Economic Research

27 May 2019

Week Ahead Economic Preview

Global overview

- EU elections
- US second quarter GDP
- South Korea policy rate, India GDP and Japan's manufacturing performance

Politics will likely once again take centre stage as the markets digest the results and implications of European parliamentary elections. Trade wars will also remain in focus.

While seen as the trigger to the inevitable end of Teresa May's premiership in the UK, the key focus from the European parliamentary elections will be on the uncertainty of what comes next in the Brexit story. The extent of the rise of populist parties in the rest of Europe will also be under close scrutiny, especially in Italy, and has the potential to unsettle markets.

Trade and technology wars have meanwhile escalated, and the intensifying concerns about global trade and geopolitical uncertainty remained a key disruptive factor behind business growth in the latest flash PMI surveys for May, dampening growth in the US, Eurozone and Japan and leading to further stock market stress. Fresh official data on GDP growth in the US, several European countries and India, as well a trade data for the US and manufacturing numbers for Japan, will therefore be examined for further signs of where trade tensions are taking their highest toll and who might be showing more resilience.

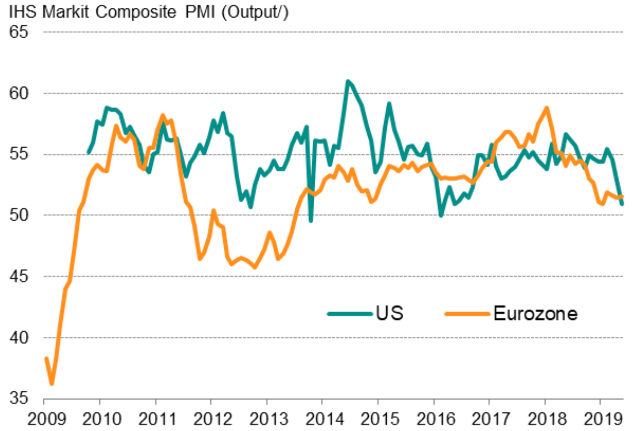
The week also sees India and Australia settle down after general elections. While the former is expected to have seen growth slow, with GDP published during the week (see page 5), Australia is showing signs of improved economic performance. However, there are many risks to the outlook facing the Coalition government in Australia, which are explored more fully in our Special Report this week (see page 6).

The main policy action comes from South Korea and Hungary. Although both central banks are widely expected to keep rates on hold, analysts will be looking for signs that more central banks may be looking to cut rates in coming months.

Contents

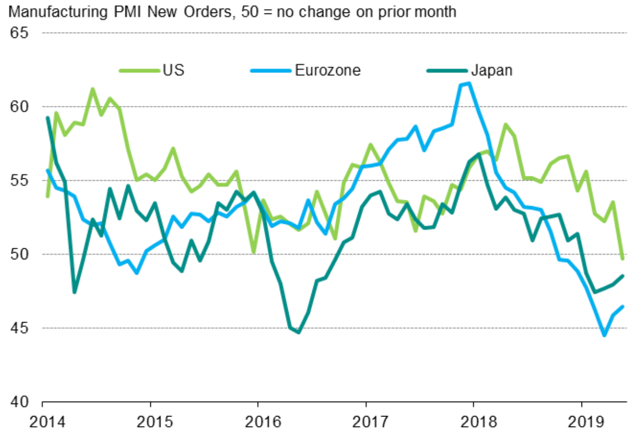
Special reports

Flash PMI survey data for May indicated that US growth has fallen behind that of the eurozone



Sources: IHS Markit,

Manufacturing orders are now falling in the US, Japan and Eurozone



Sources: IHS Markit,

Key diary events

Monday 27 May

China industrial profits (YTD, Apr)

Hong Kong trade (Apr)

Brazil current account (Apr)

Tuesday 28 May

Korea and Taiwan consumer confidence (May)

Thailand industrial production (Apr)

Germany consumer confidence (Jun)

UK finance mortgage approvals (Apr)

Euro area business confidence, economic and services sentiment (May)

Hungary interest rate decision

US Case-Shiller home price (Mar)

US Dallas Fed manufacturing index (May)

Wednesday 29 May

Korea business confidence (May)

Australia new home sales (Apr)

Vietnam trade balance, industrial production, inflation (May)

Germany unemployment rate (May)

France GDP (final, Q1), inflation (May)

Italy business and consumer confidence (May)

Thursday 30 May

Australia building permits (Apr), private capex (Q1)

Thailand jobless rate (Apr)

UK nationwide housing price (May)

Spain inflation (prelim, May)

Brazil GDP (Q1)

US GDP, core PCE prices (2nd est, Q1)

US goods trade balance, wholesale inventories (adv, Apr), pending home sales (Apr)

Friday 31 May

Korea industrial production, retail sales (Apr)

Japan jobless rate, retail sales, housing starts (Apr), industrial production (prelim, Apr)

Japan consumer confidence (May)

China NBS manufacturing PMI (May)

Korea interest rate decision

Australia private sector credit (Apr)

India GDP (Q1)

UK consumer confidence (May), mortgage lending and approvals (Apr)

Italy GDP (final, Q1), inflation (prelim, May)

Germany inflation (prelim, May)

Brazil unemployment rate (Apr)

US PCE price index, personal income and spending (Apr),

US Chicago PMI (May)

US University of Michigan surveys (final, May)

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.

For more information on our products, including economic forecasting and industry research, please visit the Solutions section of www.ihsmarkit.com

For more information on our PMI business surveys, please visit www.ihsmarkit.com/products/PMI

Click here for more PMI and economic commentary.

For all further information, please visit
www.ihsmarkit.com

Chris Williamson
Chief Business Economist
IHS Markit
Email: chris.williamson@ihsmarkit.com

Economic Research

27 May 2019

United States Week Ahead

US GDP, trade, consumer spending and prices

By Siân Jones

Economist, IHS Markit

Email: sian.jones@ihsmarkit.com

Leading the key economic data releases for the US is the second estimate for first quarter GDP, as well as trade data and personal consumption and prices data, plus consumer sentiment survey data and a further insight into unemployment across the country.

US GDP second estimate

The initial first quarter GDP estimate released in April signalled a strong expansion across the US economy, with growth picking up further from the solid rise in Q4. Although utilising more complete data, consensus does not expect the rate of growth to change with the second estimate. Strength in the first quarter of the year was supported by greater local and state-wide government spending and faster export growth.

GDP growth may weaken in the second quarter, however, after May's Flash PMI data from IHS Markit suggested the rate of expansion has eased to just 1.2% from 1.9% in April. Currently, IHS Markit's US economists forecast 1.9% GDP growth in the second quarter, but the PMI points to downside risks to even this recently-lowered prediction. Trade data will also be eagerly awaited for signs of any impact from the US-China trade war.

PCE price index

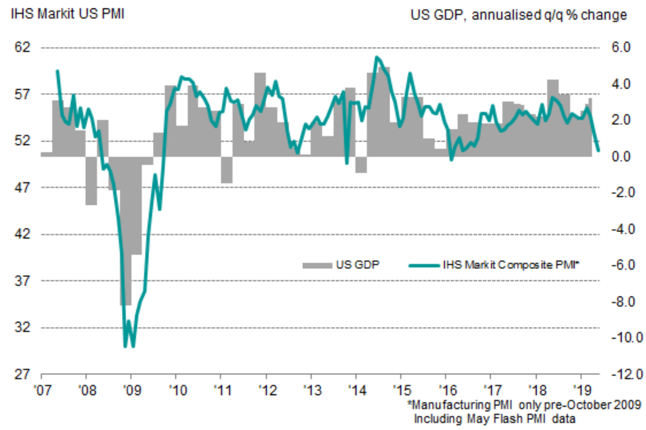
Further soft inflation data may be on the cards after the flash PMI data for May signalled softer price pressures across the US economy. A slower rise in inflationary pressures is expected to be reflected in a lower year-on-year change in the PCE price index. Weaker than forecast service sector data also hints at lower personal consumption expenditure in April. Updated consumer confidence data from the University of Michigan will add to the consumer picture.

Jobless data

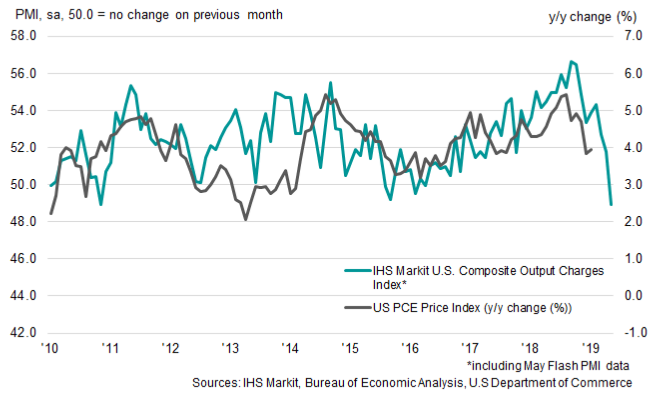
The next release of initial and continuing claims data will give a further insight into the current labour market performance. The more stable continuing claims measure pointed towards greater tightness across the labour market at the start of May, as panellists across the IHS Markit US PMI surveys cite further difficulties replacing voluntary leavers and retirees.

Other key data releases include wholesale inventories and regional surveys covering Chicago, Dallas and Richmond.

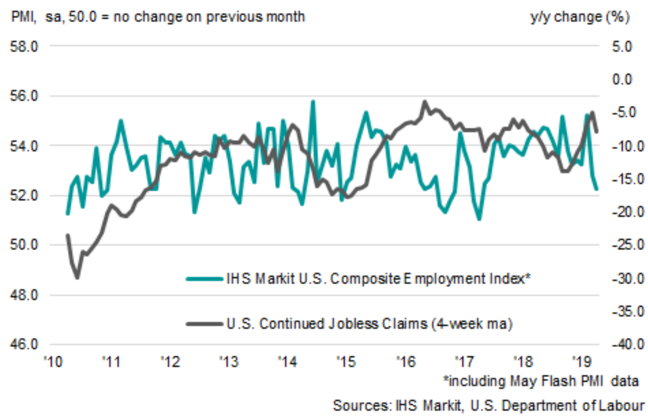
US GDP growth is expected to ease after a strong start to the year



Inflationary pressures look set to soften



Labour market tightness to continue further into Q2



Europe Week Ahead

Elections, GDP updates, inflation data and confidence indicators

By Joe Hayes
Economist, IHS Markit, London
Email: joseph.hayes@ihsmarkit.com

The results of the EU parliamentary elections will be digested by the markets as populist parties look set to make significant gains, with the Brexit party likely to show especially strong results in the UK. In the UK, the focus will be on the leadership race to replace Teresa May and the implications for Brexit.

Fresh GDP data for several European countries are accompanied by inflation statistics across the Eurozone's largest economies, providing a fresh slew of data for the European Central Bank (ECB) to assess. Also due are business and consumer confidence indicators for the Eurozone, unemployment data for Germany and an interest rate decision in Hungary. Housing market data for the UK will also be updated.

Eurozone inflationary pressures

First quarter GDP estimates for the eurozone will have come with a big sigh of relief for the ECB and their attention will now turn towards the developments in the price level. Several euro-area countries release inflation data for May, including Germany, France, Italy and Spain. Flash PMI data for May signalled the second-weakest rise in costs since November 2016.

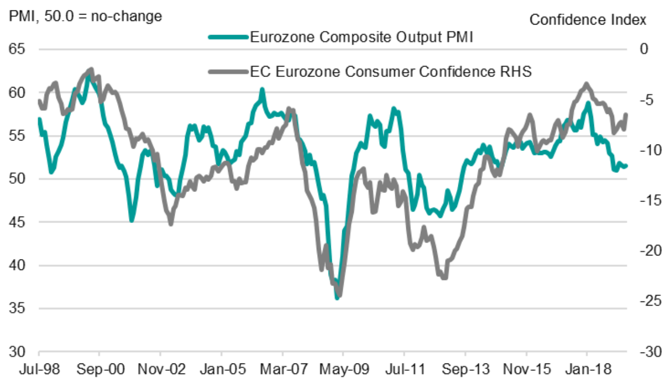
Confidence indicators

Gauges of consumer and business sentiment for the eurozone for May will add extra insight after the initial estimate for eurozone consumer sentiment improved. The pick-up in consumer confidence has come amid signs of resilience within the euro-area services economy. In Germany, labour market conditions have been robust, but latest flash PMI data revealed the slowest rate of jobs growth in over three years in May. Official data on unemployment will be released for April.

National Bank of Hungary

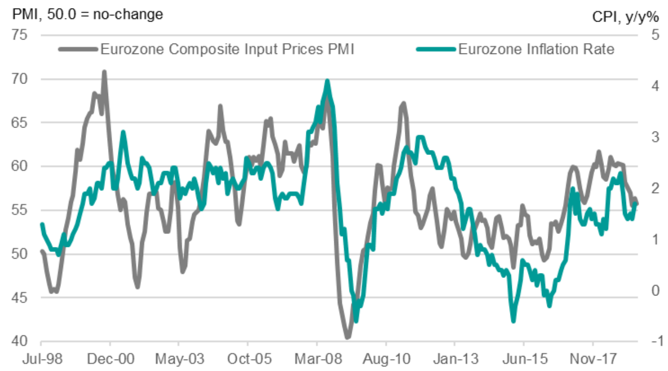
The rate-setting monetary council meeting follows its most recent unanimous decision to leave policy unchanged in April. The latest minutes revealed caution regarding the inflationary outlook due to external fragilities, despite reports of resilience within the domestic market and latest data showing prices rising at the fastest rate since late 2012. Consensus is for the benchmark rate to be held at 0.9%.

Consumer confidence starting to ebb upwards, but flash PMI shows subdued growth across euro-area



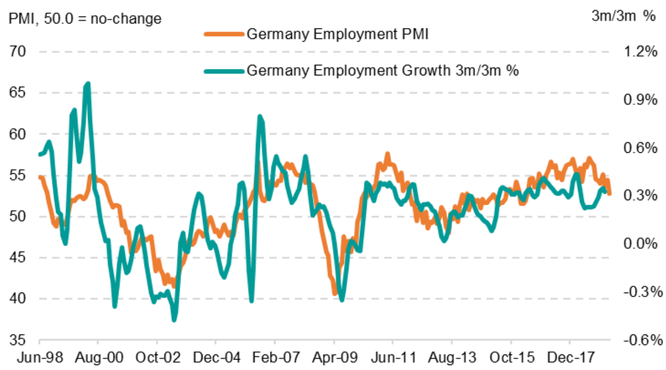
Source: European Commission, IHS Markit

Price pressures across the euro-area remain benign



Source: IHS Markit, Eurostat

Germany's domestic economy supported by resilient labour market conditions, but is trend set to turn?



Sources: IHS Markit, Bundesagentur fur Arbeit

Economic Research

27 May 2019

Asia Pacific Week Ahead

Korean monetary policy, India's GDP and Japanese economic data

By Bernard Aw

Principal Economist, IHS Markit, Singapore

Email: bernard.aw@ihsmarkit.com

South Korea's monetary policy decision, India's GDP and a batch of Japanese economic data will in focus in the coming week. The government-sponsored China PMI surveys for May will also gather interest amid a re-escalation of US-China trade tensions. Other data highlights include China's industrial profits, trade data in Hong Kong and Vietnam.

South Korea to set interest rates

The Bank of Korea will decide on monetary policy next week. With regional central banks leaning on the dovish side, there is pressure for the Bank of Korea to cut rates to support growth. However, BOK governor Lee Ju-yeol recently commented that lowering interest rates are not on the cards as he expects the Korean economy to recover in the second half of the year. Recent data were supportive of this view. Growth in exports and imports was reported in March and April, while the severe drop in industrial output during February was partly corrected in March. Nikkei manufacturing PMI also rose to a six-month high in April, supported by stabilised output volumes and jobs growth.

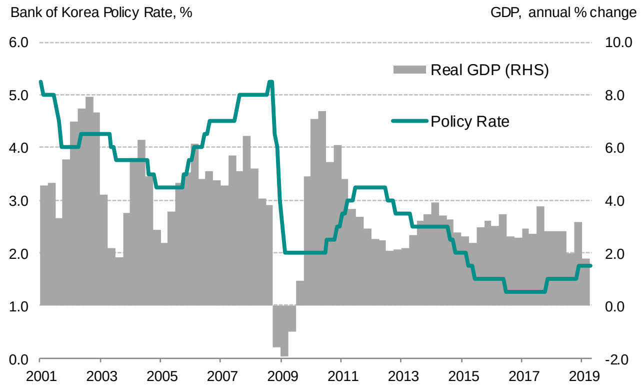
Japan data

With Japan flash manufacturing PMI data for May signalling a renewed deterioration in business conditions of the sector, suggesting that growth is set to weaken in the second quarter, analysts will eye the clutch of data releases in the coming week for more signs of economic weakness.

India's growth slowdown

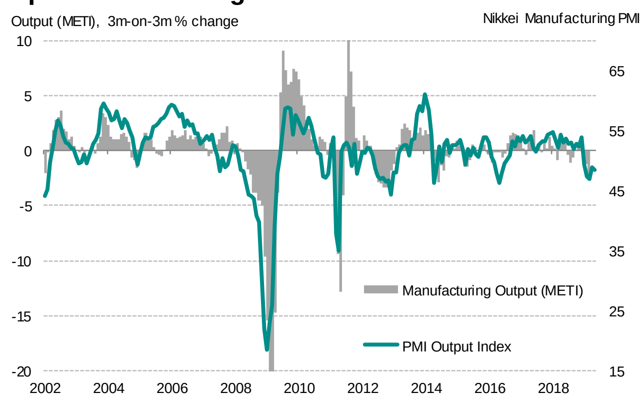
India will release its GDP performance for the quarter ending March 2019. IHS Markit expects the economy to grow 6.9% in FY2018-19 amid increasing signs of weakening domestic demand and an uncertain export outlook. A further deceleration in economic growth will likely prompt more monetary support. After two consecutive interest rate cuts in February and April, we expect the Reserve Bank of India to lower rates again in June to support growth. The headline Nikkei PMI moderated to a seven-month low during April, though much of the slowdown was linked to disruptions arising from the elections.

South Korea PMI and policy rate



Sources: IHS Markit, Nikkei, BOK

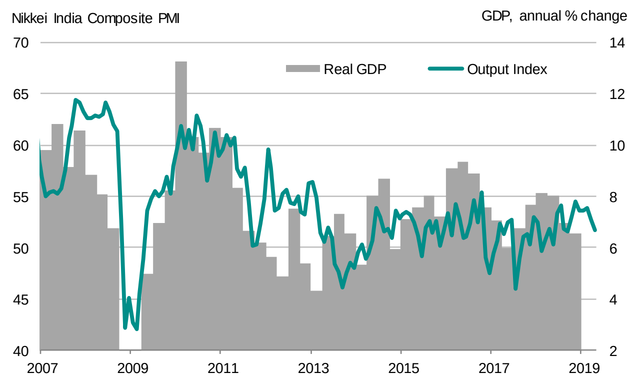
Japan flash PMI signals deterioration



Sources: IHS Markit, Nikkei, METI

*Q2 average is based only on April data.

India PMI points to moderation in growth



Sources: IHS Markit, Nikkei, CSO

Asia Pacific Special Focus

Australian Election: Australia Votes for Sound Fiscal Management

By Rajiv Biswas
Asia-Pacific Chief Economist, IHS Markit
Email: Rajiv.Biswas@ihsmarkit.com

The surprise election victory of Scott Morrison's Liberal-National Coalition in the Australian national elections held on 18th May reflected a mandate from the Australian electorate for sound fiscal management and a return to fiscal surpluses under the Coalition government's medium-term Budget outlook.

Many industry sectors, notably banks and medical insurers, rallied on the Australian Stock Exchange immediately after the Coalition's victory. This reflects expectations of more favourable economic policy settings for their industries under the Coalition government.

Coalition plans return to fiscal surplus in 2019-20

A key strength of the Coalition's economic policy platform during the election campaign was their track record of reducing fiscal deficits in recent years, with a return to a budget surplus planned for 2019-20. While the Labor Party had also promised to deliver fiscal surpluses over the medium-term, their extensive plans to significantly increase public expenditure on areas such as health and education – while also increasing certain politically-sensitive taxes – likely eroded the confidence of the Australian electorate in Labor's fiscal credentials.

Despite opinion polls showing that the Labor party were expected to win on a two-party preferred basis, Scott Morrison's Coalition won the election by a nose, in horse racing terminology. Prior to the election Scott Morrison, of sturdy build, had said that if he was riding Winx, Australia's legendary racehorse that won 33 successive races, the horse could never win as it would be carrying too much weight. PM Morrison argued that Australia's economic performance would similarly be weighed down by the burden of additional taxes planned by Labor.

The Labor Party's economic policies were also seen to be carrying too much excess baggage to win the election race, notably the plan to remove dividend franking credit tax refunds, which would have hit many lower-income households (especially retirees) hard. With many investors having built up private savings for retirement through equities, Labor's plan to double the capital gains tax also may have also discouraged some voters.

State-specific issues also impacted on the overall result, notably the strong election results for the Coalition in Queensland, helped by a backlash over the Labor Party's position on the Adani Carmichael coal project. There had been concerns about the loss of job opportunities in the state if the project did not proceed.

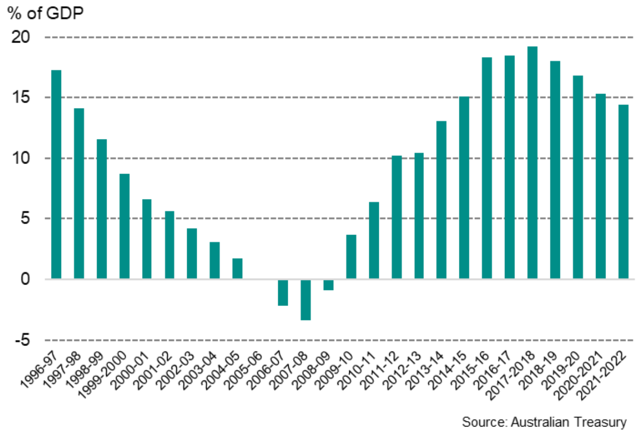
The Australian electorate were also likely sceptical of the 'tax and spend' track record of the Labor Party during its recent terms of office under former Prime Ministers Kevin Rudd and Julia Gillard. The former administration had rapidly eroded the strong government surplus position they had inherited from Prime Minister John Howard's term of office leading a Liberal/National coalition government, which had left Australia free of net government debt by the time he left office in 2007.

This weak fiscal track record of the Labor Party had created uncertainties amongst some voters about the ambitious plans of Labor Party leader Bill Shorten to 'play Santa Claus', with planned large increases in public spending that some voters may have feared would erode Australia's fiscal position, despite the Labor Party's intentions to achieve fiscal surpluses over the medium-term.

Australian government underlying cash balance

Source: Australian Treasury

Australian government net debt as share of GDP



Australia's growing retirement savings mountain

The election result signals that the Australian electorate is becoming more sophisticated in its ability to assess the economic policies of political parties, particularly as the average wealth of Australian households has continued to rise. There has been significantly greater reliance on private savings and superannuation (pension assets) to fund retirement over the past two decades. Australia's superannuation savings have reached an estimated Australian Dollars (AUD) 2.7 trillion, which has made it among the highest in the world on a per capita basis. Helped by the boom in superannuation savings and significant increases in property prices over the past 20 years, Australia is estimated to now have the second highest average wealth per adult in the world after Switzerland.

The Coalition's economic policies are better attuned to the new, more affluent Australian economic landscape than the Labor Party, with a focus on achieving fiscal surpluses and delivering tax cuts for Australian households, combined with policies that encouraged Australian households to build up their own private savings to fund their retirement. Prime Minister Scott Morrison's election success has been helped by the intellectual firepower of his Treasurer, Josh Frydenberg, who has glittering credentials from his education at Monash, Oxford and Harvard universities as well as strong ministerial experience as well as his private sector track record at Deutsche Bank and Australian law firm Mallesons Stephen Jacques.

Australian economic outlook

IHS Markit forecasts that the Australian economy will grow at a steady pace of 2.5% in 2019 and 2.6% in 2020, just a touch below the nation's potential growth rate. Growth momentum will be supported by the tax cuts announced in the Coalition's April Budget, as well as strong Federal and state spending on public infrastructure projects over 2019-2020.

The economic outlook is also being boosted by the strength of iron ore prices, a key Australian export and significant source of fiscal revenue. Australian iron ore prices and exports have been pushed up following the Vale tailings dam disaster in Brazil, which has significantly cut Brazilian iron ore exports in 2019, shifting orders to Australian iron ore producers. Australia is also benefiting from the large ramp-up in liquid natural gas (LNG) exports since 2017 as major new projects have come onstream.

Boosted by higher prices and volumes, Australian total resources and energy export values rose by an estimated 24.3% in the year to the March quarter of 2019, according to the Australian Department of Industry, Innovation and Science.

Australia may also benefit from some trade diversion effects from the US-China trade war. An important aspect of the Chinese countermeasures applied in US-China trade war is that China has announced a hike on tariffs on imports of US LNG from 10% to 25% with effect from 1st June. If the trade war is protracted, this could become a major constraint to new Chinese investment in US LNG projects, diverting Chinese LNG supply contracts and project investments to other global LNG suppliers, including Australia.

Downside risks to the outlook

However, there are some key downside risks to the Australian economic outlook, notably from declining residential property prices in late 2018 and the first half of 2019 in major cities, particularly Sydney and Melbourne, which could dampen consumption spending due to negative wealth effects on households as property prices decline. Australian housing prices rose by around 50% in the five years to late 2017, but have since declined by around 9%, according to estimates by the Reserve Bank of Australia.

Research by the Reserve Bank of Australia has found that changes in net housing wealth have different impact effects on various categories of consumption spending, with by far the largest impact being on purchases of motor vehicles. This has already been a factor in weak Australian new vehicle sales, which were down 8.9% year-on-year in April 2019 and have been weakening for 13 consecutive months.

Australia also remains vulnerable to any significant slowdown in the Chinese economy and the wider transmission effects of a protracted US-China trade war. Around 32% of total Australian merchandise exports are sent to mainland China and Hong Kong. China is also a key market for major Australian services sector exports, notably education and tourism. Australian exports of education services have become Australia's third-largest export, with around 33% of Australian education export earnings being from Chinese students.

The very weak fourth quarter GDP outturn in 2018, and concerns about the economic impact of declining housing prices, has contributed to intensifying market speculation that monetary policy may be eased further in 2019 by the Reserve Bank of Australia. The tax cuts that were announced in the Budget, together with large-scale public infrastructure spending, as well as a likely further near-term easing of monetary policy by the Reserve Bank of Australia, will help to support the near-term outlook for consumption and GDP growth.

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

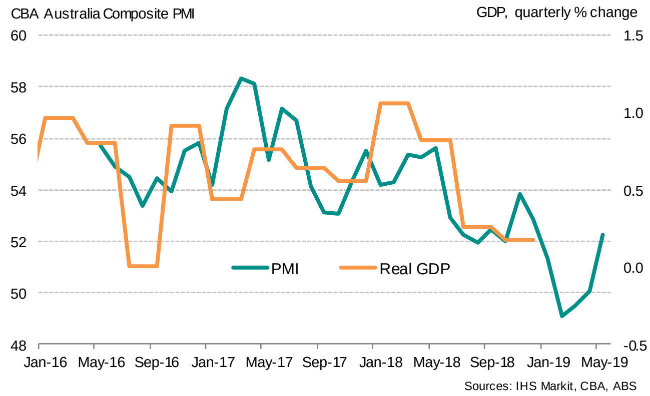
CBA Australian PMI™

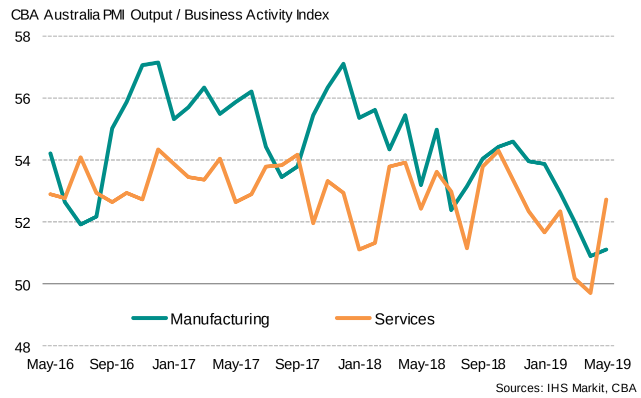
To gain an up-to-date insight into economic trends in Australia, the PMI business surveys (compiled by IHS Markit and sponsored by CBA) provide valuable information on a wide variety of variables covering both manufacturing and services.

The Australian economy lurched back into growth in May, according to the flash PMI survey data, driven by a revival in services activity. Following three months of weak performance, services activity increased in May at a firm rate, buoyed by new business expansion. The business outlook was also positive, with service providers raising employment levels in anticipation of greater activity in coming months.

Meanwhile, manufacturing conditions continued to improve, providing a supportive base for the economy. An output dip in April proved short-lived as production rose in the middle of the second quarter, supported by greater demand.

Australia PMI points to bottoming-out of slowdown





Future PMI releases dates are available here.

Purchasing Managers' Index™ (PMI™) surveys are the first indicators of economic conditions published each month and are especially valued in being available well ahead of comparable data produced by government bodies. PMIs are now produced for over 40 countries by IHS Markit and also for key regions including Asia and the eurozone. They generate economic indicators that are widely used by central banks, government bodies and the private sector.

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