



## Economic and Financial Monthly (May 2014)

### Summary

The US economy was revised down from 0.1% QoQ growth to a contraction of 1.0% in the first quarter. However the poor economic performance was due to bad weather to a certain extent. Recent economic data showed that economic recovery was on track. Modest recovery of the euro zone economy was confirmed. China's economic growth was still sluggish at the beginning of the second quarter. HK's GDP growth slowed in the first quarter. In addition, contribution from domestic demand may decrease further given the lackluster retail sector.

#### ■ U.S.: Moderate economic recovery was still on track

The US economy was revised down from 0.1% QoQ growth to a contraction of 1.0% in the first quarter. GDP registered a QoQ contraction for the first time since Q1 2011. Such adjustment was mainly due to considerable downward revisions in inventory investment and net exports. However, the performance of personal consumption expenditure, which accounted for about 70% of the US GDP, was relatively positive with a growth of 3.1% in the first quarter. In addition, ISM manufacturing index climbed for 4 months and recorded 55.4 in May, indicating manufacturing sector expanded at faster pace. Nevertheless, the growth of durable goods order slowed to 7.1% YoY in April after a spur in March. To conclude, GDP contraction in the first quarter was due to bad weather to a certain extent. Given a relatively low base for comparison, it is expected that GDP growth will rebound in the second quarter. The recovery of the US economy was still on track.

#### Euro zone: Modest recovery was confirmed

The euro zone economy grew 0.2% QoQ in the first quarter. The growth remained steady as the fourth quarter last year but below market expectation level of 0.4%. On yearly basis, there was positive growth for two quarters in a row, with growth accelerated from 0.5% in 4Q 2013 to 0.9% in Q1 2014. At the same time, divergence of economic performances among member states did not narrow. By comparing the performances of the 4 largest economies in the euro zone, GDP growth of Germany and Spain accelerated to 0.8% and 0.4% respectively QoQ in the first quarter. French GDP QoQ growth remained flat, while Italian economy turnaround from a 0.1% growth in Q4 2013 to a contraction of 0.1% in Q1 2014.

#### China: Economic growth was still sluggish

Data of retail sales, fixed assets investment and industrial production in April were all downbeat market expectations slightly and continued to slowdown. Retail sales grew 11.9% YoY in April, or 0.3 ppt less than that in March and it was the slowest growth since March 2011. Fixed assets investment for the first 4 months this year grew 17.3% YoY, or 0.3ppt less than the previous month. Industrial production grew 8.7% YoY and slipped slightly by 0.1% compared

with a month before. Based on the economic data in April, China's economic growth was sluggish but the situation did not deteriorate significantly.

### **Hong Kong: GDP growth slowdown in the first quarter**

GDP grew 2.5% YoY in the first quarter, the slowest pace in one and a half years or 0.4 ppt less than that in the previous quarter. This was mainly attributable to decreasing contribution from domestic demand, along with continuing drag down from external trade. In addition, value of retail sales in April contracted by 9.8% from a year ago, the largest drop since February 2009 or YoY contraction expanded by 8.3 ppt compared with the previous month. Contribution from domestic demand may decrease further given the lackluster retail sector.

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