

Week Ahead Economic Preview

Global overview

- US FOMC and BoE meetings
- Flash PMIs for US, Japan, Euro-area and Australia
- UK Brexit deal set for third parliamentary vote

A week in which the US Fed and the Bank of England meet to set monetary policy also sees the release of flash PMIs for the US, Eurozone, Japan and Australia – as well as the potential for further Brexit drama.

Although no changes are expected at upcoming monetary policy gatherings, the Fed and Bank of England have both switched to a more dovish stance after tightening last year, and the press conferences from the meetings will be scoured for indications of any further shift in tone.

The renewed caution largely reflects concerns about slowing global growth, meaning the flash PMI survey updates will be especially closely watched for clues as to whether the global economy continued to lose momentum in March, and hence whether central banks will grow more concerned about downside risks. February PMI data showed that the pace of global economic growth remained [among the weakest since 2016](#), led by a near-stalling of manufacturing output and falling trade flows. Inflation indicators also continued to cool.

With the Reserve Bank of Australia having highlighted the risk that the next policy move could be a rate cut, and the Bank of Japan having likewise changed tack from hawkish rhetoric last year, PMIs will add context to upcoming policy meetings.

The ECB has of course already gone one step further and announced further measures to stimulate the flagging eurozone economy. Importantly, the PMI will help identify the extent to which the recent slowdown has been due to temporary one-off factors.

Sympathy meanwhile goes out to Bank of England policymakers, who face a particular uncertain outlook for the UK amid on-going Brexit discussions. The week is set to see a third attempt by the Prime Minister to seal parliamentary agreement on her Brexit deal. Failure to do so puts a question mark over Theresa May's leadership and, some speculate, could even spark a snap general election.

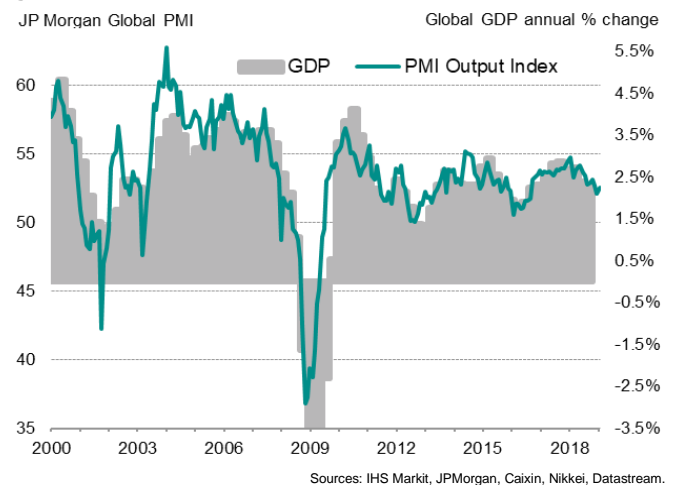
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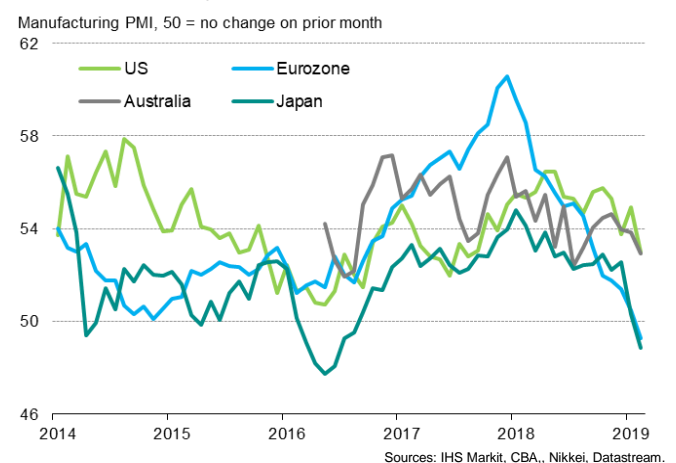
Special reports

- 6 Asia Focus: Economic Impact of the New Australia-Indonesia Trade Deal

Flash PMI data will provide signals of global economic growth momentum



Flash manufacturing PMI surveys weakened across the board in February



Key diary events

Monday 18 March

Japan trade (Feb) and industrial output (final, Jan)
Singapore NODX (Feb)
Euro area trade balance (Jan)

Tuesday 19 March

Australia house price index (Q4) and RBA minutes
Hong Kong jobless rate (Feb)
Italy trade balance (Feb)
Poland employment (Feb)
UK unemployment rate and earnings (Jan), claimant count change (Feb)
Euro area construction output (Jan), wages and labour costs (Q4)
Euro area and Germany ZEW surveys (Mar)
US factory/durable goods orders (Jan)

Wednesday 20 March

BOJ meeting minutes
Malaysia inflation (Feb)
Thailand monetary policy decision
Taiwan export orders (Feb)
Germany producer prices (Feb)
UK inflation and producer prices (Feb)
UK CBI survey (Mar)
Russia jobless rate (Feb)
ECB non-monetary policy meeting
US MBA mortgage applications
FOMC meeting press conference
New Zealand GDP (Q4)

Thursday 21 March

Brazil, Indonesia, Philippines and Taiwan monetary policy decisions
Australia jobless rate and employment change (Feb)
Hong Kong inflation (Feb)
Thailand trade (Feb)
UK retail sales (Feb)
BoE monetary policy meeting
Euro area consumer confidence (flash, Mar)
US jobless claims
US Philly Fed survey (Mar)
Australia flash CBA PMI, composite, manufacturing and services (Mar)
Japan inflation (Feb)

Friday 22 March

IHS Markit flash PMI surveys for Japan, US, Eurozone, Germany and France (Mar)
Taiwan jobless rate (Feb)
Russia monetary policy decision
US wholesale inventories (Jan), existing home sales (Feb)

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United States Week Ahead

FOMC meets, flash PMI gives fresh insights into Q1 economic health

By **Chris Williamson**

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The FOMC meeting forms the main event in the US economic calendar, with updated PMI surveys providing key insights into economic trends at the end of the first quarter.

FOMC meeting

US policymakers have signalled a more cautious approach to rate hikes, mainly in response to recent indications of slower economic growth. IHS Markit's Macroeconomic Advisers team is currently expecting the FOMC to implement just one fed funds rate hike in 2019 and another in 2020. The March meeting consequently looks likely to be one in which the FOMC sits on its hands and awaits more clarity as to the economic outlook.

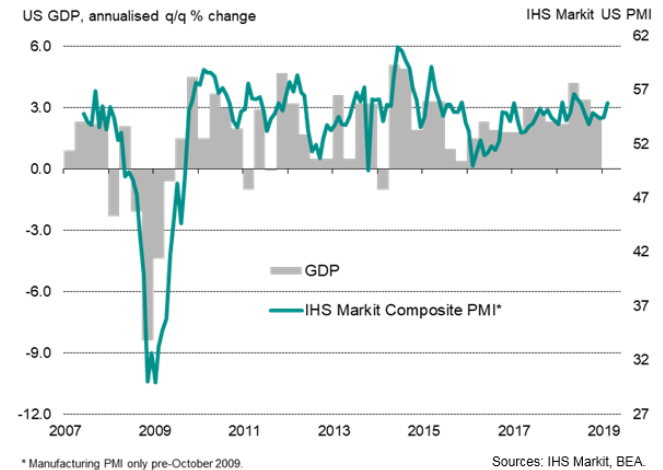
Flash US PMI surveys

Clues as to further Fed policy will therefore be gleaned from updated economic data for March from IHS Markit's flash PMI surveys. IHS Markit's US economists produce a GDP tracker based on a wide variety of data sources, which is currently pointing to a modest 1.1% expansion in the first quarter. However, the PMI surveys revealed a [growing dichotomy in the US](#) in February, with manufacturing at near-stagnation while service sector growth accelerated. The solid service sector gain suggests economy is in fact growing at an underlying rate similar to the 2.6% GDP growth recorded in Q4 of last year, suggesting some upside risk to recent weak nowcasts.

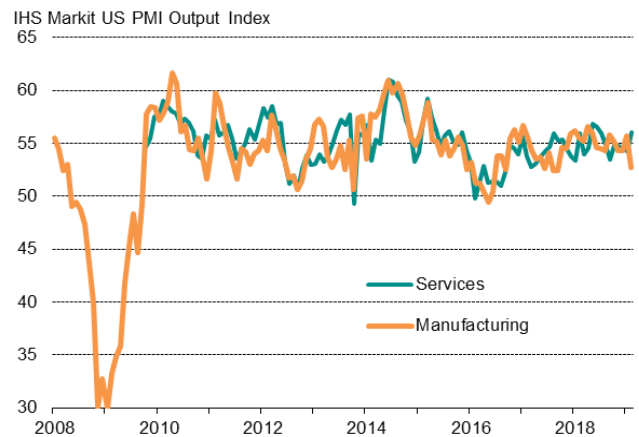
The March PMIs will therefore be especially important to watch to see if the manufacturing slowdown will spill over to the service sector, dampening economic growth in coming months. Companies themselves certainly appear to have become more circumspect. Business optimism about the outlook cooled in February amid worries over the impact of tariffs, trade wars, higher prices and rising interest rates. Manufacturing sentiment fell especially sharply to the second-lowest in just over two years, while service sector optimism also waned to one of the weakest seen over the past year.

Other key data releases include factory orders, wholesale inventories, existing home sales, the Philly Fed survey and weekly jobless claims.

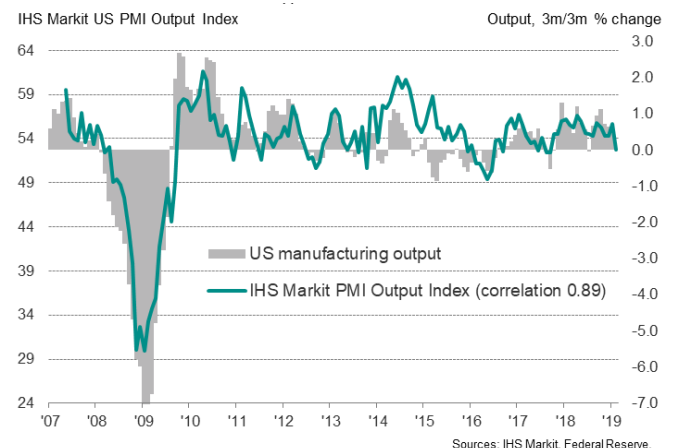
IHS Markit PMI and suggested some upside risk to US GDP Q1 forecasts



IHS Markit PMI data showed a weakening US manufacturing expansion but solid service growth



US manufacturing growth appears to have almost stalled



Europe Week Ahead

Key Brexit vote (again), BoE meeting and flash Eurozone PMI

By **Chris Williamson**

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A busy week for Europe sees the Bank of England set monetary policy amid an increasingly volatile political backdrop as Brexit uncertainty intensifies. A clutch of updated UK official statistics will also add to insight into how the economy is faring as Brexit draws closer.

In the eurozone, flash PMI data will give clues as to whether the ECB is likely to further step up its renewed shift to a more dovish stance, or whether business conditions are picking up after being dampened by one-off factors.

Brexit vote

An increasingly shaky-looking UK Prime Minister is scheduled to attempt to gain parliamentary approval for her Brexit deal on March 20th. The deal has already been voted down twice by parliament, but PM May will be hoping that Eurosceptic MPs will come on board to avoid a growing likelihood of Brexit being delayed. A failure to get the vote passed will lead to increased speculation regarding the tenability of the PM's leadership.

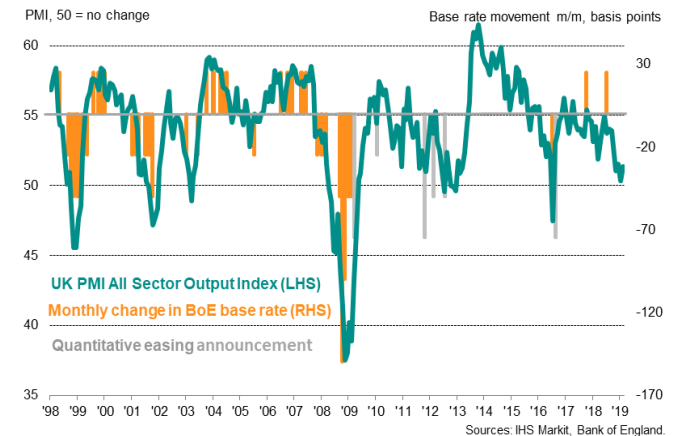
In this context, Bank of England policymakers can only sit and watch to see how Brexit plays out. The bank is therefore not expected to make any changes, having hiked the Bank Rate twice last year to 0.75%. UK labour market data, retail sales and inflation numbers are also updated, and follow [signs that the economy has lost considerable growth momentum](#) in recent months.

Eurozone PMI

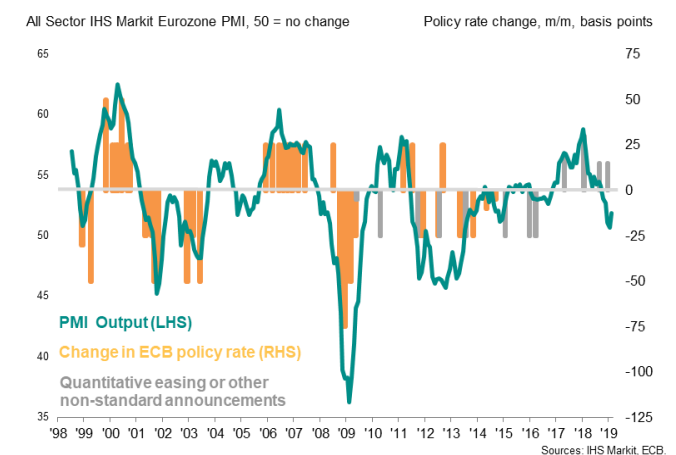
The Eurozone PMI is meanwhile updated with flash estimates for manufacturing, services and composite numbers for the area as a whole as well as details for France and Germany. [Weak survey data](#) contributed to a decision by the European Central Bank to adopt a more dovish stance at its recent meetings, culminating in the provision of more banking sector loans at its March meeting and renewed forward guidance which indicated that interest rates are now not expected to rise until at least the end of 2019.

The PMIs will be scoured in particular for signs that the negative impact from auto sector emissions regulations and civil unrest in France will have started to ease.

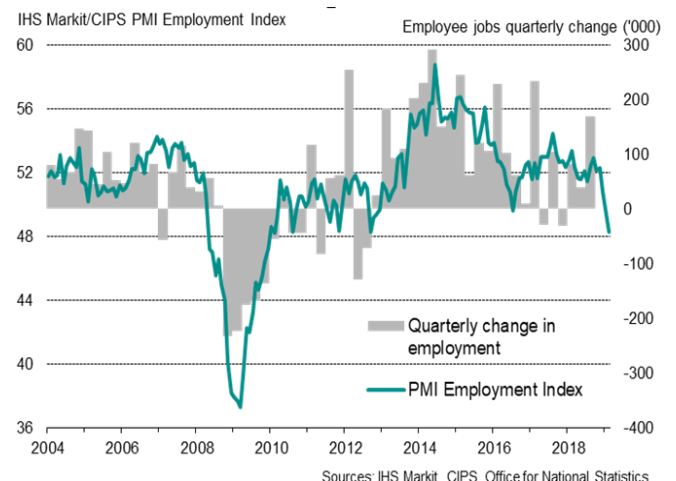
The Bank of England meets to set policy amid signs that the UK economy is close to stalling



The Eurozone flash PMI is updated for March, and follows renewed stimulus from the ECB



Survey data suggest UK jobs growth has weakened



Asia Pacific Week Ahead

Key central bank meetings plus PMI surveys for Japan and Australia

By **Bernard Aw**

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Central bank meetings and flash PMI surveys will lead Asian market moves in the coming week. Four regional central banks hold policy meetings. Other key Asian data releases include inflation for Japan and Malaysia, Taiwan's exports and Japan's trade. Thailand's general elections also take place on 24th March.

Our special report this week looks at the new Indonesia-Australia trade agreement.

Flash PMI surveys

Flash PMI surveys include March updates for both Japan and Australia. February PMI data had shown the pace of global economic growth remaining [among the weakest since 2016](#), with Australia slipping into contraction and Japan's goods-producing sector in a deepening downturn.

Asian central bank meetings

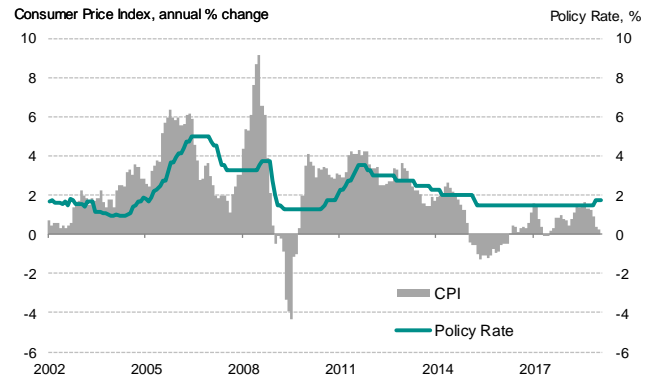
Four Asian central banks meet to set policy in a week which includes the US FOMC meeting. Policy decisions in Taiwan, Thailand, Indonesia and the Philippines will be eyed for signs of increased dovishness amid the slowdown in the global economy.

In Thailand, despite general elections holding the limelight, analysts will watch closely the Bank of Thailand's monetary policy meeting. Two committee members argued for a 25bps increase in February, but the case for further rate hikes is looking increasingly shaky given expectations of moderating growth, subdued inflation, baht strength and rising global trade protectionism. That said, another unchanged decision is widely expected.

With the rupiah enjoying renewed strength in 2019, Bank Indonesia is expected to retain its current stance and keep its policy rate steady, particularly when the Fed is seen to be on hold for the time being. The central bank has also indicated that, moving forward, it will rely on macroprudential adjustments to bolster the economy after unleashing a flurry of rate hikes in 2018.

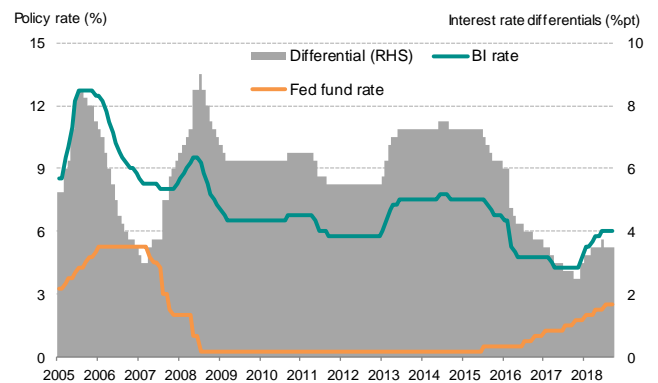
Analysts will watch for any surprises by the Philippine central bank (BSP). Inflation has cooled to the BSP's 2-4% target, and new governor Benjamin Diokno recently noted that there is scope to ease policy, which may include cutting the reserve requirement ratio.

Thailand monetary policy and CPI



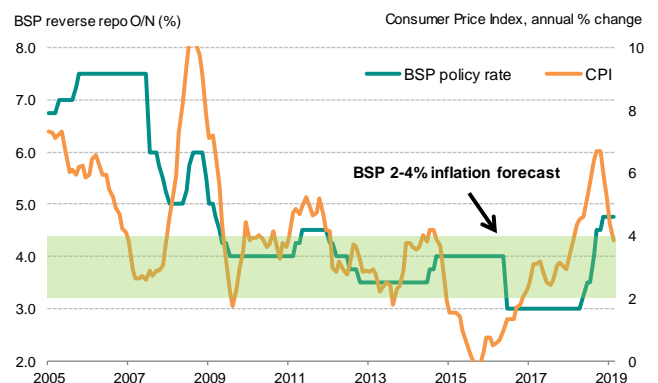
Sources: Ministry of Commerce, Bank of Thailand

Policy rates: Indonesia and the US



Sources: Federal Reserve, Bank Indonesia

Philippines monetary policy and CPI



Sources: PSA, BSP

ASIA Special Focus

The Economic Impact of the New Australia-Indonesia Trade Deal

By **Rajiv Biswas**

Asia-Pacific Chief Economist, IHS Markit

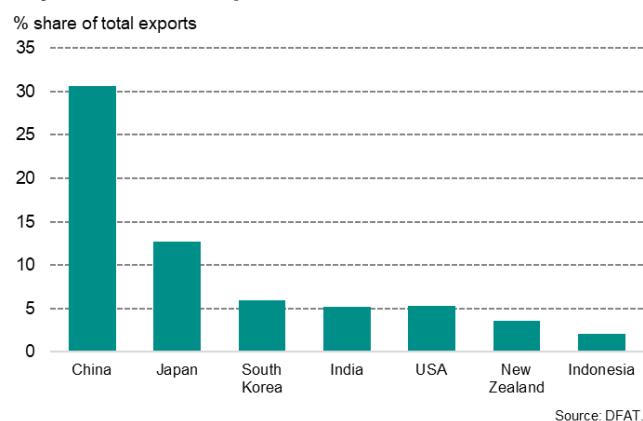
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The new Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA), concluded between the Australian and Indonesian governments in Jakarta on 4th March, further strengthens the momentum for trade liberalisation in the Asia-Pacific region. The new agreement still requires ratification by parliaments, which is currently expected to take place following upcoming national elections in both nations.

Australia-Indonesia Trade Flows

The economic stature of Indonesia as a major regional trade partner has continued to increase, with the Indonesian economy becoming the latest of a select few Asia-Pacific nations to achieve a total GDP of over USD 1 trillion. Indonesia is also the largest economy in the ASEAN region, making it a key growth market for Australian exports and investment.

Key Australian Export Markets in 2017-18



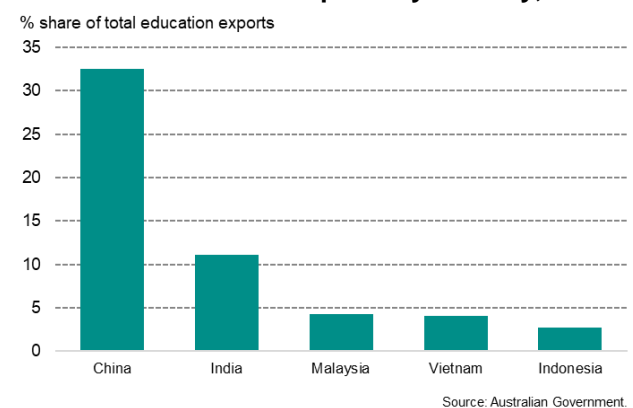
The fast-growing Indonesian consumer market has become an important growth market for Australian exporters, with Indonesia having become Australia's 13th largest trade partner in 2017-18, with bilateral trade reaching AUD 16.8 billion. Total Australian exports to Indonesia in 2017-18 reached 2.1% of total exports, albeit still far behind the share of Australian

exports going to China (30%), Japan (12.7%), South Korea (5.9%) and India (5.2%).

Under the terms of the new IA-CEPA, this will allow 99% of Australia's goods exports to enter Indonesia duty free or with significantly improved preferential arrangements, and all of Indonesia's goods exports will enter Australia duty free. The IA-CEPA terms also will result in reduced non-tariff barriers to bilateral trade.

Importantly, the new trade agreement will also reduce barriers to trade in services, such as healthcare, education and mining services. Australian education exports to Indonesia were estimated to have reached USD 833 million in 2017, accounting for 2.7% of total Australian education exports, albeit still far below the very high share of education exports to China, which accounted for 32.5% of total Australian education exports in the same year. The rapidly rising numbers of affluent Indonesian households is creating a fast-growing long-term market for Australian education exports in a wide range of segments, including education at universities, technical and vocational institutes as well as secondary education. There is also scope for considerable expansion in government-to-government initiatives to boost Australian education exports in key professions where Indonesia has significant skill shortages, such as nurses, other health care professionals and aerospace technicians and engineers.

Australian Education Exports by Country, 2017

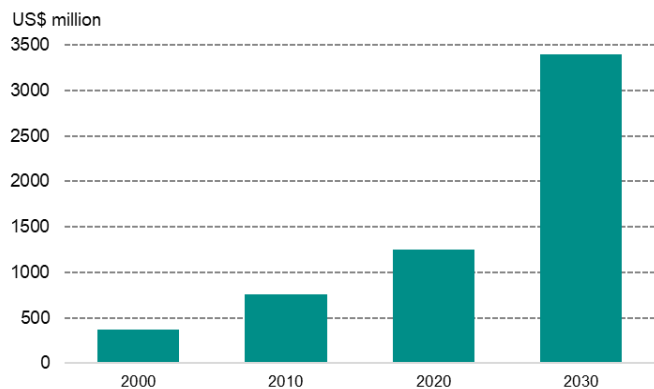


Deepening trade ties with Indonesia will be important for the long-term diversification of Australia's export markets, with the current concentration on several key Asian economies creating vulnerability to any potential trade disruptions in key markets. Examples of potential trade disruptions include the Japanese earthquake and tsunami in 2011, which resulted in a prolonged disruption of the Japanese market.

IHS Markit forecasts that Indonesian GDP will rise from USD 1.04 trillion in 2017 to USD 3.4 trillion by 2030,

creating very rapid growth in the total size of the Indonesian domestic consumer market over the next decade. Indonesia is the third most populous nation in the Asia-Pacific, with a total population of 265 million persons, making it one of the most important potential growth markets in the region for Australian exports of goods and services. Per capita GDP in Indonesia is projected to rise from USD 3,900 in 2018 to USD 11,500 in 2030, which will be a key factor helping to drive the growth of the Indonesian consumer market.

Indonesian Long-term GDP Forecast



Source: IHS Markit

Trade Benefits for Indonesia

The IA-CEPA will also offer significantly improved market access to the Australian consumer market for Indonesian exports, with an estimated 7,000 Indonesian product lines to become tariff free in Australia. This will boost export opportunities for a wide range of Indonesian goods in the Australian consumer market, including significant Indonesian manufacturing exports such as wood products, textiles, machinery and paper products. Under the new trade agreement, another significant improvement in market access will be for export of Indonesian electric and hybrid cars into the Australian market, for Indonesian products that have a qualifying value content of 35% or higher.

Indonesia will also benefit under the IA-CEPA from improved access for work holiday visas for up to 5,000 persons per year as well as improved conditions for employee exchanges between companies for technical and technological knowledge transfer. A new internship program will also create opportunities for Indonesians in certain key industries in Australia, including tourism, education, mining and health.

This will help to boost long-term Australia-Indonesia co-operation in technical and vocational training, a critical area where Indonesia needs to substantially boost its human capital in order to boost industrial competitiveness.

Outlook

The new IA-CEPA is an important additional trade liberalization initiative in the APAC region between two of the largest APAC economies. Once ratified and implemented, the new trade deal will help to boost long-term bilateral trade relations.

For Australia, the Indonesian consumer market provides a fast-growing consumer market for a wide range of goods and services. This includes goods such as agricultural commodities, processed foods and minerals as well as key services such as education, tourism and health care.

The Australian Trade Minister, Simon Birmingham, who signed the agreement, has said that the Australian government has a long-term vision for Indonesia to become one of Australia's top five trading partners. The new trade agreement will help to accelerate bilateral trade growth and is expected to make Indonesia a more significant trade partner for Australia over the next decade. The agreement will also create new export opportunities for Indonesian exports in the Australian consumer market, with a number of key Indonesian manufacturing industries expected to gain enhanced competitiveness through the trade liberalisation measures in the new agreement.

At a time when global trade liberalisation initiatives have stalled and concerns about rising trade protectionism have intensified, the IA-CEPA highlights that the momentum for trade liberalisation in the Asia-Pacific region is still strong. The implementation of the CPTPP multilateral trade agreement and the new Japan-EU Economic Partnership Agreement during recent months reflects this strong momentum. Meanwhile, negotiations for another APAC multilateral trade agreement, the Regional Comprehensive Economic Partnership, also well underway among 16 Asia-Pacific nations, including Australia and Indonesia.

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