Economic and Financial Monthly (February 2016)

Summary

In February, Hong Kong economy was still restrained by the weak external environment. Both the merchandise exports and tourism activities remain sluggish, and the residential property market is in a correction phase. All these are likely to restrain Hong Kong economic performance this year. Meanwhile, the global financial markets remain highly volatile, amid concern over global economic slowdown. The Fed Funds futures showed that the expectation of interest rate hike has reduced greatly this year, the ECB hinted that it might further relax monetary policy in March, and the gradual stabilisation of the RMB exchange rate are the latest market focuses.

■ US: Slower economic momentum, with a still solid employment market

In the US, the Q4 2015 GDP was revised up slightly to 1.0% in a seasonally adjusted annualised rate and 1.9% over the previous year, with the weaknesses of its manufacturing sector seem to be spreading to the non-manufacturing sector. The manufacturing and non-manufacturing PMIs declined from a monthly average of 52.7 and 55.1 in Q4 2015 to 51.0 and 49.8 in February respectively, indicating that the US economy is slowing. In addition, even though the non-farm payrolls slowed notably from a monthly average of 280,000 in Q4 2015 to 151,000 in January, the unemployment rate declined further to the lowest level since February 2008 at 4.9%. The decline of unemployment rate was even achieved when the labour market participation rate edged higher. The solid employment market, together with low oil prices and accommodative monetary environment should help support a moderate growth this year. In mid-February, the Chair of Federal Reserve, Ms Yellen, said in her testimony to the US Congress that the US economy continued to grow moderately, but the financial conditions have recently become less supportive, with declines in broad measures of equity prices, higher borrowing rates for riskier borrowers and a further appreciation of the dollar. Moreover, foreign economic developments also pose risks to US economic growth, in particular declines in the foreign exchange value of RMB have intensified uncertainty about China's exchange rate policy and the prospects for its economy. As such, the Federal Reserve will be very cautious in determining the rate adjustment in the future. The Fed Funds futures now showed that the expectation of interest rate hike has reduced greatly this year.

In Q4 2015, the euro area GDP grew steady at 0.3% and 1.5% over the previous quarter and previous year respectively. The weaker manufacturing and exports remained the drag, but the strong influx of refugees boosted government consumption notably. Moreover, private consumption also posted an increase and the construction sector was supported by the warmer than normal weather conditions. All these supported the moderate performance of the euro area. Meanwhile, the unemployment of the euro area has improved meaningfully and is expected to continue ahead. The unemployment rate of the euro area declined 1.0 percentage point to 10.4% over the past year, while Spain declined 2.8% to a still elevated 20.8%. Since the beginning of this year, the global financial markets remain highly volatile, increasing the downward pressure on both the economy and inflation. As a result, the ECB hinted that it might further relax its monetary policy, such as rate cut, extend or expand the QE programme, in March, so as to keep the euro exchange rate low, and support the credit expansion and overall economy.

Mainland: weak external performance, gradually stabilising exchange rate

In January 2016, the external performance was weak in the Mainland, with exports and imports (in terms of US dollar) declined 11.2% and 18.8% over the previous year respectively (exports and imports declined 6.6% and 14.4% in RMB terms). Given the decline of imports was larger than exports, the trade surplus reached a fresh all time high of US$63.3 billion. Exports were weak across-the-board, with exports to Hong Kong, the US and European Union declined 2.6%, 9.7% and 11.9% over the previous year respectively, somewhat due to the timing of the Chinese New Year this year. On the other hand, imports were even weaker, partly related to the sluggish domestic demand and sharp decline of the commodity prices. Given the subdued global environment, the external performance is likely to remain difficult this year. Nevertheless, both the new RMB loan and total social financing reached fresh record high at RMB 2.51 trillion and RMB 3.42 trillion respectively in January, higher than the period of strong stimulus in 2009, and were due to the seasonal factor, corporates' efforts to replace foreign currency loans with domestic borrowing as well as the policy support, like more relaxing mortgage policies. Indeed, stabilising growth is the main focus of the policymaker in the Mainland, with room of further easing in both the monetary and fiscal policies. The People's Bank of China announced a further 50 basis points cut of the reserve requirement ratio in late February. Following the more volatile RMB movement in January, the RMB exchange rate has been gradually stabilising, with onshore and offshore RMB exchange rates increased 0.3% and 0.6% to 1 USD to RMB 6.554 and RMB 6.5523 respectively. Going forward, the Mainland economic and US dollar performance will continue to be the main determining factors of RMB exchange rate movement.

Hong Kong: Increasing downward pressure

Following the 2.5% growth in the first three quarters, Hong Kong GDP expanded 1.9% in Q4 2015, slightly lower than the market forecast. For the whole year of 2015, Hong Kong economy expanded 2.4%, continuing the moderate growth trend of 2.5% between 2011 and 2014. This mainly reflected the relatively stable domestic demand as well as sharp contraction of imports and lower trade deficits. Going forward, exports of Hong Kong will remain weak, amid the sluggish global economic performance. Together with the contraction of the tourism activities and asset markets correction, Hong Kong economy is likely to be restrained this year. Fortunately, the increasing downward pressure of the economy has yet affected the employment market in Hong Kong, with the unemployment rate held steadily at the near full employment level of 3.3% for seven consecutive months. The latest government budget announced HK$38.8 billion of short-term relief measures which will likely boost growth this year. It is expected that the Hong Kong economy will slow moderately to around 2.2% this year, slightly higher than the 1%-2% government's forecast.

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