

Economic and Financial Monthly (Aug, 2016)

Summary

U.S. labor market weakened, dashing hopes of any rate hikes in the foreseeable future. The European Central Bank will soon have difficulties meeting its bond purchase program targets, a sign that monetary largess has been pushed to the extreme. China's trade figures improved in August, while retail sales and industrial production stabilized. Hong Kong's economy is losing steam with depressed retail sales, but housing prices continued to rebound.

■ U.S.: Labor market sluggishness rules out rate hikes

U.S. non-farm payroll increased only 151,000 in August, while growth in aggregate workweek was the slowest in six years. Job growth has been concentrated in low-end services, and participation has declined to near four-decade lows. According to the Fed's own labor market conditions index incorporating 19 indicators, the labor market worsened in 7 out of 8 months so far in 2016. The U.S. economy is inching towards the next downturn. Therefore, chances of rate hikes are rather remote.

Europe: ECB QE program may prove too ambitious

Even if the Euro-zone economy's moderate recovery remains intact, the ECB has been actively buying assets. However, due to the sheer size of the central bank's asset purchase program and the rules of bond buying, scarce supply of eligible bonds is becoming a hurdle. Unconventional monetary policy including negative rates and quantitative easing has distorted financial markets worldwide beyond recognition. The quandary facing the ECB is a sign that monetary accommodation is approaching its limit.

China: Growth momentum stabilized

China's trade figures improved in August, yet international trade is likely to remain sluggish due to modest economic growth worldwide. Domestically, the drastic slowdown in fixed-asset investment remains a concern, while consumption and manufacturing have stabilized.

Adjusted for inflation, retail sales rose 9.8% in July. Meanwhile, even though manufacturing continues to be plagued by overcapacity, industrial production has been growing consistently by around 6% since the first quarter.

Hong Kong: Retail sales still in the doldrums; property prices rebound

Hong Kong's growth momentum has weakened considerably, with most major indicators mired in a persistent downtrend. Private consumption slowed sharply; exports keep contracting; unemployment has apparently bottomed. Retail sales were particularly weak, contracting for 17 months in a row and down by 10.1% in the first seven months of the year on a year-over-year basis. On the other hand, as the probability of rate hikes has become extremely remote, the decline in property prices has been arrested for now. Prices of private residential units have been rising for four straight months, trimming the year-to-date decline to 1.3%.

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