

# Week Ahead Economic Preview

## Global overview

- European industrial production data
- IHS Markit Services & Composite PMI data
- US non-farm payrolls
- China and eurozone inflation

The first full week of 2020 looks set to kick off the year with a bang and is busy with economic data releases. Trends across retail sales, industrial production and inflation will give an early view to the health of the global economy as we begin a new decade.

Kickstarting the widely anticipated calendar releases for the final month of 2019 are the publication of services and composite PMI data across the world. Signals from flash data pointed to further lacklustre performances across key regions, with activity across the eurozone and Japan remaining subdued, and US private sector firms indicating only a modest pick-up in output.

Eyes will be drawn to November industrial production data, with newly published figures expected to point to a slow recovery across many economies. The release of output figures across Europe, including Germany, Spain, France and Italy, will be keenly assessed for more positive signals towards the end of 2019. On the consumer side, retail sales data are published along with consumer confidence, amid expectations that unemployment for the euro area will stay close to the low seen in October.

Meanwhile, US non-farm payrolls growth is expected to moderate from the high seen in November, when already strong employment data was boosted by the return to work of GM workers following their extended strike. Nonetheless, our [flash US PMI](#) data suggested a pick-up in the pace of overall private sector output growth at the end of 2019, which is likely to translate to another solid round of hiring.

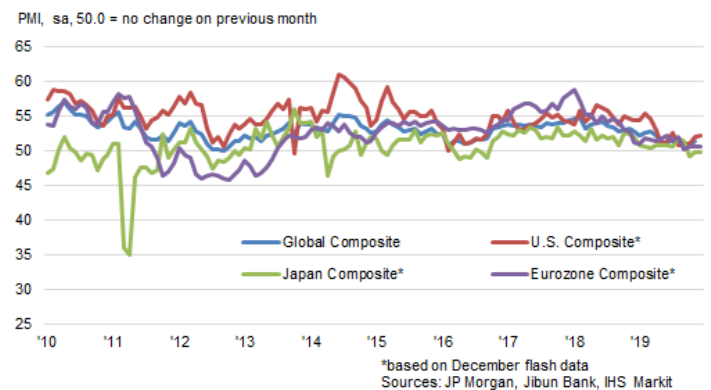
Official industrial production figures will also be released for India. Following concerning signals from October data, the [India Manufacturing PMI](#) suggests an improvement in conditions towards the end of 2019.

Finally, the rate of inflation in China will be watched with interest, hot on the heels of monetary stimulus in the form of a cut in the reserve requirement ratio (RRR) by the People’s Bank of China.

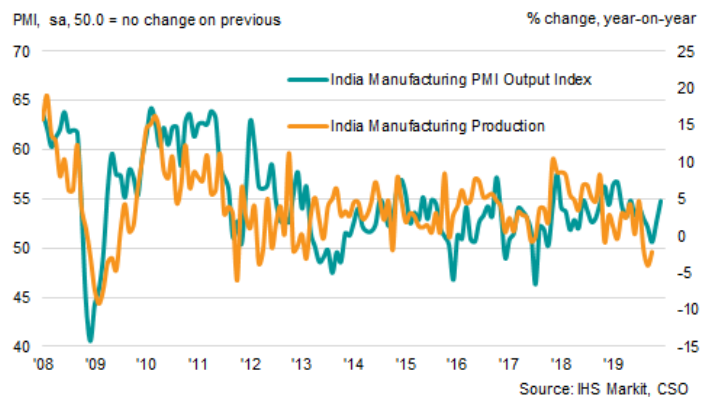
## Special reports

**APAC:** The Economic Outlook for 2020. The Asia-Pacific region is expected to grow in presence on the world stage despite significant potential headwinds. ([page 3](#)).

### Global composite performance weighed down by lacklustre demand across key regions



### Indian manufacturing output growth looks set to pick up towards the end of 2019



## Key diary events (UTC +8)

### Monday 6 January

Worldwide release of IHS Markit Services PMIs (Dec)  
Jibun Bank Japan Manufacturing PMI (Dec)  
Germany retail sales (Nov)  
Eurozone producer price index (Nov)

### Tuesday 7 January

South Korea current account (Nov)  
Jibun Bank Japan Services & Composite PMI (Dec)  
IHS Markit Construction PMI surveys (Dec)  
Eurozone inflation (Flash, Dec), retail sales (Nov)  
France retail sales (Nov)  
Italy inflation (Prel, Dec)  
UK new car sales (Dec)  
Canada trade (Nov)  
US trade, factory orders (Nov), ISM Non-Manufacturing PMI (Dec)

### Wednesday 8 January

Japan consumer confidence (Nov)  
Germany factory orders (Nov)  
France trade, current account (Nov), consumer confidence (Dec)  
Eurozone business and consumer confidence (Dec)  
UK Halifax House Price Index (Dec), productivity (Final, Q3)

### Thursday 9 January

Australia trade (Nov)  
China inflation and producer price index (Dec)  
Germany trade, industrial production, current account (Nov)  
Italy unemployment, retail sales (Nov)  
Eurozone unemployment (Nov)  
Brazil industrial production (Nov)  
Mexico inflation (Nov)  
US jobless claims

### Friday 10 January

Australia retail sales (Nov)  
Brazil inflation (Dec)  
Canada unemployment (Dec)  
China trade (Nov)

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France industrial production (Nov)

India industrial production (Nov)

Italy industrial production (Nov)

Spain industrial production (Nov)

Mexico industrial production (Nov)

Russia inflation (Dec)

US non-farm payrolls, unemployment rate, earnings (Dec), wholesale inventories (Nov)

# Asia Pacific Special Focus

The APAC Economic Outlook for 2020

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*The Asia-Pacific (APAC) region is forecast to be the fastest-growing region of the global economy in 2020, underpinned by continued strong growth in China, the world's second-largest economy, as well as robust economic expansion in Southeast Asia. The economic importance of the Asia-Pacific region in the world economy also continues to rise, with total APAC GDP in nominal terms estimated to account for around 36% of world GDP in 2020, far exceeding the size of GDP in either North America or Europe.*

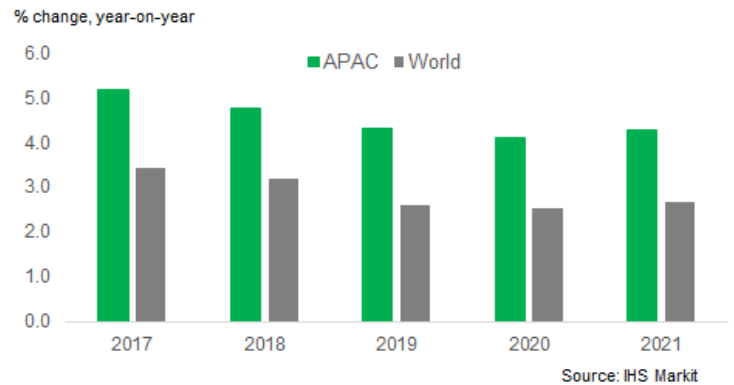
*Nevertheless, APAC will continue to face significant economic challenges in 2020, notably on the international trade front, with the US-China trade and technology wars still continuing at the outset of 2020 despite the Phase One bilateral trade deal. The export sectors of many APAC economies also face headwinds from soft economic conditions in the European Union as well as continued weak new orders in the global electronics sector. The significant recent slowdown in growth momentum in the Indian economy and continuing fragilities in India's financial sector also pose an important risk in the year ahead.*

## APAC Growth Outlook for 2020

The APAC region is forecast to grow at a pace of 4.1% in 2020, moderating slightly from the 4.3% growth rate estimated for 2019, but still showing considerable resilience in the face of economic headwinds from trade wars and weak Eurozone growth.

Compared to other regions of the world economy, the pace of APAC economic growth is expected to remain significantly higher. The APAC growth rate in 2020 is expected to be around 2.7 times faster than the growth rate for the OECD, and also significantly higher than the pace of growth in Africa or Latin America.

APAC GDP Growth Forecast for 2020-21

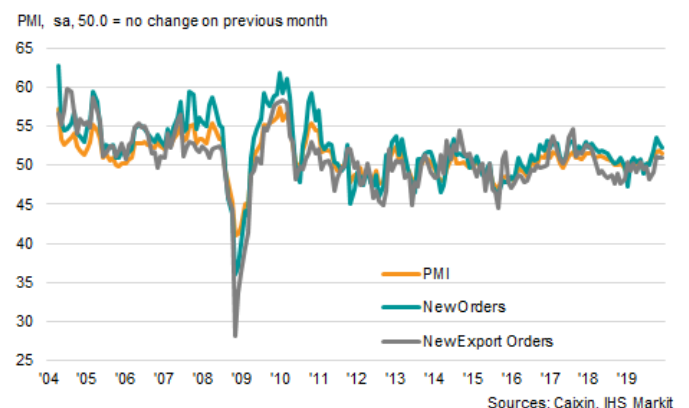


## Northeast Asia

An important factor contributing to the slight easing in APAC regional growth momentum in 2020 is the expected further moderation in the pace of China's economic growth rate, from a pace of 6.2% in 2019 to 5.8% in 2020. This reflects the continued impact of US tariff measures on China's manufacturing export sector, which has resulted in a significant decline in China's exports to the US, which fell by 23% year-on-year in November 2019.

However, the negative economic shock from the trade war has been mitigated by significant domestic fiscal and monetary stimulus measures implemented by the Chinese government since 2018. The People's Bank of China has further boosted monetary policy stimulus at the beginning of 2020 by announcing a 50bp cut to the Reserve Requirement Ratio (RRR) with effect from 6th January 2020, adding to 150bps of RRR cuts in 2019. China's stimulus measures have helped to boost domestic new orders for the manufacturing sector, which has been reflected in a gradual improvement in recent months in the Caixin China Manufacturing Purchasing Managers Index, a survey that is compiled by IHS Markit.

## Caixin China General Manufacturing PMI

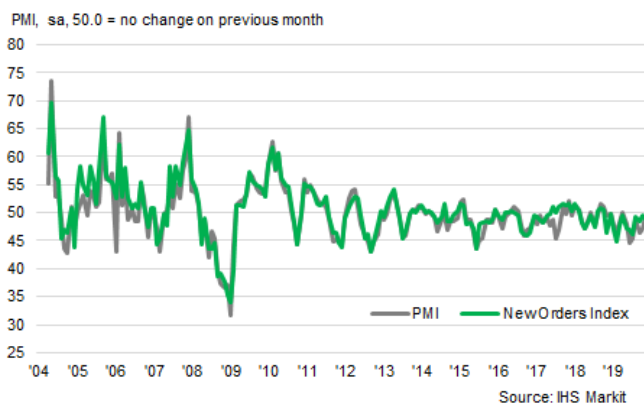


Another factor contributing to the moderating pace of APAC economic growth is softening growth momentum in the Japanese economy, due to the impact of the consumption tax hike implemented at the beginning of October 2019. However, the negative economic impact of the consumption tax hike has been mitigated by the Yen 25 trillion fiscal stimulus package announced by the Japanese government in December 2019.

The South Korean economy has also been impacted by the wider contagion effects of the US-China trade war on the regional manufacturing supply chain, as China is the most important export market for South Korea. The downturn in global electronics sector new orders has also hit the South Korean economy, as electronics are a key export. Consequently, South Korea's economic growth rate in 2020 is expected to remain moderate, at a pace of slightly below 2% y/y.

On a positive note, the IHS Markit South Korea Manufacturing PMI has shown a gradual improvement during the fourth quarter of 2019, with the December survey showing that both output and new orders had moved back into expansion territory for the first time since October 2018.

## South Korea Manufacturing PMI



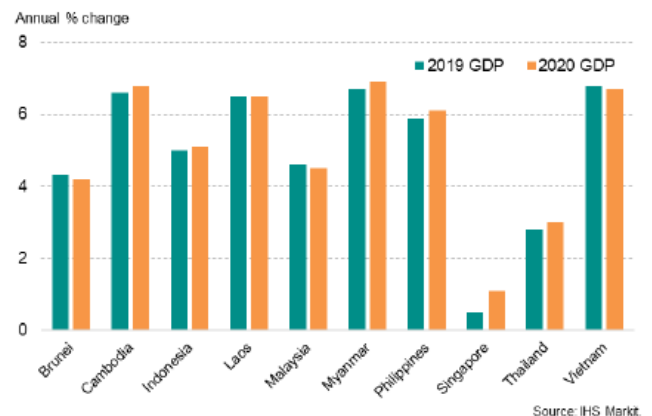
## Southeast Asia

In Southeast Asia, the outlook for 2020 is for continued resilient economic expansion, despite the headwinds to the export sector. Although the export sectors of many ASEAN countries were hit by the contagion effects of the US-China trade war as well as the downturn in the global electronics sector during 2019, overall ASEAN economic growth momentum has remained resilient, underpinned by the strength of domestic demand.

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. 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. The impact of monetary policy stimulus measures implemented by a number of ASEAN central banks will also continue to support growth in 2020.

## ASEAN GDP growth forecast for 2020



## India

Latest Indian GDP data for the July-September quarter showed a significant further moderation in the pace of economic growth, to a pace of 4.5% year-on-year (y/y). This was the weakest pace of growth recorded in six years, with a key contributory factor being a slump in manufacturing output. The pace of GDP growth was much weaker than the 7.0% y/y growth rate recorded a year ago, in the September quarter of 2018

Financial sector fragilities continue to weigh on India's economic growth momentum, with the high level of non-performing loans on the balance sheets of the public sector banks, constraining their new lending. Furthermore, there are also risks from potential contagion effects from troubled non-bank financial companies (NBFCs) to the balance sheets of some commercial banks, which could further weigh on the overall pace of credit expansion.

In response to the growth slowdown, the Reserve Bank of India (RBI) has eased policy rates significantly during 2019, with a series of rate cuts since February 2019, while the Indian government announced a large reduction in corporate tax rates in September 2019, in order to help boost new investment spending. Further stimulus measures are expected in the upcoming Indian Budget due on 1st February 2020.



Following the weak GDP outturn for the September quarter, IHS Markit forecasts that Indian real GDP growth in FY 2019-20 will be 4.8% y/y, as it is anticipated that the impact of stimulus measures will take time to filter through to the real economy. The RBI also lowered its GDP growth forecast for 2019-20 from 6.1% to 5.0% on 5th December 2019, due to the weak September quarter GDP result.

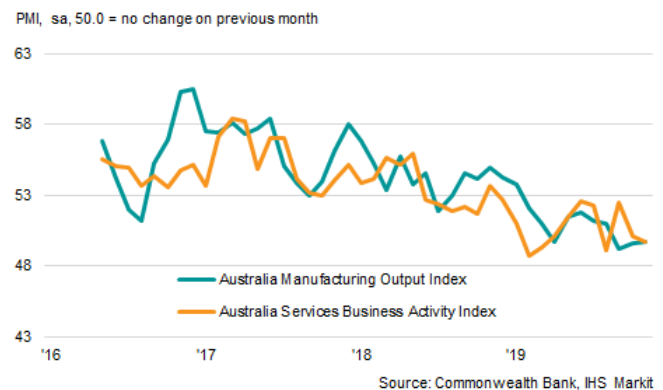
## Australia

The Australian economic outlook is for GDP growth momentum to improve from a pace of 1.8% in 2019 to 2.2% in 2020, helped by the impact of policy rate cuts by the Reserve Bank of Australia (RBA) during 2019, as well as stimulus from tax cuts implemented in the 2019 Budget. Strong public sector spending programs for infrastructure construction by both federal and state governments will also help to underpin growth. The strength of world iron ore prices during most of 2019 has also been supportive for Australian resources export values.

However, recent Commonwealth Bank Manufacturing and Services PMI surveys for Australia compiled by IHS Markit are still signalling subdued business activity. With bushfires still raging in New South Wales and Victoria, and significant economic damage to agricultural crops in South Australia in recent weeks, the economic impact of the bushfire crisis is also another negative factor weighing on the near-term economic outlook.

Consequently, during 2020, the RBA could ease monetary policy further should inflation pressures remain well below the RBA inflation target range of 2% to 3% and if the unemployment rate moves further away from what the RBA considers is consistent with full employment. If monetary policy easing by the RBA brings the cash rate down to 0.25%, this could open the door for the use of unconventional monetary policy in Australia. However, the probability of utilising quantitative easing policy measures is still considered unlikely by the RBA.

## Commonwealth Bank Australia Manufacturing and Services PMI



## APAC Medium Term Economic Outlook

The APAC regional economic outlook over the medium term is for continued resilient growth. APAC GDP growth is forecast to improve from a pace of 4.1% y/y in 2020 to around 4.3% y/y in both 2021 and 2022, strengthening to a pace of around 4.4% y/y in 2023-24. This continued robust regional growth outlook is underpinned by continued strong growth expected in China, with slightly better growth in Japan and a gradual economic recovery in the Indian economy.

Meanwhile the weight of the APAC regional economy is forecast to continue to increase as a share of world GDP, rising from around 36% of world GDP in 2020 to around 39% of world GDP by 2025. The APAC region is expected to continue to be the most important growth engine for the global economy over the next five years, accounting for around 48% of the total increase in world GDP over the 2020-2025 period, with China being the single most important growth driver, accounting for 27% of the total increase in world GDP.

This highlights the strategic importance of the APAC region as a key source of revenue growth for multinationals in a wide range of industry sectors across manufacturing and service industries, notably in the large emerging markets of China, India and Southeast Asia.