

Week Ahead Economic Preview

Global PMIs, BoE meeting and US non-farm payrolls

A fully-packed week for economy watchers kicks off with **worldwide manufacturing and services PMIs** and rounds off with the **US jobs report**. Interspersed are **central bank meetings** in the UK, Australia, India and Thailand, where policymakers will be grappling with recent mixed signals on the outlook for global growth, inflation and the path of the pandemic.

[July flash PMIs revealed two key themes](#), namely the detriments of the Delta variant spread, particularly around APAC economies, and sustained supply constraints, limiting capacity and fuelling price pressures. With a greater number of APAC economies feeling the heat from further COVID-19 waves, and developed economies likewise seeing sentiment hit, the global PMIs will unveil the full effect of the Delta wave on the manufacturing and service sectors in July.

Price pressures notably eased in some key economies such as the US and Eurozone, according to flash PMI surveys. July's FOMC meeting meanwhile saw the Fed reiterate their transitory view towards inflation, though await further progress on the economic recovery before making any decisions on tapering. This brings the focus to July's labour market data. As far as our flash US PMI suggested, another round of solid job creation was seen in July.

Finally, the UK and Australia both saw the Delta wave weigh on economic conditions according to flash PMIs. No changes to monetary policy are expected in the UK but the market will be eager to see if there are any splits in the decision to hold.

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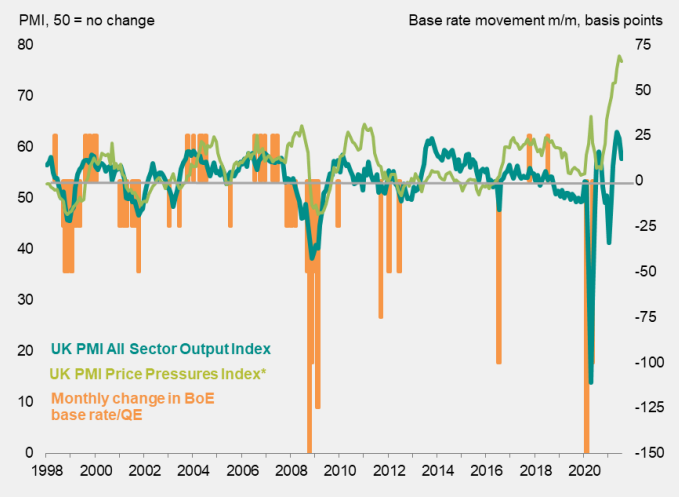
PMIs to add insights to policymaking

Worldwide PMI surveys will be assessed in particular for signs that resurgent economic growth might be being checked by renewed virus worries, supply delays and, in some countries such as the US and UK, labour shortages. Flash PMI hinted at a slowing in global growth, and the rise of the Delta variant poses a key risk to APAC and other emerging economies where vaccination rates lag. The degree to which supply constraints are driving up prices will be especially keenly eyed.



In the UK, the PMI updates coincide with the Bank of England's monetary policymaking meeting, where splits have appeared. Two of the nine-strong committee have already hinted that they see a need for policy to be tightened, citing a robust-looking recovery and rising price pressures. July's Flash PMI fell to a four-month low, but only covered a few days of the full reopening of the economy.

Bank of England meets amid split views on outlook



Key diary events

Monday 2 Aug

Canada market holiday

Worldwide Manufacturing PMIs, incl. global PMI* (Jul)

Indonesia Inflation (Jul)

United States Construction Spending (Jun)

United States ISM Manufacturing PMI (Jul)

Tuesday 3 Aug

South Korea CPI (Jul)

Australia Building Approvals (Jun)

Australia RBA Cash Rate (Aug)

Eurozone Producer Prices (Jun)

Canada Markit Manufacturing PMI* (Jul)

United States Factory Orders (Jun)

Wednesday 4 Aug

Worldwide Services & Composite PMI (Jun), incl. Japan, Brazil, Eurozone, India*

New Zealand HLF5 Unemployment Rate (Q2)

Australia Retail Sales (Jun)

United Kingdom Reserve Assets Total (Jul)

Thailand 1-Day Repo Rate (4 Aug)

Eurozone Retail Sales (Jun)

United States ADP National Employment (Jul)

United States ISM Non-Manufacturing PMI (Jul)

Thursday 5 Aug

Australia Trade Balance (Jun)

Philippines CPI (Jul)

Indonesia GDP (Q2)

Germany Industrial Orders (Jun)

Taiwan CPI (Jul)

Thailand CPI (Jul)

United Kingdom Markit/CIPS Construction PMI* (Jul)

United Kingdom BOE Bank Rate (Aug)

United States International Trade (Jun)

United States Initial Jobless Claims

Canada Trade Balance (Jun)

Friday 6 Aug

Japan All Household Spending (Jun)

India Repo and Reverse Repo Rate (6 Aug)

Germany Industrial Output (Jun)

United Kingdom Halifax House Prices* (Jul)

United States Non-Farm Payroll, Unemployment Rate (Jul)

Canada Unemployment Rate (Jul)

United States Wholesale Inventories (Jun)

Saturday 7 Aug

China (Mainland) Trade (Jul)

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

What to watch

■ July worldwide manufacturing, services and composite PMIs

Worldwide manufacturing and services PMIs will be released next week, offering a comprehensive early look at global economic conditions entering the third quarter. Flash PMI surveys revealed mixed trends in July, with COVID-19 once again playing a key role in divergences. While [growth in the Eurozone hit a 21-year high](#), APAC economies, such as Australia and Japan, experienced contractions on the back of the Delta variant spread. With various other APAC economies likewise affected by a resurgence of COVID-19 cases, the extent of the impact on economic conditions will be assessed on the release of the PMI data. Sector performance will also be of interest with the Delta wave's disruption. [Travel & recreation](#) recorded the strongest growth in June as economies reopened.

The flash PMI data also alluded to [sustained supply constraints driving prices higher](#). Whether the final data likewise point to supply conditions worsening will provide a crucial steer on the inflation outlook.

■ US July non-farm payrolls, unemployment data

July labour market updates will be due from the US at the start of August and the consensus is currently pointing to strong non-farm payroll additions at over 900k, up from the June 850k positive surprise. The unemployment rate is expected to tick down further from the current 5.9%, while average hourly earnings is expected to increase at a steady rate of 0.3% on the month. [IHS Markit Flash US Composite PMI](#) saw another round of job creation in July, though service sector labour shortages were also reflected in the survey, adding to reports of higher wage rates.

■ Bank of England (BoE) monetary policy meeting

BoE policymakers will convene in the coming week and update their monetary policy decision with no changes expected. That said, the meeting minutes and monetary policy report will be monitored for any changes in the MPC's mixed views, with two members recently hinting at the need for tighter policy. [Flash UK PMI showed economic growth running strong but slowing in July](#) amid a rising wave of virus infections, which also disrupted supply chains. This also poses a threat of price inflation for firms, an area to watch for the BoE's views and projections.

Special report:

South Korea: Economic Rebound

Threatened by New COVID-19 Wave

Rajiv Biswas | [page 4](#)

Recent PMI and economic analysis from IHS Markit

| | | | |
|-------------|---|--------|------------------|
| Global | Eurozone leads as US and UK see slower growth, Japan and Australia contract | 26-Jul | Chris Williamson |
| | Global electronics industry faces continuing supply disruptions | 26-Jul | Rajiv Biswas |
| | Understanding ... PMI suppliers' delivery times: A widely used indicator of supply delays, capacity constraints and price pressures | 21-Jul | Chris Williamson |
| | Delta variant spread poses key risks to global economic recovery | 12-Jul | Jingyi Pan |
| US | US Sector PMI shows improvement in consumer confidence | 10-Jun | Jingyi Pan |
| Europe | Flash Eurozone PMI signals fastest economic growth for 21 years | 23-Jul | Chris Williamson |
| | Flash UK PMI slides to four-month low as COVID-19 wave dampens economic growth | 23-Jul | Chris Williamson |
| | UK manufacturing output hit as covid wave limits staff and component availability | 23-Jul | Chris Williamson |
| | Majority of UK companies see output recover to pre-pandemic levels in June | 14-Jul | David Owen |
| APAC | Japan shows further divergence from other developed economies as virus disruptions continue | 26-Jul | Jingyi Pan |
| | Flash Australia PMI signals economy in contraction amid widespread lockdowns | 23-Jul | Jingyi Pan |
| | Taiwan's export boom comes off the boil | 20-Jul | Chris Williamson |
| | APAC Economies Hit by New COVID-19 Waves | 15-Jul | Rajiv Biswas |
| | Myanmar economy hit by double whammy of COVID-19 and military coup, while depreciating kyat adds to inflation pressures | 9-Jul | Shreeya Patel |
| Commodities | Weekly Pricing Pulse: Commodity prices rise but more slowly | 21-Jul | Tal Dickstein |

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Special Focus

South Korea: Economic Rebound Threatened by New COVID Wave

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South Korea's GDP rose by 5.9% year-on-year in the second quarter of 2021, compared with growth of 1.9% year-on-year in the first quarter of 2021. The economic growth outlook for 2021 has been helped by strengthening consumption expenditure and surging electronics exports, with GDP growth of 3.8% y/y forecast for calendar 2021.

However, a key risk to the near-term economic outlook is the sharp upturn in daily new COVID-19 cases during July, with the highly transmissible Delta variant having become the dominant strain in new COVID-19 cases. Daily new COVID-19 cases reached a record high of 1,896 persons on 28th July.

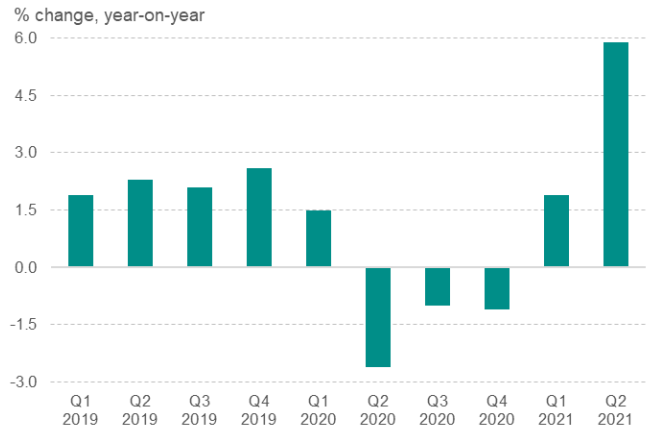
GDP rebounds in first half of 2021

South Korea's GDP grew by 0.7% quarter-on-quarter (q/q) in the second quarter of 2021, following an increase of 1.7% q/q in the first quarter of 2021. GDP rose by 5.9% year-on-year (y/y) in the second quarter of 2021, compared with growth of 1.9% y/y in the first quarter of 2021.

Continued economic expansion in the second quarter of 2021 was underpinned by strong consumption expenditure growth. Private consumption expanded by 3.5% q/q, compared with growth of 1.2% q/q in the first quarter of 2021. Government consumption spending also strengthened, rising by 3.9% q/q in the second quarter of 2021, compared with growth of 1.6% q/q in the first quarter of 2021. Overall, final consumption expenditure rose by 3.6% q/q in the second quarter, strengthening compared with growth of 1.3% q/q in the first quarter.

Compared to a year ago, final consumption expenditure rose by 4.1% y/y in the second quarter, improving on the 1.5% y/y growth rate in the first quarter. In 2020, final consumption had been in a protracted slump, having recorded four consecutive quarters of negative year-on-year growth. The Ministry of Trade, Industry and Energy released data showing that South Korea's overall retail sales saw year-on-year growth of 11.4 percent in June.

South Korea GDP growth

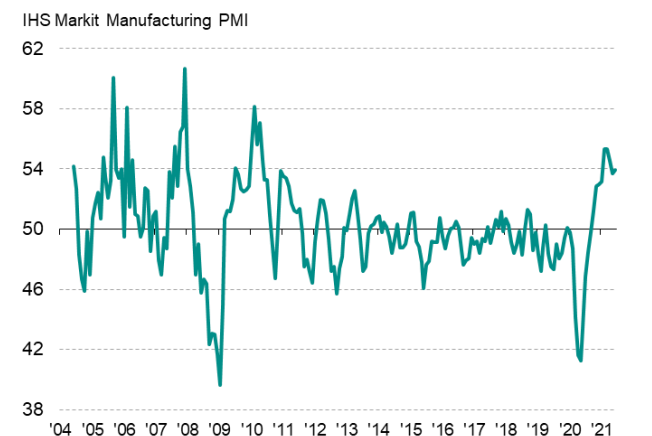


Source: IHS Markit, Bank of Korea.

Manufacturing output grew by 13.7% y/y in the second quarter of 2021, reflecting increasing output of autos, electronic, optical and chemical products, with strengthening business conditions. Auto production rose by 11.5% y/y during the first six months of 2021.

The seasonally adjusted IHS Markit South Korea Manufacturing Purchasing Managers' Index (PMI) edged up to 53.9 in June from 53.7 in May, indicating a further improvement in the health of the manufacturing sector and extending the current sequence of expansionary conditions to nine months.

South Korea Manufacturing PMI

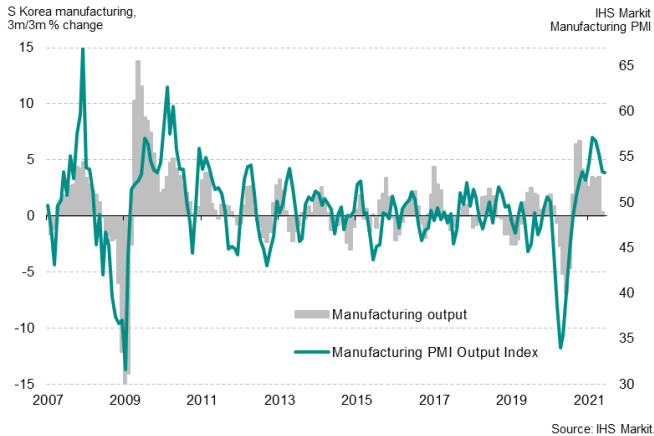


Source: IHS Markit.

A key driver for the rapid expansion in manufacturing output in the first half of 2021 has been the rebound in exports. Stronger economic growth in major economies such as the US, China, EU and UK linked to the rollout of vaccination programs during the first half of 2021 helped to boost South Korean new export orders from its key export markets. South Korean exports rose by 39.7% y/y in June 2021, buoyed by strong growth in

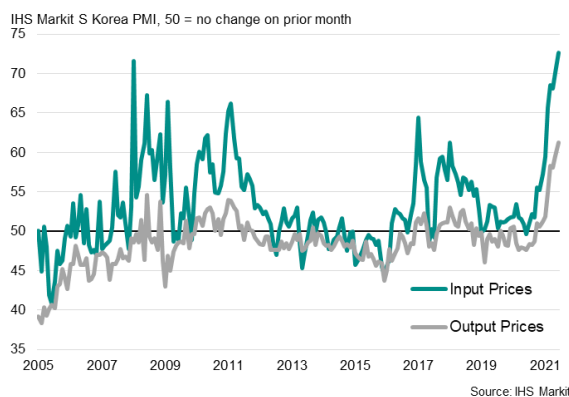
exports of electronics and autos. South Korean auto exports rose by 50% y/y in value terms during the first six months of 2021. Ministry of Trade, Industry and Energy data showed that Korea's exports in the first half of 2021 increased 26% y/y, hitting a record-high value of USD 303 billion.

Korean manufacturing output



In the latest IHS Markit South Korea Manufacturing PMI Survey, manufacturers pointed to a further acceleration in input cost inflation during June. Input price pressures intensified in the latest survey period and were the steepest on record as businesses widely reported sharp rises in the cost of raw materials amid acute shortages. At the same time, South Korean goods producers sought to pass these costs on to clients, resulting in the strongest rise in output prices since the survey began in April 2004.

Korea PMI Input and Output Prices



The Bank of Korea indicated in its Monetary Policy Decision in July 2021 that consumer price inflation will continue to run in the lower- to mid-2% range for some time. Core inflation is forecast to increase gradually to the mid-1% range. The Monetary Policy Board of the Bank of Korea has signalled that it will maintain an

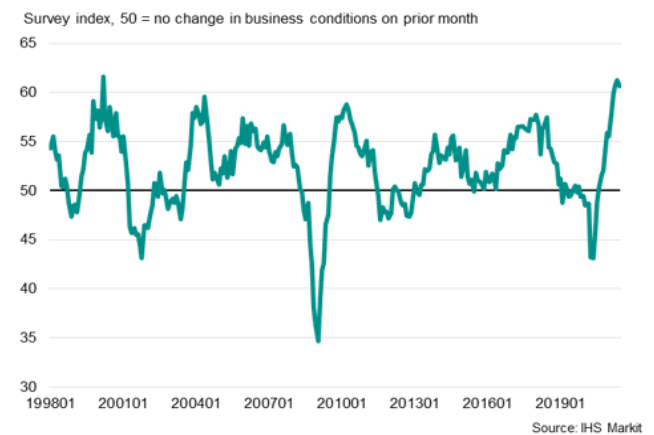
accommodative stance of monetary policy as there remain uncertainties posed by the COVID-19 virus. However, the Korean economy is expected by the BOK to continue its recovery and inflation to remain at a high level for some time. While maintaining accommodative monetary policy in the near-term, the Monetary Policy Board have indicated that they will continue to assess whether it is appropriate to adjust the degree of accommodation.

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.

The strong rebound in world consumer markets, notably in the US, China and Western Europe, are continuing to drive growth in demand for electronics. This is resulting in buoyant growth in household spending on electronics products as well as products that are intensive users of electronics, notably autos.

IHS Markit Global Electronics PMI



The headline seasonally adjusted IHS Markit Global Electronics PMI registered 60.7 in June, continuing to show strong operating conditions, albeit edging down from 61.2 in May. Sharp growth was once again seen across output and new orders, driving another strong rise in employment.

The IHS Markit Global Electronics PMI new orders index meanwhile showed the rate at which demand improved

during June was strong, despite easing slightly from the 17-year high recorded in the previous month.

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 showed strong growth in the first half of 2021 and increased by 29% y/y in June. South Korean semiconductor exports rose by 34% y/y, with exports of memory chips up 31% while exports of system chips rose by 47% y/y. Exports of displays rose by 30% y/y. Exports of computers were up 9.4% y/y while exports of peripheral devices were 19.5% higher.

The strength of South Korean ICT exports in the first half of 2021 has been boosted by rapid growth in exports to the world's largest consumer markets. In June, electronics exports to the US were up 32% y/y, while exports to the EU were up 51% y/y. Electronics exports to China rose by 28% y/y.

ICT exports to Vietnam, which is a key manufacturing hub for South Korean electronics firms, also showed rapid growth of 25% y/y in June, reflecting large exports of intermediate electronics parts and components for final assembly in Vietnam. However, the severe escalation in the new COVID-19 wave in Vietnam during July poses a near-term risk to South Korean exports to Vietnam as well as to the South Korean manufacturing supply chain if Vietnamese industrial production suffers significant disruptions due to the escalating domestic pandemic.

Samsung Electronics stated on 29th July that in Vietnam, there were production disruptions to their operations in certain places due to lockdowns that affected their production. However, the firm managed to minimize the impact by shifting production to other countries in their global supply chain. Samsung Electronics has large-scale manufacturing production operations in Vietnam.

South Korean economic outlook

The near-term outlook for the South Korean economy is for GDP growth to recover to a pace of around 3.8% y/y in 2021, with continued firm expansion at a pace of around 3.0% in 2022. The economic recovery in the first half of 2021 has been driven by consumption growth and merchandise exports. The Bank of Korea has forecast GDP growth in 2021 at around 4%. The South Korean Ministry of Economy and Finance raised its GDP growth forecast for 2021 from 3.2% y/y to 4.2% y/y in June 2021.

However, despite the strong rebound of consumption during the first half of 2021, the escalating COVID-19

wave during July has created downside risks to the near-term outlook.

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. By July 27th, around 35% of the total population had received first dose vaccinations, with 13.6% of the population having received both doses. However, so long as a large share of the population remain unvaccinated against COVID-19, the economy faces continued vulnerability to an escalating wave of COVID-19 cases. The downside risks have intensified particularly due to the increased transmissibility of new strains of the COVID-19 virus that have impacted upon other countries worldwide, including a number of Asian nations.

An additional challenge is that the recovery of South Korean trade in services is expected to be delayed and protracted, as international travel restrictions in the Asia-Pacific region continuing to constrain any early recovery in exports of tourism and commercial aviation, which are an important component of total services exports.

Once vaccination rates reach a high share of the total population, this is expected to support normalization of domestic economic activity, based on the experience of North America and Western Europe.

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.