

Week Ahead Economic Preview

Global overview

- US-China trade talks and tariff impact under scrutiny with fresh China data-dump
- German GDP adds to eurozone growth insights
- UK job market in the spotlight

US-China trade wars will be at the forefront of the news flow in the coming week, amid the spectre of escalating tit-for-tat tariffs. Our special focus this week therefore looks at the impact of the re-igniting trade war (page 6).

The effect of tariffs on China, and the extent to which policy stimulus has helped to mitigate the adverse impact on trade, will be meanwhile analysed via updated official data releases, including industrial production, retail sales, credit growth and investment. See page 5.

US economy watchers will meanwhile get the first major official data releases for the start of the second quarter, with industrial production and retail sales updates. Our PMI data suggest the pace of US economic growth likely slowed to 1.9% in April, and the official data releases will form important components to updated nowcast models. More on page 4.

In Europe, a major focus rests on GDP data for Germany, issued alongside a second estimate of eurozone GDP and industrial production numbers. Bond markets in particular will be looking for indications as to whether the European Central Bank has overestimated the recent weakness of the region's economy. Similarly, GDP data for the Czech Republic and Poland will give clues as to how eastern European countries have fared in the pace of slower growth in the euro area.

In the UK, labour market data are the highlight of the week and will be eagerly awaited (not least by the Bank of England) in the hope that the jobs market has remained resilient. However, PMI and recruitment industry survey data have hinted strongly that the pace of hiring has eased amid escalating Brexit uncertainty, bringing wage pressures down. More on page 4.

Other key releases include GDP for Hong Kong, the Netherlands, Portugal, Malaysia and Russia, while Indonesia's monetary policy meeting forms the main central bank action.

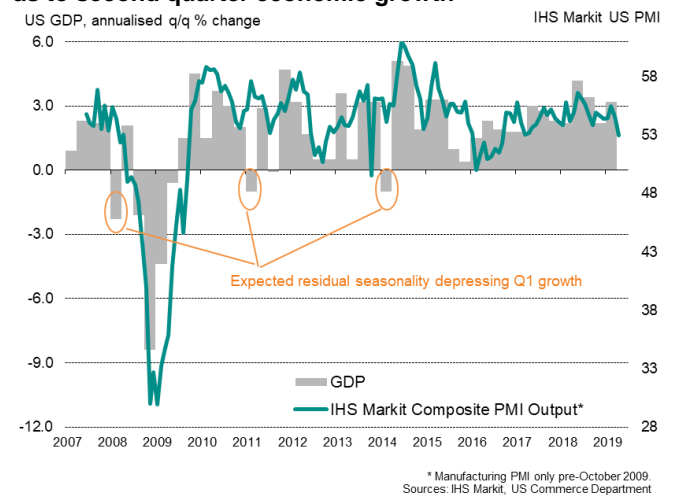
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Special reports

- 6 US-China Trade War Reignites as Asian Exports Slump

US production and retail sales will give hard-data clues as to second quarter economic growth



The impact of tariffs on global trade flows comes under increased scrutiny amid escalating trade wars



Key diary events

Monday 13 May

Philippines general election
Australia home loans (Mar)
China FDI (year-to-date, Apr)
India inflation (Apr)

Tuesday 14 May

Japan current account (Mar)
Australia business confidence
India WPI (Apr)
Netherlands GDP (flash, Q1)
Germany & Spain inflation (final, Apr)
UK unemployment rate, average earnings (Mar),
claimant count change (Apr)
Euro area industrial production (Mar), ZEW economic
sentiment index (May)
Germany ZEW surveys (May)
US export and import prices (Apr)

Wednesday 15 May

Korea jobless rate (Apr)
Australia consumer confidence index (May), wage
price index (Q1)
China industrial output, FAI urban, retail sales (Apr)
Indonesia trade (Apr)
India trade balance (Apr)
Japan machine tool orders (Apr)
Germany GDP (flash, Q1), Portugal GDP (prelim, Q1),
Czech GDP (prelim, Q1), Poland (prelim, Q1).
France inflation (final, Apr)
Euro area GDP (2nd est, Q1)
US retail sales, industrial output (Apr), business
inventories (Mar)

Thursday 16 May

Australia jobless rate, employment change (Apr)
Malaysia GDP, current account (Q1)
Indonesia interest rate decision
Euro area trade balance (Mar)
Italy inflation (final, Apr)
US building permits, housing starts (Apr)
US Philadelphia Fed manufacturing index (May0

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Friday 17 May

Singapore NODX trade (Apr)
Hong Kong GDP (final, Q1)
China new yuan loans, total social financing, M2 (Apr)
Germany wholesale prices (Apr)
Euro area inflation (final, Apr)
Russia GDP (prelim, Q1)
University of Michigan consumer confidence (May)

United States Week Ahead

Industrial production and retail sales to provide Q2 growth insights

By Siân Jones

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April industrial production data and retail sales lead the key economic release calendar for the United States, alongside consumer confidence, business inventories, housing, export price data and inflation expectations.

Industrial production and retail sales

Two key official data releases will add insight into the pace of economic growth at the start of the second quarter, and could impact expectations of Fed policy

Following lacklustre industrial production data in March, ending a first quarter in which factory output declined, the IHS Markit U.S Manufacturing PMI suggests April may see some improvement, albeit with a risk that the rate of factory output decline has merely eased.

Perhaps more importantly from a policy perspective, analysts will be eyeing the retail sales data as a guide to domestic demand conditions. While March saw a large uptick in retail sales growth (the rise of 1.6% was the fastest for 18 months), the rate of increase is forecast to moderate in April. Nevertheless, the tight labour market could help support consumer spending following an uncertain start to 2019, helping to offset the weakness of the manufacturing economy.

Export prices

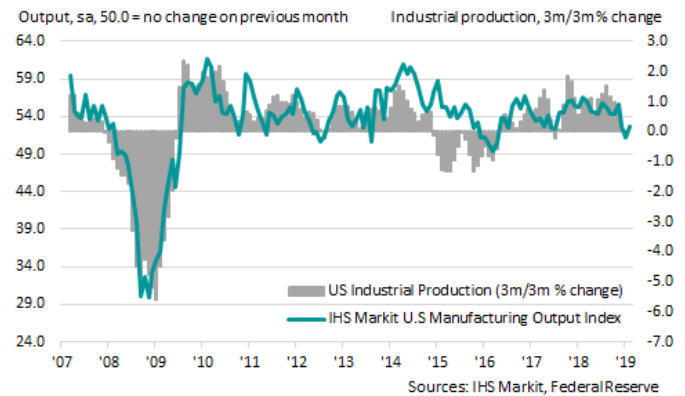
The Export Prices Index, produced by the Bureau of Labour Statistics, pointed towards muted increases in prices charged for goods exported from the US. Dragging on the non-agricultural exports figure were slight decreases in capital and automotive goods prices. According to the latest IHS Markit data, export charges are expected to have remained broadly unchanged in April.

Consumer inflation expectations

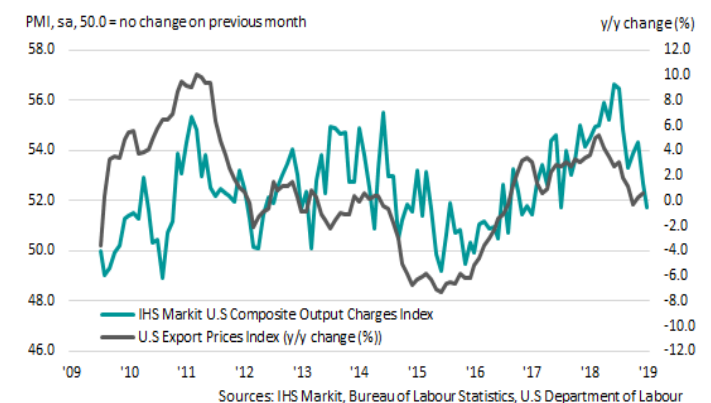
Another key release comes in the form of consumer inflation expectations. In recent months, forecasts for the year ahead have become increasingly subdued, corroborating the dovish approach to interest rates from the Fed.

Other key data releases include business inventories, housing starts, building permits, import prices and regional business surveys from New York and Philadelphia.

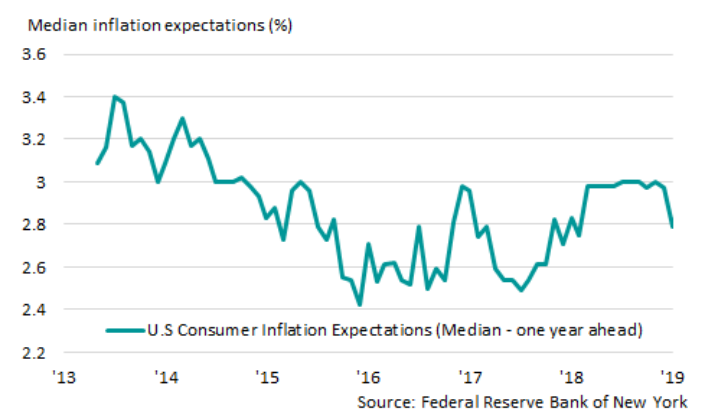
Pick up in industrial production expected



Muted rises in export prices



Consumer expectations remain subdued into second quarter



Europe Week Ahead

Germany GDP, euro-area inflation and UK labour market indicators

By **Joe Hayes**

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Another big week of European economic data awaits, with Germany's first quarter GDP estimate being our main pick. Other data for the eurozone include inflation statistics, which will help gauge the direction that price pressures are heading, the second estimate of GDP and industrial production.

Outside of the single-currency area, updates to GDP in Russia, Poland and the Czech Republic will also add insight into how the wider reaches of the continent have started the year. Labour market indicators for the UK will meanwhile be closely watched to see if the recent robustness of the job market has continued.

Germany first quarter GDP estimate

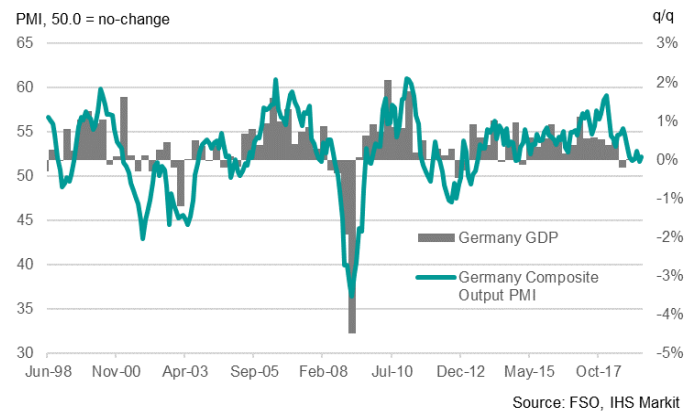
A second estimate of eurozone GDP is published alongside the first release of GDP for Germany, and the latter will be especially closely watched after stronger than expected industrial production numbers for March. The 0.4% expansion signalled by the eurozone flash GDP print implied that German GDP would have risen by 0.3%, but the PMI surveys point to a figure closer to 0.2%. Export weakness, international trade frictions and slower global growth have hit German goods-producers, but a robust domestic market has boosted the service sector.

Inflation statistics for the euro-area, which have showed muted growth in the price level of late, will be updated for April. The flash estimate picked up to 1.7% year-on-year, but core inflation remains below 1%, helping the ECB to uphold its dovish bias. Euro area industrial production data are also due.

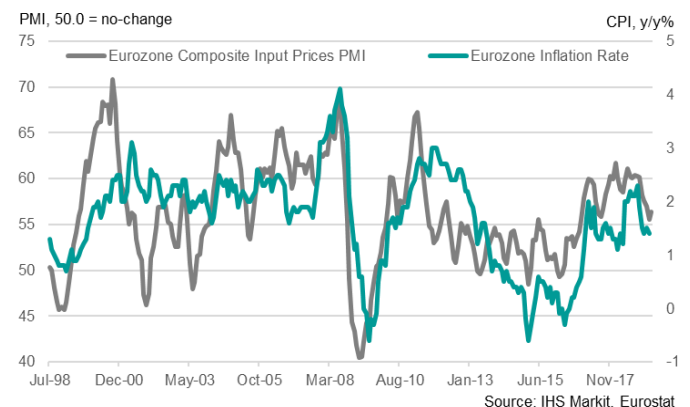
UK employment data update

The UK labour market has been a bright spot in recent months. Demand for staff has remained encouragingly robust despite the political and economic uncertainty arising from Brexit. A multi decade-low unemployment rate at of 3.9% has helped push up wages, but forward-looking PMI and Report on Jobs survey data suggest that hiring has started to slow and pay pressures have moderated accordingly, signalling that, although wage growth is likely to remain supportive for now, it may peak soon.

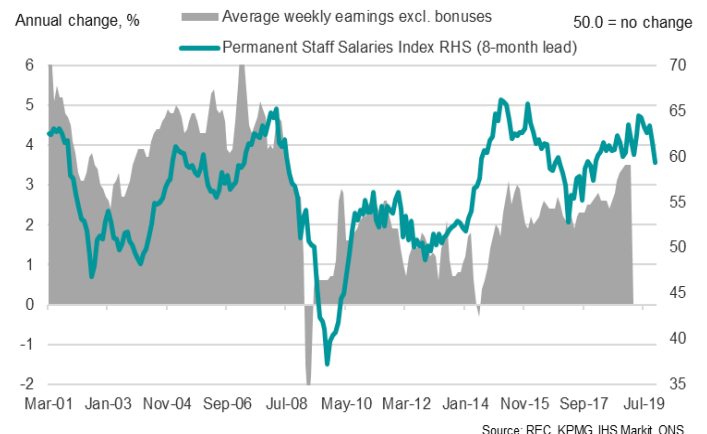
Germany endured tough start to year according to PMI surveys, but GDP likely buoyed by one-off factors



Dovish ECB stance expected as inflation in the euro-area remains soft



Has UK wage growth peaked? Survey data suggests pay pressures are less intense



Asia Pacific Week Ahead

China data, Malaysia GDP, Indonesia monetary policy, plus elections

By **Bernard Aw**

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A busy calendar for Asia Pacific includes a clutch of data from China, with credit growth and industrial output in particular focus. Malaysia releases its first quarter GDP results, while Indonesia sets monetary policy and announces trade figures. Parliamentary elections will be held in the Philippines and Australia.

Other data highlights include Singapore's non-oil domestic exports, unemployment rates in Australia and South Korea, plus India's inflation and trade balance. Investors will also monitor US-China trade talks for [developments](#).

China data

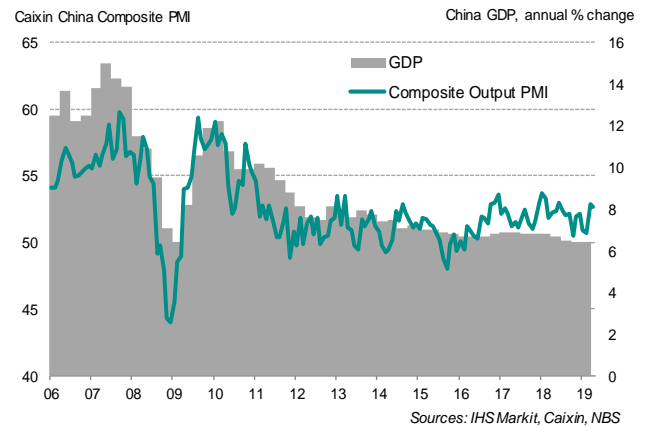
China's investment, retail sales, industrial production and credit indicators for April are in focus following signs of improvements in economic activity. Latest [Caixin surveys](#) pointed to the resilience of the Chinese economy, particularly in the service sector, and provided evidence that the fiscal stimulus is working. The government-sponsored [PMI surveys](#) also indicated expansion in both manufacturing and non-manufacturing sectors.

Malaysia and Indonesia

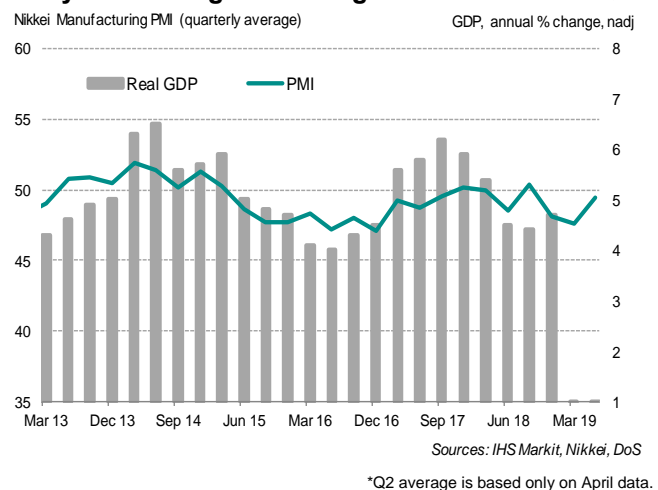
The Malaysian economy is expected to have expanded at a slower annual rate of 4.4% during the first quarter, down from 4.7% in the three months ending 2018, according to IHS Markit. However, April [Nikkei PMI](#) showed the picture of Malaysia's manufacturing sector brighten considerably, fuelled by the first improvement in export demand since last November. This suggests that manufacturing should help drive faster economic growth at the start of the second quarter.

While there is growing expectation on the possibility of rate cuts in Indonesia, it is unlikely to happen in the May monetary policy meeting. With the election over and inflation down to a near-decade low of 2.48% in March, there is increasing support for monetary easing. [Nikkei PMI](#) surveys also indicated a slower rate of manufacturing growth at the start of the second quarter. However, IHS Markit analysts warn that Indonesia's external vulnerabilities, including its current account deficit and significant foreign holdings of local currency bonds, remain a constraint on rate cuts.

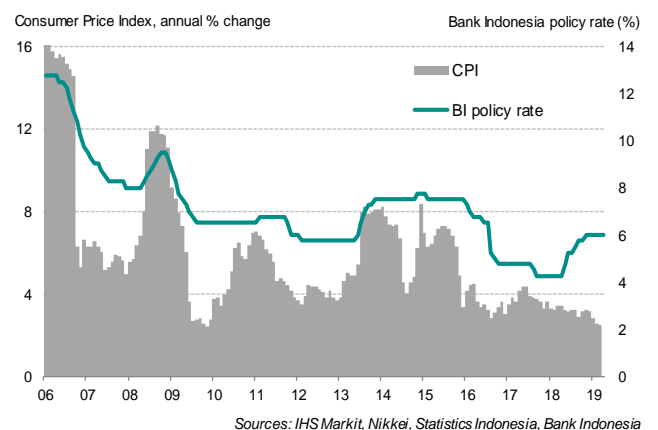
Caixin PMI and China GDP



Malaysia PMI* signals stronger GDP at start of Q2



Indonesia inflation near decade-low



Asia Pacific Special Focus

US-China Trade War Reignites as Asian Exports Slump

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The announcement by President Trump on 5th May that the US would ramp up tariffs on USD 200 billion of Chinese exports on Friday 10th May has created renewed fears that the US-China trade war could escalate significantly. This would add to existing headwinds already facing the Asia-Pacific region from a range of factors, including the sharp slowdown in global electronics new orders and weak new orders in the Eurozone manufacturing sector.

The Trump Administration has also signalled that it may apply 25% tariffs to the remaining USD 325 billion of imports from China that have not yet been subject to punitive tariff measures if no trade deal is rapidly reached. This would create a further large negative shock to China's export sector and to the wider Asia-Pacific (APAC) manufacturing supply chain.

Trade war truce unravels

President Trump's decision to apply higher tariffs to USD 200 billion of Chinese products signals an end to the trade war truce that was agreed on the wings of the G-20 Summit in December 2018. At their bilateral meeting held at the G-20 Summit in Buenos Aires in December 2018, US President Donald Trump and Chinese President Xi Jinping had agreed a truce in the US-China trade war for a period of 90 days starting from the date of the US-China meeting at the Summit.

During this period, both leaders had agreed that no further trade war escalation measures would be implemented. Meanwhile, efforts to find a compromise trade deal had continued. When that initial period had expired, President Trump had agreed to an extension of the trade war truce, as progress in bilateral trade talks had created expectations of an imminent US-China trade deal.

However, as trade negotiations have become protracted with no early conclusion in sight, the Trump Administration has clearly become frustrated with the

pace of progress of the bilateral trade talks, with suspicions mounting that the Chinese counterparties were playing for time, possibly with a view to delaying until the upcoming US Presidential elections due in November 2020. The negotiating strategy of using punitive tariff measures that has been adopted by the US reflects the large US bilateral merchandise trade deficit with China, which reached a record USD 419 billion in 2018. Although the Chinese government has indicated that it will apply countermeasures if the US goes ahead with the tariff hikes, the large bilateral trade imbalance gives an advantage to the US when tit-for-tat tariff measures are applied.

If the US does apply the higher 25% tariff rate to USD 200 billion of Chinese exports, the impact will be a significant negative shock to China's export sector. However, the overall Chinese economy is expected to be resilient to the impact, particularly since China has already been rolling out fiscal and monetary policy measures to mitigate the impact of the trade war on its economy. Further measures will also likely be introduced to help dampen the impact of a US tariff hike.

However, if the US also extends the 25% tariff to an additional USD 325 billion of Chinese exports, the shockwaves to China's export sector will become more severe, and would require substantial further stimulus measures to mitigate the impact on economic growth.

Headwinds to APAC exports

An escalation of the US-China trade war would come at a time when world trade growth is very weak and many Asian nations are already facing significant headwinds in their export sectors, with soft Chinese demand already being a key contributory factor.

Global trade indicators



Sources: IHS Markit, CPB World Trade Monitor.

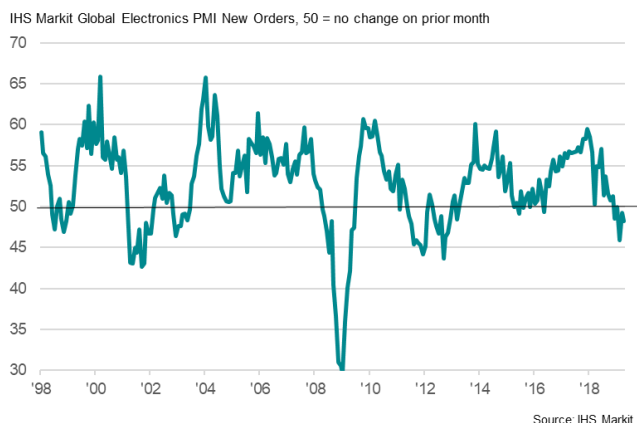
Manufacturing PMI new export orders



Japanese exports fell by 2.4% year-on-year (y/y) in March, with exports to China slumping 9.4% y/y, hit by the slowdown in Chinese domestic demand for autos and electronics, as well as the transmission effects of the US-China trade war on China's manufacturing supply chain. South Korean exports fell even more sharply in March, down 8.2% y/y, the fourth consecutive month of declining exports, as semiconductor exports plunged 16.6% y/y. South Korean exports to China fell 15.5% y/y, due to lower sales of electronics and petroleum products. In Singapore, non-oil exports fell 11.7% y/y in March, with exports of electronic products slumping 26.7% y/y.

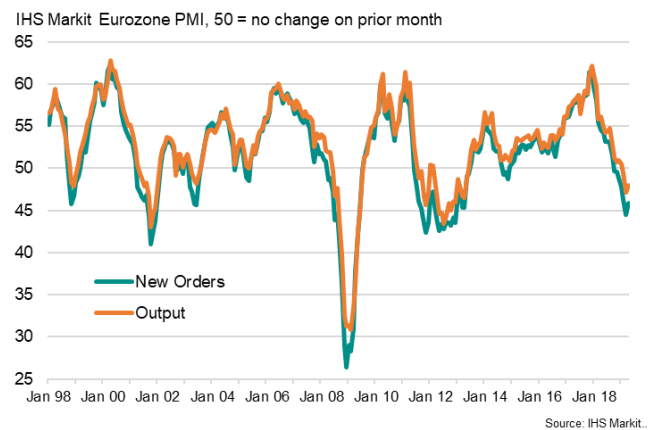
One key headwind for East Asian nations has been the slowdown in global electronics sector, due to the importance of electronics to many East Asian economies, including China, Japan, South Korea, Taiwan, Singapore, Malaysia, Vietnam, Philippines and Thailand. Business conditions faced by global electronics manufacturers deteriorated further in April, according to the IHS Markit Global Electronics PMI. The decline was driven by a renewed fall in global electronics output, while electronics new orders contracted for the fifth successive month.

Global Electronics PMI new orders



Weak economic conditions in the Eurozone are also a significant headwind to Asian export orders. The IHS Markit Eurozone Manufacturing PMI remained deep in decline in April, with the second-lowest reading seen over the past six years, signalling a deterioration of overall business conditions for a third successive month. Purchasing activity by Eurozone manufacturers was also reduced in April for a fifth successive month, with the rate of contraction close to a six-year record.

Eurozone Manufacturing PMI



Near-term APAC trade outlook

With world growth expected to moderate in 2019 as momentum in the Eurozone and Japanese economies eases, APAC exports face significant near-term headwinds. An escalation of the US-China trade war, if protracted in duration, would further cloud the near-term outlook for Asian exports.

The Chinese economy is expected to remain resilient in the near-term to US tariff hikes through the use of additional fiscal and monetary policy stimulus measures. However, the large potential shock to China's export sector from US tariffs of 25% on all Chinese imports would nevertheless be a significant downside risk to the Chinese growth outlook if these tariffs were to remain in place for a protracted period. The negative shock to China's export sector would also have ripple effects to Asia's manufacturing supply chain, impacting economies such as Japan and South Korea in particular, since China accounts for a large share of their total exports.

In addition to the impact effect of higher US tariffs on Chinese products due to an escalation of the bilateral trade war, other hurdles to world trade also remain on the horizon. The US Commerce Department has submitted its Section 232 investigation findings into US auto imports on February 17th. Based on the findings of

this report, the US Administration could determine that tariffs be applied to imported autos and parts, which could also hit Asian auto sector exports.

Significant uncertainties and downside risks to the export outlook have contributed to the decisions by a number of APAC central banks to ease monetary policy settings so far this year. The People's Bank of China announced another cut in the reserve requirement ratio for small to medium-sized banks on May 6th, immediately after President Trump's announcement on May 5th that he would hike tariffs on Chinese imports. The Reserve Bank of New Zealand, Bank Negara Malaysia and the Philippines central bank, Bangko Sentral ng Pilipinas, also announced rate cuts in early May, with the weaker export outlook being among the factors cited in their rate cut decisions. The Reserve Bank of India has also eased policy rates twice already in February and April, albeit driven mainly by moderate domestic inflationary pressures and concerns about overall growth momentum in the domestic economy.

Many APAC economies also have scope to use supplementary fiscal measures to boost economic growth to mitigate the impact of weak export growth. The South Korean government introduced a USD 5.9 billion supplementary budget on 23rd April, with a key focus of the fiscal measures being to boost the weak export sector through programs such as boosting export credit financing.

However, an escalating US-China trade war would also reinforce trade diversion effects, as US buyers shift their orders to other manufacturing hubs, while manufacturers also restructure their output across their global supply chains to reduce their exposure to the US tariff measures. Therefore some emerging APAC manufacturing hubs would likely gain increased export orders from the US as a result. ASEAN manufacturing hubs such as Vietnam, Malaysia and Thailand are likely to benefit from some diversion of export orders as well as stronger foreign direct investment flows over the medium-term as multinationals diversify their global supply chains away from China.

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