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Summary

US suffered its worst GDP contraction during second quarter amid COVID-19. Fed extended 7 emergency programs but Congress has yet to agree on Trump administration's new $1 trillion stimulus package. Although EU/Eurozone economies took deeper downturns in Q2, July PMI finally moved into expansion territory after one and half years. China's Q2 GDP reverted to 3.2% YOY growth after a first quarter contraction. China's Politburo strengthened its pledge to push reforms, reiterating the new development strategy of "dual circulation". Hong Kong's second quarter real GDP contracted 9%, its fourth consecutive quarterly decline.

■ US recovery tumbles as Q2 GDP suffered from worst-ever contraction

The shutdown of the economy due to the Coronavirus pandemic has led to the worst GDP slump in American history. US QoQ real GDP fell at an annualized rate of 32.9% in the second quarter, the largest fall on record. Consumer confidence index dropped below expectation from 98.3 to 92.6, which was the largest drop for the economic indicator since March. As of the week of 25 July, continuing claims for unemployment benefits was over 16 million. Economy recovery slowed down due to a new wave of COVID-19 despite the Federal Government's large-scale stimulus starting to show signs of effectiveness.

The Federal Reserve hence extended 7 out of 9 emergency programs throughout 2020. Congress has yet to agree on Trump administration's new $1 trillion stimulus package. Senate Republicans drafted a new $1 trillion stimulus package to include another round of one-time $1,200 payments and an extension of emergency federal unemployment benefits that amounts to $200 per week. After the new plan was faced with bipartisan resistance, negotiations continued on Capitol Hill.

EU economy shows recovery despite record low plunge

EU/Eurozone economies took deeper downturn in Q2, according to data from the region's statistics office. Second-quarter QoQ GDP (not annualized) fell by 11.9% in EU and 12.1% for the Eurozone area, with YoY decline being 14.4% and 15%. These figures were the lowest since records began in 1995.

The statistics office reckons such plunge was largely attributed to European governments' strict lockdown measures during the time period. As a result of such measures, Eurozone has witnessed a faster rebound than other major economies. IHS Markit's Manufacturing Purchasing Manager's Index (PMI) bounced from June's 47.4 to a new high of 51.8 in July, breaking through the 50 mark for the first time since January 2019. At a monetary policy meeting on 17 July, Christine Lagarde said a few factors are critical to the recovery of

Eurozone economy, such as the time duration and effectiveness of lockdown, the policy efficacy to mitigate the impact of unemployment, and the extent to which domestic supply and demand are permanently affected.

China’s Q2 GDP growth beats expectation with steady economy recovery

Driven by a resumption of work and production, countercyclical policy adjustments, and successful COVID-19 containment, China’s Q2 GDP reverted to 3.2% YoY growth from first quarter’s 6.8% contraction. It was the first major economy to beat market expectations and record positive growth. Given China’s first-half GDP shrank by 1.6%, the country’s statistics bureau acknowledged the risk of a sweeping global pandemic and a challenging external environment.

However, it also manifested that the recovery of China’s whole year economy is strongly supported by the nation’s “development resilience and vitality”. China’s Politburo strengthened its pledge to push reforms, saying fiscal policy will remain proactive and the country’s monetary policy will be more targeted and flexible in the second half of 2021, significantly lowering the financing cost of companies. China will also accelerate the "dual circulation" development pattern, taking the domestic market as mainstay while domestic and foreign markets boost each other.

Hong Kong economy continues weak performance, clouding its economic outlook

Hong Kong’s long recession has yet to see a turning point, although there were some signs of stability when social distancing rules eased in May. The government’s advanced estimate of the economy contracted 9.0% YoY in the second quarter, shrinking for the fourth quarter in a row. A record low of 9.1% real economic contraction was estimated for the first half 2020.

Already reeling from US-China tensions and social unrest, Hong Kong sees its second half outlook further clouded by uncertainties from the global pandemic and economic recession. Backed by central banks’ loose monetary policy worldwide and Hong Kong Government’s fiscal relief measures, the forecast for Hong Kong’s 2020 economy contraction is therefore moderated to around 7%, with a chance to become the worst drop YoY and the first consecutive two-year recession since records began in 1960. The government’s revised GDP forecast for 2020 will be released on August 14, 2020.

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