Week Ahead Economic Preview

Global overview

- FOMC rate cut expected
- Eyes on Eurogroup meeting for joint action
- Japan, Taiwan, Indonesia, Philippines, Russia, Norway and Switzerland set monetary policy
- China fixed asset investment and credit data
- ZEW surveys

After a week of turmoil in global markets, triggered by the oil price slump and increasing use of containment measures amid the escalating spread of the coronavirus disease 2019 (COVID-19), investors will be keenly anticipating stimulus policy action from both central banks and governments.

With IHS Markit Business Outlook surveys showing subdued employment and investment plans amid increasing economic uncertainty, and after the European Central Bank announced greater monetary support, all eyes are now turned to the Fed, with high expectations of a further rate reduction following its emergency cut earlier in the month. Markets are already pricing a second rate cut, with the size of the reduction the only difference.

Markets will closely monitor the Eurogroup meeting with EU finance ministers convening at a time of rising recession risks across a number of European economies. With France pressing for an EU-wide fiscal spending plan, expectations for a coordinated policy response to the economic impact of COVID-19 are widespread. However, there’s a risk that European policymakers may struggle to reach an agreement over the extent of any concerted budgetary action. Europe also sees ZEW surveys coming out of the euro area and Germany, which will add insights into the health of the wider-EU economy. Meanwhile in the UK, labour market data will be closely watched (See page 4).

In the US, retail sales data may provide guidance to Fed policymaking, giving an assessment of the strength of consumption. In the same week, democratic primary voting will continue in five states (see page 3). In Asia, monetary policy decisions will come from Japan, Indonesia, Philippines and Taiwan while China data will provide further clues as to the health of Chinese economy. Asian trade performance will also be gleaned from export data in Taiwan and Singapore (see page 5).

Global equities fell to a lesser extent compared to the plunge in output signalled by IHS Markit’s PMI surveys as coronavirus outbreak hits demand and supply chains

Special reports

COVID-19: APAC policymakers implemented stimulus measures to offset negative impact of COVID-19 on their economies (page 6).

Italy: Complete shutdown to contain Covid-19 set to deepen Italian GDP losses in 2020 (page 9).

Asia Sector PMI: COVID-19 dampened output across all sectors in Asia except healthcare (page 12).

Global PMI, 50 = no change

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IHS Markit US composite PMI remains firmly in territory commonly associated with Fed policy easing

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Sources: IHS Markit, Datastream.

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Economic Research
16 March 2020

Key diary events (UTC)

**Monday 16 March**
- China NBS conference
- China industrial output, fixed asset investment, retail sales (Jan-Feb)
- China new yuan loans, total social financing, M2, house price index (Feb)
- Indonesia trade (Feb)
- India WPI, trade balance (Feb)
- Italy inflation (Feb)
- US NY Empire State manufacturing index (Mar)
- Eurogroup meeting

**Tuesday 17 March**
- RBA meeting minutes
- Singapore NODX (Feb)
- Japan industrial output (Final, Jan), trade (Feb)
- Hong Kong unemployment rate (Feb)
- UK claimant count change (Feb), unemployment rate, average earnings (Jan), employment change (Dec)
- Euro area construction output (Jan), ZEW economic sentiment index (Mar)
- Germany ZEW surveys (Mar)
- US retail sales, industrial output (Feb), business inventories, JOLTS job openings (Jan)
- US NAHB housing market index (Mar), API crude oil stock change (13/Mar)
- US democratic primaries

**Wednesday 18 March**
- Germany wholesale prices (Feb)
- Italy industrial sales and orders, trade balance (Jan)
- Euro area trade balance (Jan), inflation (Final, Feb)
- US building permits, housing starts (Feb)
- FOMC interest rate decision and economic projections
- Brazil interest rate decision
- New Zealand GDP (Q4)
- Japan inflation (Feb)
- US tariff hikes on European aircraft takes effect

**Thursday 19 March**
- Australia jobless rate, employment change (Feb) RBA bulletin
- Japan, Taiwan, Indonesia and Philippines, Norway and Switzerland set monetary policy
- US current account (Q4), Philadelphia Fed manufacturing index (Mar)

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**Friday 20 March**
- China loan prime rate (Mar)
- Germany PPI (Feb)
- Taiwan export orders (Feb)
- US existing home sales (Feb)
- Russian monetary policy decision

**Sat-Sun 21 – 22 Mar**
- 21/3: Germany import prices (Feb)
- 22/3: France local elections
The escalation of the outbreak of COVID-19 has led to global market turbulence and growing concern across the business community regarding continuity plans for the coming months. Upcoming economic data releases include industrial production and retail sales, giving an overview of manufacturing performance and consumer confidence midway through the first quarter. Meanwhile, the FOMC will convene at their scheduled meeting following an emergency cut to further assess the current and evolving impact the outbreak of COVID-19 is having on the US economy.

**FOMC could cut rates again**

Although the FOMC cut interest rates by a substantial 50 basis points earlier in the month, we may see greater support from the central bank as economic uncertainty grows. The escalation of the COVID-19 outbreak ranks high on the list of concerns held by private sector firms following recent challenging demand conditions, slower projected economic growth in the opening quarter and heightened market uncertainty. This suggests further cuts could be made as a precautionary measure depending on any intensification in the spread of the disease. Also released will be a summary of economic projections.

**Industrial production**

Supply chain delays may have further dented industrial production growth midway through the first quarter as raw material shortages constrained output. The latest PMI data pointed to weaker demand conditions across the manufacturing sector during February, with exports continuing to decline.

**Retail sales**

Important to any decision made by the FOMC will be the strength of consumer spending. The annual rise in retail sales is expected to ease again in February, which may strengthen the case for policymakers to take further action as they assess the health of the wider economy.

Updates to NY Empire State Manufacturing PMI, JOLTs, business inventories and existing home sales data are also released.
Europe Week Ahead

Coronavirus remains key focus as pressure on policy action rises

By Joe Hayes
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UK Labour market data and eurozone ZEW surveys are noteworthy in an otherwise light week of economic data, although we still await hard data to help us ascertain the economic impact of the COVID-19 outbreak on European economies. With that in mind, markets will be closely following policymaker action as the number of cases continues to climb, especially in Germany, France, Spain and the UK. The Eurogroup are set to meet on Monday amid increased pressure on policymakers for a cohesive fiscal and monetary policy response to mitigate liquidity shortfalls and debt-serving capabilities. Monetary policy decisions meanwhile will come from Russia, Norway and Switzerland.

Eyes on Eurogroup amid COVID-19 spread

 Businesses and financial markets will eagerly await the Eurogroup meeting of finance ministers and the ECB president in hopes of seeing policymakers announcing a coordinated plan to offset the negative economic effect of coronavirus. We’ve already seen Italy step up its efforts, providing a moratorium on mortgage payments to relieve the financial strain on households. As the number of cases rise in other major countries in the bloc such as France and Germany, markets will be focused on seeing targeted policy to help businesses.

Monetary policy

Russian, Norwegian and Swiss national banks all meet in the coming week to set interest rates. While the number of confirmed cases at the time of writing in Russia is comparatively very low, Switzerland and Norway have seen much higher numbers. Nonetheless, given central bank action in advanced economies, easing could well be on the cards. The safe-haven status of the Swiss franc has seen the currency facing upward pressure against the euro.

ZEW surveys and UK labour data

Pre-COVID-19 outbreak industrial sales data comes from Italy, while eurozone ZEW surveys for March will show how sentiment has fared. UK labour market data will be watched to see if it can match the resilience seen in activity data out so far this year. That said, wages have softened in recent months.
Asia Pacific Week Ahead

China data, monetary policy, Asia trade and COVID-19 developments

By Bernard Aw
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With global markets in disarray after the oil price slump alongside increasing recession risks arising from the global spread of the coronavirus disease 2019 (COVID-19) virus in Europe and the US, investors will keenly await any policy support action from central banks meeting next week, in particular any action made by the Fed, who are widely expected to cut rates again. In Asia, Japan, Taiwan, Indonesia and the Philippines will decide on monetary policy. China’s data releases, such as factory output, fixed investment and credit, will also be eagerly watched, with weak numbers anticipated following severe declines signalled earlier by PMI surveys.

Asia monetary policy

The economic impact of the COVID-19 has raised calls for greater monetary support. The global PMI plunged to its lowest since 2009 in February, sinking deeper into territory associated with monetary easing. In Asia, a number of central banks meet next week to set policy rates, with expectations of policy easing from most of them. Bank of Japan governor Kuroda pledged to provide greater support for an economy teetering towards recession, although there are limited options, as already aggressive monetary policy will restrict the extent of any further easing measures. There are widespread expectations of rate cuts from Bank Indonesia and Bangko Sentral ng Pilipinas to support economic growth. Taiwan’s central bank is scheduled for their first quarterly policy meeting of the year.

China data and Asian trade developments

Caixin surveys signalled steep falls in both manufacturing output and services activity in February with measures taken in response to the COVID-19 outbreak exacting a severe toll on the economy. As a result, analysts will scrutinise February updates to official data, including industrial output, fixed asset investment, retail sales and credit data, to assess the overall health of the Chinese economy.

Trade data updates to Taiwan’s export orders and Singapore’s non-oil domestic exports will be assessed for the extent to which disrupted supply chains have damaged export performance. February PMI data point to export weakness for both Taiwan and Singapore.
Asia Pacific
Special Focus

COVID-19: Asia-Pacific Central Banks and Governments Roll Out Stimulus Measures

By Rajiv Biswas
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Confronted with escalating economic and financial markets shockwaves from the coronavirus disease 2019 (COVID-19), Asia-Pacific (APAC) policymakers are rolling out monetary and fiscal policy countermeasures to mitigate the negative impact on businesses and households. Policy rate cuts by the US Fed, Bank of Canada and the Bank of England in March, combined with the impact of slumping world oil prices, will help to trigger a further round of monetary policy easing among many Asia-Pacific central banks in coming weeks. In APAC, a number of governments including South Korea, Australia, Malaysia and Singapore, have already announced fiscal stimulus measures in response to the COVID-19 economic shock, while other nations, including Thailand, plan to implement fiscal stimulus packages soon.

Escalating Economic Shockwaves

With the negative economic impact from the Covid-19 pandemic continuing to escalate globally, world financial markets have faced severe turbulence. This has been further amplified by the collapse of the Vienna Alliance and the sharp slump in world oil prices in mid-March. As a result of the escalating COVID-19 pandemic and its economic and financial shocks, with the Global PMI falling to its lowest level since the height of the global financial crisis in May 2009, IHS Markit has lowered its forecast for world growth in 2020 to 1.7%, compared with 2.5% in the February baseline forecast.

In China, at the epicentre of the COVID-19 epidemic in February and early March, there was likely a sharp contraction in real GDP in Q1 2020, which is expected to be followed by a modest recovery in Q2 2020. IHS Markit has therefore revised down China’s GDP growth forecast to 4.3% in 2020, compared with the earlier baseline forecast of 5.4% a month ago, which was made during the early stages of the epidemic.

The negative shock waves to the rest of APAC from a significant slowdown in mainland China’s economic growth rate in 2020 will be substantial, as many economies in the region are heavily reliant on China as a key export market for goods and services. Tourism is one of the key transmission channels for this negative economic shock, due to the high dependency of many APAC economies on large inflows of tourist visits from mainland China. With the COVID-19 pandemic having escalated globally in recent weeks, the negative impact on tourism travel in the APAC region has continued to intensify during March, hitting tourism sectors such as hotels, commercial aviation and tour operators.

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 for those products. The sharp slump in world oil and gas prices will hit Asia-Pacific oil and gas exporting economies such as Malaysia and Australia.
**APAC monetary policy response**

The decision by the US Federal Reserve to cut the Fed Funds rate by 50bps on 3rd March 2020, alongside rate cuts by other major central banks, notably the Bank of Canada and the Bank of England, plus slumping world oil prices, will facilitate a further round of monetary policy easing by a number of APAC central banks in coming weeks. Several APAC central banks have already rolled out monetary policy stimulus measures to help mitigate the impact of the COVID-19 pandemic on their economies.

With the Chinese economy having been at the forefront of the coronavirus-related economic shockwaves during February, the People’s Bank of China has implemented a number of monetary policy measures, including having lowered the seven-day reverse repo rate from 2.50% to 2.00% on 3rd February. However, with financial stress on Chinese firms having intensified during February and March, further measures by the PBOC are expected, in order to boost liquidity in the financial system.

In Southeast Asia, which is also being heavily impacted by slumping international tourism and weaker Chinese new orders for manufactures and raw materials, some ASEAN central banks have also eased policy rates in February and early March due to the COVID-19 crisis. Bank Indonesia cut its policy rate by 25 basis points (bps) on 20th February to help mitigate the impact of the COVID-19 economic impact on Indonesia’s external sector, notably on exports of commodities and tourism. Bank of Thailand also cut its policy rate by 25bps on 5th February due to the significant economic shock expected from lower tourism visits to Thailand. Bank Negara Malaysia likewise reduced its policy rate by 25bps on 3rd March.

The sharp slide in world oil prices has also increased the scope for the Reserve Bank of India (RBI) to resume monetary policy easing, after a cumulative 135bps worth of policy easing in 2019. The RBI has stayed on hold in early 2020 due to a spike in headline retail inflation, but with falling oil prices likely to significantly reduce near-term inflationary pressures, RBI Governor Shaktikanta Das has signalled that further policy easing is an option as a response to the COVID-19 economic shock.

The Australian economy is also highly vulnerable to the Chinese economic slowdown in Q1 2020, as mainland China accounts for around one-third of Australian exports. Consequently, the Reserve Bank of Australia (RBA) cut its policy rate by 25bps on 3rd March. However, this rate cut has pushed the Australian cash rate to a new record low of 0.5%, bringing the Australian central bank close to the brink of unconventional monetary policy measures should further monetary policy stimulus be required to support the economy. The RBA had previously signalled that after the cash rate reaches 0.25%, the policy focus of the Australian central bank would shift towards use of unconventional monetary policy measures, with the focus expected to be on bond-buying programs to push government bond yields lower.

RBA Deputy Governor Guy Debelle stated in a speech on 11th March 2020 that the RBA had estimated the negative impact from the COVID-19 epidemic to Australian exports of tourism and education services would subtract 0.5% from GDP in the March quarter of 2020.

The Reserve Bank of New Zealand (RBNZ) is due to hold its next monetary policy review on 25th March, with the Official Cash Rate already at a record low of 1.0%. Although at present the RBNZ still has further room for further conventional monetary policy easing, RBNZ Governor Adrian Orr has stated that the RBNZ has been undertaking work to assess the range of unconventional monetary policy tools available.

**Fiscal stimulus measures by APAC governments**

On the fiscal policy front, several APAC governments have already announced budget stimulus packages to mitigate the impact of the coronavirus, with other governments in the region expected to act soon.

Globally, governments of major OECD economies also announced fiscal stimulus measures. The UK government announced a GBP 30 billion fiscal stimulus plan (around 1.3% of GDP) on 11th March, with a key part of the stimulus focussed on tackling the COVID-19 crisis. The Italian government has prepared a Euro 12 billion first-stage stimulus package to combat the COVID-19 epidemic spreading in Italy, with additional stimulus measures expected later.

In the APAC region, the South Korean government announced a USD 9.8 billion supplementary budget stimulus package on 4th March as the COVID-19 epidemic has escalated in the country. The package includes significant new funding for healthcare spending measures to contain the epidemic.

In response to the COVID-19 economic shock, which has occurred at a time when the Hong Kong SAR economy was already in recession, the budget for the 2020 fiscal year on 26th February announced by the Hong Kong SAR government came with a record high budget deficit, which was projected to reach 4.8% of GDP for the fiscal year ending March 2021.
The Singapore government announced a range of measures in its annual Budget on 18th February 2020, to help mitigate the impact of the coronavirus economic shock, pushing the projected fiscal deficit for 2020 to SGD 10.9 billion, compared with SGD 1.7 billion deficit in 2019. Singapore’s Ministry of Trade and Industry (MTI) downgraded its GDP forecast for 2020 to a range of -0.5% to +1.5% due to the economic impact of the COVID-19 pandemic.

Global Novel Coronavirus Cases to 11th March

In Malaysia, the government announced a Ringgit 20 billion stimulus package in its February 2020 Budget, including a wide range of measures to assist industries affected by COVID-19 epidemic. The government’s GDP growth target was lowered to a range of 3.2% to 4.2%. Malaysia’s incoming new Prime Minister Muhyiddin Yassin has instructed the Malaysian civil service to implement and accelerate the execution of Budget 2020 as well as the new stimulus package.

Indonesia announced a Rupiah 10.3 trillion (USD 725 million) stimulus package on 25th February to support its tourism industry and boost domestic tourism, with a second stimulus package under preparation that will help to support the broader industrial sector through tax cuts and other fiscal incentives. In mid-March, the Australian government announced a large-scale stimulus package, including economic measures (AUD 17.8 billion) and a health package (AUD 2.4 billion) to tackle the COVID-19 emergency. The economic measures will include cash grants to households receiving welfare payments, cash payments to support small and medium businesses and support measures to help firms retain apprentices. Australian state governments are also announcing health measures as well as economic stimulus programs to respond to the COVID-19 crisis.

The Thai Finance Ministry is preparing a new stimulus package to help boost tourism, investment and consumption. The package is expected to be proposed to the Thai Cabinet in mid-March, and if approved, is intended to be implemented by April.

Near Term APAC Economic Outlook

With severe travel restrictions still in place in APAC as well as globally, the APAC tourism and travel industry will continue to experience extremely adverse conditions in coming months, until the global COVID-19 pandemic shows signs of being contained. This will continue to create significant negative economic shocks for many APAC economies, as the tourism and travel industry accounts for a significant share of output and employment in many APAC economies. The COVID-19 pandemic is also expected to constrain domestic consumer spending for many activities such as restaurants and entertainment, which will also be a significant negative factor impacting on overall consumer expenditure.

With the negative economic shockwaves from the COVID-19 pandemic continuing to escalate, many APAC central banks and governments have lowered their GDP growth projections for 2020 and have already announced stimulus measures to mitigate the economic shockwaves. Further measures are expected from many APAC central banks in coming weeks, in order to mitigate the impact of financial stress from slumping equity markets and disruptions to trade flows.

A number of APAC governments have already announced fiscal stimulus measures to help tackle the COVID-19 crisis, with an increasing number of governments soon likely to implement stimulus measures to support businesses and households that are the worst impacted by the crisis.

However, amid the depths of economic gloom and negative business sentiment, an important positive sign is that the number of new COVID-19 cases within China has declined to extremely low levels, signalling that the world’s second largest economy should gradually be able to return closer to normal levels of business activity by Q2 2020 if the number of new cases remains contained at very low levels. This will help to support a rebound in Chinese industrial production in coming months, helping to drive improving new orders for manufactures and raw materials from other APAC economies.
Europe Special Focus

Italy: Complete shutdown to contain Covid-19 set to deepen Italian GDP losses in 2020

By Raj Badiani
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The coronavirus disease 2019 (COVID-19) virus outbreak continues to spread Italy and has led to the government rolling out even more draconian measures to contain the COVID-19 virus, implying a greater disruption to economic activity during 2020.

COVID-19 cases and deaths continue to rise exponentially

Italy’s Civil Protection Agency reports that the death toll from the COVID-19 virus stood at 827 deaths by 11 March 2020. Meanwhile, the total number of new infections continues to climb, and confirmed at 12000, implying Italy now has the largest number of confirmed infections outside China. Italy has suffered a relatively high number of COVID-19 mortalities, partly reflecting an ageing population with 60% over the age of 40.

With hospitals in Northern Italy close to collapse, prime minister Giuseppe Conte has widened the scope of the lockdown from the initial 12 towns in Lombardy and Veneto involving 50,000 to most of Northern Italy to capture 16 million people and now the whole of Italy (60 million).

Under the quarantine measures, the only travel permitted is to work and for health or other essential reasons. Italians are subject to spot checks to ensure compliance, and violators can face three months jail or fines of EUR 206. The extraordinary measures will be in place until 3 April 2020.

Other measures include:
- Close all shops except food stores and pharmacies.
- All weddings and funerals will be postponed, and the suspension of religious and cultural events.
- More measures to ensure social distancing are in place, namely the closure of cinemas, nightclubs, gyms, swimming pools, museums and ski resorts. Restaurants and cafes in the quarantined zones can only open during daylight hours, and customers must sit at least 1 metre apart.
- All schools and universities have been shut since 4 March 2020.

Some temporary shutdowns of production facilities are likely to occur due to a potential shortage of workers if they self-isolate or struggle to travel. Indeed, the government has instructed people to stay at home as much as possible, with the threat of a three-month prison sentence for those who violate quarantine rules. This will have a heavy impact on Italy’s higher than average number of small and medium sized enterprises. However, the civil protection agency continues to allow the movement of commercial freight, helping Italy’s largest companies to operate as usual.

Extensive economic damage via several transmission channels

The extended quarantine areas across the whole of Italy represent a significant risk to its economy. The chart below illustrates regional shares of nominal GDP.

Italy nominal GDP (Percent share of regions)

Global consumer services deeply hit by COVID-19

Source: National Statistical Office

Source: IHS Markit, JPMorgan
The social distancing measures present a significant risk to consumer-facing services, with the most exposed sectors being restaurants and hotels, and transport services, accounting for 6.3% and 1.8% of GDP respectively.

Overall, consumer spending on services stood at EUR140 billion (USD153 billion) in the third quarter of 2019, or 52.8% of total spend in real terms. In addition, total services accounts for around 75% of Italy’s gross value added.

The widening containment and preventative measures to contain the COVID-19 virus outbreak are fuelling a deeper sense of public unease and are likely to result in many consumers refraining from any non-essential spending, particularly on services. Traditionally, Italian households react quickly to any signs of economic, financial, and political stress, resulting in elevated precautionary savings.

Indeed, the household savings rate rose during the first three quarters of 2019 (see chart) in line with a struggling economy and is expected to move up aggressively in the first three quarters of 2020.

**Italy: household savings rate**

![Graph showing household savings rate from 1998 to 2018](source: National Statistical Office)

This implies some damage to spending on non-essential goods during the crisis, and we point to delayed purchases of clothing and footwear (3.7% of GDP in 2018) and furnishings, household equipment and routine household maintenance (at 3.8% of GDP).

On the flipside, panicked shoppers are emptying shelves of essential supplies in supermarkets, which is temporarily growth supportive.

Another key transmission channel will be the impact of the COVID-19 virus on Italy’s sizeable tourism sector, which accounted for 13.2% of GDP in 2018 (see chart) and employs 3.5 million workers.

Marina Lalli, the president of Fedeturismo Confindustria, Italy’s travel and tourism industry, believes that the spread of the COVID-19 virus will cause extensive damage to the sector. She says that Italy typically receives “travel bookings for the entire half of the year by now”, but warns that these booking are “missing”, while thousands of existing bookings have already been cancelled. Lalli also warned of missing bookings for the entire second half of 2020 that normally occur “in this part of the year”.

Beyond the immediate ramifications for Italy, we also anticipate some second-tier effects on the economy. The risk of potential contagion across Europe has risen notably, and the countermeasures seen in Italy could be rolled out across the region, representing an additional hit to Italian economic activity.

Finally, European equity markets are in freefall, led by acute and sustained falls in FTSE All-Italia shares (see chart). Shares and other equity accounted for 21.3% of Italian total household financial assets in 2018 (OECD), compared to 9.6% in Germany.

**Contribution of travel and tourism to nominal GDP**

![Graph showing contribution of travel and tourism to GDP from 1998 to 2018](source: World Travel and Tourism Council)

**Italian Stock Exchange (FTSE MIB Index)**

![Graph showing FTSE MIB Index from 2010 to 2020](source: Italian Stock Exchange)
Outlook

In our forthcoming March forecast update, we now anticipate a longer and deeper recession in Italy, with the economy expected to suffer contractions in the first three quarters of 2020. We then assume that the COVID-19 virus will be less prevalent during the fourth quarter of 2020, allowing some lost activity that occurred during 2020 to be recaptured during 2021. However, the amount of recaptured activity is limited with cancelled spending on services likely to be lost permanently.

This compares to our assessment in the February update of a short-lived and shallow recession after the economy contracted by 0.3% quarter-on-quarter in the final quarter of 2019.

Overall, this implies that the economy will contract during 2020, and our latest projection stood at 1.1% drop, revised down from stagnation in the February update (17 February). Real GDP is then expected to contract by 0.1% in 2021.

But our revised projections were released prior to the announcement that the lockdown was being extended across the whole of Northern Italy (and then to the whole country), implying a further imminent downward revision to our 2020 projection. We acknowledge that the balance of risks to growth continues to tilt heavily to the downside, with the COVID-19 virus still spreading in Italy. However, we note that loose monetary conditions – characterised by ultra-low interest rates and the weak euro alongside modest inflation – provide important support to households and will help to limit the GDP downside.

In addition, the Italian government had already pledged a financial aid package of EUR6.5 billion, which will be raised to EUR12 billion euros, while an additional EUR13 billion being held in reserve. The government will ask parliament to increase the country’s deficit targets by EU20 billion euros which will imply a general government deficit close to 3.0% of GDP in 2020 compared with its current goal of 2.2% prior to the outbreak. Furthermore, a contracting economy could trigger automatic stabilizers, with rising unemployment benefits adding further pressure on public finances.

The fiscal aid plan is designed to support the economy being disrupted by severe measures to contain the spread of the COVID-19 virus. The confirmed fiscal measures include tax credits for companies that have suffered a 25% fall in revenues. Additional funds will be allocated to the country’s stressed healthcare service. Indeed, hospitals in Lombardy are close to breaking point, and there is an acute shortage of intensive care facilities.

Other assistance measures being considered are support for workers facing temporary layoffs, while increasing the guarantee fund for loans to small- and medium-sized companies, alongside compensation for firms whose turnover has plunged more than 25%. Finally, some form of moratorium for business and personal mortgage repayment should be in place.

PM Conte has asked the European Central Bank to help shore up the economy, evoking the phrase “whatever it takes” used by previous ECB governor Mario Draghi who ensured the institution played a critical role in stabilizing the euro area in 2012.

Meanwhile, the European Commission will grant Italy more fiscal space to tackle the negative economic consequences of the COVID-19 virus. But the Italian finance minister has spoken to the other eurozone finance ministers about a coordinated regional fiscal response to the crisis. Italy still needs to watch the pennies with the public debt level unchanged at 134.8% of GDP in 2019 and set to spike up notably in 2020 in line with Italy sliding into a deep recession and the cost of the above financial support measures. The COVID-19 crisis and the resulting financial costs represent a risk to Italy’s challenging sovereign debt redemption path.
Asia Sector PMI
Special Focus

COVID-19 outbreak dampens output across all sectors in Asia except healthcare

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Asian economic activity shrank sharply in February, according to the latest PMI surveys, contracting at the quickest pace since the depths of the global financial crisis. The surveys also brought signs that most sectors of the economy were affected by measures taken in response to the outbreak of the coronavirus disease 2019 (COVID-19).

Asia PMI sinks at fastest pace since 2009

Asian growth plunged by a record pace in February, with the rate of contraction the sharpest since the start of 2009, according to the latest PMI surveys. The headline Asia Composite PMI, compiled from IHS Markit surveys in 13 markets in Asia, dropped 13.8 points to 37.9 in February. The fall was driven by sharp declines in both manufacturing output and services activity amid an escalation of the COVID-19 outbreak in the region.

Asia PMI signals sharp decline in business activity in February amid coronavirus impact

February saw the most marked lengthening of suppliers’ delivery times in the near 16-year history of the Asia manufacturing PMI survey, with the extent of delays exceeding those reported in April 2011 when supply chains were severely disrupted by the Japanese earthquakes and Thai floods. However, the downturn was not only triggered by a sharply reduced supply of inputs. Asian service sector activity plunged to a degree not seen since data were first available at the end of 2005 amid signs of demand collapsing for many travel and consumer-related activities.

Broad sectoral weakness

Delving deeper into IHS Markit’s Asia Sector PMI data allows us to drill down into detailed industry trends and highlight how the virus epidemic has impacted many sectors of the economy during February. The latest numbers revealed weaknesses across the Asian sectors, with output falling in all but one of the 17 monitored sub-sectors, from just four in January.

Detailed sector PMI point to broad decline in output during February, led by consumer services and auto sectors

Consumer services hit by COVID-19 fears

Apart from supply-side disruptions to manufacturing activity from material shortages, the PMI surveys also indicated markedly reduced demand for many consumer services, including hotels and restaurants, cultural, recreational and tourism-related activities. The consumer services sector recorded a severe decline in business activity after a solid expansion at the start of the year. The weakness in consumer services activity...
was related to the spread of the coronavirus weighing on outbound tourism from China and many other Asian countries.

With the outbreak of the COVID-19 virus, the most immediate impact on the Asian region has been disruption to travel and tourism industries as businesses reported flight suspensions, travel restrictions and bans on visitors from specific countries. Anecdotal evidence from services firms also revealed an increasing impact of the coronavirus dampening appetite for consumer spending as the fear of being infected kept people away from crowded places.

**Consumer services sector**

**Automobiles & auto parts**

**Pharmaceutical & biotechnology**

**Downturn in auto sector intensifies**

The automotive sector remained stuck in a downturn for a third straight month, registering the second-largest fall in output among the 17 monitored sub-sectors. Auto production contracted at the fastest pace for just over 11 years, surpassing the steep decline seen during April 2011 when supply chains were disrupted by Japanese earthquakes and Thai floods. With auto companies already being adversely affected by slowing global demand and trade war tensions for most of last year, the disruptions to supply chains and demand brought on by the coronavirus countermeasures dealt a second blow to the sector early this year.

By contrast, pharmaceutical & biotechnology firms topped the detailed sector growth rankings in February. Not only was it the sole sub-sector to register an expansion, output rose at one of the fastest rates for nearly three-and-a-half years amid the public health crisis. Increased production among drug-makers was accompanied by a marked rise in new orders.

**Broad sector PMI data shows only healthcare indicate growth so far in first quarter**
COVID-19 countermeasures hit sales

Measures to contain the spread of the coronavirus, including work suspensions and travel restrictions, alongside a general fear among consumers of being infected weighed heavily on sales in many sectors. Most sectors tracked in the Asia Sector PMI survey reported a contraction in new orders, except in three categories: Pharmaceutical & Biotechnology, Construction Materials, and Technology Equipment. The sharpest declines in new business were seen in the Banking, Metals & Mining, and Transportation sectors during February.

Outlook

Public health measures designed to halt the spread of COVID-19 led to a severe disruption of supply chains which, in turn, contributed to the development of capacity pressures as a lack of material inputs constrained production. Out of the 17 monitored sub-sectors, 10 reported a rise in backlogs of work, suggesting that the restoration of supply chains, as increasing numbers of Chinese manufacturers resume work, may see growth coming through in the months ahead. This assumes that affected companies can restore their provisions of inputs and raw materials.

In a further sign of potential recovery in the coming months, the vast majority of sub-sectors remained positive that output would increase over the next year. Only two were pessimistic, of which the insurance sector was unsurprisingly the most downbeat.

While the Asian manufacturing sector may see a recovery in the coming months, depending on the pace to which supply chains normalise, the outlook for the service sector is more uncertain. PMI surveys showed Asian service providers the least optimistic about future activity since the heights of the global financial crisis, suggesting that services business activity will continue to be under pressure for the time being.