Economic Research

2 March 2020

Week Ahead Economic Preview

Global overview

- **Worldwide manufacturing and services PMIs to give clearer insights into initial coronavirus economic impact**
- **US payrolls report**

A busy economic calendar starts with worldwide manufacturing and services PMIs and rounds off with the monthly US employment report, which includes non-farm payrolls and pay data.

Markets will be eager to see a fuller insight into economic trends amid the coronavirus outbreak, most notably for Asia-Pacific after flash PMI data for Japan and Australia signalled falling business activity. Especially closely watched will be PMI numbers for China, with manufacturing having seen extended New Year closures and many parts of the services economy having been hit by virus-related disruptions. Monetary policy meetings in Australia and Malaysia will also be keenly eyed for policymakers' reaction to the coronavirus outbreak. Hong Kong SAR retail sales and China's trade data are other notable releases, alongside fourth quarter GDP updates for Australia, Japan and South Korea (page 5).

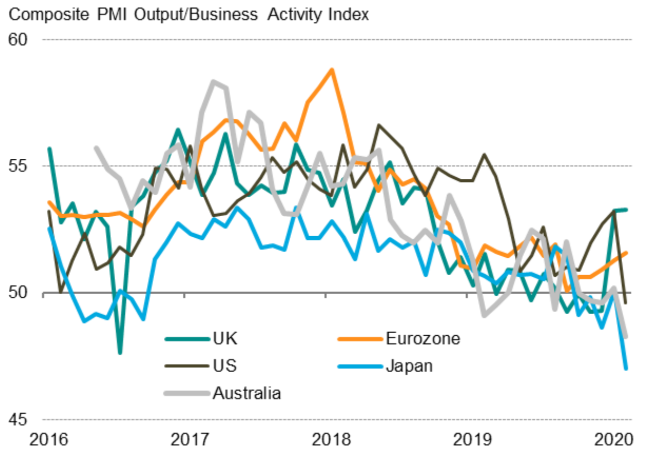
Traders have meanwhile been raising their expectations of FOMC rate cuts as the coronavirus disrupts global supply chains and dents demand, meaning markets will be eager to ascertain the hit to the US economy via PMI data from both IHS Markit and the ISM. Early flash PMI numbers indicated that business activity contracted in February for the first time since 2013 in part due to virus-related factors. The regular monthly employment report will also be scoured for the latest US hiring and pay trends. The flash PMI hinted at an easing rate of job creation to around the 100k mark. In addition, the US news flow will be dominated by Super Tuesday, which sees roughly one-in-three primaries held, as well as trade and factory orders data (see page 3).

In Europe, the final PMIs will be awaited for confirmation of the encouraging resilience seen in the flash PMIs. The UK continued to show a post-election rebound and growth in the eurozone even picked up slightly. However, the surveys also found reports that the virus outbreak was causing supply delays and denting tourism numbers, the former boding especially ill for future production unless supply chains can be restored rapidly (see page 4).

Special report

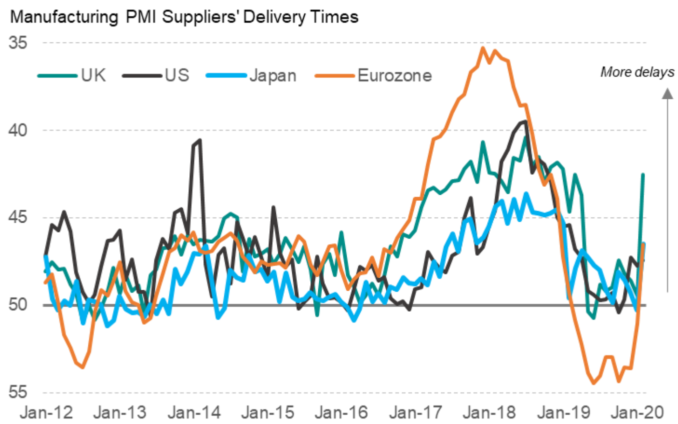
Covid-2019: Assessing the economic impact on China and the Asia-Pacific region. The escalation of new Covid-19 cases in a number of other Asia-Pacific countries, including South Korea and Japan, have also increased fears that the Covid-19 epidemic may become more protracted and widespread, creating wider economic shockwaves. (**page 6**).

IHS Markit's flash PMI surveys showed a mixed impact from coronavirus related disruptions, with Japan and Australia more affected than the US and Europe, though the US also slowed noticeably



Source: IHS Markit, au Jibun Bank, CBA

A key transmission mechanism of the COVID-19 outbreak to economies has been via supply chain delays, and fresh PMI delivery times data will give further clues as to how delays might affect future production



Sources: IHS Markit, au Jibun bank.

Key diary events (UTC)

Monday 2 March

Worldwide release of IHS Markit manufacturing PMI surveys (Feb)

Caixin/IHS Markit China manufacturing PMI (Feb)

Indonesia and Thailand inflation (Feb)

Hong Kong SAR retail sales (Jan)

UK BoE consumer credit, mortgage data (Jan)

Italy GDP (2019), government budget

US ISM manufacturing PMI (Feb)

South Korea GDP (Final, Q4), inflation (Feb)

Tuesday 3 March

Australia building permits, new home sales (Jan)

RBA monetary policy decision

Japan consumer confidence (Feb)

Malaysia interest rate decision

UK construction PMI (Feb)

Euro area jobless rate (Jan), inflation (Feb)

Singapore SIPMM manufacturing PMI (Feb)

US Super Tuesday Primaries

Wednesday 4 March

Worldwide release of IHS Markit services PMI (Feb)

Singapore and Hong Kong SAR PMI (Feb)

Caixin/IHS Markit China composite PMI (Feb)

Australia and Brazil GDP (Q4), Italy GDP (Final, Q4)

Malaysia trade (Jan)

Euro area retail sales (Jan)

US ADP employment change, ISM non-manufacturing PMI (Feb), Fed Beige Book

Thursday 5 March

Australia trade (Jan)

Philippines inflation (Feb), industrial output (Jan)

Germany construction PMI (Feb)

US unit labour costs, nonfarm productivity (Q4)

US factory orders (Jan)

Japan household spending, cash earnings (Jan)

Friday 6 March

Australia retail sales (Jan)

Germany factory orders (Jan)

Taiwan inflation (Feb)

UK Halifax house price index (Feb)

US non-farm payrolls, jobless rate, earnings (Feb)

US trade (Jan)

Sat-Sun 7 – 8 Mar

7/3: China trade (Jan-Feb), foreign reserves (Feb)

8/3: Japan GDP (Final, Q4), current account (Jan)

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United States Week Ahead

Final PMIs and non-farm payrolls

By Siân Jones
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In what will be a big week in US politics, as many voters go to the polls on Super Tuesday, the economic release calendar is packed with key information regarding the health of the labour market and wider business conditions. With markets starting to prince in fresh FOMC rate cuts, data watchers will be keen to gauge the impact of the coronavirus outbreak and resulting global economic uncertainty.

Final PMIs

In what will be the final PMI updates from both IHS Markit and the ISM before March's mid-month FOMC meeting, manufacturing, services and composite releases will provide in-depth analysis regarding underlying demand conditions across the US economy. Earlier released 'flash' data signalled a notable output and order book slowdown across the private sector, with service providers registering their first contraction in business activity for four years and overall new orders down for the first time in a decade. Weak domestic and foreign client demand across the sizeable service sector could lead to dented overall economic growth in the opening quarter of 2020.

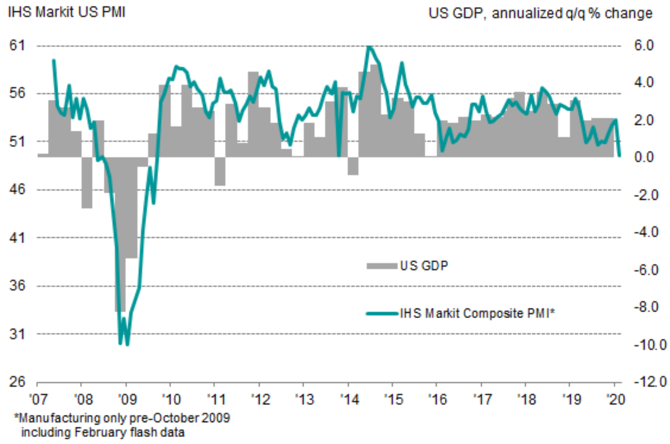
Manufacturers struggled yet again to gain growth momentum as 'flash' PMI data pointed to a broad stagnation in production during February. The impact of coronavirus and resulting supplier factory shutdowns in China led to difficulties fulfilling orders due to component shortages.

Non-Farm Payrolls

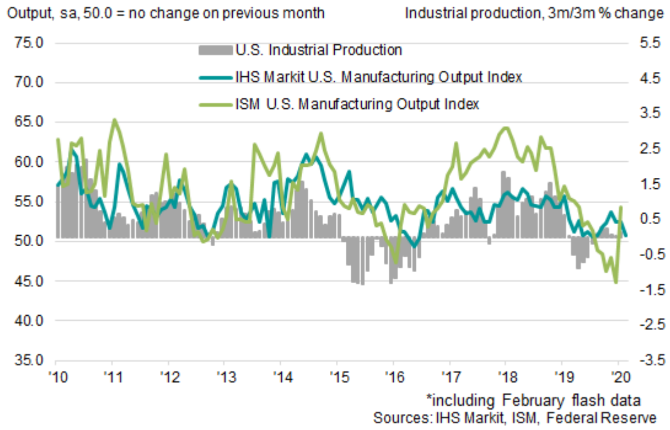
The latest Composite 'flash' PMI data pointed to a further expansion in non-farm payrolls in February but, in line with expectations, the monthly change in private sector employment looks set to soften, according to the PMI, with manufacturing jobs signalled to have declined. Alongside the payroll numbers, updated unemployment and employee pay data will reveal whether tight labour market conditions are pushing up earnings.

Meanwhile, updates to ADP employment, factory orders and balance of trade data are also published.

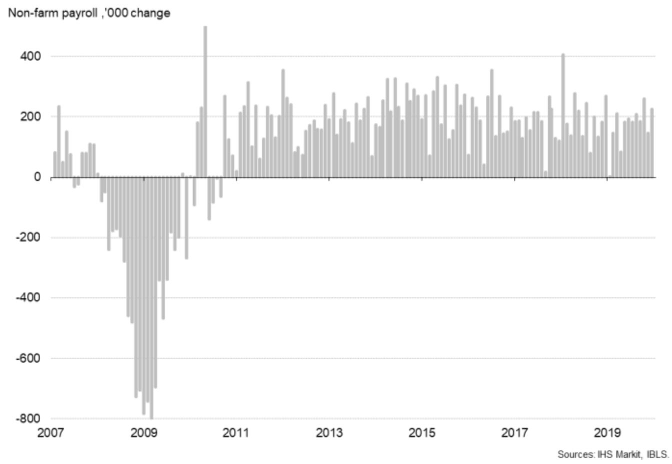
Private sector growth set to notably soften in Q1



Manufacturing recovery hampered by lower demand and supply chain issues



US non-farm payroll numbers are updated for February



Europe Week Ahead

February PMIs, German factory orders, eurozone retail sales

By Joe Hayes
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Final February PMI data for the eurozone and UK will be accompanied by sister surveys for the wider reaches of Europe in the coming week. These survey data will help to ascertain the economic impact of COVID-19 on manufacturers from severe supply-side disruptions, as well as assessing whether service providers have yet to be affected by the viral outbreak hitting tourism and domestic consumers' appetite for spending. Other key releases include German factory orders data for January and eurozone retail sales, plus a preliminary February inflation estimate for the euro area.

Manufacturing & Services PMIs

Flash PMI data showed that the European manufacturing sector endured the most prominent and immediate impact from the COVID-19 outbreak as the supply of key materials was squeezed due to the cancellations of shipments out of mainland China. The negative demand-side effect came from exports, which were adversely hit as sales to China fell. Final data will be watched for the impact on other parts of Europe, particularly those that manufacture intermediate goods, are reliant on export markets and play a crucial role in European supply chains.

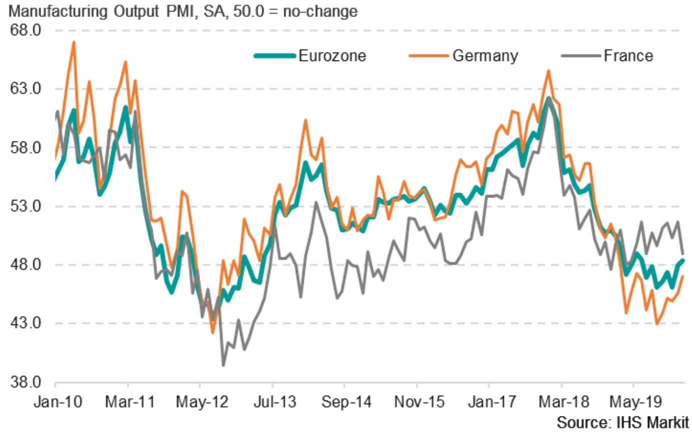
Meanwhile, increasing reports of new cases of COVID-19 in Europe raise the risk posed to the service sector. PMI data will therefore be eyed for any evidence of reduced activity from consumers as well as falling business travel and related activities.

German factory orders

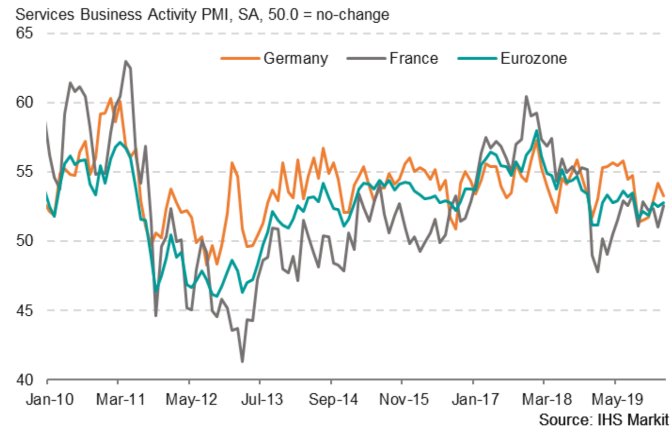
Following the severe calendar-distorted decline in industrial output across Germany at the end of last year, January factory orders data will provide initial clues as to whether we can expect a production rebound. Indeed, PMI data at the start of the year showed that demand conditions for German manufacturers have been steadily recovering, albeit still subdued.

Retail sales data for the euro area are also due and will be monitored to see if the harsh monthly drop in December was just a one-off or the start of a more concerning renewed downward trend for spending.

Eurozone manufacturing trend has picked up so far in 2020, but COVID-19 heightens risk of downturn intensifying



Further spread of coronavirus across Europe poses significant risk to tourism and service providers



German Flash PMI showed renewed export weakness in February

Economic Research

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Asia Pacific Week Ahead

PMI data eyed for coronavirus impact, RBA and BNM set monetary policy

By Bernard Aw

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The widespread expectation of the coronavirus outbreak adversely impacting economic activity will draw focus to the PMI data releases, including updates for 14 Asian economies, providing one of the earliest insights into the extent to which economic growth was affected in February. This will also have an especially important steer in Australia and Malaysia, where both see central banks meet to set monetary policy. Malaysia will also be watched for further political developments after the abrupt resignation and subsequent re-appointment of prime minister Mahathir. Analysts will also monitor China's trade figures and the final estimate of Japan's fourth quarter GDP. Markets will continue to cast a keen eye over any developments of the COVID-19 situation.

February PMI updates

While the picture from the latest flash PMI surveys for major economies was mixed with regards to the coronavirus impact, the concentration of majority of COVID-19 cases in parts of Asia suggest that Asian PMI data will provide a more accurate look into the health of regional economies. In particular, focus will be on China, Hong Kong, Japan, South Korea and ASEAN countries. Flash PMI for Australia and Japan had signalled the negative effect of the coronavirus on activity in February.

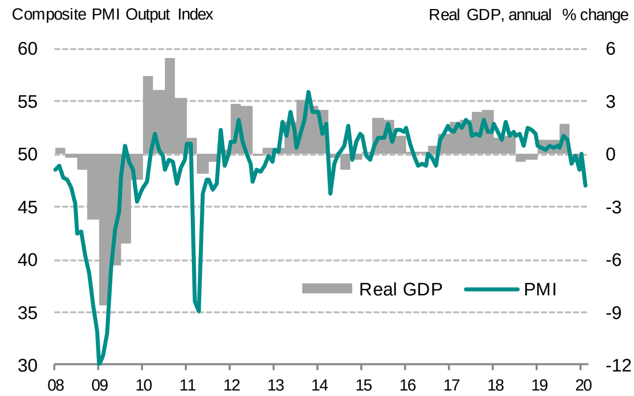
Pressure on Australia for policy easing

Signs of a deepening downturn as seen from flash PMI data, a rise in unemployment rate and adverse impact of the coronavirus outbreak has all added pressure on the Reserve Bank of Australia to ease monetary policy at its forthcoming meeting. However, the RBA has to consider the dampening effects of further rate cuts on the Australian dollar, which is near an 11-year low. Furthermore, with monetary policy already very accommodative and the key policy rate edging closer to zero, increasing calls for greater fiscal measures to support growth will be likely.

Malaysia may lower policy rate again

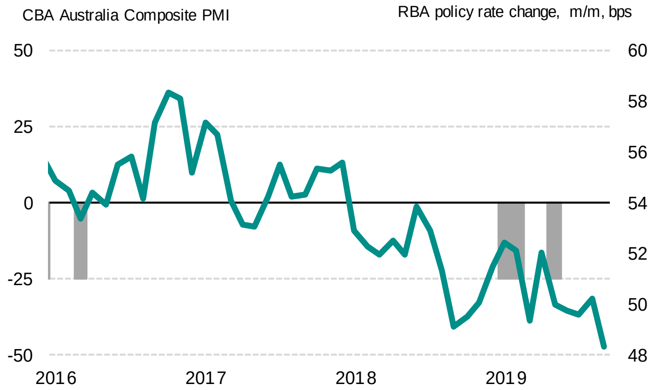
With the fourth quarter recording the slowest GDP growth since the global financial crisis, concerns over the coronavirus impact and recent political turmoil have fuelled greater expectations of a back-to-back policy rate cut from Bank Negara Malaysia.

Japan flash February PMI fell to a near six-year low with evidence of coronavirus outbreak hitting tourism particularly hard



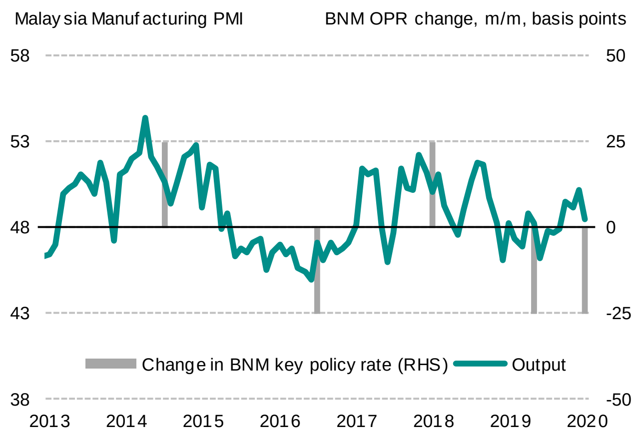
Sources: IHS Markit, Jibun Bank, Cabinet Office

Australia PMI and monetary policy



Sources: IHS Markit, CBA, RBA

Malaysia PMI and monetary policy



Sources: IHS Markit, Bank Negara Malaysia

Asia Pacific Special Focus

Covid-19: Assessing the economic impact on China and the Asia-Pacific region

By Rajiv Biswas
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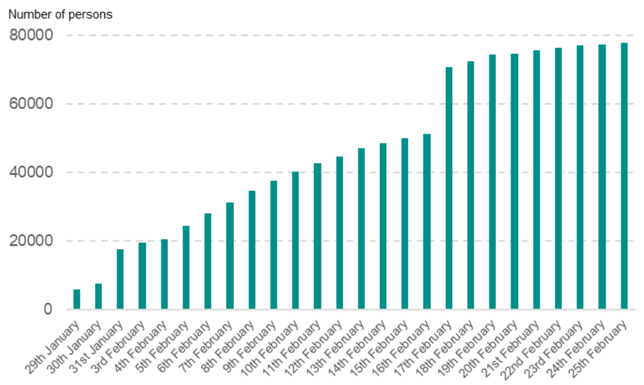
The novel coronavirus — officially named COVID-19 by the World Health Organization (WHO) — and its rapid escalation have heightened concerns about the economic damage to the Chinese economy as well as to the rest of the Asia-Pacific region. The escalation of new Covid-19 cases in a number of other Asia-Pacific countries, including South Korea and Japan, have also increased fears that the Covid-19 epidemic may become more protracted and widespread, creating wider economic shockwaves.

Escalation of the COVID-19 epidemic

The outbreak of the COVID-19 epidemic in Wuhan in January 2020 has developed into a major economic shock to the Chinese economy and the broader Asia-Pacific region. According to the WHO, the total number of confirmed coronavirus cases in China had reached 77,262 on 24th February 2020. This estimate includes both laboratory-confirmed and clinically diagnosed (only applicable to Hubei province) cases.

The number of confirmed cases is thus now already 14 times greater than the total number of SARS cases recorded in mainland China during that epidemic in 2003 (5,327 persons according to the WHO).

Confirmed coronavirus cases in China



Source: IHS Markit, UN WHO

Mainland China has responded to the crisis by taking strong measures to limit the spread of the new coronavirus strain, including a lockdown of many cities in Hubei province. A total lockdown has been imposed on movements in and out of the provincial capital of Wuhan, a megacity of around 11 million people, where the coronavirus is believed to have originated and where the vast majority of cases are recorded.

Disruption to China's economic output

The virus has already caused significant negative shock waves in the Chinese economy, affecting retail trade, tourism, and transport. In addition to restricting public transport movements in and out of certain badly impacted cities such as Wuhan, China has also banned all group-tourism travel sales by travel agencies in China for travel both within and outside of China, effective from 27 January. Chinese consumer spending has also been hit hard, with retail stores, restaurants, entertainment, tourism, and aviation badly affected

Furthermore, China's State Council extended the Lunar New Year holiday period, originally scheduled from 24 to 30 January, until 10 February 2020. Although offices and factories have been gradually reopening in most provinces starting 10 February, re-openings have been delayed even further in some of the worst-affected provinces.

A key industrial sector that has been badly hit by the delayed restart of manufacturing production is the automotive sector. More than 80% of China's automotive production is located in the provinces affected by the epidemic and resulting shutdowns. IHS Markit automotive experts have undertaken an initial analysis of the potential near-term impact on China's auto production ("Coronavirus initial impact on light vehicle production", IHS Markit AutoInsight, 10 February 2020), and assess that, despite the restart of many plants on 10 February, these facilities will not reach full operational capacity until the third week after their reopening. This reflects issues relating to labour force shortages, mainly resulting from delayed return to work by migrant workers who must undergo quarantine periods when returning from their home provinces.

Supply chain disruptions due to the extended closure of Chinese plants producing auto parts have also begun to thwart auto production in other territories. Hyundai Motor Co has temporarily closed some car production lines in South Korea, and Nissan has temporarily closed its operations in Kyushu, Japan, because of supply chain disruptions of auto parts from China.

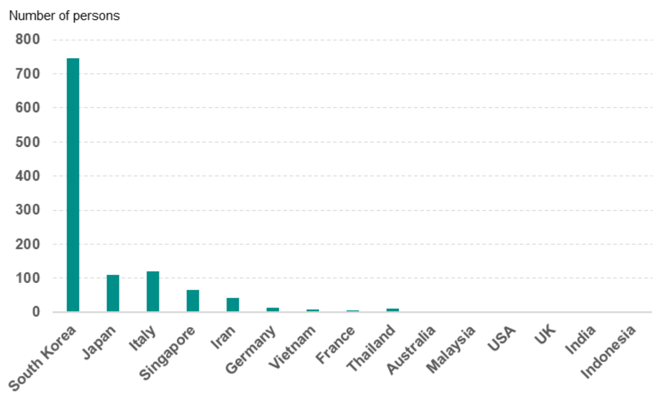
In the retail sector, several multinational firms have announced closures of some operations in mainland China because of the epidemic. Starbucks has announced that more than half of its 4,300 stores in China will be temporarily closed, while Apple has announced that all its retail stores in China have been temporarily closed. Sweden's IKEA also announced it would close all its stores in China temporarily. With consumption spending having become the most important growth driver for the Chinese economy in recent years, a key near-term risk is from the negative impact on consumer confidence if the coronavirus epidemic is not soon brought under control.

Economic impact on the Asia-Pacific region

In the past two decades, the rapid economic growth of China has made it a key export market for many Asia-Pacific nations. However, China's growing importance in Asia-Pacific trade and investment flows has also created considerable vulnerability for the Asia-Pacific region to this type of unpredictable "black swan" event.

With many COVID-19 cases already detected outside China, this outbreak is particularly concerning as it has occurred during the Chinese Lunar New Year season, when millions of Chinese tourists were traveling within China and to many popular Asian tourist destinations, such as Thailand, Vietnam, Japan, Singapore, and South Korea.

Novel coronavirus cases with transmission inside of country

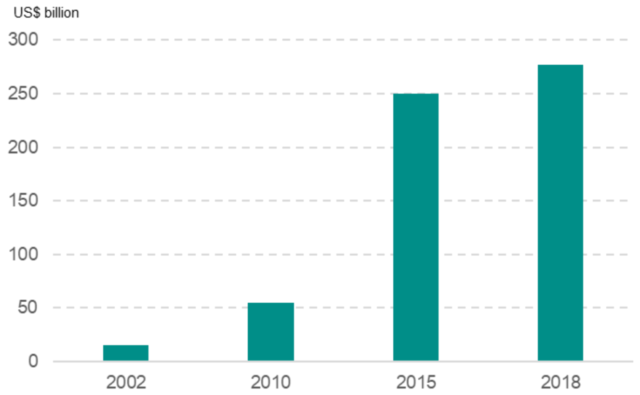


Source: IHS Markit, UNWWO

Globally, the number of confirmed coronavirus cases reported outside mainland China had reached 2,069 as of 24th February 2020, with cases having been identified in many parts of the world, including South Korea, Japan, Singapore, Italy, Germany, France and Iran. While temperature-screening measures are being implemented in international airports globally, their effectiveness is uncertain since the coronavirus is contagious even before significant symptoms emerge.

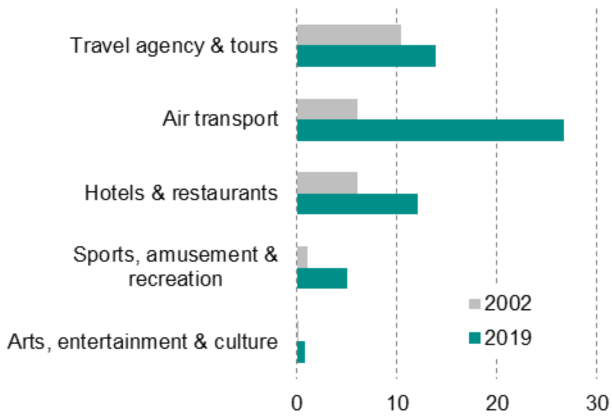
Governments in the APAC region are continuing to roll out new defensive measures to limit the transmission of the virus. Many nations have completely banned the entry of visitors from China, including Australia, India, Indonesia, Singapore, and New Zealand. Some APAC countries have put in place more limited restrictions on travel from China, including Malaysia and Thailand.

Mainland Chinese outbound tourist spending



Source: IHS Markit, UNWTO

China's share of global sales (%)

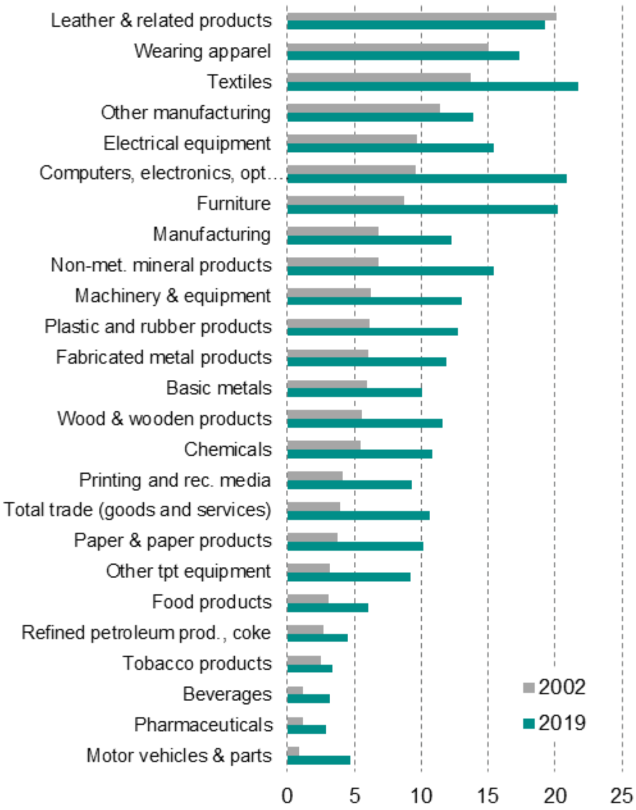


Source: IHS Markit

Besides the severe implications for travel and tourism globally, the economic implications of the coronavirus epidemic primarily relate to the key role mainland China plays in the global economy today—as an export destination for many markets/products and as a key supplier and intermediary in many global supply chains. Due to the rapid rise of exports from many Asia-Pacific economies to mainland China, any significant slowdown in Chinese economic growth will have negative transmission effects to the rest of the APAC region. Among these, Hong Kong SAR, Australia, Taiwan, South Korea and Japan have the highest share of total exports into the mainland Chinese market, and therefore are potentially the most vulnerable to a slowdown in APAC economic growth.

Other economies standing to lose from the economic impact of the epidemic are energy- and commodity-producing markets, for whom China is a main end market.

China's share of global trade by sector (%)



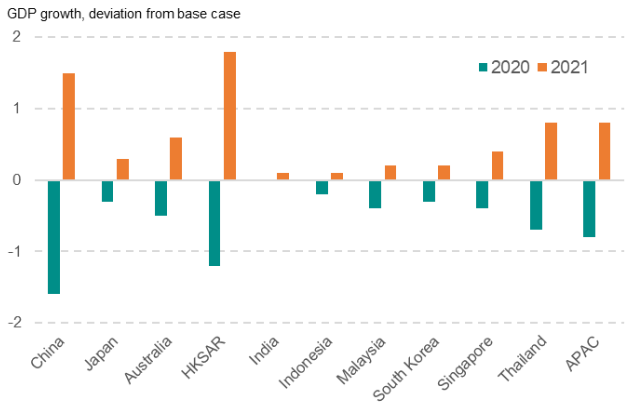
Source: IHS Markit

IHS Markit Global Link Model coronavirus scenario

To assess the impact of a protracted and severe novel coronavirus epidemic, the IHS Markit international economics modelling team used the IHS Markit Global Link Macro-Industry Model of the World Economy to model the economic shock waves from a more protracted epidemic. The scenario assumes mainland China's strongest measures to control the epidemic, such as the lockdown of worst-affected cities and protracted shutdown of offices and plants in these areas, persist through end-February, and that work only progressively returns to normal starting in March. Substantial disruptions to migrant workers' return to work are also assumed to occur throughout February in this scenario. Due to the escalating epidemic, Chinese private consumption falls sharply in the first quarter of 2020 and remains depressed in the second because of continued disruptions and weak confidence levels, before recovering gradually in the second half of 2020 and into 2021.

In this severe scenario, mainland China's economy would face a hard landing in 2020, with real GDP growth projected to slow to 4.2% in 2020, albeit it would rebound strongly in 2021 after the epidemic ends, growing at a pace of 7.1%. The 2020 annual growth figure in the scenario is 1.6 percentage points below the 2020 growth for China that was forecast by IHS Markit before the coronavirus outbreak.

IHS Markit severe coronavirus scenario

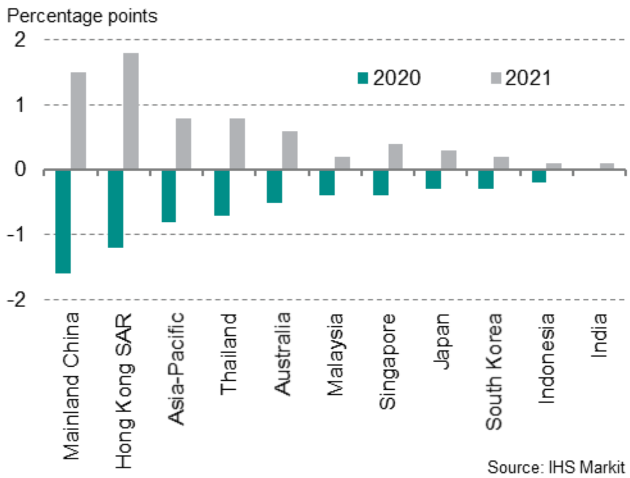


Source: IHS Markit, UNWTO

The negative impact on the global economy from such a severe shock to the mainland Chinese economy will be much greater today than during the SARS epidemic in 2002–03. Mainland China's economy was the sixth largest in the world in 2002, accounting for 4.2% of world GDP; it is now the second-largest economy in the world, accounting for 16.3% of world GDP. China's impact on the world economy is also much larger now than during the SARS outbreak, meaning the slowdown in Chinese growth would be a more significant drag on global growth. In 2002, China contributed 23% of world GDP growth, while in 2019 China contributed an estimated 38% of the world's growth.

The negative shock waves to the rest of APAC from mainland China's hard landing in 2020 would be severe, as many APAC territories are heavily reliant on China as a key export market for goods and services. Tourism would be one of the key transmission channels for this negative economic shock, due to the high dependency of many APAC markets on tourism visits from mainland China. Other transmission channels include supply chain linkages within APAC, and falling import demand for major commodities like coal, oil, and base metals from the world's largest customer of those products.

Difference in real GDP growth between scenario and baseline



In the IHS Markit severe coronavirus scenario, real GDP growth in the APAC region would be lowered 0.8 percentage point in 2020. However, APAC regional growth would also rebound in 2021 after the epidemic ends, growing at a pace of 0.8 percentage point above the baseline forecast in 2021 as real GDP returns to "normal" in the first quarter.

While the worst-hit market would be China, which is the epicentre of the epidemic, large negative economic impacts would be felt in many other APAC economies, with Singapore, Thailand, Australia, and Malaysia being among the worst-hit nations.

The economy of Hong Kong SAR would also be particularly badly hit in 2020 because of its close economic integration with mainland China through trade and tourism flows. Australia would suffer from lower coal and other basic commodity exports, as well by weaker exports of manufactured goods to mainland China and other markets in the region. The falling commodity and energy prices magnify the shocks for the producers of these commodities.

At the other end of the spectrum, Asia's other emerging markets giant, India, would be relatively little affected, as the Indian economy is still heavily reliant on the domestic rural sector, and exports to China still account for a relatively low share of overall GDP.

At the global level, real GDP growth in the severe COVID-19 epidemic scenario is 0.8 percentage point lower than baseline in the first quarter of 2020 and 0.3 percentage point below the baseline for 2020. The economies most impacted after APAC are those in the Middle East and North Africa region, primarily because of the lower volumes of energy exports to China and lower energy prices. Another region hurt is Latin America; China is its main customer of key commodity exports. Real GDP growth is not significantly impacted in the US or Europe, as the reduction in exports to mainland China and the rest of APAC in the first half of 2020 is offset by lower imports from mainland China, and by the slight positive effect of lower energy prices on purchasing power.

Vulnerability of the Asia-Pacific tourism and aviation industries

Among the sectors most vulnerable to the coronavirus epidemic besides autos and parts are the Asia-Pacific travel and tourism sectors. Since the 2003 SARS crisis, outbound international tourism visits from China to the rest of the world have boomed, so the risks of a global SARS-like virus epidemic spreading rapidly globally have become even more severe.

In 2003, mainland China's per capita GDP was only USD1,260 per person, whereas by 2018, its GDP per capita rose to USD9,700 per person. The rapid rise in household incomes in China has triggered a boom in Chinese tourism 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 slowdown in Chinese tourism visits has increased significantly in the past two decades.

The decision of the Chinese government to suspend all Chinese group tours, combined with severe restrictions being put in place on visitors from mainland China by many Asian governments, is already resulting in significant economic impacts on the Asia-Pacific travel and tourism industry. The cancellation of flights to mainland China by many international airlines also contributes to the downturn.

Among the markets most directly impaired by the travel bans are Thailand, Japan, Vietnam, Singapore, the Philippines, Malaysia, Australia, and Hong Kong SAR.

Thailand has been one of the most notable beneficiaries of the boom in Chinese tourism, with total annual Chinese tourist visits there having risen from 2.7 million in 2012 to 11.0 million in 2019. Chinese tourism spending in Thailand was estimated to have reached USD18 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. Tourism and Sports Minister Phiphat Ratchakitprakarn has stated that Thai tourism revenue could be 50 billion baht lower if mainland China maintains its restrictions on group tours for a period of three months.

- 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 the COVID-19 virus poses to tourism visits related to the Tokyo Summer Olympics in July–August 2020, if the virus has not been contained by early summer 2020.
- Chinese tourism travel is also a key pillar for Vietnam's tourism industry, with total Chinese tourism arrivals having reached 5 million in 2018, accounting for one-third of total international visits.
- For Singapore, mainland Chinese tourism visits have become a major part of the tourism economy, with 3.6 million mainland Chinese tourist visits in 2019, 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.
- Chinese tourism has also been growing rapidly in the Philippines and accounted for an estimated 20% of total international tourism visits in 2019.
- Chinese tourist visits to Malaysia reached 2.9 million in 2018 or around 11% of total international tourist visits.
- China has also become the largest source market for international tourist visits to Australia, accounting for 1.4 million visits in the 2018–19 financial year or around 15% of total international tourist visits.

Meanwhile, the government of the Hong Kong SAR has announced severe new restrictions on incoming travel from mainland China that began 28 January 2020. These measures include the suspension of high-speed rail and other rail services and a large reduction in total airline flights between Hong Kong SAR and mainland China.

For the Hong Kong SAR economy, which was already badly hit in 2019 by the damage done to its tourism and retail sectors by the political protests, mainland Chinese tourism visits have collapsed in February 2020 following the decision by the Hong Kong SAR government to put travel restrictions on mainland Chinese tourist visitors. Consequently, the impact of the coronavirus epidemic on mainland China will further increase the negative shocks to the Hong Kong SAR economy in the near term, with the economy expected to remain in recession in 2020 for a second consecutive year.

The commercial aviation industry is also vulnerable to the impact of the new restrictions on Chinese tourism abroad, with initial indications that the regulatory restrictions on group travel will remain in place for at least a couple of months, depending on how the epidemic evolves in coming weeks. Due to the boom in Chinese international tourism in recent years, many Asian airlines had ramped up their direct flights between major Chinese cities and many popular Asian destinations. Air travel on these routes will inevitably be hit hard, at least in the short term, by the new travel restrictions.

Many international airlines have either completely suspended their flights to mainland Chinese cities or severely restricted their flight schedules. Among Asian airlines, Lion Air Group has announced that it will suspend all flights to China from 1 February 2020. Jetstar Asia has announced the temporary suspension of services to Hefei, Guiyang, and Xuzhou until the end of March 2020.

Impact on global commodities

The slump in economic activity in China in early 2020 has become a significant negative shock to commodities demand in the near term, because of the importance of Chinese imports in overall international trade for many commodities, including oil, iron ore, and base metals.

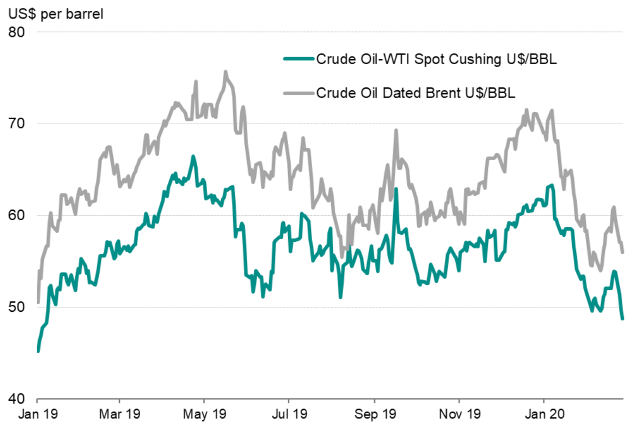
The impact of the coronavirus is also an instant demand shock for oil markets. Latest estimates by IHS Markit show China's oil demand down 2.9 million barrels per day (MMb/d) in February compared with a year earlier. For the entire first quarter of 2020, global demand is estimated to be 1.7 MMb/d less than a year earlier—the first quarterly demand decline since 2009. This result is also more than double the 600,000 b/d additional production cut proposed by the Vienna Alliance's advisory.

With China having become the world's largest importer of crude oil, the softening of oil demand in China has resulted in Brent crude oil prices falling to USD55 per barrel by 14 February 2020. This decline follows the spike in Brent crude oil prices above USD70 per barrel in early January. Then, prices spiked due to concerns about geopolitical risks to oil supply after the US drone strike that killed Iran's Major General Qasem Soleimani on 3 January 2020 and the Iranian counterstrike with the launch of more than a dozen ballistic missiles on 8

January against US military and coalition forces in Iraq. The IHS Markit February energy market outlook foresees Brent oil prices dipping for a time below USD50/barrel in March and April, before recovering.

Iron ore prices have also fallen sharply because of the extended shutdown of industrial production in China, declining from USD94 per ton in late January to USD81 per ton by 10 February. The IHS Markit Materials Price Index (MPI) dropped a sharp 6.2% in the week to 7 February and is down by around 10% since the end of 2019.

Oil price



Source: IHS Markit via Datastream.

IHS Markit Material Price Index

Source: IHS Markit

Near-term outlook

The rapidly escalating COVID-19 epidemic poses a significant downside risk to the near-term Asia-Pacific economic outlook in 2020, particularly if the epidemic continues to spread across mainland China and if cases in other Asia-Pacific economies escalate further in coming weeks. A key risk to regional trade is from the transmission effects to the Asia-Pacific supply chain as Chinese economic growth momentum softens in the first half of 2020, since mainland China is by far the largest economy in the Asia-Pacific region.

Several service sector industries in the Asia-Pacific region, notably tourism and travel, are expected to be severely hit, as Chinese outbound tourism slumps sharply in coming months. The retail trade, restaurants, and entertainment sectors are also highly vulnerable to a downturn in consumer confidence, as consumers become more apprehensive about coronavirus contagion risks. However, online sales, which have already been growing very rapidly in many Asian economies during recent years, notably in China, are expected to be strongly boosted while the epidemic persists.

For many global multinationals, the severe disruption of China's industrial output during February has highlighted the vulnerability of their global supply chains to excessive reliance on China. The experience of the coronavirus epidemic will likely further accelerate efforts over the medium-term by global firms to diversify their supply chains to other manufacturing hubs in Southeast and South Asia, including Vietnam, Thailand, Indonesia and India, as well as to other major emerging markets manufacturing hubs, notably Brazil and Mexico. As occurred during the US-China trade war when high US tariffs on Chinese goods triggered trade diversion, the protracted shutdown of Chinese factories will also encourage global manufacturers to increase production from their plants in other manufacturing hubs worldwide while Chinese output is disrupted.