23 April 2021

Week Ahead Economic Preview

US and Eurozone GDP, FOMC meeting

- **US and Eurozone GDP updates**
- **FOMC and BoJ meetings**
- **Eurozone inflation and sentiment surveys**
- **China PMI surveys**

The coming week sees central bank policy meetings in the US and Japan alongside some key economic data releases. While GDP updates in the US, Eurozone, South Korea and Taiwan will shed light on first quarter economic growth, US durable goods orders and a host of survey data will give further insights into global trends at the start of the second quarter following the April flash PMIs. Eurozone inflation data will also be eagerly awaited.

FOMC meets amid improving outlook and fresh GDP numbers

The third FOMC meeting of the year will see the Fed seeking to reassure that inflation will not become a concern. The policy decision comes a day after first quarter GDP is released, which is on course to show a 6.1% annualised gain according to IHS Markit's tracker, with the second quarter tracking at just over 8%. Recent survey data have meanwhile also shown sharply rising price pressures.

At the last meeting the FOMC reiterated its commitment to continue current asset purchases until "substantial further progress" was made toward its inflation and employment goals, but any upside surprises to GDP may heighten the risk of tapering earlier than currently expected. See also our research on "Will consumers spend a chunk of the accumulated excess saving, sparking an inflationary boom?"

Eurozone GDP to signal decline

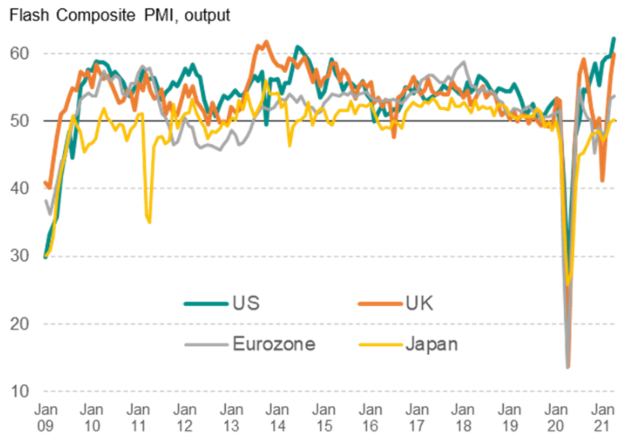
Over in Europe, the GDP numbers for the first quarter and inflation data will be eagerly awaited. GDP is expected to have fallen by around 0.8%, albeit with France bucking the downturn with modest growth, but recent PMI data have surprised to the upside and strong growth looks likely in the second quarter. The inflation numbers will meanwhile be scoured for clues of whether rising industrial prices are feeding through to core inflation. With the ECB having pledged further support for the eurozone that remains deeply affected by the rise in COVID-19 cases and lockdowns, the combination of rising debt and higher bond yields associated with higher inflation remains a concern (see also Is the eurozone at risk from another sovereign debt crisis?).

Bank of Japan and China PMI

The Bank of Japan also meets amid a K-shaped recovery and an outlook which is clouded by rising COVID-19 infections. The BOJ is reported to be contemplating upping their growth forecast but downgrading the inflation outlook, the latter adding scope to stick with the current monetary policy settings following March's framework review.

Across Asia, the turn of the month ushers in the PMI releases with China's NBS publishing their non-manufacturing and factory surveys on Friday. The Caixin PMIs will be anticipated in the following week.

The US saw the fastest business activity growth of the four largest developed economies again in April. Read the full flash PMI report here.



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

Special reports

Global supply delays hit unprecedented levels, and look set to get worse | Dan Yergin | page 3

Australian economy rebounds in early 2021 | Rajiv Biswas | page 6

Key diary events

Monday 26 April

Germany IFO business survey (Apr)
US durable goods orders (Mar)
US Dallas Fed manufacturing survey (Apr)

Tuesday 27 April

South Korea GDP (Q1)
China industrial profits (Mar)
Japan interest rate meeting
Sweden interest rate meeting
Hungary interest rate meeting
EU/eurozone business confidence (Apr)
Italy trade balance (Mar)
US GDP (Q1)
US Case-Shiller house prices (Feb)
US Richmond Fed manufacturing survey (Apr)
US Conference Board consumer confidence (Apr)

Wednesday 28 April

Australia consumer prices (Q1)
Japan retail sales (Mar)
Germany Gfk consumer confidence (Apr)
France INSEE consumer confidence (Apr)
US goods trade balance (Mar)
US wholesale inventories (Mar)
Canada retail sales (Feb)
UK BRC retail survey (Apr)
US FOMC interest rate meeting

Thursday 29 April

New Zealand trade balance (Mar)
Singapore unemployment (Q1)
Spain consumer price inflation (Apr)
Spain unemployment (Q1)
Germany unemployment (Apr)
Germany consumer price inflation (Apr)
Sweden GDP (Q1)
Eurozone money supply and loans (Mar)
EU/eurozone consumer sentiment (Apr)
US PCE spending and prices (Q1)
US weekly jobless claims
US pending home sales (Mar)

Friday 30 April

Japan industrial production (Mar)
China NBS PMI manufacturing & non-manufacturing (Apr)
Japan construction orders & housing starts (Mar)
Japan unemployment (Mar)
Eurozone GDP (Q1)
Germany GDP (Q1)
France GDP (Q1)
Italy GDP (Q1)
Spain GDP (Q1)
Czech Republic GDP (Q1)
Taiwan GDP (Q1)
Portugal GDP (Q1)
Eurozone consumer price inflation (Apr)
Germany consumer price inflation (Apr)
France consumer price inflation (Mar)
Italy consumer price inflation (Mar)
Italy unemployment (Feb)
Spain retail sales (Mar)
Canada GDP (Mar)
Brazil unemployment (Feb)
US PCE personal spending & prices (Mar)
US employment cost index (Q1)
US Chicago PMI (Apr)
US University of Michigan consumer confidence (Apr)

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Supply Chain Special Focus

Supply delays hit unprecedented levels, and look set to get worse

Daniel Yergin

Vice Chairman, IHS Markit

Pressures on supply chains are increasing and global disruptions are likely to get worse as summer approaches and the economy booms. Disruptions have converged at the same time in three important pillars of the global economy – shipping, computer chips, and plastics. Supply delays are now the most widespread in over 20 years. The system will ultimately adjust, but that requires new investment in ports and capacity.

If you're wondering why your new couch is going to take three or four months to arrive, not just a few weeks, the reason is simple: You are at the very end of a global supply chain that has buckled.

For similar reasons, GM and Ford and other automakers around the world are slowing down manufacturing, temporarily shutting auto plants, and furloughing workers.

A recovering world economy that depends upon the synchronized, smooth running of global supply chains is now being slammed by what has turned out to be synchronized disruptions.

Although the massive Ever Given container ship has been unstuck from the Suez Canal, its continuing impact is only adding to the woes.

As government stimulus seeks to fuel a hyper recovery and the world economy accelerates over the rest of this year, the pressures on supply chains are increasing and disruptions are likely to grow as we head into summer.

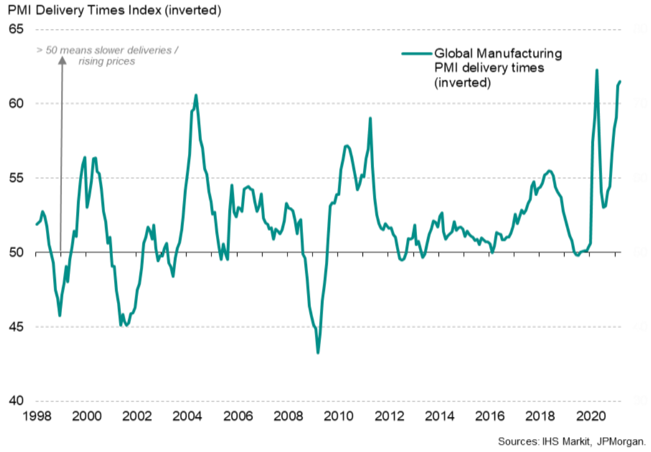
Stretching supply chains

Global prosperity over the last several decades has been built on the ever-more-complicated and intricate system of supply chains that tie raw material suppliers, manufacturers, distributors, and consumers together.

[Recent IHS Markit worldwide PMI surveys] of manufacturers find that the "stretching of supply chains" over the last year has extended delivery times to levels "unsurpassed in over 20 years of data availability."

Box 1: PMI supply and demand indicators

Over the past year manufacturers have reported more worldwide supply chain delays than ever before in over two decades of PMI survey history



These delays have been fueled by demand for goods surging at a rate not seen for over a decade

With stimulus dollars flowing, the pressures will increase as consumers come out of lockdowns with pent-up demand as well as a lot of liquidity -- the household savings rate is now 18% compared to the normal 7%.

Three disruptions have converged at the same time – in shipping, in computer chips, and in plastics. Each of these chains are among the most important foundations of the modern economy.

The granular data tracked by IHS Markit - in shipping, chemicals, automotive, and economics - demonstrates the extent of the disruptions.

Container crunch

The great boiler room of today's globalization is containerization. The massive container ships - about 5,400 altogether - ply the oceans, carrying to the world's markets at any given time about 20 million containers, filled with everything from tennis shoes and anti-virus masks to laptop computers, auto parts, and solar panels. Asia is the source of much of the goods, most notably

China, home to seven of the 10 largest container ports in the world.

The turmoil in shipping began early in 2020 when the pandemic shut China down for two months. That meant the evaporation of expected shipments of goods to the rest of the world. As China recovered, North America and Europe shut down.

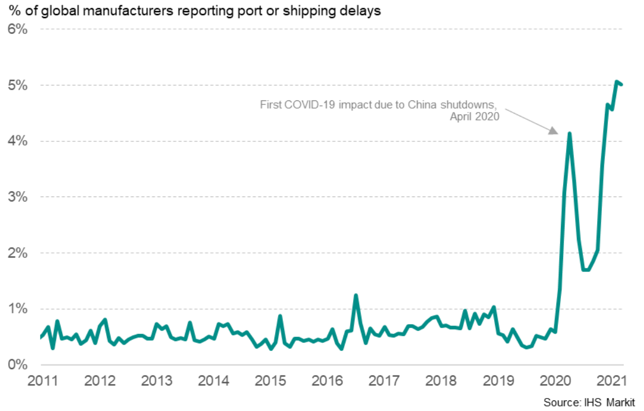
With people stuck in their homes, their spending on such services as travel plummeted, while spending on electronics, home furnishings, and many other goods shot up. That, combined with the urgent need for medical supplies and protective gear to fight the pandemic, meant a swelling flotilla of container ships sailing towards the United States.

The adjacent ports of Los Angeles and Long Beach, which handle half of total U.S. imports from Asia, have been overwhelmed, with no slack time to catch up on the backlog. The congestion was made worse by the restriction and distancing that Covid has placed on work schedules.

Huge container ships continue to be stacked up outside those ports, unable to get to berths, meaning that goods are not being landed to meet the surging demand. A Federal Maritime Commissioner described the West Coast back-ups as “the worst we’ve ever seen.”

Box 2: PMI survey supply delays due to container shortages and port congestion

By far the most commonly cited causes of longer delivery times have been shipping delays and port congestion



The impact can be measured in trade and shipping costs. Containerized shipping to the West Coast was 30% higher in February 2021, over 2020, and shipping rates from Asia to the East Coast, including surcharges, are up as much as five times over last year.

The shipping disruption has been further aggravated by an imbalance between where the containers are and where they are needed.

Semiconductor shortage

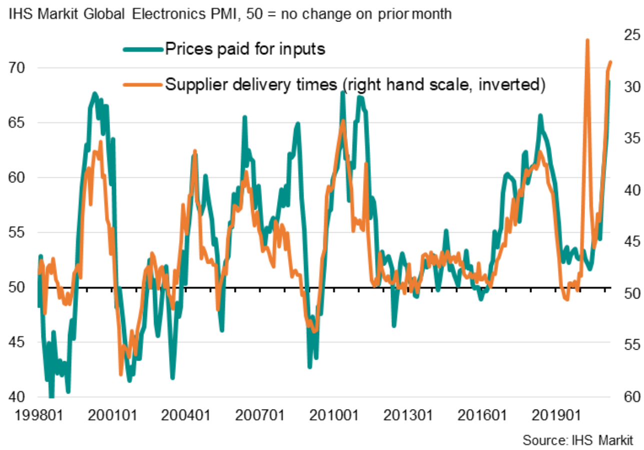
The second major disruption is of computer chips, which is hitting the auto industry. This is made worse by the tangle in shipping. But the main reason is the surge in competing demand for computer chips for electronics and 5G and automobile industry, along with the overall rapid recovery in China.

Then, as things happen, a major computer chip factory in Japan caught fire. An extended drought in Taiwan, source of 60% the world’s chips by value, has created another crick in the supply chains, this for the pure water necessary for chip manufacture.

The “chip famine” continues to play havoc with auto manufacturing. Today’s cars are also electronic devices that run on computer chips – and increasingly so. Owing to the shortage of chips, the major automakers in North America, Europe, and China have had to temporarily halt some production.
Even though chip manufacturers have announced new investment in capacity, this will take time; IHS Markit estimates that this shortage, at least for the auto industry, will persist into next year.

Box 3: Semiconductor shortages

Shortages of electronic components are leading to higher prices, with electronics goods producers’ supply delays and input costs rising in March 2021 at rates unprecedented in over 20 years of IHS Markit PMI data



IHS Markit estimates that over one million fewer light vehicles will have been produced in the first quarter of 2021 because of semiconductor shortages, and the developing second quarter picture sees an increase to 702,000 units up from 600,000 units a week ago. Supplies of semi-conductors are likely to stabilise only in the fourth quarter, with additional supply, which could compensate for volume lost in the first half of the year, being delayed until early 2022.

Texas weather factor

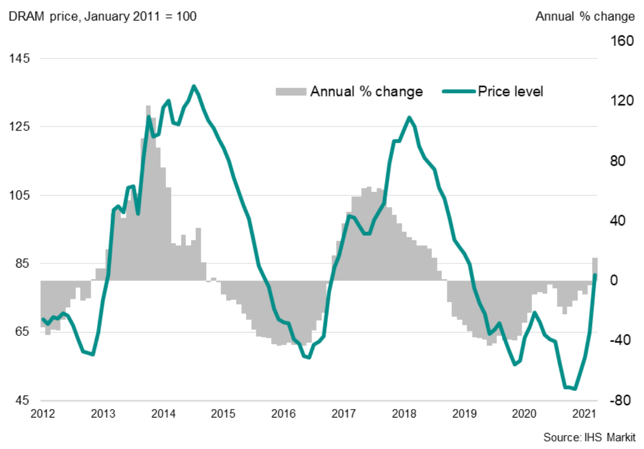
The weather instigated the third disruption. Texas was hit by a deep freeze for which it was not operationally prepared. The electricity supplies necessary to keep natural gas wells flowing were cut off, shutting down the gas production required to operate the power plants in the first place. In a vicious circle, that meant still less electricity. Texas went dark.

The Texas petrochemical plants, which produce a substantial part of the world's plastics, had to rush to implement emergency shutdowns to avoid accidents or lasting damage to the facilities. These factories are coming back into operation, but slowly and with great care, and that will take many more weeks and then additional weeks to replenish supplies.

The result has been a widespread shortage of plastic materials that are used to make such things as furniture, mattresses, and car seats. Alternative supplies that might be brought in from Asia are stuck in the same Pacific maritime traffic jam. No flexible foam means further shutdowns in auto plants. With fewer car seats, fewer cars to go to dealers.

Box 4: Prices of DRAM

DRAM prices are just one component for which the price has risen sharply since the start of the pandemic



The semiconductor demand boost resulting from the COVID-19-induced shift to remote working and adoption of 5G technology are also contributing to shortfalls in a key semiconductor component: dynamic random-access memory (DRAM), which is used in a range of consumer devices such as mobile phones and laptop computers. DRAM manufacturers concentrated in Taiwan are reluctant to increase capital expenditure in response to what they regard as a temporary surge in demand, contributing to higher prices and longer supply times. Consumers in North America and Europe thus face shortages in home electronics.

Outlook for supply chains

Then the huge Ever Given container ship got caught sideways in the Suez Canal, blocking passage in that critical shortcut that saves 6000 miles in the journeys between Asia and Europe.

This added yet another level of disruption to global supply chains – jumbling schedules and pushing congestion up to what is called "critical levels" in European ports already struggling with overload.

The interconnected pressure on supply chains is increasing as the economic recovery gains pace. Manufacturing of all kinds will be hampered by shortages in the months ahead. Port congestion will disrupt the complex flows of auto components. Trucking, which picks up the containers at ports, is stretched to the limit in the United States.

"I've never before seen a situation where every sector of the [transportation] industry is slammed," is the way one trucking executive put it. Meanwhile, the shortage of computer chips is impeding the manufacture of new trucks.

The global supply chains have been a great engine of economic growth, indeed essential to the performance of the world economy. But they are now strained in a way that has never happened before.

The system will adjust, but it will take new investment in capacity and ports, and that will take time. Companies will re-examine their sourcing strategies, seeking through diversity to reduce disruption risk, but that will add complexity.

Some supply lines will be shortened as some production is re-established closer to final manufacturers and consumers, but that will involve a trade-off between cost and resilience.

Exports from China to Europe are beginning to be shifted from ships to China's Belt and Road rail system, but that adds only limited capacity.

Meanwhile, the great economic recovery from the pandemic – fed by vaccinations, pent-up demand, and stimulus – will over the next several months put increasing strain on the links that tie the world together in supply chains. In other words, don't expect that couch anytime soon.

This content originally appeared on CNBC.com here.

APAC
Special Focus

Australian economy rebounds in early 2021

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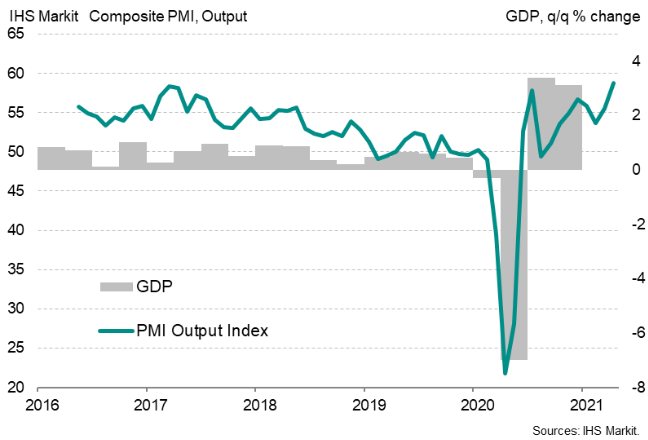
The Australian economy has rebounded in early 2021 from the impact of the COVID-19 pandemic restrictive measures that hit domestic demand during 2020. With economic growth momentum improving rapidly, the Australian economy is forecast to grow at a pace of 3.2% y/y in 2021, following an estimated GDP contraction of 2.4% y/y in 2020.

Latest flash IHS Markit PMI survey data for April have shown a significant upturn in both Australian manufacturing and services activity at the national level. State-level PMI survey data also showed strong expansion in output and new orders in New South Wales, Victoria and Queensland during the first quarter of 2021.

The latest IHS Markit survey data also shows early signs of renewed expansion of exports, after protracted headwinds due to the ongoing trade sanctions by China, which have continued to impact on many Australian exports of goods. Exports of services such as tourism and education have also been heavily disrupted by international travel restrictions related to the pandemic.

Australia flash PMI and GDP



Australian economy bounces back

Despite several outbreaks of COVID-19 cases in various states in recent months, Australia has still managed to effectively contain its pandemic to very low levels of cases, allowing the reopening of the domestic economy to more normal operating conditions. However international borders remain largely closed, with severe restrictions on international travel, apart from a travel bubble that has opened between Australia and New Zealand in April 2021. The pace of COVID-19 vaccine rollout has also been relatively slow compared to the US, UK and EU, with only 1.8 million vaccine doses administered by mid-April, for a population of around 27 million persons.

Large-scale fiscal stimulus measures combined with ultra-loose monetary policy settings have helped to underpin economic activity despite the negative economic impact of the COVID-19 pandemic and associated lockdowns. During 2020, the Reserve Bank of Australia (RBA) lowered its policy rate from 0.75% to 0.1%, while also implementing quantitative easing measures for the first time.

The overall COVID-19 response from the Australian Federal Government has reached around AUD 507 billion, including health measures, the JobKeeper Payment, Boosting Cash Flow for Employers and the Coronavirus Supplement. The 2020-21 Budget also included AUD 98 billion in response and recovery support, including AUD 25 billion under the COVID-19 Response Package and AUD 74 billion under the JobMaker Plan.

Australian GDP growth in the fourth quarter of 2020 rose by 3.1% quarter-on-quarter, the second consecutive quarter of positive growth after Australia entered a recession in the first half of 2020 with two consecutive quarters of negative growth. The upturn in economic activity was driven by improving domestic final demand, as household final consumption expenditure was boosted by easing of lockdown conditions. Despite the rebound in economic activity in the second half of 2020, Australian GDP in the fourth quarter of 2020 was still down 1.1% y/y.

The Australian unemployment rate fell to 5.8% in February 2021, with the number of persons in employment having returned to pre-pandemic levels as the labour market recovered rapidly as lockdown measures were scaled back.

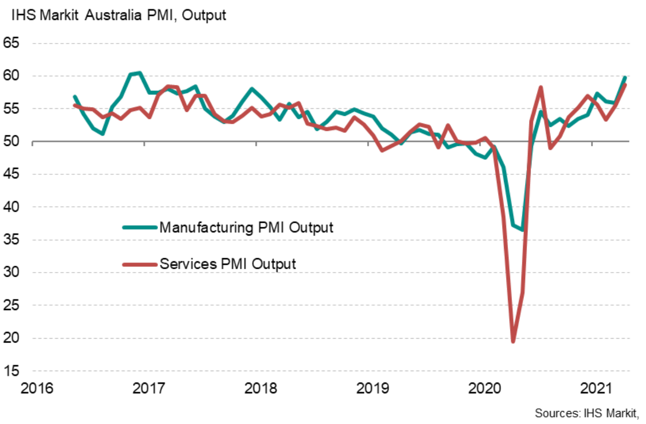
Economic recovery has continued during the first quarter of 2021, with the IHS Markit PMI survey readings for both manufacturing and services signaling expansionary conditions throughout the first three months of 2021.

The IHS Markit Flash PMI has since risen steeply at the outset of the second quarter, from a final reading of 57.0 in March to 58.8 in April. Private sector growth in Australia gathered considerable momentum in April, according to the Flash PMI data. The upturn was associated with improved client confidence, buoyant market conditions, strengthening demand, the easing of COVID-19 restrictions and low interest rates. Aggregate new orders increased at a survey-record pace.

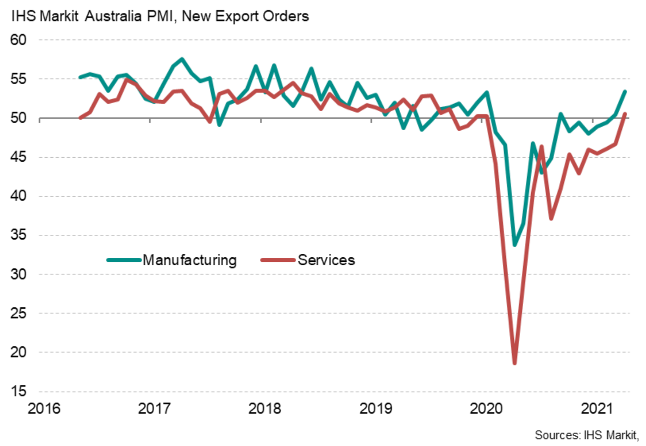
The IHS Markit Flash Services Business Activity Index rose to 58.6 in April, from a final reading of 55.5 in March, signalling the strongest increase in service sector output in the survey history. The upturn was boosted by the quickest expansion in new business inflows on record.

The IHS Markit Flash Manufacturing PMI also showed a sharp increase in 59.6 in April, rising from 56.8 in March to its highest mark in the survey history. Strengthening demand conditions encouraged goods producers to step-up output in April. The pace of expansion was sharp and the fastest in close to four-and-a-half years.

PMI survey output by sector

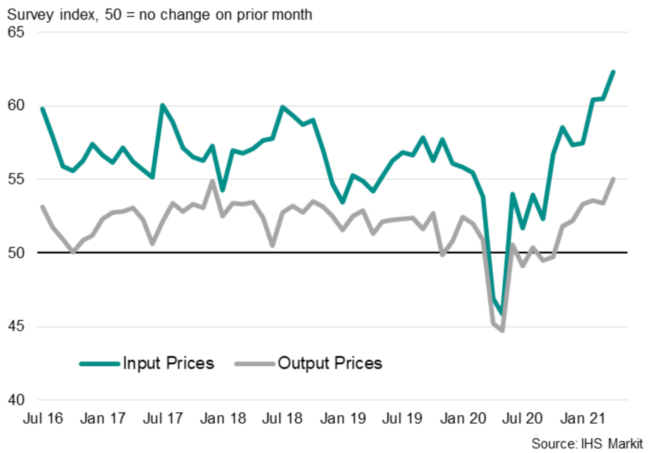


PMI survey exports by sector



The rise in total sales was supported by a recovery in new export orders. International demand for Australian goods and services increased for the first time since January 2020 and at the fastest pace in close to two-and-a-half years. Australian exports have been helped by the rebound in world commodity prices during the second half of 2020 and in early 2021. In the fourth quarter of 2020, Australia’s terms of trade improved by 4.7% helped by higher export prices, notably for iron ore.

IHS Markit Australia Input and Output Prices Index



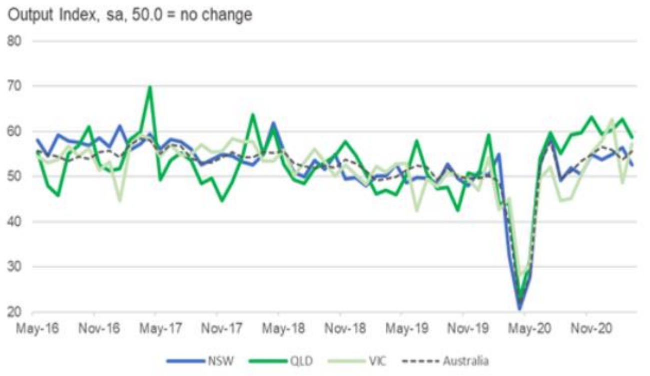
Input prices rose sharply in April, which firms attributed to supply shortages, escalating international shipping rates and increased employment costs. The overall rate of input price inflation reached a survey peak. Selling prices also rose at the fastest pace on record as companies sought to protect their margins by passing on to their clients part of the additional cost burden.

PMI survey signals expansionary state economic conditions

The latest IHS Markit state level PMI survey data show that economic activity has remained strong during the first quarter of 2021 in New South Wales and Queensland, with the Output PMI data remaining expansionary. In Victoria, economic activity temporarily weakened during February 2021 due to a renewed short period of restrictive measures in Melbourne to contain a new COVID-19 outbreak. However, the restrictions were of short duration, and economic activity rebounded strongly in March as restrictions were lifted.

The New South Wales Government has estimated that the size of the New South Wales economy will be largely unchanged in the 2020-21 financial year due to the impact of the pandemic, with a return to positive growth of 2.75% forecast for 2021-22. A key driver for economic growth will be from the large-scale public sector infrastructure pipeline, which amounts to AUD 107 billion.

PMI survey output in Australian states



Source: IHS Markit.

Due to the significant second wave of the COVID-19 pandemic that impacted on the state of Victoria, the Victorian economy was substantially affected in the 2020-21 financial year by a protracted second lockdown during from July to October 2020, for a period of 112 days. Following the lifting of the lockdown, household spending by Victorian households rebounded, rising 10.4% quarter-on-quarter in the December quarter of 2020. The state government of Victoria have projected strong growth of around 5% for the 2021-22 financial year, reflecting low base year effects that will boost growth in output.

In contrast, the state of Queensland had managed to effectively contain the pandemic throughout most of 2020 and during early 2021, which has helped to underpin state economic activity levels throughout 2020, with momentum strengthening further in early 2021. The Queensland government have projected economic growth of around 3.5% y/y for the 2021-22 financial year in their State Budget 2020-21.

PMI survey new orders in Australian states

Source: IHS Markit.

In Western Australia, successful containment of the pandemic has allowed relatively normal domestic demand conditions, with state commodities exports helped by strong world prices for iron ore and gold. The Western Australian state government has projected that Gross State Product will increase by 2.75% y/y in the 2021-22 financial year, with State Final Demand projected to rise by 3.75%.

Economic outlook

The Australian economy is showing improving economic momentum in the first half of 2021, helped by continued success during the first four months of 2021 in containing new COVID-19 pandemic cases.

The RBA has signalled that it intends to maintain extremely accommodative monetary policy settings to support economic recovery. The RBA has stated that it does not intend to increase tighten monetary policy until inflation is sustainably in the 2% to 3% range. This is expected to require significantly higher wages growth and further tightening of labour market conditions. The RBA does not expect these conditions to be met until 2024 at the earliest, signalling a protracted period of highly accommodative monetary policy settings.

Latest IHS Markit PMI survey data for April 2021 signals continued improvement in economic activity levels in the near-term, helped by strengthening domestic demand as well as the impact of improving world demand on Australian exports.

However, with COVID-19 vaccination rates still relatively low in Australia, the recovery remains vulnerable to risks of new pandemic outbreaks until a much larger share of the total population are able to be vaccinated.