Publication date: 29 May 2020

Week Ahead Economic Preview

Global overview

- Worldwide PMI updates for manufacturing and services in May
- US monthly jobs report
- Monetary policy meetings in Eurozone, Canada and Australia

The week ahead sees the PMI business surveys provide the first major insights into global economic trends in May, with clues being sought as to not only the depth of the downturn but also the speed with which economies can recover from the COVID-19 pandemic. Other key events include US non-farm payrolls and monetary policy meetings at the ECB, Bank of Canada and RBA.

Provisional PMI data hint that the global downturn may have already peaked back in April, with rates of decline having eased markedly in the US, Eurozone, Japan and UK in May. If lockdowns are lifted further in coming months, as planned, a return to growth looks possible for many economies as we head into the third quarter. With markets showing signs of reduced pessimism on the economic outlook, analysts will therefore be hoping that the final global PMIs will confirm an easing from April's unprecedented rate of economic contraction. China's PMI data will prove especially interesting as a bellwether for other economies, as China has relaxed many of its COVID-19 restrictions earlier than other countries.

In the US, the IHS Markit PMI and ISM surveys are followed by the monthly employment report, which is expected to show further widespread job losses and another increase in the unemployment rate beyond the current post-war record of 14.7%. Other key US releases include factory orders and trade data (page 3).

In Europe, the PMI releases are swiftly followed by the ECB's Governing Council meeting, for which we see a high likelihood of further stimulus being announced. Euro area unemployment and retail sales data are also updated, as are UK mortgage approvals (page 4).

In Asia, Caixin and NBS PMI releases are joined by Japan, South Korea and Australia updating their GDP numbers, with the latter also setting monetary policy, for which further easing is anticipated. Other highlights include Hong Kong SAR retail sales, trade figures in Australia, China, South Korea and Malaysia, plus inflation data in Thailand, Taiwan, the Philippines and Indonesia (page 5).

Special reports

Singapore: Despite massive fiscal stimulus measures, an extended COVID-19 lockdown will lead to a further deepening of Singapore's recession. (**page 6**).

Europe: We take a look at the outlook for inflation (or – more likely – deflation) in the euro area (**page 9**).

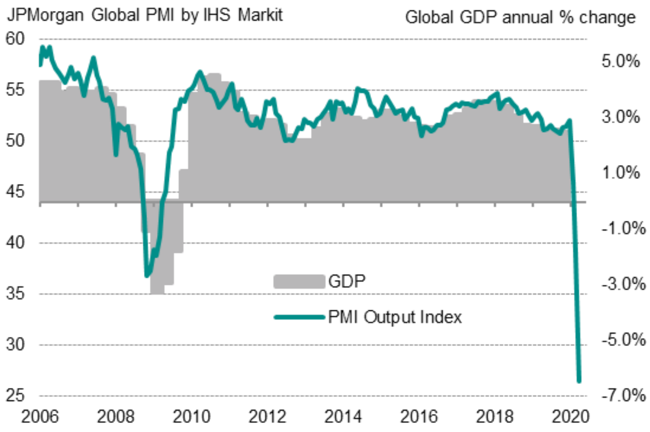
Upcoming PMI releases

1st June: Final Global manufacturing PMIs

3rd June: Final Global services PMIs

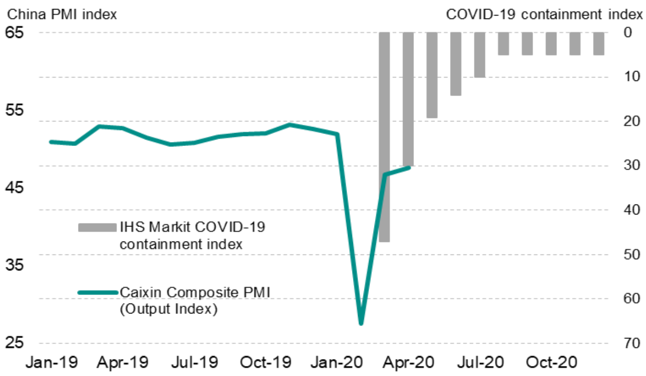
5th June: Global, EU and Asia detailed sector PMI

Global PMI surveys will shine a light on the extent to which an easing of COVID-19 lockdowns may have helped cool the rate of economic contraction in May



Source: IHS Markit, JPMorgan.

China relaxed COVID-19 restrictions earlier than other countries so its PMI data will be especially interesting



Source: IHS Markit

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Economic Preview: Week of 1 June 2020

Publication date: 29 May 2020

Key diary events (UTC)

Monday 1 June

Worldwide release of IHS Markit manufacturing PMIs (May)

Caixin/IHS Markit manufacturing PMI (May)

South Korea exports (May)

Thailand business confidence, inflation (May)

Hong Kong SAR retail sales (Apr)

US ISM PMI (May), construction spending (Apr)

South Korea GDP (Final, Q1), CPI (May) 23:00 UTC

Tuesday 2 June

IHS Markit ASEAN manufacturing PMI (May)

IHS Markit Indonesia manufacturing PMI (May)

Australia new home sales (Apr), business inventories (Q1)

RBA interest rate decision

Indonesia inflation (May), business confidence (Q1)

UK consumer credit, mortgage lending and approvals (Apr)

CBA Australia services PMI (Final, May) 23:00 UTC

Wednesday 3 June

Worldwide release of IHS Markit services PMI (May)

Caixin/IHS Markit services PMI mainland China (May)

Hong Kong SAR and Singapore PMI (May)

Australia GDP (Q1), building permits (Apr)

Euro area and Germany unemployment rate (May)

Brazil industrial production (Apr)

Bank of Canada rate decision

US ADP job report (May), factory orders (Apr)

US ISM non-manufacturing PMI (May)

Thursday 4 June

Australia trade (Apr)

Thailand consumer confidence (May)

Malaysia trade (Apr)

IHS Markit Construction PMI for Euro area, Germany, France, Italy and UK (May)

Euro area retail sales (Apr)

ECB monetary policy meeting

US trade (Apr), jobless claims (23-May), unit labour costs, nonfarm productivity (Final, Q1)

UK consumer confidence (Final, May)

Japan household spending (Apr)

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Friday 5 June

IHS Markit Sector PMI for Global, Asia, Europe (May)

IHS Markit Global Metal users PMI (May)

Philippines inflation (May), jobless rate (Q2)

Germany factory orders (Apr)

UK Halifax house price index (May)

Italy retail sales (Apr)

Taiwan inflation (May)

US nonfarm payrolls, unemployment rate, earnings (May)

Saturday-Sunday 6-7 June

7/6: China trade (May) 03:00 UTC

7/6: Japan GDP (Final, Q1), current account (Apr) 23:50 UTC

Economic Preview: Week of 1 June 2020

Publication date: 29 May 2020

United States Week Ahead

PMIs, jobless claims and non-farm payrolls

By Siân Jones

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As the US economy slowly returns to work, the health of the private sector and demand conditions will be closely watched for clues as to the speed of recovery. PMI data will signal the confidence firms have in future output, but also show the current level of new order inflows, which will be critical to helping support a turnaround in employment figures. Initial jobless claims rose once again in mid-May, with the upcoming non-farm payroll data providing a snapshot of the impact on private sector employment. Also released are hourly earnings data and factory orders.

ISM and IHS Markit PMI

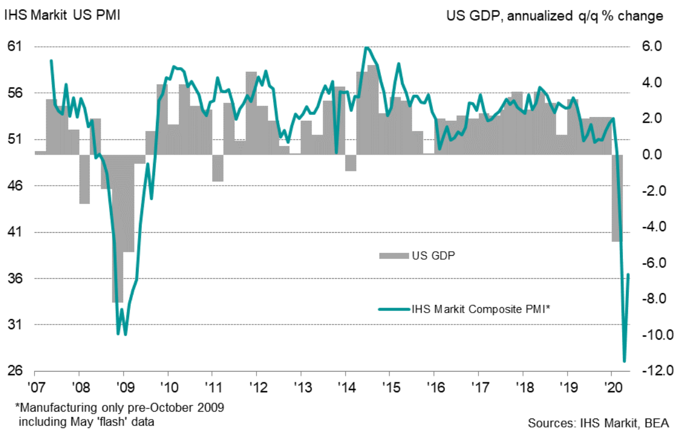
PMI numbers from IHS Markit and the ISM have been front-run by 'flash' PMI data showing a private sector still reeling from lockdown measures and struggling to drum-up much needed demand. Manufacturers and service providers alike were reportedly challenged by order cancellations and ongoing temporary closures. For those who rely on being customer-facing, the reopening of facilities is likely to be long and drawn-out as social distancing measures and travel restrictions remain in place. That said, 'flash' data indicated a slower overall decline in business activity, as it is hoped that April's record low proves to be the nadir.

Employment data

Since the escalation of the COVID-19 outbreak in the US, the emergence of new employment data has revealed a labour market in distress. Initial and continuing jobless claims have increased on a weekly basis, with those unemployed for two weeks or longer reaching a record high in early May. Stark monthly changes to the labour market have also been evident in the unemployment rate, which shot up to 14.7% in April, and non-farm payrolls data. As demand remains sluggish across the private sector, it is likely that the bounce-back in employment will be equally as leaden.

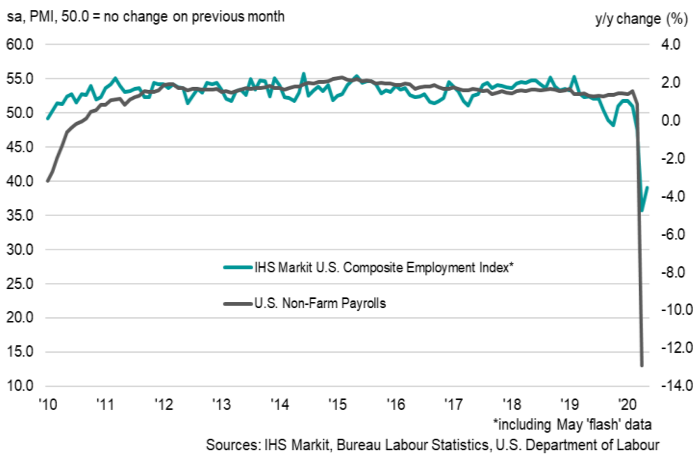
Also released are average hourly earnings and working hours data. As was noted among firms' responses included in May's 'flash' PMI survey, some companies have tried to reduce working hours in an attempt to retain employees. That said, the drop in lower paid employment is likely to have pushed average hourly earnings up.

Sluggish demand has weighed on overall private sector performance again, according to May 'flash' data



Average hourly earnings has risen as lower paid employees are subject to job cuts

Employment continued to contract markedly in May



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Europe Week Ahead

Final PMIs, ECB meeting, unemployment and retail sales data

By Joe Hayes

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The European Central Bank (ECB) meeting will be the key event of the week after the minutes from April's meeting highlighted the readiness of the Governing Council to ease policy further. Final PMI data for the euro area, UK and the wider reaches of the continent will be scrutinised as the focus now shifts towards the speed of economic recovery. The euro area unemployment rate will be updated to April, while retail sales and Germany factory orders figures are also due.

Final May PMIs

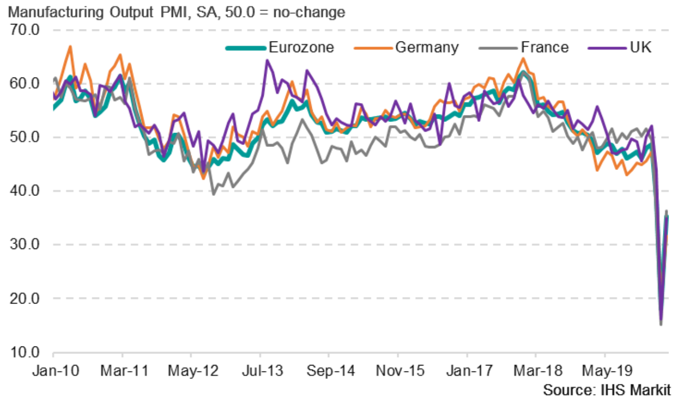
After flash PMI surveys showed slower rates of contraction across the euro area and UK in both manufacturing and service sectors in May, the final prints will be eyed for any additional signals that business conditions are improving following the gradual re-opening of parts of the economy. Survey data for Italy and Spain will also be released, as well as other parts of the continent, helping analysts to assess key areas of resilience and weakness. Nevertheless, given flash data showed still-sharp declines in May, the economic output in the second quarter is set to slump drastically, which could drive the ECB to take action in their meeting next week.

ECB meeting

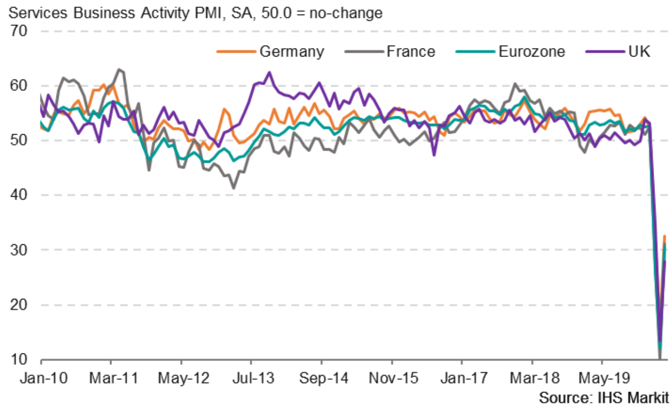
We expect additional stimulus to be announced by the ECB in their coming meeting after the accounts of the April meeting strongly reinforce the Governing Council's willingness to expand asset purchases. We also remain concerned about deflation risks (see special report). The current market expectation is for an expansion of around €500bn in the pandemic emergency purchase programme (PEPP), which we consider reasonable. Our long-standing forecast of a 10 basis-point reduction in the deposit facility rate has diminished in probability in part due to EUR/USD remaining soft.

Euro area retail sales data for April will also be closely watched to ascertain the impact on consumer spending during the height of the lockdown. The unemployment rate will be updated to April and is expected to rise sharply, while German factory orders for April are likely to show sustained weakness.

Flash data revealed tentative signs of a decelerating manufacturing downturn as operating rates rise at some factories



Rate of contraction across European service sectors slowed during May, according to flash PMI surveys



Euro area unemployment looks set to have risen sharply in April

Publication date: 29 May 2020

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Asia Pacific Week Ahead

PMI surveys, GDP updates and Australian central bank meeting

By Bernard Aw
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Markets will eagerly anticipate the May update of worldwide PMI surveys next week, which provide insights into the potential trajectory of economic recovery as more countries started reopening their economies. Caixin China PMI results will be in particular focus. Regional sector PMI will add to the national surveys, offering clues on economic performance from an industry perspective.

Australia will update its GDP and decide on monetary policy in the same week, while South Korea and Japan release their final GDP estimates. Other highlights include trade figures in Australia, China, South Korea and Malaysia, while inflation data in Thailand, Taiwan, Philippines and Indonesia will also garner interest.

PMI updates for May

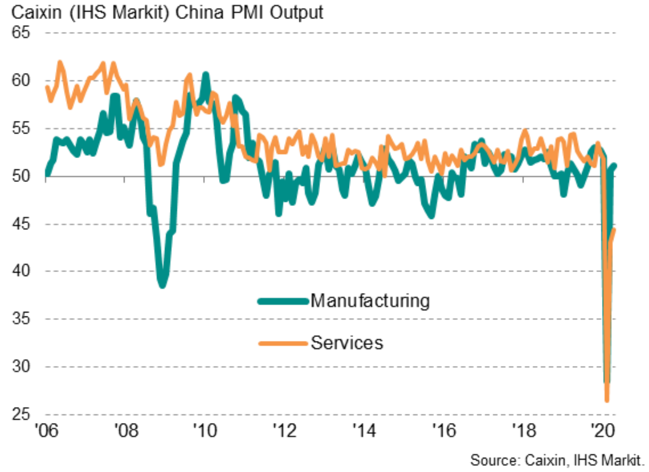
With flash PMI surveys for major economies showing economic contractions starting to ease as lockdown measures were relaxed, eyes will be on the economic performance globally. In Asia, eyes will be on the Caixin China PMI, compiled by IHS Markit, and NBS surveys to assess if the manufacturing rebound has strengthened and the service sector downturn eased in May. The PMI performance of Asian economies, such as South Korea and Hong Kong SAR, that have relaxed social distancing rules, will also be scoured for insights into possible recovery paths. The India PMI data will also be keenly awaited, as April's numbers had shown an especially steep downturn amid a notably hard lockdown.

Australia GDP and monetary policy

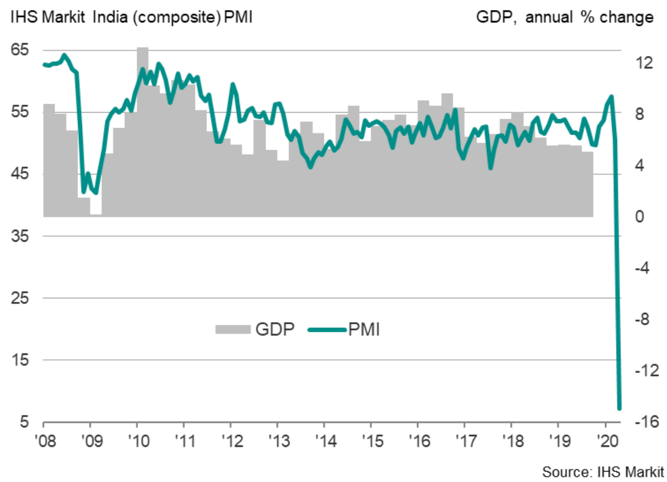
GDP updates for Australia are expected to show the annualised quarterly economic growth falling for the first time in nine years (-2.4%) during the first quarter, according to IHS Markit's estimate, though the second quarter is projected to be much worse due to lockdown measures. Flash PMI data for May indicated another substantial fall in business activity across Australia.

The Reserve Bank of Australia convenes next week to decide on interest rates. With the cash rate approaching the lower zero bound, further monetary easing will likely take the form of asset purchases and other macroprudential regulatory changes.

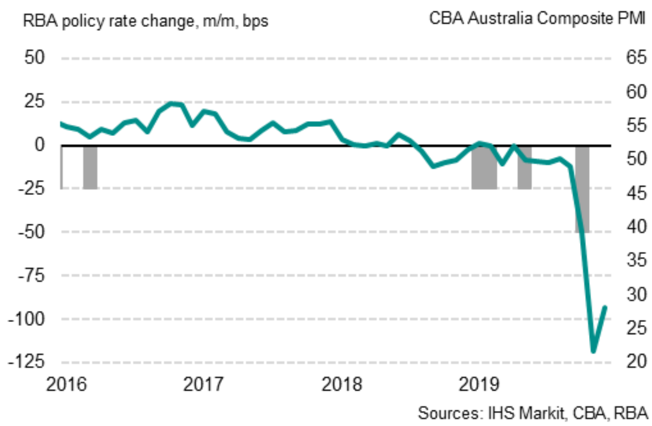
Will an easing of containment measures help lift the PMIs in China?



India PMI and economic growth



Australia PMI* deep in territory associated with monetary easing



*Latest May data from flash PMI

Publication date: 29 May 2020

Asia Pacific Special Focus

COVID-19: Singapore Recession Deepens due to Protracted Lockdown

By Rajiv Biswas

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The Singapore economy has been hit by multiple shocks from the impact of the protracted lockdown on domestic consumption and business activity, as well as the collapse of the tourism industry due to international travel bans. Despite massive fiscal stimulus measures to support domestic demand, many segments of the economy are experiencing severe downturns, including tourism, retail trade, commercial aviation and construction.

The Singapore Ministry of Trade and Industry (MTI) has sharply revised down its GDP forecast for calendar 2020 to a range of -4.0% to -7.0%, compared with its earlier forecast range of -1.0% to -4.0%.

Extended lockdown triggers severe recession

The Singapore economy already experienced a contraction in economic output in Q1 2020, before the full impact of the pandemic hit the economy as intensifying travel bans and lockdown measures took effect. The MTI has released latest economic statistics which showed that Q12020 GDP contracted by 0.7% year-on-year (y/y).

Construction sector output was down 4.0% y/y while services sector output fell by 2.4% y/y. Output in the wholesale and retail trade sector fell by 5.8% y/y, while output in the accommodation and food services sector fell by 23.8% y/y. The retail sales index showed a contraction of 9.7% y/y for Q1 2020.

The contraction in construction and services was mitigated by a 6.6% increase in manufacturing output, which was helped by expansion in output from the biomedical manufacturing, precision engineering and transport engineering clusters.

With the lockdown measures having taken effect since early April and having continued through May, the contraction in Q2 2020 GDP is likely to be far more severe than in Q1 2020. In making the sharp downgrade to the 2020 calendar year GDP growth forecast, the MTI has assessed that the outlook for the Singapore economy has deteriorated significantly since March, owing to a number of factors.

First, the outlooks for export-related sectors such as manufacturing, transport, and storage have worsened owing to the severe economic downturn in many of Singapore's major export markets.

Second, the lockdown measures implemented by the Singapore government to control the spread of the COVID-19 virus have significantly hurt domestic economic activity, particularly consumption expenditure, with much of the retail sector having been closed for a protracted period of time.

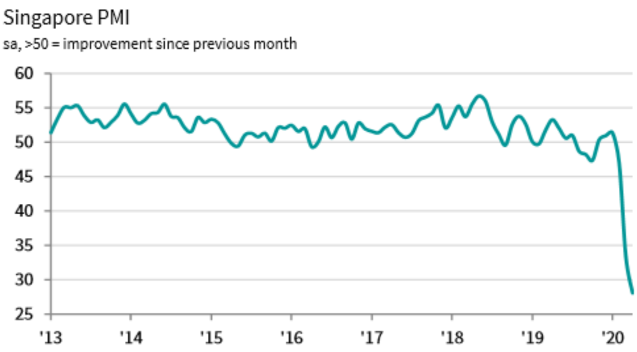
Third, the construction sector and the marine and offshore engineering sectors have been badly disrupted by worker shortages due to effects from the pandemic.

In its assessment, the MTI continued to highlight that there is considerable uncertainty about the length and severity of the COVID-19 outbreak and the path of economic recovery.

IHS Markit PMI survey signals severe contraction in economic activity

Singapore's private sector economy slumped deeper into contraction territory at the start of the second quarter, according to the latest IHS Markit Singapore Purchasing Managers' Index™ (PMI), which fell to 28.1 in April, reaching a record survey low.

IHS Markit Singapore PMI at record low in April

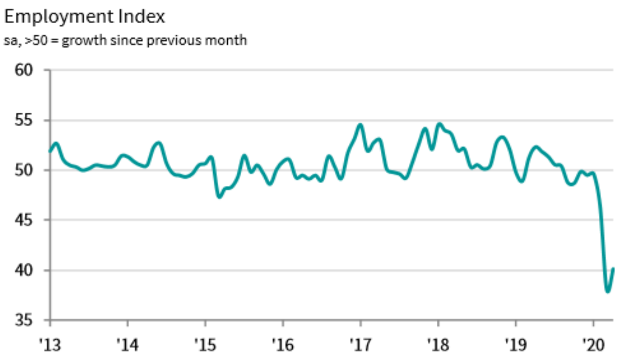


Source: IHS Markit.

The "circuit breaker" measures that were introduced in April resulted in widespread closures of non-essential businesses as the government acted to stem the spread of the coronavirus disease 2019 (COVID-19). This was the key factor causing activity to fall at a survey-record rate. Lockdown measures also had a considerable impact on demand, which plummeted. With lockdown measures having largely remained in place during May, severe economic contraction will occur in Q2 2020.

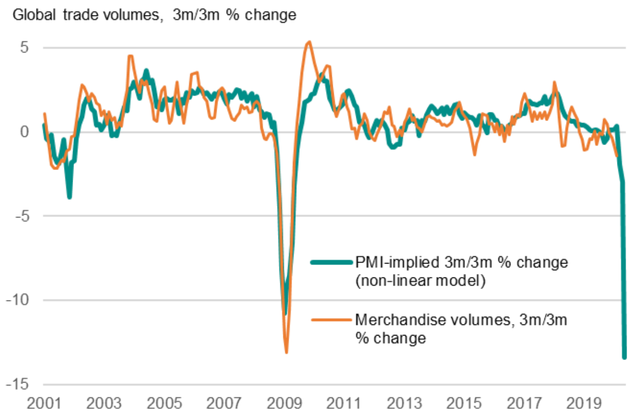
With output requirements falling, latest PMI survey data signalled a sharp rise in slack across Singapore's private sector. In response, some companies reduced their workforces in order to trim costs.

IHS Markit Singapore PMI signals steep job losses



Source: IHS Markit.

Global Manufacturing PMI New Export Orders



Sources: IHS Markit, CPB World Trade Monitor.

Although the impact of the pandemic has hit many sectors of the economy, the manufacturing sector has shown strong growth of 8.3% y/y during the January to April 2020 period. This strong performance was mainly attributable to a 86.3% y/y increase in output of pharmaceutical products for this period. However, a number of other segments of the manufacturing sector recorded contracting output during the first four months of 2020, with electronics output down 7.4% y/y, chemicals output falling by 1.8% y/y, while transport engineering output declined by 3.7% y/y.

Many segments of Singapore's manufacturing sector are expected to face continued severe economic headwinds in the near-term due to the collapse in global manufacturing new export orders as a result of widespread global lockdowns and slumping consumer spending. However, with world demand expected to improve during H2 2020 as lockdowns end, this should help to support a gradual recovery in new export orders for some sectors such as electronics by late 2020 and into early 2021.

Fiscal stimulus measures

The Singapore government has announced massive fiscal stimulus measures to try to mitigate the negative economic impact of the global pandemic and lockdown measures on the economy. Four fiscal stimulus packages have been announced so far, amounting to a total of SGD 92.9 billion, or around 19.2% of GDP. The overall budget deficit estimated to date by the Ministry of Finance for the 2020 financial year is SGD 74.3 billion, or 15.4 per cent of GDP. This will be the largest overall budget deficit in Singapore's history since independence.

However, Singapore has one of the strongest fiscal positions of any nation in the world, with no net government debt in 2019. Singapore is drawing up to a total of SGD 52 billion from past reserves this financial year, which will fund a large proportion of the fiscal stimulus measures. While the total size of Singapore's reserves is a matter of national security and therefore not disclosed, the nation maintains deep financial reserves which have been carefully built up, invested and managed over decades.

Consequently, despite the large-scale fiscal stimulus measures due to the exceptional global crisis caused by the pandemic, Singapore's fiscal credentials remain extremely strong, without any net government debt even after this year's drawdown of past reserves.

Near-term economic outlook

Due to the protracted lockdown of the domestic economy and the worldwide slump in export orders, the highly export-oriented Singapore economy is very vulnerable to the continuing economic shocks from the pandemic. The shutdown of international air travel worldwide has also resulted in the collapse of Singapore's tourism sector and the commercial aviation industry. Unlike larger nations like China and Japan, domestic tourism within Singapore cannot play a significant role in mitigating any protracted disruption of international tourism. Singapore's role as a key APAC hub for conferences and conventions is also likely to be disrupted for an extended period of time. The Singapore meetings, incentives, conferences and exhibitions industry accounted for around 22% of tourist receipts in recent years.

Globally, low oil prices have forced oil and gas companies to reduce spending, especially on new projects. Singapore's marine and offshore engineering sector is expected to face a renewed period of weak economic conditions, after having only recently emerged from protracted recessionary conditions following the 2014-2016 oil price slump.

Consequently, despite the substantial fiscal stimulus measures deployed by the Singapore government to mitigate the economic shockwaves, the headwinds to economic recovery are considerable. Moreover, a key downside risk to the near-term outlook would be from any new waves of Covid-19 cases, which could result in renewed tightening of lockdown restrictions, further dampening the path of economic recovery.

Europe Special Focus

Eurozone: Deflation or reflation?

By Ken Wattret

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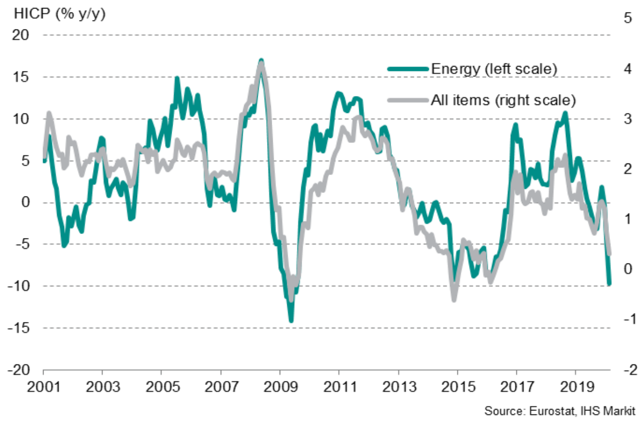
The surge in public sector debt burdens and rapid expansion of central bank balance sheets due to the COVID-19 shock has led to speculation of much higher inflation rates in future. For the eurozone, we continue to see the risks in the opposite direction, both short-term and longer-term.

Weakness in crude oil prices has seen headline inflation plunge over recent months, while underlying rates have softened from already low levels, including IHS Markit's "super core" measure. While there are incentives to try to generate higher nominal growth via reflation, the persistence of low core inflation rates and inflation expectations during prior economic expansions suggests this is going to be a very tall order.

Energy-driven drop in headline inflation…

April's final HICP release confirmed the continuation of the oil-propelled slide in the headline inflation rate since the start of the year. With the flash estimate revised down a notch, HICP inflation slipped to just 0.3%, its lowest rate since August 2016. Deeply negative energy inflation remained the main driver (see first chart), with the y/y decline (-9.7%) the deepest since 2009.

Chart 1: Energy price plunge driving down inflation



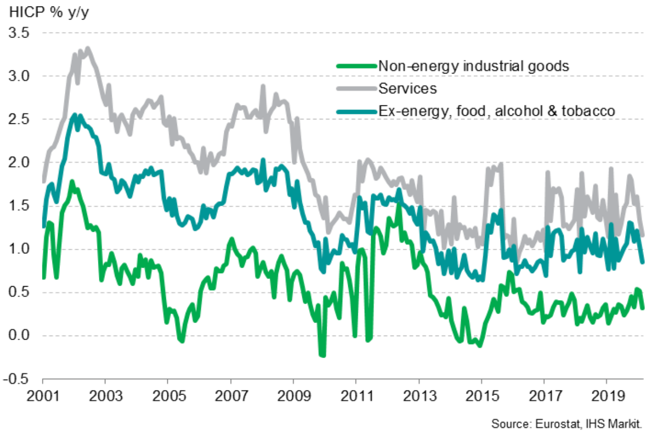
Given the recent partial recovery in crude oil prices since late April, the downward pressure on inflation from the energy component looks to have run its course. The trend in core measures of inflation should remain on a downward trajectory, however, ignoring the periodic distortions from seasonal effects.

…accompanied by slowing in core CPI

The inflation rate excluding food, energy, alcohol and tobacco fell to 0.9% in April, an eight-month low. The recent slowdown reflects weakness in services and core goods inflation (see second chart).

Notably, IHS Markit's "super core" measure of inflation dropped sharply for the second straight month in April, down to 1.28%, its lowest level for two years. This narrower measure of core inflation includes only HICP items which are sensitive to changes in the eurozone output gap.

Chart 2: Broad-based deceleration in core inflation



Regarding core goods prices, despite speculation to the contrary, there has been no evidence of supply chain disruption due to COVID-19 generating higher inflation rates. Rather the opposite in fact. Producer price inflation has been decelerating, even excluding energy and surveys of pricing intentions in the industrial sector suggest factory gate inflation will decelerate further (see third chart).

Chart 3: Eurozone core PPI inflation heading south

Services account for the bulk of core inflation, accounting for 63% of the HICP index excluding food, energy, alcohol and tobacco, compared to 37% for non-energy industrial goods. Services typically have a higher labour content and given the backdrop of rising unemployment and highly uncertain economic prospects, downward pressure on compensation growth rates is likely.

Even when compensation growth picked up during the most recent expansion from 2013-19, and unit labour cost growth accelerated markedly (running at over 2% y/y from mid-2018) due to low productivity growth, core rates of HICP inflation remained subdued, with corporate profit margins squeezed instead.

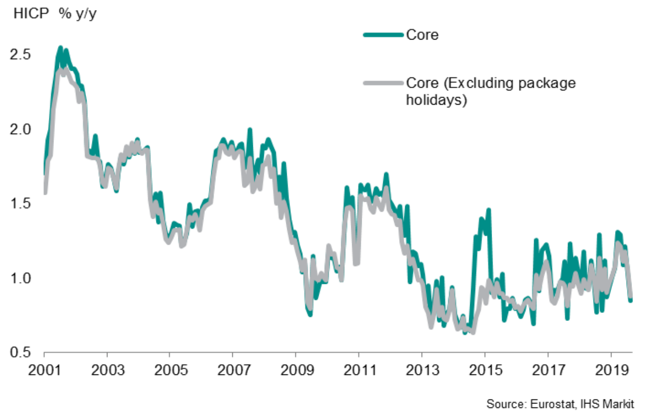
Global concerns about reflation…

The rekindling of concerns about higher future inflation is understandable in a global context, with various factors cited, including huge central bank balance sheet expansion, incentives to reflate debt burdens away, ebbing disinflationary forces from globalisation, plus the supply chain disruption already referred to above. But for the eurozone specifically, the likelihood of persistent disinflationary forces or even deflationary pressures emerging is much more likely.

…not applicable to the eurozone

Underlying inflation rates and market-derived measures of inflation expectations were uncomfortably and persistently low even before the precipitous economic downturn now in train. Echoing the Japanese experience, while core inflation picked up during economic expansions, the peaks in each of the cycles became progressively lower (see fourth chart).

Chart 4: Core inflation cycles reaching lower peaks



The lack of a sufficient buffer against deflation is a particular concern at present. An inflation targeting central bank needs to set a sufficiently high floor for underlying inflation, and deliver on this objective, in order to provide a sizeable buffer. The goal is to reduce the risk of inflation falling so close to zero that if the economy is then hit by a sudden, sharp drop in demand, it becomes susceptible to deflation. Policy makers in the eurozone have not done enough, early enough, to reduce this risk.

ECB more cognisant of deflation risk…

In the recently published account of the ECB's April policy meeting, concerns about deflationary risk featured more prominently. As an example, it was highlighted that since the start of the coronavirus pandemic, the likelihood of inflation being below zero had increased substantially according to option-implied probabilities, pointing to a significant risk of deflation. It was also pointed out that market-based indicators of inflation expectations appeared to be reacting more to developments in actual inflation, suggesting that inflation expectations were becoming less well anchored. The ECB will continue to deliver additional policy accommodation to try to ward off these threats, including what we expect will be a ramping up of asset purchases following the next policy meeting on 4 June. But this is coming rather late in the day.

…but too little, too late

One of the lessons from Japan's experience is that a proactive monetary policy stance is essential, complemented by a more stimulatory fiscal stance. This raises some alarm bells for the eurozone. In the immediate aftermath of the Global Financial Crisis (GFC), from 2009 onwards many central banks moved quickly to implement large-scale asset purchase programmes.

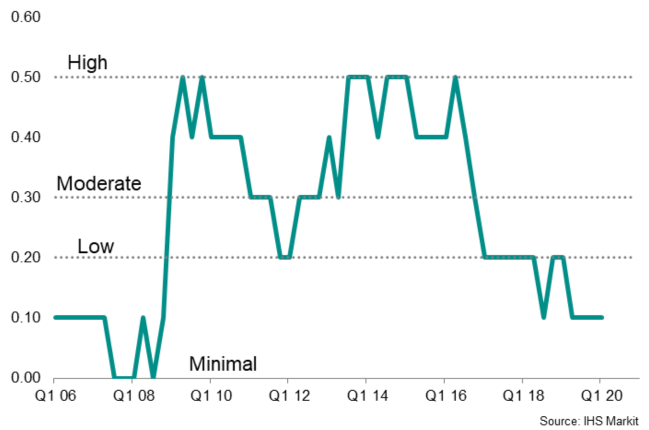
In contrast to other central banks, the ECB only commenced its large-scale asset purchases from March 2015, more than six years down the line and only following another severe adverse shock in the form of the eurozone crisis in 2011-12. The ECB also opted to raise its policy rates amid the escalating crises in both 2008 and 2011.

The sub-optimal policy responses of the ECB reflected various factors and hindrances, including opposition to large-scale sovereign debt purchases from some Governing Council members and question marks about their legality. Fiscal space has also been constrained in many eurozone member states, while those with the most room for manoeuvre (e.g. Germany) have been reluctant to use it absent a severe shock.

Monitoring deflation risk

With this in mind, we remain concerned about the potential for deflation in the eurozone. We have developed an indicator to monitor this risk going forward based on a framework pioneered by the IMF.

Chart 5: Deflation vulnerability index low for now



While it currently suggests the risk is low (see fifth chart), lags can be long and we expect the vulnerability to increase over coming quarters. For more analysis, please see **The COVID-19 virus crisis and the eurozone: Introducing the deflation vulnerability index**.