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Summary

With the U.S. economy deteriorating, interest rate normalization has already been halted, and the co-called tightening cycle may be dead on arrival. The Eurozone continues to recover moderately, and unemployment has improved noticeably. Yet the ECB has hinted at more easing measures in the near future. China's economic growth slowed to the weakest pace since 1990, but restructuring is on track. In Hong Kong, relatively sound economic fundamentals may not be able to prevent a notable decline in residential property prices.

■ The U.S.: Worsening economic fundamentals hinder interest rate normalization

The U.S. economy expanded 0.7% in the fourth quarter of 2015 on a seasonally adjusted annual rate basis and 2.4% for 2015 as a whole. However, growth momentum clearly weakened throughout the year, from the first to fourth quarter, year-over-year growth came in at 2.9%, 2.7%, 2.1%, and 1.8%, respectively.

The manufacturing sector is already in a recession. From August, 2014 to January, 2016, the ISM manufacturing index plunged from 58.1 to 48.2, the lowest level since the Great Recession. From November, 2014 to December, 2015, year-over-year changes industrial production declined sharply from 4.7% to minus 1.8%. As the economy deteriorates, the Fed will find it increasingly difficult to normalize interest rates. The so-called tightening cycle will probably be dead on arrival. Interest rates worldwide will remain at ultra-low levels for an extended period of time.

Eurozone: ECB may ease monetary policy further

In December, the Eurozone's unemployment rate dropped to 10.4%, the lowest level since September, 2011. Even though the economy continues to recover moderately, ECB president Mario Draghi hinted at further easing measures in the near future. However, interest rate cuts and more quantitative easing will not offer much help to the real economy. Asset prices may benefit though, and sovereign yields are likely to keep declining.

China: Lowest growth in a quarter century masks restructuring progress

In spite of recording the slowest pace of growth in 25 years, China's 6.9% expansion for 2015 met the "around 7%" target. While fixed asset investment, industrial production, and exports all conspired to pressure growth, the booming services sector and consumption managed to mitigate the slowdown. Services now account for 50.5% of overall economic activity and grew 8.3% in 2015, much faster than the agricultural and manufacturing sectors. Meanwhile, retail sales remained robust and expanded by 10.7% in 2015 in nominal terms, as disposable income consistently outperformed GDP in recent years. Relatively strong retail sales and income growth give credence to the narrative that the quality of growth is improving.

Hong Kong: Housing market enters correction

Hong Kong's economy remains on sound footing, with the jobless rate at the full employment level of 3.3%. However, after years of meteoric rise, private residential prices have clearly entered a correction. Government figures showed that property prices as of November had dropped 4.1% from their record high in September, while relatively timely real estate agency data suggests that the cumulatively decline from the September peak has reached 9.5%.

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