

## Economic and Financial Monthly (AUG, 2019)

### Summary

While consumer spending kept driving the US economic growth in Q2 2019, pronounced weakness in both trade and investment was seen under further hikes in trade tariffs. German economy reported negative growth in Q2 2019, as the industrial sector stayed in contraction. Given the muted outlook in Eurozone, market widely expected a new round of monetary loosening by the ECB in September. In China, a new market-driven lending rate was announced to provide further boost to private and small businesses. Pressure on the Hong Kong economy heightened amid slowing global growth and the escalation of China-US trade tensions.

#### ■ Private consumption underpinned the US GDP growth in Q2 2019

The US economy grew at a slightly slower rate in Q2 2019 than its first estimates. GDP in Q2 2019 increased at 2.0% annualized rate, down from the 2.1% pace estimated in July. Consumer spending remained as the major growth contributor, rising by a 4.7% annual rate, the strongest jump since 2014. However, investment and export both dropped in the quarter, reflecting the negative impacts from the trade tensions. During the month, the US Treasury 10-2 year yield curve inverted, which was a widely-watched indicator for gauging economic recession. The signal caused a spike in market volatility with the Dow Jones Index falling by 800 points within a day. With slowing world economic outlook amid trade uncertainties, the market was expecting further rate cuts by the Fed in the coming months.

#### Growth in Eurozone remained sluggish

The latest PMI reports in Eurozone revealed a muted growth outlook in the region. Though the headline readings in services and manufacturing sector stabilized, new order and business confidence continued to deteriorate. German economy shrank into negative growth in Q2 2019 with GDP falling by 0.1% qoq. Growth in Germany was mainly dragged by the contraction in the industrial sector. A number of forward looking indicators pointed to a subdued outlook for German economy. Furthermore, uncertainties from Brexit are weighing on growth in Eurozone, as business activities are expected to slow

further. With inflation steady at 1.0 in August, the ECB is widely anticipated to loosen monetary policy in September.

### **China announced new market-driven lending rate**

PBOC implemented new Loan Prime Rate (LPR) as its latest measures to liberalize interest rates. The new LPR will be linked to rates set during open market operations, namely the one-year medium-term lending facility (MLF). It will be announced on the 20<sup>th</sup> of every month, using the quotations from 18 contributing banks. The first one-year LPR came in at 4.25%, which were 10 basis points lower than the previous benchmark lending rate. The move confirmed continuous support by the authorities to boost lending to private and small businesses given the slower external demand.

### **Hong Kong GDP growth in Q2 2019 slowed further**

The Hong Kong economy grew by 0.5% yearly in Q2 2019, down from 0.6% yearly growth in the first quarter. Slowing global growth and the escalation of China-US trade tensions affected external demand and investment confidence sharply. During the quarter, real exports of both goods and services weakened to a decline of 5.6% and 0.2% yearly. In terms of investment spending, real gross domestic fixed capital formation dropped sharply by 11.6% yearly. In July, retail sales and export fell by 11.4% and 5.7% with unemployment rate up slightly from 2.8% to 2.9%. Uncertainties for growth outlook remained high. The latest official forecasts on GDP growth 2019 were lower to 0-1%.

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