Market Monitor – United States

Hiring Slows in August amid Spread of Delta Variant

US hiring slows sharply in August amid spread of Delta variant

With the surge in confirmed Covid-19 cases, the US labour market saw a sharp slowdown in hiring in August. Nonfarm payrolls only added 235,000 jobs that month, compared to average of about 876,000 jobs during May to July. Retail trade, which includes food and beverage stores, saw a notable 29,000 decrease in employment numbers in August. In addition, leisure and hospitality saw no gain in jobs growth in August, compared to an additional 415,000 jobs in the previous month.

US retail sales unexpectedly rose 0.7% month-on-month in August, partly due to back-to-school shopping and the distribution of a child tax credit payment. Nonetheless, as the labour market saw a slowdown in jobs growth, consumer sentiment remained weak. Although the University of Michigan's consumer sentiment index rebounded from 70.3 in August to 72.8 in September in its final reading, this is still far lower than the 81.2 seen in July.

US inflation remained elevated in August, with the headline consumer price index (CPI) seeing year-on-year growth of 5.3% and the core CPI rising by 4.0%. The elevated inflation mainly reflects the persisting bottleneck in supply chains stemming from the pandemic and a continued rebound in consumer demand. As production of new cars is still distorted by a global chip shortage, used car prices still saw a year-on-year growth of 31.9% in August.

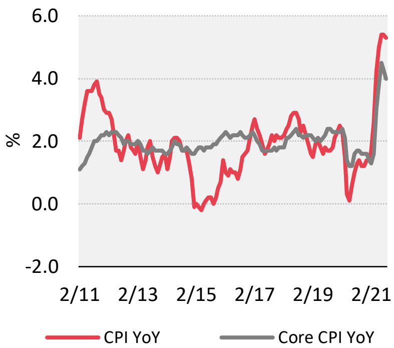
Despite the persistent inflationary pressure, the Federal Reserve (Fed) held the fed funds rate unchanged at its meeting in September. However, Fed chairman Jerome Powell said that the central bank could announce the tapering off of assent purchases as soon as its next meeting if the economy progresses as expected. He also mentioned that the tapering off could be completed by mid-2022. The latest Fed projection showed that

Spread of virus variant weighs on hiring levels in August.

Inflation eases slightly in August but remains high.

Worries over pandemic developments challenge elevated stock valuations.

US Inflation



Source: Bloomberg, data as of 17/9/2021

more of its officials expect to begin raising interest rates in 2022 and see potentially further rate hikes ahead in 2023 and 2024.

In a still accommodative monetary environment, US housing prices continued to surge. In July, the S&P CoreLogic Case-Shiller 20-City Composite Home Price Index saw year-on-year growth of about 19.9%, the largest increase on record. The surge in housing prices was chiefly underpinned by tight supply and a new preference for more spacious homes amid the pandemic.

Looking ahead, the US economy is expected to be supported by the upcoming multi-trillion spending bills and the reopening of businesses. General market expectation is that US GDP will grow 5.8% year-on-year in Q4 2021 and that annual growth for 2021 will average 6.0%. However, the speed of reopening may be challenged by the surge of the Delta variant. If the spread of virus variant results in the government re-imposing more stringent lockdown measures, business sentiment and consumer confidence will be undermined. This may pose a risk to the economic recovery from the pandemic.

In addition, with inflation expected to stay elevated at an average of 4.3% in 2021, the Fed is expected to announce details of how it will taper off its asset purchase programme by the end of 2021, and more officials expect to start raising interest rate earlier, expectation of interest rate normalization may intensify. Therefore, elevated prices for assets like houses may face a heightened risk of correction in the long run.

Spread of Delta variant puts pressure on elevated stock valuations

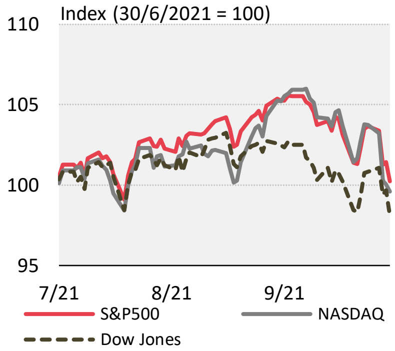
Despite the US vaccination rate gradually edging higher, the 7-day average of newly confirmed Covid-19 cases remains above 100,000, causing investors to start considering how the spread of the Delta variant might affect economic growth. This concern, coupled with disappointing retail sales and the dip in China's property market data, had an adverse impact on US equity market sentiment. As of 30th September, the S&P 500 Index recorded a 4.8% loss when compared with the level at the end of August. Meanwhile, the Nasdaq dropped by 5.3% and the Dow Jones by 4.3% over the same horizon.

Expected asset purchase wind-down supports dollar and Treasury yields

Although hiring slowed in August, expectation remained that asset purchases will be tapered off, boosting the US dollar and treasury yields. As of 30th September, the dollar index stood at 94.23, about 1.7% higher than the level at the end of August. Meanwhile, the10-year Treasury yield stood at 1.488%, about 18 basis points higher than the level at the end of August.

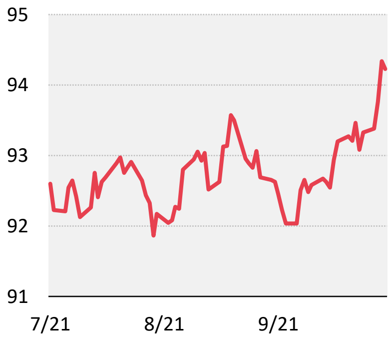
Looking forward, the Fed is expected to announce its blueprint for tapering off asset purchases later this year and investors may start to price in expected interest rate normalisation. In addition, although the Senate has voted to extend the debt ceiling until 3rd December, US government functions could still face the risk of suspension in future if the Congress fails to find a long-term solution to the debt issue. These factors may lead to greater volatility in the financial markets in the medium term.

US Equity Indices



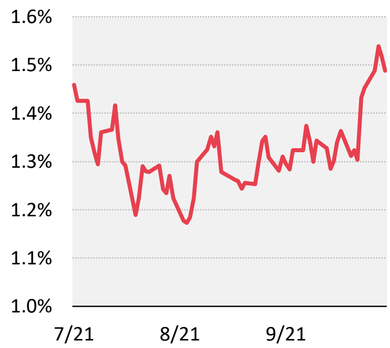
Source: Bloomberg, data as of 30/9/2021

Dollar index



Source: Bloomberg, data as of 30/9/2021

US 10-year Treasury Yield



Source: Bloomberg, data as of 30/9/2021

Disclaimer

This document is prepared by The Bank of East Asia, Limited ("BEA") for customer reference only. Other than disclosures relating to BEA, the content is based on information available to the public and reasonably believed to be reliable, but has not been independently verified. Any projections and opinions contained herein are as of the date hereof, are expressed solely as general market commentary, and do not constitute an offer of securities, nor a solicitation, suggestion, investment advice, or guaranteed return. The information, forecasts, and opinions contained herein are as of the date hereof and are subject to change without prior notification, and should not be regarded as any investment product or market recommendations. This document has not been reviewed by the Securities and Futures Commission of Hong Kong, Hong Kong Monetary Authority, or any regulatory authority in Hong Kong.

BEA will update the published research as needed and as required by the law. In addition to certain reports published on a periodic basis, other reports may be published at irregular intervals as appropriate without prior notice.

No representation or warranty, express or implied, is given by or on behalf of BEA, as to the accuracy or completeness of the information and stated returns contained in this document, and no liability is accepted for any loss arising, directly or indirectly, from any use of such information (whether due to infringements or contracts or other aspects). Investment involves risks. The price of investment products may go up or down. Past performance is not indicative of future performance. The investments mentioned in this document may not be suitable for all investors, and the specific investment objectives or experience, financial situation, or other needs of each recipient are not considered. Therefore, you should not make any investment decisions based solely on this document. You should make investment decisions based on your own investment objectives, investment experience, financial situation, and specific needs; if necessary, you should seek independent professional advice before making any investment.

The views and opinions in this document do not constitute the official views of BEA.

For more information, please visit our webpage at https://www.hkbea.com/html/en/bea-about-bea-economic-research.html. For any enquiries, please contact the Economic Research Department (email: lerd@hkbea.com, tel: (852) 3609-1504, post: GPO Box 31, Hong Kong).