Economic and Financial Monthly (Jul, 2018)

Summary

Market participants continued to closely monitor the escalations of trade threats. The US' Q2 annualized GDP growth jumped by 4.1%, the best pace since 2014. The UK government released "The Brexit Plan", but several major issues remained to be dealt with in the forthcoming Brexit negotiations. China's Q2 GDP enjoyed a solid growth, while the State Council implemented new policies to support the economy. Hong Kong's economy performed relatively well in Q2, as labor market and business confidence maintained steady growth.

■ The US and EU agreed to work on lower tariffs to ease the trade threats

The US' Q2 GDP grew at an annualized rate of 4.1%, which was the fastest growth since Q3 2014. The growth was driven by strong consumer spending which increased by 4% YoY, largely due to the tax reform, low unemployment rate and stable inflation. The US government proposed additional 10% tariffs on $200 billion Chinese imports, involving 6,031 product types. The US and EU had agreed to work together to lower trade barriers and maintain close trade relationship, in an apparent breakthrough in the trade dispute. With regard to the US' strong business performance, the Fed was expected to keep gradually raising the federal funds rates.

EU and UK pushed forward Brexit Negotiations

Euro area's Q2 GDP grew by a weaker 0.3% QoQ, and softened to 2.1% YoY. ECB expected the key ECB interest rates to remain at their present levels at least through the summer of 2019, and in any case where inflation increases to levels that are below but close to 2% over the medium term. ECB's asset purchase programme (APP) would end by December 2018. Theresa May unveiled a soft Brexit plan which seeks to keep close ties with EU. However, the deal was subsequently rejected by the EU, stepping up no-deal warnings. IMF reiterated that the balance of risks had shifted further to the downside, due to escalated trade actions and political risks. IMF called for cooperative solution and avoiding protectionist measures to preserve global trade expansion.

China's economy expanded stably, State Council implemented new policies to support the economy

China's H1 GDP growth stayed strong at 6.8%, while Q2 GDP growth was 6.7%, meeting expectations. This marked the 12th consecutive quarter of growth between 6.7% and 6.9%. Industrial strategic emerging industries attained an 8.7% YoY growth. Other economic indicators, such as retail sales, fixed asset investment and external trade had improved YoY, extending the moderate expansion trend. President Xi Jinping paid state visits to the United Arab Emirates (UAE), Senegal, Rwanda and South Africa, further consolidating China-Africa friendship and promoting the Belt and Road Initiative. Moreover, the State Council announced a number of active stimulus policies, which would support the economy growth and stabilize the financial market.

Hong Kong's economy registered satisfactory performance

For labor market, the seasonally adjusted unemployment rate stood at 2.8% in Q2 2018, same as that in March - May 2018. The underemployment rate also remained unchanged at 1.0% in the two periods. Both the labor force and total employment increased. For external merchandise trade, the value of total exports of goods increased by 3.3% YoY, and the increases were seen in exports to most major destinations. However, around HKD $130 billion worth of re-export goods might be affected by the rising trade conflicts between China and the US. For business confidence, comparing Q3 over Q2, net balance of views on expected changes in business situation registered an increase of +6. **A** positive sign indicated a likely upward trend in terms of business expectations**,** reflecting positive business confidence.

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