

Week Ahead Economic Preview

ECB, BoJ, BoC meetings and US, Eurozone Q3 GDP readings

A flurry of **central bank meetings** take place across the globe in the coming week, encompassing Canada, the eurozone and Japan, and we get glimpses of **Q3 growth via GDP** prints from the US and the eurozone. Several key countries will also release **inflation readings**.

The ECB monetary policy meeting will be in focus amid the elevated price pressures faced by the bloc. Greater recognition that inflation may be more persistent than expected has been made by policymakers, placing attention on how the ECB will position itself in the accompanying meeting statement and press conference. That said, the ECB is not expected to take any further action at least until the December meeting, when new projections are expected. Separately, the BoJ and BoC are likewise expected to remain on hold in the coming week but markets will be keen to digest any rhetoric surrounding the resilience of the recoveries and the transitory nature of inflationary pressures.

Meanwhile, Q3 growth momentum will be studied amidst the release of quarterly GDP from the US and the eurozone. Slower growth had been the case assessing the recent string of IHS Markit PMIs, showing that growth across both the US and the eurozone had remained strong but visibly weaker than Q2 thanks largely to the Delta variant and supply shocks.

Finally, ahead of the October PMI releases due at the start of November, we will see a series of official CPI figures across the likes of the eurozone and Australia, shedding insights into price conditions amid sustained supply and energy market woes.

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GDP merely provides the backstory

The coming week sees initial third quarter GDP estimates released for the US and the eurozone. As with China, the only other major economy to have released third quarter GDP so far, both the US and the eurozone are expected to have seen the pace of expansion moderate, as has been clearly signposted in advance by IHS Markit's PMI survey data (see charts). Even these 'advance' GDP releases are therefore, in effect, old news.

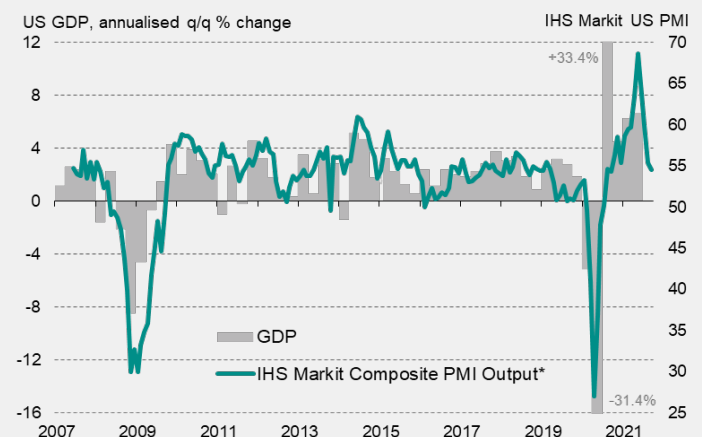
In fact the official GDP data rarely tell a markedly different story of the economic growth trend to that signalled in advance by the PMI surveys, except in extreme situations such as the height of the COVID-19 lockdowns or if the GDP numbers are affected by distortions such as seasonality (in the case of the US) or one-off factors which tend to get reversed in the following releases.

Hence the PMI data can give investors valuable tools to not only build market-beating [growth fund models](#) but to [also assess 'fair value' exchange rates](#). Read more about [PMI use cases here](#).

Eurozone PMI v GDP



US PMI v GDP



* only manufacturing pre-2012. Source: IHS Markit, BEA

Key diary events

Monday 25 Oct

Australia, New Zealand, Thailand Market Holiday

Singapore Consumer Price Index (Sep)
Germany Ifo Business Climate New (Oct)
Taiwan Industrial Output (Sep)

Tuesday 26 Oct

South Korea GDP Growth (Q3, advance)
Singapore Manufacturing Output (Sep)
United States Consumer Confidence (Oct)
United States New Home Sales (Sep)

Wednesday 27 Oct

New Zealand Trade Balance (Sep)
Australia CPI (Q3)
Thailand Manufacturing Production (Sep)
Germany GfK Consumer Sentiment (Nov)
Eurozone M3 (Sep)
United States Durable Goods (Sep)
Canada BoC Rate Decision (27 Oct)

Thursday 28 Oct

Japan Retail Sales (Sep)
Malaysia Trade (Sep)
United Kingdom Nationwide House Price (Oct)
Germany Unemployment Rate (Oct)
Eurozone Consumer Confidence (Oct, final)
Eurozone ECB Deposit and Refinancing Rate (Oct)
Germany CPI Prelim (Oct)
United States GDP Advance (Q3)
United States Initial Jobless Claims
Japan BoJ Rate Decision (28 Oct)

Friday 29 Oct

South Korea Industrial Output (Sep)
Japan Industrial Output and Unemployment Rate (Sep)
Australia Retail Sales (Sep)
Germany Import Prices (Sep)
Germany GDP (Q3, flash)
Thailand Current Account (Sep)
Norway Unemployment (Oct)
Taiwan GDP YY (Q3, prelim)
United Kingdom BOE Consumer Credit, Mortgage Lending and Approvals (Sep)
Eurozone HICP (Oct, flash)
Eurozone GDP (Q3, prelim)
United States Personal Income and Consumption (Sep)
United States Core PCE Price Index (Sep)
Canada GDP (Aug)
Canada Producer Prices (Sep)
United States UoM Sentiment (Oct, final)

What to watch

■ ECB meeting, Eurozone Q3 GDP, flash CPI

The European Central Bank's October monetary policy meeting will be held next Thursday, ahead of third quarter eurozone GDP released on Friday.

With October's meeting we expect the accompanying statement and press conference to acknowledge the likelihood of a higher peak inflation than previously expected. This reflects the fact that eurozone inflation had been on the climb since the September ECB meeting while the IHS Markit Eurozone Composite PMI continued to reflect elevated price pressures. That said, no further action is expected at least until the December meeting, when new projections are due as well.

■ Bank of Japan meeting

The BoJ meets next week and updates their monetary policy decision on Thursday with no changes expected. Despite COVID-19 cases having eased significantly from the August peak, the outlook remains one of only modest recovery and weak inflation, which is unlikely to cause the BoJ to act in the near- to medium-term. The BoJ's Tankan survey further showed that softer demand is expected to weigh on short-term business conditions. Japan's September industrial output and unemployment rate will also be released in the week.

■ Bank of Canada meeting

The Bank of Canada will be likewise meeting in the coming week, and is expected to keep the overnight policy rate unchanged at 0.25% as per the September policy announcement. In line with the global inflation trend, Canada has seen above target inflation, although transitory factors continue to be viewed to be at play. Meanwhile considerable economic slack remains, which should keep the BoC holding rates.

■ US Q3 GDP

Advance Q3 GDP will be released on Thursday with the current consensus pointing to a slowdown to 3.4% from 6.7% in Q2. This weakening trend has also been alluded to by IHS Markit US PMI data, reflecting the spread of the Delta variant and shortages of labour and materials.

■ Australia Q3 CPI

Australia releases quarterly CPI figures on Wednesday following a period rocked by extended COVID-19 lockdowns and supply chain disruptions. That said, we are looking at Q3 CPI to decelerate slightly to 2.7%.

Special report: ASEAN Economies Begin to Recover as COVID-19 Delta Waves Recede

Rajiv Biswas | [page 4](#)

Recent PMI and economic analysis from IHS Markit

Global	Estimating short-term FX equilibria using PMIs: EUR/USD case study	19-Oct	Joseph Hayes
	PMI™ as a tool for equity portfolio adjustment	18-Oct	Paul Smith, Ph.D.
	Economic growth stalls in Sub-Saharan Africa amid renewed lockdowns and supply chain disruption	12-Oct	David Owen
	Monthly PMI Bulletin: October 2021	8-Oct	Chris Williamson
	Global auto makers suffer record underperformance amid supply chain delays	7-Oct	Chris Williamson
	Global manufacturing prices spike higher amid supply constraints, but demand pressures show signs of easing	4-Oct	Chris Williamson
	Global manufacturing subdued by supply constraints, but pressures from Delta wave show signs of easing	1-Oct	Chris Williamson
	Developed world economies hit by slower growth and rising prices	24-Sep	Chris Williamson
	Understanding ... headline PMI vs. subindices: how signals can be lost by focusing exclusively on the headline PMI	21-Sep	Chris Williamson
	US	US equity investor sentiment lifts from lows in October but caution persists amid concerns over policy and politics	12-Oct
US sector data show economic growth slowing across consumer, tech and financial sectors		5-Oct	Jingyi Pan
Europe	Semiconductor shortages continue to bite as European automotive production contracts at substantial pace	13-Oct	Sian Jones
	UK Flash PMI sends stagflation warning as growth wanes but prices rise at record rate	23-Sep	Chris Williamson
	Eurozone flash PMI at five-month low as economy hit by bottlenecks and soaring prices	23-Sep	Chris Williamson
APAC	UK economy slows as demand rebound fades and supply constraints bite	13-Sep	Chris Williamson
	Three key economic takeaways from September's Asia Sector PMI	8-Oct	Jingyi Pan
	Vietnam economy slump persists into September amid worsening supply constraints	1-Oct	Jingyi Pan
	Rising COVID-19 cases and supply chain disruptions overshadow Olympic Games boost	20-Sep	Usamah Bhatti
Commodities	Weekly Pricing Pulse: Record energy prices send commodities higher once again	13-Oct	Michael Dall

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Special Focus

ASEAN Economies Begin to Recover as COVID-19 Delta Waves Recede

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After being badly hit by escalating COVID-19 Delta waves since May 2021, many Southeast Asian economies are starting to show early signs of recovery as the COVID-19 waves gradually recede. COVID-19 vaccination rates have risen rapidly in a number of ASEAN economies during the third quarter of 2021, helping to improve their resilience to COVID-19 transmission.

Despite this turnaround, there are still considerable risks around 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 consequently further easing of the intensity of the Covid Delta waves that have swept across the region.

ASEAN recovery hit by new COVID-19 waves

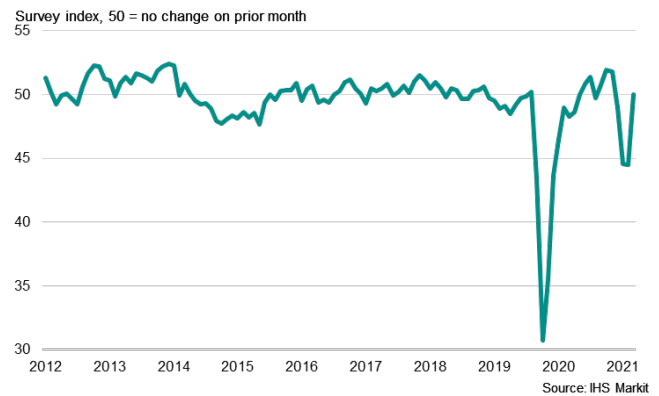
As a result of the severe negative impact of the COVID-19 pandemic and widespread lockdowns and travel bans, many ASEAN economies were in deep recession during 2020. The impact of global lockdowns in key markets such as the US and EU also resulted in a sharp slump in exports for many ASEAN nations during 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

again weakened in many ASEAN nations since June 2021.

The ASEAN manufacturing sector recorded contractionary conditions for the months of June, July and August, as the Covid Delta waves escalated in many nations. However, Covid waves beginning to ease in some countries by September. Consequently, manufacturing conditions showed less severe contraction for the ASEAN region as a whole in September, according to the latest IHS Markit ASEAN Manufacturing Purchasing Managers' Index (PMI) data. The headline ASEAN Manufacturing PMI registered on the 50.0 mark that separates expansion from contraction during September, rising from August's 14-month low of 44.5.

ASEAN Manufacturing PMI



In the service sector, the impact of the Covid Delta waves has also continued to hit consumption expenditure across most ASEAN nations. 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 the remainder of 2021 and early 2022. Furthermore, domestic tourism has also been heavily disrupted, creating a further severe negative shock for the ASEAN tourism industry. While some nations, including Singapore and Thailand, have announced some easing of borders for vaccinated international travellers, these are relatively limited so far. Thailand has announced that it will reopen its borders for international tourists from five nations without quarantine starting from 1st November. The pace of recovery of international tourism travel is expected to be gradual during the latter part of 2021 and during the first half of 2022.

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

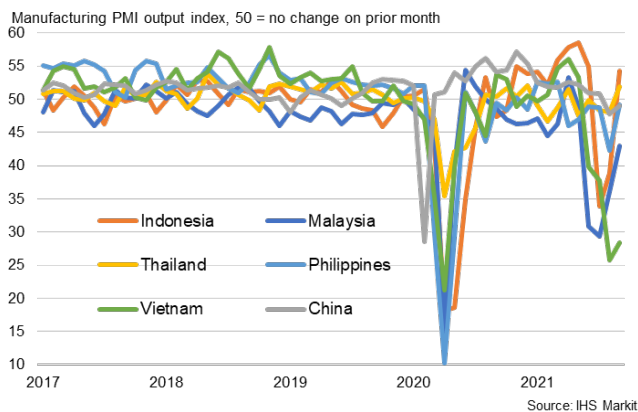
air transportation sectors are expected to have a more gradual recovery path.

Three of the seven constituent nations in the ASEAN PMI recorded improvements in the health of their respective manufacturing sectors during September. The strongest upturn was seen in Singapore, where the headline PMI rebounded from 44.3 in August to 53.4 in September, signalling a solid rate of expansion. This was followed closely by Indonesia, which registered the first improvement in the health of the goods producing sector since June. The Philippines Manufacturing PMI also showed a return to expansion in September, albeit marginally positive at 50.9.

The headline IHS Markit Malaysia Manufacturing Purchasing Managers' Index rose from 43.4 in August to 48.1 in September. While the latest reading remained below the neutral 50.0 level to signal a further loss of momentum in the sector, the rate of deterioration eased significantly compared to the prior three months.

However, the impact of the pandemic continued to significantly disrupt Vietnam's manufacturing output in September. The Vietnam Manufacturing Purchasing Managers' Index was at 40.2 in September, signalling continued severe contraction in the manufacturing sector. Temporary business closures, transportation difficulties and staff shortages all contributed to a fourth successive month of contractionary conditions in manufacturing output in Vietnam. New orders also fell sharply, and to the greatest extent since April 2020. This reflected the impact of the severe domestic lockdown conditions on domestic demand, as well as declines in new export orders.

Asian manufacturing recover from Delta waves



Supply chain disruptions in Southeast Asia

In Southeast Asia, the impact of Covid Delta waves in Vietnam, Malaysia, Thailand, Indonesia and Philippines, all of which have significant manufacturing hubs, have

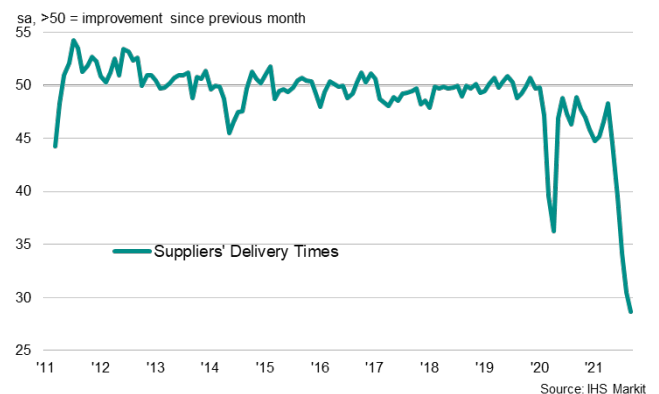
created disruption to global manufacturing supply chains.

The contraction in the Vietnamese manufacturing sector intensified during August and September amid the worst outbreak of the COVID-19 virus in Vietnam since the pandemic began. Many manufacturing facilities were temporarily closed in the southern Vietnam region during periods in August and September, including seafood processing factories as well as textile and garment factories.

Restrictions led to the temporary closure of many factories, as lockdown measures and limits on travel to try and contain the spread of the pandemic resulted in accelerated declines in output, new orders, purchasing and employment. Adidas, Foot Locker and Nike are among the many global firms that reported supply chain disruptions due to COVID-19 related interruptions of manufacturing production in Vietnam.

The unprecedented spell of supply-chain disruption continued amid transportation difficulties and pressure on capacity at the country's ports. This, allied with raw material shortages, placed upward pressure on input costs which continued to rise sharply.

Vietnam Manufacturing PMI Suppliers' Delivery Times



The disruption to Vietnamese industrial production impacted on global electronics manufacturing supply chains, due to Vietnam's increasing importance as an electronics manufacturing hub over the past decade.

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.

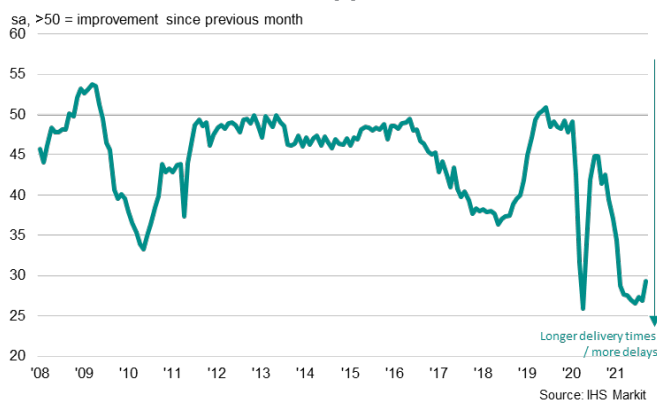
Toyota has announced an estimated 40% drop in global auto production in September due to the impact of

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.

Multinationals in the electronics and auto sectors also faced significant supply chain disruptions due to the impact of the protracted lockdown and COVID-19 Delta wave in Malaysia, which is an important global manufacturing hub for electronics. Electronic and electrical products accounted for around 36% of total Malaysian merchandise exports, with Malaysia being a significant production hub for key electronics components such as semiconductors.

In the auto sector, Nissan Motors and General Motors have indicated that supply disruptions of auto components from Malaysia had impacted on their auto production in the third quarter. For the global auto industry, IHS Markit Automotive assess that the global auto sector outlook remains dominated by the situation in Malaysia. Malaysia performs many “back-end” operations i.e., packaging and testing of chips. As this is more labour-intensive than the wafer fabrication processes, activity is more easily affected by public health measures that impact workforce participation. However, the situation in Malaysia has been improving. The severe COVID-19 wave and associated lockdown measures that has disrupted Malaysian manufacturing has been easing in recent weeks, as rapid rollout of vaccines has resulted in a sharp decline in daily new COVID-19 cases.

Global Electronics PMI, supplier lead times



Migrant worker shortages

A number of Southeast Asian countries are facing labour shortages in key industries as a result of protracted COVID-19 border closures which have curtailed inflows of migrant workers. Hundreds of

thousands of migrant workers left Malaysia and Thailand at the outset of the pandemic in 2020, when severe lockdowns resulted widespread disruption to sectors such as construction, hotels and manufacturing. As new COVID-19 Delta waves hit ASEAN again in the second and third quarters of 2021, this resulted in renewed widespread lockdown measures.

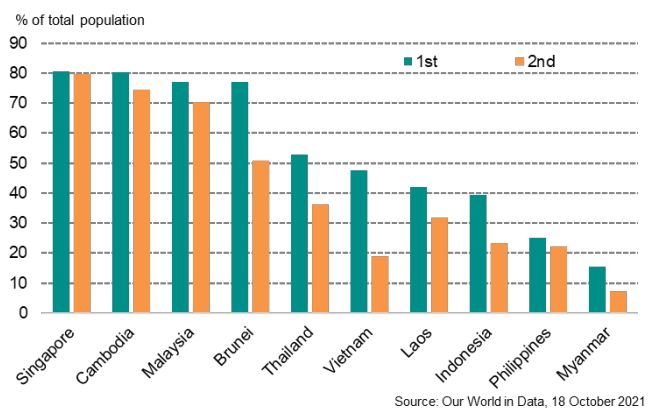
However, with the recent COVID-19 waves rapidly receding in some ASEAN countries, including Malaysia and Thailand, their economies are reopening. Meanwhile the rebound in economic growth in many of the world’s largest consumer markets, including the US and EU, is boosting demand for ASEAN exports. Consequently, Malaysia and Thailand are facing a labour supply crunch in low-wage industries that traditionally relied heavily on migrant workers, such as some segments of manufacturing, as well as construction and agriculture. As border restrictions are gradually rolled back and vaccination rollout reaches high levels, migrant labour inflows will resume, helping to ease the labour shortages.

ASEAN economic outlook

Receding COVID-19 Delta waves and gradual easing of pandemic restrictions in recent weeks has helped to support a gradual recovery in business conditions in many ASEAN nations during September and October.

However, many ASEAN nations still face considerable challenges, with some nations still having relatively low second dose vaccination rates, problems with accessing vaccine supplies and also the very large size of the population in many nations, notably in Indonesia, Philippines and Vietnam.

ASEAN COVID-19 vaccination rates



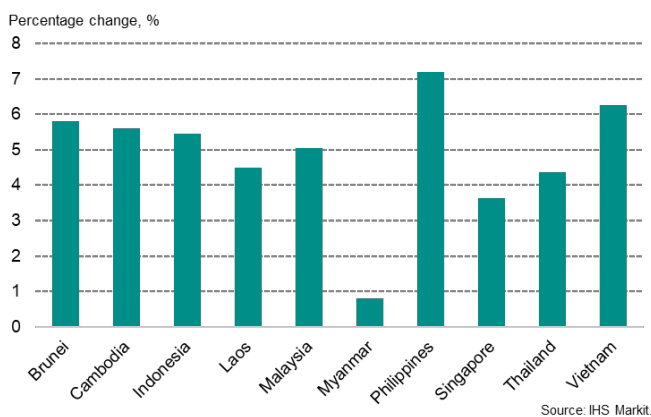
In contrast, Singapore has already achieved one of the highest vaccination rates in the world by October 2021. Malaysia has also made remarkable progress with its vaccine rollout program in recent months, and has

joined the ranks of the most highly vaccinated nations in the world. Cambodia and Brunei have also achieved very high first dose vaccination rates.

Despite the improving economic conditions, 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 2022 continues to be positive, with the world economy gradually emerging from the pandemic, led by the US, EU, China and the UK. While the ASEAN region's economic rebound in 2021 has been significantly dampened by new waves of Covid Delta, the outlook is for gradually improving economic conditions in 2022. GDP 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, allowing a gradual return to more normal domestic economic conditions. Positive GDP growth is expected in 2022 across all the ASEAN nations.

ASEAN GDP growth in 2022



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. Moreover, the pandemic has had a significant toll on many businesses, in sectors such as retail, restaurants, tourism and hotels. Consequently, the process of

economic recovery across industry sectors is expected to be uneven, reflecting the legacy effects of almost two years of severe economic disruption due to the COVID-19 pandemic.

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.