Economic Preview: Week of 28 September 2020

Publication date: 25 September 2020

Week Ahead Economic Preview

Global overview

- Worldwide manufacturing PMI releases
- US jobs report
- First presidential debate

Highlights of the coming week includes US non-farm payrolls, worldwide manufacturing PMI surveys and the first of the US presidential debates.

The first presidential election debate between Donald Trump and Joe Biden will help guide market expectations and likely be framed by topics relating to the COVID-19 pandemic and the ensuing economic crisis, as well as the civil protests, Supreme Court nominations and the integrity of the election.

The latest data on the US economy have meanwhile shown a strong rebound in the third quarter, but recent flash PMI numbers have hinted at a slowing in the pace of expansion both in the US and globally. This slowing is expected to be corroborated by a further cooling in the rate of healing of the labour market when non-farm payrolls are updated on Friday. Recent data showed 1.4 million jobs added in August, but that still left the total number in work some 11.5 million below the pre-pandemic peak. Current consensus estimates suggest a further 875k jobs were added in September, with the jobless rate edging down from 8.4% to 8.3%, but that will be the smallest monthly jobs gain seen this side of the pandemic, and will add further to calls for additional support to the recovery (see page 3).

A comprehensive insight into the wider manufacturing recovery will meanwhile be provided by the global PMI surveys. These showed worldwide manufacturing output growth hitting a two-and-a-half year high in August, with global trade now also showing signs of stabilising. However, many countries – notably in Asia – continued to struggle amid still weak export conditions linked to the pandemic. While the flash PMIs for September indicated that further manufacturing gains helped offset a renewed weakening of growth in the service sector, the final data will be eyed in particular for signs that Asian producers outside of China are also starting to recover. China's PMI data will also be important to watch, given China's weight in global manufacturing and its earlier start on the road to recovery from COVID-19 (page 5).

In Europe, the PMIs are accompanied by official unemployment and inflation data, which will be scrutinised closely amid growing expectations of additional stimulus from the ECB (page 4).

Special reports

Thailand: The COVID-19 related ban on international tourism travel means the Thai economy is expected to experience a severe recession, and the pace of economic recovery will be heavily dependent on when travel can restart (**page 6**).

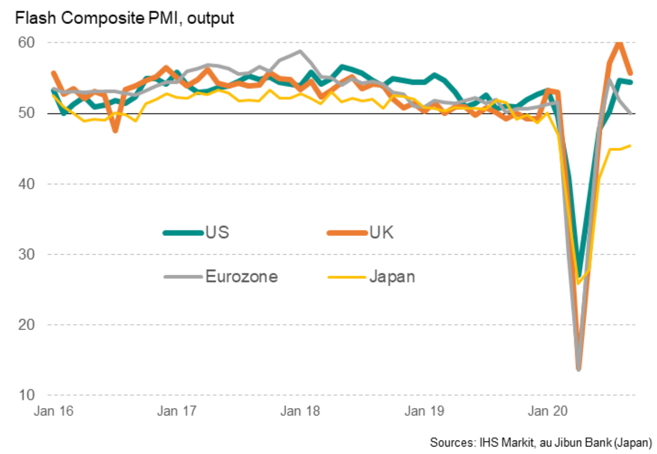
Upcoming PMI releases

1st October Final Global Manufacturing PMIs

5th October: Final Global Services PMIs

6th October: Detailed global sector PMIs

Flash PMI surveys hinted at the global economic recovery losing some steam in September, as rising COVID-19 infection rates hit consumer-facing companies in the service sector



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Key diary events (UTC)

Monday 28 September

Brazil and Philippines consumer confidence (Q3)

Malaysia trade (Aug)

US Dallas Fed manufacturing index (Sep)

South Korea business confidence (Sep), industrial output, retail sales (Aug)

BoJ summary of opinions (16-17 Sep) 23:00 UTC

Tuesday 29 September

US first presidential debate

Vietnam GDP (Q3), industrial output, trade balance, retail sales (Sep)

France consumer confidence (Sep)

Germany and Spain inflation (Prelim, Sep)

UK mortgage lending and approvals (Aug)

Euro area economic sentiment (Sep), consumer confidence (Final, Sep)

US goods trade balance, wholesale inventories (Adv, Aug), consumer confidence (Sep)

Japan industrial output (Prelim, Aug) retail sales (Aug) 23:00 UTC

Wednesday 30 September

China Caixin and NBS manufacturing PMI (Sep)

Australia building permits, private sector credit (Aug)

Thailand industrial output (Aug)

Japan housing starts, construction orders (Aug)

Germany retail sales (Aug), jobless rate (Sep)

UK GDP (Final, Q2), housing prices (Sep)

France and Italy inflation (Prelim, Sep)

BoE FPC meeting

Euro area inflation (Flash, Sep)

Chile copper production (Aug)

India current account, external debt (Q2)

US ADP employment report, Chicago PMI (Sep)

US GDP (Final, Q2), pending home sales (Aug)

Australia manufacturing PMI (Final, Sep) 23:00 UTC

Japan Tankan survey (Q3) 23:50 UTC

Thursday 1 October

Worldwide release of IHS Markit manufacturing PMI (Sep)

South Korea trade (Sep)

Thailand business confidence, inflation (Sep)

Indonesia business confidence (Q2), inflation (Sep)

India and the Philippines interest rate decision

Euro area, Italy and Japan jobless rate (Aug)

US personal income and spending, PCE price index (Aug), jobless claims (26-Sep)

US ISM manufacturing PMI (Sep), construction spending (Aug)

Brazil trade balance (Sep)

Friday 2 October

Australia retail sales (Aug)

Japan consumer confidence (Sep)

Brazil industrial production (Aug)

US non-farm payrolls, earnings, jobless rate (Sep)

US Michigan surveys (Sep), factory orders (Aug)

Saturday-Sunday 3 – 4 October

4/10: Australia services PMI (Sep) 22:00 UTC

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United States Week Ahead

Non-farm payrolls, manufacturing PMI and presidential debates

By Siân Jones

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The economic calendar for the coming week is packed with key updates to a broad range of economic indicators for the US. Updates to the unemployment rate and non-farm payrolls count are the main data release, though final PMI and ISM data will meanwhile shine a light on the health of the goods-producing sector at the end of the third quarter. The week also sees the first of the televised Trump v. Biden presidential debates, the outcome of which will be watched closely by the markets.

Personal spending and incomes, wholesale inventories and factory orders releases are also issued.

Employment data

Following a slight rise in the latest initial jobless claims number, further details on the health of the labour market are to be released via the monthly employment report. Strains on businesses due to the ongoing virus-related downturn and withdrawal of support measures are expected to slow hiring in the coming months after a 1.4 million rise in August. As the unemployment situation persists, around 21 states have reinstated additional unemployment payments to aid those out of work.

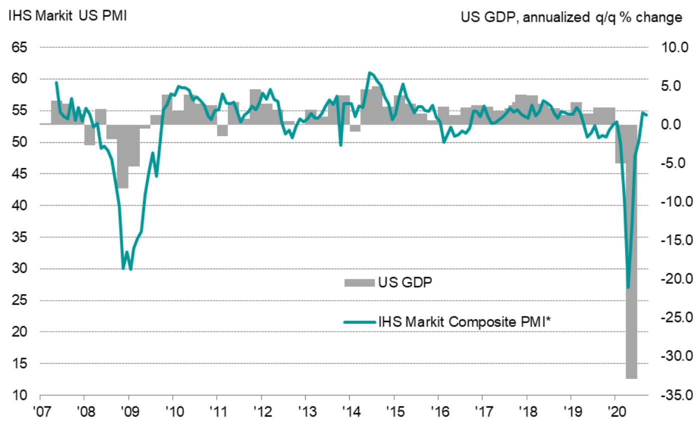
Final manufacturing PMIs

The release of 'flash' PMI data for September indicated a further recovery in US manufacturing production, with the sector ending the third quarter on a strong note with only modest signs of growth slowing. The publication of final PMI data for IHS Markit and ISM will provide a more detailed picture of the sector as the election looms closer. Flash data did however point to a slight loss of optimism, as uncertainty surrounding the impending election weighed on future sentiment.

PCE Prices

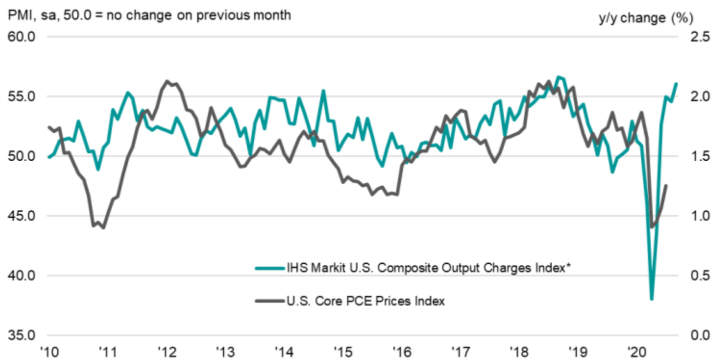
Although inflation has been picking up in recent months, the rate remains well below the Fed's 2% target, and is expected to remain so for a while to come. Despite the acceleration in the pace of price increases, downward pressure from subdued consumer spending will start to drag on inflation, which is largely being driven by supply chain issues.

September flash PMI data signals further recovery in private sector performance



*Manufacturing only pre-October 2009

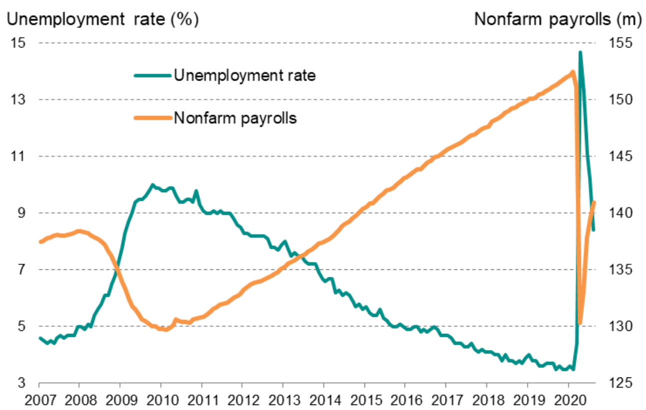
Inflationary pressures strengthen through the third quarter amid pick-up in client demand



*including September 'flash' data

Sources: IHS Markit, Bureau of Economic Analysis, U.S Department of Commerce

The rate of healing of the US labour markets is expected to have cooled in September, but the jobless rate is likely to have fallen slightly again



Sources: BLS, IHS Markit.

Europe Week Ahead

Eurozone inflation and unemployment, plus final manufacturing PMIs

By Paul Smith

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A busy week ahead for European economics with a spate of consumer and business survey data released including September national manufacturing PMI figures for the region. Official August data for eurozone unemployment and inflation are also updated, whilst French numbers covering industry output, trade and consumer spending, plus German retail figures, will offer further clues on the extent of the economic recovery over the summer.

EZ inflation, unemployment, PMIs

With flash PMI data indicating that the eurozone economy faltered in September, the eyes of policymakers will turn next week to preliminary inflation numbers for September and August's unemployment data. Eurozone price pressures have been non-existent recently, with a sustained bout of negative HICP inflation a real possibility especially in the context of the recent strength of the euro.

Unemployment has also been increasing and August's official data should confirm the region's jobless rate pushing higher. Moreover, job losses are increasingly focused on the services sector, where face-to-face consumer businesses continue to struggle with social distancing measures and rising COVID-19 infections.

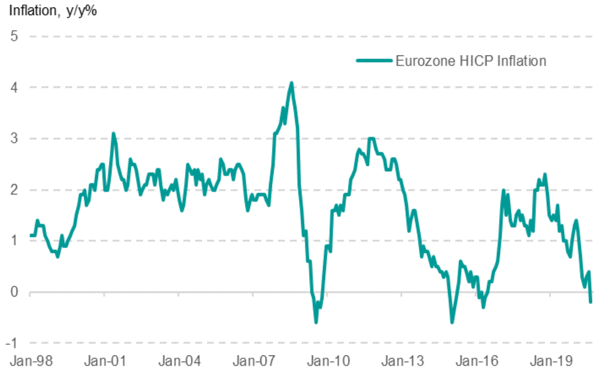
In marked contrast, the manufacturing economy continues to recover with growth being supported by higher export demand, despite the recent rise of the euro, with particular strong gains evident in Germany. Detailed national manufacturing PMI next Thursday will provide additional colour on the extent of the recovery across the region.

UK final GDP, housing data

In the UK, final GDP figures for the second quarter of the year look set to confirm the greatest single post-war quarterly economic contraction although both survey and higher frequency official data are inferring a decent bounce in growth over the third quarter, albeit with signs of growth cooling in September.

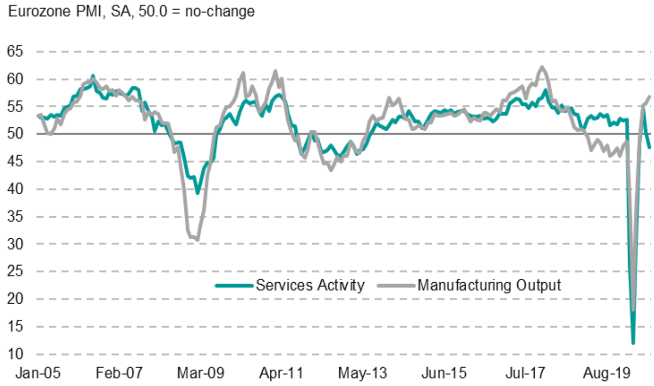
Meanwhile, next week's mortgage approvals and Nationwide house price data will confirm that the UK housing market continued to defy gravity over the summer and into the early autumn.

Eurozone consumer price inflation has recently dipped into negative territory



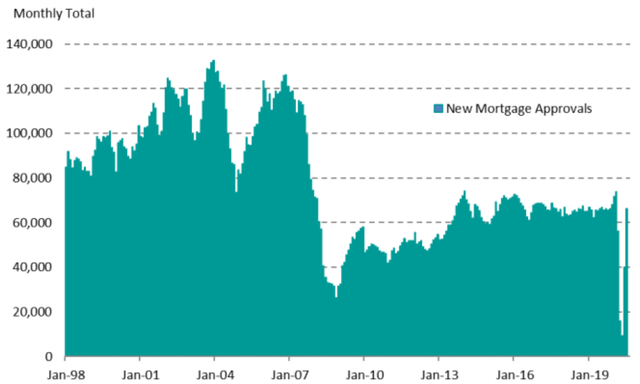
Source: Eurostat

Emerging evidence of a two-speed economy in the euro area during September



Source: IHS Markit

UK mortgage approvals have bounced back markedly as the housing market has staged a strong recovery



Source: Bank of England

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Asia Pacific Week Ahead

September PMIs, monetary policy, industrial production, Vietnam GDP

By Bernard Aw

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Next week sees a busy calendar, with September manufacturing PMI data the main highlight. PMI surveys are produced for 14 markets in the Asia Pacific region, though China PMI updates will be particularly watched for clues as to the health of the economic recovery. Taiwan and South Korea PMIs will also provide important insights into regional trade conditions. Vietnam's GDP updates and September trade figures will meanwhile also gather interest, while monetary policy decisions will come from India and the Philippines. Bank of Japan's summary of opinions will provide the central bank's latest views on economic trends.

Other key Asian data highlights include industrial output from South Korea, Japan, Vietnam and Thailand.

PMI data provide third quarter GDP clues

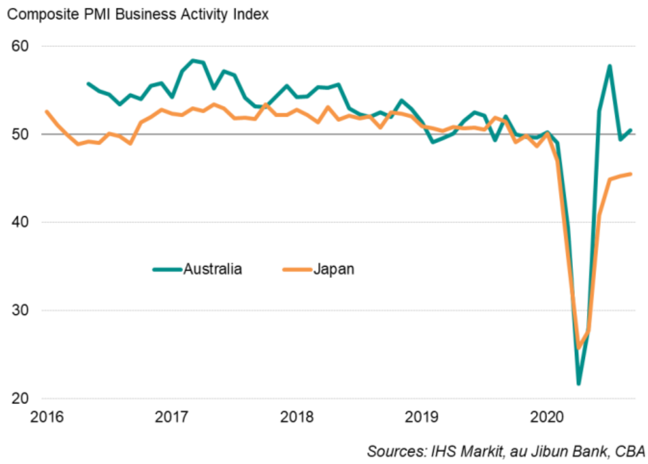
With September flash PMI in Japan and Australia providing tentatively encouraging signs, a more comprehensive view of the Asian economic conditions at the end of the third quarter will be provided by the manufacturing PMI surveys. Analysts will eagerly assess whether the economic rebound from the COVID-19 induced recessions has persisted into September. In particular, the Caixin survey data, which will be released on the same day as the government-sponsored NBS PMI, will be watched for signs of the resilience of China's upturn.

Monetary policy

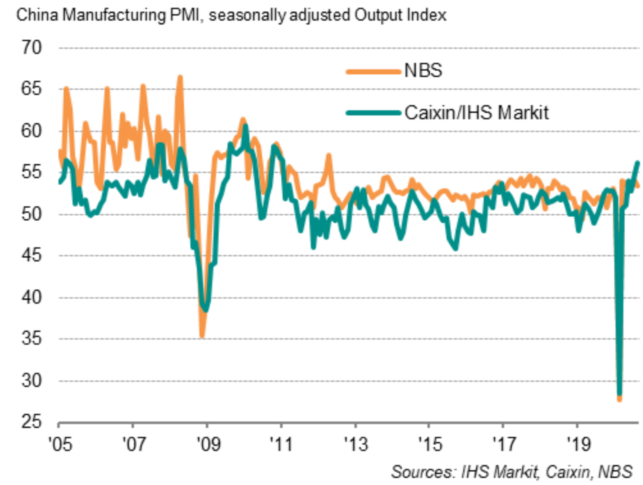
The Philippine central bank meets next week, though no change to the monetary policy is expected despite inflation coming in at the lower end of the target range of 2-4%. The economic outlook remains gloomy, with a meaningful recovery not expected until the pandemic outbreak is contained. After August PMI data signalled a steeper decline in manufacturing conditions, analysts will eagerly monitor the September release following an easing of some virus-related restrictions.

Elevated inflationary pressure will meanwhile likely constrain the ability of the Reserve Bank of India in pursuing further monetary easing. We expect the central bank to continue to boost liquidity through other measures, such as cutting the cash reserve ratio.

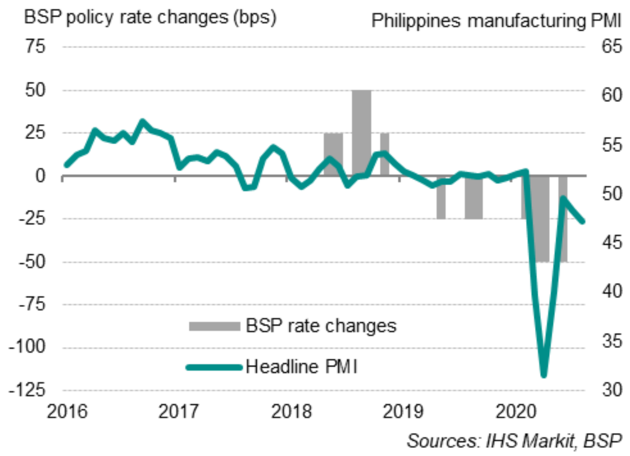
Flash PMIs in Australia and Japan



September's update to China PMIs will provide clues as to the durability of China's upturn



Philippines PMI and monetary policy



APAC
Special Focus

Thailand: COVID-19 Devastates Tourism Industry

By Rajiv Biswas

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Due to the ban on international tourism travel that has been in place for much of 2020, the Thai economy is expected to experience a severe recession. The pace of economic recovery in 2021 will therefore be heavily dependent on when international tourism travel will be able to restart in any significant way.

Based on expectations that global rollout of COVID-19 vaccines sometime during the first half of 2021 will allow a gradual reopening of the tourism sector, the Thai economy is forecast to grow at a pace of 4.4% year-on-year in 2021.

COVID-19 pandemic pushes Thailand into deep recession

The Thai economy recorded a GDP contraction of 12.2% year-on-year in the second quarter of 2020, with a quarter-on-quarter contraction of 9.7%. This reflected the impact of the COVID-19 pandemic on domestic economic activity as domestic lockdown measures were put in place, as well as the impact of global lockdowns on international Thai merchandise exports trade. A particular severe negative shock for the Thai economy has been from the effects of global travel bans on international tourism travel as well as Thailand’s own ban on foreign tourism since April 2020.

With the Thai economy having already contracted quarter-on-quarter in the first quarter of 2020 as well as in the fourth quarter of 2019, Thailand is facing severe recessionary conditions in 2020 despite having successfully contained any significant COVID-19 domestic pandemic.

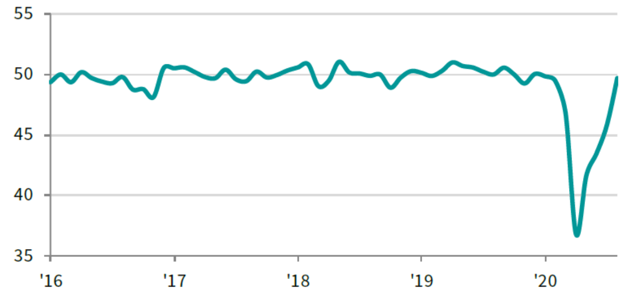
In May 2020, when lockdown measures were very severe in key export markets such as the US and EU, Thai merchandise exports fell by 22.5% y/y. However, by August, the severity of the export sector slump had moderated, with August exports down 7.9% y/y.

Thai manufacturing sector recovers as global lockdowns ease

The IHS Markit Thai manufacturing sector was badly hit by the impact of lockdowns during the second quarter of 2020, which heavily impacted manufacturing output due to slumping new orders in key export markets such as the US and EU. However, as lockdowns have gradually been rolled back in many key export markets, Thai manufacturing output has shown a strong rebound during July and August.

Thailand Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

The Thailand Manufacturing Purchasing Managers’ Index rose from 45.9 in July to 49.7 in August, its highest level since January. The PMI continued to recover from April's record low, With the latest reading indicating only a marginal deterioration in the performance of the sector. After six months of declines, both production volumes and new orders rose marginally in August.

The collapse of international tourism in APAC

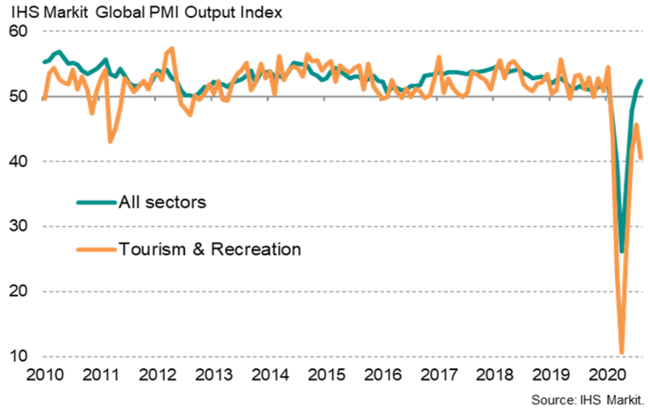
The COVID-19 pandemic has become an extreme “Black Swan” event for the Asia-Pacific tourism industry, with international travel across the Asia-Pacific region having collapsed since March 2020 due to travel bans on foreign tourist arrivals by most Asia-Pacific governments, including in Thailand.

Tourism in the APAC region has consequently collapsed since March 2020, with no early end to the tourism industry crisis in sight. Considerable uncertainties about the future duration and potential new waves of the COVID-19 epidemic continue to cloud the near-term outlook for the Asia-Pacific tourism and travel industry. In the APAC region, there has been no significant resumption of international tourism by September 2020.

This has hit Thailand’s economy particularly hard, due to the importance of the tourism industry for the overall economy. With most large gatherings for global conferences and events also cancelled and a travel ban on entry by foreign tourists in place in Thailand, this important segment of the Thai tourism industry has also collapsed in 2020.

In 2019, Thailand had 39.8 million foreign tourist arrivals. Although international tourism continued to be permitted during the first quarter of 2020, tourism visitors were banned from April 2020 onwards. Consequently, total international tourism visits during April to July fell to zero. For the first seven months of 2020, foreign tourist arrivals fell to 6.7 million, down 71% year-on-year, with total foreign tourist spending also down by an estimated 70% y/y for the first seven months of 2020.

IHS Markit Global Tourism & Recreation PMI



Thailand has been one of the most notable beneficiaries of the boom in Chinese tourism over the past decade, with total annual Chinese tourist visits to Thailand having risen from 2.7 million in 2012 to 11 million in 2019. Chinese tourism spending in Thailand was estimated to have reached USD 18 billion in 2019, amounting to more than 25% of total international tourism spending in Thailand. By 2019, direct tourism spending accounts for an estimated 12% of Thai GDP, with Chinese tourism having played an increasingly important role in underpinning the Thai tourism economy.

Consequently, a crucial pillar of any recovery in Thailand's international tourism sector will be dependent on reopening of bilateral tourism travel between China and Thailand.

As China is among the leaders in development of a COVID-19 vaccine, and is expected to deploy mass vaccination programs soon, it is possible that one solution that could be reached would be to allow bilateral tourism travel linked to COVID-19 vaccine certification. This would allow Chinese tourists with verified COVID-19 inoculation certificates to be allowed to travel to Thailand and return home without having to undergo the usual 14-day quarantine restrictions. If this kind of solution can be agreed, it would provide a very large boost to Thailand's tourism industry.

Thailand domestic tourism

Domestic tourism has rebounded in a number of APAC economies which have successfully contained their domestic pandemics, providing the only mitigation for the severe economic shocks that have hit the APAC region's tourism industry.

Faced with the complete collapse of international tourism in the APAC region, the role of domestic tourism is becoming a key pillar for the survival of the tourism sectors in some Asia-Pacific countries. The gradual resumption of domestic tourism travel after lockdowns have ended has provided some revenue flows for the tourism industries of certain Asian economies. In Thailand, as the domestic pandemic has been contained, the rebound in domestic tourism is helping to mitigate the economic shocks from the collapse of international tourism.

Around 18% of total Thai GDP is attributable to tourism, with around one-third of that total being from domestic tourism spending. Therefore, domestic tourism does provide a significant share of total tourism spending in a normal year, amounting to around 1 trillion Thai baht in domestic tourism spending. To help boost domestic tourism, the Thai cabinet approved budget measures in June amounting to USD 707 million to help domestic tourism, by providing a series of discounts for domestic holidays and related travel.

The Thai government is also hoping that a significant portion of the 400 billion baht that Thai citizens spend on foreign tourism in a normal year will be diverted to domestic tourism spending in 2020, given the severe restrictions on international travel.

Near-term outlook

The Thai economy is facing a deep and protracted recession in 2020 despite the rebound of manufacturing output and the success of the Thai government in containing the domestic pandemic outbreak relatively quickly and with a very low number of deaths up to September 2020.

The major continuing economic shock to the economy has come from the collapse of international tourism, given the key role it plays as an important pillar of the Thai economy.

At present, the most likely pathway out of the protracted collapse in Thailand's international tourism sector and its wider repercussions to other sectors such as retail and transportation will be the global rollout of mass immunization programs with a COVID-19 vaccine. Meanwhile the economic costs to Thailand's tourism industry and tourism sector jobs will remain severe, acting as a major drag on the economy.