

Week Ahead Asia-Pacific Economic Preview

- China credit and FDI data
- Japan inflation
- Indonesia sets monetary policy
- UK's 'meaningful vote' on Brexit deal
- Special focus on the electronics sector

With recent signs of growth slowing in China, another batch of economic statistics, including lending and foreign investment data will be scrutinised by market participants. Japan's inflation and industrial production numbers will also come into focus ahead of the Bank of Japan's monetary policy meeting later this month. Indonesia is meanwhile set to decide on interest rates.

Other data highlights for Asia include trade data for Indonesia and Singapore, plus Australia's investment lending and home loans data.

Elsewhere, the UK Parliament votes on the proposed EU Withdrawal Agreement deal after the initial vote in December was postponed. UK inflation and retail sales will also be keenly watched alongside US retail sales, industrial production and housing data, as well as fresh Eurozone industrial production numbers.

Our special focus looks at the recent slowdown in the global electronics sector and the impact on many Asian economies, for which the sector has become an important source of economic growth and exports.

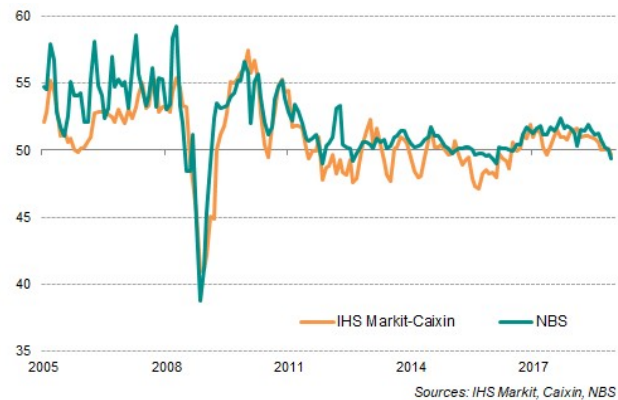
Focus on China data

With recent indications of slowing growth momentum in China, analysts will be particularly keen to monitor the next tranche of data, which includes lending and money supply statistics as well as foreign direct investment. Both the government-sponsored manufacturing PMI and IHS Markit compiled [Caixin manufacturing PMI](#) fell below the no-change threshold of 50 in December, the latter below 50 for the first time since May 2017, though the more [domestically-focused service sector](#) showed greater resilience.

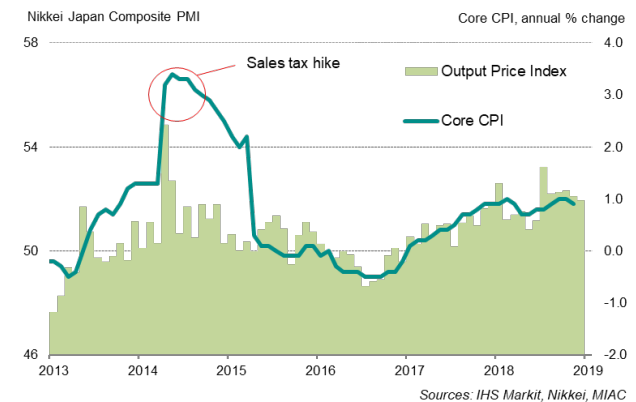
Japan inflation

Japan watchers will eagerly await the December updates to industrial production and inflation data. While survey data suggest manufacturing continued to expand, despite weak exports, an upside surprise to inflation is unlikely.

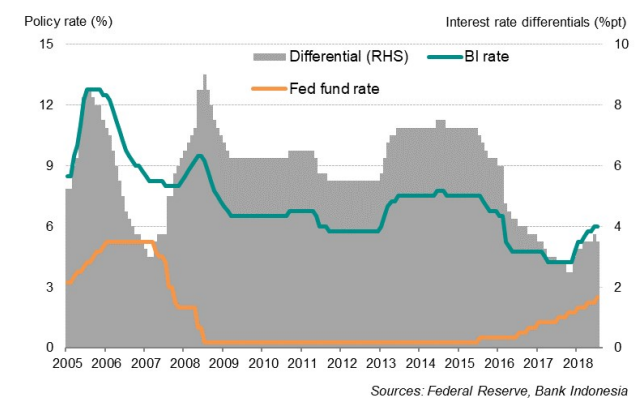
Caixin and NBS China manufacturing PMI



Japan PMI and inflation



US and Indonesia policy interest rates



Continued...

Despite five years of aggressive monetary stimulus, core inflation remained stubbornly subdued and well below the 2% goal. According to a [Nikkei](#) report, the Bank of Japan is considering reducing its CPI projections for fiscal 2019 from 1.4% in October to around 1.0% in its upcoming policy meeting, to reflect lower oil prices, reduced mobile phone fees and measures to expand free education for pre-schoolers.

[Latest PMI data](#) continued to show that inflationary pressure remained below the pace at which consumer prices will progress towards the BOJ inflation target.

Bank Indonesia

Indonesia's central bank holds its first monetary policy meeting for 2019, at which it is widely expected to maintain its current monetary settings after a rate-hold decision in December. Bank Indonesia governor Perry Warjiyo recently noted that the last rate hike in November had priced in the Fed's rate increase in December and another expected US tightening in the first quarter of 2019, adding that BI's policy rate is nearing its peak. The latest [Nikkei PMI survey](#) brought signs of stronger demand conditions at the end of 2018, which supports the case for a rate hold.

US policy clues

Data releases out of the US covering retail sales and industrial production will meanwhile provide markets with further insight into Fed policy in 2019. Jitters over global economic growth and comments by Federal Reserve Chairman Jerome Powell indicating flexibility in future monetary policy have meant markets pared back expectations for the US rate path in 2019 to such an extent that at 67% chance of no rate hikes is now signalled by futures markets. Powell stressed that the Fed "will be prepared to adjust policy quickly and flexibly and use all of our tools to support the economy should that be appropriate".

Brexit 'meaningful vote'

Markets will also be watching the UK Parliaments' vote on the EU Withdrawal Agreement that has been negotiated with Brussels by Prime Minister Theresa May. The vote was postponed from 11th December yet the proposed deal is still widely expected to be voted down by MPs, leading to further uncertainty as the UK's scheduled exit from the EU on 29th March draws closer. Markets will be especially influenced by any concessions Brussels may be prepared to offer to sweeten the deal and any further developments that can help prevent the UK crashing out of the EU without a deal in place.

Monday 14 January

China trade, FDI, M2, new yuan loans and total social financing (Dec)

India WPI and inflation (Dec)

Euro area industrial production (Nov)

IPA UK Bellwether Report

IHS Markit Scotland and Northern Ireland PMI (Dec)

Tuesday 15 January

Indonesia trade (Dec)

France and Spain inflation (final, Dec)

Germany 2018 GDP and government budget

Euro area trade balance (Nov)

US PPI (Dec) and NY Empire State manufacturing PMI (Jan)

Wednesday 16 January

Japan machinery orders (Nov)

China house price index (Dec)

Germany and Italy inflation (final, Dec)

UK inflation and retail price index (Dec)

US retail sales (Dec) and business inventories (Nov)

Thursday 17 January

US Fed Beige Book

Australia consumer confidence (Jan), investment lending for homes and home loans (Nov)

Singapore exports (Dec)

Germany wholesale prices (Dec)

Indonesia monetary policy decision

Euro area inflation (final, Dec)

US building permits and housing starts (Dec)

US Philadelphia Fed manufacturing index (Jan)

Friday 18 January

Japan inflation (Dec) and industrial output (final, Nov)

Hong Kong business confidence (Q1)

UK retail sales (Dec)

US industrial production (Dec) and Michigan consumer surveys (Jan)

Special Focus

Global electronics sector slowdown hits APAC Exports

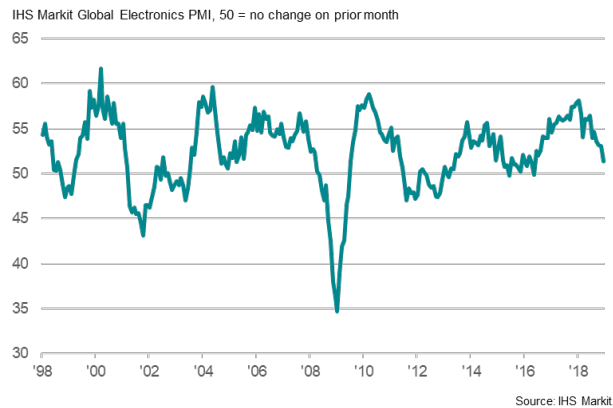
By Rajiv Biswas, Asia-Pacific Chief Economist, IHS Markit

After buoyant growth since mid-2016, the global electronics sector has experienced a significant slowdown in momentum during recent months. Many East Asian nations are vulnerable to this sharp downturn in new orders for electronics due to the importance of the sector for their exports and industrial production.

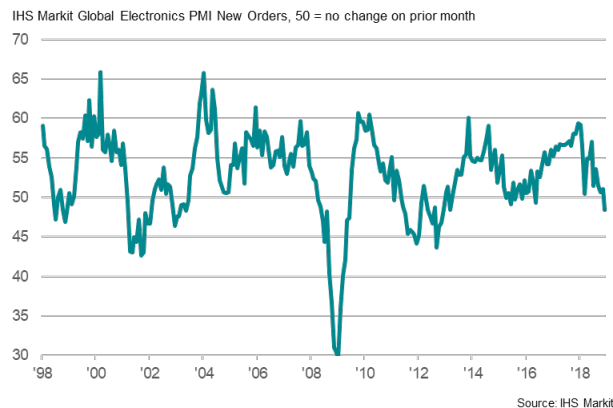
Global electronics sector weakens into the New Year

The global electronics industry is experiencing a considerable slowdown in growth momentum, according to the results of the latest IHS Markit Global Electronics Purchasing Managers' Index (PMI™) monthly survey, with the composite PMI index for December slowing its weakest rate of expansion since May 2016.

Global electronics PMI



Global electronics PMI new orders



The December Global Electronics PMI survey revealed a continued sharp slowdown in new orders, which contracted for the first time in 31 months at the end of 2018. Although the contraction was only marginal overall, the consumer electronics, communications equipment and computing equipment sub-sectors all recorded marked downturns in new orders, with only industrial electronics showing continued expansion in new orders.

The slowdown in global demand for smartphones has been a significant factor contributing to moderating global demand for electronics, with market leaders Apple and Samsung recording weaker smartphone sales in the second half of 2018. The impact of the US-China trade war on the Asian manufacturing supply chain has also had a negative impact on Asian electronics production and new orders during recent months.

APAC economies vulnerable to electronics downturn

Many APAC economies are particularly vulnerable to the slowdown in global electronics demand, due to the importance of the electronics industry for their exports and industrial production. The electronics industry is a key industrial sector, as well as an important export, for South Korea, Taiwan, China, Japan, Singapore, Malaysia, Vietnam, Thailand and the Philippines.

In South Korea, official data indicated that exports of information and communication technology (ICT) products contracted by 1.7% year-on-year in November 2018, the first decline recorded for two years. The slowdown was led by falling mobile phone exports, which slumped by 46% on a year ago in November, while display exports fell by 11.3% and exports of computers and peripherals declined by 10.1%. South Korean ICT exports to China fell sharply by 12.2% on a year ago in November, impacted by significant declines in exports of semiconductors, displays and smartphones.

In Taiwan, exports of electronic components fell annually by 9.9% in December, with total exports contracting by 3%, with subdued smartphone-related electronics exports an important contributory factor behind the weakening export performance.

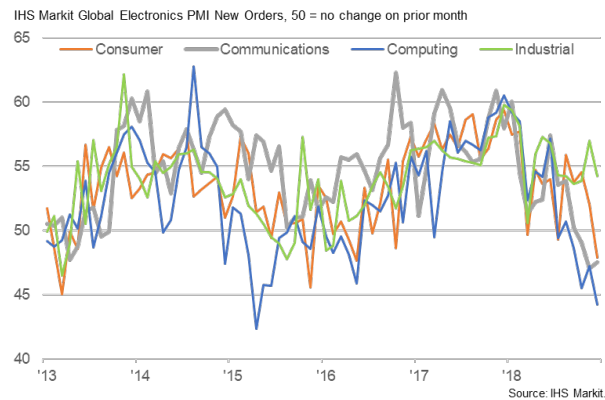
In Malaysia, exports of electrical and electronic products, which account for 36.8% of total merchandise exports, contracted by 1.7% on a year ago in November, and were down 18.8% month-on-

month. Thailand is also a significant exporter of electronic products, and total electronics exports fell by 7.7% on an annual basis in November.

Industrial electronics remain resilient

Despite evidence of weakening demand for computing equipment, communications equipment and consumer electronics, the industrial electronics sector has remained resilient. The December IHS Markit Global Electronics PMI survey indicated that the Industrial Electronics composite PMI was still showing strong expansion, with both output and new orders for Industrial Electronics still showing robust growth.

Global electronics PMI new orders by sector



A key structural positive trend for industrial electronics is the growth in demand due to the Fourth Industrial Revolution and the Internet of Things. According to IHS Markit Technology forecasts, the number of connected Internet of Things (IoT) devices globally will grow from 31 billion in 2018 to 125 billion devices by 2030. Around half of the growth in connected devices between 2018 and 2030 is forecast to be from commercial and industrial demand, for sectors such as industrial automation, building automation, automated lighting, as well as being boosted by intensifying government initiatives worldwide to develop smart cities. The global industrial automation equipment market is projected by IHS Markit Technology to reach USD 218 billion by 2019.

Outlook for global electronics

The near-term outlook for the global electronics sector has weakened considerably, with the IHS Markit Global Electronics PMI survey showing a sharp slowdown in new orders for most segments of the global electronics sector during the past three months. This signals that global electronics output and exports will continue to moderate in early 2019, resulting in a

further slowdown in electronics output and exports in many East Asian economies.

A further risk to the near-term electronics sector outlook is from the continuing US-China trade war, which could escalate further if no trade deal can be reached by 2nd March 2019, when the 90 day trade war truce agreed by President Trump and President Xi at their meeting at the G-20 Summit in Buenos Aires will expire. With the US having stated that its tariff levels on USD 200 billion of Chinese products could ramp up from the current rate of 10% to a rate of 25% if no trade deal is agreed, this could create a further negative shock for Chinese manufacturing exports, generating transmission effects that would hit the electronics manufacturing supply chain in other Asian countries. Chinese exports of electrical and electronic products such as printed circuits and electrical equipment are among the products targeted by the US tariff measures.

However, an important positive factor over the medium term for the global electronics industry will be the rollout of 5G smartphone devices, which is expected to provide some boost to smartphone sales and support a cyclical upturn in demand. While the impact of the rollout of 5G smartphones is expected to be limited during 2019 by lack of supporting 5G communications infrastructure, a greater rebound is likely during 2020-22, as the necessary infrastructure is put in place in nations leading the 5G rollout, including Australia, China, Japan, South Korea, the US and UK.

For further information:

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Contact for further APAC commentary:

Rajiv.Biswas@ihsmarkit.com or Bernard.Aw@ihsmarkit.com.

Editor and contact for European and US PMI commentary:

chris.williamson@ihsmarkit.com

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