

Press Release

(embargoed until 4:30 p.m. on 14 August 2015)

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

The Government released today (14 August) the Half-yearly Economic Report 2015, together with the preliminary figures on Gross Domestic Product (GDP) for the second quarter of 2015.

The Government Economist, Mrs Helen Chan, described the economic situation in the second quarter of 2015 and provided the latest GDP and price forecasts for 2015.

Main points

- * The Hong Kong economy expanded by 2.8% year-on-year in real terms in the second quarter of 2015, slightly faster than the 2.4% growth in the preceding quarter. Domestic demand exhibited much resilience, while the external sector remained weak. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew by 0.4% in the second quarter, after the 0.7% growth in the preceding quarter.
- * Global economic performance was weaker-than-expected so far this year, resulting in a region-wide setback in exports and growth slowdown in Asia. Against this backdrop, Hong Kong was inevitably affected. Like many other Asian economies, Hong Kong's total exports of goods slackened to a decline in the second quarter, down by 3.6% in real terms over a year earlier. Exports of services, on the other hand, posted a slightly faster year-on-year growth of 1.0% in the second quarter. Within this, the surge in financial services exports more than compensated the negative impacts from sluggish trade flows and continued weakness in inbound tourism.
- * The domestic sector held remarkably resilient in the second quarter, thereby cushioning the overall economy against the lull in external trade. Private consumption expenditure grew strongly by 6.0% in real terms over a year earlier in the second quarter, on the back of full employment and rising income. Investment expenditure also made solid growth, up 6.5% over a year earlier, supported by a notable rebound in building and construction works and further growth in machinery and equipment acquisition.
- * The labour market remained in a state of full employment, with total employment staying near its record high. The seasonally adjusted unemployment rate edged down from 3.3% in the first quarter to 3.2% in the second quarter. Household income sustained further growth in real terms.
- * After reaching a seven-year high in April, the local stock market underwent marked correction, upon the sharp escalation of Greece's debt situation towards the end of June and sharp swings of the Mainland stock market, though subsequently recovering some lost ground. The residential property market

turned more active during the second quarter, with prices in June up by 3% over March.

- * Looking ahead, the global economic outlook in the near term remains mediocre. Among the advanced economies, the US economy is expected to attain moderate growth at best this year. Others still lack growth momentum, plagued by deep-seated structural issues and the crisis legacies. The export-dependent Asia has also seen an almost across-the-board growth slowdown, and the ensuing spillovers on Hong Kong's external trade have been visible. Against such backdrop, Hong Kong's exports of goods are expected to remain weak in the near term. The outlook for exports of services is also overcast by the weak trend in inbound tourism, as well as subdued trade flows.
- * In face of various external headwinds, Hong Kong's economic growth in the coming two quarters would have to rely on the domestic sector as the key propeller. Local consumption should see further growth, underpinned by the still stable job and income conditions. At the same time, the latest Quarterly Business Tendency Survey indicated that large enterprises are still largely positive about the near-term business outlook. This, coupled with continued hectic infrastructure works, should lend support to overall investment in the period ahead.
- * Taking into account the actual growth outturn of 2.6% in the first half, and with the Hong Kong economy poised for further moderate growth in the second half, the real GDP growth forecast for 2015 as a whole is revised to 2-3% in the current round of review, from that of the 1-3% in the May round.
- * The downside risks in the external environment remain notable. As the US interest rate lift-off draws closer, the policy divergence among major central banks will likely deepen. The associated uncertainties may spark abrupt fund flows reversals and unusually large asset price shifts, with possible de-stabilising impacts on global economic and financial market environments. Emerging market economies with weaker fundamentals could face a further build-up of financial market strains and downdrag on the economy. Apart from these, the fragile recovery of the eurozone and Japan remains a concern. Locally, the potential impacts of recent stock market swings on local economic sentiment also need to be watched over.
- * On the inflation front, underlying consumer price inflation continued its easing trend, down further to 2.5% in the second quarter from 2.7% in the preceding quarter. Given the muted global inflation, the softness in international commodity prices and moderate local cost pressures, the upside risks to inflation remain limited in the near term. With the actual inflation outturn so far this year somewhat lower-than-expected, the forecast rates of headline and underlying consumer price inflation for 2015, at 3.2% and 2.7% respectively in the May round, are revised slightly downward in the current round of review, to 3.1% and 2.6% respectively.

Details

GDP

According to the preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP grew by 2.8% in real terms in the second quarter of 2015 over a year earlier, slightly faster than the 2.4% growth in the preceding quarter (revised from the earlier estimate of 2.1%). On a seasonally adjusted quarter-to-quarter comparison, real GDP continued to grow by 0.4% in the second quarter, after the 0.7% 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 second quarter of 2015 are presented in *Table 1*. Developments in different segments of the economy in the second quarter of 2015 are described below.

External trade

3. *Total exports of goods* fell by 3.6% year-on-year in real terms in the second quarter, down from an already meagre 0.4% growth in the preceding quarter. Among the advanced markets, exports to the EU and Japan extended their declines, thereby more than offsetting the merely modest growth in the US market. Exports to major Asian economies, including the Mainland, Singapore, Taiwan, Korea and India slowed down in tandem. The fall in exports of raw materials and semi-manufactures, as well as capital goods to many Asian economies was the key drag, which in turn reflected the negative spillovers of the subdued external demand on Asian production activities and economic growth. On a seasonally adjusted basis, total exports of goods declined by 3.2% in real terms in the second quarter over the preceding quarter.

4. *Exports of services* fared somewhat better than goods exports, posting a year-on-year growth of 1.0% in real terms in the second quarter. Exports of financial and other business services continued to be the bright spot, registering an even more spectacular growth in the second quarter, thanks to vibrant cross-border financial and fund-raising activities. Exports of travel services remained weak with a further decline, marked by a slowdown in visitor arrivals to virtually no growth and continued decline in per capita visitor spending. Exports of trade-related services and transportation services remained in the doldrums, reflecting subdued regional trade flows under the anaemic external trading environment. On a seasonally adjusted basis, exports of services declined by 0.8% in real terms in the second quarter over the preceding quarter.

Domestic sector

5. Domestic demand held firm in the second quarter and remained the key driver to Hong Kong's economic growth. *Private consumption expenditure* grew strongly in the second quarter, by 6.0% in real terms over a year earlier, backed by favourable income and job prospects on one hand, with the buoyant asset market conditions during most of the quarter also providing an additional boost. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure increased by 1.2% in real terms in the second quarter. *Government consumption expenditure* maintained steady growth, at 3.3% year-on-year in the second quarter.

6. Overall investment spending in terms of *gross domestic fixed capital formation* expanded at a solid pace, up by 6.5% year-on-year in real terms in the second quarter, further to a 7.5% growth in the preceding quarter. Within this, overall building and construction expenditure reverted to show a marked growth of 12.5% year-on-year, as large-scale infrastructure works rebounded strongly, while private sector building and construction activity also maintained solid growth pace. At the same time, private sector machinery and equipment acquisition made a further year-on-year growth of 1.1%.

The labour sector

7. The labour market remained in a state of full employment. The *seasonally adjusted unemployment rate* edged down from 3.3% in the first quarter to 3.2% in the second quarter, while the *underemployment rate* held unchanged at 1.4%. Labour demand remained rather buoyant, as job vacancies in the private sector remained high in March and total employment stayed near its record high in the second quarter. Incomes sustained further growth over the same period, with the median monthly household income (excluding foreign domestic helpers) registering a notable year-on-year increase of 4.7% in real terms. The average monthly employment earnings of full-time employees (excluding foreign domestic helpers) engaged in elementary occupations also picked up, with a 2.0% year-on-year growth in real terms, benefiting from the upward adjustment of the Statutory Minimum Wage rate since May 2015.

The asset markets

8. The *local stock market* saw considerable fluctuations in recent months amid increased volatility over the global financial markets. It rallied on entering the second quarter, as the upbeat investment climate in the Mainland stock market and various positive market developments sent the local stock market to a seven-year high in April. It then underwent a marked correction towards the end of June and early July, upon rising concerns about Greece's debt negotiations and the sharp plunge in the Mainland stock market. The Hang Seng Index subsequently recovered some lost ground, closing 13 August at 24 019, 3.5% lower than end-March, yet 1.8% higher than end-2014.

9. The *residential property market* turned more active during the second quarter, having cooled down somewhat in March. Residential property prices rose by 3% during the second quarter, with overall flat prices in June exceeding the 1997 peak by 74% and the housing affordability ratio staying elevated at around 62% in the second quarter. Trading volume picked up over the recent low in March, though for the second quarter as a whole, they were 8% lower over the preceding quarter. Over the same period, flat, office and shop rentals all went up by 2%.

Prices

10. Consumer price inflation continued its easing trend in the second quarter, alongside modest price pressures from the domestic and external fronts. Locally, the private housing rental component of the consumer price indices recorded milder year-on-year increases, reflecting the feed-through of the more moderate increases in the fresh-letting rentals last year. At the same time, the steady growth in labour costs also helped keep domestic price pressures largely at bay. Externally, the pressure from imported inflation was scant, reflecting various factors of the soft international food and commodity prices, low inflation of Hong Kong's major import partners, and the strength of the US dollar. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, *underlying composite consumer price inflation* eased from 2.7% in the first quarter to 2.5% in the second quarter, the lowest since the first quarter of 2011. For the first half of 2015 as a whole, underlying inflation averaged 2.6%, markedly lower by 0.9 percentage point over that of 3.5% in 2014. *Headline consumer price inflation* moved down to 3.0% in the second quarter, from 4.4% in the preceding quarter. For the first half as a whole, headline inflation averaged 3.7%, also distinctly down from 4.4% in 2014.

Latest GDP and price forecasts for 2015

11. Looking ahead, the global economic outlook in the near term remains mediocre. Among the advanced economies, the US economy is expected to attain moderate growth at best this year. Others still lack growth momentum, plagued by deep-seated structural issues and the crisis legacies. The export-dependent Asia has also seen an almost across-the-board growth slowdown, and the ensuing spillovers on Hong Kong's external trade have been visible. Against such backdrop, Hong Kong's exports of goods are expected to remain weak in the near term. The outlook for exports of services is also overcast by the weak trend in inbound tourism, as well as subdued trade flows.

12. In face of various external headwinds, Hong Kong's economic growth in the coming two quarters would have to rely on the domestic sector as the key propeller. Local consumption should see further growth, underpinned by the still stable job and income conditions. At the same time, the latest Quarterly Business Tendency Survey indicated that large enterprises are still largely positive about the near-term business outlook. This, coupled with continued hectic infrastructure works, should lend support to overall investment in the period ahead.

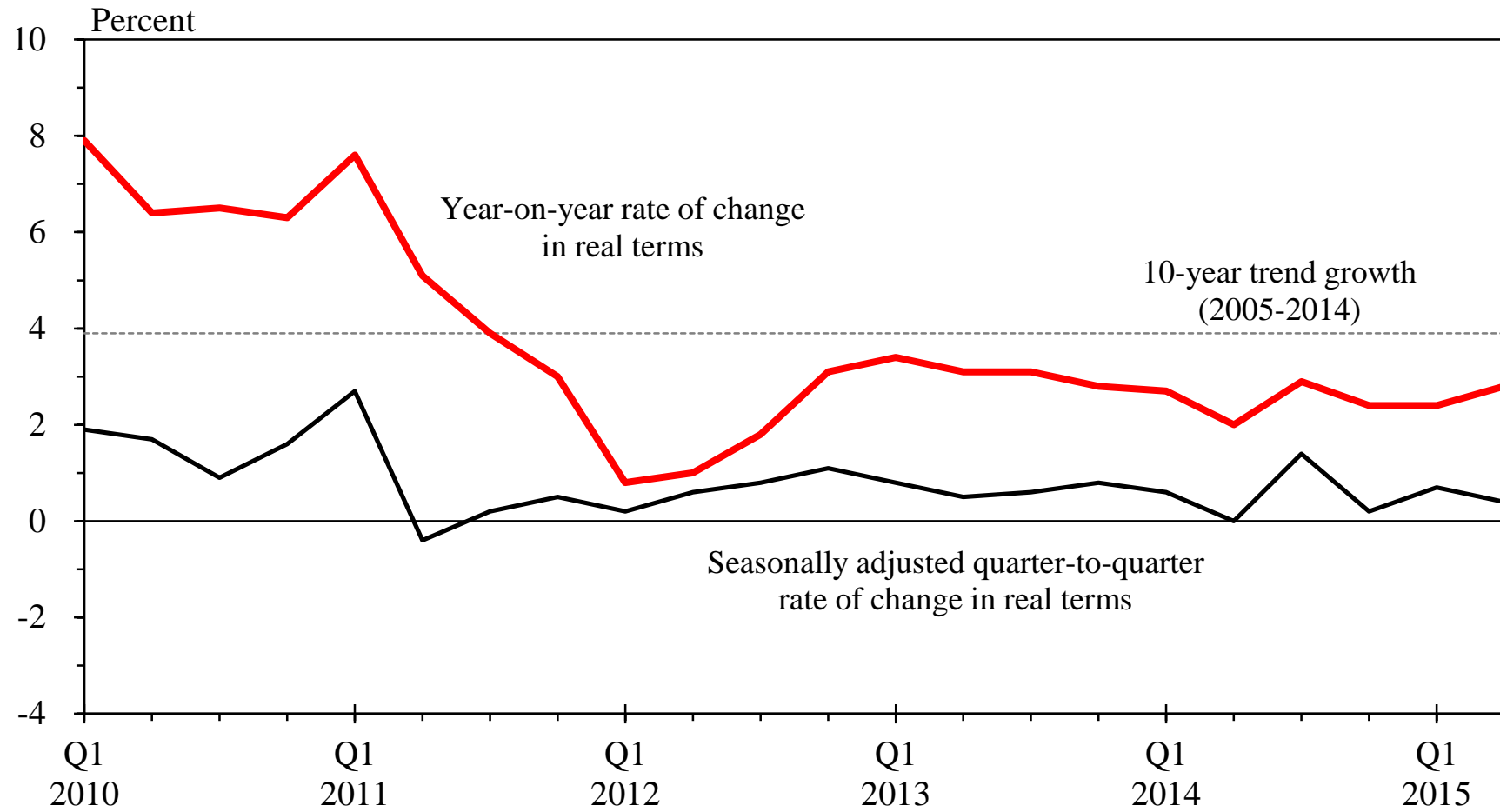
13. Taking into account the actual growth outturn of 2.6% in the first half, and with the Hong Kong economy poised for further moderate growth in the second half, the real GDP growth forecast for 2015 as a whole is revised to 2-3% in the current round of review, from that of the 1-3% in the May round (*Table 2*). For reference, the latest forecasts by private sector analysts mostly range from 1.6% to 2.9%, averaging around 2.3%.

14. The downside risks in the external environment remain notable. As the US interest rate lift-off draws closer, the policy divergence among major central banks will likely deepen. The associated uncertainties may spark abrupt fund flows reversals and unusually large asset price shifts, with possible de-stabilising impacts on global economic and financial market environments. Emerging market economies with weaker fundamentals could face a further build-up of financial market strains and downdrag on the economy. Apart from these, the fragile recovery of the eurozone and Japan remains a concern. Locally, the potential impacts of recent stock market swings on local economic sentiment also need to be watched over.

15. On inflation outlook, the upside risks to inflation remain limited in the near term, given the muted global inflation, the softness in international commodity prices and moderate local cost pressures. With the actual inflation outturn so far this year somewhat lower-than-expected, the forecast rates of headline and underlying consumer price inflation for 2015, at 3.2% and 2.7% respectively in the May round, are revised slightly downward in the current round of review, to 3.1% and 2.6% respectively (*Table 2*).

(The Half-yearly 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, Second Quarter 2015, which contains the GDP figures up to the second 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 second 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>	<u>Q2[±]</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)	5.3 (1.8)	6.0 (1.2)
Government consumption expenditure	3.0	3.0	2.7 (0.7)	2.6 (1.3)	3.6 (1.0)	3.3 (0.4)	3.4 (0.8)	3.3 (1.1)
Gross domestic fixed capital formation	2.6	-0.2	3.9	-6.0	-1.7	3.4	7.5	6.5
<i>of which :</i>								
Building and construction	-4.3	6.5	11.1	2.2	4.5	7.6	-3.3	12.5
Machinery, equipment and intellectual property products	11.3	-6.5	-2.0	-11.4	-11.2	-0.4	14.4	1.6
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)	-3.6 (-3.2)
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)	-3.2 (-3.1)
Exports of services	4.9	0.9	4.1 (0.6)	-1.5 (-1.7)	1.3 (0.2)	-0.3 (0.7)	* (0.9)	1.0 (-0.8)
Imports of services	1.5	1.9	-0.2 (-4.1)	4.9 (3.8)	2.0 (-0.8)	1.1 (2.1)	6.1 (0.8)	4.3 (2.1)
Gross Domestic Product	3.1	2.5	2.7 (0.6)	2.0 (*)	2.9 (1.4)	2.4 (0.2)	2.4 (0.7)	2.8 (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)	4.4 (2.3)	4.7 (1.4)
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)	3.0 (-0.6)
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)	2.5 (0.6)
Change in nominal GDP (%)	5.0	5.5	5.2	6.7	5.3	4.8	7.0	7.7

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 on <u>15.5.2015</u> (%)	Latest forecasts on <u>14.8.2015</u> (%)
Real Gross Domestic Product (GDP)	1 to 3	2 to 3
Composite Consumer Price Index (CCPI)		
<i>Headline CCPI</i>	3.2	3.1
<i>Underlying CCPI</i>	2.7	2.6