

Week Ahead Asia-Pacific Economic Preview

- Worldwide PMI surveys on services to provide more colour on economic activity at start of 2019
- Central bank meetings in Australia, India, Thailand and the Philippines
- Indonesia Q4 GDP
- Special focus on Japan's growth outlook for 2019

Next week brings the worldwide release of service sector PMI data that will add to the insights into economic performance and price trends across the world. Several Asian central banks will meanwhile meet to decide on monetary policy while Indonesia publishes GDP data.

Elsewhere, some US data could be subject to [further delay](#) while an advance release of fourth quarter US GDP could be postponed, but updates to the US services PMI will still be released as scheduled, offering an up-to-date look into the US economy.

Our special focus looks at the 2019 growth outlook of Japan from the PMI perspective.

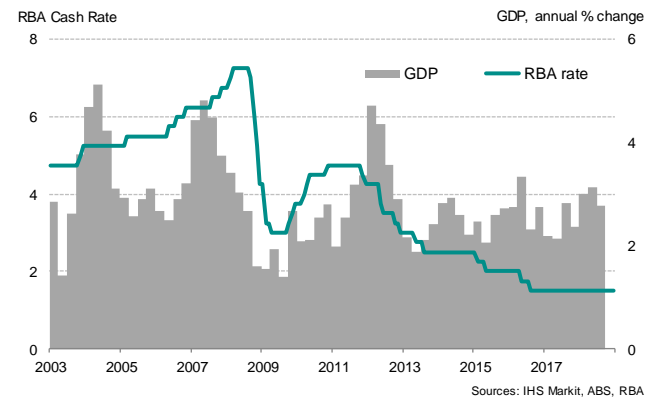
Regional central banks

Central banks in Australia, India, Thailand and the Philippines hold monetary policy meetings in the coming week. While all four are expected to leave policies unchanged, analysts will monitor the press statement for future policy moves. More dovish language is widely anticipated in response to signs of slower global trade and economic growth.

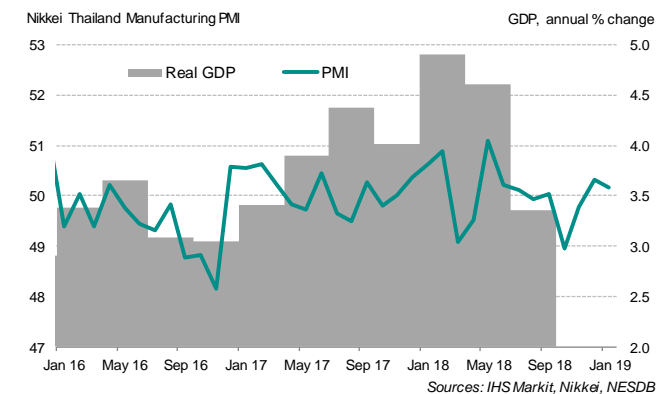
Economic conditions in Australia have weakened in recent months, as indicated by CBA PMI surveys. Official data also pointed to signs of softer consumer spending. The Reserve Bank of Australia is consequently expected to maintain monetary policy at its next meeting. In the same week, analysts will also look to the RBA's Statement on Monetary Policy, where the Bank will update its forecasts for growth, inflation and employment.

Following a rate hike last December, the Bank of Thailand is expected to keep policy rate steady at its upcoming meeting. BOT governor Veerathai Santiprabhob said recently that accommodative policy remains the appropriate monetary stance, adding that building policy space (through raising interest rates) is a secondary objective.

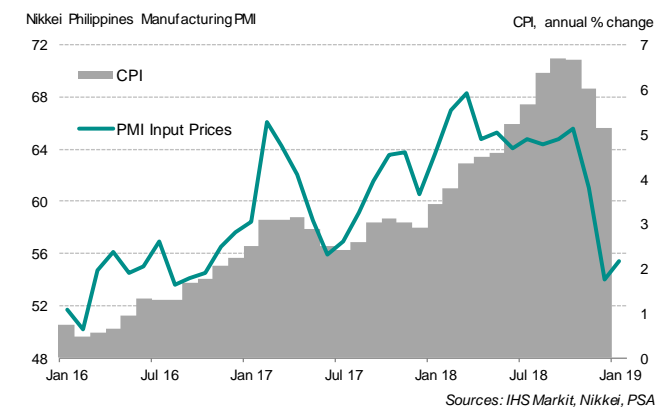
Australia GDP and monetary policy



Thailand PMI and GDP



Philippines PMI and consumer inflation



Continued...

The Philippines will also set monetary policy in the same week, but no changes are expected. However, with inflation moderating to 5.1% in December from a nine-year high of 6.7%, there are rising expectations of the central bank switching from a hawkish to dovish stance this year. In 2018, the bank raised the policy rate five times from 3.25% to 4.75%.

Next week's monetary policy meeting for the Reserve Bank of India will meanwhile be the first this year as well as the first for new governor Shaktikanta Das. While the consensus is for a no-change policy decision, expectations for the bias to shift from tightening to neutral are building after softer December inflation data.

Indonesia GDP

Indonesia reports its fourth quarter GDP. While January's Nikkei manufacturing headline PMI pointed to a disappointing start to 2019, some of the PMI sub-indices suggest the weakness could prove short-lived, most notably indicating that business confidence about the year ahead remains high. There is also a widespread belief that election-related spending should support economic growth this year.

Rest of world

Elsewhere, markets will be watching the Bank of England for its updated views on the UK economy amid ongoing Brexit uncertainty. The UK's scheduled withdrawal from the European Union on 29th March draws closer, but still no deal agreed. The central bank therefore looks set to sit on its hands awaiting greater clarity. Recent economic data have disappointed, notably with the [PMI surveys pointing to stagnation](#) in December. Updated PMI numbers will be key to gauging the UK's pace of growth at the start of the year and will likely help frame Bank of England rhetoric.

Like all central banks, the Bank of England's policy stance in 2019 will likely not depend solely on domestic conditions but also on the global economic environment. In this respect, policymakers and investors around the world will therefore be eyeing global PMI updates for January after December's surveys showed [global economic growth slowing to a 27-month low](#) amid rising trade worries and mounting political uncertainty.

With US data releases disrupted by the government shutdown, [PMI survey data from IHS Markit and ISM](#) will provide the updated steer on the health of the economy. [Flash PMI data](#) indicated steady growth at the start of the year, suggesting little impact on private sector activity so far from the shutdown.

Monday 4 February

Nikkei manufacturing PMI for ASEAN and Malaysia (Jan)
 Indonesia GDP (Q4)
 Italy inflation (Jan)
 UK construction PMI (Jan)
 US building permits, housing starts, durable goods orders, retail sales (Dec) *Potentially subject to delay*
 US goods trade balance, wholesale inventories, factory orders, new home sales (Nov, Dec) *Potentially subject to delay*
 US wholesale inventories (adv, Nov, Dec) and (final, Nov) *Potentially subject to delay*

Tuesday 5 February

Worldwide release of IHS Markit services PMI survey (Jan)
 Australia trade (Dec) and monetary policy decision
 Philippines inflation (Jan)
 Euro area retail sales (Dec)
 US trade (Nov, Dec) *Potentially subject to delay*
 US ISM non-manufacturing surveys (Jan)

Wednesday 6 February

IHS Markit construction PMI for Eurozone, Germany, France and Italy (Jan)
 Thailand interest rate decision
 Germany factory orders (Dec) and construction PMI (Jan)
 US GDP (adv, Q4)

Thursday 7 February

IHS Markit sector PMI for US, Europe, Asia and Global (Jan)
 Nikkei Singapore PMI (Jan)
 India, Philippines and Brazil interest rate decision
 Germany industrial production (Dec)
 UK Halifax house price index (Jan)
 BoE monetary policy decision
 US PCE index, personal income and spending (Dec)

Friday 8 February

Nikkei Hong Kong PMI (Jan)
 Japan current account and average cash earnings (Dec)
 RBA statement on monetary policy
 Germany trade (Dec)
 France and Italy industrial production (Dec)
 Russia interest rate decision
 US wholesale inventories (final, Dec) *Potentially subject to delay*

Special Focus

Japan's manufacturing weakness casts shadow over 2019 growth outlook

By Chris Williamson, Chief Business Economist, IHS Markit

Japan's manufacturing economy failed to grow for the first time in two and a half years in January as a mounting global trade downturn took an increasing toll on the country's exporters and pushed business sentiment to its lowest for six years. The stalling of business activity ended the country's longest growth spell for a decade and raises questions over the ability of the economy to weather headwinds in 2019, which look set to include rising global trade tensions and a planned sales tax rise.

Flat start to the year

The first piece of economic data for 2019 suggests the Japanese economy started the year on a disappointing note. The **Nikkei Manufacturing Purchasing Managers' Index (PMI™)** fell sharply from 52.6 in December to 50.0 in January according to the [flash estimate](#) released on 24th January.

With 50.0 being the neutral level between growth and expansion, January's PMI reading signalled a stagnation of business conditions during the month. It was the lowest reading since August 2016.

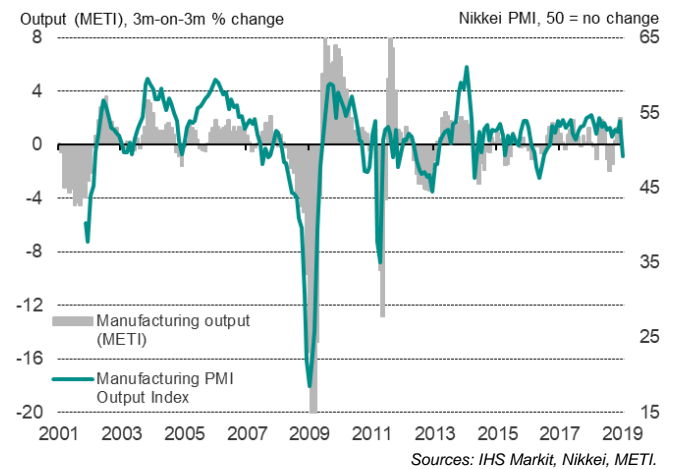
The headline PMI is a composite indicator based on a variety of survey sub-indices, the analysis of which paints an even gloomier picture. The PMI output index signalled the first monthly fall in factory production since August 2016, while the new orders index pointed to the first reduction of new work inflows since September 2016.

Factory headcounts meanwhile rose at the weakest pace since November 2016 as firms scaled back expansion plans in line with reduced order book growth.

The driving force behind the slew of disappointing survey indices was a sharp deterioration in export orders, which fell for a second successive month in December, dropping at the steepest rate for two and a half years. As to future, firms' optimism about the coming 12 months slipped sharply at the start of 2019, down to its lowest since November 2012.

Increased pessimism with regard to the future production trend was often blamed on the impact of trade wars alongside slower demand from markets such as China.

Japanese manufacturing



Japanese goods exports



Particular stress was seen in the auto industry. Japan is the world's third largest producer of autos, but the sector has seen demand turn down sharply in recent months. Detailed sector PMI data showed global auto output new orders dropping at the fastest rate for nearly six years at the end of 2018.

Lowered forecasts

The PMI has acted as a reliable barometer of the health of the Japanese economy in recent years, and as such the weak reading casts a shadow over the outlook for 2019 — and goes some way to corroborate our below-consensus forecasts for the year.

IHS Markit has revised down its outlook for Japan's GDP growth to 0.8% in 2019 — principally in response to the deteriorating external environment against a consensus forecast of 1.0%. However, even this modest expansion is predicated on consumers stepping up their spending ahead of a twice-deferred planned hike in the sales tax from 8% to 10% in October 2019. Pay-back comes in 2020, when we expect economic growth to slow to 0.5% in 2020 as

consumer spending fades again. However, even these downgraded forecasts may prove optimistic unless the PMI revives.

Data quality

It's clearly important at this stage to verify the signals from the PMI, and to review the methodology.

There are two Japanese PMI surveys, covering manufacturing and services, both of which are compiled for Nikkei by IHS Markit applying the same methodology used successfully in over 40 countries.

The surveys are based on panels of contributing companies that accurately replicate the structure of the economy being surveyed. The PMI panels therefore reflect the true composition of manufacturing and private sector services in Japan by sub-sector contribution (autos, chemicals, hotels, banking etc), as well as ensuring the correct mix of small, medium and large companies.

The data are collected at mid-month asking companies to report on the current situation compared to the prior month for a range of business metrics, including output, new orders, exports, employment, and prices. These responses are based on actual business trends, not sentiment. Only one question is opinion-based, which asks companies about their prospects for the year ahead.

The survey responses are weighted according to company size and sector importance, with the resulting data adjusted to take into account normal seasonal influences.

Data collection for the Japanese manufacturing and service sector surveys started in 2001 and 2007 respectively, providing a rich time series on which to test the track record.

The manufacturing data are published on the first working day of each month while the service sector numbers are released on the third working day, with data referring to the month just passed. As such, the PMIs tend to be the first available economic data released each month. However, even these releases are preceded by an early 'flash' reading of the manufacturing PMI, issued around one week before the end of each month.

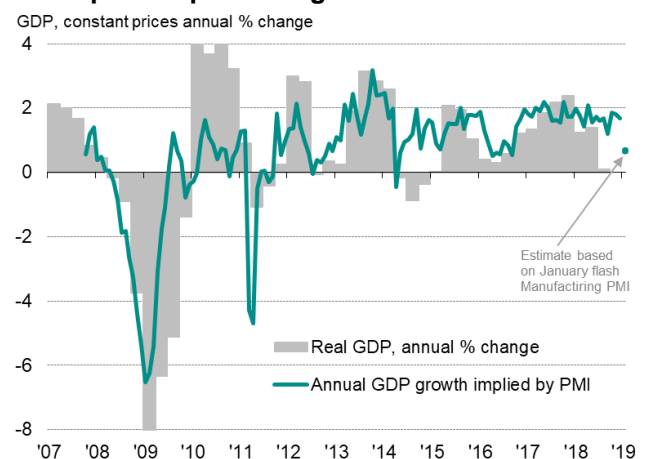
Track record

Historical comparisons indicate that the PMI accurately anticipates changes in comparable official data. The manufacturing output index, for example, which fell into decline in January after correctly indicating robust growth of approximately 2% in the fourth quarter,

exhibits an 80% correlation with the quarterly rate of change in the official manufacturing production data compiled by the Ministry of Economy, Trade and Industry. However, note that the PMI acts with a one-month lead on the official data and avoids some of the undue noise and volatility in the official data, thereby serve as a gauge of the underlying growth momentum.

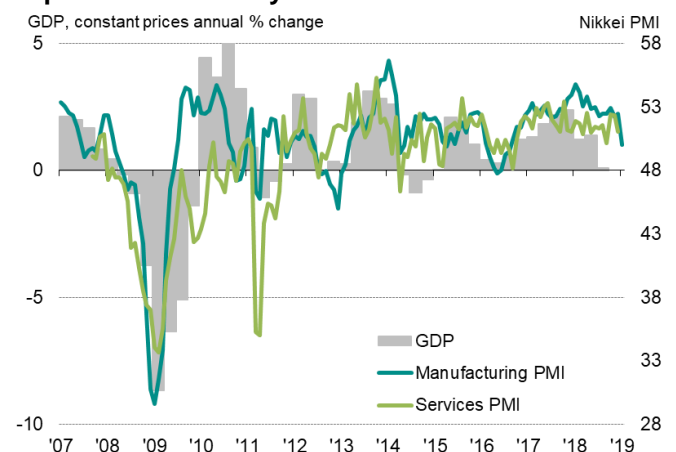
Combining the indicators from the manufacturing and service sector PMI surveys provides overall gauges of private sector activity, which in turn provides useful indicators of official data such as GDP, inflation and employment. In many cases, GDP 'nowcasts' based on these 'composite' PMI indicators are particularly important inputs in the policymaking process, notably at the European Central Bank and the Bank of England, as well as the US Fed. The "outstanding" track record of the euro area PMI in tracking GDP, for example, is described in a [recent paper](#) by ECB staff member Gabriel de Bondt.

PMI-Implied Japan GDP growth rate



Sources: IHS Markit, Nikkei, Cabinet Office.

Japanese PMI surveys and GDP



Sources: IHS Markit, Nikkei, Cabinet Office.

PMI-based simple regression

A simple regression-based model of GDP based on the PMI allows the survey diffusion indices to be converted into an implied growth rate for easy interpretation of the data.

In the case of Japan, the PMI not just provides an accurate insight into turning points of the Japanese economy but also the rate of change, with only one exception: 2014. This exception serves to highlight how the divergence between the PMI and GDP can be as interesting as periods of alignment. The PMI surveys indicated steady GDP growth averaging 1.3% throughout 2014, contrasting with a downturn indicated by the official GDP numbers. However, [research from the Bank of Japan](#), which analysed annual tax revenues, suggests that the official data greatly understated the pace of economic growth in 2014, lending weight to the assertion that the PMI sent the more accurate picture of the true performance of the economy.

Outlook

The PMI tells us two important things about the Japanese economy in recent months.

First, the contraction of quarterly GDP in the third quarter of last year (the latest official estimate currently available) probably overstated the weakness of the economy at that time: the PMI remained very much in growth territory over this period and up to the end of 2018. This suggests that the third quarter GDP numbers are likely to eventually be revised higher.

Second, the flash manufacturing PMI raises a red warning light as to the health of the economy at the start of 2019, suggesting that forthcoming GDP releases could disappoint. Much will depend on the extent to which the service sector can act as a buffer to the headwind of dampened external demand.

For further information:

For more information about the PMI surveys and the Nikkei PMI for Japan, please contact economics@ihsmarkit.com.

If you would like to receive this report on a regular basis, please email economics@ihsmarkit.com to be placed on the distribution list.

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