Economic Preview: Week of 3 August 2020

Publication date: 31 July 2020

Week Ahead Economic Preview

Global overview

- **Worldwide manufacturing and services PMIs**
- **US monthly employment report**
- **Monetary policy meetings in the UK, India, Brazil, Russia, Australia and Thailand**

A full economic calendar for the coming week starts with worldwide PMI surveys and culminates in Friday's US non-farm payroll report, but also includes updates to GDP for Indonesia and the Philippines, trade data for the US, China, Brazil, Australia, Taiwan, Germany and France, as well as industrial production numbers for Germany, Italy, Spain and Malaysia.

Central bank meetings in the UK, Australia, India, Russia and Thailand will also be in the spotlight, with the Bank of England under particular scrutiny after recent wranglings over recovery prospects. The earnings season also continues with over 1,400 companies reporting.

Global PMI data will be eagerly awaited to assess whether the rebound in business activity from COVID-19 lockdowns has been sustained into July. Flash PMI data brought tentative good news, albeit with conditions varying markedly by country and hinting that growth could falter after this initial rebound. Most notably, growth of new business in the US deteriorated, linked in many cases to re-imposed lockdowns. Analysts are hence expecting ISM data to pare some of the gains seen in June. Nonfarm payrolls are meanwhile set to rise by some 2.3 million, but that would still leave the count more than 12 million below the pre-pandemic peak, highlighting the drag on the economic recovery from the labour market (page 3).

In Europe, the Bank of England's rate setters meet, with projections for growth and inflation updated alongside fresh PMI and house price data. While the Bank's Chief Economist sees a V-shaped recovery, not all policymakers are so optimistic. Such caution is perhaps warranted: although the flash UK PMI hit a five-year high in July, job losses accelerated (page 4).

In Asia Pacific, China PMI data are among the highlights, but analysts will also be eager to gauge policymakers' views on recovery prospects following rate-setting meetings at central banks in India, Thailand and Australia. Second quarter GDP for Indonesia and the Philippines will also draw scrutiny, highlighting the impact of the pandemic (page 5).

Special reports

Global economy: Flash PMI surveys rose further in July, boding well for the global economy to regain growth momentum in the third quarter, but a sustained robust expansion is by no means assured (**page 6**).

Europe: A closer look at the detail and anticipated impact of the EU's new recovery fund (page **9**).

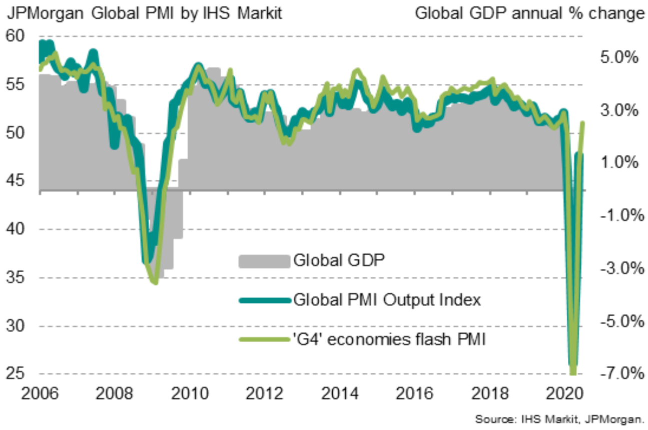
Upcoming PMI releases

3rd August: Final Global Manufacturing PMIs

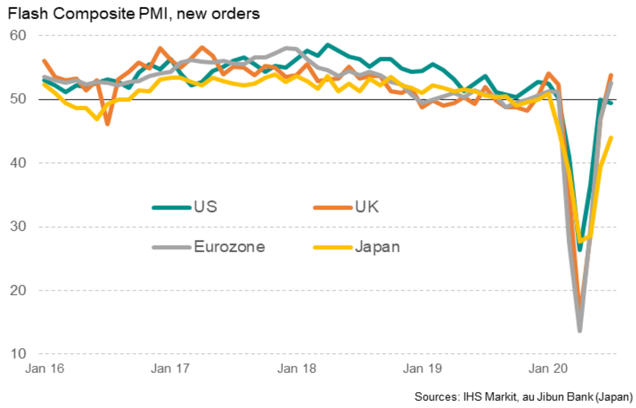
5th August: Final Global Services PMIs

6th August: Detailed global sector PMIs

Worldwide PMI releases follow the publication of IHS Markit's flash PMI data, which pointed to faster global economic growth in July…



… but conditions varied markedly, with the US seeing order book growth weaken amid re-imposed lockdowns and Japan reporting a further downturn in demand



Chris Williamson

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Key diary events (UTC)

Monday 3 August

Worldwide release of IHS Markit manufacturing PMI (Jul)
Caixin/IHS Markit China manufacturing PMI (Jul)
Indonesia inflation (Jul) business confidence (Q1)
Russia central bank policy meeting
US ISM manufacturing PMI (Final, Jul)
Brazil trade balance (Jul)
South Korea inflation (Jul)

Tuesday 4 August

US total vehicle sales (Jul)
Australia trade, retail sales (Jun)
RBA interest rate decision
Spain unemployment change (Jul)
Brazil industrial output (Jun)
US factory orders (Jun) economic optimism (Aug)
CBA Australia services PMI (Final, Jul) 23:00 UTC

Wednesday 5 August

Worldwide release of IHS Markit services PMI (Jul)
Philippines inflation (Jul), trade (Jun)
Thailand monetary policy decision (Aug), inflation (Jul)
Indonesia GDP, business confidence (Q2)
Euro area and France retail sales (Jun)
US trade (Jun)
ISM non-manufacturing PMI (Jul)
US Treasury refunding announcement
Brazil interest rate decision

Thursday 6 August

Philippines GDP (Q2)
Thailand and Indonesia consumer confidence (Jul)
Thailand unemployment rate (Jul)
Germany factory orders (Jun)
BoE monetary policy decision
India interest rate decision
IHS Markit Construction PMI for Eurozone, France, Germany and Italy (Jul)
Taiwan inflation (Jul)
US jobless claims (1-Aug)
Japan household spending, cash earnings (Jun)

Friday 7 August

RBA statement on monetary policy
China trade (Jul)
Malaysia industrial output, jobless rate (Jun)
Germany and France trade, industrial output (Jun)
UK Halifax house price index (Jul)
Taiwan trade (Jul)
US nonfarm payrolls, jobless rate, earnings (Jul)

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United States Week Ahead

Final PMI data, nonfarm payrolls and economic optimism

By Siân Jones

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The publication of final PMI data leads the key economic data releases, giving an important insight into economic performance going into the third quarter. The PMIs are followed by an eagerly awaited assessment of the health of the labour market with the release of nonfarm payrolls, unemployment and earnings data. The latest update comes alongside the end of additional COVID-19 unemployment payments. Factory orders and trade data are also published.

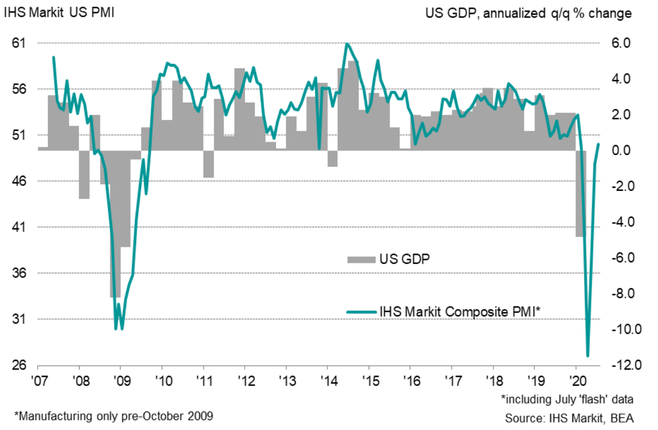
PMI surveys

Final PMIs from IHS Markit are published alongside ISM survey data, providing early insights into the extent to which businesses are coping at the start of the third quarter as the pandemic continues to disrupt economic activity in many parts of the country. The former's July 'flash' readings signalled a stabilisation in private sector output, albeit with growth subdued mainly by a renewed downturn in demand for services, linked in turn to the recent spike in new COVID-19 cases and some reversals in state re-openings. Companies were more upbeat regarding the outlook for output over the coming year, but this confidence reportedly hinges on the continued reopening of the domestic and global economy and hopes of a return to pre-pandemic activity levels, which still looks a long way off. ISM surveys are meanwhile widely expected to fall sharply after having spiked higher in June.

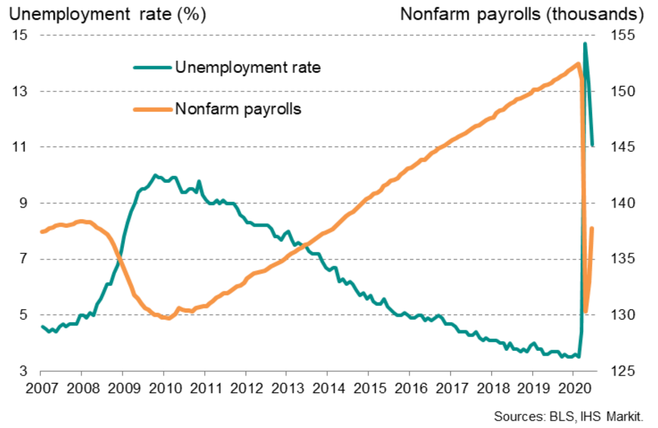
Nonfarm payrolls

The degree to which employers have been affected by renewed lockdowns will be one of the key indications awaited for in Friday's monthly employment report. The nonfarm payroll count surged by 4.8 million in June, but so far only around one-third of the near-21 million jobs lost in April have been regained. Furthermore, a recent rise in jobless claims hints that the labour market recovery has lost steam as companies grow increasingly cautious about workforce numbers in the face of rising infection rates. At the time of writing, US deaths from OCVID-19 were up by 1,300 per day, the biggest one-day increase since May and IHS Markit's COVID-19 Containment Index has risen, indicating a further squeeze on the economy.

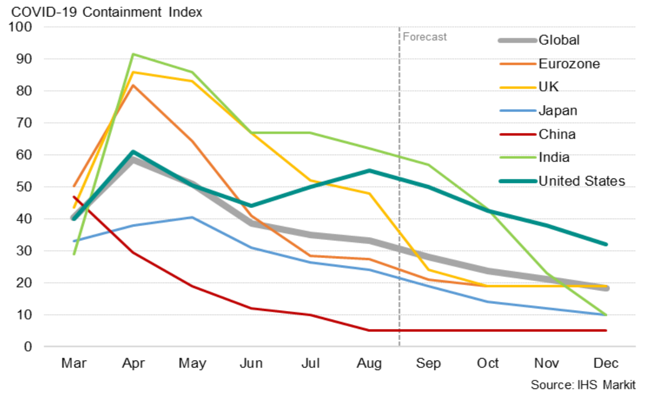
The economy continued to step towards recovery in July, according to 'flash' PMI data, but growth was lacklustre



The latest employment report will be awaited to clues as to whether the labour market healing seen in May and June has stalled



The US has bucked a wider global trend of easing COVID-19 containment measures, with more restrictions being imposed in the last two months



IHS Markit's COVID-19 Containment Index is based on information relating to issues such as closures of schools, non-essential shops and restaurants, as well as restrictions on public gatherings, internal mobility and external borders. These indices are based on 100 meaning very severe restrictions and zero being no restrictions.

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Europe Week Ahead

PMIs, industrial production, trade and BoE rate decision

By Paul Smith
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Another busy week in European economics, with final PMIs for the eurozone and the UK released alongside national figures for the rest of the region, including Italy and Spain. Following confirmation of Q2's collapse in flash GDP estimates, further clues on the strength of the eurozone's recovery will be provided by German industry figures, whilst over in the UK the Bank of England meets to set monetary policy.

National PMIs and industrial production

Final eurozone PMI figures will provide a closer look at business activity, including in the peripheral nations, after flash data showed growth hitting its highest level for over two years, driven by strong gains in France and Germany. With the region's truncated tourist season now under way, but facing ongoing challenges related to COVID-19, the focus will be on Italy and Spain's services industries.

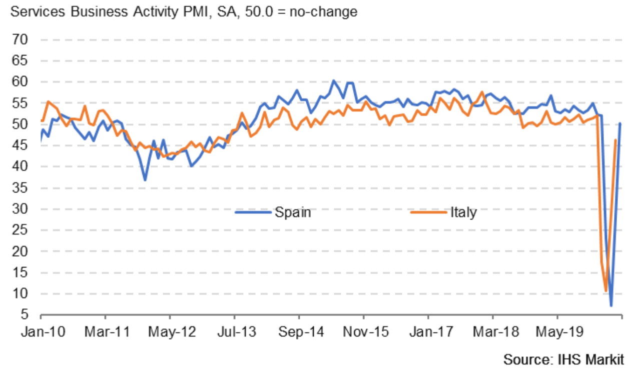
Meanwhile, official data relating to industry and trade for both France and Germany will add additional colour to the performance of the region's recovery at the end of the second quarter. International trade has remained relatively subdued, but flash PMI data showed manufacturing orders in Germany finally lifting in July. German factory orders, data for which are also released next week, should add extra flavour here.

UK monetary policy, PMI and house prices

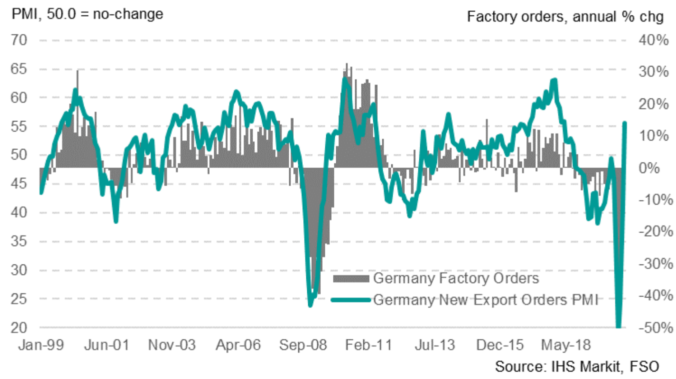
Over in the UK, the Bank of England meets to set monetary policy and provide a wider update on its reading of the economy. Highlighting the general uncertainty over the strength and future evolution of the recovery, differences have emerged between members of the MPC. Whilst PMIs and so-called "fast-macro" data have implied an initial 'v-shaped' recovery to date, worries persist in some quarters over the effect on consumption of an expected sharp increase in unemployment over the coming months.

One area of the economy that appears to be performing well is the nation's housing market, with anecdotal evidence from estate agents pointing to a resurgence in buying activity and asking prices. July's Halifax's house price index will be watched for signs of how this activity has translated into agreed prices.

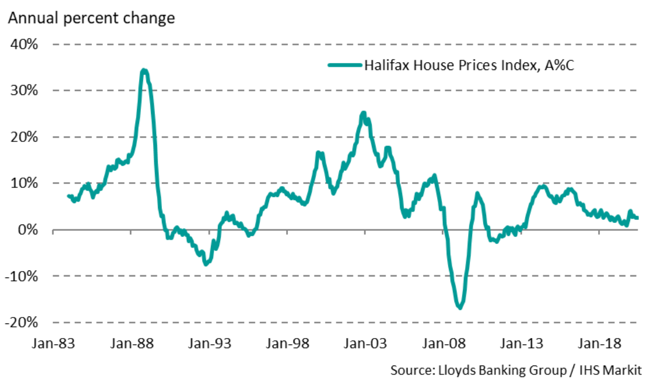
Service sectors in Italy and Spain have struggled to reignite as social distancing measures weigh on activity



German flash PMI data for July suggested recovery in international trade may be taking hold



UK house prices inflation has softened recently, but reports suggest that activity has lifted and asking prices are rising as the market emerges from lockdown



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Asia Pacific Week Ahead

PMI data, monetary policy and trade updates

By Bernard Aw

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The release of July PMI data in the coming week, in particular the Caixin China survey, will be in focus for early insights into the pace of the economic recovery at the start of the third quarter. Further clues on the strength of the regional recovery can be gleaned from July updates of trade figures in China and Taiwan. Meanwhile, central banks in Australia, India and Thailand meet to decide on monetary policy. Second quarter GDP updates in Indonesia and the Philippines will also draw scrutiny, and confirm the devastating economic impact caused by the COVID-19 pandemic.

Other key Asian highlights include inflation figures in Indonesia, South Korea, Philippines and Taiwan, as well as consumer confidence surveys for Thailand and Indonesia.

July PMI updates and trade figures

The release of July PMI surveys will provide a closer look at recovery prospects in the broader Asia Pacific region at a time when an increasing number of countries reported a renewed rise in new infection cases. This also come on the heels of flash PMIs in Japan and Australia showing a mixed picture. The focus will be on China, with analysts eager to gauge for further signs of recovery.

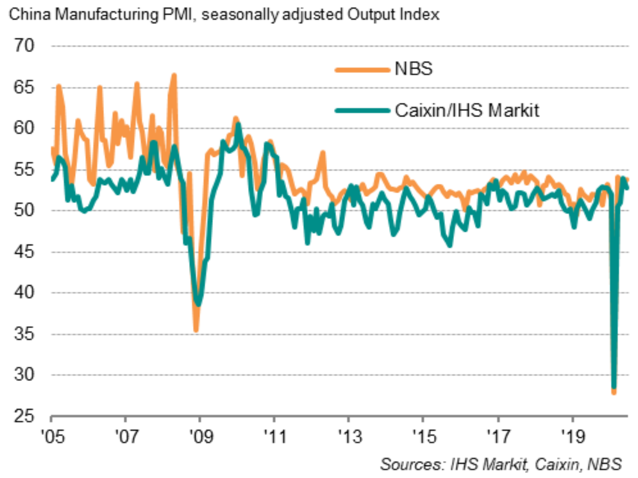
Mainland China and Taiwan will release trade figures for July, which will add further insights into the recovery at the start of the third quarter. Trade data in the Philippines and Australia may also be of interest, though the updates are for June.

Monetary policy and GDP

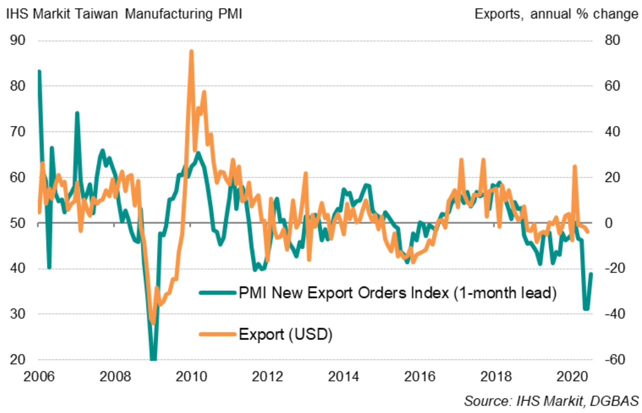
Monetary policy decisions in Australia, India and Thailand will also be eagerly gauged for policymakers' views on recovery prospects, with the varying degree of success among the countries in handling the COVID-19 outbreak likely to see nuances in the policy outlook.

Second quarter GDP for Indonesia and the Philippines are expected to show both economies having fallen into recession at -4.2% and -6.1% respectively, according to IHS Markit estimates. PMI data showed a moderation in the manufacturing downturn in Indonesia and Philippines at the end of the second quarter. Eyes will be on the July PMI update in both countries for clues as to whether the recovery has gathered pace.

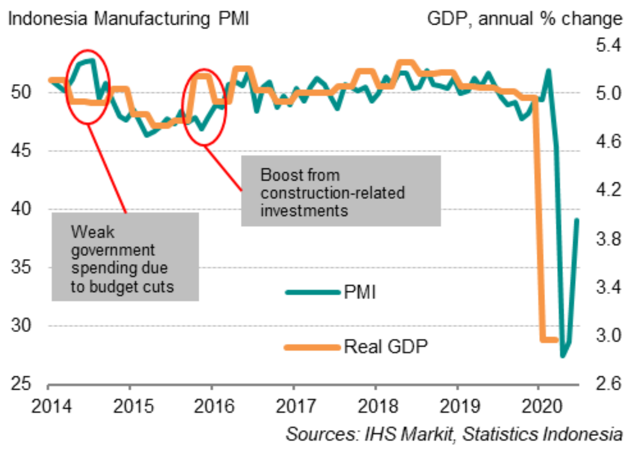
July updates to China PMI surveys will provide first insights into economic trends at start of Q3



Taiwan PMI and exports



Indonesia PMI and economic growth



Global Economy Special Focus

Flash PMI surveys show global economy on road to recovery

By Chris Williamson

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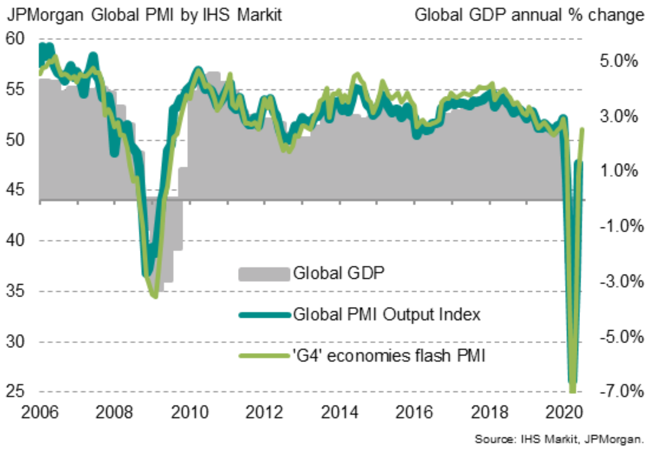
The world's largest developed economies saw business activity rise for the first time since February in July, as economies re-opened following the relaxation of restrictions designed to control the coronavirus disease 2019 (COVID-19) pandemic. However, both new orders and employment continued to fall, raising questions about the sustainability of the upturn after the initial rebound from lockdowns.

Performance varied by country, with Europe leading the upturn, the US stabilising and Japan lagging, though in all cases labour markets remain a particular concern.

Global economy recovering from COVID-19

IHS Markit's flash PMI surveys for the 'G4' developed economies indicated that economic growth stalled in February before falling into the steepest downturn on record as the COVID-19 pandemic caused widespread economic disruption. The peak of the rate of decline appeared in April 2020, coinciding with strict lockdowns and enforced closures of non-essential businesses across many countries. Since April, the rate of decline has eased rapidly as the lockdowns have eased, culminating in the first meaningful overall improvement in business activity in July since January.

Flash G4 PMI output index and global economic growth



The IHS Markit Flash PMIs are early releases of survey data based on around 80% of the total number of replies usually received during a month. As such, they provide the first, internationally comparable, insights into how economic conditions are changing. Currently, flash PMI are produced for the United States, the eurozone, Japan, the United Kingdom and Australia, encompassing manufacturing and service sector business conditions in each economy. These survey data can in turn be weighted together according to each country's GDP to form international aggregates. Weighting the US, eurozone, UK and Japan PMIs together, for example, creates a "G4 developed world" series of indicators.

Because these four largest developed economies account for around half of global GDP (at market prices), the G4 flash PMI output index acts as both a good indicator of the Global PMI as well as global GDP growth. Since 2007, when IHS Markit's US PMI series were first included in the global PMI database, the flash PMI has exhibited a 94% correlation with annual percent changes in global GDP with the PMI acting with a lead of one quarter. Using regression analysis, we can infer a rate of GDP growth from the PMI.

The G4 economies' flash PMI output index rose from 46.5 in June to 51.1 in July, up further from an all-time low of 21.5 in April. The statistical historical relationship of the flash PMI with global GDP suggests that the latest reading is broadly consistent with the global economy growing at an annual rate of 2%, up from a signal of 0.2% growth in June. Note that this does not mean GDP was 2% higher than a year ago in July, it merely indicates that the global economy is expanding at a rate equivalent to 2% per annum. At such a modest pace, it would take many months, if not years, to recoup the output lost during the pandemic.

Factory downturn ends, services revive

July saw manufacturing output rise for the first time since February 2019, ending a downturn that had initially been linked to the intensification of global trade wars and exacerbated by the pandemic. However, at just 50.6 in July, the manufacturing PMI output index for the G4 indicated only a very modest improvement.

A marginally stronger gain was recorded for service sector output in July, where activity rose across the G4 economies for the first time since February, rising to the greatest extent since January, However, the overall improvement was relatively muted, dampened in particular by companies in consumer-facing sectors continuing to struggle amid social distancing requirements and restrictions on travel.

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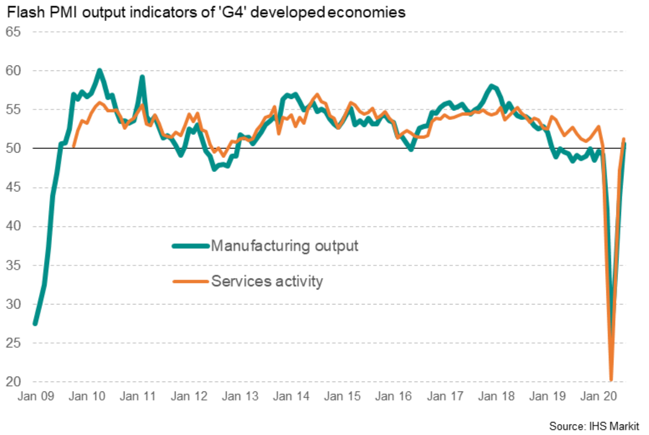
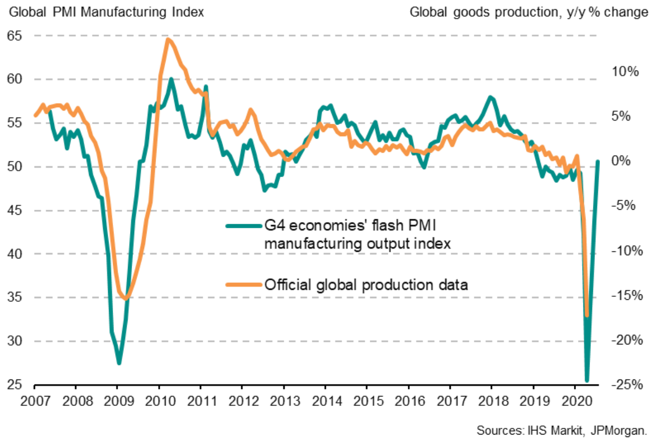
G4 economies' output



Global manufacturing output



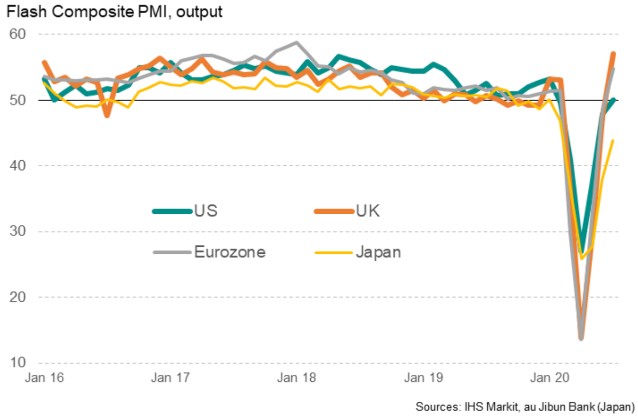
Europe leads developed world upturn

The strongest output gains in July were seen in France and the UK, the latter enjoying the largest monthly gain for five years. The increase in France was accompanied by a return to growth in Germany and, to a lesser extent, the rest of the eurozone. The eurozone as a whole consequently recorded the largest output gain for just over two years.

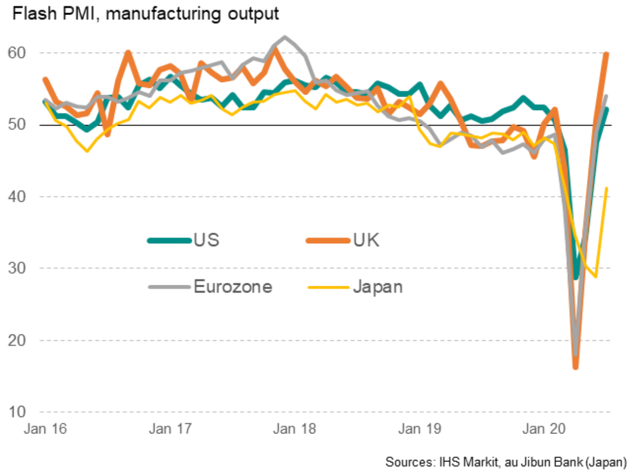
While composite PMI output indices surged to 57.1 in the UK and 54.8 in the eurozone, the comparable index for the US merely rose to 50.0, indicating a stabilisation of the output trend but falling well short of the strong gains seen in Europe.

While US manufacturing output rose, the service sector continued to deteriorate, albeit at a reduced rate, linked in part to the re-imposition of lockdowns amid increased COVID-19 infection rates. Inflows of new business in the US services sector were especially notable for contracting at an increased rate, bucking the improvement trend seen in all other economies. By contrast, both manufacturing and service sector activity and new orders rose across Europe, where infection rates continued to fall during the month.

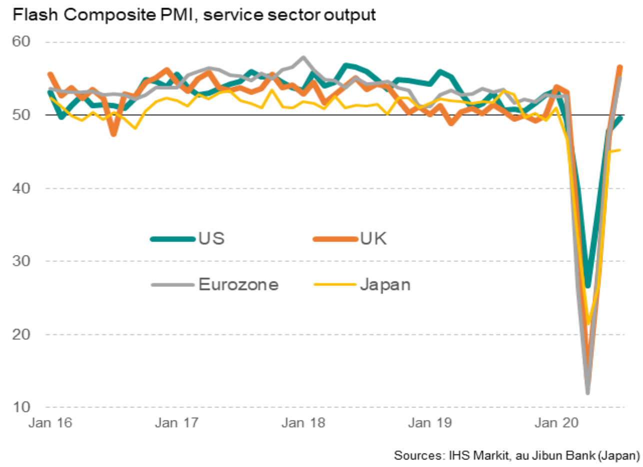
Output in the 'G4 economies'



Manufacturing output in the 'G4 economies'



Service sector output in the 'G4 economies'



Japan fared even worse, with the composite index rising to just 43.9 and new orders falling sharply again, hinting that the economy could contract again in the third quarter unless business picks up substantially in coming months. Both manufacturing and services remained in decline in Japan.

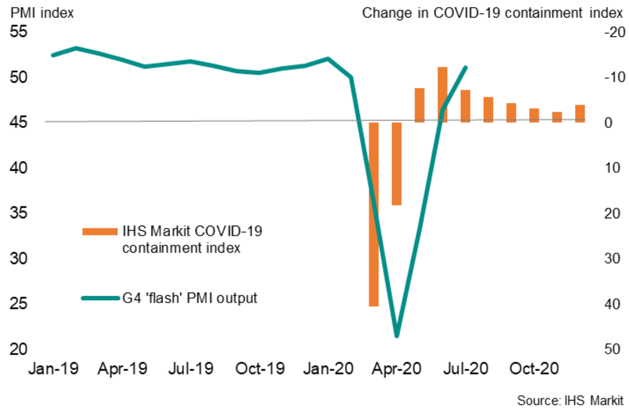
It's important, however, to put the July numbers in some context: while Europe saw the strongest gains, it also saw the steepest downturns at the height of the pandemic. Averaging the composite PMIs over the six months since February, the US has seen the mildest downturn, with an index of 42.1, followed by the UK and Eurozone, with readings of 39.4 and 38.3 respectively. Japan has lagged, with a PMI of just 36.4.

Long roads to recovery

The return to growth signalled at the G4 level represents a swift turnaround in developed world (and likely global) economic performance from the height of the pandemic in April.

The rise in the PMI has followed an easing in IHS Markit's Global COVID-19 Containment Index (which takes a basket of restriction measures in each country to gauge the degree of 'lockdown'). The projected further re-opening of economies planned by governments in coming months should help drive the recovery further, though future months will see smaller steps in terms of the re-opening, which suggests the PMI could start to level off.

PMI output and COVID-19 containment



* COVID-19 containment index is based on information relating to issues such as closures of schools, non-essential shops and restaurants, as well as restrictions on public gatherings, internal mobility and external borders. We also forecast how these are expected to change in coming months, based primarily on government announcements. A reading of 100 means severe restrictions while a reading of zero indicate no restrictions.

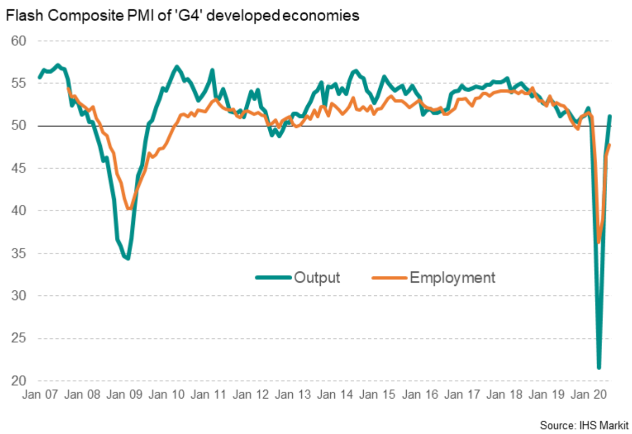
Demand will therefore need to play an increasing role in helping keep the surveys in strong growth territory in coming months to build on this initial V-shaped recovery and make any significant inroads into recouping the output lost to the downturn.

However, in this respect an additional concern is that employment continued to fall across the G4 economies in July, dropping for a fifth successive month, albeit at a reduced rate. The ongoing cut to headcounts reflected sustained weakness of new order inflows, which continued to contract – hinting that July's upturn was driven to a significant extent simply by the reopening of economies rather than a more sustainable improvement in underlying demand. In all G4 economies, the trend in new orders lagged that of output, with declines being seen in Japan and, to a lesser extent, the US, suggesting surplus capacity has developed, which could lead to further job losses if demand does not pick up.

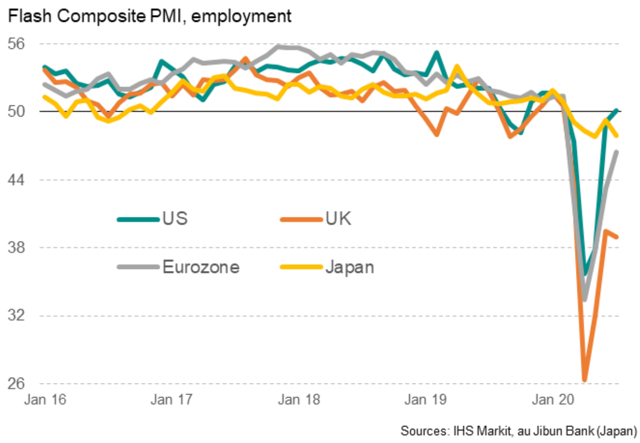
Only in the US did the job market stabilise, with increased rates of job cutting seen in both the UK and Japan. Of the four economies, the UK saw by far the steepest rate of job losses.

Given that consumer spending will be largely determined by job markets, we will be watching the PMI employment indices especially carefully in coming months to help asses recovery paths. The worry is that, in all countries, government support has so far helped to limit job losses, meaning a further wave of redundancies could follow in many countries unless demand rises sufficiently to sustain current staffing levels.

G4 economies output and employment



Employment in the 'G4 economies'



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EU Economy Special Focus

EU member states reach modified agreement on recovery fund

By Ken Wattret

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The euro exchange rate and European equity markets added to their recent gains following the landmark deal, despite its various amendments.

Recovery fund agreement reached

An unusually long meeting of the European Council finally secured an agreement on the region's recovery fund, modifying the preliminary arrangements announced by the European Commission in June (see Europe: 1st June 2020: **Proposed EU recovery fund takes clearer shape: Italy and Spain the main beneficiaries**).

As highlighted previously, the fanfare accompanying the announcement reflects three key aspects of the agreement: its scale, the methods of funding and its distribution. In broad terms, they all still apply to the modified deal, though there have been some significant amendments.

In brief, the European Commission will use its AAA rating to borrow EUR750 billion in total, to be distributed across the EU member states. EUR390 billion will be disbursed in the form of grants (down from the initial proposal of EUR500 billion), with EUR360 billion in the form of loans (up from the initial EUR250 billion).

To be eligible, EU member states will need to prepare national recovery and resilience plans setting out their reform and investment agendas for the years 2021-23. These will be assessed by the Commission on the basis of consistency with the objectives of strengthening growth potential, job creation and economic and social resilience, along with contributions to the EU's green and digital transition agenda. Approval by EU member states will be via Qualified Majority Voting.

EUR313 billion of grants and EUR360 billion of loans will be disbursed via the main Recovery and Resilience Facility (RRF), with the rest distributed through a variety of smaller programmes. In 2021–22, 70% of the grants provided by the RRF will be disbursed, with the remaining 30% to follow by the end of 2023.

RRF grant allocations for member states will be determined primarily by historic unemployment rates and coronavirus disease 2019 (COVID-19) virus-related GDP losses. Overall, under the new proposals, as before, Italy, Spain and some emerging European countries including Poland are set to be the main beneficiaries.

Due to opposition from a handful of member states – Austria, Denmark, the Netherlands and Sweden (which became known as the "frugal four") – various adjustments had to be negotiated, leading to the exceptionally long duration of the meeting of the European Council.

In addition to the change in the split between grants and loans, the four member states also secured increases in their rebates from their contributions to the EU budget. Another notable change was the introduction of an "emergency brake" to halt transfers if a member state is considered not to be fulfilling its reform objectives. The brake is time limited at three months, however, with the ultimate decision in the hands of the Commission. Disbursements will also be linked to observing the rule of law, a particular focus for Poland and Hungary.

In order to secure an agreement, some elements of the "New EU" agenda were dropped, including a proposed solvency instrument to aid recapitalisation of struggling companies. There was also a large reduction in the proposed budget for the "Just Transition Fund", which has the goal of lowering the cost to lower-income member states of reductions in carbon emissions.

As in the prior proposals, various EU-wide tax-revenue raising measures have been put forward to cover the future cost of borrowing. One is a tax on non-recycled plastic waste, effective from 1st January 2021. The Commission will also propose in 2021 a carbon border adjustment mechanism and a digital tax, to be introduced by January 2023. The emissions trading system is also under review for possible extension to include aviation and maritime sectors, while as part of the EU budget (running from 2021-27), the Commission will consider other ways of raising revenue, including a possible Financial Transaction Tax (FTT).

Outlook

The back-and-forth of the negotiations during and prior to the summit may have partly obscured the significance of the agreement. The willingness of member states to mutualise debt and disburse funding on the basis of grants rather than loans are two very significant steps.

There are some drawbacks with the deal. Some prominent initiatives have been dropped, the horse-trading and concessions might have some national political repercussions, while some of the tax proposals are disconcerting (e.g. the FTT).

Still, the main takeaway is that this is an important step forward in further integrating the EU and the eurozone and leaves it better positioned to cope with adverse shocks in the future, evident in the reaction across financial markets.