

Week Ahead Economic Preview

US, China inflation data and Q2 GDP updates in focus

Inflation updates will be due from the US and China in the coming week alongside a series of **Q2 GDP releases**. Several **Fed members** will also be speaking over the course of next week while a **monetary policy meeting** will be held in the Philippines.

Attention turns to the July inflation updates across the world's largest economies, US and China, for an assessment of the price pressures at the start of Q3. July PMI showed the global economy sustaining strong growth, but supply constraints continued to grow at an unprecedented rate, dampening growth and pushing [input cost inflation higher](#).

Besides supply constraints, July PMI data also alluded to the detrimental effects of the Delta variant spread. As global COVID-19 cases crossed the 200 million mark, the weakening economic data are a reminder that the pandemic remains the number one risk to economies in terms of both slower growth and inflation. Mainland China, which had initially been first-in/first-out from COVID-19, reported the highest number of local cases since January and saw new movement restrictions in place, speaking to the threat of the latest wave. The trend with global COVID-19 cases will be worth scrutinising in the coming weeks for potential further disruption to economic conditions.

Finally, a number of Q2 GDP data will also be released next week, including in the UK, where June PMI data showed signs of slowing growth despite easing of restrictions. Several Asian economies will likewise update Q2 GDP figures.

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Inflation data take centre stage amid further signs of rising prices

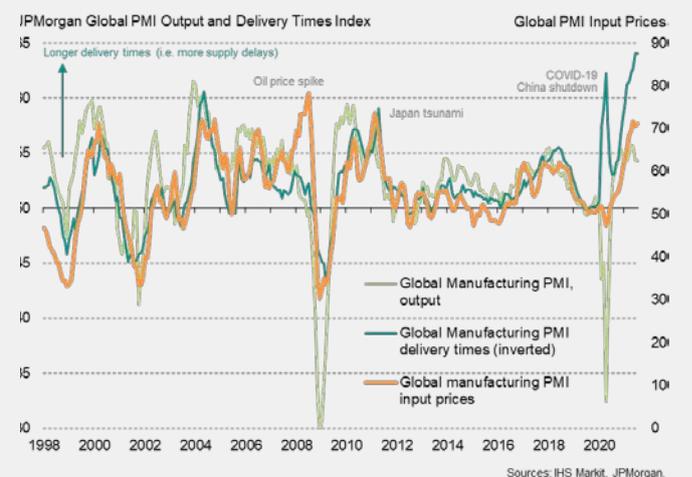
Consumer and producer price inflation data are updated for the US and China and will add further to the debate on whether the recent spike in price pressures is transitory. The data follow news from worldwide PMI surveys that supply delays and higher shipping costs continue to drive up goods prices, which again fed through to higher service sector charges.

Suppliers' delivery times – a key gauge of supply constraints and hence inflationary pressures – lengthened globally during July at a rate unchanged on that seen in June, which had in turn been the most severe ever recorded since PMI data were available in 1998.

Delays were most commonly blamed on the pandemic, with the recent rise of the Delta variant hitting production and shipping out of APAC in particular (see special report on page 4). Global factory production growth has slowed to the lowest since February

Producer input cost inflation has meanwhile accelerated as factories paid more for raw materials and components, with price increases often exacerbated by higher shipping rates. Although slightly below May's recent peak, the latest rise in global input prices was the second-steepest since the global supply shock caused by the Japanese earthquakes of 2011.

Global manufacturing output, prices & supply delays



Production constraints were not confined to supply chain delays, however, with many manufacturers also reporting difficulties finding staff. These labour constraints serve as a reminder that, while materials prices pose the biggest near-term threat to inflation, wages will inevitably dictate the longer-term inflation trend.

Key diary events

Monday 9 Aug

Japan, Singapore market holiday

China (Mainland) CPI, PPI (Jul)
 Malaysia Industrial Output (Jun)
 Germany Trade (Jun)
 Taiwan Trade (Jul)
 Eurozone Sentix Index (Aug)
 United States JOLTS Job Openings (Jun)

Tuesday 10 Aug

Indonesia, Malaysia market holiday

Japan Current Account (Jun)
 Australia NAB Business Conditions (Jul)
 Philippines GDP (Q2)
 Taiwan GDP (Q2)
 Germany ZEW Economic Sentiment (Aug)
 United Kingdom BRC Retail Sales (Jul)
 China (Mainland) Loan Growth, New Yuan Loans, M2 (Jul)

Wednesday 11 Aug

Indonesia market holiday

South Korea Unemployment Rate (Jul)
 Indonesia Retail Sales Index (Jun)
 Germany HICP Final (Jul)
 United States CPI (Jul)

Thursday 12 Aug

Thailand market holiday

Japan Corporate Goods Price (Jul)
 United Kingdom RICS Housing Survey (Jul)
 United Kingdom Quarterly and Monthly GDP, incl.
 Manufacturing, Services and Construction Output (Jun)
 Philippines Policy Interest Rate (12 Aug)
 Eurozone Industrial Production (Jun)
 India CPI and Industrial Output (Jul)
 United States Initial Jobless Claims
 United States PPI (Jul)

Friday 13 Aug

New Zealand Manufacturing PMI (Jul)
 South Korea Export and Import Price Growth (Jul)
 Malaysia Current Account Balance (Q2)
 Malaysia GDP (Q2)
 Hong Kong SAR GDP (Q2, Final)
 Germany Wholesale Price Index (Jul)
 United States Import Prices (Jul)
 United States UoM Sentiment (Aug, Prelim)

What to watch

■ US July CPI data and August consumer sentiment

US July inflation data will be released for a first official indication of how price pressures trended into the third quarter. Consensus expectations point to a moderation of the month-on-month (MoM) reading to 0.5% from 0.9% in June. This is in line with the latest July [IHS Markit US Services PMI](#), which indicated that selling price pressures further eased from the May peak. The overall Composite PMI, however, suggested that price pressures remained elevated in July. Input costs inflation rate was one of the fastest rates on record amid significant supplier delays and material shortages, suggesting it is too early to call an inflation peak.

Also watch out for consumer sentiment data from the University of Michigan to assess how the rise of the Delta variant may be affecting confidence in the US.

■ China July inflation updates

China's July consumer and producer price inflation rates will be released at the start of the week, and look set to present a different picture of inflation trends to that seen in the US. July's [Caixin China General Composite PMI](#) indicated that input costs and output charges rose at faster rates compared to June, suggesting that we may continue finding elevated PPI readings in the upcoming release. But with low pass-through of PPI inflation to CPI in China's case, the picture of consumer price inflation is likely to remain subdued.

■ Q2 GDP data across UK and Asia economies

Second quarter GDP data in the UK and various Asia economies, such as the Philippines, Taiwan, Malaysia and Hong Kong SAR, will be due. With GDP being backward-looking, the numbers are not expected to significantly alter market sentiment, but confirmation of the second quarter's strength globally will be welcomed.

In the UK, the monthly June GDP update follows May data which suggested that the economic rebound slowed even as COVID-19 restrictions were loosened. Amid the increase of COVID-19 cases into June, it will be of interest to observe the June update. The [IHS Markit / CIPS UK Composite PMI](#) showed June private sector output grew at the slowest rate in three months, constrained by labour and supply shortages as well as ongoing caution with respect to the spread of the virus.

Special report:

ASEAN Economies Battered by New COVID-19 Waves

Rajiv Biswas | [page 4](#)

Recent PMI and economic analysis from IHS Markit

Global	Global manufacturing supply constraints continue to develop at record rate	2-Aug	Chris Williamson
	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
Europe	Eurozone manufacturing growth hit by supply shortages, and prices rise ever higher	2-Aug	Chris Williamson
	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
APAC	South Korea Economic Rebound Threatened by New COVID Wave	2-Aug	Rajiv Biswas
	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
Commodities	Weekly Pricing Pulse: Commodity prices dip	28-Jul	Michael Dall

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Special Focus

ASEAN Economies Battered by New COVID-19 Waves

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The economic recovery that was underway in Southeast Asia during the latter part of 2020 and early 2021 has been significantly impacted by new COVID-19 Delta waves that have escalated in many ASEAN nations. This is expected to be a major impediment to the pace of economic recovery in Southeast Asia during the second half of 2021.

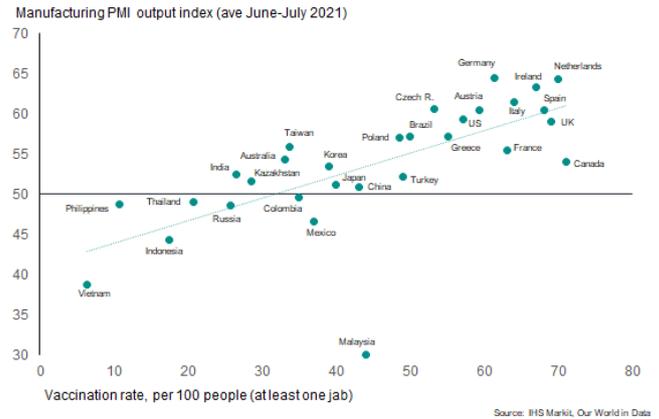
Relatively low COVID-19 vaccination rates in many of the ten member countries of ASEAN have left the region highly vulnerable to the COVID-19 pandemic in the near-term. There are considerable risks around how quickly vaccines can be deployed and how rapidly the pandemic will be brought under control in different ASEAN countries. The key to sustained recovery is expected to be based on achieving much higher vaccination rates and consequent easing of the intensity of the COVID Delta waves sweeping across the region.

ASEAN recovery hit by new COVID waves

As a result of the severe negative impact of the COVID-19 pandemic and widespread lockdowns and travel bans, many ASEAN economies were in deep recession during 2020. The impact of global lockdowns in key markets such as the US and EU also resulted in a sharp slump in exports for many ASEAN nations during the first half of 2020. Among the worst hit economies were the Philippines, Thailand, Malaysia, Cambodia and Singapore, as protracted lockdowns hit industrial production, construction and consumption expenditure. Travel bans across the ASEAN region also hit the international tourism and travel sectors severely.

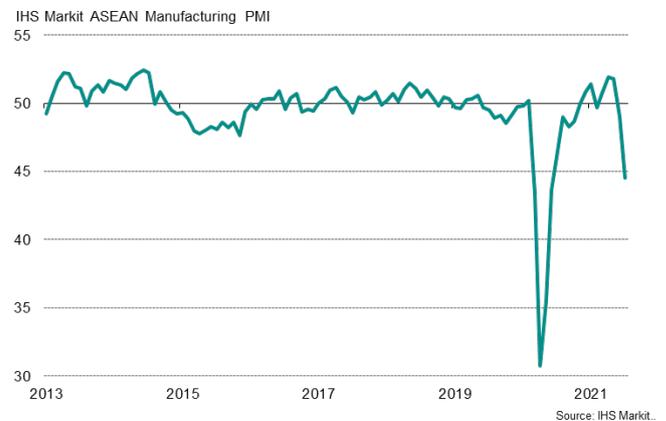
Domestic economic activity showed significant recovery in many ASEAN nations during the second half of 2020 and early 2021, as lockdowns were progressively eased and new export orders strengthened. However, with the onset of new COVID Delta waves in many Southeast Asian nations since April 2021, economic momentum has again weakened in many ASEAN nations.

Manufacturing output growth and vaccination rates



The headline IHS Markit ASEAN Manufacturing PMI sunk to a 13-month low of 44.6 in July, noticeably further into contraction territory than June's reading of 49.0. Rising COVID-19 cases and stricter containment measures saw the ASEAN manufacturing sector fall further into contraction territory during July. The PMI slumped to a 13-month low and signalled a sharp deterioration in conditions amid the quickest reductions in output and new work since May 2020.

ASEAN manufacturing PMI



Consequently, international travel restrictions are still expected to remain a major impediment to the recovery of international tourism and business travel in the ASEAN region during 2021.

The path of recovery is therefore likely to be uneven across different industry sectors, with industries like electronics manufacturing, household consumer products, financial services and information technology likely to be leading the recovery, while the tourism and air transportation sectors are expected to have a more gradual recovery path.

Across the seven ASEAN nations that comprise the IHS Markit ASEAN Manufacturing PMI, five saw business conditions decline during July.

Manufacturing output



Indonesia saw a severe drop in the headline IHS Markit Manufacturing PMI, which fell from 53.5 in June to 40.1 in July, signalling the first contraction since last October. Manufacturing output and new orders both shrank at the fastest pace since May 2020 according to the latest data, thereby ending an eight-month growth streak. Firms highlighted the increase in disruptions arising from the second COVID-19 wave having dampened production and demand.

In Malaysia, the headline Manufacturing PMI figure for July was 40.1, still indicating significant contraction in manufacturing activity. Malaysia's manufacturing sector continued to be badly hit by the ongoing pandemic in July. Production fell sharply for a second successive month as the recent rise in infections and containment measures associated with the Delta variant both dampened demand and disrupted supply chains. Both domestic demand and export orders fell sharply.

Vietnam has also recorded a significant decline in its Manufacturing PMI during June and July, due to its escalating domestic pandemic. The July reading of 45.1 still signalled a significant contraction in manufacturing activity. The IHS Markit Vietnam Manufacturing Purchasing Managers' Index was at 45.1 in July, still indicating contractionary manufacturing conditions. Anecdotal evidence from manufacturers highlighted the impact that the latest COVID-19 outbreak has had on operations. Some firms have been forced to close temporarily, while others are having to operate with reduced capacity due to social distancing measures.

The most severe rate of contraction was registered in Myanmar, where the headline PMI fell by a notable eight

points in July as businesses were again forced to close due to rising virus case numbers. Myanmar's economy had already been severely hit during the first half of 2021 following the military coup and widespread subsequent protests which have heavily disrupted economic activity.

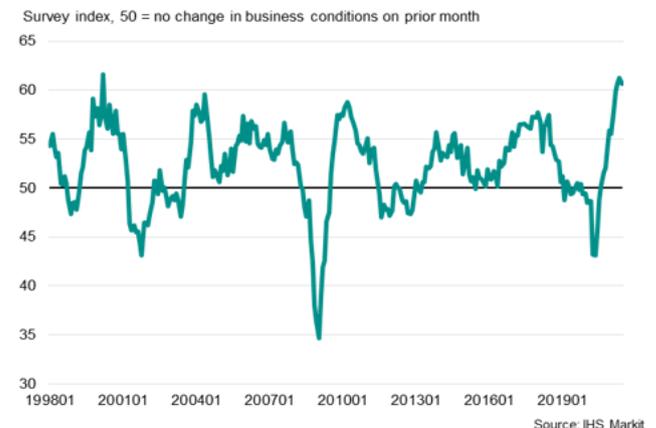
Escalating COVID waves create risks for electronics exports

The electronics manufacturing industry is an important part of the manufacturing export sector for many ASEAN economies, including Malaysia, Singapore, Philippines, Thailand and Vietnam. Furthermore, the electronics supply chain is highly integrated across different economies, with China being an important supplier of intermediate electronics parts for a number of Southeast Asian electronics sectors.

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.

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 rose from a low of 35.0 in May 2020 to a level of 61.5 in June 2021. The rate at which demand improved during June was strong, despite easing slightly from the 17-year high recorded in the previous month.

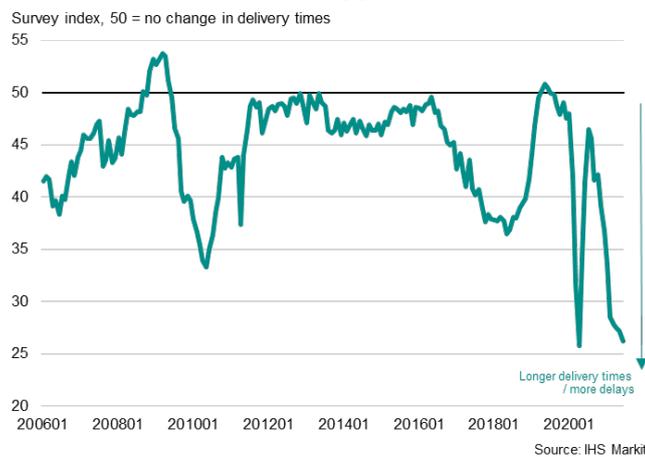
IHS Markit Global Electronics PMI



However, in Southeast Asia, rising new COVID waves in Malaysia, Thailand and Vietnam, all of which have significant electronics manufacturing hubs, are creating risks of disruption to electronics production and to global manufacturing supply chains.

Samsung Electronics has reported that in Vietnam, which is a key electronics manufacturing hub for the firm, there were production disruptions in certain places during the second quarter of 2021 due to lockdowns that affected operations. However, the firm managed to mitigate the disruptions by shifting production to other parts of their global manufacturing supply chain.

Global Electronics PMI, supplier lead times



ASEAN economic outlook

The ASEAN region faces considerable challenges with its vaccination programs due to low current vaccination rates in many countries, problems with accessing vaccine supplies and also the very large size of the population in many nations, notably in Indonesia, Philippines and Vietnam.

The exception is Singapore, which has already achieved one of the highest vaccination rates in the world by end-July 2021. Other ASEAN nations with relatively small populations by global standards – notably Brunei, Cambodia and Laos – may be able to rapidly vaccinate their populations if they are able to embark on intensive vaccination programs, due to the relatively low number of total vaccine doses required for their populations.

Despite the favourable economic outlook for global economic recovery in 2021, the speed at which different ASEAN nations emerge from the pandemic is likely to vary considerably, depending on many factors including the size of population, access to large supplies of COVID-19 vaccines and ability to deploy large-scale immunization programs. The effectiveness of different

types of COVID-19 vaccines is also an important issue that could affect the timing of recovery from the pandemic. There are also other critical unknown factors, including the duration of effectiveness of vaccinations for the various key vaccines that are being deployed.

The central case economic scenario for 2021 continues to be positive, with the world economy gradually emerging from the pandemic, led by the US, EU, China and the UK. However, the ASEAN region's economic rebound in 2021 has been significantly dampened by new waves of COVID Delta, with further downside risks to the near-term outlook due to the escalating COVID waves. Economic growth momentum is expected to improve in 2022, as vaccination programs reach a much higher share of the total population of the more populous Southeast Asian nations.

Despite the economic rebound expected in 2022, most ASEAN countries will face the medium-term challenge of fiscal consolidation. This reflects the very high levels of government expenditure during 2020-21 on fiscal stimulus measures related to the pandemic, which has resulted in a significant increase in government debt as a share of GDP across the ASEAN region.

Over the long-term, despite the severe recession caused by the COVID-19 pandemic, the ASEAN region is expected to continue to be one of the fastest growing regions of the world economy. Total ASEAN GDP is forecast to more than double over the next decade, increasing from USD 3 trillion in 2020 to USD 6.8 trillion by 2030. Over the next decade, the ASEAN region will be one of the three main growth engines of the APAC region, together with China and India.

ASEAN GDP Growth in 2021

