

# Week Ahead Economic Preview

## Global overview

- FOMC meeting and economic projections
- Eurozone and UK GDP
- China data on credit and M2

A key event of the week ahead will be the latest FOMC meeting with updated US economic projections, while Europe sees important GDP and industrial production releases to give guidance on the depths of second quarter economic downturns in the UK and Eurozone respectively. In Asia, markets will be looking for clues as to the extent to which the Chinese economy might be reviving and also eagerly await trade and industrial production numbers across Asia Pacific.

The US FOMC meeting comes on the heels of the ECB unleashing an additional €600bn boost to its lending programme. With the COVID-19 pandemic having already taken a huge toll on the US jobs market and set to cause a record collapse in GDP in the second quarter, markets will be looking closely for any change in the Fed's stance alongside its updated economic projections, which will set out the expected depth of recession and speed of recovery. At its prior meeting, the FOMC held interest rates at near zero, but the minutes revealed that policymakers are prepared to adjust their stance, including elements of its various emergency lending programs, in response to evolving financial conditions. Inflation data for the US are also released, together with consumer sentiment numbers for June ([page 3](#)).

In Europe, markets will be eyeing GDP data in the UK and industrial production numbers in the Eurozone for further clues as to the depth of the economic downturns in the second quarter, which [PMI surveys](#) indicate will be the largest on record, albeit with signs of the rate of contraction cooling in May. We'll also be eagerly awaiting developments from the Eurogroup as to the coordination of stimulus to fight the COVID-19 fuelled downturn across the region ([page 4](#)).

In Asia, credit and money supply will be a key release for China as insights are sought as to the pace of recovery as China's economy continues to open up, having relaxed virus-related restrictions earlier than other countries. Trade data for Taiwan will also provide an interesting bellwether for wider Asia trade trends in the wake of the pandemic ([page 5](#)).

## Special reports

**Asia Pacific:** Covid-19: How severe is the disruption of Asia-Pacific supply chains? ([page 6](#)).

**Europe:** We expect a double-digit unemployment eurozone rate before year-end, surpassing the post-GFC peak ([page 10](#)).

**Global:** PMI shows global downturn moderates in May as COVID-19 lockdowns ease ([page 12](#)).

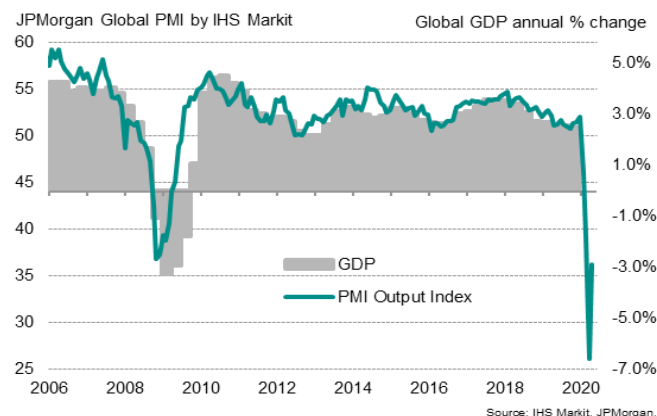
## Upcoming PMI releases

**23<sup>rd</sup> June:** US, Eurozone, Japan, UK and Australia flash PMIs

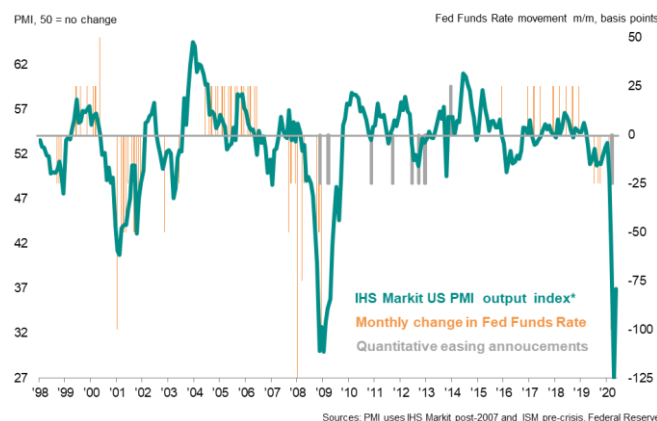
**1<sup>st</sup> July:** Final Global manufacturing PMIs

**3<sup>rd</sup> July:** Final Global services PMIs

## Global PMI surveys indicated that the rate of economic contraction slowed in May as COVID-19 lockdowns were eased



## The FOMC meets as the US economy experiences its deepest economic downturn in recent history



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## Key diary events (UTC)

### Monday 8 June

Germany industrial output (Apr)  
Taiwan trade (May)  
Japan average cash earnings (Apr) 23:30 UTC

### Tuesday 9 June

Australia business confidence (May)  
Germany trade and current account (Apr)  
France trade balance (Apr)  
Euro area GDP (3<sup>rd</sup> Est, Q1)  
US IBD/TIPP Economic Optimism (Jun)  
US JOLTS Job openings, wholesale inventories (Apr)  
South Korea unemployment rate (May)  
Japan machinery orders (Apr)

### Wednesday 10 June

Australia consumer confidence (Jun)  
Philippines trade (Apr)  
China inflation (May)  
France industrial output (Apr)  
Brazil inflation (May)  
US inflation (May)  
FOMC policy meeting and economic projections

### Thursday 11 June

Malaysia industrial production (Apr)  
Japan machinery tool orders (May)  
Italy industrial output (Apr)  
US jobless claims (6-Jun)  
Eurogroup meeting

### Friday 12 June

Singapore unemployment rate (Final, Q1)  
Indonesia consumer confidence (May)  
Japan industrial output (Final, Apr)  
UK GDP, trade balance (Apr)  
Euro area, and UK industrial output (Apr)  
India industrial output (Apr), inflation (May)  
US Michigan surveys (Prelim, Jun)  
China new yuan loans, FDI, total social financing, M2 (May)

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### Saturday-Sunday 13-14 June

13/6: Australia jobless rate, employment change (May)

# United States Week Ahead

Inflation plus FOMC announcement with economic projections

By Siân Jones

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Although many states have begun to reopen and lift COVID-19 restrictions, the US private sector continues to reel from lockdown measures. A large number of firms are still unable to resume operations due to travel restrictions and social distancing measures. In light of the crippling impact the crisis has had on the economy and employment, markets will be watching to see if the FOMC will announce a continuation of the wide-reaching COVID-19 response policy programme, with updated economic projections also published. Inflation numbers, job openings and the University of Michigan consumer surveys are also updated.

## Inflation

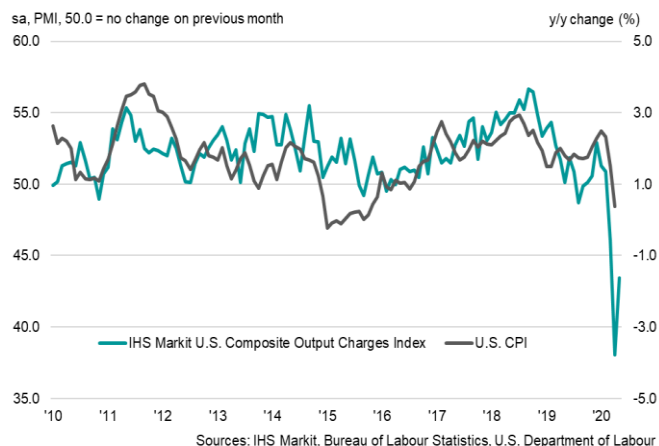
In line with weak retail sales and lower oil prices, inflationary pressures eased in April. In particular, sectors badly damaged by the virus outbreak, such as air travel and clothing sales, saw notable slumps in prices. Excluding volatile items such as food and energy (food prices were up 1.5% in April), core inflation decreased as a result. Despite lockdowns easing, high unemployment and uncertainty surrounding job security as the crisis progresses are likely to continue to weigh on consumer spending, as signalled by May PMI data. Inflationary downside risks remained evident as firms reduced charges further in an effort to bolster sales.

## FOMC meeting

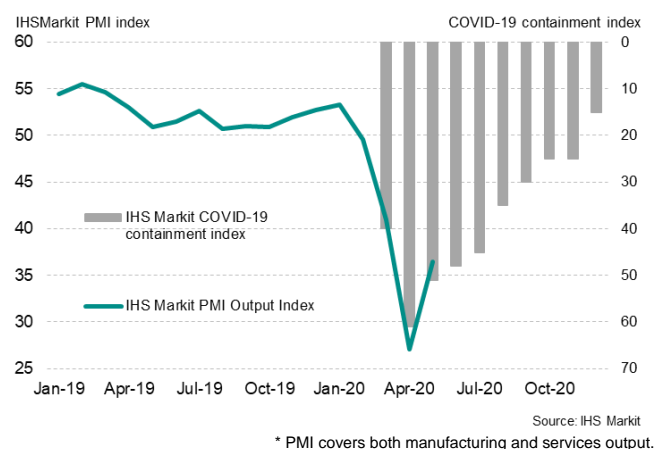
The upcoming FOMC meeting is expected to bring little change to the policy rate, as the Fed continues to utilise unprecedented measures introduced throughout the crisis. The upcoming meeting also sees the publication of economic projections, the first since the crisis escalated in March, as ongoing difficulties in the labour market and soaring unemployment numbers weigh further on the weak economic performance.

Private sector firms were pessimistic regarding the outlook for output over the coming year, according to the latest PMI data, reflecting consumer sentiment which dropped further in May amid job losses, uncertainty and squeezed household finances. University of Michigan consumer confidence numbers of June are released, while May data for the IBD/TIPP Economic Optimism Index and NFIB Business Optimism Index, respectively, are also published.

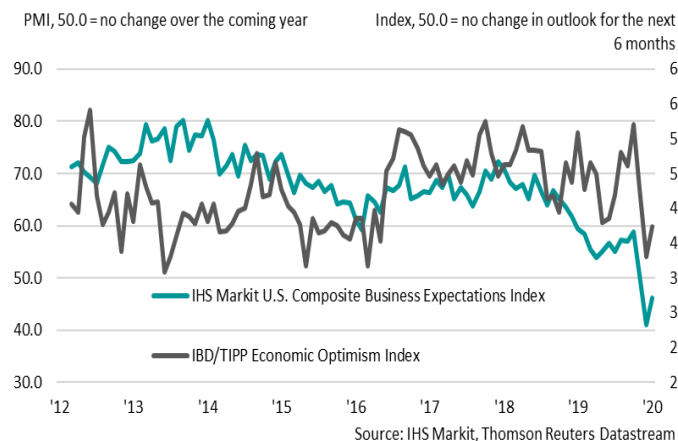
## Muted demand and weak retail sales weigh on upside inflationary risks



## IHS Markit PMI\* and COVID-19 containment measures



## Business expectations remain historically subdued amid COVID-19 lockdowns and uncertainty



## Europe Week Ahead

UK April GDP, euro area industrial production, Eurogroup meeting

By Joe Hayes

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Economic data detailing the fallout from the COVID-19 pandemic is once again on the agenda in the coming week, with a slew of official statistics for April due. Monthly GDP data for the UK is set to shape expectations for the second quarter as a whole, while May's industrial production figures for the euro area will also be closely watched after the unprecedented lows seen across the manufacturing PMI surveys in April. Finally, the Eurogroup meets as analysts look for signs of further progress on the Franco-German recovery fund.

### UK GDP

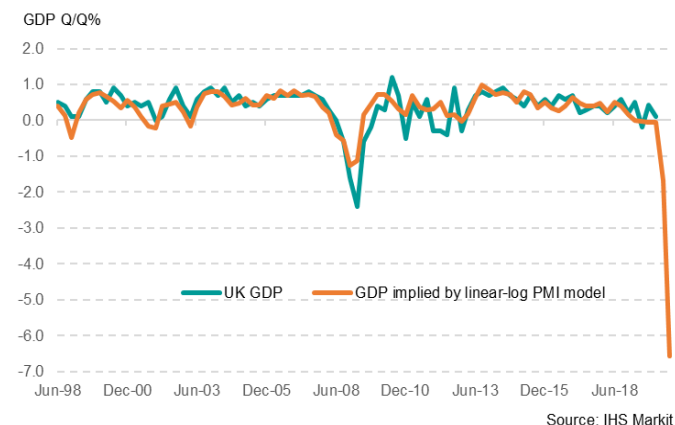
Monthly GDP data for April will provide us with our first insight into the economic impact of the lockdown when measures were at their most stringent. The month-on-month impact is likely to be huge, although the hope is that April will have been the worst of the downturn following signs in the [May PMI survey](#) that the pace of decline has eased. Nevertheless, we forecast a quarterly contraction in the region of 15% for the second quarter once we take into account the impact on the retail sector, the self-employed and the gig economy, all of which are excluded from the PMI.

### Eurozone industrial production

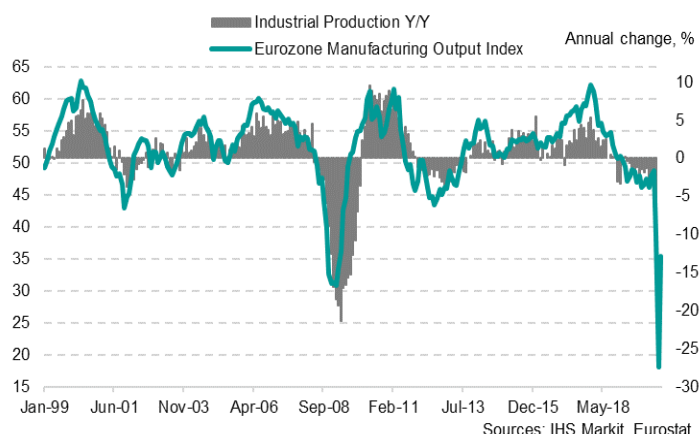
Factory output across the euro area looks to have plummeted as much as 25% on an annual basis during April, according to PMI data, significantly stronger than that already seen in March when lockdown measures were first introduced. Figures for the eurozone, as well as for countries such as Germany, France and Italy are due in the coming week. That said, following the recent May PMI data, (which showed substantially slower rates of decline amid a pick-up in manufacturing operating rates following the gradual lifting of some lockdown measures), analysts are unlikely to put too much weight on any downside in the numbers.

The Eurogroup are also set to meet, with attention mounting over the progress on the proposed Franco-German recovery fund. Markets will be keen to see negotiations moving in the right direction following some early signs of promise. We outline the key features of what has been revealed thus far [here](#).

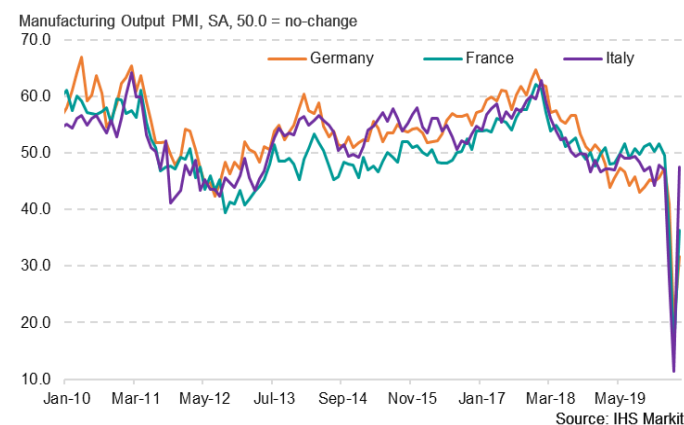
**Damage to the UK economy from COVID-19 looks likely to dwarf that seen during the global financial crisis**



**PMI data point to an unprecedented collapse in euro area manufacturing during April, but deceleration in May**



**Italy closed in on manufacturing stabilisation in May, while France and Germany suffered a further considerable downturn**





## Asia Pacific Week Ahead

China credit and money supply data, pan-Asia production and trade

By **Bernard Aw**

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As markets focus on the Fed FOMC meeting and its economic projections next week, Asian investors will also look to the slew of Chinese data releases as well as regional trade figures for further clues on economic trends midway through the second quarter. These numbers will come on the heels of [May PMI surveys](#) having indicated a slowing manufacturing downturn, but which also hint that further recoveries ahead could be frustratingly subdued by weak global demand.

Other key Asian data highlights include industrial output data in Japan, Malaysia and Indonesia, while machinery orders and average earnings figures for Japan may also gather interest.

### China data

With Caixin [China PMI data](#) signalling stronger growth in business activity in both [manufacturing](#) and service sectors, but also continued weakness in external demand, clues on the recovery trajectory will be keenly sought from official data releases on credit, money supply and foreign direct investments. The NBS and Caixin manufacturing surveys both pointed to subdued demand conditions, dragged down by further substantial declines in export orders.

### Trade and industrial output

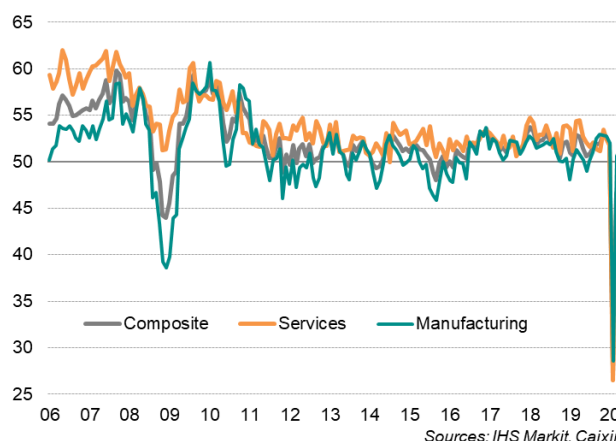
Taiwan's trade figures, widely regarded as a barometer for wider Asian trade performance, will be keenly monitored. Latest [PMI surveys](#) indicated that export sales fell at the steepest rate since the global financial crisis during May amid ongoing measures globally to contain the COVID-19 pandemic. The Philippines will also release its trade numbers.

Several Asian economies will meanwhile publish April industrial output figures, including Japan, Malaysia and Indonesia, all of which will likely confirm the deteriorating trend highlighted by the PMI surveys during the height of the worldwide lockdown measures. May survey data indicated a further weakening of manufacturing conditions in these economies.

Japan's machinery orders will also provide further clues on capital investment trends.

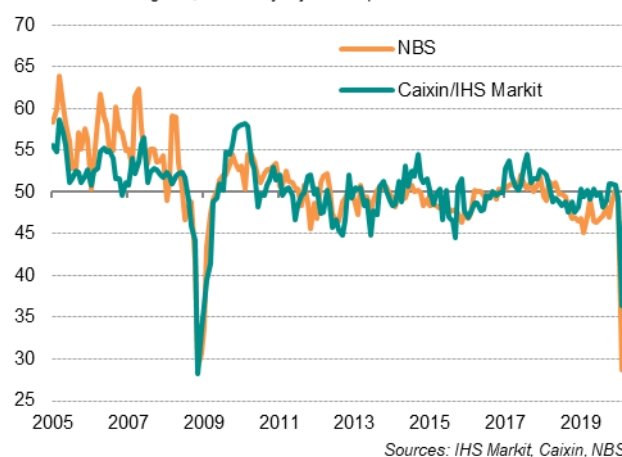
**China business activity growth strengthens in May, but still comparatively subdued after suffering record contractions in February**

Caixin China PMI Output/Business Activity

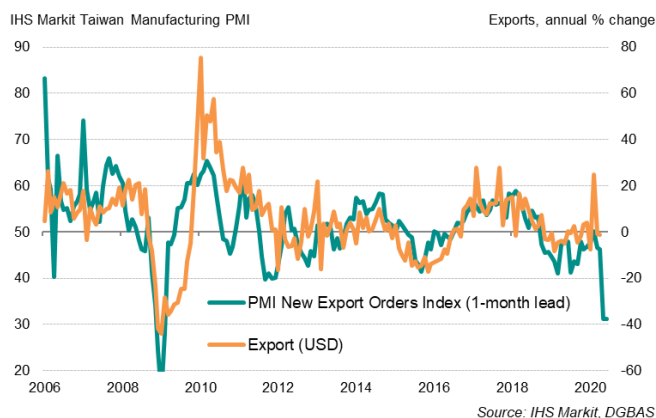


**Further substantial falls in exports, signalled by both NBS and Caixin PMI surveys**

China Manufacturing PMI, seasonally adjusted Export Orders Index



**Taiwan PMI points to steep export decline**



## Asia Pacific Special Focus

### Covid-19: How Severe is the Disruption of Asia-Pacific Supply Chains?

By **Rajiv Biswas**

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*The Covid-19 pandemic has created tremendous disruption to global and Asia-Pacific supply chains due to the impact of lockdowns in many major industrial economies. China, the EU and the US suffered extended periods of lockdown as authorities tried to control the spread of the pandemic. The escalating global pandemic has also disrupted industrial production in many other Asian economies, including India, Malaysia and Indonesia. Due to these disruptions caused by the global pandemic, companies and governments are reshaping their supply chains for critical raw materials and manufactures to reduce their vulnerability to future supply shocks.*

### Global lockdowns disrupt manufacturing supply chains

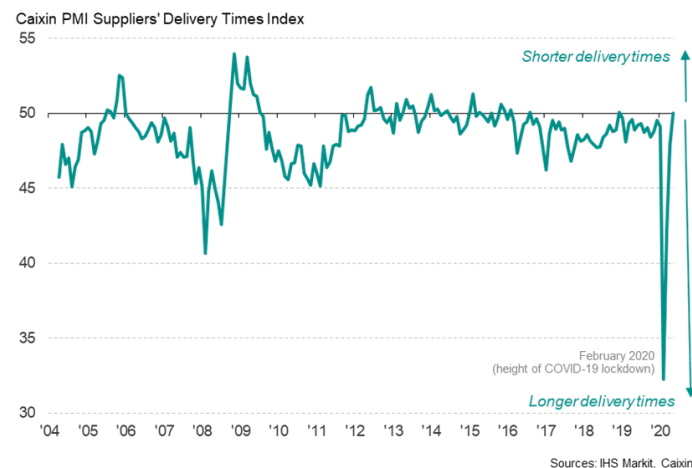
As the Covid-19 pandemic escalated globally during the first half of 2020, it has created severe disruptions of industrial production due to the lockdowns imposed by many of the world's largest industrial nations. The normal annual shutdown of China's industrial production during the Chinese New Year holiday period which occurred in late January was followed by a national lockdown that extended until mid-February.

This created widespread global shocks to supply chains as exports of industrial materials, intermediate goods and finished products from the world's largest manufacturing hub came to a halt for many weeks. Quarantine restrictions on the movement of workers within China also created further delays to the process of restarting factories once the lockdown was gradually lifted. The industrial sectors of Japan, South Korea and the ASEAN region were impacted by supply chain disruptions due to the shutdown of Chinese industrial production.

China's manufacturing suppliers' delivery times increased sharply during February and March due to the extended shutdown of industrial production,

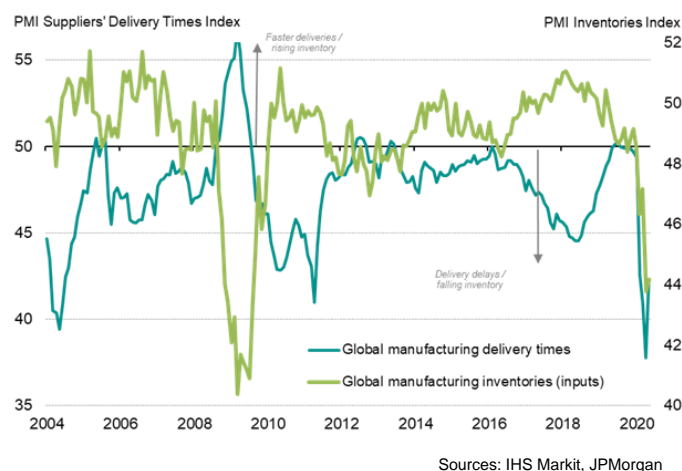
resulting in global supply chain disruptions. However as Chinese factories ramped up output during April and May, the situation improved significantly, helping to ease supply chain disruptions attributable to Chinese output shortages.

### Caixin China Manufacturing PMI Suppliers' Delivery Times Index



While Chinese factories gradually return to production, many other Asia-Pacific economies have experienced significant disruptions to industrial production due to their own lockdowns as the pandemic escalated worldwide, including India, Malaysia, Indonesia and Vietnam. Lockdowns across Europe and the US also further intensified the global supply chain disruptions during Q2 2020, as inventories plummeted, and delivery times lengthened sharply due to escalating factory shutdowns.

### Global Manufacturing PMI Suppliers' Delivery Times and Inventories Index



### Asian Auto Manufacturing Disruptions

A key industrial sector that was badly hit by the delayed restart of China's manufacturing production is the automotive sector. Supply chain disruptions due to

the extended closure of Chinese plants producing auto parts impacted auto production in other countries. For example, Hyundai Motor Co temporarily closed some car production lines in South Korea, and Nissan temporarily shut its operations in Kyushu, Japan, because of supply disruptions of auto parts from China.

Since then, Chinese auto production has rebounded during Q2 2020. The light-vehicle production tracker released by IHS Markit on 28 May indicates China's automakers' average output has reached 78% of pre-COVID-19 levels in April and is estimated to further increase to around 86% in May and will almost reach the pre-crisis levels by July.

In India, the national lockdown that began on 25th March resulted in the Indian automotive industry having largely shut down, with large automakers as well as two-wheeler makers having temporarily closed their plants for most of April before lockdown conditions started to be gradually eased. Manufacturers of auto components 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 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 were able to restart production in a phased manner, and IHS Markit Automotive assessed that auto production has begun to ramp up slowly during May. A key constraint for automakers was that India's largest cities continue to be classified as red zones during May, with auto dealerships in these cities remaining closed during this period, depressing demand for new vehicles. Consequently, although Indian auto production has been gradually restarting even before the lockdown formally ends, auto production will be reduced to very low levels due to supply chain disruptions and lack of new orders from car dealers.

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

## Electronics Sector Disruptions

The headline IHS Markit Global Electronics PMI fell to 43.3 in April, down from 48.6 in March, to signal a sharp deterioration in business conditions faced by electronics manufacturers. The April reading pointed to the fastest decline since April 2009, with many businesses temporarily closed amid the global covid-19 outbreak.

The April survey data pointed to severe supply-side disruption in the global electronics sector, with input delivery times lengthening drastically. In fact, the rate at which vendor performance deteriorated accelerated from March to set a new survey record. Companies widely cited difficulties in obtaining inputs, particularly from the US, Europe and China.

The electronics manufacturing sector is an important part of the manufacturing export sector for many East Asian economies, including China, South Korea, Taiwan, Malaysia, Singapore, Philippines, Thailand and Vietnam. However, the electronics supply chain is highly integrated across different economies, with China being an important supplier of intermediate electronics parts for a number of Southeast Asian electronics sectors. The complete shutdown of Chinese industrial production for a protracted period consequently created significant supply chain disruptions to the electronics manufacturing sector in many Southeast Asian economies.

## Global Electronics Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



Source: IHS Markit

## Medical Equipment Supply Chain Disruptions

According to export data from the World Trade Organization (WTO), trade in medical products assessed to be critical and in severe short supply in the COVID-19 crisis totalled about USD 600 billion in 2019, which amounted to around 1.7% of total world trade. Many governments have imposed export

restrictions on medical equipment exports during the pandemic, in order to ensure sufficient supply for their domestic healthcare and essential services.

WTO trade data showed that the top three exporters of protective products, which include face masks, hand soap, sanitizer and protective spectacles, were China, Germany and the US, which together accounted for 40% of total world exports of these products. An estimated 17% of total exports of protective products came from China, the top exporter, followed by Germany and the US.

The WTO trade data showed that China supplied 25% of world exports of face masks in 2019, and that China, Germany and the US together accounted for around half of world exports of face masks in 2019.

In the Asia-Pacific region, only China and Japan were ranked among the world's top ten exporters of protective products according to the WTO trade data, highlighting supply chain vulnerabilities for medical products in the rest of the Asia-Pacific region, particularly given the large size of population in many other Asian countries such as India and Indonesia.

## Commodities Supply Disruptions

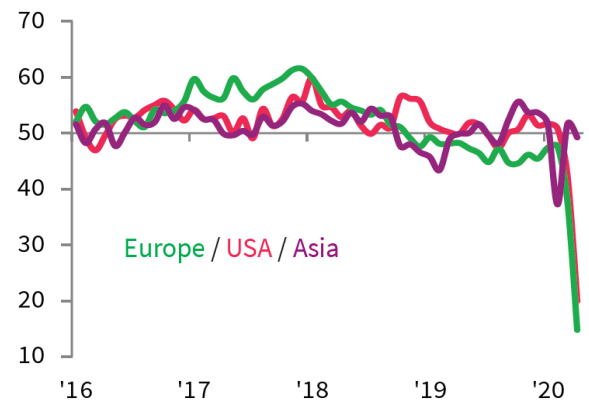
Among mineral commodities, disruptions to global iron ore production and exports due to the COVID-19 pandemic have helped to push iron ore prices back up towards USD 100 per ton by the end of May, as the iron ore production in various key iron ore exporters, including Brazil and India, was disrupted.

In Brazil, production at some key iron ore mines has been temporarily impacted by Covid-19 cases. In India, the National Mineral Development Corporation (NMDC) has also been forced to reduce iron ore production due to the impact of the lockdown measures on supply as well as impact on demand for steel. While iron ore prices have been helped by the recovery in Chinese demand for steel, the impact of rising Chinese demand on prices has been mitigated by weakening steel demand in other key markets, notably the US and EU, as lockdown measures hit industrial raw materials demand in Q2 2020.

The pandemic also led to a further sharp decline in supplier performance at copper users. Vendors were reportedly impacted by slower freight activity and lockdown measures. Combined with lower input buying, this led to a steeper drop in inventories of raw materials items. Stocks of finished goods also fell solidly due to slower production.

## Steel Users PMI Output Index

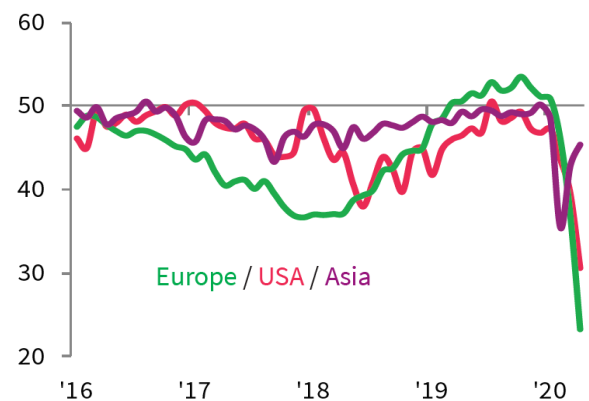
sa, >50 = growth since previous month



Source: IHS Markit.

## Steel Users PMI Suppliers' Delivery Times Index

sa, >50 = faster times since previous month



Source: IHS Markit.

## Reshaping Supply Chains

The protracted disruption of industrial production in China during Q1 2020 has further intensified pressures on companies to diversify their supply chains to reduce vulnerability to China. This process of diversifying manufacturing production away from China has already been underway over the past decade, initially driven by rapidly rising manufacturing wage costs in coastal provinces of China. The escalating US-China trade war since 2018 has further accelerated this process of supply chain diversification, as firms shifted some production of manufacturing exports for the US market away from mainland China to mitigate the impact of US tariff measures. The COVID-19 pandemic has become a further driver for this supply chain diversification process.

Due to the COVID-19 pandemic, governments in many countries worldwide are responding to vulnerabilities exposed in their supply chains for critical medical



equipment as well as key pharmaceutical products. The disruption to production of key medical equipment in China, which is a leading global supplier of many critical products such as surgical masks, respirator masks and protective clothing, as well as surging global demand, have highlighted supply chain vulnerabilities. In response, governments in some countries have taken emergency measures to establish domestic manufacturing capacity for critical equipment, as well as to create or increase domestic production facilities for essential pharmaceutical products.

In order to help reduce supply chain vulnerabilities for Japanese firms, the Japanese government has created a JPY 23.5 billion (USD 220 million) fund in May 2020 to help Japanese companies diversify their supply chains by increasing their production capacity in the ASEAN region. This fund was created in response to the significant supply chain disruptions experienced by Japanese firms due to the extended manufacturing production shutdown in China during February.

In South Korea, recent trade frictions between Japan and South Korea during 2019 had already triggered some reconfiguration of supply chains for South Korean multinationals, to reduce their vulnerability to Japanese intermediate materials and components. Disruptions to industrial production in China due to the COVID-19 pandemic has put further pressure on South Korean manufacturers to continue the process of diversifying their supply chains over the medium-term.

Taiwanese firms have also been increasingly diversifying their supply chains away from mainland

China, with the US-China trade war having accelerated this process during 2018-19, as Taiwanese firms relocated production back to plants in Taiwan or Southeast Asian factories to avoid punitive US tariff measures on mainland Chinese exports to the US. The protracted supply disruptions in mainland China during Q1 2020 have reinforced the importance of diversifying supply chains to reduce vulnerability to excessive concentration of production in mainland China.

### Outlook

As lockdowns are gradually lifted by many countries in the Asia-Pacific, Europe and North America, the supply chain disruptions caused by the pandemic are expected to fade over the coming months. However, for many multinationals worldwide, significant supply chain vulnerabilities have been exposed by the protracted disruption of industrial production in China as well as some other major global manufacturing hubs during the COVID-19 lockdowns.

This will drive the reshaping of manufacturing supply chains over the medium term, as firms aim to reduce their vulnerability to such extreme supply chain disruptions. With US-China trade tensions continuing to simmer, this is likely to be a further driver for reconfiguring of supply chains. A key beneficiary of the shift in global manufacturing supply chains will be the ASEAN region, with Southeast Asian manufacturing hubs such as Vietnam, Thailand, Indonesia, Myanmar and Philippines likely to benefit from the greater diversification of supply chains.

# Europe Focus

Low eurozone unemployment rate a temporary reprieve

By Ken Wattret

Chief Europe Economist, IHS Markit

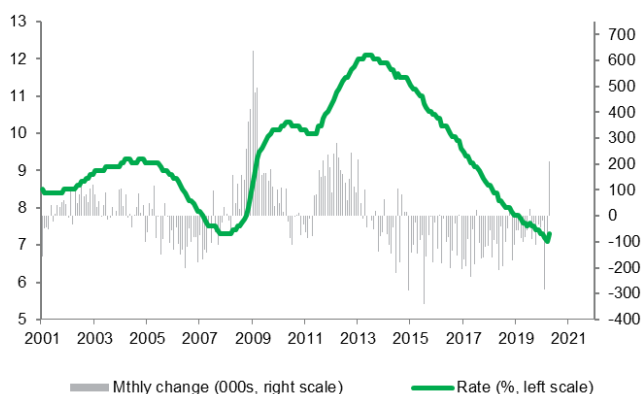
Email: ken.wattret@ihsmarkit.com

*A combination of lags, furlough-type schemes and falling labour market participation in Italy all contributed to a much smaller than expected rise in April. However, we continue to expect a double-digit unemployment rate before year-end, surpassing the post-Global Financial Crisis peak.*

## Unemployment rate rose surprisingly slowly in April...

Unemployment in the eurozone rose by 211,000 in April, the biggest monthly increase in over seven years. Still, the magnitude of the increase was roughly a third of the peak m/m rise of 636,000 back in March 2009 (see first chart) in the aftermath of the Global Financial Crisis (GFC).

**Chart 1: Eurozone unemployment rate rising relatively slowly so far**



Source: Eurostat

While the eurozone unemployment rate increased in April, the modest increase from 7.1% to 7.3% came in way below the market consensus expectation of a rate just north of 8%. By way of comparison, the unemployment rate in the US surged by 10.3 percentage points to 14.7% in April, the largest monthly increase in the history of the data series stretching back to 1948.

## ...due to four key factors

Why is there such a big difference between developments in the eurozone and US labour market conditions and will it continue? We see four key contributory factors to why the unemployment rate in the eurozone has been less sensitive to the COVID-19-driven collapse in output.

First, lags. It takes time for changes in economic conditions to filter through to the labour market. During the GFC, the eurozone economy hit rock bottom in Q1 2009 but the unemployment rate did not peak until Q2 2010 (at 10.3%).

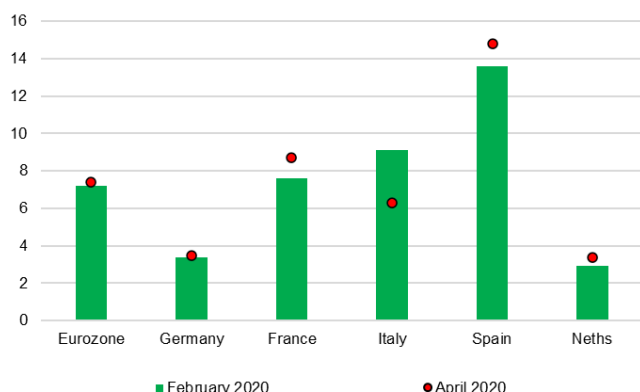
Second, labour “hoarding”. Given more stringent labour legislation in Europe, the processes and costs associated with reducing headcount are impediments to swift labour market adjustments. Rather, productivity can end up taking the strain, at least temporarily, with levels of employment not adjust quickly or fully to lower levels of output. Self-employment is also a lower share of overall employment in the eurozone.

Third, many governments have introduced furlough-type schemes in recent months which are cushioning the impact of collapsing activity on employment. The breadth of coverage and timing of these schemes varies across countries. In Germany, for example, the Kurzarbeit scheme is well established and did a very effective job of limiting the rise in unemployment after the GFC. Once these schemes are wound down, however, the risk is that unemployment will soar.

Some member states have published unemployment rates stripping out the effects of these schemes which show unemployment rates rocketing. In Ireland, for example, the official measure of the unemployment rate in April was around 5%, whereas excluding the job support schemes, it had surged to over 28%.

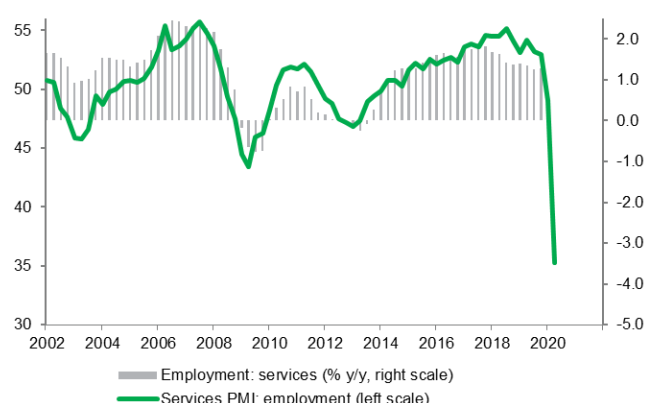
Fourth, the minimal rise in the eurozone unemployment rate partly reflects the unexpectedly large plunge in Italy’s unemployment rate. Eurostat’s harmonised measure of the unemployment rate in Italy has tumbled from 9.1% in February to just 6.3% in April, conspicuously bucking the trend in the other large eurozone member states (see second chart below). This reflects a collapse in the participation rate, as people no longer seek employment given the exceptionally severe deterioration in economic conditions and restrictions due to COVID-19.

**Chart 2: Recent sharp decline in Italy's unemployment rate (%)**



Source: Eurostat

**Chart 3: Large eurozone employment losses signalled for services**



Sources: IHS Markit, Eurostat

## Much higher unemployment rate just a matter of time...

While the factors highlighted above should prevent a US-style surge in the unemployment rate in the eurozone near-term, further and faster rates of increases are nonetheless likely. Harmonised eurozone-wide data is published with a lag, whereas we know from national data for May which has already been released, including in Germany, that the rate of increase in the unemployment rate is accelerating.

Moreover, even accounting for the support mechanisms introduced by governments during the COVID-19 crisis, as the scale of the collapse in economic output during the first half of 2020 is going to be unprecedented, the unemployment rate will inevitably jump. Our current baseline forecast is for the jobless rate to exceed the post-GFC high of just over 10%, rising above 11% later in 2020.

## ...with employment set to plunge across sectors

Eurozone employment is likely to decline markedly, with business surveys including IHS Markit's PMI data signalling a plunge across key sectors over the coming quarters (see third and fourth charts). There may have been an overreaction in some of the survey data at the height of the COVID-19 shock, with partial rebounds now becoming evident. Still, the employment intentions indices within them are going to remain indicative of large-scale job losses.

**Chart 4: Eurozone manufacturing employment at risk also**



Sources: IHS Markit, Eurostat

## Weak labour markets dampen recovery prospects

As employment remains the key influence on private consumption trends in the eurozone, the lagged shakeout in the labour market will dampen the growth recovery which we are forecasting from Q3 2020 onwards.

This is one of the reasons why we continue to believe market consensus expectations of a very strong rebound in 2021 (GDP growth of 6.2% as of May's update) are too optimistic. The same applies to official institutions like the IMF and the European Commission, whose forecasts for 2021 are effectively implying a V-shaped recovery.

In contrast, IHS Markit's current baseline eurozone GDP forecast is for a decline of 8.6% in 2020 (with risks very much to the downside) and just a partial rebound of 3.5% in 2021.

## Global Focus

Global downturn moderates in May as COVID-19 lockdowns ease

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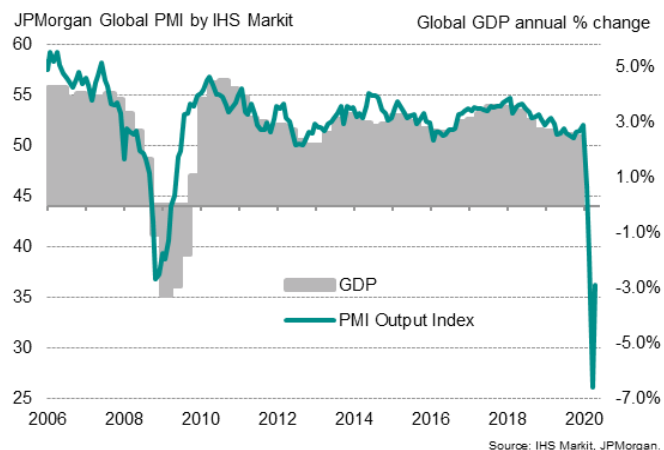
*Global business activity contracted sharply in May, according to the latest PMI business survey data, dropping for a fourth successive month. Encouragingly, the rate of decline eased markedly since April's record decline as economies around world continued to battle to contain the COVID-19 pandemic, albeit remaining the second steepest in over two decades.*

### Global PMI shows record rise in May

The JPMorgan Global PMI™ (compiled by IHS Markit) showed a record surge of just over 10 index points in May from 26.2 in April to 36.3, but remained well below the 50.0 no change level to indicate a fourth successive monthly drop in output across the combined manufacturing and service sectors.

Despite the rise in the index during May, the latest reading remained even lower than the prior-pandemic record low of 36.8 seen at the height of the global financial crisis in February 2009.

#### Global PMI and GDP

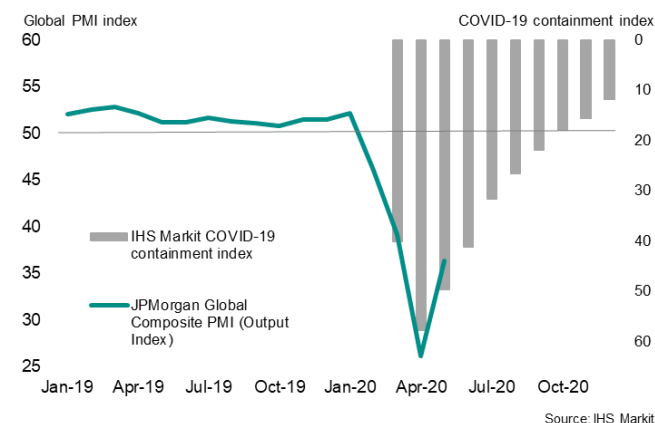


The May reading is historically comparable with global GDP falling at an annual rate of approximately 3% (at market prices), down dramatically from a contraction rate of almost 7% signalled back in April.

The latest data were collected between 12<sup>th</sup>-27<sup>th</sup> May, encompassing a time when the vast majority of the countries surveyed relaxed measures to contain COVID-19 outbreaks to varying degrees. IHS Markit's COVID-19 Containment Index, based on information

relating to issues such as closures of schools, non-essential shops and restaurants, as well as restrictions on public gatherings, internal mobility and external borders, fell globally from 58 in April to 50 in May. These indices are based on 100 meaning very severe restrictions and zero being no restrictions.

### Global output and COVID-19 containment



### Service sector leads downturn

The global PMI data showed rates of decline easing in both manufacturing and services, though the latter continued to suffer the steeper rate of contraction, linked to its greater exposure to widespread measures to help prevent healthcare systems from being overwhelmed by the spread of the coronavirus. Measures have not only caused temporary business closures but have also led to supply delays and have hit global demand from both consumers and businesses for a wide variety of goods and services, hurting hospitality, travel and tourism and retail sectors especially due to social distancing policies.

#### Global output



The overall drop in global service sector output was the second largest in 22 years of data collection, exceeded only by that seen in April.

Manufacturing output likewise continued to fall steeply, the rate of decline cooling from April's 11-year high but



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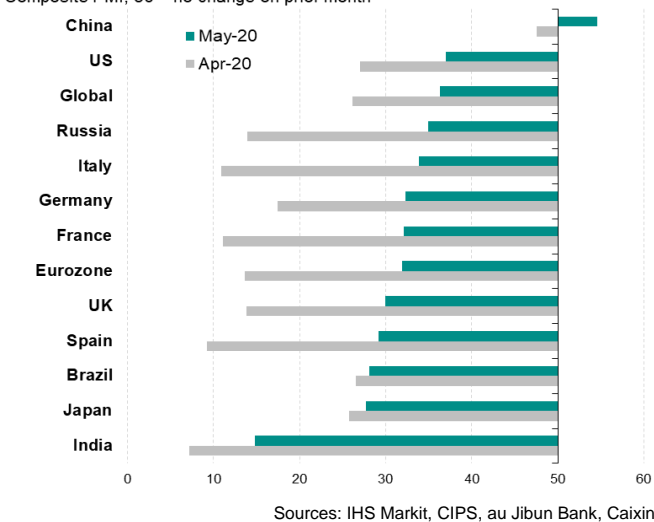
remaining in a deeper downturn than at any time since the global financial crisis. While many companies around the world saw production restart after lockdown-related closures, many others reported that demand conditions continued to worsen.

## China bucks downturn in May

All major developed and emerging economies contracted at steep rates with the notable exception of China, where output of the combined manufacturing and service sectors rose at the fastest rate since January 2011. The upturn in China was the first expansion seen since January, thereby providing first signs of recovery since February's record fall which resulted from the imposed lockdown.

### Largest economies ranked by output in May

Composite PMI, 50 = no change on prior month



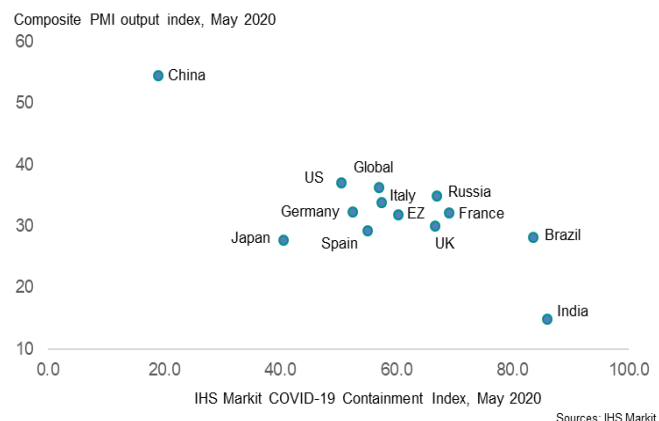
All other major countries saw downturns moderate in May from record rates of contraction in April, generally coinciding with an easing of lockdown measures from peaks in April. The US reported the mildest downturn, while India reported the steepest contraction.

## Output linked to degree of lockdown

In general, the change in output in May largely reflected the extent of the coronavirus lockdown measures applied in each country. Of the largest economies, China saw the least severe COVID-19 containment measures in May while India saw the strictest.

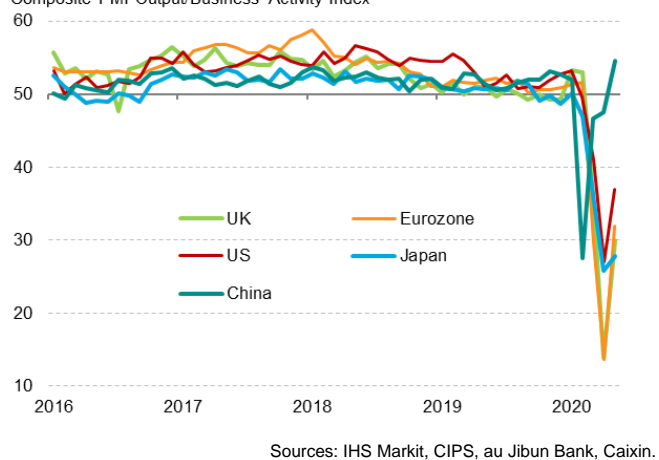
Japan appears to have fared badly in terms of the extent to which output fell in May despite seeing relatively moderate virus containment measures, but this could reflect Japan's greater exposure to the recent collapse in global trade and greater voluntary social distancing than in many other countries.

### PMI output v COVID-19 containment measures



### Largest economies' output

Composite PMI Output/Business Activity Index



## Will other countries follow China?

The renewed expansion in China is especially interesting as a potential guide to output in other countries in coming months, as China relaxed its lockdown measures earlier than other economies and has now seen both manufacturing and services return to growth. The former rose for a third successive month in May while the latter showed an improvement for the first time since January. Perhaps most encouragingly, inflows of new business in the service sector rose to an extent not seen since September 2010 as more businesses opened and social distancing measures were eased.

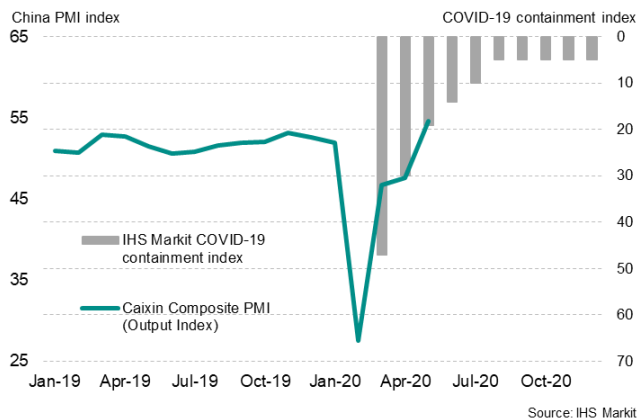
The rise in the Caixin composite PMI in recent months has followed changes in China's COVID-19 containment index, and the planned further easing of restrictions in coming months should hopefully see the index rise further, as should hopefully be the case with the global PMI. The global COVID-19 containment index is expected to ease from 50 in May to 41 in June and reach just 12 by the end of the year. The equivalent index for China is meanwhile set to drop from 19 in May to 14 in June and just 5 by the end of

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the year. Both scenarios assume no second waves of infections.

## China PMI v COVID-19 containment



A concern, however, is that China's recent growth has been entirely driven by the domestic market. In contrast, new orders for exports of goods and services in China both continued to fall at steep rates in May, which reflected the wider global economic malaise. Other countries, struggling to recover from virus lockdowns, will likely see high unemployment act as a dampener on recoveries. Comparisons of PMI survey employment indices highlight how China's labour market has not seen anything like the ravaging that has occurred in countries such as the US, UK and Eurozone, with only Japan sharing a more muted rate of job losses. These heightened job losses will inevitably act as a greater brake on economic recoveries than seen in China.

## Largest economies' employment

