

Week Ahead Asia-Pacific Economic Preview

- China trade, credit and direct investment data
- Japan and Malaysia GDP
- Further US-China trade talks
- Special report on Japan-EU economic pact

Returning from its Golden Week break, China's data releases will be among the highlights of the coming week, providing fresh clues into economic trends at the start of the year. The official data follow Caixin and government-sponsored manufacturing PMI surveys, both of which signalled another deterioration. Further US-China [trade talks](#) in the same week will also attract great interest.

Japan and Malaysia will meanwhile report fourth quarter GDP figures, with a focus on the former after natural calamities hit output in the third quarter. In Asia, other notable data releases included South Korea's unemployment rate, trade data from the Philippines and Indonesia, as well as inflation figures in India and Taiwan.

Elsewhere, with the temporary end of the partial US government shutdown, [new release dates](#)* for affected data, including GDP, were announced. GDP figures in Euro area and Germany as well as UK inflation will also be closely monitored.

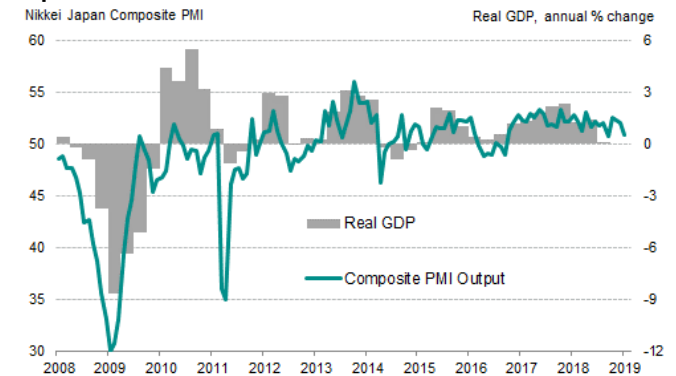
Our special report this week focuses on the newly-signed Japan-EU economic partnership agreement.

Japan's economic rebound

Following weak economic activity in the third quarter, hurt by natural disasters, analysts are eagerly awaiting Japan's fourth quarter GDP numbers. Expectations are for a rebound in growth, driven by a revival in capex and consumer spending. According to a [Reuters poll](#), the Japanese economy is expected to have expanded by a quarterly rate of 0.4%, up from a contraction of 0.6% in the three months September.

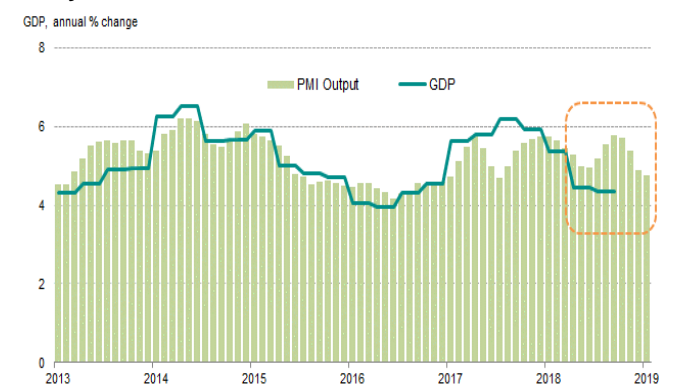
The rebound may prove short-lived, however, as the January Nikkei PMI surveys failed to provide much optimism for the growth outlook at the start of the year. PMI data indicated only marginal growth in Japan's combined output, dragged by a weakening expansion in the [manufacturing sector](#) expansion amid global trade tensions.

Japan PMI and GDP



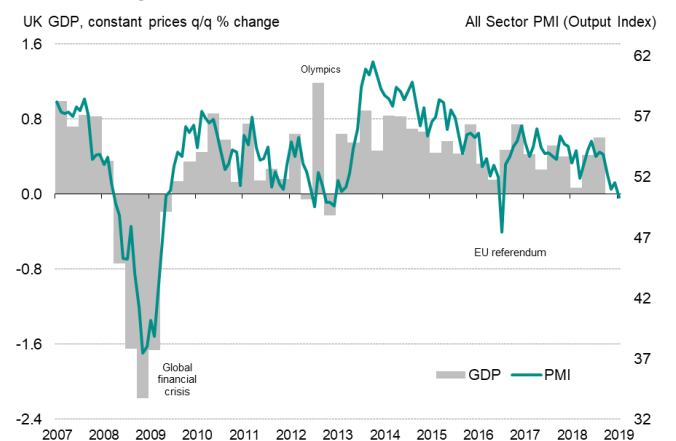
Sources: IHS Markit, Nikkei, Japan Cabinet Office

Malaysia PMI and GDP



Sources: IHS Markit, Nikkei, DoS

United Kingdom GDP



Sources: IHS Markit, CIPS, ONS.

Continued...

Assessing China

Slowing Chinese growth remains a key concern given the importance of China in the global economy. Caixin PMI data indicated a disappointingly modest improvement in Chinese business conditions during January, registering one of the weakest gains in three years of growth, weighed by manufacturing weakness. The bright spot was a revival in new export business. As such, China watchers will eagerly monitor official data, including FDI, trade, credit and money supply, for clues as to whether Chinese economic activity continued to weaken at the start of the year.

Malaysia GDP

Malaysian Q4 GDP figures are forecast by IHS Markit to show the Malaysian economy growing at an annual rate of 4.3% in the fourth quarter, similar to the 4.4% recorded for the three months to September. This would translate into 4.6% growth for 2018 as a whole. PMI-based GDP comparisons are consistent with an annual GDP rate of just below 5% for the final three months of last year. That said, [January PMI data](#) are not particularly encouraging, with unfavourable domestic demand conditions reported in the manufacturing sector. Meanwhile, December updates to industrial production and the unemployment rate will also be scoured for insights into latest Malaysian economic developments.

Rest of world

US Fed watchers will be eager to see updated industrial production, retail sales, business inventories and inflation numbers. The Fed signalled a pause in its monetary tightening after hiking rates four times in 2018, awaiting greater clarity on the health of the economy. [IHS Markit's PMI surveys](#) have indicated steady US growth of 2.5% in January, though the pace of expansion has clearly eased since the first half of last year and price pressures have moderated.

Brexit discussions and another key vote by the UK Parliament will meanwhile be monitored closely by European markets as the 29th March exit date draws closer. GDP data for the UK and Eurozone will also be keenly awaited after a clutch of official and survey data have hinted that escalating European political uncertainty and global trade war worries are taking an increasing toll on economic growth rates in Europe. Survey data indicate that [euro area](#) and [UK](#) growth rates continued to weaken into January and that risks of recessions have risen.

Monday 11 February

Malaysia industrial production and jobless rate (Dec)
 UK GDP, trade balance and industrial production (Dec)
 UK GDP (prelim, Q4)
 Eurogroup meeting

Tuesday 12 February

Australia business confidence (Jan) and home loans (Dec)
 Philippines trade (Dec)
 China FDI (Jan)
 Taiwan inflation (Jan)
 India industrial production (Dec) and inflation (Jan)
 US JOLTS job openings (Dec)

Wednesday 13 February

South Korea unemployment rate (Jan)
 Australia consumer confidence (Feb)
 RBNZ interest rate decision
 UK inflation and retail price index (Jan)
 Visa's UK Consumer Spending Index (Jan)
 Euro area industrial production (Dec)
 Brazil retail sales (Dec)
 US inflation (Jan)

Thursday 14 February

Japan GDP (prelim, Q4)
 China trade, new yuan loans, total social financing and M2 (Jan)
 Malaysia GDP (Q4)
 India WPI (Jan)
 Germany GDP (flash, Q4)
 Euro area GDP (Q4) and employment change (prelim, Q4)
 US retail sales (Dec) and business inventories (Nov)
 UK Parliament Brexit Withdrawal Agreement vote

Friday 15 February

China inflation (Jan)
 Indonesia trade (Jan)
 Japan industrial production (final, Dec)
 Taiwan trade (Jan)
 Spain inflation (final, Jan)
 Euro area trade balance (Dec)
 US industrial production (Jan) and Michigan surveys (Feb)

*Latest US data release calendars: [BEA](#), [US Census](#), [BLS](#).

Special Focus

The Economic Impact of the New Japan-EU Economic Partnership Agreement

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

Japan's economic reform agenda has started the New Year on a high, with the implementation of both the Japan-EU Economic Partnership Agreement (EPA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) deals in quick succession. The new Japan-EU EPA came into effect from 1st February 2019, with the long-term cumulative economic impact estimated to boost Japanese real GDP by around 0.9% by 2035.

Japan's third arrow economic reforms and trade liberalisation agenda

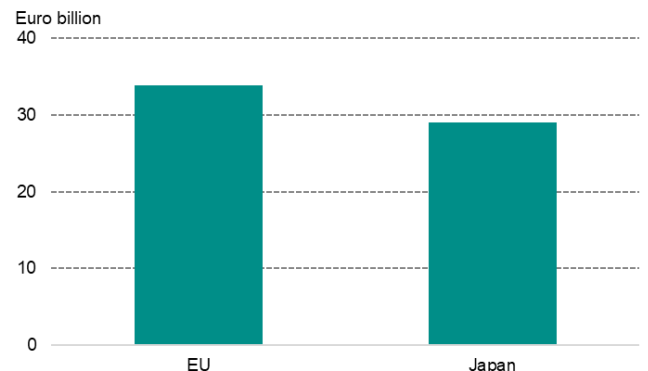
The impact of ageing demographics and Japan's declining population have become an important factor that has been gradually eroding Japan's potential economic growth rate. The Bank of Japan has estimated that Japan's potential GDP growth rate has slowed to a range of 0.5% to 1% in recent years. A key focus of the economic reform initiatives launched by Prime Minister Abe when he took office in 2012 has been to help mitigate the impact of demographic ageing on the Japanese economy and society. This has remained a key priority during his leadership.

The "Third Arrow" reforms launched by his LDP government have sought to introduce wide-ranging structural changes, including initiatives such as labour market reforms, easing immigration restrictions on foreign workers and trade liberalisation measures.

The combined economic impact of the EU-Japan EPA and the CPTPP form a central part of the 'Third Arrow' reforms. The long-term economic boost from CPTPP alone is estimated by the Japanese government at Yen 8 trillion, equivalent to around 1.5% of GDP for 2018. The EU-Japan EPA is meanwhile estimated to boost Japan's long-term GDP by around Yen 5 trillion, equivalent to around 0.9% of GDP in 2018.

The total economic benefits of the CPTPP deal together with the new Japan-EU EPA are therefore estimated by the Japanese government to lift Japan's long-term GDP level by Yen 13 trillion (USD 117 billion), equivalent to around 2.4% of Japan's GDP in 2018, once both agreements are fully implemented.

Japan-EU EPA: GDP Impact by 2035

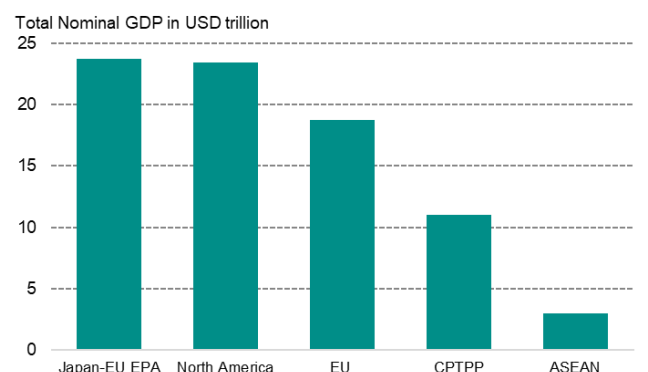


Source: European Commission DG for Trade.

Japan's auto sector is estimated to be the largest winner from these two major trade deals. Other key sectors of Japanese industry that will benefit from the new Japan-EU EPA will be other transport equipment products as well as metal products and machinery and equipment.

Japan's new trade deals will help to improve the competitiveness of Japanese manufacturing exports in a number of major export markets, notably the EU, Canada and Mexico. The EU already has a free trade agreement in place with South Korea, so the new EU-Japan EPA will help to improve the relative competitiveness of Japanese manufacturing exports versus South Korean manufactures in the EU market. EU duties of 10% on Japanese auto imports will be removed over 8 years, while 90% of EU duties on Japanese car parts will be removed immediately.

Japan-EU EPA Compared to other FTAs



Source: IHS Markit.

Economic impact on the EU

The economic impact of the new Japan-EU EPA is relatively smaller for the EU economy as compared to Japan. This reflects the smaller size of the Japanese economy, which is around 27% of the GDP of the EU.

Whereas Japan accounts for around 3% of total EU exports, the EU accounts for around 12% of total Japanese exports. Nevertheless, the total economic impact on the EU economy is expected to be Euro 34 billion, in terms of the total increase in EU GDP by 2035, according to European Commission projections.

A key EU industry sector that is expected to achieve significant economic gains is business services. The EU dairy and processed foods, leather and textiles sectors are also expected to benefit from the improved market access to Japan's large consumer market.

Once fully implemented, the Japan-EU EPA will remove 99% of customs duties for EU imports into Japan. However, trade liberalisation measures under the Japan-EU EPA extend far beyond tariff reduction, and include significant liberalisation of non-tariff barriers and improved protection of intellectual property rights. An important area of improved market access for the EU is to Japan's public procurement markets for 48 core Japanese cities, as well as improved access to Japanese public sector construction contracts.

The Japan-EU EPA also contains a chapter on investment which will improve the business climate for bilateral foreign direct investment, including liberalising requirements such as those relating to local content.

Brexit impact

One potential loser from the new Japan-EU EPA is the United Kingdom, which is currently pursuing negotiations to exit the EU by 29th March 2019. The UK Government anticipates that one of the economic benefits of Brexit is that it will allow the UK to have the freedom to negotiate new free trade deals with key trade partners. However, if the UK leaves the EU without any agreement to remain in the EU Customs Union, then it will no longer benefit from, or be a party to, the new Japan-EU EPA.

The new Japan-EU EPA may therefore result in some trade diversion effects away from the UK if the UK

leaves the EU and also the EU Customs Union, as the competitiveness of EU exports into the Japanese market will be improved relative to the UK. However, it is possible that the UK could transition to a new bilateral economic partnership with Japan based on the final terms of the EU-Japan EPA.

Due to the significant reduction of EU tariffs on Japanese exports of key products such as autos to the EU, the UK would also lose relative competitiveness as a hub for Japanese foreign direct investment in sectors such as auto manufacturing. The mounting concerns of Japanese multinationals about the post-Brexit UK business environment is already becoming increasingly evident, as reflected in Nissan's decision to cancel plans to build the new model X-Trail SUV at its Sunderland plant in the UK. Japanese auto manufacturers produce around 800,000 vehicles annually in the UK, amounting to around half of total UK production.

Outlook

The new Japan-EU TPA has created a major new free trade agreement among nations accounting for around 30% of world GDP. For both the EU and Japan, the new agreement provides positive new momentum for global trade liberalisation following a turbulent year of rising global protectionism during 2018, including the outbreak of the US-China trade war.

The trade deal is expected to provide a significant boost for bilateral trade flows, with Japanese industries such as auto manufacturing and EU industries such as food processing expected to see significant increases in exports over the medium-term outlook as tariff and non-tariff barriers are removed.

For further information:

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