Economic Research

17 February 2020

Week Ahead Economic Preview

Global overview

- **Flash manufacturing and services PMIs to provide clues of initial virus impact**
- **FOMC, RBA and RBI policy meeting minutes**

The flash PMI surveys will be an eagerly awaited focus of the week, providing the first insights into how the global economy has fared during the Covid-19 outbreak.

News of the virus came on the heels of the global PMI surveys having shown the pace of worldwide economic expansion picking up to a ten-month high in January, driven to a large extent by easing global trade tensions and the pass-through of prior central bank stimulus. The concern is that slumping demand from China, a downturn in travel and tourism and supply chain disruptions will have all dampened growth in February. More information is needed to gauge the degree to which global economic growth will be hit, hence the February PMIs being so important in helping assess both the depth and breadth of the initial impact.

In the US, the PMIs showed a lop-sided economy remaining reliant on the service sector as an engine of growth, with manufacturing struggling to expand due to weak exports in particular. The US also sees the Nevada caucuses and the earnings season remains in full flow (see page 3).

Eurozone flash PMI numbers need to continue to show the economy expanding to keep the ECB comfortable with remaining on hold. Any renewed slide in the surveys will raise recession risks. Similarly in the UK, markets will be looking to see if a January post-election rebound in the PMIs has enough legs to keep the Bank of England from cutting rates. UK job market, inflation and retail sales are also updated (see page 4)

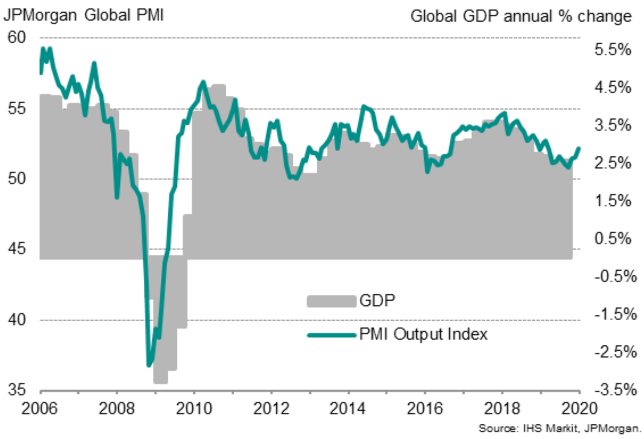
In Asia Pacific, Japanese and Australian flash PMI data are joined by a clutch of trade data. The Japanese survey numbers follow signs of a rebound in activity after a poor fourth quarter, while Australia is battling against a slide in its currency to a ten-year low on virus impact fears (see page 5).

Policy action comes from Indonesia while central banks in the US, Australia and India release the minutes from their prior meetings, all of which will be scoured for clues as to how policymakers assess the health of local and global economies to gauge the potential for further stimulus.

Special reports

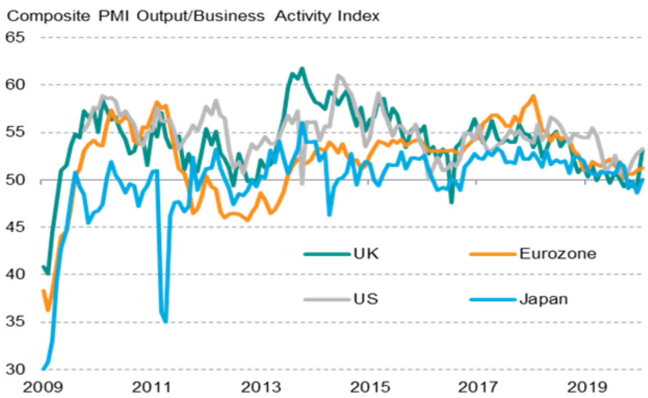
Covid-2019 and aviation: After years of buoyant growth driven by rapidly increasing Asian tourism and business travel, the Asia-Pacific commercial aviation industry is being hit in early 2020 by a massive economic shockwave from the escalating novel coronavirus crisis sweeping across the Asia-Pacific region. (**page 6**).

PMI data showed global growth accelerating to a ten-month high in January before the virus outbreak



Sources: IHS Markit, JPMorgan.

IHS Markit's PMI surveys showed business returning to growth in January in the United Kingdom and Japan after weak fourth quarters, alongside sustained steady growth in the US and 'green shoots' of improving trends in the Eurozone.



Source: IHS Markit, Jibun Bank (Japan)

Key diary events (UTC)

Monday 17 February

Singapore NODX, trade balance (Jan)
China house price index (Jan)
Indonesia trade (Jan)
Thailand GDP (Q4)
Japan industrial output (Final, Dec)
Euro area construction output (Dec)
Eurogroup meeting
UK Household Finance Index (Jan)

Tuesday 18 February

Singapore 2020 Budget
RBA meeting minutes
Hong Kong SAR unemployment rate (Jan)
UK claimant count change (Jan) jobless rate, earnings (Dec), employment change (Nov)
Euro area and Germany ZEW sentiment indexes (Feb)
US NY Empire State manufacturing index (Feb)
Japan trade (Jan), machinery orders (Dec)

Wednesday 19 February

FOMC minutes (28-29 Jan)
UK inflation (Jan)
UK Visa consumer spending index (Jan)
US housing starts, building permits (Jan)
ECB non-monetary policy meeting

Thursday 20 February

Australia jobless rate, employment change (Jan)
China loan prime rate (Feb)
Indonesia interest rate decision
Taiwan export orders (Jan), current account (Q4)
EU Special European Council
Germany consumer confidence (Mar)
France inflation (Final, Jan)
UK retail sales (Jan)
India monetary policy meeting minutes
Euro area consumer confidence (Flash, Feb)
Japan inflation (Jan)
IHS Markit Flash PMI for Australia (22:00 UTC, Feb)

Friday 21 February

IHS Markit flash PMI for Japan, US, UK, Eurozone, Germany, France (Feb)
Thailand trade (Jan)
Euro area inflation (Final, Jan)
US existing home sales (Jan)
US Baker Hughes oil rig count (21 Feb)
Speeches by Fed board member Lael Brainard and vice-chair Richard Clarida

Sat-Sun 22-23 February

22: US Nevada caucuses
23: New Zealand retail sales (Q4)
23: Germany Hamburg state election

For further information:

If you would like to receive this report on a regular basis, please email economics@ihsmarkit.com to be placed on the distribution list.

For more information on our products, including economic forecasting and industry research, please visit the Solutions section of www.ihsmarkit.com

For more information on our PMI business surveys, please visit www.ihsmarkit.com/products/PMI

Click here for more PMI and economic commentary.

For all further information, please visit **www.ihsmarkit.com**

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

United States Week Ahead

FOMC minutes and Flash PMIs

By Siân Jones

Economist, IHS Markit, London

Email: sian.jones@ihsmarkit.com

As we move closer towards Super Tuesday, key economic data releases will be monitored for any initial signs of the US economy being affected by Covid-19 related disruptions. Therefore, early indicators such as the IHS Markit flash US PMIs are keenly anticipated, as analysts and politicians seek to identify trends in the manufacturing and service sectors. Meanwhile, policy makers will publish their minutes from the first FOMC meeting of 2020, while speeches by Fed board members will be closely watched.

Flash PMIs

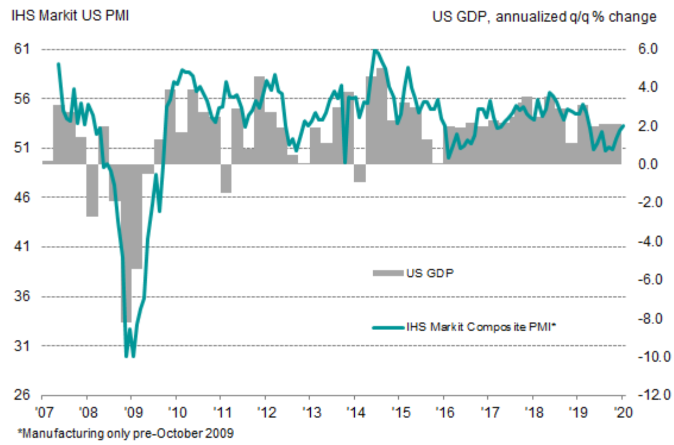
The upcoming release of the flash US PMIs will give an early signal as to whether the manufacturing sector continues to struggle to regain momentum and if consumer-led growth is being sustained in the service sector in February. A concern highlighted in January PMI data was subdued confidence among private sector firms. Manufacturers and service providers alike signalled muted optimism regarding output over the coming year, with positive sentiment unlikely to pick up following the outbreak of Coronavirus which has hit many key global supply chains. It remains to be seen if the immediate impact of such a disruption to suppliers will emerge in February production data. Also released are updates to regional surveys including the Empire State and Philadelphia Fed manufacturing Indexes.

FOMC minutes

The latest press conference by Fed Chair Powell suggested that the economy is ‘sound’ but that external demand conditions and virus impact will continue to be monitored closely. Although the trading climate appeared to brighten at the start of 2020, the emergence of the Coronavirus may hamper any meaningful improvement in the short term.

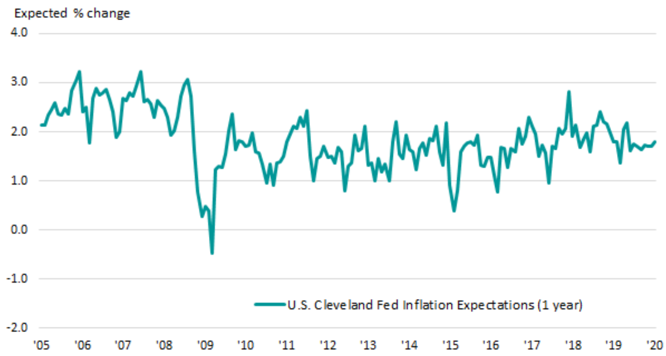
The latest statement underlined greater efforts to bring inflation to 2%, with language previously referring to inflation ‘near’ the target rate. As the US economy is enjoying a historically long spell of growth and low unemployment, the FOMC continue to struggle to bringing price increases back to the target rate, to prevent low inflation seeping into expectations and becoming ingrained. January PMI data suggested core PCE prices will remain well below the target rate.

Steady private sector expansion seen at the start of 2020



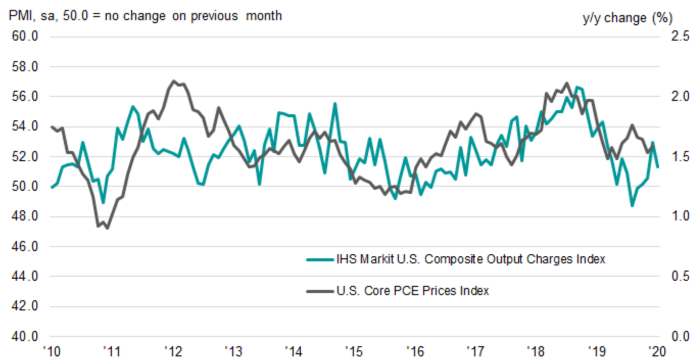
Sources: IHS Markit, BEA.

Inflation expectations for the year ahead moving towards the 2% target rate



Source: Thomson Reuters Datastream

January PMI data suggests inflation may stay below target in the short term



Sources: IHS Markit, Bureau of Economic Analysis, U.S Department of Commerce

Europe Week Ahead

Flash PMIs, UK inflation, retail sales, wages and employment update

By Joe Hayes
Economist, IHS Markit, London
Email: joseph.hayes@ihsmarkit.com

Our UK flash PMI for February will provide another post-election (and now post-Brexit) economic update for markets and policymakers to scrutinise, while euro area survey data will help to ascertain whether the tentative signs of stronger growth momentum at the start of 2020 have legs, or whether this will be stunted by the Coronavirus outbreak. Employment, wages, retail sales and inflation data from the UK are also due. The state election in Hamburg, Germany will meanwhile be closely watched following the strong political backlash after the recent Thuringia election.

Flash PMIs

UK flash PMI data will give another crucial insight into how the economy has so far fared in the post-election period. Bank of England policymakers will be particularly interested to see if the resumption of growth of activity in January can be sustained. At the time of writing markets are pricing the chance of a rate cut at just 14%, meaning any downside surprise could therefore have a strong market impact.

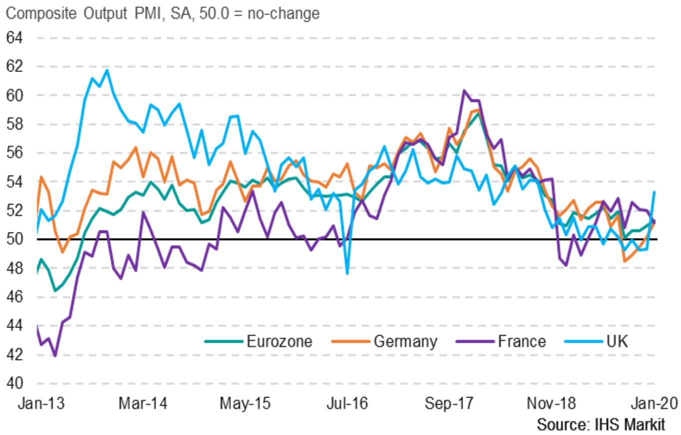
Eurozone PMIs also showed some positive signs in January. Given the disappointment of Q4 2019 GDP data, evidence of growth momentum across the single-currency bloc picking up will be warmly welcomed. That said, the surprisingly marked GDP contractions in France and Italy have raised technical recession risks. Early signals from our nowcast models point to a fairly remote chance at present in the former, but a notably higher chance in Italy.

More insight into UK consumers

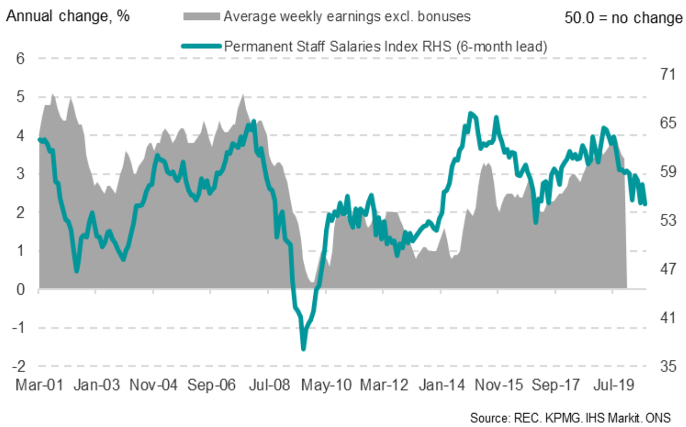
Pre-election labour market figures are due from the UK. Attention will remain fixated upon wage numbers as further solid nominal earnings growth in tandem with the low inflation environment will remain supportive of consumer spending. That said, survey data are consistent with nominal earnings growth retreating to around 2% over the next few months as inadequate productivity growth remains a stubborn issue

Elsewhere, post-election UK data come in the form of ONS retail sales and inflation, although we note that earlier-released BRC retail sales for January didn't overwhelmingly surprise to the upside.

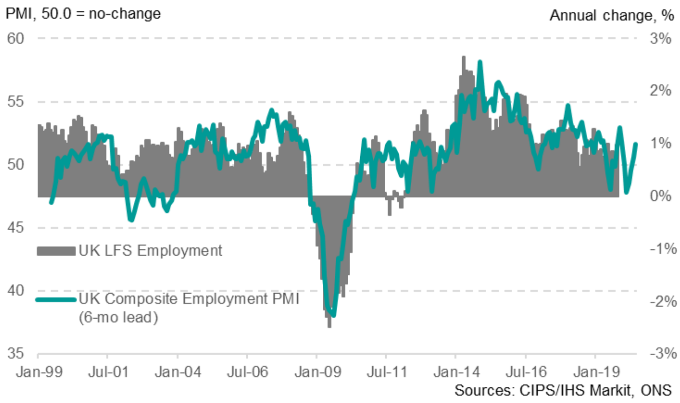
Flash PMIs will show whether the euro area and UK economies can continue to gather growth momentum



Easing wage pressures look set for UK workers despite record low unemployment and signs of job creation picking up



Will UK businesses break out from volatile hiring activity seen across 2019 due to heightened uncertainty?



Asia Pacific Week Ahead

Flash PMIs, Thai GDP, Bank Indonesia, Singapore budget

By Bernard Aw

Principal Economist, IHS Markit, Singapore

Email: **bernard.aw@ihsmarkit.com**

The flash PMI data for February includes updates for Japan and Australia, which will form the key highlight next week, providing early insights into the economic impact of Covid-19 on major economies. Trade figures in Thailand, Singapore and Indonesia will gather interest for signs of a beneficial from an easing in trade tensions, while Thailand will also report latest GDP numbers. Policy action will come from Indonesia while Japan's inflation figures will draw attention for the policy outlook. Singapore announces its 2020 budget, with expectations of fiscal measures to offset the negative impact of the coronavirus on its economy.

Flash PMI eyed for coronavirus impact

The flash February PMI for Japan will offer a glimpse into any coronavirus-related supply chain shocks, particularly on manufacturing activity. Japan's private economy eked out its first gain in four months during January, hinting at a revival of demand after being hit by the sales tax hike and typhoons in the fourth quarter.

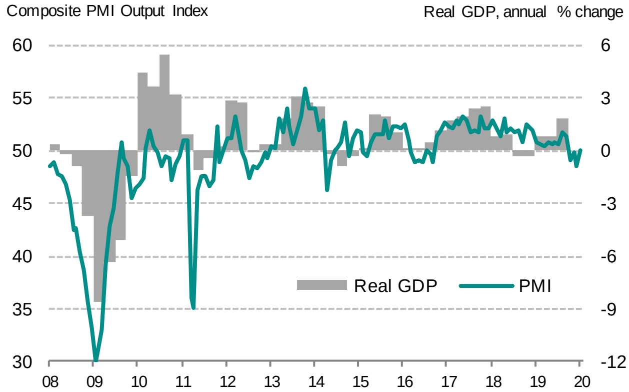
With the Australia dollar running at a ten-year low against the US Greenback on virus impact fears, the CBA flash PMIs will provide clues of the private sector slowdown in February. In particular, manufacturing performance will be under scrutiny after business surveys sent conflicting signals in recent months.

Thai GDP and Indonesian monetary policy

Thailand's economic growth is expected to accelerate to an annual rate of 2.9% during the fourth quarter, up from 2.4%, according to IHS Markit estimate. However, the still-weak external environment is likely to continue restricting Thai growth momentum in the near term. Latest PMI data indicated a broad stagnation in manufacturing conditions, with business confidence sinking to its lowest for one-and-a-half years.

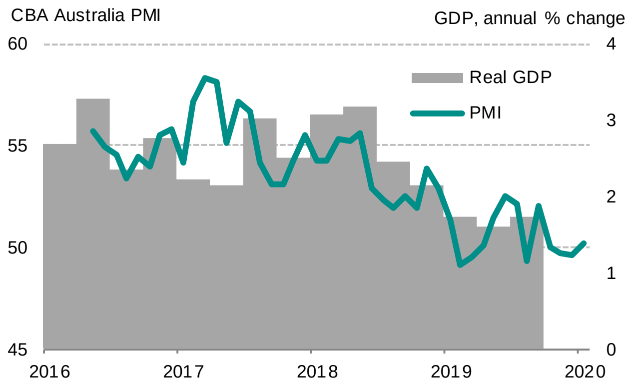
The Indonesian central bank is expected to remain on hold despite a further growth slowdown in the closing quarter of 2019. Indonesia PMI survey data showed that the manufacturing downturn extended from last year into the start of the year, with signs of demand conditions weakening. If economic conditions deteriorate further, Bank Indonesia could cut up to 50 basis points from the policy rate, alongside additional macroprudential adjustments.

Japan PMI and economic growth



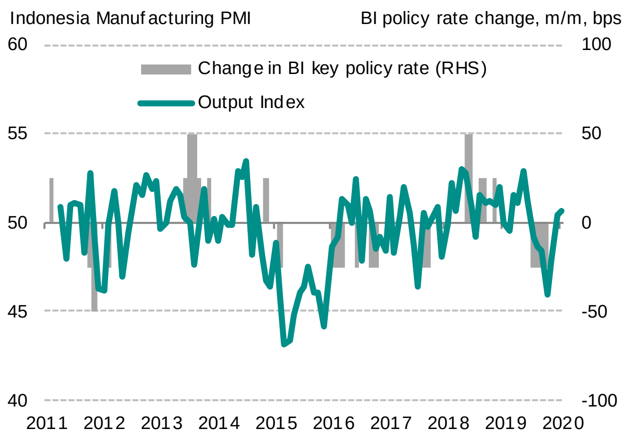
Sources: IHS Markit, Jibun Bank, Cabinet Office

Australia PMI and GDP



Sources: IHS Markit, ABS

Indonesia PMI and monetary policy



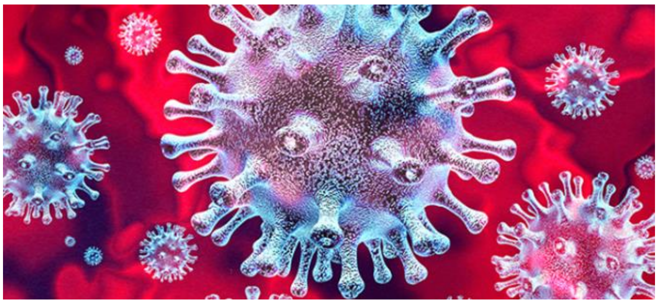
Sources: IHS Markit, Bank Indonesia

Economic Research

17 February 2020

Asia Pacific Special Focus

Coronavirus shockwave hits the APAC aviation industry



By Rajiv Biswas

Asia-Pacific Chief Economist, IHS Markit

Email: rajiv.biswas@ihsmarkit.com

After years of buoyant growth driven by rapidly increasing Asian tourism and business travel, the Asia-Pacific commercial aviation industry is being hit in early 2020 by a massive economic shockwave from the escalating novel coronavirus crisis sweeping across the Asia-Pacific region.

Economic impact on APAC commercial aviation industry

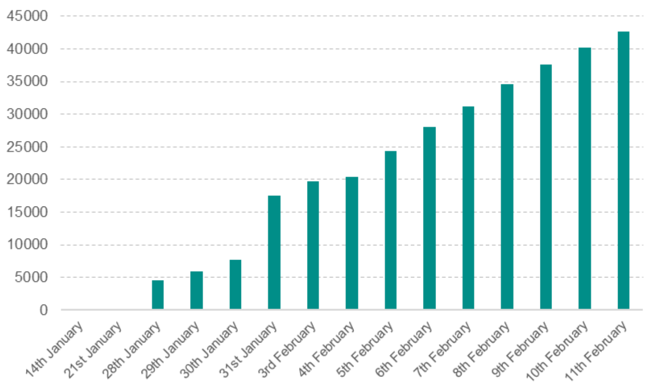
The novel coronavirus crisis has become a “Black Swan” event for the Asia-Pacific commercial aviation industry, as mainland Chinese travel to the rest of the Asia-Pacific has collapsed due to travel bans by many governments. The new restrictions on travel by visitors outbound from China combined with the collapse in demand for travel to China from other nations is forcing many Asia-Pacific airlines to temporarily cancel their flights to mainland Chinese cities until the novel coronavirus epidemic is contained.

The Asia-Pacific commercial aviation industry has become increasingly dependent on mainland Chinese tourism and business travel over the past decade. Many Asian airlines had established direct flights to second-tier and third-tier Chinese cities due to the boom in Chinese outbound tourism. As a result of the coronavirus epidemic and travel bans imposed by many governments, there have been widespread cancellations of scheduled flights between many Asia-Pacific countries and mainland China announced for February and March. Consequently, many Asia-Pacific airlines have become increasingly vulnerable to such an unpredictable “Black Swan” event where Chinese travel has completely collapsed.

Countries that have imposed stringent travel bans on visitors from China include Japan, Australia, India, Indonesia, New Zealand, Philippines, Singapore and Vietnam. However, so far Malaysia and Thailand have imposed more limited restrictions on Chinese visitors, with no overall travel ban yet. Chinese airlines are feeling the brunt of this economic shock, with their international flights to many international destinations having been heavily disrupted.

In Japan, flights from 13 regional Japanese airports to and from mainland China are being suspended due to the coronavirus epidemic, with significant reduction in flights to China from the largest Japanese international airports, including Narita and Haneda airports. In the ASEAN region, Vietnam and Indonesia have suspended all flights to mainland China. A number of airlines in the Philippines have also suspended all flights to mainland China, Hong Kong SAR, Macau SAR and Taiwan, which has further increased the negative impact on the tourism industry in those economies. Taiwan itself has introduced new travel restrictions applying to visitors from Hong Kong SAR and Macau SAR.

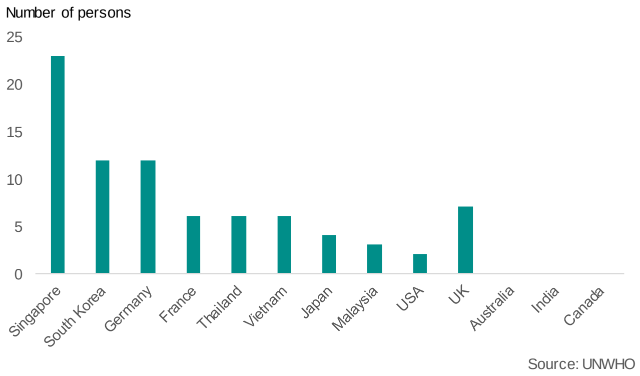
Confirmed novel coronavirus cases in China



Sources: UNWHO, Chinese Government

Fears about the spread of the novel coronavirus have also resulted in increasing cancellations of conferences and other events being held in the Asia-Pacific region, with reduced attendance for conferences that are still going ahead in Asia-Pacific conference hubs, such as Hong Kong SAR and Singapore. International business travel within the Asia-Pacific region and travel from other continents to the Asia-Pacific region have also been heavily curtailed due to the coronavirus epidemic.

Novel coronavirus cases with transmission outside of China until 11th Feb 2020



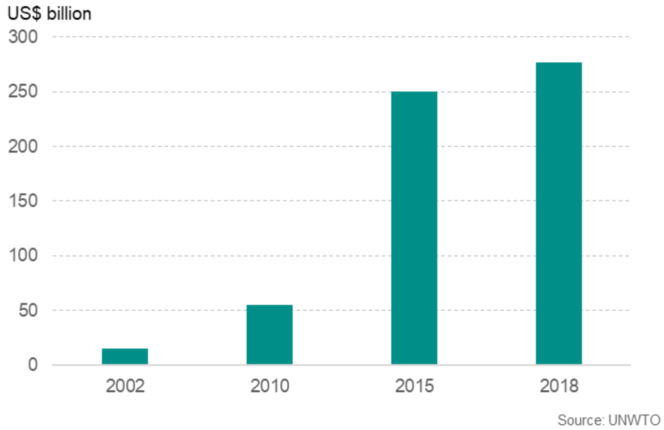
The Singapore Airshow being held on 11-16 February 2020 has been heavily impacted by a number of aerospace companies that have pulled out, while the Singapore Airshow Aviation Leadership Summit (SAALS) 2020, a leading global event for the airline industry, has been cancelled. A number of Chinese aerospace companies due to attend the Singapore Airshow had to pull out because of Singapore's travel ban on visitors from mainland China. A number of other international aerospace companies from other regions, including some from North America, have also cancelled their participation in this year's Singapore Airshow.

Negative shock to APAC tourism industry

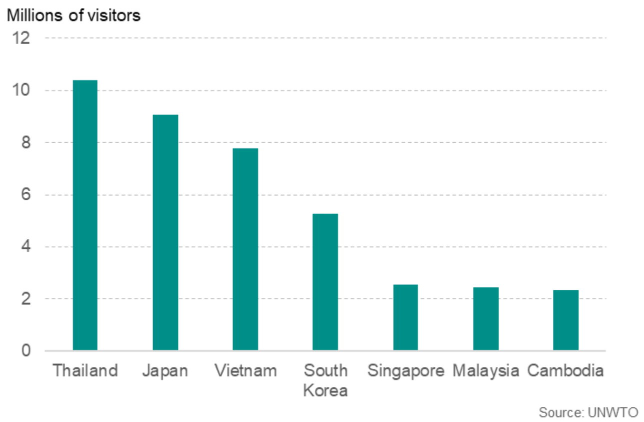
The rapid rise in household incomes in China has triggered a boom in Chinese tourist visits abroad, which have risen from 20 million in 2003 to 150 million in 2018. Consequently, the vulnerability of many Asia-Pacific economies to a complete halt in Chinese tourist visits has increased significantly over the past two decades. Thailand, Singapore, Malaysia, Vietnam, Hong Kong, Japan, South Korea and Cambodia are among the most vulnerable Asian economies to the negative economic shock from the collapse of Chinese tourism.

Thailand has been one of the most notable beneficiaries of the boom in Chinese tourism, 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. Direct tourism spending accounts for an estimated 12% of Thai GDP, with Chinese tourism having played an increasingly important role in underpinning the Thai tourism economy.

Mainland Chinese International Tourism Spending



Top APAC destinations for Chinese tourism, 2018



Chinese tourism has also become increasingly important for Japan's tourism industry, with total Chinese tourist visits to Japan having reached 9.6 million in 2019, accounting for 30% of total foreign tourist visits. A key concern for Japan is also the potential risk from the novel coronavirus for tourism visits related to the Tokyo Summer Olympics in July-August 2020 if the coronavirus epidemic has not been contained by early summer 2020.

Chinese tourism travel is also a key pillar for Vietnam's tourism industry, with total Chinese tourist arrivals having reached 5 million in 2018, accounting for one-third of total international visits.

For Singapore, mainland Chinese tourist visits have become a major part of the tourism economy, with 3.4 million mainland Chinese tourist visits in 2018, accounting for around 18% of total international tourist visits. The tourism sector is an important part of the Singapore, economy, accounting for an estimated 4% of Singapore's GDP.

Australia's tourism economy, which is already reeling from the impact of the bushfire crisis, will be badly hit by the absolute travel ban on visitors from mainland China that has been imposed by the Australian government. China has become the largest source country for international tourist visits to Australia, amounting to 1.4 million visits in the 2018-2019 financial year, or around 15% of total international tourist visits to Australia.

Near-term outlook:

Considerable uncertainties about the duration and future global spread of the novel coronavirus epidemic continue to cloud the near-term outlook for the Asia-Pacific aviation industry. With such a steep collapse in air travel in the Asia-Pacific region, many APAC airlines are likely to face near-term economic difficulties as they reduce flight schedules and face deteriorating profit margins while the coronavirus epidemic continues to disrupt air travel.

With the tourism sector in many APAC economies also heavily impacted by the collapse in Chinese tourism visits, APAC governments are likely to face increasing pressure to roll out stimulus measures to support their commercial aviation and tourism industries through this severe economic crisis.