Economic and Financial Monthly (Jan, 2018)

Summary

In the beginning of 2018, the global economic sentiment remained positive. Both the World Bank and International Monetary Fund raised global economic forecasts for this year. In recent months, the US and Eurozone economies performed relatively well, with global financial markets hit new high. The Fed will continue to shrink its balance sheet orderly and raise interest rates gradually, while the European Central Bank (ECB) might consider adjusting its forward guidance later this year. In the Mainland, its economic growth exceeded expectation in 2017. With the adoption of proactive fiscal policy and prudent and neutral monetary policy, and promotion of supply-side structural reform, the Mainland economy is likely to maintain relatively fast growth ahead. In Hong Kong, the overall economic performance stayed robust, with both the financial and property markets hit fresh historical high. The elevated asset prices require monitoring.

■ The US economy maintained stable growth, with financial markets hit new high

The US economy maintained stable growth, with its Q4 2017 real GDP increased by 2.6% and 2.5% in seasonally adjusted annualized and year-on-year terms respectively. Domestic sectors, including private consumption, investment, and government consumption, all performed quite well in the last quarter. In 2017 as a whole, the real GDP growth accelerated to 2.3%, up from 1.5% in 2016. Meanwhile, both the employment and asset markets continued to perform well in the US, together with the implementation of tax reforms, and the upcoming announcement of the infrastructure plan, the growth momentum might strengthen ahead. Meanwhile, the financial markets hit new high, supported by the generally benign economic backdrop, still accommodative monetary environment, and the implementation of tax reforms, etc. In late January, the Fed held its monetary policy unchanged, but the market will focus more on the monetary policy stance under the new Fed's chairman leadership, and the impact of tax reform on economic performance, etc. The 10-year treasury yield has already reached the highest level since April 2014. Moreover, the US government shutdown lasted for three days, and

Trump administration imposed new tariffs on washing machines and solar panels, but only expected to have limited impact on the overall economy. However, further monitoring is still required on the trade relations between the US and its major trading partners as well as whether the US President Trump will announce the withdrawal of NAFTA ahead.

Eurozone economy performed well, with the euro exchange rate increased notably

Eurozone economy performed well in 2017, with its full-year and Q4 economic growth reached 2.5% and 2.7% respectively. Other economic indicators, such as manufacturing and non-manufacturing PMIs, consumer and economic confidence, industrial production, retail sales, and employment conditions, etc. all hit elevated level amid continuous global economic recovery, highly accommodative monetary policy, and somewhat less tightening fiscal policy in the region. In January, the ECB held its monetary policy and forward guidance unchanged, but the minutes in last December stated that the language pertaining to various dimensions of the monetary policy stance and forward guidance could be revisited in early 2018. The market then increasingly expects that the ECB will wrap up its quantitative easing program in September 2018. Moreover, the probability of Germany could successfully form a coalition government has also increased. Both are positive to the euro exchange rate, with euro increased by 3.4% against the US dollar in January, reaching the highest level in three years.

The Mainland economic growth reached 6.9% in 2017

In 2017, the Mainland economic growth reached 6.9%, higher than its growth target of around 6.5%, and sustained the medium to high growth pace. It was also the first acceleration of economic growth since 2010, likely contributing to goal of building a moderately prosperous society in all respects. Meanwhile, the economic structure continued to improve, with the contribution of final consumption expenditure to GDP growth reached 58.8%, and the share of tertiary industry to the overall GDP reached 51.6%. Moreover, the increase of total social financing also hit new high again in 2017, while the growth of money supply decelerated. This indicated that the Mainland struck a very well balance between providing adequate credit or monetary support to the real economy and deleveraging the overall financial system and the economy.

Meanwhile, the Mainland will continue to adopt the overarching principle of stability, proactive fiscal policy and prudent and neutral monetary policy, and the promotion of supply-side structural reform, with risk prevention, poverty reduction, and pollution prevention are three priority tasks in 2018-2020. As such, the Mainland economic growth is likely to maintain stable and relatively fast pace in 2018.

Hong Kong economy maintained relatively fast growth, with asset markets reached new high

In recent months, Hong Kong economy continued to expand remarkably, mainly attributable to the global economic recovery as well as the low comparison base. Currently, there are still a number of factors supporting Hong Kong economic expansion, namely strengthening external trade, relatively low interest rate, robust asset markets, and the further connection between the Mainland and Hong Kong capital markets, etc. In addition, the unemployment rate of Hong Kong declined to multi-year low of 2.9%, with the labor market reached full employment level. Together with the improvement of tourism and retail sectors after a few years of correction, the consumer confidence is likely to stay elevated. Finally, both the financial and property markets have hit new historical high. Even though the market sentiment remains positive and likely to support consumption and economy in the near term, it should be noted that the US and Hong Kong interest rates are likely to go up ahead. An asset market correction could not be ruled out completely with the elevated price level.

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