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Summary

U.S. growth momentum continues to weaken, dashing hopes of any rate hikes in the foreseeable future. The Bank of England decided to launch preemptive easing to counter the potential impact of Brexit. The Chinese economy was largely stable in the first half of the year, yet headwinds remain. Hong Kong's economy is losing steam with depressed retail sales, but housing prices stabilized in the second quarter.

■ U.S.: Weak growth momentum rules out rate hikes

The Commerce Department released extremely weak GDP results only two days after the Fed expressed optimism on the U.S. economy in its July FOMC statement. U.S. second-quarter GDP grew only 1.2% at a seasonally adjusted annual rate and only 1% during the first half by the same metric. The so-called rate-hike cycle is practically over. The rate hike in December of last year was supposed to usher in a new tightening cycle. However, due to the Fed's dithering, the optimal timing for rate hikes is long gone. Plunging bond yields and a flattening yield curve are sending strong warning signals against an upcoming recession.

Europe: Bank of England lowered interest rates and expanded QE

The U.K. economy will inevitably suffer in the immediate aftermath of Brexit, but any long-lasting consequences may prove elusive. First, the U.K. economy has far outperformed the EU in the 21st century, growing 35% through 2015 compared with 25% for the EU. Second, although trade deals will have to be renegotiated, it is only a matter of time before the U.K. and the EU reach an agreement. As the U.K. is the second largest economy of Europe, it is virtually impossible for the EU to halt free trade with the U.K. Nevertheless, the BOE decided to launch preemptive easing, cutting interest rates, expanding QE, and buying corporate bonds. According to the BOE's projections, the benchmark bank rate will be lowered to 0.1% by the end of the year and remain at that level for at least two years.

China: Growth stabilized in the second quarter

Growth momentum of the Chinese economy stabilized in the second quarter, growing 6.7% compared with the same period last year. For the first half as a whole, GDP growth also came in at 6.7%. Looking ahead, subdued exports remain a concern, while the dramatic divergence between public and private investments suggests corporate confidence in the private sector is rather fragile. During the first half, public fixed asset investment grew at an impressive 23.5%, while private investment expanded by a mere 2.8%. In spite of the respectable performance of the Chinese economy in the first half of the year, strong headwinds persist.

Hong Kong: Retail sales still in the doldrums

Hong Kong's growth momentum has weakened considerably, with most major indicators mired in a persistent downtrend. Private consumption slowed sharply; exports keep contracting; unemployment has apparently bottomed. Retail sales were particularly weak, contracting for 16 months in a row and down by 10.5% in the first half of the year on a year-over-year basis. On the other hand, as the probability of rate hikes has become extremely remote, the decline in property prices has been arrested for now. Prices of private residential units rose in the second quarter, trimming the year-to-date decline to 3.3%.

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