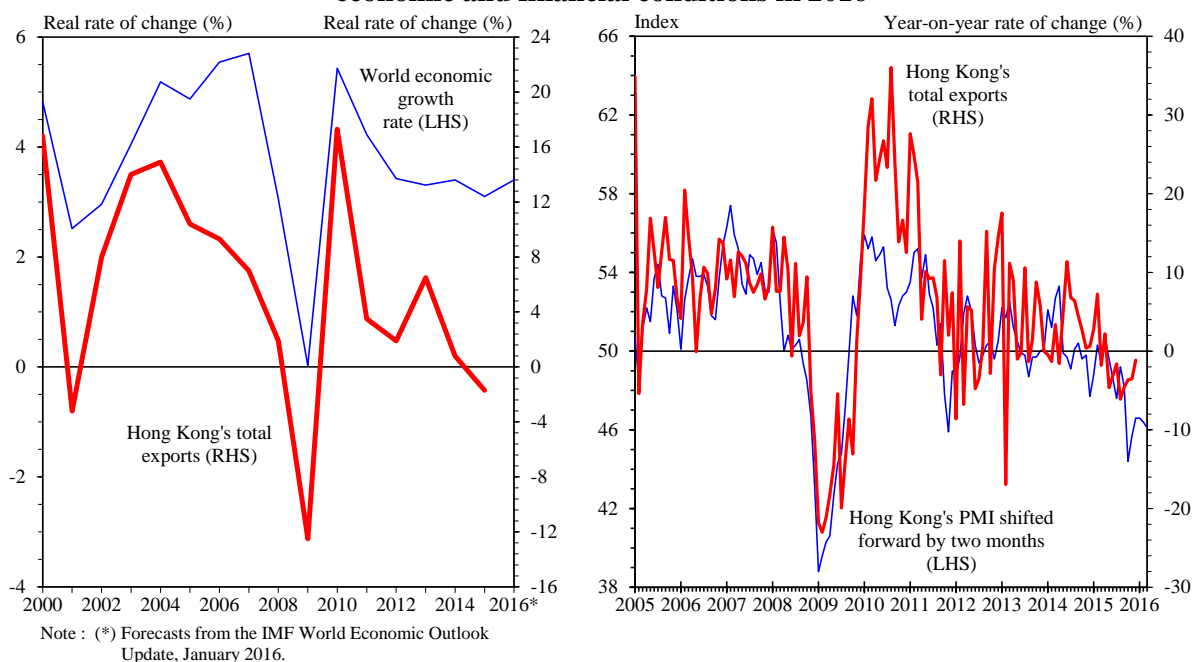


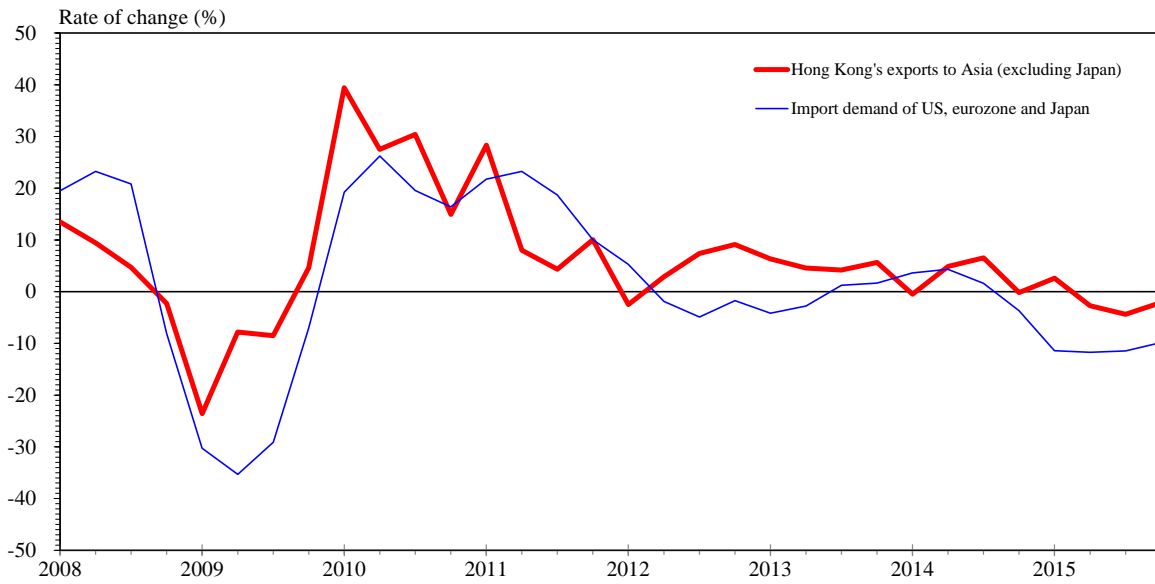
## Outlook for the Hong Kong economy in 2016

2.21 As a small and open economy, Hong Kong's economic outlook for 2016 will continue to hinge crucially on the vicissitudes of the external environment. The strong external headwinds, which dampened Hong Kong's export performance in 2015, are likely to persist in 2016. The weak global demand may continue to weigh on production and trading activities in Asia, especially if economic growth in advanced economies is to stay slow. Volatile global financial and commodity markets, growth slowdown of many emerging markets, and intensified geopolitical tensions will curtail global trade flows. Also, a strong US dollar will not be favourable to our price competitiveness. As such, Hong Kong's *exports of goods* will likely remain subdued in the near term and the chance of a visible turnaround in 2016 looks slim. Yet, there may be some relative improvement towards the latter part of the year, if the demand conditions in advanced economies pick up and downside risks to the global economy recede.

**Diagram 2.5 : The outlook for Hong Kong's goods exports will hinge crucially on global economic and financial conditions in 2016**



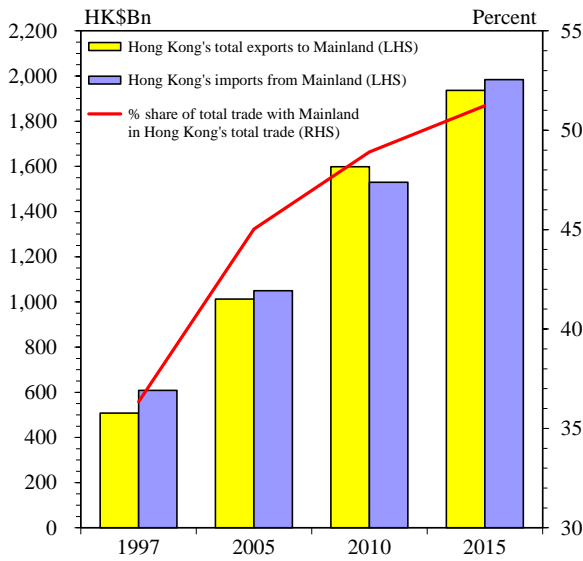
**Diagram 2.6 : Regional trade is closely related to import demand in advanced economies**



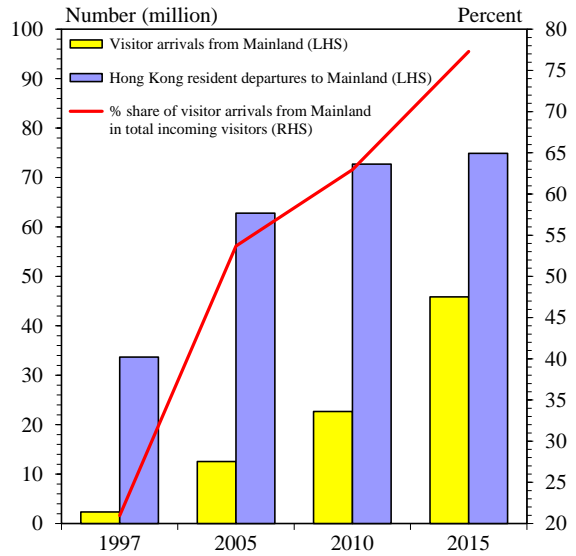
2.22 *Exports of services* deteriorated during 2015 and registered its first annual decline since 1998, battered by a further weakening in inbound tourism and sluggish trade and cargo flows. Looking ahead, the situation is not promising either, as the sluggish trade and cargo flows under the austere external environment may continue to hold back the performance of exports of trade-related services and transportation services. Also, a persistently volatile international financial environment may hamper cross-border financing and fund-raising activities, and dent exports of financial and business services. As for exports of travel services, downward pressures may remain as the consolidation in inbound tourism may still continue for a while, given a further decline in visitor arrivals on entering 2016.

**Diagram 2.7 : Economic links with the Mainland are important for Hong Kong**

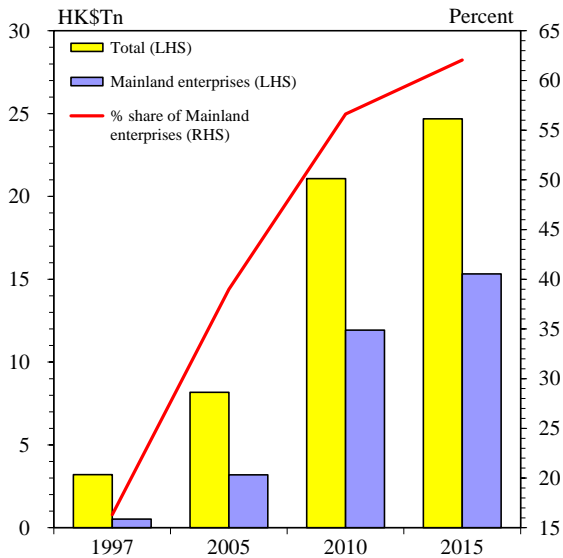
**(a) Merchandise trade**



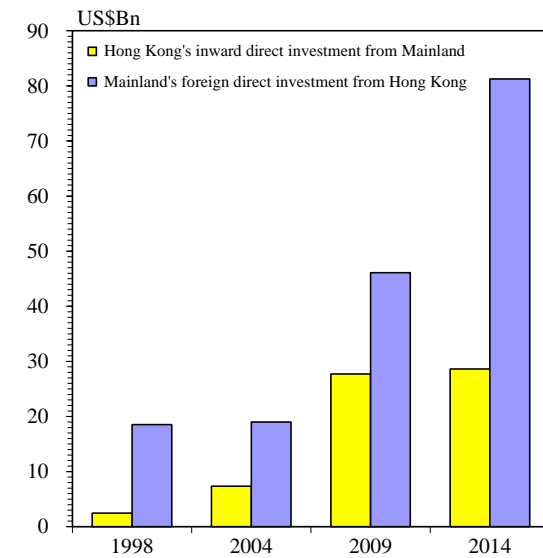
**(b) Visitor arrivals from Mainland and Hong Kong resident departures to Mainland**



**(c) Market capitalisation of Mainland enterprises in the Hong Kong stock market (end-year figures)**

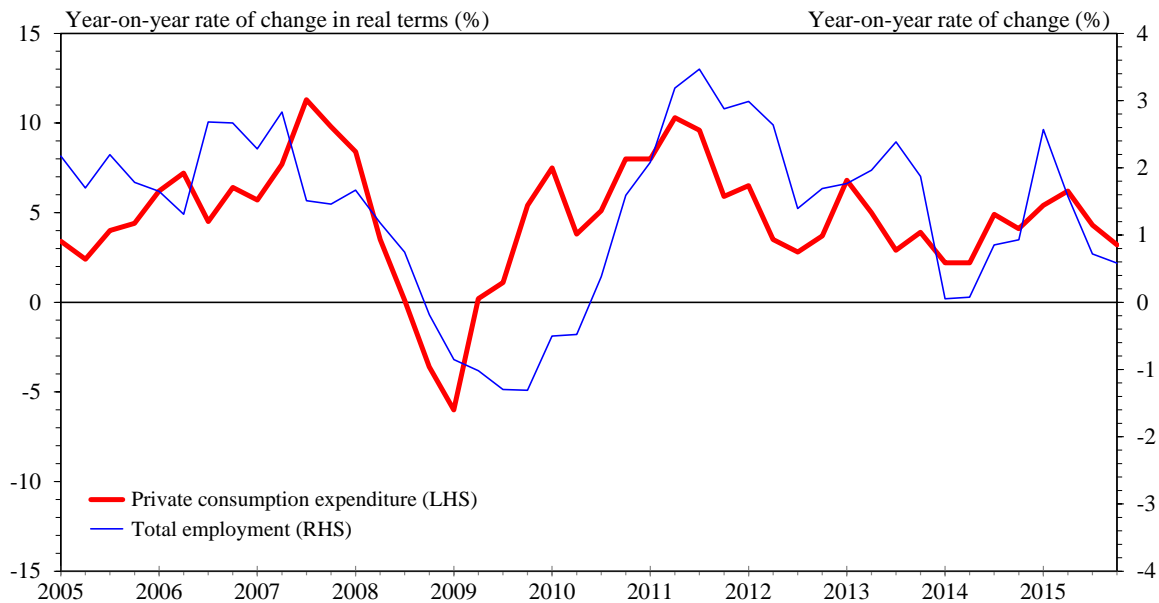


**(d) Hong Kong's inward direct investment from Mainland and Mainland's foreign direct investment from Hong Kong**

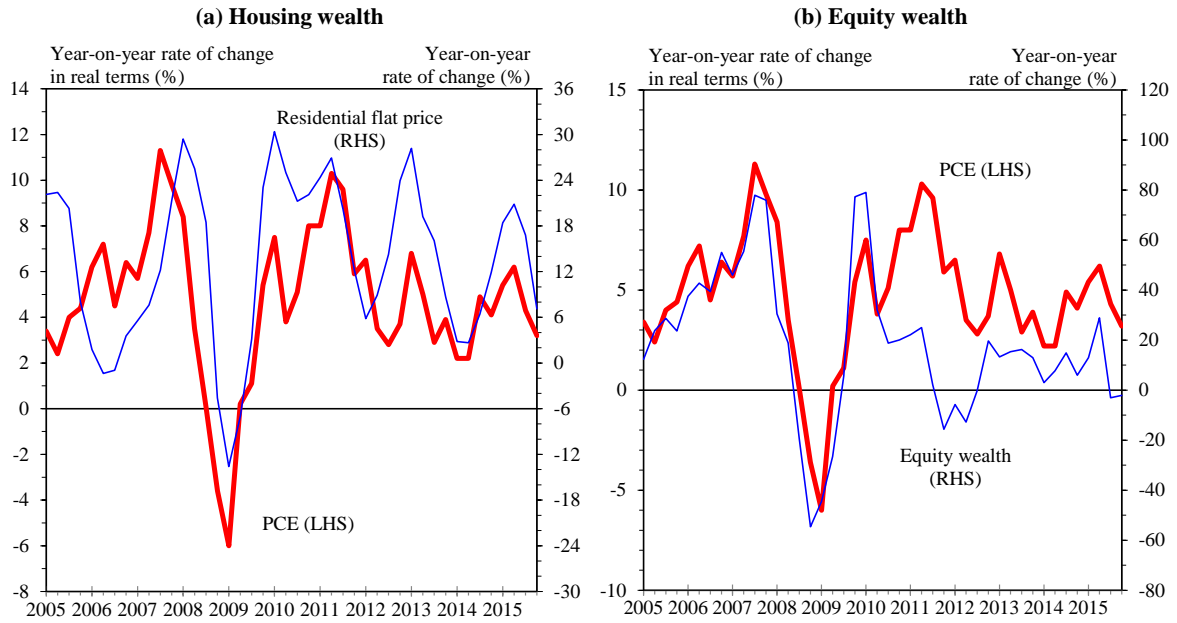


2.23 *Domestic demand* was relatively resilient in 2015, cushioning the economy against the setback of the external sector. Going forward, domestic demand should still see some growth in 2016, but may also come under test given a highly uncertain external environment. While a stable labour market should render some support to private consumption, consumer sentiment could be adversely affected by the subdued global economic prospects and the volatile financial conditions. The corrections in asset prices, especially after the kick-off of the interest rate upcycle in the US, may also have an unfavourable wealth effect on consumption. As for investment demand, external developments may weaken investment sentiment. Indeed, business sentiment of large enterprises and small and medium-sized enterprises have turned somewhat negative about the near-term outlook amid the protracted sluggishness in the global economy and the gloomy global growth prospects. Nonetheless, the building and construction component should provide some buffer for overall investment in 2016, sustained by the ongoing public building and construction works and increasing private sector activities.

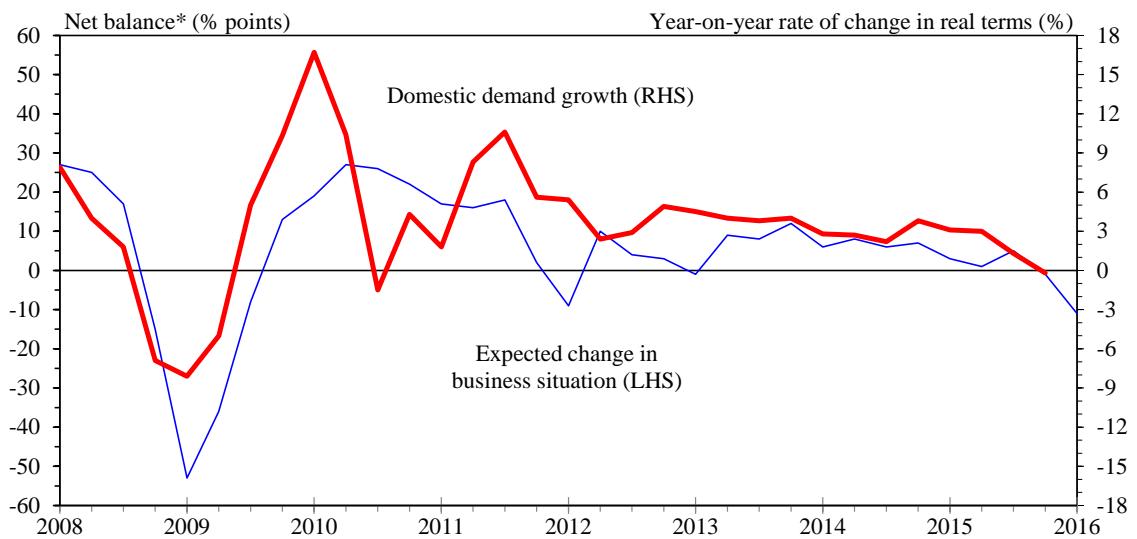
**Diagram 2.8 : Private consumption looks set to moderate in 2016**



**Diagram 2.9 : Consumer sentiment may be affected by asset market performance**

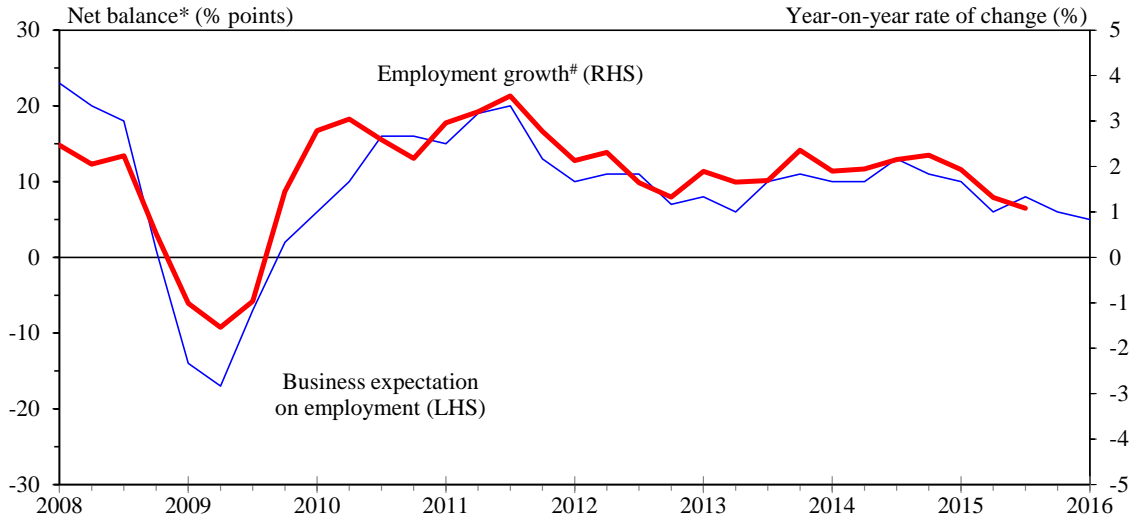


**Diagram 2.10 : Large enterprises turned somewhat negative about the near-term business outlook**



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.

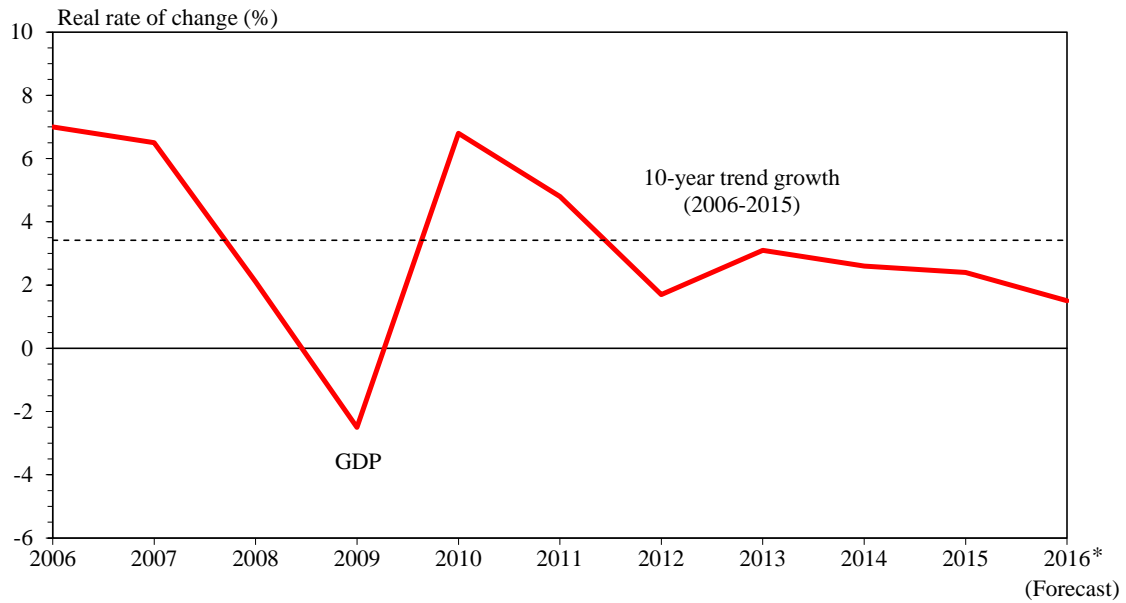
**Diagram 2.11 : Hiring sentiment remained broadly stable**



Notes : (\*) 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.  
 (#) Employment in private sector.

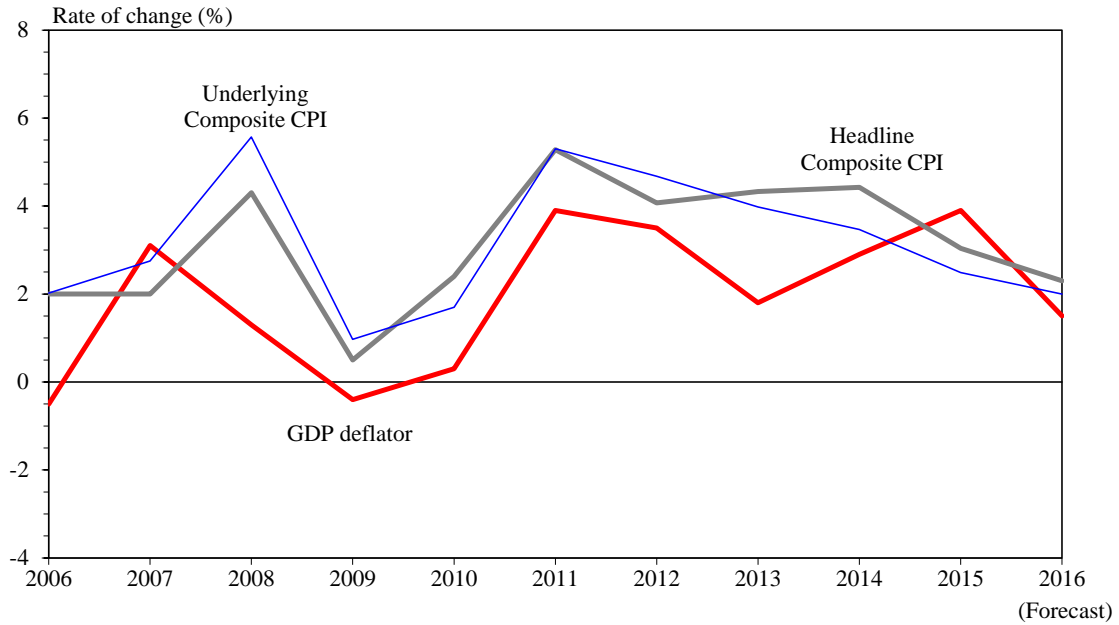
2.24 Taking into account the likely lacklustre performance in external trade and possible moderation in domestic demand, the Hong Kong economy is projected to grow by 1-2% in 2016, after the 2.4% growth in 2015 and compared to the average annual growth of 3.4% in the past ten years. For comparison, the prevailing forecasts by private sector analysts for Hong Kong's economic growth in 2016 mostly fall within the range of 1.0-2.5%, averaging at around 1.9%. The slow growth projected for the Hong Kong economy could exert pressures on job creation and the unemployment situation, which warrant close monitoring. The GDP growth forecast for 2016 is subject to an unusually high degree of uncertainty, much depending on how the complicated global financial conditions will evolve and the repercussions on the world economy, especially when some emerging market economies may be susceptible to financial shocks. Significant shifts in risk sentiment and capital flows, if come about, may trigger deeper-than-expected asset market corrections, and the ensuing negative wealth effect would accentuate the downward pressures on our domestic economy. In this regard, the developments in the local property market amid an interest rate upcycle need to be watched over. On the other hand, there could be some upside potential to the forecast if the world's economic growth is stronger than expected, creating a more supportive environment for global trade flows, and if Asian and emerging market economies, with relatively resilient domestic demand, hold up better than envisaged.

**Diagram 2.12 : Hong Kong economy is expected to expand at a slower pace in 2016, under an austere external environment**



2.25 Underlying inflation in Hong Kong eased further from 3.5% in 2014 to 2.5% in 2015. Externally, declining international commodity prices and tame inflation outlook for Hong Kong’s major trading partners should help keep imported inflation low. Thus, barring any unexpected rebound in international commodity prices, external price pressures will likely remain soft in 2016. Local cost pressures also look set to lessen, in tandem with the sub-par economic growth and with the consolidation in the property market that in turn will likely dampen rental costs. Taking all the factors into consideration, the *underlying Composite CPI* is forecast to increase by 2% for 2016 as a whole, easing further for the fifth consecutive year, from the 2.5% increase in 2015. Taking into account the effects of the Government’s one-off measures, *headline Composite CPI* is forecast to increase by 2.3% in 2016, compared to 3.0% in 2015. The *GDP deflator* is forecast to rise by 1.5%, on account of the expected slower increases in prices from both the local and external fronts.

**Diagram 2.13 : Inflation poised for further easing in 2016**



**Forecast rate of change in 2016 (%)**

**Gross Domestic Product (GDP)**

<i>Real GDP</i>	<b>1 to 2</b>
<i>Nominal GDP</i>	2.5 to 3.5
<i>Per capita GDP in real terms</i>	0.2 to 1.2
<i>Per capita GDP at current market prices</i>	HK\$334,500 – 337,800 (US\$42,900 – 43,300)

**Composite Consumer Price Index**

<i>Underlying</i>	<b>2</b>
<i>Headline</i>	<b>2.3</b>

<b>GDP Deflator</b>	<b>1.5</b>
---------------------	------------

**Forecast on Hong Kong's GDP growth in 2016  
recently made by other selected parties**

	(%)
The University of Hong Kong	Below 2
Average forecast by private sector analysts <sup>#</sup>	1.9

Note : (#) Forecast GDP growth rates by private sector analysts mostly fall between 1.0% and 2.5%.



## ECONOMIC PERFORMANCE IN 2015

1. Estimated rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2015 <sup>(Note 1)</sup>:

	(%)
(a) Growth rates in real terms of:	
Private consumption expenditure	4.8
Government consumption expenditure	3.4
Gross domestic fixed capital formation	-2.2
<i>of which :</i>	
Building and construction	2.8
Machinery, equipment and intellectual property products	-5.8
Total exports of goods	-1.7
Imports of goods	-2.5
Exports of services	-0.6
Imports of services	5.1
<b>Gross Domestic Product (GDP)</b>	<b>2.4</b>
<i>Per capita GDP in real terms</i>	1.5
<i>Per capita GDP at current market prices</i>	HK\$328,900 (US\$42,400)
(b) Rates of change in:	
<b>Underlying Composite Consumer Price Index</b>	<b>2.5</b>
<b>GDP Deflator</b>	<b>3.9</b>
<b>Government Consumption Expenditure Deflator</b>	<b>4.4</b>
(c) <b>Growth rate of nominal GDP</b>	<b>6.4</b>

2. Annual growth rates in real terms of re-exports, domestic exports and total exports based on external trade quantum index numbers:

	<i>Re-exports</i> (%)	<i>Domestic exports</i> (%)	<i>Total exports</i> (%)
2013	3	-9	3
2014	2	3	2
2015	-2	-13	-2
<i>Share in the value of total exports of goods in 2015</i>	99	1	100

3. Annual growth rates in real terms of total exports by major market:

	<i>Total exports</i>					
	<i>Total</i> (%)	<i>The Mainland</i> (%)	<i>US</i> (%)	<i>EU</i> (%)	<i>Japan</i> (%)	<i>India</i> (%)
2013	3	5	-4	-1	-6	8
2014	2	-1	3	1	-4	16
2015	-2	-2	1	-4	-4	8

4. Annual growth rates in real terms of imports and retained imports based on external trade quantum index numbers:

	<i>Imports</i> (%)	<i>Retained imports</i> (%)
2013	4	5
2014	2	4
2015	-3	-7

5. Annual growth rates in real terms of exports of services by type <sup>(Note 1)</sup>:

*Exports of services*

	<i>Total</i> (%)	<i>Trade-related services</i> (%)	<i>Transportation services</i> (%)	<i>Travel services</i> (%)	<i>Finance, insurance, business and other services</i> (%)
2013	5	1	-2	18	2
2014	1	0	3	-2	4
2015	-1	-2	0	-5	6

6. Hong Kong's goods and services trade balance in 2015 reckoned on GDP basis <sup>(Note 1)</sup>:

	(HK\$ billion)
Total exports of goods	3,779.2
Imports of goods	4,289.7
<b><i>Goods trade balance</i></b>	<b>-510.5</b>
Exports of services	1,053.6
Imports of services	486.4
<b><i>Services trade balance</i></b>	<b>567.3</b>
<b><i>Combined goods and services trade balance</i></b>	<b>56.8</b>

*Note 1* Preliminary figures.

7. Annual averages of the unemployment and underemployment rates and growth in labour force and total employment:

	<i>Unemployment rate (%)</i>	<i>Underemployment rate (%)</i>	<i>Growth in labour force (%)</i>	<i>Growth in total employment (%)</i>
2013	3.4	1.5	1.9	1.8
2014	3.3	1.5	0.5	0.6
2015	3.3	1.4	1.3	1.3

8. Annual rates of change in the Consumer Price Indices:

	<i>Composite CPI</i>		<i>CPI(A)</i>	<i>CPI(B)</i>	<i>CPI(C)</i>
	<i>Underlying (%)</i>	<i>Headline (%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>
2013	4.0	4.3	5.1	4.1	3.8
2014	3.5	4.4	5.6	4.2	3.5
2015	2.5	3.0	4.0	2.8	2.1

## ECONOMIC PROSPECTS FOR 2016

Forecast rates of change in the Gross Domestic Product and prices in 2016:

	(%)
<b>Gross Domestic Product (GDP)</b>	
<i>Real GDP</i>	<b>1 to 2</b>
<i>Nominal GDP</i>	2.5 to 3.5
<i>Per capita GDP in real terms</i>	0.2 to 1.2
<i>Per capita GDP at current market prices</i>	HK\$334,500-337,800 (US\$42,900-43,300)
<b>Composite Consumer Price Index</b>	
<i>Underlying Composite Consumer Price Index</i>	<b>2</b>
<i>Headline Composite Consumer Price Index</i>	<b>2.3</b>
<b>GDP Deflator</b>	<b>1.5</b>
<b>Government Consumption Expenditure Deflator</b>	<b>3.5</b>