

Week Ahead Economic Preview

US, China inflation data, BoC and RBA meetings and UK GDP

Inflation data from the US and China will take centre stage next week while **central bank meetings** will be in abundance across Canada, Australia and India. Over in Europe, **UK October GDP data** and the **German ZEW survey** will be due. **China** meanwhile also releases trade and credit growth data.

A flare-up of concerns over the COVID-19 Omicron variant come at a time of PMI data painting a picture of [global manufacturing facing persistent supply shortages and price pressures](#). Adding to the market jitters over the new variant had been Fed chair Powell's hawkish comments, acknowledging that inflation should no longer be labelled 'transitory'. One certainly recalls the October CPI surprise, placing the attention on the upcoming November data where quicker inflation could further accelerate the Fed's tapering plans. As far as the IHS Markit US Manufacturing PMI revealed, price pressures have yet to abate, which could add to concerns about stickier inflation. On the other hand, China's PPI data could potentially see some inflation pressures ease in November, according to PMI data, in part due to lower coal prices.

Amid the growing attention paid towards the Omicron 'variant of concern', the German ZEW survey will be of interest. Comments from central bankers across Canada, Australia and India will also be watched keenly even as rates are expected to stay unchanged. As it is, both Canada and Australia reported the detection of Omicron and took backward steps, of varying degrees, towards border reopening.

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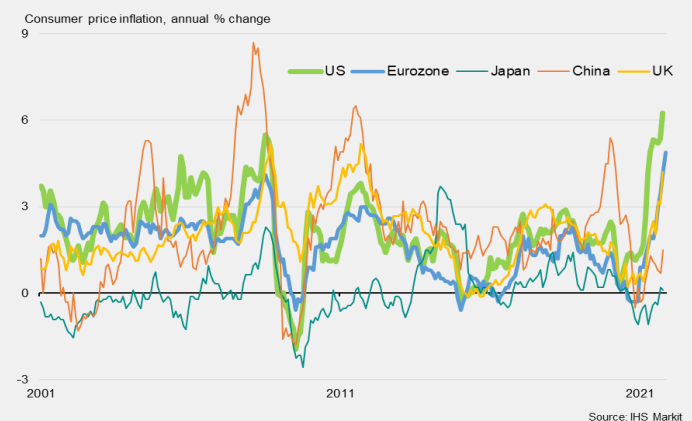
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Inflation updates in focus

Markets are currently gripped by twin worries over the Omicron variant and rising inflation. While the efficacy of vaccines against the new variant may need more time to assess, next week brings new clues on inflation in the form of updates to US and China consumer price gauges, as well as producer prices in the latter.

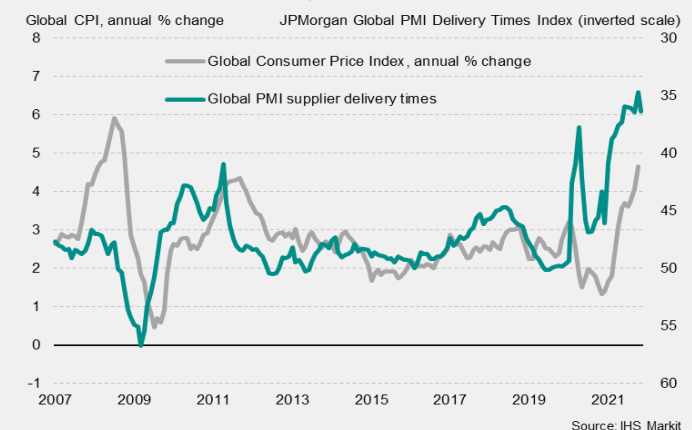
Inflation is currently running at a 31-year high of 6.2% in the US, while the eurozone is seeing a record 30-year high rate of 4.9% and the UK has reported a decade high pace of 4.2%. Far weaker increases are being seen in Asia, but rates are creeping higher.

Inflation rates



Recent PMI data suggest that these rates may not yet have peaked, as persistent supply constraints continuing to create a sellers' market. Although some signs of supply pressures easing are becoming apparent (see [special report](#)), service sector costs are on the rise as wage growth picks up, adding to concerns of stickier inflation. Thus, while we may see a peak in global inflation around the turn of the year, the risks of rates remaining elevated through 2022 have risen.

Global inflation and supply constraints



Key diary events

Monday 6 Dec

Thailand Market Holiday

Germany Industrial Orders (Oct)
United Kingdom IHS Markit / CIPS Construction PMI* (Nov)
Eurozone Sentix Index (Dec)
Global and Asia Sector PMI* (Nov)

Tuesday 7 Dec

Philippines CPI (Nov)
Australia RBA Cash Rate (Dec)
China (Mainland) Trade Balance (Nov)
Switzerland Unemployment Rate (Nov)
Germany Industrial Output (Oct)
United Kingdom Halifax House Prices* (Nov)
Norway Manufacturing Output (Oct)
Taiwan CPI (Nov)
Taiwan Trade Balance (Nov)
Germany ZEW Economic Sentiment (Dec)
Eurozone GDP (Q3, revised)
United States International Trade (Oct)
Canada Trade Balance (Oct)
Global Metals PMI* (Nov)

Wednesday 8 Dec

Philippines Market Holiday
Japan Current Account (Oct)
Japan GDP (Q3, revised)
India Repo and Reverse Repo Rate (8 Dec)
United States JOLTS Job Openings (Oct)
Canada BoC Rate Decision (8 Dec)

Thursday 9 Dec

China (Mainland) CPI, PPI (Nov)
Germany Trade Balance (Oct)
Norway GDP (Oct)
United States Initial Jobless Claims

Friday 10 Dec

Thailand Market Holiday
Malaysia Industrial Output (Oct)
Germany HICP (Nov, final)
United Kingdom Monthly GDP, incl. Manufacturing, Services and Construction Output (Oct)
United Kingdom Goods Trade Balance (Oct)
Norway Consumer Price Index (Nov)
India Industrial Output YY (Oct)
United States CPI (Nov)
United States UoM Sentiment (Dec, prelim)
China (Mainland) M2, New Yuan Loans, Loan Growth (Nov)

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

What to watch

■ North America: US CPI, Bank of Canada decision

November's US CPI data will be keenly watched following the October surprise where headline and core CPI came in at 6.2% and 4.6% respectively. As far as the [IHS Markit US Manufacturing PMI](#) revealed, supply chain issues persisted and input cost inflation accelerated to a record pace. This comes amid Fed chair Jerome Powell's recent remarks where the 'transitory' view towards inflation had been retired and risks for faster tapering were viewed to have heightened. Consumer sentiment data will also be assessed to gauge households' appetite to spend.

The Bank of Canada meets next week with no changes expected on the policy rate front at least until the middle of 2022. This is as the central bank continues to see slack remaining within the labour market and that longer-term inflation expectations seem well-anchored.

■ Europe: UK October output data, German ZEW survey, Eurozone Q3 GDP

October GDP data from the UK will be due Friday. The [UK Composite PMI](#) showed that output growth improved in October, though remaining short of the May peak. Meanwhile service sector output expanded quicker than manufacturing production amid supply chain constraints. Concurrently, German industrial production and orders will be updated alongside the ZEW survey, which will be released for a check on sentiment as COVID-19 cases rose. Optimism notably prevailed in November's [Germany Manufacturing PMI](#) survey, though production remains under pressures from supply bottlenecks.

■ Asia-Pacific: RBA, RBI meetings, China inflation, trade data, Japan Q3 GDP

The RBA meets next week after dropping their yield-targeting programme. While rate hikes may commence in 2023, no changes are expected in this last meeting of the 2021 with the RBA focused on employment goals.

China's November trade and inflation data will be due over the week in a month when the [Caixin China General Manufacturing PMI](#) eased alongside the reflection of a marked softening of inflationary pressures. Also watch out for India's industrial production, which should show signs of recovery from the Delta wave.

Special reports:

Global manufacturing buoyed by reviving Asia, but shortages drive up prices **Chris Williamson** | [page 4](#)

The new China-ASEAN strategic partnership
Rajiv Biswas | [page 8](#)

Recent PMI and economic analysis from IHS Markit

Global	Global manufacturing buoyed by rising Asian output, but supply shortage and price gauges hold close to recent highs PMI surveys: how not to mis-measure manufacturing output Flash PMIs signal stronger developed world growth, but rising COVID-19 cases cloud outlook	1-Dec	Chris Williamson
Europe	A solid-looking Eurozone PMI headline reading masks disappointing production growth as factories struggle with supply shortages UK Flash PMI points to sustained robust output and jobs growth in November, but firms' costs again rise at record rate Faster Eurozone economic upturn marred by record inflationary pressures and COVID-19 worries	26-Nov	Chris Williamson
APAC	Australia economy expands at faster rate as restrictions ease, but price pressures persist as costs surge higher	24-Nov	Chris Williamson
Commodities	Weekly Pricing Pulse: Commodity prices edge up	1-Dec	Chris Williamson
		23-Nov	Chris Williamson
		23-Nov	Chris Williamson
		23-Nov	Jingyi Pan
		1-Dec	Michael Dall

IHS Markit Economics & Country Risk highlights

PMI™ by IHS Markit Global Webcast Series — Global | 6 December 2021



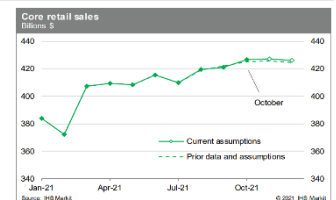
Recent PMI™ surveys have indicated that global economic growth picked up after having been subdued in the third quarter by the COVID-19 Delta wave. Nevertheless, growth is being constrained by a combination of deteriorating supply chains and soaring prices, as well as ongoing COVID-19 disruptions as case numbers rise again in various countries. In our 30-minute webcast we will review the various PMI™ indicators to analyse how demand and supply-side factors affect growth and inflation.

[Click here to register for this live webinar today](#)

US Retail Sales Rose Strongly in October as Consumers Likely Got an Early Jump on Holiday Shopping

In October, US retail sales increased 1.7%, topping the consensus but in line with IHS Markit's forecast. American consumers are riding out the rise in prices, thanks to rising wages and saving balances that grew during the pandemic. For IHS Markit Connect subscribers only, non-subscribers can contact CustomerCare@ihsmarkit.com.

[Click here to read our US Data Analysis](#)



Semiconductor Shortage: Examining the Data Behind the Bottleneck



The news is filled with articles about the semiconductor shortage: how it's impacting car manufacturing, slowing electronics production, and delaying consumer purchases. But what's the real story? How do you pull the facts from the noise? Our research team pulls back the curtain to talk through what they were seeing and watching in the data as this shortage came to the forefront.

[Click here to listen to this podcast by IHS Markit Economics & Country Risk team](#)

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Special Focus

Global Manufacturing Buoyed by Rising Asian Output, but Supply Shortage and Price Gauges Hold Close to Recent Highs

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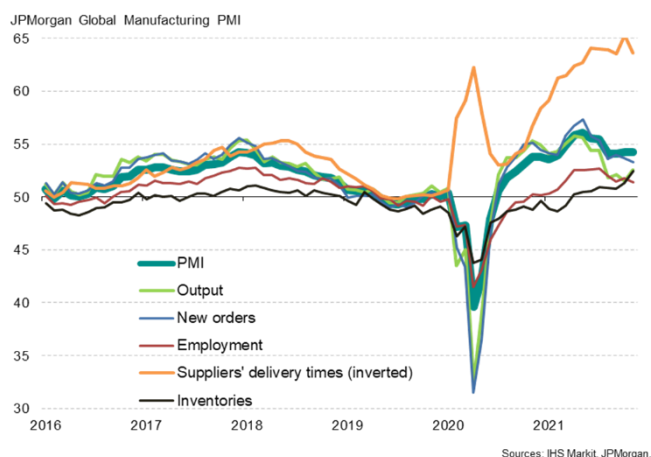
Worldwide manufacturing output growth remained subdued in November as ongoing near-record supply shortages were accompanied by a slowing of demand growth. Existing shortages were exacerbated by an unprecedented surge in safety stock building as producers grew concerned over further supply constraints amid rising COVID-19 worries, leading to yet another steep increase in goods prices.

Although the rate of price increase slowed slightly globally and the rate of supplier lead-time lengthening eased, thanks in part to rising production in Asia and lower prices in China, the outlook has darkened with the advent of the Omicron variant.

We review the latest PMI data with 10 key charts.

Global PMI edges lower

Global manufacturing PMI and its five components



The JPMorgan Global Manufacturing PMI, compiled by IHS Markit from its proprietary business surveys, edged lower from 54.3 in October to 54.2 in November. The

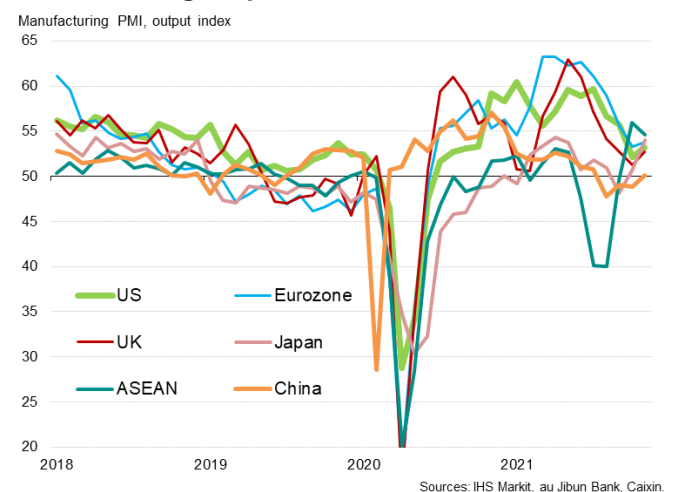
barely-changed headline reading, signalling a steady above-trend improvement in manufacturing sector business conditions, masked important signals from the survey's sub-indices, including the five components of the PMI itself. These signals are explored in the following ten charts.

Chart 1: Output growth revives in Asia but remains subdued in the US and Europe

When analysing the survey data, it is important to bear in mind that the headline PMI is a blend of five survey gauges and to get a picture of changing production trends we need to look at the survey's output index data.

Globally, the output index rose to a four-month high in November but, at 52.6, remained far weaker than the headline PMI and merely in line with its long-run average. Although output growth accelerated in both the US and Eurozone in November, the rates of expansion remained amongst the lowest since the middle of 2020 as output was constricted by shortages of raw materials. Relatively modest production growth was also again seen in the UK, likewise reflecting shortages though – unlike the US and eurozone – also linked to falling exports.

Manufacturing output



However, perhaps the most encouraging news came from Asia, as many economies saw the Delta wave impact fade. Production in Japan meanwhile accelerated to the fastest since April, and the second fastest since 2018, on the back of rising demand and fuller export order books. Production in China also stabilised after two months of falling output, hinting at some improvement after the reintroduction of covid measures implemented to counter the Delta wave.

Similarly, production continued to rebound strongly from Delta wave related restrictions in the ASEAN region, albeit losing some momentum compared to October yet remaining the second-strongest in almost a decade of comparable survey history. Across Asia as a whole, production growth accelerated to the fastest since May.

Chart 2: Production shortfall reported for ninth month

Growth of new orders waned to a 15-month low in November which, combined with the upturn in output growth, helped narrow the recent shortfall of production relative to demand. Nevertheless, global production growth continues to lag that of demand, a trend that has now been witnessed for nine successive months, with especially marked shortfalls recorded in the US, Eurozone, Taiwan and South Korea in November.

Global output and new orders growth comparisons

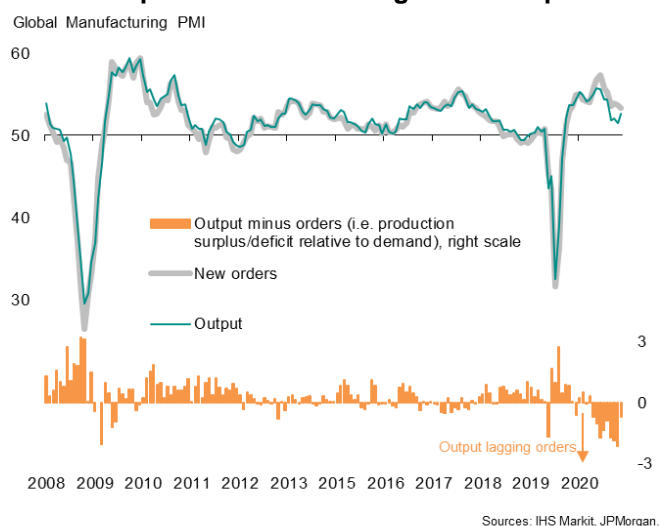


Chart 3: Backlogs of work rise sharply, though at reduced rate

The ongoing shortfall of production relative to demand resulted in a further build-up of uncompleted orders at global manufacturers, which have now risen for 16 consecutive months with especially marked rises seen over the past nine months.

Inventories of finished goods meanwhile fell sharply, reflecting the ongoing need among many manufacturers to meet current demand by eating into warehouse finished stock.

However, the increased in backlogs of work and the depletion of warehouse inventories were both less marked than in October.

Global manufacturers' backlogs of work and finished goods inventories

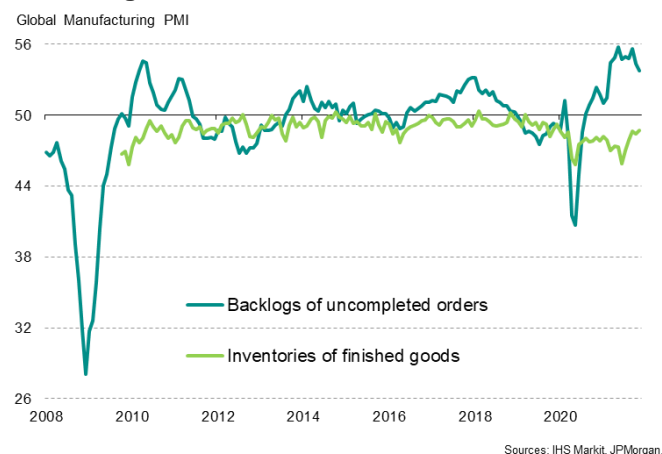
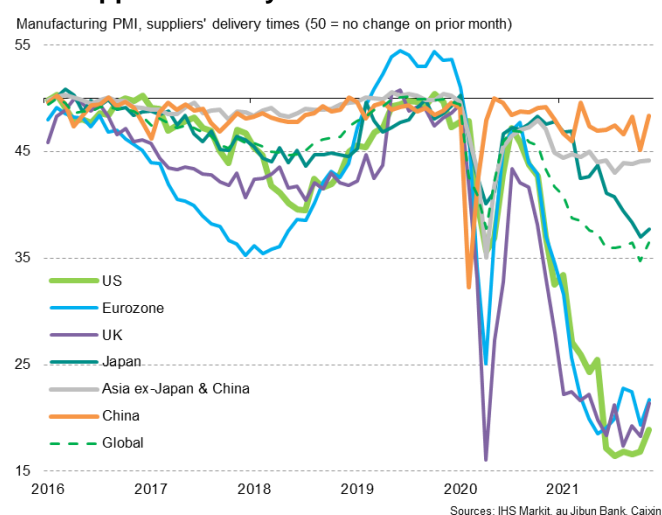


Chart 4: Supplier delays moderate but remain close to all-time highs

In many instances, a shortfall of production relative to demand (and the resulting build-up of backlogs of work) was again blamed on supply chain delays and shortages of inputs. Supplier delivery times continued to lengthen globally at a rate greatly exceeding anything recorded on over two decades of survey history prior to the pandemic, albeit with the incidence of delays moderating slightly in November from October's all-time high.

PMI supplier delivery times index



Supply delays were again associated with a number of causes, ranging from suppliers lacking production capacity to shortages of shipping containers, trucker shortages and port congestion.

While every economy covered by IHS Markit's surveys saw longer lead times in November, the incidence of

delays recorded by countries located in North America and Europe continued to run far higher than in Asia.

Chart 5: Supply shortages prompt record safety stock building

The ongoing imbalance of supply and demand was exacerbated by a record degree of safety stock building in November, as manufacturers increasingly sought to purchase additional inputs in an attempt to safeguard future production. Worldwide inventories of purchases inputs consequently also rose at a survey record rate.

Steep rises in raw material inventories were seen in Europe and the US as well as Asia, albeit with China only recording a marginal rise. Record inventory increases were in fact seen in the eurozone and Asia ex-China.

Global inventory building

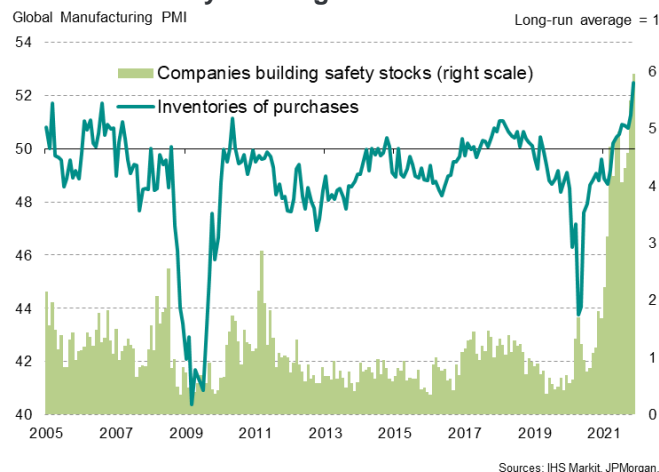
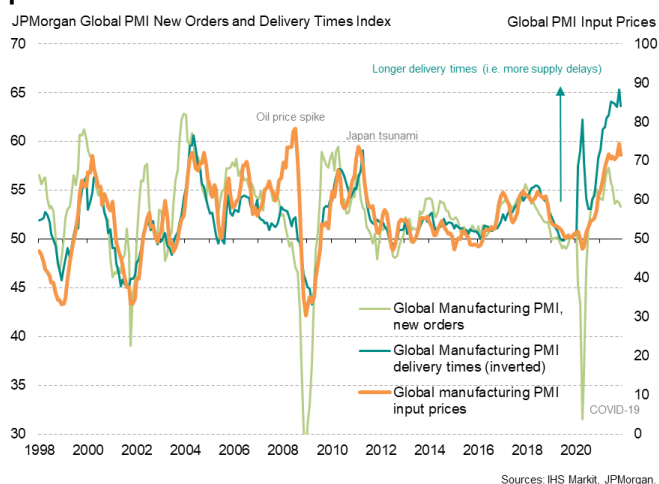


Chart 6: Record input price inflation eases

Global manufacturing supply delays and input prices



With global supply chain delays continuing to run at one of the highest levels seen almost a quarter of a century of survey data history, a sellers' market persisted, driving up manufacturers' input costs at one of the sharpest rates seen since the oil price spike of 2008-9.

However, with the incidence of supply chain delays easing slightly during the month, likely attributable in part to the resurgent production growth across large swathes of Asia, and demand growth continuing to cool, the overall rate of input cost inflation slowed in November from October's recent peak.

Chart 7: Energy and shipping prices add to producers' woes

While November brought some signs of the imbalance of supply and demand easing, rising shipping costs and higher energy costs added to producers' woes in 2021. The proportion of PMI respondents reporting higher shipping prices rose far above anything ever previously recorded by the surveys, running at over 15 times the long-run average. The proportion reporting higher energy prices meanwhile spiked to the highest since mid-2008, running at just over four times the long run average.

Global manufacturers reporting higher prices

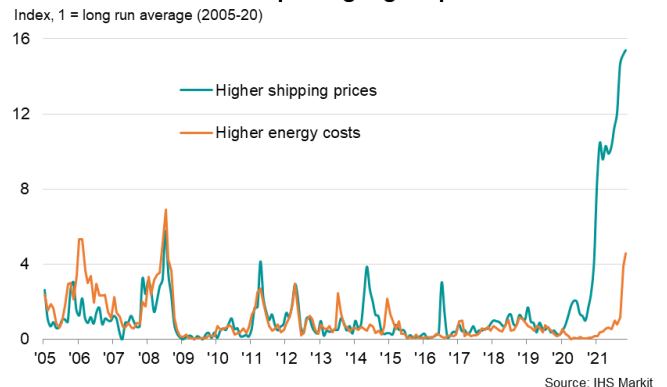


Chart 8: China bucks price trend

All economies reported higher input costs, led by record increases in the US and UK and a near-record increase in the eurozone. Japan saw the steepest rise since 2008 but China saw the rate of cost inflation slow sharply, broadly linked to the impact of lower coal prices. However, the rest of Asia reported the sharpest input cost increase for over a decade.

PMI input prices index

Manufacturing PMI, input prices

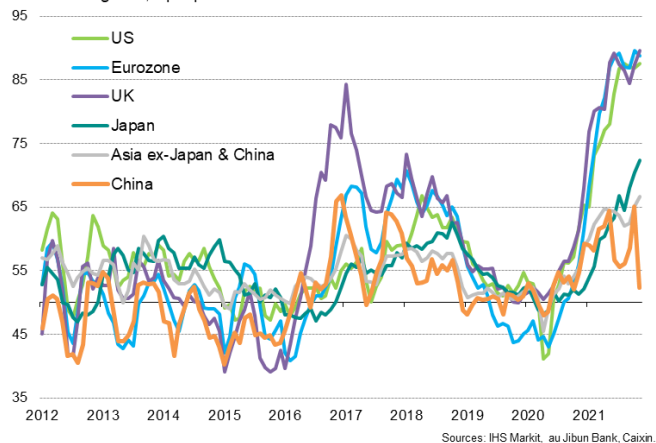


Chart 9: Steepest factory gate price inflation seen in Europe and the US

Strong regional divergences were also seen for selling price inflation. Average prices charged for goods leaving the factory gate barely rose in China but surged higher in Europe and the US, with more modest but steep rates seen in Japan and the rest of Asia as a while.

Manufacturing output prices

Manufacturing PMI, output prices

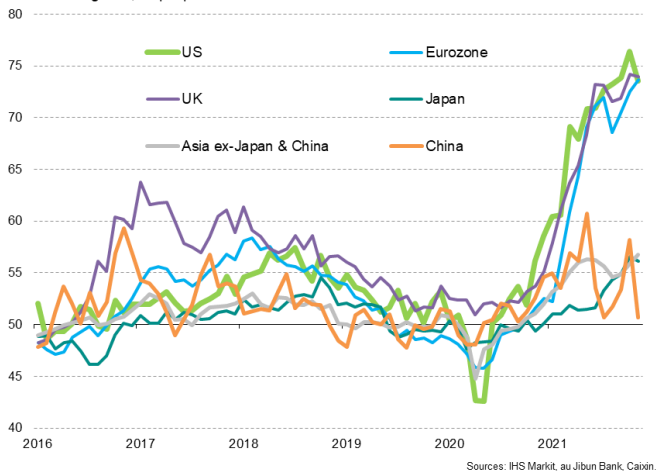


Chart 10: Future expectations lift higher but remain subdued by covid worries

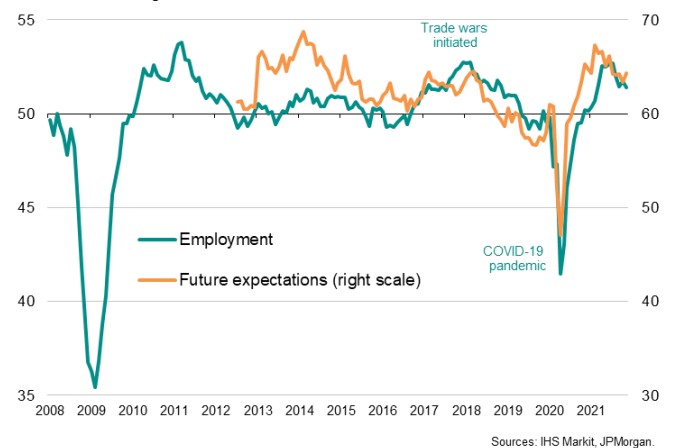
Global factory jobs growth meanwhile slipped to the joint-lowest seen over the past nine months, in part due to poor availability of labour in some countries (notably the US) but also because companies' future expectations remain subdued relative to the highs seen earlier in the year. Although future expectations brightened slightly in November, optimism had slipped in October to the lowest for a year. Prospects continued to be darkened by concerns over supply constraints,

rising prices and, more broadly, worries about the pandemic.

With the survey data for November collected prior to the news of the Omicron variant, it is likely that future business expectations will fall further in December.

Global manufacturing PMI employment and future expectations

Global Manufacturing PMI



Special Focus

The New China-ASEAN Strategic Partnership

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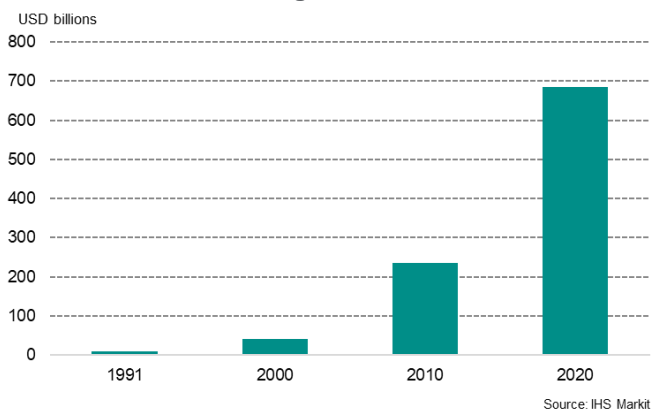
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President Xi's speech at the China-ASEAN Special Summit on 22nd November 2021 set out a roadmap for further strengthening China-ASEAN bilateral economic relations, under the framework of the new China-ASEAN Comprehensive Strategic Partnership. The enhanced bilateral relationship reflects the rapid growth in bilateral economic ties. In 2020, ASEAN surpassed the European Union to become China's largest trading partner for the first time.

Bilateral economic ties have grown rapidly

China-ASEAN bilateral economic ties have grown at a very rapid rate over the past three decades. Bilateral trade in goods between China and ASEAN has grown at a remarkable rate, increasing from just USD 9 billion in 1991 to USD 685 billion in 2020. In 2020, ASEAN also surpassed the EU to become China's largest trading partner for the first time. From the ASEAN perspective, China has already been the largest market for ASEAN exports for the past 12 years.

China-ASEAN trade in goods

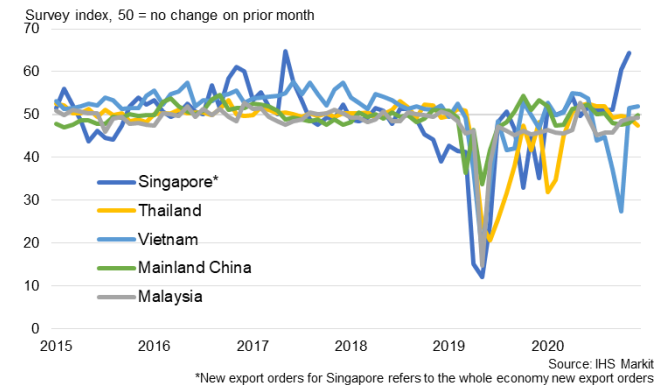


The COVID-19 pandemic had a severe negative impact on world trade in 2020, with the World Trade Organization having estimated that world merchandise trade in volume terms contracted by 5.3% in the 2020 calendar year. In contrast, bilateral trade between China

and ASEAN actually rose in 2020, growing by 6.7% year-on-year.

Among the ASEAN nations, at a country level, Vietnam and Malaysia had the largest bilateral trade flows with China in 2020, followed by Thailand and Singapore. In the first three quarters of 2021, China's foreign trade with the ASEAN expanded 21.1 percent year on year. This significantly reflected the rapid growth of the Chinese economy, notably during the first half of 2021.

Manufacturing PMI New Export Orders indices



Bilateral investment ties have also risen rapidly. In 2020, China's direct investment in ASEAN reached USD 14.4 billion, up by 52%, and ASEAN's actual investment in China reached USD 8 billion dollars. According to preliminary statistics, in the first half of 2021, Chinese companies invested USD 6.8 billion in ASEAN, and ASEAN investment in China was USD 5.6 billion. Cumulative bilateral direct investment between ASEAN and China is estimated at USD 310 billion.

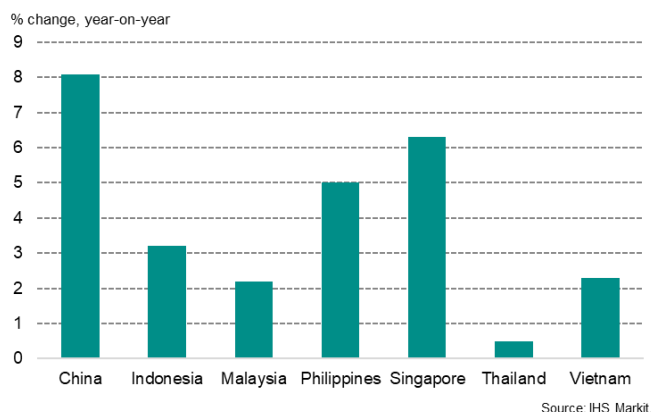
Against this backdrop of rapidly strengthening economic ties, President Xi's speech at the China-ASEAN Special Summit set out a roadmap for further building China-ASEAN bilateral economic relations. A wide range of new economic initiatives have been proposed under the framework of the new China-ASEAN Comprehensive Strategic Partnership.

New initiatives

A strong economic partnership has already been built between China and ASEAN. One important pathway that has underpinned strengthening economic co-operation over the past decade or so has been through the establishment of free trade areas. A key trade agreement that has helped to foster bilateral trade has been the China-ASEAN Free Trade Area. The new RCEP trade agreement among 15 APAC nations, including China and all ten ASEAN member nations, which will enter force from 1st January 2022, will also help to further build trade and investment ties.

Among the new measures proposed by China, President Xi announced that as part of China's bilateral trade initiatives with ASEAN, China will buy USD 150 billion of agricultural products from ASEAN over the next five years. As the agricultural sector remains a key part of the economy for many ASEAN nations, this will be an important new opportunity for ASEAN's farming and agricultural processing sector.

ASEAN-6 & China GDP growth in 2021



Another key platform for bilateral economic co-operation over the past decade has been through infrastructure development across ASEAN through China's Belt and Road Initiative. Many infrastructure projects have already been built or are under construction in ASEAN as part of the Belt and Road Initiative (BRI). Under the China-ASEAN Comprehensive Economic Partnership, China is offering additional high-quality BRI partnership projects to ASEAN.

One example of ASEAN-China co-operation in infrastructure within China is the Chongqing Connectivity Initiative New International Land-Sea Trade Corridor (CCI-ILSTC) co-developed by China and Singapore. Trade flows along the CCI-ILSTC increased by almost 30% in 2020.

A key area of long-term future co-operation between ASEAN and China under the new Strategic Partnership will be to enhance cooperation on the development of the digital economy, smart city development, artificial intelligence, e-commerce, big data, 5G usage, digital transformation, and cyber and data security.

China is also proposing a new China-ASEAN Digital Governance Dialogue to deepen co-operation in digital technology. ASEAN and China also jointly agreed to step up co-operation for implementation of the Master Plan on ASEAN Connectivity (MPAC) 2025. ASEAN and China will also work together on synergies between

the ASEAN Digital Masterplan 2025 and the Initiative on Building ASEAN-China Partnership on Digital Economy.

Climate change

The new Comprehensive Strategic Partnership will also strengthen co-operation in initiatives for sustainable development and the transition to a low-carbon economy. The Strategic Partnership will promote cooperation on new energy technologies, as well as green investment and finance. An important focus will be on upgrading of the economy, energy systems and industry towards the objectives of sustainable green growth and low-carbon development. ASEAN and China have also agreed to work in partnership to promote marine ecosystem conservation and sustainable use of the ocean, seas and marine resources.

China's development assistance for ASEAN

President Xi also announced an additional USD 1.5 billion of development assistance for the ASEAN nations over the next three years to support Southeast Asia's economic recovery from the global COVID-19 pandemic. China will also provide an additional 150 million COVID-19 vaccines to ASEAN to help increase vaccination rates, having already provided 300 million doses to ASEAN between January to October 2021.

Outlook for the Comprehensive Strategic Partnership

The wide range of new initiatives proposed to strengthen bilateral economic ties with ASEAN will accelerate bilateral trade and investment flows. China's substantial new development assistance initiatives for the ASEAN nations will also help to support economic recovery from the global pandemic.

The outlook for bilateral trade and investment ties between China and ASEAN is very favourable, due to rapid expansion of both economies that is forecast over the decade ahead. China's GDP is forecast by IHS Markit to increase from USD 14.7 trillion in 2020 to USD 32.4 trillion by 2030. Meanwhile ASEAN GDP is projected to increase from USD 3 trillion in 2020 to USD 6.8 trillion by 2030. This will help to underpin rapid future growth in trade and investment ties between China and ASEAN over the decade ahead.