Week Ahead Economic Preview

Flash PMIs, Fed FOMC, BoC meetings and US Q4 GDP data

Flash PMIs for January will be released next week while **central bank meetings in the US and Canada** unfold. The first **US Q4 GDP** reading will also be of interest amid continued US earnings updates. In APAC, **South Korea and Taiwan** release **Q4 GDP** while **Australia and Singapore inflation** data are due as well.

The first Fed FOMC meeting of the year will be closely watched for signals of an imminent hike, expected as early as March. US treasury yields and the greenback alike had found strength this week, ahead of the Fed meeting, while US equities were caught between earnings influences and hawkish Fed expectations. The Fed meeting, alongside a likely solid Q4 GDP print and earnings updates, will be key market drivers in the coming week. We will also be getting more timely signals from January flash PMI data as the COVID-19 Omicron variant continued to impact the global economy into the start of the year. The US led the developed economies at the end of last year as the Omicron variant hit Europe hard in December while cost pressures remained steep, bucking the trend of peaking price pressures seen in other developed countries. The January update will therefore in particular offer crucial information on the state of economic development in the US amid rising infection rates. As far as US equity investors are concerned, sentiment was seen turning negative in January amid Omicron, policy and political concerns.

Also watch out for CPI numbers from Australia and Singapore, as well as preliminary Q4 GDP readings from Taiwan and South Korea.

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Previewing the flash PMIs

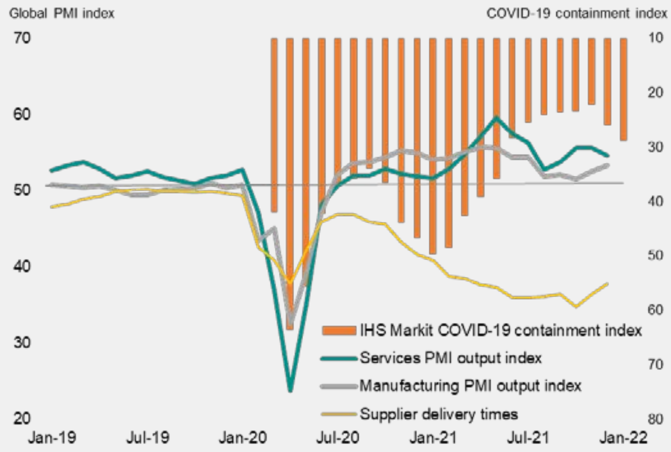
January's flash PMI data will provide the first broad insight into the economic impact of the Omicron variant's spread across the major developed economies. The new COVID-19 variant has certainly proven more contagious, with case numbers spiking well above prior highs to new records in the US, Australia, the UK and all four major eurozone economies. Japan and other parts of Asia which are critical to supply chains have also been affected.

Containment measures to control the virus have been stepped up as a result, with IHS Markit's global containment index rising from 26 in December to an eight-month high of 29 in January, up from a pandemic-low of 22 in November. This containment gauge has risen especially sharply in the eurozone and to lesser, though still notable, extents in the UK and the US, and remains at the highest since the start of the pandemic in China.

Hence the PMI data will be eagerly assessed for the impact of these new restrictions on the service sector, and notably hospitality, which already suffered a subduing impact from the nascent spread of Omicron in December (PMI data were collected mid-month). Any major impact could lead to GDP estimates for the first quarter being revised lower, and could be a cause for concern for policymakers that have turned increasingly hawkish in recent weeks.

However, a key second Omicron impact to watch for is the effect on inflation. A key mechanism to watch for the feed through of Omicron to higher prices is the PMI's suppliers' delivery times index. Global supply delays had shown signs of easing in December, but any renewed lengthening is likely to lead to higher prices, especially if combined with renewed constraints on manufacturing output. Read more here.

Global economic growth, supply delays and COVID-19 containment



Source: IHS Markit, JPMorgan

Key diary events

Monday 24 Jan

Australia IHS Markit Flash PMI, Manufacturing & Services*
Japan au Jibun Bank Flash Manufacturing PMI*
UK CIPS/IHS Markit Flash PMI, Manufacturing & Services*
Germany IHS Markit Flash PMI, Manufacturing & Services*
France IHS Markit Flash PMI, Manufacturing & Services*
Eurozone IHS Markit Flash PMI, Manufacturing & Services*
US IHS Markit Flash PMI, Manufacturing & Services*
Singapore Consumer Price Index (Dec)
Taiwan Industrial Output (Dec)

Tuesday 25 Jan

South Korea GDP (Q4, advance)
Australia CPI (Q4)
Germany Ifo Business Climate New (Jan)
United Kingdom CBI Trends Orders (Jan)
United States Consumer Confidence (Jan)

Wednesday 26 Jan

Australia, India Market Holiday
New Zealand Trade (Dec)
Thailand Manufacturing Production (Dec)
Singapore Manufacturing Output (Dec)
United States New Home Sales (Dec)
Canada BoC Rate Decision (26 Jan)
United States Fed Funds Target Rate (26 Jan)

Thursday 27 Jan

Hong Kong, Taiwan Market Holiday
Japan BOJ Summary of Opinions (Jan 17-18)
New Zealand CPI (Q4)
Germany GfK Consumer Sentiment (Feb)
Taiwan GDP (Q4, prelim)
United States Durable Goods (Dec)
United States GDP (Q4, advance)
United States Initial Jobless Claims
United States Pending Sales Change (Dec)

Friday 28 Jan

Hong Kong, Taiwan Market Holiday
South Korea Industrial Output (Dec)
Australia PPI (Q4)
Taiwan IHS Markit Mfg PMI* (Jan)
Malaysia Trade (Dec)
Eurozone Business Climate (Jan)
Eurozone Consumer Confidence (Jan, final)
United States Personal Income and Consumption (Dec)
United States Core PCE Price Index (Dec)
United States UoM Sentiment (Jan, final)

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

What to watch

- **Flash PMI for January**

  The early flash PMI data for January will be released on Monday across developed economies including the US, UK, eurozone, Japan and Australia.

  December's PMIs pointed to global growth momentum slowing amid the Omicron variant's hit, although manufacturing production growth accelerated as supply disruptions eased. The Omicron variant's spread has since extended, and various developed countries have seen their COVID-19 conditions remain severe into the start of 2022. This places the focus on how the upcoming flash January PMI will fare. Specifically, growth momentum across various developed countries releasing flash PMIs will be observed for any signs of service sector activity being further affected and whether supply chains pressures may worsen once again with the spread of the more infectious COVID-19 variant. Price gauges will also be keenly watched following heightened expectations for central banks around the world to follow the US Federal Reserve in adopting an increasingly hawkish stance.

- **North America: Fed FOMC and Bank of Canada meetings, US Q4 GDP**

  The first Fed FOMC meeting of the year will unfold next week. Recent indications have pointed to the Fed commencing their rate hikes as early as the March meeting, which leaves the upcoming meeting one to track the Fed's signals for the imminent hike. The first Q4 GDP reading will also be due in a week where the market will be closely tracking earnings. Many economists are meanwhile expecting the Bank of Canada to start hiking rates at its Wednesday meeting.

- **Europe: Eurozone consumer confidence, business climate, German Ifo business climate**

  Alongside PMI data, eurozone consumer confidence and business sentiment surveys will be released.

- **Asia-Pacific: Australia, Singapore inflation, South Korea, Taiwan GDP**

  APAC economies meanwhile see several tier-1 data releases to watch, including Q4 GDP and CPI readings across Australia, Taiwan, South Korea and Singapore.

Special reports:

PMI Survey Data to Reveal Omicron Impact Around the World **Chris Williamson |** **page 4**

China's Export Boom **Rajiv Biswas |** **page 7**

PMI™ By IHS Markit

Recent PMI and economic analysis from IHS Markit

Global	PMI survey data to reveal Omicron impact around the world	18-Jan	Chris Williamson
	Labour market heat adds to Bank of England policy dilemma	13-Jan	Chris Williamson
	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	Chris Williamson
	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
Europe	UK Flash PMI signals economic slowdown as Omicron hits service sector, inflation peak in sight as price pressures cool	16-Dec	Chris Williamson
Commodities	Weekly Pricing Pulse: Early 2022 commodity price rally continues	19-Jan	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

The Great Supply Chain Disruption: Why it continues in 2022

The global supply chain system is in the midst of the greatest disruption it has ever experienced. It will continue in 2022, with the impact felt across industries, the world economy, and inflation. Drawing upon its range of capabilities, IHS Markit brings together a coherent overview of what's happening in supply chains and why the turmoil will persist. For IHS Markit Connect subscribers only, non-subscribers can contact CustomerCare@ihsmarkit.com.

Click here to read our strategic report

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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For more information on our products, including economic forecasting and industry research, please visit the Solutions section of www.ihsmarkit.com. For more information on our PMI business surveys, please visit www.ihsmarkit.com/products/PMI

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PMI™ By IHS Markit

Special Focus

PMI Survey Data to Reveal Omicron Impact Around the World

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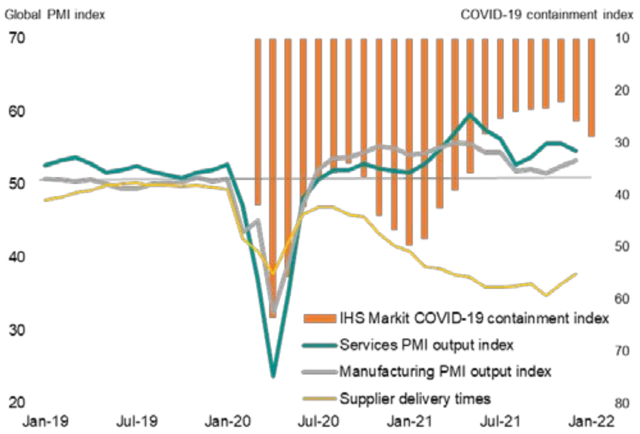
PMI survey data will provide important initial insights into economic growth, inflation, supply chain and employment trends around the world, allowing policymakers, financial market analysts and businesses to assess the latest trends at the start of 2022. Here's a quick guide to some of the key issues to watch out for.

Global economic growth, supply delays and COVID-19 containment



Source: IHS Markit, JPMorgan

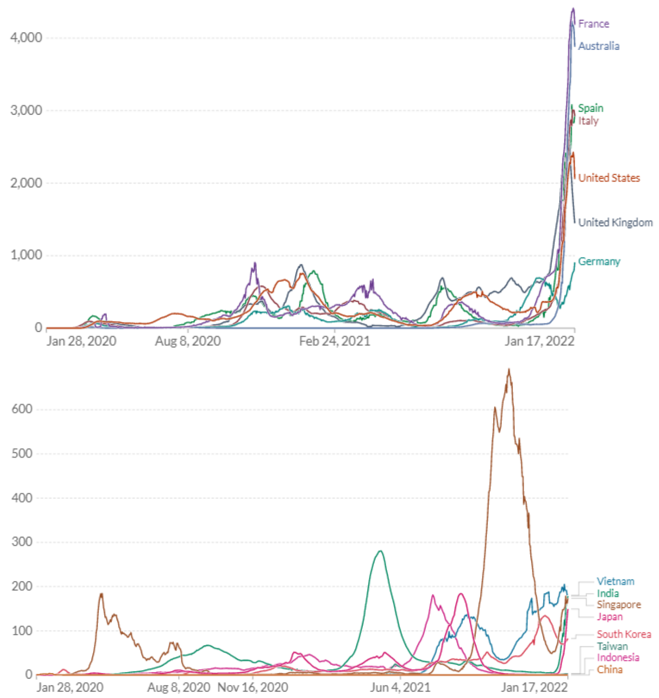
Assessing the Omicron impact

January's PMI data will provide the first broad insight into the economic impact of the Omicron variant across the globe, commencing with the flash PMI numbers on 24th January for the major developed economies.

The new COVID-19 variant has certainly proven more contagious than prior waves, with case numbers spiking well above previous highs to new records in the US, Australia, the UK and all four major eurozone economies. Japan and other parts of Asia which are critical to supply chains have also been affected, albeit with lower cases per million than in the US and Europe.

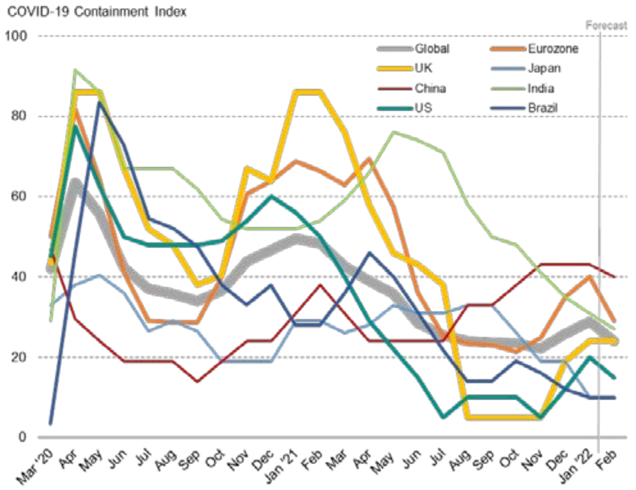
Containment measures to control the virus have been stepped up as a result, with IHS Markit's global containment index rising from 26 in December to an eight-month high of 29 in January, up from a pandemic-low of 22 in November. This containment gauge has risen especially sharply in the eurozone and to lesser, though still notable, extents in the UK and the US, and remains at the highest since the start of the pandemic in China.

COVID-19 cases per million people



Source: Our World in Data, Johns Hopkins University.

COVID-19 containment measures



Source: IHS Markit

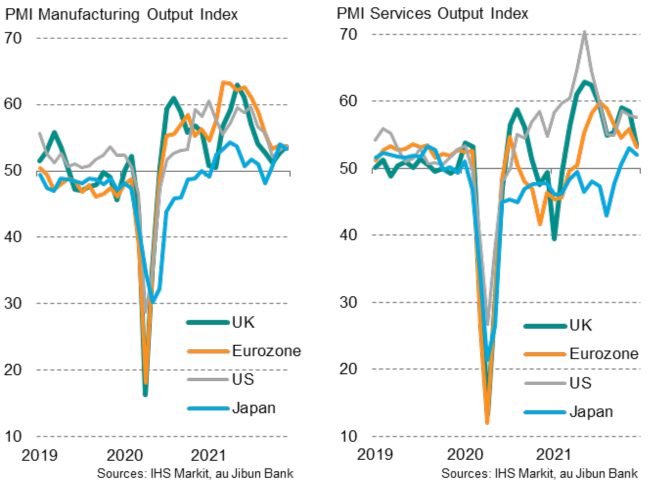
Service sector already hit by Omicron

The global ratcheting up of COVID-19 containment measures to the highest since last May means the PMI data will be eagerly assessed for the impact of these new restrictions on the service sector, and notably hospitality, which already suffered a subduing impact from the nascent spread of Omicron in December (PMI data were collected mid-month). Of course, face-to-face activity will also tend to be adversely affected by people voluntarily avoiding travel, venues, shops or other crowded places to safeguard against the virus, so the increase in containment measures will not necessarily provide a perfect guide to variations in national service sector performance, but should provide a useful guide.

To recap, the prior PMI data showed the US leading the global 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 the UK and eurozone overall growth rates slipped sharply to ten- and nine-month lows respectively mainly as a result of the weaker service sector performance, the US saw only a very marginal slowdown.

However, since these PMI data were collected, case numbers have risen even further in Europe, tightening restrictions, and have spiked higher in the US to result in signs of reduced services activity. For example, averaged over the last seven days, the count of seated diners on the US OpenTable platform was 27.3% below the comparable period in 2019. Box-office revenues last week were 52.6% below the comparable week in 2019.

Developed market output



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. As with the US and Europe, rising COVID-19 cases in Japan during January hint at further economic weakness in the service sector.

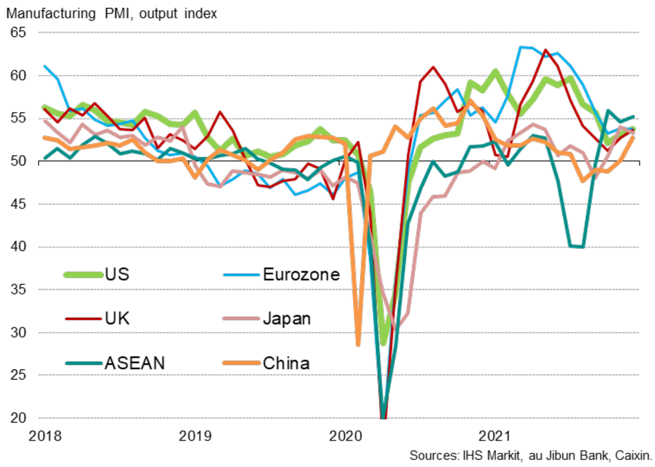
Any major impact on the service sector could lead to GDP estimates for the first quarter being revised lower, and could be a cause for concern for policymakers that have turned increasingly hawkish in recent weeks due to signs of stubbornly high inflation.

However, a second Omicron impact to watch for is the effect on inflation: although economic growth might slow due to the Omicron spread, the impact could be inflationary.

Supply chain resilience and prices

A key mechanism to watch for the feed through of Omicron to inflation is the PMI's suppliers' delivery times index. As delivery times lengthen, pricing power is handed to suppliers/sellers, and prices tend to rise. Global supply delays had shown signs of easing in December from unprecedented levels earlier in the year, albeit with delays and shortages remaining widespread, in part thanks to reviving factory output in many parts of Asia (which had been hard hit by the Delta variant), notably the ASEAN economies.

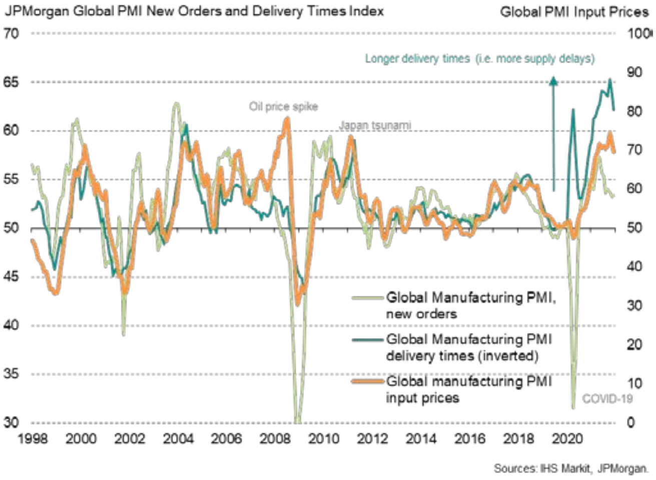
Manufacturing production revived in Asia in December…



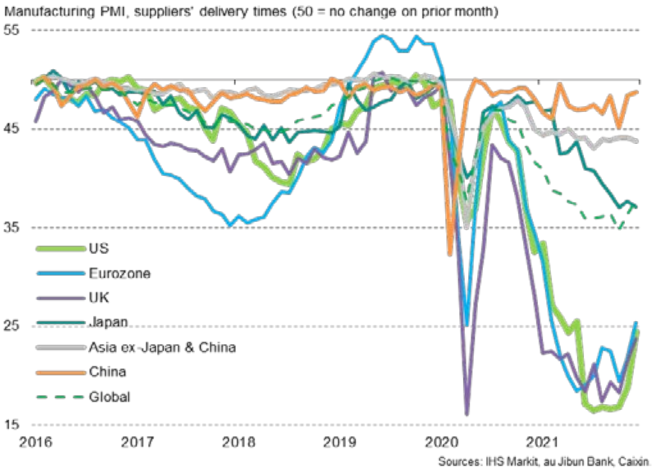
Manufacturers' input cost inflation had cooled as a result. Measured globally, input costs rose in December at the slowest pace since last April, hinting that the rate of increase peaked back in October. It should nevertheless be noted that, although moderating, the rate of input cost inflation remains higher than at any time seen in the 10 years prior to the surge seen in the pandemic. As the following chart also clearly implies, any renewed lengthening is likely to lead to higher prices, especially if combined with renewed constraints on manufacturing output due to Omicron occurring at a time of stronger demand.

One of the aspects of the pandemics waves has been a switch from spending in services to goods when infection rates and containment measures increase, so it is possible that we will once again see manufacturing output constricted again just as demand for goods rises.

…helping alleviate global supply constraints, in turn taking pressure off prices



Supply chain delays

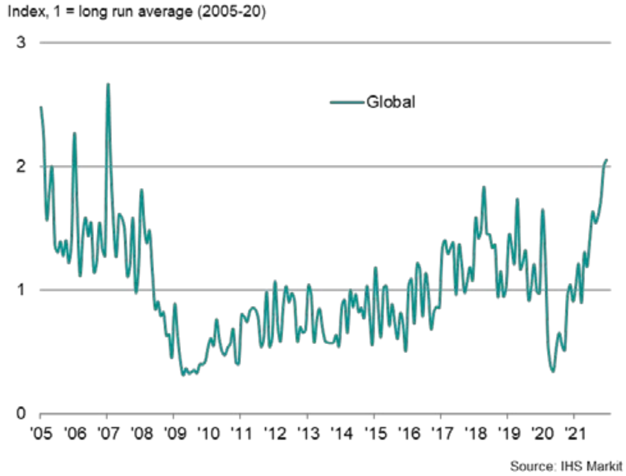


Service sector costs and wage growth

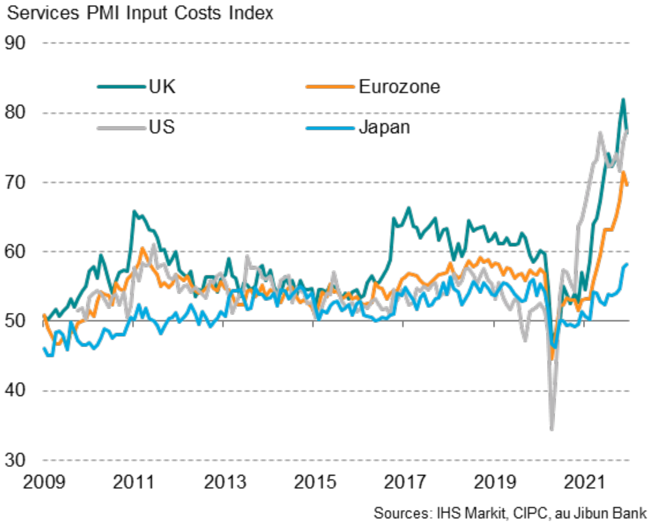
A further aspect of the surveys to watch is the feed through of price hikes to the service sector and wages, as second-round inflation effects such as rising wages could be key to the degree of policy tightening we see over the course of 2022 from the major central banks. The alleviating supply crunch has principally helped reduce the rate of manufacturing cost pressures, but a far smaller easing in service sector's price gauges was evident globally in December, reflecting the sector's greater exposure to staff costs.

Global employment growth slowed to a three-month low in December, in part reflecting ongoing problems in recruiting or retaining suitable staff, often resulting in higher wages and salaries, notably in Europe (especially the UK) and in the US. The number of service providers reporting increased costs due to rising staff wages and salaries hit the highest since 2007 globally in December, helping sustain global service sector cost inflation at a rate only slightly shy of November's 13-year high.

Service providers reporting higher costs due to rising staff costs



Developed market service sector cost inflation



Links for further information

The following links provide further information both on recent PMI survey findings and some of the methodology behind the surveys:

- Global economic growth hit by Omicron but supply tensions ease, a recap of the worldwide PMI surveys in December 2021
- Overview of global manufacturing production at end of 2021: growth picks up as supply disruptions show signs of easing, price pressure cools
- Understanding PMI suppliers' delivery times: A widely used indicator of supply delays, capacity constraints and price pressures
- Headline PMI vs. subindices: how signals can be lost by focusing exclusively on the headline manufacturing PMI

Special Focus

China's Export Boom

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China's exports grew by 29.9% year-on-year (y/y) in 2021, with its annual merchandise trade surplus reaching a record high of USD 676 billion. The total value of China's merchandise exports reached USD 3.3 trillion.

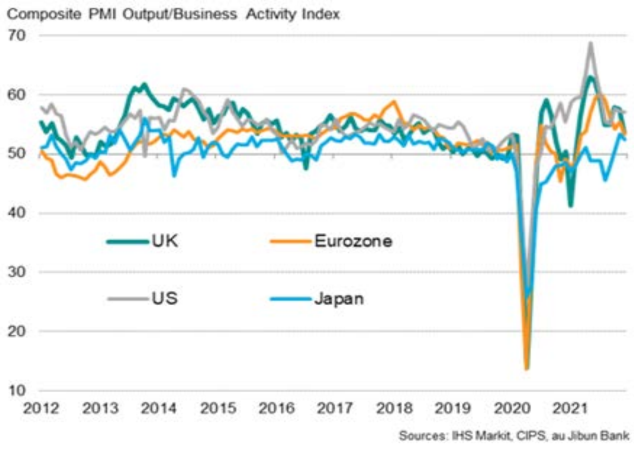
The bilateral merchandise trade surplus with the US for 2021 increased to USD 397 billion, as China's exports to the US rose by 27.5% y/y. In the Asia-Pacific region, China's trade with the other 14 nations of the Regional Comprehensive Economic Partnership (RCEP) trade agreement rose by 18.1% in 2021, comprising around 31% of China's total trade.

China's exports surge in 2021

The strong growth in China's exports in 2021 reflected the rebound in global economic growth and consumer spending. World GDP is estimated to have increased by 5.6% y/y in 2021, after contracting by 3.4% in 2020.

Rapid growth in US and EU consumer markets helped to drive demand for Chinese exports. Notably, there was buoyant expansion in exports of medical equipment and electronics due to pandemic-related demand for personal protective equipment (PPE) and electronic goods for home offices and digital entertainment.

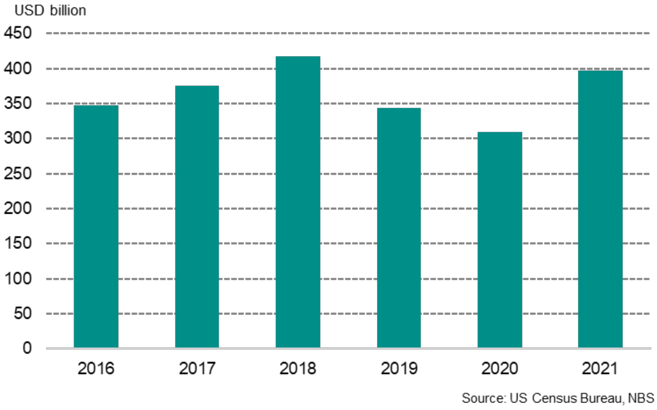
Output in the major developed markets



China's exports to the US rose by 27.5% y/y in 2021, with China's bilateral trade surplus with the US rising by 25.1% y/y to reach USD 397 billion. This was slightly below the record high bilateral trade surplus of USD 418 billion recorded in 2018.

China's exports to the EU also showed strong gains, rising by 32.6% y/y in 2021 to reach USD 518 billion. This pushed China's bilateral trade surplus with the EU to USD 208 billion, rising sharply by 57.4% compared with 2020.

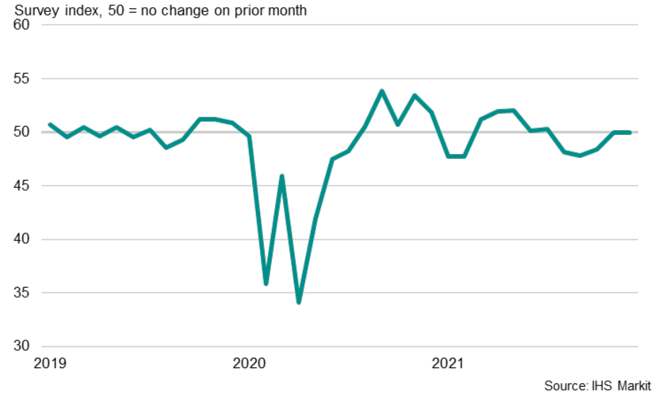
China's merchandise trade surplus with the US



China's imports also grew strongly in 2021, rising by 30.1% y/y. China's imports from the US rose by 32.7% y/y in 2021, albeit the large imbalance between bilateral exports and imports with the US resulted in a sharp increase in China's bilateral trade surplus.

Despite China's trade war with Australia during 2020-21, China's imports from Australia rose by 40% y/y in 2021, due to the surging value of imports of iron ore and LNG from Australia.

China PMI Export Orders 2019-2021

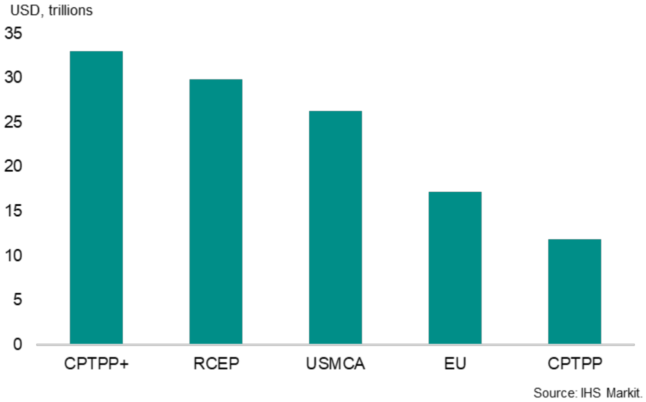


RCEP will boost China's trade flows in APAC

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, which include China. 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, 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.

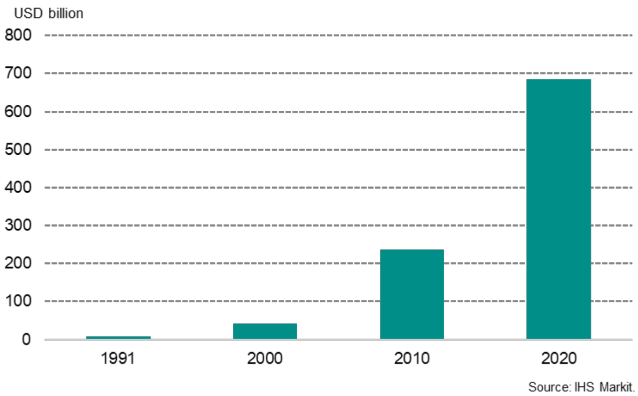
China's trade with the other 14 RCEP members rose by 18.1% y/y in 2021, accounting for 30.9% of China's total foreign trade.

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 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. In 2021, bilateral trade between China and ASEAN recorded strong growth of 19.1% y/y.

Bilateral investment ties have also soared. 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.

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 RCEP member nations with strong manufacturing hubs are well-positioned to benefit from increased foreign direct investment inflows into the APAC region 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.

The medium-term outlook for China's exports

Following considerable disruption to Asia-Pacific trade flows during 2018-2021 due to the US-China trade war and the impact of the pandemic, world trade rebounded strongly in 2021, with China's exports showing buoyant growth.

Over the long-term, despite the protracted negative economic shocks caused by the COVID-19 pandemic, the APAC region is expected to continue to be the fastest growing region of the world economy. This rapid pace of growth will help to drive China's trade with other fast-growing Asia-Pacific markets, notably the ASEAN nations.

The RCEP mega trade deal will also help to further reduce barriers to regional trade flows within the APAC region, helping to drive intra-regional trade over the medium to long-term.

However, China's manufacturing export sector will also face significant challenges over the long-term due to the impact of rising manufacturing wage costs in coastal Chinese industrial provinces. China's export competitiveness in low value-added manufacturing goods has already faced rising competition from other low-cost manufacturing hubs in the APAC region. Furthermore, the pandemic has intensified the reshaping of global supply chains. Multinationals are likely to continue to diversify their supply chains away from China over the next decade, to reduce vulnerability to severe production disruptions such as China's national lockdown in the first quarter of 2020.

The composition of China's manufacturing exports is therefore expected to gradually shift away from low value-added goods towards higher value-added, complex manufactured products, such as new energy vehicles, power equipment, aerospace equipment, medical devices and information technology products.

