

Week Ahead Economic Preview

Worldwide manufacturing PMIs plus US and Eurozone inflation data

September manufacturing PMIs will be released with the turn of the month next week while inflation updates are awaited from the US and eurozone following a busy week of monetary policy meetings.

Worldwide manufacturing PMI data will be in focus in the coming week after September flash PMIs further fuelled [concerns of stagflation](#), reflecting slowing growth and rising prices across the likes of the US, UK and eurozone. In particular, the extent to which the global economy has been affected by supply constraints, which evidently worsened in September according to the flash PMIs, will be the key question. The stickiness of the recent rise in prices, which can be examined through the rate at which rising input costs translate to higher output charges, will be of interest with the PMI sub-indices.

Official economic data releases also fill the calendar with special focus on the September eurozone inflation numbers. The latest [IHS Markit Flash Eurozone PMI](#) pointed to further accumulation of inflationary pressures and at a rapid pace, suggesting we may be seeing elevated readings up ahead.

Following a week of central bank meetings, including the US Fed FOMC meeting where a less hawkish than feared tone was adopted, the ECB forum on central banking brings across a series of appearances by developed market central bank chiefs. Any further details on the paths forward for these central banks will be closely watched in the week ahead.

Chris Williamson
Chief Business Economist,
IHS Markit
chris.williamson@ihsmarkit.com

Jingyi Pan
Economics Associate Director,
IHS Markit
jingyi.pan@ihsmarkit.com

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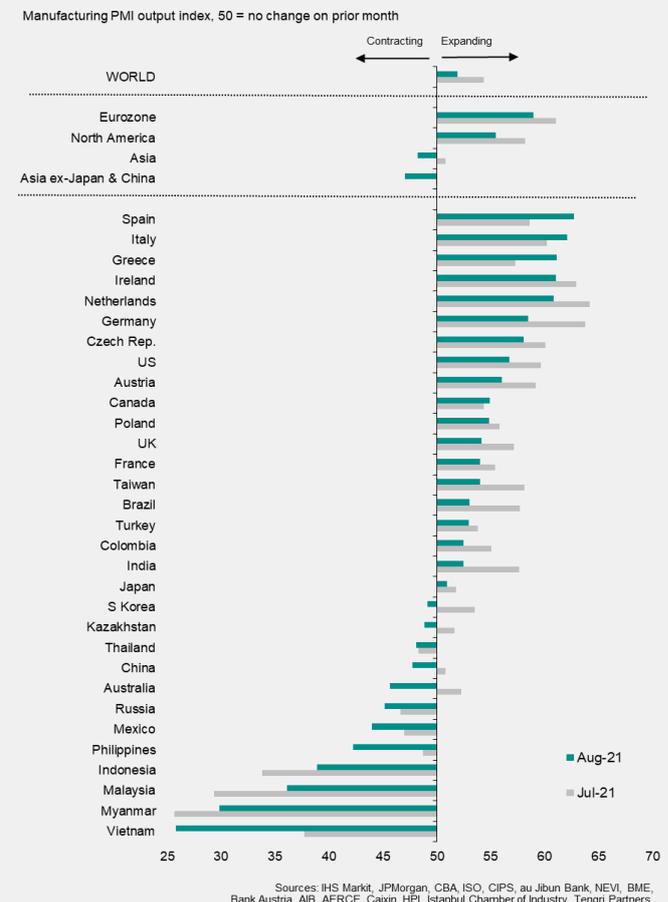
Manufacturing update from the PMIs

The advent of October at the end of the week heralds the release of September manufacturing PMI surveys worldwide. A major key theme that continues to feature across the PMIs is the issue of supply constraints hampering output and fuelling ever higher prices. [August saw near-record supply chain delays, slowing output growth and price pressures close to ten-year highs.](#)

In terms of supply chain performance, it will be especially important to assess the manufacturing situations in several recently hard-hit Asia-Pacific economies such as Vietnam, Malaysia, Indonesia, the Philippines, Thailand and South Korea, as well as mainland China, where output has come under pressure in recent months due to the spread of the Delta variant.

As well the output and price gauges, we'll be keen to see how suppliers' delivery times and the demand environment has changed. Read more about the [PMI and its sub-indices here.](#)

Global manufacturing output rankings



Key diary events

Monday 27 Sep

Taiwan Industrial Output (Aug)
United States Durable Goods (Aug)

Tuesday 28 Sep

Australia Retail Sales (Aug, final)
Malaysia Trade (Aug)
Germany GfK Consumer Sentiment (Oct)
United States Consumer Confidence (Sep)

Wednesday 29 Sep

Eurozone ECB Forum on Central Banking
Japan BOJ Meeting Minutes (Jul)
Thailand BOT Monetary Policy Report (Aug)
Thailand Manufacturing Production (Aug)
United Kingdom Nationwide House Price (Sep)
Thailand 1-Day Repo Rate (29 Sep)
United Kingdom BOE Consumer Credit, Mortgage Lending and Approvals (Aug)
Eurozone Consumer Confidence (Sep, final)
Canada Producer Prices (Aug)

Thursday 30 Sep

South Korea Industrial Output (Aug)
Japan Retail Sales and Industrial Output (Aug)
China (Mainland) NBS Manufacturing PMI (Sep)
China (Mainland) Caixin Manufacturing PMI* (Sep)
Thailand Current Account (Aug)
Germany HICP, Unemployment Rate (Sep)
United Kingdom GDP (Q2)
Eurozone Unemployment Rate (Aug)
United States GDP (Q2, final)
United States Initial Jobless Claim

Friday 1 Oct

China (Mainland), Hong Kong Market Holiday
Worldwide Manufacturing PMIs, incl. global PMI* (Jul)
Japan BOJ Summary of Opinions (Sep)
Japan Unemployment Rate (Aug)
Japan Tankan Big Manufacturers Index and Outlook (Q3)
Indonesia Inflation (Sep)
Germany Retail Sales (Aug)
Eurozone HICP (Sep, flash)
United States Personal Income and Consumption (Aug)
United States Core PCE Price Index (Aug)
Canada GDP (Jul)
United States ISM Manufacturing PMI (Sep)
United States UoM Sentiment (Sep, final)

* Press releases of indices produced by IHS Markit and relevant sponsors can be found [here](#).

What to watch

■ Worldwide manufacturing PMI for September

Manufacturing PMI data for September will offer a first look at the production conditions as global COVID-19 cases eased into the month. Flash PMIs so far alluded to UK and Europe growth slowing while business activity in Australia and Japan continued to contract, but it will be the data from China and other Asian economies that will likely be especially closely watched given their importance to global supply chains.

■ Inflation data from the US, Eurozone

The eurozone releases September inflation data ahead of August US core PCE data on Friday. Latest [IHS Markit Flash Eurozone PMI](#) indicated that inflationary pressures continued to build with the input price gauge hitting a 21-year high, placing the focus on the upcoming September inflation data from the eurozone.

Meanwhile US August CPI came in at 0.3%, below consensus and providing some relief for markets. Core PCE data for August is also expected at 0.3%. However, PMI data have hinted at some [renewed upward price pressures](#), which could feed through in coming months.

■ Japan Q3 Tankan survey, BOJ minutes

The Q3 Tankan survey will be released to offer insights Japanese manufacturing performance. Midway into Q3, we have seen Japan's private sector continuing to decline sharply as [rising COVID-19 cases and supply chain disruptions overshadowed any Olympic Games boost](#), which may keep the Tankan readings dampened. The week also sees the Bank of Japan release the minutes from its last policy meeting. The BoJ has recently sounded downbeat about the immediate economic situation in Japan, which looks set to be confirmed by the official production and retail sales data released during the week, but remains more optimistic about longer term prospects.

■ US and UK GDP

Both the US and UK issue new estimates of second quarter GDP, but also watch out for consumer confidence and durable goods orders data in the US and mortgage lending in the UK.

■ ECB forum on central banking

Central bankers including from the US, UK, Eurozone and Japan speak at the upcoming ECB forum.

Special report:

[Creating Mega CPTPP: Economic Implications of China's Membership Application Rajiv Biswas | \[page 4\]\(#\)](#)

Recent PMI and economic analysis from IHS Markit

Global	Understanding ... headline PMI vs. subindices: how signals can be lost by focusing exclusively on the headline PMI	21-Sep	Chris Williamson
	Hints of stagflation cause fresh headaches for central banks	10-Sep	Chris Williamson
	Monthly PMI Bulletin: September 2021	8-Sep	Chris Williamson, Jingyi Pan
	Delta wave hits hospitality, autos, tech and construction, boosts healthcare	7-Sep	Chris Williamson
	Global economic growth slows sharply as Delta variant hits businesses, pushing emerging markets into decline	6-Sep	Chris Williamson
	Emerging markets bearing brunt of latest COVID-19 Delta wave impact	3-Sep	Jingyi Pan
	Global manufacturing growth at lowest for 14 months as supply chains worsen amid Delta variant spread, price pressures hold close to decade highs	2-Sep	Chris Williamson
US	US equity investor sentiment slides to lowest for a year amid COVID-19 and policy concerns	15-Sep	Chris Williamson
Europe	Flash PMI sends stagflation warning as growth wanes but prices rise at record rate	23-Sep	Chris Williamson
	Eurozone flash PMI at five-month low as economy hit by bottlenecks and soaring prices	23-Sep	Chris Williamson
	UK economy slows as demand rebound fades and supply constraints bite	13-Sep	Chris Williamson
	UK construction activity hit by unprecedented shortages and cost pressures	7-Sep	Chris Williamson
	Case study: anticipating the UK recession during the global financial crisis	25-Aug	Chris Williamson
APAC	Rising COVID-19 cases and supply chain disruptions overshadow Olympic Games boost	20-Sep	Usamah Bhatti
	Thailand: COVID-19 Delta Wave Disrupts Economic Recovery	16-Sep	Rajiv Biswas
	APAC Electronics Industry Hit by Escalating Supply Chain Disruptions	10-Sep	Rajiv Biswas
	Asia economic downturn spreads as supply constraints hit more sectors	8-Sep	Jingyi Pan
	ASEAN Economies Hit Hard by Escalating Covid Delta Waves	3-Sep	Rajiv Biswas
Commodities	Weekly Pricing Pulse: Material prices continue their downward slide amid concerns about softening demand	22-Sep	Thomas McCartin

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Special Focus

Creating Mega CPTPP: Economic Implications of China's Membership Application

Rajiv Biswas

Asia Pacific Chief Economist, IHS Markit

Email: rajiv.biswas@ihsmarkit.com

China formally submitted its application for membership of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) on 16th September 2021. If approved, it would be transformational for the economic size of the CPTPP trade grouping. With the UK also having already formally applied to join the CPTPP in February 2021, the combination of both China and the UK joining the CPTPP would catapult the economic size of the CPTPP into the world's largest regional trade grouping. The CPTPP would become larger than either the Regional Comprehensive Economic Partnership (RCEP) or the US-Mexico-Canada Agreement (USMCA), and also substantially larger than the European Union.

However, there would be significant economic hurdles involved for China to be able to meet the requirements of the many chapters of the CPTPP. These would likely require substantial Chinese domestic economic policy reforms in some sectors. Furthermore, existing trade frictions between China and various existing CPTPP members could also create additional hurdles to the negotiating process for accession.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership

The CPTPP trade agreement entered into force in December 2018, after the first six of the eleven member states had ratified the agreement. The current eleven 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 30th December 2018. Vietnam has also ratified the CPTPP on 12th November 2018, and the CPTPP agreement took effect for Vietnam on 14th 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.

The US, which had been among the original twelve nations negotiating the predecessor Trans-Pacific Partnership (TPP) trade deal, is not among the CPTPP member nations, having pulled out of the TPP deal immediately after President Donald Trump took office in 2017. Consequently, the US will not benefit from the expanded market access and trade liberalisation measures created by the CPTPP. Under the original TPP agreement, market access for US firms would have increased, notably in services, agriculture and advanced manufacturing.

UK accession negotiations to the CPTPP

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

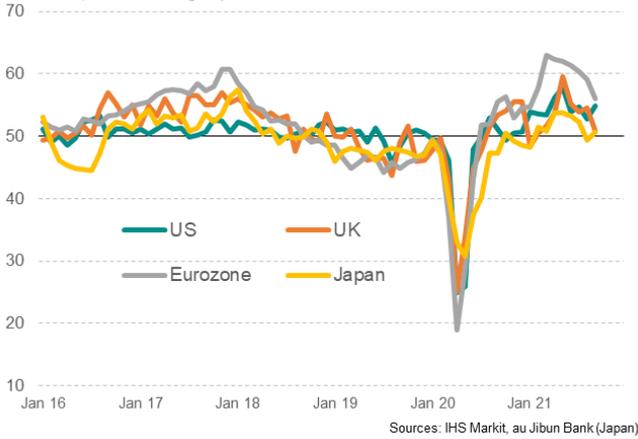
The CPTPP Commission stated that, in making its decision to allow accession negotiations with the UK to commence, it was mindful of the need to advance the high-standard rules of the CPTPP. The Commission stated that it took into consideration the UK's experience with high-standard trade and investment 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.

IHS Markit PMI New Export Orders

Flash PMI, manufacturing exports



Will China be able to join the CPTPP?

Chinese President Xi Jinping told the 27th Asia-Pacific Economic Cooperation (APEC) Economic Leaders' Meeting on 20th November 2020 that China would actively consider applying to join the CPTPP.

From a big picture trade liberalisation perspective for the Asia-Pacific region, this would create a platform for a giant mega trade deal across the Asia-Pacific that could merge both the CPTPP and RCEP into one common free trade platform for Asia Pacific.

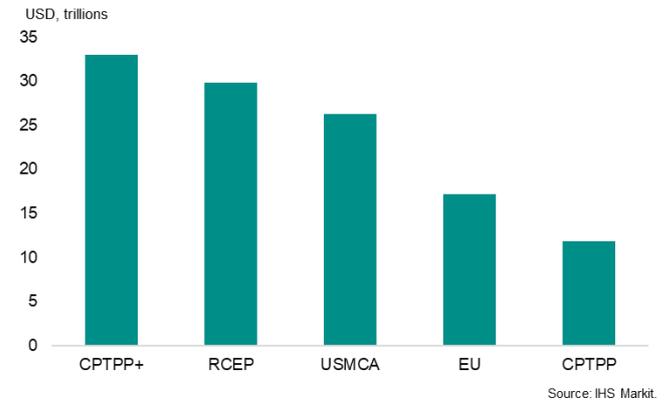
A number of CPTPP members are already also members of RCEP, including Japan, Australia, New Zealand, Brunei, Malaysia, Singapore and Vietnam. If China eventually joins the CPTPP, this could be a key catalyst for the realisation of the vision for the creation of the Free Trade Area for the Asia-Pacific (FTAAP). The FTAAP has been on the drawing board in APEC discussions for a new trade architecture for some years already.

If China is able to join the CPTPP, it would be positioned very strongly as the biggest member economy at the centre of the world's largest free trade deal. However, all of the existing CPTPP members would need to approve China's accession, raising the risk that bilateral frictions between China and any CPTPP member could make China's accession more complicated.

If the accession of both China and the UK to the CPTPP is approved, then the total GDP of the CPTPP member states would increase from around USD 11.8 trillion at

present to around USD 33 trillion, almost tripling in size. This would be equivalent to around 35% of world GDP.

Size of regional FTAs by total GDP



Several other economies are also either in the process of applying to join the CPTPP or are actively considering joining. The UK's decision to formally apply to join the CPTPP, if accepted, could also potentially change the perspective and future agenda within the CPTPP, as it would be the first nation to join from outside of the Pacific region.

The South Korean government has also stated that it is actively considering joining the CPTPP and is holding unofficial talks with member countries in relation to its potential application for membership. Thailand has also been undertaking internal government assessment of whether it should apply to join the CPTPP. Taiwan also announced on 22nd September 2021 that it had formally submitted its bid to join the CPTPP.

For China, there would be significant challenges to adapt its economy to meet the CPTPP standards, as CPTPP is a state-of-art trade agreement that includes chapters on many areas that are either not covered or lightly covered in the RCEP agreement. For China, joining CPTPP would mean further substantial international commitments in areas such as intellectual property, reform of state-owned enterprises (SOEs), environmental standards, and investment dispute resolution mechanisms.

One of the most important challenges for China would be to undertake the necessary reforms of SOEs to meet CPTPP standards, given the key role that SOEs play in China's economy. The process of SOE reform has already been underway in China for many decades, and Premier Li Keqiang has been driving a further wave of reforms over the past five years as part of the economic strategy to modernise China's economy and make it more internationally competitive. In October 2020, the Chinese government launched a new three-year action

plan for SOE reform, with a strong focus on introducing greater competition between the public and private sectors in many industries that have been dominated by SOEs.

These reforms are part of the long-term strategy to improve the competitiveness of China's industries, as part of the transition towards a more high-technology economy. A key part of this strategy is a shift away from low-value added exports towards more technologically advanced segments of manufacturing as well as improving competitiveness in exports of services.

Outlook

Given the strong commitment of the Chinese government to further SOE reforms, opening up accession negotiations for China to join the CPTPP is timely from China's perspective. The process of accession negotiations is likely to be complex and take some years, given the many chapters of CPTPP. Furthermore, it is possible that any accession agreement for China to join CPTPP could include a transition period for China to meet the CPTPP standards on SOEs and competition. China may also have been favourably influenced by Vietnam's successful entry into the CPTPP, despite similar concerns about the large role of SOEs in Vietnam's economy.
