

# Week Ahead Economic Preview

## Policy signals sought from PMI and nonfarm payroll reports

As usual, the turn of the month promises to be a busy week for economic data releases and markets alike.

**Worldwide manufacturing PMIs** will be in the spotlight following the release of the flash PMIs. Recent PMI data have highlighted the ‘vaccine dividend’ driving strong growth in [the US and Europe](#) while many other countries continue to struggle with the fight against the virus, notably including Japan and India. However, strong recoveries are [being accompanied by rising inflation](#) amid supply shortages, so we will be keen to see if new supply chain delays due to further virus waves might further darken the inflation outlook (see also our special report on page 4).

Meanwhile, with heightened sensitivity towards the Fed since the June FOMC meeting, we will get a look at the **US employment picture** via the June jobs report. While the Fed had emphasized the transitory nature of inflation, Fed chair Jerome Powell’s acknowledgement of the risk that inflation may be higher than earlier expected is congruent with the signals from PMI data. That said, the longer-term inflation picture will to a large extent be determined by the amount of labour market slack and wages growth.

**Flash eurozone inflation** figures will also be released ahead of the **Japan Q2 Tankan survey** and an update on the **UK’s first quarter GDP**. Also watch out for US factory orders, eurozone unemployment and various activity indicators out of Japan, including retail sales and industrial production.

### Chris Williamson

Chief Business Economist,  
IHS Markit

[chris.williamson@ihsmarkit.com](mailto:chris.williamson@ihsmarkit.com)

### Jingyi Pan

Economics Associate Director  
IHS Markit

[jingyi.pan@ihsmarkit.com](mailto:jingyi.pan@ihsmarkit.com)

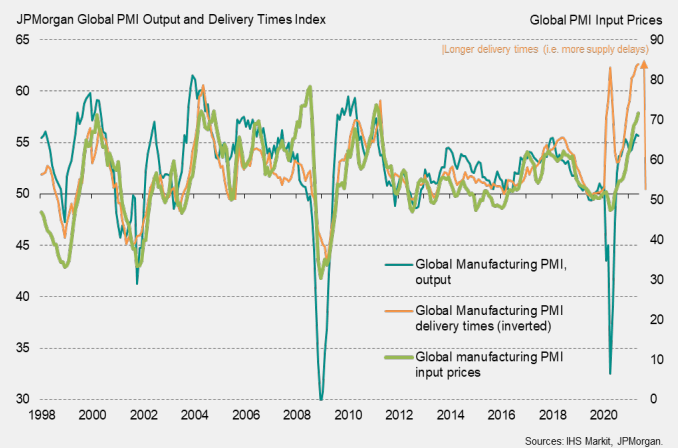
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### Global PMI update for manufacturing

The worldwide manufacturing PMI data for June will be eyed not just for output and employment trends, but perhaps most importantly for supply chain and price developments. May’s data showed a record lengthening of global supplier delivery times, which was a major factor behind the largest rise in industrial prices for a decade.

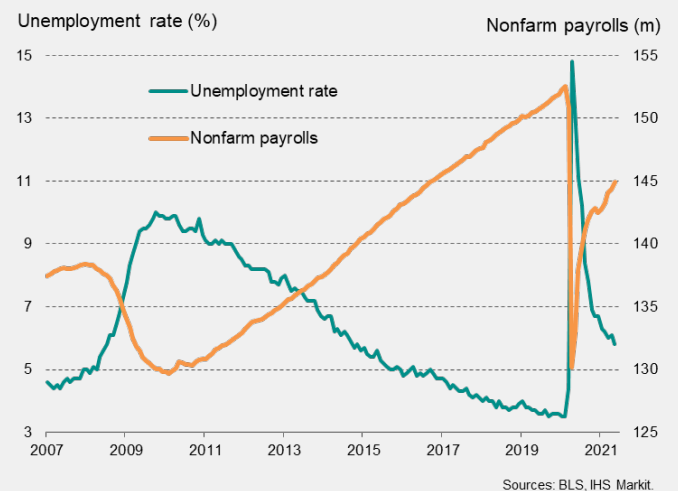
### Global PMI prices and supply delays



### US employment report for June

The health of the US labour market will be laid bare with the monthly employment report, providing fresh news on nonfarm payrolls, wages and unemployment. While the labour market is expected to have continued to heal in June, most labour market gauges show a great deal of slack persisting relative to prior to the pandemic.

### US labour market



## Key diary events

### Monday 28 Jun

Japan BOJ Summary of Opinions (Jun)  
Hong Kong SAR Trade (May)

### Tuesday 29 Jun

Japan Unemployment Rate (May)  
Japan Retail Sales (May)  
United Kingdom Money Supply, Mortgage Approvals & Lending (May)  
Eurozone Business Climate (Jun)  
Eurozone Consumer Confidence (Jun, final)  
Germany CPI (Jun, prelim)  
United States S&P/CaseShiller index (Apr)  
United States Consumer Confidence (Jun)

### Wednesday 30 Jun

South Korea Industrial Output (May)  
Japan Industrial Output (May, prelim)  
China NBS PMI (Jun)  
United Kingdom GDP (Q1)  
United Kingdom Nationwide house price (Jun)  
Germany Unemployment (Jun)  
Eurozone HICP (Jun, flash)  
United States ADP National Employment (Jun)  
United States Chicago PMI (Jun)  
United States Pending Sales Change (May)

### Thursday 1 Jul

*Hong Kong, Canada market holiday*  
Worldwide manufacturing PMIs, incl. global PMI\* (Jun)  
Japan Tankan Survey (Q2)  
Indonesia Inflation (Jun)  
Eurozone Unemployment Rate (May)  
United States Initial Jobless Claims  
United States Construction Spending (May)  
United States ISM Manufacturing PMI (Jun)

### Friday 2 Jul

South Korea CPI (Jun)  
Germany Retail Sales (May)  
Eurozone Producer Prices (May)  
United States Non-Farm Payrolls, Unemployment Rate, Average Hourly Earnings (Jun)  
United States International Trade (May)  
Canada Trade Balance (May)  
Canada IHS Markit Manufacturing PMI\* (Jun)  
United States Factory Orders (May)

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

## What to watch

### ■ June worldwide manufacturing PMIs

Worldwide manufacturing PMIs will be released in the coming week after flash PMIs offered a preview of the [US and Europe enjoying strong growth while Japan continued to report contraction](#). The final manufacturing figures for these countries, plus those for the rest of the world, will be of interest in the coming week to assess the recovery pace across the different regions. Given the focus on inflation, the survey price indicators will be scrutinised carefully alongside the supply and demand indicators. Even the [eurozone had seen output charges rise at an unprecedented rate](#) according to the latest flash PMI data. Another interesting trend to track will be employment. Recent PMI surveys across the globe showed countries such as [the UK, seeing better labour conditions but also potentially higher wages](#). Meanwhile many Asian countries have also been experiencing varying degrees of COVID-19 resurgences, and their impact on the manufacturing sectors will be studied for signs of further trade disruption and supply chain delays.

### ■ US non-farm payrolls, unemployment rate

The US June jobs report will be released next Friday, preceded by the private ADP employment reading on Wednesday. The consensus estimate according to Refinitiv currently points to 600k job additions. The recent flash PMI data suggested that employment across the G4 is also running behind output growth with firms finding it challenging to hire suitable staff. Even as the unemployment rate is expected to tick down to 5.7% from 5.8% in May, the current trend of staff shortages may continue to pose challenges going forward. Separately, given current market concerns of early tapering, one should also not be surprised if any bad news will be taken positively by the market.

### ■ Eurozone inflation

Flash eurozone inflation for June will be updated on Wednesday. PMI figures have suggested that price pressures continued to build, hinting that CPI inflation will rise further from 2% in May.

### ■ Japan Q2 Tankan survey

Japan's Q2 Tankan survey, or short-term economic survey of enterprises, will be released next Thursday for a glance into the performance and outlook of various large and small enterprises amid a fourth virus wave.

## Special report:

### APAC industries hit by rising input prices and supply chain disruptions

Rajiv Biswas | [page 4](#)

## Recent PMI and economic analysis from IHS Markit

Global	<a href="#">US and Europe report strong growth in June as Japan contracts</a>	23-Jun	Chris Williamson
	<a href="#">Global economic growth surges to 15-year high as COVID-19 lockdowns ease</a>	21-Jun	Chris Williamson
	<a href="#">PMI data hint at rising numbers of staff shortages</a>	17-Jun	Chris Williamson
	<a href="#">G7 leaders punt on pushing green growth for developing countries</a>	14-Jun	Amena Saiyid
	<a href="#">Critical supply chains: The semiconductor shortage</a>	10-Jun	Chris Suckling, Ph.D, Sian Jones, Yacine Rouimi
US	<a href="#">US Sector PMI shows improvement in consumer confidence</a>	10-Jun	Jingyi Pan
	<a href="#">US PMI surveys signal record growth as economic recovery shifts up a gear</a>	3-Jun	Chris Williamson
Europe	<a href="#">Eurozone prices spike higher as economy grows at fastest rate for 15 years</a>	23-Jun	Chris Williamson
	<a href="#">Flash UK PMI holds close to record high in June as economy booms</a>	23-Jun	Chris Williamson
	<a href="#">Flash UK PMI signals record surge in employment, but also hints at higher wages</a>	23-Jun	Chris Williamson
	<a href="#">Flash UK PMI price gauges hit record highs in June</a>	23-Jun	Chris Williamson
	<a href="#">Lack of tourism set to drag on Greek economic recovery</a>	16-Jun	Sian Jones
	<a href="#">Easing COVID-19 restrictions to trigger stronger Italian growth from Q2</a>	15-Jun	Raj Badiani
APAC	<a href="#">Japan flash PMI indicates further economic slowdown in June amid COVID-19 emergency and supply disruptions</a>	23-Jun	Jingyi Pan
	<a href="#">Asia Pacific trade outlook in 2021</a>	17-Jun	Rajiv Biswas
Commodities	<a href="#">Weekly Pricing Pulse: Commodity price relief</a>	23-Jun	Michael Dall

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# Special Focus

APAC industries hit by rising input prices and supply chain disruptions

**Rajiv Biswas**

Asia Pacific Chief Economist, IHS Markit

Email: [rajiv.biswas@ihsmarkit.com](mailto:rajiv.biswas@ihsmarkit.com)

*The strong rebound in global economic growth in the first half of 2021 has resulted in a significant upturn in world raw materials prices. This has become a key factor driving rising input prices for a wide range of APAC industries.*

*Rapid growth in Asian exports to the US and Western Europe has also created bottlenecks for shipping due to shortages of containers, resulting in soaring freight rates on key Asian routes, adding to input price pressures. Meanwhile in the electronics industry, the latest IHS Markit Global Electronics survey shows evidence of sharp increases in electronics industry input prices as well as output prices, reflecting shortages of essential raw materials.*

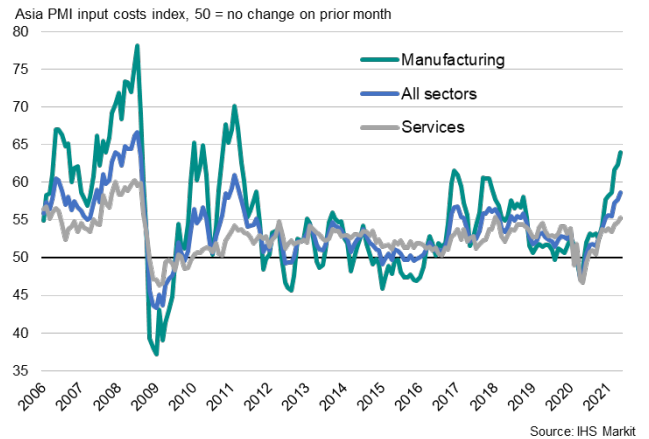
## Rising price pressures in APAC industries

World commodity prices have risen sharply over the past twelve months as global demand has gradually recovered from widespread lockdowns in many of the world's largest economies. By the third week of June, the IHS Markit Materials Price Index (MPI) was up 20% since the beginning of 2021, building on gains in the second half of 2020.

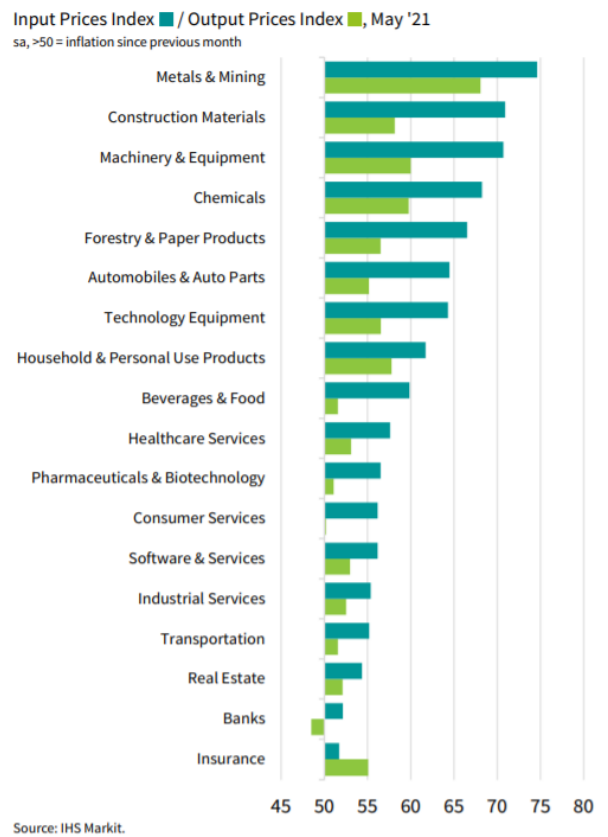
The latest Asia PMI™ sector data from IHS Markit signalled that cost pressures were clearly stronger in manufacturing segments. Although all 18 industry sectors surveyed registered higher input prices, the top nine rankings were all occupied by sectors located in manufacturing, and the bottom nine by those in services.

The strongest rates of input price inflation were registered in Metals & Mining, Construction Materials which reached a record high, as well as Machinery & Equipment and Chemicals. The fastest rates of input price inflation among services-related sectors were in Healthcare Services, in tenth place overall, and Pharmaceuticals & Biotechnology, although both contain elements of manufacturing.

## Asia PMI price indices



## Asia sector PMI price comparisons



In mainland China, the producer price index rose by 9.0% y/y in May, the fastest pace of increase since September 2008, reflecting the rapid rise in world commodity prices. In order to help contain sharply higher prices for industrial metals, China's National Food and Strategic Reserves Administration has announced that it will sell inventory of copper, aluminium and zinc from its strategic stockpile in early July, to try to push down industrial metals prices for its manufacturing sector.



By mid-June 2021, LME copper prices are up around 65% y/y and LME aluminium prices are 55% higher y/y, while iron ore prices are 108% y/y. World oil prices are also sharply higher compared to a year ago, with Brent crude having risen above USD 75 for the first time in two years, adding significantly to raw materials costs for some industrial sectors.

## APAC supply chain and shipping disruptions

In addition to the impact of rising industrial raw materials costs on APAC industries, manufacturing industries have also been hit by sharply higher shipping freight rates.

The strong growth in Asian exports to the US and Western Europe during the first half of 2021 has created bottlenecks for shipping due to shortages of containers, resulting in soaring freight rates on key Asian routes. Average Asia-US East Coast container freight rates on short-term contracts are up 56% from May 2020.

The problems for the shipping industry have been further compounded by port congestion in Southern Chinese ports, reflecting major shipping delays at Yantian port since late May 2021 due to the impact of stringent health measures as a result of a Covid-19 cluster outbreak. This has resulted in severe shipping backlogs and diversion of trade to other Chinese ports.

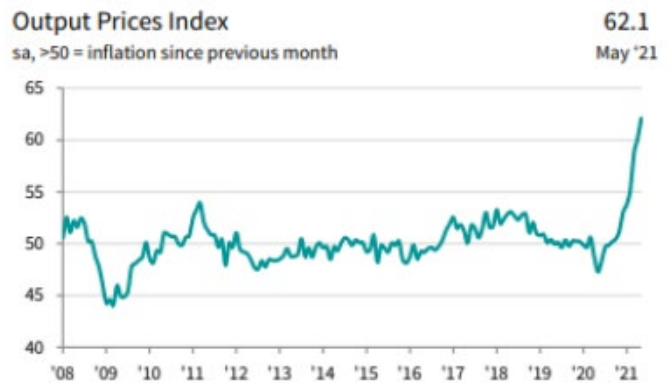
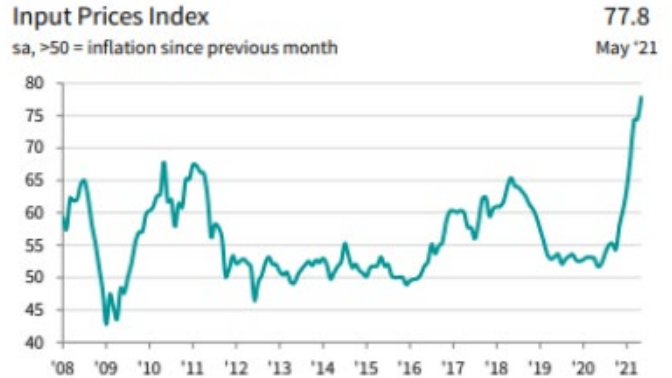
Yantian International Container Terminal is one of China's largest container ports, and Yantian port normally handles one-third of Guangdong Province's foreign trade, including an estimated 25% of mainland China's exports to the US. With peak shipping season looming for Christmas retail orders from the US and Europe, shipping bottlenecks and freight rates in Asia are likely to stay at elevated levels during Q3 2021.

Indian ports also faced disruption during May 2021 due to the impact of the large new Covid-19 wave that hit the nation, resulting in some temporary port closures as well as delays to shipments due to health safety measures.

In the electronics industry, the strength of global electronics demand is continuing to exacerbate semiconductors shortages for some manufacturing industries, notably the global automotive sector. Supply chain disruptions to semiconductors production have also impacted on the situation. The new Covid-19 wave in Taiwan has increased risks of potential supply chain disruptions at semiconductors plants impacted by Covid clusters. Meanwhile the latest IHS Markit Global Electronics PMI survey shows evidence of sharp increases in electronics industry input prices as well as

output prices, mainly due to shortages of essential raw materials.

## IHS Markit Global Electronics PMI Price Indices



Source: IHS Markit.

## APAC inflation outlook

Although there has been a significant upturn in input prices for many manufacturing industry sectors, this is not yet expected to lead to a broader upturn in consumer inflation pressures in many APAC economies in 2021. Notably, in mainland China, despite the sharp upturn in producer price inflation in the first half of 2021, the headline CPI inflation rate still remains contained, with the May reading showing a rise of 1.3% y/y. China has set its consumer inflation target at around 3% for the year 2021, according to the China's Government Work Report announced in March 2021. People's Bank of China Governor Yi Gang stated in mid-June that annual CPI inflation in 2021 is likely to stay below 2%, well below the official 3% target. In Japan, the CPI index showed a slight decline of -0.1% y/y in May. In Indonesia, CPI inflation rose by 1.68% y/y in May, still below Bank Indonesia's central inflation target of 3% within a range of +1/-1%.

According to the [IHS Markit Commodity Price Watch Monthly for June](#), supply-side problems for many commodities are still reflected in delivery time data in

IHS Markit Purchasing Managers' Indexes™ (PMI™). The IHS Markit manufacturing surveys show worldwide delivery times at their highest (worst) since 1998, when the data first began being collected. However, a gradual normalization in conditions in many commodity markets is expected as supply chain disruptions gradually ease, resulting in easing for many commodities. However, in the interim, goods price inflation further downstream in supply chains will remain strong through the third quarter and possibly through the end of 2021.

### Global prices and supply delays

