Economic and Financial Monthly (DEC, 2019)

Summary

The final reading of US Q3 GDP growth was 2.1% year-on-year, unchanged from the second estimate. There are signs the economy maintained a moderate pace of expansion, supported by a strong labor market. In December, the manufacturing PMI nudged down to 52.4 from 52.5 in the previous month, while the services PMI, the composite PMI, and the US consumer confidence index all ticked up. The Fed kept the target rates at current levels, and expected moderate economic growth and historically low unemployment to persist through 2020. Eurozone economy grew by 1.2% year-on-year in Q3, higher than that of the previous quarter and the market expectation. However, the ECB downgraded its 2020 GDP growth forecast to 1.1% from 1.2% for the euro area in December. The December manufacturing PMI declined, while the services PMI pointed to the fastest growth over the past four months. Both the ZEW Economic Sentiment index and the Sentix index improved in December. With regard to China, most Chinese economic data in November rebounded, while the outlook remained uncertain, as evidenced by the lower manufacturing PMI. Recently, PBoC announced to switch the reference rate for outstanding floating-rate loans with either the LPR or a fixed rate and cut RRR by 50bp to smooth out the market liquidity ahead of the Lunar New Year. Hong Kong economy continued to take a beating as tourist arrivals and retail sales plunged in November.

■ The US economy maintained a moderate pace of expansion, supported by a strong labor market.

The final reading of the US Q3 GDP growth was 2.1% year-on-year, unchanged from the second estimate. The increase was attributable to personal consumption expenditure, government spending, residential investment, exports, but partially offset by nonresidential fixed investment and private inventory investment.

In December of 2019, the manufacturing PMI was 52.4 following November's reading of 52.6, while services and composite PMI both ticked up to 52.2 from the month before. The US Consumer Confidence Index continued to rebound in December. The December final readings of the University of Michigan Consumer Sentiment and Consumer Expectations came in at 99.3 and 88.9, above the initial readings and the November levels. Current Economic Conditions Index was 111.5, slightly lower than the previous month. In November, imports and exports increased by -1.3% and 0.7%, respectively, with the trade deficit falling to 63.2 billion USD. The core PCE price index, a measure the Fed preferred, expanded by 1.6% in November, matching market estimates. The labor market was still favorable, with the unemployment rate at 3.5%. The Fed kept the target rates at current levels and implied no changes through 2020. The moderate economic growth and historically low unemployment were expected to persist.

ECB downgraded 2020 economic growth for the Eurozone; the UK'S EU Withdrawal Agreement was passed by Parliament

Eurozone economy grew by a seasonally adjusted rate of 1.2% year-on-year in the third quarter, higher than that of the previous quarter and expectation. However, the ECB downgraded its 2020 GDP growth forecast to 1.1% from 1.2% for the euro area in December.

In November, the final reading of the CPI was 1.0% year-on-year. While the core CPI grew by 1.3% year-on-year, higher than that of the previous month and expected, but still lower than the target level. On a monthly basis, the CPI figure dropped by 0.3% versus -0.3% expectations and 0.1% previous.

The final December manufacturing PMI was 46.3. The preliminary services PMI was 52.4, above market forecasts of 52. The reading pointed to the fastest growth in the services sector over the past four months. The composite PMI was unchanged at 50.6 in December, a preliminary estimate showed. Both the ZEW Economic Sentiment index and the Sentix index improved in December, better than market expectations.

In the December UK general election, The Conservatives won a convincing victory, with capturing 365 seats, enough for a solid majority in Parliament. On December 20, MPs voted 358 to 234 in favor of the Withdrawal Agreement Bill, which will go on to further scrutiny in Parliament. The remaining stages of the bill are expected to be completed in January. The UK is likely to leave the EU on January 31, 2020 with the withdrawal deal and enters a transition period until December 31, 2020.

Chinese economy remained uncertain; PBoC cut 50bp RRR to smooth out the liquidity

The industrial production went up by 6.2% in November, and the total retail sales of consumer goods rose by 8.0%, both higher than market estimates. From January to November, the growth of fixed-asset investment remained unchanged at 5.2% year-on-year. The profits of industrial enterprises above designated size increased by 5.4% year-on-year, recording a negative growth rate of -2.1% for the past 11 months. The CPI and the PPI registered at 4.5% and -1.4%, respectively. The November surveyed urban unemployment rate stayed at 5.1%. The December official manufacturing PMI came in at 50.2, slightly higher than market consensus, while the non-manufacturing PMI fell to 53.5 in December from an eight-month high of 54.4 in the previous month.

In December, the central bank proceeded with the LPR reform, with converting the pricing benchmark on outstanding floating-rate loans into either the LPR or a fixed interest rate. Banks and borrowers have to negotiate new contracts before August 31, according to PBoC’s notice. The property market being the exception for now, this loan pricing measure will not affect the mortgages before 2021. On January 1, 2020, PBoC announced a broad-based 50bp RRR cut, effective on January 6. This move will release 800 billion yuan approximately to smooth out the market liquidity ahead of the Lunar New Year.

Hong Kong economy continued to take a beating as tourist arrivals and retail sales plunged in November

The economy further deteriorated in Q4. The December PMI came in at 42.1. Tourist arrivals in Hong Kong took the sharpest plunge amidst the social activity in November at -56%. Retail sales continued to decline by 23.6% in November, the second-largest drop on record. The unemployment rate crept up by 0.1% over the previous number of 3.1% to 3.2%. Most sectors saw a rise in the unemployment rate, but the increase was most significant in consumption- and tourism-related segments. The housing prices remained mostly stable, effected by a few property measures.

Han Xin Hao