

Week Ahead Asia-Pacific Economic Preview

- **Japan Second Quarter GDP**
- **July US Consumer Price Inflation**
- **RBA Policy Decision**
- **Special Focus on India**

Following last week's global PMI figures, which showed worldwide manufacturing output rising at its slowest rate in nearly two years amid a near-stagnation of global trade flows, IHS Markit Sector PMI data for Asia, Europe and the US will add colour and clarity to the global growth picture early on in the week.

Official figures on US inflation and European output offer further insight into the effects on trade and prices of protectionist measures, whilst in the APAC region, Japanese data dominates, with a raft of figures on economic performance culminating in the release of Q2 GDP on Friday.

This note also includes a special feature on the Indian economy, assessing long-term growth prospects and discussing key threats to the outlook.

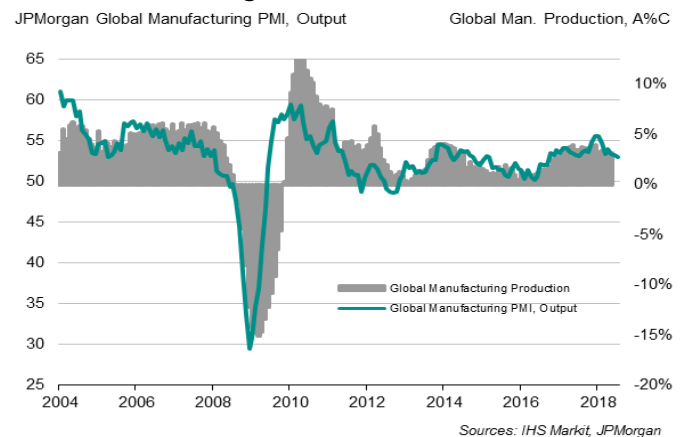
Japan data in focus

This week sees the release of a wide-range of Japanese economic data, starting with household spending on Tuesday, followed by figures related to trade and machinery orders later in the week and a first estimate of second quarter GDP on Friday. PMI data for the second quarter had signalled that growth was running at an annual rate of around 1.5%. However, the pace of expansion likely weakened to around 1.0% in July with [manufacturing growth slowing to a near one-year low](#) as export sales failed to pick up following a downturn in June.

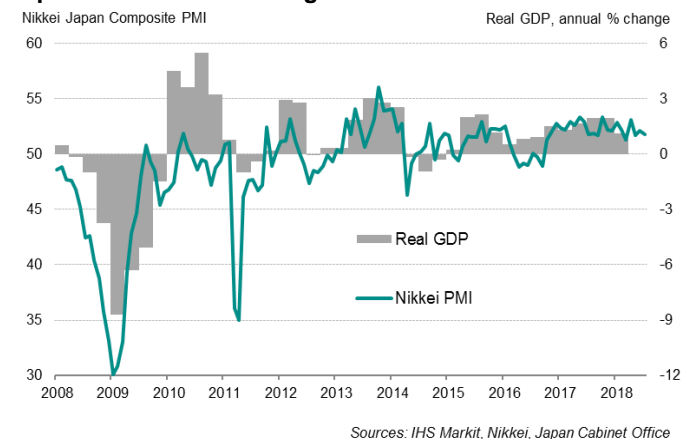
July consumer inflation for the US

Economists will be closely watching July's US consumer price inflation figures. Amid a strong economy, price pressures have persisted into the third quarter, with PMI figures showing the strongest rise in composite output charges in nearly nine years of data collection. Despite increasing concerns over trade frictions, the Federal Reserve seems unlikely to be dissuaded from continuing on its path of monetary policy tightening when it meets again in September.

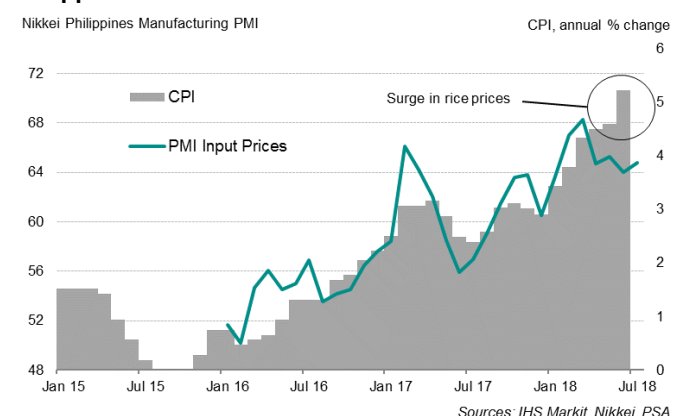
Global Manufacturing PMI



Japan PMI and economic growth



Philippines PMI and consumer inflation



Meanwhile, following the preliminary estimate of 0.3% Eurozone GDP growth in the second quarter, attention in Europe this week turns towards individual national performances. Highlights will be midweek industrial production and factory orders data for Germany, followed by UK GDP figures for the second quarter landing Friday.

On balance, the unwinding of temporary factors that held back growth in both the UK and Germany during the first quarter should be observed, but worries are mounting over the broad downturn in the global trade cycle since the turn of the year and the uncertain effects on activity of tariffs.

Indonesia and Philippines

Meanwhile, second quarter GDP numbers are forecast to show the Indonesian economy gaining slight momentum to reach a 5.2% annual rate, up from 5.1% in the opening three months of 2018. According to the Nikkei PMI surveys, Indonesia's manufacturing sector showed its best quarterly performance for four years during the second quarter. However, a [decline in output](#) and subdued demand conditions seen in July hint at softer economic activity in coming months.

With concerns of overheating in the Philippines economy, a clutch of data releases next week will be parsed to judge whether tighter policies are necessary. Second quarter GDP is expected to match the 6.8% seen in the first quarter, but the inflation numbers could play a more important role in determining possible monetary action. July's headline inflation is expected to remain above the central bank's 2–4% range, thereby raising the prospect of a rate increase later in the week. The BSP projects July CPI to register within a range of 5.1–5.8%, lifted by higher prices across most commodities, including rice and fuel.

Australia policy meeting

Finally, the Reserve Bank of Australia meets late in the week to set monetary policy in a country where expectations of a hike this year have waned. Wage growth remains subdued and global uncertainty, particularly about the trade environment, has intensified. Furthermore, CBA PMI surveys signalled slower growth momentum in the Australian economy in July, suggesting policymakers will err on the side of caution and hold rates for now.

Key economic data releases

Monday 6 August

Indonesia GDP (Q2)

Tuesday 7 August

IHS Markit Sector PMI for Asia, Europe, US and Global (Jul)

Japan household spending and average cash earnings (Jun)

Philippines inflation (Jul)

Germany factory orders (Jun)

New Zealand business inflation expectations (Q2)

RBA interest rate decision

China FX reserves (Jul)

Taiwan trade and inflation (Jul)

Wednesday 8 August

Japan current account (Jun) and machine tool orders (Jul)

Philippines trade (Jun)

Australia business confidence (Jul) and home loans (Jun)

China trade (Jul)

Thailand interest rate decision

Indonesia retail sales (Jun)

Germany industrial production (Jun)

Thursday 9 August

RBNZ interest rate decision

Japan machinery orders (Jun)

China inflation (Jul)

Philippines GDP (Q2) and interest rate decision

US PPI (Jul) and wholesale inventories (Jun)

Friday 10 August

Japan GDP (flash, Q2)

RBA statement on monetary policy

Philippines industrial production (Jun)

Malaysia industrial production, retail sales and unemployment rate (Jun)

Hong Kong GDP (Q2)

UK GDP (Q2)

US inflation (Jul)

Special Focus

India Set to Overtake UK as World's Fifth Largest Economy in 2019

By Rajiv Biswas, Asia-Pacific Chief Economist, IHS Markit

India has just overtaken France to become the world's sixth largest economy in 2018, according to latest World Bank estimates. India's economic ascendancy as a rising global economic power is set to continue in 2019 when Indian GDP is forecast by IHS Markit to overtake the UK's GDP. This will make India the fifth largest economy in the world in 2019, after the US, China, Japan and Germany. The significant depreciation of the GBP following the Brexit referendum vote has accelerated the timeline for India's economy surpassing the UK.

The size of India's economy is forecast by IHS Markit to reach USD 3 trillion in 2019, which will be around 60% of the size of Japan's economy. India's economic ascendancy has significant economic implications for the APAC region and the global economy, with India becoming the APAC region's second most important growth engine.

China is the largest economy in the Asia Pacific region, and is still forecast to be the largest growth engine, contributing 60% of the total increase in APAC GDP in 2019. However, India is also becoming a key regional player, and is forecast to contribute 17% of total APAC GDP growth in 2019. Combined, China and India will contribute 77% of the total expansion in APAC GDP in 2019.

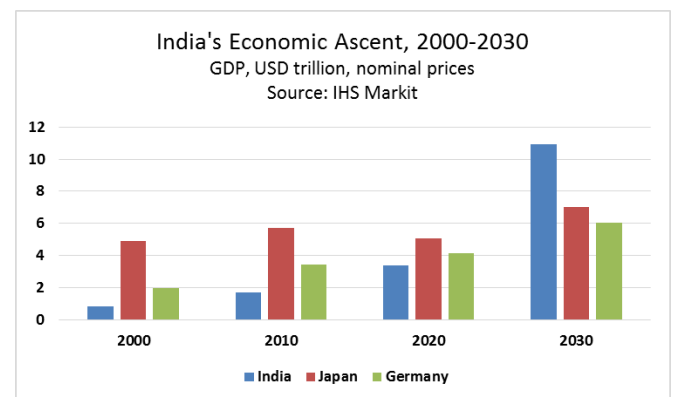
ASEAN's regional economic power, Indonesia, is also playing a growing role in APAC regional growth, and is forecast to contribute around 8% of total APAC GDP expansion in 2019.

The growing importance of India and ASEAN as new economic growth engines for the APAC region will help to diversify the economic growth poles of APAC away from excessive reliance on North Asia over the next two decades. Over the next decade, the size of the Indian economy is forecast by IHS Markit to surpass both Germany and Japan, which would make India the world's third largest economy within the next decade.

Based on IHS Markit forecasts, the Indian economy is projected to become a USD 5 trillion economy in 2023, overtaking Germany in terms of total nominal GDP measured in USD terms. By 2024, IHS Markit forecasts that India's economy will also become larger than the Japanese economy.

The impact of India's economic ascendancy has been felt in a range of industries. India has become the world's second largest steel producer in early 2018, overtaking Japan. In Q1 2018, India also overtook Germany to become the world's fourth largest auto producing nation. India has also been a fast-growing market for LNG imports, with total LNG imports reaching a record high of around 20 million tonnes in the 2017-18 fiscal year, up 7% on the previous year.

The implications of India's economic ascendancy are of great strategic significance for governments and multinationals. The rising importance of India's industrial economy and consumer market are making India an increasingly important trade and investment partner for other Asian nations, as well as a key growth market for multinationals across a wide range of industries.



Risks to the Outlook

However, despite sustained rapid economic growth over the past decade, the future growth path of the Indian economy continues to face significant risks and challenges. One key vulnerability is India's chronic current account deficit. The current account deficit as a share of GDP has narrowed significantly since 2014 as a result of a slump in world oil prices. However, with a rebound during 2017, Indian oil imports have risen from USD 70 billion in fiscal 2016-17 to USD 87.7 billion in fiscal 2017-18, with the oil import bill set to widen further in 2018-19.

A key risk is from any upturn in inflation pressures, with India particularly vulnerable to higher oil and food prices. The Reserve Bank of India (RBI) hiked policy rates in early June and early August, reflecting concerns about rising oil prices and a broader upturn in inflation pressures. Further significant tightening of monetary policy by the Reserve Bank of India could also constrain growth momentum.

Another medium term risk to the Indian economic outlook is from the continuing problems facing the banking sector, which has experienced rising non-performing loan ratios since 2012, particularly in the public sector. Despite various measures by the Indian government to recapitalize the public sector bank, their NPL problems remain a constraint on the pace of expansion of the Indian economy. Public sector banks continue to struggle with high NPL ratios, increased capital needs to meet the Basel III capital requirements and the slow bankruptcy process through the Indian courts.

With Indian national elections also due to be held in 2019, another key risk would be from any weakening of economic reform momentum under the next government. The current BJP government has a majority in the Lok Sabha, India's lower house of parliament, albeit without a majority in the Indian upper house, the Rajya Sabha. However, if the next government is more reliant on coalition partners to pass legislation, this could impede the pace of economic reforms.

Despite the economic and political challenges facing India, the Indian economy is currently on a path towards becoming the world's third largest economy by 2024. This will make India an increasingly important growth engine for the Asia-Pacific region as well as a key, fast-growing consumer market for global multinationals across a wide range of goods and services.

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