Economic Preview: Week of 4 May 2020

Publication date: 1 May 2020

Week Ahead Economic Preview

Global overview

- **Worldwide manufacturing and services PMIs**
- **US non-farm payrolls and unemployment**
- **Central bank meetings in the UK and Brazil**
- **US earnings season in full swing**

The week ahead sees the US earnings season in full swing with over 1,300 companies reporting, plus there are also key worldwide PMI and US job market data releases to watch, some Asian GDP updates and central bank meetings in the UK and Brazil.

PMI surveys for April, covering manufacturing and services, are published worldwide on the heels of flash PMI data which showed steepening rates of economic collapse. Detailed sector PMI numbers will also record the extent of the impact for different industries.

With measures taken to contain the COVID-19 outbreak having intensified in many countries during the month, notably in the US and Europe, the economic impact appears to have been commensurately greater. Manufacturing PMI data for China, already released up to April (see page 6), have meanwhile shown only a very modest recovery, suffering a re-acceleration in the rate of export decline, hinting strongly that the recovery could fade.

So far the service sectors have taken the hardest hit from social distancing. With China having started removing some of the restrictions earlier, markets will therefore be looking to the Chinese service sector PMI data for indications of the extent of potential rebounds. Elsewhere in Asia, while the PMIs will give clues as to how economies have performed at the start of the second quarter, first quarter GDP numbers will help assess COVID-19 impacts on Hong Kong SAR, Indonesia and the Philippines (page 5).

Brazil's interest rates look set to be cut to fresh record lows next week as the country fights an economic crisis that has led to its currency hitting an all-time low. Analysts will also be eager to see Bank of England rate setters' reaction to news of the UK economy contacting at an unprecedented rate in April (page 4).

The week rounds off with the US employment report. Non-farm-payrolls are widely expected to have fallen sharply and Fed chair Powell has warned that the unemployment rate could spike into double digits. Worse will likely follow. US GDP has already fallen at a 4.8% annualised in the first quarter and our GDP tracker points to a 37% plunge in the second quarter. Brace yourselves for some grim data (see page 3).

Special reports

China: Although China's factories are returning to work after widespread COVID-19 lockdowns in February, a slump in exports recorded by the April PMI hints that the rebound could fade (**page 6**).

Poland: We look at recent data which hint at a strong downturn in the second quarter as the economy was hit by the COVID-19 outbreak (**page 8**).

Upcoming PMI releases

4th May: April manufacturing PMI data

6th May: April services & composite PMI data

8th May: Global, EU and Asian detailed sector PMI data

Global PMI data will be updated for April

A renewed slump in China's export demand hints at further weakness in global manufacturing

Chris Williamson

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Key diary events (UTC)

Monday 4 May

Worldwide release of manufacturing PMI (Apr)
Thailand business confidence (Apr)
Indonesia inflation (Apr)
Malaysia trade (Mar)
Hong Kong SAR GDP (Adv, Q1)
US factory orders (Mar)
Australia services PMI (Final, Apr) 23:00 UTC

Tuesday 5 May

IHS Markit ASEAN manufacturing PMI (Apr)
IHS Markit US Services PMI and Sector PMI (Apr)
Philippines inflation (Apr), industrial output (Mar)
Thailand inflation (Apr)
Indonesia GDP, business confidence (Q1)
Australia and Malaysia interest rate decision
Spain unemployment change (Apr)
US trade (Mar), economic optimism (May)
US ISM non-manufacturing PMI (Apr)

Wednesday 6 May

Worldwide release of services PMI (Apr)
Singapore and Hong Kong SAR PMI (Apr)
Philippines trade (Mar)
Australia retail sales (Mar)
Indonesia consumer confidence (Apr)
Germany factory orders (Mar)
Taiwan inflation (Apr)
UK construction PMI (Apr)
Euro area retail sales (Mar)
US ADP employment change (Apr)
Brazil interest rate decision

Thursday 7 May

Caixin China Services PMI (Apr), China trade (Apr)
Australia trade (Mar)
Philippines GDP (Q1)
Germany and France industrial output (Mar)
Construction PMI for Euro area, Germany, France, Italy (Apr)
UK Halifax house price index (Apr)
BoE interest rate decision and Monetary Policy Report
US initial jobless claims (2 May), unit labour costs, nonfarm productivity (Prelim, Q1)
UK consumer confidence (Flash, May)
Japan household spending, cash earnings (Mar)

Friday 8 May

IHS Markit Sector PMI for Asia, Europe, Global (Apr)
au Jibun Bank Japan services PMI (Final, Apr)
RBA statement on monetary policy
Germany trade (Mar)
Taiwan trade (Apr)
US nonfarm payrolls, jobless rate, earnings (Apr)
US wholesale inventories (Mar)

Saturday-Sunday 9-10 May

10/5: BoJ Summary of Opinions 23:50 UTC

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United States Week Ahead

Final composite PMI and employment data

By Siân Jones

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As the number of confirmed COVID-19 cases surpasses one million in the US and the economy shows increasing signs of distress, the policy battle between protecting the health of a nation and reviving the economy will intensify. Key upcoming economic data releases will add to the debate, including the monthly employment report, ISM and IHS Markit PMI surveys for services and manufacturing, factory orders, trade numbers and consumer confidence.

Employment data

Since the escalation of the COVID-19 outbreak, employment data such as initial claims, non-farm payrolls and the ADP employment report have garnered even greater importance. Non-farm payrolls are likely to have plummeted in April and Fed chair Jerome Powell has indicated that the unemployment rate is likely to soar from 4.4% into double digits. The near-overnight change in conditions upon which businesses could operate amid COVID-19 restrictions led to a towering wave of workers applying for unemployment benefits.

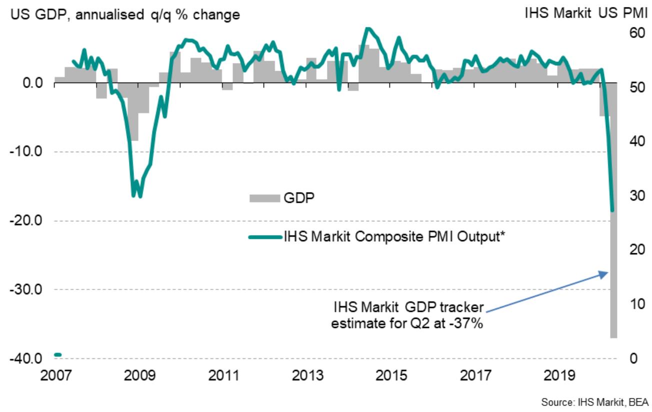
The release of weekly initial claims data has highlighted the severity of job cuts, with more jobs having been lost in the last month than were created in the decade following the global financial crisis. Although the number applying each week slows, the figures continue to surpass anything seen previously.

PMI data to add insight to second quarter

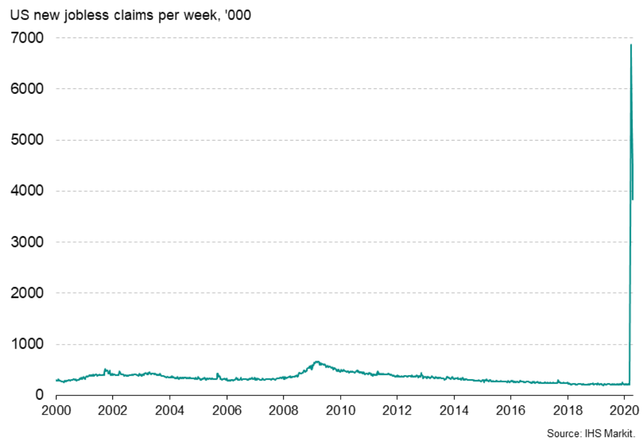
PMI data from IHS Markit and the ISM will be eyed to help gauge the extent to which US economic growth and jobs were hit in April by the full effects of the lockdown.

Although the lockdown only started part-way through March, GDP shrank in the first quarter at a 4.8% annualised rate, which was the steepest decline since the global financial crisis. However, that looks set to pale into insignificance compared to the slump anticipated in the second quarter. Our flash PMI hit an all-time low in April and our current growth tracker points to an alarming 37% annualised rate of decline for the three months to June (or just inside single digits on a quarterly basis).

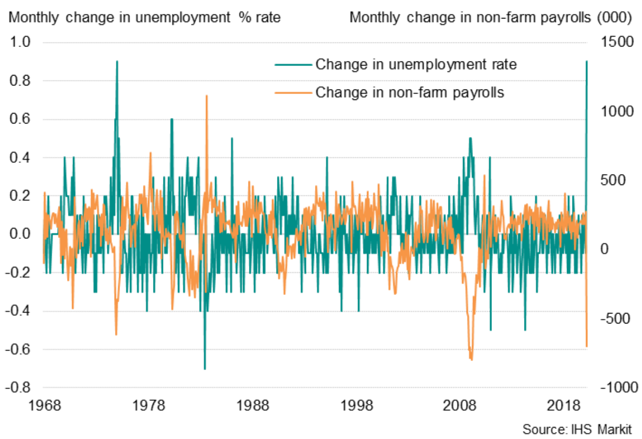
Downturn in the opening quarter expected to intensify through the second quarter of 2020



Initial jobless claims following COVID-19 outbreak far outpace those see after the global financial crisis



US unemployment and non-farm payrolls are set to spike higher in April



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Europe Week Ahead

April UK and Eurozone PMIs, Bank of England, industrial production

By Joe Hayes
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Final PMI data for the UK and eurozone, as well as additional survey figures for the wider reaches of the continent, will be analysed as attention now turns to when lockdown measures will be lifted, and the global economy can begin its recovery. A slew of official data are also due, namely industrial output and retail sales figures for March for various euro area countries. From a central bank perspective, the biggest event will be the Bank of England's latest forecasts and monetary policy decision, with attention firmly on what else the bank may do to support the economy.

Final PMIs

Final April PMI data for the euro area and UK will be released next week. With several of the big economies in the single currency area recently revealing their exit strategies from the lockdown, we could start to see some signs of improvement in May. That said, final April data will be crucial in understanding how deep the economic dislocation has been thus far from COVID-19. We suspect there is some degree of non-linearity between PMI and GDP in the presence of an extreme economic shock. Our non-linear model based on the 'flash' April figure for the euro area points to a quarterly contraction of -7.4% in the second quarter.

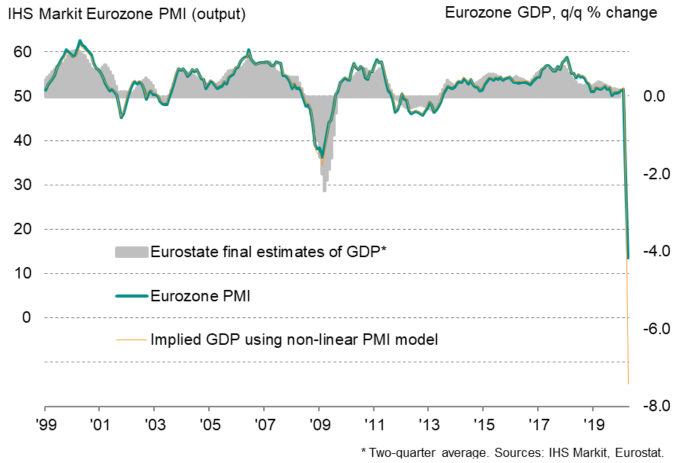
Industrial output figures for eurozone countries are also due, as well as retail sales. These numbers are for March, but may nonetheless help to gauge the initial economic impact from COVID-19 and impact on GDP, which is currently estimated to have slumped 3.8% across the eurozone in the first quarter.

Bank of England

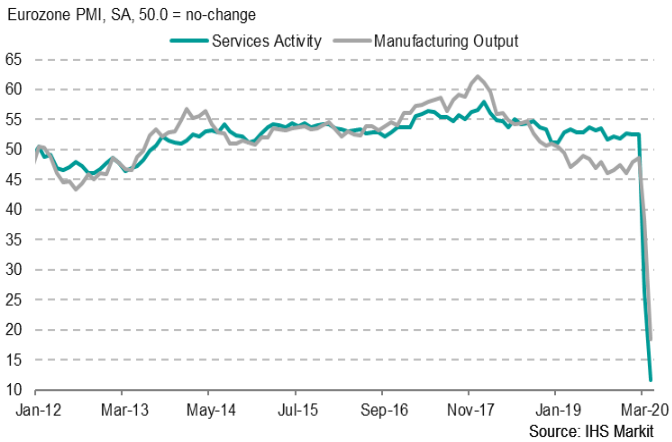
Attention will turn to the Bank of England next week for potential clues over the future direction of monetary policy. Action taken thus far from the central bank has had a considerable impact in soothing financial market volatility, while co-operation with the government has been vital in ensuring that the financial system can support the financial needs of businesses.

The Bank will also release their quarterly monetary policy report, which will include updated forecasts for GDP and inflation. Rhetoric in the report and minutes will be closely scrutinised for any hints about the future path of interest rates and asset purchasing.

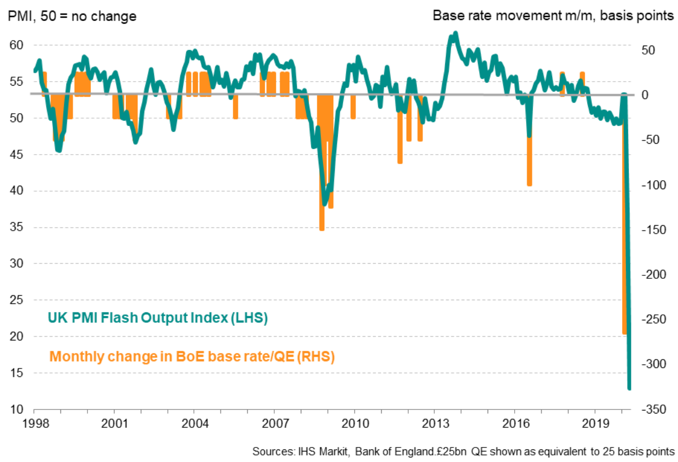
Euro area paralysed by COVID-19 outbreak in April, with PMI in record downturn



Flash PMI signalled an even stronger downturn in activity across both eurozone sectors in April



Bank of England vs. UK PMI



Asia Pacific Week Ahead

PMI data, GDP and central bank meetings

By Bernard Aw

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Next week has a busy calendar, starting with the worldwide release of April manufacturing PMI data on Monday, followed by sister surveys for services and detailed sectors. The PMIs will provide early insights into economic trends at a time of increasingly stringent measures to contain the global COVID-19 pandemic in many countries. These surveys will help provide the backdrop for central bank meetings in Australia and Malaysia scheduled in the same week. Markets will also scrutinise first quarter GDP results from Hong Kong SAR, Indonesia and the Philippines.

Other notable releases in Asia include trade figures in Taiwan, Australia and the Philippines, plus inflation for Indonesia, Thailand, Taiwan and the Philippines.

Insights from Asia PMI surveys

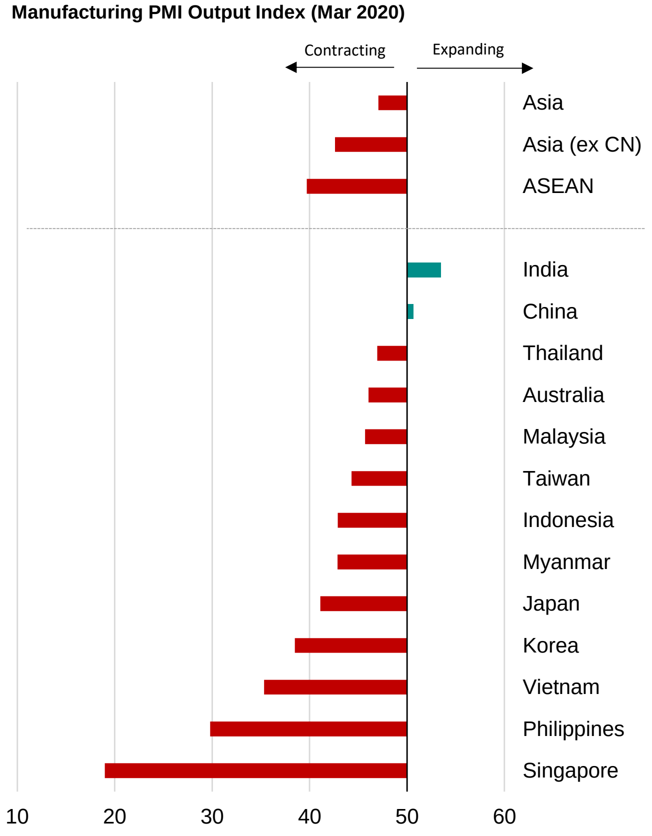
Investors will keenly eye the PMI results for clues as to the impact of the pandemic on Asian economies. Early 'flash' PMI surveys for Japan, Australia and other major developed economies pointed to a sharply deepening downturn in April as governments around the world imposed stricter measures to stem the spread of COVID-19. Beyond the headline numbers, attention will be paid in particular to the business activity, sales and employment components of the surveys. Caixin services PMI will gather strong interest following its sister manufacturing survey signalling a deterioration of operating conditions in April (see page 6). The extent of economic damage caused by the pandemic responses on industries can also be gleaned from the Asia Sector PMI.

Australia and Malaysia monetary policy

The central banks of Australia and Malaysia convene next week during a time of deepening economic malaise. According to a Reuters poll, there are widespread expectations for Malaysia to cut rates by up to 50 basis points to support the economy. The April update to Malaysia manufacturing PMI on Monday will therefore be scrutinised for the impact of nationwide lockdown measures on economic activity.

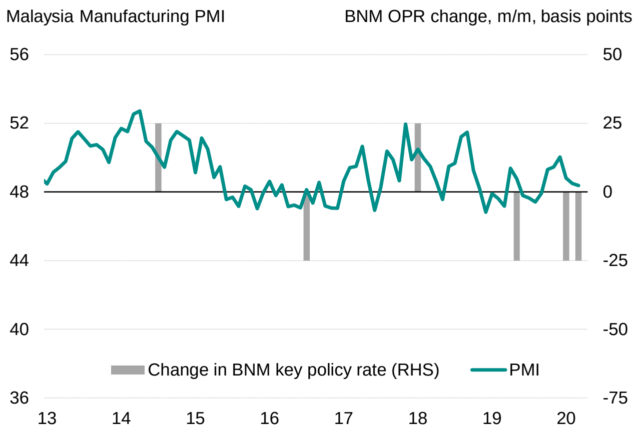
In Australia, with the policy rate at a record low of 0.25% and the central bank not considering negative interest rates, focus will be on any changes to the bond-buying programme.

Manufacturing PMI rankings across APAC in March



Sources: IHS Markit, JPMorgan, Caixin, au Jibun Bank, CBA

Malaysia manufacturing PMI and monetary policy



Sources: IHS Markit, Bank Negara Malaysia

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Asia Pacific Special Focus

Caixin PMI shows manufacturing rebound impeded by slumping exports

By Bernard Aw

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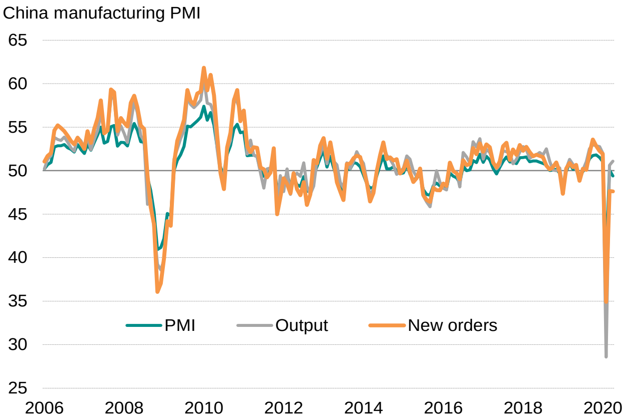
Caixin PMI data showed a further modest increase in Chinese manufacturing output during April, but the rise represents only another very marginal upturn in production after the record fall suffered in February. Limiting the sector's recovery was a re-intensification of the loss of export sales, which slumped to the greatest extent since 2008 amid worldwide measures to curb the spread of COVID-19 outbreak. Factory employment and purchasing activity both declined, while business confidence about the year ahead dropped to a four-month low, all of which bodes ill for the sector in coming months.

Weak start to second quarter

The **Caixin headline manufacturing PMI**[1] for mainland China, compiled by IHS Markit, fell from 50.1 in March to 49.4 in April, indicating that operating conditions of the sector had deteriorated from the prior month. The survey highlights how, even with factories restarting operations and gradually returning to full capacity, the global downturn in demand is expected to limit the extent of recovery in China's manufacturing sector, with further output expansion likely to be driven largely by processing backlogs.

[1] Data for Caixin China Manufacturing PMI survey were collected 7-22 April 2020.

Chinese factory output edged higher in April

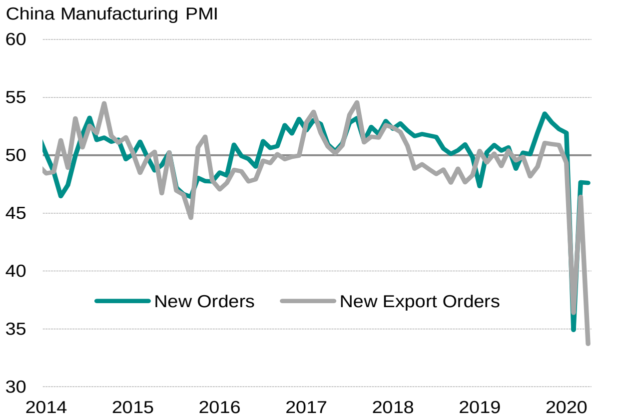


Sources: IHS Markit, Caixin

While factory production rose modestly after a survey record decline in February as increasing numbers of factories resumed work, growth mostly came from working through backlogs of previously placed orders, many of which had been placed prior to the COVID-19 lockdowns. Indeed, the increase in the amount of unprocessed orders slowed further, down from February's high.

Inflows of new orders meanwhile continued to fall, down for a third successive month. Moreover, although not declining at anything like the rate seen in February, the latest drop in orders was among the largest seen over the past decade, linked in turn to the largest monthly drop in new export orders since December 2008 at the height of the global financial crisis (and the third largest decline in exports in the 16-year history of the survey).

New orders for manufactured goods hit by steeper fall in exports



Sources: IHS Markit, Caixin

The downturn in the sales trend came at a time where global demand is under great pressure due to lockdowns and other measures imposed in many countries around the world placing a choke on the normal functioning of economies.

Higher output was seen for producers of intermediate and investment goods, while the production of consumer goods fell. Smaller enterprises in particular continued to struggle to raise production.

Easing pressure on supply chains

Supply chains remained under pressure at the start of the second quarter, but the rate at which delivery times lengthened slowed notably and was modest overall compared to the record number of delays seen in February. The resumption of work at factories helped to gradually restore distribution networks. That said, there continued to be reports of transportation issues and firms not yet operating at full capacity among respondents that reported longer delivery times.

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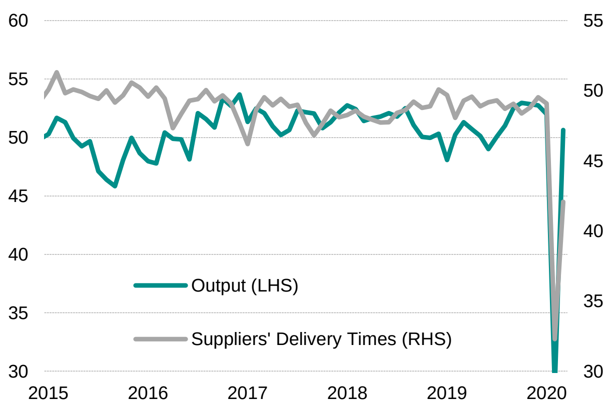
Supply chain pressures eased further as factories continued to resume production



Sources: IHS Markit, Caixin

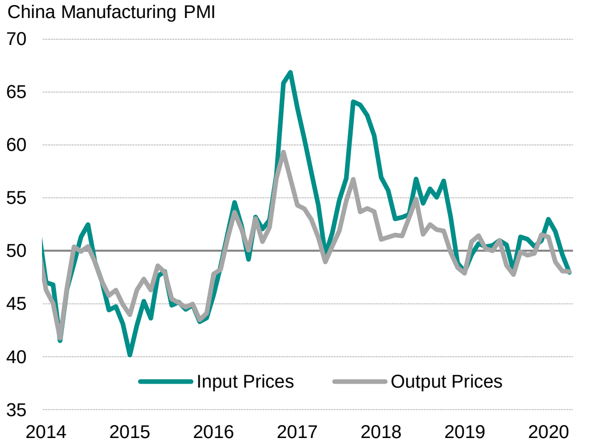
Factory job market deteriorates

The weakening sales trend saw firms cut back on their staff numbers amid panel comments of layoffs. Overall factory employment fell for a fourth straight month in April. While not as steep as February's record, the pace of decline was among the fastest in recent years. Survey data showed the sharpest fall in employment from consumer goods producers, following by those making intermediate goods while manufacturers of investment products actually reported job creation.

Falling prices

Prices charged for Chinese manufactured products fell for a third month in a row during April as firms reportedly offered discounts to boost sales. Some companies also passed on the savings from lower costs to customers. Average cost burdens fell for a second successive month, dropping at the sharpest rate since the start of 2016. Lower prices for raw materials such as oil, base metals, plastics and pork were widely reported as driving input prices down.

Manufacturing costs and factory gate prices both fell in April



Sources: IHS Markit. Caixin

The Caixin Composite and Services PMI for mainland China will be released on 7th May 2020.

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Europe Special Focus

Poland: incoming data hint at economy set for dramatic slump in second quarter

By Sharon Fisher

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With April's PMI data due out on 4th May, we review the latest data available so far for Poland in gauging the impact of the COVID-19 outbreak on the economy. Cracks were appearing at the end of the first quarter, and the second quarter is likely to see a steep drop in GDP.

Dramatic deterioration

Poland was one of the first large European countries to publish March output data, and the results were not as bad as expected, though more up to date surveys hint at a steep deterioration in the economic news flow in coming weeks.

Industrial output, retail sales, and construction activity remained in positive territory during the first quarter as a whole, according to official data, signalling that GDP maintained modest year on year (y/y) growth. However, weakness was evident in some data sets in March, notably industrial production, and will be reflected in a likely quarter on quarter (q/q) GDP decline.

Furthermore, the business surveys indicate that the situation in Poland deteriorated dramatically in April. Poland's Finance Ministry has estimated that the lockdown (which took effect in mid-March) reduces GDP growth by 2 percentage points for each month that it continues. The impact on industrial output, exports, retail sales, transport services, and recreation and culture will be severe, translating to a jump in unemployment. In the May forecast round, IHS Markit is tentatively planning to reduce our projection for Polish GDP growth to -4.7% in 2020, followed by a recovery to +3.6% in 2021.

The spread of COVID-19 in Poland has been less dramatic than in many West European countries, with 12,877 confirmed COVID-19 cases and 644 deaths as of 30th April. Poland has already started to relax social distancing restrictions, reopening parks and forests and easing limits on the number of people in shops. Nevertheless, the economy is not likely to return to normal anytime soon, and weak external demand will present a further drag on growth.

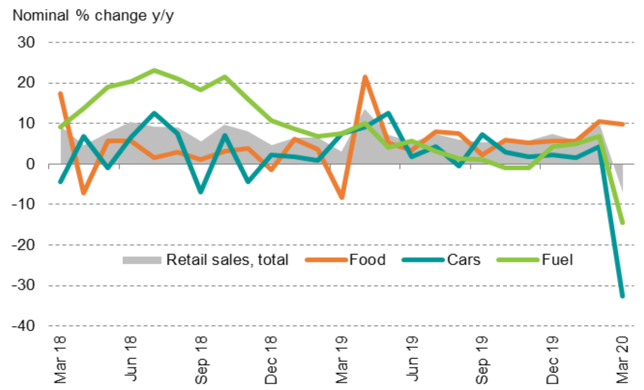
March output data showed mixed results

Looking into the detail of the latest official data, after a strong February performance seasonally-adjusted industrial output declined 7.2% month on month (m/m) and 4.8% y/y in March, as measures to hinder the COVID-19 spread contributed to a reduction or halt in production.

Manufacturing production fell 5.6% y/y in March, pulled down by a steep drop in motor vehicles (down 30.0% y/y) and coke and refined fuel products (down 8.2% y/y). Those declines were partially balanced by growth in other key branches, including food products, metal products, electrical equipment, chemicals, and pharmaceuticals.

Polish retail sales also plunged in March, impacted by a steep drop in sales of clothing, cars, printed materials, furniture and appliances, and fuel. In contrast, sales of food and pharmaceuticals increased. Including the automotive sector, March retail sales fell 9.0% y/y in real terms and 7.1% y/y in nominal terms. The March results would have been considerably worse if not for the pre-stocking of food and medicine that took place during the first two weeks of the month, prior to the lockdown. Despite the weakness in March, real retail sales rose 0.7% y/y in the first quarter as a whole, while nominal sales increased 2.9% y/y.

Retail sales buoyed by food sector in March



Source: IHS Markit, Central Statistical Office of Poland

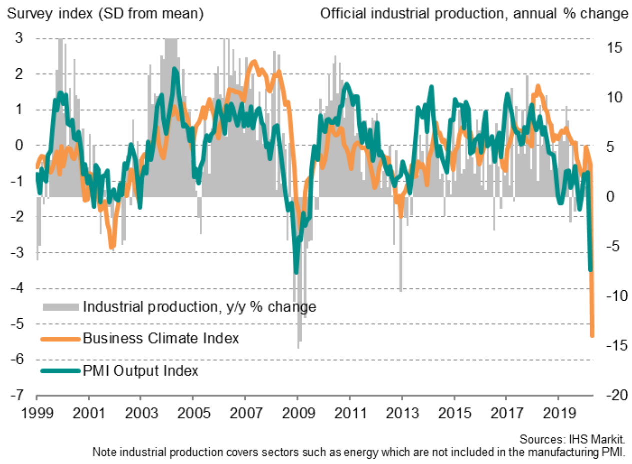
One area of sustained strength was recorded in construction, where activity continued to increase in March (up 3.7% y/y), bringing first-quarter growth to 5.8% y/y.

Polish economy will face steep drop in second quarter

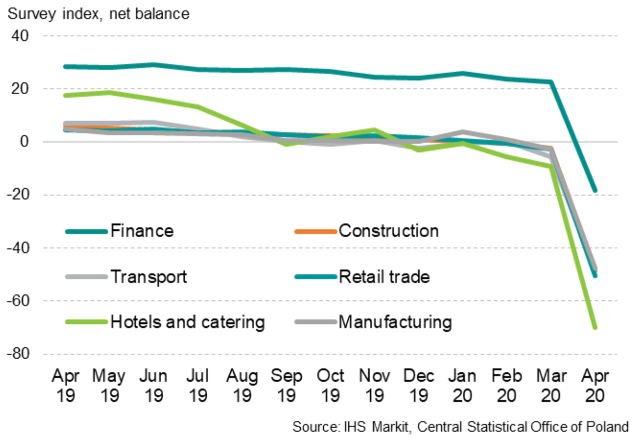
IHS Markit is projecting a much deeper drop in economic output in April, translating to a steep decline in second-quarter GDP. Output was impacted in April by falling demand, supply chain disruptions, and insufficient labour due to worker absences. According to data from IHS Markit's Global Gas team, Polish power demand fell much more sharply in April than in March, both in comparison with 2019 figures and with the average for the past five years. Confidence data for April plunged to record lows, coming on the heels of PMI survey data showing near record falling in output, new orders and future expectations in March.

Catering and accommodation has so far been the hardest hit sector, with the least pessimistic assessments coming from pharmaceutical producers. Poland's automotive sector has also been struggling. Although the country's Toyota plants relaunched partial production on 22nd April after pausing for over a month, the return to full capacity will take some time, given still weak external demand.

Primed for a steep fall: Polish industrial output



Polish business confidence fell dramatically in April



March labour market results remained positive, but outlook is bleak

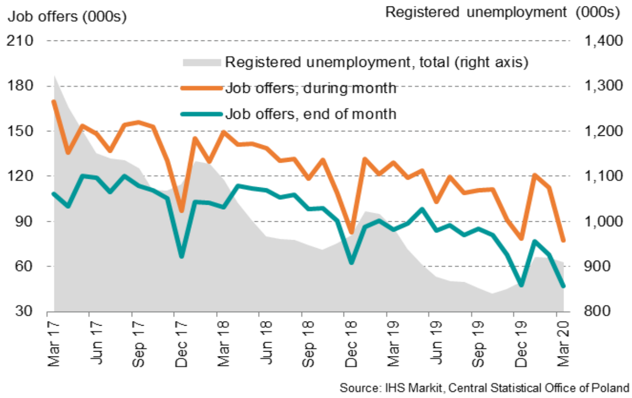
The available official data so far showed Poland's labour market remaining stable up to March, with a modest increase in enterprise employment (up 0.3% y/y) and a slight m/m drop in the registered jobless rate (reaching a three-month low of 5.4%). The jobless rate by International Labour Organisation methodology is considerably lower, holding steady at 3.0% in March 2020 in seasonally adjusted terms. In line with the falling jobless rate, the total number of registered unemployed also dropped to the lowest level since December, while declining 7.6% y/y. March enterprise wages increased 6.3% y/y, still a rapid rate, although more modest than in January-February.

The reduction in Poland's unemployment rate in March was rather surprising, although the result was roughly in line with those of neighbouring Czechia and Slovakia, neither of which reported a significant upswing in the registered jobless rate that month. Still, Poland has a larger share of self-employed and temporary workers than other Central European countries, signalling that the jobless rate could rise faster than elsewhere in the region. Given reports that the first wave of retail workers was laid off in late March, the Polish media speculated that some of the newly unemployed may not have managed to register with the labour office before the end of the month, meaning that the actual jobless rate could have been considerably higher than indicated by official data.

Data on registered paid employment indicate that the number of jobs in most key sectors held steady in March, although moderate m/m declines occurred in manufacturing (including furniture and metal products), trade, accommodation and catering, and transport and storage. In y/y terms, overall employment growth rose at the slowest pace since early 2014.

Most of the detailed unemployment breakdowns for Poland showed a m/m improvement in March, aside from the number of job offers, which fell to the lowest level in more than five years. Those data signal that a significant deterioration in unemployment figures is likely starting in April.

Job offers declined in March



In recent years, a growing labour shortage was viewed as a top economic challenge for Poland, so some slack on the employment front could actually be a positive development for businesses.

Still, the increase in unemployment is expected to be very steep, with the registered jobless rate exceeding 10% by end-2020. Such a rise would have serious implications for household consumption, which has been a top driver of Polish GDP growth in recent years.

Migrants are reportedly being especially hard hit by the COVID-19 shock. Recent labour shortages led to a surge in migrant workers (mainly from Ukraine and Belarus), estimated at almost 2 million by 2019. However, migrant jobs are particularly risky during a downturn since they tend to be focused in the service industry, primarily in low-wage and low-skilled positions. With many service jobs being cut, more than 100,000 Ukrainian migrant workers have reportedly left Poland since the crisis began. This puts strain on sectors such as construction, which continues to face labour shortages and relies heavily on migrant labour. The outflow of migrant workers—who have played a crucial role in Poland's strong economic performance in recent years—could have serious consequences for years to come, limiting labour availability once the country starts to recover from the current shock.

Outlook

In recent weeks, the Polish authorities have taken a number of steps to reduce the impact of the COVID-19 crisis on businesses and consumers. On the monetary front, the central bank has reduced interest rates, cut the reserve ratio, launched repo operations to boost banking sector liquidity, introduced discount credits to refinance bank loans granted to enterprises and launched quantitative easing. With public debt falling to 46.0% of GDP in 2019, Poland also has space for fiscal stimulus. The government has raised budget expenditures through loans and guarantees to businesses of all sizes, contributions to employee wages, and higher spending on healthcare and investment.

While monetary and fiscal measures will help reduce economic pressures, the near-term outlook remains pessimistic, even despite steps to further reopen the economy during the coming week. With certain restrictions, hotels, shopping malls, libraries, and museums will be opened from 4th May. Moreover, nurseries and kindergartens can open from 6th May, depending on the decisions of local authorities. Nevertheless, with testing remaining rather limited (at just 8.8 per 1,000 people), some Poles fear a renewed wave of COVID-19 infections as the restrictions are eased. Polish consumer confidence plummeted to a historic low in April, amid a dramatic rise in concerns about unemployment and the general economic situation.

We will know more about the severity of the deterioration in the economy caused by the COVID-19 outbreak and its impact on industry when April PMI data for Poland are released by IHS Markit on 4th May.

For more information contact economics@ihsmarkit.com.