Economic and Financial Monthly (May, 2016)

Summary

The deteriorating U.S. labor market will likely slow the pace of rate hikes. The long-term impact on the British economy of the approaching Brexit referendum should be rather inconsequential. While the Chinese economy is faced with strong headwinds, firming inflation has all but ruled out any rate cuts for the remainder of the year. Hong Kong's economic is rapidly losing steam, but housing prices are beginning to stabilize.

■ U.S.: Rate hikes off the table due to worsening labor market conditions

The jobs report for the month of May was a major disappointment, with non-farm payrolls increasing by a paltry 38,000 jobs. The abysmal May figures established a downtrend in the pace of job creation. Monthly jobs growth averaged 229,000 in 2015, 196,000 in the first quarter of 2016, and only 81,000 for the first two months of the current quarter. According to the Fed's own labor market conditions index, the labor market has been deteriorating for five consecutive months, a slump last seen during the financial crisis. Therefore, the urgency for an imminent rate hike is simply nonexistent. Jobs growth was once a rare bright spot in a tepid recover but is now losing steam at an alarming rate. As a result, the number of rate hikes in 2016 is unlikely to exceed one.

Europe: Economic impact of Brexit on the U.K. may prove inconsequential

Recent polls are suggesting the upcoming Brexit referendum will be too close to call. The U.K. economy will inevitably suffer in the immediate aftermath should the leave camp win, but any long-lasting consequences may prove elusive. First, the U.K. economy has far outperformed the EU in the 21st century, growing 35% through 2015 compared with 25% for the EU. Second, although trade deals will have to be renegotiated, it is only a matter of time before the U.K. and the EU reach an agreement. As the U.K. is the second largest economy of Europe, it is virtually impossible for the EU to halt free trade with the U.K. Third, the U.K. referendum may be imitated in other member states given the almost universal plunge of the EU’s popularity over the past decade. If Brexit did become a reality, it may be the EU’s stability, instead of the U.K. economy, to bear the brunt of Brexit.

China: Economic headwinds remain

China’s fixed asset investment and industrial production remain subdued. Meanwhile, the manufacturing sector continues to be plagued by overcapacity. As for international trade, exports in dollar terms have been in contraction for nine months in a row on a six-month moving average basis. Even though China’s economy is shifting from an export and investment led model, consumption cannot remain immune to weakness elsewhere. Throughout the first four months of the year, real retail sales grew by less than 10%. In the meantime, monetary easing in the form of interest rate cuts is highly unlikely given firming inflationary pressure. The consumer price index had remained at 2.3% for three consecutive months before inching downward to 2% in May.

Hong Kong: Housing prices stabilizing in spite of slowing growth

Hong Kong’s growth momentum has weakened considerably, with GDP expanding only 0.8% in the first quarter compared with the same period last year. Most major indicators are mired in a persistent downtrend. Retail sales have shrunk for 14 straight months; private consumption slowed sharply; exports keep contracting; unemployment has apparently bottomed. On the other hand, as the probability of rate hikes has become extremely remote, the decline in property prices has been arrested for now. Price of private residential units rose 0.7% in April after dropping for six months in a row but was still 10.8% below the peak in September of last year.

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