

Press Release

(embargoed until 4:30 p.m. on 15 May 2015)

Economic situation in the first quarter of 2015 and latest GDP and price forecasts for 2015

The Government released today (15 May) the First Quarter Economic Report 2015, together with the preliminary figures on Gross Domestic Product (GDP) for the first quarter of 2015.

The Acting Government Economist, Mr Andrew Au, described the economic situation in the first quarter of 2015 and provided the latest GDP and price forecasts for 2015.

Main points

- * The Hong Kong economy grew modestly by 2.1% in real terms in the first quarter of 2015 over a year earlier, slightly slower than the 2.4% growth in the preceding quarter. Domestic demand remained the key source of growth. External demand was still lacklustre, with goods exports expanding only marginally and with services exports, being dragged by the slowdown in inbound tourism, slackening further. On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded modestly by 0.4% in the first quarter, after a 0.2% growth in the preceding quarter.
- * Total exports of goods increased only slightly in real terms in the first quarter over a year earlier. The external environment remained unsteady, as the sluggishness of the advanced markets damped global trade growth. The performance of exports of services was also disappointing, mainly held down by the enlarged decline in exports of travel services amid a visibly slower growth in tourist arrivals and weaker tourist spending.
- * Domestic demand fared relatively better, and remained the key source of economic growth. Private consumption expenditure grew by 3.5% in real terms in the first quarter over a year earlier, supported by stable labour market conditions in recent quarters. Investment expenditure picked up visibly to a 7.3% year-on-year growth, upon a notable rebound in machinery and equipment acquisition.
- * The labour market remained in a state of full employment, with the seasonally adjusted unemployment rate staying low at 3.3% in the first quarter. Wages and earnings sustained further steady growth.
- * The local stock market generally trended upward amid some fluctuations during the first quarter. It hit a seven-year high in April, conceivably due to the improved sentiment amid the more accommodative stances of the major central banks. The residential property market showed further signs of exuberance in early 2015, but cooled down somewhat after the Hong Kong Monetary Authority introduced further macro-prudential measures in late February 2015.

- * Looking ahead, global economic growth is likely to remain moderate and uneven. There are also considerable uncertainties. The prospective interest rate hike in the US remains data-dependent. Moreover, the conflicting policy directions of major central banks could have notable repercussions on capital fund flows and interest rate expectations, posing threats to global financial stability. The Greek debt problem, fragile recovery of the eurozone, and heightened geopolitical tensions in various regions, if protracted and intensified, could worsen the external environment. Meanwhile, emerging markets economies, including the Mainland, are also likely to experience varying degrees of growth slowdown. The external unsteadiness, coupled with a strong US dollar, will continue to constrain our export performance. The recent slowdown in inbound tourism may also weigh on the tourism-related sectors and our services exports. On the other hand, domestic demand is likely to remain a stable growth driver. The steady job and income conditions should render support to local consumption, and the boost from the package of relief measures in the 2015-16 Budget would also provide cushion against the external headwinds. The Government will stay vigilant to the impacts of recent slowdown in inbound tourism and various external uncertainties on the economy and labour market in the period ahead.
- * Taking into account the actual growth outturn in the first quarter and the range of uncertainties still facing the Hong Kong economy, the forecast GDP growth of 1-3% for 2015, as announced in the Budget, is maintained in the current round of review.
- * Underlying consumer price inflation eased somewhat faster than expected to 2.7% in the first quarter of 2015 from 3.3% in the preceding quarter, thanks to the abating imported inflation, notable fall in energy prices and moderate local cost pressures. As these developments will likely continue for a while, the upside risks to consumer price inflation should remain contained in the near term. Given the lower-than-expected actual outturn in the first quarter, the forecast rates of headline and underlying consumer price inflation for 2015 are revised slightly downward from 3.5% and 3% respectively in the Budget round to 3.2% and 2.7% respectively in the current round of review.

Details

GDP

According to the preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP grew by 2.1% in real terms in the first quarter of 2015 over a year earlier, slightly slower than the 2.4% growth in the preceding quarter (revised from the earlier estimate of 2.2%). On a seasonally adjusted quarter-to-quarter comparison, real GDP grew slightly by 0.4% in the first quarter, after the 0.2% growth in the preceding quarter (revised from the earlier estimate of 0.4%) (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the first quarter of 2015 are presented in *Table 1*. Developments in different segments of the economy in the first quarter of 2015 are described below.

External trade

3. *Total exports of goods* grew marginally by 0.4% year-on-year in real terms in the first quarter, slightly down from the 0.6% rise in the preceding quarter. The overall picture remained lacklustre. Among the advanced markets, exports to the US continued to grow, while those to the EU and Japan slid further. Exports to the Mainland and such higher-income Asian markets as Korea and Taiwan, also registered declines of varying degrees, weighed down by the sluggish recovery of import demand in the advanced economies. On the other hand, some Asian markets, including India and a number of ASEAN economies, grew notably further. On a seasonally adjusted quarter-to-quarter basis, total exports of goods declined by 1.4% in real terms in the first quarter.

4. *Exports of services* extended the decline in the first quarter, falling by 0.6% in real terms over a year earlier, after the 0.3% drop in the preceding quarter. This was mainly dragged by the setback in exports of travel services, being marked by weaker per capita visitor spending and the visible slowdown in the growth of tourist arrivals to a low single-digit level in the first quarter. Alongside subdued trade and cargo flows, exports of transportation services only registered mild growth, while exports of trade-related services declined slightly. Yet, exports of financial and other business services bounced back, thereby rendering some cushion to overall services exports, thanks to the expansion of cross-border financial activity. On a seasonally adjusted basis, exports of services rose marginally by 0.3% in real terms in the first quarter over the preceding quarter.

Domestic sector

5. Domestic demand performance was relatively steady. *Private consumption expenditure* expanded moderately further in the first quarter of 2015, by 3.5% in real terms over a year earlier. Consumption sentiment was somewhat unsteady at the beginning of the year, but the stable income and job conditions continued to provide support. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure edged up by 0.1% in the first quarter. *Government consumption expenditure* maintained stable growth at 3.5% year-on-year in the first quarter.

6. Overall investment spending in terms of *gross domestic fixed capital formation* picked up visibly by 7.3% year-on-year in real terms in the first quarter, following the 3.4% growth in the preceding quarter, mainly attributable to a notable rebound of machinery and equipment acquisition. In the first quarter, large-scale infrastructure works slackened visibly to a decline, partly due to an exceptionally high base of comparison a year earlier, while private sector building and construction activity attained further moderate growth.

The labour sector

7. The labour market held broadly stable and remained in a state of full employment. The *seasonally adjusted unemployment rate* stayed low at 3.3% in the first quarter of 2015, while the *underemployment rate* edged down to 1.4%. Labour demand remained tight, as job vacancies bounced back in December 2014, and total employment posted further growth in the first quarter. Wages and earnings sustained moderate rises in the fourth quarter of 2014. However, some moderation in earnings growth was observed of late, with the year-on-year nominal growth of the average monthly employment earnings of full-time employees in the lower-skilled segment moderating to 3.1% in the first quarter of 2015, conceivably due in part to the softness in the retail trade and other tourism-related sectors.

The asset markets

8. The *local stock market* trended upward on entering 2015 alongside other major markets worldwide, but came under pressure in the first half of March amid shifting sentiment on concerns about the US Fed's monetary policy direction, Greece's debt problem and intensified geopolitical tensions in Eastern Europe and the Middle East. Nonetheless, it recovered grounds in early April and surged afterwards, conceivably due to the improved sentiment amid the more accommodative stances of the major central banks. The Hang Seng Index hit a seven-year high of 28 443 during April and ended the month at 28 133, 19.2% higher than at end-2014.

9. The *residential property market* saw further signs of exuberance in the first two months of 2015, but cooled down somewhat after the Hong Kong Monetary Authority introduced the seventh round of macro-prudential measures on

tightening mortgage loans in late February. Trading volume in the first quarter edged down by 2% from the preceding quarter. Nevertheless, overall flat prices in March exceeded the 1997 peak by 69%, and the housing affordability ratio worsened further to around 64% in the first quarter. Separately, flat rentals rose by 2% during the first quarter. Meanwhile, office and shop rentals went up by 1% and 2% respectively.

Prices

10. Consumer price inflation remained on an easing trend in the first quarter of 2015. Locally, the increase in private housing rental component moderated further as the milder increases in the fresh-letting rentals in earlier quarters continued to feed through. The single-digit year-on-year rises in commercial rentals and the steady growth in labour costs all helped keep local cost pressures contained. Externally, imported inflation remained tame, on the back of softer international food and commodity prices, a stronger US dollar, and easing inflationary pressures in Hong Kong's major import partners. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, *underlying consumer price inflation* lowered to 2.7% in the first quarter of 2015, from 3.3% in the preceding quarter. *Headline consumer price inflation* was 4.4% in the first quarter of 2015, down from 5.1% in the fourth quarter of 2014.

Latest GDP and price forecasts for 2015

11. Looking ahead, global economic growth is likely to remain moderate and uneven. There are also considerable uncertainties. The prospective interest rate hike in the US remains data-dependent. Moreover, the conflicting policy directions of major central banks could have notable repercussions on capital fund flows and interest rate expectations, posing threats to global financial stability. The Greek debt problem, fragile recovery of the eurozone, and heightened geopolitical tensions in various regions, if protracted and intensified, could worsen the external environment. Meanwhile, emerging markets economies, including the Mainland, are also likely to experience varying degrees of growth slowdown. The external unsteadiness, coupled with a strong US dollar, will continue to constrain our export performance. The recent slowdown in inbound tourism may also weigh on the tourism-related sectors and our services exports. On the other hand, domestic demand is likely to remain a stable growth driver. The steady job and income conditions should render support to local consumption, and the boost from the package of relief measures in the 2015-16 Budget would also provide cushion against the external headwinds. The Government will stay vigilant to the impacts of recent slowdown in inbound tourism and various external uncertainties on the economy and labour market in the period ahead.

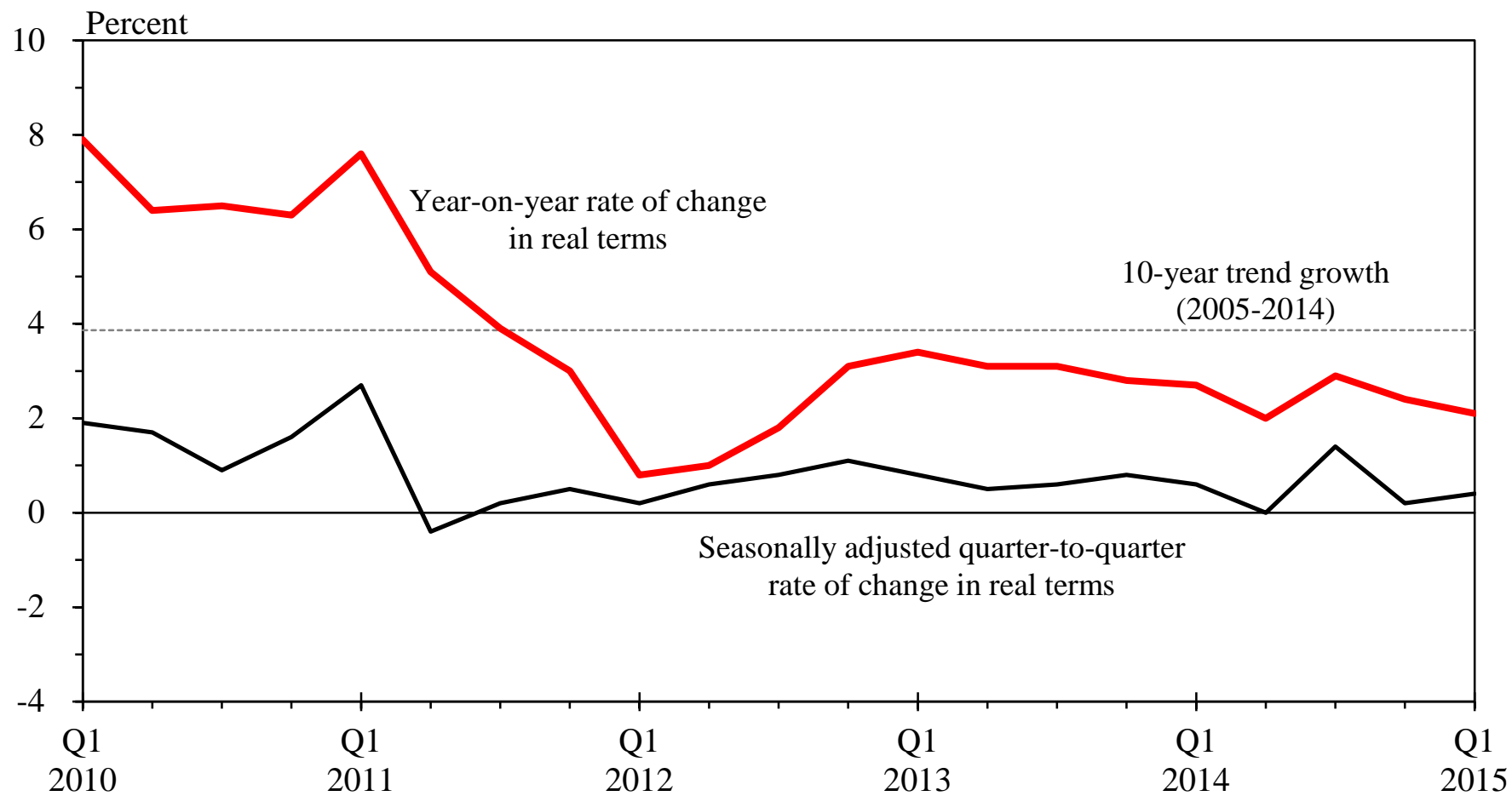
12. Taking into account the actual growth outturn in the first quarter and the range of uncertainties still facing the Hong Kong economy, the forecast GDP growth of 1-3% for 2015, as announced in the Budget, is maintained in the current round of

review (*Table 2*). For reference, the latest forecasts by private sector analysts mostly range from 1.6-3%, averaging around 2.4%.

13. On inflation outlook, given that the abating imported inflation, notable fall in energy prices and moderate local cost pressures will likely continue for a while, the upside risks to consumer price inflation should remain contained in the near term. Given the lower-than-expected actual outturn in the first quarter, the forecast rates of headline and underlying consumer price inflation for 2015 are revised slightly downward from 3.5% and 3% respectively in the Budget round to 3.2% and 2.7% respectively in the current round of review (*Table 2*).

(The First Quarter Economic Report 2015 is now available for online download, free of charge at www.hkeconomy.gov.hk/en/reports/index.htm. The Report of the Gross Domestic Product, First Quarter 2015, which contains the GDP figures up to the first quarter of 2015, is also available for online download, free of charge at the homepage of the Census and Statistics Department, www.censtatd.gov.hk.)

Hong Kong's Gross Domestic Product



Note : Figures for the first quarter of 2015 are preliminary estimates.

Table 1

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

	<u>2013[#]</u>	<u>2014[#]</u>	<u>2014</u>				<u>2015</u>
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[±]</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	4.6	3.2	2.1 (0.7)	1.8 (0.3)	4.7 (1.9)	4.1 (1.0)	3.5 (0.1)
Government consumption expenditure	3.0	3.0	2.7 (0.7)	2.6 (1.3)	3.6 (1.0)	3.3 (0.4)	3.5 (0.8)
Gross domestic fixed capital formation	2.6	-0.2	3.9	-6.0	-1.7	3.4	7.3
<i>of which :</i>							
Building and construction	-4.3	6.5	11.1	2.2	4.5	7.6	-3.3
Machinery, equipment and intellectual property products	11.3	-6.5	-2.0	-11.4	-11.2	-0.4	14.2
Total exports of goods	6.5	0.8	-0.1 (-1.6)	2.1 (1.0)	0.7 (0.1)	0.6 (0.9)	0.4 (-1.4)
Imports of goods	7.2	0.9	1.0 (-1.3)	1.2 (0.1)	0.3 (0.2)	1.1 (2.0)	0.1 (-2.1)
Exports of services	4.9	0.9	4.1 (0.6)	-1.5 (-1.7)	1.3 (0.2)	-0.3 (0.7)	-0.6 (0.3)
Imports of services	1.5	1.9	-0.2 (-4.1)	4.9 (3.8)	2.0 (-0.8)	1.1 (2.1)	4.3 (-0.9)
Gross Domestic Product	3.1	2.5	2.7 (0.6)	2.0 (*)	2.9 (1.4)	2.4 (0.2)	2.1 (0.4)
<i>Change in the main price indicators (%)</i>							
GDP deflator	1.9	2.9	2.5 (0.1)	4.6 (1.2)	2.3 (0.4)	2.3 (0.6)	4.6 (2.4)
Composite CPI							
Headline	4.3	4.4	4.2 (0.9)	3.6 (0.7)	4.8 (0.5)	5.1 (2.9)	4.4 (0.3)
Underlying[^]	4.0	3.5	3.8 (0.9)	3.5 (0.7)	3.3 (0.7)	3.3 (0.9)	2.7 (0.3)
<i>Change in nominal GDP (%)</i>	5.0	5.5	5.2	6.7	5.3	4.8	6.7

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.

(*) Change within $\pm 0.05\%$.

Table 2**Economic forecasts for 2015
(rate of change (%))**

	Forecasts as released <u>on 25.2.2015</u> (%)	Latest forecasts <u>on 15.5.2015</u> (%)
Real Gross Domestic Product (GDP)	1 to 3	<i>1 to 3</i>
Composite Consumer Price Index (CCPI)		
<i>Headline CCPI</i>	3.5	3.2
<i>Underlying CCPI</i>	3	2.7