

Week Ahead Economic Preview

Global overview

- Flash PMI surveys for June covering manufacturing and services for the US, Eurozone, UK, Japan and Australia
- US GDP and PCE updates, IMF forecasts

Data releases in the coming week will be scrutinised eagerly for clues as to the length and depth of recessions caused by the COVID-19 pandemic, most notably the flash PMI updates for the US, Europe and Japan, due out on Tuesday.

The week will also see updated forecasts from the IMF, while monetary policy decisions are due in New Zealand, the Philippines, Thailand, Hungary and the Czech Republic.

The PMI surveys provided an early indication that the worst of the economic impact from the virus outbreak appears to have hit in April, with the global PMI staging a record rise in May, albeit remaining worryingly weak by historical standards. With lockdowns having increasingly eased into June, further gains in the PMIs will be needed to corroborate growing expectations that economic recoveries are gaining traction.

IHS Markit's latest forecasts anticipate that US and European economic growth will return in the third quarter, though these downturns will still be the worst since the end of World War II. For 2020 as whole, real GDP is projected to fall 8.1% in the US, 8.7% in the eurozone, and 12.2% in the UK. Mainland China's should eke out annual growth of 0.5%. All this means that global real GDP is projected to decrease by some 6.0% in 2020, more than three times the 1.7% contraction in 2009 during the global financial crisis.

In addition to the IHS Markit PMI surveys, US data releases include durable goods orders, home sales, house prices, personal spending, income and prices data, the University of Michigan consumer sentiment survey and regional manufacturing surveys ([page 3](#)).

In AsiaPac, flash PMI data for Japan and Australia are accompanied by some key official releases including China's industrial profits, Vietnam GDP, retail sales in Japan as well as industrial production numbers for Singapore, Thailand, Taiwan and Vietnam ([page 5](#)).

For Europe, the flash PMI data for the Eurozone, Germany, France and the UK are supplemented by sentiment surveys from the European Commission, which include the closely watched IFO survey for Germany ([page 4](#)).

Special reports

Europe: The latest bank lending survey data highlight how the euro area should avoid a credit crunch, though there are marked divergences both by sector and country ([page 6](#)).

Global transportation: An analysis of the latest data showing how the transportation sector has nose-dived amid the COVID-19 pandemic ([page 8](#)).

Upcoming PMI releases

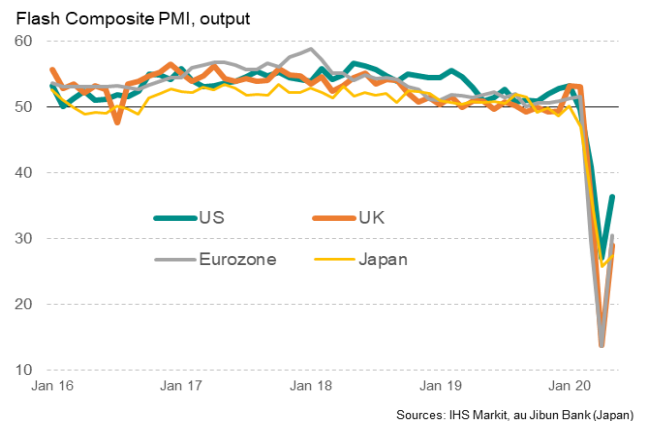
23rd June: US, Eurozone, Japan, UK and Australia flash PMIs

1st July: Final Global manufacturing PMIs

3rd July: Final Global services PMIs

7th July: Detailed global sector PMIs

Flash PMI surveys will provide the first international insights into business conditions in June



IHS Markit is forecasting a 6% slump in real global GDP in 2020, but expects the recovery to begin in the third quarter of the year

| | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> |
|----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| World | 3.2 | 2.6 | -6.0 | 4.6 | 4.1 | 3.4 |
| United States | 2.9 | 2.3 | -8.1 | 5.2 | 4.7 | 3.4 |
| Canada | 2.0 | 1.7 | -7.8 | 3.9 | 4.8 | 2.6 |
| Eurozone | 1.9 | 1.3 | -8.7 | 3.7 | 3.2 | 2.0 |
| United Kingdom | 1.3 | 1.4 | -12.2 | 5.2 | 3.2 | 2.2 |
| China | 6.7 | 6.1 | 0.5 | 7.8 | 5.6 | 5.4 |
| Japan | 0.3 | 0.7 | -4.9 | 1.8 | 1.4 | 1.2 |
| India* | 6.1 | 4.2 | -6.3 | 6.7 | 5.1 | 6.1 |
| Brazil | 1.3 | 1.1 | -9.1 | 4.1 | 3.0 | 2.0 |
| Russia | 2.5 | 1.3 | -8.6 | 2.1 | 1.8 | 1.5 |

*Fiscal years starting 1 April
Source: IHS Markit

Chris Williamson

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Key diary events (UTC)

Monday 22 June

China loan prime rate
Thailand trade (May)
Taiwan unemployment rate (May)
Hong Kong current account (Q1), inflation (May)
UK household finance index (May)
US existing home sales, Chicago Fed national activity index (May)
Euro area consumer confidence (Flash, Jun)
CBA Australia PMI (Flash, Jun) 23:00 UTC

Tuesday 23 June

Flash PMI for Japan, US, Eurozone, UK, Germany, France (Jun)
Singapore inflation (May)
Taiwan industrial output (May)
US new home sales (May), Richmond Fed manufacturing index (Jun)
BoJ summary of opinions 23:50 UTC

Wednesday 24 June

IMF updates growth forecasts
Thailand and New Zealand monetary policy decision
Malaysia inflation (May)
Thailand industrial production (May)
France business confidence (Jun)
Germany Ifo surveys (Jun)
BoE financial policy committee meeting
Brazil business confidence (Jun)
US house price index (Apr)
ECB non-monetary policy meeting

Thursday 25 June

Germany consumer confidence (Jul)
Philippines interest rate decision
France jobless benefit claims (May)
US durable goods orders, wholesale inventories (May)
US jobless claims (20-Jun)
US corporate profits, PCE prices (Final, Q1)
US Kansas Fed manufacturing index (Jun)
US Fed [stress test results](#)
South Korea consumer confidence (Jun)
ECB general council meeting

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Friday 26 June

Singapore industrial output (May)
France and Italy consumer confidence (Jun)
Euro area loans to households, companies (May)
Italy business confidence (Jun)
US personal income and spending, PCE price index (May)
US University of Michigan survey (Jun)
Japan retail sales (May)

Saturday-Sunday 27-28 June

27/6: Taiwan consumer confidence (Jun)
28/6: China industrial profits (YTD, May)
28/6: Vietnam GDP (Q2), industrial output, trade balance, FDI (Jun)
28/6: Japan housing starts, construction orders (May)

United States Week Ahead

Flash PMIs, PCE Prices and Final Q1 GDP

By Siân Jones

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Amid a further loosening of restrictions imposed during the COVID-19 outbreak, there has been a more widespread return to work for US manufacturers and service providers. Among the key and upcoming data releases are the final Q1 GDP estimate, consumer spending, income and prices plus the latest flash US PMIs. Bringing an early signal for the final month of the second quarter, June's flash data will show whether the US economy is continuing on its path to recovery.

Flash PMIs

Flash PMI data for June will provide an early signal as to the health of the private sector at the end of the second quarter. The final estimate for first quarter GDP is likely to be unchanged at a 5% annualised rate of contraction, reflecting the pandemic's impact, the second quarter downturn will inevitably be far steeper. More encouragingly, the data flow so far indicates that the economic downturn bottomed out in April. That said, firms responding to the PMI surveys remained highly uncertain as to how long it could take for business levels and demand to return to pre-pandemic levels of activity. Strong PMI numbers will be needed to indicate a meaningful recovery.

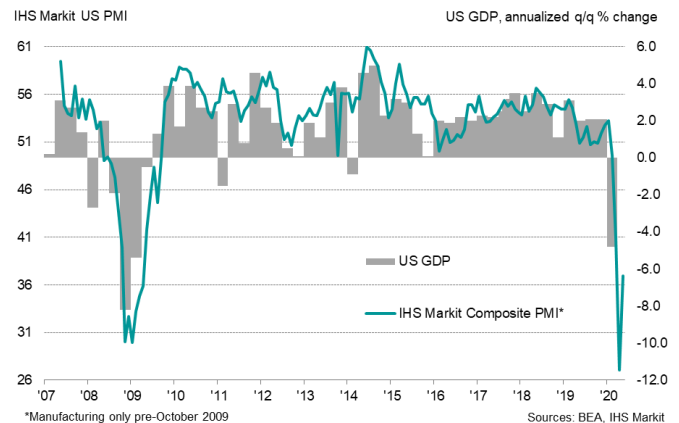
Clues as to the health of the private sector labour market will also be keenly watched for signs that temporary lay-offs have been reversed, but more importantly, that those out of work on a more permanent basis are able to find gainful employment.

PCE Prices

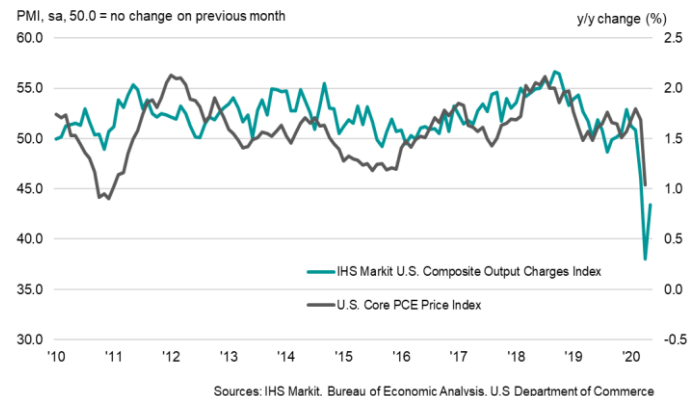
Steep declines in consumer spending and sharp drops in oil prices placed downward pressure on inflation during the opening stages of the pandemic, with the annual change in the PCE Price Index falling to 0.5% in April. Excluding volatile items like food and energy, core PCE price inflation also eased to 1%, as non-essential purchases were kept to a minimum. The steady reopening of the US economy is expected to place upward pressure on prices, however, as demand for goods and services picks up.

Also featuring in the upcoming release schedule is an update to durable goods orders, which sank in April, jobless claims data and regional manufacturing surveys.

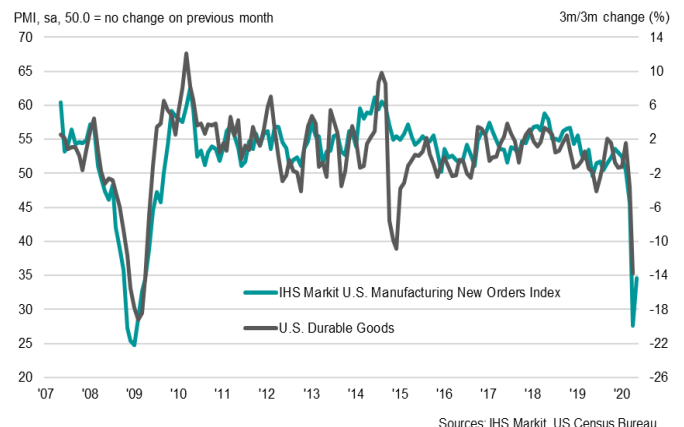
The US economic downturn sparked by COVID-19 outbreak appears to have hit its nadir in April



Inflationary pressures look set to pick up in May as the economy reopens and demand revives



Durable goods orders plunged in April, but May data should be better as manufacturers returned to work



Europe Week Ahead

June Eurozone and UK flash PMIs to guide recovery expectations

By Joe Hayes

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High on the agenda in the coming week will be the flash PMI surveys for June, giving insight into the latest economic developments as the continent continues to relax lockdown measures. Analysts and investors will be keen to see signs that business activity is picking up as we head into the second half of the year. A slew of confidence indicators are also due, while interest rates are set in Hungary and the Czech Republic.

Euro area PMIs

As countries across the continent emerge from strict lockdown measures implemented in March, PMI surveys will warrant close attention to assess the breadth and strength of the economic recovery.

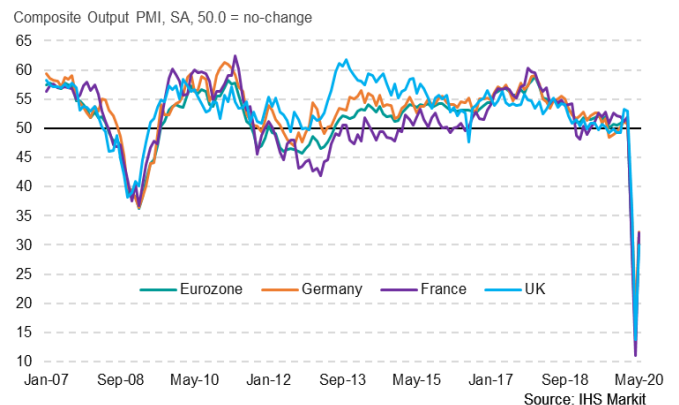
Flash PMI estimates for June will be eyed for signs that the broader re-opening of economies has helped business activity to rebound, adding to the debate over the shape of the recovery. While recent positive data and a strong policy response over in the US has encouraged talk of a more positive “V-shape” across the Atlantic, the chance of a fast and robust rebound in the euro area appears more skewed to the downside, given a less cohesive fiscal policy retort across the region and given that business conditions appeared fragile before the pandemic.

Of course, a lot of uncertainty remains with regards to consumer and business spending. On one hand, pent-up demand could lead to a surge in spending. On the other hand, consumption habits could remain cautious as social distancing and job market worries persist.

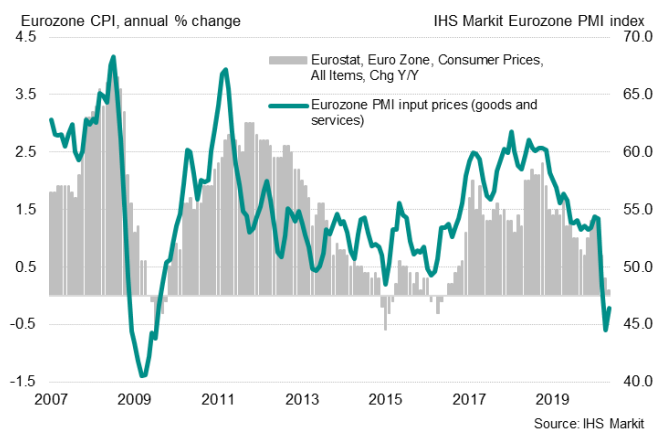
UK PMI

The UK has lagged the rest of Europe with its easing of public health measures, but some of the worst-hit parts of the economy have begun to re-open in June. Flash PMI data due next week could therefore show a broader pickup in economic activity, although crucial areas of the service sector such as dine-in restaurants, bars and hotels remain shuttered for the time being. Whether the restart of the economy will lead to a strong recovery hangs in the balance, especially given that joblessness looks [set to rise sharply](#) in the coming months.

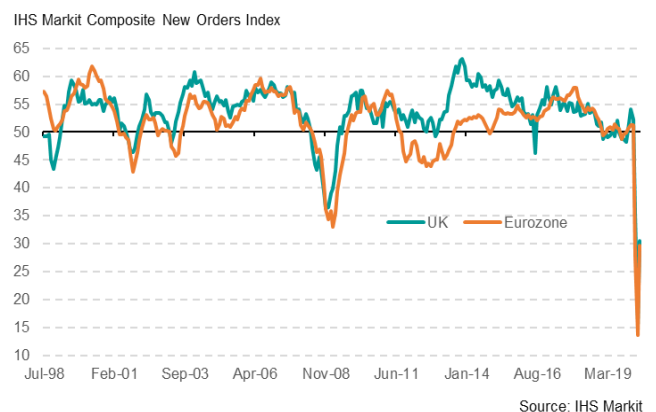
Flash PMI data will help assess the extent to which the euro area and UK economies have emerged from shutdowns



June PMI data will also provide an update on inflationary trends. Eurozone CPI fell to 0.1% on an annual basis in May, with UK inflation down to 0.5%.



Questions remain whether demand will recover strongly or be held back by social distancing and risk-averse spending behaviour



Asia Pacific Week Ahead

Flash PMI data, Thai and New Zealand monetary policy, Vietnam GDP

By **Bernard Aw**

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The full extent of economic damage inflicted by the COVID-19 pandemic in the second quarter can be gleaned from June flash PMI results. Markets will scrutinise forward-looking PMI indicators such as new business inflows for signs of recovery as countries emerge from lockdowns. In Asia Pacific, flash PMI data in Japan and Australia will be closely monitored. Thailand and New Zealand will decide on monetary policy, while the Bank of Japan's summary of opinions should also warrant attention.

The calendar is also heavy with other economic data, including Japan's housing and construction orders, China's industrial profits, Taiwan's jobs and industrial production, as well as Vietnam's GDP figures. Consumer surveys in Taiwan and South Korea will meanwhile also provide clues on consumption trends.

Flash PMI

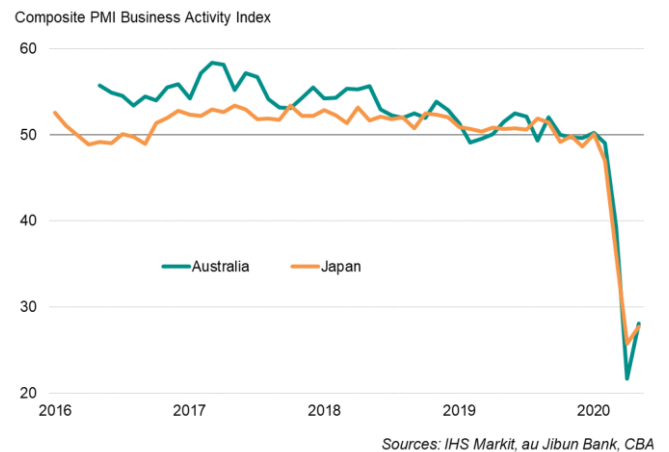
With Japan and Australia having eased COVID-19 restrictions from late-May, analysts will keenly assess the June flash PMI data for clues of a revival in economic activity. In Japan, domestic emergency measures and a global trade downturn hit the economy. As such, the PMI's gauge of export sales will also provide clues on Japanese trade performance during June. Meanwhile, data on housing and construction orders will provide further indication on the health of the Japanese economy.

Monetary policy

Policy action will come from Thailand and New Zealand in the coming week. The Bank of Thailand cut its policy rate to a record low of 0.50% in its previous meeting, though the decision was a close one at 4-3. The BOT will release its updated economic forecasts at next week's policy meeting. The [latest PMI survey](#) indicated further contraction of manufacturing output and a record fall in export sales.

The Reserve Bank of New Zealand will be especially interesting. Analysts will look for indications that the policy rate may move into negative territory. This could have ramifications for central banks across Asia Pacific as an increasing number (such as Indonesia and the Philippines) are tapping into unconventional monetary policies to support the economy.

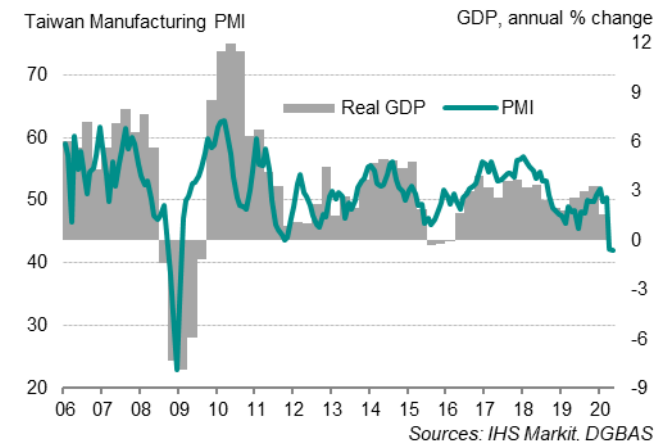
Flash PMIs will be closely watched for prospects of recovery in Australia and Japan after substantial declines in business activity during April and May



PMI data point to steepening downturn in Vietnam



Taiwan PMI and economic growth



Europe Focus

COVID-19: a different kind of crisis

By Ken Wattret

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Comparisons are continually being made between the economic effects of COVID-19 and the Global Financial Crisis (GFC). Given the global nature and severity of both shocks, such comparisons are inevitable but there are many important differences between the two episodes.

One striking difference evident in the eurozone to date is the limited impact on credit conditions. Based on data from the ECB's bank lending survey, the tightening in this downturn has been moderate in comparison to the GFC.

More timely, effective monetary policy responses this time around have played a key part, including the expansion of the ECB's long-term refinancing operations, supporting expectations of a relatively swift rebound.

Loan supply data bring positive news

The results of the European Central Bank's Bank Lending Survey (BLS) for the first quarter of 2020 were not uniformly positive, but the data on the supply side of the survey were encouraging. While credit standards for loans to enterprises tightened in Q1, the change was relatively modest (net percentage of +4%, up from +1% in Q4 2019).

The comparatively small tightening is better illustrated in relation to the changes during the global financial crisis (GFC) and the subsequent eurozone crisis (Chart 1). In those episodes, the net percentages of banks tightening credit standards peaked at around 60% and 30% respectively. According to the most recent BLS, the much-reduced impact this time was due to the size and timeliness of policy responses to the COVID-19 shock and the stronger capital position of eurozone banks.

Credit standards on loans to households for house purchase also tightened somewhat more (net percentage up to +9%, versus +1% in Q4 2019) as did standards for consumer credit and other lending to households (+10%, versus +3%). The deterioration of the economic outlook, a worsening of households' creditworthiness and lower risk tolerance were key drivers. But again, the net effects were modest compared to the turbulence of 2008-9 and 2011-12 (Chart 1).

Chart 1: Changes in credit terms in past 3 months: credit standards tightened only moderately in Q1

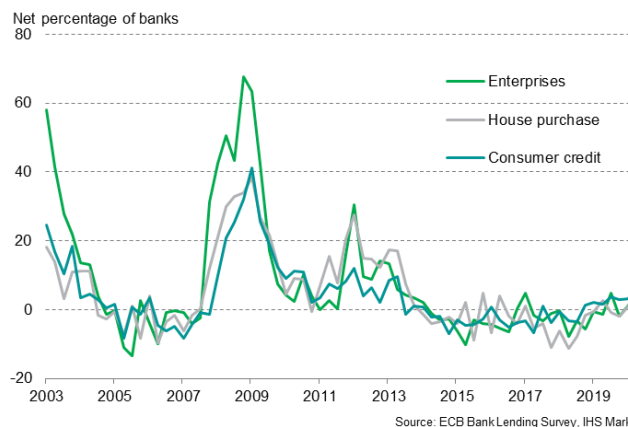
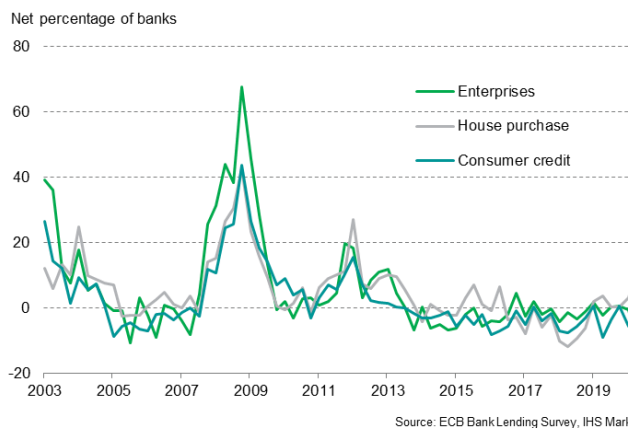


Chart 2: Expected changes to credit terms in next 3 months: some divergence of credit standards expected in Q2



Q1's BLS was compiled between 19th March and 3rd April, when uncertainty over the impact of COVID-19 was exceptionally high. Looking ahead to Q2's update, which is due to be published on 14th July, the expectations for the supply side of the survey were also relatively positive in Q1's edition.

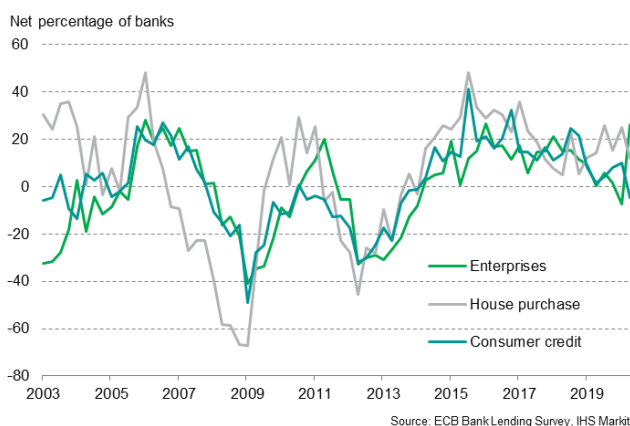
Banks expected a considerable net easing of credit standards on loans to enterprises in Q2 (a net percentage of -11%, Chart 2). While liquidity support measures and loan guarantees by governments were judged to have had only a limited impact in Q1, the extension of measures during Q2 was expected to support the extension of credit to firms.

In April, the ECB announced multiple initiatives to support the flow of credit including: easing conditions on the TLTRO-III's scheduled out to June 2021; introducing seven non-targeted pandemic emergency longer-term refinancing operations (PELTROs); and grandfathering eligibility of marketable assets for collateral in all refinancing operations.

Diverging loan demand between businesses and households

Not all parts of Q1's survey were so encouraging, though. One feature of the data was unprecedented divergence of demand for loans between enterprises and households (Chart 3). The former surged due to firms' emergency liquidity needs following the lockdown of large parts of the economy: the net percentage of banks reporting an increase in loan demand jumped to +26% in Q1 2020, from -7% in Q4 2019.

Chart 3: Corporate loan demand rose sharply in Q1



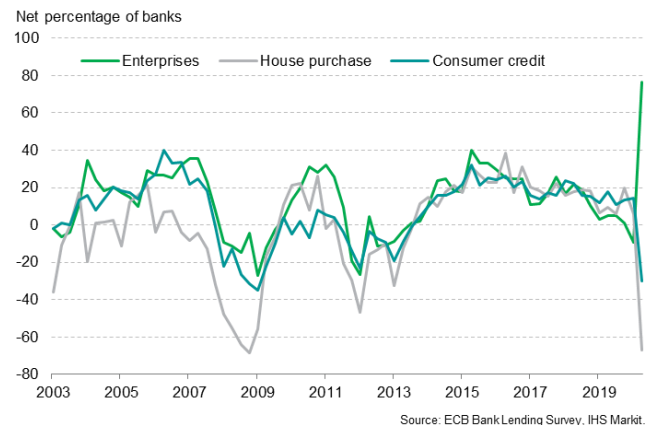
Notably, demand was much higher for short-term loans (net percentage +29%) than long-term loans (+5%). Financing needs for inventories and working capital rocketed, whereas financing needs for fixed investment acquisitions declined, reflecting reduced risk appetite. This augurs poorly for business investment in Q2.

Household net demand for housing loans moderated in Q1 (net percentage of +12%, down from +25% in Q4 2019), while the net percentage for demand for consumer credit and other lending turned negative (-4%, versus +10%).

The divergence of demand developments between the corporate and household sectors is likely to continue. Q1's BLS results suggested that net demand for loans to firms would surge even further in Q2, with the net percentage of banks predicting higher demand in Q2 soaring to 77%, a record high by some distance (Chart 4).

In contrast, very negative net balances for loan demand were expected for housing (-67%) and consumer credit (-30%) in Q2 2020. For housing loans, this would be similar to the trough during the GFC in the second half of 2008.

Chart 4: Corporate loan demand expected to surge in Q2



Loan demand notably stronger in Germany and France

Loan demand developments also diverged across eurozone member states. Net demand for loans to enterprises rose markedly in Germany and France in Q1 2020 but declined in Spain and remained unchanged in Italy. For housing loans, net demand continued to increase in Germany and France but decreased in Spain and Italy.

More generally, there was unusually high dispersion across banks' responses in Q1's survey, highlighting considerable uncertainty over the potential impact of COVID-19 and banks' different approaches regarding the impact on bank lending conditions.

Outlook

From the information available in the survey, the risk of a credit crunch exacerbating the economic slump in the eurozone looks relatively low in relation to prior shocks, supporting expectations of a relatively swift economic recovery. However, in line with recent signals from higher frequency indicators, marked differences are likely across member states and sectors.

Transport Focus

Transportation sector nosedives amid COVID-19 related travel restrictions

By Siân Jones

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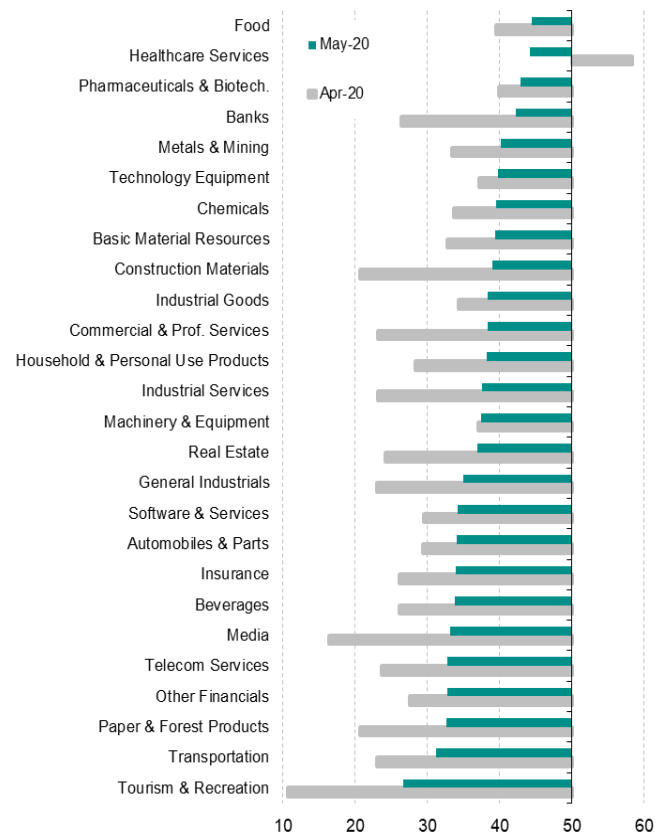
2020 has proved an already challenging year for the transportation sector, as supply chains and demand have been disrupted following the outbreak of COVID-19. Recently released IHS Markit Sector PMI data signal regional differences in output and employment across the industry as economies begin to tentatively reopen. Although sub-sectors focusing on postage and warehousing are expected to return to pre-pandemic levels by 2022, firms in the freight industry are unlikely to be as fortunate as air travel and shipping face greater obstacles to growth as travel restrictions remain in place.

Supply chains hampered by COVID-19 outbreak

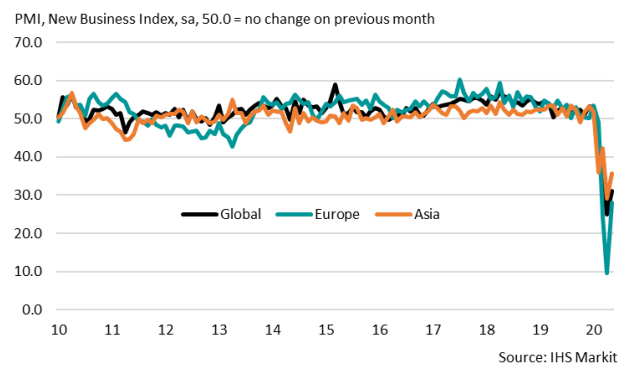
As economies tentatively begin to reopen following the crippling impact of the coronavirus disease 2019 (COVID-19) outbreak during 2020 so far, a divergence in sectoral fortunes is becoming more apparent. Although some segments of industry were able to operate during lockdowns, returns to work during May were more widespread as firms adapted to COVID-19 compliant health and safety practices. However, large swathes of the service sector remained shut, or only partially operational, as emergency public health measures continued to prohibit or restrict many of their previous business practices.

Notable sectors that have struggled include transportation. Although included in this are courier and postal services, which have been important to many consumers during lockdowns, household deliveries are a typically low-margin area of any courier business. Airline services, cargo, freight and storage have all meanwhile been stymied by travel restrictions and supply chain delays. Ranking second from bottom in the May output league table, according to the latest IHS Markit Global Sector PMI data, the contraction in transportation activity was exceeded only by that seen for tourism & recreation.

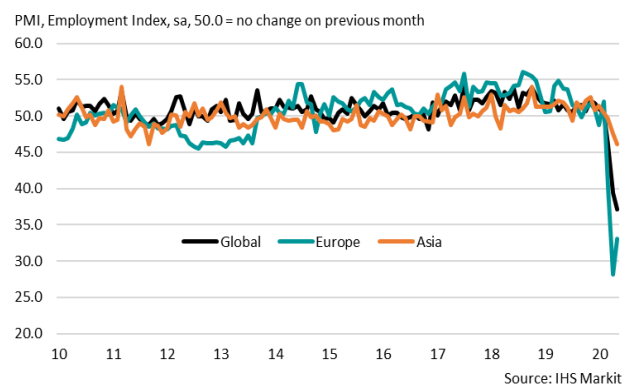
Global sector PMI output rankings



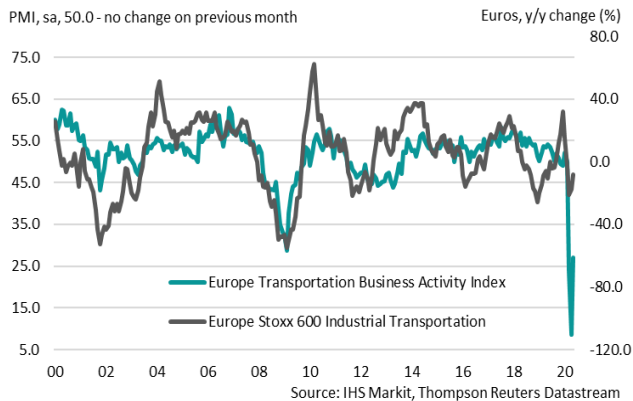
Transportation new business dropped markedly in April and May as COVID-19 disrupted supply chains and brought global travel to a halt



Sharp fall in regional transportation employment



European transportation sector dented by global lockdowns



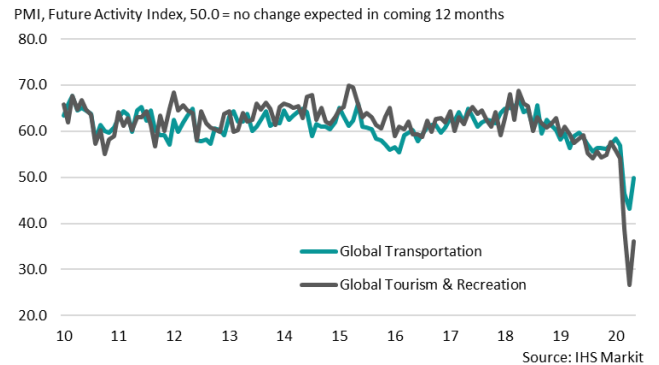
Demand unlikely to regain strength until travel restrictions are lifted

The transportation sector plays a pivotal role in logistics and supply chain movements across the world, with the impact of COVID-19 travel restrictions on the day-to-day operations of storage and cargo firms heavily denting supplier performance in the manufacturing sector, placing downward pressure on supplier margins. Although supplier prices for some items were reported to have risen due to shortages, 12 of the 15 PMI surveys for which both manufacturing and services 'composite' data are available registered lower cost burdens in May. Nonetheless, at the global and European level, companies stated that the rate of decline in output prices outpaced that of input prices as firms sought to attract new clients and retain existing customers, indicating compressed margins.

Essential travel only and weak demand leads to job cuts

Meanwhile, confusion surrounding quarantine periods and discussions regarding reciprocal travel arrangements for those from countries with low infection rates has led to calls from travel firms for greater clarity. Without clearer guidelines on who can travel where, companies fear greater drains on demand, especially for air travel. The mass grounding of fleets has led to vast job losses at airline providers across the world, with British Airways alone expecting to make 12,000 redundancies as the pandemic continues. Cuts to transportation employment were recorded across all monitored regions for which comparable sector PMI data are available in May. European companies registered the sharpest contraction in workforce numbers as travel across the

Transportation companies' expectations moderate, despite tourism firms struggling to bolster optimism



region remained minimal and hopes for peak season tourism remain muted.

Although the rate of job cuts eased in May, expectations of a challenging tourism season across Europe may lead to cases of prolonged unemployment. The drop in demand may also lead to a greater deterioration in labour market conditions than was seen during the financial crisis, especially if uncertainty surrounding the virus and a vaccine remains.

That said, hopes of more wide-spread easing of lockdowns boosted transportation sector firms expectations towards output over the coming year. Although companies are (on balance) not confident of an increase in activity, they no longer foresee further sharp drops in demand, with activity expected to be broadly unchanged. This contrasts markedly with companies in the tourism & recreation sector who continue to foresee a decline in activity over the next year.

Shipping industry faces roadblocks amid labour changeover restrictions

A more immediate concern for those involved in the global shipping industry comes from the expiration of extensions to labour agreements for those working on shipping containers. Due to recent travel bans and borders closures, it has become increasingly difficult to crews to change when their shift ends. Therefore, extensions to contracts were imposed during March which allowed firms to keep staff on board even if this meant employees were working beyond the hours permitted by international agreements leading to calls for greater safety amid exhaustion. The end of these extensions came into force on June 16th, which will create new challenges for the global shipping

community, with many ships unable to swap crews easily.

The global shipping industry helps transport around 80% of global trade by volume, with any delays to crew changeovers slowing supply chains notably. A recent joint statement from the International Maritime Organisation (IMO) and United Nations Conference on Trade and Development (UNCTAD) called for those working in shipping to be designated as ‘essential’ workers, with allowances for repatriation and travel necessary for the safety of workers. Such designations are also important for the continuance of the global shipping industry which transports, among other consumer goods, crucial medical supplies and food.

As a result, firms may have been pushed to choose higher cost means of transportation such as air freight. Although demand for the faster transportation of goods may have increased since the outbreak of COVID-19 began to slow global supply chains in January and the urgency of delivery for certain goods, travel bans have put pressure on capacity.

Data from the TAC Index (produced by the Air Freight Index Company), which monitors air freight rates on key routes such as Hong Kong to Europe and Frankfurt to North America, signalled that rates dipped notably across important transport routes in February and climbed sharply in the period to May due to strong demand for PPE. However, a reduction in urgent demand for PPE in economies impacted by the recent escalation of the pandemic has led to a recent drop in rates. Although demand for PPE products has reportedly helped support rates during the height of the pandemic, it is now unclear how air cargo providers will supplement services as passenger travel begins again.

Forecast signals transportation sector recovery in the medium term

In line with transportation sector expectations of reduced pessimism towards the year ahead outlook for activity, the IHS Markit Comparative Industry Service (CIS) are forecasting a return to growth through 2021. Although 2020 is expected to remain a challenging year, as many key changes for the transportation industry including a large reduction in travel restrictions will take time to be introduced, it is anticipated that some sub-sectors could see demand boosted as soon as 2021.

That said, a return to growth across the sector as a whole does not equate to a return to the levels seen

before the pandemic’s escalation. According to CIS analysis, it is likely the recovery will take longer for some sub-sectors than others as opportunities for expansion are not widespread. The accelerated rise in e-commerce is an avenue for growth available to those in warehousing and support services, which should pull them back up above 2019 levels by 2022, with ongoing growth in postal and courier services forecast. Opportunities may not be so clear-cut for those in the land, air and sea transport sub-sectors. In fact, due to the challenges expected across tourism and leisure, any recovery in air transport is likely to be protracted and activity is not forecast to exceed the levels seen in 2019 until 2026.

Transportation sector set to return to growth in 2021, but recovery likely to be prolonged due to demand concerns

