Economic Preview: Week of 13 April 2020

Publication date: 9 April 2020

Week Ahead Economic Preview

Global overview

- **Key statistics out of China including GDP, industrial production and retail sales**
- **US industrial production and retail sales updated for March**
- **IMF publishes new forecasts**

The coming week sees the release of some eagerly awaited official data which will indicate how some of the world's key economies have fared in the face of the COVID-19 outbreak during March. Early data such as initial jobless claims in the US and UK have looked like spreadsheet errors, spiking higher as the pandemic led to lockdowns and business closures. Similarly, the March PMI data showed global business contracting at the steepest rate since 2009 as efforts to contain the virus caused activity to collapse across huge swathes of the economy, often to unprecedented degrees in areas such as travel and tourism.

Some of the most important releases will come out of China, notably industrial production, retail sales, investment and trade for March. With China having locked down before other countries, these numbers will help gain some sense of the extent to which China's economy and its supply chains have managed to recover after a marked drop in activity in February, as virus containment measures start to ease. China's first quarter GDP is also released, but will be more backward-looking than the monthly data. Other trade numbers for Asia, notably for Japan, India and Indonesia will also be updated for March (page 5).

In the US, we also await industrial production and retail sales numbers for March, as well as housing starts, in addition to the weekly jobless statistics. We can expect to see some very weak figures after our PMI surveys showed the steepest downturn in the US economy since 2009. Some regional Fed surveys are also released which will give an initial insight into manufacturing trends in early April (page 3).

The UK sees non-official retail sales numbers for March and the Bank of England releases its first quarter credit conditions survey. Final inflation and industrial production numbers for the euro area are due, but the latter only relate to February. (page 4).

The week also sees the IMF release new global economic forecasts, which are likely to show significant downgrades. IHS Markit forecasts are available here, and project a 2.6% drop in global GDP in 2020.

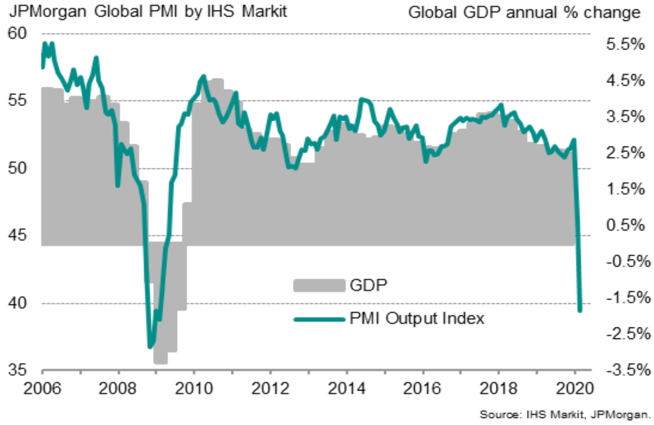
Special reports

Asia-Pac: The COVID-19 outbreak means the Asia-Pacific region faces the worst economic slump since the global financial crisis of 2008-09. China led the downturn, but may also lead the recovery. We explore in more detail the economic impact of the virus to date, the poicy response and the outlook (**page 6**).

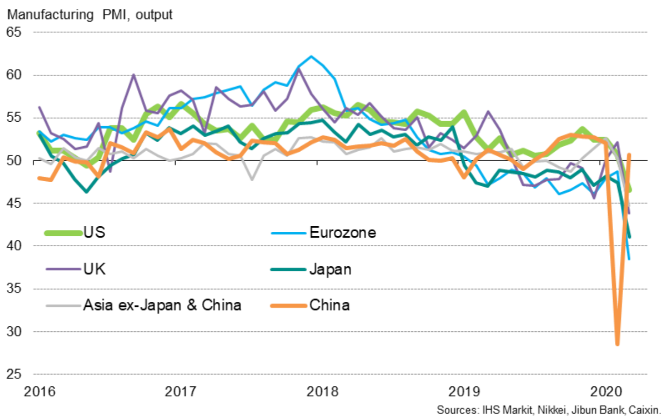
Upcoming PMI releases

23 Apr: Flash PMI for the US, UK, Eurozone, Japan and Australia

Official data are awaited after IHS Markit's PMI surveys for March shed light on the initial economic impact of COVID-19



Official industrial production numbers for China and the US are updated, and follow mixed signals from surveys



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Key diary events (UTC)

Monday 13 April
India industrial output (Feb), inflation (Mar)
China vehicles sales (Mar), FDI (YTD, Mar)

Tuesday 14 April
Australia business confidence (Mar)
China trade (Mar)
China new yuan loan, total social financing, M2 (Mar)
India WPI (Mar)
Indonesia interest rate decision

Wednesday 15 April
Australia consumer confidence (Apr)
Indonesia trade (Mar)
France, Spain and Italy inflation (Final, Mar)
IEA oil market report
US retail sales, industrial output (Mar), business inventories (Feb)
US Empire State manufacturing index, NAHB housing market index (Apr)
India trade balance (Mar)
South Korea legislative election

Thursday 16 April
Australia jobless rate, employment change (Mar)
China house price index (Mar)
Germany inflation (Final, Mar)
Euro area industrial output (Feb)
US building permits, housing starts (Mar)
US initial jobless claims (11-Apr)
US Philadelphia Fed manufacturing index (Apr)
South Korea unemployment rate (Mar)
BoE credit conditions survey (Q1)

Friday 17 April
Singapore NODX (Mar)
China GDP (Q1), industrial capacity utilisation (Q1)
China retail sales, industrial output (Mar), fixed asset investment (YTD, Mar)
Japan industrial output (Final, Feb)
Euro area inflation (Final, Mar), construction output (Feb)
India monetary policy minutes

For further information:

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Saturday-Sunday 18-19 April
19/4: New Zealand inflation (Q1)
19/4: Japan trade (Mar)

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IHS Markit®

United States Week Ahead

Initial jobless claims, retail sales and industrial production

By Siân Jones

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With large parts of the US economy remaining in lockdown as the number of cases and deaths from COVID-19 continue to rise, analysts are expecting the economic data flow to worsen. Initial jobless claims will once again be watched in particular due to the timeliness of the data for any new records. Meanwhile, retail sales and industrial production data for March are released, giving an insight into the extent of the impact on both production and consumer spending, as are some regional Fed surveys for April.

Initial jobless claims and survey data

Recently released jobless claims data provided a stark view of the sudden shock to the economy the outbreak of COVID-19 has brought. With the number of weekly claims hitting record highs by orders of magnitude far greater than ever seen before, eyes will turn to the latest release to see if an extension to lockdown procedures will have exacted greater damage to the labour market. Reports of busy phone lines and website outages also meant that prior record figures could have been higher, as the virus impact led to floods of claims being made.

Early April data will also cover the manufacturing sector and housing market, as updates to the NY Empire State and Philly Fed manufacturing indexes and NAHB Housing Market Index are released.

Retail sales

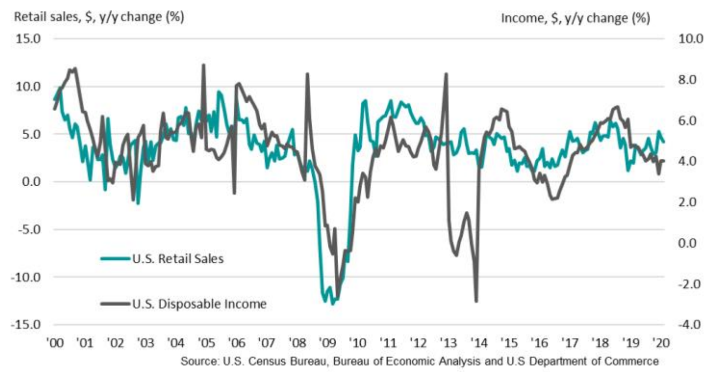
Consensus currently forecasts a 1.4% monthly decline in retail sales across the U.S. in March, as consumers held back on spending due to lockdowns, job losses and widespread uncertainty. The substantial impact on the labour market will also be reflected in the fall as risk aversion leads to higher saving tendencies.

Industrial production

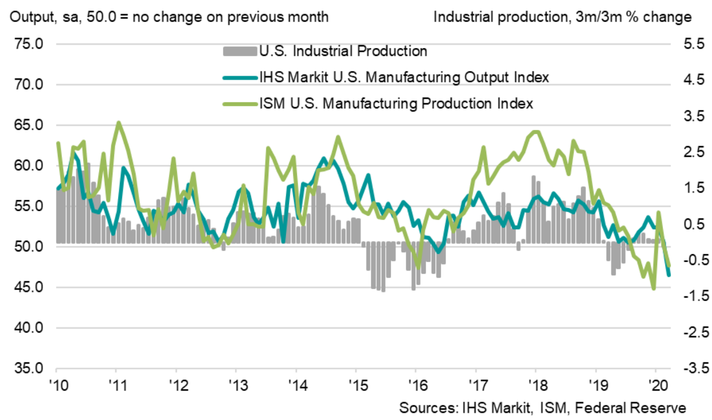
As was seen in the strong decrease in output according to the latest PMI data, the official gauge of industrial production looks set to have declined notably during March. Although the severity of the impact intensified through the month, lockdowns and a drop in non-essential spending and employment are widely thought to have dragged goods production into contractionary territory.

Initial jobless claims spiked at the end of March

Consumer uncertainty and COVID-19 outbreak to drive down retail sales



Manufacturing downturn intensified in March



Europe Week Ahead

Eurozone industrial production, inflation and UK credit conditions survey

By Joe Hayes
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Fresh data releases following the Easter break will provide useful insight into the COVID-19 economic impact, particularly in the UK where non-official retail sales numbers for March are due. The Bank of England also releases its first quarter credit conditions survey, helping to ascertain whether unprecedented monetary and fiscal loosening has had a meaningful impact on lending. Final inflation numbers for the euro area are due, for which the preliminary release showed a sharp energy-induced slowing, while February industrial output data are also released.

Eurozone industrial output and inflation

Industrial production data due for February will garner little interest given it precedes the COVID-19 outbreak across Europe. February Germany data released earlier this week provided more signs that the industrial sector had turned a corner in 2020, although this is somewhat irrelevant after the March manufacturing PMI data suggest production slumped at an annual rate in excess of 10% at the end of the first quarter.

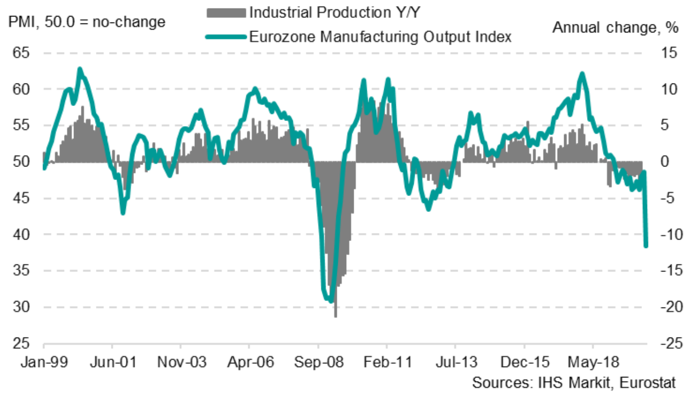
Preliminary prices data showed a half-a-percentage-point slide in the HICP rate of inflation for March, and we expect a further deterioration in the coming months. Underlying inflation rates should also moderate over the coming quarters given the deteriorating economic environment, ensuring that the European Central Bank's (ECB's) monetary policy stance will remain exceptionally accommodative.

UK BRC retail sales, credit survey

Over in the UK, BRC retail sales data for March will provide insight into the coronavirus impact on consumption. Store sales are set to plummet, although there could be some upside in online sales.

Meanwhile, the Bank of England releases the credit conditions survey for the first quarter. The data collection period will have been primarily in March and will cover almost the whole month. This will therefore provide some useful insight as to whether the unprecedented action by the central bank and UK government to provide extraordinary credit support has increased the availability of loans, particularly in the corporate sector.

Eurozone manufacturers in the midst of the sharpest downturn since the global financial crisis

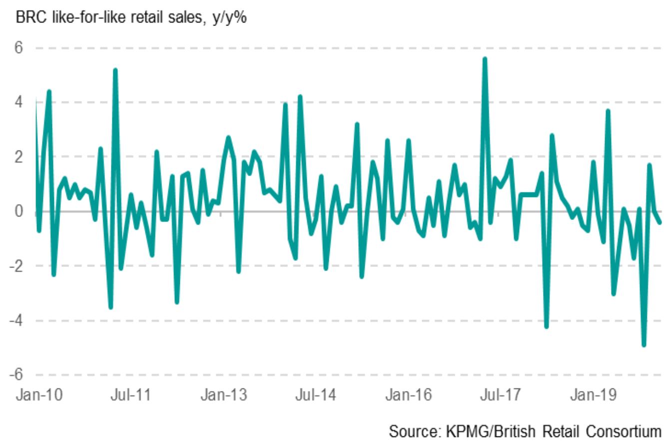


Sources: IHS Markit, Eurostat

Euro area inflation set to ease further this year as energy price drops filter through

Sources: Eurostat, IHS Markit

BRC to provide retail sales estimate for March



Source: KPMG/British Retail Consortium

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Asia Pacific Week Ahead

China GDP and other data, Asia trade, Bank Indonesia, Korea polls

By Bernard Aw
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Markets will focus on China economic data releases to assess COVID-19 impact. While the GDP results for the first quarter will be closely watched, investors will pay particular attention to the monthly data such as industrial output, trade, investment and retail sales for further insights into the extent to which economic weakness may have persisted into March. Trade figures for March in Singapore, Japan and Indonesia will also draw scrutiny, while monetary policy action will come from the Bank Indonesia. South Korea will hold its legislative elections in the same week.

Other data highlights in Asia include industrial production and trade data for Japan, as well as India's inflation figures and Australia's employment numbers.

China GDP decline expected

With the Chinese economy severely impacted by the COVID-19 outbreak, first quarter GDP data are expected to show a sharp rate of contraction at -5.4% (year-on-year), according to IHS Markit estimates. Caixin PMI surveys indicated that business activity fell sharply for a second successive month in March, led by the service sector downturn while manufacturing activity showed signs of stabilisation. Other data, including retail sales, industrial production, fixed investment, trade and credit, will provide clues as to the health of the economy which, in turn, will signal if greater stimulus is to be expected.

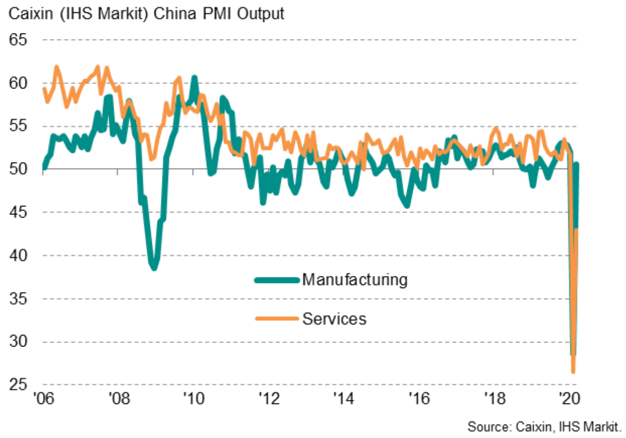
Indonesia to mull over further rate cuts

Bank Indonesia convenes to decide on monetary policy. Concerns over the rupiah's stability could limit the extent to which the central bank can reduce interest rates further. The rupiah has fallen nearly 20% against the US dollar this year, down to its weakest since the 1998 Asian financial crisis. However, PMI data showed the steepest manufacturing downturn in the nine-year survey history during March as measures to contain the coronavirus outbreak hit the sector.

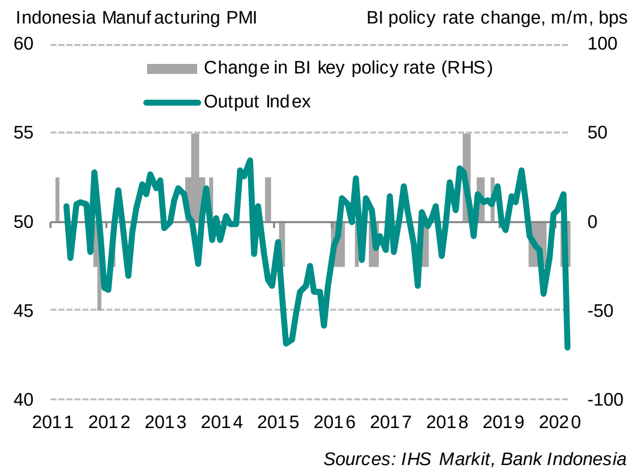
Asia trade and Australia jobs data

Regional trade performance during March may be gleaned from trade data updates in Singapore, Japan and Indonesia. Meanwhile, Australia's job figures will be under scrutiny following PMI surveys showing increased job shedding.

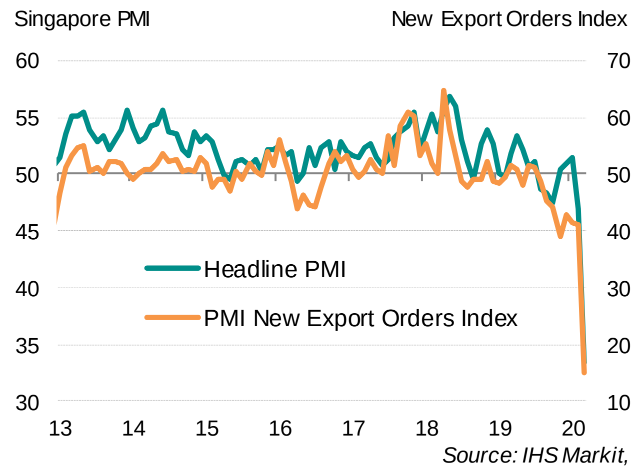
Caixin surveys show China factory output stabilised while services activity fell further



Indonesia PMI has fallen into territory commonly associated with monetary easing



Singapore PMI signalled plunging exports



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Asia Pacific Special Focus

COVID-19: Assessing the impact on manufacturing and services industries in China and the Asia-Pacific region (April update)

By Rajiv Biswas

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As the COVID-19 pandemic continues to create escalating shocks to the global economy, the Asia-Pacific region faces the worst economic slump since the global financial crisis of 2008-09. PMI survey data for manufacturing and services industries for many countries in the Asia-Pacific region for March 2020 indicate a significant – in some cases unprecedented – contraction in business activity. While China led the downturn in February, the Caixin surveys for China (compiled by IHS Markit) signalled a stabilisation of manufacturing conditions in March, but this is by no means an indication of a strong recovery yet. However, if new COVID-19 cases in mainland China can continue to be contained at low levels, China may lead the global recovery from the pandemic.

COVID-19 impact on China's economy

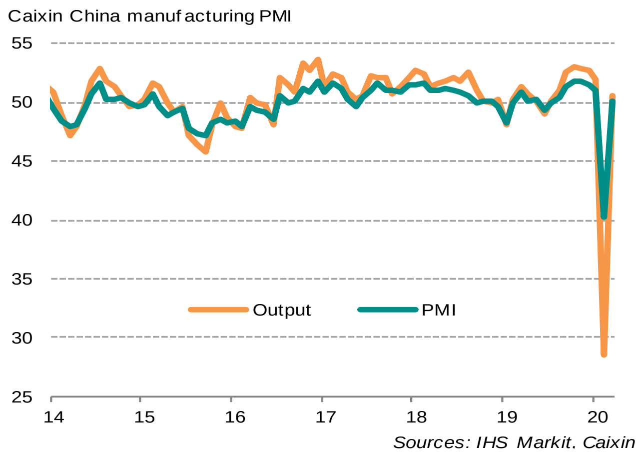
After a rapid escalation of COVID-19 cases in mainland China during late January and February, the number of new local virus cases has slowed to very low daily levels during March and early April. This has allowed the reopening of increasing numbers of offices and factories across most Chinese provinces since 10th February. Even Hubei province, which was the epicentre of the original COVID-19 epidemic, has seen a restarting of business activity since early March.

The rate of work resumption in large enterprises for all industrial sectors (number of firms that have restarted work) reached 96.9% by 7th April. Even Hubei province, which only restarted business activity in early March, has resumed 95% of its industrial production.

The latest Caixin PMI data consequently indicated that manufacturing conditions across mainland China stabilised in March, having plummeted in February due to factory shutdowns and travel restrictions. The survey showed a slight increase in production after the record decline in February 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.

Moreover, a sustained fall in new business inflows suggests that further growth in output could be limited in the coming months, and largely confined to processing backlogs, as the COVID-19 pandemic hits worldwide demand.

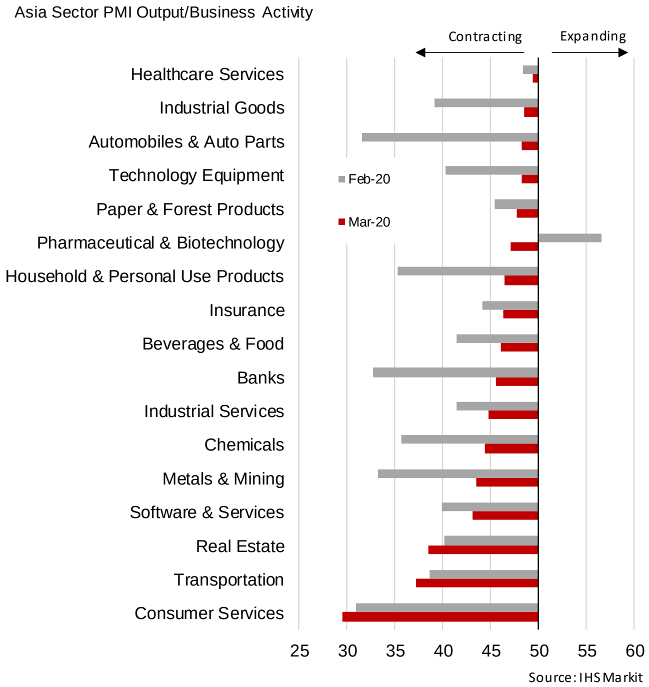
Caixin PMI signals output has stabilised as industrial firms start to resume work



A key industrial sector that had been badly hit by the delayed restart of manufacturing production was the **automotive sector**. Supply chain disruptions due to the extended closure of Chinese plants producing auto parts also disrupted auto production in other countries. Hyundai Motor Co temporarily closed some car production lines in South Korea, and Nissan temporarily closed its operations in Kyushu, Japan, because of supply chain disruptions of auto parts from China.

However, with the gradual restarting of Chinese auto sector plants since mid-February, these global supply chain disruptions have eased during March. Nevertheless, with consumer confidence still fragile, the weak recovery in auto demand is expected to constrain auto sales growth this year. IHS Markit Automotive forecasts that China's light vehicle sales will decline by 9.9% year-on-year in 2020.

Asia Sector PMI indicates that the decline of auto producers' output eased markedly in March



With consumption spending having become the most important growth driver for the Chinese economy in recent years, an important positive factor for China's economic recovery has been the easing of lockdown conditions for Chinese households. Retail stores and restaurants have been gradually reopening since mid-February, creating improving conditions for consumption expenditure during March.

However, although domestic demand in China is gradually recovering, the export sector is facing severe negative shocks from the expected global recession in 2020, with key export markets such as the US, EU and Japan expected to face deep recessions this year.

It was therefore not altogether surprising to see the March Caixin PMI survey showing services business activity to have continued to contract at a rate not previously seen in the services PMI survey's 15-year history with the exception of February's all-time record slump. The activity index rose from 26.5 in February to 43.0, but by remaining below the 50.0 no change level continued to indicate shrinking activity.

Levels of incoming new business in the service sector continued to fall in March, linked in part by a further slump in exports of services, in turn causing job shedding to accelerate to the quickest on record. Business expectations in the sector meanwhile rose only modestly from February's record low.

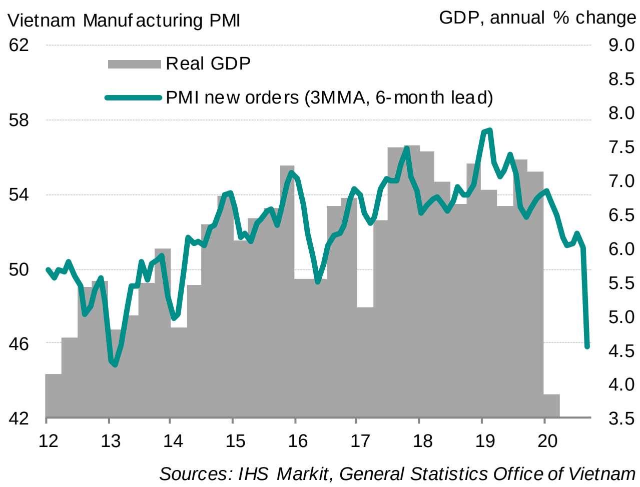
Service activity in China continues to contract at solid rate

Economic shocks across the Asia-Pacific region

The outlook for other Asia-Pacific economies varies considerably according to the severity of the pandemic among their own populations.

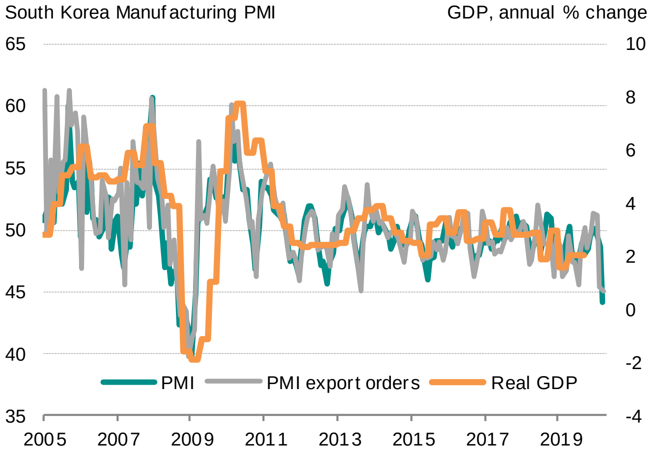
Vietnam has so far reported very low numbers of COVID-19 cases and, if this situation can be maintained, the main negative impact to the economy would be from an external demand shock as the key export markets of the US and EU enter recession.

Vietnam PMI and GDP growth



South Korea and **Australia** appear to be containing the number of new cases in their countries and, if this can be sustained, this would allow their domestic demand to recover relatively soon as consumer expenditure recovers.

South Korea Manufacturing PMI point to severe economic downside, led by slumping exports



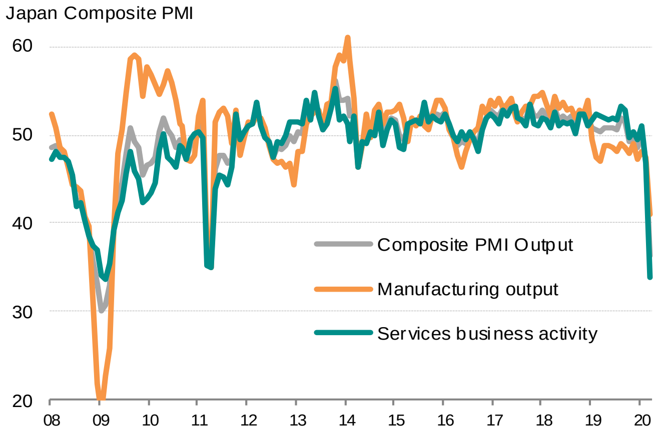
Sources: IHS Markit, Bank of Korea

In **Singapore**, **Malaysia** and **Thailand**, the combination of lockdown measures and other government policies may succeed in containing new COVID-19 cases soon, which could allow this group of nations to also be among the early group of nations to begin recovery from the economic shocks of the pandemic, even though their export sectors will face more protracted weak global demand conditions. The momentum of recovery will therefore be driven by domestic demand, notably from improving consumption and rising government infrastructure spending. With severe travel restrictions in place worldwide, a key negative factor during 2020 will be the continued weakness of international tourism, which is an important economic segment for all three nations.

In **Japan**, the PMI surveys showed the extent of economic damage caused by the global COVID-19 outbreak on the private sector economy. The au Jibun Bank Composite PMI showed business activity falling at the steepest rate since the 2011 tsunami, plunging from 47.0 in February to 36.2 in March, with the service sector especially hard hit. In fact, services business activity fell at a rate only once exceeded since data on the sector were first collected in 2007, as measures to contain the spread of the coronavirus led to slumping demand. Survey data showed downturns in business activity were widely reported in consumer services, and in particular for hotels and restaurants, travel, financial services and business services.

That said, the announcement of emergency measures combined with the relatively high quality of administration and civil obedience should help to contain the impact of the virus in Japan, allowing gradual recovery during the second half of 2020 and in 2021. However, with Japan's long-term potential growth rate already below 1% per year due to demographic ageing and the annual decline in the population, the pace of economic recovery in 2021 is expected to be very moderate.

Japan PMI shows private sector economy the worst hit since 2011

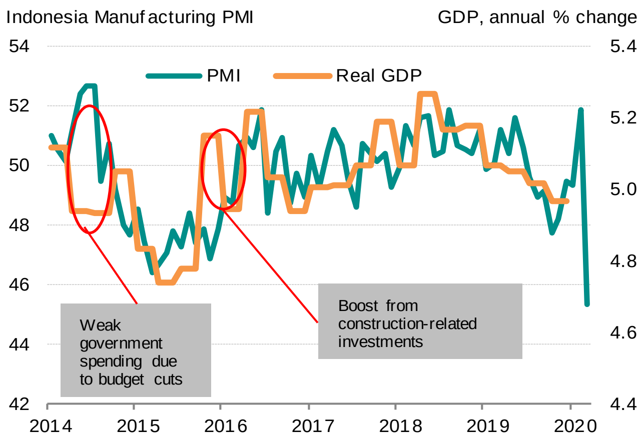


Sources: IHS Markit, au Jibun Bank

However, a number of populous Asian countries still face considerable downside risks from the pandemic. In **India**, the number of new COVID-19 cases has escalated rapidly in recent weeks despite the Indian government's lockdown measures that were introduced in late March. The very weak health care system combined with densely populated urban areas of India increase the risks that the pandemic could escalate rapidly, forcing protracted lockdown measures that will severely disrupt consumer spending and push the economy into recession.

Indonesia, which is also one of the world's most populous nations, also faces similar challenges if new COVID-19 cases escalate rapidly. Already, we are seeing the adverse impact of global virus-fighting measures on Indonesian manufacturing sector during March, according to PMI data.

Indonesia PMI signals slowing GDP growth



Sources: IHS Markit, Statistics Indonesia

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Policy Responses in APAC

Many APAC central banks and governments have already announced substantial monetary and fiscal policy stimulus measures to mitigate the impact of the Covid-19 epidemic on their economies, with other governments likely to roll out stimulus measures soon.

Monetary Policy Stimulus

The US Fed's 50bp rate cut on 3rd March and 100bp cut on 15th March, as well as falling world oil prices, have facilitated further monetary policy easing by APAC central banks.

The People's Bank of China (PBOC) has implemented a number of monetary policy stimulus measures, including having lowered the seven-day reverse repo rate to 2.0% from 2.50% on 3rd February, with a further 20bp cut on March 30th. The PBOC has also announced that it will cut the reserve requirement ratio (RRR) for small and medium-sized banks by 50bps on 15th April and a further 50bps on 15th May.

Bank of Korea eased by 50bps to record low policy rate of 0.75% on 16th March at an emergency meeting, while the Bank of Japan increased its asset buying program on 16th March.

On 3rd March, the Reserve Bank of Australia eased policy rates by 25bps, with a further 25bp cut announced on 19th March, together with the introduction of asset buying programs for the first time in Australia's history.

Bank Indonesia cut its policy rate by 25bps on 20th February with another 25bp cut on 19th March to help mitigate the impact of the Covid-19 economic impact on Indonesia's external sector, notably exports of commodities and tourism. Bank of Thailand cut its policy rate by 25bps on 5th February and implemented a further 25bp rate cut on 23rd March.

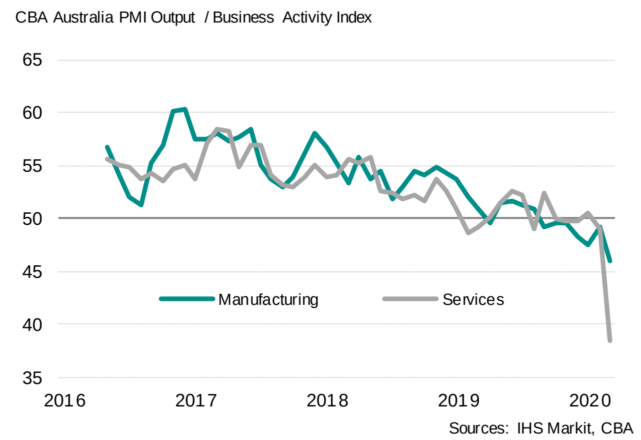
Fiscal Policy Measures

On the fiscal policy front, many APAC governments have already announced budget stimulus packages to mitigate the impact of the coronavirus pandemic, with other governments in the region expected to act soon to help dampen the negative shocks.

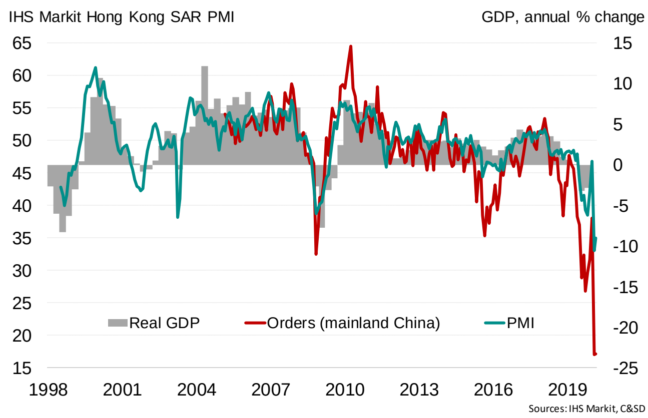
In Japan, in order to mitigate the impact of the escalating COVID-19 pandemic, the Japanese government has declared a state of emergency on 7th April, as well as announcing the largest-ever emergency stimulus package totalling JPY108 trillion (about 20% of GDP), which includes JPY39.6 trillion in fiscal spending as well as JPY19.8 trillion worth measures of which were not exercised under the previous economic package announced in December 2019. The seven prefectures that have been placed under the state of emergency measures are Tokyo, Kanagawa, Saitama, Chiba, Osaka, Hyogo and Fukuoka.

In Australia, on 30th March, the Australian government announced an AUD 130 billion JobKeeper Payment package to help keep workers in jobs to help mitigate the significant economic impact from the Coronavirus. Together with earlier stimulus packages in response to the Covid-19 pandemic, this brings the Australian government's total support for the economy to AUD 320 billion across the forward estimates of Australian government expenditure, equivalent to an estimated 16.4% of annual GDP. To limit financial stress in the corporate sector, the Australian government will provide a guarantee of 50% to lenders to support new short-term unsecured loans to small and medium enterprises, which will guarantee up to AUD 40 billion of new lending.

Commonwealth Bank Australia PMI shows services activity falling to a much greater extent than the fall in manufacturing output during March



Hong Kong SAR PMI continues to indicate economic downturn



The Hong Kong Special Administrative Region (SAR) government announced a record high budget deficit for the 2020 fiscal year in its Budget on 26th February. The fiscal deficit is projected to reach 4.8% of GDP in for the fiscal year to end 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. A further SGD 48 billion stimulus was announced on 26th March. Singapore's Ministry of Trade and Industry (MTI) downgraded its GDP forecast for 2020 on 26th March to a range of -1.0% to -4.0% due to the economic impact of the COVID-19 epidemic. A third stimulus package was announced on 7th April, providing a further SGD 5.1 billion of stimulus, bringing the total combined stimulus to SGD 60 billion, or 12% of GDP.

The Malaysian government has announced a Ringgit 20 billion stimulus package in its February 2020 Budget and a further stimulus package of Ringgit 250 billion on 27th March, including a wide range of measures to assist industries hit by the economic impact of the COVID-19 epidemic. A third stimulus package of Ringgit 10 billion was announced on 6th April to support small and medium enterprises.

Near-term outlook

The COVID-19 pandemic has escalated into the most severe economic shock to the global and Asia-Pacific economies since the global financial crisis. Although some Asia-Pacific economies such as China, South Korea and Australia may lead the global recovery from the pandemic, the broader Asia-Pacific region will face tremendous negative economic shocks during 2020 from a global recession that will hit exports of commodities and manufactured goods, as well as the global travel bans that has resulted in the collapse of the international tourism industry. The impact of various forms of lockdowns in many Asia-Pacific economies, including Japan, India, Malaysia, Australia and Singapore, will also have a severe negative impact on economic growth.

With the global economy expected to gradually recover from the depths of the pandemic by late 2020 and during 2021, East Asia is likely to lead the recovery. However, some populous Asian developing economies still face tremendous downside risks from the COVID-19 pandemic during 2020, including India, Indonesia and the Philippines, where new COVID-19 cases are still escalating.