

# Week Ahead Asia-Pacific Economic Preview

- **Services PMI surveys to provide more colour on global growth trends**
- **Australia, Malaysia and ECB monetary policy**
- **GDP figures in Australia, Japan, South Korea and Europe**
- **Special report on copper demand and global growth**

The worldwide release of February service sector PMI surveys will provide more colour to global economic developments and inflation trends during the first quarter. Monetary policy meetings in Australia and Malaysia will meanwhile also be in focus amid [increasing expectations](#) for Asian central banks to reverse tighter monetary policy. The European Central Bank will likewise decide on monetary policy.

Key official data releases include Australia's GDP figures as well as updates to growth estimates for Japan, South Korea and the Euro area. In Asia, other notable data releases included trade data in China, Taiwan and Malaysia. Elsewhere, financial markets will keep an eye on US nonfarm payroll and unemployment data.

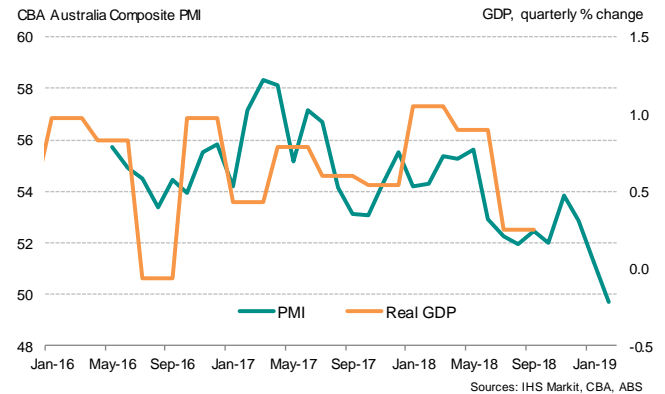
Our special report this week looks at what the near-ten year low in the output of heavy copper users means for global growth.

## Australia monetary policy and GDP

While the Reserve Bank of Australia is expected to keep monetary policy steady in its next meeting, analysts will scour the policy statement for insights into the direction of the next policy move. There are [increasing expectations](#) of a lower policy rate amid subdued inflation, falling domestic house prices and a global growth slowdown. As of end-February, financial markets are pricing in a rate cut at [year-end](#). As such, upcoming economic data will be closely watched, such as the fourth quarter GDP data that are coming out in the same week, particularly household consumption.

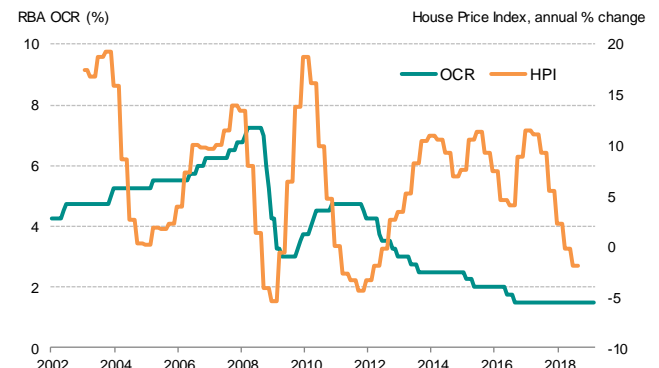
Providing a more up-to-date view into economic growth in early 2019 are updates to the February Commonwealth Bank Australia composite PMI surveys. [Flash PMI](#) had signalled a dip in private sector business activity in February; the first such drop in the near three-year survey history.

## CBA Australia PMI\* and GDP

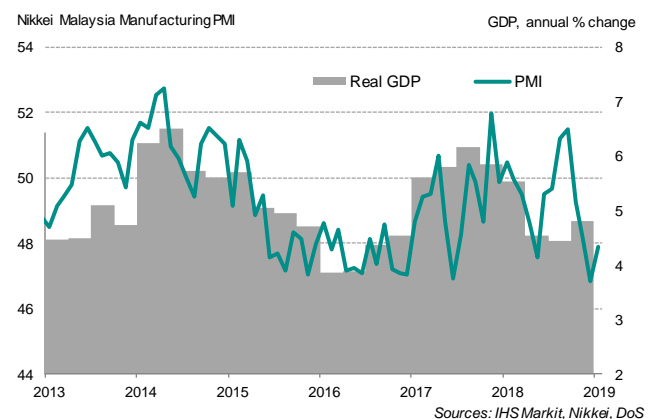


\*February Australia Composite PMI is based on [Flash data](#)

## Australia monetary policy and house prices



## Malaysia PMI and economic growth



Continued...

## Malaysia

Bank Negara Malaysia decides on monetary policy in the coming week, with a rate hold widely expected. Governor Nor Shamsiah Mohd Yunus recently commented that the bank sees the current policy settings as appropriately accommodative, although they will continue to assess the situation. The return of deflation in January stemmed from an administrative cut in domestic fuel prices, and is therefore unlikely to warrant a change in monetary policy. Furthermore, prices are expected to pick up by mid-2019 when the GST-removal impact fades. However, IHS Markit sees some room for a rate cut if private consumption deteriorates substantially.

## Brexit and the ECB

In Europe, markets will be watching Brexit negotiations as the UK's scheduled departure from the EU on 29<sup>th</sup> March looms closer. An extension whereby the departure is delayed looks increasingly likely, but more will become evident during a series of votes in the week commencing 11<sup>th</sup> March. Services and construction PMI data will be eyed for signs of the impact of Brexit uncertainty on the UK economy.

Meanwhile, European growth has slowed sharply, leaving the European Central Bank in a difficult position. Having halted its asset purchase programme in late 2018, the ECB is now likely to have to revise down its growth forecasts for the euro area in 2019 from its current 1.7% expectation, reflecting a recent sharp slowdown (the [Eurozone PMI](#) is indicating a mere 0.1%-0.2% expansion in the first quarter and manufacturing is already in recession). But more important will be whether the central bank revises down growth in future years, as this will help reveal the extent to which the ECB sees the recent weakness as transitory. No loosening of policy is expected, but rhetoric could well become more dovish.

## US payrolls and PMIs

The week ends with the release of the US employment report, key components of which will be non-farm payrolls and wage growth. The risk of a US recession in late 2019 or 2020 are widely seen to have increased, and any disappointments in the labour market data will add to downturn fears. US PMI survey data from IHS Markit and ISM will also add guidance to the health of the economy in the first quarter. [Flash PMI data](#) indicated a slowdown in manufacturing as trade wars hit growth, but service sector growth remained encouragingly solid.

## Monday 4 March

Nikkei manufacturing PMI for Taiwan and South Korea (Feb)  
Australia building permits (Jan)  
Malaysia trade (Jan)  
UK construction PMI (Feb)  
US construction spending (Dec)

## Tuesday 5 March

Worldwide release of IHS Markit services PMI surveys (Feb)  
South Korea GDP (final, Q4)  
Philippines inflation (Feb) and industrial production (Jan)  
Australia and Malaysia monetary policy decision  
Bank of England FPC statement  
Euro area retail sales (Jan)  
US ISM non-manufacturing survey (Feb)

## Wednesday 6 March

Australia GDP (Q4)  
Germany construction PMI (Feb)  
US ADP employment change (Feb), factory orders (Jan) and trade (Dec)

## Thursday 7 March

Australia trade and retail sales (Jan)  
Philippines unemployment rate (Q1)  
China foreign exchange reserves (Feb)  
UK Halifax house price index (Feb)  
Euro area GDP and employment change (3<sup>rd</sup> est, Q4)  
ECB monetary policy decision  
US trade (Jan) and unit labour costs (prelim, Q4)

## Friday 8 March

Japan GDP (final, Q4) and current account (Jan)  
China trade (Feb)  
Taiwan trade and inflation (Feb)  
Germany factory orders (Jan)  
France and Italy industrial production (Jan)  
UK consumer inflation expectations (Q1)  
US nonfarm payrolls, jobless rate and earnings (Feb)  
US wholesale inventories (Jan)

# Special Focus

## Output of heavy copper users at decade-low prompts global growth worries

By David Owen, Economist, IHS Markit

*Heavy users of copper reported the steepest decline in output for ten years in January, boding ill for future global demand for the metal in coming months and giving worrying indications of the health of the wider manufacturing sector. Copper is widely seen as a benchmark for other metals and commodity demand in general, and we analyse the implications of the recent slowdown for the global economy.*

### Copper PMI near ten-year low

The Global Copper Users PMI Output Index hit a near ten-year low at the start of 2019, indicating a downturn of the scale not seen since the global financial crisis. This gives worrying indications of the health of the manufacturing sector and suggests a marked weakening of demand for copper from manufacturers in the months ahead, as well as providing a potential early warning signal for slower global economic growth.

The **IHS Markit Global Copper Users PMI™** is a composite indicator giving an overview of operating conditions at manufacturers identified as heavy users of copper, and is based on data provided by companies around the globe.

As many copper users are producers of primary manufacturing goods, the index measuring output levels has a strong correlation with worldwide manufacturing output, and can offer projections for global economic growth in the near-to-medium term.

### Falling output paints gloomy picture for first half of 2019

The Global Copper Users PMI Output Index posted at 46.8 in January, indicating a solid decline in production at heavy users of copper (the PMI is a 'diffusion index', whereby readings of 50.0 indicate no change in business conditions on the prior month). This was the lowest reading since April 2009, during the global recession.

A key factor was notably softer output growth at US copper users, though users in Asia and Europe continued to see declining production levels.

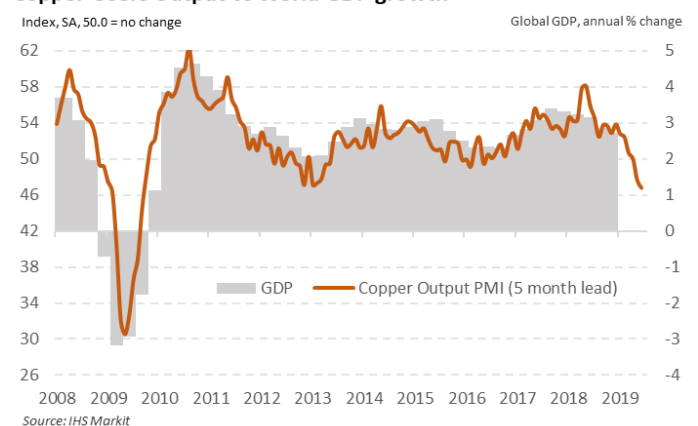
The latest data suggest a possible fall in the wider gauge of manufacturing output in coming months. A comparable, albeit slightly softer contraction in production at copper users in 2012 initiated a four-month sequence of deterioration in output recorded by the JPMorgan Global Manufacturing PMI.

**Copper Users Output vs. World Manufacturing Output**



Moreover, as a forward indicator to world GDP growth, January's copper users data point to a marked slowdown in the first half of 2019. Copper is used in a variety of sectors, including electronics, transport and construction, so demand for the metal is often seen as a key bellwether of business conditions. A downturn in these areas can lead to a notable ripple effect across the global economy.

**Copper Users Output vs World GDP growth**



A strong recurring influence on falling output is declining trade. Copper users have recorded falling new export orders in each of the last eight months, commencing shortly after the US placed tariffs on Chinese copper goods. Notably though, January was the first month in this period where US and European users joined Asian users in reporting falling export sales.

Currently, further tariff hikes have been postponed amid fresh US-China trade talks. If talks are successful

in averting a trade war escalation, they may allow a rebound in output. On the other hand, if talks are unsuccessful, US import tariffs will likely rise from 10% to 25%. In which case, copper – and other metals – users may face even gloomier business conditions in the months ahead.

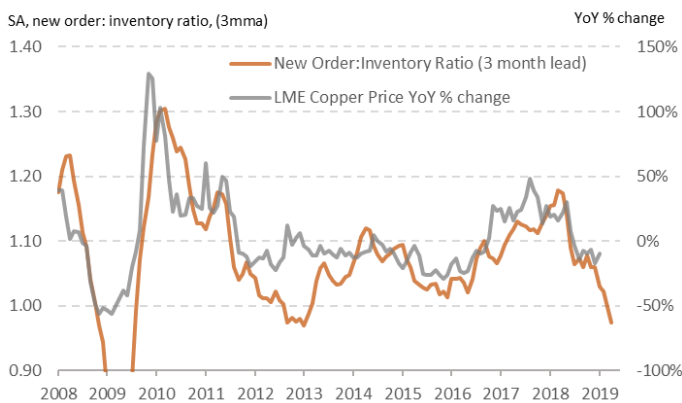
Weaker new orders may also exert downward pressure on copper prices. The forward-looking New Orders/Inventory Ratio has fallen markedly over recent months, as stockpiles have not contracted as quickly as demand, most likely reflecting stock building ahead of future tariff hikes. This is likely to act as a drag on copper prices in the near term as producers use up their stocks. While offering relief to copper users' balance sheets, such a decline may add further tensions for the whole industry.

#### PMI data provide key guide to metals demand trends

Using data from our established survey panels across Asia, Europe and the US, IHS Markit produce data tracking trends at copper, aluminium and steel intensive goods producers. Data cover indexes for output, new orders, new export orders, input purchasing, stock holdings, prices, vendor delivery times and employment.

For further information on commodities PMI data, please contact [economics@markit.com](mailto:economics@markit.com)

#### Using copper users PMI data as a forward indicator



#### For further information:

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

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