



Economic and Financial Monthly (Aug, 2017)

Summary

The US economy posted moderate growth in Q2, with the expectation that the Federal Reserve will announce a measured pace of balance sheet normalization in September. In August, the US President Trump voiced support for an immigration plan and announced authorization of possible China trade investigation, but the short-term impact is likely to be limited. However, the North Korea crisis intensified during the month which should worth close monitoring. In the Eurozone, the economy posted solid growth in Q2, with broad-based improvement across different aspect of the economies and the divergence between countries narrowed gradually. Moreover, economic indicators in the Mainland showed some deceleration in July, but their growth rates were still somewhat higher than the 2016 average, indicating a stable growth trend. In Hong Kong, the economy grew at the fastest rate since 2011 in 1H 2017, and the government raised this year forecast to 3%-4%.

■ US: The economy posted moderate growth in Q2, with the Federal Reserve likely to announce balance sheet normalization relatively soon

In Q2, the US economic growth was upwardly revised to 2.2% year-on-year and 3.0% seasonally adjusted annualized terms respectively, averaging 2.1% in 1H 2017, in line with the Federal Reserve's expectation of a moderate economic growth, solid jobs gain, expanding household consumption and business activities. It is expected that the Federal Reserve will announce and implement the balance sheet normalization as soon as September and October respectively. However, given the US economic growth remains largely steady but not very strong, the pace of balance sheet normalization and interest rate hikes is likely to be measured. The US economy or financial markets are not likely to be affected notably ahead. In August, the US President Trump voiced support for a senator's immigration plan that would cut legal immigration meaningfully. The proposal will create a merit-based system that would benefit to the US economy and protect the American workers. However, the plan is unlikely to become law any time soon, given the crowded agenda in the US Congress. The US President Trump also announced authorization of possible China trade investigation, but the short-term impact is likely to be limited, given it will take a year for the investigation to conclude and the issue could still be resolved through negotiation. Currently, the North Korea crisis intensified. Even though the parties involved are likely to resolve the

matter in a non-military way, it could bring volatilities to the financial markets ahead.

Eurozone: Solid growth in Q2

After a relatively strong growth in Q1, the Eurozone continued to post solid growth in Q2, with quarter-to-quarter growth reached 0.6% and year-on-year growth was upwardly revised to 2.2%. Therefore, the Eurozone economy expanded by around 2.1% in 1H 2017, outpacing the growth of 1.8% in the previous year, with the divergence between the countries narrowed. Germany, France, Italy and Spain economies expanded 0.6%, 0.5%, 0.4% and 0.9% over the previous quarter respectively. Meanwhile, the manufacturing and non-manufacturing PMI, consumer confidence and economic sentiment indices, industrial production, retail sales, and employment conditions all jumped to a relatively strong level in the current expansion. With the inflationary pressure remains subdued, the European Central Bank (ECB) will continue its quantitative easing program until the end of 2017. Currently, the market only expects the ECB to reduce the size of asset purchases next year, without the need of interest rate hikes or balance sheet normalization yet. Moreover, many countries also adopted a somewhat relaxing fiscal policy stance. The Eurozone economy is likely to grow steadily or even accelerate slightly ahead. Separately, the UK published a position paper on post-Brexit customs arrangements. The UK government revealed two options, i.e. a highly streamlined customs arrangement and a customs partnership, but finally which option will be adopted is still subject to European Union's agreement. Without doubt, the Brexit negotiation is likely to be tough and lengthy.

China: Growth momentum moderated somewhat in July

In the Mainland, the economic growth momentum slowed somewhat in July after recording relatively strong growth of 6.9% in 1H 2017. Economic indicators, such as industrial value-added, retail sales, fixed assets investment and external trade all decelerated from the previous month level, partly dragged by the extreme weather effects which caused temporary disruption to industrial activities. However, the pace of growth was still higher than the average of 2016, indicating the steady growth trend of the Mainland economy remains intact despite some slowing from the 1H level. Meanwhile, the economic structure continues to improve. Indeed, the services sector and

high-tech manufacturing investment, etc, have maintained a relatively fast pace of growth, which could also be developed into a key driving force for the Mainland economy ahead. Going forward, stability is still the key focus of this year. With the support of proactive fiscal policy, prudent and neutral monetary policy and intensifying supply-side reform, the risks of property market correction and financial stability should be well-contained and the Mainland's economic growth is likely achieve the government target this year.

Hong Kong: 1H growth reached the fastest level since 2011

The Hong Kong economy recorded robust growth in 1H. After expanding by 4.3% in real terms in Q1 2017 over the previous year, the fastest pace since Q2 2011, the economy recorded 3.8% growth in Q2, averaging 4.0% in 1H 2017. The robust growth was driven by the recovery of external performance amid improving global economy, as well as stronger cross-border financial activities. Meanwhile, Hong Kong's labor market has reached full employment level. Together with the accommodative monetary environment, the residential property prices increased by 9.6% in the first seven months of 2017 and reached another record high, leading to a stronger consumer sentiment, private consumption and economic performance. Going forward, with the somewhat stronger global economic growth, low local interest rates, solid employment and property markets, the government raised this year forecast to 3%-4%. However, it should be noted that the global economic and political environment remains uncertain this year. Any correction on the elevated property prices would dampen the overall economic performance ahead.

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