

# Week Ahead Economic Preview

## Global overview

- Japan monetary policy in the spotlight
- China profits data
- US durable goods orders
- Vietnam GDP

The calendar in the forthcoming Christmas week is unsurprisingly light, and we take this opportunity to send all our readers best wishes for the holidays and the New Year. In the meantime, there are nevertheless some important releases to look forward to.

With [flash PMI data](#) having indicated the first quarterly decline in Japan's private sector economy in more than three years following the October tax rise, the Bank of Japan meeting minutes and the summary of opinions will provide clues as to the latest thinking of policymakers. Analysts will be looking in particular for signs of additional monetary support to sit alongside the government's recent fiscal stimulus. Likewise, a speech by BoJ governor Kuroda will be parsed for insights into policy action. Meanwhile, data updates for housing starts, unemployment, retail sales and industrial production will also be keenly watched.

China's industrial profits will also come under scrutiny for another gauge of the health of the Chinese economy. Following a string of encouraging November data, including PMI surveys, the profits data will be scrutinised for further evidence that current fiscal measures have supported growth.

Vietnam will release fourth quarter GDP data alongside updates to industrial production, inflation and trade. [Vietnam PMI](#) indicated growth in November remained below that seen earlier in the year. Investors will also eagerly watch foreign direct investment data for trends arising from the US-China trade dispute.

An assessment of Asian regional trade performance will also be provided by the latest numbers on industrial output in Thailand and Singapore.

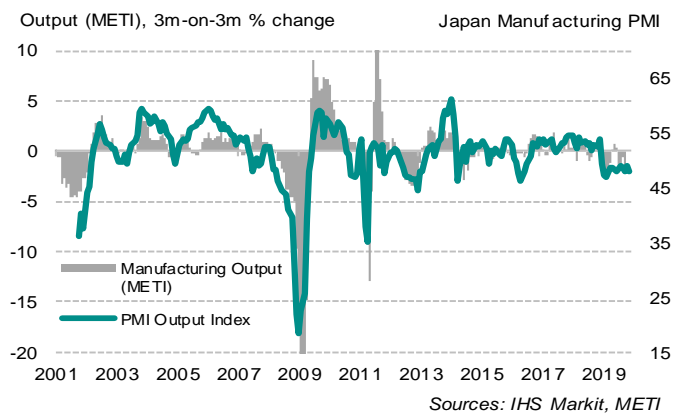
In the US, durable goods orders and new home sales data are accompanied by the Richmond Fed manufacturing index and Chicago national index, which will give further insights into fourth quarter economic health. Recent [flash PMI surveys](#) showed signs of growth lifting higher in December, albeit remaining subdued to hint at a sub-2% GDP expansion.

In Europe, GDP data for the Netherlands and UK mortgage approvals are the main releases.

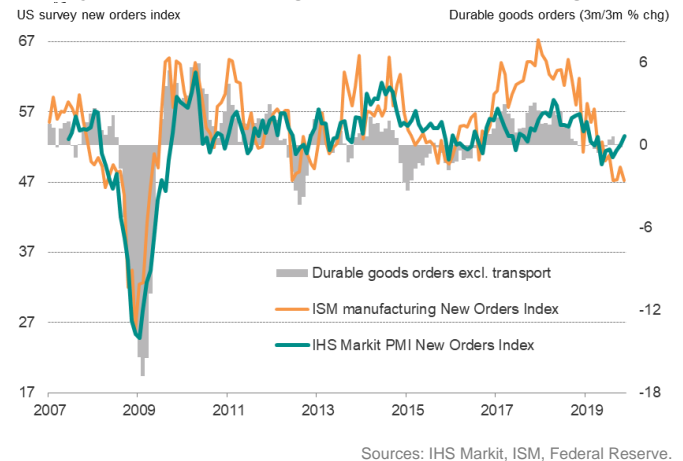
## Special reports

**APAC:** The Phase One trade deal agreed by the US and China on 13th December 2019 creates a more positive outlook for Asia-Pacific exports in 2020, after significant headwinds throughout 2019. ([page 3](#)).

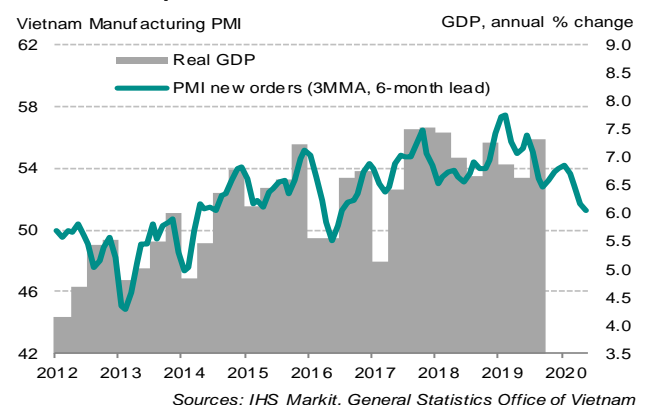
### Bank of Japan policy making comes under scrutiny after signs that the economy likely contracted in Q4



### Survey indicators of US goods orders have diverged



### Vietnam PMI points to GDP slowdown in Q4



## Key diary events (UTC +8)

### Monday 23 December

Australia private sector credit (Nov)  
Japan all industry activity index (Oct)  
Singapore inflation (Nov)  
Taiwan industrial output, jobless rate, retail sales (Nov)  
US Chicago Fed national activity index, new home sales (Nov)

### Tuesday 24 December

BoJ meeting minutes (30-31 Oct)  
Thailand industrial output (Nov)  
Netherlands GDP (Final, Q3)  
US durable goods orders (Nov)  
US Richmond Fed manufacturing index (Dec)

### Wednesday 25 December

US API crude oil stock change (20/Dec)

### Thursday 26 December

Japan housing starts, construction orders (Nov)  
Speech by BoJ governor Kuroda  
Singapore industrial production (Nov)  
France unemployment benefit claims (Nov)

### Friday 27 December

South Korea consumer confidence (Dec)  
Japan jobless rate, retail sales (Nov), industrial output (Prelim, Nov)  
BoJ Summary of Opinions (18-19 Dec)  
China industrial profits (YTD, Nov)  
Vietnam FDI (Dec)  
UK finance mortgage approvals (Nov)  
Brazil unemployment rate (Nov)

### Sat-Sun: 28-29 December

28: Baker Hughes oil rig count (27/Dec)  
29: Vietnam GDP (Q4), industrial output, inflation, trade balance (Dec)

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# Asia Pacific Special Focus

US-China trade deal boosts APAC trade outlook for 2020

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*The Phase One trade deal agreed by the US and China on 13<sup>th</sup> December 2019 creates a more positive outlook for Asia-Pacific exports in 2020, after significant headwinds to the export sectors of many APAC nations throughout 2019.*

## APAC exports hit by trade wars in 2019

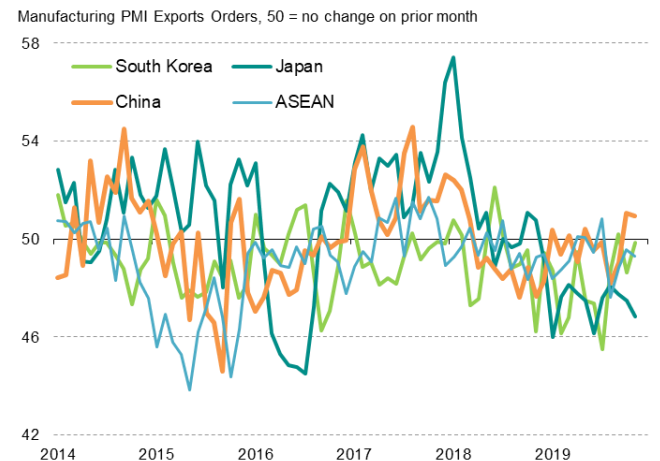
During 2019, the export sectors of many APAC countries were badly hit by the contagion effects of the US-China trade war, as well as a number of other adverse factors, including the downturn in the global electronics sector and the impact of the protracted manufacturing sector recession in the Eurozone. The combined negative effects of these headwinds resulted in contracting exports in many APAC economies.

China's exports fell by 1.1% year-on-year in November 2019, with exports to the US slumping 23% y/y due to the impact of the trade war. The contagion effects of China's manufacturing sector slowdown were widespread across the APAC region. South Korean exports were particularly hard hit, not only due to the US-China trade war impact but also the slump in the global electronics sector, since electronics are a key export for the nation. South Korean exports declined by 14.3% year-on-year (y/y) in November, the twelfth consecutive month of contracting exports. The escalation in Japan-South Korea trade frictions also contributed to the decline, with South Korean exports to Japan down by 13.8% y/y in October.

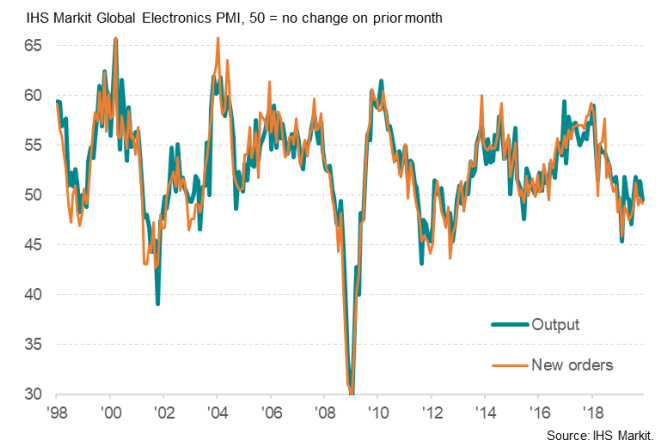
Japanese trade data for November showed that Japanese exports worldwide also showed a steep decline of 7.9% y/y, following a 9.2% y/y contraction in October. Japanese exports to South Korea were badly impacted by the bilateral trade frictions, declining by 17% y/y in November.

However recent Manufacturing PMI surveys conducted by IHS Markit are showing a significant rebound in new manufacturing export orders, notably in China and South Korea.

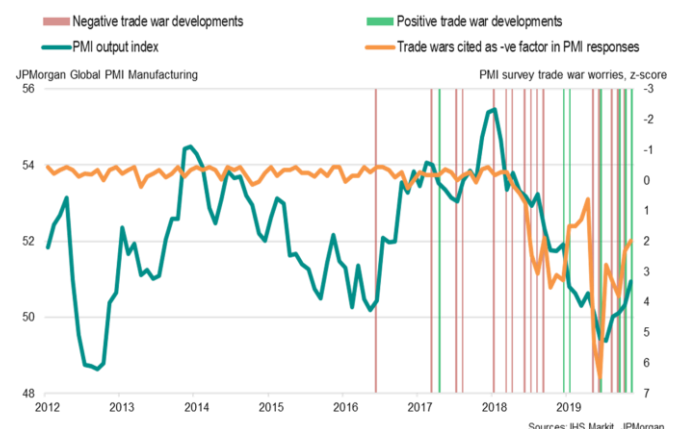
## Asian PMI New Export Orders



## IHS Markit Global Electronics PMI



## Global manufacturing and trade wars



## US-China Phase One trade deal

The US-China Phase One trade deal that has been agreed still needs to be fine-tuned and signed, with expectations that this will be done in early 2020. If implemented, the trade deal will significantly improve bilateral trade. The US has agreed not to go ahead with planned new tariffs that were due to be imposed

on 15<sup>th</sup> December on around USD 160 billion of Chinese exports. Furthermore, US tariffs of 15% that were in force since September 2019 on USD 120 billion of Chinese exports will be halved to 7.5%. However, US tariffs of 25% on USD 250 billion of Chinese exports will remain in place.

In return, China has agreed to significantly ramp up imports from the US by around USD 200 billion over 2020 and 2021 and has also cancelled plans to impose retaliatory tariffs on certain US products that were due to take effect on 15<sup>th</sup> December. China's planned reintroduction of retaliatory tariffs on imports of US autos and auto parts have also been cancelled. An additional list of US products that will be exempted from planned tariffs was released by China on 19<sup>th</sup> December, comprising mainly of a range of chemical products.

This expansion of China's imports from the US will comprise four main areas, notably manufactures, agricultural products, energy products and services. US trade negotiators have indicated that China would increase annual agricultural imports from the US by around USD 16 billion per year in 2020 and in 2021. The Phase One US-China trade deal includes energy products as one of the four main core components for expanding Chinese imports from the US. China will provide detailed commitments for increasing imports from the US, and increased imports of US oil and LNG are likely to be part of the sharp increase in Chinese imports from the US planned for 2020 and 2021. However, US trade negotiators have indicated that the targets for specific products will not be made public, in order to avoid distorting markets.

Bilateral negotiations on a Phase Two trade deal are also due to commence immediately, with the aim of trying to achieve a comprehensive trade deal that will resolve the bilateral trade war. A much stronger framework for protection of US intellectual property rights in China will be a central focus for the Phase Two trade negotiations.

## Medium-term impact for APAC region

The US-China Phase One trade deal, once implemented, will be growth positive for the world economy and for APAC growth and exports. An upturn in Chinese manufacturing exports to the US from the Phase One US-China trade deal will also provide a boost to the Asian manufacturing supply chain for intermediate goods and materials, which will help the export sectors of many Asian economies, given the importance of China as a key export market.

East Asian industrial economies such as South Korea and Japan have suffered significant negative contagion effects due to the spillover effects from the US-China trade war to the Asian manufacturing supply chain. The improved Asian export outlook for 2020 will also provide a positive boost to the APAC economic growth outlook for 2020.

If a Phase Two comprehensive trade deal can be achieved in the near future that removes most of the remaining bilateral trade war-related tariffs, this would be a further significant boost to both the global and APAC economies.

Over the past two years, rising levels of uncertainty for companies worldwide due to escalating global trade protectionism and trade wars have had a negative impact on global trade and investment. Research by the US Federal Reserve<sup>1</sup> found that the rise in trade policy uncertainty in the first half of 2018 resulted in a decline in the level of global GDP of about 0.8% by the first half of 2019. Reducing these trade policy uncertainties in 2020 should create a more favourable climate for global trade and investment flows over the medium-term outlook. The APAC region would be a notable beneficiary, since China's export sector has been at the forefront of the trade war, and given the export-driven structure of many East Asian industrial economies.

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<sup>1</sup> Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo (2019). "Does Trade Policy Uncertainty Affect Global Economic Activity?," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, September 4, 2019, <https://doi.org/10.17016/2380-7172.2445>.