Week Ahead Economic Preview

- **US presidential elections**
- **US non-farm payrolls**
- **Global PMI surveys**

The US presidential elections – described by some commentators as perhaps the most important in modern history – take centre stage in a week which also sees some key economic data releases which will give insights into how the global economy is faring amid second waves of COVID-19 infections.

Monetary policy meetings also take place in the US, UK, Australia and Malaysia, while the earnings season progresses with 1,465 firms reporting (including Paypal, Softbank, Qualcomm, Alibaba, Volkswagen, Toyota, Total, Bayer, AstraZeneca and Berkshire Hathaway).

The FOMC concludes its next policy meeting on 5th November, just two days after the presidential election, which could well prove inconclusive and contested. No action is therefore generally expected in terms of policy changes, so the dataflow in the coming week will likely take prominence. In that respect, the monthly employment report is accompanied by PMI data for both manufacturing and services. Flash surveys showed the US economy gaining underlying growth momentum, linked to the further loosening of COVID-19 containment measures during the month. However, with virus numbers reaching new highs, the survey also showed some weakness in consumer markets, and that the job market recovery cooled, hinting at softer non-farm payroll gains. The jobless rate is nonetheless widely expected to fall further (page 3).

In Europe, policymakers at the Bank of England meet amid signs of the Bank's growing appetite for more stimulus, including further asset purchases, especially following news of economic recoveries faltering in the UK and Eurozone. The latter even saw a renewed contraction as COVID-19 containment measures were tightened again. Final PMI data for the region will therefore be eagerly awaited, providing more detail on national and sector trends (page 4).

In Asia, analysts will await PMI data surveys to assess the recovery momentum in mainland China especially, but also to see if signs of a more widespread recovery of manufacturing in the region have persisted, linked in turn to reviving global trade flows. Monetary policy decisions will come from Australia and Malaysia, with expectations having risen for both central banks to add more stimulus (page 5).

Special Reports

Singapore: The Singapore economy has been hit by multiple shocks during 2020, but has remained resilient, continuing to position itself as the Asia-Pacific region's leading international financial centre (page 6)

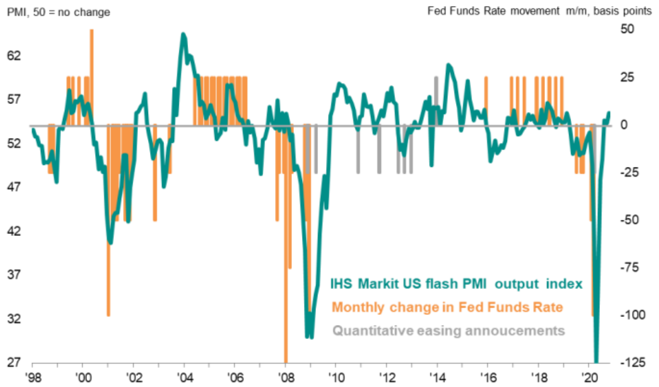
Upcoming PMI releases

2nd November: Final manufacturing PMIs

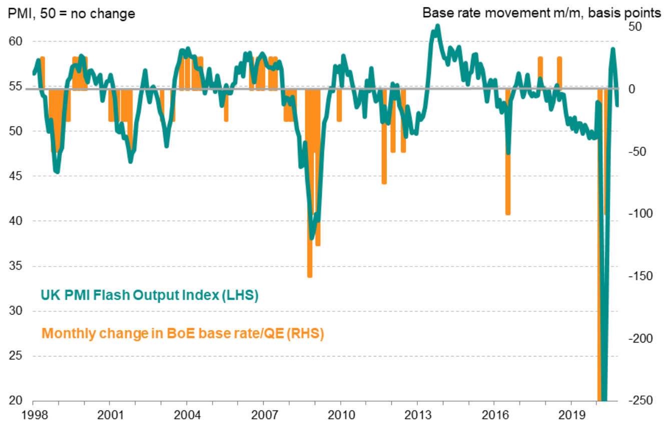
4th November: Final service PMIs

5th November: Detailed sector PMIs

Policy meetings at the FOMC and Bank of England come at a time of recoveries looking susceptible to reversal amid rising COVID-19 infections. Updated PMI data will provide further guidance on economic trends.



Sources: PMI uses IHS Markit post-2007 and ISM pre-crisis, Federal Reserve.



Sources: IHS Markit, Bank of England.£25bn QE shown as equivalent to 25 basis points

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Economic Preview: Week of 2 November 2020

Publication date: 30 October 2020

Key diary events (UTC)

Monday 2 November

Worldwide release of IHS Markit Manufacturing PMI (Oct)
Caixin/IHS Markit China manufacturing PMI (Oct)
Australia building permits, home loans (Sep)
Indonesia inflation (Oct), business confidence (Q2)
Hong Kong retail sales (Sep)
Russia monetary policy report
US ISM manufacturing PMI (Oct)
South Korea inflation (Oct)

Tuesday 3 November

Australia and Malaysia interest rate decision
US factory orders (Sep)
Brazil trade balance (Oct)
New Zealand jobless rate, employment change (Q3)
BoJ monetary policy meeting minutes
US presidential election
Eurogroup video conference

Wednesday 4 November

Worldwide release of IHS Markit Services PMI (Oct)
Caixin/IHS Markit China Services, Composite PMI (Oct)
IHS Markit PMI for Hong Kong SAR and Singapore (Oct)
Australia retail sales (Final, Sep)
Philippines exports, imports, trade balance (Sep)
Brazil industrial production (Sep)
US exports, imports, trade balance (Sep)
US treasury refunding announcement
US ISM non-manufacturing PMI (Oct)

Thursday 5 November

au Jibun Bank/IHS Markit Japan Services, Composite PMI (Final, Oct)
Australia exports, imports, trade balance (Sep)
Philippines inflation (Oct), industrial output (Sep)
Thailand consumer confidence, inflation (Oct)
Indonesia GDP, business confidence (Q3)
IHS Markit Construction PMI for Eurozone, Germany, France and Italy (Oct)
Euro area retail sales (Sep)
FOMC and BoE monetary policy decision
US jobless claims (31-Oct)
Japan household spending (Sep)

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Friday 6 November

RBA statement on monetary policy
Germany and Spain industrial output (Sep)
UK Halifax house price index (Oct)
Italy retail sales (Sep)
US nonfarm payrolls, jobless rate, average earnings (Oct)
US wholesale inventories (Sep)

Saturday-Sunday 7–8 Nov

07/11: China export, imports, trade balance (Oct)
08/11: BoJ Summary of Opinions

United States Week Ahead

PMIs, non-farm payrolls and FOMC meeting

By Siân Jones

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During a week that will be dominated by the presidential elections, we also see the release of key economic data such as the monthly employment report and PMI data. The Fed policy meeting will also be keenly watched, especially if a decisive election helps clear some of the political and fiscal uncertainty.

FOMC meeting

The November FOMC meeting concludes just two days after the election, with the committee faced with a wide range of domestic and external influences which may impact the economy in both the near- and medium-term. Crucially, with virus cases increasing, the election outcome will determine the extent to which lockdowns may be re-imposed. Furthermore, with the any timing and size of fiscal stimulus remaining uncertain, it is unlikely that any changes to the Fed's policy stance will be announced. In the absence of any policy changes, forward guidance on the conditions for further stimulus will be eagerly sought.

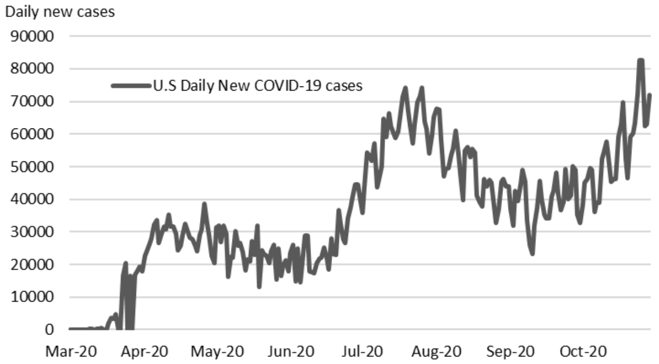
Manufacturing and Services PMIs

Final PMI figures for October are set to be released which will provide an important assessment of the extent to which the third quarter rebound can be sustained into the fourth quarter. Both ISM and IHS Markit surveys pointed to robust growth in September, and the earlier released 'flash' estimates pointed to sustained solid momentum in October. Employment continued to rise, but growth slowed in October amid reports of spare capacity and weak demand, notably among consumers due to high unemployment and social distancing.

Non-farm payrolls

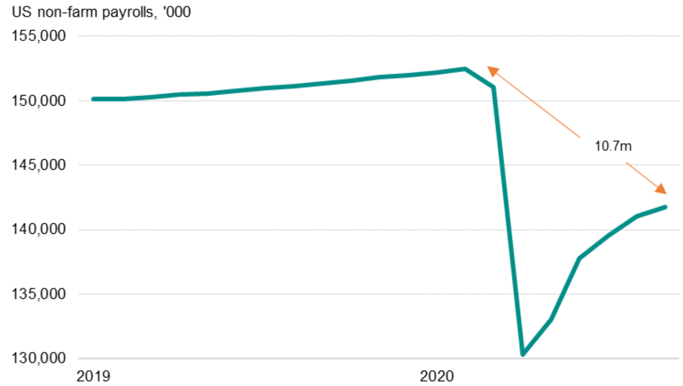
Although the labour market continued to make gains during September, the pace of increase in employment slowed notably. Some 661k jobs were gained, but that was the smallest non-farm payroll rise seen so far in the recovery, and still leaves the number of people employed some 10.7m below the pre-pandemic peak The unemployment rate also stood at 7.9%, albeit down from 8.4% in August and likely to fall further in October, perhaps to 7.7%, given the robust PMI data.

Resurgence in new virus cases during October



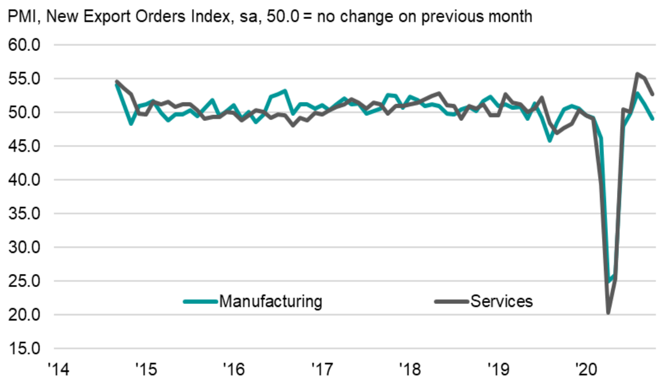
Source: World Health Organisation

Gains to employment figures look set to slow in October



Source: IHS Markit

External demand conditions look set to deteriorate again amid tougher virus containment measures in many countries, weakening US export growth in the fourth quarter



*including October flash data

Source: IHS Markit

Europe Week Ahead

Detailed PMIs to provide clarity on economic performance at start of Q4

By Paul Smith

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The Bank of England's monetary policy meeting and updated PMI numbers dominate the agenda, with October's PMI updates at the detailed national and sector levels providing an opportunity to delve deeper into the underlying performance of the eurozone, UK and Eastern European economies.

October national PMIs

Next week's detailed PMI data, covering broad manufacturing, services, construction and more detailed sector breakdowns, will provide an opportunity to assess those nations and industries most under pressure from current virus containment restrictions. Although GDP growth rates for the third quarter were eye-catching, higher-frequency PMI data have provided the more-timely insights into the recent negative effects on economic activity of rising COVID-19 infections and the re-tightening of restrictions since the summer.

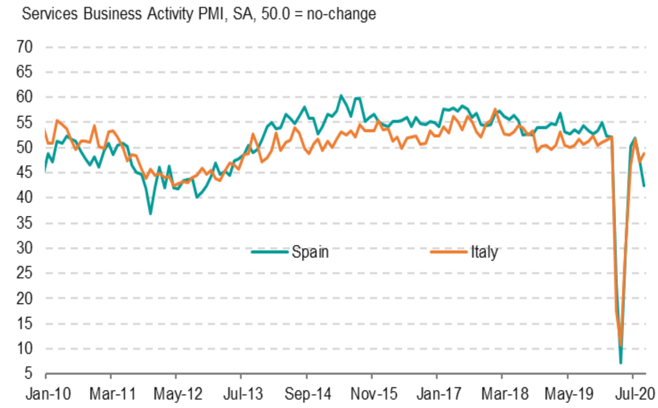
October flash PMI figures signalled that the eurozone's economy had slipped back into contraction territory, whilst UK growth slowed noticeably, as restrictions on social contact and travel weigh heavily on hospitality and tourism industries.

Bank of England to gauge stimulus needs

While some sectors are benefiting from the recent pick-up of trade activity with key export markets, notably in Asia, on balance it's hard to see past a challenging few months ahead as governments struggle to find a balance between protecting healthcare services and economies simultaneously. The role of central bank stimulus will also therefore come under the spotlight at the Bank of England's Monetary Policy Committee meeting, which includes the publication of updated economic projections.

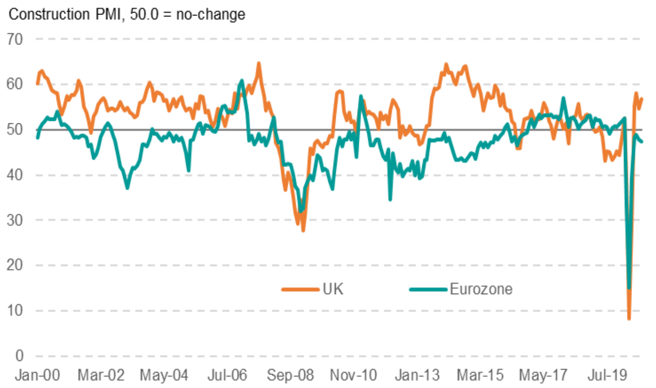
Analysts' expectations have risen that more asset purchases above the current £745 billion will be implemented prior to the end of the year, though the possibility of a much-talked-about move to negative interest rates for the UK still looks some way off. Not only are views on negative rates mixed, but there are concerns that the banking system is not yet ready for such a policy shift.

Next week's detailed PMI figures provide an opportunity to assess October's data at broad national levels



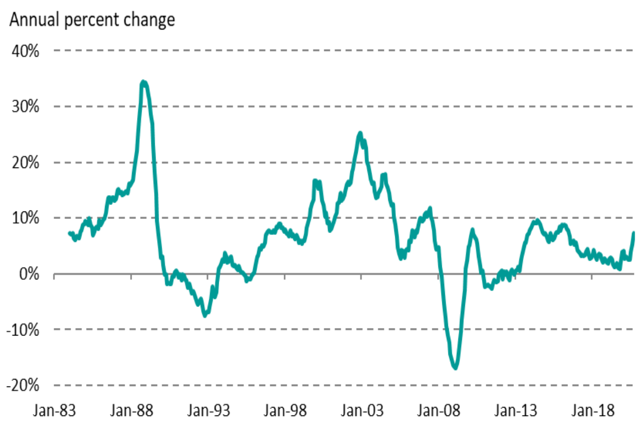
Source: IHS Markit

PMI figures are also released for European construction sectors, with recent data showing strong growth in the UK, but falling activity in the eurozone



Source: IHS Markit

UK house price inflation has reached its highest since the EU referendum in mid-2016, but with unemployment on the rise and government incentives ending next March, inflation rates are surely close to peaking



Source: Lloyds Banking Group / IHS Markit

Asia Pacific Week Ahead

PMI data, Malaysia and Australia monetary policy, Indonesia GDP

By Bernard Aw

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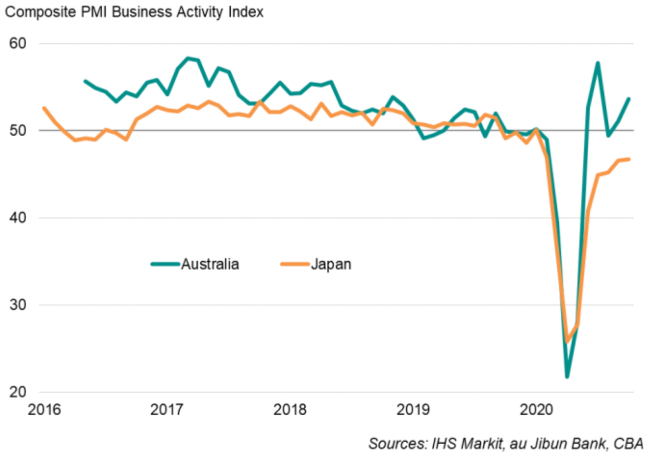
The US elections will dominate the markets alongside the worldwide release of PMI survey data, which will provide an early look into at economic trends at the start of the fourth quarter. In Asia, analysts will eagerly await Caixin surveys in particular to assess the recovery momentum in mainland China during October. Monetary policy decisions will come from Australia and Malaysia, while the Bank of Japan will issue its Summary of Opinions report. Indonesia will update its GDP numbers while trade figures in China, Australia and the Philippines will gather interest.

Other key Asian data highlights include sentiment surveys in Thailand and Indonesia, inflation numbers in South Korea and the Philippines, alongside retail sales data in Hong Kong SAR and Australia.

Asia PMI data

With flash PMI data indicating that the global economy is seeing a sluggish start to the fourth quarter amid a global resurgence of coronavirus infections, eyes will be on the October PMI updates for 14 markets across Asia Pacific to assess regional economic trends. Australia and Japan both saw subdued demand, according to flash data.

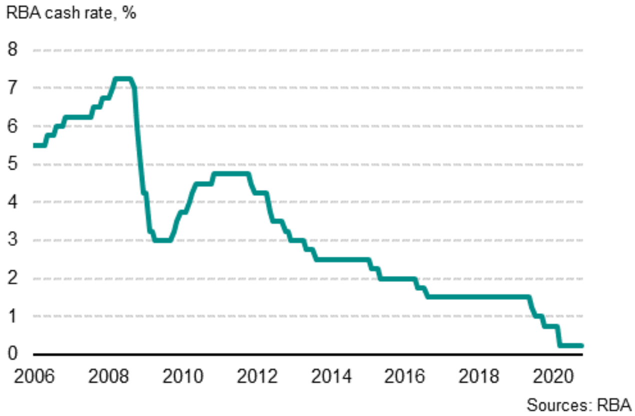
Flash PMI for Australia and Japan



Australia and Malaysia monetary policy

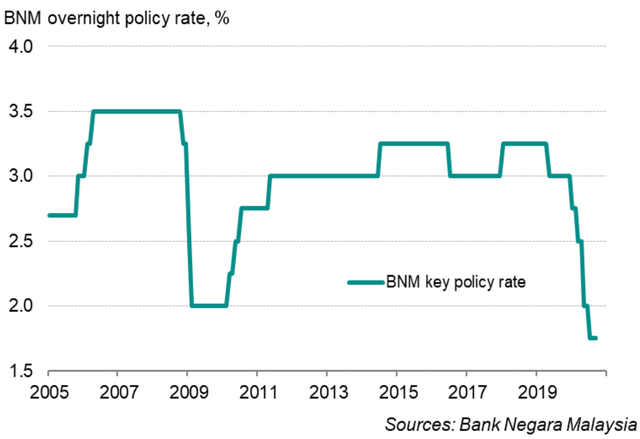
Expectations for the Reserve Bank of Australia to cut its policy rate at next week's meeting are building. While the Australian private sector economy continued to improve amid a further easing of social distancing measures, other PMI indicators cast doubts on the durability of the upturn, in particular that demand has not kept pace with the recovery in overall activity.

Australia cash rate



Meanwhile, Bank Negara Malaysia convenes its final meeting of 2020. Some analysts expect a rate cut amid an extension of the conditional movement control order and weakened survey data. BNM has cut interest rates four times this year, with the overnight policy rate now at 1.75%.

Malaysia overnight policy rate



Indonesia GDP

GDP data are expected to the Indonesian economy contracting at an annual rate of 6.1% in the third quarter, according to IHS Markit estimates.

APAC Special Focus

Singapore remains resilient to pandemic shocks

By Rajiv Biswas

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The Singapore economy has been hit by multiple shocks during 2020 from the impact of the protracted lockdown on domestic consumption and business activity, as well as the collapse of the tourism industry due to international travel bans. The Singapore Ministry of Trade and Industry (MTI) has sharply revised down its GDP forecast for calendar 2020 to a range of -5.0% to -7.0%.

Utilising its deep fiscal reserves, the Singapore Government has deployed massive fiscal stimulus measures to support domestic demand, helping to support many segments of the economy that are experiencing severe downturns, including tourism, retail trade, commercial aviation and construction. Despite the severe economic shocks, Singapore has remained resilient, continuing to position itself as the Asia-Pacific region's leading international financial centre.

Extended lockdown triggers severe recession

The Singapore economy entered a severe recession in the first half of 2020, as GDP contracted by 13.3% on a year-on-year (y/y) basis in the second quarter, worsening from the 0.3% contraction in the previous quarter. The fall in GDP was due to the lockdown "Circuit Breaker" measures implemented from 7th April to 1st June 2020 to slow the spread of the COVID-19 pandemic in Singapore, as well as weak external demand amidst a global economic downturn caused by the COVID-19 pandemic. Although lockdown measures have been eased subsequently, many restrictions still have continued to impact upon economic activity during the second half of 2020.

The easing of lockdown measures has resulted in a sharp rebound in economic activity in the third quarter. Based on advance estimates for the third quarter of 2020, the Singapore economy expanded by 7.9% on a quarter-on-quarter (q/q) seasonally adjusted basis, although when measured on a year-on-year basis, the economy contracted by 7.0%.

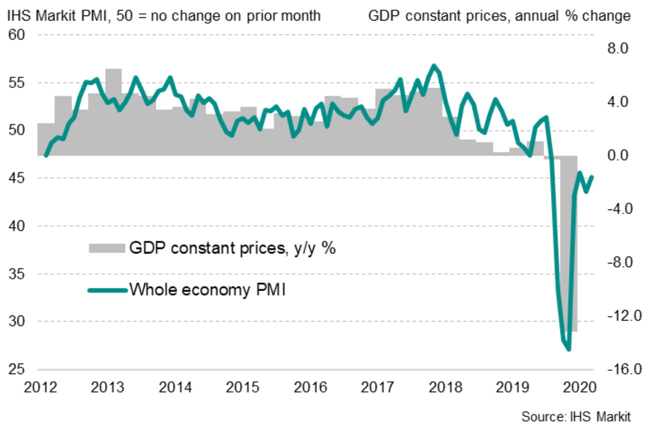
In the second quarter of 2020, the manufacturing sector shrank by 0.8% y/y and by 9.1% q/q, while the construction sector contracted by 59.9% y/y and 59.4% quarter-on-quarter, since most construction activity stopped during the lockdown period. Construction firms were also affected by manpower disruptions arising from additional measures to curb the spread of the COVID-19 virus, including movement restrictions at foreign worker dormitories. Services sector output slumped by 13.6% y/y and by 11.2% quarter-on-quarter, due to the severe impact of the lockdown and travel bans across many segments of the services economy.

In the third quarter of 2020, the easing of lockdown measures resulted in a rebound in construction activity, which rose by 38.7% q/q, albeit still contracting by 44.7% y/y. Manufacturing posted a moderate rise of 3.9% quarter-on-quarter, and was up 2.0% y/y. Easing of restrictions also boosted the services sector in the third quarter of 2020, as it grew by 6.8% q/q although still posting a severe contraction of 8% y/y.

IHS Markit PMI rebounds in third quarter

The "circuit breaker" measures that were introduced in April resulted in widespread closures of non-essential businesses as the government acted to stem the spread of the COVID-19 pandemic. This was the key factor causing activity to fall at a survey-record rate in April. Lockdown measures also had a considerable impact on demand, which plummeted. As lockdown restrictions were eased from June onwards, the IHS Markit Singapore PMI has rebounded.

IHS Markit Singapore PMI



Source: IHS Markit

The latest survey data showed that the IHS Markit Singapore Purchasing Managers' Index™ (PMI) rose from 43.6 in August to 45.1 in September. Despite the improvement, the PMI still signalled a contraction in economic activity. However, the average PMI reading for the third quarter was notably higher than that seen in the second quarter, representing a rebound from the peak impact of the COVID-19 pandemic.

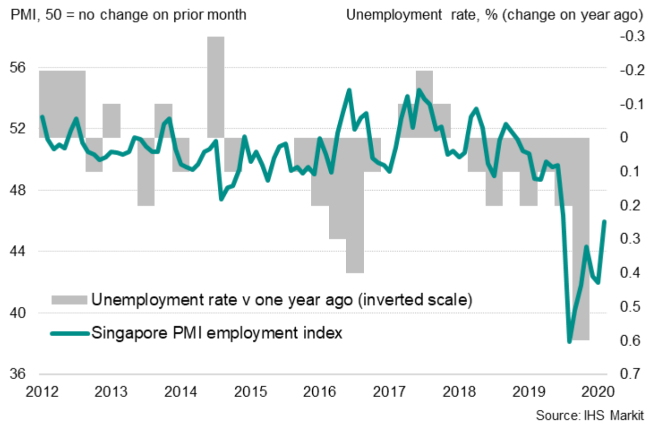
Business activity continued to contract in September, with reduced output concentrated in sectors relating to accommodation & food services as well as administrative & support services. Underlying data showed that construction activity returned to growth as project sites were permitted to restart and workers being cleared to resume work. Manufacturing output was also broadly stable.

The latest manufacturing output data for September showed a strong rebound, rising 24.2% y/y. This reflected very rapid expansion in biomedical manufacturing output, which rose by 89.8% y/y, with pharmaceutical output up 113.6% y/y. Electronics output also showed strong growth.

However, the transport engineering sector contracted sharply, down 35.8% y/y, with aerospace engineering down 44% y/y due to the disruption in global air transport, while the marine and offshore engineering segment recorded a decline of 40.9% y/y, reflecting the slump in the global oil and gas sector.

With total output and sales still showing contraction, firms continued to reduce headcounts as part of efforts to control costs and remain viable, albeit with the rate of job losses easing in September.

IHS Markit Singapore PMI Employment Index



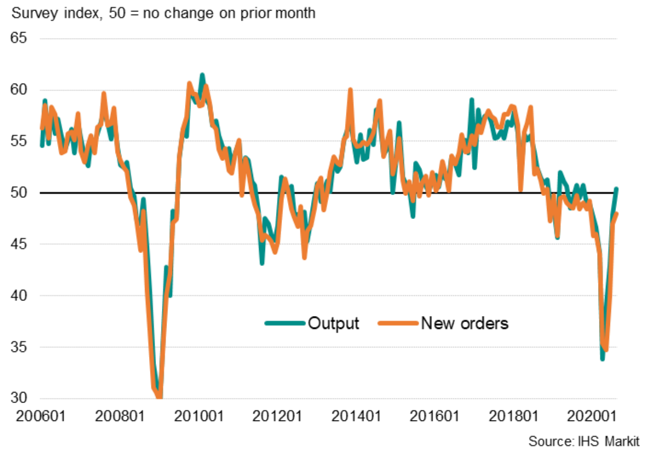
Singapore's electronics sector recovers from lockdown slump

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



Reflecting the global rebound in the global electronics sector as lockdowns eased in many key markets, Singapore's electronics sector output grew 30.1% in September 2020 on a year-on-year basis. The electronics sector's expansion mainly reflected very strong growth of 37.4% y/y in the semiconductors segment, which is by far the largest sub-sector of Singapore's electronics cluster, supported by demand from cloud services, data centres and the 5G market. Overall, output of the electronics cluster grew by 7.0% year-on-year in the first nine months of 2020.

Fiscal stimulus measures

The Singapore government has announced massive fiscal stimulus measures amounting to an estimated SGD 100 billion to try to mitigate the negative economic impact of the global pandemic and lockdown measures on the economy. This will result in 2020 overall budget deficit being the largest in Singapore's history since independence.

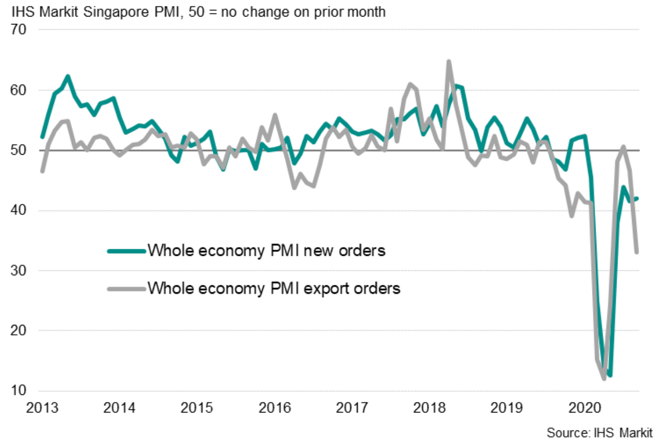
However, Singapore has one of the strongest fiscal positions of any nation in the world, with no net government debt in 2019. Singapore is drawing up to a total of SGD 52 billion from past reserves this financial year, which will fund a large proportion of the fiscal stimulus measures. While the total size of Singapore's reserves is a matter of national security and therefore not disclosed, the nation maintains deep financial reserves which have been carefully built up, invested and managed over decades.

Consequently, despite the large-scale fiscal stimulus measures due to the exceptional global crisis caused by the pandemic, Singapore's fiscal credentials remain extremely strong, without any net government debt even after this year's drawdown of past reserves. By way of comparison, the UK public sector net debt excluding public sector banks hit 103.5% of GDP in September 2020, while for the Euro Area, at the end of the second quarter of 2020, the government debt to GDP ratio increased to 95.1%.

Medium-term economic outlook

Due to the protracted lockdown of the domestic economy and the worldwide slump in export orders, the highly exportoriented Singapore economy has experienced a severe recession in 2020. The shutdown of international air travel worldwide has also resulted in the collapse of Singapore's tourism sector and the commercial aviation industry. Unlike larger nations like China and Japan, domestic tourism within Singapore cannot play a significant role in mitigating any protracted disruption of international tourism. Singapore's role as a key APAC hub for conferences and conventions is also likely to be disrupted for an extended period of time. The Singapore meetings, incentives, conferences and exhibitions industry accounted for around 22% of tourist receipts in recent years.

Singapore PMI, new orders and export orders



Globally, low oil prices have forced oil and gas companies to reduce spending, especially on new projects. Singapore's marine and offshore engineering sector is expected to face a renewed period of weak economic conditions, after having only recently emerged from protracted recessionary conditions following the 2014-2016 oil price slump.

Consequently, despite the substantial fiscal stimulus measures deployed by the Singapore government to mitigate the economic shockwaves, the headwinds to economic recovery are considerable. Moreover, a key downside risk to the near-term outlook would be from any new waves of COVID-19 cases, which could result in renewed tightening of lockdown restrictions, further dampening the path of economic recovery.

Without a COVID-19 vaccine that has completed Phase 3 clinical trials yet, there is significant uncertainty over how the COVID-19 situation will evolve in the coming quarters, and correspondingly, the trajectory of the economic recovery in both the global and domestic economies in the near-term.

However, based on the assumption that COVID-19 vaccines will be deployed during the course of 2021 in many countries worldwide, the pandemic is expected to gradually be brought under control. This is expected to allow the Singapore economy to return to positive growth during 2021-22. GDP is forecast to grow by 3.7% in 2021, strengthening to a more rapid pace of 6% in 2022 as the economy recovers from the pandemic.