

Week Ahead Asia-Pacific Economic Preview

- **Worldwide IHS Markit PMI manufacturing surveys**
- **BOJ sets monetary policy, as do BoE and Brazil**
- **Taiwan, Eurozone, France, Italy and Spain Q3 GDP**
- **Singapore, Malaysia and Hong Kong CPI updates**
- **Special focus on Japan's ageing population**

The worldwide release of October manufacturing PMI surveys will be a highlight in the coming week, providing early signals of economic growth and inflation at the start of the fourth quarter. In Asia, the focus is on the Bank of Japan's policy meeting.

Other data highlights for Asia include Taiwanese GDP, plus South Korean inflation, trade, industrial production, retail sales and business confidence. Inflation figures for Thailand and Indonesia are also released.

Elsewhere, the Bank of England decides on interest rates, while US PCE prices, non-farm payrolls, jobless rate and earnings data will all warrant market attention alongside third quarter GDP numbers for the eurozone.

Our special focus this week looks at the economic consequences of Japan's ageing population.

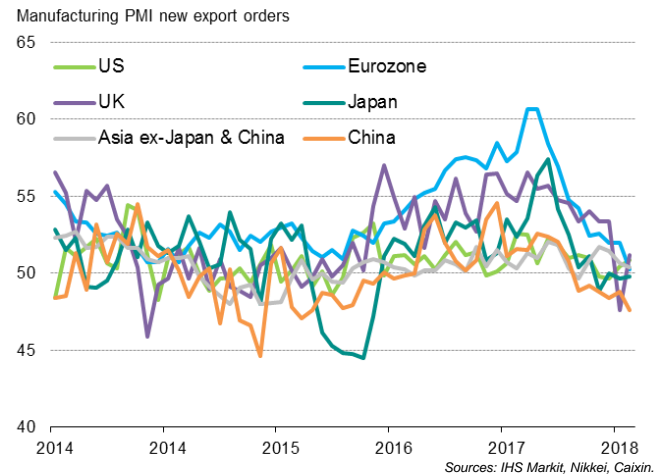
Manufacturing PMI surveys

Worldwide manufacturing PMI data will provide important signals of economic performance at the start of the final quarter of 2018. Market watchers will be particularly eager to see the PMI's gauge of export orders for an updated view on global trade conditions. Prior [Global PMI data](#) showed world export sales fell for the first time in over two years during September, which coincided with a period of growing global trade tensions led by the US.

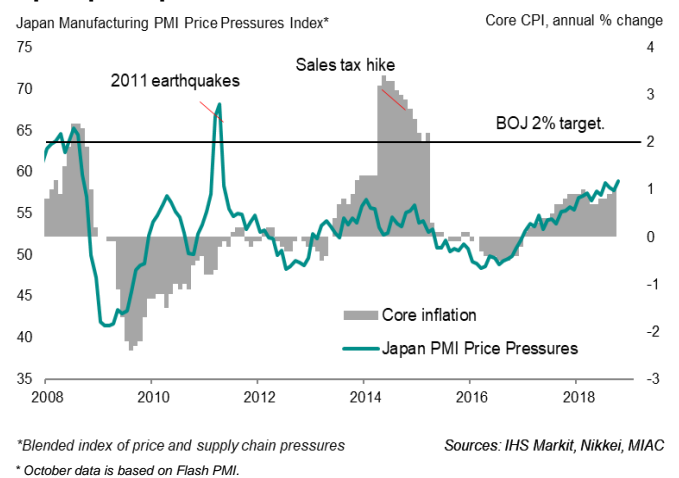
In Asia, the PMI for China will come under particular scrutiny. The September Caixin PMI surveys rounded off the worst quarter seen so far this year, followed by news of the pace of economic growth slowing to 6.5%. The manufacturing PMI had shown China's exports coming under pressure from recent trade tensions.

The PMI price indices will also be eagerly watched for signs that tariffs are driving up costs and could feed through to higher consumer prices. The PMI surveys showed a record rate of increase in global selling prices in September, with especially strong price pressures in the US, as companies sought to pass higher costs on to customers.

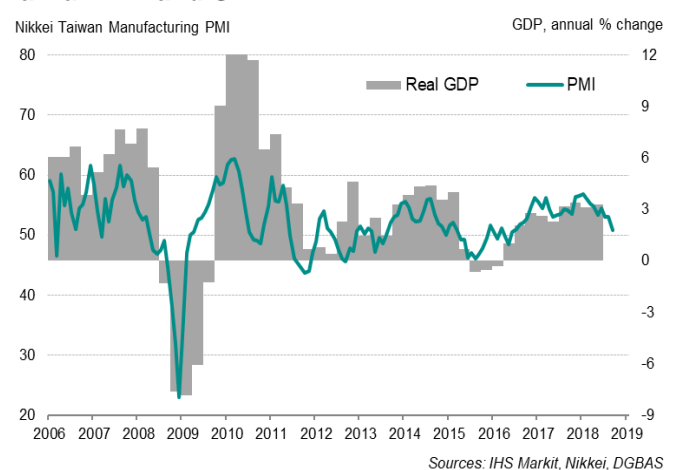
Manufacturing PMI new export orders



Japan price pressures



Taiwan PMI and GDP



Continued...

Japan sets monetary policy

The Bank of Japan (BOJ) is widely anticipated to keep monetary policy unchanged next week, with the focus expected to be on its updated growth and price projections. Most analysts (including IHS Markit) expect the BOJ to maintain its ultra-accommodative monetary policy until 2020 in the face of stubbornly subdued inflation. The introduction of forward guidance for rates in July injected greater policy flexibility and is aimed at maintaining the current monetary policy stance for an extended period. Although there are concerns about the negative impact of prolonged monetary easing on the banking system, the latest semi-annual BOJ financial system report suggests the central bank is confident the financial system can cope with such loose policy for the time being.

The final update to Japan manufacturing PMI will also be keenly monitored after the [flash PMI](#) signalled a more upbeat start to the fourth quarter within the manufacturing sector, setting the scene for industrial production, retail sales, jobless rate, consumer confidence and housing starts to provide more information on the health of the economy.

Taiwan GDP

Next week also sees the release of advance estimates of third quarter GDP in Taiwan. Recent [Nikkei PMI surveys](#) indicated slowing growth momentum, with September data showing a decline in export sales. The October PMI will offer an updated view to manufacturing performance at the start of the fourth quarter.

Not forgetting...

In addition to the PMI and ISM surveys, the US calendar includes the monthly employment report, and non-farm payroll numbers in particular will be eyed for further confirmation that the Fed will go ahead with a widely expected rate hike in December. The Fed's preferred measure of inflation, the PCE price gauge, will also be updated, as will official trade numbers.

In Europe, the PMI data are published alongside third quarter GDP for the Eurozone, which is expected to show robust 0.4-0.5% growth, albeit with the [flash PMIs](#) hinting that the pace could cool to 0.3% in the fourth quarter. The Bank of England also meets to determine monetary policy. The MPC is expected to hold off with any rate hikes despite [recent PMI data](#) showing robust economic growth, being reluctant to make any changes to policy amid widespread Brexit uncertainty.

Monday 29 October

- Japan retail sales (Sep)
- UK nationwide housing prices (Oct)
- UK consumer credit, mortgage lending and approvals (Sep)
- US PCE price index, personal income and spending (Sep)
- US Dallas Fed manufacturing Index (Oct)

Tuesday 30 October

- South Korea business confidence (Oct)
- Japan unemployment rate (Sep)
- Australia building permits (Sep)
- Thailand industrial production
- France and Italy GDP (1st est, Q3)
- Spain inflation (flash, Oct)
- Germany jobless rate and inflation (Oct)
- Euro area business and consumer confidence (Oct)
- Euro area GDP (flash, Q3)
- Brazil unemployment rate (Sep)
- US Case-Shiller home price (Aug)

Wednesday 31 October

- South Korea industrial production and retail sales (Sep)
- Japan industrial production (Sep)
- Australia CPI (Q3) and private sector credit (Sep)
- China NBS manufacturing PMI (Oct)
- BOJ interest rate decision and quarterly outlook report
- Japan consumer confidence (Oct) and housing starts (Sep)
- Taiwan GDP (adv, Q3)
- Germany retail sales (Sep)
- France and Italy inflation (flash, Oct)
- Spain GDP (flash, Q3)
- Euro area inflation (Oct) and unemployment rate (Sep)
- US ADP jobs report (Oct)
- Brazil consumer confidence (Oct)

Thursday 1 November

- Worldwide release of IHS Markit Manufacturing PMI (Oct)
- Brazil monetary policy decision
- South Korea inflation and trade (Oct)
- Australia trade (Sep)
- Thailand and Indonesia inflation (Oct)
- Brazil industrial production (Sep)
- BoE interest rate decision
- US unit labour costs (prel, Q3) and ISM PMI surveys (Oct)

Friday 2 November

- Australia retail sales (Sep)
- UK Construction PMI (Oct)
- US nonfarm payrolls, jobless rate and wage (Oct)
- US trade and factory orders (Sep)

Special Focus

Northeast Asia’s Ageing Demographics: The Economic Impact on Japan

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

This is the second in a three-part series of articles featured in the APAC Preview looking at the economic impact of ageing demographics in Northeast Asia. This article considers the economic and social challenges facing Japan as its old age dependency ratio rises over the next three decades.

Overview

Japan faces significant economic and social impact effects from demographic ageing over the next three decades. Japan’s population of working age has already fallen by around 10 million persons over the past two decades, with its total population having been on the decline since 2010. These ageing demographics have already had a substantial impact on Japan’s labour market, with shortages of skilled workers evident in some industries such as construction and manufacturing.

Furthermore, the rising old age dependency ratios in Japan imply that significant increases in social security and public health care costs will occur over the next three decades, resulting in a rising fiscal burden for health care, pensions and other social security outlays at a time when GDP growth is slowing.

Japan’s declining population

Japan’s population has already begun to contract since 2010, with the total population projected to decline from 128 million in 2015 to 109 million by 2050, according to the UN World Population Prospects 2017 Medium Variant.

Japan’s falling population

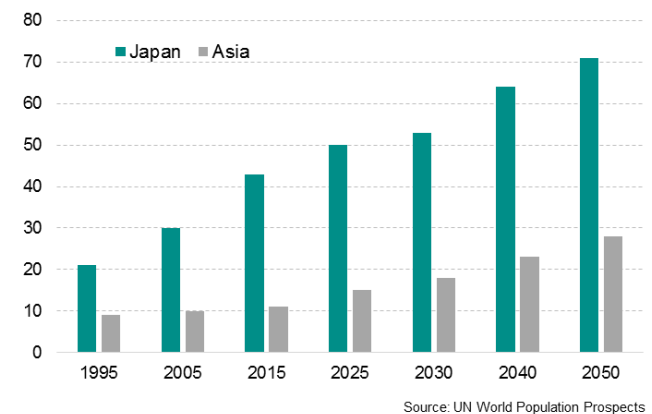


This implies that Japan’s total population will fall by 19 million between 2015 and 2050. This very large decline will likely have far-reaching economic effects on the economy over the next three decades, as the declining population acts as a drag on the long-term growth rate for GDP as well as domestic consumption.

Japan’s population of working age is also falling rapidly, having contracted from 88 million in 1995 to 78 million by 2015, a decline of 10 million within two decades. The decline in the working age population is projected to continue over the next three decades, falling to 56 million by 2050, a drop of a further 22 million. The impact of the ageing and declining population also has far-reaching social consequences, with many villages and small towns facing significant population declines to exacerbate the impact of the ageing population.

Meanwhile the old age dependency ratio, 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 43% in 2015 to 53% by 2030, rising even further by 2050, to 71%. This has severe implications for the fiscal outlook, as rising social security and health care costs will put an increasing strain on fiscal resources at the same time as moderating potential GDP growth lowers government revenue growth. 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.

Japan’s rising old age dependency ratio



With Japan’s gross government debt to GDP ratio already having reached 224% in 2017, the highest in the OECD, the Japanese government faces a difficult economic challenge to manage the rising fiscal costs of demographic ageing. The planned hike in the consumption tax rate in 2019 will be an important step towards constraining the fiscal deficit and stabilizing the government debt to GDP ratio.

The impact of demographic change for companies

As Japan's total population size steadily declines over the next three decades, this will be a significant negative factor acting to erode consumer demand growth in many segments of the domestic economy. As a result, this will put increasing pressure on Japanese firms to readjust their corporate strategies towards fast-growing consumer markets abroad.

While many of Japan's largest multinationals have already pursued such strategies for decades, many small to medium-sized enterprises will also need to shift their focus towards rapidly growing consumer markets abroad. Developing Asian markets are likely to be key strategic priorities, with India and ASEAN economies such as Indonesia, Vietnam and the Philippines offering fast-growing consumer markets with substantial population sizes.

Within the Japanese economy, the steady decline in the size of the population of working age has already resulted in the tightening of labour market conditions, with the unemployment rate having gradually fallen from 5% in 2010 to 2.2% in mid-2018, the lowest since 1992. Meanwhile the ratio of job openings to applicants reached 1.6, the highest since 1974.

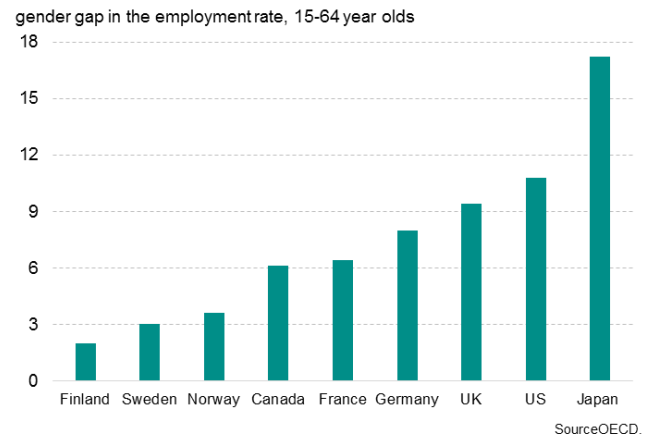
Policy reforms to mitigate the impact of demographic ageing

An important 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 Japanese 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 to improve the labour market. This has included measures to encourage greater female participation rates in the workforce, with the New Economic Policy Package announced in late 2017 having included measures to increase childcare facilities to help boost the female participation rate.

Due to Japan's large gender gap in the employment rate for 15-64 year-old workers compared to many other OECD countries, improving female participation rates is a key reform that could help to improve labour supply. Other reform measures being taken also have a key objective of improving productivity growth rates.

Japan's gender gap



Another important area of reform that could help to boost labour supply relates to policies regarding migrant workers. Japan has had very restrictive immigration policies which have limited the ability to utilize migrant workers to mitigate the impact of demographic ageing. However, the Japanese government is actively reviewing these policies due to the severe labour shortages that are expected to develop in critical sectors such as health care, manufacturing and construction over coming decades. By the end of 2017, Japan had 1.28 million foreign workers, according to Ministry of Health, Labor and Welfare statistics, which was already around double the number in 2012.

The Japanese government has recently introduced legislation to allow new foreign worker visa procedures which will enable foreign workers to apply for work permits in certain skilled occupations with labour shortages, including construction, manufacturing, health care and hotels. The new visa rules are being considered by the Diet, Japan's parliament and, if approved, are expected to be implemented from April 2019.

Outlook

Faced with severe economic impact effects from demographic ageing and a long-term decline in Japan's population size, the Japanese government led by Prime Minister Abe has undertaken reform initiatives to mitigate these effects. Key measures have included initiatives to lift the female participation rate in the workforce as well as liberalization measures to increase inflows of foreign migrant workers.

Despite these initiatives, ageing demographics are creating mounting economic challenges for the Japanese economy, particularly due to the rising

health care and social security costs for the ageing population and the negative impact on the long-term potential growth rate.

For Japan's corporate sector, labour shortages in industry sectors such as construction, manufacturing, hotels and health care have become more evident as the labour market has tightened significantly since 2010.

Faced with high wage costs, a tightening labour market and a long-term decline in the number of domestic consumers, Japanese companies are likely to increasingly focus on expanding their footprint in fast-growing consumer markets in developing countries, notably in ASEAN and South Asia, over the medium to long-term.

For further information:

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