

Week Ahead Asia-Pacific Economic Preview

- US FOMC decides interest rates, alongside Malaysia, Australia and New Zealand
- Worldwide IHS Markit PMI services surveys
- Indonesia, Philippines and UK Q3 GDP
- China trade and CPI updates
- Special focus on China's ageing population

Next week's economic diary is a busy one, including the US FOMC meeting and the worldwide release of October services PMI surveys. A number of countries in Asia also publish third quarter GDP figures, while several regional central banks set monetary policy.

Other data highlights for Asia include trade numbers for China, Taiwan, Malaysia and the Philippines, while will be eyed for the impact of trade wars, as well as inflation figures for China, Taiwan and the Philippines. There will also be a focus on the monetary policy meeting minutes of the Bank of Japan.

Elsewhere, GDP and house prices data are published for the UK, as well as German factory orders and trade plus euro area retail sales.

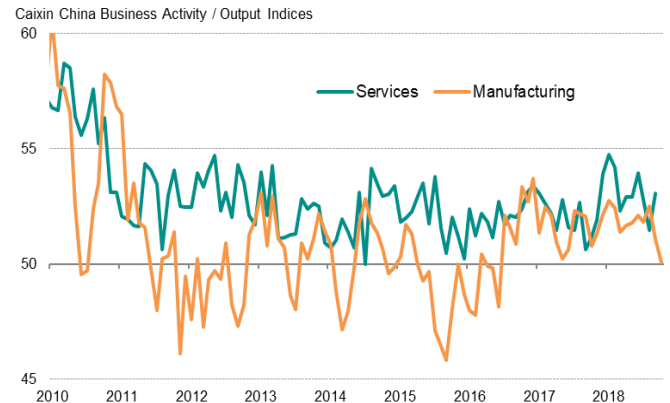
Our special focus this week looks at the economic and social challenges facing China as its old age dependency ratio rises over the next three decades.

Worldwide PMI updates

Following the manufacturing PMI releases, worldwide services PMI data will provide further important insights into economic performance as we move into the fourth quarter. The September survey indicated that the pace of global economic growth slipped to a [two year low in September](#), easing for a third successive month. Future optimism also hit a two-year low, adding to indications that the business cycle has peaked. Prices meanwhile rose at a record rate, led by higher inflationary pressures in the US.

In China, recent Caixin PMI surveys have added to the flow of disappointing data, indicating a [stagnation in the manufacturing sector](#) as exports remained under pressure from rising trade tensions. Analysts will be particularly keen to know if the slowdown has spread to the services sector, which has so far remained resilient. The PMI will set the scene for October trade figures and inflation numbers, to offer further clues as to the impact of recent trade tensions.

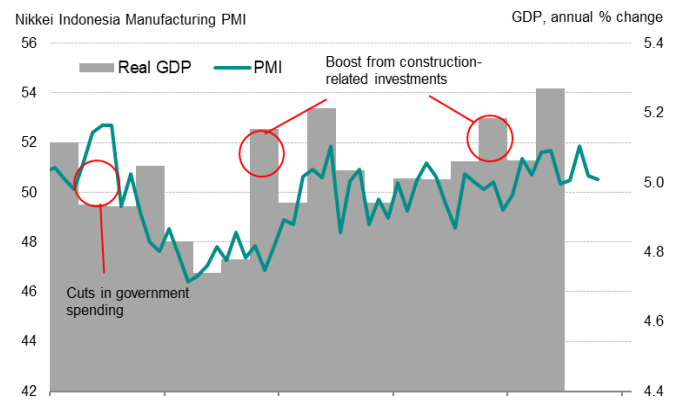
China PMI: manufacturing and services



Sources: IHS Markit, Caixin

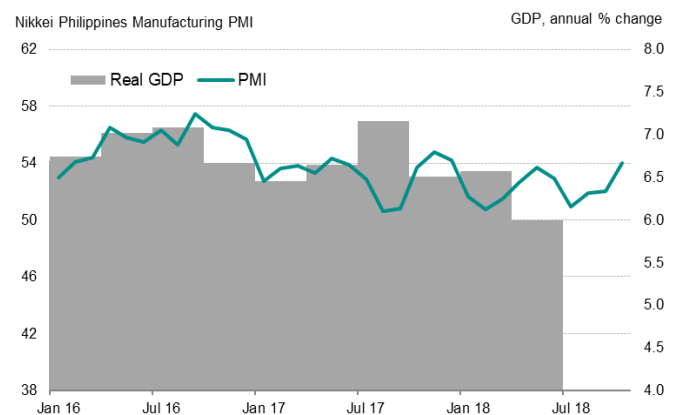
Note: Caixin Services Business Activity index is up till Sep 2018.

Indonesia PMI and economic growth



Sources: IHS Markit, Nikkei, Statistics Indonesia

Philippines PMI and GDP



Sources: IHS Markit, Nikkei, PSA

Continued...

Monetary policy

No change in US interest rates is generally expected at the November FOMC meeting, despite the minutes from the last meeting showing the Fed's committee becoming more hawkish. The minutes suggest the Fed is erring towards not only a more aggressive "restrictive" policy stance but also that rates may eventually have to rise more than previously thought. The next hike is expected at the December meeting.

Central banks in Australia, New Zealand and Malaysia also meet to set interest rates. No changes to monetary policy are expected, but analysts will be eager to see how policymakers gauge current risks to the outlook.

The final update to Australia services PMI will also be keenly monitored after the inaugural [flash PMI](#) signalled the weakest growth in services activity since the survey began in May 2016.

Indonesia and Philippines GDP

Next week also sees the release of third quarter GDP in Indonesia and the Philippines.

Economic growth is expected to slow only very slightly in Indonesia to 5.2% in the third quarter, down from 5.3% in the three months to June, according to market consensus, but could wane further in the fourth quarter. Recent Nikkei PMI surveys indicated slowing growth momentum in Indonesia, with [October data](#) showing the first decline in new orders for nine months.

In the Philippines, the markets are expecting to see economic growth accelerating to 6.7%, up from 6.0% in the second quarter. There are also consensus expectations of a slower expansion in exports (8.9%) while import growth may pick up (15%). Recent Nikkei PMI data (updated for October on the 5th November) have sent waning signals regarding the health of the Philippines' manufacturing sector. The survey also showed inflation pressures continuing to mount amid the weak peso, higher global commodity prices and increased taxes. As such, the October update to official inflation figures will be closely watched for insights into further interest rate hikes

Bank of Japan

The Bank of Japan left monetary policy unchanged in its late-October meeting, but the minutes will be scoured in particular for further details on the BoJ's view that downside risks to the economy had increased, and the scale of the appetite for further monetary easing should conditions deteriorate.

Monday 5 November

Worldwide release of IHS Markit services PMI surveys (Oct)
Nikkei ASEAN and Philippines Manufacturing PMI (Oct)
BOJ meeting minutes
Indonesia GDP (Q3)
Malaysia trade (Sep)
Turkey inflation (Oct)
US ISM non-manufacturing PMI (Oct)

Tuesday 6 November

Japan household spending (Sep)
Philippines inflation (Oct) and industrial production (Sep)
RBA monetary policy meeting
Taiwan inflation (Oct)
Germany factory orders (Sep)
Euro area and Germany composite PMI (final, Oct)
Russia inflation (Oct)
US Economic Optimism (Nov) and JOLTS job openings (Sep)

Wednesday 7 November

Japan average cash earnings (Sep)
Philippines trade (Sep)
Japan coincident index and leading economic index (flash, Sep)
Taiwan trade (Oct)
China and Indonesia foreign reserves (Oct)
Germany construction PMI (Oct)
UK Halifax housing price index (Oct)
Euro area and France retail sales (Sep)
Brazil inflation (Oct)

Thursday 8 November

New Zealand and Malaysia interest rate decision
Japan current account and machinery orders (Sep)
Philippines GDP (Q3)
China trade (Oct)
Germany trade (Sep)

Friday 9 November

FOMC policy meeting
RBA statement on monetary policy
Australia home loans (Sep)
China inflation (Oct)
Malaysia industrial production, retail sales and jobless rate (Sep)
Japan tertiary industry index (Sep)
UK GDP and business investment (prel, Q3)
UK industrial production and construction output (Sep)
US wholesale inventories (Sep), PPI (Oct) and Michigan surveys (Nov)

Special Focus

Northeast Asia's Ageing Demographics: The Economic Impact on China

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

This is the third article in a three-part series assessing the economic impact of ageing demographics in Northeast Asia. This article considers the economic and social challenges facing China as its old age dependency ratio rises over the next three decades.

Overview

Northeast Asia is facing significant economic challenges due to the impact of population ageing. Although the advanced economies of Japan and South Korea face the most severe challenges from demographic ageing in this timeframe, China is confronting the long-term impact of ageing demographics, albeit with the impact over the next three decades not projected to be as severe as for Japan and South Korea.

The economic impact of demographic ageing will contribute to significantly reducing the potential GDP growth rate of Northeast Asian economies. Japan has already experienced this, with estimates of potential GDP growth already below 1% per year. South Korean potential GDP growth has also fallen significantly since the 1990s. Ageing demographics will also lower China's potential growth rate over coming decades.

Furthermore, the rising old age dependency ratio in China implies that significant increases in social security and public health care costs will occur over the next three decades, resulting in an increasing fiscal burden.

China's ageing demographics

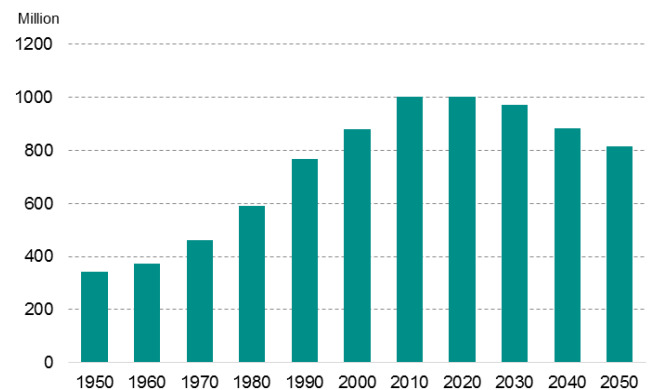
Over the course of the next 30 years, China's total population is projected to stabilize and then gradually begin to decline. According to population projections based on the UN 2017 Population Projection Medium Variant, the total population of China is projected to fall from 1,397 million persons in 2015 to 1,364 million by 2050, a decline of 33 million. While this is a relatively modest decline relative to the total size of China's population, the scale of population decline is expected to be more severe over the longer term outlook. Over the following five decades, from 2050 to 2100, a population decline amounting to around 376 million is projected.

A number of factors have contributed to China's ageing demographics, with China's one child policy that was introduced in 1980 having been especially important. However other factors have also had an impact. Notably, as in other countries, improving education levels have contributed to lower fertility rates. As a result, China's crude birth rate per 1,000 persons has fallen sharply, from around 42 in 1950 to 12.6 by 2015.

Working age population is falling

In addition to the challenges of a declining population in future decades, China is already confronting the impact of demographic ageing on the size of its working age population. Over the period from 2015 until 2050, China's working age population is projected to decline by 200 million. As Japan and South Korea have already experienced, the ageing of the population of working age and reduced numbers of young workers entering the workforce will have significant economic impact effects on the domestic labour force.

China's population of working age



Source: UN World Population Prospects

In the three decades after China's economic liberalization commenced in 1980, China benefited from the demographic dividend of a large and youthful population of working age. This provided an abundant pool of low cost labour, which helped to make Chinese manufacturing very competitive globally, resulting in China becoming the factory of the world for low-cost manufactures. However, since 2010 rapidly rising manufacturing wages in coastal China have gradually eroded the competitiveness of Chinese low-cost manufacturing in sectors such as garments, footwear and electrical goods.

The ability of manufacturing hubs in coastal provinces to tap large pools of surplus migrant labour from inland provinces has also diminished as the Chinese government has implemented policies of accelerating the economic development of inland provinces.

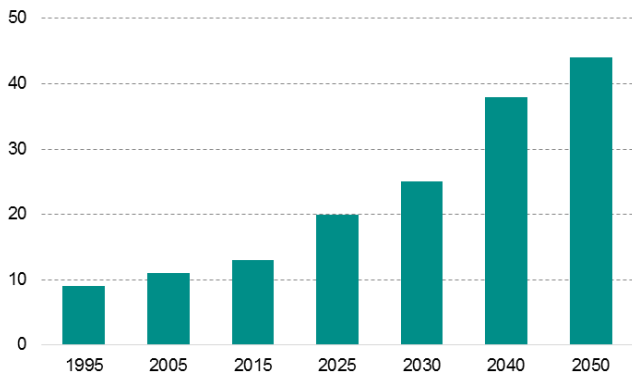
Consequently the declining size of the working age population in coming decades will likely put increasing pressures on China's labour supply and wage costs.

Rising old age dependency ratio

Over the next three decades, China's old age dependency ratio is set to rise rapidly, with significant economic and social consequences. The old age dependency ratio, which is measured as the number of people aged over 65 as a proportion of those aged 15 to 64 years old, is projected to increase from 13% in 2015 to 25% by 2030, rising significantly further to 44% by 2050.

China's rising old age dependency ratio

% of people aged over 65 as a proportion of those aged 15 to 64



Source: UN World Population Prospects

The rising old age dependency ratio will have fiscal consequences for the Chinese government, as the cost of social welfare, pension and health care for the elderly will escalate significantly. China is already estimated to have a significant financing gap for its state pension scheme, with annual contributions of workers insufficient to meet payments, with the shortfall having to be met from government expenditure. The estimated financing gap was Yuan 429 billion in 2016, and will rise rapidly over the next two decades.

Policy reforms

As the economic and social impact effects of ageing demographics have become an increasing policy concern in recent years, the Chinese government has responded by implementing substantial reforms to the "one child" policy that was in place since 1980. The Standing Committee of the National People's Congress passed new legislation in 2013 that liberalized the "one child" policy, with the new rules coming into effect in 2014. Further liberalization measures allowing a "two child" policy were implemented in 2016.

While these policy reforms have had a positive effect on China's birth rate, which rose to 17.9 million in 2016 (the highest since 2000), other structural trends are likely to continue to constrain births, such as the impact of higher education and urbanization on the decisions of couples about family size. Even by 2017, the total number of births moderated compared to 2016, declining to 17.2 million births.

Outlook

Although China may be able to mitigate the impact of ageing demographics through its policy measures that have liberalized the "one child" policy, the nation will still be likely to eventually face similar demographic challenges to the other large Northeast Asian economies of Japan and South Korea.

One of the most significant economic consequences of China's demographic ageing will be the impact on labour supply, contributing to a further gradual moderation of China's potential growth rate over coming decades. This is likely to accelerate policy initiatives to boost productivity, which will help to mitigate the impact of declines in labour supply.

Furthermore, China still has considerable scope to use other policy levers to manage the impact of demographic ageing, including initiatives to boost labour force participation rates as well as to raise the retirement age. Nevertheless, ageing demographics is rapidly emerging as one of the major economic challenges facing China over coming decades.

For further information:

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