Economic and Financial Monthly (SEP 2015)

Summary

The Fed maintained the Fed Funds rate at 0-0.25% in September. Labor market data underperformed the consensus level, making the liftoff more unlikely in the near-term. It is believed that the Fed will take no action in this month. Eurozone's economy keeps improving moderately. China's economic data softened, implying a downward pressure on economic growth momentum. Subdued inflation provides room for monetary policy to ease further. Retail sector in Hong Kong remains sluggish, which would constrain overall economic growth.

■ U.S.: The Fed delays interest rate hike, labor market data below consensus

The Fed maintained the Fed Funds rate at 0-0.25% in the FOMC meeting in September. It should be noted that "recent global economic and financial developments are likely to put further downward pressure on inflation" was mentioned in the September's FOMC statement for the first time, and it was a reason for the Fed to postpone the liftoff.

Labor market data, one of the major considerations for the Fed's policy making, shows a modest improvement. Although unemployment rate stayed at 5.1% in September, the lowest level since 2008, non-farm payrolls only increased by 142,000 and it was far below market consensus of 203,000. Moreover, the gain of payroll in August also revised down by 37,000 to 136,000. As the latest jobs report presented a gloomier picture than expected, the liftoff seems more unlikely in the near-term. It is believed that the Fed will take no action in this month.

Eurozone: Economy keeps improving moderately

Eurozone's manufacturing PMI was 52.0 in September. The average reading in 3Q was similar to that in 2Q, and continued to reach the record high since the European debt crisis. Given the labor market conditions keep improving and loose monetary environment, it is believed that Eurozone economy will continue to recover moderately.

China: Economic growth is still facing downward pressure

China's economic data softened, showing the growth momentum is still facing downward pressure. Retail sales is relatively stable with annual growth of 10.8% in August, a 0.3 percentage point higher than the previous month. The growth rate of fixed assets investment continued to slow as overcapacity remained a serious problem. Fixed assets investment grew 10.9% YoY for the first eight months, hitting the lowest level since 2001. Industrial production remained stagnant which only grew 6.1% from a year ago. Although annual growth of CPI rebounded to 2.0% in August, it was still far below the 3% target for this year. Subdued inflation provides room for monetary policy to ease further.

Hong Kong: Sluggish retail sector would constrain overall economic growth

Given the declining number of inbound visitors, equity market turbulence and different timing of Mid-Autumn Festival from the previous year, the value of total retail sales registered contraction for 6 months in a row and it dropped by 5.4% YoY in August. Retail sales growth slowdown is the result of structural adjustment, which would expect to continue for a period and constrain overall economic growth.

Annie Cheung