Economic and Financial Monthly (AUG, 2020)

Summary

The unemployment rate fell and retail sales rebounded in July, indicating the US economy was slowly recovering. The Fed unveiled a new policy framework around Average Inflation Targeting, which may allow monetary policy to remain loose for longer. Many leading indicators in the Eurozone strengthened, suggesting the economy will continue to pick up in the short run. However, inflation continued to weaken and deflation risk is mounting. Because of the continuous advancement of domestic production and the economic restarts in Europe and the US, China's trade growth in July beat expectations. Meanwhile, other economic indicators were also recovering steadily. Hong Kong's unemployment rate dropped by 0.1 pp to 6.1% in May - July, still at a high level. The trade activities in Hong Kong were weak in July, and had limited room to rebound in the short term.

■ The US economy was slowly recovering, and monetary policy is expected to be loose for longer

In July, US non-farm payrolls increased by 1.76 million, and the unemployment rate was 10.2%, which was lower than 11.1% in June and better than market expectation of 10.6%. Although the unemployment rate had fallen for the third consecutive month, it is still at a historically high level, higher than the peak of 10% during the Global Financial Crisis. Because of the economic restart, retail sales in US increased by 2.7% YoY in July, which was close to the level before the epidemic.

The Fed adjusted its monetary policy framework and announced that it would adopt an "Average Inflation Targeting" system. This framework increased the tolerance for inflation and may allow inflation to exceed 2% over a period of time. In addition, the Fed also adjusted its employment targets. Future monetary policy decisions will focus more on the degree of underemployment rather than deviation from the level of full employment. Under this framework, the US monetary policy stance is expected to maintain an easing trend for longer.

■ Eurozone economy rebounded, and deflation risk is mounting

The manufacturing, service, and comprehensive PMIs in the Eurozone in August were 51.7, 50.5, and 51.9, all above the 50 mark. The leading indicators, such as the Sentix Investor Confidence Index and the ZEW Economic Sentiment Index, rebounded, suggesting the economy would continue to pick up and various economic indicators were expected to rise in the short term.

The demand in the euro area was still weak due to the epidemic, and deflation risk is mounting. The CPI was -0.2% YoY in August, below the target inflation of 2%, turning negative for the first time in four years. The core CPI fell from 1.2% in July to 0.4% in August, marking the lowest level since 2001. In June, the European Central Bank predicted that the inflation rate in the Eurozone would stay weak in the next two years. The ECB may expand and extend its asset purchase plan in response to this issue.

■ Mainland China's trade data beat expectations in July, and the economy continued to recover steadily

In July, the value of China's exports was RMB 1.69 trillion, an increase of 10.4% YoY, beating market expectations. The total import value increased 1.6% YoY to RMB 1.24 trillion, and the trade surplus was RMB 442.23 billion, an increase of 45.9% over a year earlier. The main reason towards this trade performance was the continuous advancement of domestic production and increased efforts to stabilize foreign trade. Meanwhile, major economies such as Europe and the US had implemented economic restarts since May, which led to a pickup in global demand.

China's industrial value added increased by 4.8% YoY in July, the same as in June, with the equipment and high-tech manufacturing industries growing rapidly. The total retail sales of consumer goods in July fell 1.1% YoY, and the rate of decline narrowed by 0.7 pp from June, while the growth rate of commodity retail sales turned positive. In addition, the decline in fixed asset investment continued to narrow, and investment in high-tech industries and social fields had grown quickly. Looking ahead, infrastructure investment may continue to take effect with the fiscal stimulus, and will provide strong support to the economy.

■ Hong Kong unemployment rate remained high, while trade activities remained weak

Due to epidemic containment effects and government relief measures, the unemployment rate in Hong Kong dropped by 0.1 pp to 6.1% in May - July. The job market situation improved marginally. In terms of different industries, the retail, accommodation and catering services, and construction industries had higher unemployment rates. Moreover, the unemployment situation of low-income groups was more serious. Looking ahead, the third wave of the epidemic in Hong Kong has not ended, so the unemployment rate may remain at a relatively high level in the short term, or even deteriorate further.

Trade activities remained weak in July in Hong Kong. Affected by the global economic recession and the spread of the epidemic, Hong Kong's total export was HKD 328.5 billion in July, with a growth rate of -3.0% YoY. The value of imports was HKD 358.3 billion, with a growth rate of -3.4% YoY. The triple negative factors of epidemic, Sino-US trade frictions, and global economic slowdown increased the uncertainty of Hong Kong's trade activities. The room for rebound is limited in the short term.

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