

Week Ahead Economic Preview

Global overview

- US, Eurozone, Japan and Australia Flash PMIs
- US GDP, PCE update and durable goods orders
- China industrial profits
- Policy decisions in the Philippines, New Zealand and Thailand
- Special report on APAC export outlook

A busy week ahead includes flash PMI™ surveys, updates on US GDP and consumers, plus some key central bank speeches and policy decisions in the APAC region. Brexit worries, oil prices and trade wars are of course likely to also dominate markets.

Flash PMI surveys for key economies will provide an important steer on global economic conditions at the end of the third quarter. Among the trends to be watched will be the extent to which the trade downturn could be spilling over to services and employment, and also whether price pressures have continued to weaken. The August PMIs compiled by IHS Markit showed global growth slipping [closer to a three-year low in August](#) amid the fastest fall in goods exports since 2012. Price gauges meanwhile eased to three-year lows alongside the waning demand environment.

Guidance on whether more FOMC rate cuts are on the cards will be provided by flash US PMI numbers, which accurately anticipated the industrial downturn this year but have now also hinted at the malaise spreading to services. Updated second quarter US GDP data will also help ascertain whether recent economic trends have matched policymakers' expectations ([page 3](#)).

Similarly, the flash eurozone PMI will give clues as to whether economic growth weakened in the third quarter, and if Germany has slipped into recession, helping justify the ECB's recent stimulus ([page 4](#)).

In Asia, flash PMI data for Japan will be important to watch as the country heads towards a sales tax rise, while the Australian flash PMI and a central bank speech will likely provide further clues as to whether more stimulus is likely from the RBA. China's profits and rate decisions in the Philippines, New Zealand and Thailand will also be watched for appetite for further stimulus amid the global slowdown ([page 5](#)).

To end on a brighter note, our special report this week looks at the outlook for APAC exports amid signs of a tentative rebound in electronics orders ([page 6](#)).

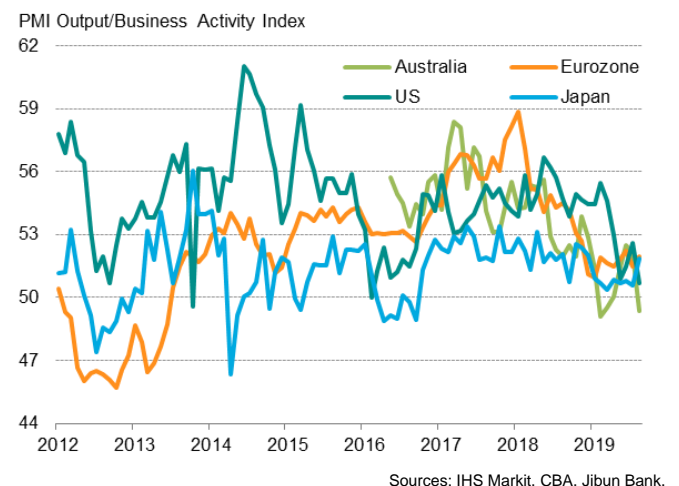
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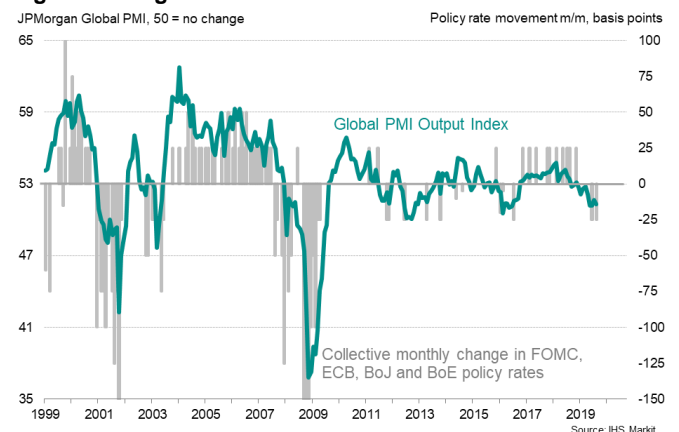
Special reports

- 6 Ray of light for APAC export outlook as electronics orders rebound

IHS Markit's flash PMI™ data are released for several key economies, providing the first available updates into economic trends at the end of the third quarter



The global economic slowdown appears to have been in part due to tighter monetary policy, which is now showing signs of being reversed



Key diary events

Monday 23 September

Flash PMI surveys for US, Eurozone, Australia, Germany and France (Sep)
Singapore inflation (Aug)
Taiwan industrial production, retail sales (Aug)
Hong Kong current account (Q2)
US Fed national activity index (Aug)

Tuesday 24 September

Jibun Bank Flash Japan PMI (Sep)
Thailand industrial production (Aug)
Speech by BoJ governor Kuroda
Germany Ifo surveys (Sep)
Speech by RBA governor Lowe
US Richmond Fed manufacturing index (Sep)
Case-Shiller home price (Jul)

Wednesday 25 September

BoJ meeting minutes (Jul)
New Zealand monetary policy decision
Thailand interest rate decision
Malaysia inflation (Aug)
US new home sales (Aug)

Thursday 26 September

South Korea consumer confidence (Sep)
Singapore industrial production (Aug)
Germany consumer confidence (Oct)
Philippines interest rate decision
Hong Kong trade (Aug)
US GDP, PCE index (final, Q2)
US pending home sales (Aug), Kansas Fed manufacturing index (Sep)

Friday 27 September

China industrial profits (YTD, Aug)
UK nationwide housing prices (Sep)
France inflation (Prelim, Sep)
Euro area business confidence, economic sentiment, industrial sentiment (Sep)
Brazil jobless rate (Aug), consumer confidence (Q3)
US durable goods orders, PCE price index, personal income, personal spending (Aug)
US Michigan surveys (Final, Sep)

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United States Week Ahead

Flash PMIs, final GDP and PCE prices

By Siân Jones

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September flash PMI data will show whether the lacklustre manufacturing performance is likely to carry over into the final months of 2019 and if the malaise has spread into the service sector, while the final estimate for second quarter GDP will provide a more backward looking but still important health check on the economy.

Flash PMI

September's flash PMI data will give further indications of economic trends at the end of the third quarter. Recent data highlighted how a struggling factory sector and weakened job growth has shown signs of infecting the service sector, leaving the headline PMI indicative of GDP growth below 1.5%, representing one of the weaker growth signals available at present. Our US economists forecast a steady 2.0% expansion in the third quarter following muted, albeit stronger than expected, industrial production data for July.

'Final' second quarter GDP

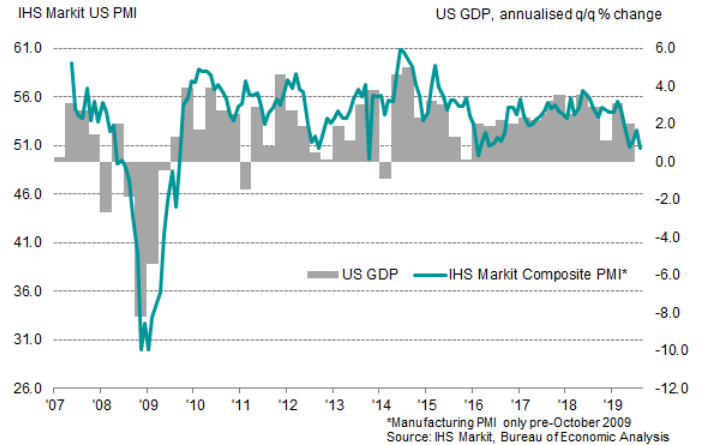
The so called 'final' estimate of second quarter GDP is expected to remain in line with the 2.0% growth rate as previously published, though further revisions can never be ruled out. Any new details on business investment will be especially closely watched amid signs that companies have become increasingly reticent to invest. While consumer spending surged, business investment fell for the first time in three years according to the current second quarter national accounts. Separate data on durable goods orders will also be keenly eyed for the same reason.

PCE prices

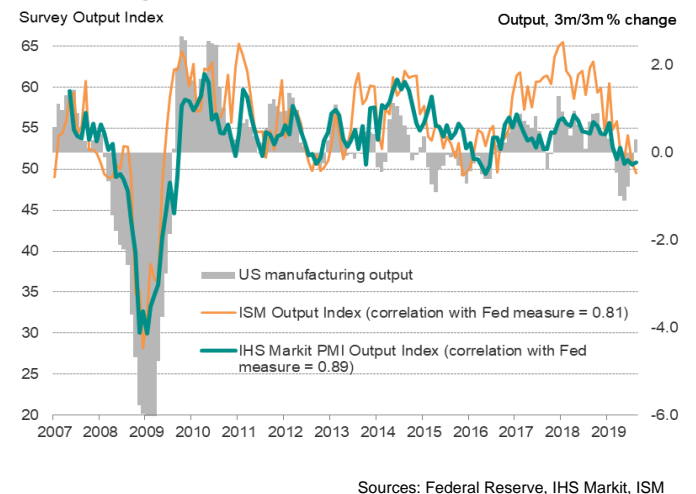
Core PCE inflation is expected to have remained subdued in July, with PMI data for August also pointing towards dampened inflationary pressures throughout the third quarter. Inflation rates below the FOMC's target, sustained global uncertainty and manufacturing weakness are key factors behind the latest cut in the Federal Funds Rate.

Other data releases include new home sales, wholesale inventories and the University of Michigan's consumer sentiment survey.

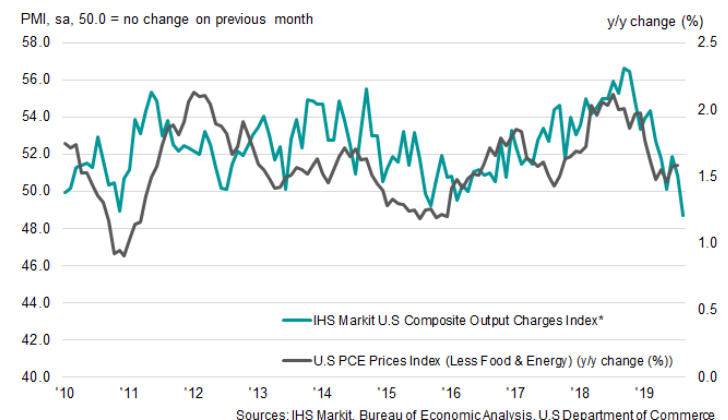
Will the US slowdown stabilise in the third quarter? Flash composite PMI data for September are published



Survey data hint that the recent rise in manufacturing output could be short-lived. Flash PMI data will provide further insight



Price pressures set to remain muted



Europe Week Ahead

Flash PMIs to provide crucial steer on third quarter eurozone growth

By Joe Hayes

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Following the relaunch of stimulus by the European Central Bank, attention will turn to the macroeconomic dataflow. In particular, flash PMI data will provide a vital insight into eurozone business conditions during September, thus rounding off the picture for the full third quarter and helping to shape expectations for GDP growth. Eurozone confidence indicators will also be useful to assess sentiment, particularly at services businesses and consumers, the two parts of the economy which have shown resilience amid strong external headwinds.

PMI to drive growth expectations

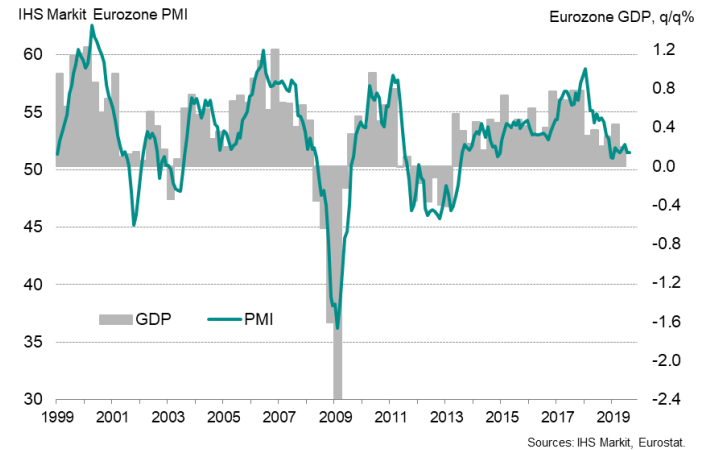
Preliminary September PMI numbers will provide a vital steer on euro area growth expectations for the third quarter. Sustained growth hinges on whether the service sector resilience can continue, with the big question being [how long this divergence can extend](#) before manufacturing weakness spreads to services and households. Employment growth has already eased according to the PMI data, and an acceleration of the jobs slowdown will heighten concern that a deteriorating labour market will act as the transmission mechanism in which the trade-led downturn will infect the wider economy. Looking ahead, if our expectation of continued low growth and inflation is borne out, then further monetary policy easing is [likely](#), probably through modest cuts to the deposit Facility rate.

The national level will also merit great attention, particularly given our [nowcast model](#) shows increased recession risk for Germany contrasting with a more robust picture that has appeared in France. Forward-looking components of the survey, such as the new orders-inventory ratio, will be eyed for clues as to whether we can expect the downturn in Germany to carry into the final quarter of the year.

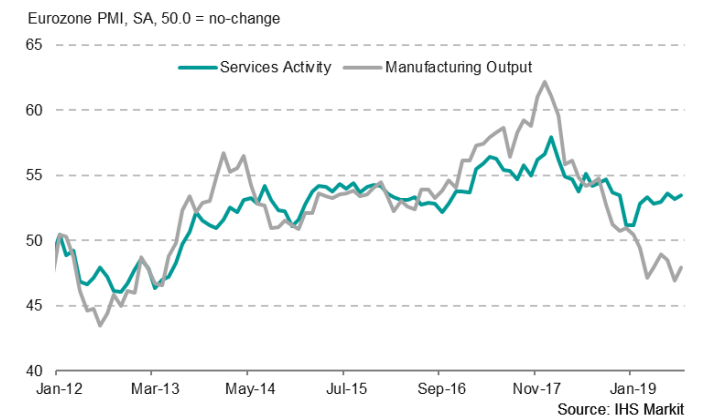
Confidence indicators

Meanwhile, European Commission-sponsored confidence gauges across the euro area are due. Changes in sentiment at consumers and service providers will be closely scrutinised for signs of any fragility creeping in. Given the softer employment growth signal in the PMI data, the concern is that this will translate into weaker consumer spending, thus weighing on the resilient services economy.

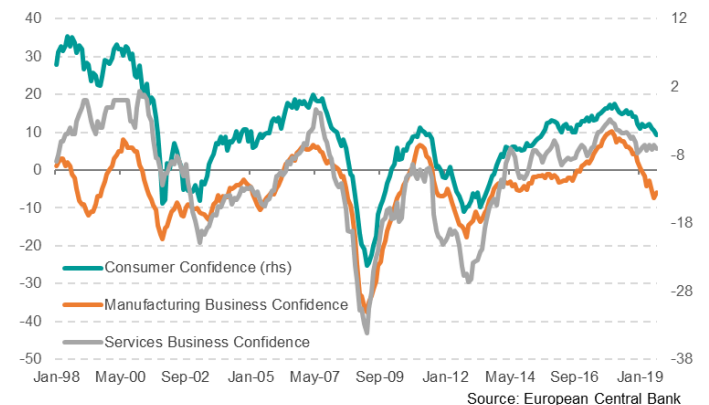
PMI indicative of weak euro area growth in third quarter



Can the unusual divergence continue?



European Commission surveys show consumers and services resilient amid manufacturing pessimism



Asia Pacific Week Ahead

Flash PMIs, central banks, China profits, Singapore factory output

By **Bernard Aw**

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Fears over mounting recession risks bring next week's release of flash PMI surveys for several major economies into focus. The September update will provide an early – and complete – look into third quarter economic performance of G3 economies that could shape central bank policies for the rest of the year. Several regional central banks will set monetary policy, including Thailand, Philippines and New Zealand, while speeches from the governors of the Bank of Japan and the Reserve Bank of Australia will gather interest. Other key data highlights include China's industrial profits, Singapore's industrial output and Hong Kong's trade figures.

Flash PMI surveys and monetary policy

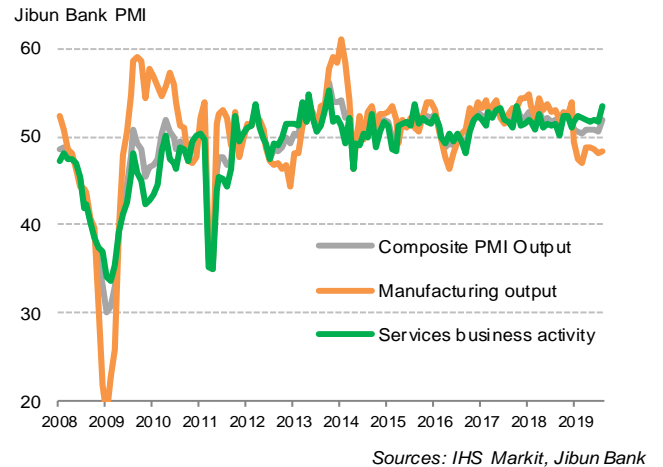
With Japan and Australia under increasing pressure to loosen monetary policy further to stimulate economic growth, flash PMI surveys for both countries could provide important guidance on whether more aggressive policy support is necessary. August's [Japan PMI data](#) continued to show the service sector driving growth while manufacturing remained stuck in decline. Meanwhile, Australia saw deteriorating private sector business conditions in August amid a weaker trend in [services](#). Speeches from BOJ governor Kuroda and RBA governor Lowe will be scrutinised too.

Several other regional central banks will decide on monetary policy in the coming week, with particular focus on the Philippines. The Bangko Sentral ng Pilipinas could deliver a 25bps rate cut and a concurrent reduction in the reserve requirement ratio after [dovish comments](#) from governor Diokno. Thailand meanwhile is concerned that further rate cuts might not only be ineffective in boosting growth, but could also raise financial stability risks.

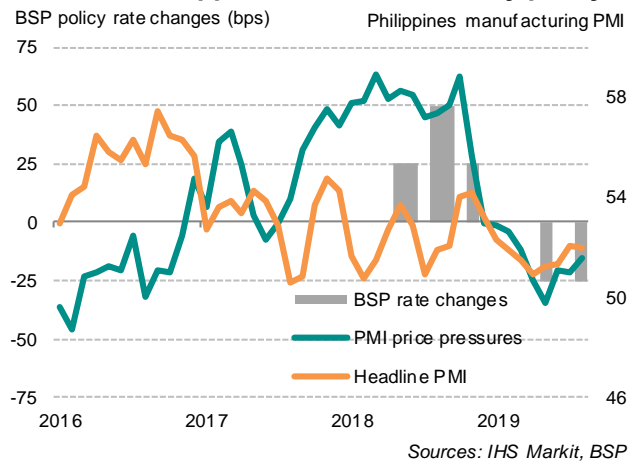
China profits under scrutiny

Following the weakest rise in industrial output in 17 years, China watchers will eye the latest industrial profit numbers for evidence that more stimulus support is needed. Caixin PMI data showed [demand conditions remained muted](#) in August, with the steepest drop in new export orders for nine months in a sign of escalating trade war impact.

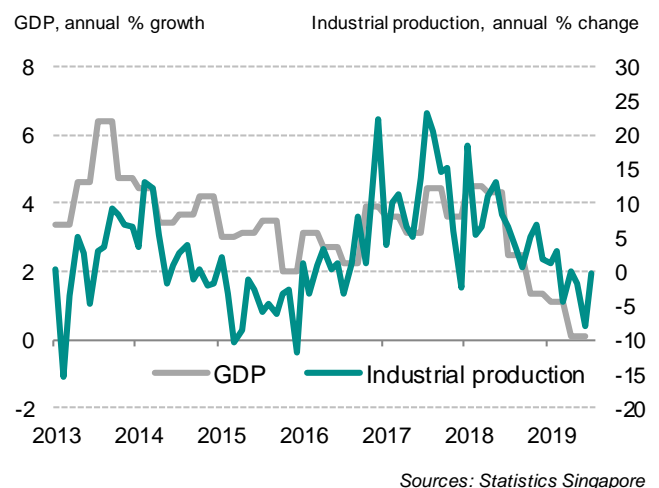
Japan PMI shows services drive business activity amid manufacturing decline



IHS Markit Philippines PMI and monetary policy



Singapore's Q3 GDP clues from factory output



Asia Pacific Special Focus

Ray of light for APAC export outlook as electronics orders rebound

By **Rajiv Biswas**

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The export sectors of many Asia-Pacific (APAC) nations have been buffeted by strong headwinds during most of 2019. The combined impact of the US-China trade war, a downturn in global electronics demand, the slowdown in the EU and US manufacturing sectors and softening Chinese domestic consumer spending have all contributed to weakening exports for many APAC economies during 2019.

However, signs of an upturn in demand for global electronics provide a glimmer of light at the end of the tunnel for the electronics manufacturing sector in East Asia.

IHS Markit Global Electronics PMI™ rebounds

The downturn in the global electronics sector has been an important factor contributing to the weakness of APAC exports during 2019 year-to-date. The electronics sector accounts for a significant share of exports for many East Asian economies, including South Korea, Taiwan, Japan, Singapore, Malaysia, Vietnam, Thailand and the Philippines.

In South Korea, total exports fell by 13.6% year-on-year (y/y) in August, heavily impacted by a 30.7% y/y decline in semiconductor exports. Singapore's non-oil domestic exports fell by 8.9% y/y in August, with electronics exports declining by 25.9% y/y. For Japan, exports in August were down 8.2% y/y. In August, Japan's exports of semiconductors machinery declined by 24.5% y/y, while exports of semiconductors were down 2.7% y/y and exports of computer parts fell by 9.5% y/y.

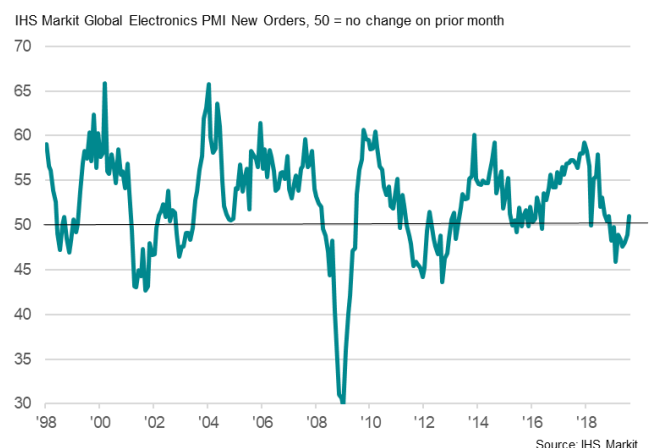
The slowdown in global demand for smartphones has been a significant factor contributing to moderating global demand for electronics, with market leaders Apple and Samsung recording weaker smartphone sales in the second half of 2018 and first half of 2019. Softer Chinese consumer demand for smartphones has been an important factor impacting on global smartphone sales. This reflects a number of factors, including some moderation in Chinese consumer

spending, as well as because the Chinese domestic market for smartphones has become increasingly saturated. Chinese consumers have been extending the timeframe for replacing their smartphones, reflecting the rising cost of new smartphones as well as the sophistication of existing models. The impact of the US-China trade war on the Asian manufacturing supply chain has also had a negative impact on Asian electronics production and new electronics orders during recent months.

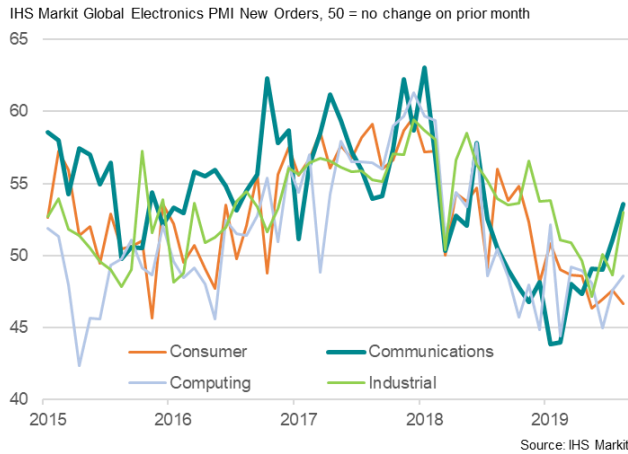
After showing considerable weakness during the first seven months of 2019, August data from the IHS Markit Global Electronics Purchasing Manager Index™ (PMI™) survey showed some rebound in global electronics new orders, albeit from very weak levels in recent months. The communication electronics as well as industrial electronics sub-sectors have shown a particularly strong rebound in new orders during the past six months, after having recorded contracting new orders during mid-2019. Both these sub-sectors recorded strong positive new orders and output in August, with an improving trend in orders having been evident in recent months.

The electronics rebound has been supported by an upswing in orders reflecting the rollout of new smartphone models, as well as orders from retailers to build inventory for the upturn in Christmas seasonal sales in the US and EU. A key structural positive trend for industrial electronics is the growth in demand due to the Fourth Industrial Revolution and the Internet of Things, which will drive rapid growth over the medium-term for industrial automation equipment. Over the medium term, strong growth in connected devices is forecast to come from commercial and industrial demand, for sectors such as industrial automation, building automation, automated lighting, as well as being boosted by intensifying government initiatives worldwide to develop smart cities.

Global electronics PMI new orders



Global electronics PMI new orders by sector



New manufacturing export orders



Trade diversion effects in the electronics sector

Despite the broad slowdown in global electronics orders during the second half of 2018 and the first half of 2019, which has impacted adversely on the electronics manufacturing export sectors of many East Asian economies, there have also been some trade diversion effects resulting from the US-China trade war that have benefited some East Asian countries.

Vietnam, in particular, has been a key beneficiary of the US-China trade war, with its total exports to the US having risen by 33% y/y during the first seven months of 2019. Vietnam's global exports of electronics products have continued to show strong growth despite the worldwide slowdown in electronics orders. Trade diversion effects have contributed to the continued strength of Vietnam's electronics exports in 2019, as US buyers have switched orders away from mainland Chinese exporters, while electronics multinationals have reconfigured their supply chain sourcing away from China towards electronics

products made in Vietnam. In the calendar year to date up to August 2019, Vietnam's exports of computers, electrical products and components rose by 15.7% y/y and exports of telephones and related equipment rose by 5.6% y/y.

Malaysia's electronics exports have also shown resilience, with trade diversion effects contributing to the continued positive growth of exports of electrical and electronic products, which rose by 4.5% y/y in July 2019. The electrical and electronics sector is a key part of the export economy, accounting for an estimated 41% of total Malaysian exports. Malaysian exports to the US rose by 7.9% y/y in July, helped by stronger exports of electrical and electronic products.

APAC export sector outlook

Although the rebound in global electronics sector new orders is positive news for the electronics manufacturing export industry in East Asia, the overall export sectors in many APAC economies continue to face a difficult outlook due to a number of negative factors. These include the ongoing adverse effects of the US-China trade war on China's exports as well as the broader transmission effects upon the Asian manufacturing supply chain for raw materials and intermediate goods due to China's manufacturing export slowdown. The continued moderation in growth momentum in the EU and US manufacturing sectors is also impacting on APAC exports. Trade frictions between Japan and South Korea have also escalated since July 2019, which is a further negative factor for the Asian regional trade outlook.

Therefore, while the rebound in global electronics orders will help to mitigate the overall slowdown in APAC exports, the broader outlook for APAC exports is for significant economic headwinds to continue over the near-term.