

Week Ahead Economic Preview

Worldwide PMIs, Fed, BoE, RBA meetings and non-farm payrolls

Worldwide manufacturing and services PMIs will be released in the coming week for a detailed look into economic conditions into the start of Q4. **Central bank meetings** will meanwhile be in abundance including in the US, UK and Australia, while October's **US non-farm payrolls** round off the week.

A packed week is lined up ahead, kickstarted by the worldwide manufacturing and services PMIs. These have been front-run by worrying signs of persistent supply constraints from the flash figures. However, while supply issues hit manufacturing, services growth was widely reported to have accelerated amid the waning COVID-19 Delta wave impact. Sector PMI data will also be due for a finer breakdown of sector performance in October, with [autos under particular scrutiny after output collapsed in September](#).

Central bank meetings will likewise fill the week. The highlight is expected to be the UK BoE meeting where expectations of a 15-basis points hike has been priced in by the market. Recent IHS Markit/CIPS UK PMI continued to point to record [inflationary pressures, and accelerating growth](#), adding to signs that the BoE could be the first G-7 central bank to hike rates, though not all policymakers think the timing is right given uncertainties over the recovery path.

Finally, alongside tapering announcements expected at the FOMC meeting, US watchers will be scrutinising the October non-farm payrolls after last month's disappointing jobs count. Wage growth will also be eyed for second-round inflationary pressures.

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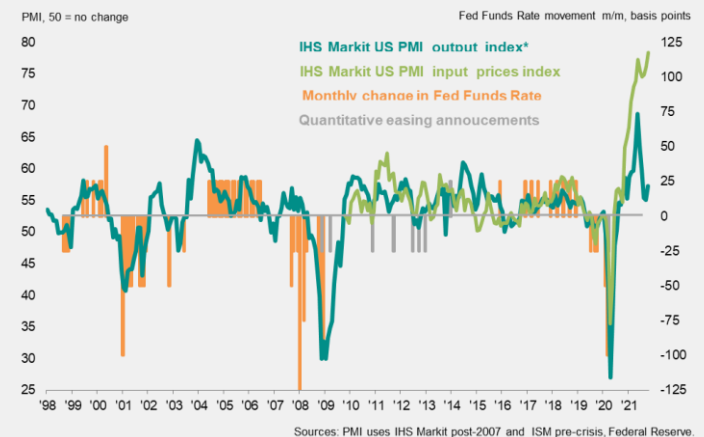
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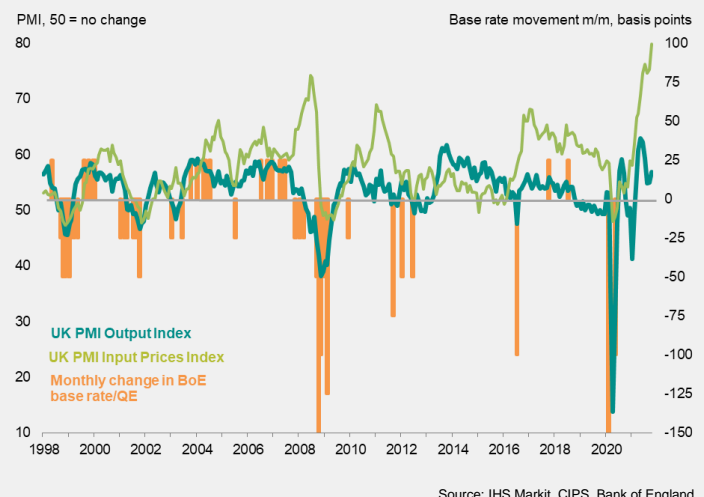
US and UK rate setting meetings

A further acceleration of already-elevated inflationary pressures signalled by October's flash PMIs will embolden the hawks as the Bank of England and FOMC meet for their regular policy gatherings next week. As such, the markets will not be surprised to see the FOMC announce a tapering of its \$120bn monthly asset purchases and the Bank of England edge interest rates higher to rein in inflation expectations, though the latter in particular is not a done deal. Decisions could easily be pushed back to December, and even further out in the minds of some policymakers who are concerned that the recent growth momentum – and inflationary pressures – could quickly fade, especially as growth has already showed signs of slowing amid the fading rebound from COVID-19 lockdowns.

US Fed FOMC policy changes and the US PMI



Bank of England policy changes and the UK PMI



Key diary events

Monday 1 Nov

Philippines Market Holiday

Worldwide Manufacturing PMIs, incl. global PMI* (1-2 Nov)

Indonesia Inflation (Oct)

Taiwan GDP (Q3, revised)

United States ISM Manufacturing PMI (Oct)

Tuesday 2 Nov

Philippines Market Holiday

Japan BOJ Meeting Minutes (Sep)

South Korea CPI Growth (Oct)

Australia RBA Cash Rate (Nov)

Switzerland CPI (Oct)

Wednesday 3 Nov

Japan Market Holiday

Worldwide Services & Composite PMI, incl. Japan, Brazil, Eurozone, India* (3-4 Nov)

Australia Building Approvals (Sep)

Malaysia Overnight Policy Rate (3 Nov)

Eurozone Business Climate (Oct)

United Kingdom Reserve Assets Total (Oct)

Eurozone Unemployment Rate (Sep)

United States ADP National Employment (Oct)

United States Factory Orders (Sep)

United States ISM Non-Manufacturing PMI (Oct)

United States Fed Funds Target Rate (3 Nov)

Thursday 4 Nov

Singapore, Malaysia, India Market Holiday

Australia Retail Trade (Q3)

Germany Industrial Orders (Sep)

Norway Key Policy Rate (4 Nov)

Eurozone Producer Prices (Sep)

United Kingdom BoE Bank Rate (Nov)

United States International Trade (Sep)

United States Initial Jobless Claims

Canada Trade Balance (Sep)

Friday 5 Nov

India Market Holiday

Japan All Household Spending (Sep)

Philippines, Thailand, Taiwan CPI (Oct)

Indonesia GDP (Q3)

Germany Industrial Output (Sep)

United Kingdom Halifax House Prices* (Oct)

Eurozone Retail Sales (Sep)

United States Non-Farm Payrolls, Unemployment Rate,

Average Earnings (Oct)

Canada Unemployment Rate (Oct)

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

What to watch

■ Worldwide manufacturing and services PMIs

October's manufacturing and services PMIs will be released in the coming week following the flash PMIs, which showed varying growth momentum and a common theme of persistent supply constraints and ensuing record inflationary pressures.

Flash PMIs, which are based on approximately 85% to 90% of total responses each month, showed that the expansions of the US and UK economies accelerated despite bottlenecks subduing manufacturing growth, as services revived. APAC economies such as Japan and Australia also enjoyed a renewal of growth amid the easing of COVID-19 restrictions. However, [the eurozone remained weighed down by supply constraints and COVID-19 worries](#), sending growth to a six-month low. Amid the mixed performance seen from the flash PMIs, the focus will be with how individual regions fared into the start of Q4, with a particular focus on Asia, and China in particular, for a steer on global supply.

■ Fed FOMC meeting, October NFPs

The November Fed FOMC meeting will be held November 2-3 with the meeting statement and Fed chair Jerome Powell's press conference to follow the conclusion of the monetary policy meeting. The September meeting reinforced our expectation that tapering of the Fed's large scale asset purchases will commence in November. The recent [IHS Markit Investment Manager Index \(IMI\)](#) showed that US equity investors judged the central bank policy to have reduced its contribution to a near-neutral level in driving US equity market returns in the near-term.

Separately, October's labour market data will be due with the consensus currently pointing to a 385k addition to non-farm payrolls from September's 194k, in line with the trend indicated by the [IHS Markit Flash US Composite PMI](#).

■ Bank of England meeting

The Bank of England convenes in the coming week amidst rising rate hike expectations. Recent data, including the [flash October PMIs, continued to indicate upward pressures on inflation](#). While PMI signals on economic growth coupled with current COVID-19 conditions make it less compelling for an imminent rate hike, the November meeting is nevertheless a 'live' one.

Special report: South Korea: GDP Growth Moderates due to COVID-19 Delta Wave

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	Eurozone bucks trend of higher flash PMIs, but record price rises are universal	25-Oct	Chris Williamson
	Eurozone flash PMI sees shortages and COVID-19 push growth to six-month low, and inflationary pressures to two-decade high	22-Oct	Chris Williamson
	UK flash manufacturing PMI masks deteriorating production trend	22-Oct	Chris Williamson
	UK Flash PMI signals economy lifted by service sector, but manufacturing falters and prices rise at record rate	22-Oct	Chris Williamson
	Semiconductor shortages continue to bite as European automotive production contracts at substantial pace	13-Oct	Sian Jones
APAC	Australia economy sees first expansion in four months, but higher demand drives up prices	22-Oct	Jingyi Pan
	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: Industrial metal prices rebound and push commodities up	21-Oct	Michael Dall

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Special Focus

South Korea: GDP Growth Moderates due to COVID-19 Delta Wave

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South Korea's GDP continued to show positive momentum in the third quarter of 2021, rising by 4.0% year-on-year (y/y). However, the pace of expansion moderated compared with growth of 6.0% y/y in the second quarter of 2021.

Economic growth for 2021 has been helped by strong consumption expenditure during the first half of 2021 combined with surging electronics exports, with GDP growth of 4% y/y forecast for calendar 2021.

The current COVID-19 Delta wave has shown a significant decline in daily new cases reported during September and October 2021, although the pandemic still remains a key risk to the near-term economic outlook. 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.

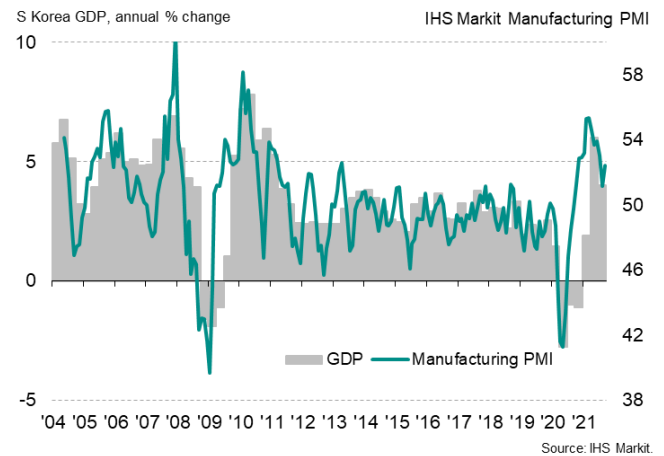
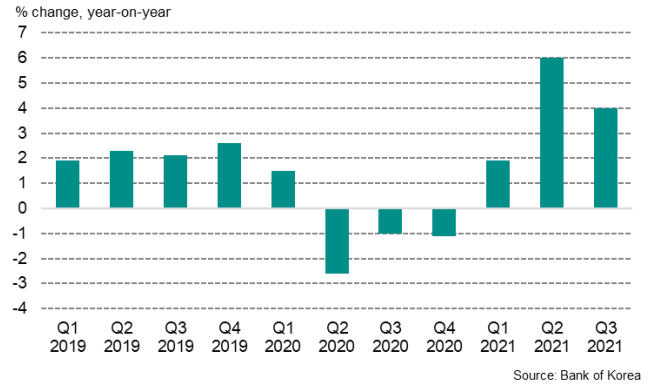
Expansion continues in Q3 GDP

While continuing to show positive expansion, South Korea's GDP growth rate moderated to a pace of 0.3% quarter-on-quarter (q/q) in Q3 2021, after growth of 0.8% q/q in the second quarter of 2021.

A key factor that contributed to the slowdown in economic growth was the 0.3% q/q contraction in private consumption in the third quarter, compared to a buoyant 3.6% q/q rise in the second quarter. This reflected the impact of the upturn in the COVID-19 Delta wave on consumption expenditure amidst tighter restrictive measures. The downturn in private consumption was mitigated by a 1.1% q/q rise in government consumption. Overall, final consumption expenditure rose by just 0.1% q/q in the third quarter, slowing from the 3.7% q/q growth rate in the second quarter.

Compared to a year ago, final consumption expenditure rose by 4.0% y/y in the third quarter, similar to the 4.1% y/y pace recorded in the second quarter. In 2020, final consumption had been in a protracted slump, having recorded four consecutive quarters of negative year-on-year growth.

South Korea GDP growth



Manufacturing output grew by 5.9% y/y in the third quarter of 2021, moderating from the 13.5% y/y pace in the second quarter of 2021, which reflected severe pandemic-related base year effects.

A key driver for the expansion in manufacturing output during the first three quarters of 2021 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. In the third quarter, exports of goods and services rose by 6.9% y/y. South Korean exports rose by 16.7% y/y in September 2021, buoyed by strong growth in exports of electronics and autos.

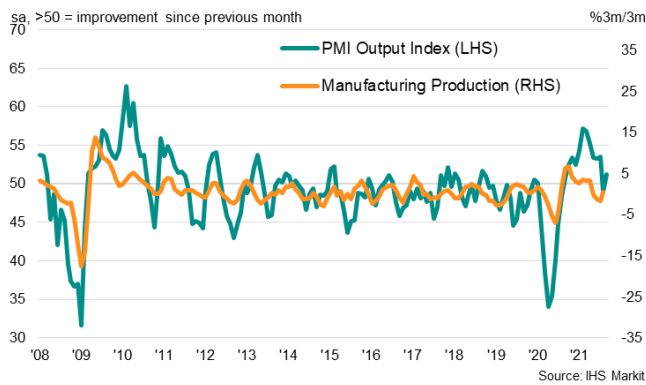
However, manufacturing output growth has moderated in the third quarter of 2021 due to the impact of new COVID-19 waves in South Korea as well as in some export markets. Although the seasonally adjusted IHS

Markit South Korea Manufacturing Purchasing Managers' Index edged up to 52.4 in September, from 51.2 in August, this still signalled a moderate pace of expansion in the manufacturing sector.

Shortages of semiconductors contributed to the slower pace of industrial expansion in the third quarter. South Korean auto production in September fell 33.1% y/y, as some factories faced temporary shutdowns of assembly lines due to automotive chip shortages.

The September PMI survey signalled that supplier delivery times lengthened to the greatest extent since April 2020. Latest survey data pointed to rapidly rising input costs faced by South Korean manufacturers as firms continued to note sharp rises in raw material prices.

South Korea manufacturing output



Confronted with rising inflation pressures, the Bank of Korea (BOK) raised its policy rate by 25bp to a rate 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.

Looking ahead, the Bank of Korea indicated in its October Monetary Policy Decision that consumer price inflation will run at the mid-2% level for some time. Core CPI inflation is forecast to increase to around the upper-1% level. The decision to hike the policy rate in August 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 2021.

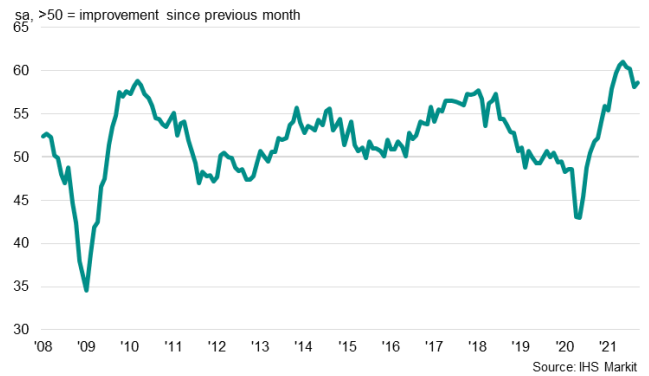
Electronics sector boosts South Korean exports

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 increased to 58.6 in September, up from 58.1 in August, signalling a faster pace of expansion in the global electronics sector. Stronger increases were seen in the electronics PMI series for output and new orders, although rates of growth were weaker than those seen earlier in the year as severely delayed supplier delivery times restricted production schedules.

IHS Markit Global Electronics PMI



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 recorded the highest monthly value since the Ministry started compiling data in 1996, rising 21.1% y/y to USD 21.3 billion in September.

Chip exports expanded 27.4% y/y to USD 12.2 billion, recording the second highest monthly value recorded. Both memory chips (up 28.6% y/y to USD 8.0 billion) and system chips (up 31.7% y/y to USD 3.7 billion)

showed robust demand, with system chips setting a record high export value.

The value of display product exports rose by 15.7% y/y, to USD 2.4 billion. This was helped by increased demand in the television and premium smartphone markets.

Exports of mobile phones rose by 19.6% y/y to USD 1.2 billion, boosted by the release of new model smartphones and rising demand for high value-added parts. Exports of computers and peripheral devices surged by 49.1% y/y to USD 1.9 billion.

The strength of South Korean ICT exports has been boosted by rapid growth in exports to the world's largest consumer markets. ICT exports to China rose by 24.0% y/y in September to USD 10.1 billion helped by strong shipments of semiconductors, displays and mobile phones. Exports to the US also rose strongly, rising by 27.2% y/y to USD 2.6 billion.

South Korean ICT exports to Vietnam, a key manufacturing hub for South Korean electronics products, totalled USD 3.6 billion in September, up 15.3% from the same period last year.

South Korean economic outlook

South Korean GDP growth is estimated at 4% y/y in 2021, with continued firm expansion at a pace of around 3% forecast for 2022. The economic recovery in the first three quarters of 2021 has been driven by consumption growth and merchandise exports. The Bank of Korea 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.

Despite the rebound of consumption during the first half of 2021, the escalating COVID-19 wave during the third quarter of 2021 dampened domestic demand.

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 ramped up considerably during the third quarter of 2021 and into October. By October 26th, around 80% of the total population had received first dose vaccinations, with 70% of the population having received two 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.

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 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. A decision on whether to formally submit its application to join CPTPP is expected before the end of 2021.