

Press Release

(embargoed until 4:30 p.m. on 13 November 2015)

Economic Situation in the Third Quarter of 2015 and Latest GDP and Price Forecasts for 2015

The Government released today (13 November) the Third Quarter Economic Report 2015, together with the preliminary figures on Gross Domestic Product (GDP) for the third quarter of 2015.

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

Main points

- * Hong Kong's economic growth slowed to 2.3% year-on-year in real terms in the third quarter of 2015, from 2.8% in the preceding quarter. The growth slowdown was part of a region-wide phenomenon amid a lacklustre global economy, and reflected the intensified drag on the economy from weaker external demand. The domestic segment, while staying relatively stable, also expanded at a slower pace. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew by 0.9% in the third quarter, after the 0.4% growth in the preceding quarter.
- * The external environment was highly unsteady, with the global economy showing the worst performance since 2009. Amid concerns about the global outlook and rising expectations for an interest rate lift-off in the US, and the ensuing bout of capital outflows from the emerging markets, global financial volatility heightened notably during the quarter. Against this backdrop, exports of Asian economies generally suffered a setback. Hong Kong's total exports of goods were likewise affected in the third quarter, down by 3.2% in real terms from a year earlier. Meanwhile, exports of services also relapsed, with a year-on-year decline of 1.3%, dragged by continued contraction of inbound tourism and subdued regional trade and cargo flows.
- * Domestic demand expanded further in the third quarter, albeit at a slower pace. Private consumption expenditure still increased solidly by 4.3% in real terms over a year earlier in the third quarter, thanks to broadly favourable job and income conditions in recent quarters. Nevertheless, investment expenditure slackened distinctly to a year-on-year decline of 6.5%, amid a rather austere external environment. Machinery and equipment acquisition saw a notable fall-off, though building and construction works registered further growth.
- * The labour market remained in a state of full employment. The seasonally adjusted unemployment rate stayed at a low level of 3.3% in the third quarter, following 3.2% in the second quarter. Total employment remained near its record level and labour earnings continued to rise in real terms.
- * The local stock market underwent a sharp correction during the third quarter, alongside the plunge in many stock markets across the globe, being weighed

down by a worsening global economic outlook and lingering market worry over the impending US interest rate hike. Over the past month or so, the stock market nevertheless staged some rebound. The residential property market also turned quieter in the third quarter, with softer increases in flat prices and a plunge in transactions.

- * Looking ahead, global economic growth is expected to remain modest and uneven in the near term, marked by increasing downside risks. Recovery of advanced economies is slow and patchy, with downward pressures on emerging market economies still prominent. The slack in global demand will continue to curtail Asia's exports and intra-regional trade. Also, international financial markets will likely remain highly volatile, in view of the prospect for eventual US interest rate lift-off, diverging monetary policy among major central banks and heightened geopolitical tensions. This would add headwinds to the already fragile global economy. Thus, the outlook for Hong Kong's merchandise exports is likely to remain bleak going forward. The near-term outlook for services exports is also not encouraging, given the weak trend in inbound tourism and the lull in regional trade and cargo flows.
- * Against the challenging external environment, the major impetus to overall economic growth in the rest of the year will continue to count on domestic demand. Further expansion of consumption demand, on the back of steady job and income conditions, and intensive infrastructure works will likely render support to the domestic economy. However, as the US Federal Reserve is prepared to hike interest rates and as the global outlook is still subject to various downside risks, the possible adverse repercussions on local asset prices and economic sentiment need to be watched closely. Indeed, the latest Quarterly Business Tendency Survey already showed more cautiousness on the near-term outlook amongst the large enterprises. Moreover, given the slowdown in inbound tourism, the possible spill-over on the job market remains a source of concern.
- * Taking into account the actual year-on-year GDP growth outturn of 2.5% in the first three quarters, and even with due cognizance of a still lacklustre external segment in the fourth quarter, the real GDP for 2015 as a whole is still expected to attain moderate growth at 2.4%, as compared to the range forecast of 2-3% announced in the August round.
- * Underlying consumer price inflation eased slightly further from 2.5% in the second quarter to 2.4% in the third quarter, as local cost pressures remained at bay and imported inflation continued to recede. Given the mild external price pressures and growth slowdown of the local economy, the upside risks to inflation should remain well contained in the months ahead. Taking into account the actual inflation outturn of 2.5% in the first nine months this year, the forecast underlying consumer price inflation for 2015 is revised slightly down from 2.6% in the August round to 2.5% in the current round of review. The forecast for headline inflation in 2015 is likewise marked down from 3.1% to 3%.

Details

GDP

According to the preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP grew by 2.3% in real terms in the third quarter of 2015 over a year earlier, slower than the 2.8% growth in the preceding quarter (same as the earlier estimate). On a seasonally adjusted quarter-to-quarter comparison, real GDP grew by 0.9% in the third quarter, after the 0.4% growth in the preceding quarter (same as the earlier estimate) (*Chart*).

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

External trade

3. *Total exports of goods* fell by 3.2% year-on-year in real terms in the third quarter, further to a 3.6% decline in the preceding quarter. Among the advanced markets, exports to the US slackened to a modest decline, while exports to the EU and Japan trended lower. Exports to major Asian economies, including Taiwan, Korea, Singapore and the Mainland, generally weakened further. The declines in exports of raw materials and semi-manufactures as well as capital goods reflected the slack in regional production activities in the face of the subdued global demand conditions. On a quarter-to-quarter seasonally adjusted basis, total exports of goods edged up by 0.5% in real terms in the third quarter, after a 3.2% fall in the preceding quarter.

4. *Exports of services* also relapsed, and declined by 1.3% in real terms in the third quarter over a year earlier. Exports of travel services saw an enlarged decline, as visitor arrivals slackened further to record its first decline since the third quarter of 2009. Likewise, exports of trade-related services and transportation services saw further declines, dragged by the much weaker regional trade and cargo flows under an increasingly difficult external trading environment. The more volatile financial conditions during the quarter also affected cross-border financial and fund-raising activities, leading to a concurrent slowdown in exports of financial and other business services. On a seasonally adjusted basis, exports of services declined by 1.9% in real terms in the third quarter over the preceding quarter.

Domestic sector

5. Domestic demand expanded at a slower pace in the third quarter, but remained the major driver of the economy in the face of stronger external headwinds. *Private consumption expenditure* sustained a solid, albeit somewhat slower, year-on-year growth of 4.3% in real terms in the third quarter, supported by broadly favourable job and income conditions. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure edged up by 0.1% in real terms in the third quarter. *Government consumption expenditure* also maintained a steady year-on-year growth of 2.6% in the third quarter.

6. Overall investment spending in terms of *gross domestic fixed capital formation* weakened distinctly to a year-on-year decline of 6.5% in real terms in the third quarter, after a 5.2% growth in the preceding quarter. The visible decline largely reflected the plunge in the typically volatile private sector machinery and equipment acquisition, by 13.1% year-on-year, conceivably due to increased cautiousness in the face of a dimmer global economic outlook and heightened financial market volatility during the quarter. Overall building and construction expenditure, on the other hand, posted further growth of 4.2% year-on-year, backed by the ongoing large-scale infrastructure works and the steady expansion of private sector building and construction activity.

The labour sector

7. The labour market remained in a state of full employment. The *seasonally adjusted unemployment rate* stayed at a low level of 3.3% in the third quarter, only marginally up from 3.2% in the second quarter. Meanwhile, the *underemployment rate* stood at 1.4%. Total employment expanded modestly in the third quarter and private sector job vacancies remained high in June, both pointing to the still-tight overall labour demand conditions. Labour incomes sustained further growth in the third quarter, with the median monthly household income (excluding foreign domestic helpers) growing by 4.0% year-on-year in real terms.

The asset markets

8. The *local stock market* underwent a sharp correction during the third quarter. Such a phenomenon was widespread in equity markets across the globe, as investor sentiment was dented by worries over the global economic outlook and the uncertainties associated with the timing of the US interest rate lift-off. Despite some rebound over the past month or so, the Hang Seng Index closed at 22 889 on 12 November, still 12.8% lower than end-June.

9. The *residential property market* turned quieter during the third quarter. Trading volume plunged by 13% over the preceding quarter. Residential property prices rose at a decelerated pace of 1.5% during the third quarter, compared with 3.4% during the second quarter and 4.7% during the first quarter. Yet, overall flat prices in September still exceeded the 1997 peak by 77% and the housing

affordability ratio rose to around 64% in the third quarter, indicating that the risks of a housing market bubble remain prominent. During the third quarter, flat rentals rose moderately by 2%, and so did office and shop rentals, both by 1%.

Prices

10. Underlying consumer price inflation continued to ease in the third quarter. Locally, the growth in labour costs remained steady and the feed-through of rising fresh-letting residential and commercial rentals earlier this year was still initial and gradual. All these helped keep domestic cost pressures contained. Meanwhile, external price pressures continued to recede, thanks to declining international food and commodity prices, low inflation in 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 consumer price inflation* edged down to 2.4% in the third quarter, from 2.5% in the second quarter. *Headline consumer price inflation* eased to 2.3% in the third quarter, from 3.0% in the preceding quarter.

Latest GDP and price forecasts for 2015

11. Looking ahead, global economic growth is expected to remain modest and uneven in the near term, marked by increasing downside risks. Recovery of advanced economies is slow and patchy, with downward pressures on emerging market economies still prominent. The slack in global demand will continue to curtail Asia's exports and intra-regional trade. Also, international financial markets will likely remain highly volatile, in view of the prospect for eventual US interest rate lift-off, diverging monetary policy among major central banks and heightened geopolitical tensions. This would add headwinds to the already fragile global economy. Thus, the outlook for Hong Kong's merchandise exports is likely to remain bleak going forward. The near-term outlook for services exports is also not encouraging, given the weak trend in inbound tourism and the lull in regional trade and cargo flows.

12. Against the challenging external environment, the major impetus to overall economic growth in the rest of the year will continue to count on domestic demand. Further expansion of consumption demand, on the back of steady job and income conditions, and intensive infrastructure works will likely render support to the domestic economy. However, as the US Federal Reserve is prepared to hike interest rates and as the global outlook is still subject to various downside risks, the possible adverse repercussions on local asset prices and economic sentiment need to be watched closely. Indeed, the latest Quarterly Business Tendency Survey already showed more cautiousness on the near-term outlook amongst the large enterprises. Moreover, given the slowdown in inbound tourism, the possible spill-over on the job market remains a source of concern.

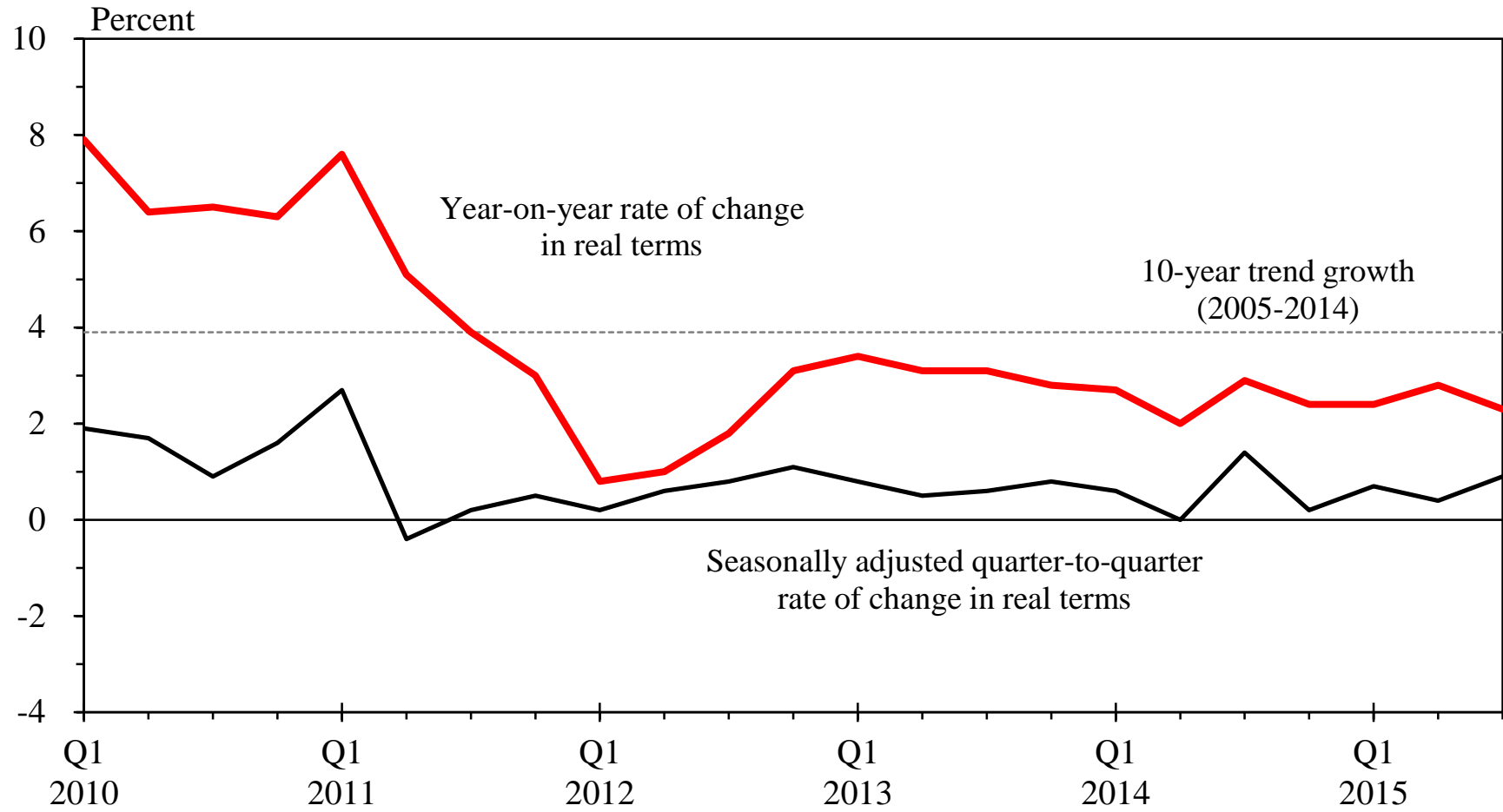
13. Taking into account the actual year-on-year GDP growth outturn of 2.5% in the first three quarters, and even with due cognizance of a still lacklustre external

segment in the fourth quarter, the real GDP for 2015 as a whole is still expected to attain moderate growth at 2.4%, as compared to the range forecast of 2-3% announced in the August round (*Table 2*). For reference, the latest forecasts by private sector analysts mostly range from 2.0% to 2.6%, averaging around 2.3%.

14. On inflation outlook, the upside risks to inflation should remain well contained in the months ahead, given the mild external price pressures and growth slowdown of the local economy. Taking into account the actual inflation outturn of 2.5% in the first nine months this year, the forecast underlying consumer price inflation for 2015 is revised slightly down from 2.6% in the August round to 2.5% in the current round of review. The forecast for headline inflation in 2015 is likewise marked down from 3.1% to 3% (*Table 2*).

(The Third 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, Third Quarter 2015, which contains the GDP figures up to the third 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 third 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>	<u>Q3⁺</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)	6.1 (1.3)	4.3 (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)	3.4 (0.8)	3.3 (1.1)	2.6 (0.2)
Gross domestic fixed capital formation	2.6	-0.2	3.9	-6.0	-1.7	3.4	7.5	5.2	-6.5
<i>of which :</i>									
Building and construction	-4.3	6.5	11.1	2.2	4.5	7.6	-3.3	13.4	4.2
Machinery, equipment and intellectual property products	11.3	-6.5	-2.0	-11.4	-11.2	-0.4	14.4	-1.3	-10.5
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)	-3.2 (0.5)
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)	-4.1 (-0.9)
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)	0.9 (-0.8)	-1.3 (-1.9)
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)	3.6 (1.5)	4.1 (-0.3)
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)	2.3 (0.9)
<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)	4.6 (1.3)	3.6 (-0.6)
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)	2.3 (-0.2)
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)	2.4 (0.6)
Change in nominal GDP (%)	5.0	5.5	5.2	6.7	5.3	4.8	7.0	7.6	6.0

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 (%))**

	<u>Forecasts as released on 14.8.2015</u> (%)	<u>Latest forecasts on 13.11.2015</u> (%)
Real Gross Domestic Product (GDP)	2 to 3	2.4
Composite Consumer Price Index (CCPI)		
<i>Underlying CCPI</i>	2.6	2.5
<i>Headline CCPI</i>	3.1	3