Economic and Financial Monthly (March, 2016)

Summary

Over the past few months, the global PMIs recorded notable decline, reiterating market's concern over the pace of global economic slowdown. However, the latest economic figures showed that the US and eurozone economies continued to post moderate growth. In March, the European Central Bank (ECB) eased monetary policy aggressively and the US Federal Reserve lowered its funds rate projection. The global financial markets have been somewhat stabilising. The highly accommodative monetary policies around the world are likely to support moderate growth ahead. At the same time, the Mainland economy remained sluggish in the first two months of 2016, but the Mainland authorities are also likely to ease further ahead. Separately, Hong Kong economy is still subject to the increasing downward pressure from both external and internal fronts

■ US: A cautious Fed and moderate growth continued

Since 2H 2015, the manufacturing and non-manufacturing PMIs slowed notably, but the economic figures showed the US economy just somewhat moderated, with the industrial production of manufacturing sector expanded for two consecutive months, and the personal income and expenditures continued to grow. The unemployment rate stayed at a low level of 4.9% in February and the non-farm payrolls increased 242,000, higher than the monthly average of 229,000 last year. In addition, the Federal Reserve held the fed funds target rate unchanged in its March meeting. Their view on moderate expansion of the US economy was also unchanged, even though the global economic and financial markets could pose a risk to the US economic performance. Meanwhile, the Federal Reserve lowered its funds rate projection. The median participant now looked for only two hikes this year, down from four hikes as of last December, indicating that the Federal Reserve will be very cautious in determining the rate adjustment in the future. As such, market expectation of the interest rate hike has gradually reduced, leading to the consolidation of US dollar exchange rate. Together with the low oil prices and solid employment market, the US economy is likely to continue its moderate expansion this year, but the global economic and financial market uncertainties remain the key risk factors ahead.

Eurozone: ECB eased monetary policy aggressively

In the first two months of 2016, economic indicators, such as industrial production, retail sales and employment, posted gradual expansion and did not follow the weak performance of the PMI and consumer confidence indices. Meanwhile, the eurozone composite PMI also recovered to a fresh three-month high in March, indicating the region’s economy will continue its moderate expansion. At the same time, the downward pressure of the eurozone inflation remains intense and the latest ECB’s staff projections showed the region will fail to reach its medium term inflation target in the next three years. The ECB then eased its monetary policy rather aggressively in March, including rates cut, expanding the size and scope of quantitative easing, launching a new series of four targeted longer-term refinancing operations etc, in order to drive credit expansion, boost inflation, consumption and investment performance, and support economic growth this year. Nevertheless, the terrorist attacks in Brussels are likely to affect consumer and business sentiment in the near term.

Mainland: weak performance and further easing likely ahead

Since the beginning of this year, the Mainland economy remained sluggish, with its exports and imports declined 25.4% and 13.8% (in US dollar terms) in February over the same period of last year (In RMB terms, exports and imports declined 20.6% and 8.0% in February). Combining the January and February figures to reduce the distortion related to the timing of Lunar New Year, Mainland’s exports and imports declined 17.8% and 16.7% (in US dollar terms) over the previous year (In RMB terms, exports and imports declined 13.1% and 11.8% in the first two months of 2016). Meanwhile, exports to all major destinations declined, largely affected by the weak global demand. Moreover, industrial value-added, retail sales and fixed asset investment still hovered at low level in the first two months of 2016, increasing 5.4%, 10.2% and 10.2% over the previous year respectively. The growth of both industrial value-added and retail sales decelerated from the end of last year, while the growth of fixed asset investment improved somewhat, with manufacturing, property and infrastructure investment all accelerated from the end of last year, indicating that investment is providing support to the Mainland economy.

In this year government work report, the 2016 growth target was set at a range of 6.5%-7%, and such a range target should better satisfy the current need of the Mainland amid the complex external and internal environment. As stabilising growth is the top priority for the Mainland this year, the Mainland authorities are expected to enhance its policy support. For example, a more expansionary fiscal policy stance, with the budgeted fiscal deficit target is raised to 3% of GDP. The prudent monetary policy will be biased toward easing slightly, with the new RMB loan and total social financing increased notably in the first two months of 2016. The People's Bank of China is likely to relax its monetary stance further ahead, though it will continue to strike a balance between the stabilisation of growth and RMB exchange rate.

Meanwhile, the 13th Five-Year Plan aimed to build a moderately prosperous society, with the measurable targets of doubling the 2010 GDP and per capita income of both urban and rural residents by 2020, implying the annual growth rate between 2016 and 2020 must be at least 6.5%. The size of nominal GDP will increase to RMB 92.7 trillion by 2020 (in 2015 constant dollar terms), and the per capita GDP will rise to US$ 10,000-US$ 12,000 based on the current exchange rate. As such, the Mainland will become a country with the most middle-income families in the world. Their increasing demand will make important contribution to the global economy.

Hong Kong: Increasing downward pressure from both external and internal fronts

Hong Kong economy continued to face downward pressure from both the external and internal fronts. Combining the January and February figures to reduce the distortion related to the Lunar New Year, merchandise exports and imports declined 6.6% and 9.5% over the previous year respectively, with exports to nearly all major destinations recorded contraction. Given the decline of imports was larger than exports, the trade deficits narrowed somewhat. On the other hand, the retail sector performance remained weak, declining by 13.6% and 12.3% in value and volume terms in the first two months over the previous year respectively. The weak performance was not only because of the notable contraction in the number of tourists and their spending, but also related to the asset markets correction and the economic uncertainty ahead. Nevertheless, the government budget has announced HK$ 38.8 billion of short-term relief measures and the stable employment market will also provide some support this year. The unemployment rate stayed at the low level of 3.3% for the eighth consecutive month. It is believed that the Hong Kong economy could maintain a low pace of growth this year.

Meanwhile, the 13th Five-Year Plan aimed to enhance Hong Kong and Macau's role and functions in the Mainland's economic development and opening up to other countries. It will also give support to Hong Kong to consolidate its status as an international centre for financial services, shipping and trade for participating in the Mainland's two-way opening up, development of the Belt and Road initiative, as well as give support to Hong Kong to reinforce its status as a global hub for offshore RMB business and international asset management centre, so as to promote the development of financing, commerce and trade, logistics, professional services, etc. to move towards the high-end and high value-added direction. Moreover, the Plan also aimed to support the development of innovative and technology activities in Hong Kong, nurturing emerging market development, and developing into an international legal and dispute resolution centre etc.

Choi Wing Hung