

Week Ahead Economic Preview

Worldwide services PMI, US NFP, central bank meetings in focus

Worldwide services PMIs will be in focus next week following the manufacturing PMI updates. The highly watched September US labour market report will also be due on Friday. Ahead of which, central bank meetings unfold in Australia and New Zealand.

Services firms around the world were shown to have been hit by the continued spread of the COVID-19 Delta variant in August. In particular, the hospitality sector, which had rebounded strongly in prior months, slumped amid the reimposed COVID-19 restrictions in many countries. Through September a decline in worldwide COVID-19 new cases has been evident, meaning the PMIs will be scoured for signs that activity in the service sector is picking up again.

Economic data releases will also be in abundance though the highlight in the coming week will inevitably be the US non-farm payrolls update to assess if the FOMC's criteria of "substantial further progress" was evident in September. [Flash US Composite PMI survey](#) earlier pointed to slowing jobs growth in September amid the lack of suitable candidates for hire. That said, the overall unemployment rate is expected to continue falling, which will be in line with the Fed's expectations and support the stance with regards tapering.

Finally, the Asia-Pacific region will see central bank meetings taking place in Australia and New Zealand. The RBNZ's 'live' meeting will be of particular interest as a guide to the stance of other APAC central banks going forward given the Fed's imminent expected taper.

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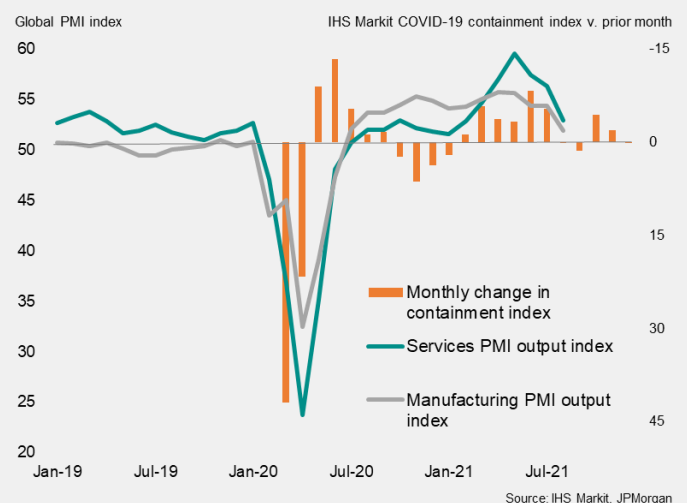
Service sector PMIs

Worldwide service sector PMIs are updated and will be eagerly assessed after [August's data](#) showed global economic growth slowing to the lowest since January as the spread of the COVID-19 Delta variant disrupted activity around the world, led by a renewed downturn in the emerging markets, with particular weakness recorded in China.

The August slowdown occurred at a time of rising COVID-19 cases around the world, which in turn led to a pause in the loosening of COVID-19 containment measures, on average. While September has seen worldwide case numbers start to fall again, which could boost business activity especially among consumer-facing service providers, restrictions implemented by governments to tackle the virus have been tightened slightly to act as a further drag, which showed up as a dampening factor on the [flash PMIs for the US, Europe and Japan](#).

Also to watch in the surveys will be the extent to which rising prices in manufacturing may have continued to feed through to services. Global input cost inflation across both manufacturing and services remained among the highest recorded for 13 years in August, albeit edging down further from May's recent peak. While the easing hints at a slight cooling in global consumer price inflation, the still-elevated PMI price gauge readings suggest inflation could remain stubbornly high in coming months.

Global PMIs and COVID-19 containment



* IHS Markit's COVID-19 Containment Index is based on a basket of measures applied by governments to control the spread of the pandemic, such as non-essential business closures, school closures and travel and mobility restrictions linked to social distancing policies. As these measures are tightened, the index rises towards 100 and a relaxation of measures causes the index to fall towards zero.

Key diary events

Monday 4 Oct

China (Mainland), South Korea Market Holiday
Eurozone Sentix Index (Oct)
United States Factory Orders (Aug)

Tuesday 5 Oct

China (Mainland) Market Holiday
Worldwide Services & Composite PMI (Jun), incl. Japan, Brazil, Eurozone, India*
South Korea CPI (Sep)
Australia Trade Balance (Aug)
Philippines CPI (Sep)
Australia RBA Cash Rate (Oct)
Thailand CPI Headline Inflation (Sep)
United Kingdom Reserve Assets Total (Sep)
Eurozone Producer Prices (Aug)
United States International Trade (Aug)
Canada Trade Balance (Aug)
United States ISM Non-Manufacturing PMI (Sep)

Wednesday 6 Oct

China (Mainland) Market Holiday
Hong Kong IHS Markit PMI* (Sep)
New Zealand Cash Rate (6 Oct)
Germany Industrial Orders (Aug)
Taiwan CPI (Sep)
Eurozone Retail Sales (Aug)
United States ADP National Employment (Sep)
Global Sector PMI* (Sep)

Thursday 7 Oct

China (Mainland) Market Holiday
Germany Industrial Output (Aug)
United Kingdom Halifax House Prices* (Sep)
United States Initial Jobless Claims
Global Electronics and Metal Users PMI* (Sep)

Friday 8 Oct

Japan All Household Spending (Aug)
Japan Current Account (Aug)
China (Mainland) Caixin Services PMI* (Sep)
India Repo and Reverse Repo Rate (8 Oct)
Germany Trade Balance (Aug)
Taiwan Trade Balance (Sep)
United States Non-Farm Payrolls, Unemployment, Average Earnings (Sep)
United States Wholesale Inventory (Aug)

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

What to watch

Worldwide services PMI for September

Service sector PMI data will be released next Tuesday to add further colour to the manufacturing updates. While one of the most discussed impacts of the COVID-19 pandemic had been how supply chain disruptions have affected manufacturers, the focus shifts to more direct impact of the virus spread on sectors such as [hospitality, which had seen activity significantly affected by the Delta variant in the August update](#).

Into the end of Q3, the PMIs will help examine how the latest COVID-19 wave continued to interact with service sector activity around the globe and to study if the vaccine dividends remain present. Sector data across the US, Europe, Asia and globally will also offer insights into which sectors performed better in September. Finally, metal users PMI trends will be scrutinised amid elevated prices according to the [September flash PMI data across major developed economies](#).

US September non-farm payrolls

US labour market data for September will be released on Friday with the ADP private payrolls update due ahead on Wednesday. Refinitiv consensus currently points to a 500k addition to non-farm payrolls from 235k in August, with the unemployment rate anticipated to fall to 5.1% from 5.2%.

The latest FOMC meeting suggested that tapering will commence soon, possibly in November. While the inflation outlook had been lifted in the latest meeting, the focus falls squarely upon the jobs data for the next few months. A strong jobs report next week will reinforce the view of “substantial further progress” being clocked by the US economy. Also watch out for US factory orders and inventories data.

RBA, RBNZ meeting

Central bank meetings in the antipodeans are expected in the coming week. While the RBA meeting is set to be uneventful, the RBNZ monetary policy meeting will be in focus after passing on raising rates in the August meeting amid COVID-19 uncertainties.

Following the recent decline in COVID-19 cases in New Zealand, there exist a possibility that the RBNZ may return to their rate hike path next week. IHS Markit expect the RBNZ to raise the OCR by a couple of notches in early 2022.

Special report:

[South Korea's Economy Moderates Due to Covid Wave](#) Rajiv Biswas | [page 4](#)

Recent PMI and economic analysis from IHS Markit

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	Hints of stagflation cause fresh headaches for central banks	10-Sep	Chris Williamson	
	Monthly PMI Bulletin: September 2021	8-Sep	Chris Williamson, Jingyi Pan	
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	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	
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Special Focus

South Korea's Economy Moderates Due to Covid Wave

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South Korea's GDP rose by 6.0% 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 4% y/y forecast for calendar 2021.

The current COVID-19 Delta wave remains a key risk to the near-term economic outlook, with escalating daily new COVID-19 cases during September. The highly transmissible Delta variant has become the dominant strain in new COVID-19 cases. Daily new COVID-19 cases reached a record high of 3,271 persons on 24th September. However, rapidly rising COVID-19 vaccination rates are expected to help containment of the pandemic in Q4 2021 and during the first half of 2022.

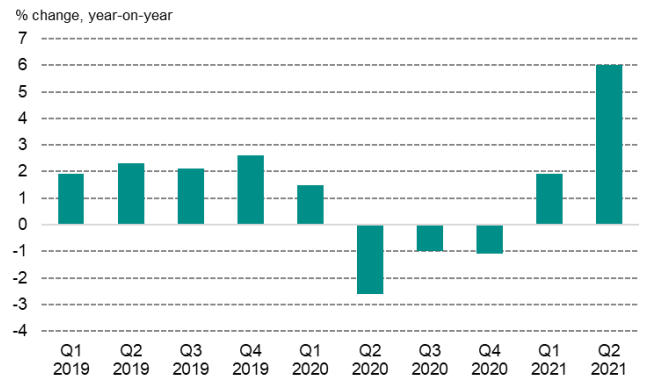
GDP rebounds in first half of 2021

South Korea's GDP grew by 0.8% 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 6.0% 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 3.6% 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 3.7% 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 moderated to a pace of 6.4% year-on-year growth in August, reflecting to the impact of the escalating pandemic, compared with an increase of 11.4 percent y/y in June.

South Korea GDP Growth

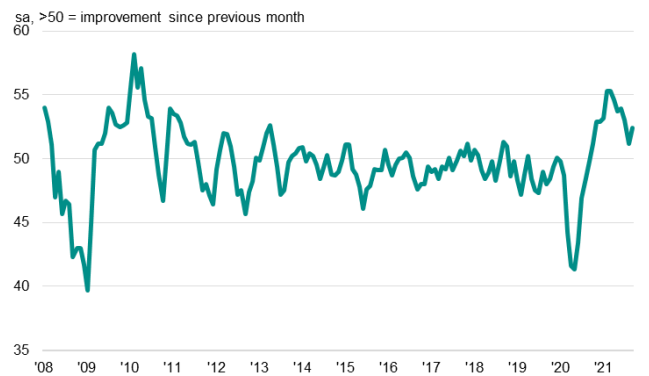


Source: Bank of Korea

Manufacturing output grew by 13.5% 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.

A key driver for the rapid expansion in manufacturing output 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 2021 helped to boost South Korean new export orders from its key export markets. South Korean exports rose by 34.9% y/y in August 2021, buoyed by strong growth in exports of electronics and autos.

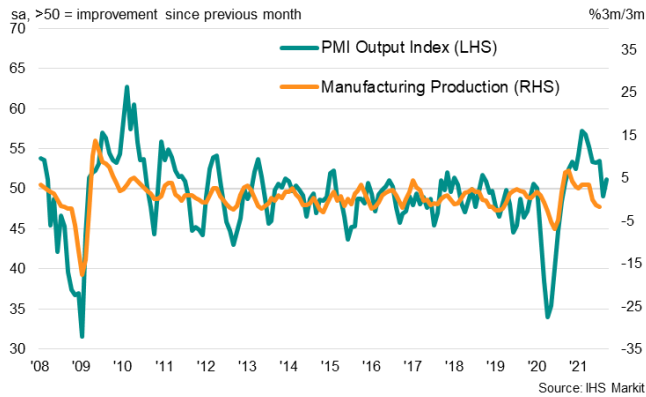
IHS Markit South Korea Manufacturing PMI



Source: IHS Markit

However, manufacturing output growth has moderated in the third quarter of 2021 due to the impact of new COVID-19 waves in South Korea as well as in some export markets. The seasonally adjusted IHS Markit South Korea Manufacturing Purchasing Managers' Index dipped from 53.0 in July to 51.2 in August and 52.4 in September, albeit still signalling a modest expansion in the manufacturing sector.

South Korea Manufacturing Output vs Manufacturing Production



Latest data for September pointed to a further robust rise in input costs faced by South Korean manufacturers as firms continued to note sharp rises in raw material prices. Supplier delivery times lengthened to the greatest extent since April 2020, amid ongoing supply chain disruption.

The Bank of Korea (BOK) raised its policy rate by 0.25bp to a level of 0.75% at its August Monetary Policy Meeting. Consumer price inflation has remained high at the mid-2% level due to rising oil prices, as well as higher prices for agricultural products as well as services. Core inflation has remained contained, at around the 1% level. The decision to hike the policy rate also reflected BOK concerns about potential risks to financial stability due to the rapidly rising level of household debt as a share of GDP. Property prices have been rising rapidly, notably in Seoul and nearby areas, while household loan growth has accelerated. South Korea's household debt-to-GDP ratio is estimated to have reached 103.8% of GDP by the end of 2020, the sixth highest in the OECD.

Electronics Sector Boosts South Korean Exports

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

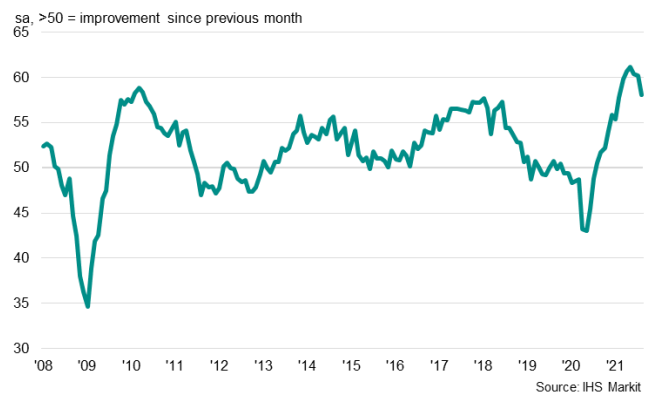
Korean electronics multinationals, such as Samsung and LG, for a wide range of electronics products such as mobile phones, Vietnam is a key export market for South Korean electronics components.

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.

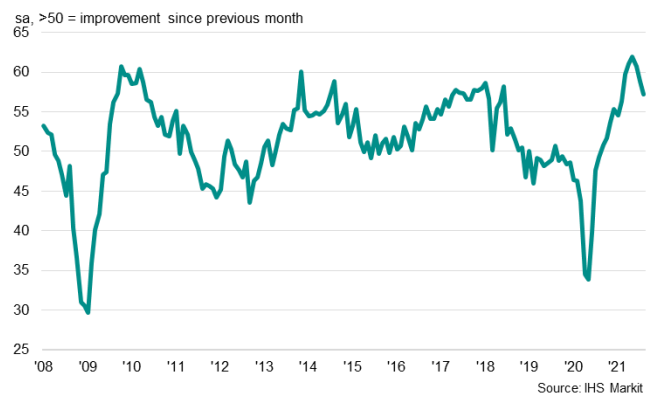
The headline seasonally adjusted IHS Markit Global Electronics PMI posted 58.1 in August, down from 60.2 in July but still signalling strong positive operating conditions for global electronics manufacturers. The rate of new order growth remained robust, with firms expanding employment levels sharply in response.

Global electronics manufacturers continued to record sharp growth of new orders in August. 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 critical items.

IHS Markit Global Electronics PMI



IHS Markit Global Electronics New Orders



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 August 2021 and increased by 33% y/y. South Korean semiconductor exports rose by 42% y/y, with exports of memory chips up 51% while exports of system chips rose by 31% y/y. Exports of displays rose by 22% y/y. Exports of computers were up 5% y/y while exports of peripheral devices were 30% higher.

The strength of South Korean ICT exports has been boosted by rapid growth in exports to the world's largest consumer markets. In August, electronics exports to the US were up 42% y/y, while exports to the EU were up 22% y/y. Electronics exports to China rose by 36% y/y.

ICT exports to Vietnam, which is a key manufacturing hub for South Korean electronics firms, also showed rapid growth of 18% y/y in August, 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 in recent months 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 4% y/y in 2021, with continued firm expansion at a pace of around 3% in 2022. The economic recovery in the first half of 2021 has been driven by consumption growth and merchandise exports. The BOK 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 the third quarter of 2021 has dampened domestic demand, creating 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.

The vaccination program has ramped up considerably during the third quarter of 2021. By 26th September, around 74% of the total population had received first dose vaccinations, with 45% of the population having received both doses. Despite the very rapid pace of vaccinations in recent months, downside risks from the COVID-19 pandemic remain a key risk to the near-term outlook.

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 Regional Comprehensive Economic Partnership (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.