

Week Ahead Economic Preview

PMIs and payrolls to reveal economic recovery trends in May

A busy week is packed with manufacturing and services PMIs around the globe and rounds off with the May US labour market update. The news flow will be anticipated eagerly by market observers keen to assess the pace of economic recovery. For central bank watchers, the reserve banks of Australia and India will update their monetary policy decisions in the coming week, albeit with no changes to rates expected.

Key takeaways from the most recent flash PMI updates had been the continuation of the COVID-19 pandemic's influence on economic conditions, and especially variations in vaccination progress. While [US and European growth surged](#) with the reopening of their economies, [Japan slipped back into contraction](#) amid its fourth virus wave. With Asia having seen several other economies come under the threat of COVID-19 resurgences and reimposed containment measures, most notably India but also previous success stories such as Taiwan and Singapore, the surveys will be eyed for further divergences in economic trends.

Supply constraints and associated price rises also remain a major concern, with several key PMI price gauges hitting new highs according to the May flash data. The data will be scrutinised for signs of demand and supply coming back into balance, as this will likely hold the key to how long the steep rise in inflationary pressures will last. A concern is that further COVID-19 disruptions in Asia could deal a further blow to supply chain recovery hopes.

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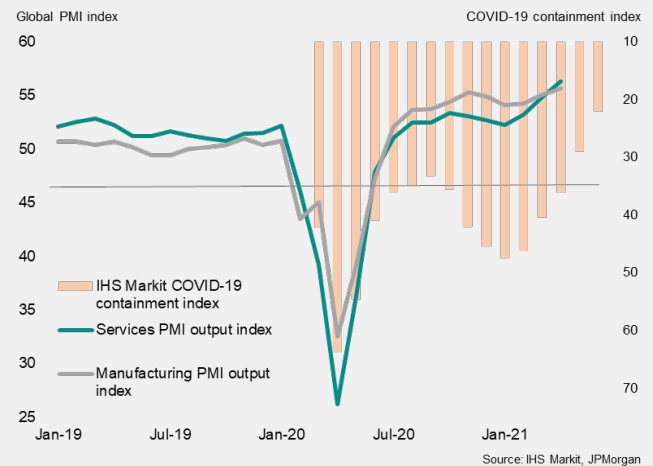
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Recovery rates diverge

Fresh global PMI data will provide a timely update on worldwide economic trends in May. April data showed the recovery gathering momentum, with services taking over the lead from manufacturing as more economies opened up. But rising case numbers pose a threat to several economies, notably in Asia

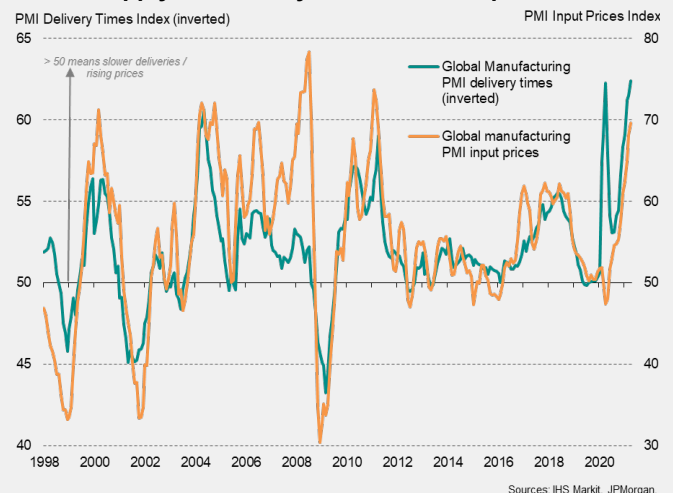
Global output growth



Supply chains hold key to prices

With record supply delays in April being widely associated with supplier price hikes, inflation watchers will be eager to see some of these supply pressures ease in the May PMI numbers.

Global supply chain delays and materials prices



Key diary events

Monday 31 May

US, UK Market Holiday

Japan Industrial Output, Retail Sales (Apr)

China NBS Manufacturing PMI (May)

Germany CPI (May)

India GDP (Q4)

Tuesday 1 Jun

Indonesia Market Holiday

Worldwide manufacturing PMIs, incl. global PMI* (May)

Australia RBA Cash Rate (Jun)

Australia Building Approvals (Apr)

United Kingdom Nationwide House Price (May)

India Repo and Reverse Repo Rate (until 4 Jun)

Germany Unemployment Rate (May)

Hong Kong Retail Sales (Apr)

Eurozone HICP Flash (May)

Eurozone Unemployment Rate (Apr)

United States ISM Manufacturing PMI (May)

Wednesday 2 Jun

Australia GDP (Q1)

Indonesia and ASEAN Manufacturing PMIs* (May)

United Kingdom Money Supply, Mortgage Approvals & lending (Apr)

Singapore Manufacturing PMI (May)

Indonesia CPI (May)

Thursday 3 Jun

Thailand Market Holiday

Global services & composite PMIs (Apr), incl. US, Brazil, Eurozone, India*

Australia Trade Balance & Retail Sales (Apr)

United States ADP National Employment (May)

United States Initial Jobless Claim

United States ISM Non-Manufacturing PMI (May)

Friday 4 Jun

Singapore Retail Sales (Apr)

Philippines, Thailand CPI (May)

Eurozone IHS Markit Construction PMI (May)

United Kingdom Markit/CIPS Construction PMI (May)

United Kingdom All-Sector PMI (May)

Eurozone Retail Sales (Apr)

United States Non-Farm Payrolls, Unemployment Rate and Average Earnings (May)

United States Durable Goods & Factory Orders (Apr)

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

What to watch

Worldwide manufacturing and services PMIs

The worldwide PMI surveys will be released in the coming week to offer a first look into global economic conditions in May. Flash PMIs indicated [record expansions in US and UK economies](#), accompanied by steep increase in price inflation, notably in the US. Confirmation of the flash data, and greater global coverage, will be awaited with the final PMI readings.

Meanwhile Asia economies, including China, will see this comparable measure of economic performance updated through the week. Manufacturing PMIs will be due Tuesday while the services and composite figures will follow from Thursday. Asia economies had seen varying degrees of COVID-19 resurgence into Q2, including [Japan which slipped back into contraction](#) based on flash readings. Differentials in performance in the upcoming releases will be of particular importance.

US May non-farm payrolls and unemployment

The number of US non-farm job additions will be updated for May with the consensus pointing to better hiring figures following April's disappointment. The unemployment rate is also expected to drop to 5.9% from 6.1%. Indeed, indications of employment from the latest [flash US PMI](#) and official jobless claims suggest that the US labour market improved in May. Market sentiment improved following the mid-May surprise with jobless claims. How payrolls fare against forecasts could prove important to Fed taper expectations, with ISM and official durable goods orders also updated during the week to add further colour.

Reserve Bank of Australia meeting and Q1 GDP

Central bank watchers turn their focus to the RBA. Monetary policy settings were unchanged in May, although the central bank is widely expected to review its yield curve control policy, specifically whether to roll forward the 3-year yield target to its November 2024 bond at the July meeting. In the time being, little fanfare is expected out of the upcoming monetary policy meeting. Q1 GDP for Australia will also be released in the week on Wednesday.

In Europe, Eurozone inflation and unemployment data will add insights into the region's recovery progress to accompany the PMI numbers, while in the UK the pick of the official data will likely be mortgage approvals.

Special report: Philippines Mired in Recession due to Latest Covid Wave | Rajiv Biswas | [page 4](#)

Recent PMI and economic analysis from IHS Markit

Global	Sustained recovery in global trade – Latest Observations in the Top Ten Economies	26-May	Tomasz Brodzicki, Ph.D.
	US and European growth surges as economies reopen, but Japan slides back into contraction	21-May	Chris Williamson
	Use-case illustrations for PMI by IHS Markit	17-May	IHS Markit
	New case studies in active PMI™ investment strategies in Japan and the US	17-May	Eliot Kerr, Paul Smith, Ph.D., Sian Jones
	New Global Container Port Performance Index (CPPI) Launched by the World Bank and IHS Markit	7-May	Rahul Kapoor, Turloch Mooney
US	Biden climate finance order requires US agencies to consider social cost of carbon	18-May	Amena Saiyid
	US monthly new retail vehicle registrations reach 10-year high in March; EV market share surpasses 3% for first time	18-May	Tom Libby
Europe	Eurozone economy revives as demand surges at fastest rate for 15 years	21-May	Chris Williamson
	Flash UK PMI hits record high in May as economy reopens	21-May	Chris Williamson
	Why the recent jump in eurozone inflation has not changed the monetary policy outlook	18-May	Ken Wattret
	EU asked to rein in manufacturers blamed for rising van emissions	18-May	Cristina Brooks
	Value exposures in European markets	4-May	IHS Markit
APAC	Flash Japan Composite PMI signals economy back in contraction amid virus wave	21-May	Jingyi Pan
	Flash Australia PMI price gauges hit new highs as economy continues to revive	21-May	Jingyi Pan
Commodities	Weekly Pricing Pulse: No relief yet for supply-short commodity markets	5-May	Thomas McCartin

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APAC Special Focus

Philippines remains mired in recession due to latest Covid-19 wave

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The Philippines has remained in protracted recession during early 2021, suffering its fifth consecutive quarter of economic contraction in the first quarter of 2021. Economic recovery has been delayed by the impact of the latest Covid-19 wave that has hit the Philippines during the first half of 2021, reflecting strict pandemic control measures in Metro Manila and other surrounding areas badly impacted by the latest pandemic surge..

Escalating new Covid-19 cases dampens recovery

The latest GDP statistics for the first quarter of 2021 showed that the Philippines economy contracted by 4.2% year-on-year, the fifth consecutive quarter of recession. This follows a severe contraction in GDP in the 2020 calendar year, with the Philippines economy having contracted by 9.6% year-on-year. This was the largest annual decline ever recorded since National Accounts data series for the Philippines commenced in 1946.

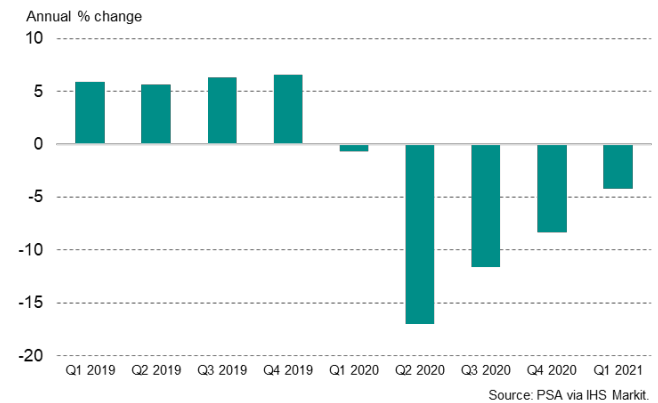
Household final consumption expenditure fell by 7.9% y/y in calendar 2020, while gross capital formation contracted by 34.4% y/y. Some sectors of the economy recorded severe declines in output, with the transport and storage sector recording a 30.9% y/y decline in output in 2020, while accommodation and food services output slumped by 45.4%.

In the first quarter of 2021, the pace of contraction in household final consumption expenditure moderated to a decline of 4.8% year-on-year, while gross capital expenditure contracted by 18.3% y/y. Strong growth in government final expenditure, which expanded by 16.1% y/y in the first quarter of 2021, helped to mitigate the net impact of these declines.

Although the severity of the economic contraction has moderated during the second half of 2020 and during the second half of 2020, with positive quarter-on-quarter

GDP growth recorded in the fourth quarter of 2020, the new Covid-19 pandemic wave that gathered momentum since March 2021 has dampened near-term recovery prospects.

Philippines quarterly GDP growth



Reflecting the global slump in international trade, exports of goods and services fell by 16.3% y/y in 2020. The Philippines export sector has also remained weak in early 2021, with exports down 9.1% y/y in the first quarter of 2021.

Despite the large decline in exports in 2020, the current account surplus reached a record high of USD 13 billion or 3.6% of GDP, boosted by the sharp slump in imports due to the severe contraction in domestic demand. In March, the Philippines central bank, Bangko Sentral ng Pilipinas (BSP), has revised up its current account surplus projection for 2021 to USD 9.1 billion, or 2.3% of GDP

An important stabilizing factor for the Philippines economy has been overseas worker remittances by Filipinos working abroad, which remained quite stable during 2020, down only 0.8% y/y, and equivalent to around 10% of GDP. However, an estimated 400,000 Filipino workers were repatriated during 2020 as a result of job losses in their host countries, raising concerns about the impact on remittance flows during 2021. Remittances sent home by workers are an important factor supporting domestic consumer spending in the Philippines. Recent monthly data continues to show resilient remittance inflows, with remittances by workers abroad up by 5.3% y/y in February 2021.

Due to the severe escalation in daily new Covid-19 cases since mid-March 2021, the Philippines government has imposed a range of restrictive measures to try to contain the pandemic. A one-week lockdown was announced for Metro Manila and four surrounding provinces on 29th March but was extended progressively to 14th May. The Metro Manila lockdown

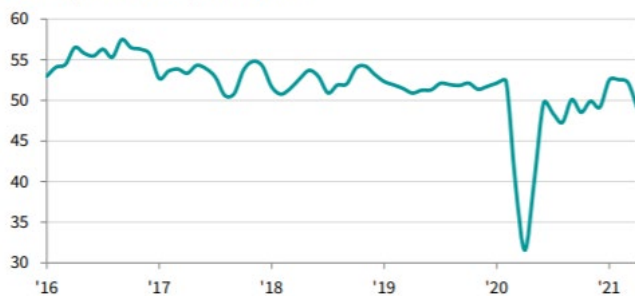
was further extended to the end of May, although lockdown measures have been eased in other parts of the Philippines. The total number of people impacted by the lockdown measures for Metro Manila and surrounding provinces was estimated at around 26 million, or around one-quarter of the total population of the Philippines, as well as being the largest economic region of the Philippines economy.

Manufacturing production contracted by 9.8% y/y in 2020, reflecting significant disruption to manufacturing output during the pandemic-related lockdown and restrictions on retail trading in Q2 and Q3 2020. Although economic conditions had been gradually improving in the fourth quarter of 2020 and during the first quarter of 2021, the recent severe escalation in the pandemic has created renewed uncertainty about the momentum of economic recovery in the near-term.

Reflecting the impact of the latest domestic Covid-19 wave, the IHS Markit Philippines Manufacturing PMI fell to 49.0 in April, down sharply from 52.2 in March, to signal a marginal contraction in operating conditions across the Filipino manufacturing sector. Manufacturers in the Philippines highlighted a steep decline in output at the start of the quarter, which was largely attributed to enhanced community quarantine measures, undertaken to control the spread of the disease.

As a result of tightening lockdown measures, many clients suspended their operations, with demand faltering for the first time since December 2020. Domestic demand was especially subdued with the rate of reduction among the sharpest in the series. However, export sales to European markets which have begun to gradually reopen, helped to narrow the pace of contraction for manufacturing export orders.

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



Source: IHS Markit.

Philippines Manufacturing PMI Output Index **Manufacturing production**
sa, >50 = growth since previous month %yr/yr, 3mma



Sources: IHS Markit, PSA.

Input shortages and higher raw material costs were widely reported in the April survey period. Input price inflation accelerated for the sixth month running, with the latest uptick the strongest in over two-and-a-half years, and contributed to an uptick in manufacturing output prices, as firms sought to partially pass on greater costs to clients. Declines in production and new orders also hit business confidence in April, with the optimism about an expansion in output over the coming year dropping to an eight-month low impacted by renewed uncertainties about the ongoing impact of the pandemic.

Progress of vaccine rollout

As a developing country with a population of 108 million, the Philippines confronts significant challenges in vaccinating its population with Covid-19 vaccines due to difficulties in obtaining sufficient vaccine supplies as well as the logistical problems of implementing a large-scale vaccination rollout nationwide. The Covid-19 vaccination program began on 1st March 2021, after the arrival of shipments of China’s Sinovac vaccine. The Philippines has contracted to acquire 25 million doses of the Sinovac vaccine, with one million already delivered and a further 1 million doses provided as a gift by the Chinese government. The Philippines is also due to receive 9.3 million doses of the Oxford/AstraZeneca vaccine through the global COVAX facility. So far 2.5 million doses had been delivered to the Philippines through this COVX facility by the end of May 2021.

The COVAX facility, which is a global vaccine sharing initiative, has faced delays in receiving AstraZeneca vaccine supplies from the Serum Institute of India, a key manufacturer of the AstraZeneca vaccine. This is because India has also faced a sharply accelerating Covid-19 wave similar to the Philippines, and the Indian government has placed temporary restrictions on export

of Covid-19 vaccines in order to accelerate vaccination of the Indian population.

The Philippines government is negotiating with seven global Covid-19 vaccine makers to secure sufficient supplies. A contract for 13 million doses has been agreed with Moderna, with a further contract for an additional 7 million doses also having been subsequently negotiated, providing a total of 20 million Moderna vaccine doses. The Philippines also signed a contract for 40 million doses of the Pfizer vaccine in May 2021.

The Philippines government had planned to vaccinate 70 million persons by end-2021, with a total of 2.5 million doses having been administered by mid-May 2021. An estimated 2.3% of the total population had received first dose vaccinations by 18th May 2021. A key problem confronting the Philippines, like many other developing countries, is that it is relying on imported vaccine supplies and is therefore vulnerable to supply disruptions due to “vaccine nationalism”, as some nations with vaccine production facilities prioritize supplies to their own domestic populations due to the mounting human toll of the pandemic.

Philippines economic outlook for 2021

While the Philippines economy is still expected to show a positive growth rebound in 2021, the near-term outlook has been dampened by the sharply rising wave of new Covid-19 cases since mid-March 2021.

This is expected to constrain the pace of economic recovery in the near-term, as strict pandemic control measures were imposed in Metro Manila and other surrounding areas badly impacted by the latest surge in pandemic cases. Vaccine rollout in the Philippines has also been constrained by lack of sufficient supplies of imported vaccines.

Consequently, the pace of economic recovery in 2021 is likely to be less buoyant than previously expected, with renewed pandemic control measures constraining the momentum of growth recovery in the near-term. GDP growth in 2021 is expected to be in the 5% to 6% range, with stronger GDP growth in 2022 as the pandemic is gradually constrained by widening vaccine rollout in the Philippines, resulting in more normal economic conditions.