Economic and Financial Monthly (SEP, 2016)

Summary

In September, both the US Federal Reserve and European Central Bank maintained its monetary policy unchanged. The low interest rate and accommodative monetary environment is likely to persist, providing support to the sluggish global economy. Advanced economies continued its low expansion trend, with the US economy is moderating and the Eurozone economy maintains a relatively steady growth. On the other hand, the Mainland economy showed some signs of improvement in several aspects. The correction of Hong Kong economy is also moderating, with the property market sentiment improved.

■ Slow growth continued in the US, Fed held policy unchanged

In the US, recent data indicated that the economic performance was mixed. On the one hand, both the ISM manufacturing and non-manufacturing indices plunged sharply in August, and the positive momentum of the labour market was fading. On the other hand, retail sales, durable goods order and property market indicators still pointed to moderate expansion. Going forward, the US economy is still expected to maintain its low growth trend, with the support from the Fed's accommodative monetary policy. Meanwhile, the FOMC decided to keep its target range for the fed funds rate unchanged at 0.25%-0.5% at its September meeting, but the Committee is clearly split about what to do at this juncture. Three members dissented with the decision to hold policy steady, while another three members indicated that they see no need for a rate hike this year. Despite the Fed still keeps the December liftoff alive, it continues to see the need for further evidence on the sustainability of economic growth and a pickup in inflation between now and December. Given economic growth has slowed and recent data suggest that growth may continue to disappoint, it is likely that the Fed might hold back again from tightening policy this year. Separately, the US presidential election is scheduled on 8 November. The presidential debates and election activities are likely to be the main focus for the coming weeks.

Brexit hasn't derailed the Eurozone recovery

In the Eurozone, recent economic data, such as manufacturing and non-manufacturing PMIs, consumer and business confidence, and retail sales etc, showed that the region economy was not notably affected by the impact of Brexit. Together with the relatively calm financial market conditions and the supportive monetary policies around the world, the recovery of the Eurozone economy is not expected to be derailed and its moderate growth trend will likely to continue. Nevertheless, its outlook would still be dampened by the uncertainties related to the negotiations and future relationship between the UK and EU as well as the election outcome in France, Germany and the Netherlands next year. Separately, the European Central Bank decided to hold its monetary policy unchanged at its September meeting, but maintained its commitment to keep interest rate at the current or lower levels for an extended period of time, and well past the horizon of asset purchases. Moreover, the European Central Bank also confirmed that the monthly asset purchases are intended to run until the end of March 2017, or beyond, if necessary, until a sustained adjustment in the path of inflation consistent with its inflation aim. At the same time, the European Central Bank also tasked the relevant committees to evaluate the options that ensure a smooth implementation of its purchase programme. It is believed that they might extend its asset purchases programme as soon as December.

Downward pressure of the Mainland economy was fading

The Mainland economy showed initial signs of bottoming in August. Following the adverse weather in some part of the Mainland in July, the economic performance recovered somewhat in several aspects in August. For instance, both external trade and industrial value-added stabilized, with the growth of high technology and equipment manufacturing was 4.3 and 3.5 percentage points higher than the growth of headine industrial value-added. Retail sales performance in real terms also improved compared with Q2, the growth of fixed assets investment and those in the private sector accelerated by 4.3 and 3.5 percentage points over the previous month, with infrastructure investment was the main driver, while property and manufacturing investment also improved somewhat. Separately, the decline of producer prices narrowed further in August, likely buffering the downward pressure of the corporate sector. Together with the proactive fiscal policy and prudent monetary policy with flexibility, the Mainland economy is likely to achieve its growth target of 6.5% to 7.0% this year. Nevertheless, the sharp upsurge in property prices in several tier 1 and 2 cities might pose risks to the economy ahead.

Mixed performance for Hong Kong, property market sentiment improved

In the third quarter, the Hong Kong economic performance was mixed, with the merchandise trade showed some signs of initial stabilization. Both merchandise imports and exports recorded slight year-on-year growth after 17 and 15 consecutive months of contraction, while exports to the advanced economies remained slugglish. The Hong Kong PMI showed the economy has stabilized somewhat. It rebounded from 47.2 in July to 49.0 in August, indicating the slowest deterioration in operating conditions since June 2015. However, retail sales decreased 12.7% and 10.5% in volume and value terms respectively, as the decline of inbound visitor arrivals and per-capita tourism spending continued, and the local consumption sentiment was rather sluggish. Separately, the property market sentiment improved notably, with the increases in both prices and transactions, amid the waning expectation of interest rate hike ahead. Even though the positive momentum of the property market might continue in the near term, the property market performance might still be restrained amid the elevated property prices and affordability, increasing future supply and changeable rate hike expectation.

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