

Week Ahead Economic Preview

Global overview

- Worldwide PMI surveys accompany various central bank meetings
- China trade and US-Sino trade talks
- UK first quarter GDP, US inflation

Service sector PMI surveys will provide an important steer on worldwide economic growth trends, and could influence policy direction at key central banks where the stance has generally turned more dovish. Central bank decisions in Australia, New Zealand, Thailand, Malaysia, the Philippines and Brazil will all be eyed for fresh clues as to policymakers' assessments of the current economic environment and the latest policy trends.

The recent global PMI surveys have indicated an on-going trade-led downturn to have continued to hit manufacturers, but growth has been supported by resilient service sectors. However, early 'flash' PMI surveys for the Eurozone and US hinted that the slowdown showed signs of spreading to services in April, raising alarm bells for the near-term growth outlook.

Key to the manufacturing slowdown has been increased trade protectionism and heightened political uncertainty, in turn often linked to rising protectionism, as well as worries about slower growth in China. In that respect, further US-Sino trade talks will be eagerly watched for a potential easing in the trade spat.

Similarly, China's trade data will be published alongside both NBS and Caixin PMI surveys, updating the picture of whether China's recent strengthened economic growth rate will prove short-lived, as many expect.

In the US, with the FOMC growing more worried about inflation running below target, inflation data will be keenly awaited. Conversely, the Bank of England stands alone among the major central banks in adopting a more hawkish stance, and updated GDP data will help determine whether such optimism is warranted.

Our special report this week looks at how the current Japanese government is hoping to deal with the long-term challenges facing the country as it seeks to mitigate the impact of demographic change and an aging population in the new Reiwa era (see page 6). The minutes from the Bank of Japan's latest policy meeting will also be parsed for further clues as to how policymakers believe they can push inflation higher.

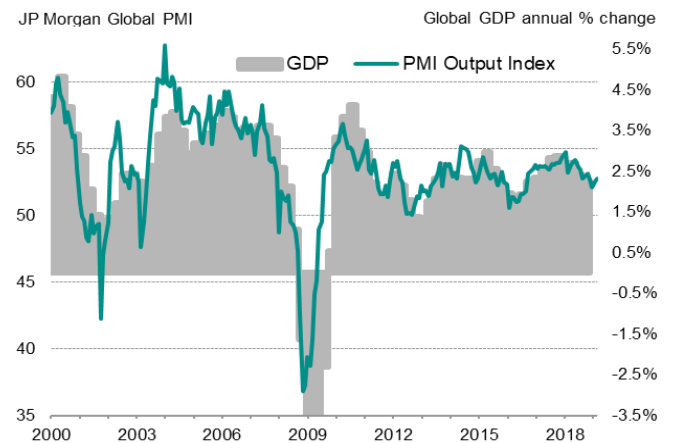
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Special reports

- 6 Japan enters Reiwa era facing strong economic headwinds

Global PMI and economic growth: has the slowdown bottomed out?



Global PMI output and export indices highlight how weak trade flows mean worldwide growth has become increasingly dependent on the service sector



Key diary events

Monday 6 May

Worldwide release of IHS Markit Services PMI (April)
Indonesia GDP (Q1)
Spain unemployment change (Apr)
Euro area retail sales (Mar)

Tuesday 7 May

IHS Markit/Nikkei Japan manufacturing PMI (Apr)
IHS Markit Eurozone Construction PMI (Apr)
Philippines inflation (Apr)
Australia trade (Mar)
RBA monetary policy decision
Malaysia monetary policy decision
Taiwan trade and inflation (Apr)
Germany factory orders (Mar)
France trade data (Mar)

Wednesday 8 May

IHS Markit Sector PMI Global, US, Europe, Asia (Apr)
BoJ policy meeting minutes
Philippines trade (Mar)
RBNZ monetary policy meeting
China trade (Apr)
Thailand monetary policy decision
Germany industrial production (Apr)
UK Halifax house price index (Apr)
US-China trade talks ([Washington](#))

Thursday 9 May

China inflation (Apr)
Philippines GDP (Q1)
Philippines and Brazil monetary policy meeting
Japan and Thailand consumer confidence (Apr)
Brazil retail sales (Mar)
US trade, wholesale inventories (Mar), PPI (Apr)

Friday 10 May

Japan household spending, cash earnings (Mar)
BoJ Summary of Opinions
Australia home loans (Mar), RBA statement on monetary policy
Malaysia industrial production, retail sales, jobless rate (Mar)

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Indonesia current account (Q1)
India industrial production (Mar)
Germany trade and current account (Mar)
UK GDP, business investment (prelim, Q1), trade, industrial production, construction output (Mar)
Brazil inflation (Apr)
US inflation (Apr)

United States Week Ahead

Inflation, US-China talks and trade data

By Siân Jones

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Key economic data releases including inflation, producer prices, job openings and trade data lead the US calendar. Meanwhile, US-China trade talks continue in Washington.

US-China trade talks

Following reports of constructive talks in Beijing, ongoing trade negotiations between the US and China will move to Washington. Uncertainty and the impact of tariffs have commonly been cited by IHS Markit PMI survey panellists as having dampened export growth, pushed input prices higher and lowered future output expectations. That said, the latest talks have led to speculation of a resolution of the trade spat within days and the signing of a trade deal, which could help ease the recent bout of global economic uncertainty. The release of trade data should none the less signal a further rise in exports as the initial shock of the introduction of tariffs peters out.

Inflation

The conclusions from the latest FOMC meeting suggested subdued rates of inflation are expected to continue through the short- and longer-term, with the overall pace of increase holding close to the 2% target in 2019. The latest data from the IHS Markit Composite flash PMI signals little-change in the rate of inflation during April, with consensus forecasting only a slight pick-up in the pace of CPI inflation.

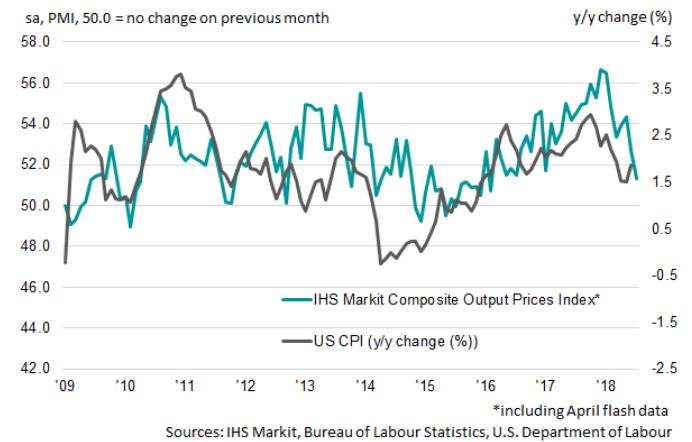
Core inflation has remained soft over recent months, with any acceleration in prices stemming from the impact of energy.

Producer prices

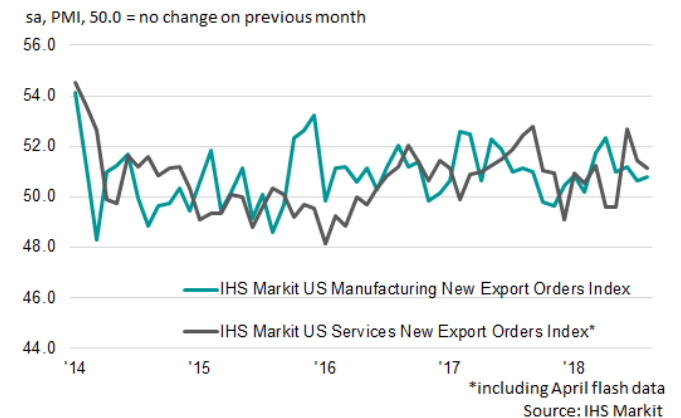
Core producer prices are meanwhile set to grow at a weaker pace. Solid output growth and accommodating demand conditions have allowed US firms to continue to increase their selling prices, however recent months have indicated more moderate rises in these output charges. According to the latest IHS Markit US Manufacturing PMI survey, the rate of output price inflation is expected to ease slightly and remain relatively muted. The extent of any pass-through of higher oil prices remains an unknown and could push up the headline rate of increase.

Other key data releases include the Job Openings and Labour Turnover survey and US trade data.

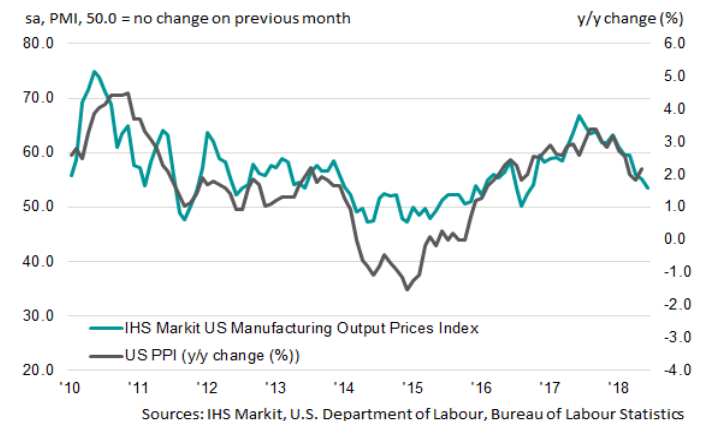
Inflation remains muted



Private sector exports expand further



Producer prices set to ease further



Europe Week Ahead

Services PMI surveys, UK GDP and German industry data

By **Joe Hayes**

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April's set of European Services PMI surveys are the top pick amid a week of other key data releases such as Eurozone retail sales, German factory orders, industrial production and trade data, as well as the initial estimate of UK first quarter GDP.

Services PMIs

While Europe's manufacturing struggles have been evident in PMI data for some time now, service sectors across the continent have shown a certain degree of resilience, lifted by some robustness in domestic markets. Having seen unexpected upside surprises in first quarter GDP estimates for several eurozone countries, PMI data for April will provide the first insight as to whether the good news will prove short-lived.

Manufacturing headwinds remain apparent, especially in the euro area, as Brexit uncertainty coupled with global export weakness persists. PMI data suggest the underlying trend in German factory production during March remained slack. German data on factory orders are also due, as well as trade statistics for March.

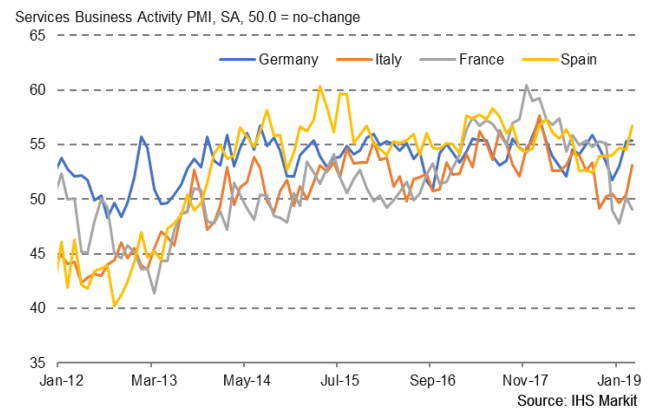
Elsewhere, analysts will look for more upside in eurozone retail sales data, which provided a consensus-beating print in February. Consumer have played a key role in supporting eurozone growth in recent months as a counterpoint to the factory malaise.

First quarter UK GDP estimate

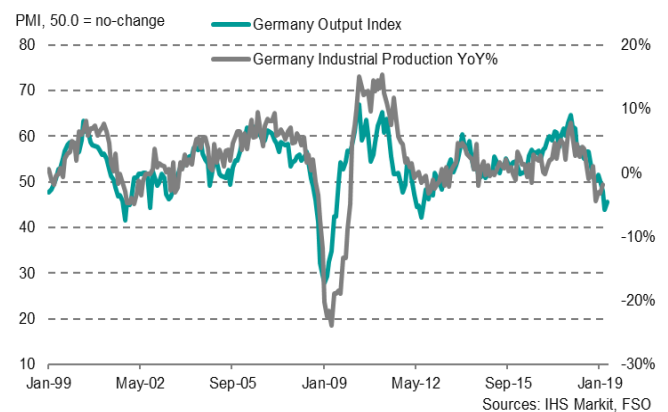
The initial estimate of GDP in the first three months of 2019 is the pick of the bunch for the UK. The first quarter was marred with political upheaval regarding the UK's exit from the EU, which culminated with an extension of Article 50. PMI data have revealed divergent trends within the UK's economy, as stockpiling efforts have benefited manufacturers, but weak consumer confidence and flagging demand have weighed on service sector growth. PMI suggests that the UK economy broadly stagnated, but the [GDP numbers have been looking stronger](#) – for now at least.

March data on business investment, industrial and construction output, as well as the trade balance, will all add granularity to the picture of the UK's economic performance during the opening quarter of 2019.

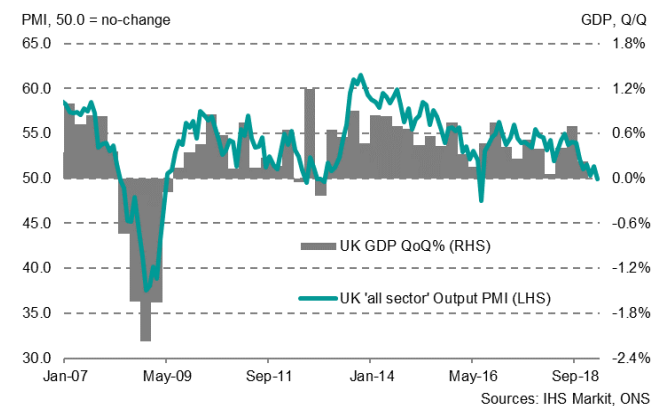
Eurozone service sector growth has remained reasonably robust amid manufacturing struggles



Germany's manufacturing sector remains fragile



UK PMI data during Q1 highlights sluggish performance at the start of 2019



Asia Pacific Week Ahead

Central banks and pan-Asia PMI surveys take centre stage.

By **Bernard Aw**

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Asia-Pacific central bank meetings plus first quarter GDP releases for Indonesia and the Philippines dominate the region's economic agenda next week. The worldwide release of IHS Markit services PMI data will also be scrutinised for clues as to whether services growth is holding up amid the [manufacturing](#) sector's malaise, particularly in [Japan](#).

The Bank of Japan's meeting minutes and the summary of its stimulus opinions will also be in focus. In Asia, other data highlights include trade figures for China, Taiwan and Australia, as well as inflation updates in China, Taiwan and Philippines.

Regional central banks

Central banks in Australia, New Zealand, Malaysia, Thailand and the Philippines meet next week and will likely tread a cautious path amid a shift in stance towards dovishness from major monetary authorities. There is particular interest in the Bank of Thailand's next moves as the central bank continues to raise concerns about financial stability. Governor Veerathai said recently that financial fragilities in the economy need to be addressed by a combination of measures, including macroprudential tools and monetary policy.

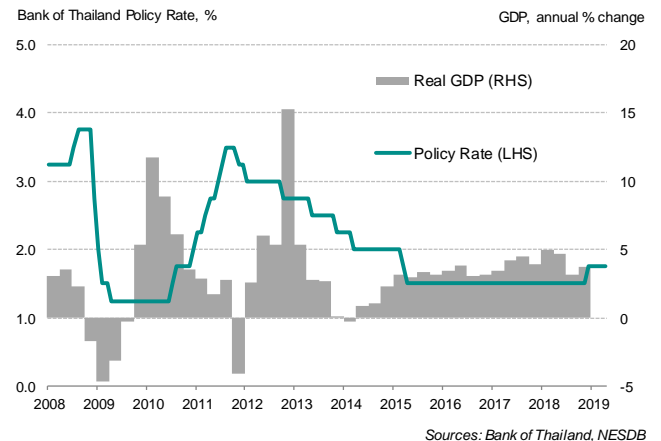
Indonesian and Filipino growth

Growth in the Indonesian economy is expected to slow slightly to an annual rate of 5.1% during the first quarter, according to IHS Markit. The range of policy measures undertaken last year to stabilise the rupiah appeared to have weighed on domestic demand. Nikkei Indonesia [PMI](#) has also indicated a slower trend in the rate of expansion in the manufacturing sector since June. Economic growth in the Philippines is meanwhile forecast to ease to 6.1% in the opening three months of 2019, down from 6.3% late last year.

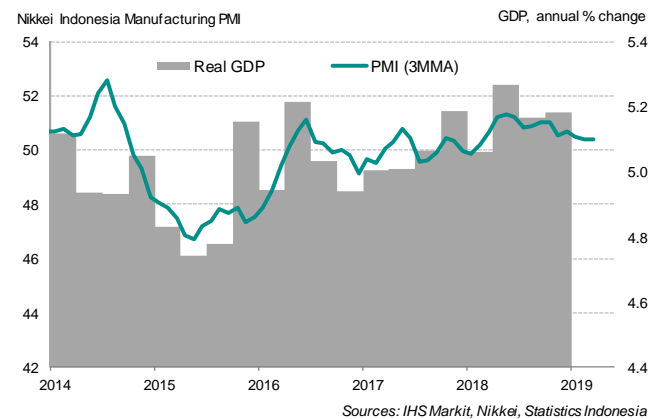
Bank of Japan

Policy options for the Bank of Japan are increasingly scarce as the central bank struggles to lift inflation to its 2% goal. After cutting inflation and growth forecasts in its April meeting, the Summary of Opinions next week will shed more light as to what else can the BoJ do. Meanwhile, Nikkei Japan services PMI will give further clues as to growth at the start of the second quarter.

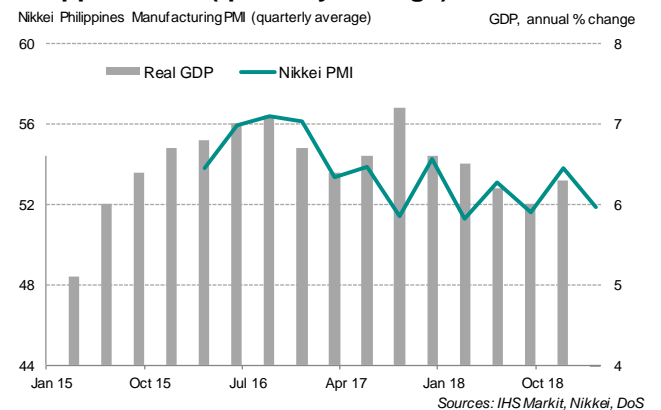
Thailand GDP and monetary policy



Indonesia PMI and GDP



Philippines PMI (quarterly average) and GDP



Asia Pacific Special Focus

Japan Enters Reiwa Era Facing Strong Economic Headwinds

By **Rajiv Biswas**

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On 1st May 2019, Japan's new emperor Naruhito ascended to the Chrysanthemum Throne, marking the beginning of the Reiwa Era in Japan. The occasion has been marked by national celebrations across the nation, with a ten-day public holiday. A festive atmosphere will also soon start building in the lead-up to the Tokyo 2020 Olympics. However, the long-term economic challenges facing Japan remain substantial, including severe demographic ageing, the high national debt to GDP ratio and chronic weak long-term GDP growth. The success of Prime Minister Abe's 'Third Arrow' economic reforms will therefore be crucial to boosting the nation's long-term potential growth rate.

Japan's demographic challenge

Japan faces significant economic and social impact effects from demographic ageing over the next three decades. Since 2010, its actual population has already been in decline. In calendar 2018, the fall in Japan's natural population was estimated at 448,000 persons. Japan's total population is 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



Source: UN World Population Prospects

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.

With Japan's total population projected to 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 75.4 million by 2018, a decline of 12.6 million in just over 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 19.4 million. Japan also has the highest share of population in the world of persons aged 65 and over, which has just reached a record high of 28%. The impact of the ageing and declining population also has far-reaching social consequences, with many villages and small towns facing significant population declines, which further exacerbate the impact of the ageing population. An estimated 8 million homes in Japan are vacant, with a significant further increase in vacant properties expected over the next decade.

Japan's debt burden

With Japan's gross government debt to GDP ratio already having reached 235% in 2018, the highest in the OECD, the Japanese government faces a difficult economic challenge to manage the rising fiscal costs of demographic ageing. 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.

The planned hike in the consumption tax rate from 8% to 10% that is due to take place in October 2019 will be an important step towards constraining the fiscal deficit and stabilizing the government debt to GDP ratio over the medium-term outlook.

Third arrow economic reforms

The impact of ageing demographics and Japan's declining population have become an important factor that has been gradually eroding Japan's potential GDP growth rate. The Bank of Japan has estimated that Japan's potential GDP growth rate has slowed to a

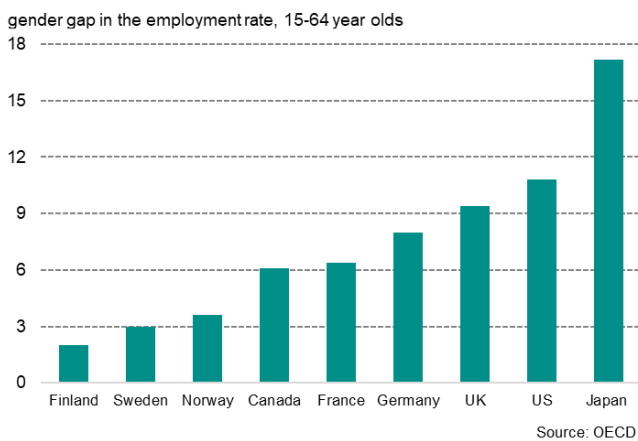
range of 0.5% to 1% in recent years. A key focus of the economic reform initiatives launched by Prime Minister Abe when he took office in 2012 has been to help mitigate the impact of demographic ageing on the Japanese economy and society. This has remained a key priority during his leadership.

The “Third Arrow” reforms launched by his LDP government have sought to introduce wide-ranging structural changes, including initiatives such as labour market reforms, easing immigration restrictions on foreign workers and trade liberalisation measures.

Important labour market reforms have included measures to encourage greater female participation 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.

Japan's gender gap

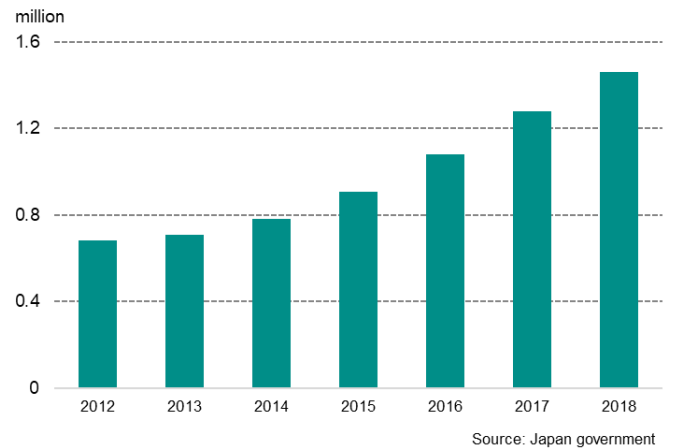


Another important area of reform undertaken by the LDP government under PM Abe that will help to boost labour supply relates to policies regarding migrant workers. Japan has had very restrictive immigration policies which have limited the ability to utilize migrant workers to mitigate the impact of demographic ageing. However, the Japanese government has gradually undertaken reforms to 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 2018, Japan had 1.46 million foreign workers, according to

Ministry of Health, Labor and Welfare statistics, which was more than double the number in 2012.

The Japanese government has recently implemented new legislation from April 2019 that have created new foreign worker visa procedures which enable foreign workers to apply for work permits in certain skilled occupations with labour shortages.

Japan: number of foreign workers



Trade liberalisation is another key pillar of the Third Arrow reforms. The implementation of both the Japan-EU Economic Partnership Agreement (EPA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) deals in quick succession during recent months have helped to accelerate Japan’s trade liberalization agenda. The total economic benefits of the CPTPP deal together with the new Japan-EU EPA are estimated to lift Japan’s long-term GDP level by Yen 13 trillion (USD 117 billion), equivalent to around 2.4% of Japan’s GDP in 2018, once both agreements are fully implemented. Bilateral trade talks are also underway between the US and Japan, with the US seeking to achieve significant liberalization of bilateral trade.

Another important government strategy to boost long-term economic growth is to diversify the economy away from reliance on manufacturing exports, which have been a key growth driver since the 1950s and lifted the contribution of tourism to the economy. The development of international tourism has been very successful under PM Abe’s government. The total number of international tourist visitors has risen from 6.2 million in 2011 to 31.2 million in 2018, a five-fold increase in just seven years. The government’s Fiscal Year 2019 Budget targets lifting international tourism visits to 40 million in 2020, the year of the Tokyo Olympics.

Long-term outlook

The combined impact of severe demographic ageing and the burden of high government debt levels are a major constraint on the long-term potential growth rate for the Japanese economy. However, PM Abe's administration have pursued a range of economic reforms that will help to mitigate these long-term headwinds to economic growth. Key measures include the consumption tax hike scheduled for October 2019, the major new CPTPP and Japan-EU EPA trade agreements recently implemented, liberalisation of migration rules for foreign workers (which took effect from April 2019), as well as policy measures introduced to lift the female participation rate in the workforce.

With Japanese manufacturing firms at the forefront of global technological innovation and R&D in robotics and industrial automation, this will also contribute to supporting productivity growth and Japan's long-term industrial competitiveness. Nevertheless, the rapid growth of large consumer markets in developing countries will continue to drive foreign direct investment by Japanese multinationals into new global growth hubs such as India and Southeast Asia, with continued hollowing-out of Japan's domestic manufacturing sector.

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Nikkei Japan Manufacturing PMI™

To gain an up-to-date insight into economic trends in Japan, the PMI business surveys provide valuable information on a wide variety of variables.

According to flash estimates, the Nikkei Manufacturing PMI for April rose to 49.5 from 49.2 in March, indicating that Japan's manufacturing economy remained stuck in a downturn at the start of the second quarter. The survey showed the global trade slowdown continued to take its toll on the country's exporters.

The headline PMI is a composite indicator derived from various survey sub-indices. The output index signalled a fourth consecutive monthly fall in manufacturing production, while the new orders index pointed to another reduction of new business inflows. While the rates of contraction in both indices were slower than in March, the downturns remained steep. Export orders fell for a fifth consecutive month in April, dropping at second-steepest rate for over two-and-a-half years.

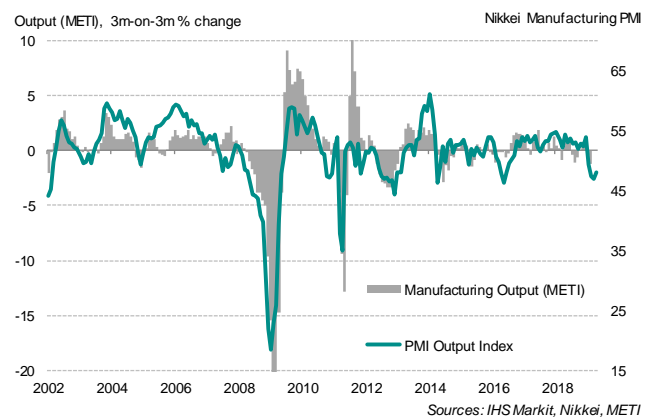
Particular stress was seen in key Japanese industries, such as electronics and autos. Japan has the world's third largest industries in electronics as well as autos. The country is also the fourth largest export market for semiconductor manufacturing equipment. But these sectors have seen demand drop sharply in recent months.

The ongoing decline in manufacturing activity raises questions over the prospects of the economy amid global growth risks and a planned sales tax hike scheduled for later in the year.

Future PMI releases dates are [available here](#).

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Japanese manufacturing output



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