Economic and Financial Monthly (NOV, 2017)

Summary

The U.S. economy reported over 3% growth for two consecutive quarters. Senate and House had divergent views on the tax details, causing uncertainties on the progress of tax reform. Eurozone economic momentum remained robust amid political uncertainties. Bank of England increased interest rate. Mainland China announced easing restrictions on foreign holdings in the financial sector. Hong Kong and ASEAN signed a free trade agreement after 3 years of talks.

- **U.S.: Economy achieved over 3% growth for two consecutive quarters. Senate and House deviated on the tax details.**

The U.S. economy continued to expand steadily. The 3rd quarter qoq GDP growth attained 3.3% (annual rate), which was the strongest in three years. Growth momentum was seen in private consumption, private investment and exports, reflecting a broad-base economic upturn. The labor market remained solid with unemployment rate reducing to 4.1%, a new low in recent years. But upward wage pressure was yet to be seen. On price level, core inflation indices showed signs of stabilization. It provided some support for the Fed to push forward rate normalization process. The market widely expected a rate increase by the Fed in December. President Trump set out a target for completion of tax reform in 2017. However, proposals from the Senate and House indicated a consensus regarding the tax details had not been reached within the Republicans, adding uncertainties on the progress of tax reform.

Europe: Economic momentum remained robust amid political uncertainties. Bank of England increased interest rate.

The Eurozone economy continued to expand with the 3rd quarter GDP growth hitting the highest level in recent years, up by 2.5% yearly. Major member states reported notable economic improvements: Germany, France, Italy and Spain reported yearly growth of 2.8%, 2.2%, 1.8% and 3.1% respectively. After the German election, the leading party Christian Democratic Union was still not able to form a coalition government and sought to negotiate with the 2nd largest party Social Democratic Party to reconsider another grand coalition. The development of German politics may affect the future development of European reform. In November, Bank of England decided to raise interest rate, but the market only projected moderate economic growth for the U.K. economy, and the Brexit talks would be filled with uncertainties, hence the rate hike path for Bank of England would be very slow.

Mainland China: Ministry of Finance announced easing restrictions on foreign holdings in the financial sector.

China will ease the limits on foreign shares in the financial sector, in which foreign investors will be allowed to have higher holdings in Chinese banks, insurance, securities, fund and futures companies. It will be a new milestone for the liberalization of Chinese financial sector. The policy will help enhance the competitiveness of Mainland financial institutions and elevate the overall service quality of Chinese financial sector. Because of the October holiday effects, monthly economic indicators slightly edged lower. Purchasing Manager Indices remained stable, suggesting a smooth moderation of the Chinese economy. In October, the growth of money supply (M2) dropped to a historical low, up by 8.8% yearly, confirming further financial leveraging in the Chinese economy.

Hong Kong: The free trade agreement with ASEAN was signed. Economic performance stayed strong.

After 3 years of negotiations, Hong Kong and ASEAN signed a free trade agreement to strength mutual economic cooperation. The deal covered trade in goods, trade in services and investment. Since ASEAN was Hong Kong's 2^{nd} largest goods trading partner and 4^{th} largest services trading partner, the new agreement will further propel the business activities between two sides and cement Hong Kong's position as a regional investment base. Economic performance in the 3^{rd} quarter kept strong with GDP growing 3.6% yearly. Private consumption fared particularly well. External demand continued to recover, leading to the rebound of goods export and services export. Labor market remained as full employment. The October unemployment rate dropped to 3.0%, the lowest level since 1998.

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