



# Hong Kong SAR Government

## Third Quarter Economic Report 2015 & Updated economic forecasts for 2015

13 November 2015

# Highlights of the latest economic situation

- HK economy grew modestly by 2.3% in Q3, slightly slower than Q2
- External sector remained subdued; goods and services exports both down
- Domestic demand quite resilient, rendering the key growth driver
- Labour market still in full employment; inflation eased further
- Latest GDP growth forecast for 2015 at 2.4%
- Volatile external environment; Uncertainties in US' interest rate hike; fluctuations in asset markets remain a concern

# **Economic performance in Q3 2015**

# HK economy continued to grow modestly in Q3 at a slightly slower pace

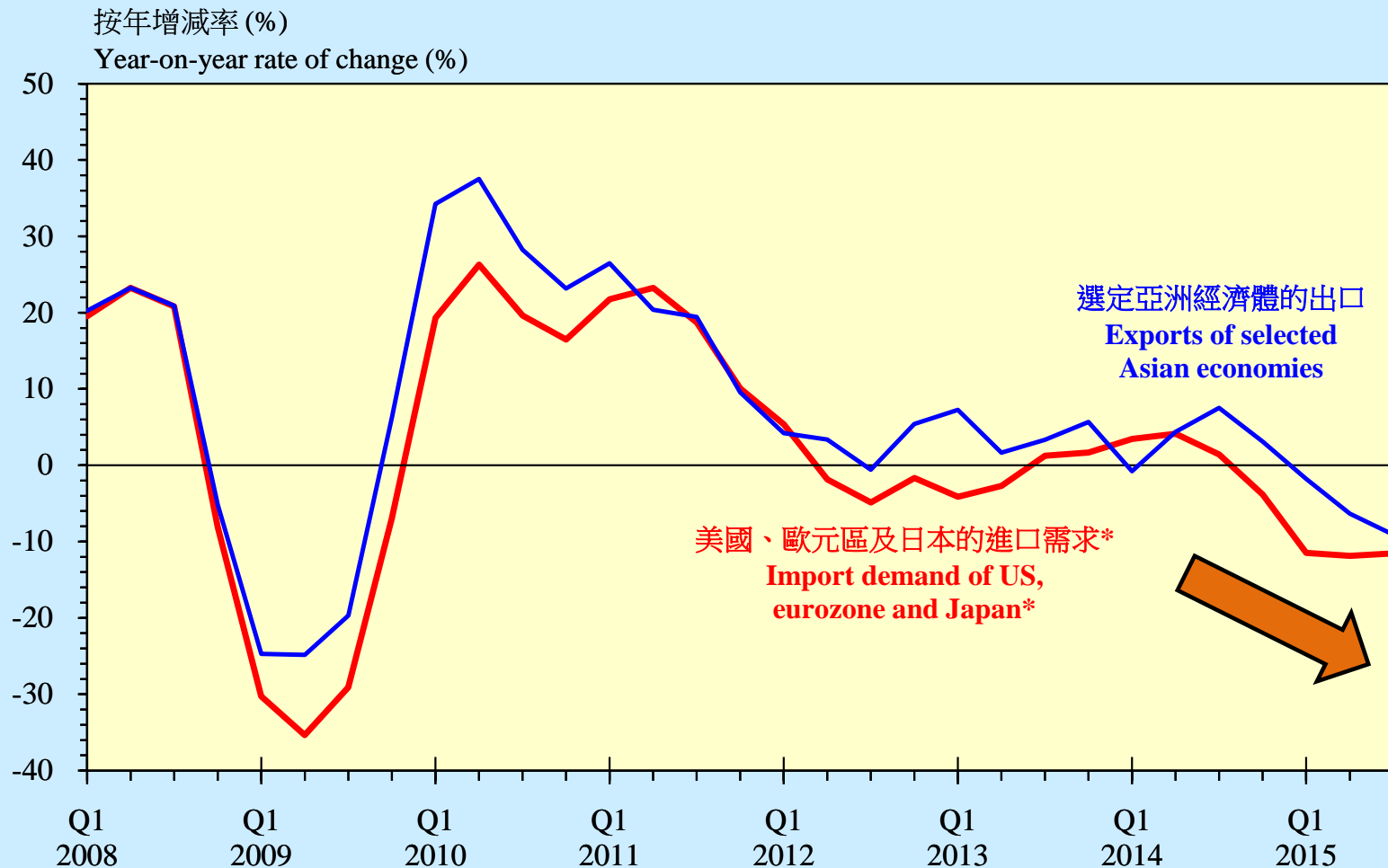
實質增減率 (%)

Rate of change in real terms (%)



# External sector

# Enlarged decline in Asian exports amid sluggish global demand conditions

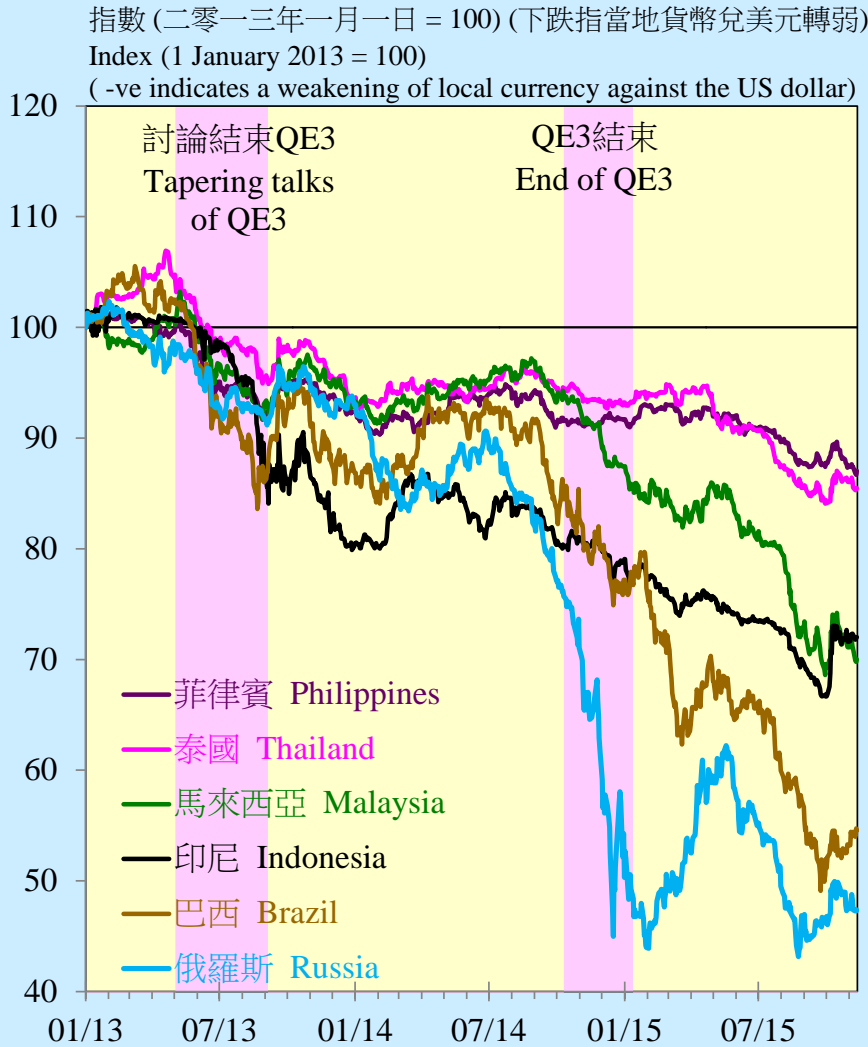


Notes: Selected Asian economies include Mainland China, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand.

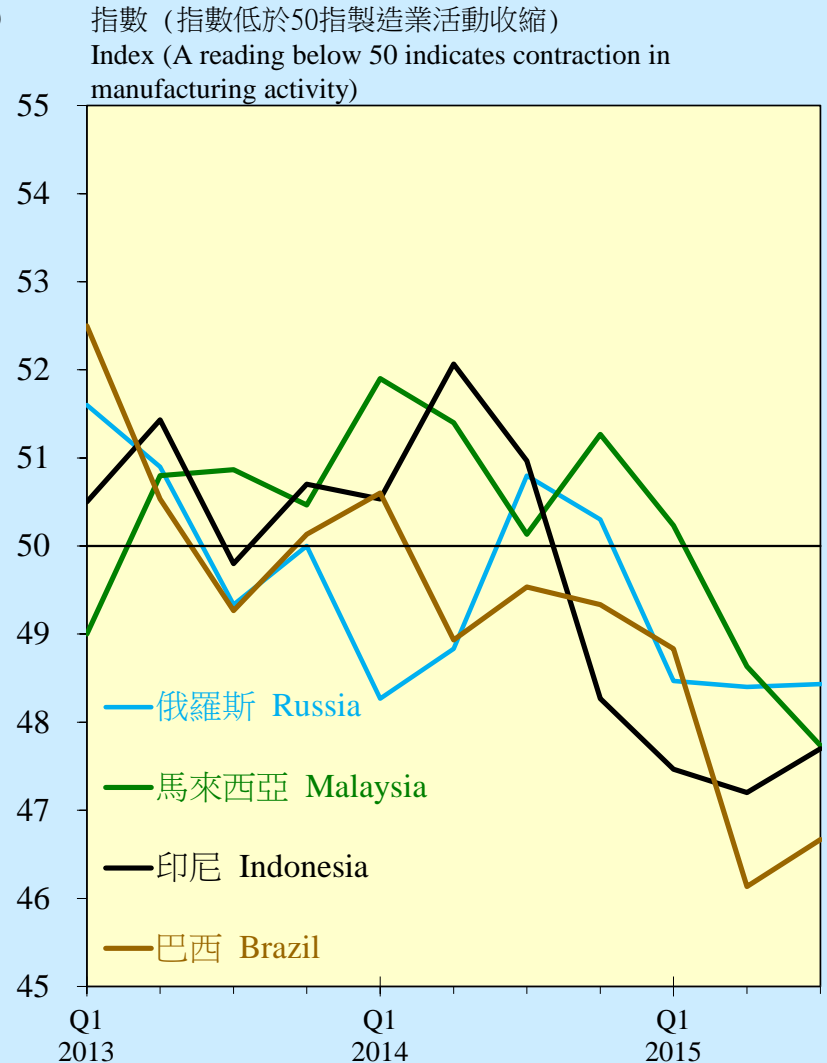
(\*) Due to data limitations, the latest figure for import demand of US, eurozone and Japan is Jul-Aug 2015 combined.

# Emerging market economies lose momentum, adding external headwinds

## Exchange rates



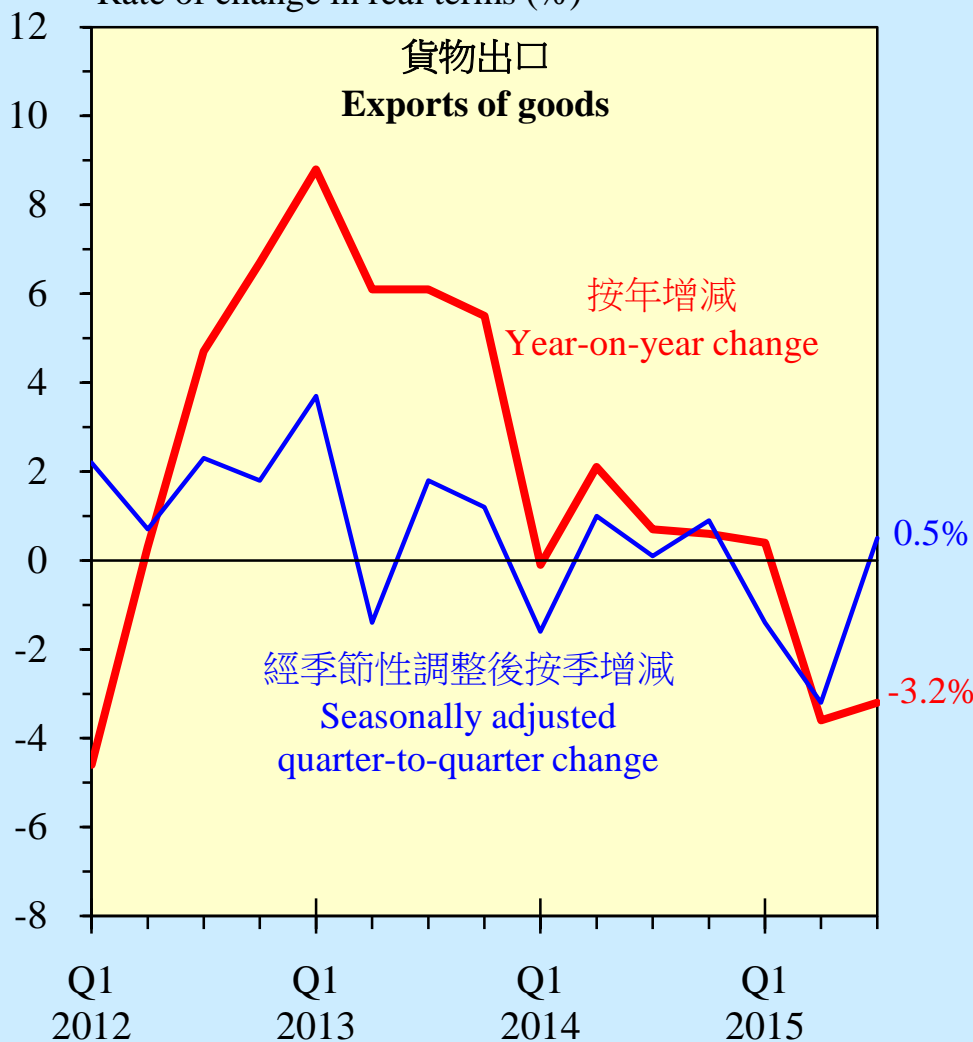
## Manufacturing PMI



# As part of a region-wide phenomenon, HK's exports remained on a downtrend in Q3

實質增減率 (%)

Rate of change in real terms (%)



## Total exports of goods by major market

Year-on-year rate of change in real terms (%)

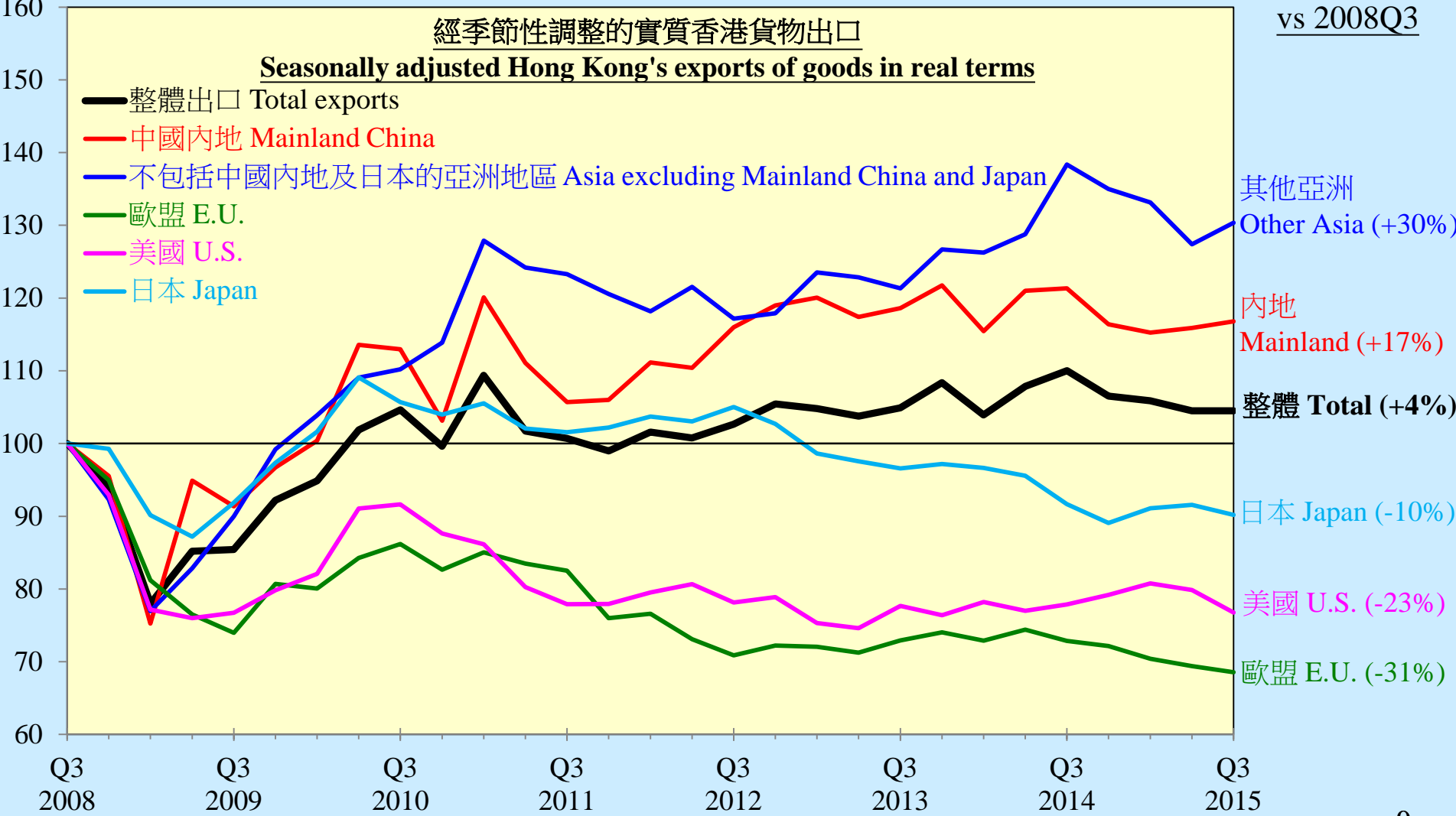
	<u>2014</u>	<u>2015</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Mainland	-0.7	-0.2	-4.4	-3.5
U.S.	2.7	3.3	3.6	-1.4
E.U.	0.6	-3.5	-6.7	-6.0
Japan	-4.5	-5.8	-4.0	-1.7
Taiwan	2.1	-12.8	-20.3	-23.5
Korea	-1.8	-5.7	-13.8	-19.1
Singapore	2.1	0.4	-3.7	-8.7



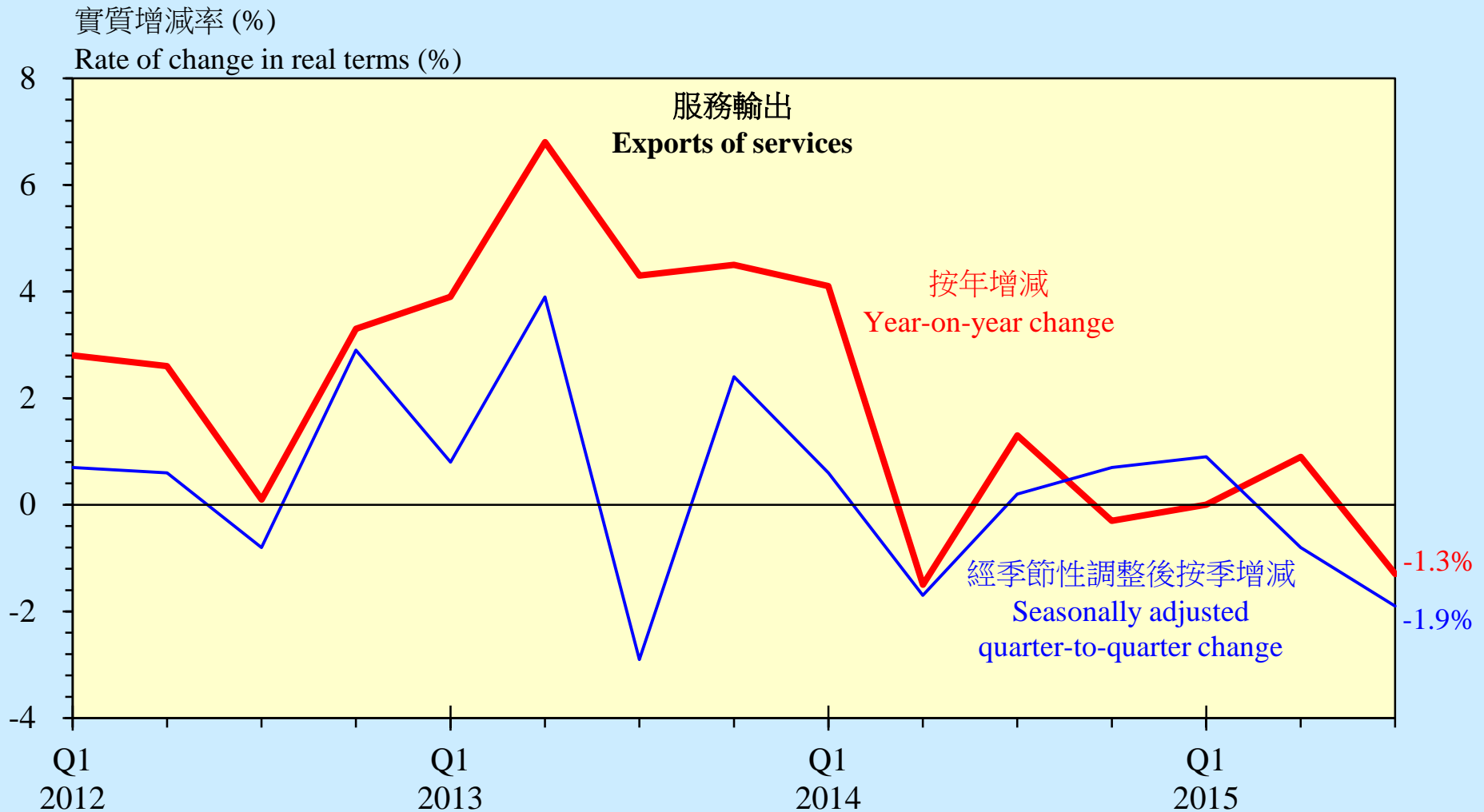
# Goods export performance remained lacklustre since GFC

(2008年第三季 = 100)  
(Q3 2008 = 100)

相比  
2008年第三季  
vs 2008Q3



# Services exports relapsed to a decline



# Apart from financial services, the declines in services exports were widespread

## Exports of services

Year-on-year rate of change in real terms (%)

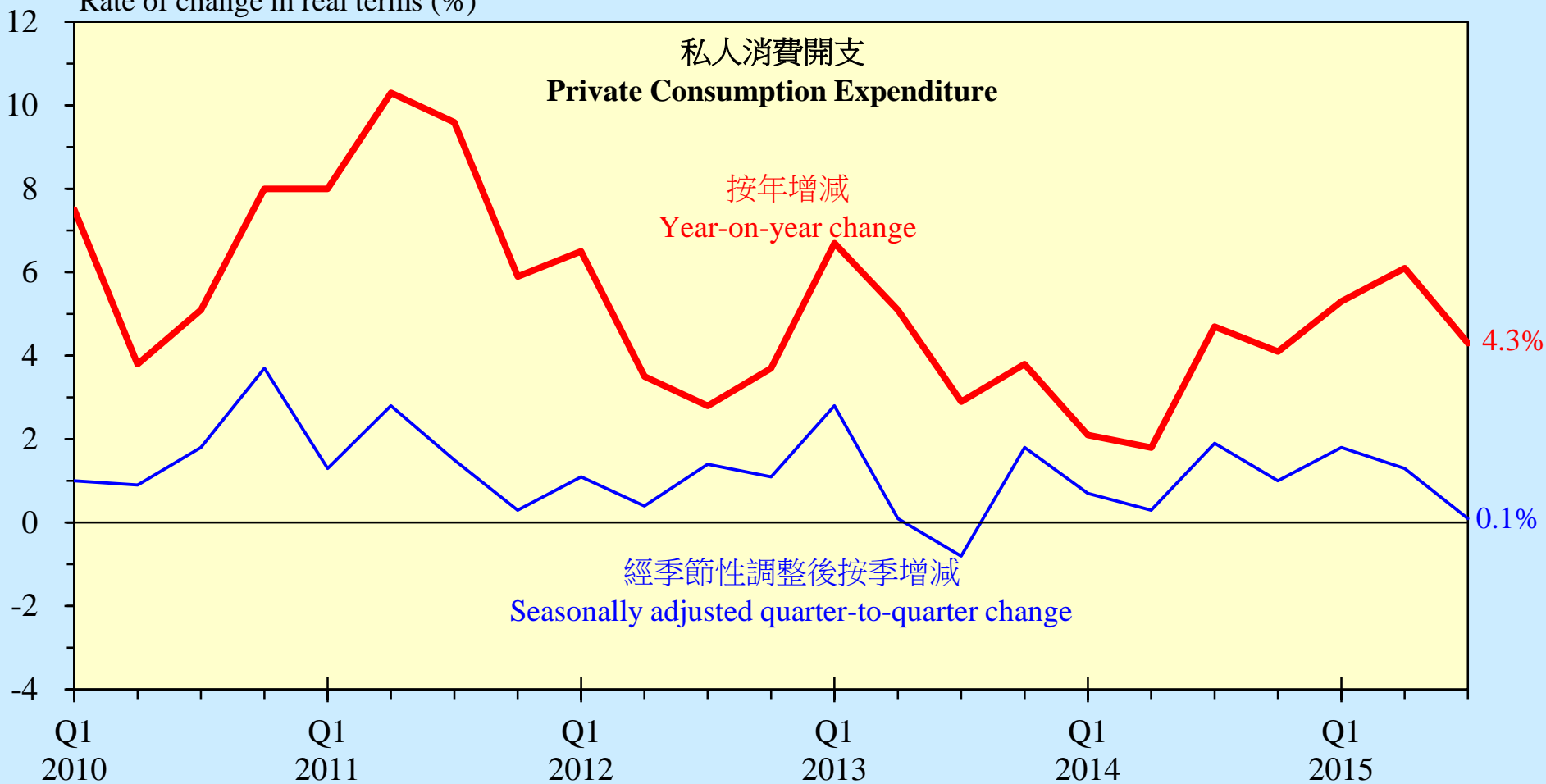
		<u>Travel services</u>	<u>Trade-related services</u>	<u>Transportation services</u>	<u>Financial and business services</u>
2014	Q1	11.1	-0.2	1.5	2.5
	Q2	-9.6	1.5	3.9	0.5
	Q3	-3.8	2.7	2.9	4.2
	Q4	-2.9	0.8	1.9	-0.5
2015	Q1	-4.4	-1.0	1.0	5.4
	Q2	-1.6	-1.9	-1.8	11.1
	Q3	-5.6	-2.4	-1.6	6.2

# Domestic sector

# Private consumption expanded solidly, rendering the key driver of the economy

實質增減率 (%)

Rate of change in real terms (%)



# Investment spending slackened

按年實質增減率 (%)

Year-on-year rate of change in real terms (%)



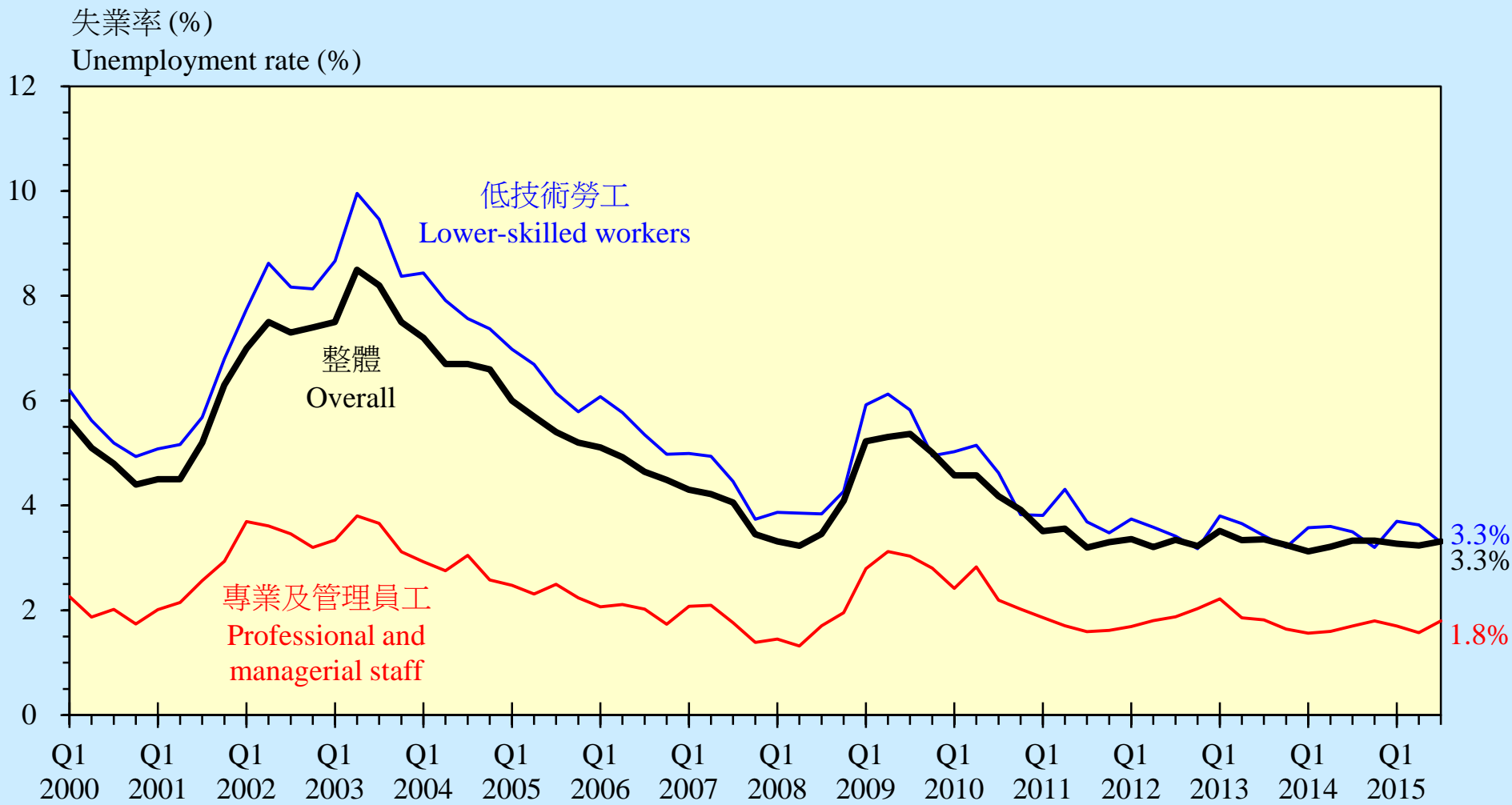
## Overall investment spending

Year-on-year rate of change in real terms (%)

	Machinery, equipment and intellectual property products	Building and construction
2013	11.3	-4.3
2014	-6.5	6.5
2015 Q1	14.4	-3.3
Q2	-1.3	13.4
Q3	-10.5	4.2

# Labour market

# Labour market remained in full employment, with unemployment rate staying at low level



Note: Not seasonally adjusted except the overall unemployment rate.



# Incomes\* sustained real improvements in Q3

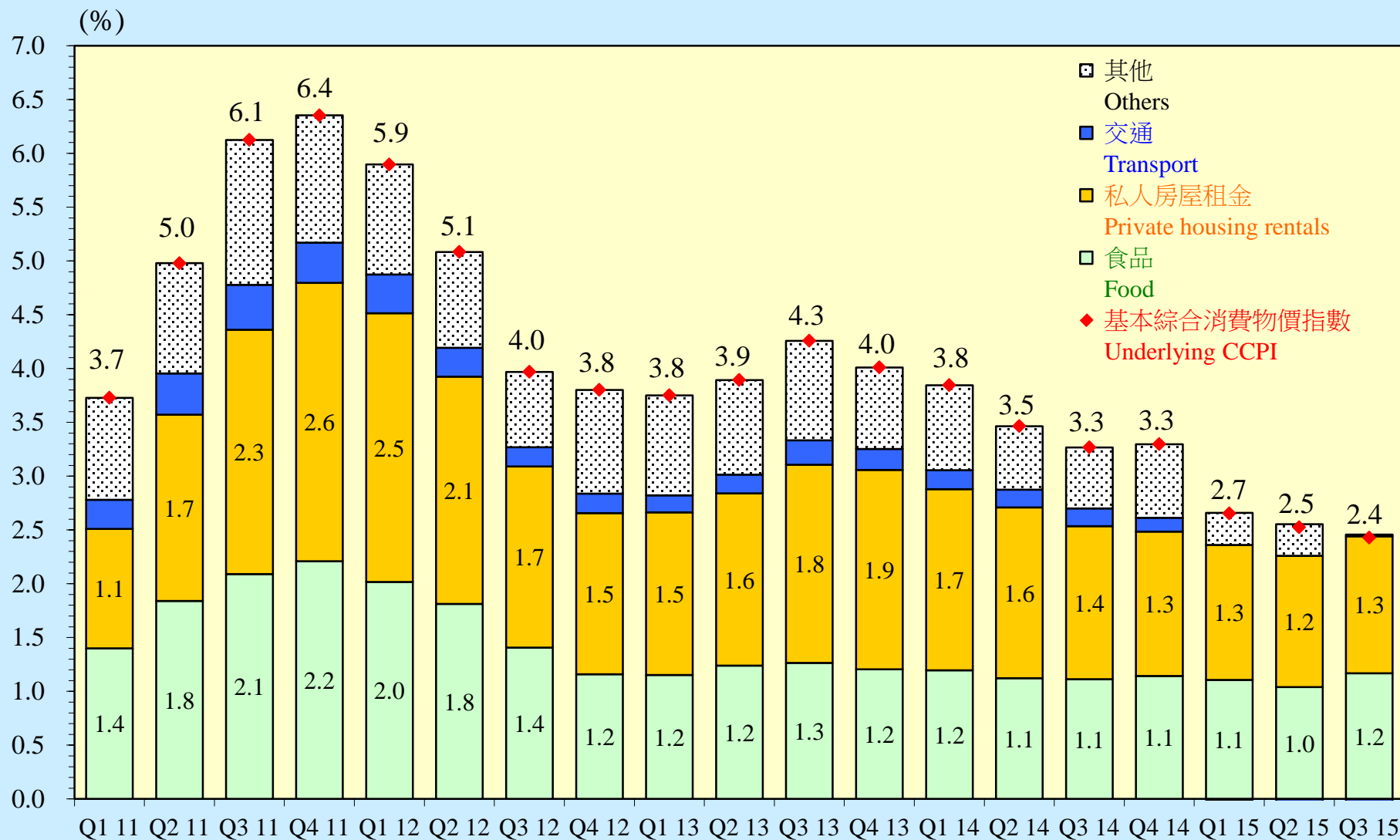
	<u>Income</u>	
	Year-on-year rate of change (%)	
	<u>Nominal growth</u>	<u>Real growth</u>
Median household income	6.4	4.0
Average employment earnings of full-time employees	5.4	3.0
<i>Among those: with elementary occupations</i>	8.0	5.1

Note: (\*) denotes excluding foreign domestic helpers.

# **Inflation**

# Underlying inflation eased further

Contribution to the year-on-year rate of change in the underlying Composite Consumer Price Index by major component



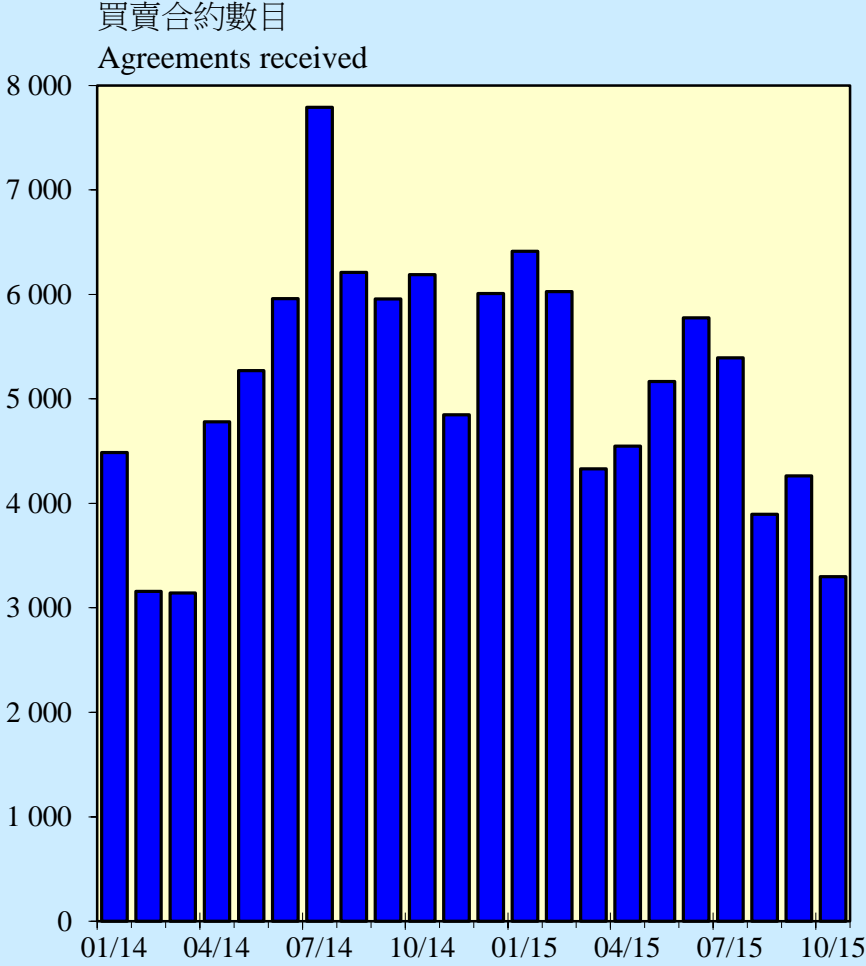
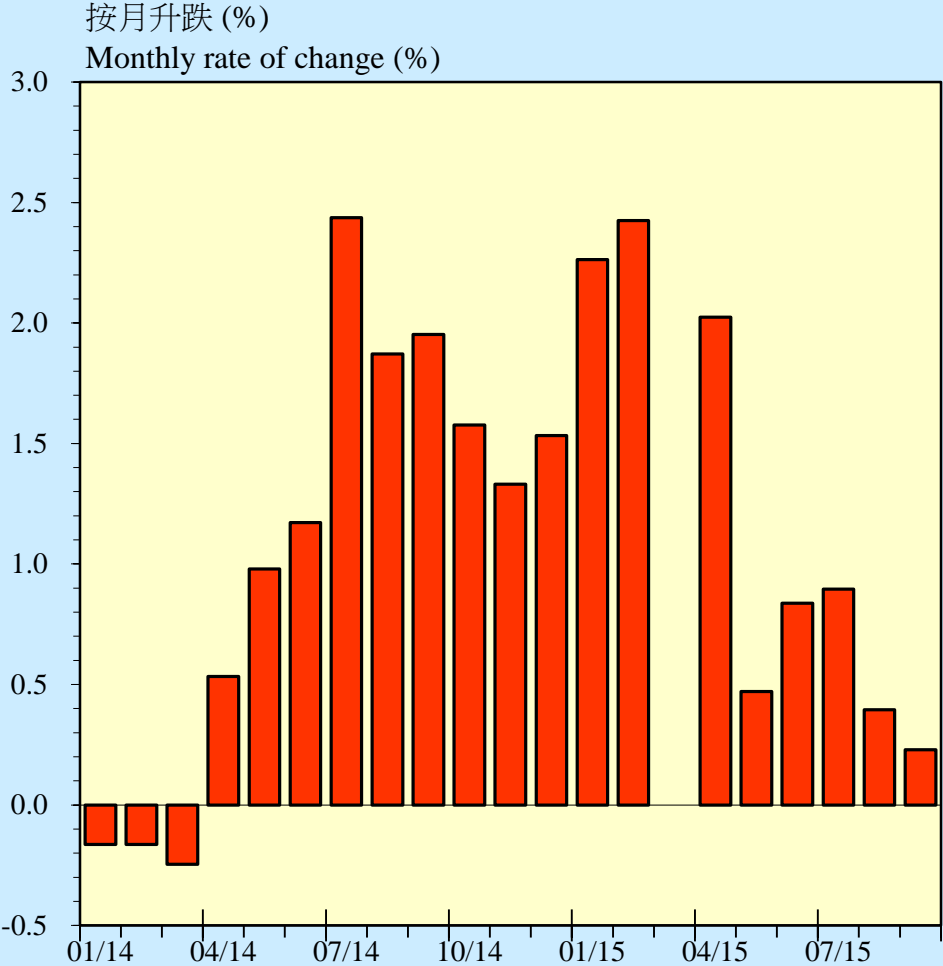
Note: Individual figures may not add up due to rounding.

# Property market

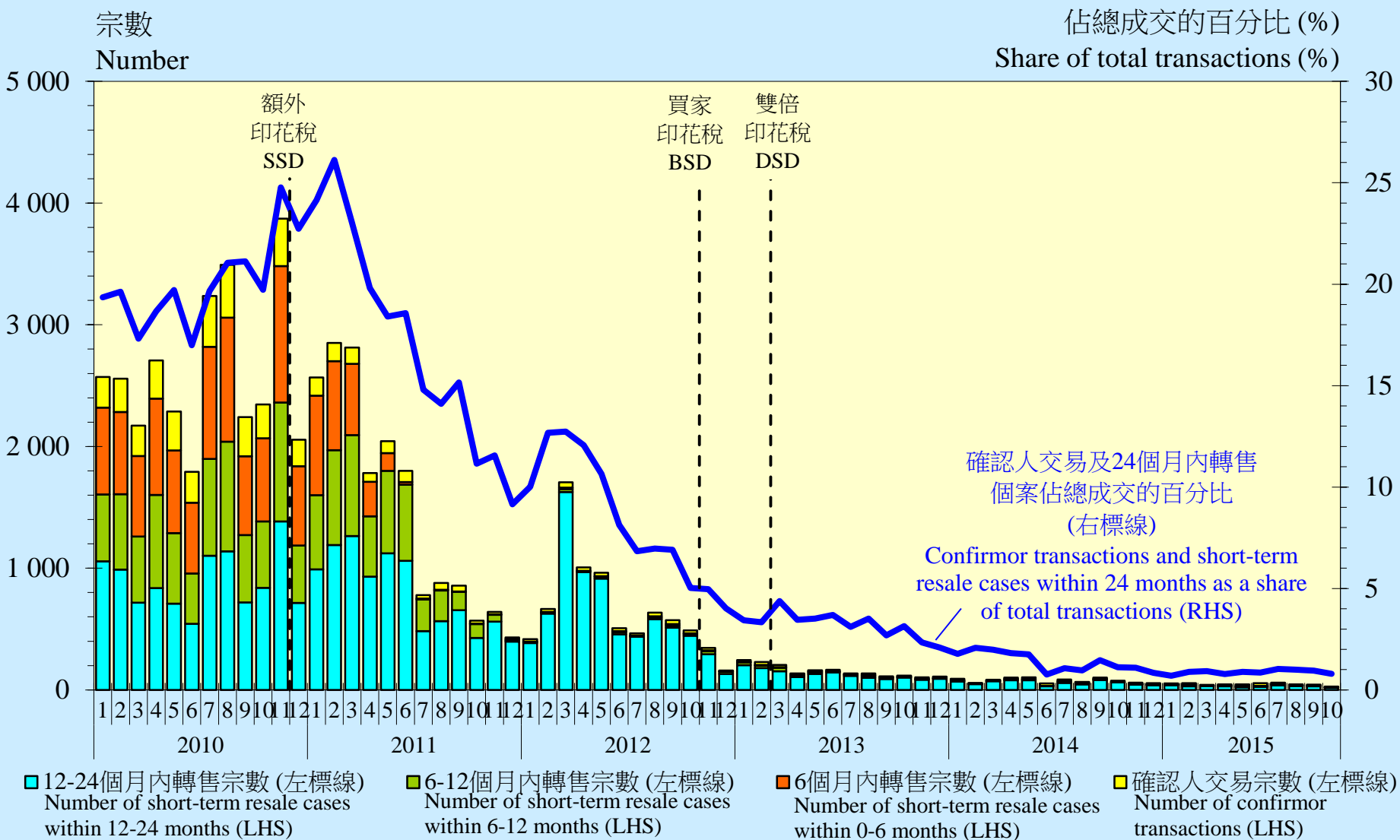
# Housing market turned quieter, but bubble risk remained prominent

**Flat price**

**No. of S&P agreements**



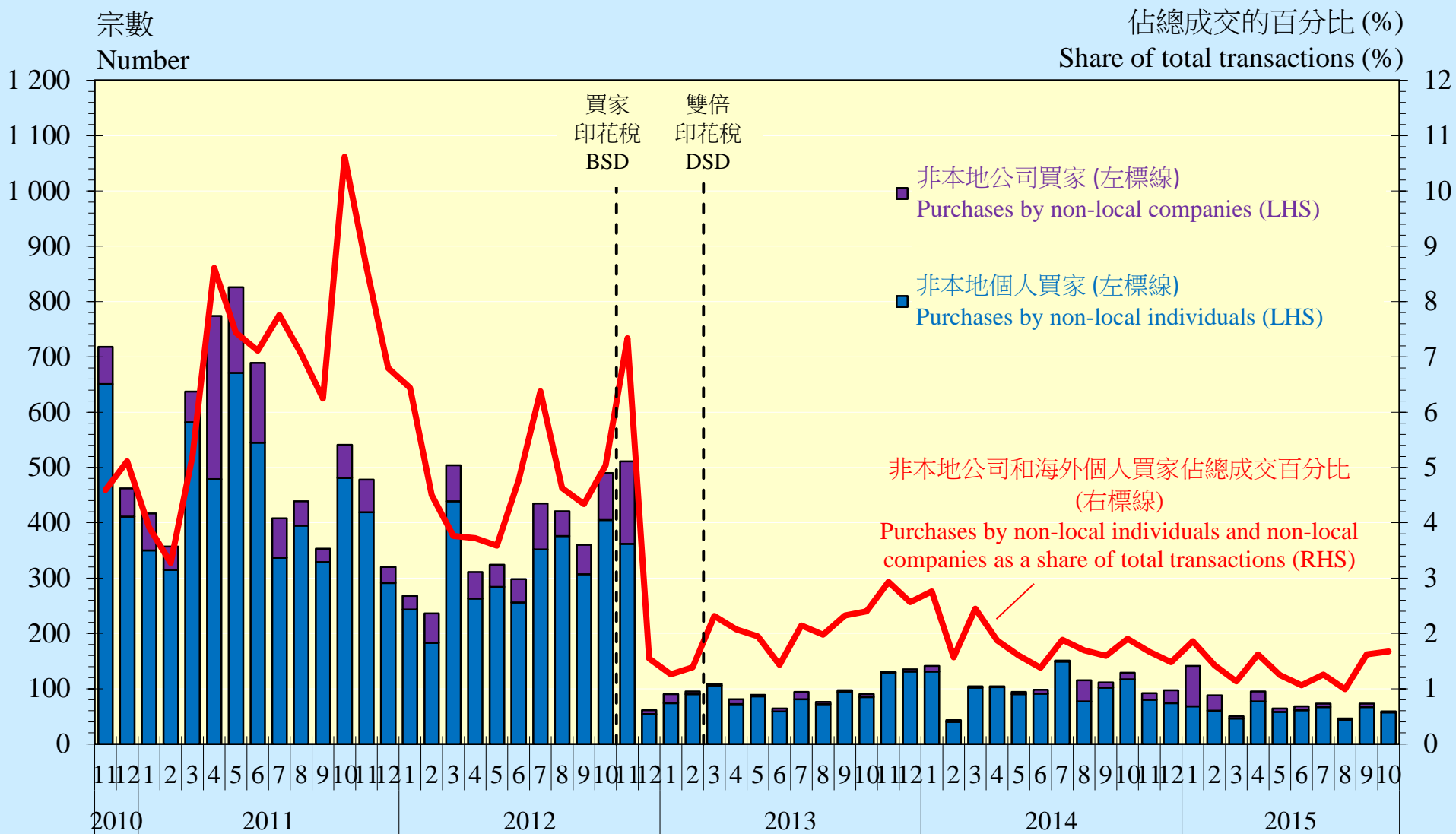
# Speculative activities remained low



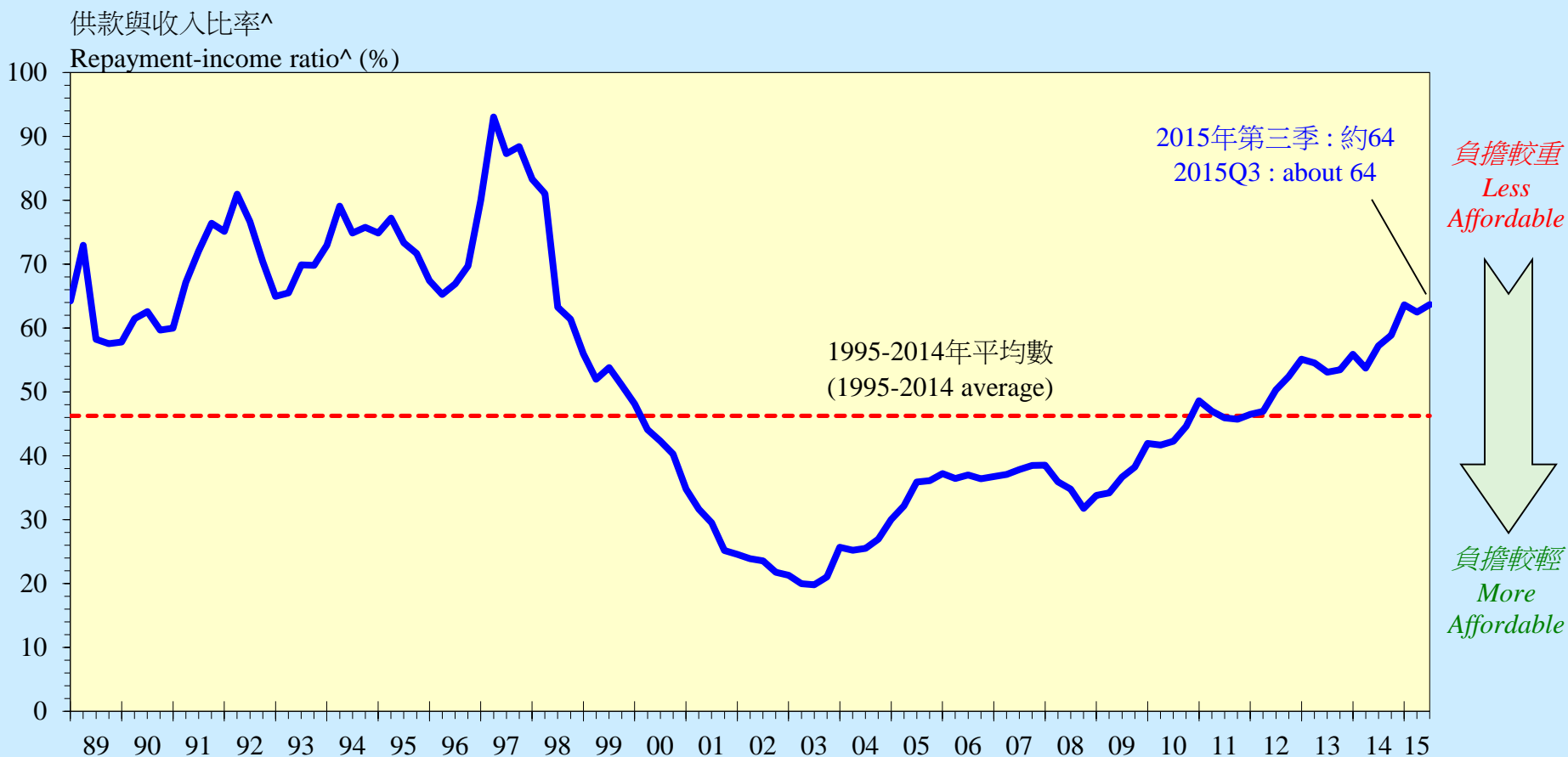
註：確認人交易指於未完成交易之前轉售。

Note: Confirmor transactions refer to resale before assignment.

# Purchases by non-local buyers still taking up a minor share



# Mortgage payment to income ratio stayed elevated



註：(^) 45平方米單位的按揭供款(假設按揭成數為70%及年期為20年)相對住戶入息中位數(不包括居於公營房屋的住戶)的比率。這比率與金管局公布的平均供款與入息比率不同，後者是新批按揭貸款申請人的每月償還債務與每月收入的比率。

Note : (^) The ratio of mortgage payment for a flat with saleable area of 45 sq m (assuming 70% loan-to-value ratio and tenor of 20 years) to median income of households (excluding those living in public housing). This ratio is different from the debt servicing ratio published by the HKMA, which is the ratio of actual monthly debt obligations of mortgagors to their monthly income of newly approved mortgagors.



# **Outlook for the remaining 2015**

## External environment remains difficult

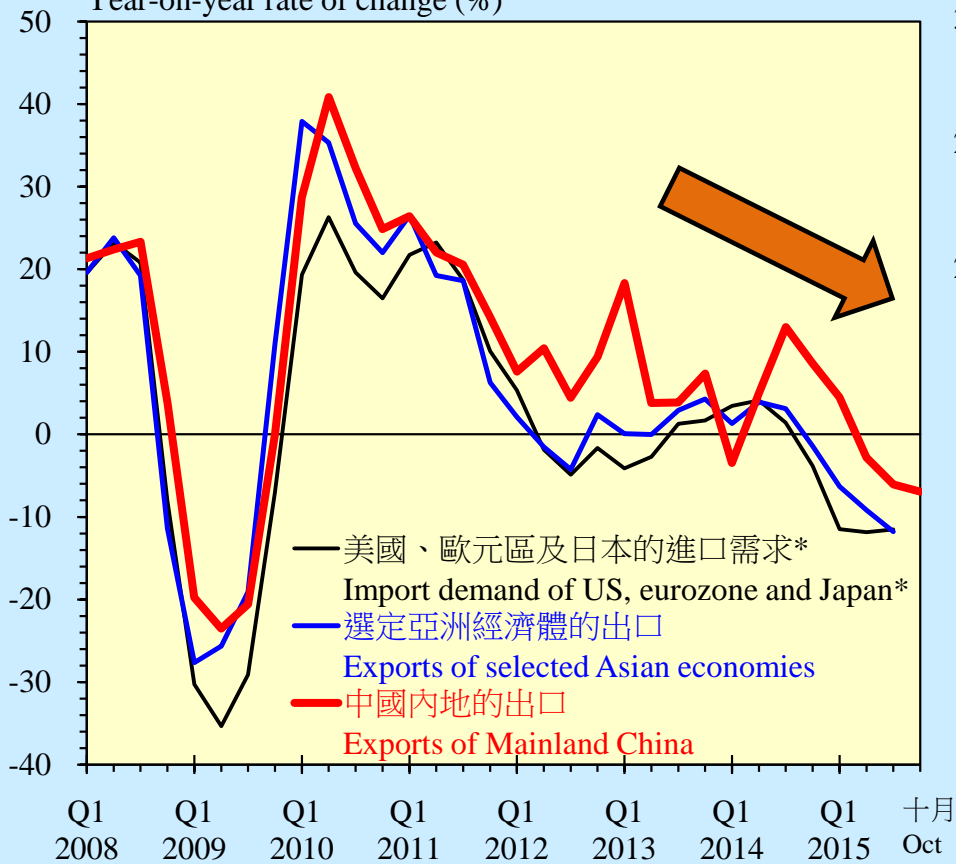
- ◆ **US:** Labour market improved further, raising chance of rate hike
- ◆ **Eurozone:** Recovery remained fragile; deflation risks still prevail
- ◆ **Japan:** On the verge of recession; lingering structural problems
- ◆ **Emerging markets:** Losing growth momentum; downside risks on the rise amid capital outflows and volatilities in stock and foreign exchange markets

# Mainland economic growth within reasonable range in Q3, while still facing downward pressure

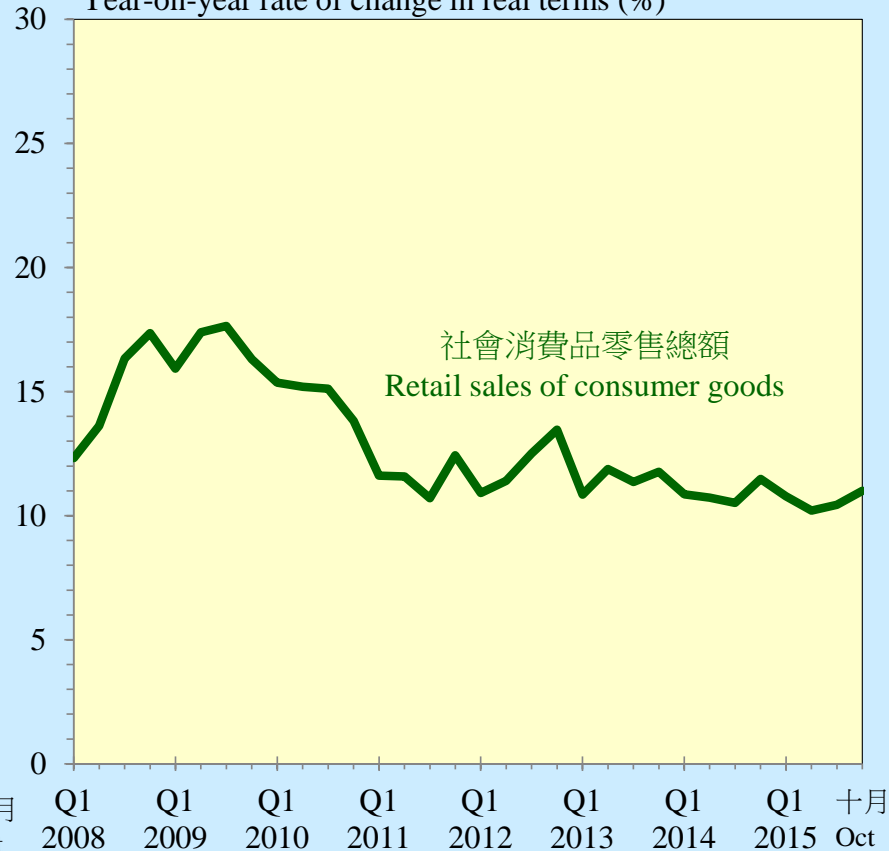
## Mainland exports also dampened by external environment

## Domestic demand still growing solidly

按年增減率 (%)  
Year-on-year rate of change (%)



按年實質增減率 (%)  
Year-on-year rate of change in real terms (%)



註：選定亞洲經濟體包括香港、印度、印尼、韓國、馬來西亞、菲律賓、新加坡、台灣及泰國。

Notes: Selected Asian economies include Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand.

(\*) 由於數據有限，美國、歐元區及日本的進口需求最新數字為2015年7-8月合併的數字。

(\*) Due to data limitations, the latest figure for import demand of US, eurozone and Japan is Jul-Aug 2015 combined.

# IMF revised down three times its forecast for the global economy this year

## IMF forecasts on 2015 GDP growth

	GDP growth in 2014	IMF forecasts on 2015 GDP growth				Change between Jul-Oct
		Jan	Apr	Jul	Oct	
World	3.4	3.5	3.5	3.3	3.1	-0.2
U.S.	2.4	3.6	3.1	2.5	2.6	0.1
Eurozone	0.9	1.2	1.5	1.5	1.5	(-)
Japan	-0.1	0.6	1.0	0.8	0.6	-0.2
Mainland China	7.3	6.8	6.8	6.8	6.8	(-)
Developing Asia	6.8	6.4	6.6	6.6	6.5	-0.1
Emerging market and developing economies	4.6	4.3	4.3	4.2	4.0	-0.2

# Overall business outlook weakened slightly

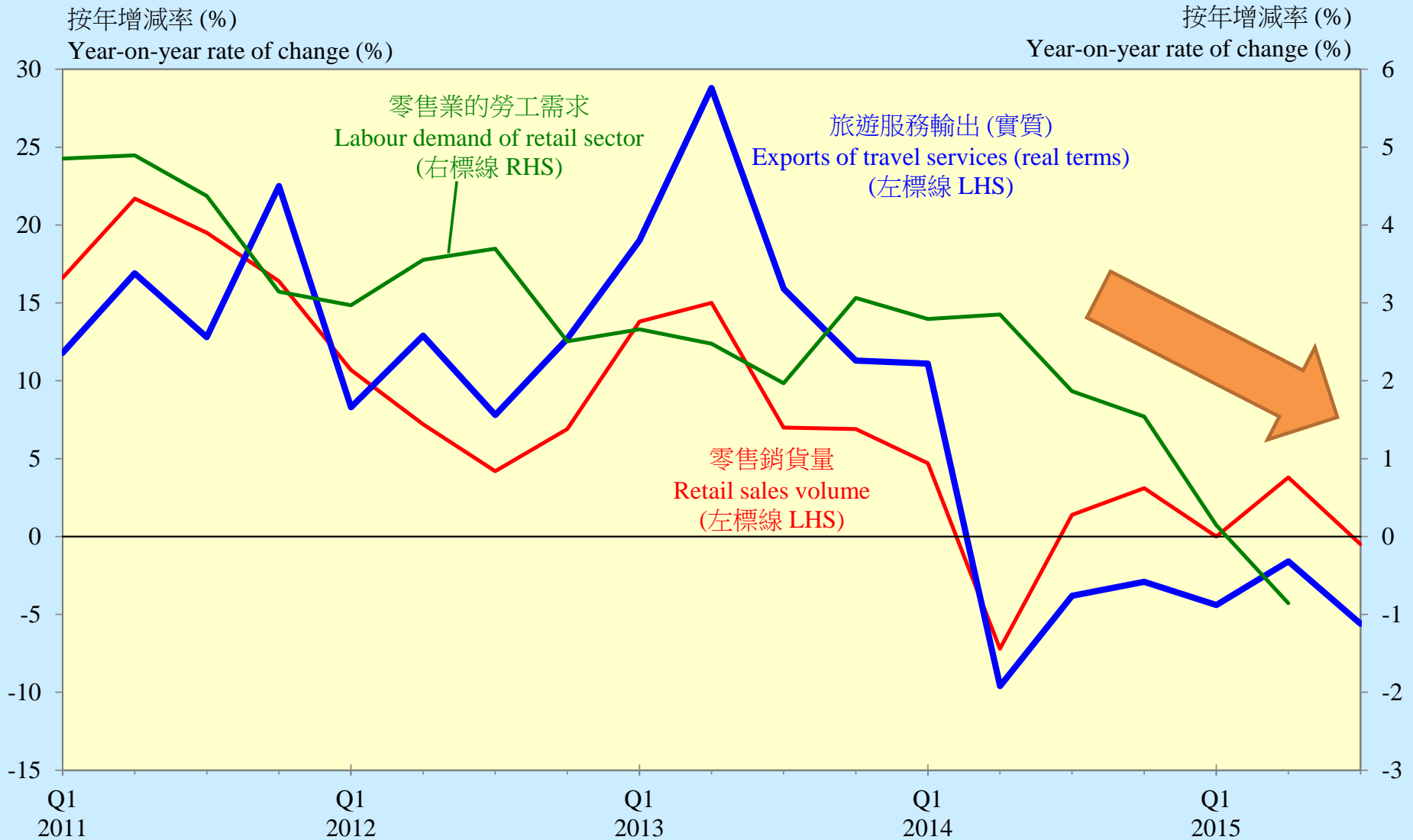
## Business expectation by sector (net balance\*)

	<u>15 Q1</u>	<u>15 Q2</u>	<u>15Q3</u>	<u>15Q4</u>
Import/export trade and wholesale	-12	-15	-3	-10
Retail	+13	-18	-2	-15
Accommodation and food services	+11	-9	0	+8
Transportation, storage and courier services	+3	+10	+17	+13
Information and telecommunications	+21	+20	+14	+11
Professional and business services	0	-11	0	-5
Financing and insurance	+13	+19	+18	+6
<b>All sectors surveyed</b>	<b>+3</b>	<b>+1</b>	<b>+5</b>	<b>-1</b>

註：\* 淨差額展現了業務狀況預期較前一季的變動方向。它是填報「較佳」的機構單位百分比與填報「較差」的機構單位百分比的差距。正數指可能向上趨升，而負數則為可能跌勢。

Note: \* Net balance indicates the direction of expected change in business situation versus preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "better" over that choosing "worse". A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

# Impact of subdued inbound tourism on the economy warrants concern



# Hiring sentiment remained broadly positive, but individual sectors weakened

## Hiring expectation by sector (net balance\*)

	<u>15 Q1</u>	<u>15 Q2</u>	<u>15Q3</u>	<u>15Q4</u>
Import/export trade and wholesale	-1	-1	+2	-5
Retail	+16	-2	+5	-7
Accommodation and food services	+9	+9	+14	+11
Transportation, storage and courier services	+9	+17	+14	+19
Information and telecommunications	+20	+35	+16	+7
Professional and business services	+4	-6	+5	+2
Financing and insurance	+13	+11	+5	+11

Note: \* Net balance indicates the direction of expected change in number of persons engaged versus preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing “up” over that choosing “down”. A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

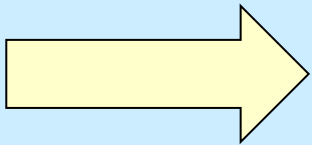
# Outlook for 2015

## External sector

- ◆ Near-term export outlook remains bleak

## Domestic demand

- ◆ Remains as the key growth driver
- ◆ Stable labour market with favourable job and income conditions
- ◆ Ongoing infrastructure works



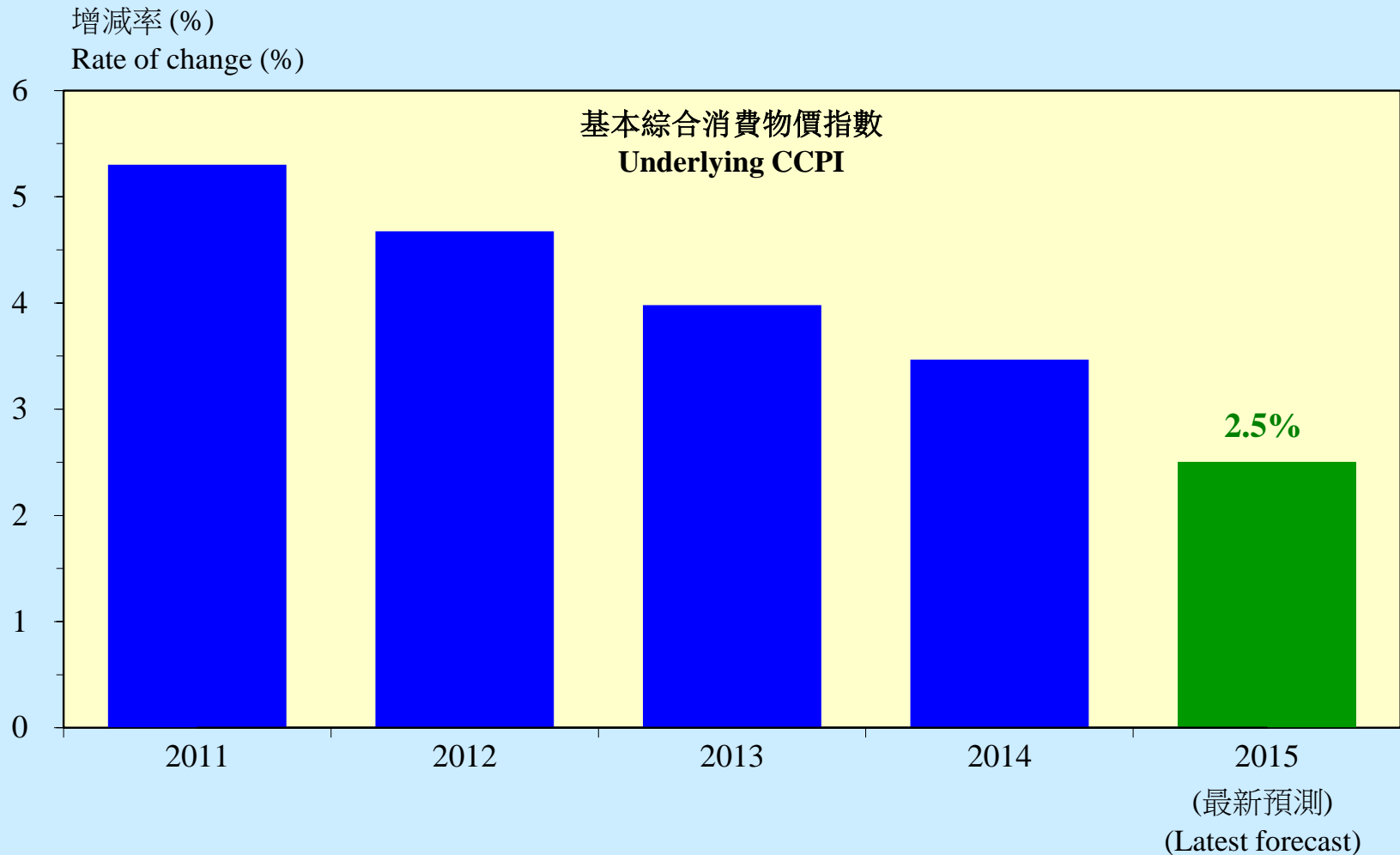
**Latest 2015 GDP growth forecast: 2.4%**



## **Downside risks that need close watch-over**

- ◆ World economy lacking growth momentum; continued slowdown in emerging market economies
- ◆ Shifting expectations of US' interest rate lift-off, prevailing risks of heightened global financial volatility
- ◆ Geopolitical risks in various regions remain notable
- ◆ Inbound tourism and retail sales trend going forward

# Thanks to modest imported inflation and steady domestic cost pressures, underlying inflation is expected to ease to 2.5% in 2015



## Latest economic forecasts for 2015 as a whole

	Forecasts as released on 25 February	Forecasts as released on 15 May	Forecasts as released on 14 August	Latest forecasts
<b>Real GDP growth</b>	<b>1-3%</b>	<b>1-3%</b>	<b>2-3%</b>	<b>2.4%</b>
<b>Underlying inflation</b>	<b>3%</b>	<b>2.7%</b>	<b>2.6%</b>	<b>2.5%</b>
<b>Headline inflation</b>	<b>3.5%</b>	<b>3.2%</b>	<b>3.1%</b>	<b>3%</b>



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