13 January 2022

Week Ahead Economic Preview

UK inflation, employment data, BoJ meeting and China data

A busy week ahead is lined with **central bank meetings in Japan and Malaysia** while **labour market and inflation data from the UK** will be in focus. **German ZEW survey** figures and **eurozone consumer confidence** numbers will also be due while in APAC, **China's data** dump, including **Q4 GDP**, **Japanese inflation** and **Australian jobs** data will be highlights.

Attention will focus first on China's fourth quarter GDP release, which is issued alongside details of industrial output and retail sales for December. While PMIs were better than expected, this was prior to the surge in COVID-19 cases, placing the emphasis on flash January PMI data in the following week. Meanwhile, the economy is expected to have slowed sharply in the final quarter of the year amid COVID-19 disruptions. Any severe weakening of production will be a cause for concern in relation to the global supply crunch.

Attention then shifts to the UK. The BoE surprised markets by hiking rates in December citing concerns over high inflation and the resilience of the job market following the end of the government's furlough scheme. Whether inflation has continued to rise, having hit a decade high of 5.1% in November, and whether jobs growth has been sustained – as indicated by recruitment surveys – will likely be key factors in determining the timing of the next rate hike.

In APAC, the Bank of Japan and Bank Negara Malaysia meet for the first time of the year. No changes to monetary policy settings expected but any comments on the potential impact of Omicron will be assessed.

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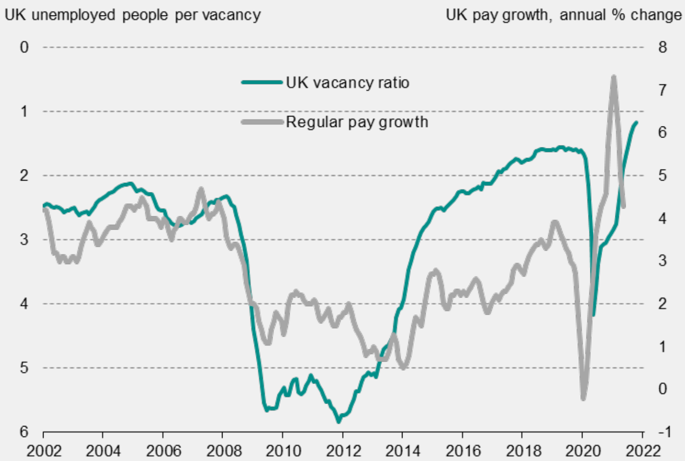
UK labour market in focus

After surging inflation in the US added to bets that the FOMC would hike rates three times in 2022, next week's focus shifts to the Bank of England. Having already started hiking rates back in December, upcoming data will be scoured for clues as to the pace of policy tightening in the coming year.

UK inflation has already risen to a decade high of 5.1%, and soaring utility bills look set to drive it still higher in coming months. The Bank is pencilling in 6% by April, but most economists expect the pace to starting cooling in the second half of the year. A rise in the upcoming CPI numbers will therefore be of little surprise, or influence on policymakers. Instead, it is the labour market which arguably needs to be watched more closely. The Bank's concern is that inflation expectations are rising, which could feed through to higher wage growth, meaning inflation stays uncomfortably high for longer than currently anticipated. Such concerns are fuelled by the prior release of official data showing the number of unfilled vacancies having risen to 1.2 million while unemployment was down to 1.4 million: an implied record low ratio of job seekers to vacancies, pointing to a tight labour market.



Source: IHS Markit, ONS.

More timely recruitment industry survey data showed the availability of staff deteriorating sharply once again in the UK during December, albeit at the slowest rate for eight months, pushing pay higher at a rate only marginally shy of all-time records. What's more, Brexit and Omicron threaten to lead to further labour supply shortages, driving costs and wages up further, though both factors are also likely to stymie economic growth. The juggling act for the Bank of England is to therefore steer a suitable course for policy among these signs of persistent inflation yet weakening economic growth, with the coming week's labour market data are likely to play a key role in determining the timing of the next move.

Key diary events

Monday 17 Jan

US Market Holiday
Japan Machinery Orders (Nov)
Singapore Non-Oil Exports (Dec)
China (Mainland) Retail Sales, Industrial Output and Urban Investment (Dec)
China (Mainland) GDP (Q4)
Norway Unemployment (Jan)
Canada Manufacturing Sales (Nov)
Eurozone Finance Ministers Meeting

Tuesday 18 Jan

Malaysia Market Holiday
Japan BOJ Rate Decision (18 Jan)
United Kingdom Labour Market Report (Dec)
Germany ZEW Economic Sentiment (Jan)
Canada House Starts (Dec)
Canada CPI Inflation (Dec)
United States NAHB Housing Market Index (Jan)

Wednesday 19 Jan

Germany HICP (Dec, final)
United Kingdom Inflation (Dec)
United States Building Permits (Dec)
United States Housing Starts (Dec)
Canada Wholesale Trade (Nov)

Thursday 20 Jan

Japan Trade Balance (Dec)
Australia Employment and Unemployment Rate (Dec)
Germany Producer Prices (Dec)
Malaysia Overnight Policy Rate (20 Jan)
Taiwan Export Orders (Dec)
Norway Key Policy Rate (20 Jan)
Eurozone HICP Final (Dec, final)
United States Initial Jobless Claims
United States Philly Fed Business Index (Jan)
United States Existing Home Sales (Dec)

Friday 21 Jan

Japan BOJ Meeting Minutes (Dec 16-17)
United States Existing Home Sales (Dec)
New Zealand Manufacturing PMI (Dec)
Japan CPI, Core Nationwide (Dec)
United Kingdom GfK Consumer Confidence (Jan)
Thailand Customs-Based Trade Data (Dec)
United Kingdom Retail Sales (Dec)
Canada Retail Sales (Nov)
Eurozone Consumer Confidence (Jan, flash)

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

What to watch

- **North America: US housing market, Canada inflation and retail sales figures**

  US existing home sales and housing starts data will be released in the coming week. The tight housing market situation will be assessed with the data. Consensus estimates currently point to a figure comparable with the prior month for December existing home sales.

  Canada inflation and retail sales figures will also be released with a focus on whether price pressures showed signs of abating in the final month of 2021.

- **Europe: UK inflation, employment and retail sales data, German inflation, ZEW survey figures and eurozone consumer confidence**

  UK inflation data will be due next week after the IHS Markit/CIPS UK Composite PMI showed price pressures easing in December. Meanwhile strong employment growth amid shortages of candidates were noted, hinting at another set of positive employment figures to be released in the coming week.

  In the eurozone, eyes will be on the January German ZEW survey as well as flash January consumer confidence data from the eurozone. Final inflation figures from Germany and the eurozone are expected to bring little surprises, after preliminary data showed inflation in the region hitting a record 5.3%.

- **Asia-Pacific: Bank of Japan meeting, Japan CPI, Australia employment data, China Q4 GDP, industrial output and retail sales figures**

  The focus in Asia is expected to be with China's data release, as December's industrial output and retail sales numbers are due following better than expected Caixin China General Services and Manufacturing PMI numbers. Fourth quarter GDP will also be due, with a slowdown to 2.3% from 4.9% in Q3 expected, according to IHS Markit, linked to the ongoing pandemic impact as China pursues a zero Covid policy.

  Central bank meetings in Japan and Malaysia are also set to take place though no changes are expected from either in their respective first meetings of the year. Japan's CPI data will receive an update for December following November's surprises on the upside, whereby core CPI rose at the fastest pace in nearly two years.

Special reports:

Global Economic Growth Hit by Omicron but Supply Tensions Ease **Chris Williamson |** **page 4**

ASEAN Economic Outlook in 2022 **Rajiv Biswas |** **page 7**

Recent PMI and economic analysis from IHS Markit

Global	Monthly PMI Bulletin: January 2022	10-Jan	Chris Williamson, Jingyi Pan
	Global manufacturing production growth accelerates at end of 2021 as supply disruptions show signs of easing, price pressure cools	5-Jan	Jingyi Pan
	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
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: Natural gas price decline outweighs broader price strength	6-Jan	Thomas McCartin

IHS Markit Economics & Country Risk highlights

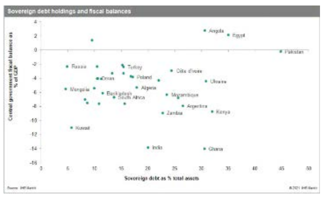
Supply Chain Crisis: What's Ahead for 2022 [On-Demand]

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 themes to watch in global banking for 2022: Risk and uncertainty remain heightened

As predicted, the global financial sector largely avoided major crises in 2021 (Lebanon standing out as the key exception). For 2022, risks and uncertainty remain heightened. Against a background of tightening global monetary policy and high inflation, alongside new COVID-19-related uncertainties, 2022 will test how successful these measures truly were. For other IHS Markit Connect content, one can contact CustomerCare@ihsmarkit.com.



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

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Special Focus

Global Economic Growth Hit by Omicron but Supply Tensions Ease

Chris Williamson

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The global economy slowed in December as rising COVID-19 case numbers dented the service sector expansion. The fresh virus wave comes at a time when the manufacturing sector is reporting an easing of supply constraints, which had helped raise production levels.

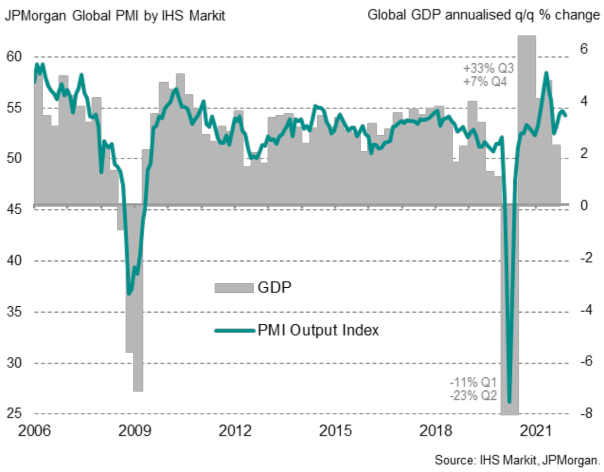
The key risk to watch going into 2022 will be whether the Omicron variant further subdues growth and disrupts supply chains once again, just as the demand recovery from the pandemic fades away.

Global economic growth slowed at the end of 2021 amid rising COVID-19 infection rates, though remained robust. The JPMorgan Global PMI™ (compiled by IHS Markit) fell from 54.8 in November to 54.3 in December, a three-month low.

Compared with a pre-pandemic long-run average of 53.6, the latest reading signals above-trend annualised quarterly global GDP growth of approximately 3-3.5%.

The data therefore point to steady economic growth in the fourth quarter as a whole, with the rate of expansion ticking slightly higher compared to the third quarter but remaining well below the growth surge seen in the second quarter.

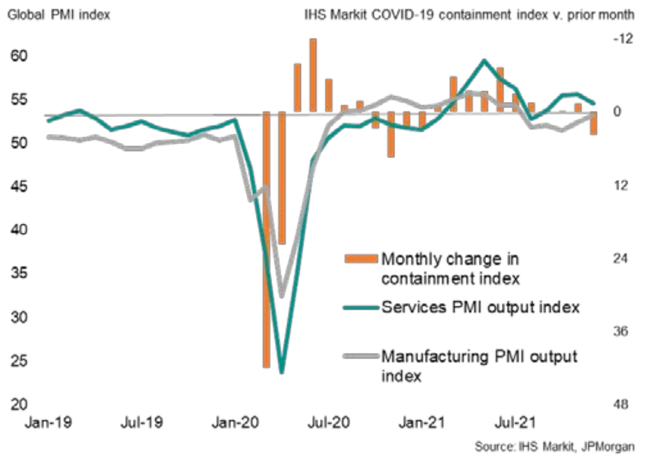
Global PMI and GDP



Omicron drags on service sector but factories benefit from easing bottlenecks

The PMI was pulled lower by a slowing of service sector growth, which slipped to the weakest for three months. In contrast, manufacturing growth accelerated to the fastest since July, albeit running behind that of services for the ninth month running.

Global PMI and Covid-19 containment



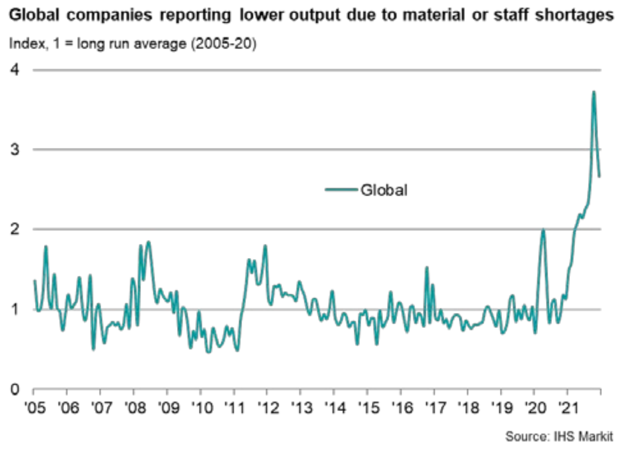
*IHS Markit's COVID-19 Containment Index is based on a basket of measures applied by governments to control the spread of the pandemic, such as non-essential business closures, school closures and travel and mobility restrictions linked to social distancing policies. As these measures are tightened,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

The weaker expansion of the manufacturing sector relative to services in recent months has been a function of the service sector benefitting from the opening up of economies after COVID-19 related lockdowns, while manufacturing has struggled amid ongoing supply constraints.

However, December saw both of these trends move into reverse somewhat. Rising COVID-19 infection rates, fueled by the widening spread of the Omicron variant, led to renewed restrictions (both imposed and voluntary) on face-to-face service sector activity in some economies during December. Manufacturers meanwhile reported that constraints on production had eased, though nonetheless remaining a significant drag on production in many cases.

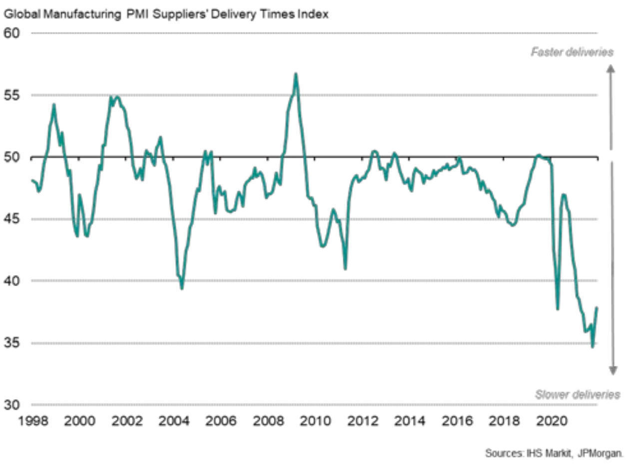
Supply constraints ease

Measured globally, the number of companies reporting that output was constrained by raw material or staff shortages fell for a second month in December, down from an unprecedented peak in October, albeit still running almost three times higher than the long-run average.

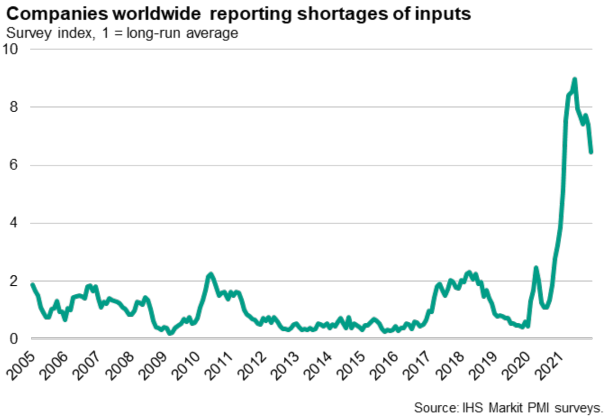


The degree to which supplier delivery times lengthened also moderated for a second successive month during December to the lowest since March, hinting that – although supply chains remain under pressure – the worst may be over in terms of average supplier lead-times.

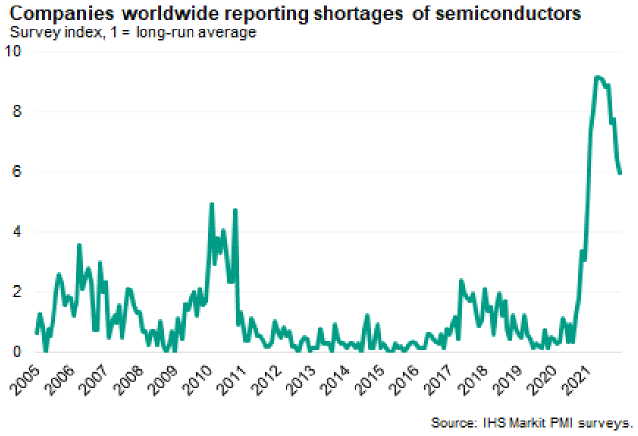
Global manufacturing supplier delivery times



This alleviation of the supply crunch is underscored by the PMI surveys also showing the number of companies reporting items in short supply to have fallen to the lowest since February, suggesting that shortages peaked back in June.



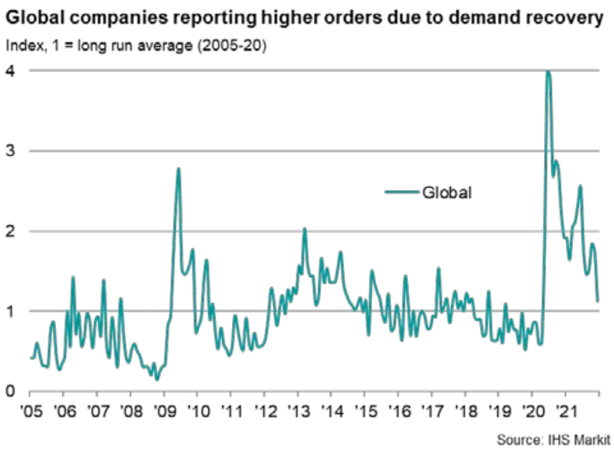
Most prominent was a further reduction in the number of companies reporting semiconductors to have been in short supply, which dropped in December to the lowest since January of last year.



Demand recovery wanes

However, it should be noted that the further COVID-19 wave from Omicron poses a risk to future growth via renewed production and supply chain disruptions. Note that the latest – December – PMI data were collected at a time of COVID-19 case numbers continuing to rise.

Furthermore, just as the supply chain squeeze is showing signs of alleviating, the global demand recovery is showing signs of fading. Measured by the number of companies globally that reported rising demand to have contributed to higher inflows of new orders, the PMI surveys indicate that the demand recovery peaked in June 2020, with a second demand wave peaking one year later in June 2021. Since then, the contribution from demand to rising order books has been on a downward trend, sliding in December to the lowest since April 2020, at the start of the pandemic.

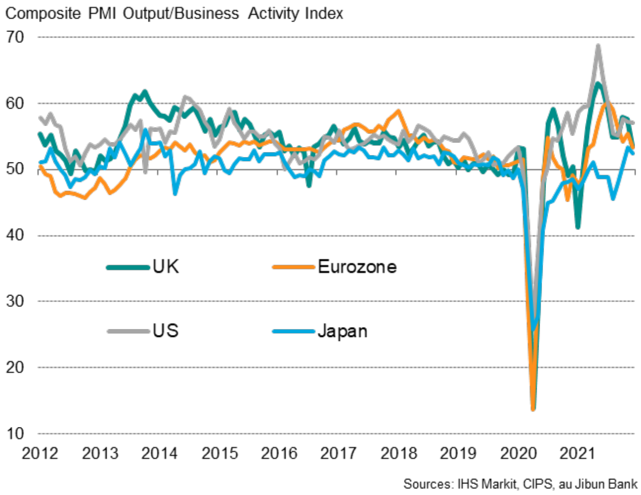


US leads developed world expansion

Looking at the major developed economies, the US led the expansion in December, with growth showing greater resilience compared to the UK and Eurozone, where growth rates slowed sharply. The most notable divergences were evident in the service sectors, linked to the increase in COVID-19 restrictions in Europe. Whereas UK and Eurozone growth rates slipped sharply to ten- and nine-month lows respectively, the US saw only a very marginal slowdown.

Japan meanwhile continued to lag, reporting slightly weakened output growth in both manufacturing and services, though continued to pull out of the Delta-wave induced downturn recorded between May and September of last year.

Output in the major developed markets



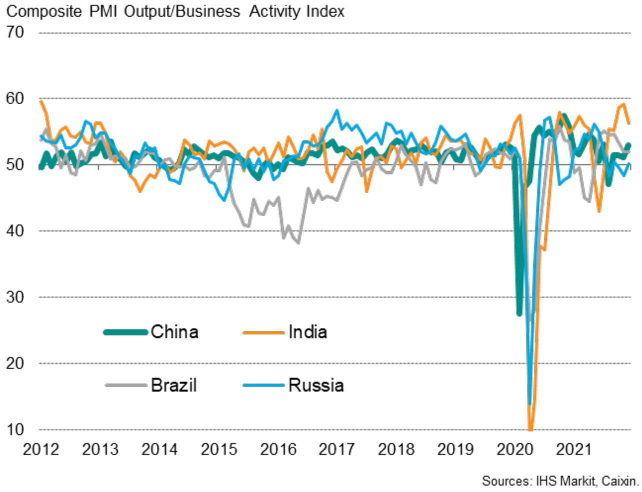
India leads emerging markets

Looking at the four largest emerging markets, India reported the fastest pace of growth for the fifth month running in December, albeit with growth slowing in both manufacturing and services to the weakest since September, as the Delta wave rebound faded and new virus worries intensified.

COVID-19 factors also inhibited growth in both Russia and Brazil, the former more or less stalled on the back of a third month of falling service sector activity and the latter seeing growth hold at the six-month low seen in November thanks to an ongoing manufacturing downturn.

In contrast, China saw a marked pick up in the rate of growth, with activity rising at the fastest rate since July as businesses in manufacturing and services continued to recover from the Delta wave disruptions, aided in part also by demand rising thanks to government measures to reduce prices.

Output in the major emerging markets



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Special Focus

ASEAN Economic Outlook in 2022

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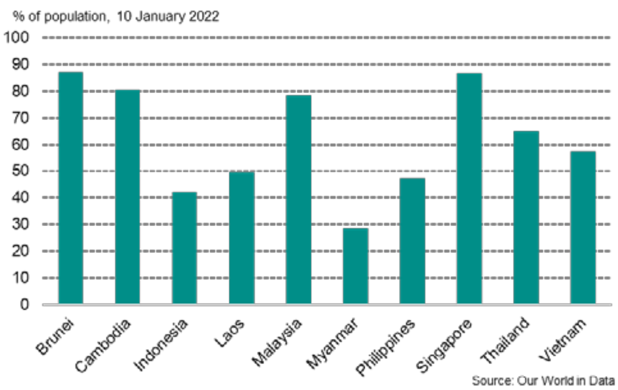
The ASEAN region showed a moderate economic rebound in 2021, with real GDP growth estimated at 2.7%. This followed economic contraction of 3.8% in 2020. The path of economic recovery in 2021 was very uneven, with new COVID-19 Delta waves hitting many ASEAN nations in the third quarter of 2021 and disrupting economic activity.

The base case outlook for 2022 is for continued economic recovery, with the ASEAN region forecast to grow at a pace of 5.0%. However, new variants of COVID-19 pose a key downside risk to the economic outlook for 2022, particularly with the rapid spread of the highly transmissible Omicron variant.

ASEAN's economic recovery disrupted in 2021

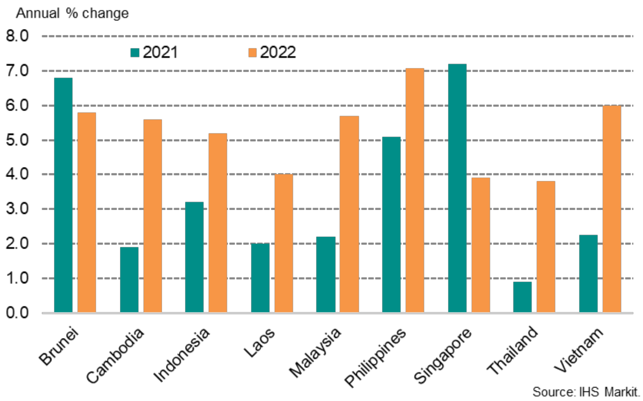
Impressive acceleration in COVID-19 vaccination rollout programs in many ASEAN nations in the second half of 2021 have contributed to significant progress in curbing the severe COVID-19 Delta waves that hit the Southeast Asian region in the third quarter of 2021. This has resulted in an economic rebound in the ASEAN region in the fourth quarter of 2021. However, the ASEAN nations, like many other countries worldwide, are facing new COVID-19 waves from the Omicron variant in early 2022.

ASEAN 2nd shot vaccination rates



In 2022, strong economic expansion is expected in most of the ASEAN nations with the exception of Myanmar. Growth momentum is expected to be supported by improving domestic demand as the impact of the pandemic is gradually mitigated by high vaccination rates and new medical treatments, notably tablets to treat COVID-19 cases. The gradual reopening of international travel will be particularly important for nations with large tourism sectors, such as Thailand, Philippines, Singapore and Malaysia.

ASEAN GDP growth, 2021-22



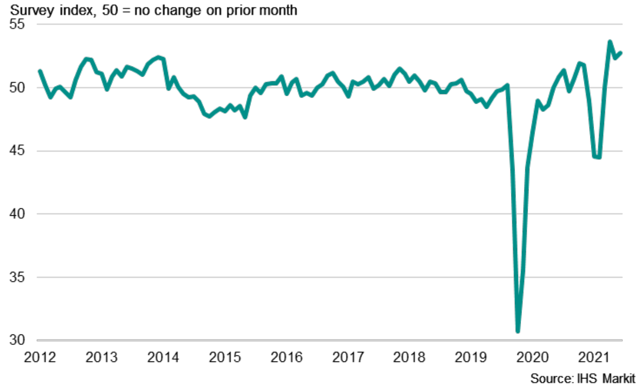
ASEAN manufacturing sector rebounds

The ASEAN manufacturing sector recorded contractionary conditions for the months of June, July and August 2021, as Covid Delta waves escalated in many nations. However, as Covid waves subsequently eased in many ASEAN countries in the fourth quarter of 2021, economic activity rebounded.

ASEAN manufacturing conditions improved sharply during December, according to the latest IHS Markit Purchasing Managers' Index (PMI) data. Output and new orders continued to show expansion in December. The latest upturn was driven by a near-record rate of output growth, in addition to a further solid expansion in order book volumes.

Ongoing supply constraints contributed to more intense inflationary pressures. Supply constraints continued to hinder stock building efforts somewhat, as average lead times for inputs lengthened sharply and for the twenty-third month running. Concurrently, firms recorded more severe inflationary pressures in December. Cost burdens rose again, with the rate of inflation accelerating to the joint third-highest on record. In response, firms again raised their selling prices.

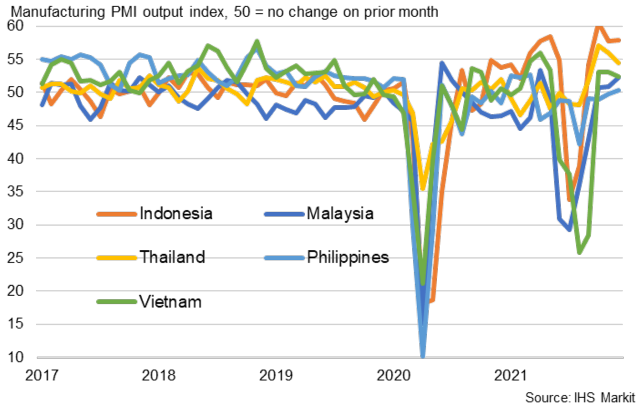
ASEAN Manufacturing PMI



Five of the seven constituent ASEAN nations of the ASEAN PMI Index reported an improvement in manufacturing conditions during December 2021. Growth was led by Singapore, where the headline PMI hit an all-time high of 58.0 (joint with April 2013) and signalled a rapid overall upturn. Meanwhile, Indonesia recorded a fourth straight monthly expansion in conditions.

Both Malaysia and Vietnam reported stronger upturns during December. In Malaysia, the PMI ticked up to an eight-month high of 52.8 and signalled a strong improvement in the health of the sector. Vietnam's headline reading (52.5) was also the highest since last May. The Philippines also recorded an improvement in manufacturing conditions during December. At 51.8, the Philippines Manufacturing PMI pointed to a moderate pace of economic expansion.

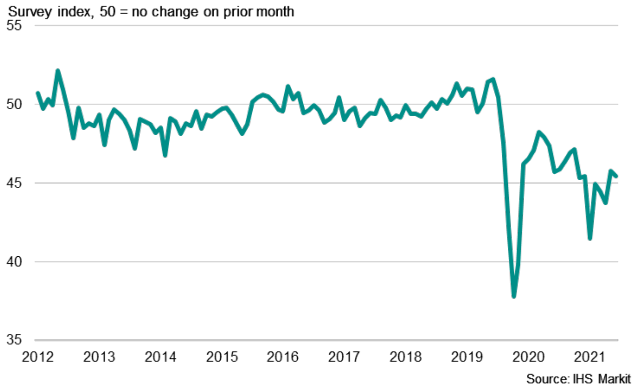
Asian manufacturing recovers from Delta waves



ASEAN supply chain disruptions persist

The rebound in industrial production across many ASEAN nations has helped to ease supply chain disruptions caused by the recent COVID-19 waves in Southeast Asia. Major manufacturing hubs such as Malaysia and Vietnam had suffered considerable disruptions to manufacturing output during the third quarter of 2021, impacting on supply chains in many industries, including auto and electronics manufacturing.

ASEAN Suppliers' Delivery Times



However, even as industrial production rebounds, the process of normalizing production levels and catching up with backlogs of new orders is likely to be gradual. In Malaysia, companies continued to report widespread issues with component shortages, shipping delays and a lack of containers in the fourth quarter of 2021. Even by December 2021, firms also highlighted that a lack of raw materials and labour continued to place additional strains on capacity as new orders improved.

Vietnamese firms also reported continuing supply chain disruptions, with the sourcing and distribution of products remaining challenging for many firms. In December, manufacturers continued to face delays in the delivery of inputs. There were some reports that the transportation situation was beginning to normalize, but raw material shortages and shipping delays continued to hamper efforts to secure inputs. Material shortages led to ongoing increases in input prices, while higher costs for oil and freight were also mentioned by firms.

Furthermore, many Vietnamese firms have faced labour shortages due to delays relating to the return of migrant workers from other provinces within Vietnam, after they had returned to their hometowns during the latest COVID-19 wave. Consequently, labour shortages were still a significant issue for the manufacturing sector in the fourth quarter of 2021.

Nevertheless, the Vietnamese economy rebounded in the fourth quarter of 2021, growing at a pace of 5.2% y/y, after contracting by 6.0% y/y in the third quarter of 2021 due to severe economic disruptions resulting from the COVID-19 Delta wave.

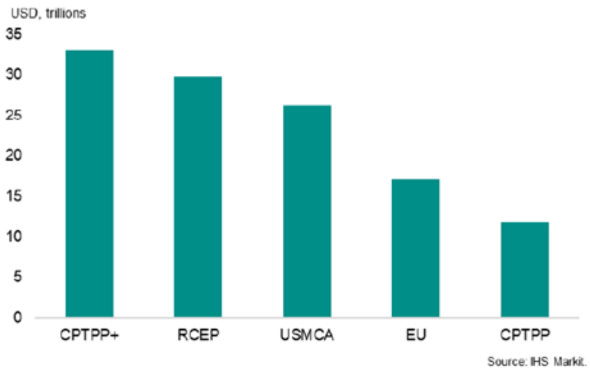
In Indonesia, a further lengthening of lead times for inputs in December added to signs of sustained supply chain pressure. Suppliers' delivery times increased at a sharper rate than the previous month, driven by shipping delays and supplier shortages.

RCEP will boost ASEAN trade flows

The Regional Comprehensive Economic Partnership (RCEP) is a trade liberalization initiative among 15 Asia-Pacific economies which together account for around 29% of world GDP. The RCEP members comprise the 10 ASEAN members, plus China, Japan, South Korea, Australia, and New Zealand.

The implementation of RCEP on 1st January 2022 will allow the benefits of the trade agreement to commence for those nations that have already ratified the agreement. Amongst the ASEAN nations, those that have ratified RCEP to date include Singapore, Thailand, Vietnam, Cambodia, Brunei and Laos. The other RCEP members that have ratified the RCEP agreement are Australia, China, Japan, New Zealand and South Korea.

Size of regional FTAs by total GDP



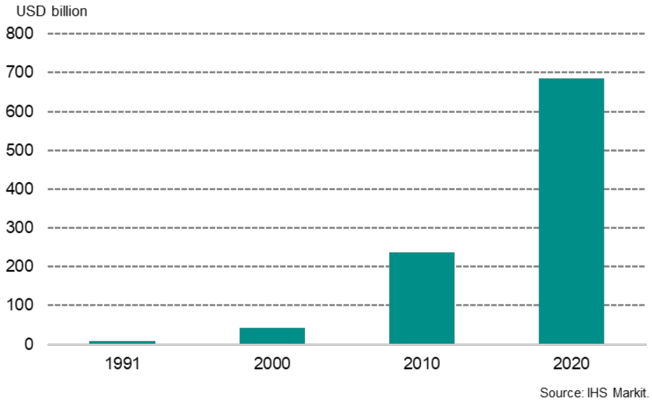
RCEP is the world's biggest regional free trade agreement (FTA) measured in terms of GDP, larger than the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the European Union, the recent US-Mexico-Canada Free Trade Agreement or Mercosur. However, if the UK and China are successful in their applications to join the CPTPP, then the expanded CPTPP would become larger than the RCEP as measured by GDP of the member economies.

For the ASEAN region, an important benefit of the RCEP trade agreement will be to help to further boost trade and investment flows with China. 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 risen at a remarkable rate, increasing from just $9 billion in 1991 to $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.

Bilateral investment ties have also soared. In 2020, China's direct investment in ASEAN reached $14.4 billion, up by 52 percent, and ASEAN's actual investment in China reached $8 billion dollars. According to preliminary statistics, in the first half of 2021, Chinese companies invested $6.8 billion in ASEAN, and ASEAN investment in China was $5.6 billion.

One important advantage of the RCEP is its very favourable rules of origin treatment, which provide cumulative benefits that will help to build manufacturing supply chains within the RCEP region across different countries. This will help to attract foreign direct investment flows for a wide range of manufacturing and infrastructure projects into the RCEP member nations. A number of ASEAN nations with strong manufacturing hubs are well-positioned to benefit from increased foreign direct investment inflows into Southeast Asia due to the rules of origin benefits of the RCEP.

China-ASEAN trade in goods



Several ASEAN nations, namely Brunei, Malaysia, Singapore and Vietnam, are also members of the CPTPP. These ASEAN countries will also benefit from improved market access to the rest of the CPTPP members. If the UK's application to join the CPTPP is eventually successful, this will further increase the trade liberalization benefits of CPTPP for the ASEAN nations that are members.

ASEAN economic outlook

Receding COVID-19 Delta waves and gradual easing of pandemic restrictions helped to support a gradual recovery in business conditions in many ASEAN nations during the fourth quarter of 2021.

The central case economic scenario for 2022 continues to be positive, with the world economy gradually emerging from the pandemic. While the ASEAN region's economic rebound in 2021 was significantly dampened by new waves of Covid Delta, the outlook is for continued economic expansion in 2022. The high level of second dose vaccinations achieved in the second half of 2021 in many ASEAN nations should help to improve resilience to further new COVID-19 waves in 2022.

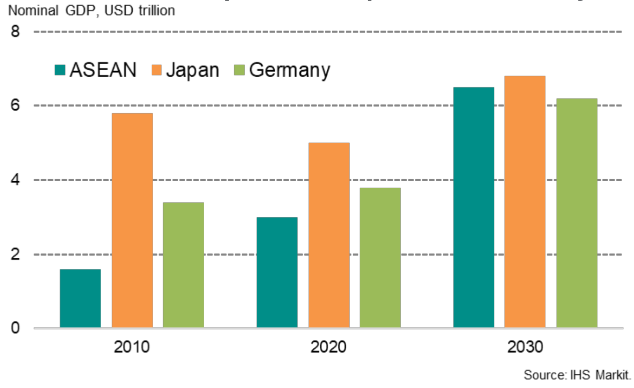
However, the Omicron variant is already creating new COVID waves in many nations worldwide and is likely to also hit the ASEAN region during the first quarter of 2022. This could create further temporary disruptions to economic activity, depending on the severity and duration of new COVID Omicron waves.

Even though an economic rebound is expected in 2022, many 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 for many countries 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 more than two years of severe economic disruption due to the COVID-19 pandemic.

Following considerable disruption to Asia-Pacific trade flows during 2018-2021 due to the US-China trade war and the impact of the pandemic, the RCEP and CPTPP mega trade deals will also help to further reduce barriers to regional trade flows within the ASEAN region and also for intra-regional trade within the Asia-Pacific region over the medium to long-term.

Over the long-term, despite the protracted negative economic shocks 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. This rapid pace of growth will be driven by both exports and domestic demand. ASEAN's exports will be boosted by strong growth in exports to other fast-growing Asia-Pacific markets, notably China and India. Domestic demand will also be an increasingly important growth driver, as the rapidly growing consumer markets of populous ASEAN nations, notably Indonesia, Philippines and Vietnam, help to drive consumption spending. Strong investment expenditure will also be an important factor supporting growth, through a combination of rapid growth in public infrastructure spending, strong private investment growth and buoyant foreign direct investment inflows.

ASEAN GDP compared to Japan and Germany



Helped by this combination of growth drivers, total ASEAN GDP measured in nominal USD terms is forecast to more than double over the next decade, increasing from USD 3 trillion in 2020 to USD 6.5 trillion by 2030. This will make the combined GDP of the ASEAN economies broadly equivalent to the GDP of Japan or Germany by 2030, highlighting the increasing importance of ASEAN region as one of the world's largest consumer markets.