



## Economic and Financial Monthly (OCT, 2016)

### Summary

Donald Trump surprisingly won the US presidential election, and the US economic outlook is uncertain. Financial markets may remain volatile for a relatively long period of time. The European Central Bank will soon have difficulties meeting its bond purchase program targets, a sign that monetary largess has been pushed to the extreme. China's GDP growth stayed flat and the economy grew 6.7% in the third quarter. The so-called "L-shaped" pattern has now been firmly established. Hong Kong's GDP growth in the third quarter outperformed market consensus. Both the performances of external trade and private consumption expenditure improved.

#### ■ U.S.: The impact of Trump's victory on the US economic outlook remains a concern

Donald Trump surprisingly won the US presidential election, driving a huge fluctuation in the global financial markets. Meanwhile, the Republican maintained dominating position in the Parliament. This will somehow remove legislation hurdles, facilitating the promotion of Trump's policies. The Obama Care, causing the higher costs for corporates, will likely be abolished in the future. This will be positive to drive the economic growth. However, fiscal revenue will drop drastically as Trump has proposed to cut corporate tax rate from 35% to 15%. The increasing deficit will constrain economic growth at the same time. All in all, the US economic outlook is uncertain. Financial markets may remain volatile for a relatively long period of time.

#### Europe: ECB QE program may prove too ambitious

Eurozone economy kept improving modestly, and GDP growth remained flat at 1.6% in the third quarter. Nevertheless, the ECB has been actively buying assets. Due to the sheer size of the central bank's asset purchase program and the rules of bond buying, scarce supply of eligible bonds is becoming a hurdle. Unconventional monetary policy including negative rates and quantitative easing has distorted financial markets worldwide beyond recognition. The quandary facing the ECB is a sign that monetary accommodation is approaching its limit.

### **China: Growth momentum stabilized**

China's overall economic activity expanded by 6.7% in the third quarter compared with the same period last year. Momentum has largely stabilized, with GDP growing 6.7% for three consecutive quarters. The respectable performances of retail and manufacturing sectors have been the major contributors to the stabilization of economic growth. Retail sales grew strongly, rising 9.6% from a year ago after adjusted for inflation. Moreover, industrial production was consistently growing at about 6%. The so-called "L-shaped" pattern has now been firmly established.

### **Hong Kong: 3Q economic growth outperformed market consensus**

Hong Kong's economy stabilized further in the third quarter. GDP growth rate rebounded to 1.9% on a year-over-year basis, outperformed the market consensus, first and second quarter of 1.5%, 0.8% and 1.7%, respectively. As advanced economies have been stabilizing, as well as the lower base from the previous year, the performance of external trade improved accordingly. Moreover, the equity and property markets have better performed during the quarter. In addition, labor market remained robust. As a result, the growth of private consumption expenditure apparently improved to 1.2% in the third quarter from 0.5% in the second quarter.

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