Economic Insight

2015/86 | 28 August 2015

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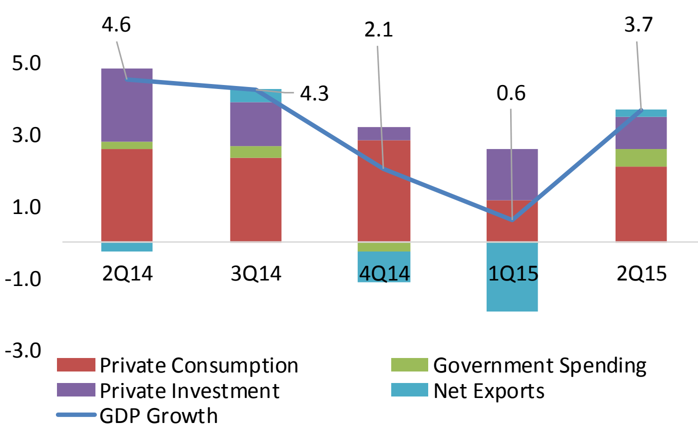
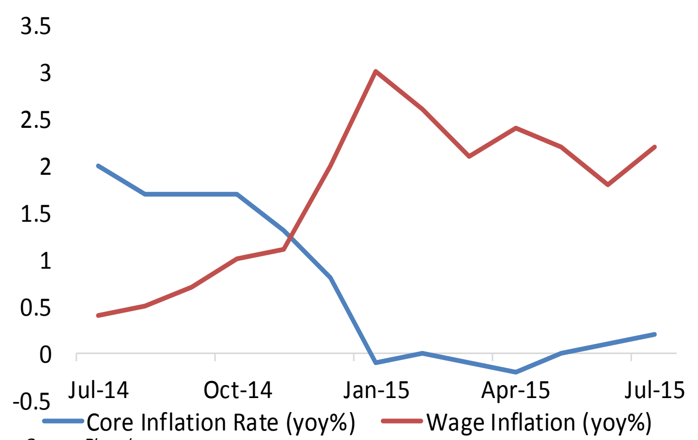
The Eagle Soars Above The Sky

CHART 1: GDP GROWTH AND CONTRIBUTIONS TO GDP



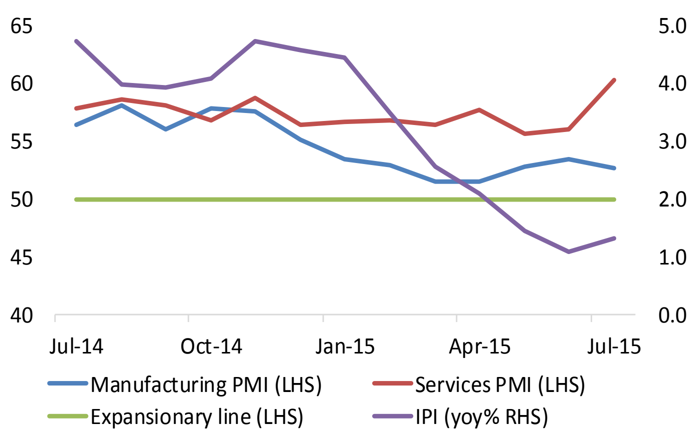
Source: Bloomberg

CHART 2: WAGE INFLATION & CORE INFLATION RATE



Source: Bloomberg

CHART 3: MANUFACTURING & SERVICES PMI



Source: Bloomberg

- Based on figures released last night, the U.S. economy had grown much faster in 2Q15 than initially estimated. Its GDP advanced by 3.7% in the quarter, compared to the preliminary estimate of 2.3%. In 1Q15, the economy stagnated as it merely expanded by 0.6%.

- Almost all components of GDP were revised upward. Consumer spending rose by 3.1% against an initial estimate of 2.9%, while government expenditure went up by 2.6% compared to the previous estimate of 0.1%. Private investment increased by 5.2% compared to the initial number of 0.3%.

- Looking at contributions to growth (refer graph 1), consumer spending accounted for the biggest portion, at 2.1 percentage points (ppts) in contrast to government expenditure at 0.5ppt. Meanwhile, private investment had accounted for 0.9ppt while net exports, 0.2ppt.

- Retail sales, a proxy of consumer spending continued to expand modestly, as it rose by 2.4% yoy in July, compared to 1.8% yoy increase in June. On the other hand, vehicle sales for July rose by 5.6% yoy from 4.4% in June. This was partly due to continuous decrease in the cost of owning vehicles as fuel prices tumbled in the last two months.

- On the other hand, the manufacturing sector remains well placed on its recovery track. Industrial production expanded by 1.3% yoy in July, up from 1.1% in June. Manufacturing PMI, an near term indicator for the sector remained rosy as well. The PMI moderated from 53.5 in June to 52.7 in July. Figures above 50 indicate expansion in economic activities. Similarly, services PMI rose to the highest level in 11 years, indicating robust expansion in the sector. The services PMI rose from 56 in June to 60.3 in July.

- In the labour market, we continue to observe gradual improvement across almost all indicators, with the exception of wages. Unemployment rate was steady at 5.3% in July, unchanged from June while median unemployment duration also remained unchanged in the same period at 11.3 weeks. Nevertheless, there is still room for improvement as before the crisis, the figure was typically below 9 weeks.

- On the other hand, wages remained depressed, signalling an ample slack in the labour market. Salaries only increased by 1.8% on average in the past 12 months to July. Core inflation rate, excluding food and energy prices, remained very low at only 0.2% in May and 0.3% in June.

- Amidst a massive sell-off in the global equity markets earlier this week, speculations are rife that the Federal Reserve (Fed) would not hike the interest rate in September. In fact, some economists expect no rate increase at all this year. Nevertheless, we are keeping our view that one hike is possible at any one of three meetings (September, October, December). The Fed has left breadcrumbs all over the place for an eventual rate hike this year. It cannot afford not to do so to guard its reputation and it helps that the economy is strong enough to warrant at least a 25 basis point hike.