

Week Ahead Economic Preview

Stagflation clues sought from key official data releases

A busy week of economic releases is lined up ahead with US and UK **August inflation** numbers to watch. US and China will also be updating their **retail sales and industrial production** figures amid varying degrees of COVID-19 disruption. **Employment data** in the UK and Australia will also be of interest.

After PMI data showed [global economic growth slowed in August to the lowest since January](#), the coming week sees some key official data releases to add colour to the global economic picture.

From the manufacturing perspective, production performance will be tracked in the week ahead via industrial output data for the US, China and the Eurozone, with hints sought as to how factories are coping with record supply disruptions.

From a consumer angle, retail sales data for the US and China will be scoured for insights into the extent to which the further spread of the COVID-19 Delta variant likely cooled spending, as hinted at by business activity growth in the service sector continuing to wane globally in August

Following the US jobs report disappointment, UK and Australia will also update employment data from two ends of the globe. While the former has seen its composite PMI employment index hit a record high, buoyed by the winding down of the furlough scheme, the latter's has fallen for the first time in ten months as COVID-19 continued to hit the economy.

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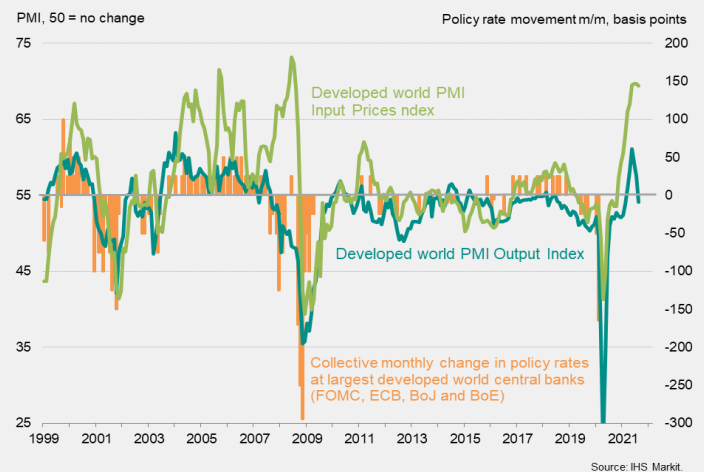
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Growth slows but prices keep rising

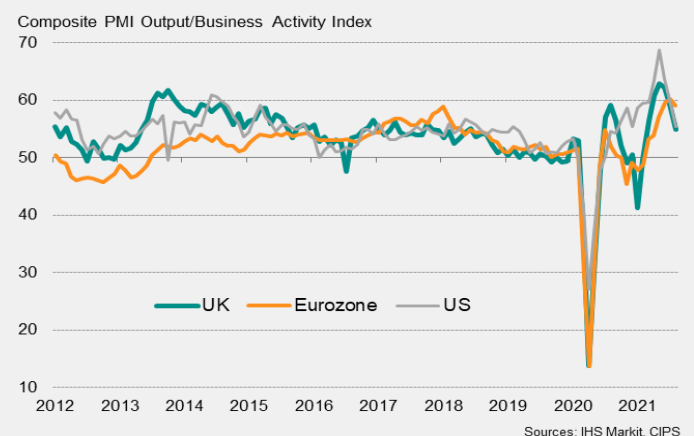
Official industrial production, retail sales and inflation data for some of the world largest economies are updated and will add to the current discussion of whether the global economy is heading towards stagflation, undermining the case for policy tapering.

Like the ECB, which reigned in its asset purchases at its September policy meeting, the US Fed and Bank of England have raised the possibility of imminent policy tapering, but data PMI for both economies and US non-farm payrolls have since disappointed as the Eurozone PMI has outperformed. Price pressures have meanwhile shown few signs of abating to any significant degree despite the economic growth slowdown. A concern is that sustained price growth will lead to higher wage inflation, in turn pushing some central banks into a tapering of monetary policy which could exacerbate a Delta-wave slowdown. This week's data will therefore be important in assessing whether the BoE and FOMC might put taper plans on hold for a while.

Monetary policy and the PMI



Eurozone leads US and UK in PMI output comparisons



Key diary events

Monday 13 Sep

Japan Corporate Goods Price (Aug)
Singapore Unemployment Rate (Q2)
Hong Kong Industrial Production (Q2)
India CPI Inflation (Aug)

Tuesday 14 Sep

Australia Home Price Index (Q2)
Japan Industrial Output (Jul)
United Kingdom ILO Unemployment Rate, Employment Change, Vacancies and Earnings (Jul/Aug)
India WPI Inflation (Aug)
United States CPI (Aug)
Canada Manufacturing Sales (Jul)

Wednesday 15 Sep

Japan Machinery Orders (Jul)
South Korea Export and Import Growth (Aug)
South Korea Unemployment (Aug)
China (Mainland) Retail Sales, Industrial Output, Urban Investment (Aug)
Indonesia Trade Balance (Aug)
United Kingdom Inflation (Aug)
Eurozone Industrial Production (Jul)
United States NY Fed Manufacturing (Sep)
United States Import Prices (Aug)
Canada CPI Inflation (Aug)
United States Industrial Production (Aug)

Thursday 16 Sep

Malaysia Market Holiday
New Zealand GDP (Q2)
Japan Trade Balance (Aug)
Australia Employment and Unemployment Rate (Aug)
Canada House Starts (Aug)
United States Initial Jobless Claims
United States Retail Sales (Aug)
Canada Wholesale Trade (Jul)
United States Business Inventories (Jul)

Friday 17 Sep

New Zealand Manufacturing PMI (Aug)
Singapore Non-Oil Exports (Aug)
United Kingdom Retail Sales (Aug)
Eurozone HICP (Aug, final)
United States UoM Sentiment (Sep, prelim)

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

What to watch

- **US CPI, industrial production and retail sales data**
The US August consumer price index reading is due ahead of industrial production and retail sales data. Refinitiv consensus currently points to an August CPI of 0.4% month-on-month, little changed from the elevated July reading. This is largely in line with the trend seen with the [IHS Markit US Composite PMI](#).

Separately, US industrial production growth likely slowed in August. According to the [IHS Markit US Manufacturing PMI](#), material and labour shortages curbed output growth. Retail sales meanwhile are expected to remain in month-on-month contraction according to consensus, linked in part to the spread of the Delta variant.
- **China retail sales and industrial output**
China's August retail sales, investment and industrial production data will be released midweek. August's [Caixin PMI](#) pointed to a renewed drop in manufacturing output and new orders, suggesting we may be seeing softer month-on-month readings for industrial production. Retail sales meanwhile may be set for a weak reading amid the resurgence of COVID-19 cases domestically, which sent the [Caixin China General Services PMI](#) into contraction for the first time since April 2020.
- **UK inflation, retail sales and employment data**
In the UK, July employment and August inflation data will be the key releases. Price pressures have remained marked as shortages led to a sellers' market for many goods and services. Employment has meanwhile surged as the furlough scheme is withdrawn, despite [staff shortages having worsened, according to IHS Markit data, accompanied by faster pay growth](#).
- **Eurozone industrial production**
Official production data will be eyed for the extent to which Europe's factories are being constrained by supply shortages, after PMI data showed production lagging behind orders to a record extent in recent months.
- **Australia August employment data**
Australia will update August employment data on Thursday. July data indicated that the jobs market softened amid widespread COVID-19 lockdowns. The latest [IHS Markit Australia Composite PMI](#) employment sub-index fell into contraction, led by the service sector.

Special report:

APAC Electronics Industry Hit by Escalating Supply Chain Disruptions

Rajiv Biswas | [page 4](#)

Recent PMI and economic analysis from IHS Markit

Global	Monthly PMI Bulletin: September 2021	8-Sep	Chris Williamson, Jingyi Pan	
	Delta wave hits hospitality, autos, tech and construction, boosts healthcare	7-Sep	Chris Williamson	
	Global economic growth slows sharply as Delta variant hits businesses, pushing emerging markets into decline	6-Sep	Chris Williamson	
	Emerging markets bearing brunt of latest COVID-19 Delta wave impact	3-Sep	Jingyi Pan	
	Global manufacturing growth at lowest for 14 months as supply chains worsen amid Delta variant spread, price pressures hold close to decade highs	2-Sep	Chris Williamson	
	Eurozone leads as US and UK growth wanes, Japan and Australia contract	23-Aug	Chris Williamson	
	Understanding... PMI backlogs of work: a key indicator of capacity utilisation, providing insights into investment, hiring and inflation	12-Aug	Chris Williamson	
	Europe	UK construction activity hit by unprecedented shortages and cost pressures	7-Sep	Chris Williamson
		Case study: anticipating the UK recession during the global financial crisis	25-Aug	Chris Williamson
		Eurozone flash PMI holds close to 15-year high in August, job market booms	23-Aug	Chris Williamson
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	
APAC	Asia economic downturn spreads as supply constraints hit more sectors	8-Sep	Jingyi Pan	
	ASEAN Economies Hit Hard by Escalating Covid Delta Waves	3-Sep	Rajiv Biswas	
	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	
Commodities	Weekly Pricing Pulse: Commodity prices decline on iron ore weakness	8-Sep	Michael Dall	

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Special Focus

APAC Electronics Industry Hit by Escalating Supply Chain Disruptions

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The new COVID-19 waves in East Asian electronics manufacturing hubs such as Vietnam, South Korea, Malaysia and Thailand have further increased supply chain disruptions at electronics plants due to escalating domestic pandemics. The latest IHS Markit Global Electronics Purchasing Managers' Index for August showed that global electronics manufacturers continued to face severe delays in receiving ordered inputs from suppliers. The rate at which lead times lengthened in August was again one of the highest on record and unprecedented prior to the COVID-19 pandemic.

The strength of global electronics demand is continuing to exacerbate semiconductors shortages for some manufacturing industries, notably the global automotive sector. Meanwhile, supply chain disruptions to semiconductors production have also impacted on the situation. Furthermore, the August IHS Markit Global Electronics survey continued to show evidence of sharp increases in electronics industry input prices as well as output prices, mainly due to shortages of essential raw materials.

Global electronics industry continues to show strong expansion

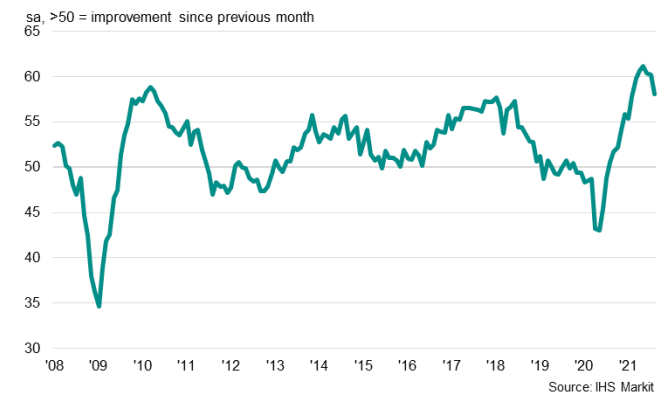
The strong rebound in world consumer markets, notably in the US, China and Western Europe, are continuing to drive the growth in demand for electronics. This is resulting in buoyant growth in household spending on electronics products as well as products that are intensive users of electronics, notably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

The headline seasonally adjusted IHS Markit Global Electronics PMI posted 58.1 in August, moderating from 60.2 in July but still signalling strongly expansionary operating conditions for global electronics manufacturers.

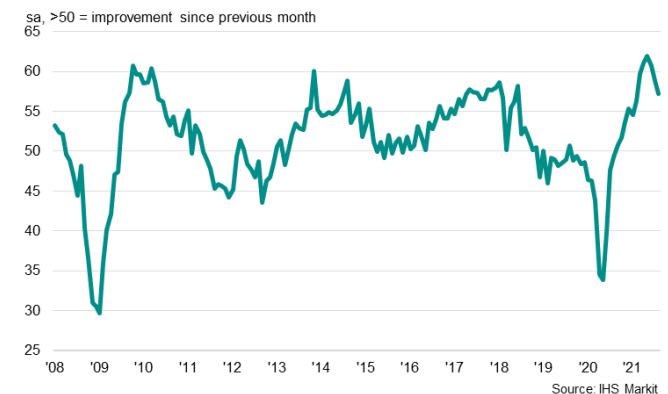
Global electronics manufacturers continued to record expansionary conditions for new orders in August,

although the rate of expansion eased for the third month running. The IHS Markit Global Electronics PMI new orders index was at a level of 57.2 in August 2021, compared with a low of 35.0 in May 2020 when many of the world's largest consumer markets were in lockdown. In the August 2021 survey, anecdotal evidence pointed to ongoing increases in demand for semiconductors from around the world, with shortages of materials leading customers ramp up efforts to secure inventories of critical electronics items.

Global Electronics PMI



Global Electronics PMI New Orders Index



The electronics sector rebound has made an important contribution to the recovery of manufacturing exports and industrial production in many East Asian industrial economies. The electronics manufacturing industry is an important part of the manufacturing export sector for many Asian economies, including South Korea, China, Japan, Malaysia, Singapore, Philippines, Taiwan, Thailand and Vietnam. Furthermore, the electronics supply chain is highly integrated across different economies in East Asia.

Global electronics demand has risen strongly due to the global shift to remote working and online shopping. This has resulted in surging demand for consumer electronics products such as laptops, mobile phones and wearables.

China's total merchandise exports for the first seven months of 2021 continued to show strong growth, rising

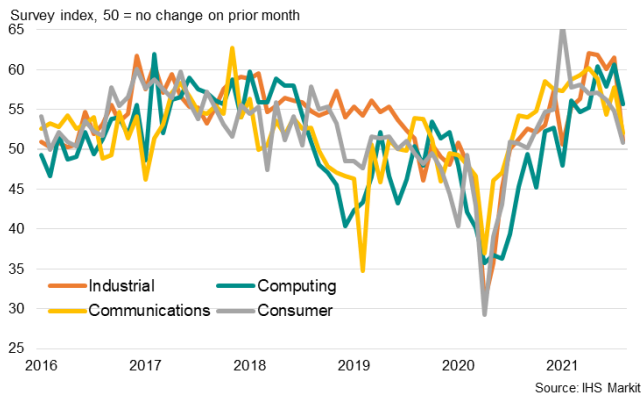
by 35.2% y/y according to trade data from China's General Administration of Customs. This reflected continued strong global demand for electronics and PPE equipment as well as the impact of base year effects due to global lockdowns a year earlier. China's exports of LCD panels in value terms were up 51.9% y/y in the first seven months of 2021, while exports of integrated circuits were up 31.1% y/y. Exports of mobile phones rose by 25.6% y/y in the same period.

South Korea's exports of information and communications technology (ICT) goods have also shown strong growth, rising by 30.2% y/y in July. South Korean semiconductor exports rose by 38.8% y/y, with exports of memory chips up 43.8% while exports of system chips rose by 35.8% y/y. Exports of displays rose by 34.9% y/y. Electronics exports to key markets showed large increases, with exports to the US up 47.3% y/y, while exports to the China were up 30.7% y/y.

Japanese exports of electronics have also performed strongly, with semiconductors exports up 27.8% y/y in July, while exports of integrated circuits rose by 24.4% y/y.

All four monitored sub-sectors of the global electronics industry continued to show firm expansion in August, according to the IHS Markit Global Electronics survey, although the pace of expansion of output moderated in all four segments.

Global Electronics PMI, Output by Sector



Sharply Rising Electronics Input Pricing Pressures

The rapid rise in electronics production has also triggered a sharp upturn in raw materials input prices for electronics firms during the second and third quarters of 2021. The IHS Markit Global Electronics Input Prices Index has continued to rise rapidly during the third quarter of 2021, at 75.1 in August. Widespread

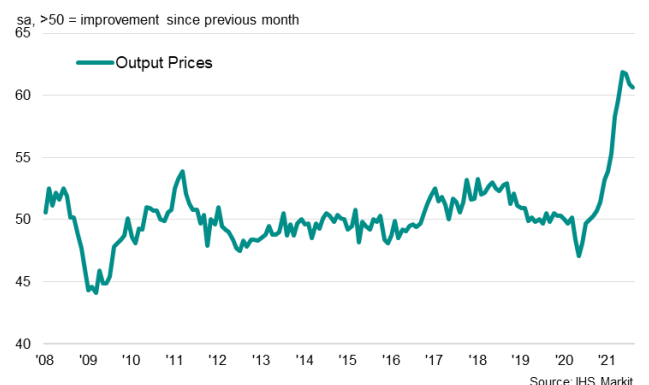
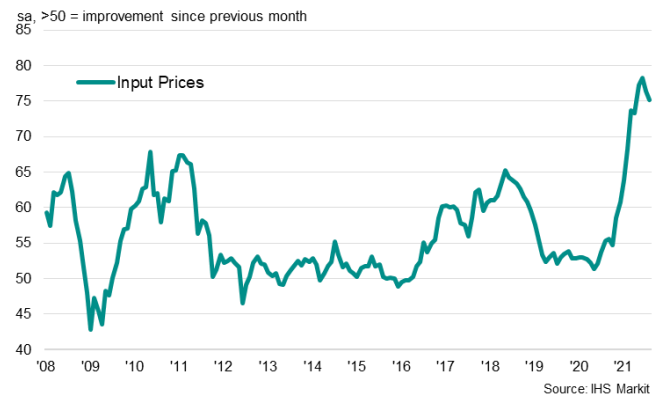
increases in costs for materials were reported by firms amid supply shortages, as well as rising shipping fees.

Reflecting the sharp increases in input prices, the IHS Markit Global Electronics Output Price Index continued to signal strong pricing pressures, at 60.6 in August.

The near-term pricing outlook for the remainder of 2021 according to IHS Markit Pricing & Purchasing analysis for semiconductors and components generally is that supply shortages are likely to continue to translate into price escalation. Printed circuit board assemblies are the most severely affected, but semiconductors, bare printed circuit boards, resistors, capacitors, and connectors are all expected to see price pressures. Escalation generally over the second half of the year will be greater than 10%. (See "[Prices: Pricing Analysis – Semiconductors](#)", by IHS Markit Pricing & Purchasing, 1st July 2021.)

In 2022 and 2023, capacity expansion will bring supply and demand closer to balance and lead to stabilizing prices. According to IHS Markit Pricing & Purchasing, moderating demand for electronic components and improving semiconductors production is expected to bring supply and demand closer to balance and lead to some price relief. Specific categories will show some resilience in pricing given the changing demand landscape. For example, the expansion of electronics in light vehicles will keep pressure on certain commodity electronic components.

Global Electronics Input and Output Prices Index

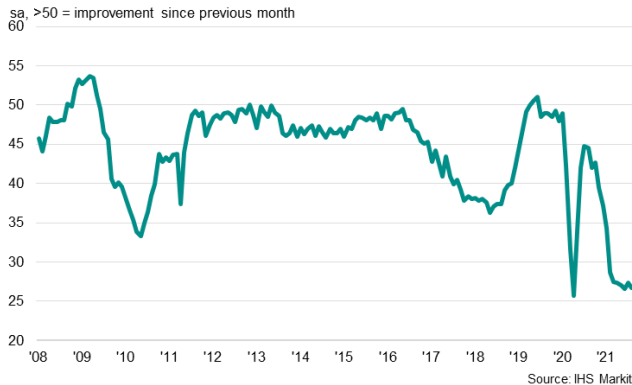


Electronics Supply Chain Disruptions

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. This has been compounded by supply chain disruptions to production of semiconductors as well as other electronics components. According to analysis by IHS Markit Pricing & Purchasing, sporadic electronics production outages because of COVID-19 continue, and while many or most facilities which are open are operating at or near full capacity, the supply chain for electronic components is highly sensitive to disruptions.

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.

Global Electronics PMI, Suppliers' Delivery Times



Global auto manufacturers as well as smartphone producers are among the industry segments that have been impacted by semiconductors shortages. According to IHS Markit Automotive research, vehicle manufacturers have faced continuing disruption to the supply of systems using semiconductors in the first three quarters of 2021. Many automakers worldwide have reported disruptions to production due to shortages of semiconductors, including Ford, Toyota, VW Group, GM, Honda and Mazda.

According to IHS Markit Automotive research, reports of disruption within the supply chain of semiconductors to the automotive sector began in late 2020 and have continued in the first three quarters of 2021, with further disruption expected during the fourth quarter of 2021. These disruptions of supply of important electronic components have resulted in significant disruption of global auto production during 2021. IHS Markit's current assessment of light-vehicle production to be lost from the visible downtime during the third quarter of 2021 is at 2.54 million units, especially after Toyota's plans to make huge cutbacks to production in September (See

[“Semiconductor Supply Issue: Light Vehicle Production Tracker”](#), by IHS Markit Automotive, 6th September 2021).

Global semiconductors shortages have also been impacted by temporary supply disruptions to semiconductors production in Texas due to power outages in February as a result of severe weather, as well as production disruptions in Japan due to a fire in a Renesas Electronics semiconductors plant in mid-March.

Impact of New Covid Waves in Southeast Asia

Since April, a number of Southeast Asian economies with large electronics manufacturing industries have been hit by escalating COVID-19 Delta waves, including Vietnam, Malaysia, Thailand and the Philippines. All are experiencing significant COVID waves that have triggered lockdowns and are creating significant disruption to economic activity.

The latest IHS Markit Manufacturing PMI surveys for Southeast Asia have reflected the impact of these new lockdown measures, which have disrupted industrial production and consumption spending.

In Malaysia, the headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index (PMI) showed sharp contraction in manufacturing during June, July and August, and was at a level of 43.4 in August compared with 51.3 in May. This pointed to severe weakness in business conditions in the Malaysian manufacturing sector.

Vietnam's economy has also been hit by the impact of the latest COVID wave, after its economy showed considerable resilience during 2020 as the domestic pandemic was successfully contained. The latest wave of COVID-19 cases in Vietnam led to a sharp decline in business conditions for manufacturers during July and August. The IHS Markit Vietnam Manufacturing Purchasing Managers' Index fell to 40.2 in August, down from 45.1 in July and signalling the worst deterioration in the health of the sector since April 2020.

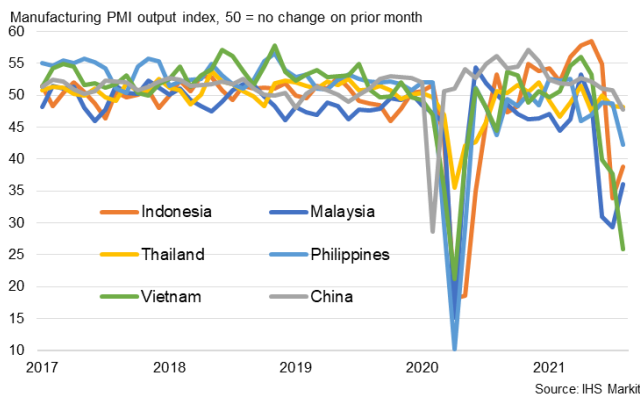
The impact of factory closures in Vietnam related to the pandemic has become increasingly widespread during July and August.

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.

Toyota has announced an estimated 40% drop in global auto production in September due to the impact of global semiconductor shortages as well as disruption to supply chains in Southeast Asian manufacturing hubs, including Vietnam. Toyota temporarily halted several auto assembly lines in Japan for periods during July and August due to disruptions to supply of auto parts from Vietnam.

Asian Manufacturing Hit by Delta variant



There has also been disruption to electronics supply chains due to the lingering impact of the COVID-19-related shutdowns in Malaysia, where many back-end operations are performed, such as packaging and testing of chips.

With reported daily new cases having risen sharply in recent weeks in many Southeast Asian nations, there is still significant uncertainty about how protracted and severe the current Covid waves will be, posing continuing risks to electronics supply chains in the region.

APAC Electronics Sector Outlook

During the first three quarters of 2021, global electronics demand has shown a strong rebound from the lows of the first half of 2020, when lockdowns in many major economies disrupted production and consumer spending. With economic recovery continuing in the US and EU as COVID-19 vaccines are progressively rolled out, demand for electronics products is expected to remain strong during the remainder of 2021.

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.

Spending on consumer electronics has also been boosted by fiscal stimulus measures in many OECD countries that have provided significant pandemic relief payments to support households in many large economies, including the US, UK, Japan and Australia. Meanwhile global auto demand has also shown a rebound after slumping during the first half of 2020, which is boosting demand for auto electronics, albeit contributing to intensifying supply-side problems related to semiconductors shortages.

The medium-term economic outlook is also supportive for the electronics industry, with sustained strong world economic growth forecast over 2022-2024.

With shortages of semiconductors disrupting manufacturing supply chains in 2021, the importance of having domestic electronics production capacity for critical electronics components has become a national priority for major industrial nations, including the US, EU and China. For the US and EU, reducing reliance on Asian semiconductors production has become a key strategic priority over the next decade.

A key risk is excessive global vulnerability to semiconductors supply from South Korea and Taiwan, which are major electronics production hubs but also potential geopolitical flashpoints in the Asia-Pacific region. Military tensions in the Taiwan Strait and South China Sea have escalated during 2021, highlighting these vulnerabilities.

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.

Competition amongst leading technology nations in strategic electronics production has also intensified. Consequently, strategic global competition amongst the world's leading high-technology nations is also likely to play a greater role in reshaping the global electronics industry landscape over the next decade.