

Week Ahead Economic Preview

Global overview

- Global manufacturing and service sector PMI surveys to provide steer on business trends
- US employment report to give Fed guidance
- ECB, RBA and RBI meetings eyed for further stimulus
- Special report on India

The first week of the month is always busy, this time featuring global PMI releases for manufacturing and services as well as the US jobs report and the ECB's monetary policy meeting.

Official GDP data for most countries, including the US, Eurozone, Japan, UK and China, surprised on the upside in the first quarter, but the second quarter is looking disappointing according to the latest surveys. April's [global PMI](#) sank to its lowest since late-2016, and May's surveys are looking even more worrying. Flash PMI data have already showed growth slowing sharply in the US alongside only modest growth in the Eurozone and a renewed deterioration of manufacturing in Japan. The ongoing weakness of manufacturing which has pervaded the flash PMI surveys is perhaps no surprise, given the escalation of trade war tensions during the month.

Additional insight in the US economy will also be gained from the jobs report, which includes non-farm payroll, unemployment and earnings numbers. The report will steer markets on whether a wavering Fed's next move will be a hike or cut in interest rates.

In terms of central bank action, the week sees monetary policy meetings at European Central Bank as well as the Reserve Banks of both India and Australia. With the former remaining concerned over weak growth, low inflation and the impact of trade wars, and viewing fresh in-house forecasts, all eyes will be on whether the ECB's Governing Council sees fresh stimulus measures being needed, such as more generous bank loans.

Speculation has also risen that both India and Australia could see interest rates being cut soon amid darkening global economic outlooks. Both countries are settling down after general elections, and our special report this week looks at the outlook for India (see page 6).

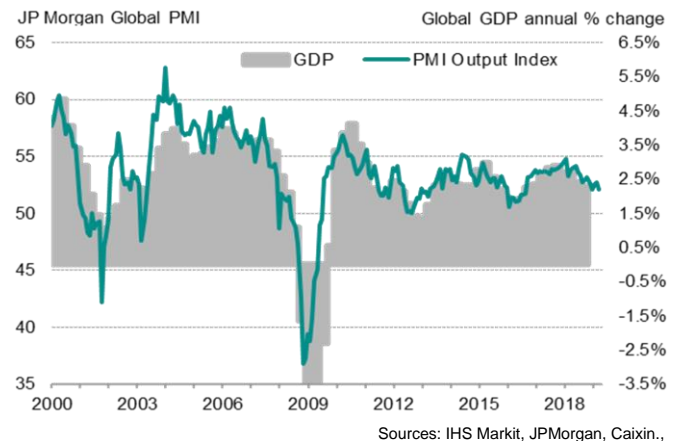
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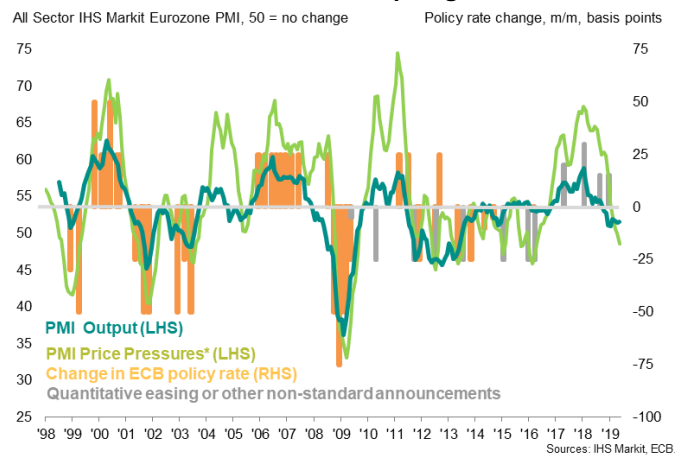
Special reports

- 6 Modi 2.0: The Economic Impact of the BJP Landslide Victory in India

Global PMI survey data are updated, having signalled the weakest expansion since 2016 in April



Potential for ECB stimulus in the spotlight



Key diary events

Monday 3 Jun

Worldwide release of IHS Markit manufacturing PMI surveys (May)
Malaysia trade (Apr)
US ISM manufacturing (May) and construction spending (Apr)

Tuesday 4 Jun

Korea GDP (final, Q1), inflation (May)
Australia retail sales (Apr)
Australia monetary policy decision
UK construction PMI (May)
Euro area inflation (flash, May), jobless rate (Apr)
Brazil trade balance (May), industrial production (Apr)
US factory orders (Apr)

Wednesday 5 Jun

Worldwide release of IHS Markit services PMI (May)
Philippines inflation (May), jobless rate (Q2)
Australia GDP (Q1)
Taiwan inflation, wholesale prices (May)
Euro area retail sales (Apr)
US ADP employment change, ISM non-manufacturing (May)

Thursday 6 Jun

Nikkei Singapore PMI (May)
Australia trade (Apr)
India monetary policy decision
Germany factory orders (Apr), construction PMI (May)
Euro area GDP (3rd est, Q1)
ECB monetary policy decision
US trade (Apr)
Russia inflation (May)

Friday 7 Jun

Japan cash earnings, household spending (Apr)
China FX reserves (May)
Germany trade, industrial output, current account (Apr)
France trade balance, industrial output (Apr)
UK Halifax house price index (May)
Brazil inflation (May)
US nonfarm payrolls, jobless rate average hourly earnings (May), wholesale inventories (Apr)

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United States Week Ahead

PMI surveys, non-farm payrolls and factory orders

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The releases of final IHS Markit US PMI and ISM data provide a lead-up to non-farm payrolls data on Friday, all of which will provide important clues as to the next FOMC policy moves. Official factory orders and trade data will also be released.

US PMI surveys

IHS Markit Flash PMI data for [May](#) made for disappointing reading, as both the manufacturing and service sectors registered notable slowdowns in output expansions. Although the goods-producing sector had already been identified as weighing on overall growth, the speed with which the service sector has slowed is of concern. The final PMI data are issued alongside ISM manufacturing and non-manufacturing data, the ISM also having indicated a marked slowing in April.

A big question has been why tariffs have not fed through to higher inflation, and here the PMI surveys also provide a clue. Overall cost pressures eased further in May, according to composite flash data. Private sector firms reported the first fall in average selling prices since April 2016 amid efforts to remain competitive on global and domestic stages.

Non-farm payrolls

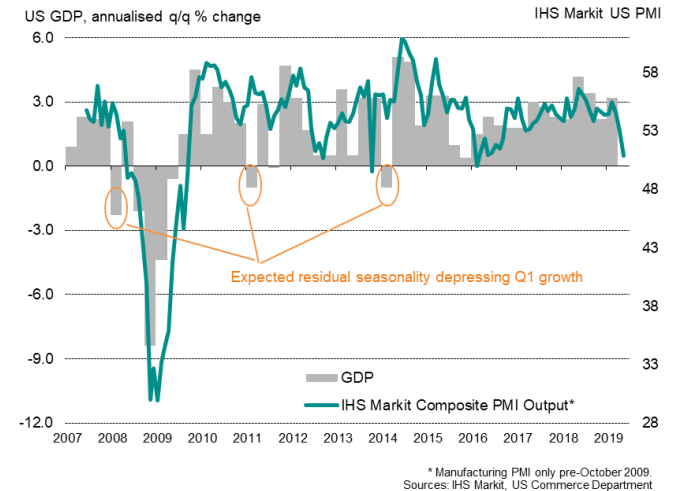
Non-farm payrolls are meanwhile forecast to have risen strongly again in May according to a consensus expectation of 190,000 jobs being added during the month. However, the combination of weaker PMI readings and skill shortages amid a low unemployment rate of 3.6% pose downside risks. More important could be the earnings data, which missed expectations in April. Any further cooling of pay growth would raise the odds of the FOMC's next policy change being a rate cut.

Factory orders

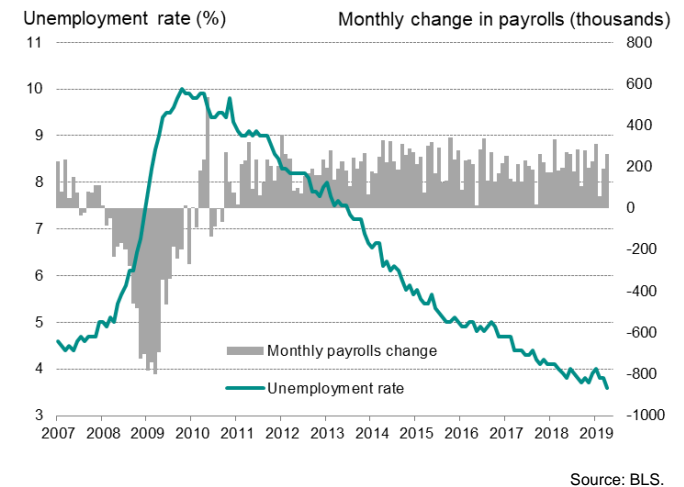
Following on from lacklustre manufacturing demand in March, the latest factory orders data are expected to show a fall in new business across the goods-producing sector in April. IHS Markit US Flash PMI data for May suggests the contraction of demand will continue further into the second quarter.

Other key data releases include wholesale inventories and trade figures plus ADP employment and earnings data.

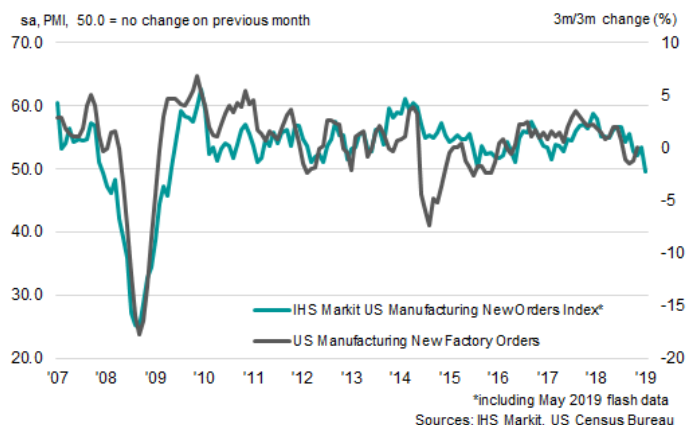
HIS Markit flash US PMI disappointed



US labour market



Lacklustre demand to reduce new factory orders



Europe Week Ahead

PMI surveys lead ECB monetary policy meeting

By Joe Hayes

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An action-packed week lies ahead in Europe, with a fresh slew of PMI data as well as inflation and labour market statistics. The data form a prelude to the European Central Bank monetary policy meeting. Other notable releases include euro-area retail sales, German factory orders and trade data, plus another monetary policy meeting, this time in Poland.

Manufacturing and services PMIs

Final PMI data for the eurozone, as well as the wider reaches of the European continent, will be closely watched to help gauge economic growth momentum midway through the second quarter. The [earlier-released 'flash' estimates](#) showed that the rate of expansion across the euro area was little-changed from April, remaining soft amid stagnant demand. Sector divergences remain all-too apparent, with the economy reliant on the service sector to drive growth as the steep manufacturing downturn persisted.

UK PMI surveys will also be eagerly awaited after April's data showed the [economy treading water](#). Although both services and construction returned to growth, the expansions were only marginal. An upturn in manufacturing meanwhile showed signs of waning, as a boost from Brexit-related stock piling faded.

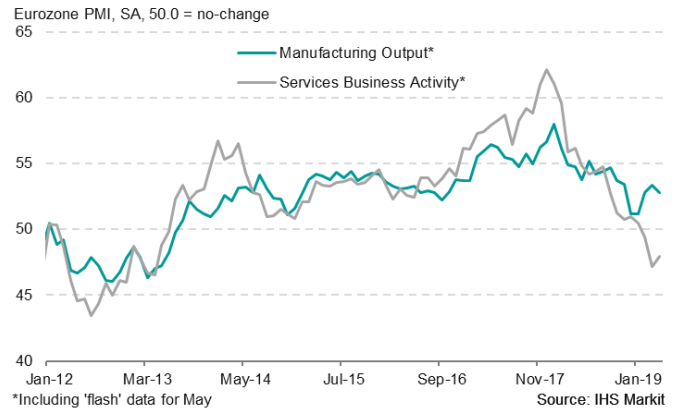
Inflation, unemployment, retail sales data

The preliminary print of eurozone inflation for May is expected to show a softening of price pressures. Although April saw a pick-up in core inflation, consensus is for a softening in May as some calendar-sensitive components caused by a later-than-usual Easter. Unemployment and retail sales gauges for the single-currency area also due.

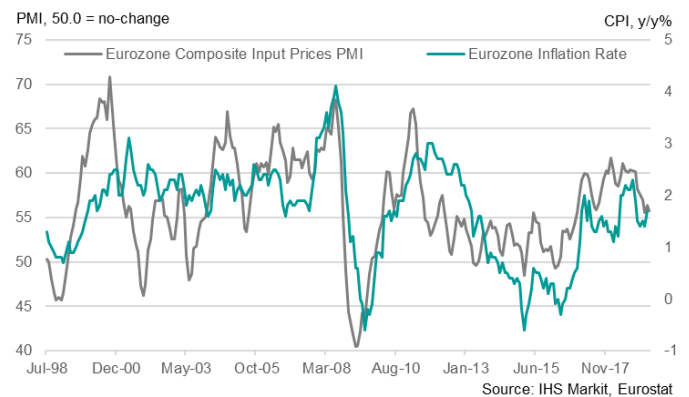
European Central Bank

Minutes from the previous ECB meeting revealed the governing council assess the risks to the economy still being tilted to the downside, with global headwinds continuing to weigh on euro area growth. Mr Draghi's press conference after the Government Council's meeting will be closely watched for a fresh update on the ECB's assessment of recent developments in eurozone business conditions.

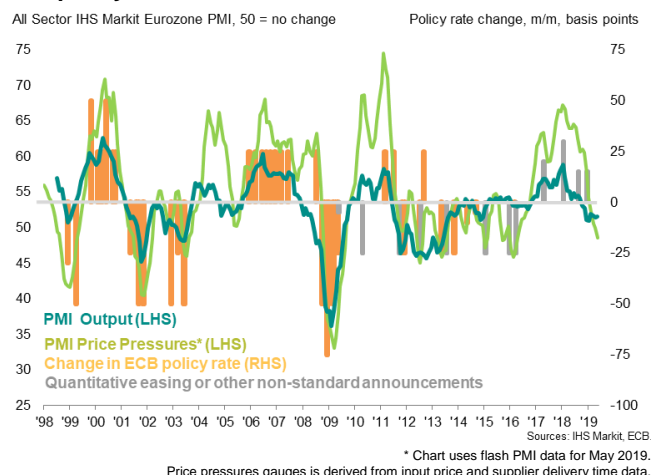
Service sector remains the heartbeat of the euro area



Survey data show softer price pressures across eurozone



ECB policy vs. eurozone PMI*



Asia Pacific Week Ahead

China leads the region's PMI data, plus policy action in Australia & India

By **Bernard Aw**

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The worldwide release of PMI surveys will be in focus next week, providing insights into economic performance and price trends midway through the second quarter. In particular, Caixin PMI surveys will be scrutinised for effects of the re-escalation of US-China trade tensions. In Asia, policy action comes from central banks in Australia and India. The Reserve Bank of Australia's policy meeting is especially highly anticipated against the backdrop of regional monetary easing, alongside first quarter GDP.

China PMI surveys

April's [Caixin PMI surveys](#) showed that service-sector expansion drove Chinese growth, while also suggesting that fiscal stimulus is working its way through the economy. Analysts will eagerly watch the May updates for the first view of business activity after a renewed flare-up of US-China trade frictions, as well as seeking further clues as to whether greater policy support is likely.

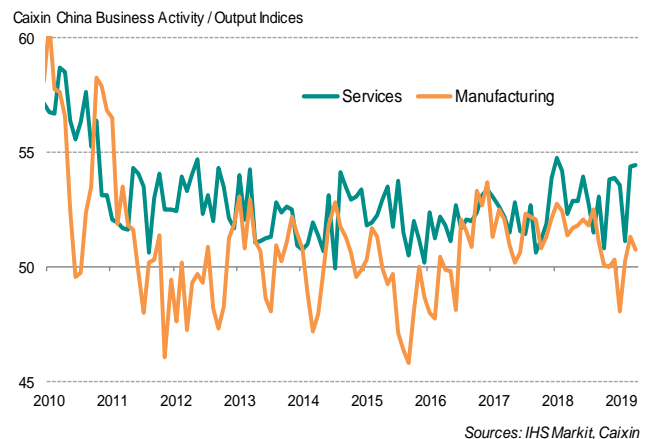
Australia to cut interest rates

The Reserve Bank of Australia is widely expected to deliver a rate cut in the forthcoming policy meeting amid falling home prices, weak inflation and tepid wage growth, although IHS Markit considers a delay until August more likely, after the release of the June quarter inflation figures. Governor Philip Lowe [argued](#) recently that a lower cash rate will support jobs growth and boost inflation. While the flash CBA [Australia PMI](#) pointed to [a tentative revival](#) in economic activity, it is not at all guaranteed that growth could pick up in coming months. Meanwhile, IHS Markit expects updated GDP data to show the Australian economy to have expanded at a slower annual rate of 2.1% in the March quarter, down from 2.3% in Q4 2018.

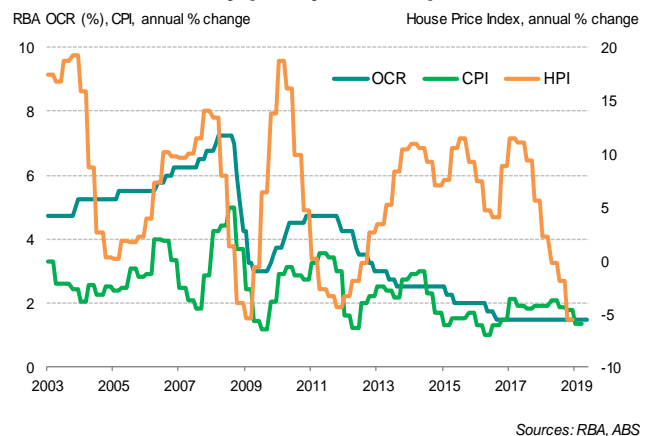
India sets monetary policy

With the elections returning PM Modi to a second term, the focus in India has shifted back to policy support for economic activity. Following two rate cuts in February and April, there are growing expectations for the Reserve Bank of India to lower rate further at the June meeting. April's [Nikkei PMI](#) signalled that the Indian private sector economy is settling into a weaker growth phase. May updates to the surveys will offer important clues as to economic expansion in the second quarter.

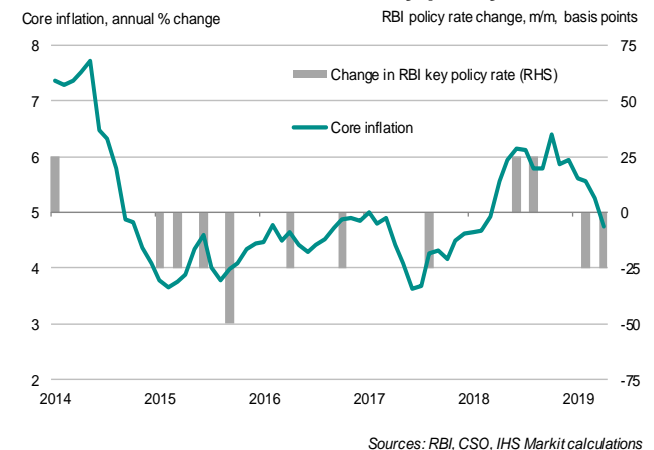
China PMI surveys



Australia monetary policy, house prices, inflation



India core inflation and monetary policy



Asia Pacific Special Focus

Modi 2.0: The Economic Impact of the BJP Landslide Victory in India

By **Rajiv Biswas**

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The resounding victory in the Indian national elections of the BJP Party led by Prime Minister Modi, with another large parliamentary majority, will provide continuity of economic policy for India over the next five years. The large parliamentary majority secured by the BJP has avoided the key risk of a weak and fragmented coalition government governing the nation, which could have undermined momentum for further economic reforms.

BJP secures second term of office

The extent of Prime Minister Modi and his BJP Party's electoral victory in the Indian national elections conducted during April/May 2019 was well beyond market expectations, with the BJP winning 303 seats in India's lower house of parliament, the Lok Sabha. This far exceeded the 272 seats needed to secure a simple majority in the lower house, and also was an improvement on the 282 seats won by the BJP in the 2014 national elections. Furthermore, other National Democratic Alliance coalition parties won an additional 47 seats, giving the BJP and its coalition a dominant parliamentary majority, with a total of 350 seats.

PM Modi and the BJP have achieved steady and robust macroeconomic growth over the past five years, so the Indian national election results signal a strong vote of confidence from the electorate in the BJP's economic track record in governing the nation. Since Prime Minister Modi took office in 2014, Indian GDP has increased by 50%, from USD 2 trillion in 2014 to an estimated USD 3 trillion in 2019, a total net increase of USD 1 trillion in GDP in just five years.

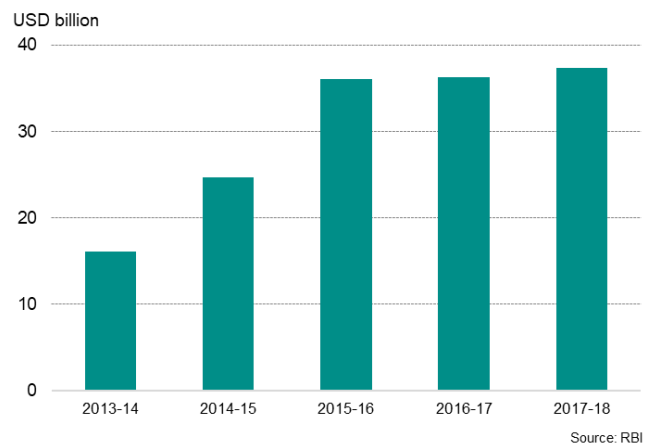
The BJP government benefited from the slump in world oil prices during 2014-16, which helped to significantly reduce inflation pressures in India. Falling oil prices also substantially reduced India's oil import bill, which helped to lower the current account deficit as share of GDP significantly.

A major economic policy reform achieved under Prime Minister Modi's first term of office was the implementation of the Goods and Services Tax (GST) in 2017. This created a unified single indirect taxation system in India, removing the complex previous system of different state-based indirect taxes which had created significant inefficiencies, such as higher logistics costs, for firms distributing products across state boundaries. The GST is therefore an important tax reform that will help to reduce logistics costs as well improving industrial competitiveness for Indian industries.

Nevertheless, India has also faced its fair share of economic challenges during PM Modi's first term of office, including bad debt problems of the public sector banks as well as economic turbulence during the demonetization episode in 2016.

However, overall the BJP has provided a steady hand at the helm of government, delivering five consecutive years of economic stability, with strong growth and moderate inflation. Foreign direct investment inflows into India have surged under the Modi government, providing an important positive boost to the Indian external account position as well as helping to create a more dynamic industrial economy.

Indian foreign direct investment inflows



Key economic challenges ahead

Significant economic challenges will continue to confront the Indian economy during PM Modi's second term of office. A key policy priority for the Indian government will be to continue to drive reforms in the public sector banks and reduce the burden of non-performing loans on their balance sheets.

Continuing to drive the transformation of India's industrial sector through PM Modi's 'Make in India' strategy will also be a strategic priority, in order to

improve manufacturing sector output growth and generate stronger employment growth. When PM Modi launched the Make in India strategy in 2014, he set a target of increasing the contribution of manufacturing to GDP to 25%. However, by 2018, the manufacturing sector share of GDP is still at 18%, which still leaves a substantial gap to bridge in order to achieve this vision.

Despite significant achievements in infrastructure development during PM Modi's first term, rapid infrastructure development in key sectors such as transport and power infrastructure remain important priorities, as well as reducing the regulatory burden of government red tape. India was ranked 77 out of 190 countries that are included on the World Bank's Ease of Doing Business Index for 2019.

However, although India still lags behind other large emerging markets such as Turkey (43rd), China (46th) and Mexico (54th) on this ranking, India has made remarkable progress in improving its ranking compared with its ranking at 142nd out of 189 countries in the Ease of Doing Business ranking for 2015, which reflected a survey undertaken during the last year of the UPA Congress-led coalition government. This reflects the considerable efforts made during PM Modi's first term of office to try to reduce the regulatory burden of the Indian national and state bureaucracies on Indian businesses.

Furthermore, although it secured a large majority in India's lower house of parliament, the BJP still does not command a majority in India's upper house of parliament, the Rajya Sabha, and this will pose hurdles to the BJP's legislative reform agenda during PM Modi's second term of office.

Demographics will be a double-edged sword

India's demographic profile over the next two decades will remain relatively youthful over the next two decades compared to more rapidly ageing demographics in Japan, South Korea and China. For India, this will help to limit the fiscal burden for the government from rising social welfare and health care costs for the share of population aged over 65, which will remain quite low over the next two decades. The rapidly growing population of working age will also help to drive consumer demand.

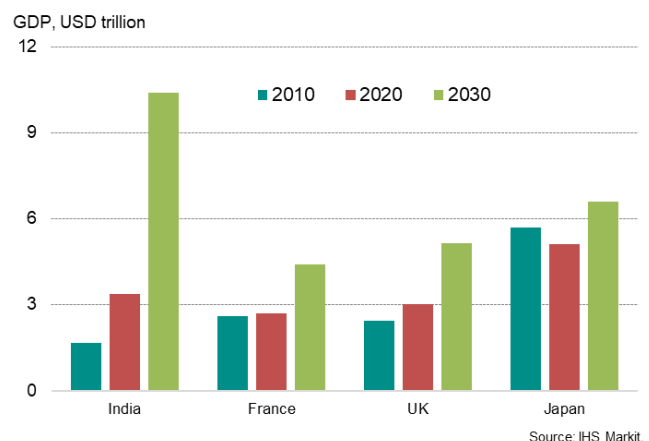
However, rapid population growth will also generate significant costs. India's population of working age is projected to increase by around 265 million between 2015 and 2050, according to medium variant United Nations demographic projections. Around 7.5 million

persons are projected to join the Indian workforce per year on average over the next two decades. This will create strong pressure on the Modi government to generate sustained rapid employment growth in both the manufacturing and services sectors in order to prevent rising unemployment and underemployment in the Indian labour force. Moreover, the increase in India's total population between 2015 and 2050 is projected at around 350 million persons, creating significant fiscal challenges for the government in order to deliver adequate physical infrastructure such as electricity, sanitation, affordable housing and public transport.

Medium-term economic outlook

Despite these challenges, the economic outlook looks positive for the second term of the Modi-led BJP government, with GDP growth forecast to average around 7% per year over the 2019-2023 period.

Nominal GDP projections



India is forecast to become the world's fifth largest economy in 2019, reaching a total GDP size exceeding USD 3 trillion, and overtaking its former colonial ruler, the United Kingdom. By 2025, Indian GDP is also forecast to surpass Japan, which will make India the second-largest economy in the Asia-Pacific region.

As India continues to ascend in the rankings of the world's largest economies, its contribution to global GDP growth momentum will also increase. India will also play an increasingly important role as one of the Asia-Pacific region's major economic growth engines, helping to drive Asian regional trade and investment flows.

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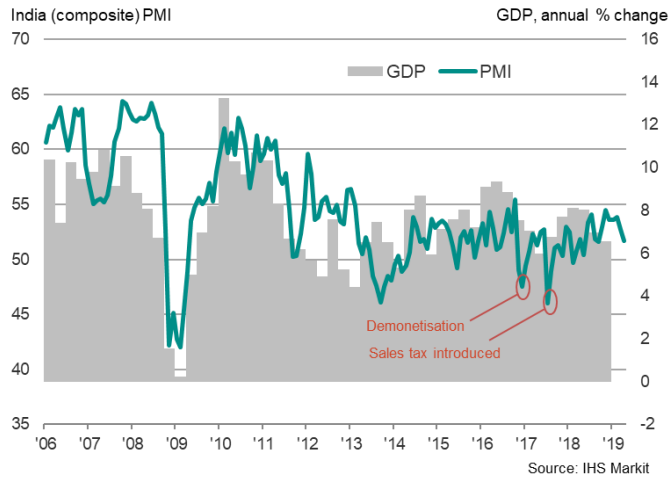
India PMI™

To gain an up-to-date insight into economic trends in India, the PMI business surveys (compiled by IHS Markit) provide valuable information on a wide variety of variables covering both manufacturing and services.

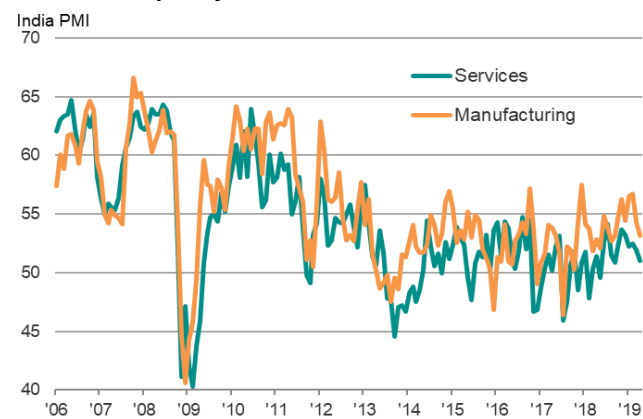
Although the recent PMI surveys showed India's private sector economy settling into a weaker growth phase. Tough competitive conditions at home and intensifying global trade tensions reportedly restricted new business gains and in turn growth of activity. On a more positive note, the labour market is showing resilience as companies hired extra staff at an accelerated pace.

Another key takeaway from the latest results is the lack of inflationary pressures in both the manufacturing and service sectors which, coupled with slower economic growth, offers room for further monetary stimulus.

India PMI and GDP



India PMI output by sector



Purchasing Managers' Index™ (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 for over 40 countries by IHS Markit and also for key regions including Asia and the eurozone. They generate economic indicators that are widely used by central banks, government bodies and the private sector.

For further information on PMI data, please contact economics@markit.com