Economic and Financial Monthly (SEP, 2020)

Summary

The US economy continued to recover in August, but at a slower pace. The Fed's latest dot plot showed that Fed fund rate was expected to be held near zero through 2023. Markets focused on the development of the new round of fiscal stimulus plan and US presidential election. The Eurozone economy showed a weak recovery in the services sector, as well as a second month of deflation. The ECB monitored closely the impact of a strong euro on inflation. Demand-side recovery accelerated in Mainland China. In the first eight months this year, the urban newly increased employment registered 7.81 million, dropping 20.6% compared with the same period last year. With the negative impact from the third wave of local pandemic, Hong Kong's economy remained weak in August. Nevertheless, funds kept flowing into Hong Kong, pushing up the Aggregate Balance.

■ The pace of US economic recovery slowed, markets focused on fiscal stimulus plan and the presidential election

The US economy continued to recover in August, but at a slower pace. On the supply side, industrial production recorded a fourth positive growth in a row, adding 0.4% month-on-month in August, but lower than the 3.5% increase in July. The ISM Manufacturing index fell 0.6 percentage point to 55.4 in September, remaining within expansionary territory. On the demand side, retail sales grew by a monthly pace of 0.6% in August, slowing for three consecutive months. The recovery in the labor market also decelerated. Although the unemployment rate fell 1.8 percentage points to 8.4%, the US economy added 1.49 million non-farm payrolls in August, the lowest in four months.

The Federal Reserve has updated its forward guidance in its September meeting. It will maintain the current rate target until labor market have reached maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time. The new Fed dot plot showed that the target rate would probability be held at near zero through 2023, one year later than the projections in June. The development of the pandemic, whether the new round of fiscal stimulus can successfully be introduced, and the results of the US presidential election all bring uncertainties to the economic recovery in the coming months.

Eurozone showed weak recovery in services sector, and ECB monitored the impact of a strong euro on inflation

The Eurozone economy showed a weak recovery in the services sector, as well as a second month of deflation. The Markit manufacturing PMI rose from 51.7 in August to 53.7 in September, the highest in two years. However, service PMI fell from 51.9 to 47.6 in September, entering contractionary territory. Industrial production rose 0.7% month-on-month in August, after growing 5.0% in July. Retail sales growth accelerated to 4.4% in August from a negative 1.8% in the previous month. The unemployment rate rose 0.1 percentage point to 8.1%, the highest level in two years.

In terms of inflation, headline HICP inflation decreased to -0.3% in September, after the -0.2% in August, recording a second month of deflation. Weak demand, lower wage pressures and the appreciation of the euro all bring downward pressures on inflation. Christine Lagarde, President of the ECB, pointed out that although the exchange rate was not the target of the central bank, the ECB would monitor closely the impact from appreciation of the euro on Eurozone inflation.

Demand-side recovery accelerated in Mainland China, and employment remained the key

Retail sales growth picked up to 0.5% in August, turning positive for the first time this year, signaling an accelerated demand-side recovery. The imbalance in the pace of recovery between demand- and supply-side has narrowed. Fixed asset investment grew 9.3% in August, and manufacturing investment growth jumped 8.1 percentage points to 5.0%. The US dollar value of goods exports grew more than expected by 9.5% year-on-year in August, the fastest pace since April 2019. Industrial production growth continued to tick up, adding 0.8 percentage point to 5.6% in August, the highest level since the beginning of the year.

In the first eight months of this year, the urban newly increased employment registered 7.81 million, dropping 2.03 million, or 20.6% compared with the same period last year. Meanwhile, the urban surveyed unemployment rate was 5.6% in August, 0.4 percentage point higher than August last year. With the gradual release of fiscal spending and a stable monetary policy stance, the Mainland economy is expected to keep the recovery momentum, with employment remaining the key in the fourth quarter.

Hong Kong economy remained weak, with a rising Aggregate Balance

With the negative impact of the third wave of local pandemic, Hong Kong's economy remained weak in August. Retail sales fell by an annual pace of 13.1% in August. While the decline narrowed visibly compared with the 23.1% decline in July, it was mainly attributable to a very low base of comparison. Goods exports dropped 2.3% in August, a smaller decline compared with previous month. CPI fell 0.4% year-on-year, with a steeper decline of price of meals bought away from home, and moderated increase in the price of pork and private housing rentals. Unemployment rate remained elevated at 6.1% in August. Considering the recurrence of the pandemic, the unemployment rate may deteriorate further in the coming months.

Despite the negative shocks from the pandemic and trade conflicts, the Hong Kong dollar remained strong, with funds consistently flowing into Hong Kong's banking system. The Aggregate Balance reached HKD 243.5 billion at the end of September, a rise of HKD 50.4 billion from the end of August. Ample liquidity has helped to keep the 1-month HIBOR below 0.5% for most of the time.

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