25 February 2022

Week Ahead Economic Preview

Worldwide PMIs, US payrolls, BoC, RBA and BNM policy meetings

Markets will inevitably be dominated by the Ukraine crisis, though from an economic data perspective worldwide manufacturing and services PMIs will be released, with the first trading week of March also bringing the latest US labour market report. Central bank meetings in Canada, Australia and Malaysia will also be in focus while key GDP data will be released across Switzerland, Australia, India and South Korea.

Following a week of heightened risk sentiment surrounding the Russia-Ukraine crisis, global markets will find the release of worldwide PMI figures in the coming week for both manufacturing and service sectors. [Flash PMIs have so far preluded developed world growth rebounding in February,] and the global figures will be in focus in the coming week for confirmation of this trend on a global scale. G4 economies had also seen price pressures persist according to flash PMIs, a trend that may only garner further attention as the latest geopolitical unrest pushes up commodity prices.

Central bank meetings will be in abundance at the start of March with the Bank of Canada (BoC) being the highlight in the coming week. Expectations are for the BoC to move ahead with raising interest rates from their March meeting to tackle rising inflation and amid a tight labour market.

On economic data, both inflation figures and GDP numbers will also be released around the world from the eurozone to Australia. Higher inflation figures may once again stoke concerns of more hawkish central bank pivots to avoid 'falling behind the curve'.

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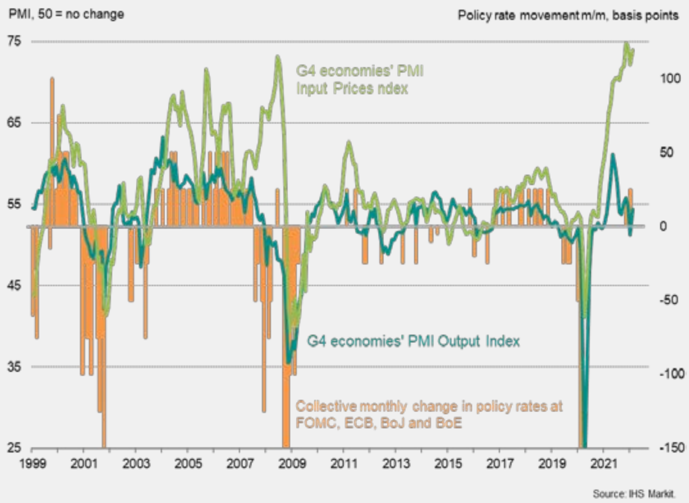
Central banks juggle rising prices with downside risks to the growth outlook

Final PMI numbers are published for manufacturing and services, which will allow central banks to assess economic trends prior to the Ukraine conflict. Flash PMI surveys for February showed economic growth rebounding from the worst of the Omicron economic impact, which turned out to be both modest and short-lived in the US and Europe. However, persistent supply constraints – both in terms of raw material supply issues and labour shortages – not only constricted manufacturing production but also led to further upward price pressures, which were in turn exacerbated by soaring energy prices.

These trends of recovering output and rising prices therefore put further pressures on major central banks to normalise monetary policy and manage inflation expectations lower.

'G4' central bank policy, prices and output



However, inflation risks have now risen with the Ukraine crisis, while risks to outlook for demand, and broader economic growth, have meanwhile shifted to the downside due to the conflict.

The war has further lifted commodity prices, notably energy (but also likely food in Europe), while the supply disruption could worsen, especially if safety stock building ramps up again. Although the final PMI numbers released in the coming week were collected prior to Russia's invasion of Ukraine, the February PMIs will be important in assessing the Omicron impact outside of the US and Europe, especially in Asia, and in particular for any deterioration of global supply lines at a time of escalating conflict.

How the messaging from the central banks might be affected by the conflict in Ukraine will be important to watch, commencing with RBA, BoC and BNM meetings this week.

Key diary events

Monday 28 Feb

Indonesia, Taiwan Market Holiday
Japan Industrial Output and Retail Sales (Jan)
Thailand Manufacturing Production (Jan)
United Kingdom Nationwide House Price (Feb)
Switzerland GDP (Q4)
United Kingdom Mortgage Lending and Approvals (Jan)
India GDP (Q3)
Canada Producer Prices (Jan)

Tuesday 1 Mar

India, Indonesia, South Korea Market Holiday
Worldwide Manufacturing PMIs, incl. global PMI* (Feb)
China (Mainland) NBS Manufacturing PMI (Feb)
Australia RBA Cash Rate (Mar)
Indonesia Inflation (Feb)
Germany Retail Sales (Jan)
Germany CPI (Feb, prelim)
Canada GDP (Q4)
United States ISM Manufacturing PMI (Feb)

Wednesday 2 Mar

South Korea Industrial Output (Jan)
Australia Real GDP (Q4)
Germany Unemployment Feb)
Eurozone HICP (Feb, flash)
United States ADP National Employment (Feb)
Canada BoC Rate Decision (2 Mar)
United States Fed Beige Book

Thursday 3 Mar

Indonesia Market Holiday
Worldwide Services & Composite PMI * (Feb)
South Korea GDP (Q4)
Australia Trade Balance (Jan)
Malaysia Overnight Policy Rate (3 Mar)
Switzerland CPI (Feb)
Eurozone Producer Prices, Unemployment Rate (Jan)
United States Factory Orders (Jan)
United States ISM Non-manufacturing PMI (Feb)

Friday 4 Mar

South Korea CPI (Feb)
Japan Unemployment Rate (Jan)
Philippines CPI (Feb)
Thailand CPI (Feb)
Germany Trade Balance (Jan)
United Kingdom Markit/CIPS Construction PMI* (Feb)
Eurozone Retail Sales (Jan)
United States Non-Farm Payrolls, Unemployment (Feb)

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

What to watch

- **IHS Markit Manufacturing and Services PMIs**
  Worldwide manufacturing, services and composite PMIs will be released in the coming week for a look into how global economies had fared amid varying degrees of COVID-19 Omicron variant disruptions. Flash PMIs have indicated the developed world growth had broadly rebounded in February as the Omicron wave subsided. The same may not be said of Japan as the Omicron wave continued to rise into early February.

  Meanwhile supply constraints remained widespread and price pressures persisted, according to flash PMIs. The eurozone notably saw prices rising at a record rate, a trend to similarly track for other economies, adding pressure for more aggressive central bank policy tightening around the world.

  Recap January's PMI developments with our Monthly PMI Bulletin or refer to our release calendar for a full schedule of upcoming PMI updates.

- **North America: US labour market report, ISM PMIs, BoC meeting decision**
  February US non-farm payrolls, unemployment rate and average hourly earnings figures will be released on Friday to provide a first look into the US labour market conditions as the economy rebounds from the Omicron wave. Private sector employment was shown to have expanded strongly in February according to the latest IHS Markit Flash US Composite PMI. The current consensus points to a 381k non-farm payroll gain.

  The Bank of Canada meanwhile is expected to respond to rising inflation and a tight labour market by raising interest rate by 25 basis points in the March meeting.

- **Europe: Eurozone, Germany inflation, retail sales, Germany trade data, Switzerland Q4 GDP**
  Inflation numbers from the eurozone and Germany will be released for January after PMI figures indicated persistent price pressures for the global economy.

- **Asia-Pacific: RBA, BNM meetings, Australia, India, South Korea GDP**
  The Reserve Bank of Australia and Bank Negara Malaysia hold policy meetings next week with no changes expected.

Special reports:

Flash PMIs Show Developed World Growth Rebounding in February as Omicron Wave Subsides
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RCEP and CPTPP Free Trade Agreements Advance in Early 2022 **Rajiv Biswas |** **page 7**

Recent PMI and economic analysis from IHS Markit

Global	Flash PMIs show developed world growth rebounding in February as Omicron wave subsides	22-Feb	Chris Williamson
	UK wages rise amid tightest labour market for decades, but surveys hint at pay pressures peaking soon	16-Feb	Chris Williamson
	Using PMI sub-indices to forecast the headline manufacturing PMI	11-Feb	Jingyi Pan
	Monthly PMI Bulletin: February 2022	8-Feb	Chris Williamson, Jingyi Pan
Europe	Prices rise at record rate as eurozone growth rebounds in February	21-Feb	Chris Williamson
	UK flash PMI signals economic resurgence as Omicron wave ebbs, but price pressures intensify	21-Feb	Chris Williamson
APAC	APAC flash PMIs show diverging trajectory for Japan and Australia output as the COVID-19 Omicron wave evolves	21-Feb	Jingyi Pan
	Japan manufacturing output falls and prices rise at steepest rate since 2008 amid worsening supply situation	21-Feb	Chris Williamson
Commodities	Weekly Pricing Pulse: Commodity prices dip after government intervention	23-Feb	Michael Dall

IHS Markit Economics & Country Risk highlights

The global economy disrupted: Higher inflation and slower growth in the 2022 outlook

Two years into the pandemic, COVID-19 continues to take surprising turns, disrupting the global economy through multiple channels—public health, work, education, travel, consumer spending patterns, production of goods and services, and international trade flows.

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Russia–Ukraine war risks

On 21 February, Russian President Vladimir Putin signed decrees recognising the Donetsk People's Republic (DPR) and Luhansk People's Republic (LPR) in eastern Ukraine as independent states.

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Special Focus

Flash PMIs Show Developed World Growth Rebounding in February as Omicron Wave Subsides

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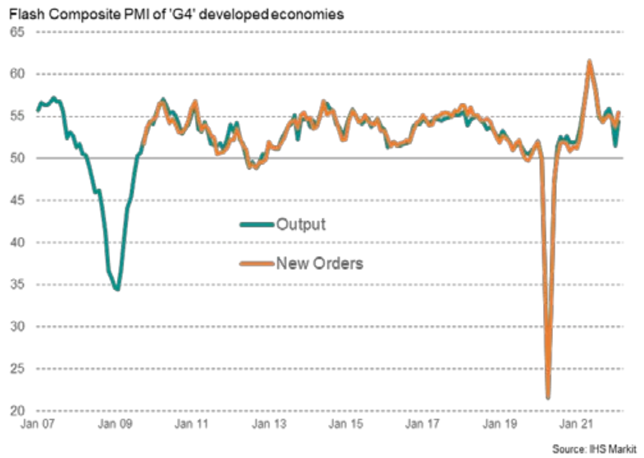
The pace of economic growth across the four largest developed economies rebounded in February after having slowed sharply due to the Omicron wave at the start of the year. The service sector led the upturn as COVID-19 containment measures were relaxed in the UK, eurozone and US, though Japan slipped further into decline as restrictions were tightened. Manufacturers meanwhile continued to struggle with production constraints, notably for labour amid staff illnesses, though supply chain constraints showed some signs of easing.

Fewer supply delays led to reduced upward pressure on raw material prices, though increased cost pressures from energy and wages meant firms' overall input cost inflation re-accelerated close to prior record highs.

While the ebbing of the Omicron wave bodes well for near-term output growth, persistent price pressures suggest that longer term headwinds have intensified.

Developed world growth rebounds

Developed world output and new orders growth

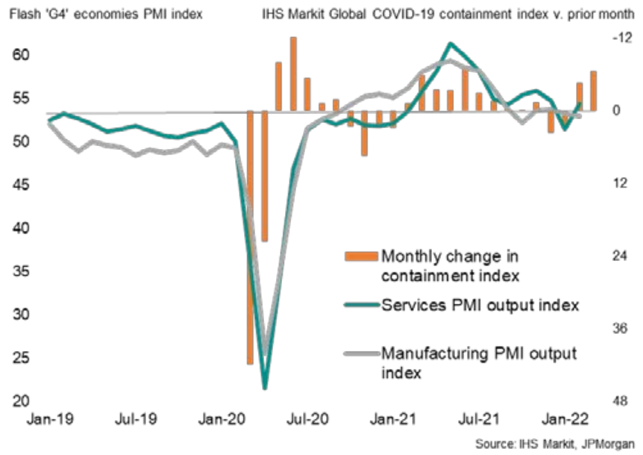


Preliminary PMI data for February signalled a marked rebound in business activity. Measured across the 'G4' largest developed economies, output growth accelerated markedly from the one-and-a-half-year low seen in January, though failed to match the expansion rates seen during the fourth quarter. However, new orders growth picked up to the highest since last July, pointing to encouraging sustained demand growth.

These headline numbers therefore suggest that the Omicron variant of COVID-19 has had both a mild and short-lived impact on the major developed economies on average.

The upturn was led by the service sector, for which a further likely loosening of COVID-19 containment measures looks set to provide an additional boost in March. While manufacturing output continued to expand, the rate of increase waned slightly, largely reflecting ongoing supply-side constraints, though – as explored more fully below – these are showing some signs of easing.

G4 manufacturing and services output and global COVID-19 containment



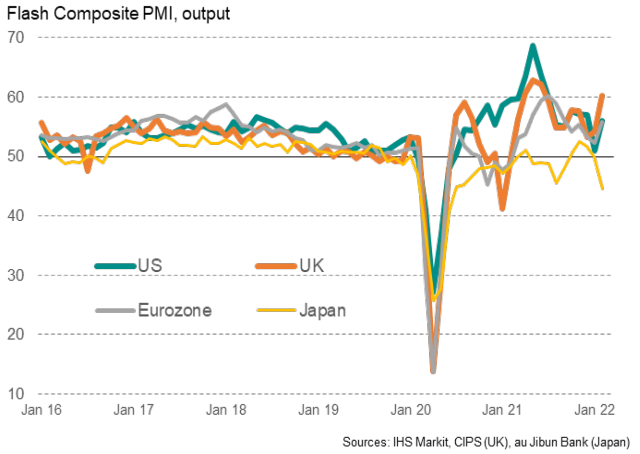
UK leads upturn, Japan lags

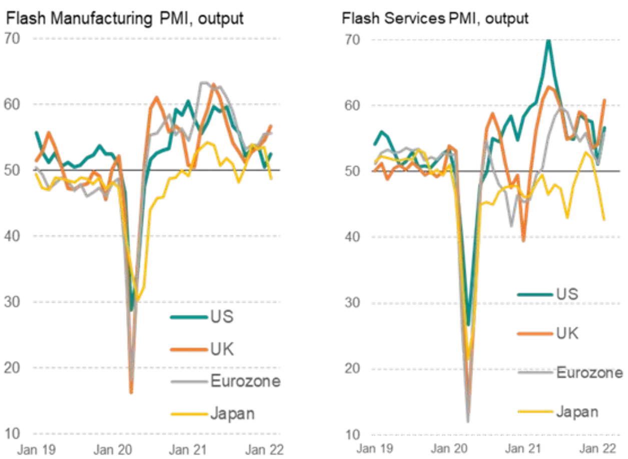
Conditions varied by country, however, linked to varying degrees of COVID-19 containment.

UK business activity growth surged in February as COVID-19 restrictions were almost entirely withdrawn. Similar – though less comprehensive – easings of containment measures in the eurozone and US led to faster growth after Omicron related slowdowns in January. While UK growth accelerated to the highest since last June with a composite flash PMI output index of 60.2, up from 54.2 in January, US growth rebounded to the highest since December – an output index of 56.0 against 51.1 in January – while the eurozone saw the fastest growth since last September, with the PMI recovering from 52.3 in January to 55.8.

In contrast, Japan fell into a deeper downturn as virus containment measures were tightened again to the most severe since last October. The au Jibun Bank composite flash PMI output index fell from 49.9 to 44.6 to indicate the steepest decline since June 2020. Japan was the only G4 economy to see falling manufacturing output and falling service sector activity.

Output growth





Sources: IHS Markit, CIPS (UK), au Jibun Bank (Japan)

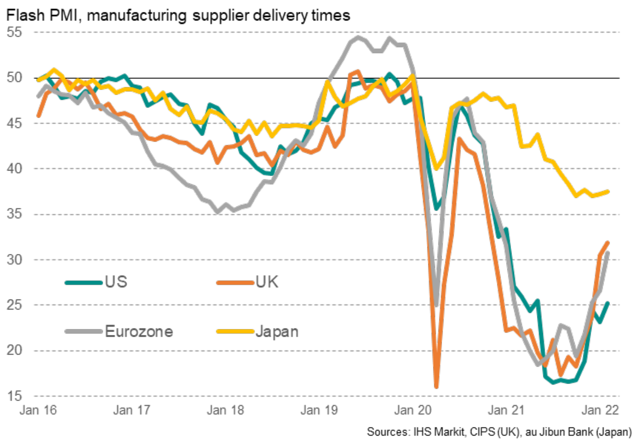
Supply constraints remain widespread, but delivery delays show signs of easing

While variances in service sector performance were largely linked to the extent to which economies were affected by differing degrees of COVID-19 restrictions, manufacturing performance was largely linked to differing supply chain situations.

A marked easing in supply chain delays in Europe played a significant role in helping support manufacturing production growth in February, whereas more widespread disruptions in the US and little change in the number of delays in Japan were seen to have acted as significant impediments again.

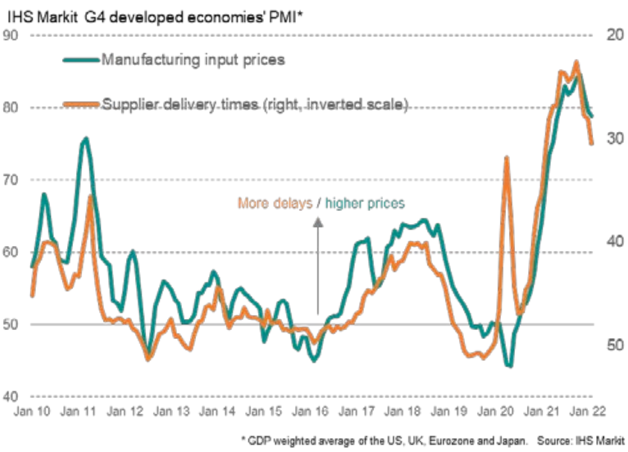
However, labour shortages associated with the Omicron outbreak were also widely cited in the US, the eurozone (notably Germany) and Japan as having also impeded production to greater extents than in the UK.

Suppliers' delivery times



Averaged across the G4 economies, supplier delivery times lengthened again in February but with delays running at the lowest recorded for a year. This easing of the supply crunch fed through to a reduction in the degree of pricing power enjoyed by suppliers, resulting in the lowest rate of manufacturing input price inflation since last May. However, both supplier delays and price gauges remain high by historical standards of the survey.

G4 manufacturing supplier delays and input prices

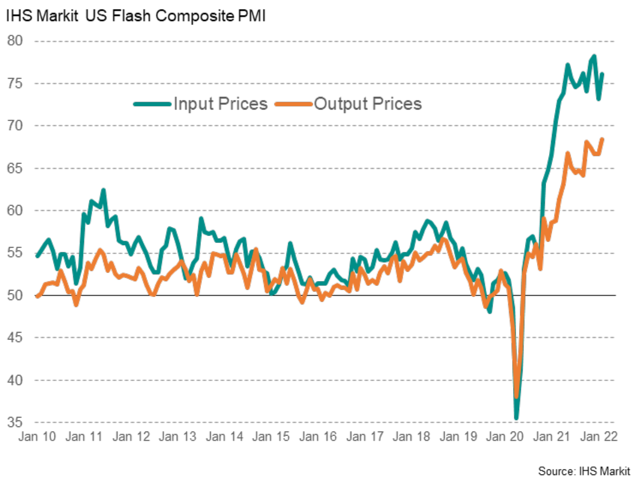


Persistent price pressures

Although raw material price pressures showed signs of easing, other price pressures intensified, notably in terms of rising energy bills and increased wage costs. Average input price inflation across the G4 economies accelerated again as a result, running below the peaks seen in November and December but still signalling one of the highest rates of input cost inflation seen in the survey history.

Average prices charged for goods and services consequently rose at an increased rate across the G4 economies as firms increasingly sought to pass these persistent input costs pressures on to customers, the rate of inflation accelerated to a new all-time high.

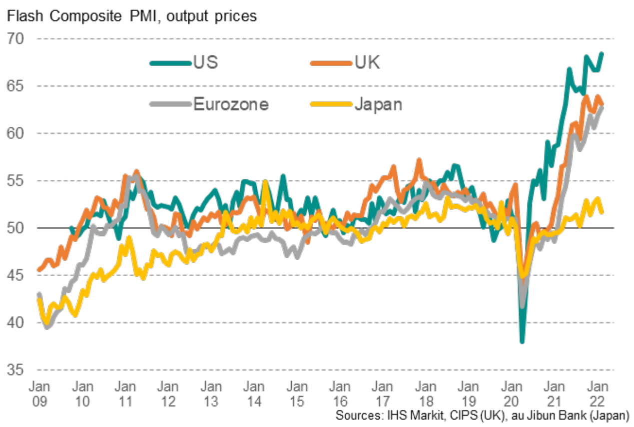
Input costs and selling prices



Japan bucks inflation trend

New survey highs were seen for selling price inflation rates in the US and the eurozone, with the UK's rate running at a near-record pace. In contrast, the inflation rate cooled in Japan, running at only a very modest level by comparison.

Prices charged for goods and services



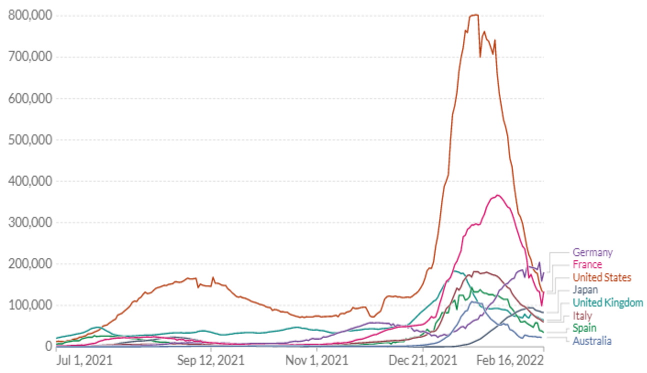
Outlook

In broad terms, the flash PMI data suggest that the economic impact of the Omicron wave has been both modest and short-lived in the US and Europe, but at the same time inflationary pressures are showing increasing signs of persistence, with upwards pressure on inflation from raw materials moving to energy and wages. As such, the data will add to speculation of more aggressive paths of policy normalisation in the US, the UK and, to a lesser extent, the eurozone.

The swift Omicron rebounds in the US and Europe also bode well for Japan, suggesting its downturn may soon turn to recovery.

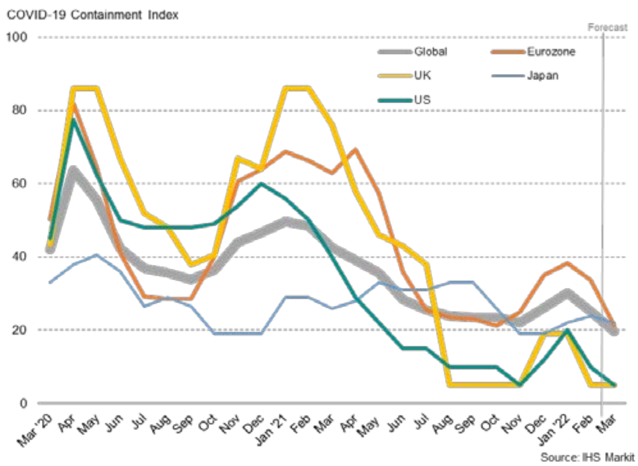
With COVID-19 case numbers trending lower, COVID-19 containment measures will ease further across the board in March, providing further momentum to reviving service sector demand and facilitating greater manufacturing production via reduced supply constraints, both in terms of labour and materials.

New COVID-19 cases, 7-day rolling average



Source: Our World In Data

COVID-19 containment measures



While the ebbing of the Omicron wave should help boost demand in the short term, notably for hard-hit consumer services such as travel, recreation and tourism, and help alleviate some of the supply constraints, the upcoming PMI data will be keenly watched for clues as to the longer-term resilience of demand in the face of numerous headwinds. These include a structural change in the labour force with a reduced participation rate observed in many countries, soaring energy prices, intensifying geopolitical concerns relating to the situation in Ukraine, de facto fiscal policy tightening as pandemic-related stimulus is wound down, and policy normalisation – and even potential policy tightening – at some of the world's largest central banks. The pandemic is also by no means over, especially for economies such as China which are implementing a zero-COVID strategy, and the potential for further virus waves remains a key risk to the outlook.

Special Focus

RCEP and CPTPP Free Trade Agreements Advance in Early 2022

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In February 2022, the UK entered the final phase of its accession negotiations to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). As the UK is the world's fifth largest economy, its accession would significantly increase the overall economic size of the CPTPP grouping.

Meanwhile The Regional Comprehensive Economic Partnership (RCEP) trade agreement among 15 Asia-Pacific economies has also advanced, with Malaysia having submitted its instrument of ratification on 17th January. This will result in RCEP coming into force for Malaysia from 18th March.

RCEP implementation continues to progress

The Regional Comprehensive Economic Partnership (RCEP) is a free trade agreement (FTA) 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 allowed the benefits of the trade agreement to commence for those nations that had already ratified the agreement at least 60 days beforehand, which included China, Japan, Australia and New Zealand, as well as a number of ASEAN nations comprising Singapore, Thailand, Vietnam, Cambodia, Brunei and Laos. South Korea's ratification took effect from 1st February 2022, while Malaysia's implementation will take effect from 18th March 2022.

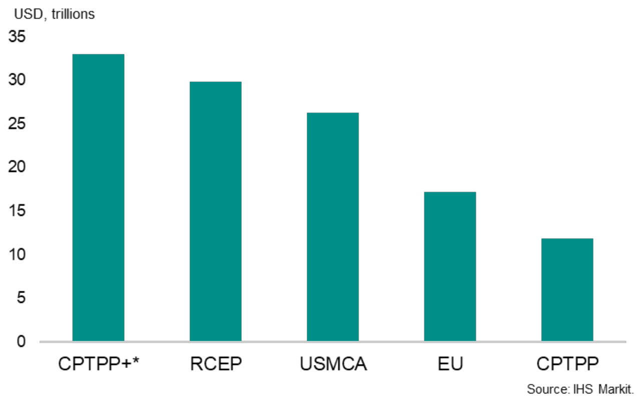
However, the instrument of ratification provided by Myanmar has met with obstacles due to opposition by several other RCEP nations to Myanmar's military junta, which took power by a military coup in 2021, deposing the democratically elected government of the National League for Democracy party.

In the Philippines, the RCEP agreement was ratified by President Duterte in September 2021, but approval by the Senate is still pending, with protracted debate due to opposition from various segments of civil society and some groups of farmers.

The Indonesian House of Representatives has already completed its discussions about RCEP, but final approval is still required in a plenary session, with RCEP ratification expected to be completed by mid-2022.

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.

Size of regional FTAs by total GDP



*CPTPP+ depicts CPTPP-11 members plus UK and mainland China

CPTPP implementation and enlargement

The CPTPP trade agreement entered into force in December 2018, after the first 6 of the 11 member states had ratified the agreement. The current 11 CPTPP members have a total GDP of around USD 11.8 trillion, creating a combined market equivalent to around 12.5% of world GDP, with a population of around 500 million. Significant economic benefits are estimated to accrue to member nations as a result of tariff liberalisation under the CPTPP agreement.

However, as a state-of-art advanced multilateral trade agreement whose scope goes far beyond tariff liberalisation, the benefits also extend to greater access to some government procurement markets, improved environmental protection as well as stronger investment protection provisions. The CPTPP is expected to deliver significantly improved market access and boost trade flows among the CPTPP member nations.

For Australia, New Zealand, Canada, Japan, Mexico, and Singapore, which were the first six ratifying nations, the trade benefits of the CPTPP took effect from 30 December 2018. Vietnam has also ratified the CPTPP on 12 November 2018, and the CPTPP agreement took effect for Vietnam on 14 January 2019. For the remaining four CPTPP members, Brunei, Chile, Malaysia, and Peru, the CPTPP will take effect 60 days after they ratify the agreement.

Since the beginning of 2021, a number of jurisdictions have applied to join the CPTPP, including the UK, mainland China, Ecuador and Taiwan. South Korea has also indicated its intention to submit its application during 2022.

If both the UK and mainland China are successful in their applications to join the CPTPP, then the expanded CPTPP would become larger than the RCEP as measured by the combined GDP of the member economies.

UK application to join CPTPP

Following the UK's formal application to join the CPTPP in February 2021, the CPTPP Commission comprising the eleven member nations approved the commencement of the accession process for the UK on 2nd June 2021.

The CPTPP Commission stated that in making its decision to allow accession negotiations with the UK to commence, it was mindful of the need to advance the high-standard rules of the CPTPP. The Commission stated that it took into consideration the UK's experience with high-standard trade and investment rules and its clear commitment to the rules-based trading system; and its affirmation of its intention and ability to meet the high standards of the CPTPP.

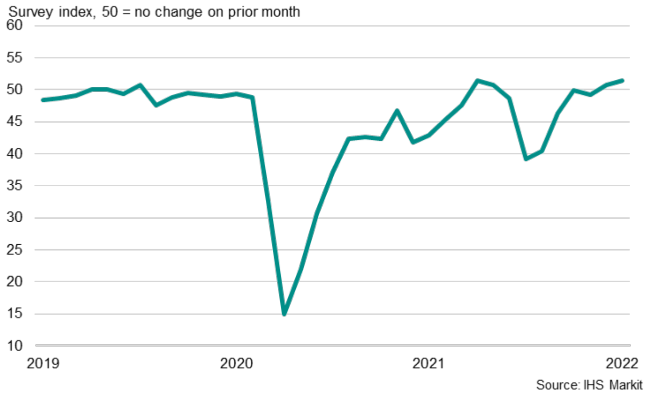
The UK Government has indicated that it is hopeful that an accession agreement can be reached by the end of 2022. UK exports of goods and services to the CPTPP nations amounted to 8.4% of the UK's total exports in 2019, compared with 43.5% to the EU nations. Following the UK's departure from the EU in January 2020, the UK remained in the EU single market and customs union for a transitional period until the end of 2020. However, following the end of that transitional period, the UK has given a high priority to establish new bilateral and regional free trade agreements in order to improve market access to non-EU nations.

RCEP trade liberalisation in ASEAN

Although the ASEAN nations have a strong existing network of free trade agreements with other Asia-Pacific nations, the implementation of RCEP will further strengthen regional trade and investment flows.

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 USD 9 billion in 1991 to an estimated USD 820 billion in 2021. In 2021, bilateral trade between China and ASEAN grew by an estimated 20 per cent year-on-year, reaching a new record high. In 2020, ASEAN had already 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.

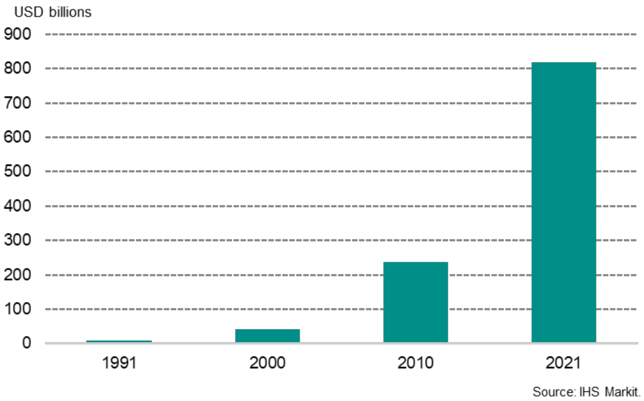
ASEAN manufacturing export orders, 2019-2022



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 favorable 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.

Asia-Pacific trade outlook

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. Total APAC GDP measured in nominal USD terms is forecast to more than double over the next decade, increasing from USD 30 trillion in 2020 to USD 62 trillion by 2030.

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 Asia-Pacific region over the medium to long-term.

The RCEP and CPTPP also create a trade liberalisation framework that can be built on and strengthened through further rounds of trade negotiations, including through the potential accession of other nations to the RCEP and CPTPP agreements. A number of jurisdictions have already submitted their applications to join the CPTPP FTA, with the UK at the front of the queue.

In the overall Asia-Pacific trade policy landscape, the implementation of the RCEP agreement at the beginning of 2022 is major further step forward by Asia-Pacific governments to liberalize regional trade flows, following the implementation of both the Japan-EU Economic Partnership Agreement (EPA) and the CPTPP deals in 2019.