**Economic Research**

**16 December 2019**

# Week Ahead Economic Preview

## Global overview

- **Flash PMI data for the US, UK, Eurozone, Japan and Australia**
- **Bank of England meets amid flurry of official data updates, Bank of Japan also sets policy**
- **China data deluge, plus US industrial production to help gauge trade war impacts**

The week starts with a flurry of flash PMI updates and key official data releases for the US and China, notably including industrial production. The UK will meanwhile be also digesting the general election result, as well as a clutch of official data to feed into the last Bank of England policy decision of the month. Monetary policy meetings also take place in Japan, Taiwan, Thailand and Indonesia. The week closes with final third quarter GDP numbers for the UK and US.

UK politics move into a new chapter as the country digests the election result and implications for Brexit, but flash PMI data, labour market stats and official updates to inflation and retail sales will all be also eagerly awaited in a week in which the Bank of England sets interest rates. No change is expected, but last month saw a new split in the policy committee as two of the nine members voted for lower rates.

Eurozone PMI data will likewise be key to determining whether the single currency area can avoid recession, having slowed close to stall speed in the three months to November (see page 4 for more insights to Europe).

Further clues as to the US economy's performance the fourth quarter will be provided by the flash PMI surveys for manufacturing and services from IHS Markit. The November surveys showed encouraging signs of growth lifting higher, albeit remaining subdued and in line with GDP growth of around 1.5%. Official industrial production and PCE inflation numbers will also help assess if the FOMC is likely to remain happy to stay on hold (see page 3).

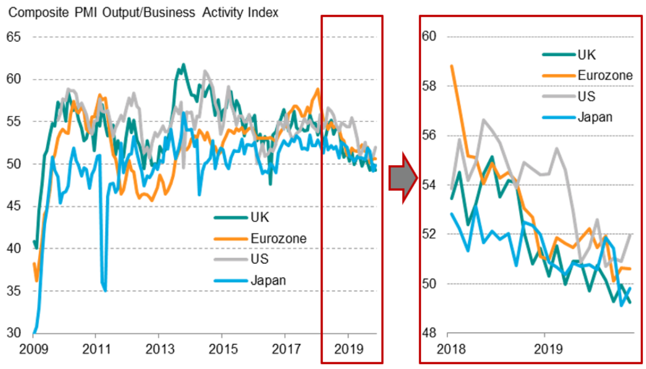
In Asia Pacific, a slew of economic data out of China includes industrial production, retail sales and investment numbers, all of which will help determine whether more stimulus will be required. Likewise in Japan, the PMI numbers come on the heels of recently announced fiscal stimulus, but any further faltering in the economy will influence whether the Bank of Japan could also seek to unleash more firepower (see page 5).

## Special reports

ASEAN outlook: An analysis of how ASEAN GDP is forecast to exceed that of Japan by 2030, making Southeast Asia one of the world's most important consumer markets (**page 6**).

Eurozone recession risk receding?: despite **the latest batch of data in the eurozone having disappointed, the probability of a recession** looks to have diminished (**page 9**)

**Flash PMI releases include December updates for the US, Eurozone, Japan and UK, giving a broad insight into economic trends as the end of the year. Of the four, only the US saw faster growth in November**




Sources: IHS Markit, Jibun Bank.

**Policymakers at the Bank of England have held their fire as the economy stumbles amid Brexit uncertain. The MPC meets again amid a slew of fresh data and a general election result.**


Sources: IHS Markit, Bank of England

# Key diary events (UTC +8)

## Monday 16 December

Flash PMI surveys for US, UK, Eurozone, Germany, France, Japan and Australia (Dec)
China industrial production, fixed asset investment, retail sales, house price index (Nov)
Indonesia trade (Nov)
Euro area labour cost index, wage growth (Q3)

## Tuesday 17 December

RBA meeting minutes
Australia home loans (Oct)
Singapore NODX (Nov)
Hong Kong SAR unemployment rate (Nov)
UK employment change (Sep), jobless rate, average earnings (Oct), claimant count change (Nov)
BoE FPC minutes
Euro area trade balance (Oct)
US housing starts, building permits, industrial production (Nov), JOLTS job opening (Oct)

## Wednesday 18 December

Japan trade (Nov)
Thailand interest rate decision
Germany Ifo surveys (Dec)
UK inflation (Nov)
Euro area inflation (Final, Nov), construction output (Oct)
Brazil business confidence (Dec)
ECB non-monetary policy meeting

## Thursday 19 December

New Zealand GDP (Q3), trade (Nov)
Australia jobless rate, new home sales (Nov)
BoE and BoJ monetary policy decision
Indonesia and Taiwan interest rate decision
India monetary policy meeting minutes
UK retail sales (Nov)
US current account (Q3), existing home sales (Nov)
ECB general council meeting

## Friday 20 December

Japan inflation (Nov)
China loan prime rate (1Y and 5Y)
Thailand trade (Nov)
Taiwan export orders (Nov)
Hong Kong SAR and Malaysia inflation (Nov)
Germany consumer confidence (Jan)
UK GDP (Final, Q3), BoE quarterly bulletin
US GDP (Final, Q3), PCE price index, personal spending (Nov)
Euro area consumer confidence (Flash, Dec)

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# Economic Research

**16 December 2019**

# United States Week Ahead

## Flash PMI, industrial production and PCE prices

**By Siân Jones**

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Upcoming data will be keenly watched for signs of improving growth the US economy. Leading the calendar releases are flash PMIs, industrial production, PCE price data and the final estimate for third quarter GDP. The wide variety of information published will give insights into the economic landscape for both the producer and consumer, and feed into policy decisions at the 'data dependent' Fed.

### Flash PMI

November PMI data from IHS Markit signalled a pick up in demand across the US private sector, with manufacturers especially providing signs of a further recovery from the summer's lull. Although expansions have not yet reached rates seen at the end of 2018, firms are reporting clients are less hesitant to place orders. That said, companies recorded some of the lowest levels of optimism for the coming year since data collection began in 2012, suggesting trade wars and global economic uncertainty continue to weigh on expectations for 2020. Combined, the latest IHS manufacturing and services PMIs still point to just 1.5% annualised GDP growth in the fourth quarter.

### Industrial production

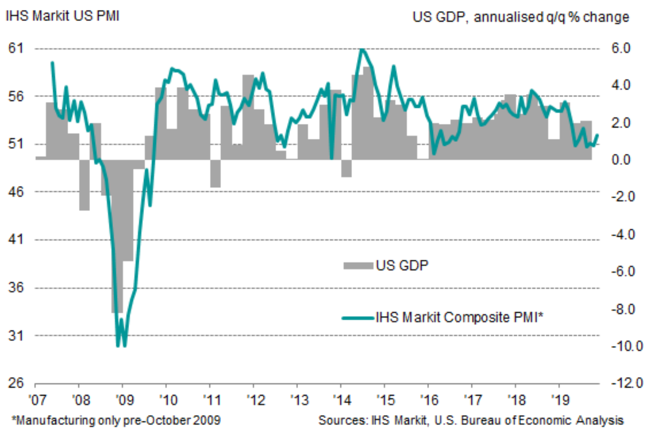
Official data are expected to register an expansion in industrial production in November. The official data will be especially eagerly awaited after surveys sent conflicting signals on the health of manufacturing (see chart). IHS Markit PMI numbers showed improvements in new orders look feeding through to an overall rise in output midway through the fourth quarter. ISM data sank lower.

### PCE price index

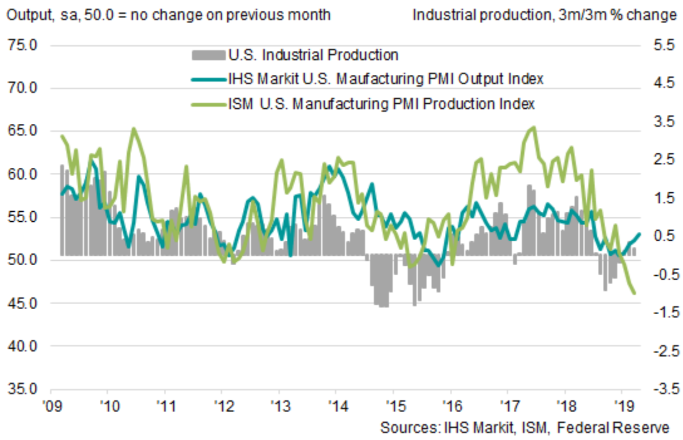
As highlighted by recent GDP releases, domestic expenditure helped drive solid economic growth during the third quarter of 2019. That said, core inflationary pressures (excluding food and energy) are expected to remain below the target rate of 2%, suggesting there will be no change in sentiment from policy makers surrounding any upside risks from inflation.

Also released are updates to housing data, economic sentiment, consumer inflation expectations and regional business surveys.

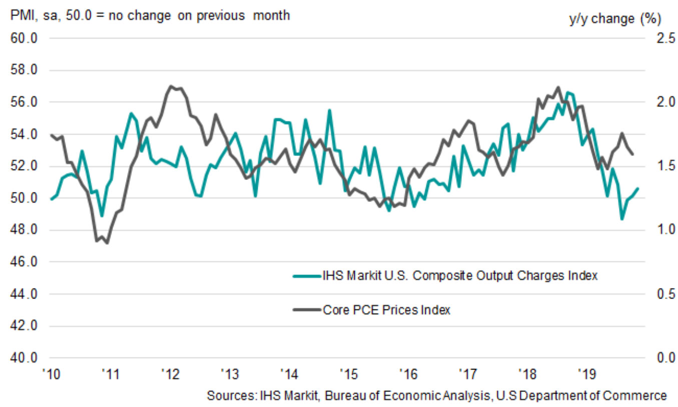
**Recovery in private sector growth through fourth quarter**




**Improvement in manufacturing output expected to continue**




**Inflationary pressures set to remain below target**




More insight into the US economic outlook is available from our colleagues at Macroeconomic Advisers.

# Europe Week Ahead

## Flash PMIs, Bank of England, UK labour market and inflation

**By Joe Hayes**

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Our focus in Europe this week will be the flash UK and eurozone PMI surveys for December, which will provide an early assessment of economic activity across Europe for the fourth quarter. In the UK, the week sees a new government in power, while the PMI plus labour market, retail sales and inflation figures will provide timely updates on the economy ahead of the Bank of England's monetary policy meeting. Sentiment surveys, trade and wages data are also published in the euro area.

### Flash PMIs

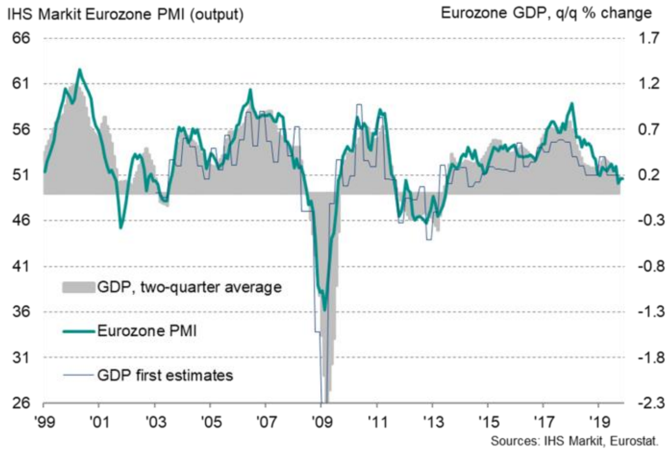
An earlier-than-usual flash PMI gives analysts a pre-Christmas insight into economic performances across Europe during December, rounding off the fourth quarter from a survey perspective. In Germany and the UK, contraction risks have risen across the fourth quarter. In contrast, France has seen solid growth, helping the eurozone as a whole continue to grow, albeit at crawler-speed. Another weak month will crank up the pressure on the ECB to inject more stimulus.

### Bank of England & UK data

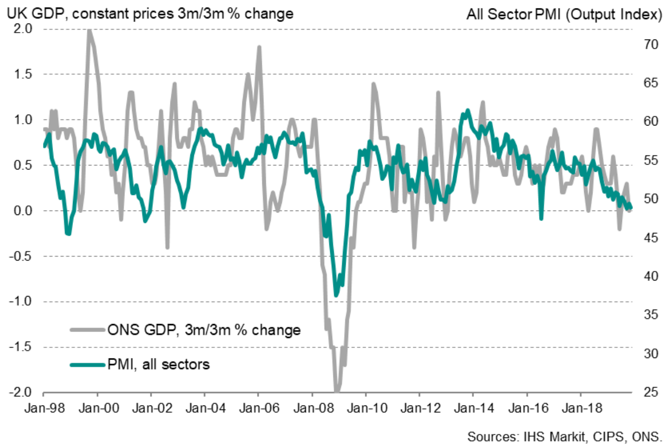
The UK Monetary Policy Committee sets interest rates following the General Election, although we expect no change in interest rates. In their last meeting, the minutes indicated that a tightening bias would be the most appropriate path based on the MPC's most recent economic projections and signs of the economy stalling. However, there were two dissenters in favour of a rate cut. The election result could also affect the policy outlook, particularly regarding Brexit policy and the risk of further uncertainty.

A slew of fresh economic data will also feed into the policy decision, with updates to inflation, retail sales and the labour market. On balance, the near-term outlook for inflation is relatively restrained, partly because of energy-related prices that are likely to provide a lower inflationary pull. However, low inflation is good news for household spending, particularly given that the labour market, and wage growth, has started to ease (see second chart). Earnings data is our pick from the ONS employment report, although retail sales and jobs growth figures will be helpful in gauging the health of the consumer.

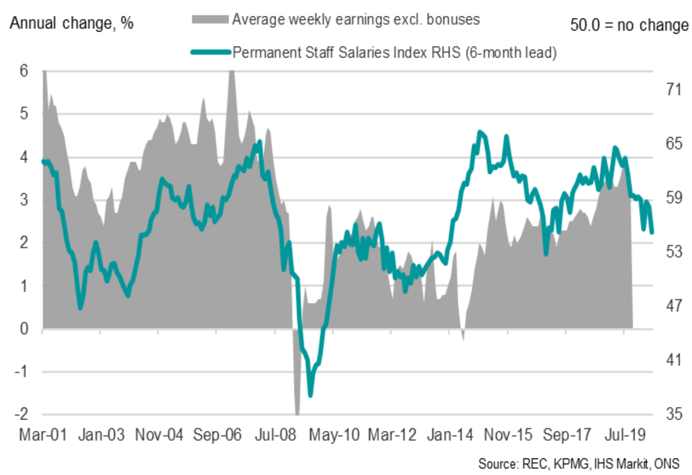
**December flash PMIs to round off fourth quarter survey data, with eurozone data eyes for signs of recession risk**




**Both official GDP data and the IHS Markit/CIPS PMI indicate that the UK economy has stalled**




**UK labour market conditions have cooled**



# Asia Pacific Week Ahead

## Flash PMIs, China data, Asia trade and monetary policy meetings

**By Bernard Aw**

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Next week's calendar will keep Asian investors occupied in a week full of potential trading catalysts, from flash PMI releases and key China data to central bank meetings. Asian trade updates, such as Taiwan, Thailand and Singapore, will meanwhile offer clues on regional trade performance amid tentative signs of an easing of the global manufacturing downturn.

### GDP clues from flash PMIs

December flash PMIs for major economies will offer steers on fourth quarter economic performance and momentum going into the new year. In Asia, eyes are on Japan and Australia flash PMI surveys, with particular attention on the former for further clues of economic recovery following October's sale tax hike and typhoon disruptions. The Jibun Bank Japan PMI, compiled by IHS Markit, remained subdued in November, putting the economy on course for the worst performance since the first half of 2016 in the closing quarter of 2019.

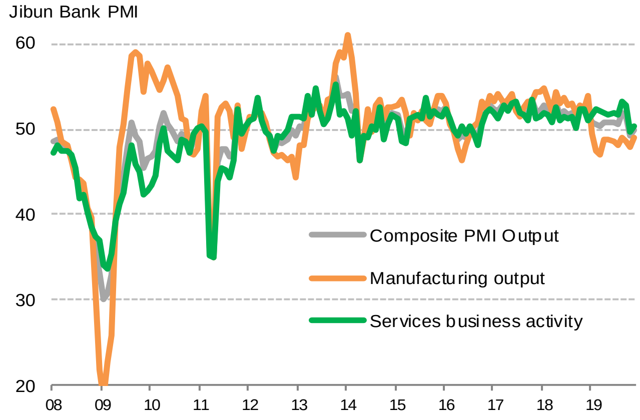
### China data

Some key China data releases will come under scrutiny for assessing the health of the Chinese economy. Following firmer economic performance as signaled by both the government-sponsored PMI data and Caixin surveys, China analysts will look to the latest official data updates, including industrial production, fixed asset investments and retail sales for confirmation of improved economic conditions.

### Central banks

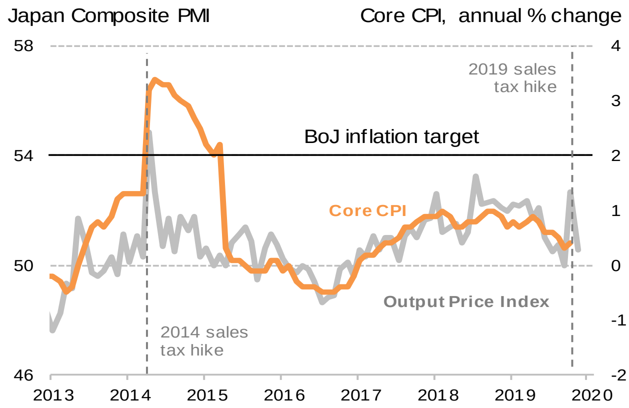
Central banks in Japan, Taiwan, Thailand and Indonesia will decide on monetary policy next week, though no changes are expected. Bank of Japan's policymakers expect the recently announced government stimulus to boost economic prospects, raising the odds of an upgrade in growth projections that will help hold off the need for greater monetary support. Japan's inflation update will also be watched. In Thailand, central bank officials expect the upward trend in baht to ease after recent changes to FX rules, thereby reducing the pressure for further rate cuts. Meanwhile, Bank Indonesia will keep policy accommodative to support growth but may use other monetary tools apart from rate cuts.

**Japan PMI: manufacturing and services**




*Sources: IHS Markit, Jibun Bank*

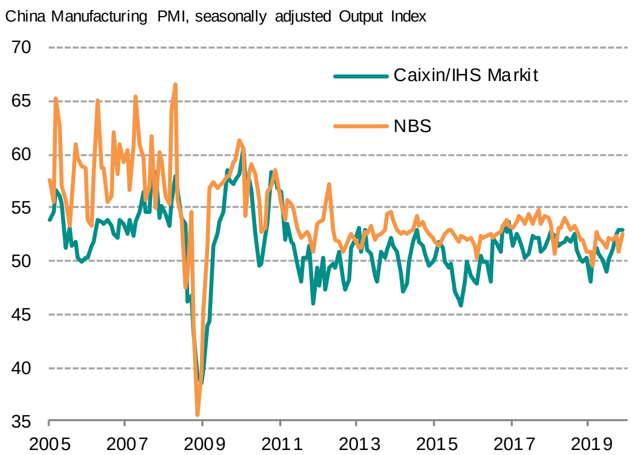
**Japan PMI points to subdued inflation**




*Sources: IHS Markit, Jibun Bank, MIAC*

*PMI Price Pressures is a blended index of input prices and suppliers' delivery times.

**China manufacturing PMIs signal upturn**




*Sources: IHS Markit, Caixin, NBS*

# Asia Pacific Special Focus

## The ASEAN economic outlook for 2020

**By Rajiv Biswas**

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*Southeast Asia has been one of the most dynamic economic regions of the world economy over the past decade, with the total GDP of the ten member countries of the Association of Southeast Asian (ASEAN) nations having doubled since 2009. Total foreign direct investment (FDI) into ASEAN reached a record high in 2018, at USD 155 billion.*

*By 2030, the total GDP of the ASEAN region is forecast to exceed the GDP of Japan, which will make Southeast Asia one of the world's most important consumer markets. With Southeast Asia comprising some of the world's most populous and fast-growing emerging markets, including Indonesia, Vietnam and the Philippines, the ASEAN region offers some of the most exciting revenue growth opportunities for multinationals across a wide range of industry sectors in manufacturing, construction and services.*

### ASEAN GDP exceeds USD 3 trillion

Since the Global Financial Crisis, total ASEAN GDP measured in nominal GDP terms has doubled, rising from USD 1.6 trillion in 2009 to an estimated USD 3.2 trillion by 2019. By way of comparison, this significantly exceeds the size of the Indian economy, which is estimated at USD 2.9 trillion in 2019.

The rapid growth of the ASEAN region over the past decade has reflected a broad range of factors, including sustained strong export growth to key APAC markets, notably China, as well as robust growth in domestic demand. The total population of ASEAN has reached 622 million, making the region one of the most important consumer markets in the APAC region.

The sustained strong growth of the Indonesian economy over the past decade has been a key factor underpinning the substantial expansion of total ASEAN GDP, since Indonesia is the largest economy in ASEAN, accounting for around one-third of regional GDP. Buoyant growth in the Philippines and Vietnam over the past decade have also been significant contributors to the overall expansion in ASEAN GDP since the Global Financial Crisis.

### ASEAN growth outlook for 2020

Although the export sectors of many ASEAN countries were hit by the contagion effects of the US-China trade war during 2019, as well as the downturn in the global electronics sector, overall ASEAN economic growth momentum remained resilient, underpinned by the strength of domestic demand.

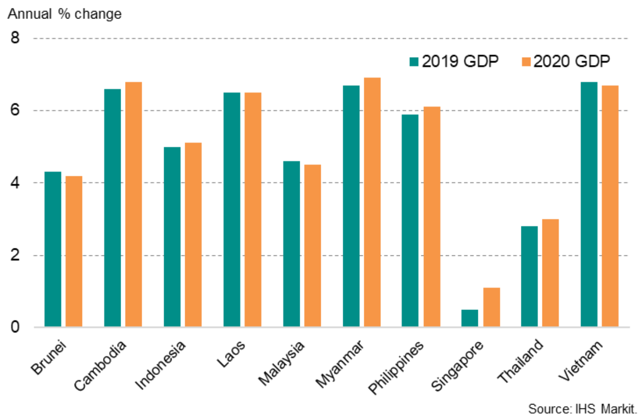
The outlook for 2020 is for continued resilient economic expansion in the ASEAN region, despite the headwinds to the export sector. A number of key drivers will support economic growth momentum in 2020.

Firstly, the significant decline in world oil prices since May 2019 has helped to reduce inflationary pressures, allowing a number of ASEAN central banks to ease monetary policy since May, including Bank Indonesia (BI), Bank of Thailand (BOT), Bank Negara Malaysia (BNM) and Bangko Sentral ng Pilipinas (BSP). The impact of these monetary policy stimulus measures will continue to support growth in 2020.

Secondly, many ASEAN governments are continuing to boost spending on infrastructure programs, such as the Duterte Administration's 'Build, Build, Build' policy that is ramping up infrastructure construction in the Philippines.

Thirdly, rapidly rising household incomes in some of the most populous ASEAN nations, notably Indonesia, Vietnam and the Philippines, are helping to drive strong growth in consumer spending in these economies, which is expected to continue in 2020.

**ASEAN GDP growth forecast for 2020**



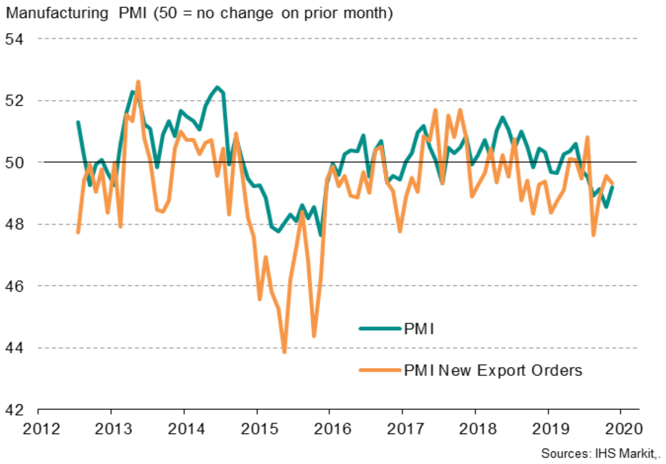

### Headwinds to ASEAN growth

Although the overall pace of ASEAN economic growth is forecast to remain resilient during 2020, the region is expected to face significant headwinds from a number of factors.

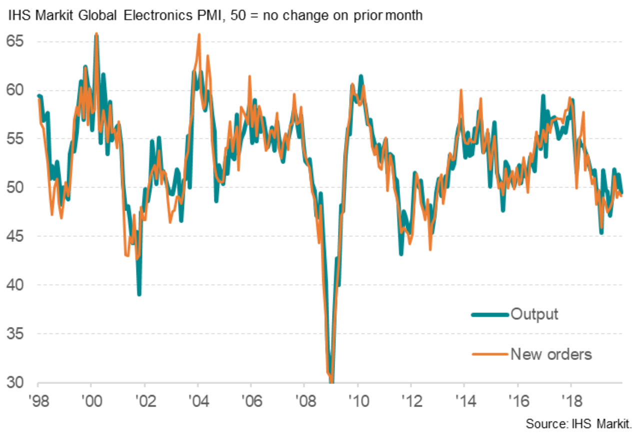
A key risk to the ASEAN economic outlook is from the ongoing US-China trade war. A significant risk to the 2020 economic outlook would be from a further escalation of bilateral tariff measures if a comprehensive trade deal cannot be reached. This could further dent China's growth rate and reduce China's manufacturing exports in 2020, which would result in further significant negative transmission shock waves to the East Asian manufacturing supply chain. Major ASEAN export manufacturing hubs such as Singapore, Malaysia and Thailand would be vulnerable to such a shock.

Many ASEAN economies are also still vulnerable to the current slowdown evident in global electronics demand, due to the importance of the electronics industry for their exports and industrial production. The electronics industry is a key industrial sector as well as an important export for Singapore, Malaysia, Vietnam, Thailand and the Philippines.

### ASEAN Manufacturing PMI




### Global Electronics PMI Output and New Orders



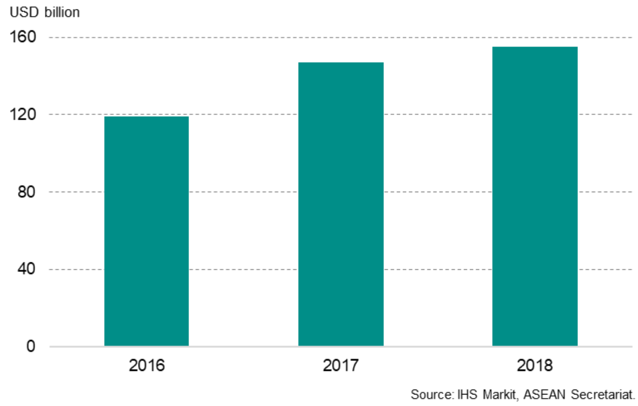

Weakness in economic growth momentum in key ASEAN export markets, notably the EU and Japan, is also expected to contribute to further dampening ASEAN export growth in 2020.

## FDI inflows into ASEAN reach record high

The sustained rapid growth of the ASEAN region has pushed FDI inflows to a new record level of USD 155 billion in 2018, compared with USD 147 billion in 2017. FDI inflows were boosted by inter-ASEAN investment flows as well as strong growth in FDI inflows from the EU and Japan.

Although FDI into services accounted for the largest share of total FDI inflows, manufacturing sector FDI inflows have more than doubled within just two years, from USD 22 billion in 2016 to USD 55 billion in 2018. A key factor driving the upturn in FDI inflows into manufacturing in ASEAN has been the impact of rising manufacturing wage costs in the coastal provinces of China.

### ASEAN FDI inflows



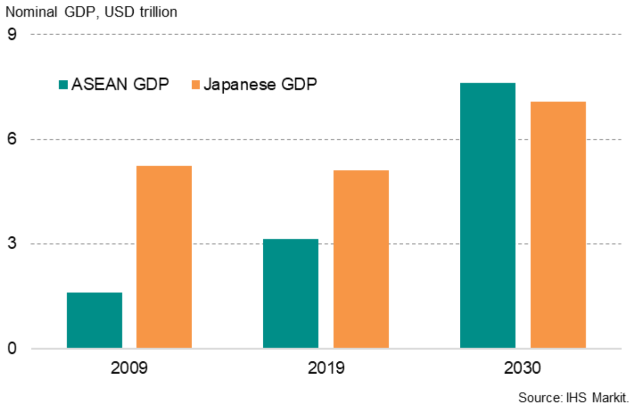

## The long-term ASEAN economic outlook

The ASEAN region is forecast to continue to be one of the world's most rapidly growing regions over the next decade, with total regional GDP increasing from USD 3.2 trillion in 2019 to around USD 7.6 trillion by 2030. By 2030, total ASEAN GDP is forecast to significantly exceed Japanese GDP, which is projected to be USD 7.1 trillion in that year.

The further rise of Indonesia as one of the world's largest emerging markets will be a key long-term factor underpinning the economic ascendancy of ASEAN as a regional economic bloc, with the rapidly growing Indonesian consumer market creating an important catalyst for intra-ASEAN export growth. The economies of Malaysia, Thailand and the Philippines are projected to be approaching the threshold of becoming USD one trillion dollar economies by 2030, further contributing to the rising economic importance of the ASEAN region as a growth engine for the APAC region.

Important factors underpinning this rapid pace of growth are expected to be strong growth in private consumption and public infrastructure spending. ASEAN's role as an increasingly important global manufacturing hub for global multinationals is also expected to support regional growth, as countries such as Vietnam, Philippines and Myanmar attract increasing foreign direct investment into manufacturing segments such as low value-added textiles and electronics as China's competitiveness in such sectors is gradually eroded by rising manufacturing labour costs.

**ASEAN GDP compared to Japan**




Strong export growth to APAC markets will also be an important long-term growth driver, helped by the continued rapid growth of large APAC consumer markets, notably China and India. Due to the sustained strong growth projected for major ASEAN economies over the next decade, led by Indonesia, intra-ASEAN trade is also forecast to be an important contributor to regional growth.

Regional initiatives for trade liberalisation, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which has a number of ASEAN members, and the Regional Comprehensive Economic Partnership (RCEP), which includes all ten ASEAN nations, will continue to support regional trade growth. A growing network of bilateral Free Trade Agreements between ASEAN nations and third countries, such as the EU-Vietnam FTA, are also helping to boost ASEAN trade and investment.

The ASEAN region is also expected to grow in importance as a key location for global manufacturing, boosted by the rapid growth of large domestic consumer markets in populous nations, notably Indonesia, the Philippines and Vietnam, as well as proximity to the vast Chinese consumer market. Strong ongoing investment in infrastructure connectivity will be an important factor helping to drive regional trade and investment flows. Over the decade ahead, the economic ascendancy of the ASEAN region will continue to build an increasingly important third growth engine for the APAC region, in addition to the emerging markets giants of China and India.

# Europe
# Special Focus

## Eurozone: recession risk receding?

**By Ken Wattret**
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*Paradoxically, while the latest batch of data in the eurozone have disappointed, the probability of a recession looks to have diminished. We now put the chances at around one in five. The policy stance, both monetary and fiscal, has become more growth-friendly, while longer leading indicators, such as narrow money growth, turned upwards some time ago. Manufacturing PMIs also signal an inflection point. Still, the economy will continue to struggle near-term and remains vulnerable to adverse shocks.*

### Reasons to be (somewhat) cheerful

With October's German industrial production data showing another large decline and November's composite PMI for the eurozone indicative of the economy barely expanding, intuitively one might expect that the probability of a eurozone recession has risen. However, we run through a series of factors below which suggest that, while the economy will continue to struggle near-term, recession risk has diminished.

- Industrial recessions do not necessarily lead to GDP contractions, with the downturns of the late 1990s and early 2000s examples of such divergence.
- Low oil prices held down inflation in both of those periods, lifting household real income growth and allowing monetary policy to remain accommodative, as now.
- There is scope for additional budgetary stimulus, albeit with most of the fiscal space residing in Germany where there is limited appetite to deploy it pre-emptively.
- We expect continued, albeit moderating, US and global growth in the coming years despite the maturity of the current expansion.

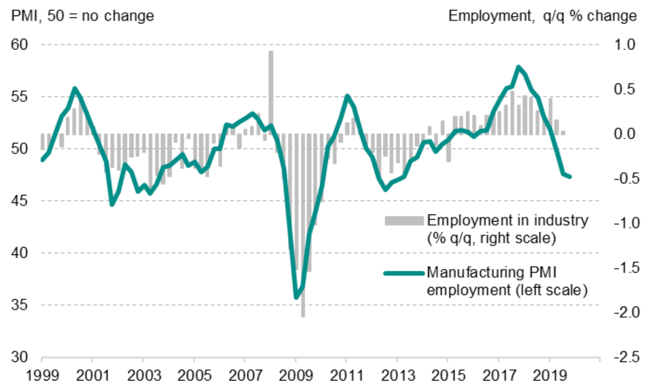
### Reduced contagion

On the first issue, we recently looked in detail at the spillovers from manufacturing weakness through to services, concluding that while some contagion is inevitable due to supply chain linkages, there should be less this time. See Mind the gap: Why the spillovers from weakness in eurozone industry onto services have diminished. The key reasons are the absence of a common shock (e.g. restrictive monetary policy) and the ongoing resilience of consumer spending. Indeed, the standout feature of Q3's GDP breakdown for the eurozone was the 0.5% q/q rise in private consumption, the highest in eight quarters.

Solid consumer spending partly reflects the second issue, oil prices. Driven primarily by decelerating energy inflation, eurozone HICP inflation has tumbled over the past year, falling from a cycle high of 2.3% in October 2018 to just 1.0% at the time of writing. Energy price base effects will lean upwards around the turn of the year but only modestly and – absent a sustained increase in oil prices – we expect consumer price inflation to average a little over 1% in 2020-21, given the stable trend in the underlying rate (around 1%).

The boost to household real incomes from low inflation is offsetting the moderation in employment growth. The latter has slowed from a peak of 1.7% in Q4 2017 to 1.0% as of Q3 this year and surveys of hiring signal that the slowdown has further to go. The weakness in the survey gauges of hiring has been concentrated in industry, yet so far the official data on employment in the sector has held up rather better than the surveys have been suggesting.

**Eurozone industrial employment holding up**



Source: Eurostat, IHS Markit

Lags partly explain this resilience, but we think it is more than just that. Given the costs and difficulties associated with dismissing and rehiring employees in the eurozone, plus the pre-downturn experience of acute skills shortages in the industrial sector, the preference appears to be for labour "hoarding" in anticipation of an improvement in demand as uncertainty over the outlook lifts. This is particularly true of Germany, where government-subsidised reductions in working hours can also act as a bridge until economic conditions improve.

## Policy stimulus stepped up

Persistent low inflation has led to additional monetary policy stimulus, with long-term interest rates having declined markedly across the eurozone during 2019, even accounting for a recent pick-up. This has also helped to weaken the trade-weighted euro exchange rate (discussed below).

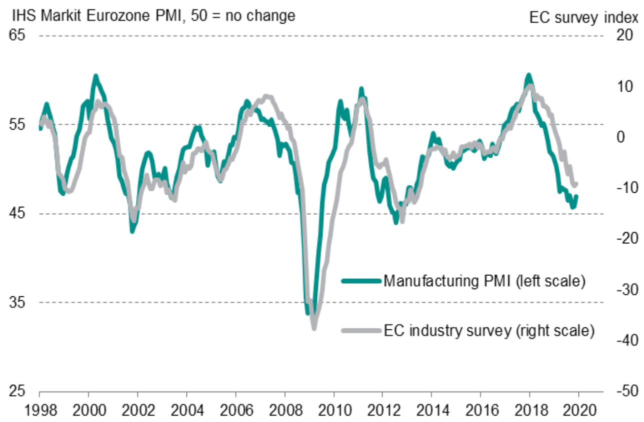
Of course, monetary policy has limitations and interest rates have fallen from already very low levels but fiscal policy is also becoming more stimulatory. France and the Netherlands have already announced additional easing for 2020 and our estimates suggest that there is still considerable scope for more. The caveat is that the fiscal space is concentrated in Germany.

## Inflection point imminent?

Various leading indicators have turned recently, including IHS Markit's manufacturing PMI. Forward-looking components of the PMI, like new orders and new export orders, rose in October and November, with both now well above their Q3 averages. Future output expectations increased in each of the three months to November, to a level four index points above Q3's average. In November the ratio of new orders to inventories reached its highest for a year.

While most areas of the PMI survey are still indicative of contracting manufacturing activity, they signal that the drag on growth will fade from Q4. Moreover, as we have highlighted previously, some of the other surveys tend to lag the PMIs, including the European Commission's sentiment data for industry, and they too should start to bottom out in the next few months.

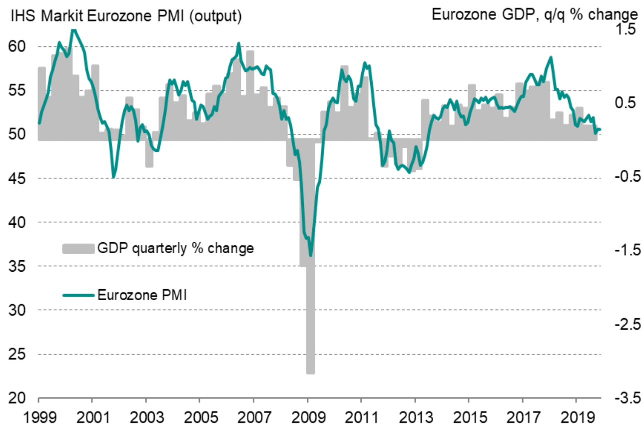
**Eurozone PMI leads other surveys**




Source: IHS Markit, EC

The eurozone is currently caught in the "cross winds" of a diminishing drag from manufacturing and a simultaneous softening of momentum in services, as spillovers seep through. As services account for a much higher share of economic activity than manufacturing, the eurozone's composite PMI has fallen to a level barely above the 50 expansion threshold, consistent with minimal q/q GDP growth. But while this has reignited speculation of an imminent recession, temporary sectoral divergence of this type is common at turning points.

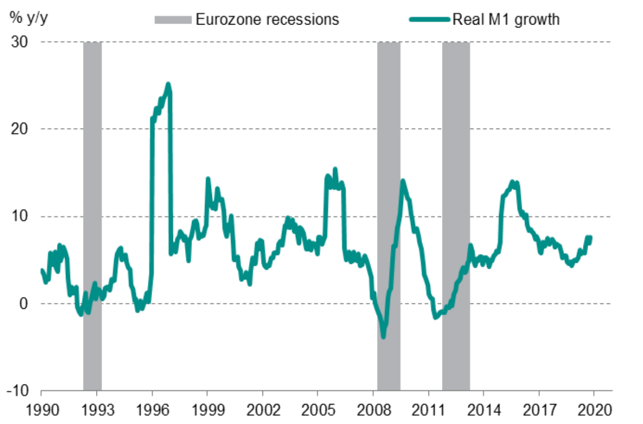
**Eurozone PMI points to minimal GDP growth in Q4**




Sources: IHS Markit, Eurostat.

Longer leading indicators, which are typically monetary or financial, are also signalling that eurozone recession risk has diminished. The rate of growth in narrow money supply (M1), for example, has been accelerating for the past year. Historically this has been a reliable guide to recessions, with turning points leading the evolution of GDP growth dynamics by several quarters.

**Eurozone M1 money supply growth has been accelerating for over a year**




Source: Eurostat, ECB, IHS Markit.

## More external support in 2020

We update our eurozone model of future export volume growth following each of our monthly forecast rounds. As of the latest update (November), the model remained indicative of an acceleration in export growth during the first half of 2020. The principal driver is a pick-up in aggregate domestic demand growth in the eurozone's main trading partners, primarily due to a temporary post-Brexit relief rebound in the UK (which has the second highest weight).

The softening of the effective euro exchange rate also contributes. On a trade-weighted basis, the euro peaked in September 2018 and has depreciated by a little over 3% since. We expect a similar depreciation in the coming quarters, linked to continued growth and monetary policy divergence with the US, plus an expected recovery in the UK pound as Brexit-related uncertainty lifts.

Germany especially should benefit from a relief rebound in the UK, as it accounts for the highest single share of UK imports (around 13% of the total). The weakness of UK demand since 2016's EU referendum, especially for investment goods, has played a key role in the slump in German exports in the period since.

## Diminished, but persistent, risks

Our baseline scenario for eurozone growth assumes a limited, gradual pick-up in momentum from spring 2020, but we recognise the vulnerability of the economy to adverse shocks. Brexit-related uncertainty is one source of risk, as is continued trade tensions. While the deadline for a much higher US tariff (up to 25%) on imports of EU autos and parts following the Department of Commerce's section 232 investigation passed without an increase, the US administration has continued to pursue other avenues to impose additional tariffs.

These are not the only sources of risk of course. A sustained, supply-driven increase in oil prices, for example, would also be a material shock for the eurozone. Not because of the policy effect: the ECB would likely look through it, as the threat of "second round" effects on wages and underlying inflation would be comparatively small. But because of the effect of higher inflation on real income gains and consumer spending, which has been the mainstay of the current expansion.