Economic and Financial Monthly (Dec, 2017)

Summary

In 2017, the global economy maintained its relatively fast growth, with the positive momentum will carry forward to 1H 2018. Recently, the US tax reform was passed, likely somewhat stimulating growth and investment performance ahead. The Fed will continue to shrink its balance sheet orderly and raise interest rates gradually, though it is not expected to affect the moderate growth trend of the US economy. Meanwhile, both the Eurozone and Mainland economies continued to grow solidly. The Central Economic Conference reiterated that pursuing progress while maintaining stability remains the overarching principle. The economic work should follow the new development theory to pursue high quality growth, further promote supply-side structural reform, and continue to adopt proactive fiscal policy and prudent and neutral monetary policy. In Hong Kong, the economy maintained relatively fast growth, with the impact of increasing HIBORs requires monitoring.

■ The US: Tax reform was passed and the Fed raised rate again

Since the beginning of 2017, the US economy maintained a moderate growth momentum with 2.2% year-on-year growth in real terms in the first three quarters. All major expenditure components, including private consumption and investment, posted positive growth. Together with the full employment condition, buoyant financial markets and stable property market performance, the US economy maintained the moderate growth trend. In mid-December, the Fed raised rate by another 25 basis points to 1.25%-1.50%, the fifth rate hike in this cycle. Meanwhile, the Fed will also continue to shrink its balance sheet as planned, with the monthly cap of decreasing the reinvestment be raised to US$20 billion per month in January 2018, with a further increase of US$10 billion per month at every three-month intervals until it reaches US$50 billion per month. On the other hand, the House of Representatives and Senate approved the final tax legislation in mid-December, with corporate tax rate and the highest personal income tax rate to be cut from 35% to 21% and 39.6% to 37% respectively. It is believed that the implementation of tax reform and the future infrastructure investment program will boost corporate confidence and overall economic performance in the US, though their impact on monetary policy and capital flows is worth monitoring.

Eurozone: Solid economic growth and Brexit negotiation will enter into phase two

The Eurozone economy recorded solid growth, increasing 2.3% year-on-year growth in real terms in the first three quarters of 2017. Other major economic indicators, such as manufacturing and non-manufacturing PMIs, consumer and economic confidence, industrial production, retail sales, and employment conditions, all improved amid continuous global economic recovery, highly accommodative monetary policy and somewhat less tightening fiscal policy in the region. In December, the European Central Bank (ECB) maintained its monetary policy unchanged, but raised its economic growth forecast notably to 2.3% for 2018 and kept its inflation forecast unchanged. Thus, the ECB is likely to maintain an accommodative monetary policy ahead. Separately, the European Union leaders agreed to enter into phase two of the Brexit negotiation with the UK, which will focus on the future relationship between the two sides, even though some specific issues, such as the border control between Ireland and Northern Ireland, etc. have yet completely resolved. However, the chance of "hard Brexit" has already reduced notably. In Spain, pro-independence parties won the majority in the Catalan election in late December. The prolonged uncertainty might lead to some slowdown in Catalonia and Spain ahead.

Stable growth in the Mainland and the Central Economic Conference focused on maintaining stability

The Mainland economy maintained a stable growth trend, with industrial value-added, fixed asset investment and retail sales increased 6.6%, 7.2% and 10.3% year-over-year in the first eleven months of 2017 respectively, increasing 0.6, decreasing 1.1 and 0.1 percentage point from its growth rates in the same period of last year. On the other hand, several new industries performed well, with the national online retail sales increased 32.4% year-on-year, value-added of high-tech and equipment manufacturing sectors also increased 13.5% and 11.4% respectively. Meanwhile, the revenue of those strategic emerging industries, production-related and technological services industries all maintained relatively fast growth, providing support for further structural upgrading and becoming new growth drivers ahead. In mid-December, the Central Economic Conference reiterated that pursuing progress while maintaining stability remains the overarching principle. The economic work in 2018 should follow the new development theory to pursue high quality growth, further promote supply-side structural reform, and continue to adopt proactive fiscal policy and prudent and neutral monetary policy. Meanwhile, risk prevention, poverty reduction and pollution prevention are three priority tasks in 2018-2020. As such, the Mainland economic growth is likely to maintain stable and relatively fast pace in 2018.

Hong Kong economy maintained relatively fast growth, with HIBORs increased from low level

Hong Kong economy expanded remarkably in 2017, with the average real GDP growth reached 3.9% year-over-year in the first three quarters, the fastest pace since 2011. The strong performance was attributable to a number of factors, namely better trade performance amid synchronized recovery among major economies globally; the relatively low base of comparison in merchandise trade, tourism and retail sectors in 2016, etc. The latest economic indicators also showed that external trade, tourism, employment, consumption and asset markets all performed relatively well, supporting the growth momentum for 2018. However, it is worth noting that HIBORs have increased gradually over the past month which is likely to continue in tandem with the US rate hikes ahead. Thus, the asset markets are unlikely to repeat the fast pace of growth in 2017 and it should be better prepared for any correction in the asset markets ahead.

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