



Economic and Financial Monthly (Nov, 2018)

Summary

In the US, the results of midterm elections were as expected, and the employment market remained solid. There was no concrete development on China-US trade tension over the month, while the market focuses on the upcoming President Xi and Trump meeting. In Q3, Eurozone economy moderated. The Brexit deal is now agreed by the EU leaders, though it still requires the approval of the UK parliament. In the Mainland, major economic indicators showed the growth momentum held largely steady in October. The Politburo meeting stressed on stabilizing employment, finance, foreign trade, foreign investment, domestic investment and expectations. In Hong Kong, Q3 GDP growth moderated, with downward pressure ahead. The residential property market has entered into the correction phase, but the chance of a sharp decline remains limited.

■ Results of US midterm elections were as expected, and the solid growth trend remained intact

On 6 November, the results of US midterm elections were as expected. The split control of the Congress will have little chance of rolling back legislation already passed, but it might lead to legislative gridlock in federal budget and raising of debt ceiling, etc. The Democrat-controlled House might also establish committee to investigate Russian interference in US election, etc. All of these might lead to financial market volatilities. Meanwhile, the employment market remained strong in October, with the unemployment rate held at 3.7% and non-farm payrolls rose 250,000. The Federal Reserve is expected to raise rate by another 25 bps in December amid a solid labor market and continuous expansion of the US economy. In November, there was no concrete development on China-US trade tension over the month, while the market focuses on the upcoming President Xi and Trump meeting on 1 December.

Eurozone GDP growth moderated in Q3, with the Brexit deal is now reached between EU and the UK

In Q3, the Eurozone GDP growth moderated further, with the year-on-year growth of 1.7% in real terms only, the lowest pace since Q4 2014. The slowdown was mainly because of the big hit to car production in Germany after

the changeover to the new emissions testing regime. However, the latest composite PMI also showed that the growth momentum slowed further in the Q4, the market is now increasingly focusing on whether the monetary policy stance of the European Central Bank will be adjusted ahead. On the other hand, the Brexit deal is agreed by the EU leaders, which includes citizens' right, financial settlement, backstop to ensure that no hard border between Ireland and Northern Ireland. Going forward, it still requires the approval of the UK parliament, though it remains uncertain whether the UK parliament will pass the deal smoothly.

Growth momentum held steadily in the Mainland, while policy stance continues to stress on stability

In October, the major economic indicators, such as fixed asset investment, industrial value-added and merchandise trade, showed the growth momentum remained steady, indicating the Mainland economy is able to withstand external uncertainties. Moreover, Politburo meeting was held on 31 October to analyze latest economic situation. The Mainland will uphold the underlying principle of pursuing progress while ensuring stability. It will also continue to implement proactive fiscal policy and prudent monetary policy, and move to stabilize employment, finance, foreign trade, foreign investment, domestic investment and expectations, with focuses on supporting private businesses and SMEs. Going forward, it is believed that the Mainland authority still has ample policy room to support economic growth.

Hong Kong GDP growth moderated in Q3, with further confirmation of the property market has entered into the correction phase

Following the fastest growth rate since 2011 last year, Hong Kong economy posted a moderating growth trend since the beginning of 2018. Some positive factors, such as solid global economy, recovering tourism sector, relatively low interest rate environment, full employment and government's somewhat expansionary fiscal policy, etc. still supported the growth momentum during most of the year. Hong Kong GDP growth reached 3.7% and 2.9% year-on-year in real terms in the first three quarters and Q3 respectively. Going forward, the economic growth momentum is likely to slow amid China-US trade tension, Hong Kong dollar interest rate normalization and asset markets correction, etc. However, full employment and expansionary fiscal policy will

continue to support the economy ahead. Separately, the residential property market is further confirmed to have entered into the correction phase. Given the relatively strong fiscal position of Hong Kong households, as well as the gradual increase in both Hong Kong dollar interest rate and residential supply, the chance of a sharp decline in property prices remains limited.

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