Economic Preview: Week of 11 May 2020

Publication date: 8 May 2020

Week Ahead Economic Preview

Global overview

- **US, China and Eurozone industrial production**
- **US and China retail sales**
- **First quarter GDP updates including UK, Germany, Japan, Hong Kong SAR, Netherlands**

The week ahead sees some key retail sales and industrial output numbers released, which will provide important signals as to just how steeply economies may collapse in the second quarter. Given that the PMI surveys for April showed the global economy contracting at an unprecedented rate, with manufacturing slumping at a pace not seen for 11 years, we are anticipating some gloomy news.

After US retail sales and industrial production fell at post-war record rates in March, the updates for April could make for especially grim reading. Survey data suggest the economy took a further significant lurch downwards at the start of the second quarter as measures taken to contain the COVID-19 outbreak intensified. Lockdowns, non-essential business closures and social distancing hit business activity and demand. We are expecting US GDP to fall at a quarterly rate approaching double digits. Inflation data are also released and likely to show easing price pressures (see page 3).

China also releases industrial production and retail sales data alongside a slew of other indicators including investment. With China having started to re-open its economy from COVID-19 lockdowns sooner than other countries, these numbers could provide important clues as to how quickly production and consumer spending might rebound. Asia also sees first quarter GDP data released for Japan, Malaysia and Hong Kong SAR. Policy action meanwhile comes from the central bank of New Zealand (page 5).

In Europe, first quarter GDP data for the UK, Germany, Poland, the Czech Republic, Hungary and the Netherlands are published, all of which will be eagerly awaited to gain further insight into the extent to which the pandemic caused economic activity to slump as lockdowns were implemented. Eurozone industrial production numbers for April will meanwhile give the first major official data insight into how sharply the economy might collapse in the second quarter. Based on the record low seen for eurozone PMI numbers, we expect to see an unprecedented downturn (page 4).

Special report

Asia: Analysis of the economic outlook for India as it extends its COVID-19 lockdown (page 6).

Upcoming PMI releases

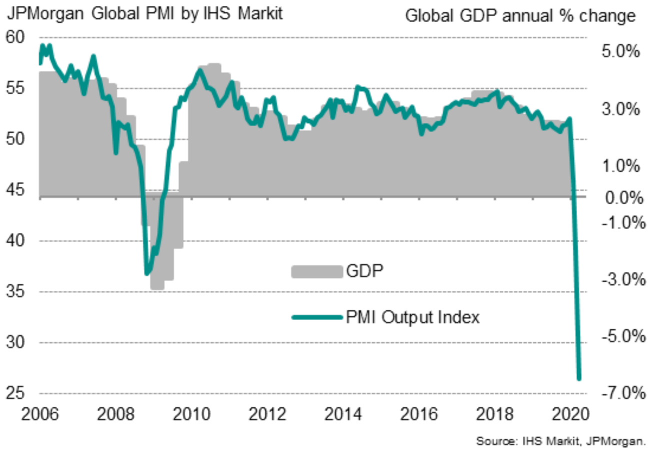
21st May: Flash PMIs for the US, Japan, Eurozone, UK and Australia

1st June: Final Global manufacturing PMIs

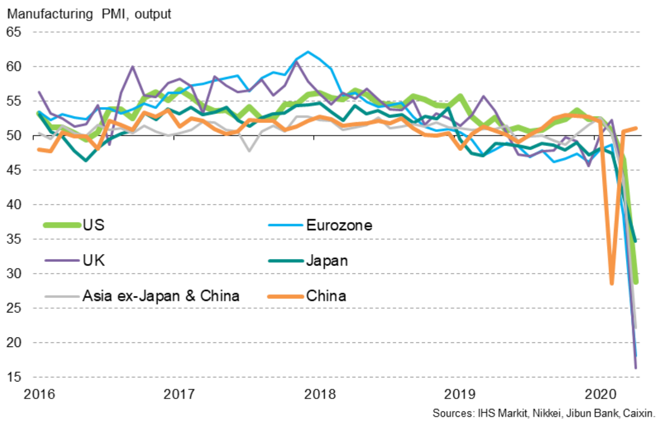
3rd June: Final Global services PMIs

5th June: Global, EU and Asia detailed sector PMI

The global PMI hit an all-time low in April, setting the scene for weak incoming official economic data



Official manufacturing data for the US and Eurozone are expected to weaken after the PMI showed collapsing global output, China may show modest growth



Chris Williamson

Chief Business Economist, IHS Markit

Email: chris.williamson@ihsmarkit.com

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Key diary events (UTC)

Monday 11 May

Italy industrial production (Mar)

Tuesday 12 May

Australia business confidence (Apr)

China inflation, vehicle sales (Apr), FDI (YTD, Apr)

Japan leading economic index (Prelim, Mar)

India industrial output (Mar), inflation (Apr)

US inflation (Apr), monthly budget statement

South Korea unemployment rate (Apr)

Japan current account (Mar), bank lending (Apr)

Wednesday 13 May

Australia consumer confidence (May)

New Zealand interest rate decision

Malaysia GDP, current account (Q1)

Japan Eco watchers survey outlook (Apr)

UK GDP, business investment (Prelim, Q1), trade balance, industrial output (Mar)

Euro area industrial production (Mar)

Thursday 14 May

Australia jobless rate, employment change, participation rate (Apr)

France unemployment rate (Q1)

Germany and Spain inflation (Final, Apr)

India WPI (Apr)

IEA oil market report (May)

US jobless claims (9-May)

China new yuan loans, total social financing, M2 (Apr)

Friday 15 May

China industrial output, retail sales, jobless rate (Apr) fixed asset investment (YTD, Apr)

Indonesia trade (Apr)

Germany GDP (Flash, Q1)

France and Italy inflation (Final, Apr)

Hong Kong SAR GDP (Final, Q1)

Euro area GDP (2nd Est, Q1), trade balance, employment change (Prelim, Q1)

India trade balance (Apr)

US retail sales, industrial output (Apr), business inventories, JOLTS job openings (Mar)

US Michigan surveys (Prelim, May)

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Saturday-Sunday 16-17 May

17/5: Japan GDP (Prelim, Q1) 23:50 UTC

United States Week Ahead

Retail sales, industrial production and inflation data

By Siân Jones

Economist, IHS Markit, London

Email: sian.jones@ihsmarkit.com

As more and more states look to reopen their doors after COVID-19 lockdowns, the trade-off between health and the economy comes further into focus with the publication of retail sales and industrial production numbers for April. However, with millions applying for unemployment benefits and many businesses struggling to stay afloat, companies and consumers will be looking for signs of 'normality' returning. Shutdowns at the end of March wreaked havoc on consumer spending, with April's data expected to fare even worse. On the manufacturing side, factory closures and slumping sales are forecast to once again have limited production.

Retail sales

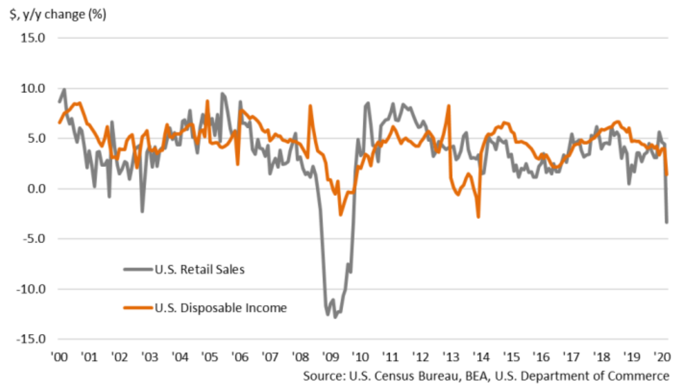
The escalation of stay-at-home measures and the temporary closure of many business due to the outbreak of COVID-19 is expected to have further dented retail sales in April. The impact seen in March when the outbreak was first noted in the US was record-breaking, with the annual decline in the opening month of the second quarter likely to be even steeper. That said, stay-at-home orders for consumers are likely to only have contributed partially to the fall in sales. More concerning is the swift and vast rise in unemployment and tumbling disposable incomes. Although there may be some pent-up demand released in future months following the easing of lockdowns, tighter household budgets, including for those working reduced hours or that have been furloughed or made redundant, may limit its impact.

Industrial production

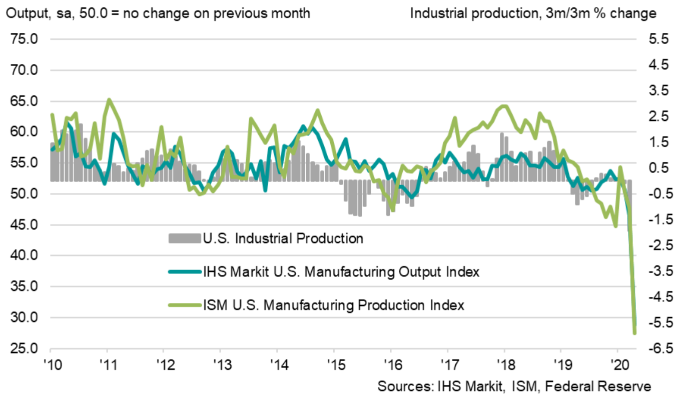
April survey data signalled the most severe contraction in manufacturing output on record, far outpacing anything seen during the global financial crisis, and pointing towards a sharp decline in industrial production during the month. Manufacturers do not foresee the outlook for output over the coming year to improve either, with expectations turning pessimistic for the first time in the series history.

Also released is an update to inflation data, with survey data indicating an increased risk of disinflationary pressure amid substantial slumps in demand.

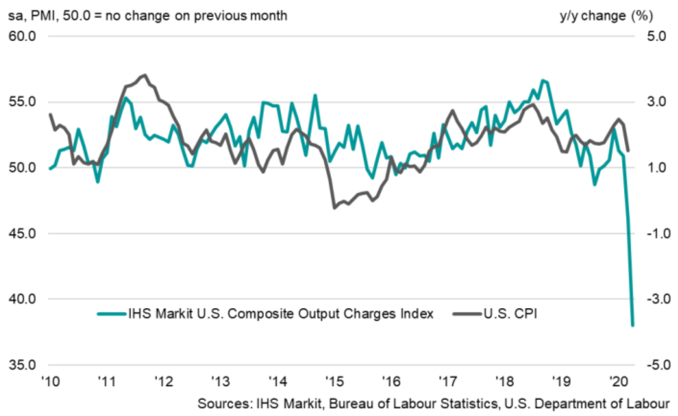
Drop in disposable income and stay-at-home measures set to cause further and faster drop in retail sales



Marked contraction in industrial output forecast in April



Lower prices following muted demand are expected to add disinflationary pressure



Europe Week Ahead

Preliminary German and UK GDP estimates

By Joe Hayes

Economist, IHS Markit, London

Email: joseph.hayes@ihsmarkit.com

A slew of GDP figures across Europe are due in the coming week, which look set to make grim reading, albeit merely setting the scene for steeper declines to come. Germany and the UK will provide preliminary estimates for the first quarter, as will some of the smaller European nations such as Poland, the Czech Republic, Hungary and the Netherlands. The second estimate for the euro area will also be closely watched as this will include more data for March, the month where lockdown measures began. Eurozone industrial production data is also due, as are April inflation data and Eurostat's first quarter employment estimates.

First quarter GDP

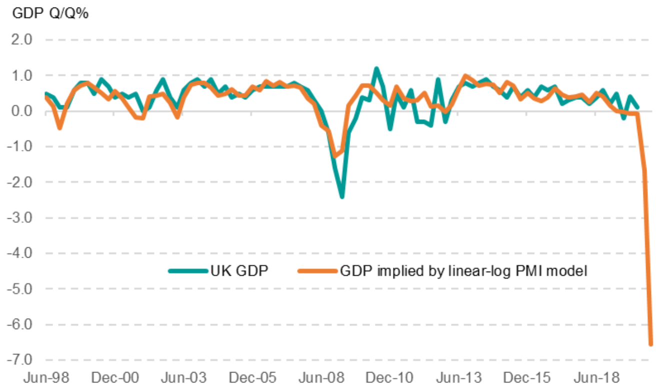
The preliminary estimates of first quarter GDP for Germany and the UK will be the main focus as analysts continue to gauge the early economic impact from lockdown measures. The UK will also release a comprehensive breakdown detailing the impact on both manufacturers and services, helping to identify the areas of the UK economy that have been hit the hardest. That said, the woeful April PMI data for both countries suggest that the hit to second quarter GDP is going to be substantially greater. Using our new PMI model, which we have introduced to better capture the impact of economic shocks, April PMI data imply quarterly contractions in GDP of approximately 7% in each case.

The second estimate of aggregated euro area GDP will also be closely watched after the initial estimate showed a 3.8% decline, with eyes to the downside as more March data are accounted for. Other parts of Europe are also due to release Q1 GDP data, such as Czech Republic, Poland, Hungary and the Netherlands.

Industrial production

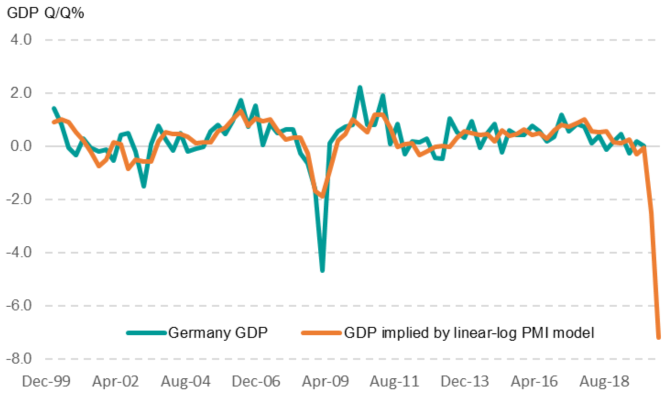
March industrial output data for the euro area will garner some interest given the unprecedented challenges that goods producers faced as lockdown measures disrupted demand and severely impacted supply chains. The net effect was a major impairment of manufacturing output in March, with many factories closing down as part of enforced measures or as a result of plummeting new orders.

First quarter GDP set to decline sharply despite lockdown beginning in late March



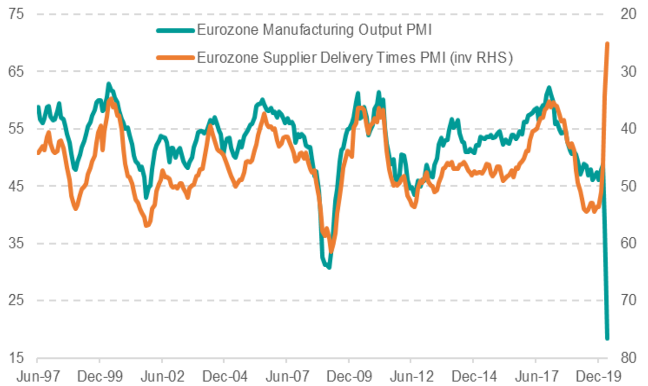
Source: IHS Markit.

Preliminary estimate of Germany GDP to help gauge lockdown impact on euro area's largest economy



Source: IHS Markit.

Supply chain disruptions exacerbating severe drop in demand



Source: IHS Markit.

Asia Pacific Week Ahead

China's economic data and other Asian GDP updates are the highlights

By Bernard Aw

Principal Economist, IHS Markit, Singapore

Email: bernard.aw@ihsmarkit.com

The deluge of China data next week will be in focus, as markets are increasingly concerned about the state of the Chinese economy coming into the second quarter following weak PMI figures. Analysts will eye April updates for fixed asset investment, industrial output and retail sales, alongside job data and credit figures. Several GDP releases are also in the calendar, with initial first quarter estimates due in Malaysia and Japan, while the final estimate for Hong Kong SAR's GDP will also garner attention. Policy action meanwhile will come from New Zealand.

Other notable releases in Asia include job data in Australia and South Korea, inflation in China and India, as well as trade numbers for Indonesia and India.

China data

With China PMI surveys from Caixin (IHS Markit) and NBS indicating that the manufacturing rebound in April had been stifled by the global export downturn, the crowded Chinese data calendar will offer further insight into the health of the Chinese economy as it seeks to restart after February's lockdown. Overall, April data for China will therefore provide clues as to how recoveries globally might proceed given that China was among the first to emerge from lockdown measures, with businesses gradually resuming operations throughout April.

Malaysia and Japan GDP

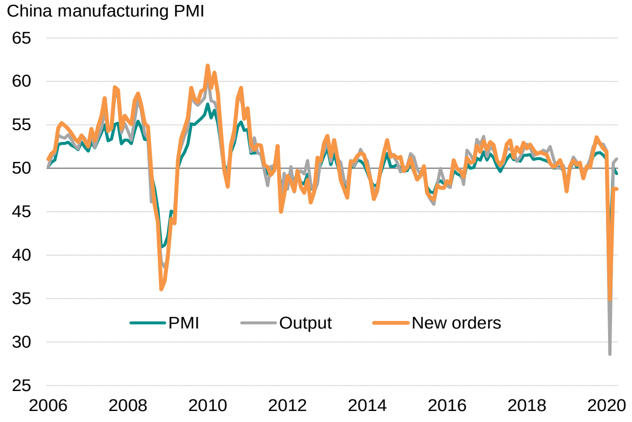
First quarter GDP data due in Malaysia and Japan look set to be the worse figures recorded since the depth of the global financial crisis. Malaysian economic growth is expected to ease to an annual rate of 2.2% in the opening three months of 2020, down from 3.6%, according to IHS Markit's estimate. Meanwhile, a fall of 2.1% year-on-year in Japan is projected.

Trade and inflation data

Trade figures from Indonesia and India will be watched for the extent to which widespread COVID-19 measures globally had affected the trade balances in these countries which, in turn, will have an impact on the rupiah and the rupee.

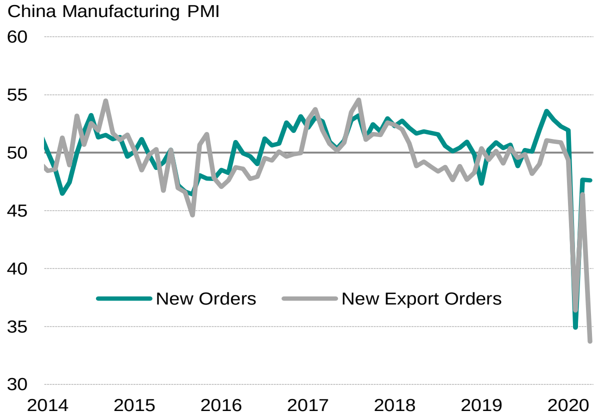
Inflation data in China and India will also underscore the effects that the ongoing coronavirus pandemic had on prices following PMI data, which indicated a decline in global manufacturing costs and selling prices.

Chinese manufacturing output edged only modestly higher in April…



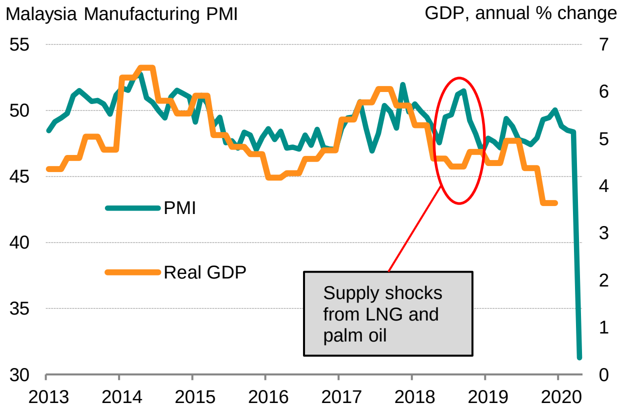
Sources: IHS Markit, Caixin

… as new orders for factory goods were hit by a steeper fall in exports



Sources: IHS Markit, Caixin

PMI signalled a sharp deterioration in Malaysian factory conditions in April, as had been the case globally



Sources: IHS Markit, DoS

Asia Pacific Special Focus

Covid-19: India extends lockdown as economy slides into recession

By Rajiv Biswas
Asia-Pacific Chief Economist, IHS Markit
Email: Rajiv.biswas@ihsmarkit.com

The Indian government has further extended its lockdown which originally commenced on 25th March, for another two-week period starting from 4th May. With new COVID-19 cases in India still escalating in early May, there is considerable uncertainty about when the lockdown will eventually end. Meanwhile, with the nation having been in lockdown throughout April, the latest IHS Markit manufacturing and services surveys for India show that economic activity has collapsed.

Although the Indian government has given approval for limited restarts in some sectors of industry, with the first significant relaxation of restrictions for rural industries having commenced on 20th April, the economic shockwaves from the lockdown measures have resulted in a severe slump in business activity. Consequently, the Indian economy is facing a recession in the 2020-21 financial year for the first time since 1979-80, during the second OPEC oil crisis shock. Rising non-performing loans in the banking sector due to an upsurge in corporate insolvencies following the lockdown are a key risk to the economic outlook, as impaired bank balance sheets may constrain credit expansion during the recovery.

Extended lockdown intensifies economic shocks

The escalating number of daily new COVID-19 cases reported in India during late April have forced the Indian government to further extend India's nationwide lockdown. The lockdown had initially been implemented on 25th March and was originally planned to run for a period of three weeks. The latest two-week lockdown extension will run from 4th May until 17th May. However, with the number of new COVID-19 cases having continued to escalate during the first week of May, there is considerable uncertainty about when the lockdown will eventually be fully lifted.

As part of the measures announced for the latest extension of the lockdown, a new risk profiling system by district has been introduced, comprising red, orange and green zones. Red zones will remain under strict lockdown, orange zones will be under significant restrictions, while in green zones, where there have been no reported new Covid-19 cases for 21 days, lockdown restrictions will be largely lifted. All of India's major metropolitan areas remain classified as red zones and will stay under strict lockdown measures. All travel by air and rail will still be prohibited under the extension.

However, since April 20th some industries – particularly in rural areas – have been allowed to restart, and movement of cargo by road, rail, sea and air has also been permitted. The latest extension of the lockdown period allows some additional industries to recommence operations. All industrial activities in rural areas have been allowed to operate, and certain industries in urban areas have also been permitted to restart, including firms in Special Economic Zones, Export Oriented Units, industrial townships and industrial estates that have access control. Firms producing "essential goods" as designated by the Indian government lockdown regulations, such as medical equipment or pharmaceuticals, have also been allowed to resume operations.

Operations of retail stores in urban areas are none the less still heavily restricted, with all shopping malls and markets to remain closed, except for stores selling essential goods such a food and pharmaceuticals. The movement of persons in these areas remains severely restricted.

Indian PMI surveys for April show collapse in business activity

With India having been in hard lockdown throughout the month of April, the IHS Markit India Composite PMI Output Index, which measures combined services and manufacturing output, sank to a new record low in April. The index fell from 50.6 in March to just 7.2 in April, which indicated an unprecedented decline in private sector business activity. The survey results signalled that India's lockdown has resulted in by far the worst contraction in economic activity since data collection for these surveys began in late-2005.

Demand for goods and services collapsed during the latest survey period, with the respective Composite PMI New Orders Index falling by over 40 points. Both manufacturing and service sectors reduced employment numbers during April in response to lower business requirements.

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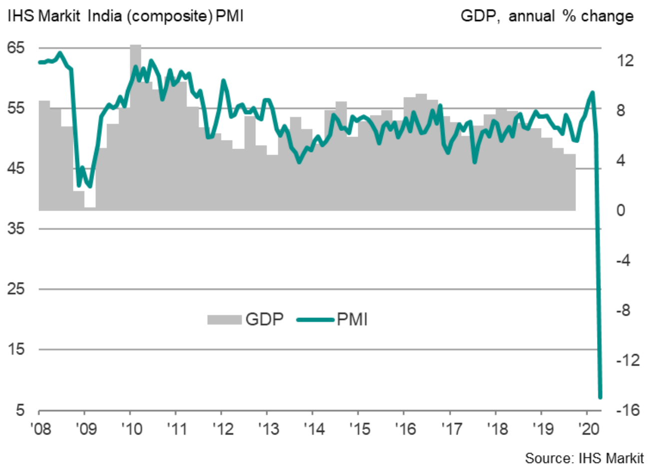
IHS Markit India Composite Output Index



The IHS Markit India Manufacturing PMI for April fell to just 27.4 in April, compared to 51.8 in March. The April survey data pointed to an unprecedented contraction in manufacturing output, as India's manufacturing industry output and new orders were severely impacted by widespread business closures. In an environment of severely reduced demand, new orders collapsed at a record pace and firms sharply reduced their staff numbers.

For example, the Indian automotive industry has largely shut down since the lockdown commenced in late March, with large automakers as well as two-wheeler makers having temporarily closed their plants. Firms manufacturing auto components have also shut down temporarily due to the lockdown. The Society of Indian Automobile Manufacturers (SIAM) have estimated that the daily turnover lost for India's auto manufacturing sector for each day of closure amount to around USD 300 million per day.

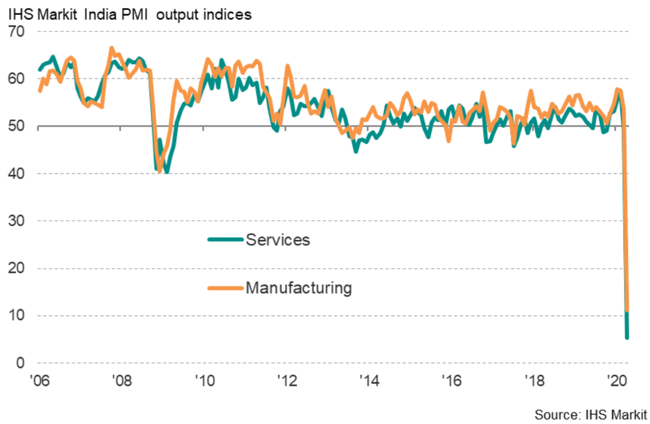
According to IHS Markit Automotive analysis, Indian vehicle plants have remained idled for more than a month, with automakers reporting zero production and sales in April. Under the new risk-based pandemic zoning system announced by the Indian government, automakers outside of the red zones can restart production in a phased manner, and IHS Markit Automotive assess that auto production will ramp up slowly during May. A key constraint for automakers is that India's largest cities continue to be classified as red zones, and auto dealerships in these cities are not allowed to reopen yet.

Consequently, the COVID-19 pandemic has intensified the recessionary conditions in India's auto industry, which had already experienced severe conditions in 2019, with a 12.7% year-on-year (y/y) decline in passenger vehicle sales, while commercial vehicle sales were down by 15.0% y/y.

India's service sector recorded its largest month-to-month contraction in business activity during April. The IHS Markit India Services Business Activity Index posted 5.4 in April, an extreme decline from 49.3 in March. The April survey recorded the largest month-to-month contractions in service sector business activity and new orders since data collection began over 14 years ago.

The severe lockdown measures have limited the ability of households to consume goods and services, and the government lockdown measures have mandated the closure of almost all retail businesses, as well as having banned passenger movements by rail and air. This has resulted in the unprecedented slump in service sector output recorded in the April survey data, as consumer demand has collapsed.

Output growth by sector



Economic Outlook

Although the limited restart of some industries has been permitted since 20th April, India will still suffer severe disruptions to its industrial output due to the protracted lockdown. The pace of recovery in Indian industrial production will depend on whether the pandemic escalates further within the country in coming months, which will affect both the timing and extent of relaxation of lockdown measures. Manufacturing sector exports will also be hit hard by recessionary conditions in the global economy, with important export markets such as the US, EU, UK and Japan forecast to suffer deep recessions in 2020.

Consequently, IHS Markit expects the lockdown measures to result in a contraction of Indian industrial production in the 2020-21 financial year. This would be far more severe than India's industrial sector performance during the global financial crisis, when industrial production still managed to show expansion in 2009, albeit just barely recording positive growth.

As is evident from the experience of China after its lockdown period ended, the process of restarting factories and businesses in India is likely to be protracted, with production only gradually ramping up towards operational capacity levels. Furthermore, the staggered timing of plant restarts across different states and cities because of public health considerations relating to COVID-19 cases can also create considerable supply chain disruptions for manufacturing industries, albeit mainly only for a short-term duration of several months.

The negative shock to consumer expenditure during the lockdown is a key factor that will drive the economic slump in 2020. Private consumption has already been badly impacted during late March and throughout April. With large metropolitan areas classified as red zones, many urban Indian households are still in lockdown. As a result, the pace of recovery of consumer spending in urban areas is still subject to considerable uncertainty.

As a result of the severe economic shocks to industrial output, consumption spending and investment, the Indian economy is forecast to be in recession during the 2020-21 financial year. Although gradual economic recovery is expected during 2021, a key risk to the path of economic recovery over the medium term will be the impact of the lockdown on banking sector non-performing loans. The Indian banking system had also faced significant problems in recent years with high non-performing loans, particularly in the public sector banks. A further surge in non-performing loans as a result of the latest economic shockwaves from the pandemic could further impair bank balance sheets, constraining the pace of credit expansion and post-pandemic economic recovery.