared a third state of emergency from 25<sup>th</sup> April until 31<sup>st</sup> May, due to the COVID-19 pandemic. Malaysia and Thailand have also imposed significant lockdown measures to try to contain their escalating new Covid waves.

### Economic impact on APAC economies

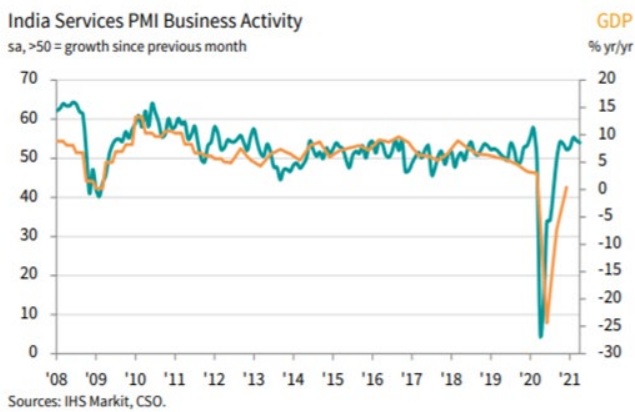
Increasingly substantial lockdown measures have been put in place in many APAC economies since April which are directly having an impact on consumer spending and industrial production. The widespread lockdowns that have been implemented in India in many states and cities since mid-April will increasingly be reflected in high frequency economic indicators for April and May. Similarly, lockdown measures in Malaysia, Thailand, Vietnam, Singapore and the Philippines are impacting on domestic economic activity.

In India, a number of monthly economic indicators for April have already shown significant contraction,



although more severe impact effects are expected for May as many parts of the nation have remained under strict lockdown conditions.

Falling from 54.6 in March to 54.0 in April, the India Services PMI Business Activity Index pointed to the slowest increase in output for three months. The latest reading still signaled expansion, albeit moderating. Anecdotal evidence indicated that ongoing growth of new work underpinned the rise in output, which was nevertheless stymied by the intensification of the Covid-19 crisis.

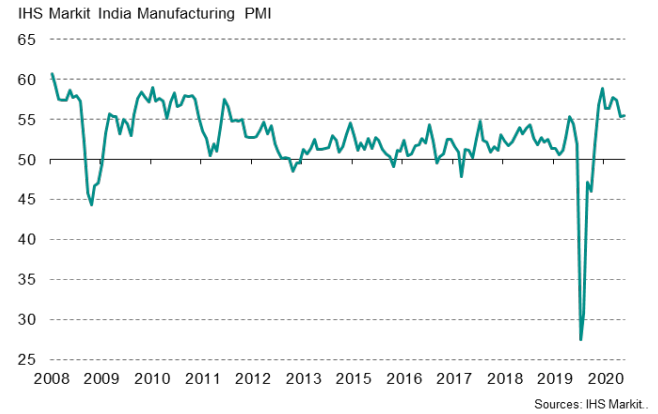


India's auto manufacturing sector has already been badly hit during April by the pandemic escalation and lockdown measures. Data from the Society of Indian Automobile Manufacturers for April showed that sales of passenger vehicles fell by about 10% m/m compared to March 2021, reflecting widening lockdown restrictions across many states. Sales of two-wheelers fell by 33.5% m/m. The Indian electronics sector has also been hit by the escalating pandemic. India's cement industry has also been badly hit by the impact of lockdowns on construction activity, resulting in sharp declines in cement output. In the electronics sector, the Foxconn iPhone12 factory in Tamil Nadu is reported to have cut production by 50% for health reasons due to Covid-19 cases.

A key disruption to economic activity has been due to a number of Indian ports declaring force majeure for various periods during May 2021 with reduced operations due to the impact of lockdowns and staffing shortages as a result of the pandemic. Indian ports that have declared force majeure with reduced operations in May include Visakhapatnam, Gangavaram, Vizag, Kandala, Karaikal, Gopalpur, Mangalore and Chennai. This is creating significant supply chain disruptions to imports of key raw materials and intermediate goods, as well as impacting on India's export shipments.

Compounding India's port sector problems, Pipavav port has been forced to halt operations during late May until the beginning of June due to infrastructure damage caused by Cyclone Tauktae.

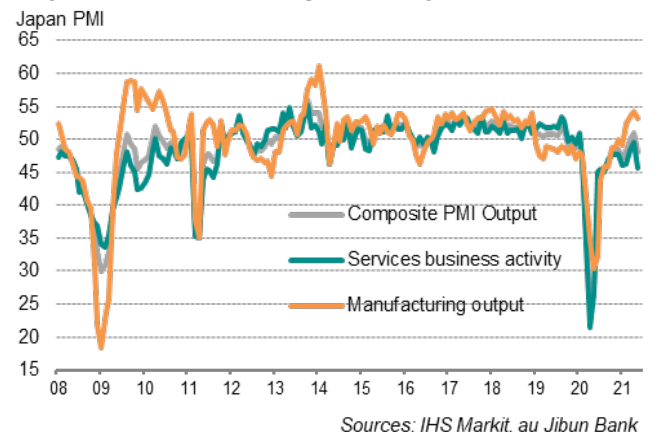
### India manufacturing PMI



Japan's Q1 2021 GDP was also impacted by tighter pandemic-related restrictions related to the state of emergency, contracting by 1.3% quarter-on-quarter, or down 5.1% at an annualized rate. A key factor driving the contraction was a 1.4% q/q decline in private consumption, while government consumption also contracted by 1.8% q/q. Tighter restrictions due to the Covid-19 pandemic hit household consumption, notably on sales of restaurants and cafes. Japan's Prime Minister Yoshihide Suga has so far declared a state of emergency in nine prefectures including Tokyo and Osaka until 31<sup>st</sup> May, with restaurants and bars being impacted by shorter trading hours and restrictions on sale of alcohol.

Latest PMI survey data shows that Japan's services industries have been negatively impacted by the stricter restrictive measures that have been imposed as a result of the latest Covid-19 wave.

### Japan business activity and output indices



The au Jibun Bank Flash Japan PMI Services Business Activity Index fell sharply, from 49.5 in April to 45.7 in May, indicating a significant deterioration in service sector activity during May. The monthly decline in the survey was one of the most marked since August 2020.

In the Philippines, the escalating Covid-19 wave in March and April resulted in strict lockdown measures that impacted on April economic activity. The IHS Markit manufacturing PMI survey for the Philippines showed a renewed contraction in output levels across the goods-producing sector during April. A resurgence in COVID-19 case numbers led to tighter lockdown restrictions amid efforts to control the spread of the disease. As a result, many factories suspended their operations, and client demand declined sharply.

The IHS Markit Philippines Manufacturing PMI fell to 49.0 in April, sharply down from 52.2 in March, to signal a marginal contraction in operating conditions across the Filipino manufacturing sector. The headline index had dropped below the 50.0 neutral value after three successive months of growth.

**Philippines Manufacturing PMI**  
sa, >50 = improvement since previous month



Source: IHS Markit.

Manufacturers in the Philippines highlighted a steep decline in output at the start of the second quarter, which was largely attributed to enhanced community quarantine (ECQ) measures, undertaken to control the spread of the disease. The rate of decline was solid, and among the quickest in the survey to date. As a result of tightening lockdown measures many clients suspended their operations, with demand faltering for the first time since December 2020.

In Singapore, the IHS Markit Singapore PMI fell to 51.8 in April from 53.5 in March, signalling a softer pace of expansion in business conditions for Singapore's private sector. The moderation reflected renewed COVID-19 concerns, particularly as new overseas infections rose, affecting demand from abroad. With an

upsurge in domestic Covid cases during May, the Singapore government has imposed significant new restrictions to try to curb the escalation in cases, which is expected to impact on consumer spending in the near-term until restrictions can again be eased back.

**Singapore PMI**  
sa, >50 = improvement since previous month

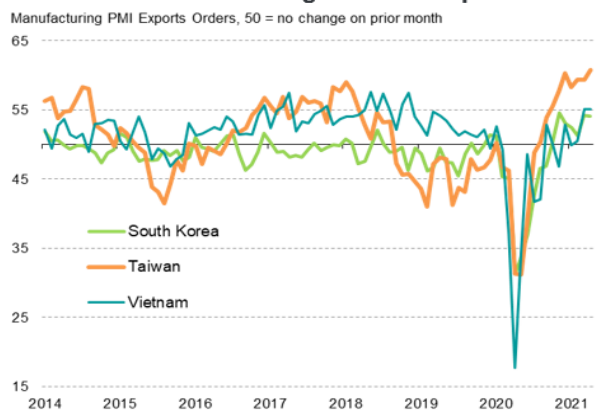


Source: IHS Markit.

## APAC exports remain bright spot

Despite the significant negative impact of new Covid waves on domestic demand in many APAC economies during April and May, the manufacturing export sector has been performing strongly in many East Asian economies, helping to underpin overall manufacturing output.

### East Asian Manufacturing PMI new export orders



Source: IHS Markit.

Rebounding consumer spending and industrial production in key export markets, notably the US, China, EU and UK, is helping to drive demand for a wide range of Asia's manufacturing exports.

The strong global rebound in manufacturing output is helping to drive demand for industrial electronics products, while improving consumer spending is driving demand for consumer electronics. The rebound in global electronics demand has been reflected in the recent industrial production and exports data for many

Asian economies, including mainland China, South Korea, Vietnam and Taiwan, albeit the trade figures are distorted by base effects from the severe disruption to world trade in the first half of 2020 due to the pandemic.

In the US, the Biden Administration's USD 1.9 trillion fiscal stimulus package has already resulted in stimulus checks for 160 million households, helping to sharply boost March personal incomes and driving a jump in private consumption spending. US consumer sentiment is also being supported by the rapid vaccination rollout and declining new Covid-19 cases, as well as the recovery in the US labour market and rising wages. Retail sales in electronics and appliance stores leapt by 10.5% month-on-month in March 2021. In China, retail sales have also shown significant normalization, with improving momentum in early 2021.

For mainland China, exports rose by 32% y/y in April, helped by strong demand for electronics and medical equipment. The South Korean Ministry of Trade, Industry and Energy announced that South Korea's total exports rose at a very rapid pace of 41% y/y in April. South Korea's semiconductors exports have been rising sharply for the past ten months, increasing by 30% y/y in April. In Taiwan, total April exports rose by 38.7% y/y, with semiconductors exports up 34.9% y/y. Japan's exports rose by 38% y/y in April, helped by a 34% y/y increase in exports to mainland China.

### APAC near term outlook

Very low vaccination rates and escalating Covid-19 pandemic waves are already negatively impacting on the anticipated path of economic recovery for many APAC economies in 2021. Renewed lockdowns and severe restrictive measures are impacting on domestic demand in many APAC economies, even as the US, EU and UK are rebounding from their own recent Covid-19 waves due to their rapid progress with vaccinating their populations.

With many APAC economies dependent on imported Covid-19 vaccines, at least in the near-term, their ability to bring their new pandemic waves under control is likely

to be built on strategies of a combination of restrictive measures as well as trying to accelerate their vaccination programs.

However the positive overall economic outlook for the GDP growth of the APAC region in 2021 is currently being underpinned by the strong economic rebound in China, which is the largest economy in the region. Furthermore, the strength of East Asian exports to key global consumer markets, notably the US, China, EU and UK, is helping to support buoyant manufacturing output in many economies.

Nevertheless, the escalating Covid-19 waves evident in many Asian economies is likely to be a significant near-term drag on their economic recovery paths, with considerable uncertainty about when their new Covid waves will come under control. Consequently, the recovery paths of many Asian economies are likely to diverge significantly during 2021 from the progress towards economic normalization that is currently underway in the US and Western Europe.

An important implication is that international travel in the APAC region is likely to remain heavily shuttered for the remainder of 2021, whereas the US, EU and UK are already discussing plans for reopening international travel between their nations by July/August 2021.

Meanwhile the negative economic consequences of the pandemic on APAC developing countries continue to mount. Many low-income developing countries across Asia are suffering severe pandemic waves, and the impact on the poor has been devastating for their livelihoods and household incomes.

Globally, the World Bank has estimated that around 150 million people fell back into extreme poverty in 2020 due to the pandemic. A large proportion of this total were in India, with the World Bank having estimated that 75 million people fell back below the poverty line in 2020. Consequently, for many Asian developing countries, the path to recovery from the pandemic remains protracted and fraught with significant uncertainties.