IHS Markit

4 February 2022

Week Ahead Economic Preview

US January CPI, UK GDP, plus RBI rate setter meeting…

The key release of the week is likely to be **US inflation** for January, though **GDP** data are updated for both the **UK** and **Taiwan** and **central bank policy meetings** are scheduled for **India** and **Indonesia**.

US inflation is widely expected to reach a new four-decade high and bring the market focus back to speculating on the path of FOMC rate hikes. The data follow a week in which the Bank of England hiked rates at back-to-back policy meetings for the first time since 2004, growing more concerned about inflation.

No policy changes are expected at the Reserve Bank of India and Bank Indonesia, though traders will be watching for signs that policymakers in emerging markets may also be looking to tighten policy later in the year amid the global inflation surge and the outlook for rising rates in the developed world.

Worryingly, just as inflation forecasts are generally rising, economic growth forecasts are being revised lower amid the weak start to the year and prospects of real incomes being squeezed by higher prices. Updated GDP for the UK and Taiwan will therefore be eyed for recent growth trends, but are of course backward looking. Perhaps more focus will lie on the China services PMI and US consumer confidence numbers for more up to date signals.

Stock market watchers will also want to look out for the February IHS Markit Investment manager Index (IMI). This survey of US equity investors was prescient in capturing the shift to risk aversion, with the upcoming survey revealing investors' views on what to expect of the month ahead and what's driving the market. View last month's release here.

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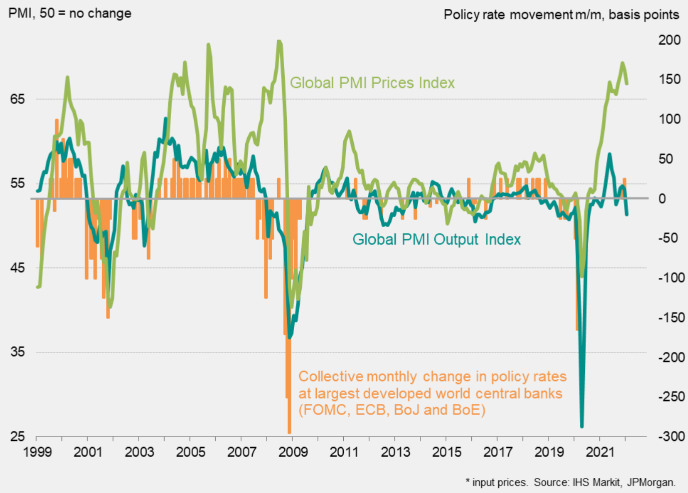
PMI surveys hint at raised stagflation risks

Policymakers around the world are growing increasingly concerned about anchoring inflation expectations amid further signs of persistent elevated price pressures. With supply shortages widely expected to persist through 2022 and energy prices soaring amid geopolitical tensions, inflation is likely to rise further in the near-term, adding to bets that the Fed, Bank of England and ECB will tighten policy.

However, the current tightening, led by the Bank of England but likely soon to be followed by the FOMC in March, comes at a time of slowing economic growth. This reflects the central banks' general remit towards price stability, but also reflects the broadly-held view that economic growth will revive again quickly as the Omicron wave passes. Having recorded the slowest pace of economic growth for 18 months in January, the JPMorgan global PMI – compiled by IHS Markit – reflected widespread disruptions to business activity due to record COVID-19 case numbers. Virus case are numbers already on a downward trend in many major economies, which will mean pandemic restrictions can be eased and economic growth re-accelerate.

The question – facing markets and policymakers – is just how much the global economy will pick up again. Demand forces have waned in recent months amid various headwinds, including squeezed real incomes, ongoing supply constraints and the withdrawal of pandemic-related fiscal stimuli. By tightening monetary policy, how much do central banks further tilt risks towards growth slowing? Key demand indicators such as new order inflows and global exports will need to be monitored closely in the coming months to assess the underlying resilience of demand in these unusual times.

Central bank policy rates, inflation and output



Key diary events

Monday 7 Feb

Australia Retail Sales (Jan)
China (Mainland) Caixin Services PMI* (Jan)
Global Electronics PMI (Jan)
Switzerland Unemployment Rate (Jan)
United Kingdom Halifax House Prices* (Jan)
Germany Industrial Output (Dec)
Norway Manufacturing Output (Dec)

Tuesday 8 Feb

Japan All Household Spending (Dec)
Japan Current Account (Dec)
Hong Kong IHS Markit PMI* (Jan)
Malaysia Industrial Output (Dec)
United States International Trade (Dec)
Canada Trade Balance (Dec)
IHS Markit US Investment Manager Index (Feb)

Wednesday 9 Feb

India Repo and Reverse Repo Rate (9 Feb)
Germany Trade Balance (Dec)
Thailand 1-Day Repo Rate (9 Feb)
United States Wholesale Inventories (Dec)

Thursday 10 Feb

Japan Corp Goods Price (Jan)
United Kingdom RICS Housing Survey (Jan)
United Kingdom REC/KPMG Report on Jobs (Jan)
Norway Consumer Price Index (Jan)
Taiwan GDP (Q4, revised)
United States CPI (Jan)
United States Initial Jobless Claims
Indonesia 7-Day Reverse Repo (Feb)
China (Mainland) M2, New Yuan Loans, Loan Growth (Jan)

Friday 11 Feb

Japan Market Holiday
New Zealand Manufacturing PMI (Jan)
United Kingdom GDP (Q4, prelim)
United Kingdom Monthly GDP, incl. Manufacturing, Services and Construction Output (Dec)
Germany CPI (Jan, final)
United Kingdom Business Investment (Q4, prelim)
Switzerland CPI (Jan)
Taiwan CPI (Jan)
Taiwan Trade Balance (Jan)
India Industrial Output (Dec)
United States UoM Sentiment (Feb, prelim)

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

What to watch

- **North America: US January CPI, UoM sentiment**

  US January inflation data will be released next Thursday with the consensus pointing to a slight slowdown in inflation at 0.4% for headline CPI and 0.5% for core CPI for January. However, that would still push the annual rate up to 7.2% from 7.0%, which would make for a headline-catching 40-year high. While the easing in the monthly rate tallies with recent IHS Markit PMI price data, the survey data also indicated a further worsening of US supply bottlenecks in January, which his likely to keep inflation elevated in coming months.

  University of Michigan consumer sentiment data for February will also be updated on Friday, and is widely expected to pick up after being subdued by the Omicron wave in January, but any ongoing weakness will be a concern that the household sector recovery is fading.

- **Europe: UK December output and GDP data, Germany inflation data**

  UK's December output data and Q4 GDP will be released over the course of the coming week. The monthly data so far show output running 1.1% higher than in Q3, which had also seen a 1.1% quarterly gain. However, IHS Markit/CIPS PMI data pointed to the economy slowing the end of 2021 as services output was hit by elevated COVID-19 cases and increased health restrictions.

  Final January CPI data for Germany will also be eyed for further insights into the ECB policy response after eurozone inflation surprised to the upside in the flash January release, hitting a record 5.1%.

- **Asia-Pacific: China services PMI, RBI and BI policy meetings, Taiwan GDP and trade data**

  Two central banks, the Reserve Bank of India (RBI) and Bank Indonesia (BI) meet in the coming week. IHS Markit forecast for no changes to policy rates for both central banks, but it's likely that some tightening will be seen later in the year so rhetoric will be eyed for clues as to appetite to reduce the accommodative stances. Meanwhile Taiwan's final Q4 2021 GDP reading and January trade data will also be expected in the week. China will also release loan growth figures for January.

Special reports:

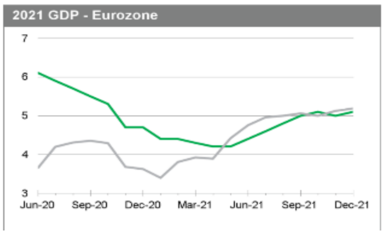
Global economy sees inflation pressures persist in January as growth slows to 18-month low
Chris Williamson | **page 4**

Recent PMI and economic analysis from IHS Markit

Global	Flash PMIs signal sharp slowing in developed world growth at start of 2022 as Omicron wave hits	25-Jan	Chris Williamson
	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
US	US economic growth slows to 18-month low as Omicron wave exacerbates supply delays and labour shortages	24-Jan	Chris Williamson
Europe	Eurozone growth slows as flash PMI slides to 52.4. Omicron hits services, but manufacturers benefit from easing supply constraints	24-Jan	Chris Williamson
	UK flash PMI signals economic resilience amid Omicron wave	24-Jan	Chris Williamson
APAC	Japan and Australia enter third economic downturns as Omicron wave hits	24-Jan	Jingyi Pan
Commodities	Weekly Pricing Pulse: Commodity price strength continues as oil reaches a seven-year high	26-Jan	Michael Dall

IHS Markit Economics & Country Risk highlights

Top-10 economic predictions for 2021 – An accuracy assessment



The following is an evaluation of IHS Markit's "Top-10 economic predictions for 2021", published in December 2020.For each of the 10 predictions, a brief characterisation and an explanation of what occurred over the year and how it contrasts with our prediction is included to add further detail. For IHS Markit subscribers, one can contact CustomerCare@ihsmarkit.com for access.

Click here to read our strategic report

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.

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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Special Focus

Global economy sees inflation pressures persist as growth slows

Chris Williamson

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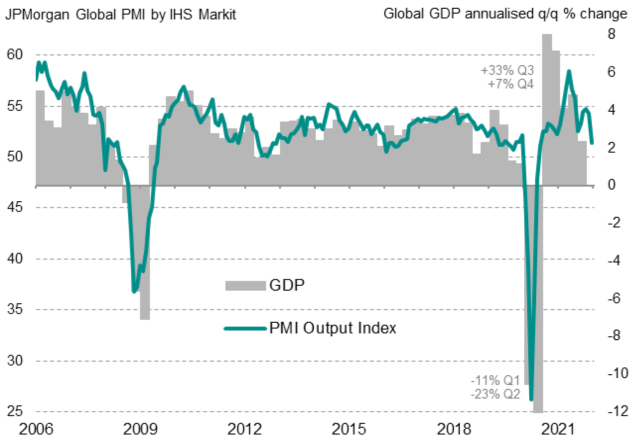
January saw the pace of global economic growth wane to a pandemic recovery low as the Omicron wave once again meant COVID-19 disrupted business activity around the world. But the same disruptions contributed to a further near-record uplift in inflationary pressures.

While the outlook for inflation looks to be tilted toward persistent elevated price pressures, as high wage and energy costs collude with ongoing supply shortages in the coming months, the outlook for economic growth is less certain, especially in the face of increased policy tightening among major central banks.

Global economic growth slowed to an 18-month low at the start of 2022 as rising COVID-19 infection rates caused increased economic disruption. The JPMorgan Global PMI™ (compiled by IHS Markit), which tracks worldwide output across both manufacturing and service sectors, fell from 54.3 in December to 51.4 in January, its lowest since July 2020 and the second lowest seen during the recovery from the initial pandemic shutdowns of early 2020.

Global PMI and GDP



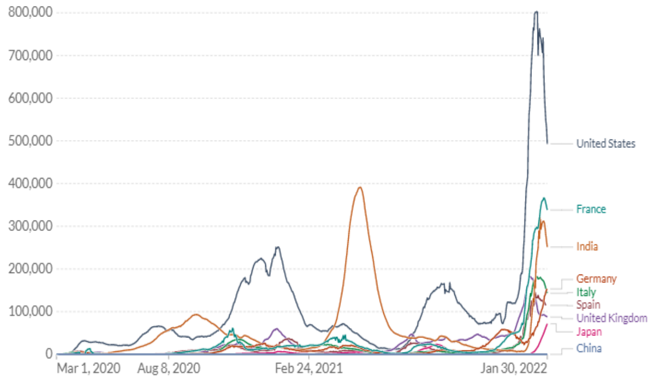
Source: IHS Markit, JPMorgan.

Compared with a pre-pandemic long-run average of 53.6, the latest reading signals below-trend annualised quarterly global GDP growth of just over 2% at the start of the first quarter, thereby pointing to a marked slowing in the rate of economic growth compared to late last year.

Omicron hits economic activity

The weaker PMI data coincided with a flare-up of COVID-19 cases around the world, with record high new case numbers recorded notably in the US and Europe as well as in Japan. In many cases, these numbers are coming down again, though generally remain at elevated – often unprecedented – levels.

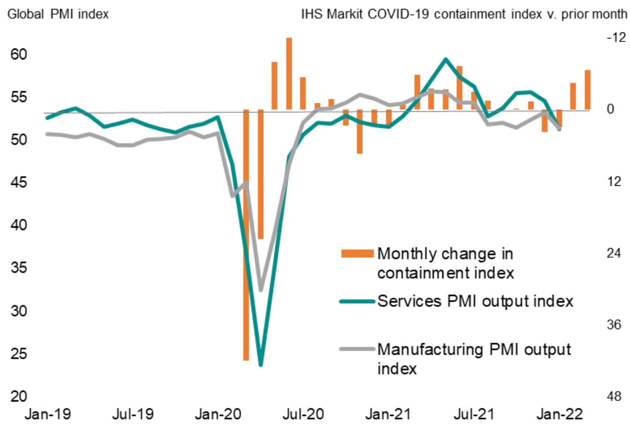
COVID-19 new cases, 7-day rolling average



Source: Our World in Data.

The rising COVID-19 case numbers had prompted a broad tightening of official measures to restrict the spread of the virus, as reflected in an increase in IHS Markit's Global COVID-19 Containment Index for a second month in January, thereby registering the tightest degree of protective measures implemented worldwide since May of last year.

Global PMI and Covid-19 containment



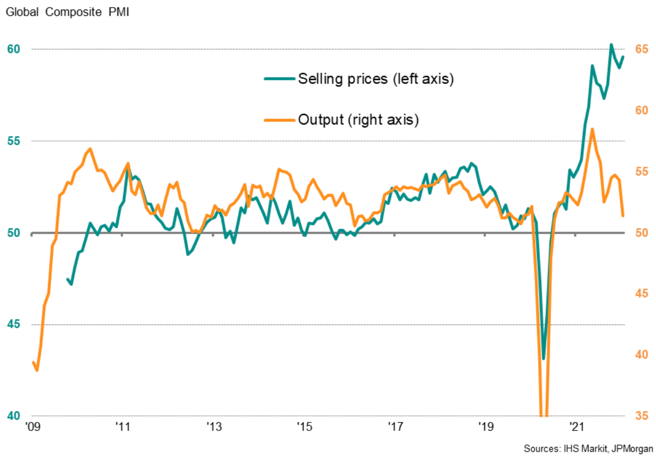
Source: IHS Markit, JPMorgan

* 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.

PMI™ By IHS Markit

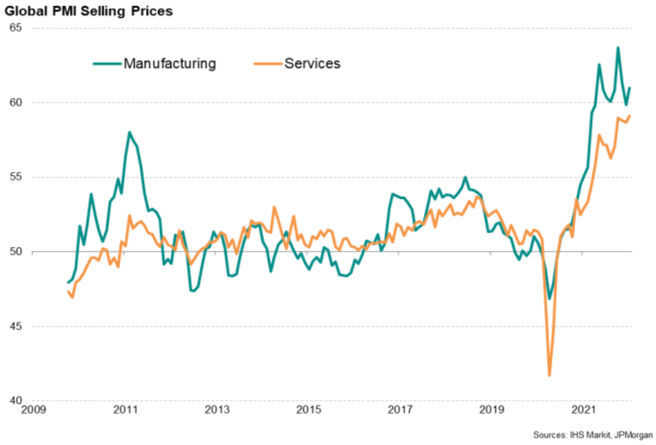
However, just as global economic growth slowed to an 18-month low at the start of 2022 amid rising COVID-19 infection rates, price pressures intensified. The Global PMI also showed average prices charged for goods and services rising at a rate beaten only once over the comparable PMI survey 12-year history (in October 2021).

Global PMI output and selling prices



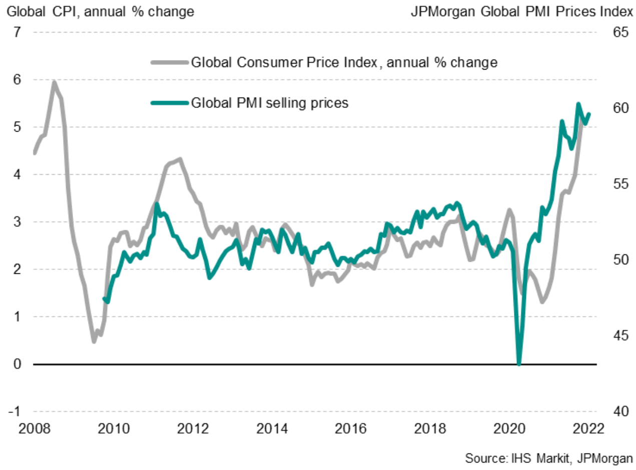
Rates of selling price inflation accelerated in both manufacturing and services at a time of output growth faltering to only modest rates in both sectors.

Global PMI selling prices by sector



Measured globally, the elevated PMI selling price gauge points to persistent high inflation in coming months. However, it is important to note that the drivers of inflation are showing signs of changing.

Global PMI selling prices and inflation



Materials price inflation shows signs of cooling…

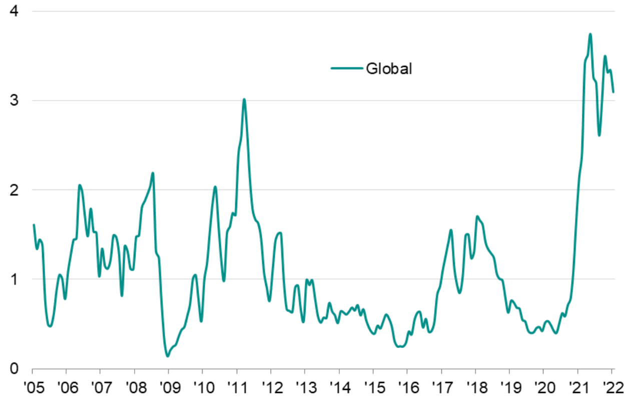
The January PMI survey found a reduction in the number of companies reporting shortages of inputs. Although still running at almost six-times the long-run average number of companies reporting shortages, that's down from a peak of nine-times the long-run average back in June of last year.

Companies worldwide reporting shortages of inputs

This easing in the number of raw material supply constraints has helped bring manufacturing costs lower. Measured globally, manufacturing input costs rose in January at the slowest rate since last March, albeit still increasing at a rate higher than anything seen previously over the past decade prior to the pandemic, aided by a reduction in the number of companies reporting that costs had risen as a result of rising raw material prices.

Producers reporting higher costs due to rising materials prices

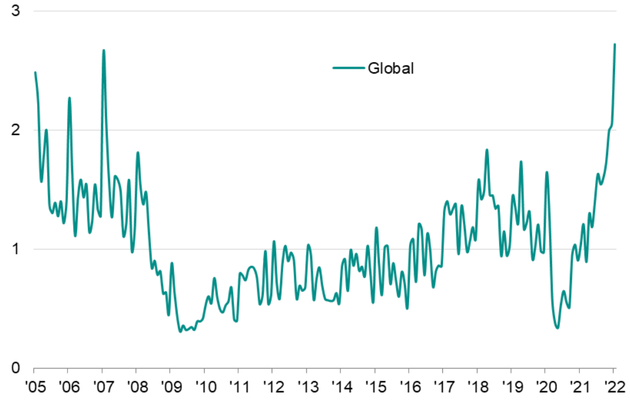
Index, 1 = long run average (2005-20)



Source: IHS Markit

Service providers reporting higher costs due to rising staff costs

Index, 1 = long run average (2005-20)



Source: IHS Markit

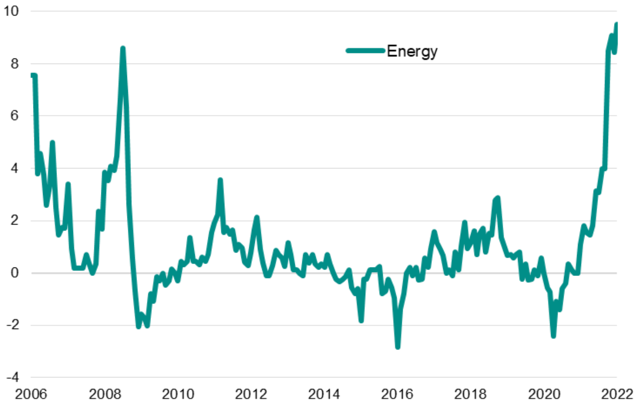
… but wage and energy inflation push costs higher

However, while an easing of the supply crunch is helping reduce the cost of some raw materials, firms' costs are being pushed higher by rising energy and staff costs, which is in turn feeding through to higher selling prices for both goods and services.

The number of PMI survey contributors reporting that energy prices had increased to an all-time high worldwide in January (comparable data extend back to 2004), matched by a record high in the number of service providers reporting that their expenses had been pushed higher by rising staff costs, in turn linked to deteriorating labour availability, exacerbated in January by the Omicron wave.

Companies worldwide reporting higher energy prices

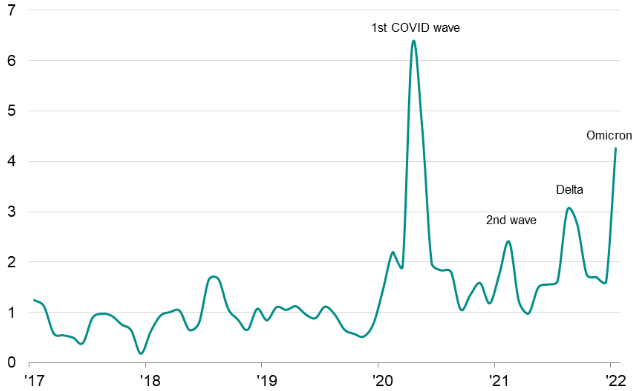
Survey index, 1 = long run average



Source: IHS Markit PMI surveys.

Global companies reporting lower output due to staff shortages

Index, 1 = long run average (2005-20)



Source: IHS Markit PMI surveys.

Outlook

The escalation of energy and wage price pressures in coming months therefore adds to risks that the recent elevated rate of inflation in many countries could persist for longer than previously expected, which will in turn add to pressure on central banks to tighten monetary policy.

However, while the odds are clearly pointing to persistent inflation, risks to the outlook for output (and GDP) are more balanced. Growth will likely accelerate again globally once the worst of the Omicron wave passes, but demand forces have waned in recent months amid various headwinds. These include high inflation, squeezed real incomes, ongoing supply constraints and the withdrawal of pandemic-related fiscal stimuli. By tightening monetary policy, how much do central banks further tilt risks towards growth slowing?

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