

# Week Ahead Economic Preview

## Central bank meetings, inflation updates and China's GDP

**Central bank meetings** will be held in Canada, Japan, New Zealand and South Korea in the coming week, which come alongside important **inflation** updates in the US, UK and the eurozone. We will also see early Q2 **GDP** readings from China and Singapore, in addition to a barrage of June data releases out of China and the US, notably including retail sales and industrial production.

The week's central bank meetings are expected to bring few surprises, but come at a time of rising uncertainty about renewed COVID-19 lockdowns and the scope for inflation to prove less 'transitory' than might have been anticipated. Although Asia-Pacific central banks such as the RBNZ and BOK have signalled increasing inclinations to raise interest rates in the medium-term, rising COVID-19 cases have led to renewed lockdown measures in many countries and therefore bring a new element of uncertainty to the global outlook. Sharp reductions in PMI survey gauges in many economies, especially in Asia, meant that – although the global economy continued to expand at a strong pace in June – [regional divergences have hit record highs](#) and [supply shortages have reached unprecedented levels](#).

News of an ongoing supply shock brings the June inflation data into the spotlight for many economies including the US, the UK and the eurozone.

China's Q2 GDP reading will also be closely scrutinised for the state of expansion in the second quarter, and in particular the extent to which new COVID-19 outbreaks may have subdued growth.

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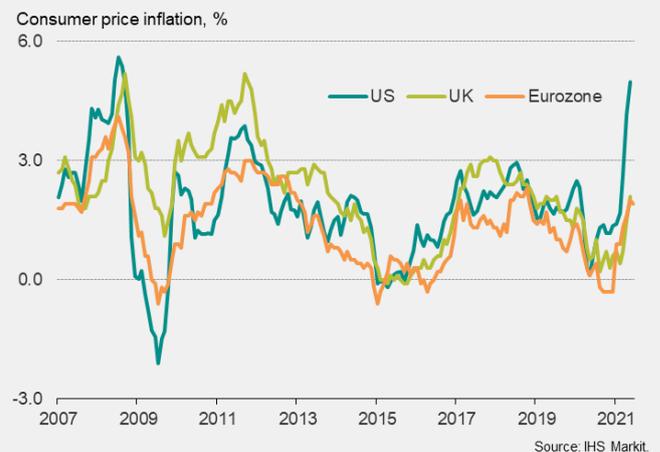
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### CPI releases in the spotlight

With the markets eager to assess the latest inflationary signals to gauge the extent to which the pandemic recovery may lead to tighter monetary policy, CPI updates in the US, UK and Eurozone will be among next week's key releases. Flash eurozone CPI inflation eased to 1.9% in June, but the US and UK annual rates rose to 5.0% and 2.1% respectively in May, the former now the highest since 2008.

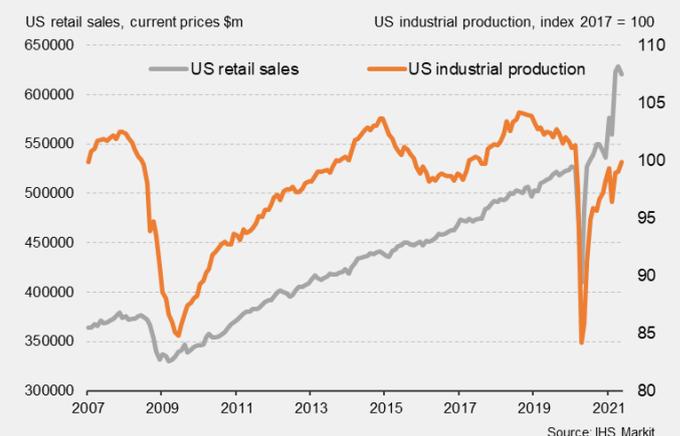
#### Inflation rates



### Key US indicators

The health of the US economy will be under the spotlight via updates to industrial production and retail sales for June. Both series have staged strong recoveries over the past year, as the economy has opened up and fiscal stimulus has boosted demand. But while retail sales are running 16% above their pre-pandemic peak value, production volumes are still 4% below their prior peak.

#### US industrial output and retail sales



## Key diary events

### Monday 12 Jul

Japan Machinery Orders (May)  
 Malaysia Industrial Output (May)  
 India CPI, Industrial Output (Jun)  
 China M2, New Yuan Loans, Loan Growth (Jun)

### Tuesday 13 Jul

China Trade Balance (Jun)  
 Germany CPI (Jun, final)  
 United Kingdom Retail Sales (Jun)  
 United States CPI (Jun)

### Wednesday 14 Jul

Singapore GDP (Q2, advance)  
 New Zealand Cash Rate (14 Jul)  
 Japan Industrial Production (May)  
 United Kingdom Inflation (Jun)  
 India WPI Inflation (Jun)  
 Eurozone Industrial Production (May)  
 United States PPI (Jun)  
 Canada Manufacturing Sales (May)  
 Canada BOC Rate Decision (14 Jul)

### Thursday 15 Jul

South Korea BOK Base Rate (Jul)  
 Australia Employment (Jun)  
 China Retail Sales, Industrial Output, Urban FAI (Jun)  
 China GDP (Q2)  
 Indonesia Trade Balance (Jun)  
 United Kingdom Employment Change (May)  
 United Kingdom IPA Bellwether Report\* (Q2)  
 United States NY Fed Manufacturing (Jul)  
 United States Import Prices (Jun)  
 United States Initial Jobless Claims  
 United States Philly Fed Business Index (Jul)  
 United States Industrial Production (Jun)

### Friday 16 Jul

Japan BOJ Rate Decision (16 Jul)  
 New Zealand Manufacturing PMI (Jun)  
 New Zealand CPI (Q2)  
 Singapore Non-Oil Exports (Jun)  
 Eurozone HICP (Jun, final)  
 Canada House Starts, Annualized (Jun)  
 United States Retail Sales (Jun)  
 Canada Wholesale Trade (May)  
 United States Business Inventories (May)  
 United States UoM Sentiment (Jul, prelim.)

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

## What to watch

### ■ Central bank meetings in Canada, Japan, New Zealand and South Korea

The Bank of Canada (BOC), Bank of Japan (BOJ), Reserve Bank of New Zealand (RBNZ) and Bank of Korea (BOK) will all be updating their monetary policy settings in the coming week though no changes are expected across the board. That said, the likes of the BOC, RBNZ and BOK are all facing growing rate hike expectations with the RBNZ and BOK potentially lifting off in 2021. Updates from these central banks in the upcoming week will be watched for any further suggestions on the timeline of the next interest rate hikes, particularly after the US Fed surprised with earlier-than-expected projections of rate rises.

### ■ US June inflation data

US June consumer and producer price inflation figures will be watched keenly after core CPI and core PCE eased from prior readings in May. The May headline CPI surprised on the upside, however, preceding the Fed's FOMC meeting where Fed chair Jerome Powell highlighted the risk that inflation may shoot higher than earlier expected. While there is nothing threatening the Fed's 'transitory' attitude towards inflation yet, the June update will be closely watched after our [IHS Markit Composite PMI having suggested that price pressures remained marked in June](#). Alongside the inflation update will be industrial production and preliminary UoM consumer sentiment figures.

### ■ UK and eurozone June inflation updates

UK and eurozone June inflation data are due next Tuesday and Friday respectively. The [IHS Markit / CIPS UK Composite PMI reflected the steepest rise in price inflation](#) across the private sector economy on record in June, suggesting that cost pressures will be sustained for the UK economy. No change to the flash number is expected with the final June eurozone HICP update.

### ■ China Q2 GDP and June data barrage

China will issue their Q2 GDP estimate on Thursday alongside other data in the week such as June trade, retail sales, industrial output and investment. IHS Markit is looking for China (mainland) to expand by 6.9% in Q2 2021. Ahead of China's Q2 GDP update will be Singapore's advance Q2 GDP release on Wednesday.

## Special report:

**Australia-China Trade Tensions: The Great Escape?** Rajiv Biswas | [page 4](#)

## Recent PMI and economic analysis from IHS Markit

Global	<a href="#">Global economic growth cools from 15-year high as demand peaks and new COVID-19 waves hit</a>	7-Jul	Chris Williamson
	<a href="#">Consumers drive worldwide variations in economic growth and inflation</a>	7-Jul	Chris Williamson
	<a href="#">Vaccine dividend drives widening global economic growth divergences</a>	6-Jul	Chris Williamson
	<a href="#">Global manufacturing economy reels from intensifying supply shortages</a>	2-Jul	Chris Williamson
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="#">PMI data reveal widest UK-eurozone export divergence for 20 years in 2021</a>	1-Jul	Chris Williamson
	<a href="#">Eurozone manufacturers report unprecedented price spike as PMI hits new all-time high, but will the price surge prove transitory?</a>	1-Jul	Chris Williamson
	<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
APAC	<a href="#">Flash UK PMI price gauges hit record highs in June</a>	23-Jun	Chris Williamson
	<a href="#">Vietnam Economy: New COVID-19 Wave Creates Downside Risks to Near-Term Outlook</a>	2-Jul	Rajiv Biswas
	<a href="#">Japan flash PMI indicates further economic slowdown in June amid COVID-19 emergency and supply disruptions</a>	23-Jun	Jingyi Pan
Commodities	<a href="#">Weekly Pricing Pulse: Commodity prices rebound</a>	7-Jul	Michael Dall

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# Special Focus

## Australia-China Trade Tensions: The Great Escape?

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*China-Australia trade tensions have escalated significantly in 2020-21, with Australian exports of goods having been impacted by an increasing array of trade policy actions by China. China applied trade measures during 2020 to a large number of major Australian exports, including coal, wine, seafood and barley. Meanwhile key Australian services exports to China, notably international education and tourism, have also been disrupted as a result of Australia's hard border closure due to the COVID-19 pandemic.*

*Australia's vulnerability to disruptions in bilateral trade with China has increased substantially since 2000, as China has rapidly become the largest export market for Australia. These developments have resulted in mounting concerns about the economic implications to the Australian economy from a protracted disruption of Australian exports to China. Yet, despite China's trade measures, Australian exports of goods worldwide rose by 11% year-on-year (y/y) in May 2021. Notably, Australian merchandise exports to China in May 2021 were up 16% y/y, despite the escalation in bilateral trade frictions.*

### The escalation of trade tensions between China and Australia

Mainland China has become by far the largest export market for Australia, accounting for a third of Australia's total goods and services exports in 2019, according to the Australian Bureau of Statistics. The importance of mainland China as an export market for Australia has increased dramatically over the past two decades, with Australian exports to mainland China having grown from just AUD 8.8 billion in the 2000-01 financial year to AUD 153 billion in the 2018-19 financial year.

Consequently, Australia has become increasingly vulnerable to trade sanctions by China on its exports. Due to escalating frictions on a wide range of issues, bilateral trade tensions have increased significantly during 2020-21. As former Australian Prime Minister

Kevin Rudd rather colourfully said recently, *"Australia has been on the rough end of the pineapple in the relationship with China"*.

With key Australian exports of services such as international education and tourism to mainland China already having come to a halt due to the COVID-19 pandemic and the hard border closures, the focus of China's trade policy actions has been on Australian exports of goods.

Even during 2019, there had been some temporary disruptions of Australian coal shipments to certain Chinese ports, with long delays in permission to unload Australian coal cargoes at Chinese ports. These disruptions became much more severe during the second half of 2020.

In May 2020, the Chinese government also imposed punitive tariffs on Australian exports of barley to China, amounting to a combined 80.5% tariff on Australian barley. China's General Administration of Customs said barley shipments from Australia would be halted after they stated that pests were found on multiple occasions.

There has been a more intense escalation in trade measures by China in relation to Australian products since early November 2020. These measures, which include unofficial guidelines to Chinese importers as well as other non-tariff measures such as customs procedures, have created considerable concern amongst Australian exporters of a wide range of products. The scope of the Chinese policy measures included beef, lobster and wine, three product categories for which China is Australia's largest end market.

### Australia's economic performance

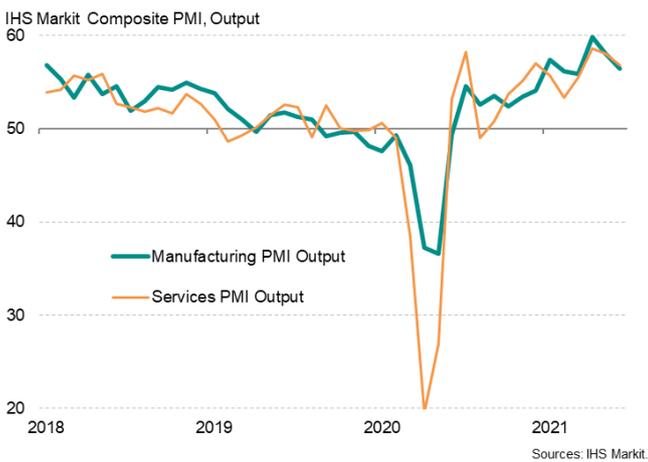
The Australian economy has rebounded strongly during the first half of 2021, helped by broad containment of domestic COVID-19 cases, despite intermittent lockdowns in various Australian cities. This has allowed an upturn in domestic economic activity. As Reserve Bank of Australia (RBA) Governor Philip Lowe stated on 6<sup>th</sup> July 2021 in his speech on the RBA's Monetary Policy Decision:

*"The Australian economy is on a positive path. Output is now above its pre-pandemic level and more Australians have a job than they did before the pandemic. The unemployment rate has returned to its pre-pandemic level, underemployment has declined and job vacancies are at a high level. So we are in a much better position than we thought we would be in."*

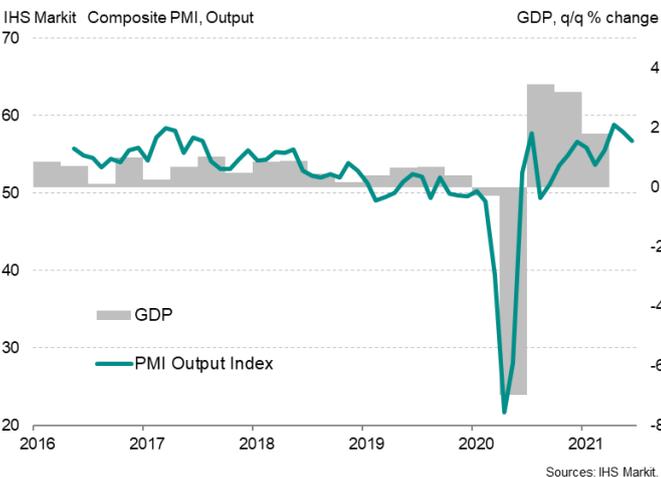
Survey data confirm this upbeat assessment. The seasonally adjusted IHS Markit Manufacturing Purchasing Managers' Index (PMI) recorded a buoyant 58.6 in June after May's record of 60.4. Despite the slowing of growth momentum, the manufacturing sector expanded at a strong pace compared to historical levels. Manufacturing output and new orders both rose for the twelfth successive month in June as market confidence remained solid in line with the recovery from the COVID-19 pandemic, although the extended lockdown in Victoria, which carried into June, affected operating conditions at some firms.

Australia's service sector also continued to expand at a strong pace in June, albeit affected by the latter part of the lockdown in Melbourne. The seasonally adjusted Services PMI Business Activity Index eased to 56.8 in June from 58.0 in May, signalling a continued rise in activity, though at a somewhat softer pace.

### Australia PMI output gauges



### Australian Composite PMI and GDP growth



### Australian exports in H1 2021

Recent official economic data have likewise shown encouraging strength. In May 2021, Australian merchandise exports were up 34% y/y, helped by base year effects as well as the strong growth in iron ore exports. Metal ore exports were up 63% y/y in May 2021, amounting to an increase in export value of AUD 7.4 billion compared to the same month a year earlier.

Exports of cereals also showed a substantial increase, rising by 180% y/y in May 2021, or up AUD 887 million in export value compared to May 2020.

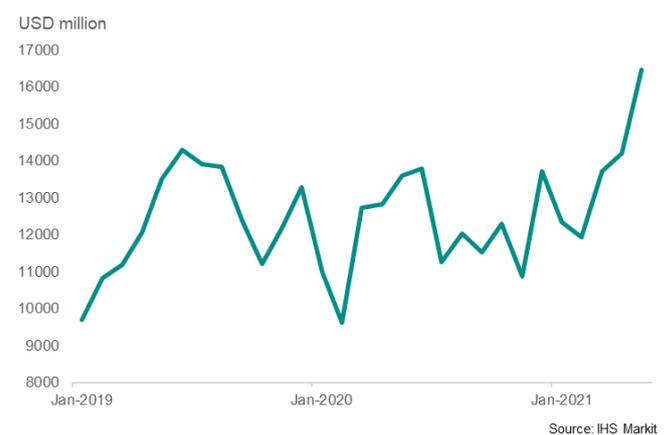
The Australian manufacturing sector has also been boosted by improving export orders, which have shown a gradual upturn since the second half of 2020.

### Australian Manufacturing PMI Export Orders



Despite the sharp escalation in bilateral trade frictions, Australian exports of goods to China actually recorded an increase of 16% y/y in May 2021. This was heavily driven by exports of iron ore, which rose by 20% y/y in value terms.

### Australian exports of goods to China



This reflects the strong rebound in Chinese industrial output since the first quarter of 2020, as well as supply side disruptions to iron ore production in other key producers, notably Brazil.

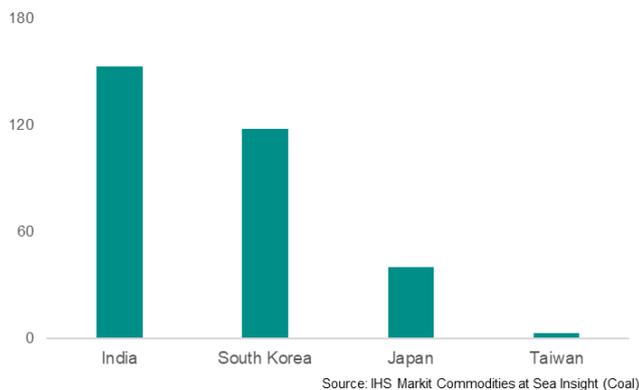
China is also a key market for Australian coal exports, and this has also been heavily disrupted by China's trade measures. During the second half of 2020, Australian coal shipments to China faced severe disruptions, with many shipments delayed at Chinese ports.

The situation for coal exports to China deteriorated further during the first half of 2021. According to IHS Markit's Commodities at Sea Insight (Coal) report of 7<sup>th</sup> July 2021, there were no Australian coal shipments to mainland China in June 2021, compared with 11.9 million tonnes shipped in 2020. However, despite the collapse in Australian coal exports to China, Australian coal exports worldwide in June 2021 were at 32.9 million tonnes, down just 2.4% y/y.

Although Australian coal exports to mainland China were at a standstill in June 2021, the collapse in Chinese import demand has been largely offset by substantial increases in Australian coal exports to Japan, India, South Korea and Taiwan. Australian coal exports have also been buoyed by strong global traded thermal coal prices, with Newcastle thermal coal export prices having reached almost a thirteen-year high.

### Growth markets for Australian coal exports

June 2021, % change, year-on-year



### Australian export outlook

Over the past decade, many Australian export industries had become increasingly vulnerable to potential disruptions of market access to China due to rising concentration risk to that single market. This had become well recognized as a key risk by Australian policymakers and industry leaders in recent years although little concrete policy action was taken by

companies to reduce their vulnerability to such trade concentration risk.

While Australia is unlikely to embark on any kind of tit-for-tat retaliatory trade measures, particularly given the very asymmetric bilateral trade relationship with China, the policy implications for Australia are that most Australian export industries with significant exports to mainland China will be urgently and rather belatedly looking at diversification strategies to reduce their vulnerability to future Chinese trade policy measures. It seems clear that any hopes of a return to "business as usual" have become a rapidly receding mirage.

However, the Australian government has lodged a formal complaint at the World Trade Organization in June 2021 in regard to China's anti-dumping duties applied to Australian wine. Australia had also lodged a complaint at the WTO in 2020 in relation to China's anti-dumping duties on Australian barley, and the WTO has agreed in May 2021 to establish a dispute resolution panel on this matter.

In the near-term, the overall negative shock to Australian exports from a macroeconomic perspective has been mitigated by the strong growth in iron ore export values as well as diversification of coal exports to other key markets in Asia. Indeed, Australian exports of goods actually showed a strong positive growth rate in May 2021 compared to the same month a year ago.

However, the process of trade diversification for the wider cross-section of industries with high exposure to China is likely to be gradual, over a protracted period of time, as different industries look to diversify into a wider range of export markets.

Moreover, market expectations are for some future easing over the medium-term of the very high current levels of world iron ore prices, as recovering Brazilian production and potential new sources of iron ore supply dampen current high world price levels. However, for now, Australian iron ore exporters are making hay while the sun shines.

Australia's membership of the CPTPP and RCEP regional free trade agreements is likely to help this process of export market diversification over the next five to ten years. The RCEP trade deal, which was signed in November 2020, includes the ten ASEAN member nations as well as Japan and South Korea. The CPTPP free trade agreement, which has already been implemented, includes Japan, Canada and Mexico. The UK has also applied for accession to CPTPP, with South Korea have also signalled potential interest, which

would further deepen the importance of CPTPP as a key multilateral trade deal.

Furthermore, Australia also has a growing network of free trade agreements with key trade partners. One important recent FTA is the bilateral free trade agreement with Indonesia, the Indonesia-Australia Comprehensive Economic Partnership Agreement, which is expected to significantly improve market access for Australian exports to this nation, which is one of the world's largest emerging markets.

Despite the tremendous challenges of significantly diversifying its export markets, Australia will benefit from

its proximity to many large consumer markets across the Asia-Pacific region. India is already the world's sixth largest economy, with its consumer market forecast to grow strongly over the next decade. The ASEAN region has also become a very large consumer market with a total regional GDP of USD 3 trillion, around double the size of Australia's domestic consumer market, with a population of over 600 million. Consequently, ASEAN and India are likely to be high priorities for Australia's export diversification strategy over the decade ahead.