

Week Ahead Economic Preview

Global overview

- Second quarter GDP data for Japan, the UK, Russia, Hong Kong SAR, Taiwan and Singapore
- US, China, Eurozone, UK and India industrial production
- US and China retail sales
- UK labour market stats

The coming week will see a clutch of GDP updates to shed further light on the extent of the global economic collapse at the height of the COVID-19 pandemic in the second quarter, but will also see the release of more timely industrial production and retail sales data for key economies which will help assess recovery paths. In addition to the economic data, the earnings season continues with more than 600 firms reporting.

After news of the US economy contracting at a record 32.9% annual rate in the second quarter, eyes turn to industrial production and retail sales updates for July to gauge the recovery path heading into the third quarter. June had already shown rebounds in sales and production, but doubts as to the durability of these rebounds have been raised amid redoubled efforts to stem increased COVID-19 infection rates. PMI data, for example, showed demand faltering during July amid the re-imposition of lockdown measures ([page 3](#)).

Similarly, industrial production and retail sales data, as well as investment numbers, will be eyed in China to steer estimates of third quarter economic performance. China saw GDP rise by 3.2% on a year in the second quarter after falling 6.8% in the first quarter – the first such fall for decades – reflecting China’s earlier lockdown and subsequent reopening of its economy. The rest of Asia locked down later, which will likely be reflected in dismal second quarter GDP numbers for Japan, signalling a deepening recession, as well as Hong Kong SAR, Taiwan and Singapore ([page 5](#)).

In Europe, UK second quarter GDP is expected to show a double-digit decline but the monthly estimate for June, including manufacturing, services and construction updates, should cement signs of recovery taking hold after the recent improvements evident in PMI data. Job market data will also be important in assessing wider UK recovery prospects. Similarly, industrial production numbers for the eurozone will be eagerly awaited amid growing hopes of a strong initial industrial rebound for the region ([page 4](#)).

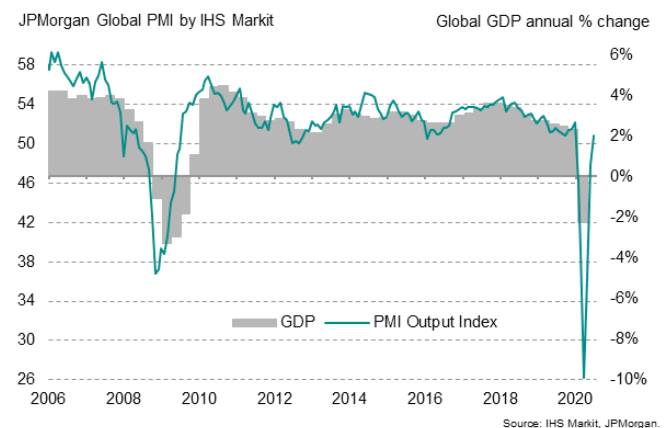
Special reports

Vietnam: A look at how the new EU-Vietnam Free Trade Agreement that entered into force on 1st August 2020 will significantly boost bilateral trade between the two economies ([page 6](#)).

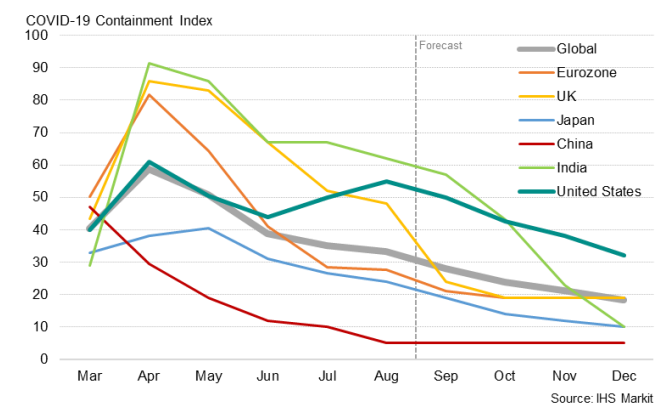
Upcoming PMI releases

- 21st August:** Flash manufacturing and services PMIs for the US, Eurozone, Japan, UK and Australia
- 1st September:** Final Global Manufacturing PMIs
- 3rd September:** Final Global Services PMIs

The global PMI data showed the recovery in worldwide business activity gaining pace in July



Recovery paths will depend on COVID-19 lockdowns and other containment measures. With the US having seen tighter restrictions in July, downside risks to the economic outlook have intensified



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Key diary events (UTC)

Monday 10 August

Singapore GDP (Final, Q2)
China inflation (Jul)
Indonesia current account (Q2)
Malaysia construction output (Q2), retail sales (Jun)
US JOLTS job openings (Jun), consumer inflation expectations (Jul)
Japan current account (Jun) 23:50 UTC

Tuesday 11 August

Australia business confidence (Jul)
Japan Eco watchers survey (Jul)
UK claimant count change (Jul), average earnings (Jun), employment change (May)
Euro area economic sentiment (Aug)
India industrial production (Jun)
Russia GDP (Prelim, Q2)
South Korea unemployment rate (Jul)

Wednesday 12 August

Australia consumer confidence (Aug), wage price index (Q2)
New Zealand monetary policy decision
Malaysia GDP (Q2)
UK GDP, labour productivity (Prelim, Q2), construction orders (Q2)
UK industrial production, construction output, goods trade balance (Jun), NIESR GDP tracker (Jul)
Italy inflation (Final, Jul)
Euro area industrial output (Jun)
US inflation, monthly budget statement (Jul)
China FDI, new yuan loans, total social financing, M2 vehicle sales (Jul)

Thursday 13 August

Australia jobless rate, employment change (Jul)
France jobless rate (Q2)
Germany and Spain inflation (Final, Jul)
IEA oil market report
US initial jobless claims (8-Aug), export prices (Jul)
Speech by RBA governor Lowe

Friday 14 August

China house price index, fixed asset investment, retail sales, jobless rate, industrial output (Jul)

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India WPI (Jul)
France inflation (Final, Jul)
Hong Kong SAR and Taiwan GDP (Final, Q2)
Euro area GDP, employment change (2nd Est, Q2)
India trade balance (Jul)
US retail sales, industrial output (Jul), business inventories (Jun)
US Michigan surveys (Prelim, Aug)

Sat-Sun 15-16 August

Singapore non-oil exports (Jul)
Japan GDP, capital expenditure, external demand (Prelim, Q2) 23:50 UTC

United States Week Ahead

Industrial production, retail sales and inflation

By Siân Jones

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With concerns rising that increased virus numbers and associated re-imposed lockdowns are impeding the US economic recovery, markets and policymakers will be eagerly awaiting official updates to retail sales, industrial production and jobless claims. IHS Markit's COVID Containment Index* for the US bucked a wider global easing trend by rising in July as social distancing restrictions were increased in many states during the month. Inflation, job openings, business inventories and University of Michigan consumer confidence numbers are also released.

Industrial production

The manufacturing sector has shown initial recovery signs, with production rising 7.2% in June, albeit still some 11.2% below levels of a year ago. Survey data hint at further gains in July, but the messages are mixed. A strong surge indicated by the ISM data contrast with more muted growth indicated by the IHS Markit's PMI, the latter subdued by reports of demand faltering as easing lockdown restrictions were often put on hold or reversed in many states.

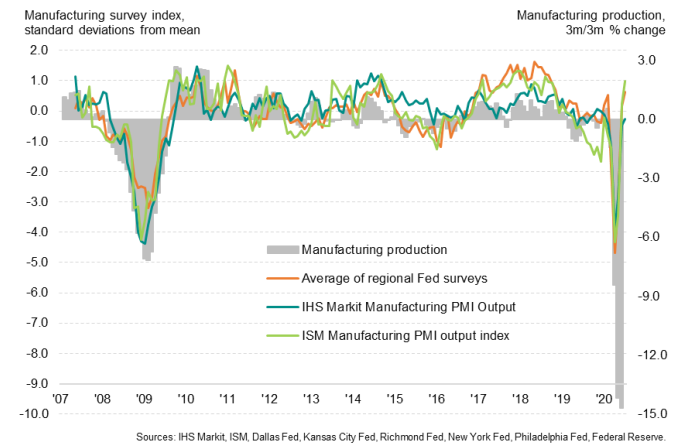
Retail sales

Retail sales rebounded in June, with consumers upping their spending as businesses and local economies reopened. Sales are expected to gain momentum on an annual basis in July, though the monthly rate of expansion may ease as incomes are dented and pent up demand is depleted. The newly introduced reduction in additional unemployment payments is likely to knock many household incomes. When combined with slower growth in employment, the consumer spending data may add to worries about the speed of economic recovery.

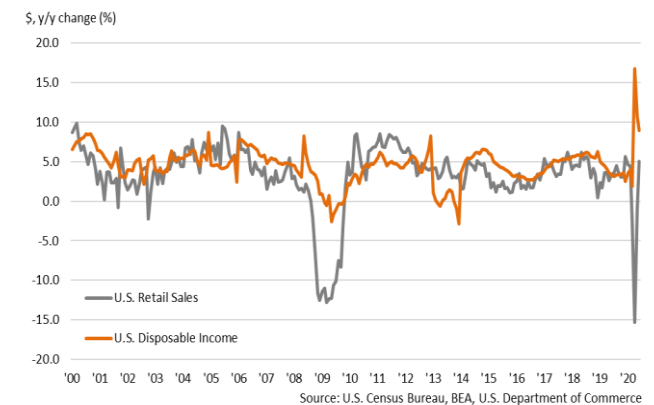
Inflation

Meanwhile, the reopening of businesses and an uptick in cost burdens following an increase in global demand for inputs led to a quicker rise in selling prices during July, according to PMI data. Upward pressure on the annual rate of CPI inflation (currently running at 0.6%) is expected to continue, though will remain well below rates that will concern the Fed.

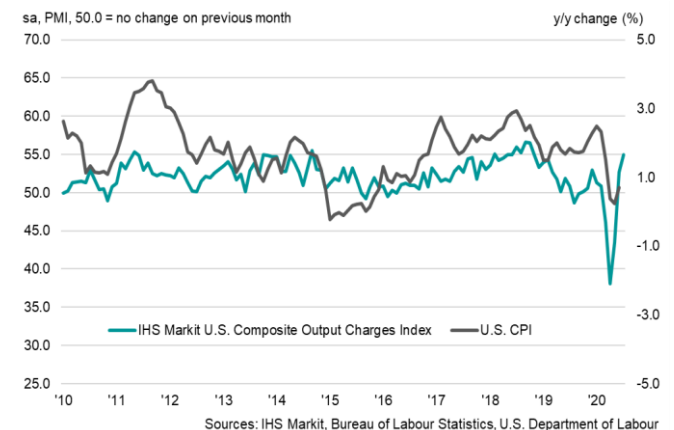
Manufacturing sector continues to track towards a recovery



Slowing income growth is expected to weigh on retail sales



Upward pressure on prices remains evident in July, according to PMI data



* 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.

Europe Week Ahead

UK GDP and employment data highlights in quieter week ahead

By Paul Smith

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The main economic data updates for Europe will come out of the UK, which reports its first estimate of GDP for the second quarter, as well as fresh labour market figures. Employment data are also released in France and for the wider euro area, whilst June industrial production figures for the eurozone are also provided.

UK GDP, employment data

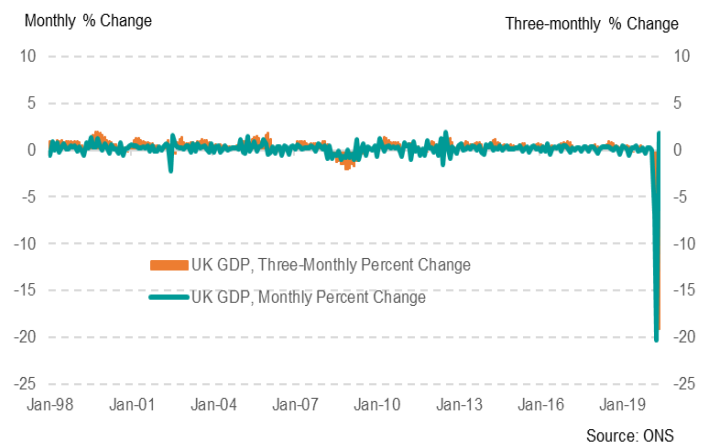
With the largest eurozone nations having reported record falls in second quarter GDP, the UK will take centre stage next week. Given monthly GDP data for May showed only modest growth, following a 20% collapse in April, a double-digit decline in GDP for the second quarter as a whole is priced in. However, detailed monthly GDP figures on economic performance for June will be eyed closely for clues on the strength of the recovery. Whilst the more up-to-date PMI figures have indicated an acceleration of growth into the summer, in line with the easing of national lockdown measures, the speed of the upturn has so far proven insufficient to prevent ongoing job losses. Tuesday's labour market report will therefore likely show a rise in official joblessness numbers and a hike in the unemployment rate, which has so far stayed surprisingly resilient, as well as weak employee earnings growth.

EZ employment, industrial production

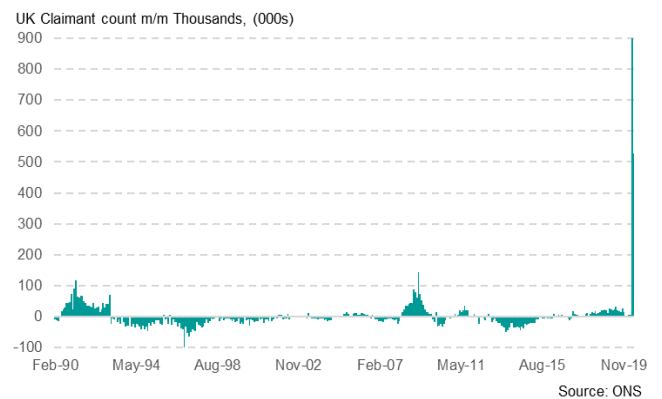
Government policies aimed at limiting unemployment have played a crucial role in preventing sharply rising joblessness across Europe, and next Friday's employment data for the eurozone should add further to evidence of policy success. However, with PMI survey data showing a fifth successive monthly fall of private sector employment up to July, and government employment support schemes across the region set to be slowly withdrawn, it seems inevitable that the eurozone's unemployment rate will head higher over the coming months.

Employment outcomes will of course be closely related to the speed at which output rises following the devastating impact of lockdowns. Next week's euro area industrial production data will add some further colour to the recovery picture up to June.

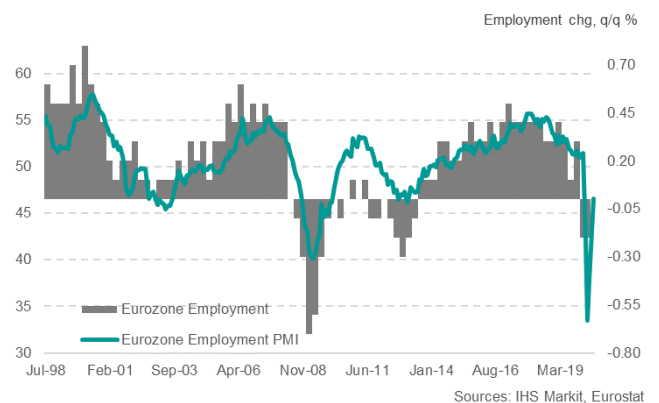
Monthly UK GDP data disappointed in May and points to a large quarterly decline in economic output over second quarter



Claims for joblessness benefits in the UK have risen steeply in recent months and will be expected to increase further in the coming months



Official joblessness in the euro area has so far only risen slightly but survey data indicate sharper falls ahead, albeit with more recent signs of job culling easing



Asia Pacific Week Ahead

GDP updates, China data and Asia job numbers

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The coming week will be dominated by China data releases, but also sees a clutch of GDP updates. Japan and Malaysia will report initial second quarter GDP estimates, while final GDP data will be issued by Singapore, Hong Kong SAR and Taiwan. Further clues on China's recovery will be scoured from the July economic updates, after [Caixin PMI surveys](#) showed a further, but slower, gain in business activity at the start of the third quarter. Monetary policy decision will come from New Zealand, while a speech by RBA governor Lowe will be closely watched amid a reinstatement of lockdown measures in parts of Australia.

Other key Asian highlights include unemployment figures in China, South Korea, and Australia as well as confidence surveys for Australia and Japan's Eco Watcher survey. Inflation numbers in China and India may also attract attention.

China data

Latest PMI surveys indicated that China's recovery from the COVID-19 pandemic extended into July, with output and new orders increasing at solid rates. However, the survey data also showed a further decline in employment, which could dampen consumption in coming months. As such, analysts will look to the official unemployment numbers published next week, alongside other July economic releases such as credit, investment, industrial output, and retail sales, for further clues as to the strength of the economic recovery.

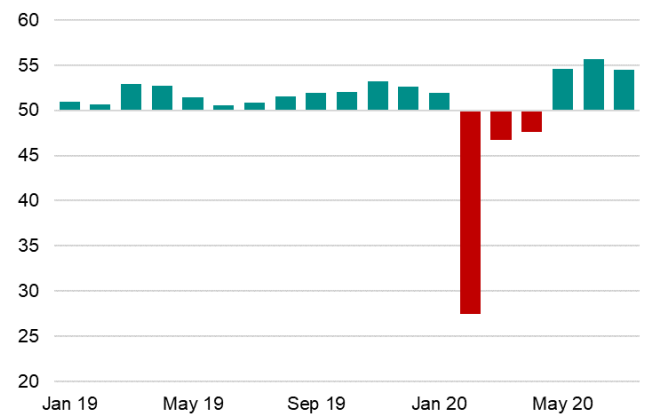
Economic growth and jobs

GDP data for Japan and Malaysia are expected to show both economies shrinking in the second quarter, by 9.3% and 2.2% on year-on-year basis respectively, according to IHS Markit estimates. PMI data showed that the strength of the recovery in [Japan](#) remained disappointingly weak compared to other economies in July, boding ill for third quarter economic performance. In Malaysia, the PMI indicated further manufacturing output growth in July, though demand remained somewhat subdued amid a weak external environment.

Meanwhile, jobs data in Australia, China and South Korea will be updated for July, providing further clues into employment trends after the latest PMI surveys continued to signal job shedding in these economies.

China PMI surveys signal a sustained economic recovery at start of Q3

China Composite PMI Output/Business Activity Index

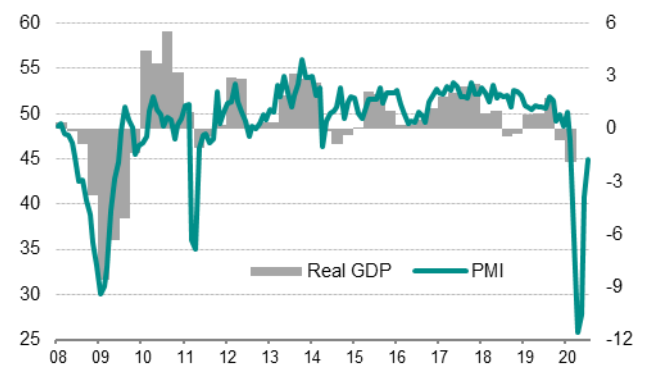


Sources: IHS Markit, Caixin

Japan PMI and economic growth

Composite PMI Output Index

Real GDP, annual % change

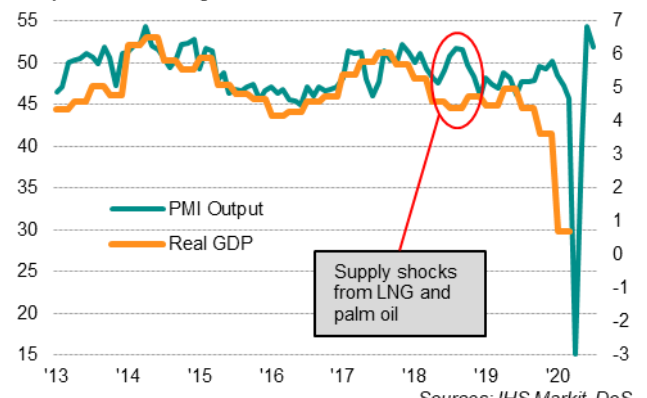


Sources: IHS Markit, au Jibun Bank, Cabinet Office

Malaysia PMI and economic growth

Malaysia Manufacturing PMI

GDP, annual % change



Sources: IHS Markit, DoS

Asia Pacific Special Focus

Vietnam: New EU-Vietnam FTA enters force on 1st August

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The new EU-Vietnam Free Trade Agreement (EVFTA) that entered into force on 1st August 2020 will significantly boost bilateral trade between Vietnam and the EU. Some 71% of EU tariffs and duties on Vietnamese products have been eliminated on implementation.

In the near-term, Vietnam is expected to be one of the most resilient economies in the Asia-Pacific region to the shockwaves from the global Covid-19 pandemic. This reflects Vietnam's success in containing the number of domestic Covid-19 cases to very low levels so far. This has helped to mitigate the economic impact of the pandemic on domestic demand. There have been very low total Covid-19 cases and deaths attributed to Covid-19 in the first seven months of 2020, albeit another outbreak of cases has occurred since late July.

Vietnam's export sector, which is a key driver of GDP growth, has also shown considerable stability during the first seven months of 2020 despite the economic shocks to key export markets, notably the US and EU. As lockdowns have been eased across Europe and in the US, this is expected to boost new orders for Vietnam's manufacturing sector in the second half of 2020. Vietnam's GDP growth is expected to strengthen in 2021 as global growth improves.

Vietnam's fast-growing economy has slowed due to the pandemic

Vietnam has been one of the world's fastest growing emerging markets in the past decade, boosted by strong foreign direct investment inflows into its manufacturing sector. The pace of economic growth slightly exceeded 7% in both 2018 and 2019. Rapid growth of manufacturing exports and large new inflows of foreign direct investment have been important growth drivers for Vietnam, notably driven by rapid expansion in the textiles and electronics sectors. Total electronic and electrical manufacturing exports accounted for 33% of total merchandise exports in

2019, with textiles, clothing and footwear accounting for a further 19.4%.

Total foreign direct investment inflows reached USD 20.4 billion in 2019, up 6.7% year-on-year, driven by strong investment by multinationals in establishing new manufacturing production facilities in Vietnam. Samsung has been a key investor, with total foreign direct investment into Vietnam of around USD 17 billion in the decade to 2018. Vietnam has become the biggest foreign production hub for Samsung Electronics, which booked USD 66 billion of sales in 2018 out of its Vietnamese operations, which was equivalent to around 28% of Vietnam's GDP. Around 50% of Samsung's smartphones and tablets are produced in Vietnam and exported globally. Samsung Vietnam has also built its largest R&D centre in Southeast Asia near Hanoi.

However, economic growth momentum has moderated significantly in the first half of 2020, due to the impact of the Covid-19 pandemic. For H1 2020, the Vietnamese economy grew by 1.81% y/y, compared with a 7.1% GDP growth rate in calendar 2019.

Manufacturing sector remains resilient

After a sharp downturn during March and April, the IHS Markit Vietnam Manufacturing Purchasing Managers' Index (PMI) showed a strong rebound in May and June, albeit easing back again in July. The headline PMI index posted 47.6 in July, up from April's record low of 32.7 but easing back on the 51.1 recorded in June.

Vietnam Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

For the first seven months of 2020, industrial production rose by 2.6% y/y, reflecting a very resilient performance compared with many other Asian industrial economies which have faced sharp contraction in industrial output due to the pandemic and related lockdowns. Reflecting Vietnam's success in limiting the domestic spread of Covid-19 cases during the first seven months of 2020, retail sales of goods and services rose by 4.3% y/y in July.

Over the first half of 2020, Vietnam's merchandise exports were very stable, rising by just 0.2% year-on-year. The US is Vietnam's largest export market, accounting for 25.7% of total exports in the first half of 2020, while China was the second largest export market, with 16% of total exports. The EU also remained a key export market, with 15.2% of total Vietnam's exports.

Although Vietnam's merchandise exports have been very resilient in the first seven months of 2020, exports of tourism services have collapsed due to the impact of international travel bans, including Vietnam's own ban on international travel. The tourism economy had been growing strongly in recent years, with international tourist visits to Vietnam in 2019 having reached 18 million trips, up 16% y/y. The protracted disruption of international tourism will hit Vietnam's service sector exports badly, but the impact on the overall tourism economy is mitigated by the significant contribution of domestic tourism to the overall industry.

Electronics sector hit by global demand slump

A key factor that has driven the sustained strong growth of Vietnam since 2010 has been the rapid growth of electronics manufacturing. The importance of Vietnam's electronics industry has risen dramatically, with the electronic industry's share of total GDP rising from around 5% in 2010 to around one-quarter of GDP by 2019, a key factor helping to drive rapid growth of both exports and GDP.

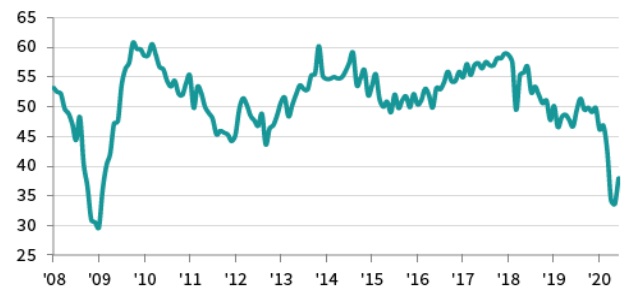
With electronics now being Vietnam's most important export sector, the global electronics industry has been badly hit by the impact of lockdowns on both global electronics output as well as demand. Amid widespread global lockdown measures aimed at containing the spread of the pandemic, world demand for electronic goods slumped sharply in April and May.

The headline seasonally adjusted IHS Markit Global Electronics PMI rose to 44.6 in June, up from 42.9 in May. The survey results indicated a continued contraction in global business conditions for the electronics industry, albeit with some moderation in the pace of contraction faced by global electronics manufacturers. Despite the modest improvement, business conditions for the electronics sector remain the weakest since the 2009 Global Financial Crisis. The IHS Markit Global Electronics New Orders Index continued to signal contraction in new orders in June, although it improved to a level of 38.0 compared with 33.5 in May. Global electronics demand collapsed due to lockdowns in many of the world's largest economies during the second quarter of 2020.

IHS Markit Global Electronics PMI New Orders

sa, >50 = growth since previous month

Jun '20



Source: IHS Markit.

Medium-term growth drivers

In the near term, Vietnam's exports are expected to strengthen during the second half of 2020 as key export markets, notably the US and EU, have gradually moved out of lockdown and consumption spending drives a recovery in new orders for key Vietnamese exports such as garments and electronics. Overall GDP growth is expected to strengthen to a pace of over 5% for the 2021 calendar year.

Over the medium-term outlook for the next five years, a number of key drivers are expected to make Vietnam one of the fastest growing emerging markets in the Asian region.

Firstly, Vietnam will continue to benefit from its relatively lower manufacturing wage costs relative to coastal Chinese provinces, where manufacturing wages have been rising rapidly over the past decade.

Secondly, Vietnam has a relatively large, well-educated labour force compared to many other regional competitors in Southeast Asia.

Thirdly, Vietnam is benefiting from the fallout of the US-China trade war, as higher US tariffs on a wide range of Chinese exports have driven manufacturers to switch production of manufacturing exports away from China towards alternative manufacturing hubs in Asia.

Fourthly, many multinationals have been diversifying their manufacturing supply chains during the past decade to reduce vulnerability to supply disruptions and geopolitical events. This trend has been further reinforced by the Covid-19 pandemic, as protracted supply disruptions from China during February and March created turmoil in global supply chains for many industries, including autos and electronics.

For example, the Japanese government has introduced a subsidy program in 2020 for Japanese companies to help reduce supply chain vulnerability by relocating production out of China either back to Japan or to ASEAN. Vietnam has been one of the preferred destinations for Japanese firms choosing to shift their

production to the ASEAN region in the first round of subsidy allocations announced by the Japanese government.

Free trade agreements

Vietnam is also set to benefit from its growing network of free trade agreements. As a member of the ASEAN grouping of nations, Vietnam already has benefited considerably from the ASEAN Free Trade Agreement (AFTA), which has substantially removed tariffs on trade between ASEAN member countries since 2010. ASEAN also has a network of free trade agreements with other major Asia-Pacific economies, most notably the China-ASEAN Free Trade Area which entered into force in 2010. This network of free trade agreements has helped to strengthen Vietnam's competitiveness as a low-cost manufacturing export hub.

The EVFTA is a key new free trade agreement that will boost Vietnam's exports and foreign direct investment inflows. The EVFTA was approved by Vietnam's National Assembly on 8th June 2020. The EVFTA had already been ratified by the European Parliament in February 2020. The EVFTA will be an important boost to Vietnam's export sector, with 99% of bilateral tariffs scheduled to be eliminated over the next seven years, as well as significant reduction of non-tariff trade barriers. For Vietnam, 71% of duties were removed when the EVFTA took effect on 1st August 2020. The scope of the EVFTA is wide-ranging, including trade in services, government procurement and investment flows. An EU-Vietnam Investment Protection Agreement has also been signed which will help to strengthen EU foreign direct investment into Vietnam when it is implemented.

Vietnam will also benefit from the Regional Comprehensive Economic Partnership (RCEP) free trade agreement that is expected to be signed by 15 RCEP member countries by the end of 2020. The fifteen RCEP countries that are expected to sign the agreement are the ASEAN ten nations, plus China, Japan, South Korea, Australia and New Zealand. The RCEP agreement covers a wide range of areas, including trade in goods and services, investment, e-commerce, intellectual property and government procurement.

Economic outlook

With a large number of positive growth drivers creating favourable tailwinds, this will continue to underpin the rapid growth of Vietnam's economy over the medium term. This is expected to drive strong growth in Vietnam's total GDP as well as per capita GDP.

Vietnam's total GDP is forecast to increase from USD 260 billion in 2020 to USD 430 billion by 2025, rising to USD 650 billion by 2030. This translates to very rapid growth in Vietnam's per capita GDP, from USD 2,700 per year in 2020 to USD 4,200 per year by 2025 and USD 6,250 by 2030, resulting in substantial expansion in the size of Vietnam's domestic consumer market.

Vietnam's role as a low-cost manufacturing hub is also expected to continue to grow strongly, with the continued expansion of existing major industry sectors, notably textiles and electronics, as well as the development of new industry sectors such as autos and petrochemicals.

For many multinationals worldwide, significant supply chain vulnerabilities have been exposed by the protracted disruption of industrial production in China as well as some other major global manufacturing hubs during the Covid-19 lockdowns. This will drive the reshaping of manufacturing supply chains over the medium term, as firms try to reduce their vulnerability to such extreme supply chain disruptions. With US-China trade tensions continuing to escalate, this is likely to be a further driver for reconfiguring of supply chains. A key beneficiary of the shift in global manufacturing supply chains will be the ASEAN region, with Vietnam expected to be one of the main winners.