Economic Research

25 November 2019

Week Ahead Economic Preview

Global overview

- **US GDP, durable goods orders, PCE inflation and consumer spending**
- **Eurozone sentiment surveys and inflation updates**
- **China PMI and profits, India GDP, Japan's industrial production and retail sales**

Geopolitical risks remain at the forefront of investors' minds, meaning trade wars, Brexit and UK politics and escalating tensions in Hong Kong SAR could all steer markets. However, the week also sees key data releases in the US and Eurozone which will help guide policymaking decisions in upcoming December central bank meetings, while the trade war impact on China will be assessed via fresh PMI and profits data.

In the US, all economic data will be eyed for clues as to whether the 11th December policy meeting will see anything other than the FOMC sitting on its hands. Chair Powell sees further cuts as unlikely assuming conditions do not deteriorate, meaning incoming data will be watched carefully by the markets for signs of further weakness. Durable goods orders, consumer spending, PCE inflation, homes sales, goods trade and a second estimate of GDP fill the calendar (page 3).

In Europe, a clutch of inflation numbers for the Eurozone, Germany, France and Spain will be eyed for price trends in November ahead of Christine Lagarde's first ECB Governing Council policy meeting on 12th December, as will European Commission confidence surveys, which include the German IFO survey. GDP updates are also issued for France and Italy. However, UK politics will no doubt hold centre stage as the 12th December general election nears (page 4).

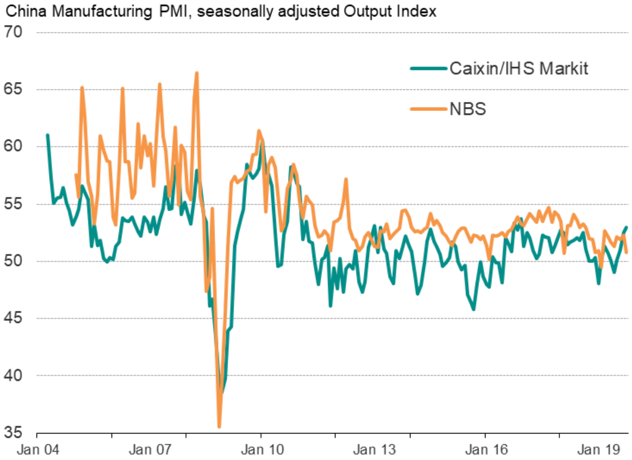
In Asia Pacific, trade war impact on China will be sought from industrial profits data and the NBS manufacturing PMI numbers, the latter having disappointed markets in October, while GDP data is expected to show a further cooling of India's economy. Bank of Korea's policymakers will meanwhile meet to discuss the need for further stimulus. In Japan, a number of data releases will add insight into the impact of October's sales tax rise (page 5).

Special reports

Eurozone integration: While the German finance minister's recent proposals on common bank deposit insurance appear to be a major step forward, there are plenty of strings attached. (page 6)

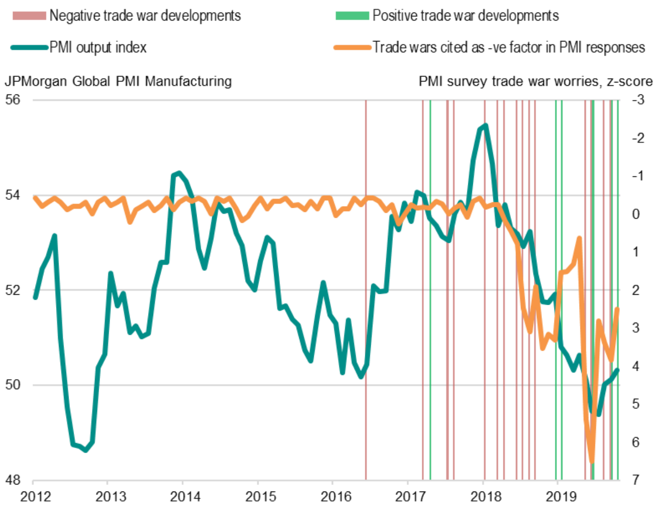
Vietnam's remarkable transformation: Vietnam's per capita GDP is forecast to more than double over the next decade, pushing it into the ranks of the world's upper middle-income countries (page 8).

The manufacturing PMI surveys for mainland China diverged in October. NBS updates their index next week.



Source~: IHS Markit, NBS.

Markets will be watching news-flow for trade war developments, in the hope that cooling tensions will help further ease pressures on global manufacturing



Sources: IHS Markit, JPMorgan.

Key diary events (UTC +8)

Monday 25 November

Singapore inflation (Oct)

Taiwan industrial production (Oct)

Germany Ifo business climate (Nov)

US Chicago Fed National Activity Index (Oct), Dallas Fed Manufacturing Index (Nov)

Tuesday 26 November

Singapore and Thailand industrial output (Oct)

Hong Kong trade (Oct)

Germany consumer confidence (Dec)

UK finance mortgage approvals (Oct)

US goods trade balance, wholesale inventories (Adv, Oct), new home sales (Oct)

Wednesday 27 November

RBNZ financial stability report

South Korea consumer confidence (Nov)

Australia construction work done (Q3)

China industrial profits (YTD, Oct)

France and Italy consumer confidence (Nov)

Germany retail sales (Oct)

France unemployment benefit claims (Oct)

US GDP (2nd Est, Q3)

US durable goods orders, PCE price index, personal spending, personal income, pending home sales (Oct)

US Beige Book

Thursday 28 November

South Korea business confidence (Nov)

Japan retail sales (Oct)

Australia private capital expenditure (Q3)

Germany and Spain inflation (Prelim, Nov)

Euro area business confidence, economic sentiment, industrial sentiment, services sentiment (Nov)

Friday 29 November

South Korea industrial production (Oct)

South Korea interest rate decision

Japan jobless rate, housing starts (Oct), industrial output (Prelim, Oct), consumer confidence (Nov)

Australia new home sales, private sector credit (Oct)

Taiwan GDP (Final, Q3)

India GDP (Q2, FY19/20)

Germany jobless rate (Nov)

UK nationwide house prices (Nov)

France GDP (Final, Q3), inflation (Prelim, Nov)

Italy GDP (Final, Q3), inflation (Prelim, Nov)

UK mortgage lending and approvals (Oct)

Euro area inflation (Flash, Nov), jobless rate (Oct)

US Chicago PMI (Nov)

Sat-Sun 30 November-1 December

30: China NBS manufacturing PMI (Nov)

01: South Korea trade (Nov)

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United States Week Ahead

Second GDP estimate, durable goods and PCE prices

By Siân Jones
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Upcoming US economic data releases include updates on consumer spending and manufacturing orders, plus a second estimate of third quarter GDP figures. Details on spending patterns among consumers and for manufactured goods will reveal further insights into economic growth momentum in the final quarter of 2019.

Second GDP estimate

The second estimate of GDP growth brings more extensive data to create a more detailed picture of the health of the economy through the third quarter. Consensus estimates indicate little or no-change to the previously released estimate of 1.9% annualised growth, but the concern is that business investment has weakened and that factors identified as having supported the expansion, such as consumer spending, may be starting to lose momentum. Growth in personal expenditure began to slow in August, with the deceleration looking set to continue into the final three months of 2019 amid less robust consumer confidence. An update to personal consumer expenditure trends in October will therefore be eagerly awaited of clues as to the health of the US consumer in the fourth quarter.

Durable goods

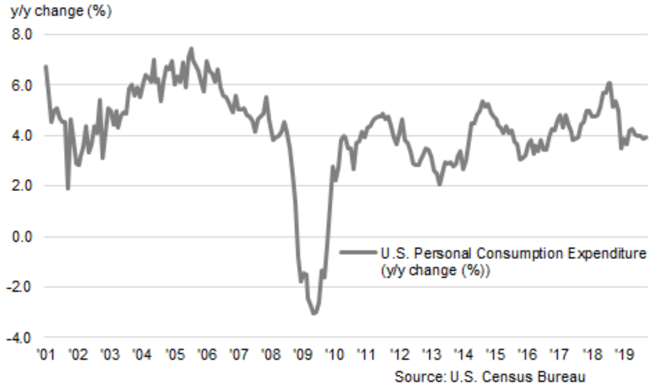
Following a lacklustre performance across the manufacturing sector over much of the early months of 2019, new order inflows at goods producers appear to be improving, with new business inflows rising at the fastest rate for six months in October, according to the IHS Markit US PMI. The upturn in the survey data bode well for durable goods orders data to indicate a further gain on the lows seen earlier in the year.

PCE prices

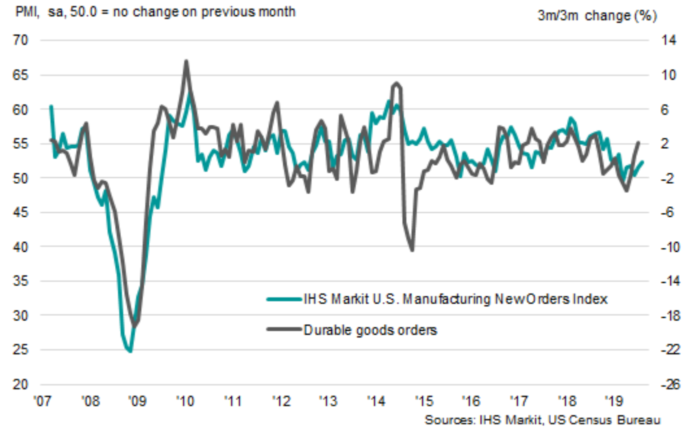
Inflationary pressures are set to remain subdued once again in October, with core PCE prices forecast to stay below the target of 2% signalling little upside risk to inflation. The emergence of weaker consumer confidence and greater hesitancy in spending patterns may mean rates of inflation stay historically muted.

Also released are updates to the Chicago Fed index of national activity and the Dallas Fed survey, plus wholesale inventories and housing data.

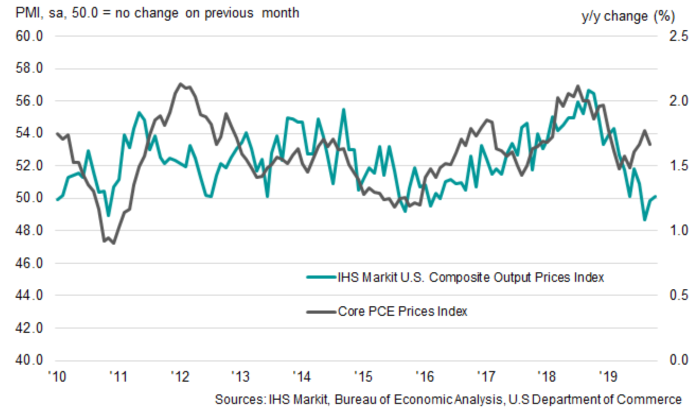
US personal expenditure continues to grow, but at a less marked rate



US manufacturing goods orders set to recover further



US inflationary pressures expected to remain muted



More insight into the US economic outlook is available from our award-winning team at [Macroeconomic Advisers](#).

Europe Week Ahead

Unemployment, inflation and sentiment indicators

By Joe Hayes
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A number of key updates from Germany will be eagerly anticipated following better-than-expected growth in the third quarter. Unemployment data, as well as retail sales and sentiment indicators, will help ascertain whether there's a possibility of the upturn carrying through to year-end. Confidence measures for the wider euro area are also due, as well as jobless numbers and preliminary inflation data for the eurozone.

Cooling labour markets

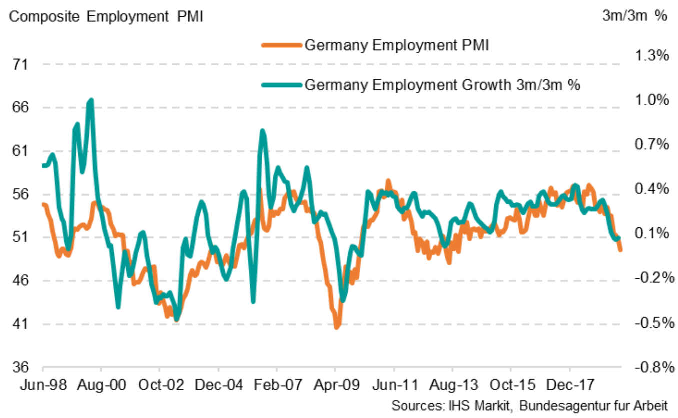
The release of German unemployment and retail sales figures will provide key insight into the health of Germany's domestic economy. The job market data follow signs that official euro area labour market data have started to unravel in recent months, catching up with the trend seen within the PMI surveys. Overall employment growth in the euro area slowed to just 0.1% over the third quarter, with survey data suggesting that services and manufacturing and now both contributing to weaker labour market trends. The slowdown in our survey job data for Germany (see first chart) also suggests that consumer spending is set to provide a reduced offset to external growth headwinds.

Inflation in unwanted territory

The deceleration in eurozone consumer price inflation to 0.7% year-on-year in October has put the European Central Bank in an awkward position. Any further moderation of price pressures could become particularly worrisome. Encouragingly, the energy-driven slowdown looks to have now largely played out, and PMI survey data also suggest an end to the disinflationary trend. Nevertheless, we expect continued weak growth and underlying inflation rates to prompt a further 10 basis points reduction in the ECB's deposit facility rate (currently -0.50%) by March 2020 at the latest.

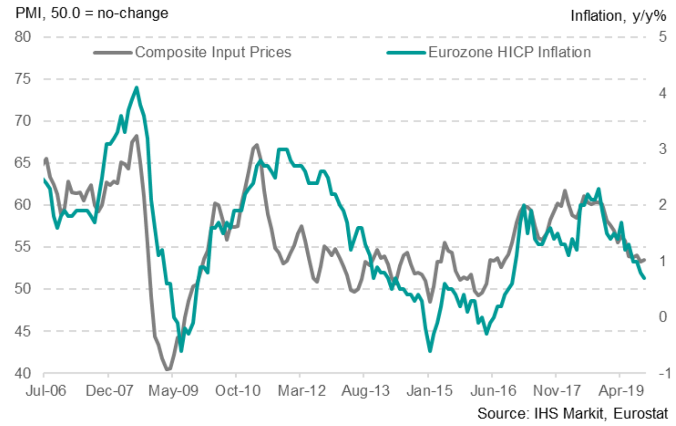
Elsewhere, a broad spectrum of sentiment indicators is due, including German Ifo and European Commission surveys. The latter have yet to provide any positive signals that the manufacturing malaise is coming to an end, while tentative signs of easing confidence have crept into service sector and consumer optimism.

Cooling labour market across the euro area also evident in Germany



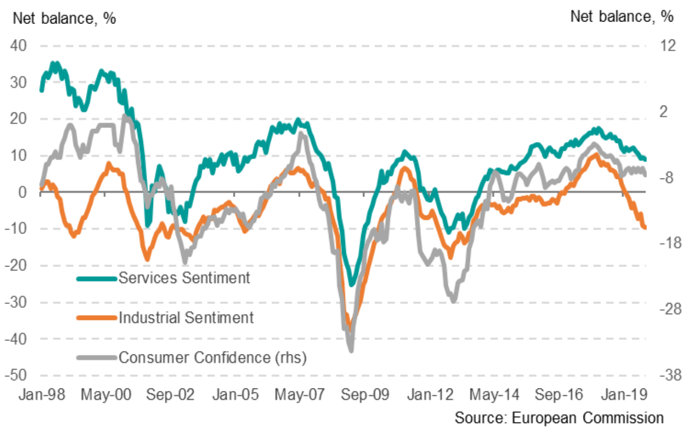
Sources: IHS Markit, Bundesagentur fur Arbeit

Inflation in an uncomfortable place for the ECB



Source: IHS Markit, Eurostat

Euro area sentiment divergences akin to trends seen in recent PMI data



Source: European Commission

Economic Research

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Asia Pacific Week Ahead

Korea trade and rate decision, Japan data, India GDP, China PMI

By Bernard Aw

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With signs of easing trade tensions, investors will continue monitoring progress on US-China trade talks, but clues will also be sought on the impact of the trade wars. In this respect, key data releases include China's industrial profits and NBS manufacturing PMI data, GDP updates from Taiwan and India, plus trade figures from South Korea. Japan meanwhile releases a clutch of data that will provide clues on the impact of the recent tax hike. Policy action comes from South Korea's central bank.

South Korea monetary policy and trade

South Korea decides on monetary policy next week. While another rate cut is unlikely at this point after October's reduction, further cuts in coming months are possible if prices do not stabilise soon and trade continues to weaken. Recent PMI surveys signalled the manufacturing sector remained under pressure in October, with business conditions deteriorating for a sixth straight month. Trade figures for November will provide further clues on the direction of future monetary policy.

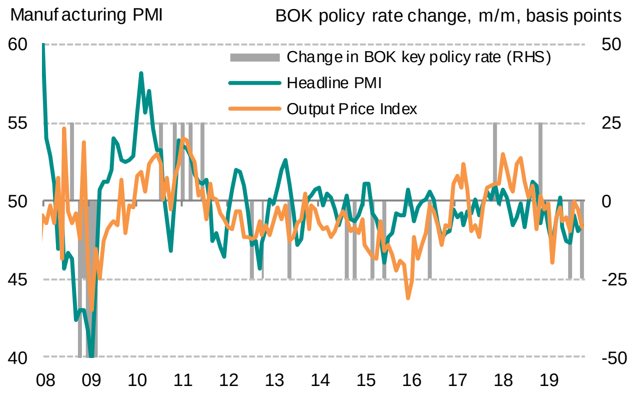
Japan data

October updates to economic data in Japan will provide further insights into business activity following the sales tax hike. Under particular scrutiny will be retail sales and industrial production, though typhoon-related disruptions may distort the numbers. November Flash PMI data shows economy at risk of decline in fourth quarter.

Indian economic growth

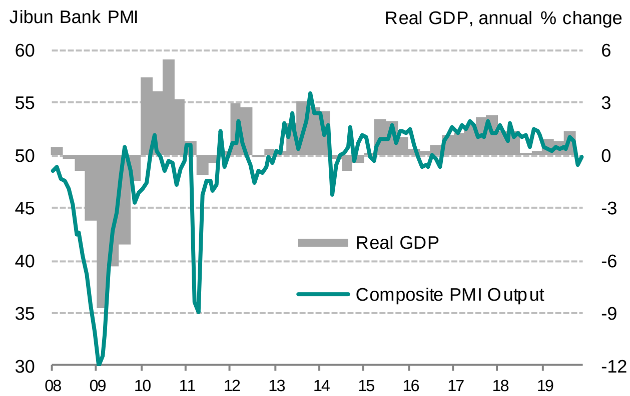
According to IHS Markit estimates, India's GDP is expected to have grown at an annual rate of 5.4% during the second quarter of FY2019-20, up from 5% in the previous quarter, but that will still be among the weakest rates seen for the past six years. October PMI updates showed business activity decreased for a second straight month, reflecting reduced services activity and slower manufacturing output growth, with business optimism sinking to a survey low. All these suggest that spurring economic activity may remain challenging, which could prompt greater policy support in coming months (see also our special report on India).

South Korea monetary policy and PMI



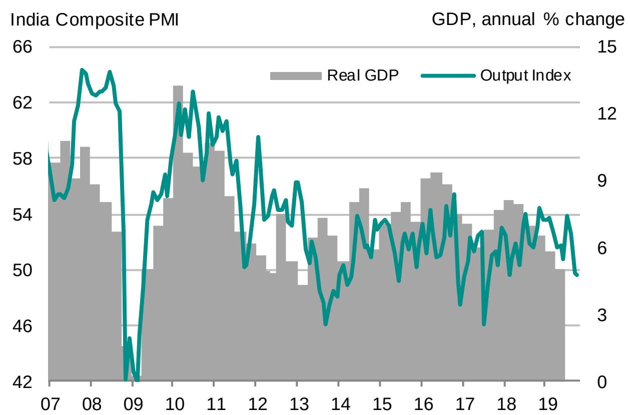
Sources: IHS Markit, Bank of Korea

Flash PMI signals recession risks



Sources: IHS Markit, Jibun Bank, Cabinet Office

India PMI and economic growth



Sources: IHS Markit, CSO

Europe
Special Focus

One step forward, two steps back: progressing eurozone integration

By Ken Wattret

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Ending the long-standing logjam over a common European bank deposit insurance scheme remains the critical next step in the process of eurozone integration. The German finance minister's recent proposal on the matter looked like a welcome change of gear. However, the various conditions attached are a hindrance to progress and have led to questions about the motivation behind his initiative.

Finally, a German proposal for common bank deposit insurance…

At face value at least, German finance minister Olaf Scholz's recent op-ed in the Financial Times calling for an end to the "gridlock" over completing the banking union looked highly significant. Following the introduction of the Single Supervisory Mechanism (SSM, effective from 2014) and the Single Resolution Mechanism (SRM, from 2016), the final piece of the jigsaw in completing the banking union – known as the European Deposit Insurance Scheme (EDIS) – has proved to be a persistent stumbling block, for Germany particularly.

The Finance minister's article summarised the key aspects of a recently published paper which included his proposals for a system of "reinsurance" to enhance existing national bank deposit insurance schemes. In short, an EU-wide fund would step in if national guarantees for bank deposits proved insufficient, providing loans to be repaid through levies on the national banking system in which the bank failure took place.

…but with numerous strings attached

The devil, as so often, is in the detail. Scholz's proposals are conditional on a number of other changes some of which are contentious for other member states of the eurozone, including Italy in particular. In brief, the conditions are:

The creation of a single insolvency framework for (smaller) banks not covered under the SSM and which are therefore subject to national insolvency proceedings. This would include the bailing-in of banks' senior bondholders.

Ending the zero risk-weighting applied to banks' holdings of sovereign debt, to reduce the risk of national bank-sovereign "doom loops", which were a key facet of the eurozone crisis from 2010-12. The proposals suggest a "careful, gradual" phasing in.

Eliminating the scope for "competition distorting" national tax arrangements. Together with France, Germany is calling for a common European corporate tax base and a minimum effective tax.

A limit on non-performing loans (NPL), with a target of NPLs accounting for no more than 5% of total outstanding lending. As Germany would be the largest contributor to the reinsurance fund, it would like to reduce the chances of it being utilised.

Motivational issues

Given the conditions attached, the motives behind the Scholz initiative have been questioned, including whether Germany really wants to make progress. It might be appearing to signal an eagerness to make progress but is it merely just putting the ball in the other governments' court, so they appear responsible for the lack of progress?

Alternatively, is it just a smokescreen to help the ailing German banking sector? Completion of the banking union following the creation a deposit guarantee scheme would potentially open the door to more cross-border acquisitions and a route to greater profitability.

Tricky timeline

Germany will assume the rotating presidency of the EU in the second half of 2020 and the aim might be to preside over completion of the final leg of the banking union before the end of its stint in December next year. Precedent suggests that this looks ambitious. Indeed, the Italian response to the Scholz proposals was predictably cool. Italy's finance minister described his government's position on the issue as "far" from that of Scholz and suggested that the proposal to end zero risk weighting on banks' sovereign debt purchases ought not to be a precondition.

Furthermore, even within the German government, there is not uniformity of support. Scholz is the most senior SPD official in the current grand coalition government and the reception from some of his CDU contemporaries was less than enthusiastic.

As a high-level working group is scheduled to report back to EU finance ministers on the proposals in December, that looks like being the next staging post to assess the likelihood of progress. We won't be holding our breath.

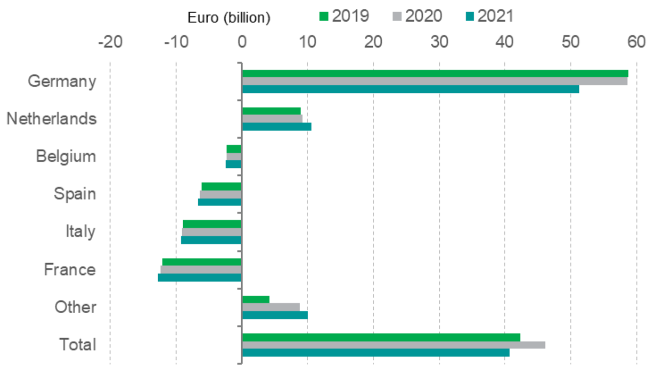
The bigger picture

The deposit insurance issue is critical as the lack of progress on it has been a blockage to broader integration objectives, including the development of the capital markets union and the creation of a common fiscal facility. The Five Presidents Report published in 2016 is a useful reference point for the long-term integration objectives, though the proposed timelines need to be taken with a large dose of salt.

As the report highlights, all mature monetary unions have common stabilisation functions in place which are better able to deal with shocks that might not be manageable at national level. It states that the objective of the fiscal stabilisation facility for the eurozone would be improve the ability of the eurozone to absorb large macroeconomic shocks, making it more resilient, rather than to actively fine-tune the economic cycle.

There is also a case for the latter, however. As we have been highlighting in our recent analysis, while the eurozone's collective fiscal position is relatively favourable, that decisions are not made collectively is a major problem. The available fiscal space is largely concentrated in Germany currently which appears to be reluctant to deploy it (see chart). Germany's recent avoidance of a technical recession following Q3's GDP data will have further reduced the willingness to take action near-term, while the establishment of collective fiscal decision-making across the eurozone remains a distant prospect.

Estimated fiscal space, structural budget balance rule



Source: IHS Markit based on IMF WEO

Asia Pacific Special Focus

Vietnam's tiger economy keeps marching on

By Rajiv Biswas
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Vietnam's total GDP is forecast to more than double over the next decade, increasing from USD 245 billion in 2018 to USD 617 billion by 2028. The total size of Vietnam's consumer market will also grow rapidly over the next ten years, as per capita GDP is forecast to rise from USD 2,560 in 2018 to USD 6,000 by 2028, pushing Vietnam into the ranks of the world's upper middle-income countries. This will be a remarkable transformation for a nation that was classified as being a low-income nation and among the poorest in the world in the early 1990's.

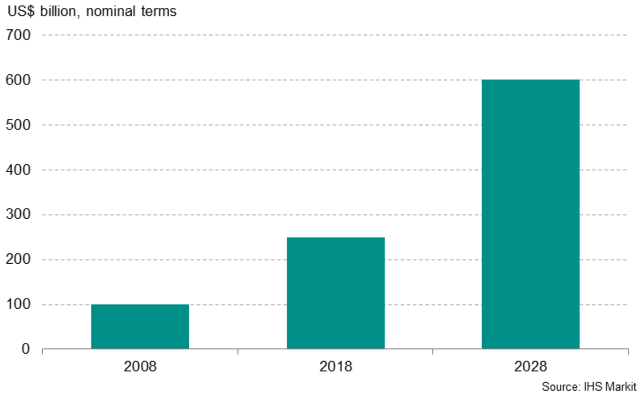
Vietnam's tiger economy

The Vietnam has emerged as one of ASEAN's most dynamic manufacturing hubs over the past decade, with the average growth rate for Vietnamese industrial production having been 10% year on year between 2013 and 2018. A key factor that has driven the economic upturn in Vietnam since 2010 has been the rapid growth of electronics manufacturing. The importance of Vietnam's electronics industry has risen dramatically, with the electronic industry's share of total GDP rising from 5.2% in 2010 to around one-quarter of total GDP by 2018, a key factor helping to drive rapid growth in exports and GDP.

Buoyed by rapid growth in manufacturing exports and foreign direct investment, as well as strong growth in private consumption spending, the Vietnamese economy has achieved sustained rapid economic growth at an average annual pace of around 6.5% per year over 2000-2018. A similar pace of growth forecast to continue over the medium-term outlook from 2019 to 2023. Over the past decade, the total size of Vietnamese GDP has risen from USD 100 billion in 2008 to around USD 245 billion by 2018.

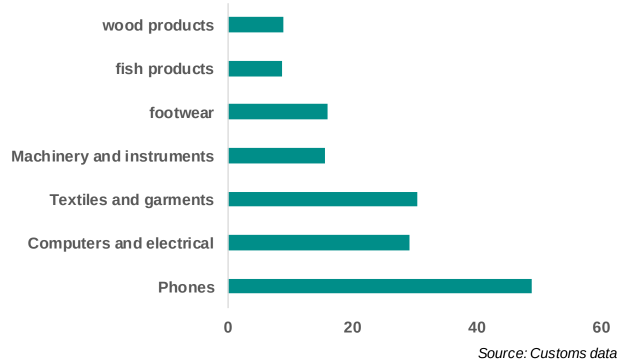
In 2018, GDP growth strengthened to a pace of 7.1% year-on-year, with manufacturing sector output growth up 13% year-on-year, buoyed by rapid expansion in output of electronics and garments products. Exports continued to post rapid growth in 2018, up 13% y/y.

Vietnamese GDP



Strong growth momentum has continued to be recorded during 2019, with Q3 2019 GDP growth at 7.3% year-on-year, with manufacturing output rising by 10.0% y/y. Vietnam's export sector has also continued to show rapid growth of 8.4% during the first nine months of 2019 compared to the same period in 2018. The electronics export sector has continued to expand at a time when many other East Asian countries have recorded contracting electronics exports. In the first nine months of 2019, Vietnam's exports of telephones and related products rose by 5.7% y/y, while exports of computers and electrical products rose by 17.7% y/y. Exports of textiles and garments also showed strong expansion, rising 9.6% y/y.

Vietnam's major exports, 2018 (USD Billion)



Trade liberalisation initiatives

Vietnam has continued to increase its global trade competitiveness through its membership of a widening network of free trade agreements (FTAs), including through the new EU-Vietnam Free Trade Agreement and by its membership of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the successor trade deal for the remaining TPP members once the US had decided to leave the TPP. Vietnam is also a member of the Regional Comprehensive Economic Partnership (RCEP) which was recently agreed in principle among 15 Asia-Pacific nations, including China, Japan and the ten member nations of ASEAN. The EU-Vietnam trade agreement will eliminate over 99% of all tariffs, with EU duties on imports from Vietnam to be eliminated progressively over a seven-year timeframe.

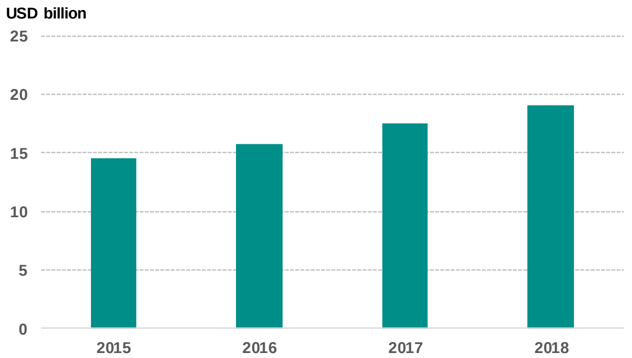
The decision of the US to withdraw from the Trans-Pacific Partnership Agreement (TPP) when President Trump took office in 2017 was a negative factor for the medium-term Vietnamese manufacturing export sector outlook. Vietnam had been expected to be among the largest beneficiaries of the TPP due to the much-improved market access to the US. The TPP agreement would have significantly reduced tariff barriers for Vietnam's electronics manufacturing industries, as well as providing a large boost for Vietnam's textiles exports.

Nevertheless, Vietnamese exports to the US have continued to show buoyant growth during 2018, rising by 11% year-on-year, followed by even more rapid export growth of 28% year-on-year during the first nine months of 2019. This rapid pace of export growth to the US partly reflects some international trade diversion effects away from China due to the US-China trade war.

The impact of bilateral US-China tariff measures has benefited some Asian low-cost manufacturing hubs such as Vietnam that produce substitutes for Chinese low-cost manufactures, such as low-cost electrical and electronic goods as well as garments and textiles.

Furthermore, the US-China trade war has added to a number of other factors that have already resulted in strong foreign direct investment (FDI) in Vietnam from large multinational corporations. Total FDI into Vietnam rose by 9.1% y/y in 2018, reaching an estimated USD 19.1 billion, according to Vietnamese government estimates.

Vietnam: disbursed FDI (2015-2018)



Source: Vietnamese government statistics

The rapid growth in FDI flows into the Vietnamese manufacturing sector since 2010 has also reflected a number of other factors, including the competitiveness of Vietnam's relatively low manufacturing wages compared to rapidly rising wage costs in coastal Chinese provinces, a well-educated and skilled Vietnamese workforce, rapidly improving infrastructure and good port logistics for export shipments. The Vietnamese government has also implemented policy changes to encourage FDI in the electronics and IT sectors, as part of a trade strategy to improve the share of higher value-added manufacturing.

Economic outlook for Vietnam

By 2028, the size of the Vietnamese economy is forecast to grow to USD 617 billion, helped by continued rapid growth in its manufacturing export sector as well as tourism exports, while consumer expenditure is buoyed by rapid growth in per capita GDP. Over the next decade, annual per capita GDP is expected to double, from around USD 2,550 in 2018 to USD 6,000 by 2028, helping to drive rapid growth in the total size of the Vietnamese consumer market.

This is expected to result in Vietnam transitioning from the ranks of the lower middle-income countries to become an upper middle-income country, representing far-reaching economic progress for the nation. This will make Vietnam a fast-growing market for a wide range of goods and services, ranging from manufactures such as white goods, autos and fast-moving consumer goods to services such as telecommunications, real estate services, financial services and health care.

The sustained strong growth of the domestic consumer market will also catalyse further industrial development, as Vietnam's manufacturing sector broadens and deepens into sectors such as auto manufacturing and petrochemicals.

The rapid future expansion of the Vietnamese economy will create a fast-growing market for a wide range of imports of goods and services, including manufactures such as autos, industrial equipment, power equipment and advanced electronics products as well as services such as insurance, banking and logistics.

Vietnam is expected to remain an attractive location for foreign direct investment by global multinationals, as low-wage manufacturing hub for electronics and textiles exports as well as a rapidly growing market for a wide range of services.

Strengthening trade and investment flows will be underpinned by Vietnam's membership of an increasingly wide network of free trade agreements, including the ASEAN Free Trade Area, the EU-Vietnam FTA, the CPTPP multilateral trade agreement and the RCEP multilateral trade agreement.