Week Ahead Economic Preview

Global overview

- US-China tariffs set to rise pending talks
- EU summit Brexit deadline
- US and China industrial production and retail sales data, plus China's GDP
- UK labour market, inflation and retail sales
- Official Eurozone manufacturing update
- Special report on Airbus and US tariffs

The week ahead includes a key Brexit deadline and on-going US-China tariff developments, with US tariffs set to rise to from 25% to 30% on $250bn of Chinese goods pending the outcome of talks this week.

Signs of current tariff and trade war impact will meanwhile be gleaned not only from China's GDP, trade and industrial production data, due out during the week (see page 5), but also from US production and manufacturing output data (see page 3). Both economies also release retail sales data, which will be eyed for signs of the extent to which trade wars could be spilling over to weaker household spending. As such, the data will help guide the next policy moves in terms of stimulus both in the US and China.

After tariffs, the next key area of uncertainty in the global economy is arguably Brexit, and the coming week could see some major developments. Hopes of a Brexit deal have risen, but unless a deal is agreed at the EU council on 17-18 October, the UK government will be legally obliged to ask for an Article 50 extension beyond the 31st October leaving date and general election speculation will intensify. Sterling could be in for a volatile week. Meanwhile, official labour market, retail sales and inflation data will be updated in the UK to give further guidance on the health of the economy after mixed data in recent weeks (page 4).

Eurozone industrial production and trade data will also give clues as to the severity of the industrial squeeze in the single currency bloc. (page 4).

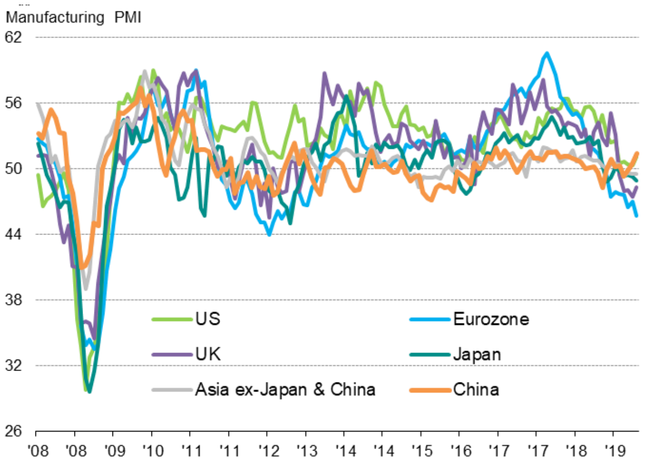
Other notable releases include China's inflation and fixed asset investment, Singapore's GDP, US housing starts and Japan's inflation update. Monetary policy action comes from South Korea's central bank meeting and the minutes from the RBI's prior meeting.

Our special report looks at how fresh US tariffs are likely to affect the European economy (page 6).

Contents

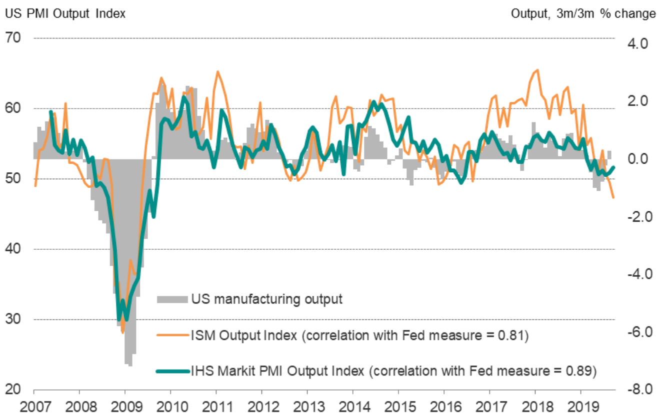
Special report

Key official data releases will add insight to manufacturing trends in the US, China and Eurozone after IHS Markit's worldwide PMI™ data showed China tentatively bucking the slowdown



Sources: IHS Markit, JPMorgan.

Fed watchers will be especially keen to see an update to official US industrial production data, which comes on the heels of diverging business survey data



Sources: IHS Markit, ISM, US Federal Reserve.

Key diary events

Monday 14 October

Singapore GDP (Q3), semi-annual monetary policy
China trade, new yuan loans, FDI, M2 (Sep)
India WPI, CPI (Sep)
Euro area industrial production (Aug)

Tuesday 15 October

US hikes tariffs on $250bn of Chinese goods to 30%
RBA meeting minutes
China inflation (Sep)
Indonesia trade (Sep)
Japan industrial production (Final, Aug)
France inflation (Final, Sep)
UK unemployment rate, average earnings (Aug)
UK employment change (Jul)
Euro area and Germany ZEW sentiment (Oct)
India trade balance (Sep)
US NY Empire State manufacturing index (Oct)

Wednesday 16 October

New Zealand inflation (Q3)
South Korea unemployment rate (Sep)
South Korea monetary policy decision
UK inflation (Sep)
Euro area inflation (Final, Sep), trade balance (Aug)
Italy inflation (Final, Sep)
US business inventories (Aug), retail sales (Sep), NAHB housing market index (Oct)

Thursday 17 October

Australia jobless rate, employment change (Sep)
Singapore NODX, trade balance (Sep)
UK retail sales (Sep)
Euro area construction output (Aug)
US housing starts, building permits, industrial output (Sep), Philadelphia Fed manufacturing index (Oct)
EU Summit (17-18 Oct)

Friday 18 October

Japan inflation (Sep)
China GDP (Q3), industrial output, retail sales, fixed asset investment (Sep)
Germany wholesale prices (Sep)
Hong Kong jobless rate (Sep), business confidence (Q4)
India monetary policy meeting minutes (11 Oct)
Brazil business confidence (Oct)
IMF/World Bank annual meetings (18-20 Oct)

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United States Week Ahead

Industrial production, retail sales and inventories

By Siân Jones

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With the October FOMC meeting drawing closer, all eyes will be on the data flow. Updated industrial production figures will indicate whether the malaise in manufacturing extended into September. In contrast, retail sales will give an insight into consumer confidence and spending, which is expected to remain solid amid stable labour market conditions. Finally, inventory data will be assessed for any hints of how stock building could have affected GDP in the third quarter.

Industrial production

With surveys of manufacturing having diverged in September, analysts will be eager to ascertain the trend in the official data. Softer data are expected after both industrial production and manufacturing output surprised to the upside in July, but nevertheless keeping an improving trend in place. According to September data from the IHS Markit US Manufacturing PMI, the upturn in output was the fastest for five months, albeit still only marginal.

Retail sales

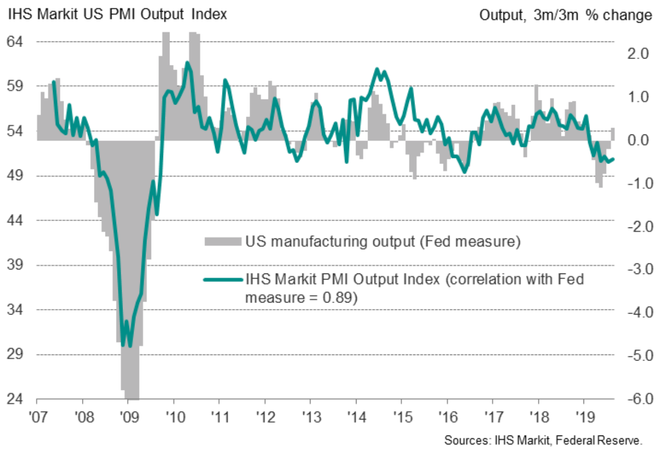
Consumer-oriented data will be gleaned to assess whether household spending continues to support growth of the US economy. Consumer sentiment has recently remained robust amid further increases in disposable income and low unemployment, but analysts will be looking for signs that trade tensions are starting to spill over to consumers. Consensus forecasts meanwhile point to little change in retail spending trends in September, with consumers expected to once again show resilience in the face of tough global demand conditions.

Inventories

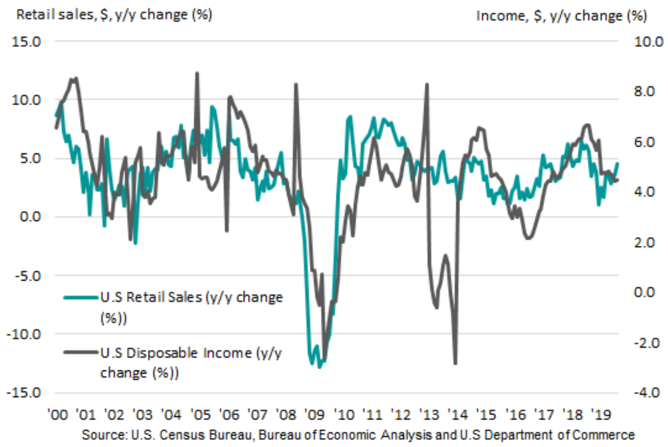
Meanwhile, inventories are predicted to yet again prove a drag on growth, with only a fractional rise expected at the end of the third quarter. The latest IHS Markit Manufacturing PMI highlights how the overall rate of stock building remains well below that seen throughout much of last year.

Other data releases include regional manufacturing indexes such as the New York Empire State and Philadelphia Fed surveys, inflation expectations and housing starts.

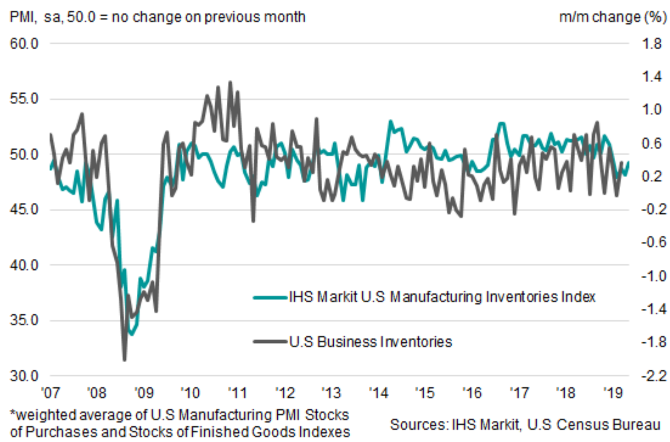
Lacklustre industrial production growth



Retail sales remain strong amid robust labour market



Fractional inventory building as investment stays muted



Europe Week Ahead

Key EU summit, euro area industrial production, UK labour market update

By Joe Hayes
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Brexit (and of course sterling) will be in focus in a week which includes a key EU council summit. This is the final meeting of EU leaders before the UK is due to leave on October 31st and could decide whether any form of deal can be struck. An emergency parliament session in the UK is expected following the summit to allow MPs to debate any new Brexit developments. Notably, this would be the same day (October 19th) that the UK government is legally obliged to request an extension of Article 50 extension under the Benn Act.

Aside from the politics, official labour market, retail sales and inflation data will be updated in the UK. Meanwhile, eurozone industrial production, construction output and ZEW surveys are all due.

Eurozone Industrial production

Factory output data in the euro area for August will be closely watched to gauge the severity of what is likely to be a manufacturing sector drag in the third quarter. Member states' data already released point to a modest m/m rebound in production in August but another large q/q contraction remains likely (-0.7% q/q in Q2). PMI data point to an annual rate of decline in the region of 3%.

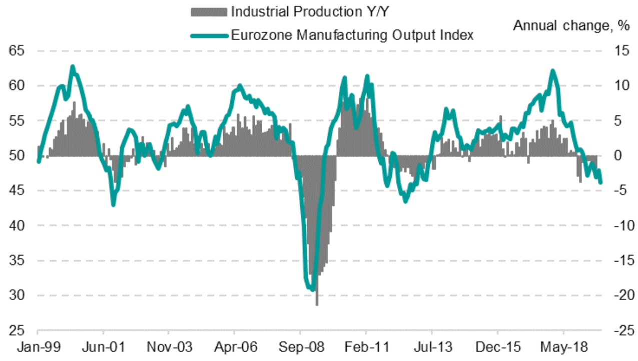
ZEW surveys, construction output and final September inflation numbers for the euro area will also be worth watching.

UK labour market update and inflation

The resilience the UK labour market has exhibited so far this year has been crucial to keeping consumer spending afloat. However, survey data suggests the employment trend is deteriorating, with our September PMI showing the fastest rate of job cutting since the financial crisis. Survey data has also hinted that wage growth may have peaked in the UK. Average weekly earnings data should therefore be closely eyed for any signs of weakness appearing. Worryingly, softening labour market conditions have the potential to derail consumer spending and hit the domestic economy.

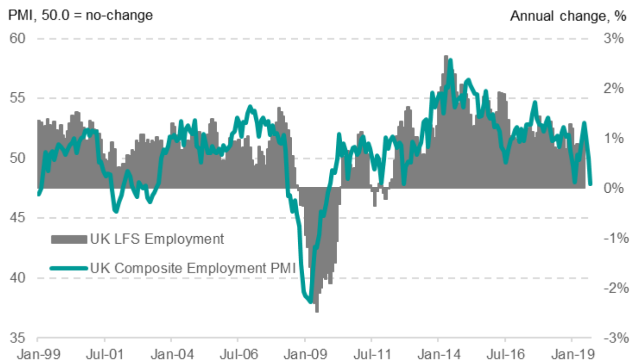
Inflation and retail sales data are also set for release, with both again being important barometers to assessing the health the UK consumer.

Eurozone industrial sector weakness set to be major drag on Q3 GDP



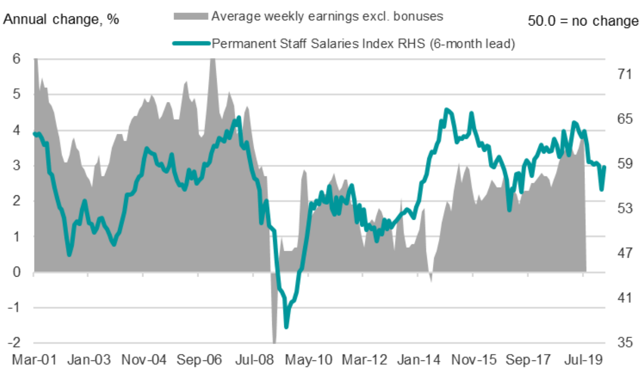
Sources: IHS Markit, Eurostat

Surveys suggest labour market is cooling in the UK



Sources: CIPS/IHS Markit, ONS

Has nominal wage growth peaked in the UK?



Source: REC, KPMG, IHS Markit, ONS

Asia Pacific Week Ahead

China data dump, Japan inflation, Singapore GDP, Bank of Korea

By Bernard Aw
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While trade issues will remain at the front of investors' minds next week, a clutch of China data will also draw scrutiny, particularly the latest figures on GDP, trade and investment. Japan's inflation update will also be in focus, while trade performance of Singapore, Indonesia and India should gather some attention as well. Singapore also announces GDP data. The Monetary Authority of Singapore and Bank of Korea will meanwhile decide on monetary policy.

China growth and Japan inflation

China analysts will eagerly await the third quarter update to GDP, for which economic growth is expected to show an annual rate of 6.2%, unchanged from second quarter, according to IHS Markit's forecast. A string of higher-frequency data, including industrial production, fixed asset investment and trade numbers will also be closely monitored for clues into the health of the economy. The latest Caixin China PMI surveys pointed to accelerated growth in business activity during September, led by a stronger upturn in manufacturing output, but other survey sub-indicators hinted that longer-term prospects remained subdued, with concerns often relating to trade tensions.

Inflation updates in Japan will draw attention, as the recent easing of price pressures has pushed the Bank of Japan's 2% target further away. The latest PMI data are consistent with core inflation, the preferred price gauge for the BOJ, running close to zero. Headline inflation, however, is expected to pick up in October on the back of the recent sales tax hike.

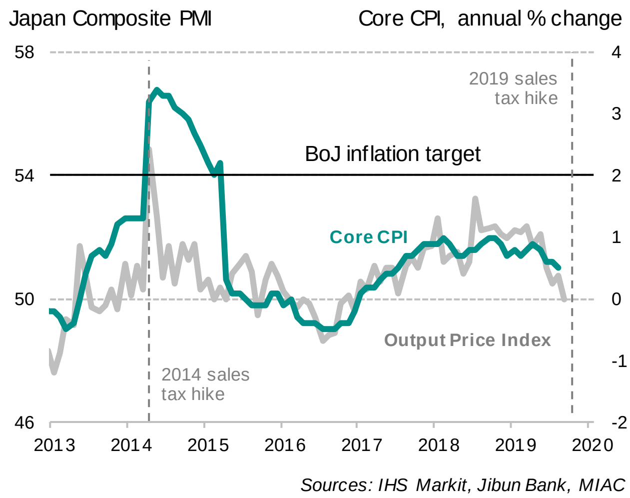
Singapore, Korea to ease monetary policy

The Bank of Korea meanwhile decides on monetary policy next week. The meeting is widely expected to see another rate cut amid an economic slowdown, an ongoing export drag and deflation. September PMI surveys showed the manufacturing downturn persisting, adding to the case for greater monetary support.

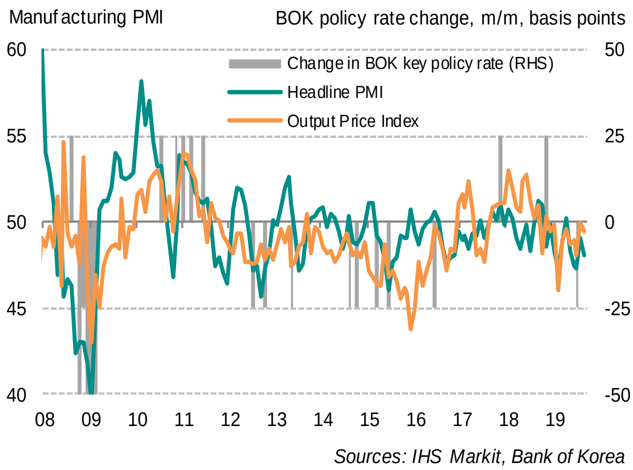
Singapore's advance release of third quarter GDP will be accompanied by the central bank's semi-annual monetary policy decision. While Singapore is likely to have averted a technical recession, the Monetary Authority of Singapore is still expected to provide greater monetary support.

Caixin China PMI output index v GDP

Japan PMI points to stagnant price growth



South Korea PMI supports case for rate cut



Europe
Special Focus

Airbus and US tariffs

By Diego Iscaro

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The WTO has given the green light to the imposition of tariffs on US imports of EU products worth USD7.5 billion. The ruling represents the conclusion of a long-date case at the trade organisation related to subsidies received by Airbus, and it is likely to trigger a retaliation from the EU in early 2020. Although the direct macro impact on the EU economy is likely to be small, the new escalation of the trade war will be felt in some of the sectors subject to the tariffs. Moreover, the new tariffs are likely to have a dampening effect on sentiment, potentially dampening domestic demand at a time where underlying growth in most EU economies is weak.

US baulks at aircraft subsidies

On 2nd October, the World Trade Organization (WTO) authorised the United States to impose tariffs on up to USD7.5 billion of imports from the European Union (EU). The ruling refers to a claim made by the US related to subsidies received by aircraft manufacturer Airbus from some EU members.

This is a long-standing case and pre-dates the current US administration by several years. The US started proceedings against the European Union at the WTO back in 2006, arguing that Airbus had received USD22 billion in illegal subsidies from four EU countries - France, Germany, Spain, and the United Kingdom. In May 2018, the WTO upheld a 2016 ruling that some of the government support received by Airbus was not in line with international trade rules. Since then, negotiations between the US and Brussels have not resulted in an agreement between the two parties, opening the door for the US to impose retaliatory measures.

Following the WTO's decision, the US Trade Representative (USTR) released a list of goods that will be subject to the tariffs. Large aircraft imports from France, Germany, Spain, and the United Kingdom will be subject to a 10% tariff (currently they are exempted). Aircraft parts, small aircraft and helicopters, which had been included on a preliminary list released by the USTR earlier this year, are excluded. Additionally, US imports of certain EU goods, including many agri-food products such as wine, whisky, liquors, and cheese – will be hit by a 25% tariff. Indeed, prepared foodstuffs account for the largest value of imports included on the final list, ahead of aircraft (see chart 1). The levies will be effective from 18 October 2019.

Chart 1: Products subject to the tariffs (value of US imports in 2018)

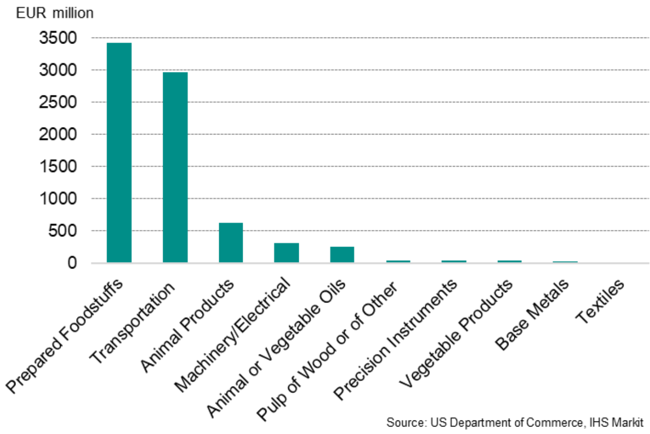


Chart 2: Value of tariffs per country

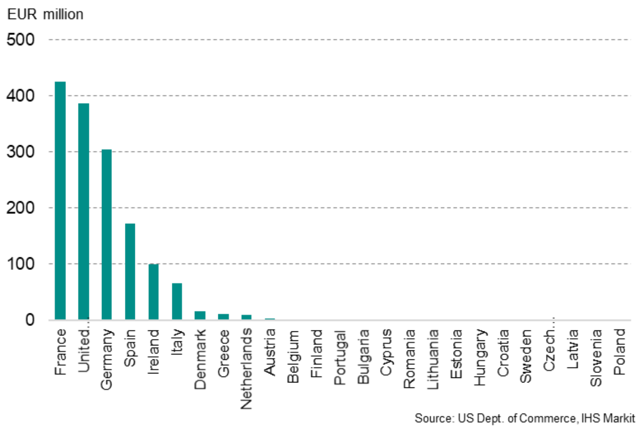
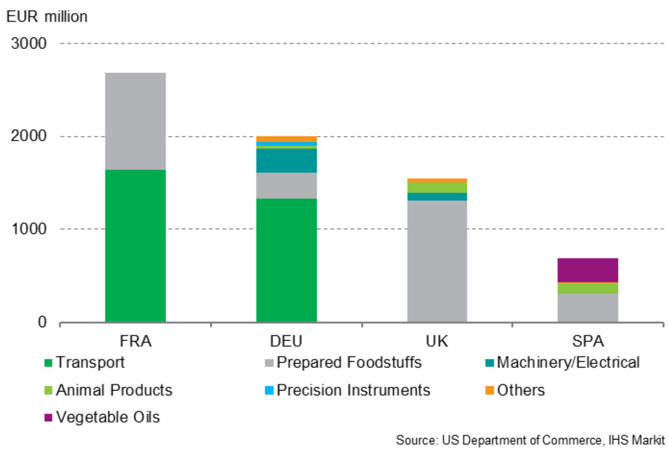


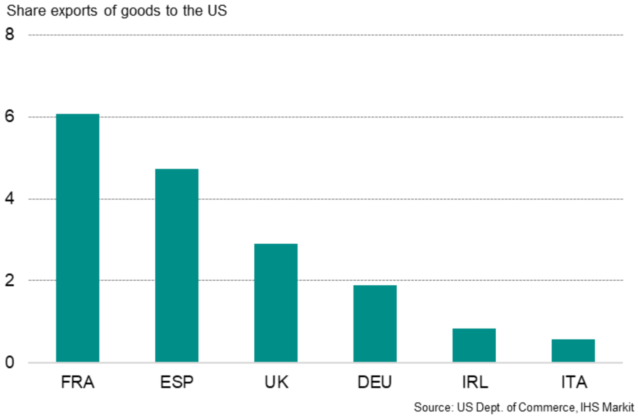
Chart 3: Composition of goods hit by the tariffs, top-4



The new tariffs will mostly affect imports from France, Germany, Spain, and the UK, the countries included in the original US claim (see chart 2). However, the composition of goods affected by the new measures varies per country (see chart 3).

France, which is where Airbus is headquartered as well as being the location of the company's final assembly lines for its commercial aircraft, is the country with the largest exposure to the tariffs in both nominal and relative terms (see chart 4). Aircraft account for 60% of French products included on the list, with still wine comprising the remaining amount. Similarly, aircraft account for more than two thirds of German goods subject to the new tariffs, while goods such as liquors, wine and some machinery (mainly backhoes and shovels) will also be affected. For the UK and Spain, tariffs will mainly be applied on whiskies (UK) and olives/wines (Spain).

Chart 4: Goods subject to the tariffs, share of total exports to the US



Irish and Italian products will also be affected more strongly relative to other EU countries because of their higher share of exports of dairy and other agricultural products to the US. US importers of certain Irish and Italian goods, such as liquor and cheese, will have to pay an extra 25% tariff. The amounts covered by the tariffs are low and represent slightly less than 1% of Irish and Italian exports of goods to the US, but they will have particular negative impact on their dairy sectors at a time when they are also concerned about the risk facing the prospect of a 'hard' Brexit.

The chances of a negotiated solution are low in the short-term

There is still a possibility that the US and EU will reach a negotiated solution that would avoid the need to increase tariffs, but the likelihood of an agreement is currently low. Following the ruling, the European Commission, released a statement saying that it is ready to apply countermeasures if the tariffs are implemented. Earlier this year, the WTO's Appellate Body ruled in the EU's favour in a case related to subsidies received by Boeing from the US government, with the final decision on the maximum monetary value of the tariffs the EU can impose on US imports expected to be unveiled in early 2020.

Although the outgoing European commissioner for trade Cecilia Malmström has mentioned that the EU is looking at retaliatory action based on old WTO dispute rulings, any retaliatory measures are likely to be delayed until the WTO's decision on the Boeing case is made public. The transition towards a new Commission, which will be in place on 1 November, also lowers the probability of immediate retaliation from the EU.

Inevitably, the tariffs have been framed as a new escalation of a trade war which has been sending shockwaves across the global economy over the last year. However, it is important to highlight that they will be put into effect after going through the appropriate WTO legal process. This is a key distinction when compared with some of the measures already unveiled unilaterally by the US (such as the increasing tariffs on aluminium and steel) or that are currently on the table (for example, the proposed implementation of a 25% tariff on US automotive imports, a decision on which is expected in November).

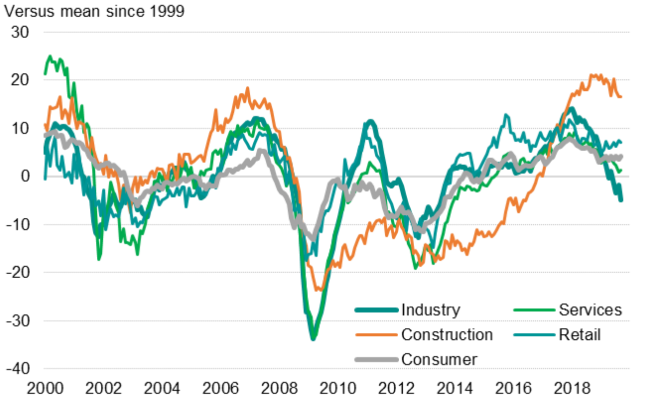
The tariffs' direct impact on the overall economy is likely to be low but beware of falling sentiment

Increasing protectionism can impact activity through different channels. The most obvious is the trade channel. US importers of the EU goods subject to the new tariffs can decide to absorb the extra cost or, more likely, pass it to their customers. In any case, the tariffs will make some EU exports dearer, leading to weaker export growth. Given that, even in the case of France, the amount of goods covered by the tariffs is relatively low as a percentage of total exports, we expect the direct macro impact of the tariffs to be manageable.

However, the tariffs have the potential of having a sizeable impact on some of the sectors subject to the levies. In particular, agri-food sectors in France, the UK, Spain and Italy are likely to be hit at a time where the search for alternative export markets is being complicated by a deceleration in global growth and, in the case of eurozone economies, a relatively strong euro in trade weighted terms.

More importantly, the tariffs also have the potential to hurt activity by dampening sentiment, which is already under pressure in most EU member states. The Eurozone economic sentiment indicator fell to its lowest level since February 2015 in September, driven by a substantially more downbeat assessment in the industrial sector (see chart 5), while concerns about Brexit have also led to a marked drop in confidence in the UK.

Chart 5: Economic sentiment by sector



Source: European Commission, IHS Markit.

The link between confidence and protectionism is less likely to be related to the level of tariffs than to the increasing uncertainty regarding the stability of the global trade rules. As such, the US decision that the goods subject to the new tariffs, as well as the level of the tariffs, can be modified in the future is likely to be designed to maximise the impact on the EU economy. IHS Markit's manufacturing PMI for October, to be released on 1st November, will provide a good gauge of firms' initial response to the new measures. With most short-term indicators pointing to weak underlying growth and a substantially more uncertain global environment, it would not take a lot to tip the Eurozone's economy into a weaker growth path than projected in our baseline.