



Economic and Financial Monthly (June 2015)

Summary

Entering the second quarter, the US economy was recovering moderately, as reflected in the increase in personal spending, the growth in job market and the recovery in housing market but the inflation rate stayed below target. ECB decided to continue the QE program and kept the interest rate unchanged to stimulate the economy. Eurozone economy maintained the growth momentum. Greece became the first developed economy to default on a loan with the IMF. China's economy was stabilizing at low level but was still faced with downward pressure. The stock market experienced turmoil. Hong Kong's retail sales remained subdued, and the economy is still likely to be influenced by the external factors.

■ **US: US economy is recovering moderately but the inflation rate stayed below target**

US GDP shrank at a 0.2% seasonally adjusted annual rate for the first quarter, better than the previous adjusted 0.7% contraction, mainly supported by the upward revision of consumer spending from 1.8% to 2.1%. Recent data showed a signal of slow recovery in US economy for the second quarter, as evidenced by the increase in personal spending, the growth in job market and the recovery in housing market. In terms of personal spending, The University of Michigan's final June reading on the overall index on consumer sentiment came in at 96.1, registering a new high since January 2015. Growth in personal consumption expenditures and retail sales in May compared to the previous month also reached historical highs. As for the job market, non-farm payrolls increased 280000 in May, topping the market consensus of 226000. As well, the first jobless claims held below 300000 for 16 consecutive weeks by the week ending June 20. For the housing market, new home sales and pending home sales index in May both recorded a 7-year high and 9-year high, respectively. It is believed that these factors will continue to support the US economy. However, the inflation rate stayed below target while the business fixed investment softened and exports declined. Thus, the Federal Reserve maintained the interest rate in June meeting.

Eurozone: Eurozone economy maintained growth momentum; Greece became the first developed economy to default on IMF loan

At the beginning of June, ECB decided to continue the QE program and kept the interest rate unchanged to stimulate the economy. Its effects have surfaced and the Eurozone economy maintained the growth momentum. Various data have delivered the positive signals of the economy pickup in Europe. Firstly, Eurozone GDP confirmed to increase at 0.4% in first quarter compared to the previous quarter, mainly boosted by household demand and investment. The Consumer Price Index rose 0.2 percent in June from a year earlier, after rising 0.3 percent in May. Meanwhile, the flash manufacturing PMI data reached a 14-month high at 52.5 and the flash service PMI also hiked to the 4-year high at 54.4. On the other hand, Greece crisis continued to shadow the Eurozone economy. On June 30, Greece failed to repay the 1.55 billion euros debt to IMF and became the first developed economy to default on a loan with the International Monetary Fund, which increased the chance that Greece will exit Eurozone.

China: China's economy was stabilizing at low level, and stock market experienced turmoil

Exports and imports in May witnessed a 9.1% expansion and a 4.3% shrink separately. The fixed asset investment growth slowed down while the industrial production and retail sales rose. The manufacturing data stabilized and recorded a 3-month high at 49.6 in May. Those data demonstrated that China's economy was stabilizing at low level, but the demands from home and abroad remained sluggish. The Chinese economy was still faced with downward pressure with the inflation level below the government's target. Chinese government put forward several monetary easing policies in last month including recovering the reverse repo operations, scrapping the limit of loan-to-deposit ratio and cutting benchmark interest rate and RRR. The stock market experienced turmoil in June. The Shanghai composite index once stood above 5100 points at the beginning of June but plunged afterwards. It declined 13% for the week ending June 19 and continued to fall to below 4200 points with a cumulative 6% further decline for the week ending June 26.

Hong Kong: Retail sales remained subdued, and Hong Kong economy is still likely to be influenced by the external factors

Due to the shifting of consumption habits and strong dollar, Hong Kong's retail sector remained subdued and retail sales in value declined by 2.3% YoY for

the first four months. In May, the total exports and imports also decreased 4.6% and 4.7%, resulting from the slowdown in global economy recovery. Looking forward, Hong Kong economy is still likely to be influenced by the unclear external factors, especially the divergence of central banks' policies and the Greece crisis. Meanwhile, the Hong Kong property market remained in the upward trend, seen from the new historical high level of CCL index at 143.56.

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