

## Economic and Financial Monthly (APL, 2020)

### Summary

The US economy declined by an annualized 4.8 percent in the first quarter of 2020, ending the longest period of expansion in the country's history. Considering impacts of COVID-19 on private sector, the US Federal Reserve announced to expand the scope and eligibility for the Main Street Lending Program, to help SMEs hit by the Covid-19 crisis access affordable credit. The Eurozone economy decreased by 3.8 percent on quarter in Q1, beating market expectations of a 3.5 percent contraction. The Chinese economy went down 6.8 percent year-on-year in Q1 2020, after a 6 percent growth in Q4 2019 and compared with market consensus of a 6.5 percent decline. It is the first GDP contraction since records began in 1992, reflecting the severe damage driven by the COVID-19 outbreak after the authorities enforced a near two-month-long shutdown of all non-essential business activity. The economy of Hong Kong declined 8.9 percent year-on-year in the first quarter of 2020, following a revised 3.0 percent drop in the previous three-month period. That was the steepest pace of contraction since the series began in 1974 as the Covid-19 outbreak hit the economy.

### ■ US GDP Shrinks Most Since Great Recession

The US economy declined by an annualized 4.8 percent in the first quarter of 2020, ending the longest period of expansion in the country's history. It was the steepest rate of contraction in GDP since the last quarter of 2008, much worse than market expectations of a 4.0 percent drop, as the Covid-19 pandemic made several states to impose lockdown measures in March, throwing millions of people out of work. Household consumption fell the most since the fourth quarter of 1980 and business investment declined for a fourth consecutive period. In addition, exports and imports went down sharply, while residential fixed investment rose as well as government spending on the back of proactive fiscal policy.

Considering impacts of COVID-19 on private sector, the US Federal Reserve announced to expand the scope and eligibility for the Main Street Lending Program, to help SMEs hit by the Covid-19 crisis access affordable credit. The changes include: creating a third loan option, with increased risk sharing by lenders for borrowers with greater leverage; lowering the minimum loan size for certain loans to \$500,000; and expanding the pool of businesses eligible to

borrow. On April 29th, the Fed left the target range for its federal funds rate unchanged at 0-0.25 percent and reiterated it is committed to using its full range of tools to support the economy hit by the coronavirus crisis. We expect the ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses potential risks to the economic outlook over the medium term.

### **Eurozone GDP Declines at Record Pace**

The Eurozone economy decreased by 3.8 percent on quarter in Q1, beating market expectations of a 3.5 percent contraction. It was the steepest contraction since comparable records began in 1995 as a coronavirus lockdown from mid-March forced businesses to close and consumers out of work. France, Spain and Italy economies contracted the most on record, with France entering a recession.

### **China's GDP Shrank for The First Time in Decades**

The Chinese economy went down 6.8 percent year-on-year in Q1 2020, after a 6 percent growth in Q4 2019 and compared with market consensus of a 6.5 percent decline. It is the first GDP contraction since records began in 1992, reflecting the severe damage driven by the COVID-19 outbreak after the authorities enforced a near two-month-long shutdown of all non-essential business activity. The industrial sector decreased 9.6 percent, services shrank 5.2 percent and the primary sector dropped 3.2 percent. Car production experienced the sharpest decline (-44.6 percent). However, China's long-term growth potential will not be affected by the short-term fallout of the coronavirus pandemic, as the country's economic fundamentals remain resilient.

For the PBoC, it lowered its benchmark interest rates by 20 bps to a record low of 3.85 percent on April 20th. It is the second cut this year as policymakers sought to shore up the economy battling with the COVID-19 outbreak after it contracted by 6.8 percent year-on-year in Q1 2020, the first decline since at least 1992. The five-year loan prime rate (LPR) was also lowered by 10 bps to 4.65 percent and bigger than market consensus of a 5bps reduction.

## **Hong Kong GDP Declines the Most on Record**

The economy of Hong Kong declined 8.9 percent year-on-year in the first quarter of 2020, following a revised 3.0 percent drop in the previous three-month period. That was the steepest pace of contraction since the series began in 1974 as the Covid-19 outbreak hit the economy. Private consumption expenditure shrank 10.2 percent (vs -2.9 percent in Q4 2019) and fixed investment slumped 13.9 percent (vs -16.8 percent in Q4). Both exports and imports decreased sharply, while public spending grew at a faster pace (8.3 percent vs 6.1 percent). Looking ahead, local exports will remain under notable pressure and domestic economic activities are likely to stay subdued in the near term if the threat of the pandemic continues.

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