

Week Ahead Asia-Pacific Economic Preview

- **China data releases include fixed investment, retail sales and credit growth**
- **Bank of Japan sets monetary policy**
- **IHS Markit Business Outlook surveys to inform on firms' plans for hiring and investment**
- **Special report on the latest global manufacturing trends**

With the extent of the slowdown in the global economy under scrutiny, the worldwide release of the tri-annual IHS Markit Business Outlook surveys will provide insights into firms' hiring and investment plans for 2019. Chinese data releases will meanwhile shape financial market expectations of fiscal stimulus after China lowered its GDP target this year. The Bank of Japan's policy meeting will be in focus amid calls for additional stimulus after headline inflation came in nearly flat.

Other key Asian data releases include South Korea's unemployment rate, plus inflation and trade data for India and Japan's machinery orders. The UK parliament votes on the Brexit deal. US data such as durable goods orders, new home sales and inflation will also garner attention as analysts seek to gauge the Fed's policy outlook.

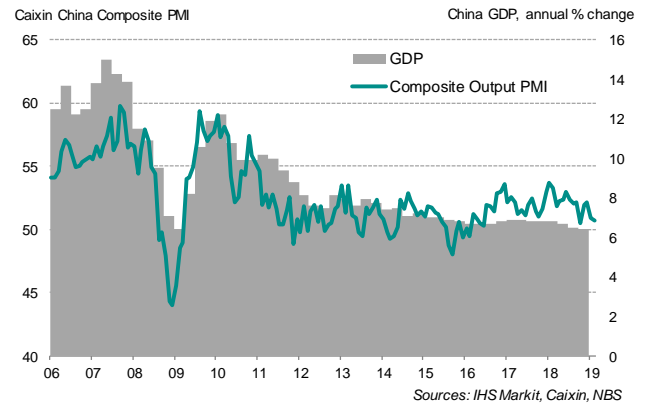
Our special report this week looks at what the widening manufacturing weakness across the world means for global growth.

China expects slower growth

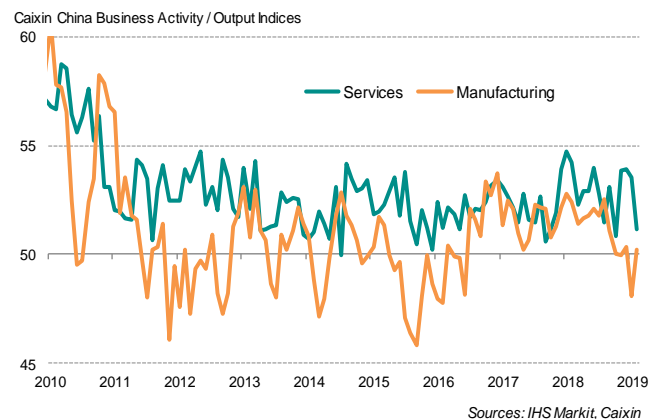
With China lowering its growth target to 6.0-6.5% this year, analysts will look to economic data to assess whether additional fiscal measures are required to support growth. A deluge of data in the coming week, including fixed asset investment, industrial output, retail sales and credit, will provide clues as to economic performance at the beginning of the year.

Caixin China PMI surveys (which cover both [manufacturing](#) and services) indicated [a softer rise](#) in Chinese business activity during the first two months of 2019. The government-sponsored manufacturing PMI has likewise pointed to a sustained deterioration in operating conditions since last December. China watchers will closely monitor upcoming PMI surveys and the accompanying Outlook Survey for a more up-to-date view into economic growth.

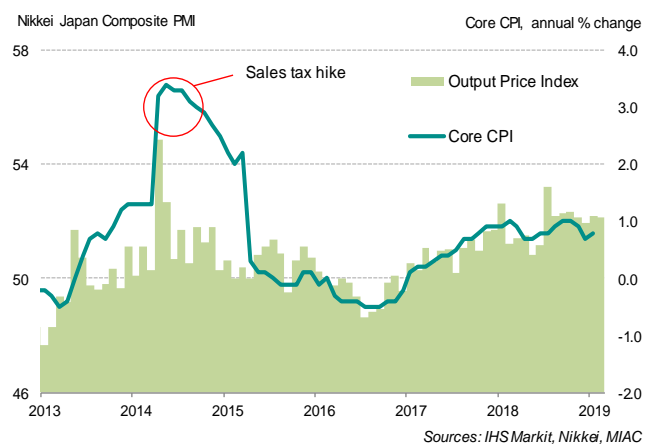
Caixin China PMI and GDP



Caixin China PMI: business activity/output



Japan PMI and core CPI*



*BOJ's 2% inflation target is based on core CPI (less fresh food).

Continued...

Bank of Japan

The Bank of Japan is widely expected to maintain current monetary settings in its upcoming policy meeting. Despite massive monetary easing, inflation has remained stubbornly subdued and well below the BOJ's 2% target. BOJ governor Kuroda said recently that the bank will ["patiently" maintain](#) its ultra-accommodative monetary programme to continue pushing inflation towards its target.

There is a lack of additional tools that the central bank could take to increase monetary easing; even maintaining the current policy is increasingly challenging because of mounting risk in the financial sector arising from prolonged monetary stimulus.

Further compounding the frustrating situation are signs of slowing economic growth. PMI survey results showed only [a marginal rise](#) in economic activity so far in the first quarter, reflecting a [softer manufacturing sector](#) and heightening fears that the economy could slip into a downturn.

US growth indicators

Important updates on the health of the US economy will be provided by the release of retail sales, durable goods orders, construction spending, new home sales, industrial production and consumer confidence data, with inflation data adding to the debate on the Fed's rate path over the coming year. [Recent survey data](#) have shown a growing dichotomy between a struggling manufacturing sector and a more resilient services economy (in turn hinting at domestic demand helping offset a weaker international trade environment), with price pressures cooling.

Brexit, spring Budget and UK GDP

The UK sees a series of important votes on the country's withdrawal from the EU, with lawmakers choosing between PM May's deal, no deal or a delay to the current schedule Brexit day of 29th March. A busy week for the UK also includes the government's spring Budget and the release of GDP data for January, which includes a breakdown for manufacturing, services and construction. PMI data suggest the GDP numbers will show the [economy close to stalling](#) as Brexit uncertainty exacerbated a wider slowdown.

Other important releases in Europe include eurozone industrial production and inflation data, which are widely expected to confirm disappointing [survey data](#).

Monday 11 March

Japan machine tool orders (Feb)
Germany trade (Jan)
US retail sales (Jan)

Tuesday 12 March

Worldwide release of IHS Markit Business Outlook surveys
Australia business confidence (Feb)
Philippines trade (Jan)
China FDI (YTD, Feb)
India industrial production (Jan), inflation (Feb)
UK GDP, trade, industrial production, construction output (Jan)
US inflation (Feb)
UK Parliamentary voting on Brexit deal starts

Wednesday 13 March

South Korea jobless rate (Feb)
Australia consumer confidence (Mar)
Australia home loans (Jan)
Japan machinery orders (Jan)
Spain inflation (final, Feb)
Euro area industrial production (Jan)
India current account (Q4)
UK spring budget 2019
US durable goods orders, construction spending (Jan)

Thursday 14 March

China fixed asset investment, industrial production, retail sales (Jan-Feb)
China new yuan loans, total social financing and M2 (Feb)
India WPI (Feb)
Germany and France inflation (final, Feb)
Brazil retail sales (Jan)
US new home sales (Jan), export prices and import prices (Feb)

Friday 15 March

China house price index (Feb)
BoJ monetary policy decision
Indonesia trade (Feb)
India trade balance (Feb)
Euro area inflation (final, Feb)
US industrial production (Feb), JOLTs job openings (Jan)
US Michigan surveys (Mar)

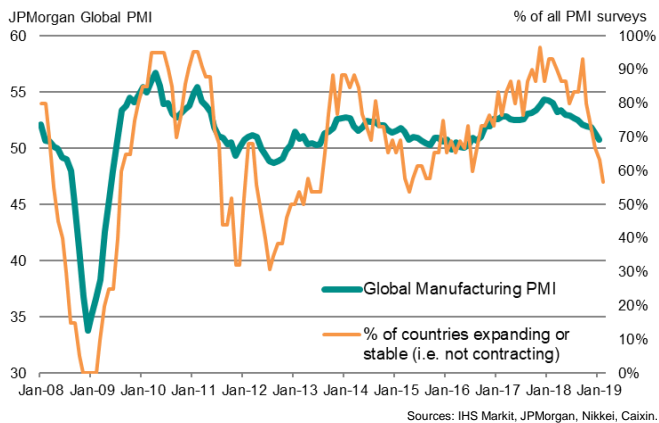
Special Focus

Worldwide factory growth close to stalling as trade flows deteriorate

By Chris Williamson, Chief Business Economist, IHS Markit

Worldwide PMI surveys indicated that manufacturing more or less stagnated in February. Growth of business activity dropped to a 33-month low amid a faster decline of global trade flows. Export sales fell for a sixth straight month, with the rate of decrease accelerating. With national manufacturing trends closely tied to export performance, softer trade conditions could weigh on future factory activity. We analyse the implications of the recent manufacturing performance on global growth.

Global manufacturing PMI surveys



Manufacturing PMI near 2½-year low

February saw worsening news on the global manufacturing business cycle. The headline JPMorgan Global Manufacturing PMI, compiled by IHS Markit, fell from 50.8 in January to [50.6 in February](#), continuing a descending trend seen over the past year to reach its lowest since June 2016.

The PMI is a diffusion index derived from five survey questions, where 50 indicates no change in business conditions compared to the prior month. At current levels, the PMI signals only a very modest improvement in the health of the manufacturing sector; the rate of growth having steadily weakened over the course of 2018.

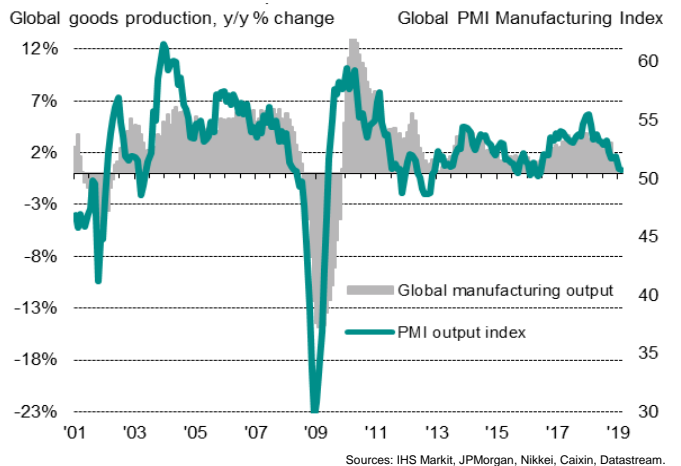
Of greater concern is that the number of countries in manufacturing decline has risen to 13 of the 30 included in the global PMI. This time last year just two countries were in decline. Notable economies in

manufacturing contractions now include [Germany](#) (which recorded the steepest export fall of all countries), China and [Japan](#). Both the [Eurozone](#) and Asia as a whole are consequently now in manufacturing downturns. Growth also slowed sharply in the US and to a lesser extent in Canada, pushing North American growth to an 18-month low.

Price pressures meanwhile eased, with input costs rising at the slowest rate since September 2016, largely reflecting weakened pricing power among sellers as a result of the slowdown in demand.

Looking into the detail of the PMI, output growth slowed to its lowest since June 2016, down to levels broadly consistent with global manufacturing output growth stalling. Behind the weakened production trend was a second successive month of stalling new order inflows, painting the weakest picture of demand since late 2012. Global export orders fell for a sixth consecutive month, deteriorating at the fastest rate since May 2016 and suggesting that softening global trade flows are leading the manufacturing slowdown.

Global manufacturing output



Global manufacturing exports



In a sign of excess capacity developing, backlogs of orders fell for a second successive month as completed work was not fully replaced by new business. The decline represented the first back-to-back monthly drop in order book backlogs since May 2016.

Expectations of future output meanwhile slipped to the second-lowest since comparable sentiment data were first available in late-2012.

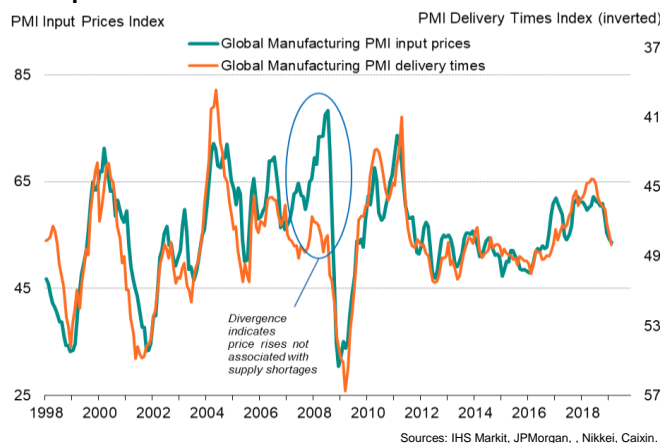
With order books deteriorating and future optimism waning, hiring remained subdued. The rate of hiring remains one of the weakest seen over the past two years. Producers likewise cut back on their purchases of inputs for the first time in 33 months, causing inventory levels to fall to the greatest extent since August 2016, as cost cutting prevailed.

Reduced price pressures

The reduced growth of input buying helped drive an easing in supply chain delays to the lowest seen since November 2016, which – alongside lower oil prices – was a key factor cited as helping alleviate inflationary pressures. Average input cost inflation has slowed markedly since the middle of last year, dropping in February to its lowest since September 2016.

Selling price inflation picked up to a three-month high, however, albeit driven up to a large extent by the first increase in prices charged by [Chinese manufacturers](#) for four months.

Price pressures



43% of all countries now in decline

The deterioration in the PMI also reflected an increase in the number of countries reporting worsening manufacturing conditions. Of the 30 countries for which IHS Markit produces manufacturing PMI data, the

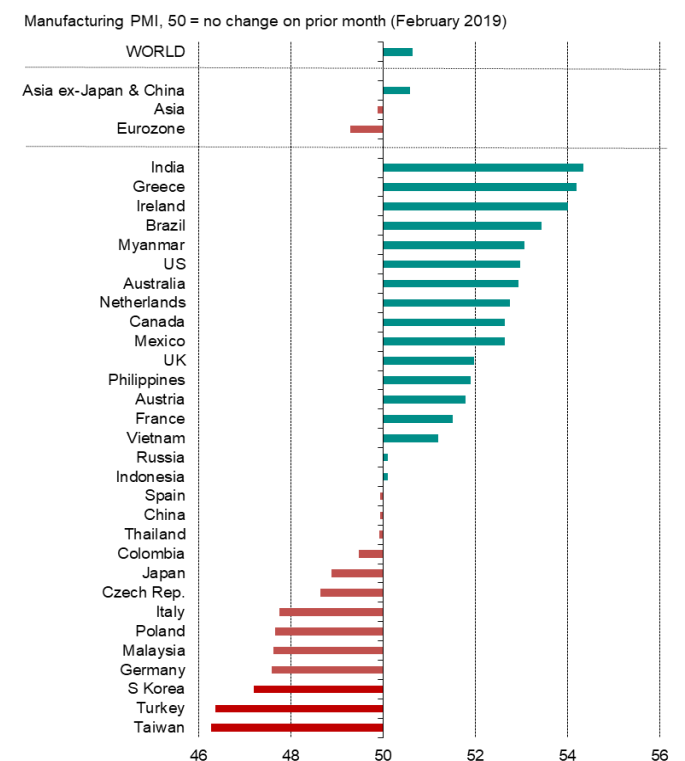
number reporting a deterioration of business conditions rose from 11 in January to 13 in February, up markedly from just two at the start of last year.

The strongest growth was recorded in [India](#), which enjoyed its second-best month since 2012, followed by [Greece](#) and [Ireland](#). The US meanwhile dropped from second to sixth place behind Myanmar and Brazil as growth hit an 18-month low. Other relatively strong performers included [Australia](#), the Netherlands, Canada and Mexico, though only the latter enjoyed an acceleration of growth during the month.

At the other end of the rankings, [Taiwan](#) replaced Turkey as the worst performing manufacturing economy, followed by [South Korea](#) and Germany. Poland and the Czech Republic also contracted again, in part reflecting supply chain ripples from weak demand in Germany and other Eurozone countries. The eurozone as a whole slipped into decline for the first time since mid-2013.

Six of the 13 economies in manufacturing decline were found in Asia, including both China and Japan, leading to a second month of contraction (though only marginal) across the Asian region as a whole during the month.

Manufacturing PMI rankings



Weak Asian manufacturing

Manufacturing activity across Asia broadly stagnated in February, struggling amid an ongoing decline in foreign sales. Export orders fell for a ninth month in a row, with nearly two-thirds of Asian economies reporting falling export sales. Besides China and Japan, the ASEAN region as a whole is also in a manufacturing downturn.

Another source of concern is that Taiwan and South Korea, widely regarded as bellwether economies for regional trade flows, reported a faster deterioration of manufacturing conditions in February. While firms in both countries are generally still positive about future output, their level of optimism was well below that seen in the same time last year, hinting at further manufacturing weakness in coming months.

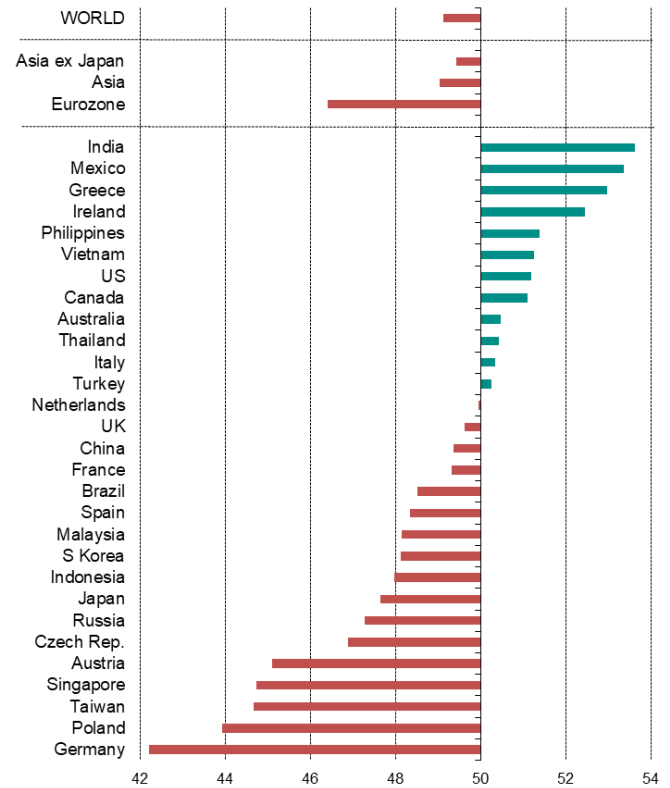
PMI data provide key guide to economic and sector trends

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including Asia and the eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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

Manufacturing PMI export rankings

Manufacturing PMI New Exports Index, 50 = no change on prior month (February 2019)



Sources: IHS Markit, JPMorgan, CBA, ISO, CIPS, NEVI, Nikkei, BME, Bank Austria, Investec, AERCE, Caixin, HPI, CBA

For further information:

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

Contact for further APAC commentary: Rajiv.Biswas@ihsmarkit.com or Bernard.Aw@ihsmarkit.com.

Editor and contact for European and US PMI commentary: chris.williamson@ihsmarkit.com

For more information visit www.ihsmarkit.com. The intellectual property rights to the report are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd.