Week Ahead Economic Preview

Global overview

- Global and US service sector PMI surveys
- Eurozone retail sales and industrial output
- Central bank meetings in Australia and Malaysia
- Global business outlook survey

After manufacturing PMIs showed encouraging signs of factories emerging from lockdowns (see page 9), further clues as to economic recovery paths will be sought from various key data releases. These include the global PMI, US non-manufacturing data, eurozone industrial output and retail sales, plus detailed global sector PMIs. The latter have provided unique insights into which companies have seen the strongest downturns during the pandemic, with tourism, recreation and transport so far suffering the most. IHS Markit also updates its business outlook survey, which looks at business expectations for the year ahead across its PMI panels around the world. Central bank action comes from Australia and Malaysia.

In the US, the focus shifts to the services and non-manufacturing PMIs via IHS Markit and ISM respectively. With the flash PMI for the former having already shown signs of improvement in June, and ISM's factory gauge having beaten expectations, markets will be looking for some positive numbers. Jobless claims will also be in the limelight amid worries about the economic impact of lockdowns being reintroduced. Vast swathes of the US have re-instigated lockdowns as COVID-19 infection rates hit new record highs (page 3).

Retail sales and industrial production for the eurozone will be eyed to gauge the extent of the rebound from April's lockdowns. PMI data have already hinted at strong monthly gains in the official gauges, and early indicators such as German and French retail sales have bounced higher. Construction PMI numbers will also give additional clues as to building activity across Europe's largest economies in June (page 4). See our special 'Eurozone: Beyond the Bounce' report (page 6).

In Asia, central bank meetings in Australia and Malaysia will be keenly watched for policymakers' latest assessments of the economic outlook. Both have unleashed stimulus to fight pandemic-fuelled downturns, but the latest economic data are showing improvements which could reduce appetite for further measures just yet. China's credit and money supply data will also be important to watch (page 5).

Special reports

Eurozone: A detailed look at what to expect after the initial rebound from COVID-19 related lockdowns, with a focus on expected recovery speeds and timings (**page 6**).

Manufacturing: A deep dive into June's global manufacturing PMI numbers, which point to factories emerging from lockdowns, but also hinting at sustained weak demand (**page 9**).

Upcoming PMI releases

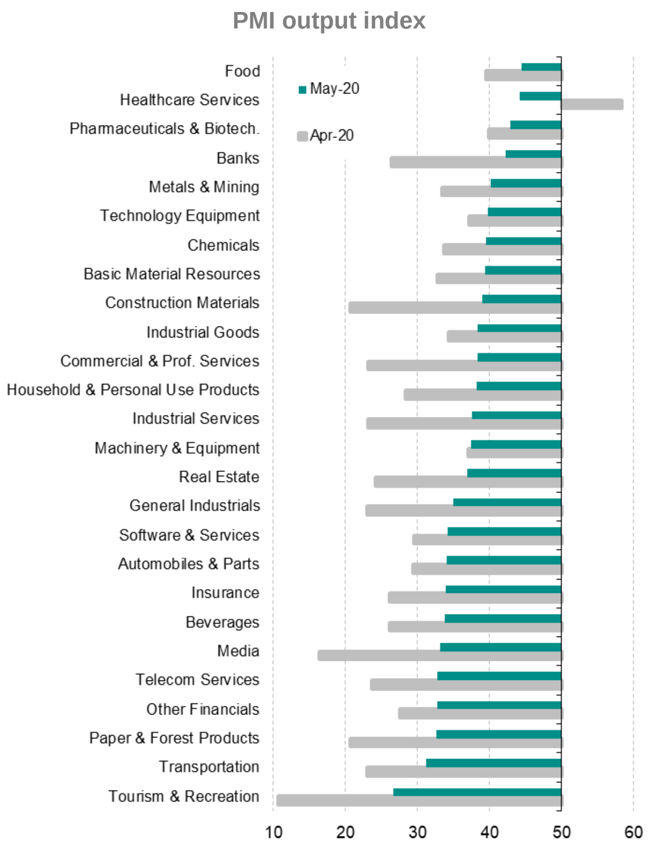
6th July: Final Global Composite PMIs

7th July: Detailed global sector PMIs

12th July: Worldwide Business outlook surveys

24th July: Flash July PMIs incl. US, Eurozone, Japan, UK and Australia

Detailed global sector PMI numbers have given unique insights into the impact of the COVID-19 pandemic. Data for June are updated in the coming week



Source: IHS Markit.

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Economic Preview: Week of 6 July 2020

Publication date: 3 July 2020

Key diary events (UTC)

Monday 6 July

IHS Markit Hong Kong SAR PMI (Jun)
IHS Markit US composite PMI (Final, Jun)
JPMorgan/IHS Markit Global composite PMI (Jun)
Philippines industrial output (May)
Indonesia consumer confidence (Jun)
Germany factory orders (May)
Construction PMI for UK, Euro area, Germany, France, Italy (Jun)
Euro area retail sales (May)
Spain consumer confidence (Jun)
US ISM non-manufacturing PMI (Jun)
Japan household spending, cash earnings (May)

Tuesday 7 July

IHS Markit sector PMI for Asia, Europe, Global (Jun)
Philippines inflation (Jun)
Australia and Malaysia interest rate decision
Germany industrial production (May)
France trade balance (May)
UK Halifax house price index (Jun)
Italy retail sales (May)
Taiwan inflation (Jun)
US IBD/TIPP economic optimism (Jul), JOLTS job openings (May)
Japan current account (May) 23:50 UTC

Wednesday 8 July

IHS Markit Global Steel Users PMI (Jun)
IHS Markit Global Copper Users PMI (Jun)
IHS Markit Global Aluminium Users PMI (Jun)
Japan Eco watchers survey (Jun)
Thailand jobless rate (Apr, May, Jun)
Taiwan trade (Jun)
Japan machinery orders (May) 23:50 UTC

Thursday 9 July

China inflation (Jun)
Germany trade (May)
US jobless claims (4-Jul), wholesale inventories (May)
Eurogroup meeting

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Friday 10 July

Philippines trade (May)
Malaysia and India industrial production (May)
France and Italy industrial output (May)
Brazil inflation (Jun)
Singapore general election

Saturday-Sunday 11-12 July

12/7: China new yuan loans, total social financing, M2 (Jun)
12/7: IHS Markit tri-annual business outlook survey (Jul) 23:01 UTC

United States Week Ahead

Service sector PMIs and economic optimism

By Siân Jones
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Amid a marked rise in new COVID-19 cases across the US, states have begun to reimpose lockdown measures, causing concern for companies across the country. The spike in new cases comes alongside data pointing towards a nascent economic recovery from April's low in the private sector following the reopening of businesses. Analysts will be seeking further confirmation of the recovery, but also mindful that such reversals in restrictions could severely damage the recovery, especially if firms are pushed to increase layoffs. Jobless claims, job openings, sector PMI data and economic optimism indicators are updated to help guide insight into the recovery so far.

Final Services & Composite PMIs

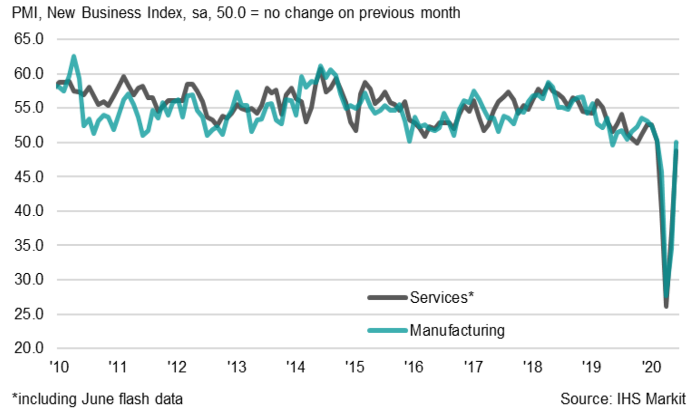
The publication of final IHS Markit US services and composite PMI data alongside ISM non-manufacturing numbers will give a further indication as to the health of the private sector. Earlier released 'flash' data signalled renewed optimism among service providers as a number of firms reopened and customers emerged from temporary shutdowns. The turnaround in business activity and new orders indicated was stark when compared to the severe downturn seen in April, despite signalling historically sober underlying demand conditions. Nonetheless, encouraging signs were seen as demand conditions were accommodative enough to allow service providers to pass on higher costs to customers and raise their selling prices.

Jobless claims and economic Optimism

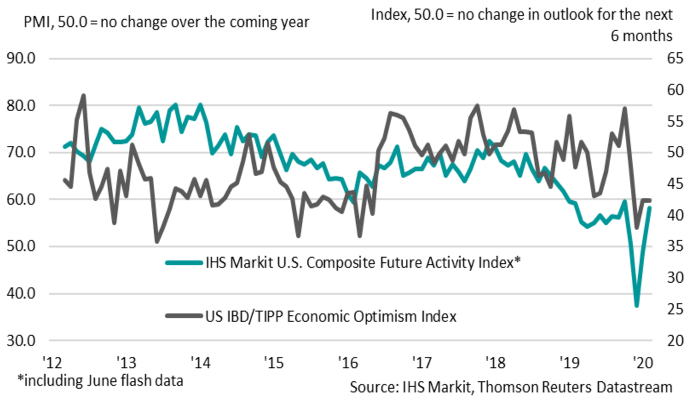
Also included in the key upcoming economic data releases are updates to JOLTs data and jobless claims. The sharp uptick in new COVID-19 cases and the end to government support packages could create further job losses during July and August.

Finally, US economic optimism, as measured by the IBD/TIPP Economic Optimism Index, is updated, having sank in June as respondents expressed greater concern for their personal finances. Overall confidence regarding the economic outlook was broadly unchanged despite the reopening of large swathes of the economy.

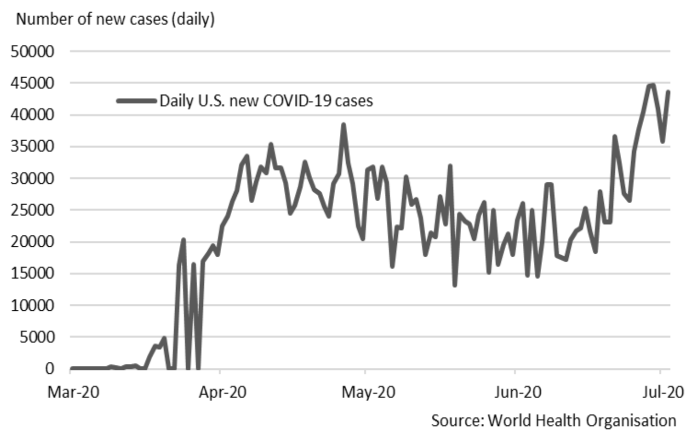
Manufacturing and service sectors move towards recovery from April's low



Business confidence picks upon loosening of COVID-19 restrictions, but consumer optimism remains muted



Daily rise in new COVID-19 cases increases sharply through June and into July



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Europe Week Ahead

Euro area retail sales and industrial production, construction PMIs

By Joe Hayes
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The coming week sees numerous official data releases for the month of May, when lockdown measures started being lifted across the continent. We therefore expect to see some positivity in the numbers, particularly euro area retail sales amid increased high street footfall and social mobility. Industrial production is due from Germany, France and Italy, as well as factory orders and trade data for the former. Finally, our Construction PMIs will add some more insight into the breadth of Europe's economic recovery in June.

Industrial production, trade

Following the lows seen across the board during April at the height of the COVID-19 pandemic, official May data are expected to show a resumption of factory output, in line with looser lockdown restrictions. Manufacturing sectors were the first to feel the effects of the virus, when the economic shock first manifested itself through supply chain disruptions.

Industrial data for Germany, Europe's goods-producing engine, is the main release to watch next week. PMI data for June suggest output levels still well below pre-pandemic peaks. If we do see strong growth rates, these will be from a low base – an important caveat – as manufacturing output was down over 30% year-on-year in April. German factory orders and trade data will also be important data to watch, as these will help gauge demand conditions. Robust and sustainable-looking increases in manufacturing orders are needed to support any bullish recovery views.

Construction PMIs, retail sales

Strong household spending data from Germany and France point to a sharp month-on-month rise in euro area retail sales for May. A recovery in private consumption and associated inflationary pressures will also be warmly welcomed by the European Central Bank, who could be set with an unwanted grapple with deflation in the coming months, especially if unemployment rises and wage pressures ease. Finally, June Construction PMI surveys are also due for the UK and Eurozone, which will add some extra colour to the manufacturing and services surveys seen earlier this week.

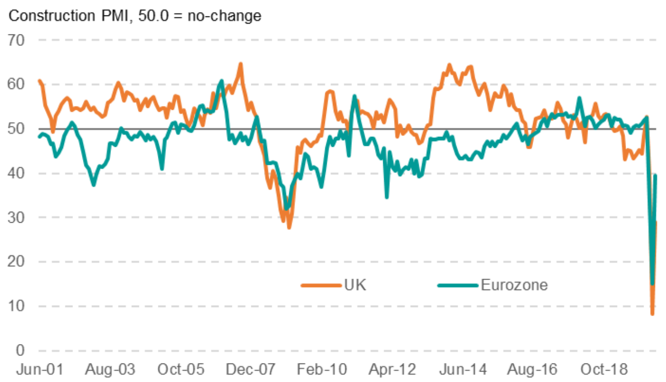
Germany factory output shows signs of recovery in June, but production remained well below pre-COVID-19 levels

Sources: IHS Markit, FSO

Euro area retail sales set to rise sharply in May due to easing lockdown restrictions

Source: Eurostat

June Construction PMIs to add extra colour to already-released manufacturing and services surveys, which showed a recovery in its infancy



Sources: IHS Markit

Publication date: 3 July 2020

IHS Markit

Asia Pacific Week Ahead

Australia and Malaysia monetary policy, China data, sector PMIs

By Bernard Aw
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Markets will monitor signs of a second wave of infections next week and gauge the likelihood of renewed lockdowns against more stimulus measures. As such, central bank meetings in Australia and Malaysia will be keenly watched for policymakers' latest assessments of the economic outlook. With stimulus policies being more targeted in the current downturn, the release of Asia Sector PMI data will provide insights into the performance of various sub-sectors of the economy. China's credit and money supply data releases and Japan's machinery orders will also draw scrutiny.

Other key Asian highlights include Taiwan's trade figures, inflation numbers in mainland China, Taiwan, and the Philippines. Industrial output data in the Philippines, Malaysia and India could also gather interest. Meanwhile, Singapore will hold its 13th general election since independence on 10th July.

RBA and BNM set policy rates

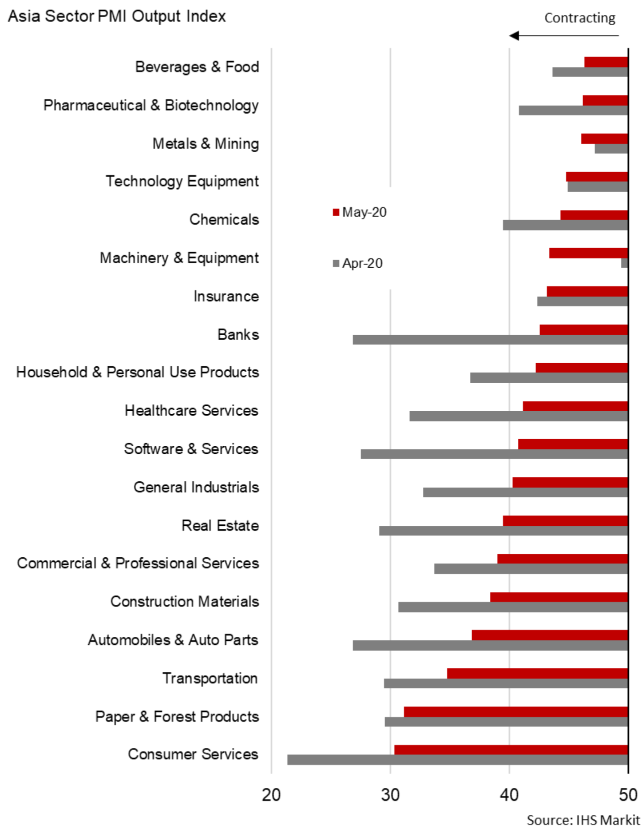
Australia and Malaysia decide on monetary policy. In Australia, the 30-day ICR futures market has indicated a 60% probability of an interest rate cut from 0.25% to zero at the upcoming RBA meeting, as of 2nd July. While the Australian PMI showed business activity returning to growth in June, further recovery could be constrained if demand remains subdued in the coming months.

The Bank Negara Malaysia cut the OPR by 50 bps to 2.00% at its May policy meeting but looks set to keep interest rates unchanged at the forthcoming meeting amid signs of recovery. June PMI data showed encouraging signs of a rebound in the Malaysian manufacturing sector, with production rising at a survey-record rate after factories reopened following the easing of COVID-19 restrictions.

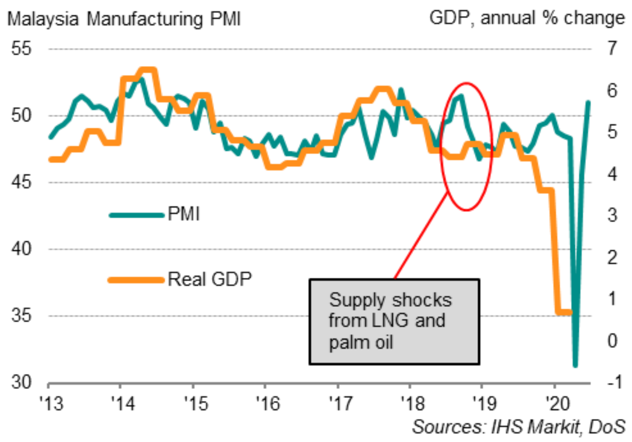
Asia Sector PMI

With the latest manufacturing PMI surveys showing signs of recovery since the peak impact of the coronavirus pandemic in April, Asia sector PMI data can be gleaned to ascertain whether other sub-sectors, particularly services-related, have also been on the mend in a month where lockdown measures were eased further.

As COVID-19 restrictions were relaxed further in June, domestic demand may receive the greatest boost after services were the hardest hit during the peak of the lockdown impact in April



Malaysia PMI and economic growth



Europe
Special Focus

Eurozone: beyond the bounce

By Ken Wattret

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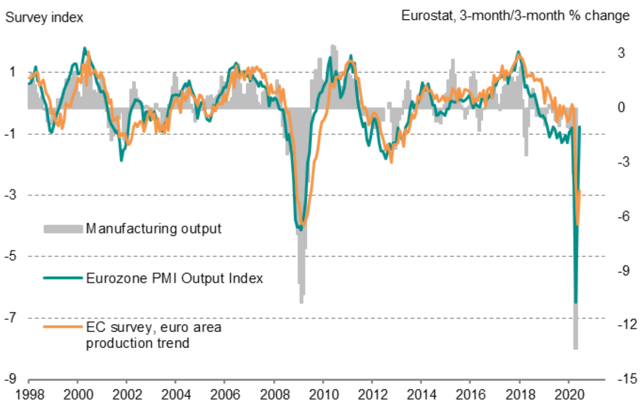
Improving "hard" data and surveys in May and June support IHS Markit's forecast of a strong near-term rebound in economic activity. Even factoring in unusually high near-term growth rates, however, levels of activity will remain well below where they were before the COVID-19 outbreaks. We currently forecast the crossover of eurozone GDP back above its Q4 2019 level in Q4 2023: i.e. after 16 quarters. This compares to a crossover of 28 quarters after the Global Financial Crisis.

Rebound in eurozone sentiment building…

The upward momentum already evident in May's eurozone survey data continued through June. IHS Markit's "flash" composite PMI output gauge showed a cumulative increase of almost 34 index points over the last two months. Manufacturing and particularly services both rebounded markedly, the latter from an extreme low, primarily reflecting the easing of COVID-19 restrictions.

The European Commission's economic sentiment index (ESI) for the eurozone also improved in both May and June, though to a lesser degree. Unlike the PMIs, the ESI data tend to be coincident with, or slightly lag, points of inflection (see Chart 1).

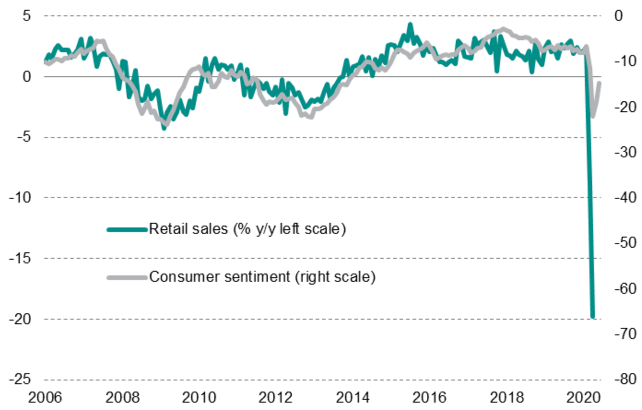
Chart 1: Eurozone industrial sector recovery under way



Sources: IHS Markit, European Commission.

Within the ESI's sector breakdown, the rebound in services was again particularly marked, consistent with the unwind of containment measures. Consumer sentiment also improved over the two months to June and while the index is still well down on early 2020's levels (see Chart 2), the back-to-back increases have pushed consumer sentiment (at -14.7) well above the cycle lows evident in the aftermath of the GFC (-23.9) and subsequent eurozone crisis (-22.2).

Chart 2: Eurozone sentiment recovering, spending to follow



Source: Eurostat, EC. IHS Markit

Moreover, as we have highlighted previously, actual consumer spending in the eurozone has fallen way further than the hitherto reliable relationship with consumer sentiment would have implied (again see Chart 2). Our interpretation of this unusual break in the relationship was that COVID-19 restrictions resulted in an excessively deep drop in expenditure which would rebound strongly once the measures started to be eased.

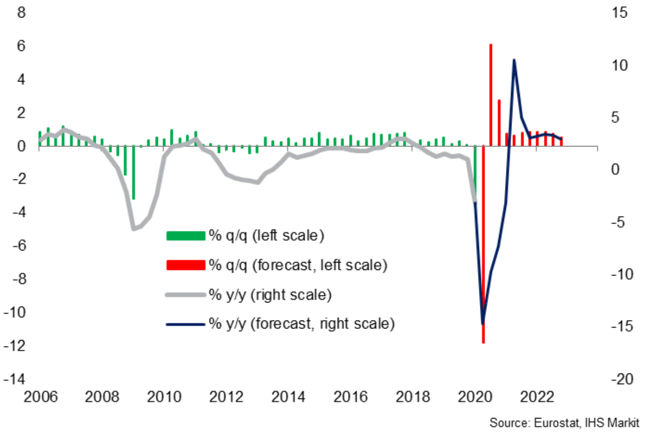
…and now accompanied by robust "hard" data

This is now being borne out by May's spending data. Following exceptionally large m/m declines in March (-16.0%) and April (-19.1%), French household consumption of goods in France jumped by 36.6% in May. The level of consumption, however, remained over 7% below its pre-COVID-19 peak in February. Germany, meanwhile, cemented its position as the front runner in the recovery stakes, with retail sales (excluding autos) rebounding by 13.9% m/m in May after two comparatively small declines in the prior two months. This left the level of sales up by a remarkable 3% versus February.

The upcoming round of eurozone "hard" activity data for May will reflect these improvements of course. Retail sales (out on 3rd July) will kick off a run of May releases including industrial production (14th), trade (16th) and construction output (17th).

As all of these indicators showed record declines in the March to April period, they are likely to rebound markedly in the subsequent months. This would dovetail with our baseline forecast of a shift in growth momentum from the spring as lockdowns ease, generating a relatively swift and strong bounce in eurozone GDP, with a peak q/q growth rate forecast in Q3 2020 (see Chart 3), albeit following a record collapse in the second quarter.

Chart 3: Eurozone GDP growth rebound to peak in Q3 2020



Eurozone GDP to remain well below pre-COVID-19 peaks…

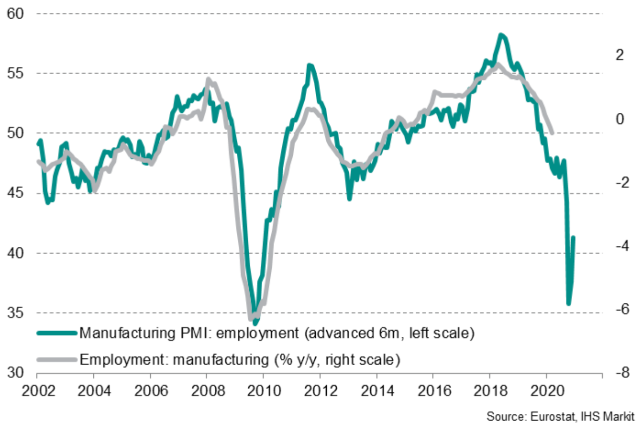
Still, as the upcoming GDP rebounds will come from very low starting points, activity will remain well down, net, on its pre-COVID-19 levels. Moreover, the after-effects of the COVID-19 shock are likely to linger, dampening future GDP growth rates beyond the initially vigorous rebound (again see Chart 3).

The modest rise in unemployment to date will accelerate, particularly once government furlough schemes are wound down. Indeed, business surveys continue to signal large employment contractions despite recent improvements (see Chart 4).

Some areas of activity (e.g. recreation, travel) will also take a long time to recover from the COVID-19 shock given ongoing restrictions and consumer caution, while ballooning fiscal deficits will also have to be addressed down the line with higher taxes and public expenditure reductions.

It is critical, therefore, to distinguish between what we expect will be a vigorous near-term growth rebound in the eurozone and what are likely to be rather challenging economic conditions over the longer-term.

Chart 4: Deep eurozone employment contraction on the cards



With this in mind, we continue to believe that market consensus growth forecasts for 2021 are too optimistic – eurozone GDP growth is forecast at 6.1%, versus IHS Markit's current 3.7% estimate. As a result, we expect a later "crossover" for eurozone GDP.

…with a "crossover" expected in late 2023

The "crossover" is the quarter in which the level of GDP will overtake its pre-shock level: in this case, the pre-COVID-19 peak was Q4 2019. We currently expect this to happen in Q4 2023 for the eurozone overall: i.e. 16 quarters after the peak.

To put the forecast eurozone crossover into context, this would compare to a crossover of 28 quarters after the GFC. This time, we are assuming that the various policy mistakes which contributed to the subsequent eurozone crisis in 2011-12 will not be repeated, while some of the excesses and imbalances which contributed to the eurozone crisis were subsequently addressed.

The fiscal and monetary policy responses this time have been more timely, better targeted and more coordinated than after the GFC, reflected in various metrics including the rebound in leading indicators, risk premia across financial markets, credit conditions, etc.

This all being said, European economies still need to contend with a huge shock which is likely to leave lasting effects typical of any major recession, including corporate failures, higher unemployment and huge uncertainty, constraining the speed at which demand can return to prior peaks.

Moreover, as already highlighted, the current shock has an extra dimension: i.e. the high likelihood of activity in some areas not returning to pre-COVID-19 levels for a long time either due to ongoing restrictions or reduced demand: i.e. non-essential services, including tourism, travel, hospitality, recreational activities. We do not expect that these losses of activity will be fully compensated by substitution effects.

National variations in timing of crossovers

The differences in sensitivity of eurozone economies to the most vulnerable areas of activity imply that there will be significant variations in crossovers. Countries with a higher degree of sensitivity to services and tourism especially (Chart 5), including many in southern Europe, are forecast to experience much slower returns to pre-COVID-19 levels of GDP.

Chart 5: Travel & tourism (% GDP)

Generating alternative sources of growth in countries like Greece will be very challenging, as its own post-GFC experience has vividly illustrated. For services-driven economies dominated by small, localized businesses, COVID-19 will take a very heavy toll and even if demand returns over time, it may take time for supply to catch up.

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Manufacturing Special Focus

Global PMI shows record rise as factories emerge from lockdowns

By Chris Williamson

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A key gauge of global manufacturing output showed a record gain in June, adding to signs that the world's factories are recovering strongly since the peak impact from the COVID-19 pandemic back in April.

However, prospects beyond an initial rebound from lockdowns remain uncertain, with business sentiment and order books well below levels seen earlier in the year, with weak global trade flows acting as a notable drag.

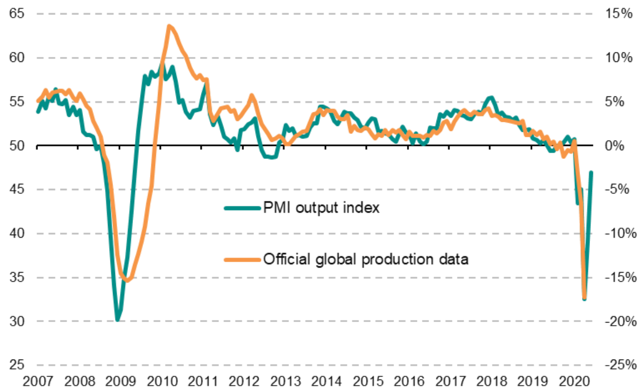
Record rise in global output index

The output index from the **JPMorgan Global Manufacturing PMI** survey, compiled by IHS Markit from its proprietary business surveys, rose from 39.1 in May to 47.0 in June, surging by an unprecedented 7.9 index points to reach its highest since January. The rise builds on a prior record gain in May and brings the index back to it highest since January.

The record improvement in the index is put into perspective when compared against official manufacturing output data. Since 2007, when IHS Markit's US PMI data were first included in the index, the global PMI's output gauge has exhibited an 84% correlation with the annual rate of change of official production data, underscoring how the PMI provides a very accurate guide to changing output trends. Importantly, the PMI signals are available several months ahead of the comparable official data.

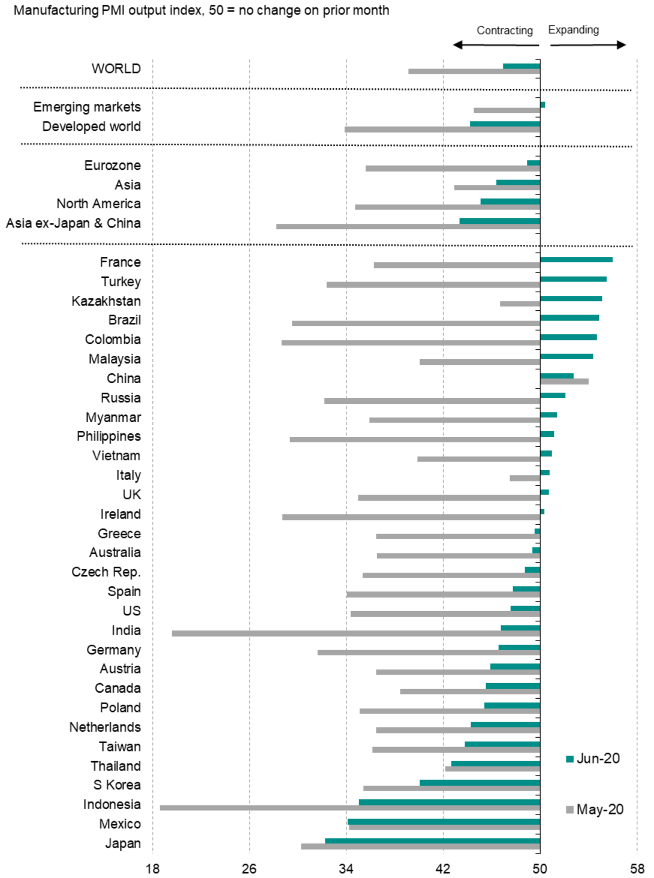
A simple statistical model can be used to determine what a PMI reading implies in terms of annual growth. The model indicates that the record low PMI output index reading of 32.5 reached back in April translated into an annual rate of decline of global production of 17.8%, The official data have subsequently confirmed a very similar 17.3% rate of contraction. However, the June PMI reading of 47.0 is consistent with a mere 3.1% annual rate of contraction.

Global manufacturing output



Sources: IHS Markit, JPMorgan.

Manufacturing output rankings



Data for India are not published until 2nd April.
Sources: IHS Markit, JPMorgan, CBA, ISO, CIPS, au Jibun Bank, NEVI, BME, Bank Austria, AIB, AERCE, Caixin, HPI, Davivienda, Istanbul Chamber of Industry, Tengri Partners.

The marked easing in the annual rate of decline implies considerable month-on-month gains in the official production data during May and June, which corresponds with factories reopening after COVID-19 related shutdowns in many countries during April and easings of other measures designed to control the virus.

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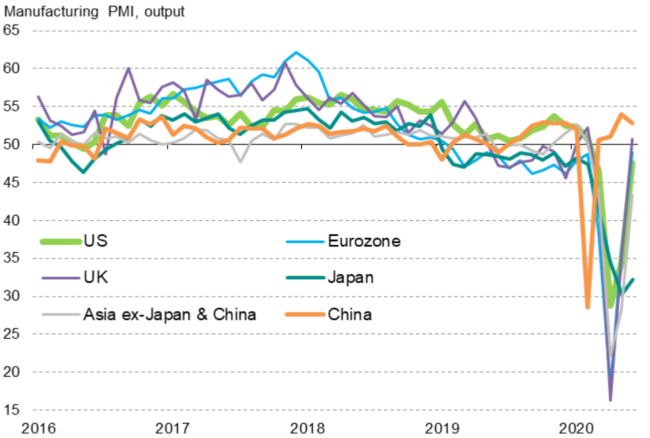
More countries report higher output

Rising factory production was reported in June across 14 of the 31 countries for which IHS Markit collects manufacturing PMI data, the highest proportion since February and up from just one (China) in both April and May. Even better news came in the form of the number of countries with rising output indexes, which held at 29 in June, which represents the joint-highest proportion on record.

France recorded the strongest output gain, followed by Turkey, Kazakhstan, Brazil, Colombia, Malaysia and China. Russia, Myanmar, the Philippines, Vietnam, Italy, the UK and Ireland also reported higher production trends.

At the other end of the scale, the steepest drop in production was recorded in Japan, followed by Mexico, Indonesia and South Korea. Five of the six worst performing countries were in fact located in Asia, resulting in output growth in Asia excluding China to lag far behind the global average.

Output in major economies



Sources: IHS Markit, Nikkei, au Jibun Bank, Caixin.

Looking at the largest developed economies, a return to growth in the UK was accompanied by marked easings in rates of decline of production in the US and the Eurozone. In contrast, Japan's downturn eased only modestly during June, reflected in Japan's bottom position in the global rankings.

Emerging markets meanwhile saw a return to growth for the production trend for the first time since January, outperforming developed markets, thanks in part to the sustained expansion of output in China, which has now seen production on a rising trend since March, albeit at a reduced rate in June.

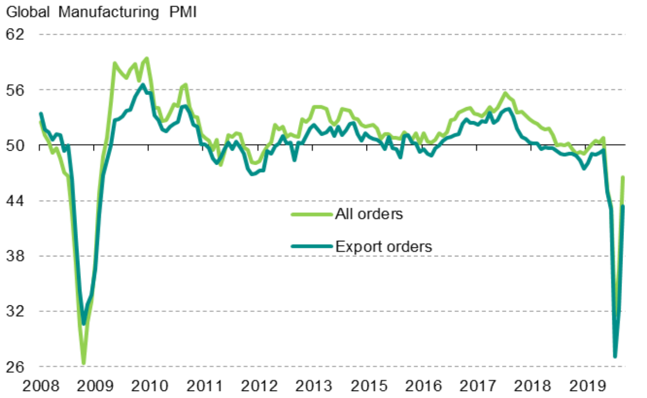
China reports loss of growth momentum

The loss of growth momentum in China sends a warning signal to other countries. Having locked down its economy to fight the coronavirus earlier than other countries, and opened up earlier, the dip in China's latest output numbers hints that a lack of demand – notably in export markets – has limited the ability of China's factory sector to regain strong growth. Note that although total new orders rose to the greatest extent since December 2019 in China, exports orders continued to fall.

Export drag

A key area of weakness persisting in the global manufacturing sector is trade, with export orders continuing to fall globally at a notably faster rate than overall new orders during June. This in part reflects an ongoing underperformance of trade flows relative to total demand that has been evident since the US-China trade war flared up in 2018, but is also in part attributable to weak demand for imports around the world, in turn sometimes linked to the reshoring of purchases due to the pandemic.

Global orders and exports



Sources: IHS Markit, JPMorgan.

However, even the PMI's global new export orders index has started to show material gains since the all-time low recorded back in April. While the index was consistent with an 11% quarterly rate of contraction of global trade back in April, this has eased to just a 3% rate of decline being signalled in June.

Global export orders and trade

Sources: IHS Markit, CPB Wortld Trade Monitor.

Economic Preview: Week of 6 July 2020

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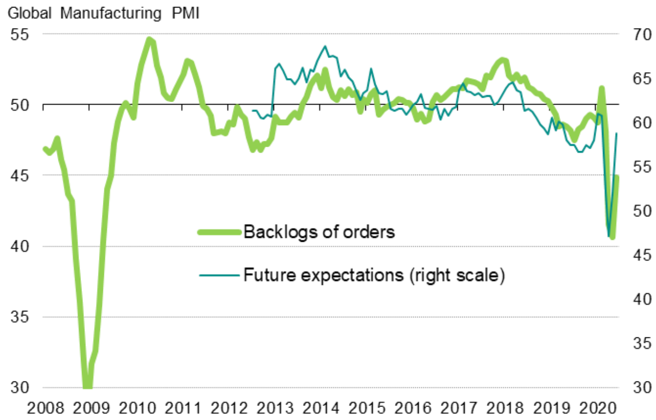
Rising – but subdued – sentiment

Looking ahead, manufacturing sentiment about the year ahead rose sharply in June, but remained below that seen earlier in the year, prior to the pandemic. Note that these were levels that were already weak by historical standards, due mainly to simmering trade war worries.

With sentiment still relatively subdued and backlogs of orders likewise depressed by historical standards, the forward-looking indicators remain something of a concern, hinting that an initial rebound from the COVID-19 lockdowns could lose momentum unless demand can continue to strengthen in coming months.

Forward-looking indicators



Sources: IHS Markit, JPMorgan.