

Week Ahead Asia-Pacific Economic Preview

- Flash PMI surveys to provide early clues on economic activity at start of 2019
- GDP data from China, South Korea and the Philippines
- ECB and BOJ set monetary policy alongside South Korea and Malaysia
- Special focus on the ASEAN Economic Outlook

Flash January PMI data will provide important insights into economic performance and price trends of major economies at the start of 2019, especially for the US, where official data releases are subject to delayed publication due to the government shutdown. December [PMI surveys](#) rattled financial markets, indicating that 2018 ended on a disappointing note for many countries, pushing the global PMI down to a 27-month low.

In Asia, the week kicks off with a number of countries reporting GDP figures. Undoubtedly, China's GDP data will be watched especially closely for clues of the likelihood of further stimulus. Japan, Korea and Malaysia are also set to decide on monetary policy, while trade data from Thailand, Taiwan and Japan could offer clues as to the trade-war impact on exports, particularly electronics.

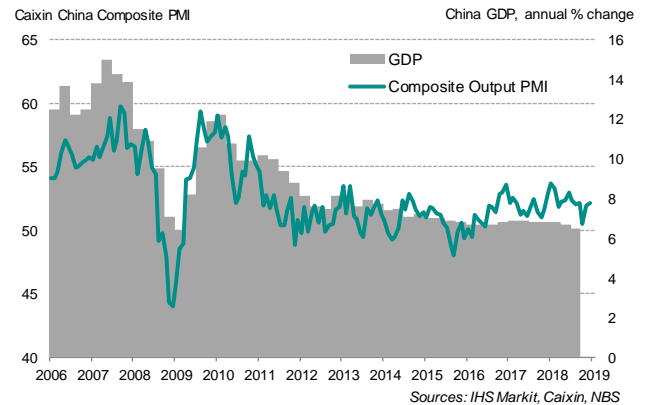
Elsewhere, the ECB holds its first monetary policy meeting of 2019, with analysts eager to see how the central bank will respond to growing signs of renewed weakness in the eurozone economy. Updated UK labour market data will meanwhile help frame the outlook for Bank of England interest rate policy.

Our special focus looks at the economic outlook for ASEAN in 2019 at a time where supply chains are shifting due to corporate responses to global trade tensions.

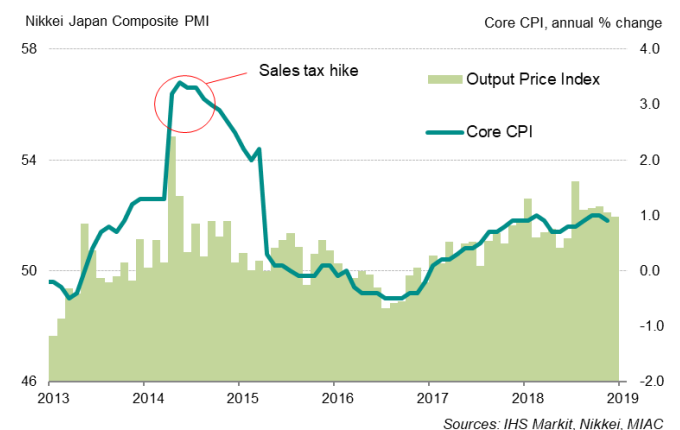
China GDP in focus

Official GDP statistics are expected to show the Chinese economy slowing to 6.4% in the final quarter of 2018, down from 6.5% in the third quarter. There are rising expectations of [further stimulus measures](#) from the Chinese government after pledges to raise fiscal spending as well as lower taxes and fees for small firms and manufacturers.

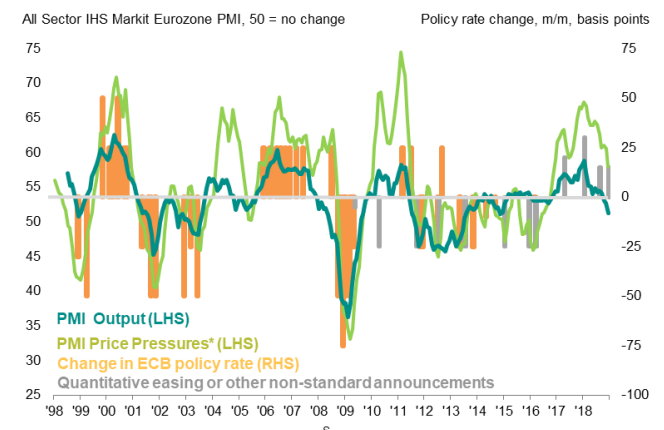
Caixin and NBS China manufacturing PMI



Japan PMI and inflation



ECB policy and the eurozone PMI



Continued...

South Korea will also report its fourth quarter GDP numbers, which are expected to show a slight pick-up in the pace of growth to 2.2% according to market estimates, though that would still be among the weakest seen over the past six years. Meanwhile, IHS Markit forecasts the Philippines' economy to have expanded at a 6% annual rate in the fourth quarter, the same rate as in the three months ending September.

Asian monetary policy

The Bank of Japan's Policy Board will decide on monetary policy in the coming week, but there is no indication of any changes to the current stance. The focus will instead be on the possibility of the BOJ lowering its inflation projection for fiscal 2019 to reflect recent falls in oil prices, reduced mobile phone fees and free pre-school education, all of which will further delay the achievement of the 2% inflation target. Meanwhile, the flash Nikkei Japan manufacturing PMI will indicate the performance of the economy at the start of the year, and hence provide important clues to future monetary policy.

The Bank of Korea is likewise expected to maintain monetary policy steady at its upcoming meeting, with the widely-anticipated slower pace of US rate tightening expected to provide more policy space for South Korea. The BOK raised its policy rate from 1.50% to 1.75% in November last year.

Malaysia is also setting monetary policy, but no adjustments are expected. With an expected slower growth momentum in 2019 (factoring in tighter government spending and slowdown in investment activity) as well as a weaker ringgit, Bank Negara Malaysia's near-term policymaking could be complicated. December Nikkei PMI data revealed [the strongest contraction](#) in the Malaysian manufacturing sector that has ever been recorded in the survey's six-and-a-half-year history.

Elsewhere

The US government shutdown means many economic data releases will likely be delayed, though flash PMI data will provide key insights into manufacturing and service sector trends in the US at the start of 2019. Recent data showed growth and price pressures moderating.

In Europe, the Eurozone flash PMI is published on the same day that the ECB's Governing Council meets to set monetary policy. Despite calling a halt to QE purchases in December, the recent disappointing slew of economic data out of Europe means rates hikes

from the ECB still look a long way off, with recent PMI data even moving down into territory more associated with a rate cut than a hike.

Monday 21 January

China GDP (Q4)
 China fixed asset investment (YTD, Dec)
 Thailand trade (Dec)
 Taiwan export orders (Dec)
 Germany consumer confidence (Feb)
 US trade, wholesale inventories, factory orders and new home sales (Nov) *Potentially subject to delay*

Tuesday 22 January

South Korea GDP (adv, Q4)
 Taiwan unemployment rate (Dec)
 US Monthly Budget Statement (Dec)
 UK claimant count change (Dec) jobless rate and average earnings (Nov)
 Euro area and Germany ZEW surveys (Jan)
 US existing home sales (Dec) *Potentially subject to delay*

Wednesday 23 January

Japan trade (Dec)
 BOJ interest rate decision and quarterly outlook report
 Malaysia and Singapore inflation (Dec)
 Taiwan industrial production and retail sales (Dec)
 Brazil business confidence (Jan)
 US retail sales (Dec) and business inventories (Nov) *Potentially subject to delay*
 Euro area consumer confidence (flash, Jan)

Thursday 24 January

IHS Markit Flash PMI surveys for Australia, Japan, US, Eurozone, Germany and France (Jan)
 Australia employment change and jobless rate (Dec)
 South Korea and Malaysia interest rate decision
 Philippines GDP (Q4)
 ECB interest rate decision
 US building permits and housing starts (Dec) *Potentially subject to delay*

Friday 25 January

UK consumer confidence (Jan)
 Singapore industrial production (Dec)
 Germany IFO surveys (Jan)
 US durable goods and new home sales (Dec) *Potentially subject to delay*

Special Focus

ASEAN GDP to exceed USD 3 trillion in 2019 with growth staying resilient

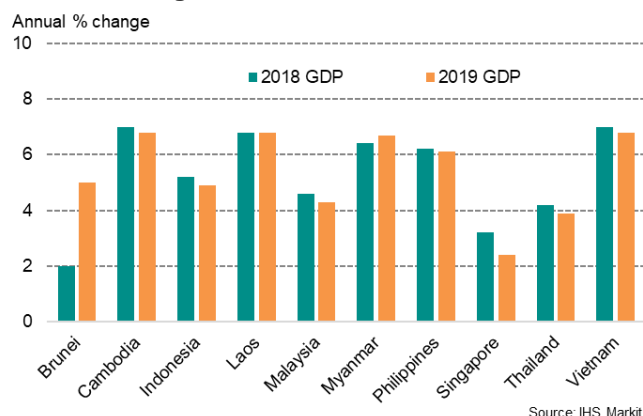
By Rajiv Biswas, Asia-Pacific Chief Economist, IHS Markit

Total ASEAN GDP is forecast to exceed the USD 3 trillion threshold for the first time in 2019, making the region an increasingly important growth engine for the Asia-Pacific region. ASEAN GDP growth is forecast to be resilient in 2019 despite rising economic headwinds from a number of factors, including moderating Chinese growth, the EU growth slowdown, transmission effects of the US-China trade war as well as the sharp downturn in global electronics sector new orders.

The ASEAN growth outlook in 2019

The ASEAN region has been one of the world's most dynamic regions over the past decade since the Global Financial Crisis. Total ASEAN GDP measured in nominal GDP terms has almost doubled from USD 1.6 trillion in 2009, and is projected to surpass the USD 3 trillion threshold for the first time in 2019. Regional GDP growth is expected to remain resilient, at a pace of 4.8% in 2019, albeit moderating slightly from 5% in 2018.

ASEAN GDP growth forecast for 2019



The rapid growth of the ASEAN region has reflected a broad range of factors, including sustained strong export growth to key APAC markets, notably China, as well as robust growth in domestic demand. The significant decline in world oil prices since October 2018 has helped to reduce inflationary pressures, helping to contain risks of further monetary policy tightening by a number of ASEAN central banks which had been raising policy rates in 2018.

The sustained strong growth of the Indonesian economy over the past decade has been a key factor underpinning the substantial expansion of total ASEAN GDP, since Indonesia is the largest economy in ASEAN, accounting for around one-third of regional GDP. Buoyant growth in the Philippines and Vietnam over the past decade have also been significant contributors to the overall expansion in ASEAN GDP since the Global Financial Crisis.

Headwinds to ASEAN Growth

Although the overall pace of ASEAN economic growth is forecast to remain resilient during 2019, the region is expected to face a number of significant headwinds.

A key risk to the ASEAN economic outlook is from the US-China trade war. Despite the current trade war truce that is in place until 2nd March, a significant risk to the 2019 economic outlook would be from a further escalation of bilateral tariff measures if a trade deal cannot be reached. This could further dent China's growth rate and further reduce export orders in 2019, which would result in significant negative transmission shock waves to the East Asian manufacturing supply chain. Major ASEAN export manufacturing hubs such as Singapore, Malaysia and Thailand would be vulnerable to such a shock.

Many ASEAN economies are also vulnerable to the current slowdown evident in global electronics demand ([see our Special Focus last week](#)), 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 Singapore, Malaysia, Vietnam, Thailand and the Philippines.

Some moderation in economic growth momentum in key ASEAN export markets, notably the EU, is also expected to contribute to a further dampening of ASEAN export growth. A 'hard' Brexit scenario if the UK leaves the EU without any deal in place could also trigger a deep and protracted recession in the UK economy, which would further erode the growth outlook for the Western European region, negatively impacting ASEAN exports.

The Long-term ASEAN economic outlook

Despite the headwinds, the ASEAN region is forecast to continue to be one of the world's most rapidly growing regions over the next decade, with total regional GDP increasing from USD 3.1 trillion in 2019 to around USD 7.6 trillion by 2030. By 2030, total

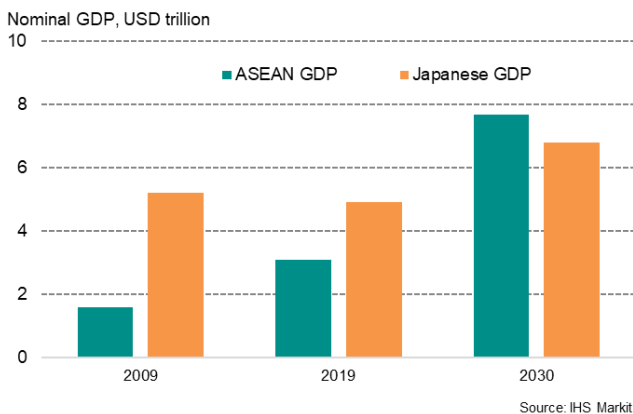
ASEAN GDP is forecast to exceed Japanese GDP, which is projected to be USD 6.8 trillion in that year.

The further ascent of Indonesia as one of the world's largest emerging markets will be a key long-term factor underpinning the economic ascendancy of ASEAN as a regional economic bloc, with the rapidly growing Indonesian consumer market creating an important catalyst for intra-ASEAN export growth. The economies of Malaysia, Thailand and the Philippines are projected to be approaching the threshold of USD one trillion economies, further contributing to the rising economic importance of the ASEAN region as a growth engine for the APAC region.

Important factors underpinning this rapid pace of growth are expected to be strong growth in domestic demand, driven in turn by private consumption and public infrastructure spending.

ASEAN's role as an increasingly important global manufacturing hub for global multinationals is also expected to support regional growth. Countries such as Vietnam, Philippines and Myanmar look set to attract increasing foreign direct investment into manufacturing segments such as low value-added textiles and electronics as China's competitiveness in such sectors is gradually eroded by rising manufacturing labour costs.

ASEAN GDP compared to Japan



Strong export growth to APAC markets will also be an important long-term growth driver, helped by the continued rapid growth of large APAC consumer markets, notably in China and India.

Due to the sustained strong growth projected for major ASEAN economies over the next decade, led by Indonesia, intra-ASEAN trade is also forecast to be an important contributor to regional growth.

Regional initiatives for trade liberalisation, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP), will continue to support regional trade growth, together with new bilateral Free Trade Agreements such as the EU-Vietnam FTA.

The ASEAN region is also expected to grow in importance as a key location for global manufacturing, boosted by the rapid growth of large domestic consumer markets in populous nations, notably Indonesia, the Philippines and Vietnam, as well as its proximity to the vast Chinese consumer market. Strong ongoing investment in infrastructure connectivity will be an important factor helping to drive regional trade and investment flows.

Over the decade ahead, the economic ascendancy of the ASEAN region will consequently continue to build an increasingly important third growth engine for the APAC region, in addition to the emerging markets giants of China and India.

For further information:

To gain an up-to-date insight into economic trends in the ASEAN region, the PMI business surveys provide valuable information on a wide variety of variables. See page 5 for further details and an overview of the latest trends.

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Nikkei ASEAN Manufacturing PMI™

To gain an up-to-date insight into economic trends in the ASEAN region, the PMI business surveys provide valuable information on a wide variety of variables.

PMI surveys are the first indicators of economic conditions published each month and are especially valued in being available well ahead of comparable data produced by government bodies. PMIs are now produced in over 40 countries by IHS Markit, generating economic indicators that are widely used by central banks, government bodies and the private sector. The ASEAN Manufacturing PMI™ (Purchasing Managers' Index™), produced by IHS Markit from a representative panel of around 2,100 manufacturing firms, includes data for Indonesia, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. Taken together, these countries account for an estimated 98% of ASEAN manufacturing activity.

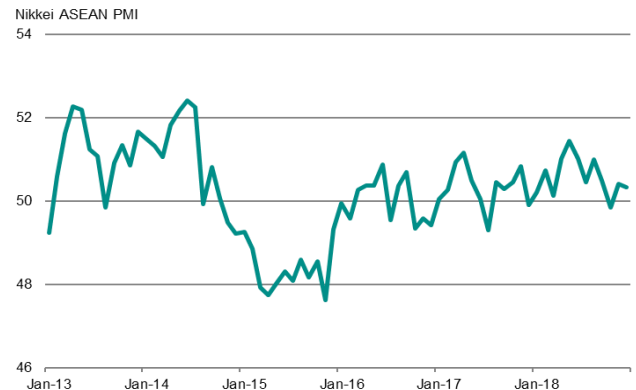
The December PMI data highlight how manufacturing growth in the ASEAN region has slowed since earlier in 2018, largely in response to weakened export order book growth, in turn often blamed by contributing companies on slower global economic growth. The [global PMI surveys](#) showed the pace of worldwide economic expansion slipping to a 27-month low in December, with global exports falling for a fourth successive month.

Five of the seven monitored ASEAN countries recorded an improvement in operating conditions during December. Once again, [Vietnam saw the strongest upturn](#), rounding off a robust 2018, despite growth easing from the particularly strong rate seen in November.

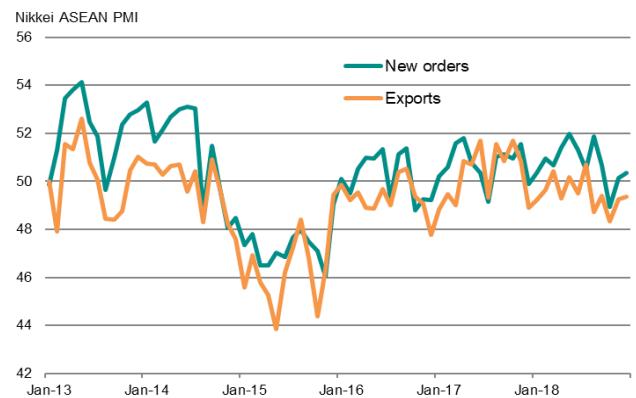
In contrast, Malaysia and Singapore saw solid declines in the health of their manufacturing sectors. Both countries recorded lower output for the third successive month, indicating a weak final quarter for businesses.

The ASEAN surveys meanwhile showed the rate of input cost inflation weakening substantially across the region in December, amid reports of falls in market prices for items such as crude oil and many metals. The pace of input price inflation dropped to its lowest for just over two years, with Thailand and Vietnam reporting an outright decline in prices. Subsequently, factory selling prices increased at the softest pace since December 2016.

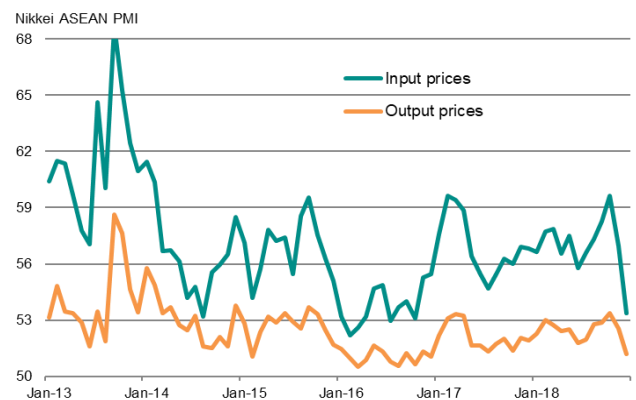
Nikkei ASEAN Manufacturing PMI™



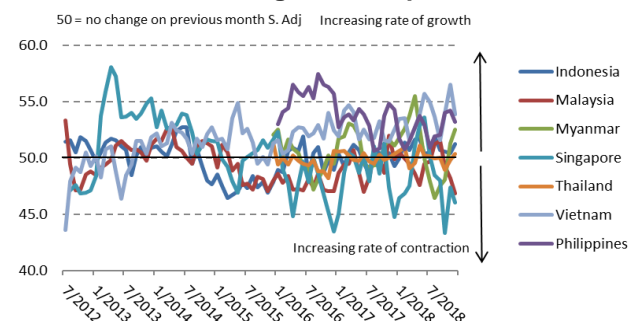
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Prices



ASEAN manufacturing PMI comparisons



Sources: Nikkei, IHS Markit