Box 2.1

Near-term outlook for the US economy

The US economy saw a progressive deceleration in the first three quarters of 2019, reflecting the dampening impacts of slower global economic growth, rising trade tensions and the dissipation of earlier fiscal stimulus effects. In the face of increasing downside risks to the economic outlook, the Federal Reserve (the Fed) has shifted to a more accommodative monetary stance and lowered interest rates thrice since late July 2019. Yet, some international organisations still marked down their US economic growth forecasts for 2019 of late, suggesting that the Fed's policy easing alone is probably not enough to totally offset the downward pressures on the economy. This box article briefly examines the recent situation of the US economy and its near-term outlook.

Recent US economic performance

After recording an above-trend growth of 2.9% in 2018 thanks in part to the fiscal stimulus, US economic growth moderated progressively on entering 2019, from 2.7% year-on-year in the first quarter, to 2.3% in the second quarter and 2.0% in the third quarter, with slowing private investment and weakening exports. Headwinds stemming from trade tensions have led to a widespread slowdown in manufacturing and trading activities as well as some softening in economic sentiment. Industrial production eased visibly to record only a modest 0.2% expansion in the third quarter over a year earlier, while total exports barely grew. Sentiment indicators also worsened in recent months, with ISM manufacturing PMI hovering at its lowest level in more than 10 years. Nevertheless, personal consumption expenditure (PCE) held up relatively well and remained a key growth driver. The labour market was likewise resilient, with the unemployment rate staying close to its 50-year low in October. Inflation pressure remained muted, with the core PCE inflation staying below the Fed's target of 2% in recent months.

Trade tensions remain a major source of downside risks

International organisations and the US Congressional Budget Office (CBO) lowered their US economic growth forecasts for 2019 to a range of 2.4-2.6% in the recent past and generally expected a further moderation to around 2% in 2020 ***(Table 1)***. Specifically, in mid-October the International Monetary Fund (IMF) projected US economic growth to moderate to 2.1% in 2020 from a forecast 2.4% in 2019. The Organisation for Economic Co-operation and Development (OECD) and the CBO made similar projections earlier on. Private sector analysts are generally less optimistic, on average forecasting lower growth of 2.3% in 2019 and 1.8% in 2020.

Table 1: US economic growth forecasts by the CBO, OECD and IMF

Year	2017	2018	2019	2020
CBO (Aug 2019)	2.4*	2.9*	2.6	2.1
OECD (Sep 2019)			2.4	2.0
IMF (Oct 2019)			2.4	2.1
Private sector analysts^ (Oct 2019)			2.3	1.8

Notes: (*) Actual figures.
(^) Average forecast.

Box 2.1 (Cont'd)

Bumpy trade relations with its major trading partners, particularly the Mainland, continue to cloud US economic outlook. Indeed, most forecasters noted that uncertainties associated with trade tensions would remain a major downside risk. For instance, the IMF assessed that, compared to a scenario with no additional tariffs, trade tensions would lower the US real GDP level by about 0.2% in 2020 via the direct trade impact, and by almost 0.6% if the spillover effects on business confidence, market reaction and productivity were also considered. While the US and the Mainland could hopefully seal a first-phase trade agreement in the near term, bilateral trade relations are still fraught with uncertainties as the two sides have yet to resolve differences in certain thorny issues.

US policy responses

Amid muted inflation pressures in the US, the Fed has taken steps to ease monetary policy to counteract the increasing downside risks to the economic outlook. Since late July 2019, the Fed has cut the target range of the federal fund rate three times by a total of 75 basis points. After the Fed Chair Powell said in the post-meeting press conference in late October that the current stance of monetary policy likely remained appropriate, the market generally expected that the US might pause interest rate cut in the near term. Separately, the Fed concluded the balance sheet scale-back in August 2019, two months earlier than previously indicated.

On fiscal policy, according to the latest projections by the CBO and the IMF, the fading effect of the 2017 US tax reform will more or less offset the boost from higher federal discretionary spending granted by the Bipartisan Budget Act of 2019. In August the CBO projected that US federal fiscal deficit would edge up to 4.6% of GDP in 2020 from 4.5% in 2019. In mid-October the IMF expected the US general government primary deficit[(1)] to stay flat at 4.3% of potential GDP in 2020, the same as in 2019. Given the presidential election next year, it remains to be seen whether the US federal government will roll out fresh fiscal stimulus to support the economy.

Concluding remarks

The near-term US economic outlook remains overshadowed by US' evolving trade relations with its major partners. While the recent monetary policy easing may help provide some cushioning effect to various headwinds, they are probably not enough to reverse the trend of decelerating growth in the US. This would inevitably add strains on the global economic scene. Uncertainties surrounding the future course of US monetary policy could also bring about global financial and asset market volatility from time to time. Given that the performance of the US economy and US policy responses would carry significant implications for the Hong Kong economy, the Government will closely monitor the situation.

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(1) After adjusting for the effects of the economic cycle and excluding net interest payment.