

Week Ahead Economic Preview

August flash PMIs, US core PCE and GDP updates

August flash PMIs will offer updates on economic conditions at the crossroads of improving COVID-19 vaccination rates and the spread of the Delta variant. US economy watchers will also be kept especially busy with a string of official economic data, including **US July core PCE figures and the second Q2 GDP estimate**, as well as the Fed's **Jackson Hole symposium** on 26-28 August. Central bank watchers will also be eyeing the **monetary policy meeting** in South Korea.

Fed watchers' attention turns to the Jackson Hole symposium after the minutes of the FOMC July rattled the markets with policymakers further clearing the path to tapering. The flash PMI and core CPI releases will add further colour to the Fed's taper path. Weak readings could dispel some of the taper concerns, especially if the PMI shows rising virus case numbers via the Delta variant hitting the economy again, but solid readings could add to the unease in the market about a sooner than previously anticipated taper.

In Europe, growth cooled in July according to the PMIs after especially strong second quarters, so the August data will be important in assessing the extent to which these rebounds are being sustained or if rising infection rates are further dampening activity, as well as the extent to which shortages and capacity constraints are driving up prices.

Over in Asia, Japan and Australia's flash PMIs will be assessed for the impact of a sustained spread of the COVID-19 Delta variant in August, with both countries continuing to struggle to contain COVID-19 outbreaks.

Chris Williamson

Chief Business Economist,
IHS Markit

chris.williamson@ihsmarkit.com

Jingyi Pan

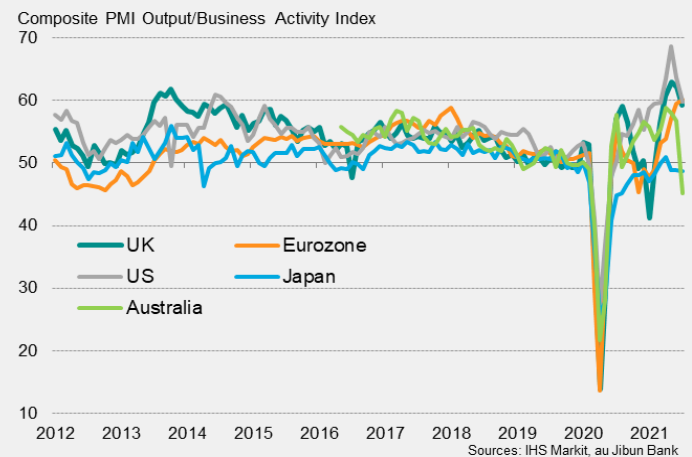
Economics Associate Director
IHS Markit

jingyi.pan@ihsmarkit.com

Get the Week Ahead Economic Preview direct via email:

Email economics@ihsmarkit.com to join our distribution list.

Recapping on the PMI surveys ahead of August flash data



[July's flash PMI surveys](#) showed the **eurozone** overtaking the US to report the strongest overall expansion for the first time since the pandemic began, outperforming more markedly in terms of manufacturing output growth but also being the only one of the four largest developed economies to report improved service sector growth during the month. The increase in eurozone output was the strongest for 15 years.

Growth meanwhile continued to cool in both the **US and UK**, albeit merely down from record peaks in May. In both cases growth remained elevated and among the highest seen in the survey histories. Capacity constraints were more widely reported during the month, however, with the UK seeing Brexit-related issues exacerbating COVID-related supply and labour shortages, contributing to the slowdown in growth.

In **Japan**, business activity fell for a third month running, as a deepening COVID-driven contraction of service sector output offset a modest upturn in manufacturing.

Australia tightened up its lockdown measures to likewise fight the rise of the Delta variant, resulting in a steep downturn of business activity. Services were especially hard hit.

In fact a common theme across all surveys was a cooling of confidence about the year ahead, with companies reporting growing concerns over the spread of the Delta variant. One concern is that this drop in confidence could feed through to reduced spending, investment and hiring, adding to the possibility that growth could slow further in coming months.

Another concern is that rising Delta-variant infections will hit supply chains in the Asia Pacific region in particular, which could mean supply shortages could persist for longer, meaning sticker upward price pressures.

Key diary events

Monday 23 Aug

Australia IHS Markit Flash PMI, Manufacturing & Services*
 UK CIPS/IHS Markit Flash PMI, Manufacturing & Services*
 Germany IHS Markit Flash PMI, Manufacturing & Services*
 France IHS Markit Flash PMI, Manufacturing & Services*
 Eurozone IHS Markit Flash PMI, Manufacturing & Services*
 US IHS Markit Flash PMI, Manufacturing & Services*
 Singapore CPI (Jul)
 Thailand Manufacturing Production (Jul)
 Taiwan GDP (Q2, revised)
 Taiwan Industrial Output and Jobless Rate (Jul)
 Eurozone Consumer Confidence (Aug, flash)
 United Kingdom CBI Trends - Orders (Aug)
 United States Existing Home Sales (Jul)

Tuesday 24 Aug

New Zealand Retail Sales (Q2)
 Thailand Customs-Based Trade Data (Jul)
 Germany GDP (Q2)
 United States New Home Sales (Jul)

Wednesday 25 Aug

New Zealand Trade Balance (Jul)
 Australia Construction Work Done (Q2)
 Malaysia CPI (Jul)
 Germany Ifo Business Climate New (Aug)
 United Kingdom CBI Distributive Trades (Aug)
 United States Durable Goods (Jul)

Thursday 26 Aug

South Korea Bank of Korea Base Rate (Aug)
 Australia Capital Expenditure (Q2)
 Singapore Manufacturing Output (Jul)
 Germany GfK Consumer Sentiment (Sep)
 Eurozone M3 Annual Growth (Jul)
 United States GDP (Q2, 2nd estimate)
 United States Initial Jobless Claims

Friday 27 Aug

Japan CPI Tokyo (Aug)
 Australia Retail Sales (Jul, final)
 China (Mainland) Industrial Profit (Jul)
 Malaysia Trade (Jul)
 United States Personal Income and Consumption (Jul)
 United States Core PCE Price Index (Jul)
 Canada Producer Prices (Jul)
 United States UoM Sentiment (Aug, final)

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

What to watch

■ Flash PMI surveys for August

Flash PMI surveys will be released on Monday for a first look into August economic conditions across the US, eurozone, UK, Japan and Australia. July PMIs affirmed the fact that the global economy continued to grow at a solid rate in July, although the momentum eased further from the 15-year high seen in May. This takes place amid the resurgence of COVID-19 cases, underpinned by the spread of the Delta variant. At the same time, worsening supply conditions and rising prices were also evident through the PMI sub-indices such as the [suppliers' delivery times index](#). The upcoming flash data will be assessed, particularly on growth and price pressures, amid the mixed influence of better vaccine rates and deteriorating COVID-19 conditions globally.

■ US Q2 GDP (2nd estimate) and July core PCE data

July core PCE data will be updated on Friday, following the second estimate for US Q2 GDP on Thursday. The Fed's preferred inflation gauge comes on the heels of the July core CPI reading, which came in below consensus at 0.3%, moderating from June in line with early signals from the PMI price gauges. Since the strong July jobs report, the CPI miss had been welcome news for the market, allaying fears that the high inflation rate could spur the Fed to act. The upcoming core PCE update will be watched for whether the same may be the case with the Fed's closely watched inflation measure. Refinitiv consensus currently points to 0.4% for core PCE and 6.6% for the second estimate of Q2 GDP.

■ Bank of Korea monetary policy meeting

Central bank meetings will be few and far between next week though the Bank of Korea is one to watch. The BoK indicated intentions to maintain an accommodative stance amid COVID-19 uncertainties, though also sees the economic recovery being sustained. While elevated COVID-19 cases may keep the BoK from adjusting policy in August, the meeting will be eyed for signs that support for a hike before the year-end is mounting.

■ German GDP and European sentiment surveys

Besides the flash PMI numbers, Europe also sees the second estimate of Q2 GDP for Germany and the European Commission sentiment surveys. Eyes will be on the impact of the ongoing pandemic on supply constraints and consumer confidence in particular.

Special report:

Taiwan's Export Boom Drives Strong

GDP Growth Rajiv Biswas | [page 4](#)

Recent PMI and economic analysis from IHS Markit

Global	Understanding... PMI backlogs of work: a key indicator of capacity utilisation, providing insights into investment, hiring and inflation	12-Aug	Chris Williamson
	Monthly PMI Bulletin: August 2021	10-Aug	Chris Williamson, Jingyi Pan
	New virus waves dampen global economy, hit supply and push prices higher	6-Aug	Chris Williamson
	Global economic recovery remains driven by consumer services while basic materials output lags	5-Aug	Jingyi Pan
	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
Europe	Case study: Lessons from 2017 in using PMI data to map Eurozone GDP revisions	18-Aug	Chris Williamson
	Case study: PMI data sent early signals of GFC impact on Eurozone GDP	18-Aug	Chris Williamson
	Italian economy looks set for sustained growth through remainder of 2021 as lockdown measures ease	12-Aug	Lewis Cooper
	Inflationary pressures build as shortages cause prices to soar in Czech Republic	10-Aug	Sian Jones
	Eurozone manufacturing growth hit by supply shortages, and prices rise ever higher	2-Aug	Chris Williamson
APAC	Lockdown hits consumer services activity in Australia, but tech sector continues strong growth run	18-Aug	David Owen
	Philippines Economic Rebound Hit by New COVID-19 Wave	12-Aug	Rajiv Biswas
	South Korea Economic Rebound Threatened by New COVID Wave	2-Aug	Rajiv Biswas
Commodities	Weekly Pricing Pulse: Commodity prices down as iron ore market correction continues	18-Aug	Michael Dall

For further information:

For more information on our products, including economic forecasting and industry research, please visit the Solutions section of www.ihsmarket.com

For more information on our PMI business surveys, please visit www.ihsmarket.com/products/PMI

[Click here](#) for more PMI and economic commentary

Follow our latest updates on twitter at [@IHSMarketPMI](https://twitter.com/IHSMarketPMI).

The intellectual property rights to the report are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data.

Purchasing Managers' Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd

Special Focus

Taiwan's Export Boom Drives Strong GDP Growth

Rajiv Biswas

Asia Pacific Chief Economist, IHS Markit

Email: rajiv.biswas@ihsmarkit.com

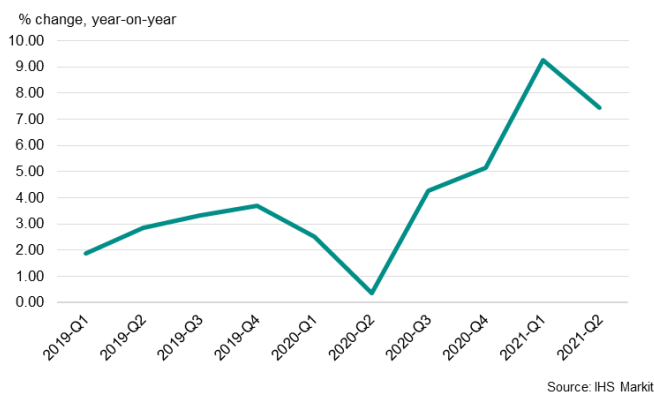
The combination of success in containment of domestic COVID-19 pandemic cases combined with rapid growth in exports resulted in Taiwan recording positive GDP growth of 3.1% in 2020. Helped by strong exports from the electronics sector, Taiwan's GDP is forecasted to grow by 6.0% in calendar year 2021, which would be the fastest pace of economic expansion since 2010.

Escalating new COVID-19 cases dampens recovery

The latest statistics for the second quarter of 2021 showed that Taiwan's GDP grew by 7.4% year-on-year (y/y), following the 9.3% y/y growth rate recorded in the first quarter of 2021. Overall, Taiwan's GDP rose by 8.2% y/y in the first half of 2021 compared to the same period a year ago.

A key factor supporting the rapid GDP growth rate in the second quarter was strong expansion in electronics exports. Total exports grew by 22.6% y/y in the second quarter of 2021, helped by strong global demand for semiconductors and other critical electronics components. Consequently, net external demand contributed 5.1 percentage points to overall GDP growth in the second quarter.

Taiwan GDP Growth Rate, 2019-2021



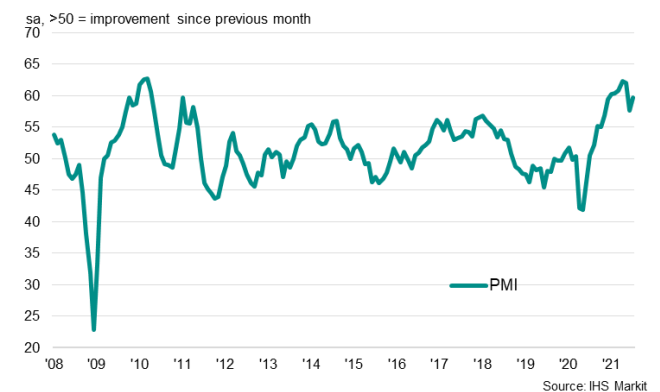
Gross fixed capital formation also posted rapid growth of 11.9% y/y in the second quarter, contributing a further 2.9 percentage points to total GDP growth.

However, due to a temporary escalation of new COVID-19 cases during the second quarter, restrictive measures resulted in a significant weakening in private consumption, which contracted by 0.4% y/y. As daily new COVID-19 cases have fallen to very low levels again during the latter part of July and the first half of August, the situation had substantially improved so far during the third quarter.

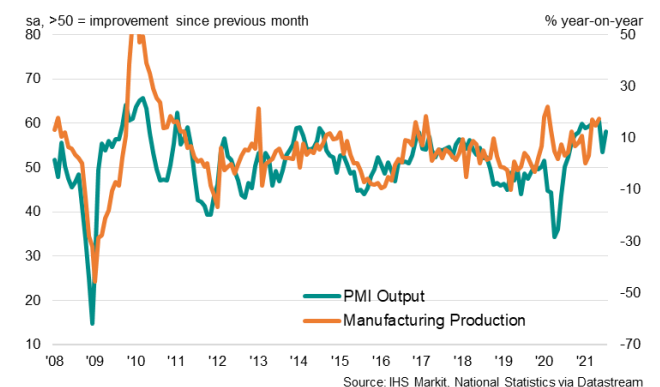
On an industry sector basis, manufacturing posted rapid growth of 16.4% y/y in the second quarter of 2021, with overall industrial production growing by 15.0% y/y. However, due to the impact of the pandemic on consumer spending, service sector growth was weak, growing by only 3.9% y/y.

Reflecting continued buoyant manufacturing exports, the IHS Markit Taiwan Manufacturing Purchasing Managers' Index (PMI) rose from 57.6 in June to 59.7 in July. The July reading signalled a marked improvement in operating conditions and indicated another strong expansion of the manufacturing sector.

Taiwan Manufacturing PMI



Taiwan PMI Output Index vs Manufacturing Production



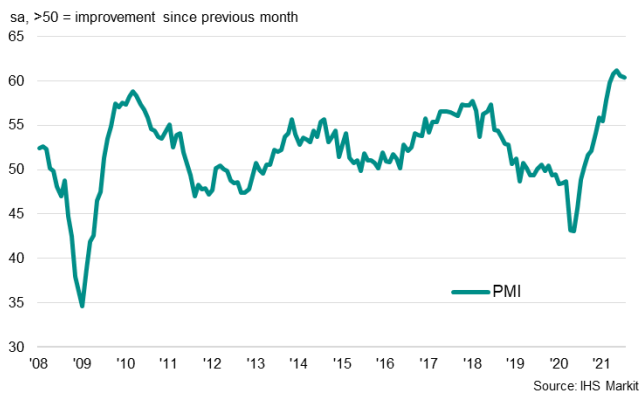
The Taiwan PMI showed that production rose sharply overall, with the rate of growth accelerating notably from June, albeit below that seen earlier in the year. The upturn was supported by a steeper rise in total new orders. Export orders rose rapidly, with companies mentioning improved sales across Western Europe and the US in particular. Taiwan's exports to the US rose by 28% y/y in July, according to trade statistics.

Electronics exports

Taiwan's total exports rose by 34.7% y/y in July, according to latest trade statistics, helped by strong semiconductors exports, which were up 34.3% y/y. The rapid economic rebound in the US, EU and mainland China have helped to boost global electronics demand during the first seven months of 2021.

The headline IHS Markit Global Electronics PMI recorded 60.4 in July, consistent with a strong expansion of the global electronics sector. With global demand growing rapidly, electronics firms worldwide expanded output at the fastest rate in over 11 years in July. Global electronics new orders continued to show strong expansion in July, signalling continued buoyant conditions for the electronics industry for the remainder of 2021.

Global Electronics PMI



The global shortage of semiconductors has meanwhile driven up capital expenditure plans by Taiwan's semiconductors manufacturing firms, helping to boost Taiwan's total private investment spending in 2021-22. Taiwan's TSMC, the world's largest chipmaker, has announced plans to increase capital spending on production and development of advanced chips to a range of USD 25 billion to USD 28 billion in 2021, a 60% increase on 2020. TSMC plans capital expenditure of USD 100 billion over the next three years to increase semiconductors capacity. A USD 12 billion investment in new production capacity in Arizona has also been

announced, with additional expansion in the US expected.

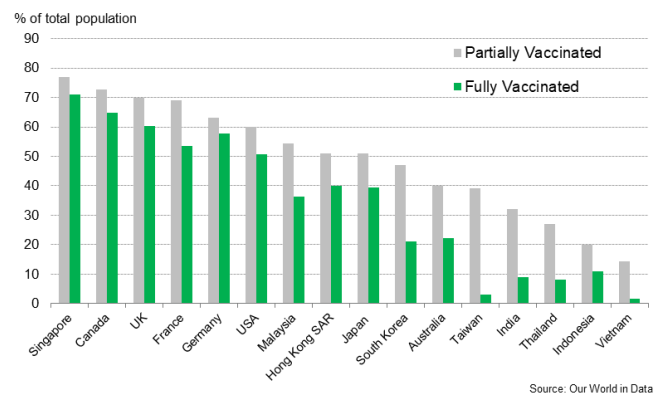
Taiwan's UMC, which also manufactures chips, is operating its semiconductors plants at full capacity, and plans to lift spending on new capital equipment by around 50% in 2021 in order to increase capacity.

Progress of vaccine rollout

Taiwan's COVID-19 vaccination rollout started significantly later than the US and Western Europe, with the initial pace of vaccinations also relatively slow. However, the pace of vaccinations has improved in recent months, with an estimated 38.6% of the total population having received their first dose vaccinations by mid-August. Still, Taiwan's first dose vaccination rate is still well below the highly vaccinated economies in its first dose vaccination rollout. For example, by mid-August, Singapore has reached a first dose vaccination rate of 77%, while the UK was at 70% and France at 68%.

However, when statistics are compared for the total share of population who have received their second dose vaccinations, Taiwan's vaccination performance lags far behind many other industrial economies. Taiwan's share of population vaccinated had reached only 2.9% by mid-August, far lower than second dose vaccination rates in Western Europe, the US and many Asia-Pacific industrial economies.

COVID-19 Vaccination Rates, Mid-August 2021



This has continued to leave Taiwan relatively vulnerable to further new COVID-19 waves, particularly of highly transmissible virus strains, until the vaccination rate ramps up to a much higher share of the total population.

Economic outlook for 2021-22

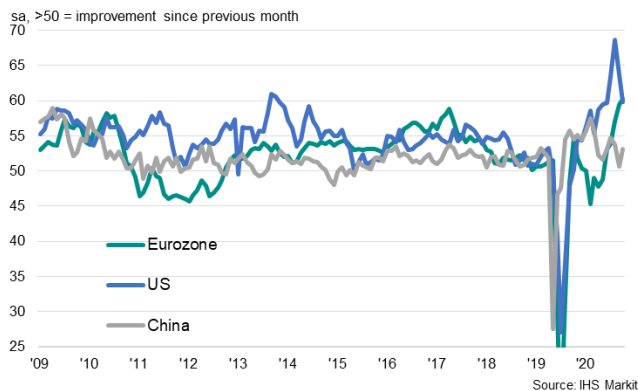
Taiwan's Directorate General of Budget, Accounting and Statistics latest estimate for GDP growth in

calendar 2021 is 5.9% y/y, with GDP growth forecast at 3.7% y/y for 2022.

The forward looking sentiment gauge from the latest IHS Markit Taiwan Manufacturing PMI survey for July indicated that Taiwanese manufacturers remained upbeat that production would rise over the next 12 months. This reflected expectations that the impact of the pandemic would subside, and global economic conditions would continue to recover over the next twelve months.

During the first three quarters of 2021, global electronics demand has recovered significantly from the lows of the first half of 2020 when lockdowns disrupted production and consumer spending. Strong economic momentum in the US, EU and mainland China have been key drivers of rapid growth in Taiwan's exports. With continued global economic recovery expected during the course of 2022 as COVID-19 vaccines are progressively rolled out, global demand for electronics products is expected to be remain strong during the remainder of 2021 and in 2022.

Composite PMI Output



The impact of the pandemic has accelerated the pace of digital transformation due to the global shift to working remotely, which has boosted demand for electronic devices such as computers, printers and mobile phones. The easing of lockdowns in many countries has also triggered a rebound in consumer spending, helping to boost demand for a wide range of consumer electronics. Meanwhile auto demand has also shown a rebound after slumping during the first half of 2020, which is boosting demand for auto electronics.

The medium-term economic outlook is also supportive for the electronics industry, with sustained strong world economic growth forecast over 2022-2024. The outlook for electronics demand is also supported by major technological developments, including 5G rollout over the next five years, which will drive demand for 5G mobile phones. Demand for industrial electronics is also

expected to grow rapidly over the medium term, helped by Industry 4.0, as industrial automation and the Internet of Things boosts rapidly growth in demand for industrial electronics. These factors underpin the medium-term outlook for Taiwan's electronics sector exports and capital expenditure, which will be key drivers of economic growth.

A key geopolitical risk to the medium-term outlook is from any further escalation in cross-Strait military tensions. Taiwan remains one of the key potential geopolitical flashpoints in the Asia-Pacific region. Furthermore, global manufacturing supply chains face significant vulnerability to risks of semiconductors supply disruptions from Taiwan, given its role as a major global electronics production hub, notably for advanced semiconductors. Military tensions in the Taiwan Strait and South China Sea have escalated during 2021, highlighting these vulnerabilities.