Macroeconomics

Advancement with Steadiness

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Economic Outlook for the First Quarter of 2024

Inflation outlook remains an important factor of global economic development

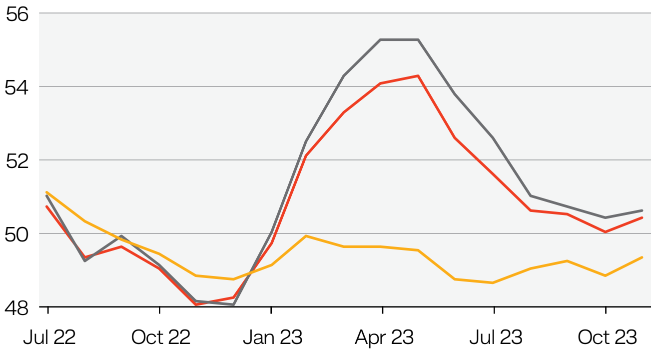
Global Economic Outlook

Modest global growth continues, as the monetary tightening cycle ends

Buffeted by the swift interest rate hikes by major central banks and the rapidly shifting geopolitical landscape, the global economy nevertheless managed to grow in 2023, underpinned by robust demand in the service sector which bolstered further improvements in the labour market. This, in turn, supported stable expansion in private consumption, offsetting the adverse effects of shrinking external trade and sluggish manufacturing activities. However, the pace of recovery varied across economies, with the US economy outperforming expectations, Chinese Mainland's economy exceeding the government's target, while the European economy lagging, suggesting the momentum of the global economic recovery was uneven. Furthermore, the world's major central banks signalled an extended period of high-interest rates following their significant policy rate hikes, which could intensify the adverse impact of monetary tightening on consumption and investment activities, leading to greater financial pressure for some economies carrying high debts and interest rates. Chinese Mainland, on the other hand, has navigated away from the high inflation, with two policy rate cuts over the year to solidify its economic recovery.

Global PMI

>50 indicates expansion



Source: Bloomberg, data as of 18th December, 2023

Global inflation has receded from its peak, entering a critical phase in combating inflationary pressures. The year 2023 saw a retreat from high inflation levels, benefitting from positive changes in commodity prices, the rebalancing of supply chains, and cooling demand for goods consumption. However, a tight labour market fuelling accelerated wage growth, combined with robust demand for services, has tempered the decline in core inflation, which remains notably higher than the policy target. Amidst the uncertainties of the global economic outlook, businesses are constrained to raise prices. Additionally, the high-interest rate environment and softening wage growth are expected to dampen demand. It is anticipated that core inflation will continue to fall, providing favourable conditions for the normalisation of global monetary tightening policies.

Private consumption is expected to moderate as labour market tensions ease broadly. The implementation of tightening monetary policies by the world's leading central banks has caused notable tightening of global financial liquidity. This has led to a gradual easing of global labour market tensions in the fourth quarter of 2023, particularly evident in several advanced economies in Europe and the US, where there was a slight uptick in unemployment rates and a decrease in job vacancies. Looking ahead, we anticipate that private sector recruitment will be more cautious, with both the overall number of unemployed individuals and the unemployment rate to be on a moderate upward trend, which could inevitably weaken consumer confidence. However, the rebalancing of supply and demand within the global labour market will mitigate potential inflationary pressures and lead to reduced inflation expectations, creating conducive conditions for interest rates normalisation.

Looking ahead to 2024, the inflation outlook remains a pivotal factor in shaping global economic development. At present, the global economy is still facing a number of challenges, such as the unresolved military conflicts in the Middle East and Europe, geopolitical tensions and the emerging protectionism, and the political uncertainties that may arise from the general elections in a number of countries and regions. Such developments may undermine global consumer and corporate investment confidence, potentially disrupt the smooth operation of supply chain again, which may in turn provoke volatility in asset markets. However, should global inflation remains on a downward trend, major central banks are poised to adjust interest rates downward in an orderly manner from mid-2024 onwards, which will help boost consumer and corporate investment confidence. Furthermore, with the global corporate and household sectors maintaining robust balance sheets, a supportive backdrop is provided for sustaining private consumption and investment. Entering 2024, the global economy is expected to continue its modest growth, avoiding the pitfalls of economic stagnation or recession.

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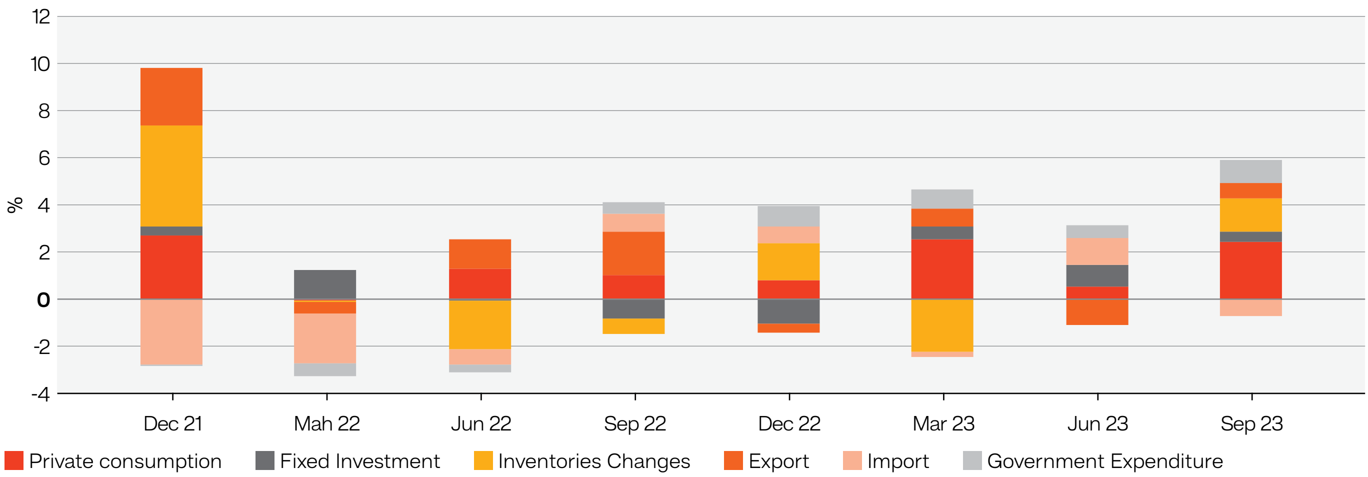
US Economic Outlook

High-interest rate environment likely to restrain economic growth in 2024

The US economy remained resilient in the first three quarters of 2023, but signs point to a slowdown in the fourth quarter. The US economy grew by 2.5% year-on-year in real terms in the first three quarters of 2023, reflecting that the economy was not affected by the Federal Reserve's rapid interest rate hikes and the global economic slowdown. Notably, in the third quarter, economic growth accelerated further to an annualised quarterly rate of about 5%, mainly attributable to strong growth in private and government consumption as well as investment, sufficiently offsetting the downturns in residential investment and net exports. However, with the Federal Reserve's cumulative interest rate hikes of 5.25% for the current interest rate-hiking cycle, combined with continued tapering, the impact of tightening monetary and credit conditions on the economy, consumption, investments and asset markets is becoming increasingly substantial. For instance, high-interest rates will inevitably affect the returns on new business investments, particularly in interest-sensitive property and capital-intensive sectors, as well as exert more pressure on highly indebted businesses and individuals. Recent months have seen a dip in the University of Michigan Consumer Sentiment Index and the Institute for Supply Management (ISM) Manufacturing and Services Purchasing Managers' Indices, while secondary property sales have hit a 13-year low. All these data collectively suggest that the impact of the high-interest rate environment on the economy is gradually emerging, forecasting a deceleration in the US economic growth in the fourth quarter in 2023 and in 2024.

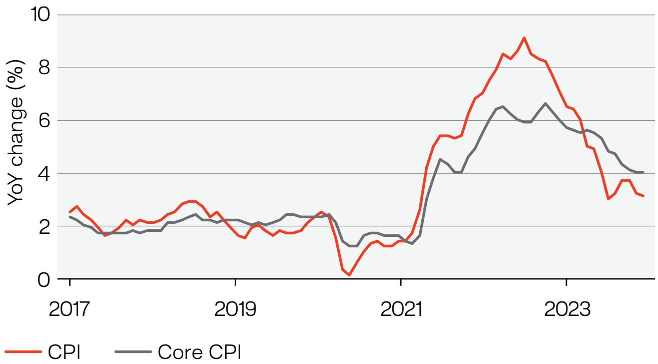
The tight labour market in the US has seen slight improvement. Over the past few months, there have been indications of a cooling in the previously tight labour market, with a minor uptick in the unemployment rate after falling to the lowest unemployment rate in over half a century at the start of 2023. Additionally, the number of new non-farm jobs created in recent months has significantly reduced by over 40% from the monthly average in 2022, while the year-on-year increase in average hourly earnings has fallen by about two percentage points from the peak seen in 2022. However, despite the easing of labour market tensions in the US, the overall situation remains healthy. Notably, the rise in average hourly wages continues to surpass the Federal Reserve's inflation target levels, so the improvement in labour market tensions has provided room for the Federal Reserve just enough to pause further interest rate hikes.

QoQ changes in annualised US GDP



Source: Bloomberg, data as of 18th December 2023

US inflation rate



Source: Bloomberg, data as of 18th December 2023

Inflation has yet to return to its policy target, we expect the Federal Reserve has room for modest interest rate cuts in 2024. The current inflation rate, whether measured by headline CPI or PCE inflation, suggests that inflation in the US has peaked, particularly with significant drops in commodity prices and a slowdown in rent increases. However, given that the services prices, which are closely associated with the larger increases in average hourly wages mentioned earlier, are stickier and the inflation rate remains persistently above the policy target, the trend of slowing inflation is likely to fluctuate in the future. As a result, the Federal Reserve posits that the interest rate may peak or be near to the peak, yet the high-interest rate will remain for some time. The median of the Federal Reserve's latest dot plot forecasts three interest rate cuts in 2024, with the Committee likely to move towards discussing when to adjust its tightening monetary policy. If inflation gradually returns to the Federal Reserve's 2% policy target in the future, the Federal Reserve is expected to start cutting rates modestly from mid-2024 onwards.

We project that the US economic growth will slow down to 1.3% in 2024. To summarise, the continuation of the high-interest environment will likely constrain local economic growth, especially on business investments, while the private consumption is also expected to be affected by the easing labour market tensions, a reduction in excess savings and the normalisation of previous accommodative fiscal policies. Furthermore, the rapidly changing geopolitical dynamics, the upcoming 2024 US presidential election and intensifying US-China rivalry are set to amplify economic uncertainty, and may even increase the inflationary pressures again. Hence, it is projected that US economic growth will downshift from a growth of over 2% in 2023 to 1.3% in 2024, which is lower than its trend growth rate, yet avoiding a recession.

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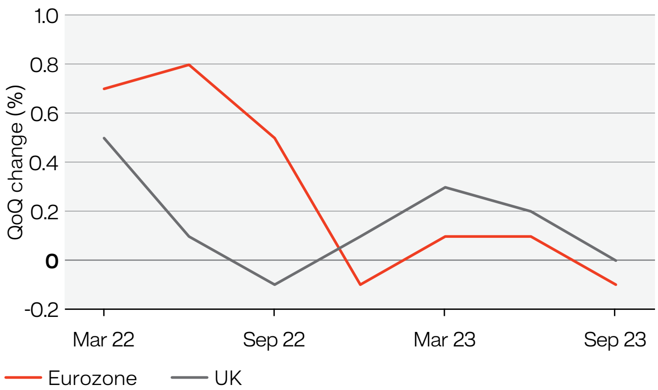
European Economic Outlook

European economy stalls amid concerns over downside risks

The European economy has remained largely stagnant due to a number of uncertainties. Factors such as high inflation, high-interest rates, a weak global economy, escalating geopolitical tensions and diminishing momentum in the post-pandemic recovery have led to a broad slowdown in both manufacturing and service sectors. The Eurozone's economy contracted slightly by 0.1% quarter-on-quarter in the third quarter of 2023, after remaining stable in the first half of the year. This economic downturn was mainly driven by Germany's slight economic shrinkage of 0.1% and a more pronounced economic downturn in Ireland. On the other hand, service-led economies such as France and Spain grew by 0.1% and 0.3% quarter-on-quarter respectively, as driven by increased household consumption. Italy's economy also rose slightly by 0.1% quarter-on-quarter, avoiding a technical recession. Meanwhile, the UK economy remained flat in the third quarter. While there was an improvement in net exports, this was offset by a 0.4%, 0.5% and 2.0% quarter-on-quarter contraction in both household and government consumption and gross capital formation respectively, suggesting that the emerging impact of high inflation and tightening monetary policy on consumption and investment.

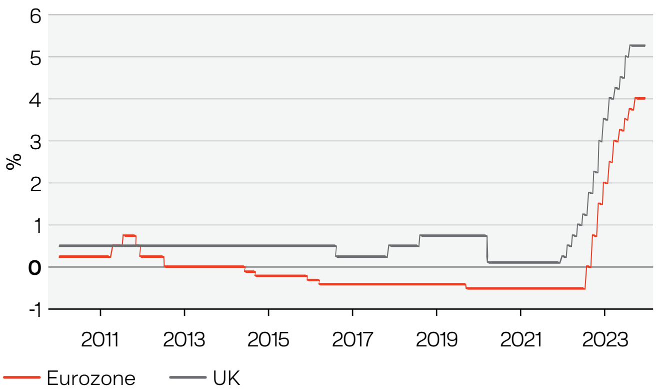
Economic growth in Eurozone and the UK



Source: Bloomberg, data as of 18th December 2023

Inflation in Europe continues to fall, but the high-interest rate environment will remain for some time. Due to a high base effect, energy prices have seen a notable year-over-year decrease, pushing the headline inflation rates back below 5% in both the Eurozone and the UK. However, a robust labour market and an accelerated wage growth are likely to slow down the drop of core inflation, which is expected to remain above the policy target for some time. Furthermore, geopolitical tensions could once again affect energy supplies and disrupt the normal operation of supply chains, adding to the uncertainties of an orderly decline in inflation to the central bank's policy target. With the European Central Bank ("ECB") and the Bank of England ("BoE") indicating a hold in policy rates since October 2023, and recent economic cooling and a continued drop in inflation, it is projected that the interest-rate hiking cycles of both central banks have concluded. However, inflation in Europe remains above policy target, and both the ECB and the BoE do not foresee achieving their target of reducing inflation to 2% until 2025. Therefore, consequently, it is anticipated that both central banks will maintain higher policy rates for some time. By mid to late 2024, they will assess the potential for interest rate cuts, depending on the trend of inflation and the efficacy of monetary policy transmission.

The policy rates of Eurozone and the UK



Source: Bloomberg, data as of 18th December 2023

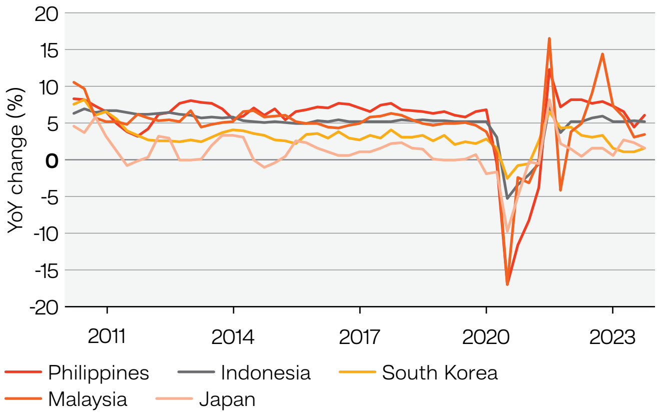
Looking ahead, the European economy is expected to stabilise at a subdued level. Although the European economy has remained in a state of stagnation due to uncertainties, recent business surveys have shown initial signs of a rebound in market confidence. This is particularly the case as markets anticipate that the interest rate-hiking cycle in advanced economies has reached its peak, with gradual interest rate cuts likely in 2024. Alongside a steady labour market, these developments are expected to incrementally boost consumer and investment confidence, contributing to a modest stabilisation of the European economy without slipping into a recession.

Asian Economic Outlook

Asia's economy sees steady growth, with signs of stabilisation in foreign trade

Faced with declining global demand for goods and the effects of tightening monetary policies, Asian exports encountered significant challenges in 2023. Despite these pressures, Asian economies managed to maintain unwavering growth. Among the advanced economies within the region, Japan's recovery gathered pace, fuelled by a resurgence in automobile exports and inbound tourism. South Korea and Taiwan experienced a slowdown due to sluggish global demand for technology products, yet both saw a recovery in growth momentum in the latter half of 2023. As for the ASEAN economies, after experiencing an economic slowdown in the first half of 2023, most member states saw economic improvement in the second half of the year.

GDP of selected asian economies



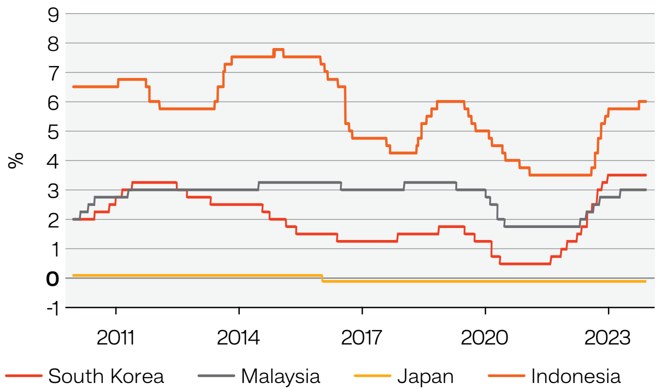
Source: Bloomberg, data as of 18th December 2023

Merchandise exports from Asian economies are showing signs of stabilisation, albeit with varying rates of recovery. In the first three quarters of 2023, except for Japan, there was a general decline in merchandise exports across Asian economies. This was primarily due to reduced demand for goods in European and American markets, an adjustment cycle for technology products, and the destocking of inventories by businesses. However, the rate of decline in Asian merchandise exports has generally narrowed recently, with some economies even registering an uptick. This has been driven by a low year-on-year base, as well as a rebound in automotive capacity following a recovery in the global supply chain. As the global technology product adjustment cycle nears its end, we expect Asian merchandise exports to stabilise further in 2024, supporting manufacturing production and employment in the region.

In parallel, inflation continues to abate in most Asian economies. Declining commodity prices, reduced global shipping costs, a slowdown in economic growth and price controls or subsidies on individual key commodities imposed by governments are all significant contributors to declining inflation. With inflation rates in some Asian economies, including Indonesia, Thailand and Vietnam, having fallen back to their central banks' policy targets by the fourth quarter of 2023, it is anticipated that the threat posed by inflationary pressures will diminish further in 2024 across the region. However, it should be noted that rice, as a primary staple in Asia, has seen substantial price increases recently, which could heighten the upside risk of food inflation in the region.

On the monetary policy front, the Federal Reserve's continued tightening has driven the US dollar's appreciation, which in turn prompted some Asian central banks to hike interest rates again in the second half of 2023. At present, with the major central banks of Europe and the US having seemingly reached the peak of their tightening cycles, which will ease the pressure on Asian central banks to hike interest rates. It is anticipated that some Asian central banks might start cutting rates in 2024. Meanwhile, Japan's inflation and the pace of its central bank to implement monetary policy are lagging. Consequently, the Bank of Japan is projected to gradually to exit its ultra-loose monetary policy, including ending its yield curve control and negative interest rate policy.

Policy rates of selected asian economies



Source: Bloomberg, data as of 18th December 2023

Overall, underpinned by the relatively stable economic fundamentals, we hold a cautiously optimistic view for the economic prospects of Asia in 2024. Moreover, the pent-up demand for outbound travel from Chinese Mainland remains strong, which is expected to be further unleashed in 2024, likely benefiting a number of Asian economies. Looking forward, with the backing of solid domestic demand, stabilising exports and the potential shift towards more accommodative monetary policies, we anticipate that Asian economies will experience a modest acceleration in economic growth in 2024.

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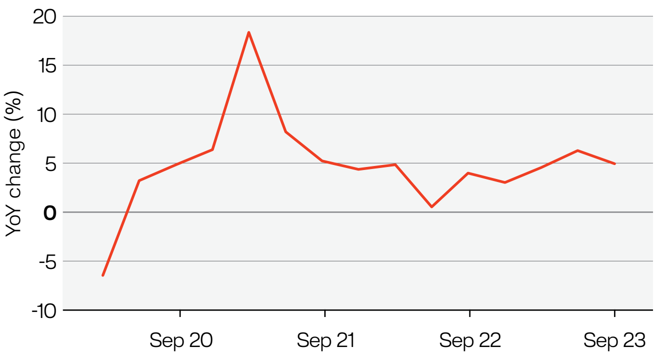
Chinese Mainland Economic Outlook

Chinese Mainland's economy will continue to recover gradually with the strategic policy mix

Since the onset of 2023, Chinese Mainland's economy has recovered from the pandemic, bolstered by intensified governmental policy support. As economic and social activities in Chinese Mainland returned to normal, in parallel with the travel resumption and pent-up demand arose during pandemic, especially within the service sector is being unleashed, leading to the recovery of both consumption and service sectors. This recovery has emerged as a primary engine for economic growth. However, the momentum of economic recovery in Chinese Mainland is not evenly distributed, and when coupled with the increased downward pressure from the global economy and ongoing adjustments in the property market, it took time for Chinese Mainland's economy to be fully recovered. In response, Chinese Mainland's authorities have stepped up their policy support with a focus on securing stable growth, employment, and market expectations. Currently, Chinese Mainland is shifting its pursuit from purely rapid economic expansion towards higher standards of quality development. As such, the spectrum of economic support measures extends beyond conventional monetary and fiscal policies, encompassing the real estate, capital markets and private sectors, so as to balance the need for stable growth in the short term with the need for high-quality economic progress in the long term. In the first three quarters of 2023, Chinese Mainland's economy grew by 5.2% in real terms on a year-on-year basis. We expect that the economic growth for the whole year of 2023 will be able to align with the government's target of approximately 5% for the full year of 2023.

Chinese Mainland's quarterly economic growth

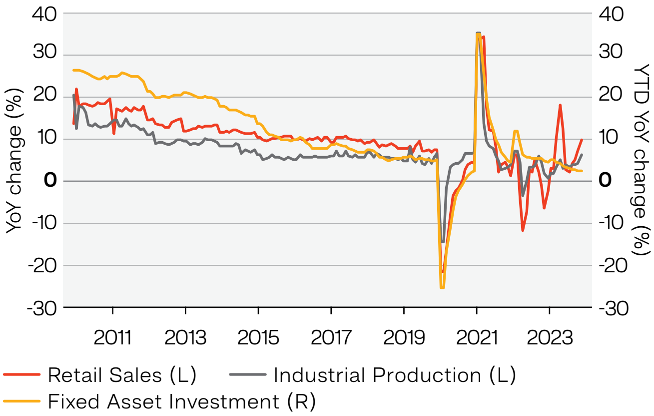


Source: Bloomberg, data as of 18th December 2023

Consumption continues to be the main driver of Chinese Mainland'seconomic growth. As life normalises post-pandemic and the public's desire for enhanced consumer experiences grows, there has been a notable uptick not only in retail sales but also in the untapped potential of service consumption. This has spurred strong growth in sectors such as dining, tourism, hotels, leisure and entertainment. In the first 11 months of 2023, retail sales in both consumer goods and the service sectors have increased by 7.2% and 19.5% year-on-year, respectively. Additionally, automobile sales have seen solid growth, largely owing to Chinese Mainland's authorities extending tax exemptions and subsidies for new energy vehicle purchases.

Industrial production has seen a stable growth, while investment has lagged, except for leading performances in high-tech investment and manufacturing. Chinese Mainland's consumption has shown gradual improvements, and, combined with the country's long-term commitment to innovation, technology and strategic emerging industries, the export competitiveness of high-tech products, including new energy vehicles, solar cells, and lithium-ion batteries, has continuously strengthened. This contributed to a steady year-on-year industrial production growth of 4.3% in the first 11 months of 2023. Fixed asset investment, on the other hand, lagged with a mere 2.9% year-on-year growth in the first 11 months, primarily affected by weak real estate investment, while infrastructure and manufacturing investments have maintained robust growth, with double-digit increases registered in investments in high-tech sectors such as electrical machinery and equipment, specialised equipment and other equipment manufacturing, offsetting some of the downward pressure from the overall investment trend.

Chinese Mainland's retail sales, industrial production and fixed asset investment



Source: Bloomberg, data as of 18th December 2023

Increased policy support has been instrumental in alleviating the downward pressures on the property market. Since 2023, the Chinese authorities have intensified their efforts to stabilise the property market by implementing policies such as "mortgages on second homes to be treated in the same way as a first mortgage, as long as the buyer has paid off the first loan", reducing mortgage interest rates and down-payment ratios, and relaxation of the restrictions on home purchases. These measures have boosted homebuyers' confidence and stimulated property market transactions. As for "guaranteed delivery of housing projects" and support for the financing needs of reputable property developers, such initiatives have facilitated the delivery of commercial properties and related investment. Nevertheless, the recovery of the real estate market will take time. It is anticipated that as the Chinese authorities have stepped up policy support to stabilise the economy, boost confidence and stabilise the property market homebuyers' confidence will gradually be boosted and people's demands for better living conditions will be released, thereby helping to mitigate the downward pressure on the property market.

Looking ahead to 2024, the economy is expected to maintain gentle expansion as the Chinese authorities implement a combination of policies. In the face of the uncertainties in the external economic environment and continued geopolitical tensions, we expect the Chinese authorities to continue to introduce targeted policy measures for supporting SMEs, innovation and technology, and green development. These measures will aim to balance the pursuit of short-term stability with the imperatives of long-term, high-quality economic growth. There remains room for further easing in both monetary and fiscal policy, potentially including modest rate cuts and reductions in reserve requirement ratio, along with the issuance of special government bonds and an increased deficit ratio. Overall, we project that Chinese Mainland's economy will achieve approximately 5% growth in 2024, with the economic structure undergoing continued enhancement to further drive high-quality development.

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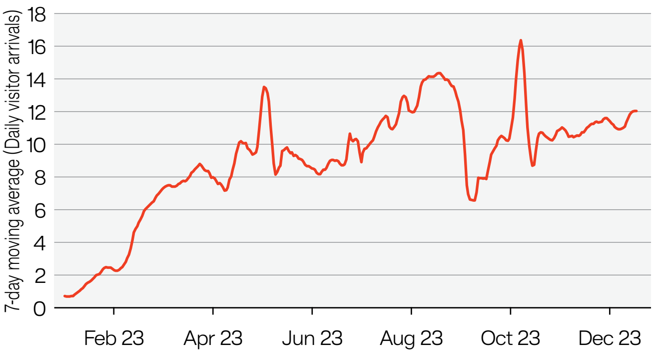
Hong Kong Economic Outlook

Inbound tourism and private consumption to continue to drive Hong Kong's steady economic recovery in 2024

With the backing of inbound tourism and private consumption, Hong Kong's economy maintained a solid recovery throughout 2023. The surge in Hong Kong's service exports were attributable to a significant uptick in visitor numbers after fully reopening Hong Kong's borders to international travel in the first quarter of 2023. Private consumption also expanded vastly, buttressed by an improved employment outlook, the HKSAR Government's issuance of consumption vouchers and the hosting of numerous large-scale events. Nevertheless, subdued demand from advanced economies and persistently high-interest rates have restrained the performance of merchandise trade and investment, prompting the HKSAR Government to adjust its economic growth forecast for 2023 as a whole down to 3.2%. Looking ahead to 2024, the Hong Kong economy is projected to continue its unwavering recovery, underpinned by service exports and private consumption. The annual economic growth rate is expected to surpass that of 2023, potentially reaching about 3.5%.

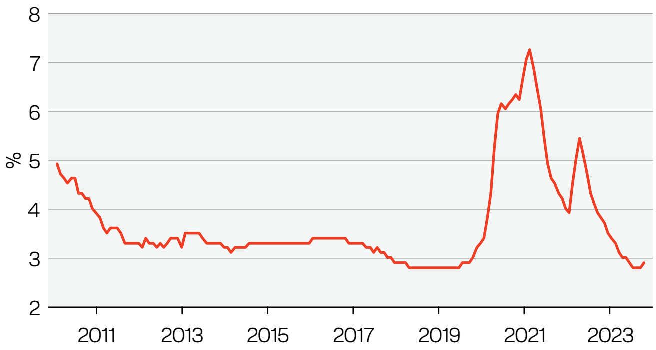
Hong Kong's total number of visitors



Source: Bloomberg, data as of 18th December 2023

In 2023, tourism-related industries maintained phenomenal growth with economic reopening. Visitor arrivals to Hong Kong have been on a strong uptrend and climbed remarkably during the summer peak season, with the number of visitors anticipated to exceed 30 million for the year. In addition, the HKSAR Government has been actively promoting an array of events and festivals that celebrate leisure, dining, music and culture , including "Hello Hong Kong! , "Night Vibes Hong Kong ", "Hong Kong Wine and Dine Festival" and "Hong Kong WinterFest". The opening of the new area at Hong Kong Disneyland has served as a catalyst to boost visitor numbers during key festivals such as the Mid-Autumn Festival, National Day and Christmas. Given the huge pent-up demand for travel, it is expected that service exports are poised to remain a vital driver of Hong Kong's economic growth.

Hong Kong unemployment rate



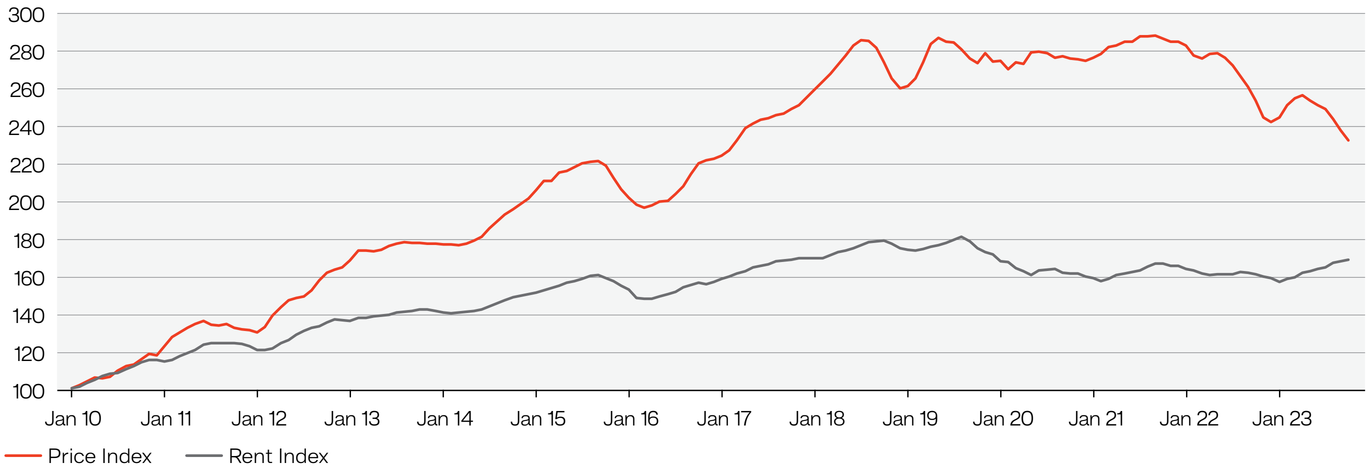
Source: Hong Kong Census and Statistics Department, data as of 18th December 2023

Private consumption has continued its vigorous expansion, buoyed by an improvement in employment prospects and the supportive measures introduced by the HKSAR Government. Hong Kong's labour market also continued to improve, with the unemployment rate at near-full employment and the number of job vacancies remaining persistently high. This positive employment outlook supports local incomes and consumption. To address the long-term development needs, the HKSAR Government has rolled out various talent initiatives and established the Hong Kong Talent Engage office. As at the end of November 2023, more than 80,000 talents have come to Hong Kong, exceeding the annual target of 35,000. In addition, the Enhanced Supplementary Labour Scheme (ESLS), which is open for application since September 2023, will alleviate the shortage of low-skilled workers in sectors such as construction and transportation, thereby ensuring a sufficient labour supply.

The slackened global demand for goods could potentially impede the full recovery of the Hong Kong economy. During the first three quarters of 2023, Hong Kong's merchandise exports have continued to shrink. However, as the low-base effect gradually surfaced in the fourth quarter of 2023, merchandise trade began to show signs of bottoming out. Ongoing geopolitical tensions, coupled with decelerated economic growth in advanced economies, continue to add uncertainties to external demand. Nevertheless, with the solid economic recovery in Chinese Mainland and the low-base effect becoming more apparent, Hong Kong's merchandise export figures are expected to stabilise gradually.

Hong Kong's housing price and rent indices

Base figure is 100 as of January 2010



Source: Rating and Valuation Department, data as of 18th December 2023

For the residential property market, Hong Kong's property market has exhibited a trend that spiked initially and then declined. At the beginning of the 2023, residential property prices saw a rebound, driven by economic recovery, the relaxation of pandemic prevention and control measures and a boost in consumer confidence. However, following significant interest rate hikes by the Federal Reserve, property prices began to consolidate in the latter half of the year. Despite this, the rental market remained relatively buoyant, with private residential rental prices continuing an upward trend, primarily propelled by the rental demands of newly arrived professionals and international university students. In the 2023 Policy Address, the HKSAR Government proposed to relax various property market regulatory measures to assist residents in purchasing homes. It is expected that the residential property market in Hong Kong may experience initial dips followed by an upward trend in 2024.

Chapter Summary:

- The global economy in 2024 will still face the challenges of geopolitical tension and the political uncertainty arising from elections in multiple countries
- If inflation continues to slowdown, major central banks may start cutting interest rates by mid-2024, which could help the global economy stave off a recession
- A high-interest rate environment is expected to continue constraining US economic growth, with projections of a deceleration to 1.3% in 2024
- Europe's economy is at a standstill; however, interest rate cuts and a stable job market could boost consumer and investment confidence, which help steady the European economy at a low level without sliding into recession
- With robust domestic demand, stabilising exports and more accommodative monetary policies, Asian economies could see a slight uptick in economic growth in 2024
- Chinese Mainland will continue to implement various economic stimulus policies, with additional leeway for monetary and fiscal easing expected to lead to an approximate 5% economic growth in 2024
- Economic growth in Hong Kong is anticipated to pick up to about 3.5% in 2024, with property prices forecast to initially dip before rising

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