

Economic and Financial Monthly (June, 2020)

Summary

The US economy rebounded in June, but the market is still concerned about the negative impact of the second wave of COVID-19 outbreaks. The US labor market improved and the unemployment rate in June was 11.1%. The Fed kept the federal funds target interest rate unchanged, and hinted that it will remain near zero by the end of 2022. The Fed expected that the US economy will still face downside risks in the medium term. The COVID-19 epidemic in the euro area has gradually stabilized and economic data have improved. European Central Bank President Lagarde said the euro zone "may have passed" the worst moment of the economy caused by the COVID-19 epidemic, but the recovery will be uneven. The Mainland China's economy is gradually picking up, but the manufacturing industry is still picking up more slowly than infrastructure. The State Council proposed that the financial industry should concede 1.5 trillion yuan of profits this year to help the real economy. The Hong Kong economy is still struggling, and the unemployment rate jumped to 5.9% in May, but housing prices have remained stable. The US House and Senate passed the Hong Kong Autonomy Act. Further measures on Hong Kong from the US may be taken. They will create additional pressure on the Hong Kong economy and financial industry.

■ The US economy rebounded in June, but the market is still concerned about the negative impact of the second wave of COVID-19 outbreaks

The US economy continued to improve in June. The Markit manufacturing PMI rebounded to 49.6 from 39.8 in May, and the service industry PMI rebounded from 37.5 to 46.7, but is still below the pre-epidemic level. The University of Michigan consumer confidence index fell slightly to 78.1 from 78.9 last month. Consumer spending in the US rebounded sharply. Retail sales in May rebounded sharply by 17.7% month-on-month, and consumer spending in May increased by 8.2%, both of which were record high increases. Production and investment have improved synchronously, with industrial production up 1.4% month-on-month in May, and durable goods orders rebounded sharply by 15.8%. The labor market improved and the unemployment rate in June was 11.1%. Although the economy has improved, epidemic statistics show that the number of infected people has risen again with the easing of lockdowns in some

states. There are concerns that the easing of lockdowns caused a second wave of the epidemic and would eventually drag down the economy again. The Fed kept the federal funds target interest rate unchanged. Fed Chairman Powell said in a testimony to Congress on June 29th that the US economy is still facing great uncertainty. The outlook depends on the epidemic and the government's efforts to support the economy.

■ **European economy improves, ECB says worst period of economy may be over**

The epidemic in the euro area has gradually stabilized and economic data have improved. The initial value of HICP rose by 0.3% in June, compared with the same time last year, and the initial value of core HICP was 1.1%. In June, Markit manufacturing PMI in the euro area rose to 46.9, and service industry PM rose to 47.3, both of which rebounded to a large extent from May. The June economic prosperity index further increased to 75.7 from May, but industrial production rebounded more slowly, and the industrial economic index rebounded only slightly to -21.7. After the interest rate meeting in June, the ECB announced that it will expand the epidemic asset purchase plan by 600 billion euros to 1.35 trillion euros, while the debt purchase plan will be maintained at least until June 2021. The policy rate remained unchanged, of which the deposit facility' interest rate was still negative 0.5%, in line with market expectations. European Central Bank President Lagarde said the euro zone "may have passed" the worst moment of the economy caused by the COVID-19 epidemic, but the recovery will be uneven.

■ **Mainland China's economy is gradually recovering**

Mainland China's macroeconomic data released in June showed that its economy has gradually recovered. Among them, the growth rate of industrial production in May rebounded to 4.4% year-on-year. However, the main contribution came from the production and supply of electricity, gas and water (the year-on-year growth rate rose from 0.2% to 3.6%). The growth rate of the manufacturing and mining industries did not change much, and the growth rate of the high-tech industry declined compared with last month. The growth rate of fixed asset investment rebounded to 3.9% year-on-year. The growth rate of infrastructure investment including power rose to 10.9%, while the growth rate of manufacturing investment remained only -5.3%. The saleable area of

commercial housing rose to 9.67% year-on-year, and investment in real estate development rose to 8%. On the consumption side, the growth rate of retail sales rebounded to -2.8% year-on-year. The “618” online shopping volume picked up as Alibaba announced that the cumulative order value of Tmall “618” in 2020 was 698.2 billion yuan, setting a new record. JD.com announced that this year, JD.com’s “618” global mid-year shopping festival has placed orders totaling 269.2 billion yuan, an increase of 33.6% year-on-year. It is expected that due to the “618” strong promotion of e-commerce, retail sales will further improve in June. The State Council proposed that the financial industry should concede 1.5 trillion yuan of profits this year to help the real economy.

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

Hong Kong's unemployment rate increased to 5.9% between March and May 2020, consumer prices fell 0.5% month-on-month in May, and retail sales fell 32.8% year-on-year. The PMI in June was 49.6, higher than the 43.9 in May. Housing prices have remained stable, with the Centa City Leading Index as of June 26th up 1.45% from May to 181.12. The US House and Senate have passed the Hong Kong Autonomy Act and will impose sanctions on individuals and financial institutions that damage the Sino-British Joint Declaration and the Hong Kong Basic Law. On June 29th, the special status of Hong Kong was officially revoked, and preferential treatment for Hong Kong was suspended in the US. In the future, there may be detailed sanction lists and measures, which may bring additional pressure on Hong Kong's economy and financial industry.

Ding Meng