

Economic and Financial Monthly (MAY, 2020)

Summary

Affected by the pandemic, the US economy continued to slump in May, only slightly better than in April. Although the labor market has improved, the unemployment rate was still as high as 13.3% in May. The Fed kept the federal funds target rate unchanged, and implied that it will maintain the rate near zero by the end of 2022. The Fed further warned that the US economy still faces risks in the medium term. The Pandemic in the Eurozone has gradually stabilized, but economic data remained weak. The ECB expanded the pandemic emergency purchase programme by 600 billion euros to 1.35 trillion euros and kept policy rates unchanged. Mainland China's economy has been gradually reviving. The Two Sessions held in May played down the economic growth goals, but paid more attention to the job market. The Hong Kong economy is still struggling. The unemployment rate jumped to 5.2% in April, but housing prices have remained stable. The United States canceled Hong Kong's special trade status, and may take further measures in the future, which could put additional pressure on the Hong Kong economy.

■ The US economy began to restart, and it still faces risks in the medium term

Affected by the pandemic, the US economy continued to slump in May, only slightly better than in April. In May of 2020, the manufacturing PMI was 43.1% following April's reading of 41.5%. The services PMI rebounded to 45.4%, still far below the pre-pandemic level. The US Consumer Confidence Index was 86.6, marginally higher than last month's 85.7. The final readings of the University of Michigan Consumer Sentiment and Consumer Expectations in May were 72.3 and 65.9, both at historically low levels. In April, imports and exports decreased by 13.7% and 20.5%, respectively, with the trade deficit expanding to USD 49.4 billion. The core PCE price index, a gauge the Fed preferred, expanded by 1% in April, lower than market estimates. Although the labor market has improved, the unemployment rate was still as high as 13.3% in May. The Fed kept the federal funds target rate unchanged, and implied that it will maintain the rate near zero by the end of 2022. The Fed further warned that the US economy still faces risks in the medium term.

Eurozone data remained weak, the European Central Bank further expanded asset purchase plans

The Pandemic in the Eurozone has gradually stabilized, but economic data remained weak. In May, the preliminary reading of the CPI was 0.1% year-on-year. While the core CPI grew by 0.9% year-on-year, higher than predicted. On a monthly basis, the CPI figure dropped by 0.1% versus 0.3% previous.

The final readings of manufacturing and services PMI were 39.4% and 30.5% in May, both above last month's. The composite PMI was revised up to 31.9% in May, significantly higher than 13.6% in the previous month. The ZEW Economic Sentiment index was 46, and the Sentix index was -24.8.

At the ECB meeting on June 4th, the Governing Council announced to expand the pandemic emergency purchase programme by 600 billion euros to 1.35 trillion euros, and the horizon for net purchases under the programme will be extended to at least the end of June 2021. The policy rates remained unchanged, of which the deposit facility interest rate was still -0.5%, in line with market expectations. In addition, it has been reported that the ECB has set up a working group to discuss the formation of a "bad bank" to warehouse unpaid euro debt and that work on the scheme had accelerated in recent weeks. The amount of debt in the eurozone that is considered unlikely to ever be fully repaid already stands at more than 500 billion euros, including credit cards, car loans and mortgages, according to official statistics.

The economy of mainland China has been gradually picking up, and the Two Sessions will put more emphasis on people's livelihood.

The industrial production went up by 3.9% in April, beating market expectations. The retail sales shrunk by 7.5%. From January to April, the growth of fixed-asset investment fell by 10.3% year-on-year. The profits of industrial enterprises above designated size dropped by 4.3% year-on-year. Meanwhile, the April surveyed urban unemployment rate surged to 6.0%. The May official manufacturing PMI came in at 50.6%, slightly lower than market consensus, while the non-manufacturing PMI edged up to 53.6%. The CPI and the PPI registered at 2.4% and -3.7% in May, respectively.

The Two Sessions held in May played down the economic growth goals, but paid more attention to people's livelihood. The government pledged to expand the fiscal deficit and increase fiscal expenditure to stimulate the economy and ensure the stability of the job market.

The Hong Kong economy is still struggling, and the US sanctions may bring additional pressure on Hong Kong.

The Hong Kong economy fell 8.9% year-on-year in the first quarter, the largest decline in history. The economy in May ran slightly better than that in April. The May PMI came in at 43.9%. April tourist arrivals in Hong Kong took the sharpest plunge amidst the pandemic at almost 100%. Retail sales continued to shrink by 37.5%. It was the fifteenth straight month of decline in retail trade. The unemployment rate jumped to 5.2% in April, and the combined unemployment rate in consumer and travel-related industries rose to 9%, the highest in 15 years. Amid the pandemic, house prices have remained stable surprisingly.

On May 29th, the United States canceled the preferential treatment enjoyed by Hong Kong as a separate customs and tourism area from the rest of China. In the future, the US may take further measures, which could bring additional pressure on the Hong Kong economy.

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