IHS Markit

Week Ahead Economic Preview

- **China Q3 GDP and monthly data dump**
- **Flash PMI data for the US, Eurozone, Japan, UK and Australia**
- **UK inflation and retail sales**
- **US presidential debate?**

The week ahead starts with China releasing third quarter GDP numbers and ends with flash PMI data providing insights into how the world's largest economies started the fourth quarter. Whether the week also sees another US presidential debate between Trump and Biden remains uncertain.

Flash PMI surveys are updated for the US, Eurozone, UK, Japan and Australia, and will reveal how these economies – representing around half of global GDP – will have started the fourth quarter. While GDP trends for the second and third quarters have been relatively easy to anticipate (an unprecedented decline followed by a sharp rebound), understanding the dynamics of the fourth quarter will be more challenging, especially as many countries are now seeing second waves of COVID-19 infections. The September PMIs showed global economic growth losing a little momentum, thanks to a large degree to many consumer-facing service industries remaining in a steep downturn. Some countries, notably Spain and France, even slipped back into contraction amid rising infection rates.

In the US, additional uncertainty is created by the upcoming presidential election and the lack of clarity over continued stimulus. As well as the flash PMIs, jobless claims data will be eagerly awaited for joblessness insights as polling continues ahead of the 3rd November election day (page 3).

In Europe, the UK, Eurozone, French and German PMIs are accompanied by retail sales and inflation numbers for the former, plus a cluster of sentiment surveys to help better assess consumer and business confidence amid the ongoing pandemic (page 4).

In Asia, IHS Markit estimates China's economy to have grown at a 5.9% annual rate in the three months to September, up from 3.1% in the second quarter, but eyes will also focus on the higher frequency monthly data such as industrial output, retail sales and investment for indications as to whether the recovery has maintained momentum. Meanwhile, flash PMIs will also be gleaned in particular for signs of global trade continuing to revive (page 5).

Special reports

European tourism: A look at how the tourism sector will be slow to recover from the Covid-19 pandemic downturn, acting as a drag on the region's recovery. However, different countries are likely to see varying recovery rates (**page 6**).

South Korea shows resilience: South Korea has been relatively successful in containing its domestic COVID-19 cases so far, helping mitigate the economic impact of the pandemic on its economy (**page 9**).

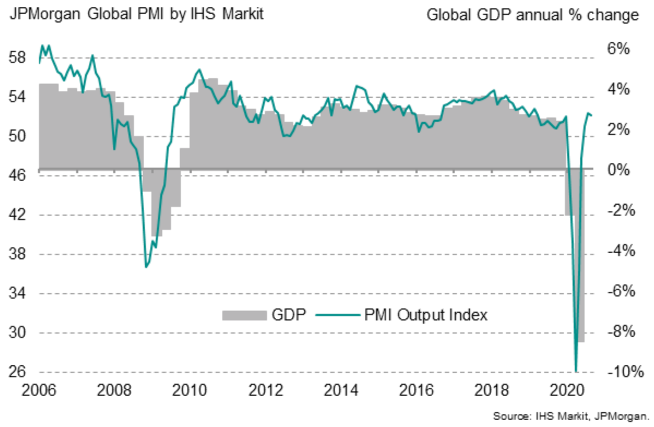
Upcoming PMI releases

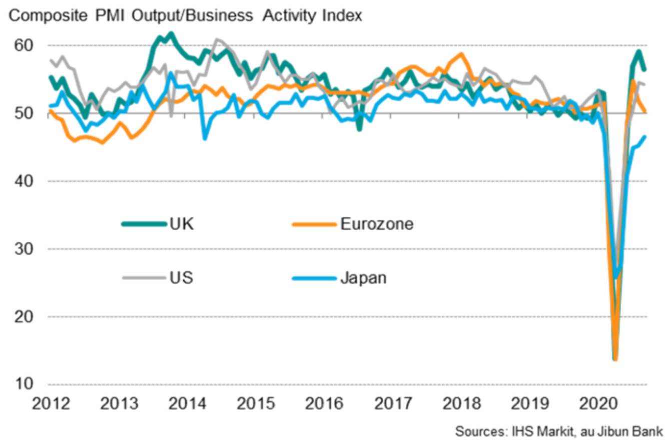
23rd October: Flash PMIs for the US, Eurozone, Japan, UK & Australia

2nd November: Final manufacturing PMIs

4th November: Final service PMIs

Flash PMIs are updated for October. September PMI showed the global recovery losing a little steam





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Economic Preview: Week of 16 October 2020

Publication date: 19 October 2020

Key diary events (UTC)

Monday 19 October

RBA meeting minutes (6 Oct)

China GDP (Q3), industrial output, jobless rate, retail sales, fixed asset investment (Sep)

Taiwan consumer confidence (Sep)

Spain trade balance (Aug)

Euro area construction output (Aug)

US monthly budget statement (Sep)

Tuesday 20 October

China loan prime rate (Oct), house price index (Sep)

Taiwan export orders (Sep)

Hong Kong SAR unemployment rate (Sep)

Euro area and Italy current account (Aug)

US housing starts, building permits (Sep)

Russia jobless rate, GDP (Sep)

Wednesday 21 October

Australia leading index (Sep)

UK and Malaysia inflation (Sep)

US Fed beige book

Thursday 22 October

Thailand exports, imports, trade balance (Sep)

Germany consumer confidence (Nov)

France business confidence (Oct)

Taiwan and Mexico unemployment rate (Sep)

Hong Kong SAR inflation (Sep)

Euro area consumer confidence (Flash, Oct)

US jobless claims (10-Oct), existing home sales (Sep), Kansas Fed manufacturing index (Oct)

US third presidential debate

New Zealand exports, imports, trade balance (Sep), inflation (Q3)

UK consumer confidence (Oct)

IHS Markit Australia Flash PMI (Oct) 22:00 UTC

Japan inflation (Sep) 23:30 UTC

Friday 23 October

au Jibun Bank / IHS Markit Japan Flash PMI (Oct)

IHS Markit Flash PMI for Eurozone, UK and US (Oct)

Singapore inflation (Sep)

UK retail sales (Sep)

Taiwan industrial output, retail sales (Sep)

Hong Kong SAR business confidence (Q4)

Russia interest rate decision

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United States Week Ahead

Flash PMIs and jobless claims

By Siân Jones

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As the build-up to the presidential election rumbles on and we wait for further clarity surrounding any third debate, some of the final pre-election pieces of key economic data are released. Although voters in the majority of states have already started going to the polls, the publication of vital economic information will be keenly watched to assess whether the economy is retaining momentum in the final quarter of 2020.

Flash PMIs

Kickstarting the data releases for October is the publication of 'flash' PMI data. Although September data signalled a slight loss of momentum in the service sector, manufacturers continued to report faster growth. Encouragingly, employment rose further as pressure on capacity was evident in both the manufacturing and services sectors.

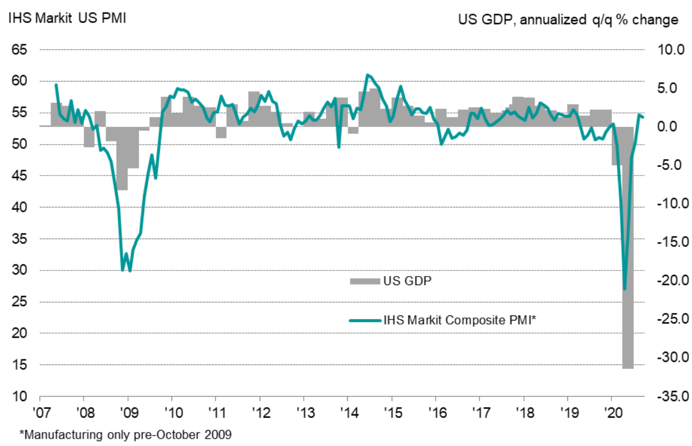
Firms were not entirely convinced as to the sustainability of client demand, however. Business confidence sunk in September as the looming presidential election and rising virus cases brought renewed hesitancy. The moderation was especially stark among service providers who were hardest hit by lockdown restrictions.

Unemployment claims data

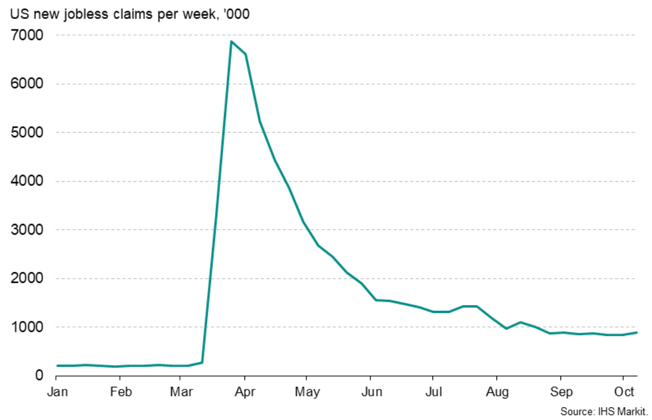
Since the broad reopening of the US economy during the summer months, jobless claims have increased at a stubbornly high pace, suggesting that the labour market recovery from the depths of the pandemic outbreak in late-March is likely to be very protracted. New claims rose 898k in the latest week. The rate of unemployment has fallen in recent months but remains historically elevated at 7.9% as the economy moves gingerly towards what are widely expected to be difficult winter months. As virus cases climb once again, any reintroduction of restrictions could lead to job losses with renewed vigour as consumer-facing firms battle to stay operational.

Also released are updated to housing data and the Kansas Fed Manufacturing Index.

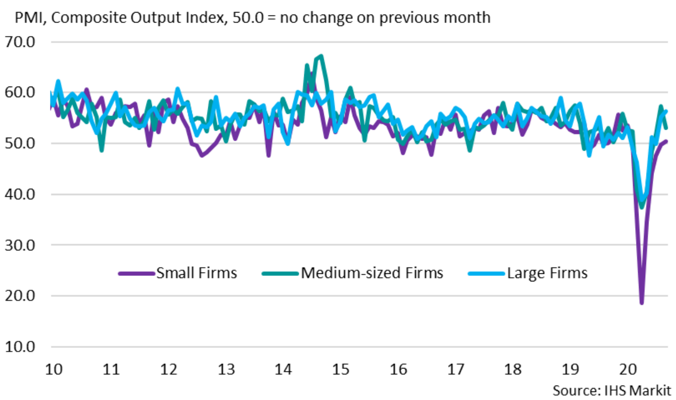
Economic recovery loses momentum at the end of the third quarter, according to PMI data



Jobless claims have held stubbornly high



Small private sector firms face a tougher recovery from the substantial loss of output earlier in 2020



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Europe Week Ahead

UK inflation and retail sales, European flash PMIs

By Paul Smith

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Attention in Europe next week will initially be focused on UK inflation and retail sales data. A raft of survey-based economic indicators, including flash PMI figures for the Eurozone and the UK, are also released.

UK inflation and retail sales

UK consumer price inflation dropped to a five-year low of just 0.2% in August, in part driven lower by targeted VAT reductions for hospitality sectors and the Eat Out to Help Out scheme for restaurants.

Whilst set to remain positive in September, downward pressure on inflation will nonetheless likely persist in the near-term, least of all owing to a weak consumer demand environment weighing on retail prices.

Indeed, despite showing a strong recovery in the immediate aftermath of full national lockdown, monthly UK retail sales growth slowed markedly in August – and continues to face a challenging environment. Footfall was still well down on a year ago as second-wave COVID-19 fears intensified in September, boding ill for sales growth. With job losses set to mount quickly and more restrictions on activity being imposed (with an increased possibility of so-called 'circuit-breakers' being used), a difficult winter lies ahead.

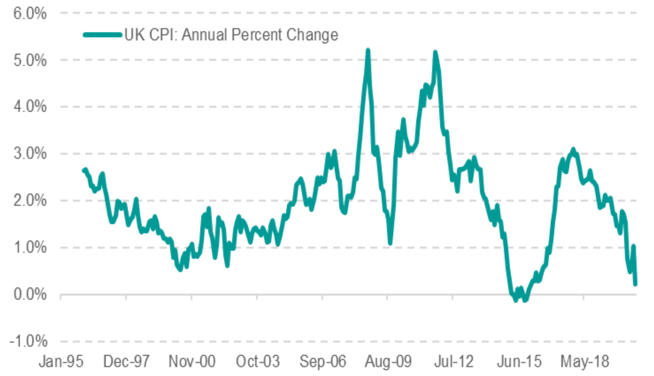
Eurozone and UK Flash PMIs

The first pieces of data for October are provided by the flash PMIs for both the UK and the euro area (including detailed figures for France and Germany).

September saw business output growth sliding across the region. Indeed, the eurozone barely expanded, undermined by weakness in the service sector, especially Spain, where low tourism numbers and rising infection levels have weighed heavily on activity.

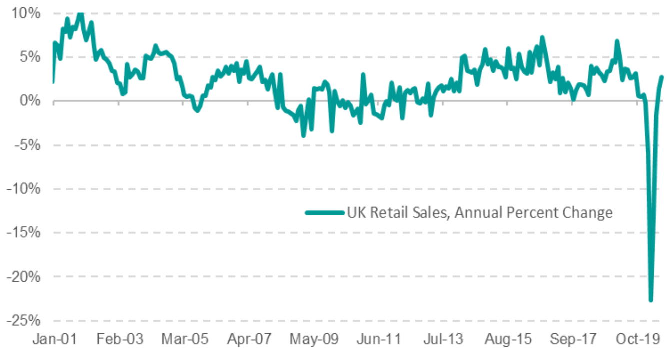
In contrast, manufacturers, less impacted by social-distancing measures than service providers, have generally recovered much better, though official data shows industry still operating well below pre-COVID levels. How this excess capacity is translating into the labour market will be an important determinant of economic performance over the coming months – and means that the employment indices from next week's flash PMIs should warrant particular attention.

UK consumer price inflation eased to a five-year low in August and is likely to remain weak in the near-term



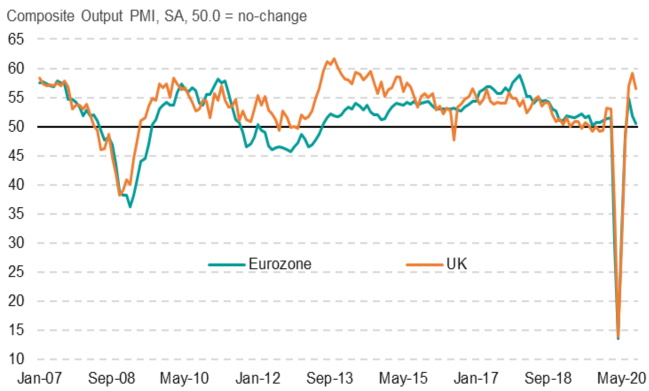
Source: ONS

UK retail sales have recovered strongly, but are now coming under renewed pressure



Source: ONS

PMI surveys indicate that recoveries in the euro area and the UK have shown signs of stalling



Source: IHS Markit

Asia Pacific Week Ahead

Flash PMIs, China GDP, Asian jobless and trade data

By Bernard Aw
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With global growth showing signs of moderating in September amid rising virus infection cases, flash October PMI data, released next week, will provide early insights into economic trends at the start of the fourth quarter, notably in APAC for Australia and Japan. Another highlight of the week will come from China's third-quarter GDP figures, alongside September updates to economic data, including jobless numbers and fixed investment. The PBOC will also decide on its policy rate, while Australia will release the minutes of its recent monetary policy meeting. Other key Asian highlights are trade data in Taiwan, Thailand and New Zealand, while employment numbers in Hong Kong SAR and Taiwan could gather some interest.

Flash PMIs for Australia and Japan

Analysts will eye the Australian flash PMI data for signs of improvement at the start of the fourth quarter. September data indicated the economy stabilised, and Victoria state loosening social distancing restrictions in mid-September to potentially add to the odds of a further recovery of economic activity levels.

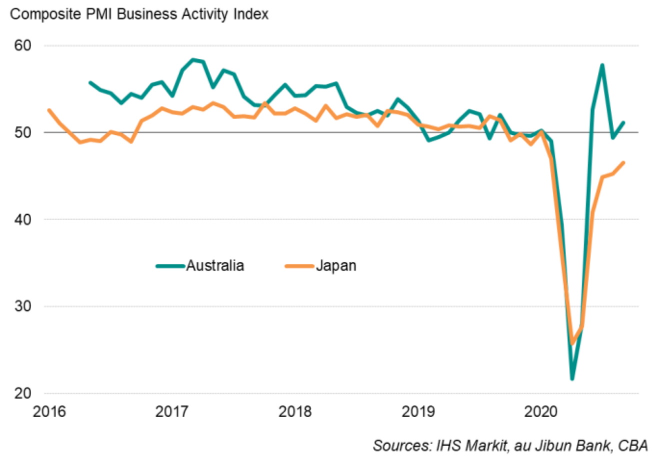
In Japan, the labour market moved towards stabilisation and business confidence strengthened during September, so markets will eagerly anticipate the flash PMI data for October, which have so far remained stubbornly subdued by international standards.

China GDP and Asian trade data

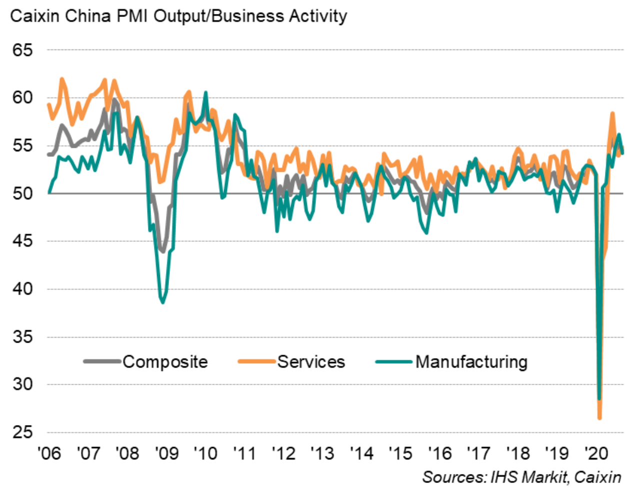
Chinese economic growth is expected to have accelerated in the third quarter, with IHS Markit projecting GDP to have expanded at a 5.9% annual rate, up from 3.1% in the second quarter. Recent data indicated a broad-based recovery on both the supply and demand sides. Caixin PMI data, compiled by IHS Markit, in particular saw a strong end to the third quarter for the Chinese economy, with the average PMI reading of 54.7 in the third quarter above the 52.6 in the second quarter. A sustained recovery will add to views that the mainland Chinese authorities have no need for additional stimulus measures.

Taiwan's export orders and Thailand's trade figures will be closely scrutinised for clues into global trade performance. This followed global PMI data indicating a revival of global goods trade during September.

Flash PMI eyed for Japan and Australia to assess economic trends at start of Q4



Caixin PMI shows broad-based recovery continued at end of Q3



Taiwan PMI v export orders

Europe
Special Focus

European tourism will lag recovery of other parts of the economy

By Andy Birch

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Several key challenges will ensure that the recovery of the European tourism sector will lag the overall economy. Importantly, returning tourism is dependent not only on domestic policy, but it will also rely on foreign countries' policy decisions and the elimination (or limitation) of COVID-19, the latter not being likely until the second half of 2021.

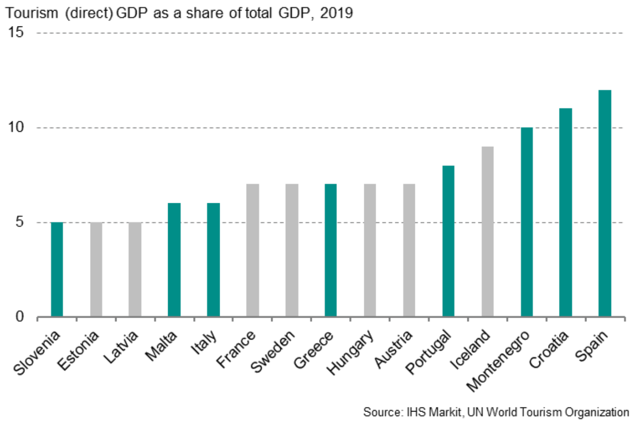
Tourism devastated by COVID-19

Several key challenges will ensure that the recovery of the European tourism sector from the COVID-19 pandemic will lag the overall economy.

- The European tourism sector will be a laggard in recovery following the COVID-19 virus crisis due to the sector's vulnerability to re-intensification of infections and the need to have international co-ordination.
- Those countries that can attract visitors from nearby population centres will be quicker to see a recovery of tourism. Alternatively, countries with large domestic populations could offset some of the negative impacts of lost international arrivals.
- Reliance on air travel and/or cruises will delay recoveries, as those industries are likely to be slow in rebounding.

The global spread of the COVID-19 virus has devastated global tourism. Given the weight of the tourism sector for many European countries, overall economic activity will not approach pre-pandemic levels until this sector recovers more substantially. The South/Mediterranean region of Europe is most dependent upon tourism as a share of total GDP.

South/Mediterranean countries among the most heavily dependent upon tourism



Returning tourism is dependent not only on domestic policy decisions and limiting the impact of COVID-19 within a country's own borders, but it will require a reliance on foreign countries' policy decisions and elimination or limitation of COVID-19 as well. To date, the recovery of tourism has faced several challenges.

Containment of COVID-19

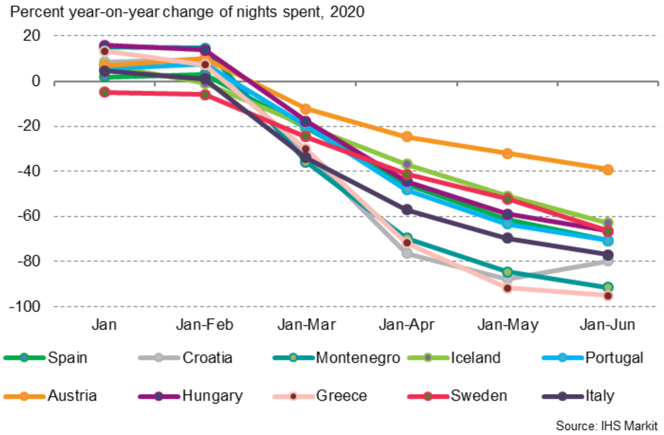
The most basic assumption on which the return of tourism depends is that the COVID-19 outbreak has been contained and that visiting a destination is indeed safe. After having initial success in limiting the spread, a resurgence of infections landed Spain back on many countries' travel advisory lists. The Spanish case reflects the risk of introducing large inflows of travellers to a region, even if that region may have succeeded in driving down the pandemic. Fresh inflows of arrivals bring fresh potential transmission vectors, inevitably increasing the risk of a reacceleration of infections.

Travel restrictions

Beyond just the threat of the disease itself, shifting transmission data lead to dramatic changes in travel restrictions and requirements across Europe. Portugal did not arrive on the UK's travel corridor until mid-August, for example, triggering a wave of new visitors. Unfortunately, by the beginning of September, rumours quickly spread that Portugal's stint on the UK's open list would prove brief, and that the country could be moved back to a mandatory quarantine list. Demand for flights out of Portugal to the UK surged. Meanwhile, the increase in foreign tourism bookings to Portugal that began in mid-August faltered by mid-September.

These problems reflect a lack of a clear, predictable, and uniform process for applying border restrictions. To combat unpredictable and confusing restrictions by myriad individual governments, the European Commission is attempting to codify and unify travel restrictions, but no agreement has been reached. The hope of an even broader, global set of conditions for safe travel is even lower.

Major European tourist countries suffered collapse of nights spent at accommodations



Regional discrepancies within countries

Croatia's experience in 2020 is reflective of another consideration as tourism recovers – the dichotomy of the rebound within individual countries. While Croatia's northern coasts have recovered somewhat in the third quarter, the southern coast lags badly. Not only are the southern regions farther to travel for central Europeans, but access to the region via road or rail requires that the traveller also cross the Bosnia-Herzegovina border. Typically, travellers to the south arrive via airlines or cruise ships. With activity on the former still struggling to return and the latter not yet beginning to revive, the southernmost areas of Croatia will greatly lag behind the rest of the country's tourist recovery. Elsewhere, other countries are reporting similar variances.

Over-reliance on certain pockets of arrivals

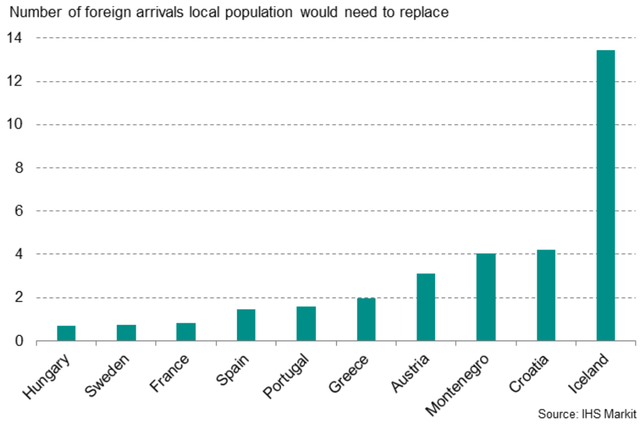
In Montenegro, a large share of its arrivals come from Russia. Many of those came in via package deals. During the COVID-19 pandemic, however, Montenegrin tourism has been affected by the fact that its borders were initially closed to Russia. Although Russia finally made it to the "green list" on 15th August, Moscow has not provided reciprocity. In fact, in a devastating blow to any hopes of boosting late-season revenues, Aeroflot announced in August that it was cancelling all flights to both Tivat Airport – the busiest Montenegrin airport, located on the coast – and to Dubrovnik Airport – also a key entry point to Montenegro – until March 2021.

Similar challenges are present for other tourist destinations dependent upon a single large source of visitors.

Replacement of foreign tourists with domestic travellers

One hope for rescuing the tourism sector is replacing foreign visitors with a surge in domestic travel. In Iceland, the government approved a package granting travel vouchers and other incentives for domestic tourism. Iceland's remote location enhances the importance of rescuing whatever domestic tourism income there might be. However, to make up for lost foreign visitors, each person living in Iceland would have to replace the spending of nearly 13.5 foreign visitors. The gaps are substantial in many other tourist countries as well, particularly the poorer economies of south eastern Europe. The wealthier, larger economies will be able to salvage a greater share of lost foreign arrivals by increasing domestic travel.

Smaller tourist destination countries will not be able to replace foreign visitors with domestic tourism



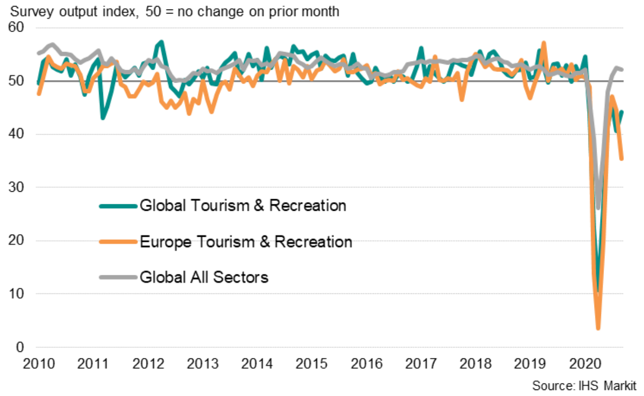
The recovery in 2020-21 and beyond

The United Nations World Tourism Organization looked at previous shock events to global tourism – the 11th September 2001 attacks in the US, the outbreak of SARS in 2003, and the 2008 global market crash – and how quickly tourism losses faded. Tourism was down from year-earlier levels for between five and 10 months in each of these shocks.

IHS Markit's life sciences service maintains a current, baseline assumption that fully approved, effective vaccines will not be available to large parts of the global population until mid-2021. If we apply the 5–10 month recovery time estimated by the UNWTO, a return to more normal global tourism activity may not come until the first or second quarters of 2022. This suggests that, while there may be a rebound from the extreme contraction of tourism that we have seen in 2020, any recovery in 2021 in the tourism sector will be modest.

IHS Markit Global PMI output indices reflect a similar weak outlook for European tourism. Whereas the global all industry PMI had returned to positive territory as of July 2020, the Global Tourism & Recreation PMI remained in deeply contraction territory as of that month (at 45.6; well below the 50.0 no change level), before deteriorating further in August and September. The European Tourism & Recreation PMI fared even more poorly in recent months. Though the initial loosening of travel restrictions allowed the European Tourism & Recreation PMI to recover somewhat more strongly than its Global counterpart – to 47.1 as of July – a resurgence of cases and the other various problems discussed in this report have taken a heavy toll on the European Tourism & Recreation PMI, which deteriorated to 35.5 as of September 2020. Such a pessimistic PMI reinforces our outlook that tourism will be the laggard of the economic recovery in Europe.

European tourism PMI badly lags overall global economic recovery



APAC
Special Focus

South Korean Economy Shows Resilience Despite Global Pandemic

By Rajiv Biswas

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South Korea has been relatively successful in containing its domestic COVID-19 cases so far, despite several spikes in cases. The success to date in controlling COVID-19 outbreaks has helped to mitigate the economic impact of the pandemic on the South Korean economy. While South Korea's GDP is forecast to show a moderate contraction of 1.1% in 2020, this is a relatively mild economic shock compared with the severe contraction in GDP forecast for many other major advanced industrial economies, such as the US, Germany, France, Japan and the UK.

South Korean economy contracts due to COVID-19

Like many other advanced economies, South Korea has entered a recession in 2020. GDP growth in the second quarter of 2020 contracted by 3.2% quarter-on-quarter and by 2.7% year-on-year, which was the most severe contraction since Q4 2008 during the Global Financial Crisis.

The collapse of exports was a key contributor to the decline, with exports of goods and services declining by 13% y/y in Q2 2020. With GDP in Q1 2020 having already recorded a decline of 1.3% q/q, the South Korean economy entered a technical recession by mid-2020.

South Korea's central bank, the Bank of Korea, has revised down its GDP forecast for the 2020 calendar year to a contraction of 1.3 % year-on-year, similar to the IHS Markit forecast for a contraction of 1.1% y/y. The Bank of Korea cut its policy rate to a record low of just 0.5% in May 2020 and has kept its policy rate on hold subsequently. At its most recent monetary policy meeting on 14th October 2020, the Monetary Policy Board of the Bank of Korea kept its policy rate on hold. The Bank of Korea expects the pace of economic recovery to be slow and inflationary pressures to remain weak, which are expected to allow the central bank to maintain its accommodative monetary policy stance.

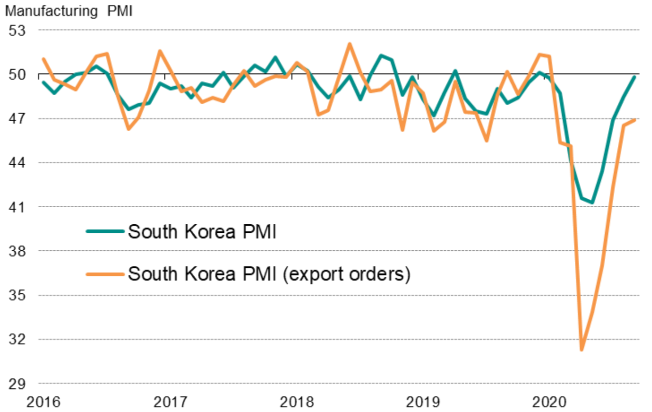
Private consumption spending has remained constrained by the ongoing impact of social distancing measures, as the South Korean public health authorities have tried to contain a number of new outbreaks of COVID-19 cases over recent months.

Manufacturing sector has rebounded in Q3 2020

Manufacturing output was badly hit during the first half of 2020, due to the impact of China's lockdown during Q1 2020 and the subsequent lockdowns in other major economies during Q2 2020. Manufacturing output fell by 6.6% y/y in Q2 2020. However, the manufacturing sector has shown a considerable recovery during Q3 2020.

The IHS Markit South Korea Manufacturing Purchasing Managers' Index (PMI™) rose to 49.8 in September, up from 48.5 in August, reaching its highest reading since January 2020. The increase in production reflected improving demand conditions, as domestic restrictions eased following containment of the latest COVID-19 outbreak.

South Korea Manufacturing PMI



Source: IHS Markit

Easing of lockdowns in key export markets such as the US and EU also have contributed to the upturn in manufacturing output during Q3 2020. South Korean exports showed positive growth of 7.7% y/y in September, the first positive growth in exports since March. This compared with a decline of 10.1% y/y in August.

Exports of autos rose by 23% y/y in September, the first positive year-on-year growth since March, as auto demand in the key markets of the US and EU started to recover.

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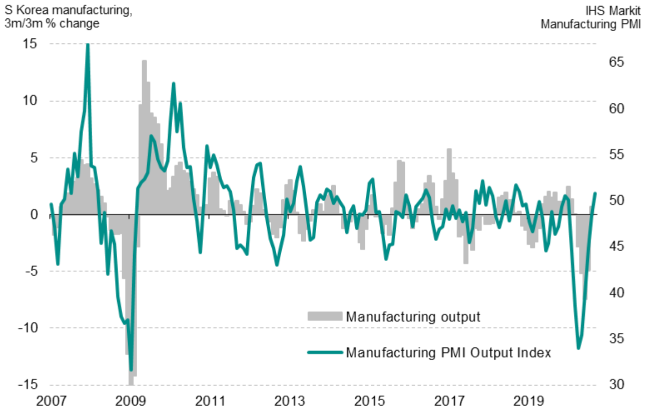
South Korea manufacturing production growth



Sources: IHS Markit, KOSTAT

Electronics sector hit by global demand slump

South Korea's economy is highly dependent on exports of goods and services, which account for around 40% of total GDP. Electronics products are a key part of total exports. In 2019, exports of semiconductors amounted to USD 94 billion and accounted for around 17.3% of total exports of USD 542 billion, according to data from the Korea Customs Service. Electronics display panels and sensors accounted for a further 8% of total exports in 2019.

Consequently, the COVID-19 pandemic-related disruptions to the global electronics industry in the first half of 2020 also hit South Korea's electronics industry.

As the impact of the pandemic widened in the Asian region during April, the headline IHS Markit Global Electronics PMI fell to 43.3 in April, down from 48.6 in March, to signal a sharp deterioration in business conditions faced by electronics manufacturers. The April reading pointed to the fastest decline since April 2009, with many businesses temporarily closed amid the global COVID-19 outbreak.

In addition to supply side disruptions to electronics output, widespread lockdowns of retail businesses in many major markets worldwide also disrupted consumer demand for electronics goods as well as products that have significant electronics components, such as autos. Extended periods of lockdown in major electronics manufacturing hubs worldwide resulted in disruption of industrial production and consumption, impacting on global electronics supply chains.

However, since April, the IHS Markit Global Electronics PMI has showed significant improvement, with the headline index rising to 51.1 in September, the first expansion in business conditions for 13 months. Underlying data showed positive expansion in September for the consumer, communications and industrial electronics subsectors.

IHS Markit Global Electronics PMI, output and new orders

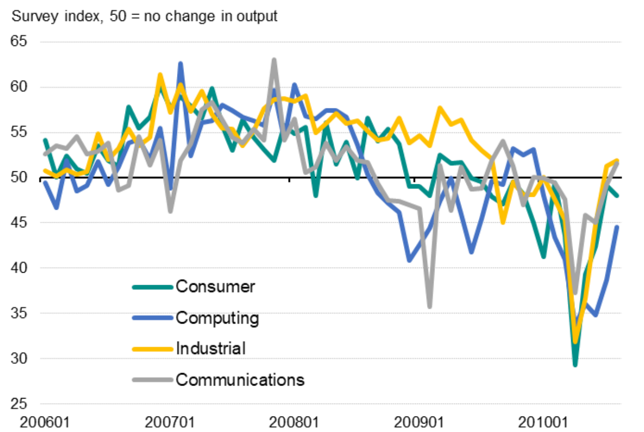
Source: IHS Markit

The Global Electronics PMI's output index (which measures changes in production) returned to positive territory, reaching 50.7 in September, signalling slight expansion. This is in comparison with severe contraction in April, as reflected in the index reading of 33.9 for that month.

South Korea's exports of information and communication technology (ICT) products rose by 11.9% y/y in September, helped by a rebound in global demand for semiconductors. This reflects a considerable recovery since April, when ICT exports fell by 15.3% y/y.

Exports of memory chips were up 9.8% y/y, while logic chips jumped 16.8% y/y. Meanwhile exports of displays rose 2.7% y/y, while exports of organic light-emitting diode (OLED) panels rose 3.3% y/y. However, exports of mobile phones and parts fell 13.2% y/y.

IHS Markit Global Electronics PMI, output by product category



Source: IHS Markit

Economic outlook

The near-term economic outlook is for a gradual recovery in 2021, with South Korean GDP growth of

2.1% forecast for 2021, strengthening to a pace of 2.6% in 2022. With the global economy expected to show a gradual recovery in 2021, improving growth in key global consumer markets such as the US, China and EU are expected to boost demand for key South Korean exports, including electronics and autos.

The medium-term growth prospects for the South Korean economy are underpinned by its leadership role in the global electronics sector, as a key global manufacturing hub for a wide range of advanced electronics, including semiconductors, mobile phones, computers, display panels and sensors.

With the acceleration of digital transformation globally, South Korea is expected to be a leading beneficiary of key technological trends, including the Fourth Industrial Revolution, the Internet of Things and the global rollout of 5G networks.

However, the South Korean economy continues to face long-term headwinds from the structural impact of ageing demographics, rising wage costs and increasing competition from low-cost manufacturing hubs in Southeast Asia and South Asia. Meanwhile its leading-edge industries also face competition from other technology leaders in the US and EU. Consequently, South Korea’s long-term potential growth rate is expected to gradually moderate further over the next two decades.