IHS Markit

26 November 2021

# Week Ahead Economic Preview

## Worldwide November PMIs, US jobs report and Eurozone inflation

**Worldwide manufacturing and services PMIs** will be released next week for a detailed look into November economic conditions. The turn of the month also brings the **US jobs report** for November and **eurozone inflation** data, all of which will be watched intently for central bank policy guidance.

The past week has been one of see-sawing sentiment towards inflation and central bank outlooks, particularly the Fed. The renomination of Fed chair Jerome Powell – a relatively less dovish choice compared to Lael Brainard (now also the vice-chair pick) – saw equities trading lower at the start of week. That changed ahead of the Thanksgiving holidays, whereby data, including the IHS Markit Flash US Composite PMI revealed a steady recovery of the US economy. Details from the November Fed FOMC minutes meanwhile pointed to mixed views on inflation, but hinted at a preparedness to raise rates “sooner than participants currently anticipated” if warranted by the data, therefore placing additional focus on the week’s upcoming employment report, another of the Fed’s highly watched gauges.

The inflation situation meanwhile also runs hot in the eurozone, as indicated by the flash PMI data. The key focus for the region will therefore be on the flash HICP inflation reading.

APAC economies will get a fresh set of PMI updates for November, one keenly watched for sustained growth amid the recovery from the latest Delta wave and for any signs of supply constraints abating.


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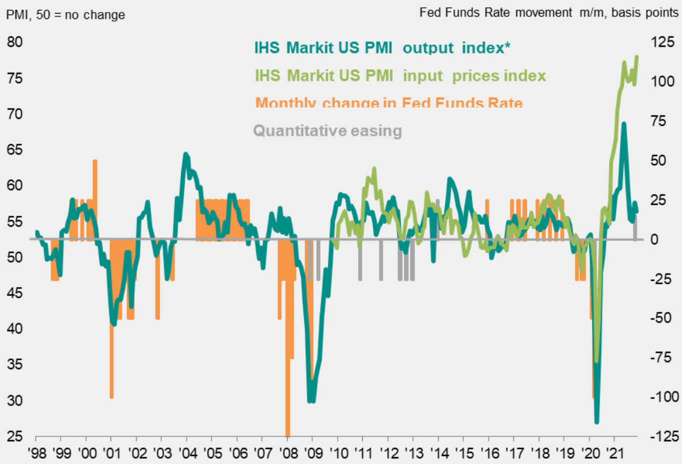
## US employment report to add clues to pace of Fed taper

A key area of market focus in the week ahead will be growth differentials, and the varying implications for central bank policy. Flash PMI data (see special report on page 4) have already shortened the odds of an imminent rate hike at the Bank of England, with economic growth accelerating in November alongside record price pressures to give a green light to a widely expected tightening at the December policy meeting.

The signals are less clear-cut for the ECB, however, with a surge in COVID-19 cases adding uncertainty to the near-term economic outlook, dampening eurozone business sentiment about the year ahead to the lowest since the start of the year. Demand for services in Germany has already stalled amid the new virus wave. Any imminent policy tightening from the ECB looks a long way off (we are not expecting a rate hike until 2024), and there is a risk that asset purchases may need to be stepped up again.

For us, the key area to watch is therefore the extent to which the incoming US data may tilt the Fed towards a more aggressive taper. The FOMC will begin this month to reduce the pace of its securities purchases by $15 billion per month, putting them on track to end purchases by June 2022. However, policymakers have expressed less conviction that the surge in inflation is transitory, a hint that if inflation does not soon moderate, monetary policy could be tightened more aggressively. Flash PMI have since indicated an unprecedented rise in firms’ costs in November. The employment report, due Friday, will therefore add valuable insight into the health of the labour market, and in particular the feed-through of higher inflation – now running at a 31-year high of 6.2% – to wage growth.

**Flash IHS Markit PMI and FOMC policy decisions**




Sources: PMI uses IHS Markit post-2007 and ISM pre-crisis, Federal Reserve.

# Key diary events

## Monday 29 Nov

Japan Retail Sales (Oct)
United Kingdom BOE Consumer Credit, Mortgage Lending and Approvals (Oct)
Eurozone Business Climate (Nov)
Germany HICP (Nov, prelim)
Canada Current Account (Q3)
Canada Producer Prices (Oct)

## Tuesday 30 Nov

*Philippines Market Holiday*
South Korea Industrial Output (Oct)
Japan Unemployment Rate and Industrial Output (Oct)
Australia Current Account Balance (Q3)
China (Mainland) NBS Manufacturing PMI (Nov)
Thailand Manufacturing Production (Oct)
Germany Unemployment Change (Nov)
Eurozone HICP Flash (Nov)
India GDP Quarterly (Q2)
Canada GDP (Q3)
United States Consumer Confidence (Nov)

## Wednesday 1 Dec

Worldwide Manufacturing PMIs, incl. global PMI* (Nov)
Australia Real GDP (Q3)
Indonesia Inflation (Nov)
Germany Retail Sales (Oct)
United Kingdom Nationwide House Price (Nov)
Switzerland CPI (Nov)
United States ADP National Employment (Nov)
United States ISM Manufacturing PMI (Nov)

## Thursday 2 Dec

South Korea CPI Growth (Nov)
Australia Trade Balance (Oct)
Switzerland Retail Sales (Oct)
Eurozone Producer Prices and Unemployment Rate (Oct)
United States Initial Jobless Claims

## Friday 3 Dec

Worldwide Services & Composite PMI* (Nov)
Thailand CPI Headline Inflation (Nov)
Eurozone Retail Sales (Oct)
United States Non-Farm Payrolls, Unemployment Rate, Average Earnings (Nov)
United States Factory Orders (Oct)
United States ISM Non-manufacturing PMI (Nov)

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

# What to watch

- **Worldwide PMIs for November**

  Worldwide manufacturing and services PMIs will be released with the turn of the month next week. The latest flash November PMIs reflected strong developed world growth, though rising COVID-19 cases clouded the outlook. In particular, the faster eurozone economic upturn came as a surprise given the surge in COVID-19 cases, but record inflationary pressures and renewed COVID-19 concerns do not bode well for the outlook and hit the forward-looking PMI expectations index. Further comparison with the global PMI data will be observed in next week's updates.

  Meanwhile APAC economies such as Australia and Japan had seen flash PMIs indicate faster growth in November as the recovery from the latest COVID-19 Delta wave continued. ASEAN countries will similarly be observed as to whether October's recovery momentum has been sustained with sub-indices offering particularly important clues on the supply chain situation amid persistent price pressures and lengthy lead times.

- **North America: US non-farm payrolls**

  November's US jobs report will be released on Friday following the October surprise where the unemployment rate dipped to 4.6%. Refinitiv consensus currently points to a 563k addition to non-farm payrolls and for the jobless rate to decline to 4.5%. Also watch out for wage data in the report as well as ISM and consumer confidence survey data plus US factory orders. Canada meanwhile updates its GDP data for Q3.

- **Europe: Eurozone CPI**

  Indications of a record price increases had been gleaned through the IHS Markit Flash Eurozone Composite PMI for November, ahead of the flash HICP release next week, suggesting we may continue to see price pressures persist via the official release.

- **Asia-Pacific: China PMIs, Australia, India GDPs**

  APAC economies will see November PMIs, including for China, offering clues on the growth and inflation balance. Meanwhile Australia and India release GDP figures for the July to September period.

## Special reports:

Flash PMIs signal stronger developed world growth, but rising COVID-19 cases cloud outlook
**Chris Williamson |** **page 4**

Thailand: Gradual Recovery as COVID-19 Wave Eases **Rajiv Biswas |** **page 7**

## Recent PMI and economic analysis from IHS Markit

| | | | |
|---|---|---|---|
| Global | Flash PMIs signal stronger developed world growth, but rising COVID-19 cases cloud outlook | 24-Nov | Chris Williamson |
| Europe | UK Flash PMI points to sustained robust output and jobs growth in November, but firms' costs again rise at record rate | 23-Nov | Chris Williamson |
| | Faster Eurozone economic upturn marred by record inflationary pressures and COVID-19 worries | 23-Nov | Chris Williamson |
| | UK firms plan marked increase in employment, but only a third of businesses report confidence about hiring skilled staff | 16-Nov | David Owen |
| | UK business confidence drops to 12-month low in October amid unprecedented inflation expectations, Accenture/IHS Markit UK Business Outlook finds | 15-Nov | David Owen |
| APAC | Australia economy expands at faster rate as restrictions ease, but price pressures persist as costs surge higher | 23-Nov | Jingyi Pan |
| | Vietnam economy rebounds after third quarter GDP contraction | 12-Nov | Rajiv Biswas |
| Commodities | Weekly Pricing Pulse: Commodity prices recover after recent sell-off | 24-Nov | Michael Dall |

## IHS Markit Economics & Country Risk highlights

### Supply Chain Crisis: What's Ahead for 2022

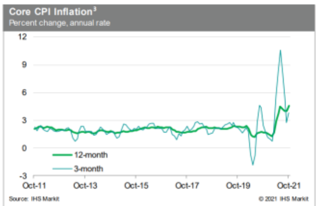

The Great Supply Chain Disruption will continue into 2022, with the potential for new, unexpected shortages that will hit companies and add to inflation. Drawing on IHS Markit's proprietary knowledge and databases, our experts will lay out the challenges in 2022 for shipping and transportation, manufacturing, autos, computer chips, energy, agribusiness, metals, input costs, labor availability, geopolitics, ESG, and economic impacts - and how they all interact.

Click here to register for this live webinar today

### US CPI Inflation at Highest Rate in Three Decades

The twelve-month change in the overall CPI increased to 6.2%, the highest reading since November 1990, while the twelve-month change in the core CPI increased to 4.6%, the highest reading since August 1991, triggering knee-jerk reactions. What does this mean going forward and for policymakers? Read our US Data Commentary below. For IHS Markit Connect subscribers only, non-subscribers can contact CustomerCare@ihsmarkit.com.

Click here to read our US Data Commentary




### Semiconductor Shortage: Examining the Data Behind the Bottleneck


The news is filled with articles about the semiconductor shortage: how it's impacting car manufacturing, slowing electronics production, and delaying consumer purchases. But what's the real story? How do you pull the facts from the noise? Our research team pulls back the curtain to talk through what they were seeing and watching in the data as this shortage came to the forefront.

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

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# Special Focus

## Flash PMIs signal stronger developed world growth, but rising COVID-19 cases cloud outlook

**Chris Williamson**

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*November's preliminary PMI numbers show the developed world's economies continuing to grow at above trend rates, spurring further solid job creation. However, supply disruptions continue to run at near-record rates, showing few signs of easing since the unprecedented delays reported in October, stymieing manufacturing growth and contributing to the steepest rise in input costs recorded in the history of the surveys.*

*Service sector growth meanwhile accelerated but is threatened by rising COVID-19 case numbers, notably in Europe, which have hit business confidence for year-ahead prospects.*

### Developed world growth edges higher for second month running

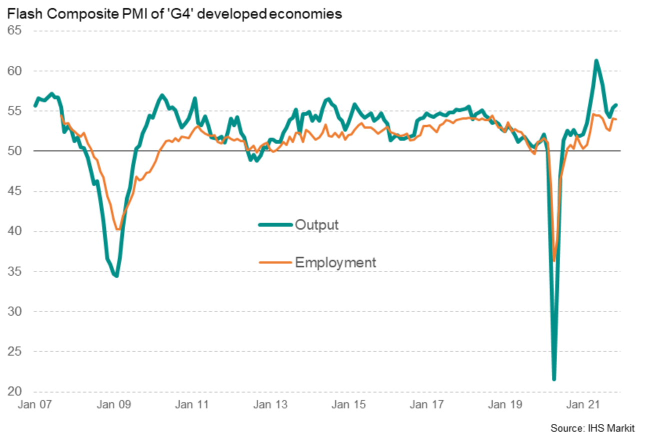
Flash PMI surveys for November signalled a slight acceleration in the pace of economic growth across the world's largest developed economies, taking the pace of expansion to the fastest since July.

Growth in the 'G4' developed economies of the US, Eurozone, Japan and the UK had surged to an all-time high in May as economies opened up from pandemic-related restrictions, but growth then slowed sharply up to September as the rebound faded and COVID-19 Delta waves led to renewed economic disruptions, notably in the US. Since September, however, the PMI has indicated a modest upturn in the pace of expansion across the G4 economies.

At 55.6, the GDP-weighted average PMI output index for the four economies so far in the fourth quarter is only marginally below the average of 55.7 seen in the third quarter to suggest only a minor growth slowdown, albeit down sharply from 59.6 in the second quarter. The recent average is notably also well above the survey's long-run pre-pandemic average, signalling sustained above trend developed world GDP growth.

The upturn was accompanied by another month of solid jobs growth, as the employment index for the G4 economies registered 54.0, albeit down marginally from 54.1 in October in part due to some companies reporting difficulties finding staff.

**Developed world output and jobs growth**

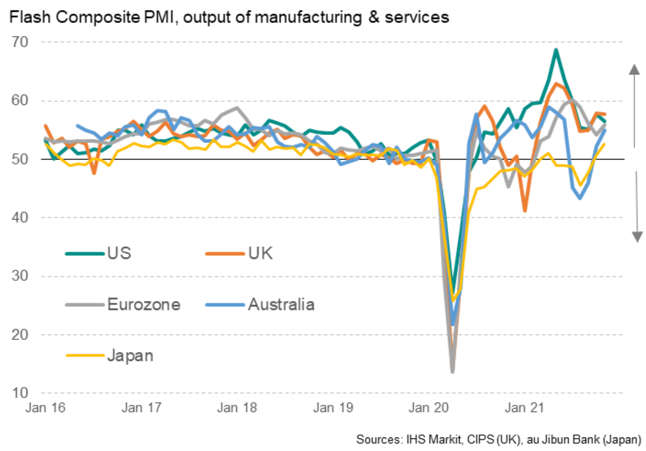



### Japan and Australia see strengthening recoveries as Delta waves ease

The biggest changes in recent months have been evident in Asia Pacific region, with output growth reviving in Japan as well as Australia (which is also covered by the flash PMIs) on the back of easing Delta waves. November saw output rise for a second month in Japan, increasing at the steepest rate since April 2018, having fallen continually between May and September of this year.

Similarly, output rose for a second straight month in Australia, growing at the fastest rate since June, as business recovered from three prior months of sharply falling output.

**Output growth**



PMI™ By IHS Markit

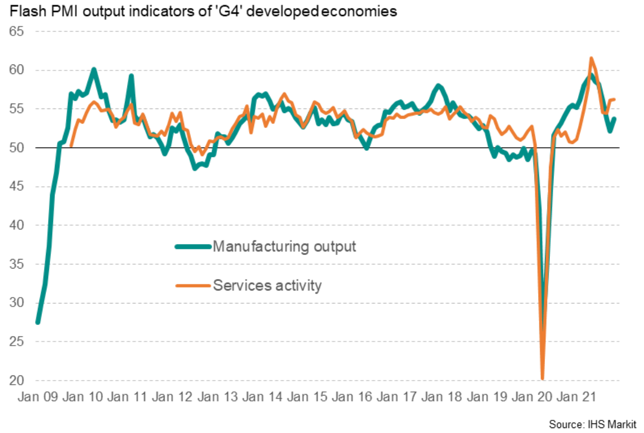
## Service sector expansions help US and UK outperform

Growth meanwhile ticked higher in Europe, with expansions gaining momentum in both the Eurozone and the UK, the latter recording the stronger expansion for the second month in a row. In contrast, growth slowed in the US – albeit having accelerated markedly in October as the Delta wave faded.

So far in the fourth quarter, the UK has recorded the strongest expansion of the G4 economies, followed closely by the US, reflecting the strengths of service sector expansions in these economies amid looser COVID-19 restrictions. However, it's the eurozone which has seen the strongest manufacturing expansion followed by the US, with the UK and Japan trailing.

Measured across the G4 economies, service sector output accelerated marginally in November to the fastest since July, outpacing manufacturing where, although growth also picked up, the latest expansion of factory output was the second-weakest recorded over the past 14 months.

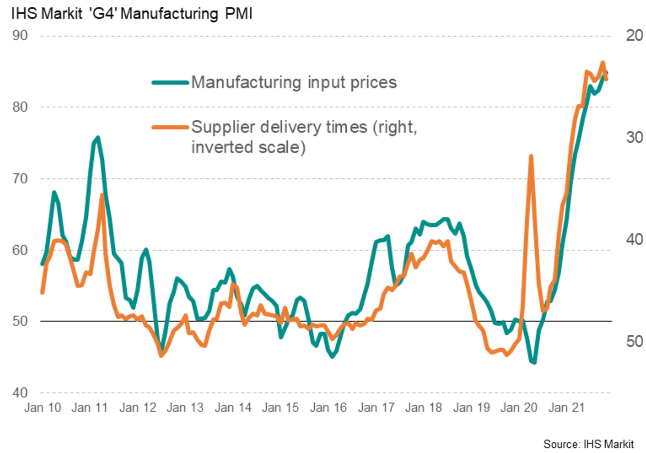
**G4 manufacturing and services output**




## Unprecedented supply constraints

One of the principal reasons for the underperformance of manufacturing in recent months has been supply-side constraints, as reflected most prominently in an unprecedented lengthening of global supplier delivery times. For the G4 developed world economies, delivery times have lengthened continually since the start of 2020 as the pandemic disrupted global factories and shipping. he incidence of delays initially appeared to have peaked back in June 2021, but further disruptions due to port congestion and COVID-related production issues in Asia led to the supply situation worsening at a new record rate in October.

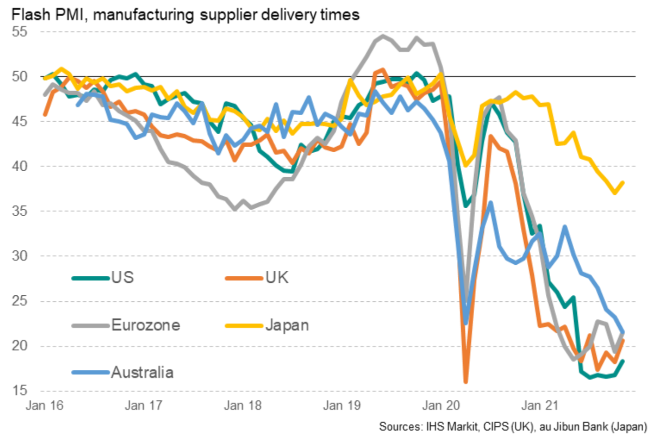
**G4 manufacturing supplier delays and input prices**




November saw some easing in the indices of supply delays, albeit merely to the lowest since August and still far ahead of anything ever seen prior to the pandemic.

While the worst supply delays are seen in the US, lengthening lead times continue to be widely reported in Europe – both across the Eurozone and UK – and to a lesser extent in Japan.

**Suppliers' delivery times**

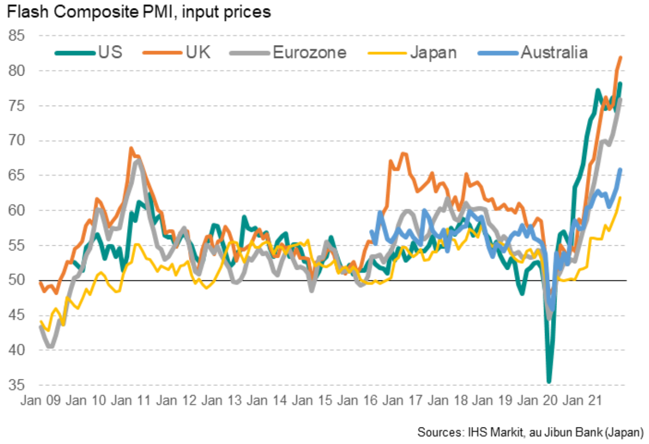



## Third month of record price hikes

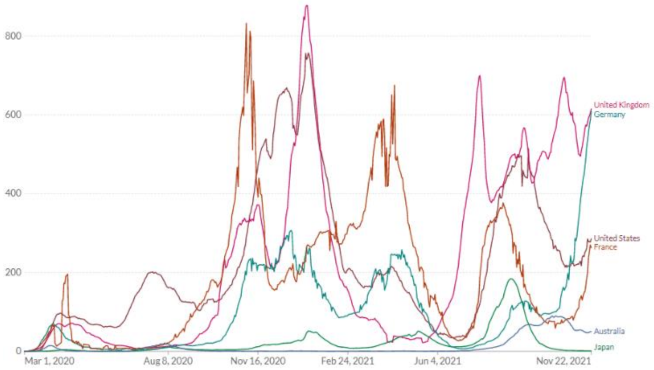
Ongoing severe supply shortages led to higher prices again. The headline measure of input costs covering goods and services across the G4 economies surged from 70.9 in October to 75.0 in November, breaking new record highs for a third straight month. Also, most notably in the US and UK, labour shortages were also seen to have been driving up staff costs and wages.

Average input costs rose at record rates in all the G4 economies as well as Australia.

## Input costs (manufacturing and services)




## Daily new COVID-19 cases per million people



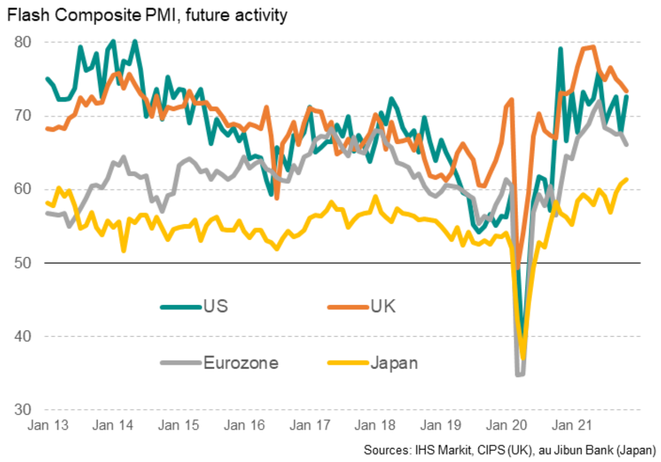

Source: Our World in Data

## Outlook

Rising prices and supply shortages were often seen to have dented business confidence with regards to prospects for the year ahead, but most noticeable was a downturn in service sector sentiment in the eurozone due to growing concerns about the potential for further COVID-19 restrictions to be introduced amid a sudden rise in infection rates. Note that in Germany, where cases have risen especially sharply, inflows of new business have already slipped to near-stagnation in November according to the latest flash PMIs. The broader spread of the virus would threaten a similar services-led slowdown through the eurozone.

Similarly, sentiment in the UK sank to its lowest so far this year reflecting supply and COVID-19 worries. Relatively low infection rates meanwhile helped buoy confidence in the US and Japan, though rising case numbers in the US are a key metric to watch in coming weeks.

## PMI business expectations



# Special Focus

## Thailand: Gradual Recovery as COVID-19 Wave Eases

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*Thailand had considerable success in containing its domestic COVID-19 pandemic during 2020 and the first quarter of 2021. However, the situation deteriorated in the third quarter of 2021, with an escalating COVID-19 wave driven by the more highly transmissible Delta variant that resulted in a rising death toll and economic slowdown.*

*The international tourism sector, which was a major growth driver prior to the pandemic, has been in a protracted and deep slump since April 2020. However, the decision by the Thai government to reopen international borders for tourists from 63 countries from November has created new hopes for economic recovery in 2022.*

### Thailand's economy hit by COVID-19 Delta wave

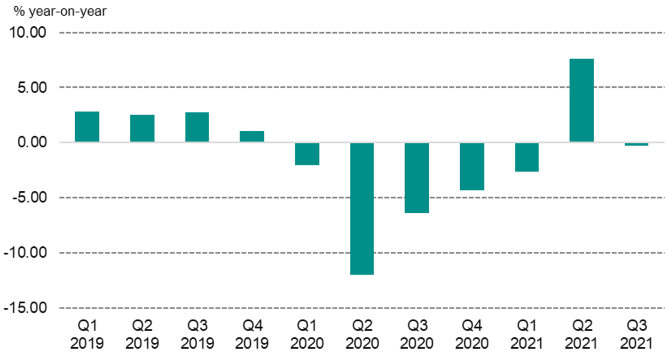
The Thai economy was in severe recession in 2020, with a GDP contraction of 6.1% year-on-year (y/y). This reflected the impact of the COVID-19 pandemic on domestic economic activity as domestic lockdown measures were put in place, as well as the impact of global lockdowns on international merchandise trade. A particular severe negative shock for the Thai economy has been from the effects of global travel bans on international tourism travel.

Some recovery in economic momentum was evident during the first half of 2021. Base year effects contributed to the rapid growth rate of 7.6% y/y recorded in Q2 2021. Manufacturing output rose strongly in Q2 2021, up by 16.9% y/y.

However, despite the improving momentum of GDP growth in Q2 2021, the onset of a severe new COVID-19 Delta wave since late June 2021 resulted in the Thai Government introducing stricter lockdown measures in Bangkok and nine provinces from 12th July, with further extensions of these restrictions during August as the COVID-19 wave escalated.

Consequently, third quarter GDP contracted by 0.3% y/y, with manufacturing production having declined by 1.4% y/y. The 3.2% y/y contraction in private consumption reflected the pandemic lockdown measures and was a key factor contributing to the GDP decline, Gross fixed capital formation also contracted by 0.4% y/y. However exports of goods and services rose by 12.3% y/y.

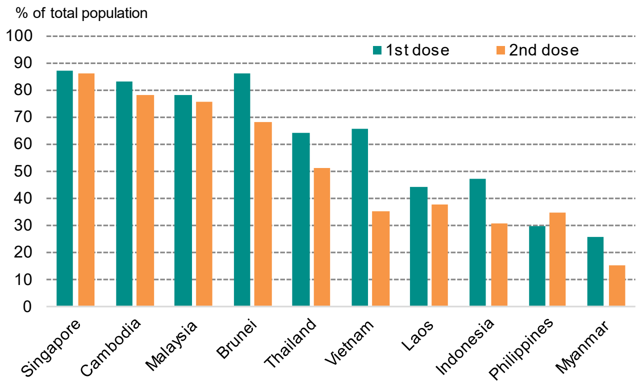
**Thailand GDP growth rate**




Source: IHS Markit.

Low COVID-19 vaccination rates have contributed to Thailand's vulnerability to the latest pandemic wave. However, the Thai government has ramped up its vaccination program in the second half of 2021, with an estimated 67% of the total population having received their first dose vaccinations by 22nd November, with 56% fully vaccinated. Although there has been a significant decline in daily new COVID-19 cases reported in Thailand since mid-August, the level of daily new cases remained relatively high by end November 2021, albeit still steadily declining. The declining COVID-19 Delta wave has allowed the gradual easing of lockdown conditions since 1st September, helping to trigger a rebound in economic activity.

**ASEAN: COVID vaccination rates**

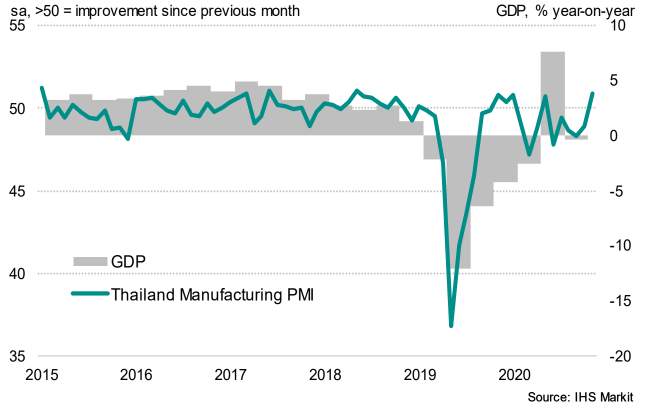



Source: Our World in Data (14 November 2021)

In October, Thailand's manufacturing sector saw its first expansion since April, according to the latest IHS Markit PMI survey data. The IHS Markit Thailand Manufacturing PMI rose to 50.9 in October from 48.9 in

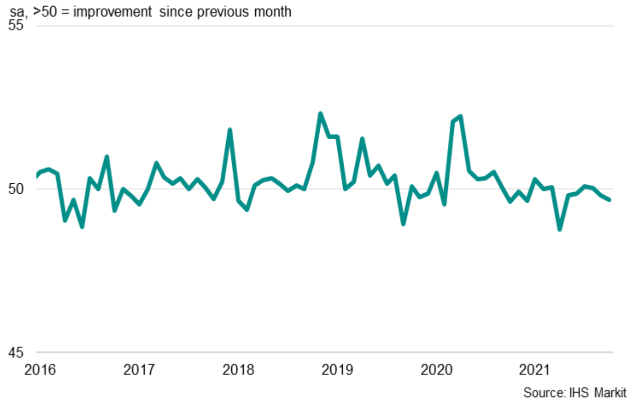
September. Amid the easing of COVID-19 restrictions, manufacturing output rose for a second straight month. In the survey, companies highlighted better domestic demand underpinning the increase in production.

**IHS Markit Thailand Manufacturing PMI**


Suppliers' delivery times meanwhile lengthened for a second consecutive month, as widespread flooding in some parts of Thailand disrupted the transportation system. The Thailand Department of Disaster Prevention and Mitigation reported in October that 32 of the nation's 76 provinces were impacted by monsoon rainfall causing flooding, as several major tropical storms resulted in severe precipitation.

**Thailand suppliers' delivery times**




Supply constraints also contributed to sustained price pressures, though both the rates of input cost and output price inflation eased from September. Input price inflation eased to a two-month low, but was sustained at a strong rate by historical standards amidst higher raw material and shipping costs.

In November, the Thai government has announced plans for USD 5 billion of fiscal support to help farmers with the impact of flooding as well as COVID-19 impact effects. A similar amount of fiscal support is also expected to be provided as price support measures to farmers producing rice, rubber and palm oil.

## Thailand's tourism sector reopens after deep recession

Tourism has been a mainstay of the Thai economy. By 2019, direct tourism spending accounted for an estimated 12% of Thai GDP, with Chinese tourism having played an increasingly important role in underpinning the Thai tourism economy. Thailand has been one of the most notable beneficiaries of the boom in Chinese tourism over the past decade, with total annual Chinese tourist visits to Thailand having risen from 2.7 million in 2012 to 11 million in 2019. Chinese tourism spending in Thailand was estimated to have reached USD 18 billion in 2019, amounting to more than 25% of total international tourism spending in Thailand.

In 2019, Thailand had 39.8 million foreign tourist arrivals. Although international tourism continued to be permitted during the first quarter of 2020, tourism visitors were banned from April 2020 onwards. Consequently, total international tourism visits for calendar year 2020 fell to 6.7 million arrivals, almost entirely comprising tourism arrivals during the first quarter of 2020.

The international tourism sector has remained in dire straits during 2021 to date. In the first half of 2021, total international tourism visitor numbers were just 40,500 compared with 6.7 million visits in the first half of 2020, when international tourism had already shut down during the second quarter of 2020.

Due to the escalating domestic pandemic, domestic Thai tourism was also hit during the first half of 2021, with total domestic tourism trips down 15% year-on-year while domestic tourism revenue fell by 38.5% y/y.

Although a pilot scheme for vaccinated international tourists was introduced for Phuket from 1st July 2021, tourist arrivals had been low. This likely reflected a number of factors, including the escalating COVID-19 wave in Thailand during July and August, as well as considerations such as quarantine requirements in home countries for travellers returning from Thailand.

Given the collapse in international tourism since April 2020, the Thai government's decision to reopen international borders on 1st November to vaccinated travellers from 63 countries represents a crucial step forward in Thailand's economic recovery path.

## Economic outlook

The Thai economy has continued to face severe economic challenges in H2 2021. The collapse of international tourism has been a significant negative factor throughout 2021, given the key role it plays as an important pillar of the Thai economy. Furthermore, the latest COVID-19 Delta wave has further dampened economic growth momentum due to weakening domestic demand. These factors are expected to significantly restrict the pace of GDP growth in 2021, to a marginal expansion of just 0.5% y/y.

At present, the most likely pathway out of the protracted collapse in Thailand's international tourism sector and its wider repercussions to other sectors such as retailing and transportation will be the continuing rollout of COVID-19 vaccine programs in Thailand as well as key tourism markets. Meanwhile the economic costs to Thailand's tourism industry and tourism sector jobs will remain severe, acting as a major drag on the economy.

The rapid ramp-up of Thailand's COVID-19 vaccination program during H2 2021 is expected to help to contain the severity of the pandemic, allowing domestic economic activity to improve during the first half of 2022. Furthermore, a gradual reopening of international tourism in Thailand is expected to be an important factor supporting economic recovery, with GDP growth projected to strengthen to around 4.0% in calendar 2022.