Economic Research

9 September 2019

Week Ahead Economic Preview

Global overview

- **ECB policy meeting**
- **US inflation and retail sales to add to Fed guidance**
- **UK GDP and labour market updates**
- **China, Japan and India data to steer policy**
- **Special report on Hong Kong SAR**

With global economic growth reported to have slowed closer to three-year lows in August, according the latest PMI surveys, the markets will be looking for signs of further stimulus. While the ECB looks set to unleash further monetary easing, data updates from the US, UK, China, Japan and India will all also help guide on appetite for further stimulus around the world.

The ECB has paved the way for fresh stimulus at its September 12th meeting, and markets are merely speculating over the size and nature of the measures to be implemented. It's a different story in the UK, where the Bank of England retains the view that interest rates will need to rise in the absence of a no-deal Brexit. However, new labour market data and the first official data for GDP in the third quarter could see more calls for the Bank of England to support the economy, as recent survey data have pointed to a risk of recession. Brexit developments will of course also continue to dominate the markets (see page 4).

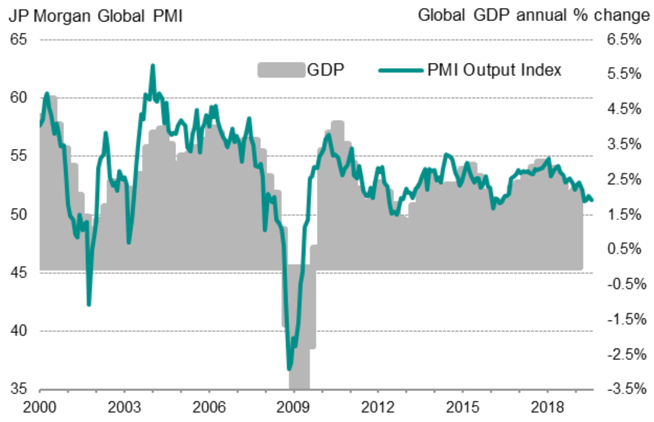
Meanwhile, with markets expecting the FOMC to cut US rates again at the end of the month, upcoming inflation, retail sales and consumer confidence numbers will give hints as to consumer resilience and the economic outlook amid the ongoing trade wars. The official releases come on the heels of PMI survey data pointing to US GDP growth slowing in the third quarter amid an intensifying, trade-led, manufacturing downturn (see page 3).

In Asia, the trade war impact and – in the case of Hong Kong SAR – political unrest will remain under scrutiny. See our special report on Hong Kong SAR on page 6. Lending data for China will meanwhile give hints as to the extent to which domestic stimulus may be offsetting trade frictions, while the health of the Japanese economy ahead of a planned sales tax rise will be sought from a GDP update. Inflation and industrial production numbers will also be released for India, where interest rates are now down to nine-year lows (more on page 5).

Contents

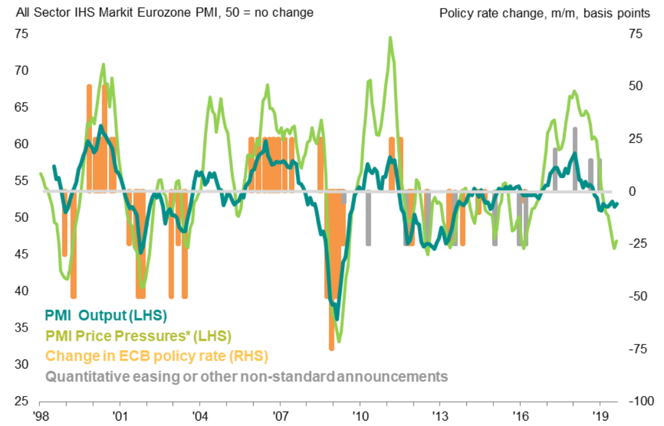
Special reports

Global economic growth continued to slow in August, setting the scene for more policy easing…



Sources: IHS Markit, JPMorgan.

…especially in the Eurozone, where the ECB is expected to unleash fresh stimulus



Sources: IHS Markit, ECB.

Key diary events

Monday 9 September
Japan GDP (final, Q2)
UK monthly GDP, industrial production, services output, construction output, trade balance (Jul)
Russia GDP (final, Q2)

Tuesday 10 September
China inflation (Aug)
France industrial production (Jul)
Italy industrial production (Jul)
UK unemployment, wages, employment, job vacancies (Jul)
US JOLTs job openings (Jul)
South Africa manufacturing production (Jul)

Wednesday 11 September
South Korea unemployment (Aug)
Spain industrial production (Jul)
Mexico industrial production (Jul)
Brazil retail sales (July)
US wholesale inventories, PPI (Aug)

Thursday 12 September
Japan machinery orders, producer prices, tertiary sector index (Jul)
Germany inflation (Aug)
France inflation (Aug)
Eurozone industrial production (Jul)
ECB interest rate decision
India industrial production (Jul), inflation (Aug)
US inflation (Aug)

Friday 13 September
Australia unemployment (Aug)
Japan industrial production (Jul)
Spain inflation (Aug)
Eurozone trade balance (Jul), labour cost and wage growth (Q2)
US retail sales, import and export prices, business inventories (Aug),
University of Michigan US consumer confidence (Sep)

For further information:

If you would like to receive this report on a regular basis, please email economics@ihsmarkit.com to be placed on the distribution list.

For more information on our products, including economic forecasting and industry research, please visit the Solutions section of www.ihsmarkit.com

For more information on our PMI business surveys, please visit www.ihsmarkit.com/products/PMI

Click here for more PMI and economic commentary.

For all further information, please visit
www.ihsmarkit.com

Chris Williamson
Chief Business Economist
IHS Markit
Email: chris.williamson@ihsmarkit.com

United States Week Ahead

Inflation, retail sales and wholesale inventories

By Siân Jones

Economist, IHS Markit, London

Email: sian.jones@ihsmarkit.com

With the September FOMC meeting fast approaching, markets will look to updated inflation data to gauge the likelihood of further rate cuts through the remainder of 2019. Latest data on retail sales and consumer confidence meanwhile will provide hints as to consumer resilience amid a fresh tranche of tariffs. Also released are data on wholesale inventories, jobless claims and inflation expectations.

Inflation

US inflation data for July are widely expected to show an easing in price pressures. Relatively muted rates of inflation have been seen in recent months, coinciding with a global slowdown, which have weighed heavily on the minds of US policy makers. Markets have priced in a cut in September as a result, disregarding Fed comments that July's rate cut was not the start of an easing cycle. According to financial markets, more cuts are being increasingly priced in before the end of the year.

Subdued demand and greater competition have reportedly been linked to lower price pressures during August, with PMI data suggesting that the official inflation release will confirm a softer rate of inflation.

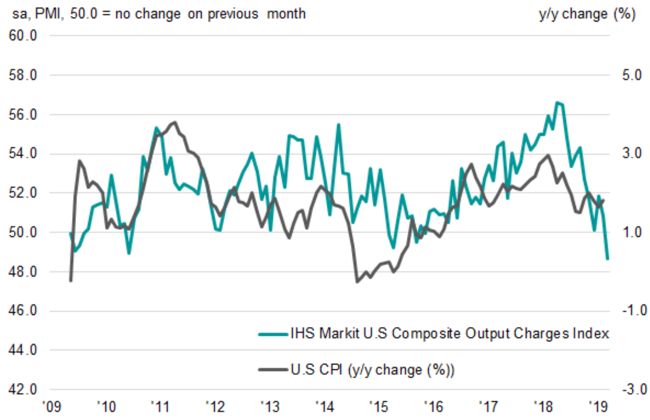
Retail sales

Although retail sales jumped at a stronger than expected rate in July, concerns surrounding trade wars and tariffs may be starting to spread from producers to consumers. Nevertheless, August retail sales are forecast to continue to increase, albeit at a more moderate pace. The strong upturn in consumer spending has broadly been attributed to tight labour market conditions. However, stronger headwinds across the global and US economies may pose as a drag on consumer sentiment in coming months. University of Michigan survey data will provide a fresh insight into the latter.

Wholesale inventories

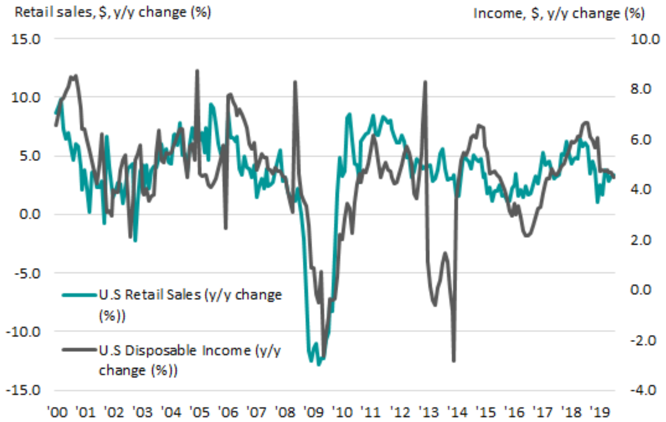
Weaker demand across the manufacturing sector and greater hesitancy among clients were seen as driving factors behind stable inventory levels during August. The latest PMI data points to a 0.2% increase in stocks, in line with consensus forecasts.

Inflationary pressures to soften further



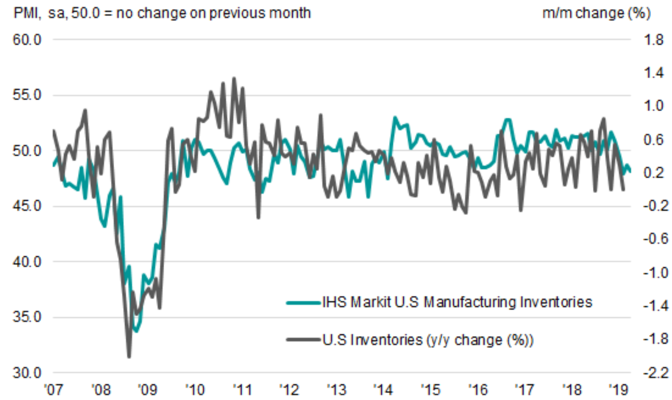
Sources: IHS Markit, Bureau of Labour Statistics, U.S. Department of Labour

Consumer demand remains buoyant



Source: U.S. Census Bureau, Bureau of Economic Analysis and U.S Department of Commerce

Inventory levels stabilise



*weighted average of U.S Manufacturing PMI Stocks of Purchases and Stocks of Finished Goods Indexes

Sources: IHS Markit, U.S Census Bureau

Europe Week Ahead

ECB stimulus eyed at policy meeting, plus UK GDP and jobs updates

By Chris Williamson

Chief Business Economist, IHS Markit, London

Email: chris.williamson@ihsmarkit.com

An important week looks set to see fresh policy stimulus from the European Central Bank, while GDP and labour market updates in the UK will be scoured for signs that the economy could be slipping into recession amid heightened Brexit uncertainty.

ECB meeting and eurozone updates

Renewed stimulus from the ECB is expected at the Governing Council meeting, especially after disappointing PMI data highlighted the ongoing malaise affecting the Eurozone economy in August. The minutes from the ECB's July meeting showed agreement that a highly accommodative monetary policy stance would be needed for a prolonged period of time, and that there was broad agreement to reintroduce an easing bias and to look at options for new asset purchases. Our European economics team therefore expects a restart of net asset purchases and a reduction in the deposit facility rate of 10bp, to a new low of -0.50. The door will likely be left open for further cuts. For more details please see our special report.

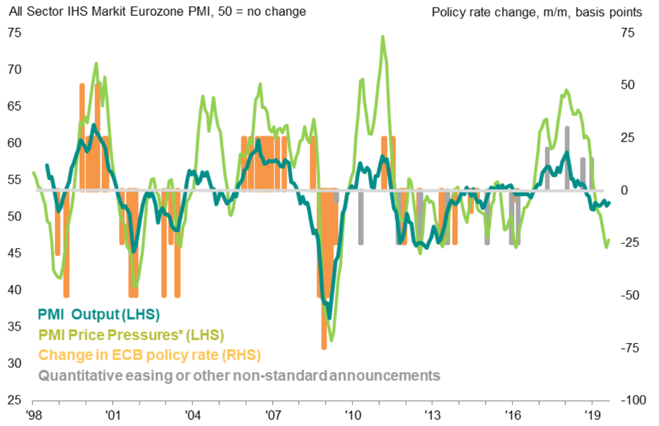
Note that Eurozone industrial production numbers are also updated during the week, and are likely to further add to the case for stimulus as manufacturing remains the main source of economic weakness.

UK GDP and jobs reports

Brexit politics will continue to overshadow markets in the UK, but a clutch of key data releases will also be eagerly awaited for signs that the economy could be sliding into recession amid the uncertainty. Official GDP data for July, which includes a breakdown for manufacturing, services and construction, follow PMI data which showed the economy barely expanded in July and fell back into decline in August. The survey currently hints at a 0.1% fall of GDP in the third quarter, which would follow a 0.2% drop in the second quarter.

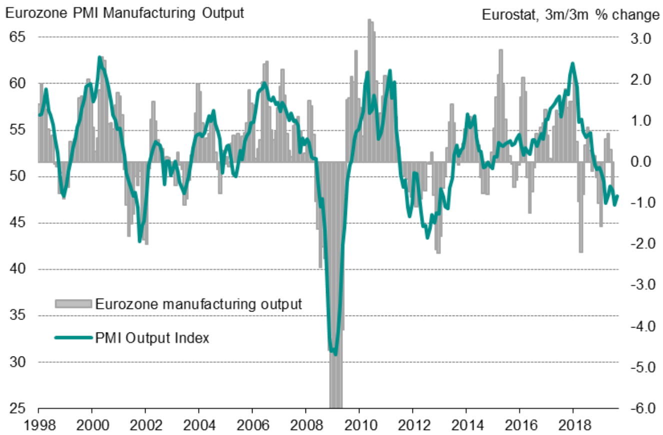
Official UK labour market data are also updated and we expect to see further cracks appearing in what has hitherto been the economy's main area of resilience. Jobs growth in particular looks set to weaken after recent surveys showed signs of reduced hiring. Wage growth could also start cooling, which could prove pivotal in determining whether the Bank of England retains its view that the next move in interest rates will be a hike, in the absence of a no-deal Brexit.

ECB set to introduce new stimulus package



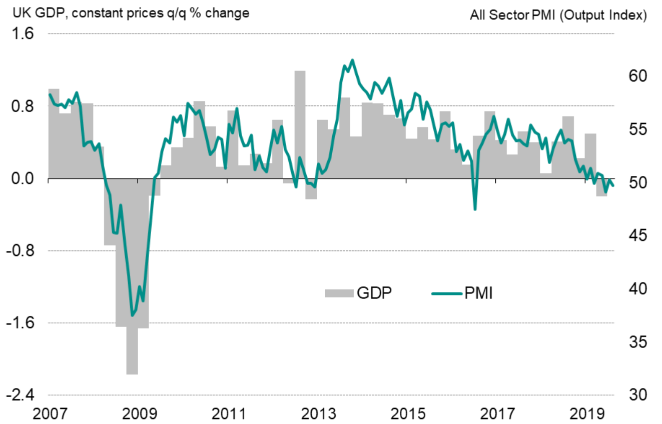
Sources: IHS Markit, ECB.

Eurozone manufacturing output set to disappoint



Sources: IHS Markit; Eurostat .

UK GDP update on recession risk



Source: IHS Markit, CIPS, ONS

Asia Pacific Week Ahead

China loans and inflation, Japan GDP and key indicators for India

By Chris Williamson
Chief Business Economist, IHS Markit, London
Email: chris.williamson@ihsmarkit.com

Political developments in Hong Kong SAR will be key triggers for markets during the coming week, alongside key indicator releases for China, Japan and India, including revised GDP data, inflation numbers and industrial production updates.

China inflation and loan growth

With the US and China set for further trade meetings, eyes will be on the extent to which China's economic growth is being hit by tariffs, and whether domestic stimulus is having a meaningful counter effect. New yuan loan data will therefore be parsed for insight into lending trends and appetite to borrow.

Inflation numbers will also be released and are widely expected to show the annual rate easing slightly, in part due to falling commodity prices. Producer price inflation is expected to fall further into negative territory, corroborating earlier survey data which have hinted strongly at easing price pressures. The Caixin manufacturing PMI showed input prices falling August at a rate not exceeded since January 2016.

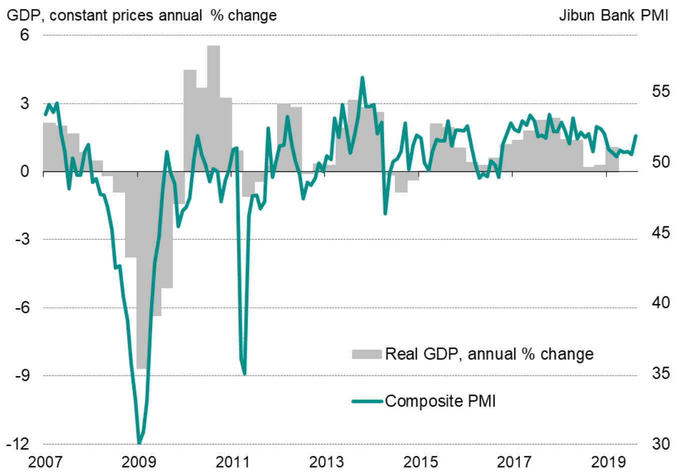
Japan GDP and industrial production

Japan's second quarter GDP data are updated, and look set to be to be revised lower after earlier estimates clocked up a surprisingly strong 0.7% expansion. A robust increase of around 0.5% would nevertheless still be in line with the signals from the PMI surveys. Better news should meanwhile come from industrial production numbers, which are anticipated to confirm a rebound after falling sharply in June, though the sector still appears to be stuck in a downturn. The Jibun Bank PMI showed an eighth successive monthly fall in manufacturing output in August. Machinery orders are likely to add to the picture of manufacturing weakness, but Japan's tertiary sector index could prove more resilient after the services PMI rose sharply in August.

India inflation and industrial production

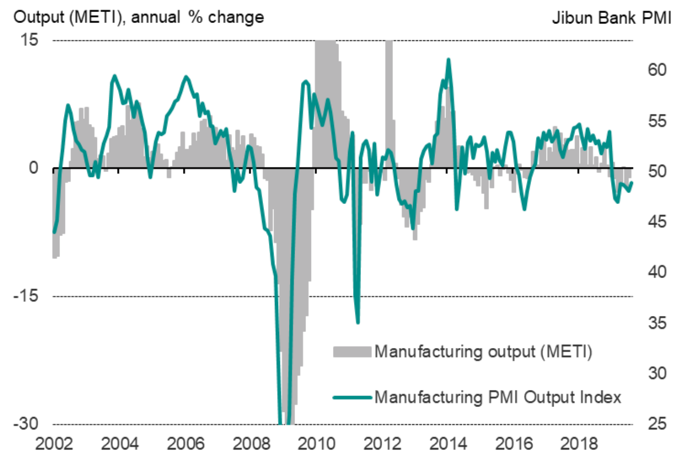
Inflation and industrial production numbers will also be eagerly anticipated in India, where the central bank has cut interest rates to nine-year lows amid concerns over the struggling economy and darker global environment.

New Japan GDP estimates to be released



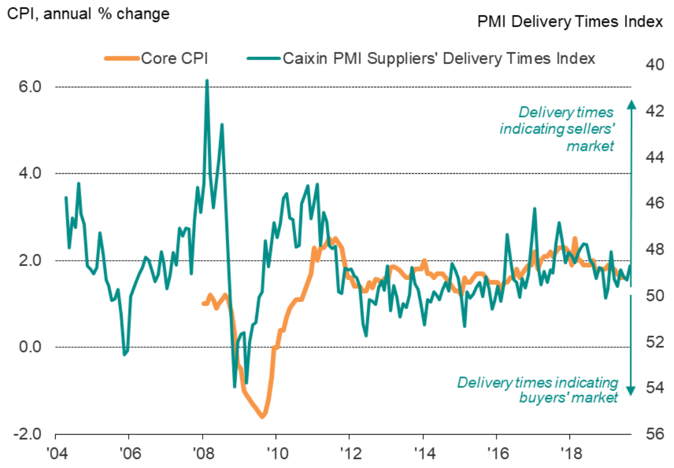
Source: IHS Markit, Jibun Bank.

Japan's manufacturing sector under spotlight



Source: IHS Markit, Jibun Bank.

Caixin PMI signals moderate core price pressures



Source: IHS Markit, Caixin.

Asia Pacific Special Focus

China's Hong Kong SAR economy slides into recession

By Rajiv Biswas

Asia-Pacific Chief Economist, IHS Markit

Email: Rajiv.Biswas@ihsmarkit.com

The escalating US-China trade war and the disruption caused by political protests have had an increasingly negative impact on the economy of the Hong Kong Special Administrative Region of the People's Republic of China (HKSAR) during the first three quarters of 2019. During July and August, significant disruption of retail trade and the tourism industry is estimated to have occurred as the political protests intensified. Government of Hong Kong SAR Financial Secretary Paul Chan has recently warned of an "economic typhoon" that is hitting the HKSAR economy due to the US-China trade war and impact of political protests in HKSAR.

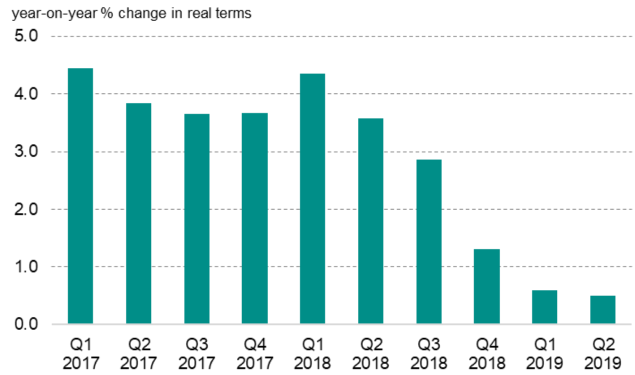
With HKSAR real GDP having already contracted by 0.4% quarter-on-quarter in Q2 2019, high frequency economic indicators such as retail sales, exports and tourism figures, as well as the IHS Markit PMI for Hong Kong SAR, signal that the HKSAR economy will record negative quarter-on-quarter GDP growth in Q3 2019, entering a technical recession. The prospects for any near-term recovery for the stalling economy will depend on whether the protracted political protests will continue to cause disruption to the domestic economy in coming months.

US-China trade war hits HKSAR exports

The ongoing US-China trade war and weakening global trade flows have already had a negative impact on Hong Kong SAR's export sector even before the recent political demonstrations significantly dampened domestic demand. For Q2 2019, the value of total HKSAR exports of goods contracted by 4.7% over the same period in 2018, with exports to mainland China down by 5.3% year-on-year (y/y) while exports to Japan fell by 5.9% y/y and exports to Germany declined by 12.5% y/y.

While exports of services recorded a marginal increase of 0.3% y/y in Q2 2019, this represented a sharp slowdown from the rapid 9.6% y/y pace of services exports growth recorded in calendar 2018.

Hong Kong SAR GDP growth slowdown



Source: IHS Markit.

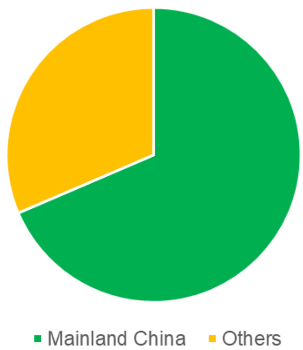
Tourism industry suffers from disruptions

While exports of travel services still recorded positive growth of 2.3% y/y in Q2 2019, this will most likely contract in Q3 2019, due to the repeated disruption of operations at Hong Kong International Airport during August and September. Total tourism visitor arrivals already fell by 4.8% y/y in July, with mainland China tourism visits down by 5.5% y/y, even before the severe disruptions to flights that occurred in August.

The tourism industry is a key sector of the Hong Kong SAR economy. It contributes around 5% of Hong Kong SAR's GDP and employed around 260,000 persons, accounting for about 7% of total employment. In 2018, total overnight visitor arrivals to Hong Kong SAR rose by 4.9% to 29.3 million. Including same day visitors, overall visitor arrivals grew by 11.4% to 65.2 million. Consequently, any significant and protracted decline in tourism visits to HKSAR could pose a significant downside shock to the overall HKSAR economy.

Hong Kong SAR overnight tourist visits

first half of 2019, % share of total



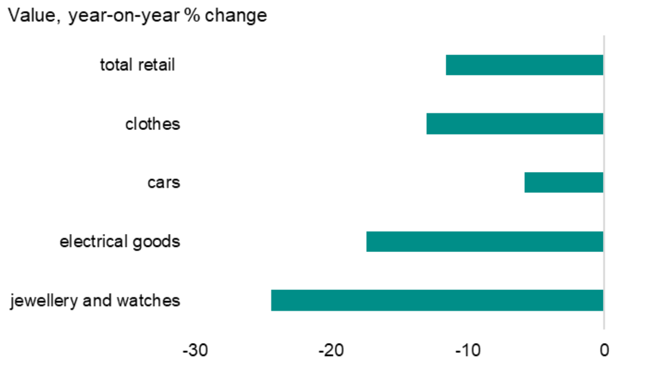
Source: IHS Markit.

Slumping retail sales

Hong Kong SAR retail sales fell by 11.4% y/y in July, significantly worse than the contraction of 6.7% y/y in

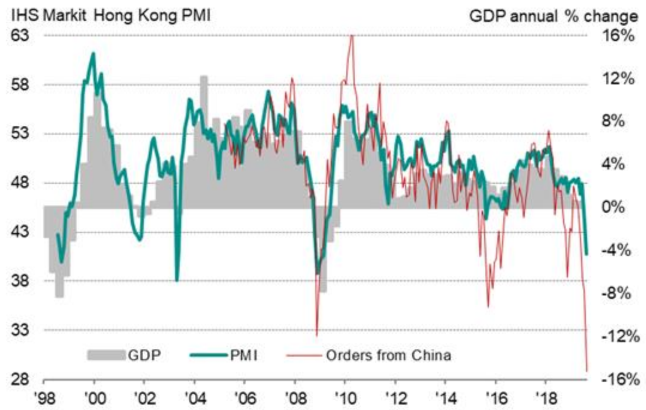
June, reflecting the growing impact of the political protests on commercial activity and tourism visits. The disruption to the tourism industry during July and August also impacts on retail sales figures, and further weakness is likely in coming months. Tourists are an important source of demand for a number of segments of the domestic retail sector, notably for luxury goods, such as watches, clocks and jewellery. The severe impact of the disruption to ordinary retail activity is highlighted by the 24.4% y/y decline in sales of luxury goods during July.

Hong Kong retail sales July 2019



Source: Census & Statistics Dept, Govt of HKSAR

IHS Markit PMI for Hong Kong SAR



Source: IHS Markit.

HKSAR Financial Centre Faces Competition

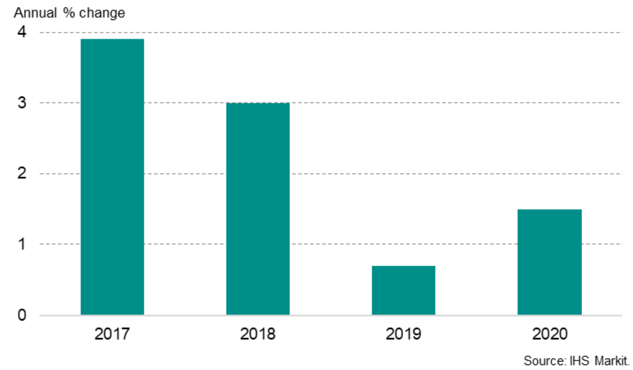
The HKSAR financial centre is one of the world's four largest international financial centres. The HKSAR financial centre is already facing a gradual increase in competitive challenges from the rapid growth of mainland China's largest financial centres, notably Beijing, Shanghai and Shenzhen.

Hong Kong SAR is also facing international competition from Singapore, with the two cities being the largest international financial centres in the Asia-Pacific. Protracted political protests will erode the competitiveness of Hong Kong SAR given the importance of business continuity and stability for the success of leading international financial centres. With HKSAR being an important international financial centre for wealth management and asset management, these segments of HKSAR's financial services sector could face increasing competition from other Asian international financial centres.

Near-term Outlook for HKSAR

HKSAR is estimated to have already entered a technical recession in Q3 2019. The near-term economic outlook continues to be clouded by the combined impact of disruptions to commercial activity caused by political protests as well as the continuing US-China trade war.

Hong Kong GDP growth, 2017-2020



With the US-China trade war having continued to escalate in August and September, further negative transmission effects to the HKSAR export sector are expected during the remainder of 2019. If no trade deal can be reached between the US and China by the end of 2019, HKSAR could face another difficult year in 2020 as the impact of the US-China trade war continues to hit exports. Meanwhile the domestic economy has been badly impacted by the protracted political protests, which have resulted in slumping retail sales.

In response to the negative shocks to the HKSAR economy, the Government of the Hong Kong Special Administrative Region of the People's Republic of China has announced fiscal stimulus measures of HKD 19.1 billion (USD 2.4 billion) on 15th August 2019 to support economic growth. With its very strong fiscal position, the Government of the HKSAR has considerable fiscal capacity to deliver further fiscal stimulus measures to support the economy through its current period of economic weakness. The HKSAR's fiscal reserves were estimated at 41 percent of GDP at the end of 2017, with foreign exchange reserves amounting to a further 127 percent of GDP.

Nevertheless, even though fiscal measures may dampen the impact of the negative economic shocks, the near-term outlook for Hong Kong SAR's economy in late 2019 and early 2020 is very weak, particularly if protests continue to disrupt retail and tourism sector activity.

A key long-term concern for the HKSAR economy is if the current protracted period of economic disruption results in the erosion of investor confidence in HKSAR, notably for the competitiveness of its international financial centre as well as its role as a regional headquartering hub for multinationals for their Asia-Pacific operations.