



Economic and Financial Monthly (Jul 2014)

Summary

U.S. economy rebounded in the second quarter. GDP grew 4% QoQ annualized, following an upwardly revised decline of 2.1% from 2.9% in the first quarter. The Federal Reserve cut its asset purchase program by another \$10 billion. Eurozone Manufacturing PMI held steady at 51.8. China's economic growth picked up momentum. Second quarter GDP growth increased slightly to 7.5% YoY. The HSBC China Manufacturing PMI came in at 51.7 in July. Hong Kong retail sales shrank. The value of total retail sales in June was \$37.1 billion, declining 6.9% YoY.

■ U.S.: Economy rebounded in the second quarter whilst Federal Reserve cut QE

The U.S. Economy rebounded in the second quarter. Real GDP grew 4% QoQ annualized, following an upwardly revised decline of 2.1% from 2.9% in the first quarter. The advance estimate of GDP was quite positive. All major components of GDP, except net export, recorded an increase. Change in private inventories jumped to \$93.4 billion after rising \$35.2 billion in the first quarter, adding 1.66% to the second quarter change in real GDP. As for monetary policy, the Federal Reserve cut QE by further \$10 billion to \$25 billion per month. QE is likely to end in October. According to Fed chair Janet Yellen, even though economic performance has improved, there remains significant underutilization of labor resources. Therefore, it is likely to maintain the current target range for the federal funds rate for a considerable time after the asset purchase program ends.

Euro zone: Manufacturing PMI held steady

July Eurozone Manufacturing PMI remained unchanged from June's level of 51.8. With regards to individual countries' performance, France manufacturing PMI decreased to 47.8, which was the lowest level over the past 7 months. Germany posted an increase of 0.4 to 52.4.

China: Economic growth picked up momentum

The second quarter GDP growth increased slightly to 7.5% YoY, compared with 7.4% in the first quarter. GDP advanced 2% QoQ in the second quarter,

up from a 1.5% increase in the previous period. China's growth picked up momentum. The HSBC China Manufacturing PMI posted an 18-month high at 51.7 in July, up from 50.7 in June. The reading stood above 50 for 2 straight months, indicating economic activities continued to expand in July.

Hong Kong: retail sales shrank

The value of total retail sales in June was \$37.1 billion, dropping 6.9% YoY. For the first half of 2014, total retail sales decreased by 1.3% YoY. After netting out the effect of price changes, the volume of total retail sales in June 2014 decreased by 7.5% YoY. For the first half of 2014, total retail sales decreased by 1.1% YoY in volume. The poor performance of retail sales was partly due to a high base of comparison, manifested by the sharp fall in the sales of jewelry, watches and clocks, and valuable gifts.

Gilbert Wong