

Week Ahead Economic Preview

Global overview

- Worldwide services PMI releases
- Industrial production and trade updates
- RBA meeting, FOMC minutes

While official data such as trade and industrial production released in the coming week will give important steers as to the strength of economic rebounds around the world midway through the third quarter, service sector PMI surveys will add further insights into how these recoveries have been sustained into September. While [manufacturing remained resilient globally](#) in September, the worry is that consumer-facing sectors are being hit once again by tightening COVID-19 restrictions in many countries.

[Global detailed sector PMI](#) numbers will also be updated to reveal which industries are being the hardest hit from the continuing virus crisis.

An eye will also be kept on the US presidential election, with the week seeing Pence and Harris face off in the Vice Presidential debate, while monetary policy watchers will monitor the Reserve Bank of Australia meeting and FOMC minutes.

In the US, PMI data will reveal the extent to which the non-manufacturing sector has fared amid the ongoing pandemic and uncertainty caused by an ever-closer presidential election. [Flash PMIs](#) showed the economy maintaining robust momentum, but also found future growth expectations to have waned amid growing concerns about the outlook, especially in the service sector. Trade numbers will also be eagerly awaited after the last figures showed the US deficit rising to the highest since 2008, as will the minutes from the last FOMC meeting. The latter follows a meeting in which policymakers showed increased dovishness in relation to long-term low interest rates (see [page 3](#)).

In Europe, a picture of robust UK growth has contrasted with a eurozone economy slowing to near stagnation, according to the [September flash PMIs](#). Final service sector PMI numbers will add more colour to the emerging picture, as will industrial production numbers for Germany, Italy, France and Spain, as well as a GDP update for the UK ([page 4](#)).

In Asia, we'll be looking for clues as to the strength of the Chinese and Japanese economic recoveries via services PMIs. Detailed PMI numbers for Asia as a whole, export data for a number of countries and Japan's machinery orders are also updated ([page 5](#)).

Special reports

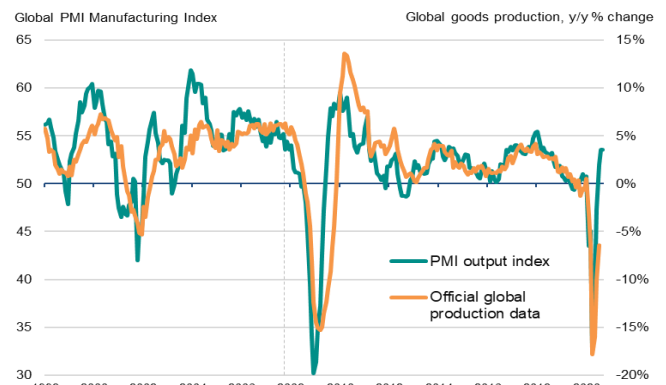
Vietnam's resilience: An analysis of how Vietnam is expected to be one of the few major Asian economies that will show positive growth for the 2020 calendar year ([page 6](#)).

Upcoming PMI releases

5th October: Final Global Services PMIs

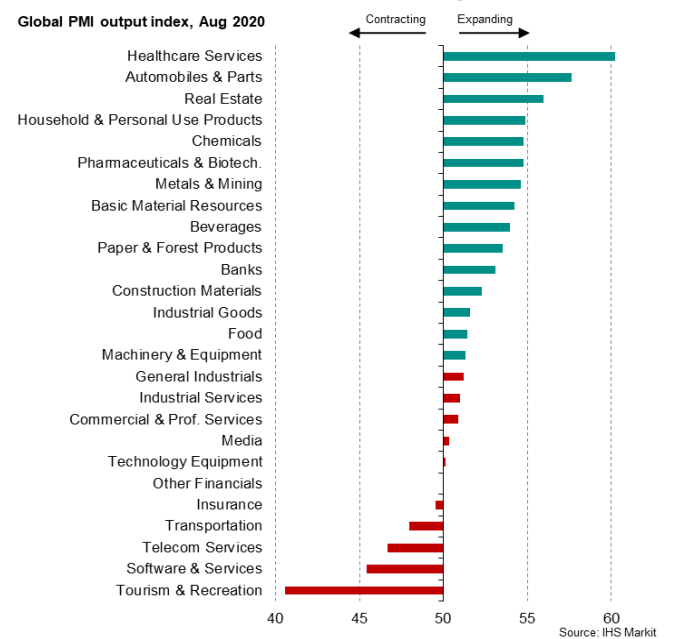
6th October: Detailed global sector PMIs

Services PMI surveys will add further insights into global economic trends after manufacturing releases showed a sustained upturn in September



* Uses ISM data for the US pre-2008. Sources: IHS Markit, JPMorgan, national statistical offices.

Detailed global [sector PMI](#) data will add deeper insights into where the pandemic is still causing the most harm



Chris Williamson

Chief Business Economist, IHS Markit

Email: chris.williamson@ihsmarkit.com

Key diary events (UTC)

Monday 5 October

Worldwide release of IHS Markit services PMI (Sep)
IHS Markit Singapore PMI (Sep)
Australia business confidence (Sep)
Thailand inflation (Sep)
Euro area and France retail sales (Aug)
Spain consumer confidence (Sep)
US ISM non-manufacturing PMI (Sep)
South Korea inflation (Sep)
Eurogroup meeting

Tuesday 6 October

IHS Markit Construction PMI for Eurozone, France, Germany, Italy and the UK (Sep)
IHS Markit Sector PMI for Global, Europe (Sep)
Australia trade (Aug), [federal budget 2020](#)
Philippines inflation (Sep), industrial output (Aug)
Indonesia consumer confidence (Sep)
Australia monetary policy decision
IHS Markit India services PMI (Sep)
Germany factory orders (Aug)
US trade, JOLTS job openings (Aug)

Wednesday 7 October

IHS Markit Hong Kong SAR PMI (Sep)
IHS Markit Metal Users PMI for Steel, Aluminium and Copper (Sep)
Germany industrial output (Aug)
France trade balance (Aug)
Spain industrial output (Aug)
UK Halifax house price index (Sep)
Italy retail sales (Aug)
Taiwan exports, imports, trade balance (Sep)
US FOMC minutes (15-16 Sep)
Japan current account (Aug) 23:50 UTC
ECB non-monetary policy meeting
US vice presidential debate

Thursday 8 October

Thailand consumer confidence (Sep)
Japan Eco watchers survey (Sep)
Germany exports, imports, trade balance (Sep)
Taiwan inflation (Sep)
BoE FPC statement
US initial jobless claims (3-Oct)
Japan household spending, cash earnings (Aug)

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Friday 9 October

IHS Markit Asia Sector PMI (Sep)
Caixin/IHS Markit China services PMI (Sep)
RBA financial stability review
Philippines exports, imports, trade balance (Aug)
UK trade balance, industrial output, GDP (Aug)
UK NIESR monthly GDP tracker (Q3)
France and Italy industrial output (Aug)
Brazil inflation (Sep)
US wholesale inventories (Aug)
Japan machinery orders (Aug) 23:50 UTC

United States Week Ahead

Trade data, non-manufacturing PMIs and FOMC minutes

By Siân Jones

Economist, IHS Markit, London

Email: sian.jones@ihsmarkit.com

Key economic data releases for the US commence with the publication of final services and composite PMI data, providing indications of economic growth, demand, employment and prices at the end of the third quarter. Trade data and the release of FOMC meeting minutes round off the economic calendar.

Trade data

August balance of payments data are expected to signal a further marked trade deficit. Data from the start of the third quarter indicated the worst trade deficit since 2008. Although exports rose in July, imports increased at a faster pace. Both import and export volumes remained well below pre-pandemic levels, however.

Final services PMIs

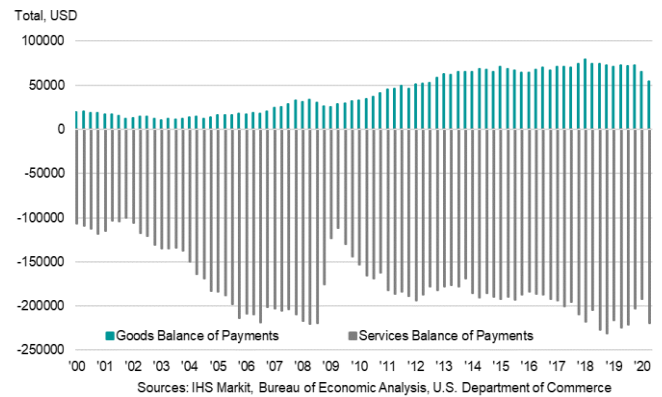
Following August's sharp uptick in service sector client demand, the 'flash' estimate indicated a further strong expansion in business activity at service providers at the end of the third quarter. The upturn would round off a solid quarter, moving away from the COVID-19 induced slump seen during the second quarter. That said, heightened hesitancy among service providers surrounding business confidence and the impact of the pandemic were also signalled by the latest 'flash' data. A key indicator that will be watched across both the IHS Markit and ISM releases will be employment. Keen eyes will look for signs that the all-important service sector is continuing to hire.

Watch out also for the sectoral breakdown of the IHS Markit PMI. Those firms that are consumer-facing have struggled the most throughout the pandemic, as restrictions and lockdowns have continually dampened sales growth and challenged business practices.

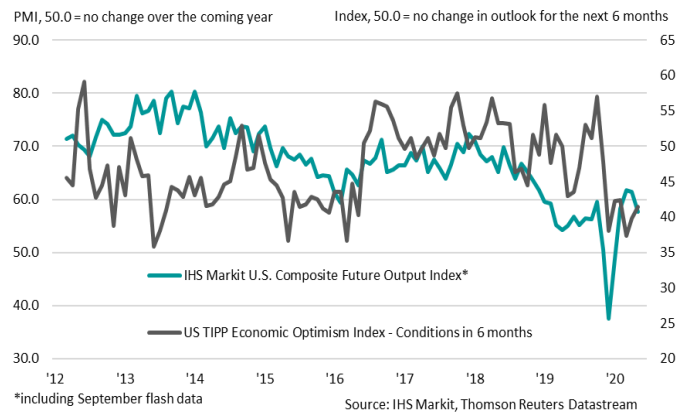
FOMC minutes

Meanwhile, the Fed releases their latest meeting minutes. The committee stood by its previous statement to hold looser reins on inflation as the wider economic crisis rumbles on, expecting to keep interest rates on hold until "inflation has risen to 2% and is on track to moderately exceed 2% for some time".

Trade deficit expected to worsen further in August

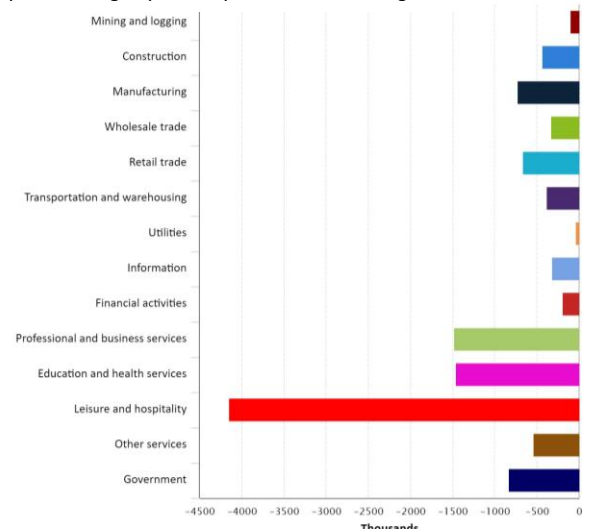


Business and consumer sentiment remained weak



Leisure and hospitality continue to signal marked drop in employment over the six months to August

Employment change by industry, 6-month net change



Source: U.S. Bureau of Labour Statistics

Europe Week Ahead

Final September PMIs and official data to help gauge recovery strength

By Paul Smith

Economics Director, IHS Markit, London

Email: paul.smith@ihsmarkit.com

Another busy week coming up across Europe with a mix of ‘soft’ and ‘hard’ data releases across the continent. With the PMI survey publication straddling the first weekend of October, national service sector figures, followed by construction and detailed sectors data kick the week off. Meanwhile, a batch of official figures related to industry, trade and retail will provide further clues to the extent to which GDP in the eurozone has rebounded in the third quarter.

Final September PMIs and EZ Retail Sales

Flash PMI data indicated that the [faltering of the eurozone economy](#) in September was in the main driven by subdued service sector performance, and next week’s final PMI releases will provide the opportunity to focus on the data at the national level, especially for Italy and Spain.

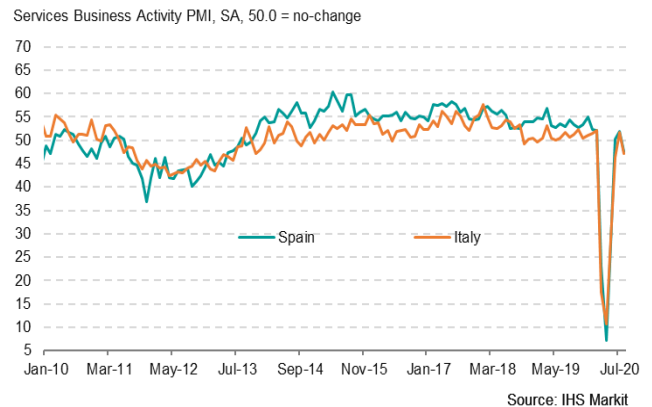
Worries are of course mounting on the impacts on services industries of a re-tightening of local restrictions as governments try to walk the tightrope between suppressing COVID-19 and allowing business to return to some normality. With this mind, next week’s retail sales data for the Eurozone will be another important, albeit backwards-looking, marker on how well the recovery was progressing over the summer.

Industrial production and UK GDP

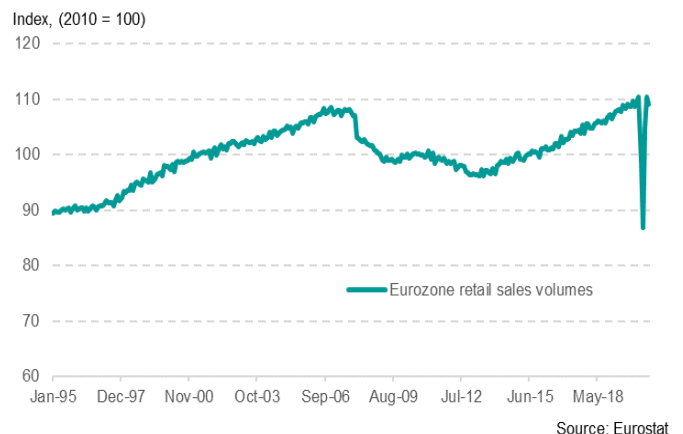
Another key determinant in assessing the scale of the upturn of the eurozone economy in the third quarter comes from industrial production figures. All four of the biggest euro member nations report August figures next week, whilst trade data from France and Germany are also released. With PMI surveys indicating that manufacturing has been an emerging bright spot for the region, and the most recent surveys signalling a welcome upturn in exports, the official data are set to follow suit and confirm the industrial sector as being a strong contributor to the GDP recovery.

The week rounds off with a slew of UK data, including an estimate of August GDP. With surveys showing the positive impact on previously constrained sectors from government schemes such as Eat Out to Help Out, GDP growth should again be positive and build further on the gains seen in June and July.

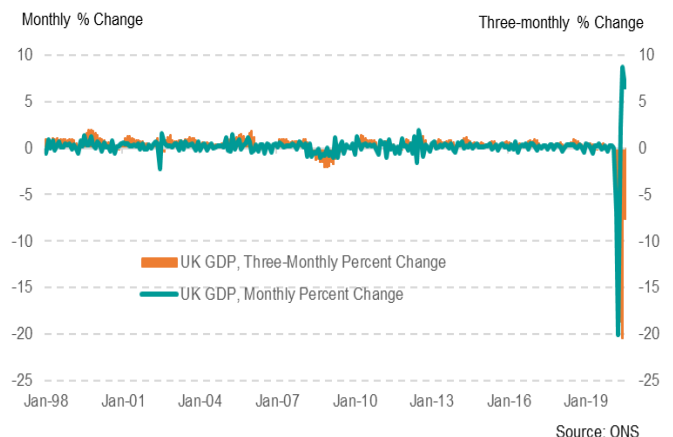
Final PMI data will provide an opportunity to take a closer look at the national picture across the eurozone including Italy and Spain



Eurozone retail sales have recovered lost ground from the height of the pandemic, but faltered in July



UK economic growth rose markedly in June and July, with government schemes likely to have bolstered GDP further in August



Asia Pacific Week Ahead

September PMIs, RBA rate setters meet, plus trade and inflation updates

By **Bernard Aw**

Principal Economist, IHS Markit, Singapore

Email: bernard.aw@ihsmarkit.com

US election news and economic data updates will dominate markets next week, with markets looking to September services PMI data for further insights into third quarter economic trends after manufacturing surveys showed improved business conditions in many parts of the world. Export data from Taiwan, Australia and the Philippines will also be gleaned for regional trade performance, while attention will be paid to inflation figures in a number of Asian economies. A monetary policy decision will come from Australia.

Other key Asian data highlights include Japan's machinery orders and sentiment surveys in Indonesia, Australia and Japan.

IHS Markit Asia sector PMI will also shed light on sectors that benefitted the most from the current economic rebound from the coronavirus pandemic.

Asia exports and Japan data

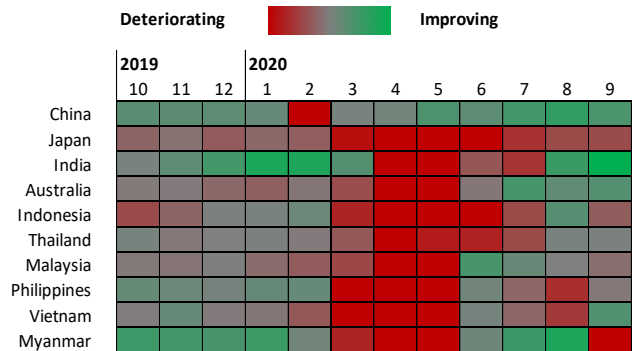
With Asian PMI data indicating an uneven manufacturing performance across Asia Pacific (APAC) as parts of the region re-tightened COVID-19 containment measures, trade data will provide additional insights into external demand. In particular, Taiwan export figures, widely regarded as a barometer for global trade, will be closely monitored. September manufacturing PMI for Taiwan (and South Korea) will also be released at the start of the week.

September PMI data showed [Japanese manufacturing sector](#) moved closer to stabilisation, with confidence improving to the strongest for over two years. As such, August update to Japan's machinery orders will be watched for clues of capital expenditure.

Australia may lean towards rate cut

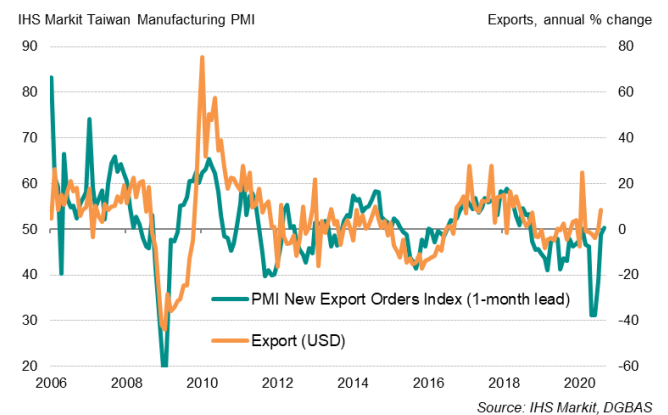
The Reserve Bank of Australia meets amid growing expectations of a rate cut from the current official cash rate of 0.25%. However, the central bank may hold off further interest rate loosening to assess the federal budget, which will be tabled on 6th October. [Flash PMI data](#) pointed to a dual-speed economy led by [manufacturing](#) while the service sector continued to lag due to social distancing measures. The survey also brought signs of the recovery possibly losing momentum in an absence of a robust upturn in demand.

Manufacturing PMI performance across APAC



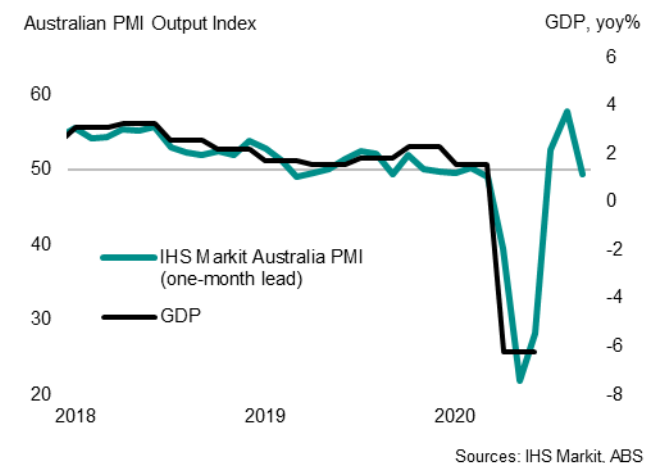
Sources: IHS Markit, Caixin, au Jibun Bank
 *Manufacturing PMI for South Korea and Taiwan, and Singapore Whole Economy PMI will be released on 5 Oct, while Hong Kong whole economy PMI is due 7 Oct.

Taiwan PMI* update will provide clues to export trends at start of fourth quarter



*September Taiwan Manufacturing PMI releases on 5 Oct.

Australia PMI* and GDP



*September Flash Australia PMI

APAC Special Focus

Vietnam: Economy remains resilient despite global recession

By **Rajiv Biswas**

Asia Pacific Chief Economist, IHS Markit

Email: Rajiv.biswas@ihsmarkit.com

Vietnam has been one of the most resilient economies in the Asia-Pacific region to the shockwaves from the global COVID-19 pandemic, which has plunged the world economy into its deepest recession in decades. Vietnam is expected to be one of the few major Asian economies that will show positive growth for the 2020 calendar year.

GDP growth in the third quarter of 2020 was up 2.62% year-on-year (y/y), while the Vietnam Manufacturing Purchasing Managers' Index for September also signalled expansion. This reflects Vietnam's success in containing the number of domestic COVID-19 cases to very low levels so far, which has mitigated 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 nine months of 2020, albeit another outbreak of cases had occurred in late July and through August.

Vietnam's export sector, which is a key driver of GDP growth, has also shown moderate positive growth during the first nine months of 2020 despite the economic shocks to key export markets, notably the US and EU. Vietnam's GDP growth is expected to strengthen in 2021 as global growth improves.

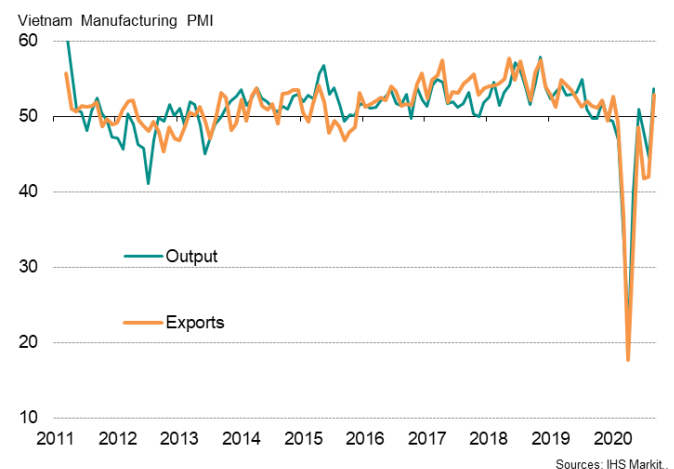
Vietnam's economy moderates due to COVID-19 but avoids recession

The 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 nine months of 2020, due to the impact of the COVID-19 pandemic. For the January to September 2020 period, the Vietnamese economy grew by 2.12% y/y, compared with a 7.1% GDP growth rate in calendar 2019. Vietnam's GDP rose by 2.62% y/y in the July-September quarter of 2020, improving on the 0.39% y/y pace recorded in the April to June quarter.

IHS Markit Vietnam PMI



Manufacturing sector has shown significant recovery

The Vietnamese manufacturing sector returned to growth in September as concerns around the latest outbreak of new COVID-19 cases in the country during July and August eased. Both output and new orders increased in September, while business confidence strengthened. The Vietnam Manufacturing Purchasing Managers' Index (PMI) rose back above the 50.0 no-change mark in September, posting 52.2 from 45.7 in August, and representing a substantial recovery from April's record low of 32.7. Output growth accelerated, fuelled by rising export orders.

Publication date: 5 October 2020

For the first eight months of 2020, industrial production rose by 2.2% 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 eight months of 2020, retail sales of goods and services rose by 4.8% y/y in August.

According to Vietnam's General Statistics Office, exports in September are estimated to have risen by 18% y/y to USD 27.5 billion, while imports likely increased 11.6% y/y to USD 24.0 billion, leaving the trade surplus stable at USD 3.5 billion for the month of September.

Exports are estimated to have risen by 4.2% y/y for the first nine months of this year, while imports fell 0.8%, resulting in a strong trade surplus for the first nine months of USD 17 billion. Exports to the US rose rapidly during this period, up 12.7% y/y. The US is Vietnam's largest export market, accounting for 25.7% of total exports in the first half of 2020. China was the second largest export market, with 16% of total exports, while 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 nine 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 impact of global lockdowns due to the pandemic on the global electronics industry has been a key shock to the sector. Amid widespread global lockdown measures aimed at containing the

spread of the pandemic, world demand for electronic goods slumped sharply in April and May.

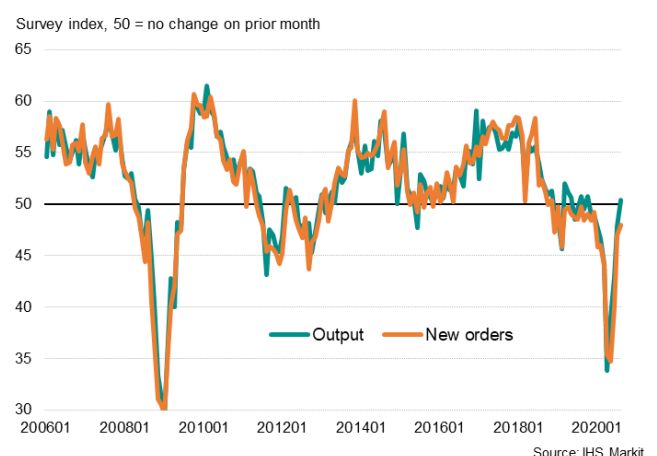
However, since the low points in April and May, the IHS Markit Global Electronics PMI has showed significant improvement, with the headline index rising to 49.7 by August, almost back to neutral conditions after contracting during the previous nine months. The Global Electronics PMI's output index (which measures changes in production) returned to positive territory, reaching 50.4 in August, indicating slight expansion. This is in comparison with severe contraction in April, as reflected in the index reading of 33.9 for that month.

According to the PMI data, global electronics new orders rose from a calendar year-to-date low of 34.7 in May to a level of 48.0 by August, reflecting a significant easing in the downturn in demand for electronics goods. The strongest recovery has been in new orders for communications electronics, which reached 50.9 in August, helped by improving demand for mobile phones.

Vietnam's exports from phones and components reached USD 31.5 billion in the first eight months of this year, posting a year-on-year decline of 5.5 percent and accounting for 18.1 percent of Vietnam's total export revenue. While the overall year-on-year decline reflects the impact of global lockdowns during H1 2020, the rebound in retail sales in key markets such as the US and EU since mid-2020 is expected to result in improving exports of phones and components in late 2020 and during 2021.

Meanwhile exports of personal computers and related products rose strongly in Q3 2020, up by an estimated 20% y/y, as the global shift to remote working boosted demand for personal computers. Vietnam has significantly increased its share of global exports of computers in the past five years and is now competing with China in terms of the total export value of computer products.

IHS Markit Global Electronics PMI



Medium term growth drivers

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.

Third, rapid growth in capital expenditure is expected, reflecting continued strong foreign direct investment by foreign multinationals as well as domestic infrastructure spending. For example, the Vietnamese government has estimated that USD 133 billion of new power infrastructure spending is required by 2030, including USD 96 billion for power plants and USD 37 billion to expand the power grid.

Fourth, 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.

Fifthly, 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 is 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

In the near term, Vietnam's exports are expected to improve during the remainder of 2020 and strengthen in 2021, 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 around 5.5% for the 2021 calendar year.

Over the medium-term economic outlook, a large number of positive growth drivers are creating favourable tailwinds, continuing to underpin the rapid growth of Vietnam's economy. 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 270 billion in 2020 to USD 450 billion by 2025, rising to USD 720 billion by 2030. This translates to very rapid growth in Vietnam's per capita GDP, from USD 2,800 per year in 2020 to USD 4,500 per year by 2025 and USD 6,900 by 2030, resulting in substantial expansion in the size of Vietnam's domestic consumer market.

Economic Preview: Week of 2 October 2020

Publication date: 5 October 2020



Vietnam's role as a low-cost manufacturing hub is also expected to continue to grow strongly, helped by the further 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.
