Economic and Financial Monthly (OCT, 2020)

Summary

The US recorded its highest daily COVID-19 case totals on October 30. Amid the pandemic, the real GDP increased at an annual rate of 33.1% in the third quarter. But the outlook for Q4 and 2021 remains uncertain as the pandemic is far from controlled. Currently, all eyes are on the presidential election. Joe Biden continues to lead his Republican rival in polls ahead of Election day, but the race is tighter in the battleground states. The pandemic in the Eurozone broke out again, and fresh lockdown has been announced across Europe. The ECB meeting on October 29 announced to continue its PEPP, APP, and the additional temporary envelope. The ECB's governing council also said it would recalibrate its monetary-policy to respond to the second wave of the pandemic. Mainland China's economy revived back on track. The fifth plenum of the CCP wrapped up on October 29. The vision for China's economic future places emphasis on quality over raw numbers. The communique noted that technology occupies the core position in China's modernization drive. The Hong Kong economy shrank by 3.4% year-on-year in Q3, extending the recession to the 5th straight quarter.

■ Both Q3 GDP and daily COVID-19 cases made new record highs

In October, the soring COVID-19 cases brought ragged memories of what it was like in mid-July. The country recorded its highest daily case totals on October 30. Amid the pandemic, the real GDP increased at an annual rate of 33.1% in the third quarter. It is the biggest expansion ever, following a record 31.4% plunge in Q2. Personal spending was the main driver of growth, helped by the federal CARES Act. Private inventory investment, exports, fixed investment that were partially offset by less federal government spending supported growth. But the outlook for Q4 and 2021 remains uncertain as the pandemic is far from controlled. Regarding monthly data, the Markit Manufacturing PMI was 53.3% in October, following September’s reading of 53.2%. The services PMI rebounded to 56%, pointing to the third consecutive expansion and the sharpest since February 2019. The US Consumer Confidence Index was 100.9, down from 101.3 in September. The final readings of the University of Michigan Consumer Sentiment and Consumer Expectations in October were 81.8 and 79.2. The core PCE price index, a gauge the Fed preferred, increased month-over-month by 0.2% in September, in line with forecasts. Although the labor market has improved, the unemployment rate was still as high as 7.9% in September. All eyes are on the presidential election. Democratic candidate, Joe Biden, continues to lead his

Republican rival in polls ahead of Election day, but the race is tighter in the battleground states. Trump can still pull off a victory as happened four years ago if key swing states can stand on his side.

The second wave of the pandemic pushed a number of Europe's economies into lockdown again

The pandemic in the Eurozone broke out again, and economic data remained weak. In September, a preliminary reading of the CPI was -0.3% year-on-year, while the core CPI grew by 0.2% year-on-year. On a monthly basis, the CPI increased by 0.2% versus 0.1% previously.

The final readings of manufacturing and services PMI were 54.8% and 46.2% in October, from 53.7% and 48% in the previous month, respectively. The composite PMI slipped to 49.4% in October, lower than 50.4% in the previous month. ZEW Economic Sentiment index was 52.3, and the Sentix index was -8.3.

At the ECB meeting on October 29, the Governing Council will continue its purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of 1350 billion euros and will reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2022. Net purchases under the asset purchase programme (APP) will continue at a monthly pace of 20 billion euros, together with the purchases under the additional 120 billion euros temporary envelope until the end of the year. The policy rate remained unchanged at -0.5%, but ECB signaled that it could provide extra support for the economy in December. The ECB's governing council said it would recalibrate its monetary-policy to respond to the second wave of the pandemic that has forced a number of major economies into lockdown again.

Mainland China's economy revived back on track, and the vision for China's economic future placed more emphasis on quality

The industrial production went up by 6.9% year-on-year in September, the most since December 2019 and above market expectations of 5.8% growth. Retail sales increased by 3.3%. From January to September, the growth of fixed-asset investment climbed to 0.8% year-on-year. The profits of industrial enterprises above the designated size dropped by 2.4% year-on-year in January-September. Meanwhile, the September surveyed urban unemployment rate surged to 5.4% in September.

The official manufacturing PMI came in at 51.4% in October, little-changed from a seven-month high of 51.5% in the previous month, while the non-manufacturing PMI edged up to 56.2%. The CPI and the PPI registered at 1.7% and -2.1% in September, respectively.

The fifth plenum of the Chinese Communist Party (CCP) 's 19th Central Committee wrapped up on October 29 after a four-day meeting. The vision for China's economic future places emphasis on quality over raw numbers. During the next five years, the country will significantly improve quality and efficiency for sustained and healthy growth. The target for growth is absent, but it may come out in the final version of the 14th five-year plan next year. As expected, the summary of the next five-year plan includes dual circulation, referring to an economy that domestic cycle will be the main driver, complemented by foreign trade and investment. Most notably, the communique noted that technology occupies the core position in China's modernization drive and pointed to self-reliance in science and technology as the strategic support for national development.

The Hong Kong economy shrank for the 5th quarter in a row

The Hong Kong economy shrank by 3.4% year-on-year in Q3, extending the recession to five straight quarters. A substantial expansion in China, the stabilization of the local pandemic, and stronger financial market activity all contributed positively. Exports of goods resumed growth, while exports of services continued to plummet as inbound tourism remained frozen. Private consumption and investment continued to fall visibly. The PMI rose to 47.7% in September from 44.0% a month earlier. Tourist arrivals in Hong Kong increased to 9132 persons in September from 4449 persons in August. Retail sales still decline a hefty 12.9% in September, marking the 20th consecutive months of contraction. The unemployment rate jumped to 6.4% in September, the highest jobless rate since January 2005. Amid the pandemic, house prices remained stable, surprisingly.

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