

## Economic and Financial Monthly (JAN, 2020)

### Summary

The US economy grew by 2.1% qoq in Q4, and the USD strengthened underpinned by safe-haven demand. The eurozone economy grew by 0.1% qoq in Q4, lower than the market forecast of 0.2%. On January 31, the UK formally withdrew from the European Union and entered a 11-month transition. The China economy grew 6.0% yoy in Q4. At the same time, China and the United States signed the first-phase trade deal, which eased the uncertainties of global trade policies. The Hong Kong economy contracted by 1.2% in 2019, marking the first negative growth in nearly a decade.

#### ■ U.S. economy grew 2.1% qoq in Q4. US dollar strengthened with rising safe-haven demand

The US reported preliminary GDP readings for Q4, which increased by 2.1% qoq, the same level from the previous quarter. Private consumption expenditure remained as the main growth contributing component, but its qoq growth rate has declined for two consecutive quarters. In addition, lower imports were another major factor driving the headline GDP growth in Q4. Other components such as private business investment and change in inventories shrank, reflecting the heightened downside risks of the US economic momentum. In January, the US labor market continued to be solid with the unemployment rate staying low at 3.6%. Non-farm payrolls increased by 225,000 and the yearly growth in average hourly earnings accelerated to 3.1%. Hence, private consumption expenditure is expected to support the US economy. Besides, the escalating geopolitical tensions in the Middle East as well as the spread of a novel coronavirus in January triggered renewed market worries over the global growth momentum, which led to higher safe-haven demand with strengthening USD.

#### The eurozone economy grew by 0.1% qoq in Q4, lower than the market forecast of 0.2%

The eurozone economy grew by 0.1% qoq and 1.0% yoy in Q4. Annual growth in the eurozone slowed to 1.2%, the lowest level in six years. As for inflation, the January consumer price index increased 1.4% yoy, up slightly from 1.3% in the previous month but still below the ECB's inflation target. Expectations for further easing by the ECB in 2020 continued to rise. The eurozone labor market has further stabilized with overall unemployment rate down from 7.5% in November

to 7.4% in December, the lowest level since May 2008. On January 31, the UK formally withdrew from the European Union and entered a 11-month transition. The next step for the UK Government is to start trade negotiations on with the European Union.

### **The China economy grew by 6.0% year-over-year in Q4**

The Chinese economy grew 6.0% yoy in Q4 2019 with and 2019 annual GDP at 6.1%. In terms of the breakdown by economic activities, final consumption, fixed asset investment, and net exports accounted for 57.8%, 31.2%, and 11.0% of GDP growth. In January 2020, China and the United States signed the first-phase trade deal. It would reduce the tariff uncertainties faced by enterprises and provide support for the rebound of global trade activities. During the Chinese Lunar New Year, a novel coronavirus began to spread in China. In order to contain the epidemic, the authorities extended holidays and implemented traffic controls. Therefore, economic activities are likely to slow in Q1, but the overall impacts on the economy is expected to be short term and manageable.

### **Hong Kong economy shrank by 1.2% in 2019**

Hong Kong reported preliminary GDP for Q4, in which growth was down by 2.9% yoy. Annual growth fell by 1.2%, which was the first negative growth in nearly a decade. Domestic social unrests and China-US trade tensions are the internal and external factors for the economic downturn in Hong Kong. Private consumption expenditure, fixed asset investment and external trade all contracted in last year. Regarding the economic indicators in December, domestic consumption remained weak with retail sales falling by 19.4% yoy. The unemployment rate also edged up by 0.1% to 3.3%. But external trade stabilized somehow with overall exports up by 3.3% yoy and imports improving to -1.9% yoy growth. The outbreak of a novel coronavirus would also affect the Hong Kong economy and bring temporary pressures for the tourism and retail industry.

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