Economic and Financial Monthly (April, 2016)

Summary

In Q1 2016, global economic growth remained anaemic, together with the highly volatile financial markets, sharply lower commodity prices, and notable depreciation of emerging market currencies, the risks of the global economy tilted to the downside, with the US, Eurozone, the Mainland and Hong Kong economic growth all recorded some deceleration. However, the global financial markets have stabilised since late February, the economic confidence and purchasing manager indices also rebounded from the low level, and the monetary environment remains highly accommodative, the global economy is likely to grow moderately ahead.

■ US: GDP growth slowed notably in Q1

In Q1 2016, the US economy slowed further to an annualised rate of 0.5%, and its year-on-year growth remained unchanged at 2.0%. Given the strong US dollar exchange rate, weak global economic recovery, and subdued commodity prices, the net exports, inventories, equipment and energy-related investments all contributed negatively to the economic growth, while private consumption, residential investment and government consumption still recorded positive growth. Meanwhile, the latest economic data in March and April showed that the US economy continued to grow modestly. The employment markets remained solid, with the non-farm payrolls increased 215,000 in March, and the manufacturing and non-manufacturing PMIs rebounded from its recent low levels. Moreover, the Federal Reserve decided to hold its monetary policy unchanged in April. The latest FOMC statement toned down the concerns about global and financial developments, but also signalled no rush to get on with the second rate hike.

Eurozone: Economic growth continued in Q1

Following the aggressive easing of its monetary policy by the European Central Bank (ECB) in March, the ECB maintained its monetary policy unchanged in April so as to assess the impact of its policy on the economy. However, further easing could not be ruled out if the inflationary environment remains subdued and the economic performance cannot improve meaningfully.

Meanwhile, the Eurozone retail sales and industrial production were relatively weak in February, increasing only 2.4% and 0.8% over the same period of last year respectively, largely due to the highly volatile global financial markets and increased downside risk of the global economy. However, its Q1 GDP continued to grow moderately by 0.6% and 1.6% over the previous quarter and same quarter of last year respectively. Together with the stabilising global financial markets, and accommodative monetary policy, the Eurozone economy is likely to expand moderately ahead. Nevertheless, the UK referendum on whether it would stay in the European Union will be held in late June, which is likely to affect consumer and business confidence in the near term.

The Mainland: Economic growth stabilised at low level

The weak external environment and internal rebalancing continued to affect the performance of the Mainland economy in Q1 2016, but its real GDP still recorded 6.7% growth over the same period of last year, slowing only one-tenth from Q4 2015. Moreover, there were several bright spots in the details of the GDP report, for example, the growth of fixed asset investment, industrial value-added, retail sales and exports all accelerated from the first two months of the year. In particular, the improvement of infrastructure and real estate investment played a key role in stabilising growth, highly-skilled and equipment manufacturing growth helped support industrial restructuring, the property market rebound supported the retail sales performance, and the widening of trade surplus also had positive contribution to the economic growth. Obviously, the Mainland economy is stabilising at low level, and the economic growth for this year is likely to reach 6.5%-7.0%. At the same time, the condition of capital outflows were stabilising as well, with the foreign reserve recorded US$10.3 billion increase in March, largely due to the lower expectation of rate hike, weaker US dollar exchange rate, and the reduced depreciation pressure of RMB etc.

Hong Kong: Low growth expected for Q1

The economic momentum of Hong Kong decelerated further since 2H last year. The retail sales volume and value declined 12.3% and 13.6% in the first two months of 2016 over the same period last year, with only some kind of food items and supermarket sales posted a small increase. This not only reflected the decline of tourism spending, but also weaknesses in local consumption as well, partly because of the asset market correction, increase in outbound tourism and social instability etc. The number of visitors also posted sharp decline, with the high-spending group declined even more. It further depressed the tourism and retail performance. Meanwhile, the seasonally-adjusted unemployment rate edged up one-tenth in Q1 2016, after staying at 3.3% for eight consecutive periods, with the tourism and retail-related sectors were hit harder. On the other hand, external environment remained weak, together with the high Hong Kong dollar exchange rate, negatively affecting Hong Kong merchandise exports performance. Exports declined 6.8% in Q1 over the same period of last year, while imports declined 8.2%, leading to a reduction of trade deficits by HK$21.2 billion. Net exports were likely to provide positive contribution to the economy, offsetting the weakness of the domestic economy. Nevertheless, the growth outlook of Hong Kong will still depend on the pace of global economic recovery, Hong Kong dollar exchange rate, tourism industry and asset market conditions.

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