

## Week Ahead Economic Preview

### Global overview

- Detailed sector PMI updates
- US jobless claims
- Inflation numbers for the US and China
- Japan machinery orders

With the COVID-19 pandemic leading to increased measures to control the outbreak, the economic dataflow has started to reveal the impact on the global economy. The coming week sees more official data released to cover the month of March, but analysts are going to have to be careful interpreting official numbers as many agencies will struggle to calculate data using established techniques such as face to face interviews.

The few data series so far available to gauge the initial impact of the pandemic have been private surveys. After the PMIs showed [worldwide manufacturing output slumping](#) in the last two months at a rate not seen since 2009, and [flash PMI data](#) brought signs of the service sector being even harder hit, more detailed PMI numbers will give valuable insights into precisely where the economic blows have been the most fiercely felt, both by 26 detailed sectors and by major region. February's data revealed that only pharmaceuticals and biotech recorded any growth globally.

In the US, the [IHS Markit flash PMI](#) indicated the steepest downturn in output and hiring since 2009, but the most worrying signals have come from jobless claims. The past two weeks have seen the number of Americans applying for unemployment benefits rise to 6.65 million, far surpassing the prior record of 695,000. The University of Michigan consumer survey will also be eagerly assessed for virus impact in March and inflation numbers will be watched for signs of a growing deflationary threat ([page 3](#)).

Official data updated for Europe will only give insights into February, so will be largely irrelevant for the purposes of assessing the virus impact. However, the UK recruitment industry survey for March will give new clues as to the scale of the labour market hit and house price data will help gauge the UK property market effect ([page 4](#)).

In Asia Pacific, markets will await central bank meetings in South Korea and Australia, and will also see some March data coming out for inflation in China, Taiwan, Thailand and the Philippines, plus Japan's machinery orders ([page 5](#)).

### Special reports

**China:** PMI data point to a steady of manufacturing conditions in March after a record slump in February, but this does not herald a recovery yet and the outlook remains gloomy ([page 6](#)).

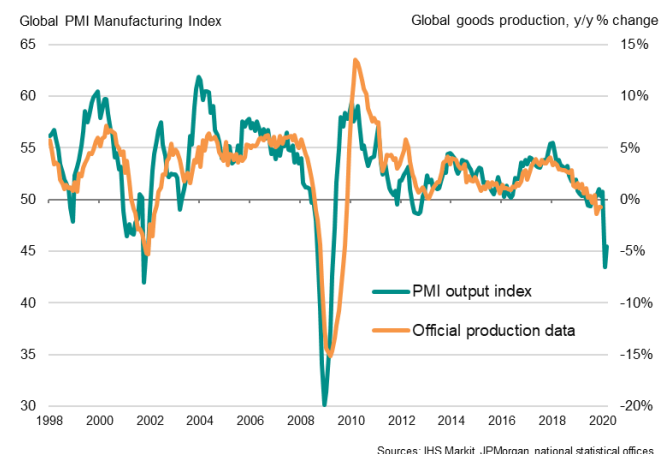
**Eurozone:** The inability of eurozone member states to agree a collective policy response to the COVID-19 outbreak is worryingly similar to the policy failures during the 2011-12 debt crisis in 2011-12. ([page 8](#))

### Upcoming PMI releases

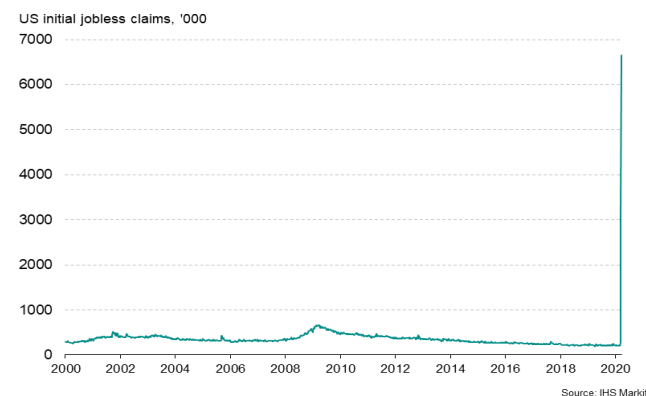
**Monday (6 Apr):** Construction PMI

**Tuesday (7 Apr):** Sector PMI, Metal Users PMI

### Global manufacturing PMI output index



### Initial claims for unemployment benefits in the US



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## Key diary events (UTC)

### Monday 6 April

India services PMI (Mar)  
IHS Markit construction PMI for UK, Eurozone, France, Germany and Italy (Mar)  
Australia job advertisements (Mar)  
Spain and Indonesia consumer confidence (Mar)  
Japan housing spending, average earnings (Feb)

### Tuesday 7 April

IHS Markit Sector PMI for Global, Eurozone, Asia and US (Mar)  
IHS Markit Global Metal Users PMI (Mar)  
Philippines and Thailand inflation (Mar)  
Australia monetary policy decision, trade (Feb)  
France trade balance (Feb)  
UK Halifax house price index (Mar)  
Brazil retail sales (Feb)  
US JOLTs Job Openings (Feb)  
Japan current account, machinery orders (Feb)  
Eurogroup meeting

### Wednesday 8 April

Philippines trade (Feb)  
Japan econ-watchers survey (Mar)  
Taiwan trade, inflation (Mar)  
KPMG/REC UK Reports on Jobs (Mar)  
US FOMC minutes

### Thursday 9 April

South Korea interest rate decision  
Australia RBA financial stability review  
Japan consumer confidence, machinery orders (Mar)  
UK trade balance, industrial output, GDP (Feb)  
Italy industrial output (Feb)  
Brazil inflation (Mar)  
US initial jobs claims (4 Apr), PPI (Mar)  
US Michigan survey (Apr), wholesale inventories (Feb)

### Friday 10 April

China inflation (Mar)  
Malaysia and France industrial output (Feb)  
US inflation (Mar), monthly budget statement (Mar)

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## United States Week Ahead

Jobless claims, consumer sentiment, inflation and FOMC minutes

By Siân Jones

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As the number of cases of COVID-19 increase across the US, and emergency measures become more stringent, the impact of the outbreak and uncertainty surrounding its longevity continue to grow. As such, jobless claims will be eyed for further signs of mounting job losses after recent record jumps in numbers, and consumer sentiment surveys will be eagerly watched for signs of further decreases in spending and expectations for the economy as a whole. Giving an insight into housing market sentiment is the release of mortgage application data, which could show a steep reduction in numbers as the buyers hold off purchases. FOMC minutes and inflation updates are also released.

### Jobless claims and consumer confidence

Jobless claims data will be a key release, having taken the limelight as one of the few official data releases that has offered a timely insight into the economic impact of the COVID-19 outbreak. Record numbers of Americans filing new claims for unemployment benefits in prior weeks have raised alarm bells, confirming [earlier survey data](#) that had warned that impact of the virus containment measures was already taking a toll back in February.

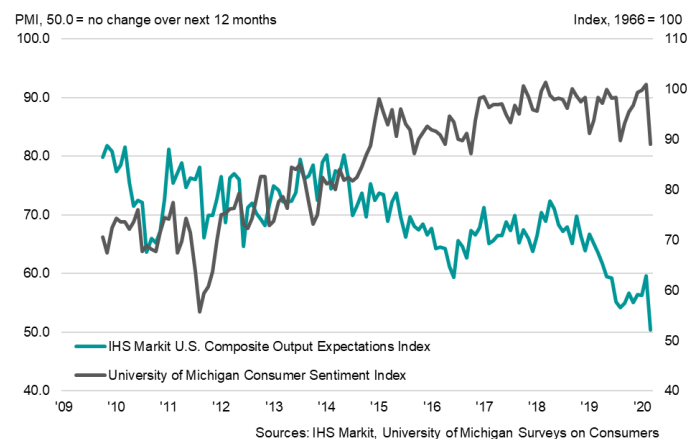
The publication of the University of Michigan Consumer Expectations surveys will give an insight into current and future economic conditions, but also give a view towards inflation forecasts. March data indicated the weakest consumer sentiment since October 2016, as the impact of COVID-19 and stock market volatility weighed on expectations.

### FOMC minutes and inflation

Following emergency cuts to interest rates, the FOMC will release minutes detailing the reasons behind their decision. Although the official meeting was cancelled, economic projections and dot plots for the near-term will be released signalling the committee's expectations.

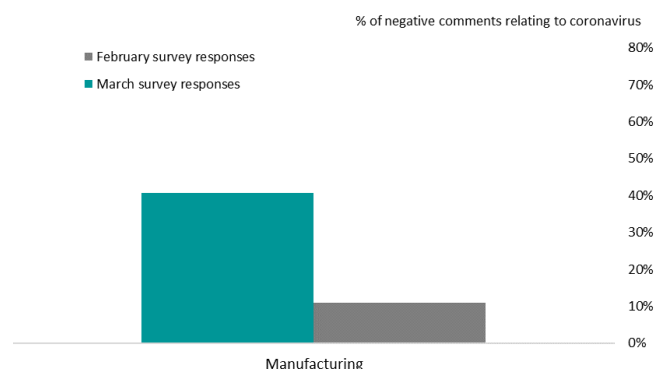
A drop in demand for goods and services following widespread shutdowns and job losses is meanwhile expected to weigh on inflation, as firms and suppliers seek to stay competitive and retain clients, according to the [latest PMI data](#).

### U.S. consumers and businesses express greater uncertainty following COVID-19 outbreak

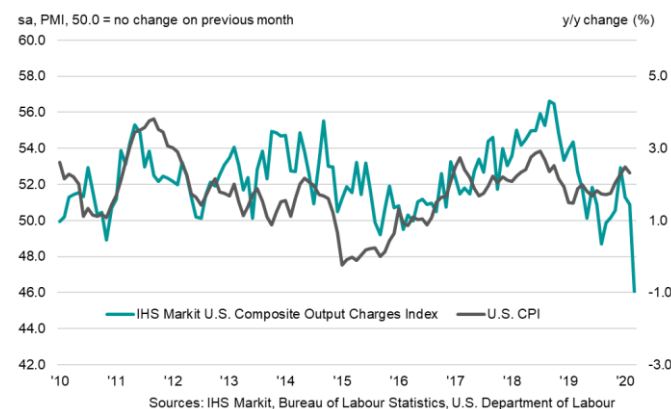


### Sharp increase in negative comments regarding COVID-19 in March among manufacturing survey respondents

Impact of coronavirus outbreak on U.S. manufacturers



### Inflationary pressures set to ease amid COVID-19 related drop in demand



## Europe Week Ahead

### February industrial production, UK monthly GDP, trade update

By Joe Hayes

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Official data will once again provide us with little new information on the ill economic effects of the COVID-19 pandemic in Europe. [PMI data](#) released this week have so far given us the most up-to-date signals on economic activity available. February industrial output figures for Germany might provide us with some insight into how the initial [supply shock](#) interfered with production schedules, with comparable data issues also for the UK and Italy. Survey data also signalled weakness in exports during February, with official data for the France, Germany and the UK due. Trade statistics for the latter will be accompanied by the monthly GDP release.

### UK February GDP

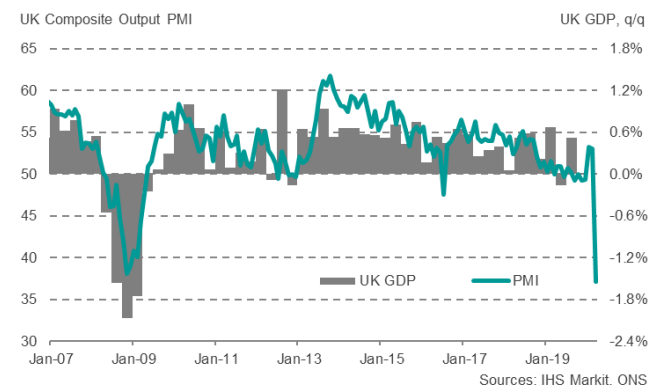
In normal circumstances, the UK monthly GDP update would be analysed with fine detail to guide full-quarter growth expectations, but the latest release of February data will be largely irrelevant, in being too backward-looking. The PMI signalled a [record decline](#) in overall business activity in March as the UK stepped up its public health response to the global COVID-19 pandemic. Historical comparisons of the PMI with GDP indicate that the March survey reading is consistent with GDP falling at a quarterly rate of 1.5-2.0%, more than sufficient to push the first quarter into negative territory and put the UK on course for a deep recession. That said, official export and services data may provide extra detail of the early impact of COVID-19 on external demand and tourism.

### Industrial production

February industrial production figures are due from Germany, Italy and the UK in the coming week. February Manufacturing PMI data showed signs of stress last month, primarily in export orders and on the supply side as input deliveries from China were severely disrupted. As the number of COVID-19 cases in Europe continue to rise and authorities keep public health measures in place to stem the spread, the economic impact will only worsen. Prospects for manufacturers look bleak as intra-European trade looks set suffer tremendously, particularly as the

continent's largest economies are those suffering with the heaviest outbreaks.

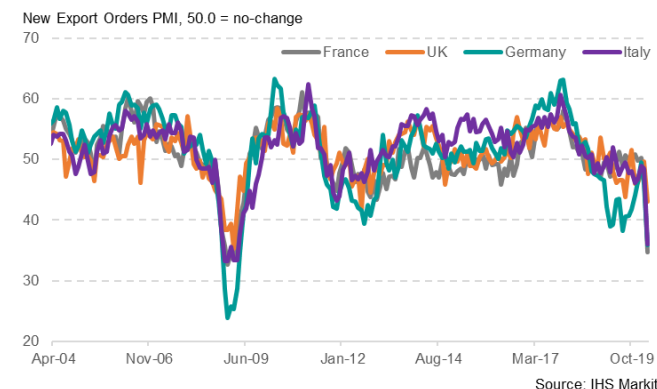
### Initial signs of UK economy contracting sharply in PMI data amid global COVID-19 pandemic



### PMI data point to heavy drop in Germany manufacturing production in March



### European exports slump as economic impact of coronavirus intensified in March



## Asia Pacific Week Ahead

Consumer confidence data, South Korea and Australia monetary policy

By **Bernard Aw**

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With the rapid evolvement of the COVID-19 situation, markets are focusing on timely and forward-looking data in assessing economic trends. Recent PMI results had indicated swiftly worsening economic conditions, with investors keenly anticipating the forthcoming Asia Sector PMI for clues as to the performance of sectors in March. Consumer confidence data in Japan and Indonesia will also attract scrutiny while policy action will come from South Korea and Australia.

Other data highlights in Asia include Taiwan's trade figures, inflation numbers in mainland China, Taiwan, Thailand and Philippines. India services PMI will also gather interest as the country had imposed a 21-day lockdown in late March.

### Asia Sector PMI and India services PMI

The March update to the Asia Sector PMI will be closely watched by investors looking for parts of the economy that had shown resilience amid the escalating global COVID-19 outbreak. February data showed that [most sectors](#) of the Asian economy were severely impacted by measures to contain the spread of pandemic, with only pharmaceutical and biotechnology firms recording an increase in activity.

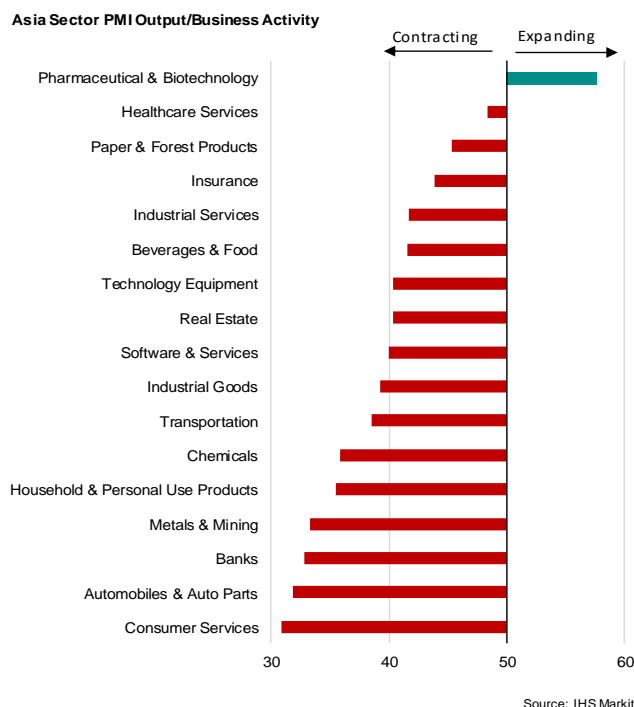
With India currently under lockdown for 21 days since 25<sup>th</sup> March, analysts will look to the March services PMI survey, compiled by IHS Markit, for clues as to the early impact of the measures on the important service sector. The latest survey data were collected between 12<sup>th</sup> and 27<sup>th</sup> March, and therefore may not reflect the full effects of the social-distancing measures.

### Korea and Australia set monetary policy

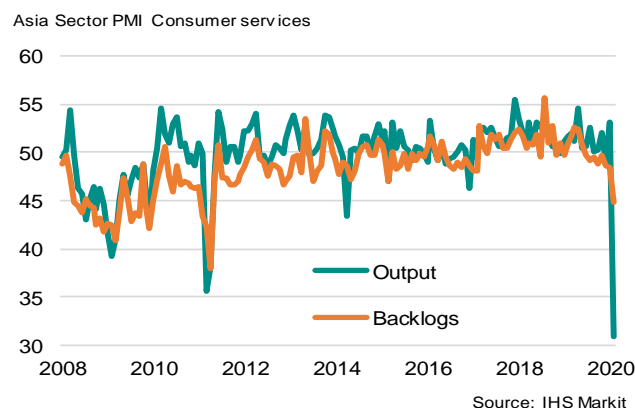
The Bank of Korea convenes to decide on monetary policy though, following an emergency 50-bps rate cut on 16<sup>th</sup> March, the central bank may be hesitant to cut rates further given financial stability risks. In addition, the positive impact of rate cuts on demand will likely be minimal in the current situation.

The Reserve Bank of Australia also meets in the same week, but a further rate cut looks unlikely after the RBA cut rates twice in March to a new record low of 0.25%. Meeting [minutes](#) showed that the Bank had ruled out adopting negative interest rates, and considered the current cash rate at its effective lower bound.

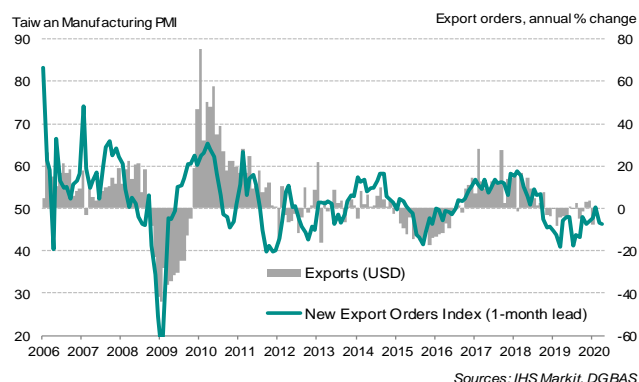
### Detailed Asia sector PMI point to broad decline in output during February, led by consumer services



### Asia's consumer services industries in February



### Taiwan PMI and exports





## Asia Pacific Special Focus

China: Caixin PMI points to stable manufacturing conditions, but outlook remains gloomy

By Bernard Aw

Principal Economist, IHS Markit, Singapore

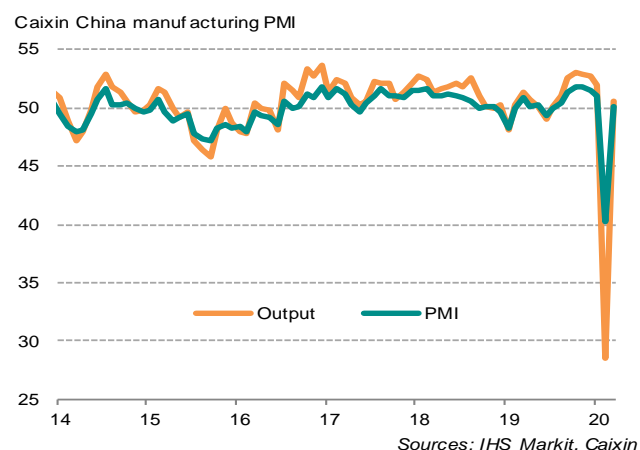
*The Caixin China Manufacturing PMI rebounded nearly 10 points to 50.1 in March, up from the record low of 40.3 in February. A similar rebound was seen in the government-sponsored PMI. However, even this strong rise in the PMI meant output in fact only showed a modest return to growth as industrial firms gradually resumed work, and demand conditions continued to weaken as the coronavirus disease 2019 (COVID-19) pandemic hit worldwide demand.*

### Production restarts

The headline Caixin China General Manufacturing PMI rose to 50.1 in March, up sharply from 40.3 in February, representing the largest monthly increase in the 16-year survey history. However, some caution needs to be applied in interpreting the PMI. The PMI measures the month-on-month change in business conditions, with a level of 50.0 representing the no change mark.

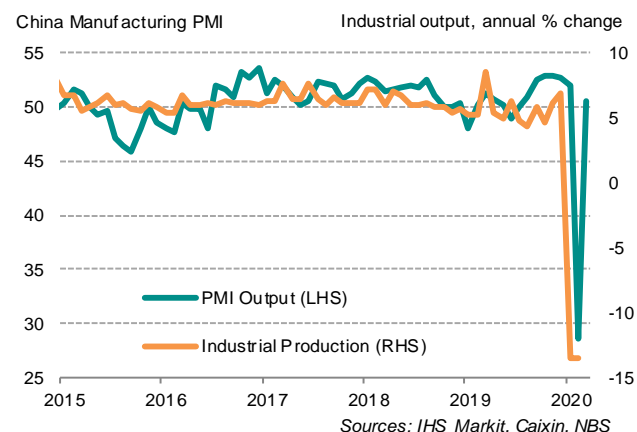
The headline index therefore merely pointed to a stabilisation of operating conditions in the sector during March rather than a recovery. Coming on the heels of an unprecedented collapse in February, the marginal gain seen in March leaves the *level* of business activity remaining well below that seen in January.

### Caixin PMI signals output has stabilised as industrial firms start to resume work

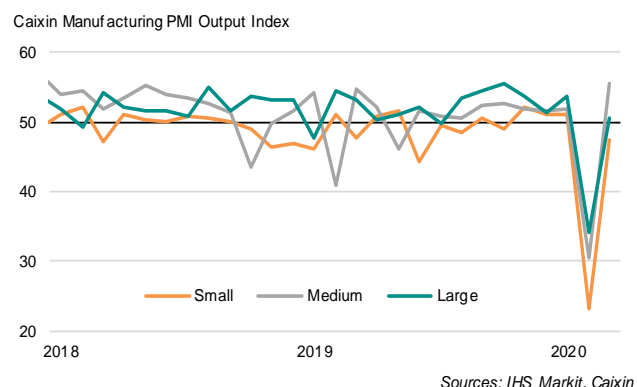


Driving the headline index higher was the resumption of output growth, albeit only modest. Having plummeted in February, manufacturing production rose slightly in March as fewer companies reported factory closures and more manufacturers reportedly restarted work throughout the month. That said, the rate of growth in overall output was marginal, reflecting the fact that operating capacity has yet to return to full strength in many sectors.

### Caixin PMI and China industrial production



### Large and medium firms lead factory output growth



The recovery in output was led by large- and medium-sized manufacturers, but production of small firms fell further (though at a considerably slower rate than in February).

### Firms optimistic that demand will revive

Business confidence remained among the highest for the past five years, as reflected by the Future Output Index, with the proportion of firms expecting higher output in a year's time exceeding those anticipating a decline. Optimists generally highlighted work resumptions as a key reason for higher confidence.

As such, firms are likely to be relying heavily on processing orders not yet fulfilled due to factory shutdowns and supply chains disruptions, plus capacity coming back on-line in the coming months as demand conditions continued to weaken in March.

Total new orders shrank for a second straight month at the end of the first quarter, albeit at a much slower pace compared to February. New export orders showed a similar trend. The increasingly strict measures to contain the COVID-19 virus around the world, such as more countries implementing lockdowns and travel restrictions, have hit global demand.

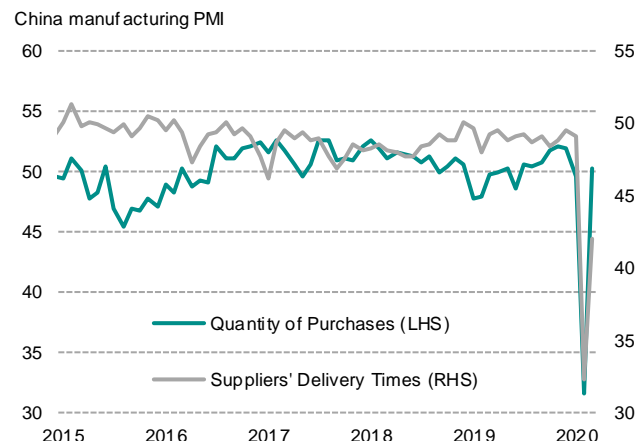
Job shedding persisted in March, with firms cutting their workforce numbers for a third straight month. Panel comments highlighted layoffs and efforts to improve productivity as reasons for lower factory employment.

### Supply chains still under pressure

The gradual restoration of supply chains meanwhile led to an increased availability of input materials. This was reflected by a modest rise in purchasing activity.

Responses nevertheless continued to indicate that the COVID-19 outbreak adversely impact supply chains. While not as severe compared to February, delivery times continued to lengthen at a rate not usually seen since the global financial crisis. Anecdotal evidence suggested that delivery delays were linked to distributors not yet resuming to full capacity as well as an understaffed workforce.

### Delivery times lengthen at a slower rate in March as pressure on supply chains eases from February



Sources: IHS Markit, Caixin

### Prices fall

Chinese manufacturers reported a decline in input costs for the first time in seven months during March, as falling global prices for raw materials (such as base metals) and energy (particularly oil and coal) helped drive input prices lower. At the same time, prices charged for manufactured goods were reduced further in March, falling at the fastest rate for seven months. Firms generally commented on efforts to boost sales via price discounting.

## Europe Special Focus

Eurozone: COVID-19 crisis exposes long-standing cracks in policy making

By **Ken Wattret**

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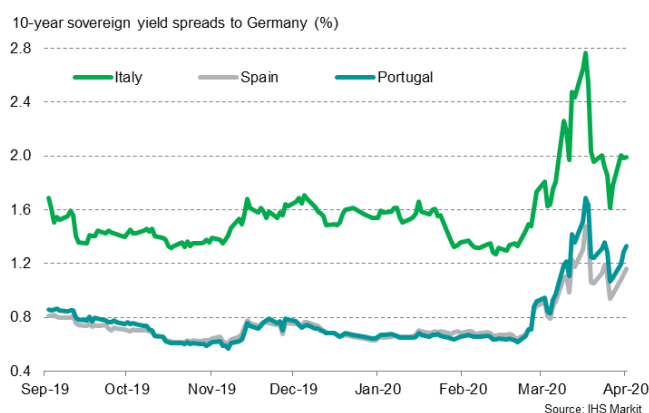
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*The scale of the economic damage in the eurozone is becoming more apparent. While policy responses have stepped up, vulnerabilities remain, including the future trajectory of public sector debt burdens. The inability of eurozone member states to agree a collective crisis response is worryingly similar to the policy failures during the escalation of the eurozone crisis in 2011-12.*

### PEPPed-up policy response still lacking

Of the numerous policy initiatives announced in recent weeks, the ECB's announcement of a Pandemic Emergency Purchase Programme (PEPP) on 18<sup>th</sup> March has been the standout. Based on an envelope of EUR750 billion of asset purchases, to be deployed by end-2020, with no issue or issuer limits stipulated, the PEPP has been effective at quelling the unease in sovereign debt markets following the ECB's disappointing initial package of measures announced on 12<sup>th</sup> March (see Chart 1).

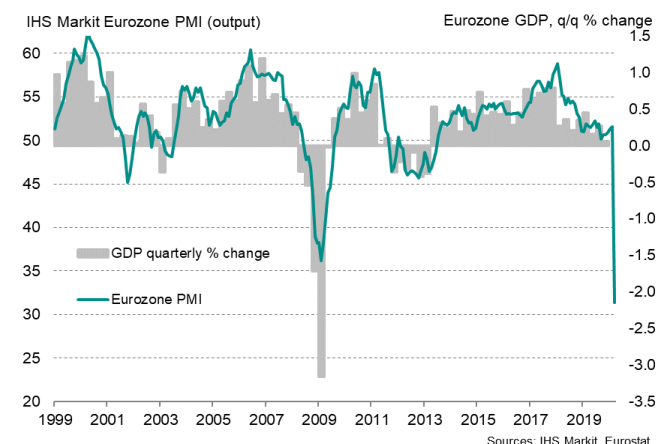
**Chart 1: Sovereign debt spreads**



However, we remain concerned about the huge strain on sovereign balance sheets from the combination of collapsing economic activity (see chart 2), large scale fiscal responses and potential future financial support for banking sectors. Indeed, yield spreads have started to creep higher again recently as the scale of the

challenge in containing the virus, and its economic cost, has become more apparent.

**Chart 2: Flash Eurozone PMI and GDP**



### 'Corona' bonds v ESM

With this in mind, the inability of eurozone governments to agree on a collective response has been alarming. The disagreement in essence boils down to differences of opinion about the optimal way to deploy common resources to deal with rising pressure on public finances across member states. Long story short, a group of nine countries, including France, Italy and Spain, called in mid-March for the creation of a common debt instrument (dubbed 'corona bonds').

Another group of countries, including Germany and the Netherlands, favoured a different approach based on the use of the European Stability Mechanism (ESM). Unedifying discussions, including at an EU summit on 26<sup>th</sup> March, failed to make any progress.

As a demonstration of collective commitment to deepening eurozone integration, the joint issuance proposal has obvious merits. But it is difficult to implement quickly, in large part because the mutualisation of liabilities would entail a loss of policy sovereignty which the beneficiaries are currently unwilling to accept.

Using the ESM therefore looks like the more viable route should market pressures return, as we suspect they will. As a reminder, the ESM currently has the ability to provide the following:

- Loans within a macroeconomic adjustment programme
- Precautionary credit lines
- Loans for indirect bank recapitalisation
- Direct bank recapitalisation
- Primary market purchases of sovereign debt
- Secondary market purchases of sovereign debt



The preference of the second group of countries' for using the ESM in large part reflects its inherent conditionality. In other words, financial support is subject to a member states' willingness to deliver on the various conditions attached. This avoids moral hazard but makes member states very reluctant to request the assistance absent extreme market pressure.

## Credit lines

A proposed response to the COVID-19 crisis has been to provide precautionary credit lines to a range of eurozone member states. This has the twin advantages of avoiding individual member states being singled out, whilst opening the door to the ECB deploying its Outright Monetary Transactions (OMT): that is, unlimited purchases of sovereign debt with maturities of up to three years.

Conditions would be attached to the precautionary credit lines. However, they would be much less stringent than the full-blown programmes adopted by Greece, Ireland and Portugal during the previous crisis. The suggestion has been that there would merely be monitoring to ensure that funds were being used for the goal of containing the crisis and limiting the economic fallout.

This looks like a sensible way forward in our view, though to be clear, the ESM is not a panacea. Its potential shortfalls include:

- Total lending capacity is limited to EUR500bn (currently around EUR410bn of this capacity is still available)
- Funds for direct bank recapitalisation are capped at EUR60bn.
- Debt burdens remain with the member state, potentially implying Greece-like public sector debt to GDP ratios for countries like Italy and Portugal (see Chart 3), albeit with longer maturities and lower interest rates than each would be able to secure in the market. In the case of Greece, the ESM and its predecessor, the EFSF, currently hold over half of outstanding public sector debt.

## ESM at the ready?

In sum, market conditions have been becalmed by the ECB's PEPP, easing the pressure on eurozone leaders to decide on a collective way forward. Some alternative, less contentious collective initiatives have also been floated in recent days, including a Kurzarbeit-style scheme, based on Germany's method

of subsidising income losses due to reduced working hours.

Still, given the risk that market turbulence returns with a vengeance, eurozone governments need to put aside their differences and agree on a common strategy which would be ready for deployment without delay. The ESM is likely to be at the forefront of such an approach.

Chart 3: General government debt to GDP ratios

