



Economic and Financial Monthly (May 2015)

Summary

US GDP contracted at a seasonally adjusted annual rate of 0.7 percent in the first quarter, but it is expected to recover, as evidenced by recent labor and trade data. Eurozone economy continued to expand steadily, as Markit PMI remained strong and CPI continued to increase. The ECB kept benchmark interest rates unchanged. The Chinese economy remained weak in the second quarter while the stock market continued to climb. Mainland-Hong Kong Recognition of Funds will benefit the Hong Kong stock market. Housing prices in Hong Kong hit a record high.

- **US: GDP contracted in the first quarter but is expected to pick up pace in the second quarter.**

US GDP contracted at a seasonally adjusted annual rate of 0.7 percent in the first quarter, much lower than the preliminary estimate of 0.2 percent while higher than consensus forecast. But recent data indicate that the US economy will rebound in the second quarter. In the labor market, nonfarm payroll in May increased 280,000, a 5-month high. Meanwhile, average hourly earnings also rose to the highest level since August 2013. On the other hand, the contraction of GDP in the first quarter was primarily due to huge trade deficits. The trade deficit shrank to 40.9 billion USD in April from the prior month as the negative impact from West Coast port disputes gradually subsided.

Eurozone: Growth recovered steadily, while the ECB kept interest rates unchanged.

Various indicators showed that the Eurozone economy kept expanding steadily. Firstly, several Markit PMI's remained strong, and the average level so far in the second quarter was higher than that of the first quarter, especially for the manufacturing PMI. In addition, deflation came to an end in April, as prices for energy and services continued to rise and pushed the CPI to 0.3% in May. To broaden the recovery, the ECB announced that it left its main interest rates unchanged and would continue QE operation.

China: The economy remained weak while the stock market continued to climb

A number of major indicators weakened for April including fixed assets investments, industrial production and retail sales. Entering May, the HSBC and official PMI increased slightly from the prior month, but remained low; reflecting the economy still faced downward pressure. As for international trade, imports slipped sharply by 17.6%, a signal of consistently weak domestic demand. In contrast, the stock market was still buoyant. In spite of a plunge on May 28th, the Shanghai composite maintained its upward trend and broke 5100.

Hong Kong: Mainland-Hong Kong Recognition of Funds will benefit the Hong Kong stock market. Housing prices hit a record high.

The policy of Mainland-Hong Kong Recognition of Funds is about to be launched on July 1st with an initial aggregate net quota of RMB300 million each way. In real estates, housing prices hit a record high. The Rating and Valuation Department announced that for the first four months the overall index rose 6.8% with a 1.9% gain from March to April and a 21% increase from the same period a year ago.

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