Economic and Financial Monthly (Dec 2015)

Summary

In December, Hong Kong economy was still restrained by the weak external environment. Both exports of goods and tourism activities remained sluggish. The residential property market in Hong Kong has also entered a correction phase. All these are likely to restrain Hong Kong economic performance in the fourth quarter. Meanwhile, the US Federal Reserve has officially marked the end of its zero interest rate policy, the European Central Bank (ECB) extended its quantitative easing (QE) measures, and the somewhat stabilization of the Mainland economy etc, are the major concerns that worth market's attention.

■ US: Federal Reserve has officially marked the end of its zero interest rate policy

The US GDP growth was revised slightly lower to an annualized rate of 2.0% in the third quarter, indicating that the US economy maintained its moderate growth trend. However, other economic indicators, such as manufacturing and non-manufacturing PMIs, showed the momentum of the US economy eased somewhat in December. In addition, the US Federal Reserve raised the fed fund target rate by 25 bps to 0.25% to 0.5% in its December meeting. In view of the moderate economic recovery in the US and globally, as well as the divergent monetary policy stance of the major central banks around the world, the US Federal Reserve is likely to adjust its rates gradually. It is believed that the upcoming rate hike cycle is likely to be short and shallow. Nevertheless, its impact on the credit environment, financial markets and overall economy still couldn't be neglected. Going forward, the low oil prices, improving corporate and household financial conditions, and the accommodative monetary policy environment should help support the US economy to continue its moderate growth path.

Eurozone: Recovery continued in the fourth quarter, ECB extended its QE programme in its December meeting

The Eurozone real GDP was unrevised at 0.3% and 1.6% in the third quarter over the previous quarter and previous year respectively. The region's near-term economic performance was mainly driven by the resilient private consumption as well as stronger government expenditure amid influx of refugees. In addition, with the support of low euro exchange rate, low energy prices, low interest rate and the ECB implemented QE measures, the composite PMIs stayed at a relatively high level, pointing to a potential acceleration of its recovery in the fourth quarter despite the terrorist attack in Paris. Meanwhile, the ECB announced a deposit facility rate cut and extended its QE programme in its December meeting. The euro exchange rate then appreciated notably afterward, with its impact on the region's economy is still worth our attention.

China: The weak momentum has eased somewhat in November

In November, most of the economic indicators still pointed to a weak momentum of the Mainland economy, even though the downward pressure has eased somewhat. Exports, industrial value-added and fixed asset investment all remained subdued, mainly related to the weaker-than-expected global economic recovery, and the correction in the property market and traditional sectors. However, there are some positive signs emerging gradually, for example both industrial value-added and retail sales were benefitted from the policy incentives for car purchases, while infrastructure investment also supported the stabilization of fixed asset investment. It is expected that the Mainland economy will stabilize at low level soon, with the policy effect of Mainland government's interest rate and RRR cuts, and other stabilizing measures slowly emerging. Going forward, 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, China Foreign Exchange Trade System (CFETS), a sub-institution of the People's Bank of China (PBoC), published a CFETS CNY index. Given the market has usually only focused on bilateral USD/CNY exchange rate, a basket-based exchange rate is the more appropriate measure and will become a new reference going forward. The CFETS CNY index showed that CNY remained largely steady this year and has appreciated by 2.93% between end-2014 and November 2015.

Hong Kong: External environment was weak in November, residential property market has entered a correction phase

In November, Hong Kong economy was still restrained by the weak external environment, with exports of goods declined for the seventh consecutive month and dropped 3.2% over the previous year. The number of visitor arrivals declined for the sixth consecutive month and dropped 10.4% over the previous year. The number of Mainland visitor arrivals even declined over 15%. It was partly related to the tragedy in a dispute over forced shopping, the change in visitor group after the implementation of one week one visit scheme, as well as other economies relaxed visa arrangement for the Chinese tourists. Meanwhile, the increase in the number of overseas visitors was not able to offset the decline of Mainland visitors. Therefore, the tourism industry is not likely to improve in the near term and will likely to restrain Hong Kong economic performance ahead.

On the other hand, the residential property market has entered a correction phase. According to some estate agent data, residential property price in Hong Kong declined around 7.5% from its peak in September to the end of December. The decline in asset prices could potentially affect domestic consumption ahead. Fortunately, the employment market in Hong Kong is still in the state of full employment, and the banks in Hong Kong did not follow the US Federal Reserve to raise rate amid ample liquidity. Both of these can help alleviate the downward pressure of the economy.

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