



Economic and Financial Monthly (Dec, 2018)

Summary

The US economic growth remained solid, with the Federal Reserve raised the fed funds rate again by 0.25%. President Xi and US President Trump concluded a highly successful meeting, and the US agreed not to raise tariff rate further, though further negotiations are required to fully resolve the frictions. Eurozone economy moderated. Brexit, political and fiscal conditions in France and Italy, etc. are likely to result in new uncertainties. In November, major economic indicators in the Mainland showed the growth momentum held largely steady. The Central Economic Work Conference stated that stabilizing growth remains the overarching objective. In Hong Kong, merchandise exports, retail sales, visitor arrivals recorded solid growth in October. Banks in Hong Kong held the prime lending rates unchanged, with the residential property market further consolidated.

■ The US economy grew solidly, Federal Reserve raised rate again

The latest US economic indicators, such as unemployment rate, non-farm payrolls, purchasing manager indices, and consumer confidence, etc. showed the economy hasn't been notably affected by the rising trade protectionism and financial market volatilities. The Federal Reserve raised its fed funds rate by another 0.25% to 2.25% to 2.5%. Its monetary policy statement stated that some further gradual increases in the federal funds rate will be consistent with its objectives, and will continue to monitor global economic and financial developments and assess their implications for the economic outlook. The median of the FOMC interest rate forecasts have been revised downward to raise rate by two more times in 2019 and to 2.75% for the longer run, in tandem with its downward revision to the GDP growth forecast for 2019. Meanwhile, President Xi and US President Trump concluded a highly successful meeting in early December, and the US agreed not to raise the tariff rate further. However, more negotiations are required to fully resolve the frictions between the two countries. Separately, the US government shutdown again because of the Congress failed to pass the appropriation legislation, leading to renewed uncertainties in the financial markets.

Eurozone economy moderated further, with rising uncertainties

Since the beginning of 2018, the Eurozone economy moderated further, with its

Q3 real GDP growth rate slowed to 1.6% year-on-year. The purchasing manager indices and consumer confidence, etc. also decelerated from the elevated level since Q4 2017. Separately, the CDU in Germany elected Ms Merkel's protégé Kramp-Karrenbauer as party leader, a move that is likely to continue Ms Merkel's policy agenda. On the other hand, the Brexit deal has yet been approved by the UK Parliament. It becomes uncertain how will the Brexit actually look like. France was hit by a series of violent protests against the rising of fuel taxes. With the French government has now suspended for the fuel tax hikes, its fiscal condition will likely worsen ahead. If both France and Italy couldn't achieve the fiscal targets as required by the European Commission, the European Commission will face increasing difficulties in enforcing fiscal discipline among its member states.

Growth momentum held steadily in the Mainland

In November, the major economic indicators, such as fixed asset investment, showed the growth momentum remained steady, indicating the Mainland economy is still able to withstand external uncertainties. Moreover, the Central Economic Work Meeting was held between 19 and 21 December. China will strengthen counter-cyclical adjustments in its macro policy, continue to implement the proactive fiscal policy, with a larger scale of tax and fee cuts and a relatively substantial increase in the issuance of special-purpose local government bonds. The prudent monetary policy will not to be too tight or too loose, while maintaining market liquidity at a reasonably ample level. The monetary policy transmission mechanisms will be further smoothed out, while the proportion of direct financing will be increased to make financing more accessible and affordable for the private sector and small businesses.

Moderate growth continued in Q4 in Hong Kong

In October, merchandise exports, retail sales, and the number of visitor arrivals, etc. all recorded solid growth of 14.6%, 5.9% and 11.5% respectively, indicating the continuation of its moderate growth trend. Meanwhile, banks in Hong Kong did not follow the Federal Reserve's move to raise interest rate and held the prime lending rates unchanged amid relatively ample liquidity. Separately, the residential property market is further confirmed to have entered into the correction phase, which has already declined by 7.4% from its peak, according to the statistics from real estate agency. 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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