Economic and Financial Monthly (DEC, 2020)

Summary

The US economy continued to recover, but the economy still has lots of ground to make up after the deepest recession on record. Especially, it is the first decline in non-farm payrolls in eight months, and indicates the US jobs market recovery stalled in December 2020. The pace of Eurozone economic recovery remained slow. The ECB therefore developed its Pandemic Emergency Purchase Programme (PEPP) by another €500 billion and extended it to at least the end of March 2022 at its December monetary policy meeting, aiming to support the EU's weak economy shocked by the COVID-19 crisis. China's economy further improved. For full 2020, the country's GDP recorded a growth of 2.3 percent. We believe China is likely to be the only major economy to avoid contraction due to the COVID-19 shocks. The economy of Hong Kong declined 3.5 percent year-on-year in the Q3 2020, the 5th straight month of decrease.

The US economy continued to recover, but GDP masks the weakness in some sectors

The US economy continued to recover at a faster rate. Industrial production resumed positive growth of 1.6% MoM in December, beating market expectations of 0.5%. Nevertheless, the University of Michigan's consumer confidence is still unstable due to the ongoing spread of COVID-19. Retail trade fell 0.7% MoM in December, following a revised 1.4 percent decline in November and compared with market expectations of a flat reading. The US unemployment rate was unchanged at 6.7 percent in December 2020, well above pre-pandemic levels of about 3.5 percent. The latest reading indicated to a stagnation in the labour market recovery due to lack of fiscal stimulus and record COVID-19 infections that prompted many US states to impose restrictive measures to deal with the spread of the virus. In addition, it was the first decline in non-farm payrolls in eight months, and indicates the US jobs market recovery stalled in December 2020. The fall was mainly due to job losses at restaurants, bars, cafes and hotels.

The S&P 500 and Nasdaq continued to rise, as investors pay their attention to earnings season and big tech reports since December 2020. Fiscally, expectations continue as President Joe Biden tries to push through a $1.9 trillion stimulus program although it is not easy to reach an agreement with many congressional Republicans. On the pandemic front, vaccinations roll out as expected, although the US still struggles to hit vaccine targets so far.

The pace of Eurozone economic recovery remained slow

Given the impacts of Charismas season and rise of commodity prices, the Markit manufacturing PMI in the Eurozone increased to 55.2 compared with 53.8 in November 2020. The reading indicated the strongest growth in factory activities in 31 months as output and new orders growth accelerated and exports of goods rose at the second-fastest rate in 34 months while employment continued to fall. Eurozone industrial production went up 2.5 percent from a month earlier in November 2020. The Consumer Price Index in the Eurozone went up 0.30 percent in December of 2020 over the previous month. However, the negative impact of the lockdown measures has emerged as resurgence of the coronavirus in the EU.

The ECB has developed its Pandemic Emergency Purchase Programme (PEPP) by another €500 billion and extended it to at least the end of March 2022 at its December monetary policy meeting, aiming to support the EU's weak economy shocked by the COVID-19 crisis. Moreover, policymakers agreed more long-term loans on cheap terms for another year until June 2022, and approved four additional pandemic emergency longer-term refinancing operations to be adopted in 2021. The main refinancing rate was held at 0 percent while the deposit rate remained at a record low -0.5 percent.

China's GDP grew 6.5% in Q4 2020

The Chinese economy advanced 6.5 percent year-on-year in the December 2020, after a rise of 4.9 percent in the third quarter last year and beating market consensus of 6.1 percent. For full 2020, the country's GDP enjoyed a growth of 2.3 percent, the slowest pace in more than four decades. However, China is expected to be the only major economy to avoid contraction due to the COVID-19 shocks.

China's retail sales went up 4.6 percent year-on-year in December 2020, after a 5.0 percent gain in November 2020, as consumption recovered rapidly from the COVID-19 disruption. China's fixed-asset investment rose 2.9 percent year-on-year to CNY 51.91 trillion in 2020, compared with a 2.6 percent gain in

January-November 2020. The reading was below market expectation of a 3.2 percent growth as central government is more cautious about monetary stimulus. China's exports soared 18 percent year-on-year, the seventh straight month of increase; while imports increased at a softer pace with a growth of 6.5 percent, due to improving global demand.

Hong Kong's economy remained in contraction despite a significant improvement in Q3 2020.

The economy of Hong Kong declined 3.5 percent year-on-year in the Q3 2020, the 5th straight quarter of falling. Exports of goods resumed growth with a rise of 3.9 percent year-on-year in November 2020, mainly due to an improved external trading environment and strong growth in China. In contrast, exports of services still struggled (-34.6 percent year-on-year in November 2020 vs -45.6 percent in October 2020) as inbound tourism and cross-boundary passenger transport remained frozen, though exports of financial services grew further. In addition, both investment (-11.1 percent in November 2020 vs -21.4 percent) and private spending (-8.2 percent in November 2020 vs -14.2 percent) shrank at a slower rate and government spending continued to climb with a 7 percent growth. Looking ahead, the spread of the coronavirus, the effectiveness of vaccine, and the uncertainty in labour market would be challenging for the recovery of HK's economy.

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