

Economic and Financial Monthly (Jan, 2017)

Summary

Economy growth stabilized in the U.S. Worries on President Trump's protectionist policies grew as he kept delivering campaign promises; England released the Brexit Blueprint. And, the Eurozone economy grew steadily; China economic growth attained 6.7% with structural reforms delivering initial results; The Policy Address reiterated increasing the land supply. Hong Kong and Shenzhen will jointly develop an Innovation and Technology Park.

■ U.S.: Economy growth stabilized. President Trump kept delivering campaign promises

In 2016, the U.S. real GDP grew by 1.6%, lower than the 2.6% in 2015. However, quarterly data showed that the momentum stabilized with growth of 1.6%, 1.3%, 1.7% and 1.9% from Q1 to Q4, reflecting a rebound in overall economic activities. Labor market remained solid in January with the unemployment rate stayed low at 4.8%, average hourly wage jumped by 2.5% year-on-year, non-farm payrolls rose by 227,000. Inflation in December was boosted by higher energy prices, but the overall level remained modest. Consumer confidence and the Composite Purchasing Managers Index in January pointed to a positive economic outlook.

The U.S. President Trump took office on 20 January and signed a number of executive orders to honor campaign commitments, including: suspending the Obamacare, withdraw from the TPP, freezing the federal government recruitment, resuming the two pipeline projects previously blocked by the Obama administration, building a wall with Mexico, banning the entry of citizens from seven Muslim countries. These raised worries about the potential protectionist measures imposed by Trump. That said, details of his stimulus policies such as tax reform and infrastructure plan have not yet been announced. In addition, President Trump publicly said the dollar was too strong, dragging down the U.S. dollar index over 2% in January.

Europe: England released the Brexit Blueprint, the Eurozone economy grew steadily

British Prime Minister Theresa May released the Brexit blueprint, leaving the European Union single market and exploring a new free trade agreement with the European Union. And, the final Brexit package will be reviewed by the Parliament. While the pound rebounded sharply, there are still considerable uncertainties on the Brexit negotiations, especially the European Union is not likely to soften.

In 2016, the Eurozone economy grew by 1.7% with the fourth quarter recorded 1.8% of yearly growth. Unemployment rate dropped to 9.6%. Inflation rose to 1.8% in January, greatly reducing the risk of deflation.

China: the economy grew at 6.7% in 2016 with structural reforms delivering initial results

China economic growth in 2016 reached 6.7%, slightly down 0.2% compared to 2015. The fourth quarter registered growth of 6.8%, better than the 6.7% growth in first three quarters. Final consumption continued to be the main driver of the economy, accounting for 64.6% growth. It reflected the importance of domestic demand in driving growth. Sales of vehicles propelled the total retail sales to rise by 10.4%. Besides, capacity cuts for the steel and coal industries were achieved, pushing up the Producer Price Index, and improving corporate earnings as well as debt burdens. The share of tertiary sectors on the economy rose to 51.6%, evidencing the upgrading and restructuring of industries.

To cope with the funding needs before the Chinese New Year, the People's Bank of China for the first time introduced the "Temporary Liquidity Facility" approving 1% cut of reserve requirement ratio (RRR) for the five major banks for 28 days. The policy is expected to inject RMB 600 billion of liquidity. At the same time, the open market operation recorded a new high of liquidity injection. The central bank avoided the cut of RRR, signaling that the monetary stance remained neutral. It is expected that the chance for interest rate cut is low in 2017.

Hong Kong: The Policy Address reiterated increasing the land supply.

Hong Kong and Shenzhen jointly develop an Innovation and Technology Park.

The Government delivered its last Policy Address, reiterating the priority of increasing the land supply. The latest estimates reported that there would be 94,000 new private residential units in the next three to four years and 94,500 new public housing units in the next five years. Both figures are higher than five years ago. But more supply is still needed to match with the target of 460,000 new housing units in 10 years. In addition, Hong Kong and Shenzhen announced the joint development of an Innovation and Technology Park in the Lok Ma Chau Loop area. The project would cover an area of 87 hectares with a total gross floor area of 1.2 million square meters. It would take 4 to 6 years for construction. The Park will set up key research cooperation bases, training platforms, institutions and production facilities, providing land support for the Innovation and Technology industry in Hong Kong.

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