

Press Release

(embargoed until 4:30 p.m. on 16 November 2012)

Economic Situation in the Third Quarter of 2012 and Latest GDP and Price Forecasts for 2012

The Government released today (Friday) the Third Quarter Economic Report 2012, together with the preliminary figures on Gross Domestic Product for the third quarter of 2012.

The Government Economist, Mrs Helen Chan, described the economic situation in the third quarter of 2012 and provided the latest GDP and price forecasts for the year.

MAIN POINTS

- * The Hong Kong economy grew modestly in the third quarter of 2012, by 1.3% over a year earlier, similar to the 1.2% pace in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, the economy resumed growth at 0.6% in the third quarter, after a marginal decline of 0.1% in the preceding quarter.
- * External demand remained subdued in the face of the recession-ridden eurozone, slow-growing US economy, and the ensuing set-back in Asian production and trade flows. Yet helped partly by a low base of comparison a year earlier, total exports of goods still had a moderate year-on-year growth at 4.0% in real terms in the third quarter, though with widespread weaknesses still evident across the EU, US and many major Asian markets. Exports of services slowed visibly to only a meagre 0.1% year-on-year growth over the same period.
- * Domestically, thanks to largely sanguine job and income conditions, private consumption expenditure grew steadily further by 2.8% in real terms in the third quarter over a year earlier. Meanwhile, investment spending picked up to a strong 8.7% growth, on the back of robust private machinery and equipment acquisition, intensive large-scale infrastructure works, as well as a further surge in private sector building activity.
- * The labour market held largely stable in the third quarter, though with signs of slowdown in total employment emerging towards the end of the quarter, causing the seasonally adjusted unemployment rate to edge up to 3.3%. In the third quarter, the median employment earnings rose by 8.3% in nominal terms over a year earlier, representing an increase of 5.1% in real terms after discounting inflation. Over the same period, average employment earnings for the lowest decile of full-time employees rose appreciably further by 7.2% in nominal terms, or 5.2% in real terms.
- * On the external front, while there has been some stabilisation of the eurozone sovereign debt crisis following the recent policy actions by the European

authorities, economic growth and sentiments in Europe have remained subdued. In the US, recent economic data have been more positive, though with the outlook still overcast by the looming fiscal cliff. Against this background, Hong Kong's trading environment is still subject to a high degree of uncertainty. Nevertheless, activity in the Mainland economy has shown signs of re-acceleration in the more recent months, which should lend support to intra-regional trade going forward.

- * The latest Quarterly Business Tendency Survey indicated that the trade-related sectors remained generally cautious towards the near-term business outlook, yet sentiments in the domestic-related sectors were somewhat more upbeat. Indeed, domestically, consumption demand is expected to stay steady under the support of higher incomes over the past year. Also, large-scale infrastructure works and private building activity should continue apace, thereby rendering continued momentum to domestic demand.
- * Having regard to the outturn of a subdued 1.0% year-on-year real GDP growth in the first three quarters of 2012, and in cognizance of possibly some relative improvement in the fourth quarter, the GDP growth forecast for 2012 is slightly revised to 1.2%, from the earlier range forecast of 1-2% in the August round.
- * Underlying consumer price inflation tapered successively from 5.9% in the first quarter to 4.0% in the third quarter, thanks to receding domestic and external price pressures. The more moderate increases in import prices in recent months should help to keep inflation largely contained in the rest of the year. However, with the rebound of global food prices in July and August following the drought in the US, the new round of quantitative easing in the advanced economies, and the renewed pick-up in local housing rentals in the past few months, the pace of tapering in CPI inflation in the months ahead is expected to be slower than earlier envisaged. Judging from the actual outturn so far and the latest developments, the forecast rates of headline and underlying consumer price inflation for 2012 as a whole are slightly revised upwards to 3.9% and 4.5% respectively, from 3.7% and 4.3% in the August round.

DETAILS

GDP

According to preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, real GDP grew modestly by 1.3% in the third quarter of 2012 over a year earlier, similar to the 1.2% growth in the second quarter (same as the earlier estimate). On a seasonally adjusted quarter-to-quarter comparison, real GDP resumed growth at 0.6% in the third quarter, after a marginal decline of 0.1% in the preceding quarter (also unchanged from the earlier estimate) (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the third quarter of 2012 are presented in **Table 1**. Developments in different segments of the economy in the third quarter of 2012 are described below.

External trade

3. *Total exports of goods* grew moderately by 4.0% in real terms in the third quarter over a year earlier, reversing a 0.2% decline in the second quarter, thanks mainly to the notable rebound in September from a relatively low base of comparison a year earlier. Exports to the EU market still recorded a double-digit year-on-year decline in the third quarter, while those to the US and many major Asian markets were also weak. On the other hand, exports to both the Mainland and Japan saw faster year-on-year growth. On a seasonally adjusted basis, total exports of goods rebounded strongly by 4.7% in real terms in the third quarter over the preceding quarter.

4. *Exports of services* however decelerated visibly to only a marginal 0.1% growth in the third quarter over a year earlier, from 2.9% in the second quarter. The lacklustre performance was the combined effects of sluggish trade flows, quieter fund-raising and cross-border financing activities in face of an uncertain global economic outlook, and moderation in per capita visitor spending. Reflecting this, exports of trade-related services only grew tepidly; those of transportation services and financial and business services dipped; and those of travel services also moderated despite the continued double-digit growth in visitor arrivals. On a seasonally adjusted quarter-to-quarter comparison, exports of services fell back by 1.9% in the third quarter.

Domestic sector

5. The domestic sector saw further growth in the third quarter. Thanks to still largely favourable employment and income conditions as well as the rally in asset prices during the quarter, *private consumption expenditure* (PCE) grew further by 2.8% in real terms over a year earlier. The more moderate year-on-year growth in recent quarters was affected partly by a distinctly high base of comparison last year. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure actually picked up to a 0.9% growth in real terms in the third quarter, faster than the 0.1% growth in the second quarter. *Government consumption expenditure* grew further by 3.7% in real terms in the third quarter over a year earlier.

6. *Overall investment spending* picked up to a strong 8.7% year-on-year growth in real terms in the third quarter, from 5.7% in the second quarter. The re-acceleration was mainly on account of the surge in machinery and equipment acquisition, at 9.8%. Meanwhile, private sector construction activity stayed active, while public sector infrastructure works carried on at a high level. As such, overall building and construction expenditure expanded appreciably further by 9.4% in real terms in the third quarter.

The labour sector

7. The labour market remained broadly stable in the third quarter. Nevertheless, total employment also lost some momentum amid the slow economic growth, causing the *seasonally adjusted unemployment rate* to edge up to 3.3% in the third quarter. The *underemployment rate* also rose slightly to 1.6%. Incomes and earnings saw some deceleration in year-on-year growth from the previous quarters as the boost from statutory minimum wage (SMW) implementation waned. Yet, in the third quarter, the median employment earnings still rose by 8.3% in nominal terms over a year earlier, representing an increase of 5.1% in real terms after discounting inflation. Over the same period, average employment earnings for the lowest decile of full-time employees rose appreciably further by 7.2% in nominal terms, or 5.2% in real terms.

The asset markets

8. The *local stock market* fluctuated range-bound in July and was generally on a recovery path since late July when market sentiments revived somewhat following the ECB president's pledge to preserve the euro and amid increasing expectations of more policy accommodation in the advanced economies. With the subsequent announcement of monetary easing in Europe, the US and Japan in September, the Hang Seng Index (HSI) rallied further to close October at 21 642, up 11% from end-June 2012 and 17% from end-2011.

9. *Residential property market* went up further during the third quarter in the midst of liquidity glut and super-low interest rate environment. Market sentiment received a further boost after the announcement of another round of monetary easing in the US in September. By September, residential property prices had leaped further by 6% over June, cumulating to some 20% surge in the first nine months of 2012 and surpassing the 1997 peak by around 26%. Prices of small-and-medium-sized flats have risen by 21% during the first nine months of 2012, much faster than the 11% for the large flats. Even with prevailing low interest rates, the affordability ratio had risen to around 50% in the third quarter, close to the average of 50.4% over the past 20 years.

10. With the property market showing increasing signs of exuberance, and to forestall the further build-up of bubble risk, in August to October the Government rolled out several rounds of measures. These included short, medium and long-term measures to increase the land and flat supply (August); tightened mortgage lending criteria to increase the resilience of the banking sector (September); as well as the enhanced Special Stamp Duty to curb speculative transactions and the introduction of a Buyer's Stamp Duty to accord priority to meeting the housing needs of Hong Kong permanent residents under a tight supply situation (October).

Prices

11. Consumer price inflation tapered further in the third quarter, thanks to receding domestic and external price pressures. On the domestic front, the private housing rental component of the Consumer Price Index continued to see narrower increases, while local wage costs also saw moderated rises. Externally, imported inflationary pressures receded further amid slower inflation in import sources and softer global food and commodity prices earlier on. Thus, with the progressive easing of food prices and private housing rentals, which together account for over half of the household consumption basket, *headline consumer price inflation* came down from 5.2% in the first quarter to 4.2% in the second quarter, and further to 3.1% in the third quarter. Netting out the effects of the Government's relief measures, *underlying consumer price inflation* likewise retreated visibly from 5.9% in the first quarter to 5.1% in the second quarter and further to 4.0% in the third quarter.

Latest GDP and price forecasts for 2012

12. On the external front, while there has been some stabilisation of the eurozone sovereign debt crisis following the recent policy actions by the European authorities, economic growth and sentiments in Europe have remained subdued. In the US, recent economic data have been more positive, though with the outlook still overcast by the looming fiscal cliff. Against this background, Hong Kong's trading environment is still subject to a high degree of uncertainty. Nevertheless, activity in the Mainland economy has shown signs of re-acceleration in the more recent months, which should lend support to intra-regional trade going forward.

13. The latest Quarterly Business Tendency Survey indicated that the trade-related sectors remained generally cautious towards the near-term business outlook, yet sentiments in the domestic-related sectors were somewhat more upbeat. Indeed, domestically, consumption demand is expected to stay steady under the support of higher incomes over the past year. Also, large-scale infrastructure works and private building activity should continue apace, thereby rendering continued momentum to domestic demand.

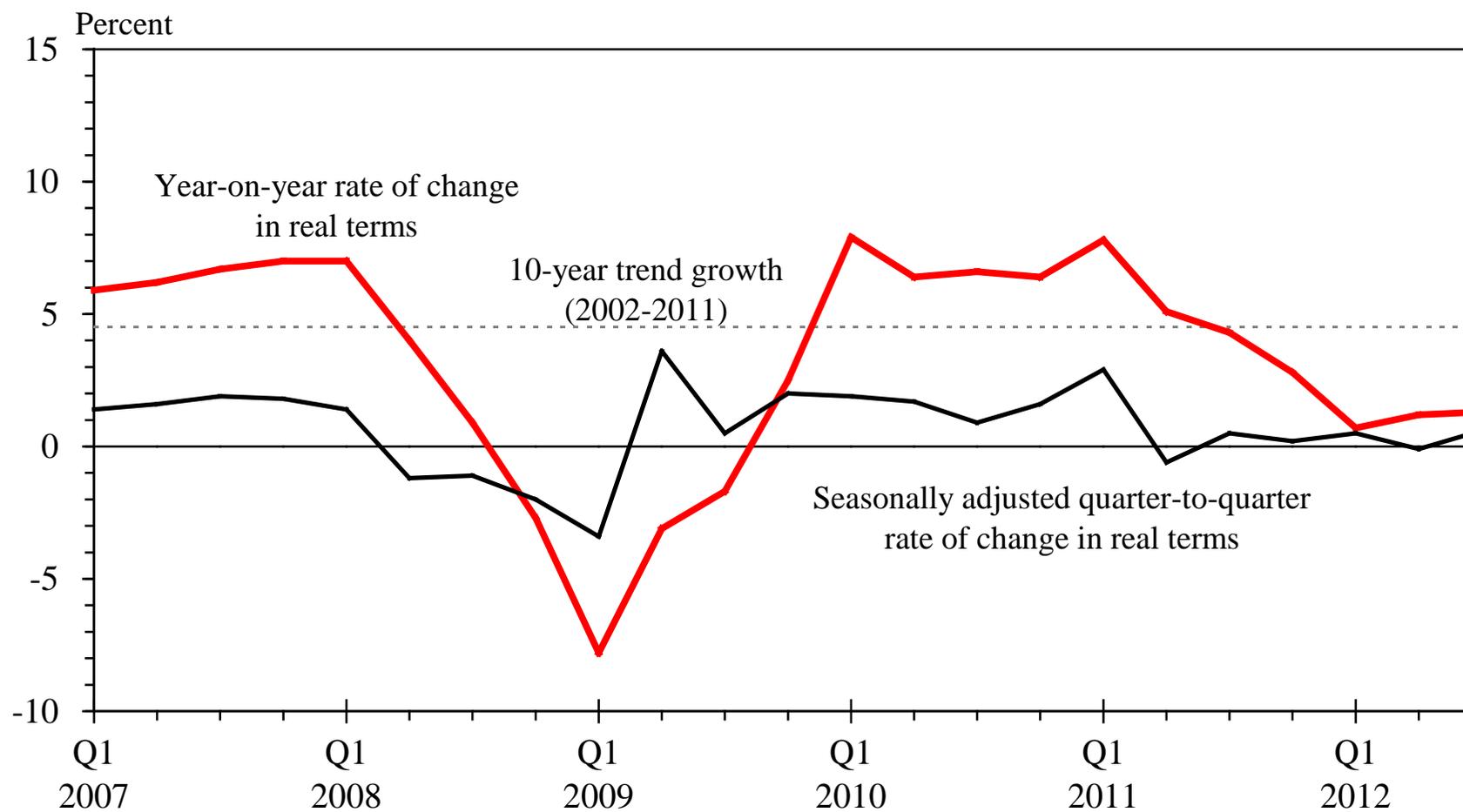
14. Having regard to the outturn of a subdued 1.0% year-on-year real GDP growth in the first three quarters of 2012, and in cognizance of possibly some relative improvement in the fourth quarter, the GDP growth forecast for 2012 is slightly revised to 1.2%, from the earlier range forecast of 1-2% in the August round (*Table 2*). For reference, the latest forecasts by private sector analysts mostly range from 1-2%, averaging at around 1.5%.

15. On inflation outlook, the more moderate increases in import prices in recent months should help to keep inflation largely contained in the rest of the year. However, with the rebound of global food prices in July and August following the drought in the US, the new round of quantitative easing in the advanced economies, and the renewed pick-up in local housing rentals in the past few months, the pace of

tapering in CPI inflation in the months ahead is expected to be slower than earlier envisaged. Judging from the actual outturn so far and the latest developments, the forecast rates of headline and underlying consumer price inflation for 2012 as a whole are slightly revised upwards to 3.9% and 4.5% respectively, from 3.7% and 4.3% in the August round (*Table 2*).

(The Third Quarter Economic Report 2012 is now available for online download, free of charge at <http://www.hkeconomy.gov.hk/en/reports/index.htm>. The print version is available for sale at \$126 per issue, plus postage charge. Users can purchase the print version online at the Government Bookstore at <http://www.bookstore.gov.hk>, or by calling the Publications Sales Unit of the Information Services Department at 2537 1910. The Report of the Gross Domestic Product, Third Quarter 2012, which contains the GDP figures up to the third quarter of 2012, is also available for online download, free of charge at the homepage of the Census and Statistics Department, <http://www.censtatd.gov.hk>.)

Hong Kong's Gross Domestic Product



Note : Figures for the third quarter of 2012 are preliminary estimates.

Table 1

**Gross Domestic Product and its main expenditure components
and the main price indicators
(year-on-year rate of change (%))**

	<u>2010[#]</u>	<u>2011[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>2011</u> <u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>	<u>2012</u> <u>Q2[#]</u>	<u>Q3[±]</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>									
Private consumption expenditure	6.3	8.2	7.7 (0.9)	9.9 (2.9)	9.5 (1.4)	5.9 (0.6)	6.4 (1.2)	3.1 (0.1)	2.8 (0.9)
Government consumption expenditure	3.3	2.2	3.3 (1.6)	1.4 (-0.5)	1.6 (0.9)	2.5 (0.6)	2.5 (1.4)	3.5 (0.6)	3.7 (1.0)
Gross domestic fixed capital formation	7.4	7.5	1.7	7.1	11.6	9.3	12.6	5.7	8.7
<i>of which :</i>									
Building and construction	5.6	7.1	19.1	-4.3	5.9	9.3	15.0	14.0	9.4
Machinery, equipment and intellectual property products	6.1	13.0	-9.6	16.8	24.6	19.2	21.6	5.5	9.8
Total exports of goods	17.3	3.4	16.3 (9.1)	-0.3 (-8.9)	-2.2 (1.1)	2.3 (1.8)	-5.2 (1.1)	-0.2 (-3.5)	4.0 (4.7)
Imports of goods	18.1	4.7	12.1 (8.2)	2.1 (-5.3)	1.6 (0.4)	4.2 (1.2)	-2.1 (1.5)	0.9 (-1.9)	4.3 (3.2)
Exports of services	14.8	6.7	8.8 (2.8)	7.9 (1.1)	5.5 (0.5)	5.0 (0.5)	2.7 (0.7)	2.9 (0.9)	0.1 (-1.9)
Imports of services	11.1	3.5	5.9 (0.2)	3.5 (0.9)	2.0 (-0.3)	2.7 (2.0)	3.7 (0.9)	1.6 (-0.8)	0.9 (-1.1)
Gross Domestic Product	6.8	4.9	7.8 (2.9)	5.1 (-0.6)	4.3 (0.5)	2.8 (0.2)	0.7 (0.5)	1.2 (-0.1)	1.3 (0.6)
<i>Change in the main price indicators (%)</i>									
GDP deflator	0.3	3.8	1.6 (1.3)	5.2 (1.1)	4.3 (1.7)	4.0 (-0.1)	3.5 (0.7)	2.4 (0.1)	3.8 (3.0)
Composite CPI									
Headline	2.4	5.3	3.8 (1.8)	5.2 (1.8)	6.4 (-0.9)	5.7 (3.0)	5.2 (1.3)	4.2 (0.9)	3.1 (-2.0)
Underlying[^]	1.7	5.3	3.7 (1.8)	5.0 (1.7)	6.1 (1.5)	6.4 (1.2)	5.9 (1.3)	5.1 (1.0)	4.0 (0.5)
Change in nominal GDP (%)	7.1	8.9	9.5	10.6	8.8	6.9	4.2	3.6	5.2

Notes : Figures are subject to revision later on as more data become available. Seasonally adjusted quarter-to-quarter rate of change is not applicable to gross domestic fixed capital formation, as no clear seasonal pattern is found for the category due to the presence of considerable short term fluctuations.

(#) Revised figures.

(+) Preliminary figures.

() Seasonally adjusted quarter-to-quarter rate of change.

(^) After netting out the effects of Government's one-off relief measures.

Table 2**Economic forecasts for 2012
(rate of change (%))**

	Forecasts for 2012 as released <u>on 10.8.2012</u> (%)	Latest forecasts for 2012 <u>on 16.11.2012</u> (%)
Gross Domestic Product (GDP)		
<i>Real GDP</i>	1 to 2	1.2
<i>Nominal GDP</i>	3 to 4	4.2
Composite Consumer Price Index (CCPI)		
<i>Headline CCPI</i>	3.7	3.9
<i>Underlying CCPI</i>	4.3	4.5