IHS Markit

7 January 2022

Week Ahead Economic Preview

US, China inflation data and UK monthly GDP release

The week ahead packs a wealth of economic data to watch with **inflation numbers out of the US and China** expected to be the highlights. **December US retail sales and industrial production** will also be eagerly awaited, while in Europe, the **UK November GDP data** plus **eurozone industrial production and unemployment rate** are likely to be the key data to watch.

Global equity markets commenced the year on a positive note but soon saw week-to-date gains erased with renewed interest rate concerns, following the release of the December Fed FOMC meeting minutes. Hints of potentially faster-than-expected normalisation of interest rates, possibly starting as early as March, sent equity prices trading lower post release. While this continues to fall in line with the IHS Markit forecast of a first hike between March and June, with the May meeting being the most plausible timing, an increased focus on inflation data may well be the case moving into 2022. Some early signs of easing price pressures were recorded by the IHS Markit US Manufacturing PMI which saw cost inflation ease to the softest since June. Any cooling of price pressures with next week's CPI and PPI data may offer the market some relief, although any exacerbation of the ongoing COVID-19 conditions amid the Omicron variant's spread will be equally watched for implications.

Meanwhile UK's November GDP growth figures will be in focus as concerns grow over the outlook, with more recent data hinting at the economy being hit by Brexit and the Omicron variant's spread.

Chris Williamson
Chief Business Economist, IHS Markit
chris.williamson@ihsmarkit.com

Jingyi Pan
Economics Associate Director, IHS Markit
jingyi.pan@ihsmarkit.com

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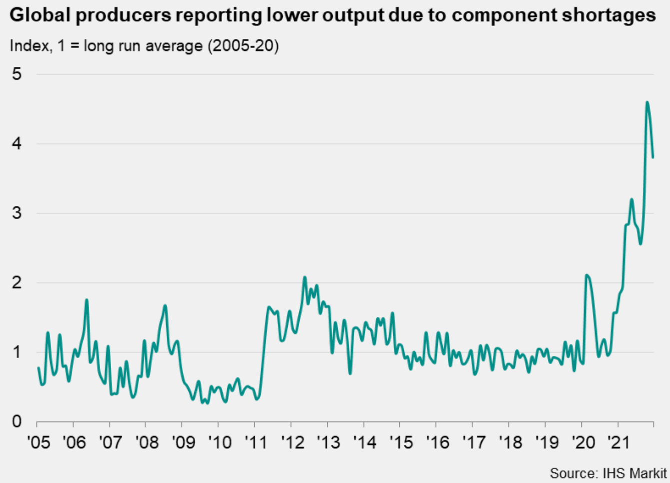
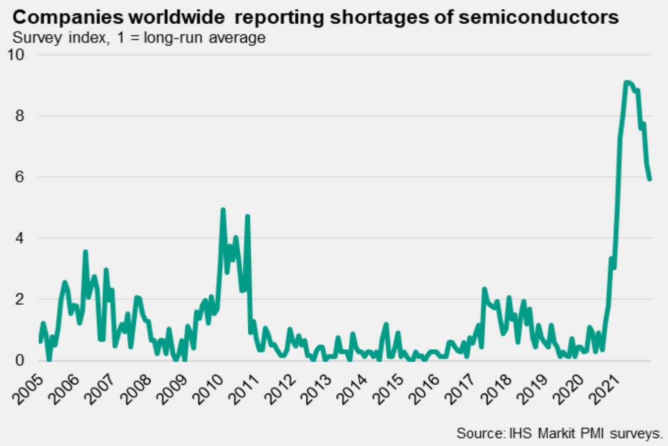
Supply constraints: is the worst over?

After 2021 saw economic growth being constrained and inflation spiking higher amid supply shortages and delays, the Omicron variant poses a new threat to supply lines as we head into 2022. However, the latest PMI survey data brought some encouraging signs at the end of last year. Global manufacturing growth accelerated as the number of companies reporting that output was constrained by raw material shortages fell for a second month, down from a peak in October.



Source: IHS Markit

This alleviation of the supply crunch is underscored by the surveys also showing the number of companies reporting items in short supply to have fallen to the lowest since February 2021, suggesting that shortages peaked back in June. Most notable was a further drop in the number of firms seeing semiconductors in short supply, which hit the lowest since last January.



Source: IHS Markit PMI surveys.

Whether Omicron hits supply chains as hard as prior COVID-19 waves remains uncertain, but the data so far suggest that the worst of the pandemic supply chain disruption may be over.

Key diary events

Monday 10 Jan

Japan Market Holiday
Australia Building Approvals (Nov)
Malaysia Industrial Output (Nov)
Norway Consumer Price Index (Dec)
Eurozone Sentix Index (Jan)
Eurozone Unemployment Rate (Nov)
United States Wholesale Inventories (Nov)
China (Mainland) M2, Loan Growth, New Yuan Loans (Dec)

Tuesday 11 Jan

Australia Retail Sales (Nov)
Australia Trade Balance (Nov)
New Zealand Reserve Assets Total (Dec)
Philippines Trade (Nov)
Indonesia Retail Sales (Nov)
United Kingdom monthly GDP, incl. Manufacturing, Services and Construction Output (Nov)
United Kingdom Goods Trade Balance (Nov)

Wednesday 12 Jan

Japan Current Account (Nov)
China (Mainland) PPI, CPI (Dec)
South Korea Unemployment Rate (Dec)
Norway GDP (Nov)
Eurozone Industrial Production (Nov)
India CPI (Dec)
India Industrial Output (Nov)
United States CPI (Dec)

Thursday 13 Jan

United Kingdom RICS Housing Survey (Dec)
United States Initial Jobless Claims
United States PPI (Dec)

Friday 14 Jan

Japan Corp Goods Price (Dec)
South Korea Bank of Korea Base Rate (Jan)
India WPI Inflation (Dec)
Germany Full Year GDP (2021)
Eurozone Reserve Assets (Dec)
United States Import Prices (Dec)
United States Retail Sales (Dec)
United States Industrial Production (Dec)
United States Business Inventories (Nov)
United States UoM Sentiment (Jan, prelim)

* *Press releases of indices produced by IHS Markit and relevant sponsors can be found here.*

What to watch

- **North America: US inflation, retail sales and industrial production**

  December US consumer prices, producer prices, retail sales and industrial production will all be released next week with the focus remaining squarely on the inflation data. The latest IHS Markit US Manufacturing PMI revealed that manufacturing output growth picked up slightly in December but remained constrained by supply shortages, though the rate of cost inflation eased to the softest since June. Composite PMI also showed that selling prices rose steeply but at the slowest pace in three months, signalling the likelihood of a softer CPI reading in December. Consensus estimates currently point to 0.4% for the headline CPI reading.

- **Europe: UK November output data, eurozone industrial production, unemployment rate**

  A series of updates from the UK will be due next week, including the November GDP data. According to the November IHS Markit / CIPS UK Composite PMI, output growth eased slightly in November. Service sector growth remained much stronger than the recovery in manufacturing production amid supply constraints, though December data have shown the economy slowing further amid the surge in COVID-19 cases.

  In the eurozone, November industrial production and unemployment data will be released in the coming week. While demand remained strong, manufacturing PMI output data pointed to restricted production growth in November that may well be reflected in next week's official data release.

- **Asia-Pacific: China December inflation and loan growth data**

  China's inflation data will be closely watched next week after the Caixin China General Manufacturing PMI data showed input cost inflation cooling to a 19-month low, which should see producers price inflation ease. Composite PMI data meanwhile suggest that overall inflationary pressure also moderated, placing the attention on CPI data, following the November sharper-than-expected slowing to 2.3%.

Special reports:

Global Manufacturing Production Growth Accelerates at End of 2021 as Supply Disruptions Show Signs of Easing, Price Pressure Cools

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India: Foreign Investment Surges Despite COVID-19 Waves **Rajiv Biswas |** **page 8**

PMI™ By IHS Markit

Recent PMI and economic analysis from IHS Markit

Global	IHS Markit flash PMIs signal slowing economic growth momentum in December, supply constraints broadly ease	16-Dec	Jingyi Pan
	Global economic conditions turn unfavourable for emerging markets	14-Dec	Joseph Hayes
	A Tale of Two Currencies: Turkish lira and Zambian kwacha	13-Dec	Andrew Harker
	Brazil in recession, outlook clouded by interest rate hikes and mounting inflationary pressures	9-Dec	Pollyanna De Lima
US	US consumer goods producers report highest capacity constraints	7-Dec	Jingyi Pan
Europe	UK Flash PMI signals economic slowdown as Omicron hits service sector, inflation peak in sight as price pressures cool	16-Dec	Chris Williamson
	Eurozone growth at nine-month low in December as fourth COVID-19 wave hits, price pressures and supply constraints ease	16-Dec	Chris Williamson
Commodities	Weekly Pricing Pulse: Commodities rally after another energy price hike	22-Dec	Michael Dall

IHS Markit Economics & Country Risk highlights

Supply Chain Crisis: What's Ahead for 2022 [On-Demand]

The Great Supply Chain Disruption will continue into 2022, with the potential for new, unexpected shortages that will hit companies and add to inflation. In the spring of 2021, IHS Markit went into the face of conventional wisdom and warned that the disruptions would get worse. Now, drawing on IHS Markit's proprietary knowledge and databases, our experts will lay out the challenges in 2022 for shipping and transportation, manufacturing, autos, computer chips, energy, agribusiness, metals, input costs, labor availability, geopolitics, ESG, and economic impacts - and how they all interact.

Click here to watch this webinar now

Top-10 Economic Predictions for 2022: Multiple Transitions

The global economy made the transition from recovery to expansion in 2021 amid ongoing turbulence from the COVID-19 pandemic. An uneven economic expansion generated supply/demand imbalances, leading to major supply chain disruptions and rising inflation. In 2022, businesses will navigate multiple transitions in the global economy. For other IHS Markit Connect content, one can contact CustomerCare@ihsmarkit.com.

Click here to read our strategic report

A staff member talks to people waiting to be tested at a COVID-19 testing station during the first day of a national lockdown on 18 August 2021 in Wellington, New Zealand.
Hagen Hopkins/Getty Images

Get Your Money's Worth: Using PMI Data to Assess Currency Valuation

Our PMI data have long been used to accurately nowcast by relying on its early release -- well in advance of comparable official data -- and its standardized methodology. Our analysts are now using these same attributes to explore how PMI data could help establish whether a currency is over, under, or valued just right.

Click here to listen to this podcast by IHS Markit Economics & Country Risk team

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Special Focus

Global Manufacturing Production Growth Accelerates at End of 2021 as Supply Disruptions Show Signs of Easing, Price Pressure Cools

Chris Williamson

Chief Business Economist, IHS Markit

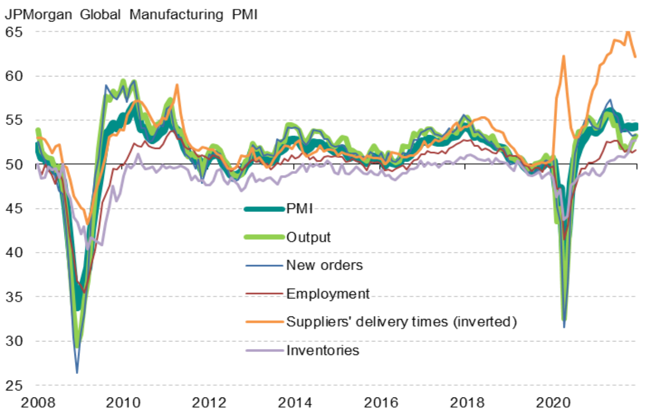
Email: chris.williamson@ihsmarkit.com

An unchanged global manufacturing PMI reading in December masked improvements in various sub-indices: factory production growth accelerated, supply disruptions eased, safety stock building was less evident and price pressures abated. Though the impact of the Omicron variant remains highly uncertain, business future expectations also remained largely unchanged, as any concerns over disruptions caused by rising case numbers were largely offset by the improving supply situation and growing hopes that any disruptions would be modest compared to prior waves.

We review the latest PMI sub-index data with 10 key charts.

Global PMI holds steady

Global manufacturing PMI and its five components



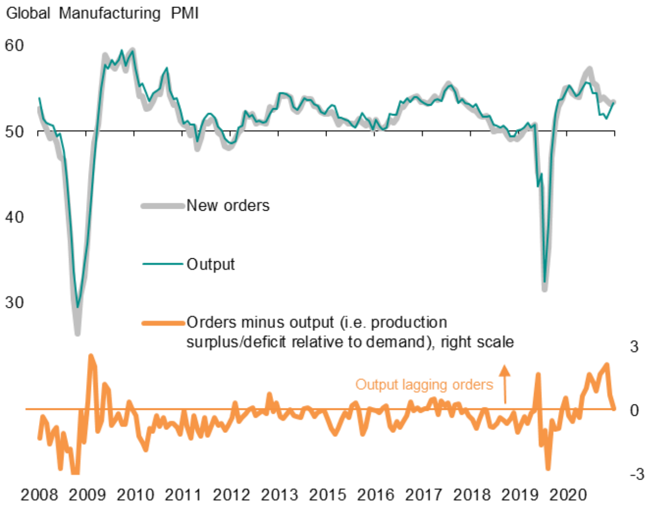
Sources: IHS Markit, JPMorgan.

The JPMorgan Global Manufacturing PMI, compiled by IHS Markit from its proprietary business surveys, held steady at 54.2 for a third successive month in December. While signalling an encouraging resilience in the overall health of the manufacturing economy in the face of the COVID-19 Omicron variant, the survey's sub-indices, including some of the key components of the PMI itself, brought even better news. These signals are explored more fully in the following ten charts.

Chart 1: Production growth recovers in line with new orders

December saw growth of factory output accelerate to the fastest since July, broadly matching the expansion of new orders for the first time since February. Whereas in recent prior months production growth had lagged demand growth to an unprecedented degree barring a brief spell in 2009 as factories simply could not produce everything being demanded by their customers, December has seen production and demand growth come back into line.

Global output and new orders growth comparisons



Sources: IHS Markit, JPMorgan.

Chart 2: Italy and the US report biggest shortfalls of production, China reports surfeit

The biggest shortfall of production relative to demand was recorded in Italy followed by the US, Australia and South Korea. France, Vietnam, Taiwan, the UK Canada, the Philippines and Germany all also reported production deficits relative to orders. However, the US production deficit was the smallest since February while the eurozone deficit as a whole was the smallest for three months.

In contrast, a surplus of production relative to new orders was seen in Thailand, Indonesia, China, as well as Spain, Japan, Russia and several other central and eastern European economies. Across Asia as a whole, the production surplus was the largest since August 2020.

Production and order book comparisons

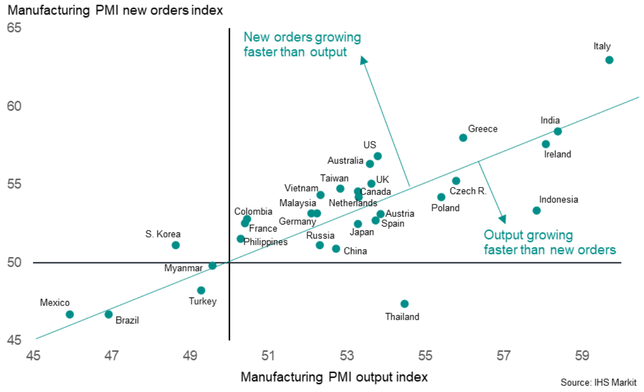


Chart 3: Production constraints ease

The faster output growth (and reduced production shortfall) in December was largely attributable to companies reporting fewer production constraints due to staff or raw material shortages. While the number of companies worldwide reporting that output was constrained by shortages continued to run at 3.5 times the long-run average in December, this is down from a record peak of 4.7 times the long-run average back in October. To underscore the unprecedented extent to which production growth has been curbed by shortages of staff and materials during the pandemic, prior to 2020 this ratio had never risen above 2.0.

Global output constraints

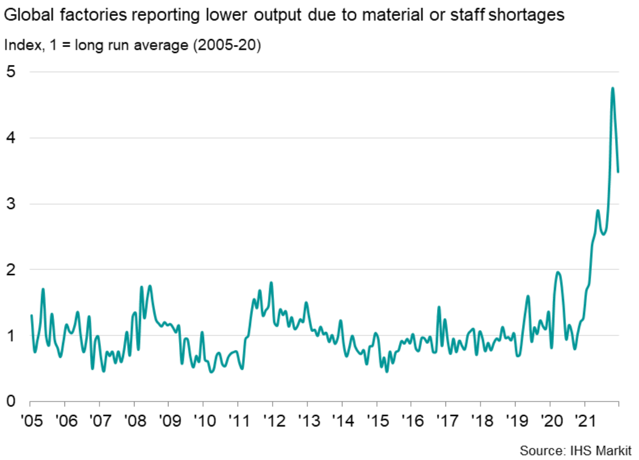


Chart 4: Supplier delivery delays ease to lowest since March

Key to the easing of the production constraints was an alleviation of supplier delivery delays in December. Although still running at a level far in excess of anything seen prior to the pandemic, the average lengthening of supplier delivery times globally eased for a second consecutive month in December to the smallest recorded since March.

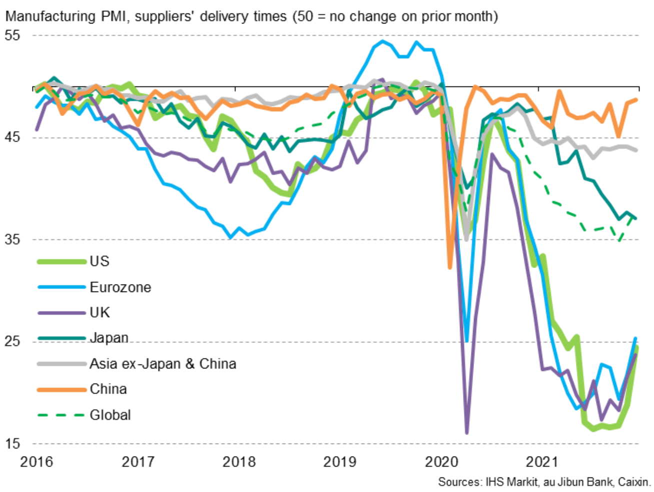
In many instances, suppliers had been able to raise capacity to meet demand for inputs from manufacturers, though problems persisted in shipping these goods to factories, with the number of companies reporting shipping delays continuing to run at around eight times the long-run average, pointing to a continued worrying – and unprecedented – logistical issue which remains unresolved. However, even these shipping delays showed some signs of moderating in December.

Global supply and shipping delays

Chart 5: Supplier delays moderate but remain close to all-time highs

Suppliers' delivery times continued to lengthen most notably in the US and Europe, though to significantly lesser extents than in prior months. Delivery lead times lengthened to the least extent for seven months in the US, ten months in the eurozone and 12 months in the UK. The latter nevertheless saw the longest lead-time extension of any country other than the Netherlands, in part reflecting additional issues relating to Brexit.

PMI supplier delivery times index



Far fewer delays were recorded in Asia, with China, in particular, seeing especially modest disruptions to supply chains.

Chart 6: Supply shortages prompt record safety stock building

The ongoing stress on supply chains and shipping times was exacerbated by stock building in December, especially as manufacturers continued to purchase additional inputs in an attempt to safeguard future production. Worldwide inventories of purchased inputs consequently at a new survey record rate for a second successive month, led by a record increase in the eurozone. However, some encouragement from signs of improving supply chains meant that the incidence of safety stock building cooled from November's all-time high, albeit remaining the third highest on record, resulting in lower inventory accumulation rates in the US and Japan.

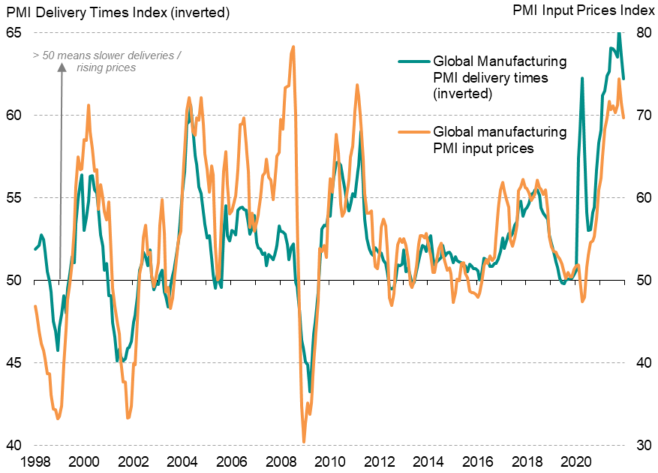
Global inventory building

Sources: IHS Markit, JPMorgan.

Chart 7: Record input price inflation eases for second month running

An easing in the rate of increase of manufacturers' input costs accompanied the cooling of supply chain pressures. Measured globally, input costs rose at the slowest pace since April, hinting that the rate of increased peaked back in October. It should nevertheless be noted that, although moderating, the rate of input cost inflation remains higher than at any time seen in the ten years prior to the surge seen in the pandemic.

Global manufacturing supply delays and input prices



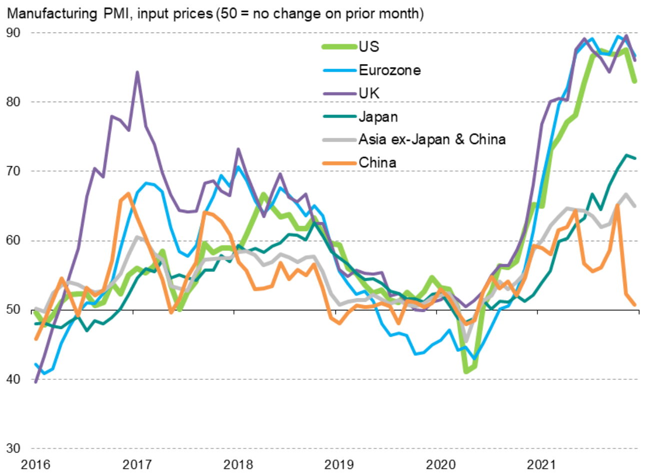
Sources: IHS Markit, JPMorgan.

Chart 8: China reports lowest rate of input cost inflation

Input cost inflation rates differed markedly around the world. Most notably, China saw prices barely rise – recording the lowest inflation rate since prices began rising in June 2020 (and the lowest of all economies surveyed in December) as government measures to bring commodity prices down took effect, notably for coal.

Input cost inflation rates also cooled in most other major economies during December, albeit with still elevated rates of increase recorded in the UK, eurozone and US. The principal exceptions were Turkey, Mexico, Malaysia and Australia, where costs rose at increased rates.

Manufacturing input prices



Sources: IHS Markit, au Jibun Bank, Caixin.

Chart 9: UK bucks trend of lower factory gate price inflation, prices fall in China

Strong regional divergences were also seen for selling price inflation, largely linked to the input cost differentials recorded during the month. Average prices charged for goods leaving the factory gate fell slightly in China for the first time since April 2020 (making it the only economy reporting lower prices in December) and rose at slower – though still elevated – rates in the US and Eurozone (the lowest for eight and six months respectively). Modest easings were also seen in Japan and the rest of Asia.

In contrast, producer selling prices rose at an increased rate in the UK (a rate of increase exceeded only by that seen in Tukey and the Netherlands), taking the rate of inflation to the highest on record.

Manufacturing output prices

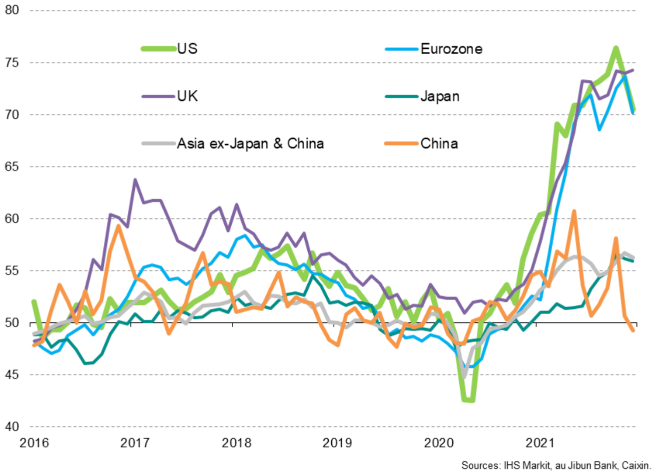
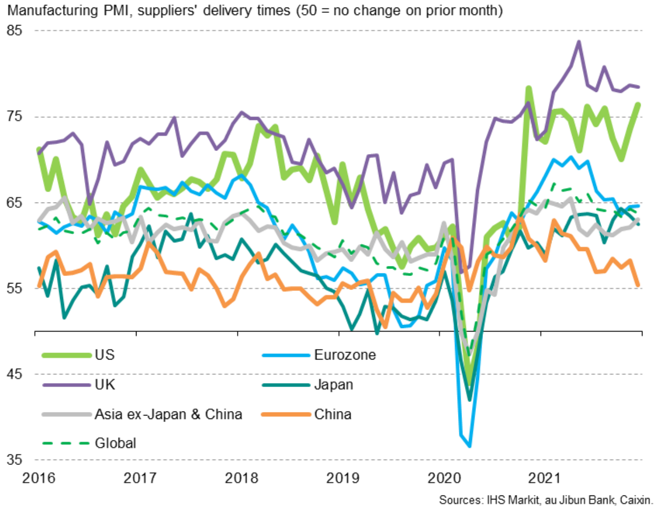


Chart 10: Future expectations show encouraging resilience in face of Omicron

In a month in which the Omicron variant led to a surge in global COVID-19 infections, the global PMI future output expectations index – which tracks firms' own projections of their output in the coming year – showed encouraging resilience. The index dropped from 64.3 in November to 63.7 in December, running below the prior 12-month average of 65.1 but remaining above the long-run average of 62.4 to suggest that firms see few additional disruptions from the Omicron spread.

Future expectations in fact even picked up in the US to the second-highest in nearly six years, linked to the improving supply situation, and lifted slightly higher both in the eurozone and Asia excluding Japan and China. The latter saw a notably marked downturn in expectations for the year ahead. Note that if China was excluded, global business confidence rose in December to the highest since July, with firms often citing fewer concerns over the impact of COVID-19 despite the Omicron variant.

Global manufacturing PMI future expectations



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Special Focus

India: Foreign Investment Surges Despite COVID-19 Waves

Rajiv Biswas

Asia Pacific Chief Economist, IHS Markit

Email: rajiv.biswas@ihsmarkit.com

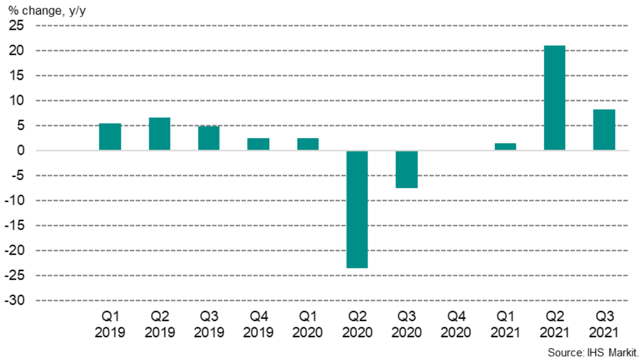
Despite the severe COVID-19 waves that hit India during 2020 and 2021, foreign direct investment (FDI) inflows reached a new record high of USD 82 billion in the 2020-21 fiscal year. FDI inflows for the first half of the 2021-22 fiscal year were USD 31 billion, with Singapore and the US being the largest source countries.

The Indian economy has also rebounded in the second half of 2021, with real GDP growth of 8.4% year-on-year (y/y) in the July to September quarter of 2021. However, with new COVID-19 cases again escalating in early 2022, the rapid global spread of the Omicron variant remains a key downside risk to the near-term economic outlook.

Indian economy rebounds in H2 2021

Following a severe COVID-19 wave that hit India in the second quarter of 2021, the number of reported daily new COVID-19 cases fell to very low levels during the fourth quarter of 2021. Meanwhile Indian GDP data for the July to September quarter of 2021 showed real growth of 8.4% y/y, as the economy rebounded from the impact of the pandemic wave.

India GDP growth, 2019-2021



For the full fiscal year 2021-22, India's real GDP growth rate is forecast by IHS Markit to be 8.2%, rebounding from the severe GDP contraction of 7.5% y/y in the 2020-21 fiscal year. The Indian economy is forecast to continue to grow strongly in the 2022-23 fiscal year, at a pace of 6.7% y/y.

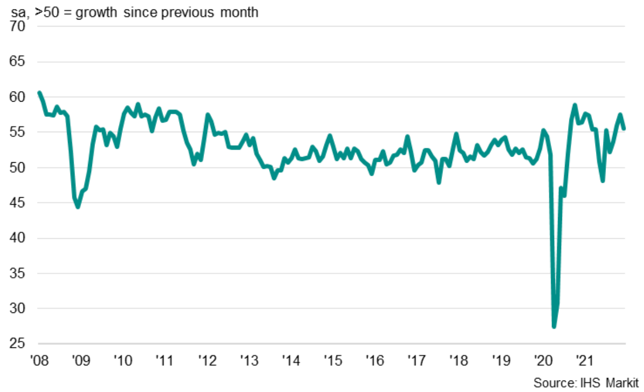
However, with a population of 1.4 billion, the logistics of vaccine rollout has been a complex process. An estimated 62% of the total population have received first dose vaccinations, with 44% having received their second doses. Consequently, India still remains vulnerable to new COVID-19 waves, due to the high share of the population who are still unvaccinated.

The rollout of booster shots commenced from 10th January 2022. The booster dose will initially be given to frontline workers and senior citizens with comorbidities. However, with signs of a new COVID-19 wave building in early 2022, the highly transmissible Omicron variant remains an important downside risk to the near-term economic outlook.

Economic indicators in late 2021 remained very positive, signalling expansionary economic conditions going into early 2022. The seasonally adjusted IHS Markit India Manufacturing Purchasing Managers' Index remained strongly expansionary in the fourth quarter of 2021, albeit edging down from 57.6 in November to 55.5 in December.

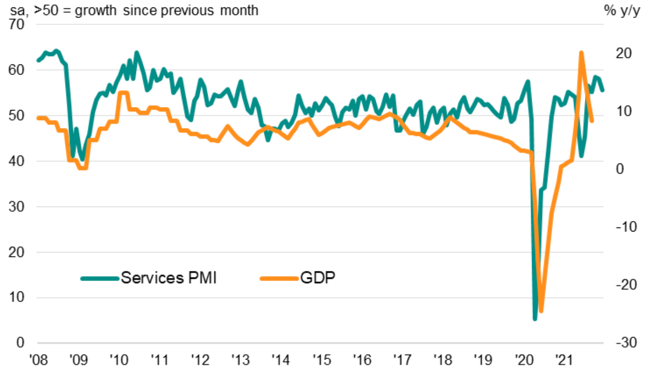
Manufacturers stated that strengthening demand and improving market conditions boosted sales. Buoyed by the pick-up in demand, companies stepped up production volumes. Output rose sharply, at the fastest rate in nine months. Factory orders rose for the fifth successive month at the fastest since February.

India Manufacturing PMI



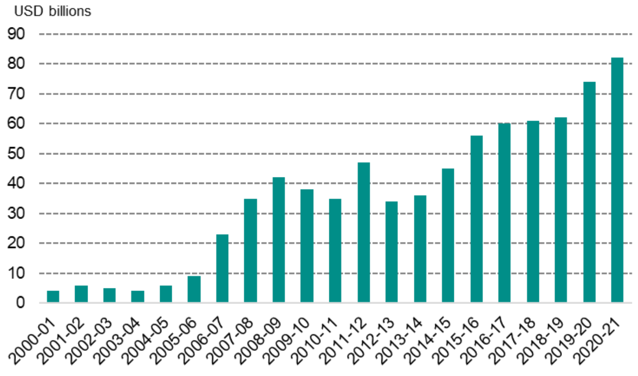
The IHS Markit India Services Business Activity PMI moderated from 58.1 in November to 55.5 in December but was still consistent with a marked rate of economic expansion. Underlying data suggested that the latest increase in new orders was driven mainly by the domestic market.

India Services PMI Business Activity



Source: IHS Markit

India: Foreign direct investment inflows



Source: RBI

Foreign direct investment

Foreign direct investment into India has risen very rapidly in recent years, with FDI reaching a new record level of USD 82 billion in the 2020-21 fiscal year. This compares with FDI inflows of just USD 4 billion in the 2003-04 fiscal year. Rapid growth in FDI inflows has been evident over the past decade, with technology related FDI having become an important source of investment.

US technology firms have been a key source of recent FDI inflows into India. In 2020, Google established the "Google for India Digitization Fund", through which it announced plans to invest USD 10 billion into India over seven years through a mix of equity investments, partnerships, and operational, infrastructure and ecosystem investments. Also in 2020, Facebook announced an investment of USD 5.7 billion in Jio Platforms, owned by Reliance Industries Limited.

Infrastructure investments have also been an important sector for FDI inflows. A large FDI deal in 2020 was the USD 3.7 billion investment by Singapore's GIC and Canada's Brookfield Asset Management in the acquisition of Tower Infrastructure Trust, which owns Indian telecom towers assets.

In the 2020-21 fiscal year, FDI from Saudi Arabia also rose sharply, reaching USD 2.8 billion. Saudi Arabia's Public Investment Fund acquired a USD 1.5 billion stake in Jio Platforms and a USD 1.3 billion stake in Reliance Retail in 2020.

Reliance Retail also received investment from other foreign firms in 2020, with Singapore's GIC and TPG Private Capital having invested a combined amount of USD 1 billion, while US private equity firm Silver Lake Partners also invested USD 1 billion.

Indian unicorns

The rapid growth in numbers of Indian unicorns (start-ups that have achieved a valuation of over USD 1 billion) over the past five years has also become a major focus for foreign direct investment inflows into India. By the end of 2021, there were 81 Indian unicorns, with 44 of these having reached unicorn status within the 2021 year, according to Invest India, the National Investment Promotion & Facilitation Agency.

Indian start-up firms have attracted large-scale foreign direct investment from global venture capital and private equity firms, such as Blackstone and Sequoia Capital. Japan's SoftBank is a leading global investor in Indian tech start-ups, having invested over USD 14 billion into Indian firms over the past decade, with an estimated USD 3 billion of new FDI in calendar 2021.

Electronics sector investment

As in many other auto manufacturing hubs worldwide, global semiconductor shortages caused significant disruption to Indian auto production in 2021, constraining new auto output and sales. With India still highly reliant on imported chips, the Indian government announced a large new incentive package of USD 10 billion in December 2021, to try to encourage the development of semiconductors and display manufacturing in India. The new incentive scheme will provide 50% financial support for the cost of establishing new semiconductor fabrication and packaging plants as well as display plants in India. Many major international electronics firms have commenced initial discussions about establishing production facilities in India. India already has strong capabilities in semiconductor design, with an estimated 24,000 design engineers working in India.

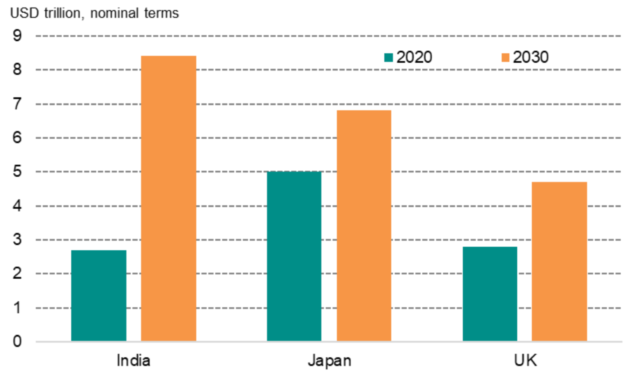
The Indian government has announced that it will accept proposals for investments under the new scheme from the start of 2022. The federal government will work with state governments in order to establish high-tech clusters for semiconductor fabs and display fabs.

India has already made considerable progress in developing its domestic electronics manufacturing industry over the past decade, with total electronics manufacturing estimated to have risen from USD 30 billion in 2014-15 to USD 75 billion in 2019-20. The growth in electronics exports has been helped by rapid growth in exports of mobile phones as major global electronics firms have rapidly expanded their production of mobile phones in India. India's mobile phone exports rose from USD 0.2 billion in the fiscal year 2017-18 to USD 1.7 billion in the first six months of the 2021-2022 fiscal year. With domestic mobile phone production having risen rapidly, imports of mobile phones have declined from USD 3.5 billion in 2017-18 to USD 0.5 billion in the first six months of fiscal 2021-22.

Indian economic outlook

The acceleration of foreign direct investment inflows into India over the past decade reflects the strong long-term growth outlook for the Indian economy. India's nominal GDP measured in USD terms is forecast to rise from USD 2.7 trillion in 2021 to USD 8.4 trillion by 2030. This rapid pace of economic expansion would result in the size of the Indian GDP exceeding Japanese GDP by 2030, making India the second largest economy in the Asia-Pacific region. By 2030, the Indian economy would also be larger in size than the largest Western European economies, notably Germany, France and the United Kingdom.

India's GDP to surpass Japan and UK by 2030



Source: IHS Markit.

The long-term outlook for the Indian economy is supported by a number of key growth drivers. An important positive factor for India is its large and fast-growing middle class, which is helping to drive consumer spending. IHS Markit forecasts that India's consumption expenditure will double from USD 1.5 trillion in 2020 to USD 3.0 trillion by 2030, measured in constant prices. The rapidly growing Indian domestic consumer market as well as its large industrial sector have made India an increasingly important investment destination for a wide range of multinationals in many sectors, including manufacturing, infrastructure and services.

The digital transformation of India that is currently underway is expected to accelerate the growth of e-commerce, changing the retail consumer market landscape over the next decade. This is attracting leading global multinationals in technology and e-commerce to the Indian market.

By 2030, 1.1 billion Indians will have internet access, more than doubling from the estimated 500 million internet users in 2020. The rapid growth of e-commerce and the shift to 4G and 5G smartphone technology will boost home-grown unicorns like online e-commerce platform Mensa Brands, logistics start-up Delhivery and the fast-growing online grocer BigBasket, whose e-sales have surged during the pandemic.

The large increase in FDI inflows to India that has been evident over the past five years is also continuing with strong momentum in 2020 and 2021. This is being boosted by large inflows of investments from global technology MNCs, such as Google and Facebook that are attracted to India's large domestic consumer market.

Overall, India is expected to continue to be one of the world's fastest growing economies over the next decade. This will make India one of the most important long-term growth markets for multinationals in a wide range of industries, including manufacturing industries such as autos, electronics and chemicals, and services industries such as banking, insurance, asset management, health care and information technology.