Economic and Financial Monthly (NOV 2015)

Summary

In the third quarter, Hong Kong maintained its moderate growth, mainly reflecting the impact of the global economic uncertainty and the highly volatile financial markets at that time. The downward pressure of the Mainland economy, upcoming US rate hike, the possibility of further monetary easing by the European Central Bank (ECB), and the increasing pressure of Hong Kong property market are the major concerns that worth market's attention.

■ US: The probability of rate hike increased to 72%

The US GDP growth was revised up to an annualized rate of 2.1% in the third quarter. Even though there were some quarter-to-quarter fluctuations since the beginning of this year, the average GDP growth reached 2.6% in the first three quarters of this year. This indicated that the US economy maintained its moderate growth trend. Moreover, the October's statement of the FOMC meeting was changed to explicitly mention "whether it will be appropriate to raise the target range at its next meeting." According to its minutes, the FOMC members emphasized that this change was intended to convey the sense that, while no decision had been made, it may well become appropriate to initiate the normalization process at the next meeting. The recent speeches of the Fed officials, including its Chair, Ms Yellen, also didn't rule out the possibility of rate hikes in December. In addition, the October data showed that the US employment market remained solid, with the unemployment rate declined to 5.0% and the non-farm payrolls increased 271,000, the largest increase since December 2014. As such, the probability of rate hikes, as implied by the interest rate futures, was increased to 72%. Therefore, if the employment data do not deteriorate notably in November and the global financial markets remain calm after the ECB announces further easing measures in early December, it is believed that the Fed is likely to raise rate in its December meeting. Nevertheless, the upcoming rate hike cycle is likely to be short and shallow, given the moderate economic recovery in the US and globally. The repercussion to the overall economy is likely to be limited.

Eurozone: Modest recovery in the third quarter, further monetary easing expected in December

Amid the low euro exchange rate, low energy prices, low interest rate and ECB implemented quantitative easing (QE) measures, the credit condition, private consumption, retail sales as well as the manufacturing and non-manufacturing PMIs were all pointed to the a more favourable direction. The real GDP expanded 0.3% and 1.6% in the third quarter over the previous quarter and previous year respectively, compared to the 0.4% and 1.5% growth in the second quarter respectively. Private consumption was still the main driving force for the third quarter, while investment performance was relatively subdued and the net exports remained a drag, given the uncertain global economic environment. The economic performance was mixed among different member states, with Spain was the star performer, increasing 3.4% over the previous year, Germany, France and Italy expanded 1.7%, 1.2% and 0.9% respectively, and Greece still recorded a 0.4% contraction. In addition, the inflation rate of all major member states remained low, possibly unable to achieve the ECB's 2% medium term inflation target. Against this background, the ECB is likely to cut its deposit rates further or/and extend its QE programme in December, likely supporting the economic growth next year.

China: Economic indicators remained weak in October, IMF decided to include RMB in SDR currency basket

After the real GDP growth slowed to 6.9% in the first three quarters of 2015, most of the economic indicators still pointed to a weak momentum of the Mainland economy. Exports, industrial value-added and fixed asset investment all remained subdued, mainly related to the weaker-than-expected global economic recovery, the property market correction, and the performance of those newly developed sectors is yet sufficient to offset the slowdown of the traditional sectors. Fortunately, the fixed asset investment didn't decline sharply further. Infrastructure and service sector investment, together with the retail sales performance held up relatively well. In October, the total retail sales of consumer goods increased 11.0% in real terms, increasing 1.1 percentage points from its low in April. This suggested that the Mainland economy is likely to stabilize at low level. Going forward, the 13th five-year plan stated that the Mainland will build a moderately prosperous society by 2020. To achieve this objective, the Mainland will strive to maintain a medium to high growth rate and to double the national GDP, urban and rural household income from its 2010 level (implying a minimum of 6.5% annual growth rate is required). This will also involve accelerating the development of high-end manufacturing, increasing consumption contribution to GDP, and accelerating hukou-based urbanization etc. Against this background, stabilizing growth remains a top priority for the Mainland authorities. It is believed that they still have further room to support steady economic growth. Separately, the International Monetary Fund (IMF) decided to include RMB in SDR currency basket which is likely to boost RMB demand ahead. In the meantime, the Mainland also needs to further open its capital markets, so as to meet the global investors' increasing capital allocation needs of RMB assets.

Hong Kong: Moderate growth in Q3, with the external environment remained weak

Following the 2.6% real GDP in the first half, Hong Kong real GDP recorded 2.3% growth in the third quarter, continuing its moderate growth trend of an average 2.4% since 2012. In the third quarter, the exports of goods and services both registered contraction. The former was affected by the global economic uncertainty (including the Mainland) and the significant financial markets volatility, while the latter was dragged by the contraction of inbound tourism and sluggish trade flow. As such, Hong Kong economy was supported by its resilient domestic conditions. Solid employment and income growth continued to drive private consumption growth, increasing 4.3% over the previous year.

Meanwhile, the property market stayed strong in the first nine months of 2015. Residential property prices increased 9.9% since the end of last year. However, the property market in Hong Kong is facing more intense pressure after years of strong gain, amid the weaker-than-expected global economic growth, the expected lift-off of US interest rates, and the recent financial market volatilities globally. Nonetheless, the possibility of a sharp property market plunge remains low unless there is any unexpected financial crisis or economic recession globally. Going forward, the improvement of Hong Kong economic outlook will depend on the pace of the US and Mainland economic recovery, inbound tourism, employment and asset market development ahead.

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