

## **Press Release**

(embargoed until 4:30 p.m. on 11 November 2016)

### **Economic Situation in the Third Quarter of 2016 and Latest GDP and Price Forecasts for 2016**

The Government released today (11 November) the Third Quarter Economic Report 2016, together with the preliminary figures on Gross Domestic Product (GDP) for the third quarter of 2016.

The Government Economist, Mrs Helen Chan, described the economic situation in the third quarter of 2016 and provided the latest GDP and price forecasts for 2016.

#### **Main points**

- \* The Hong Kong economy picked up slightly to a 1.9% growth in real terms in the third quarter of 2016 over a year earlier, following a 1.7% growth in the preceding quarter. Domestic demand gathered further pace, while external demand also saw relative improvements. On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded further by 0.6% in the third quarter, following the 1.5% growth in the preceding quarter.
- \* Global economic growth remained modest in the third quarter, though with the earlier acute risks waning somewhat. With Asia's exports generally stabilising, Hong Kong's total exports of goods made further growth of 1.9% in real terms in the third quarter over a year earlier. Meanwhile, exports of services staged a visible improvement, with the year-on-year decline tapering distinctly to 1.8% in the third quarter, thanks to the stabilisation in regional trade and cargo flows as well as a revival in initial public offering activities. On a seasonally adjusted quarter-to-quarter basis, services exports leapt by 1.8% in the third quarter after declining for five consecutive quarters.
- \* Domestic demand strengthened visibly in tandem. Supported by favourable employment and earnings conditions, private consumption expenditure regained some momentum in the third quarter, rising by 1.2% in real terms over a year earlier. Investment expenditure rebounded strongly by 6.0% over a year earlier, having declined successively for four quarters. Machinery and equipment acquisition reverted to notable growth in the quarter, while overall building and construction works expanded steadily further.
- \* The labour market remained in a state of full employment, displaying remarkable resilience. The seasonally adjusted unemployment rate stayed low at 3.4% in the third quarter. Employment earnings continued to improve. Total employment grew further in the third quarter, though with still-weak labour demand in the trade- and consumption-related sectors.
- \* The local stock market was largely buoyant during the third quarter alongside the rally in major overseas markets. The Hang Seng Index in early September rose to the highest level so far this year, though with some corrections subsequently. The residential property market showed renewed signs of exuberance in the third quarter, marked by visible increases in both flat prices

and trading activities. Flat price increases were mainly led by mass market flats. The housing affordability ratio also worsened again. The Government announced the latest round of demand-side management measure in early November to forestall a further build-up in housing market bubble risk.

- \* Looking ahead, the global economy, having stabilised from the acute start of the year, is expected to remain on a modest growth track in the near term. The US economy has gathered pace in recent quarters and the Mainland economy is firmly on track to achieve solid growth in the rest of the year. The relative stabilisation in global demand should render some support to Asia's trade and our exports. Services exports would also benefit in tandem. Should the recent relative improvement in inbound tourism gain more traction, the recovery in services exports would hopefully be on an even firmer footing. Yet, given the looming interest rate hike in the US, monetary policy divergence among major central banks, possible policy changes in the US after the election, and with the Brexit event unfolding and geopolitical tensions still elevated in various regions, the external environment still faces considerable uncertainties in the period ahead. We need to stay alert to these risks for their possible repercussions on the global financial and economic situation.
- \* Domestic demand has remained resilient thus far and should continue to provide support to the economy in the rest of the year. Full employment and favourable income conditions would provide the key positive factors underpinning consumption growth. Meanwhile, hectic infrastructure works, coupled with solid growth in private construction activity, should also render impetus to overall economic growth. Moreover, the latest Quarterly Business Tendency Survey indicated that overall business sentiment among large enterprises has improved somewhat of late, though the small and medium-sized enterprises remained somewhat cautious.
- \* With the actual GDP growth outturn of 1.4% in the first three quarters broadly matching our earlier expectation, and in cognizance of a likely further modest growth in the fourth quarter, real GDP growth for 2016 as a whole is now forecast at 1.5%, the mid-point of the range forecast of 1-2% announced in the August round.
- \* Underlying inflation eased further to 2.1% in the third quarter. Given the still-low global inflation, imported inflation should remain muted in the near term. The continued feed-through of softer fresh-letting residential rentals in the earlier period and the modest pace of economic expansion should also keep local cost pressures in check. Taking into account the actual inflation outturn in the first nine months, the forecast rates of underlying and headline consumer price inflation for 2016 as a whole are slightly revised to 2.3% and 2.4% respectively in the current round of review, from 2.2% and 2.3% respectively in the August round.

## Details

### GDP

According to the preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP grew by 1.9% in real terms in the third quarter of 2016 over a year earlier, after a 1.7% growth in the preceding quarter (same as the earlier estimate). On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded further by 0.6% in the third quarter, after the 1.5% growth in the preceding quarter (revised from the earlier estimate of 1.6%) (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the third quarter of 2016 are presented in *Table 1*. Developments in different segments of the economy in the third quarter of 2016 are described below.

### External trade

3. *Total exports of goods* grew mildly further by 1.9% year-on-year in real terms in the third quarter, broadly similar to the pace in the preceding quarter. Many markets showed improvements of varying degrees. Exports to the US resumed growth, while those to Japan recorded a much slower decline. Meanwhile, exports to the Mainland continued to strengthen. Those to some other Asian markets, including India, Taiwan, Korea and Singapore, all registered notable growth. Exports to the EU slackened to a marginal decline, with the decline in the third quarter mainly dragged by a further drop in the UK market after the Brexit vote. Excluding the UK market, exports to the rest of EU as a whole still registered modest growth. On a seasonally adjusted quarter-to-quarter basis, exports of goods rose further by 0.4% in real terms in the third quarter.

4. *Exports of services* saw visible improvement, with the year-on-year decline tapering distinctly to 1.8% in real terms in the third quarter, following a 4.6% drop in the preceding quarter. Amid the stabilisation of regional trade and cargo flows, exports of trade-related services grew slightly faster, while exports of transportation services also reverted to growth. Over the same period, exports of financial and other business services also saw a much smaller drop, thanks to a pick-up in initial public offering activities. On the other hand, exports of travel services remained the weakest link, still dampened by falling visitor arrivals. On a seasonally adjusted quarter-to-quarter basis, the improvement was also very notable, with exports of services bouncing back strongly by 1.8% in real terms in the third quarter, ending five consecutive quarters of declines.

## **Domestic sector**

5. Domestic demand strengthened visibly in the third quarter. Thanks to the broadly stable labour market, *private consumption expenditure* picked up slightly, registering a 1.2% year-on-year growth in real terms in the third quarter, up from the 0.5% growth in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure grew further by 0.7% in the third quarter. *Government consumption expenditure* maintained a steady year-on-year growth of 3.3% in real terms in the third quarter.

6. Overall investment spending in terms of *gross domestic fixed capital formation* rebounded strongly by 6.0% year-on-year in real terms in the third quarter, ending the declines in the preceding four quarters. Within this, private sector machinery and equipment acquisition bounced back to an impressive year-on-year growth of 6.7%. Overall building and construction expenditure rose steadily by 3.4% year-on-year, led by further expansion in private sector building and construction activity.

## **The labour sector**

7. The labour market remained in a state of full employment, marked by sustained growth in employment earnings. The *seasonally adjusted unemployment rate* stayed at a low level of 3.4% in the third quarter, while the *underemployment rate* held steady at 1.4%. Total employment sustained moderate year-on-year growth. Employment growth was seen in most of the major sectors, though with still-weak labour demand in the trade- and consumption-related sectors.

## **The asset markets**

8. The *local stock market* trended largely upward during the third quarter, in tandem with the rally in major overseas markets. Favourable factors, including the smaller-than-expected contagion effect of Brexit, delays in US interest rate hikes and the approval of the Shenzhen-Hong Kong Stock Connect implementation plan, propelled the Hang Seng Index (HSI) to reach its highest level so far this year in early September. The HSI saw some corrections subsequently, closing at 22 839 on 10 November, still up by 10% from end-June.

9. The *residential property market* showed renewed signs of exuberance in the third quarter. Flat prices rebounded by a cumulative 8.9% between March and September, mainly led by mass market flats. The month-to-month increases in flat prices accelerated successively, from 0.7% in April to 2.8% in September, the largest monthly gain since February 2013. One noteworthy development in recent months is the reacceleration of investment demand for residential properties. The number of doubled stamp duty cases involving residential properties rose to a record high of 2 600 in September 2016, compared with 1 500 per month and 600 per month on average in 2015 and in the first quarter of 2016 respectively.

10. Overall flat prices in September 2016 were only 3.5% lower than the peak last September, and have exceeded the peak in 1997 by a cumulative 71%. With the increase in flat prices exceeding income growth, the housing affordability ratio worsened again to 59% in the third quarter. Should interest rate increase by three percentage points to a more normal level, the ratio would soar to 77%, far exceeding the long term average of 46% in the past 20 years. The Government announced the latest round of demand-side management measure on 4 November, to forestall a further build-up in housing market bubble risk, thereby safeguarding the macroeconomic and financial sector stability.

## **Prices**

11. Inflation pressures stayed on an easing trend in the third quarter. On the domestic front, the continued feed-through of earlier year-on-year declines in fresh-letting residential and shop rentals, coupled with steady increases in labour costs, helped contain domestic price pressures. On the external front, imported inflation was basically absent, amid still-low international food and commodity prices and subdued inflation 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* eased slightly to 2.1% in the third quarter, from 2.3% in the preceding quarter. *Headline consumer price inflation* went up to 3.1% in the third quarter, from 2.6% in the second quarter, but the increase was mainly due to the temporary low base effect resulted from the Government's one-off payment of public housing rentals in August last year.

## **Latest GDP and price forecasts for 2016**

12. Looking ahead, the global economy, having stabilised from the acute start of the year, is expected to remain on a modest growth track in the near term. The US economy has gathered pace in recent quarters and the Mainland economy is firmly on track to achieve solid growth in the rest of the year. The relative stabilisation in global demand should render some support to Asia's trade and our exports. Services exports would also benefit in tandem. Should the recent relative improvement in inbound tourism gain more traction, the recovery in services exports would hopefully be on an even firmer footing. Yet, given the looming interest rate hike in the US, monetary policy divergence among major central banks, possible policy changes in the US after the election, and with the Brexit event unfolding and geopolitical tensions still elevated in various regions, the external environment still faces considerable uncertainties in the period ahead. We need to stay alert to these risks for their possible repercussions on the global financial and economic situation.

13. Domestic demand has remained resilient thus far and should continue to provide support to the economy in the rest of the year. Full employment and favourable income conditions would provide the key positive factors underpinning consumption growth. Meanwhile, hectic infrastructure works, coupled with solid growth in private construction activity, should also render impetus to overall economic growth. Moreover, the latest Quarterly Business Tendency Survey

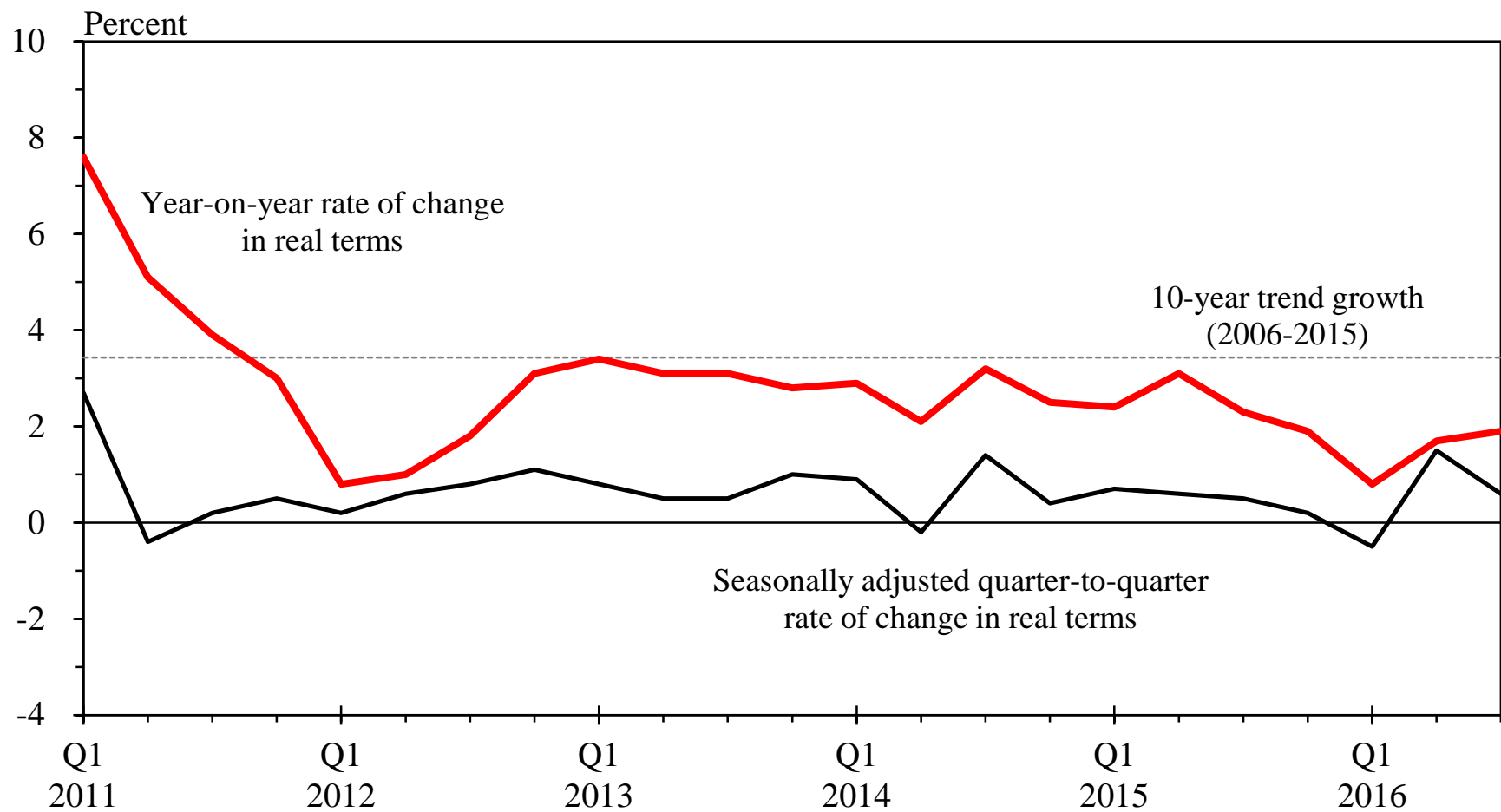
indicated that overall business sentiment among large enterprises has improved somewhat of late, though the small and medium-sized enterprises remained somewhat cautious.

14. With the actual GDP growth outturn of 1.4% in the first three quarters broadly matching our earlier expectation, and in cognizance of a likely further modest growth in the fourth quarter, real GDP growth for 2016 as a whole is now forecast at 1.5%, the mid-point of the range forecast of 1-2% announced in the August round (*Table 2*). For reference, the latest forecasts by private sector analysts mostly range from 1.0-1.8%, averaging around 1.3%.

15. On inflation outlook, imported inflation should remain muted in the near term. The continued feed-through of softer fresh-letting residential rentals in earlier periods and the modest pace of economic expansion should also keep local cost pressures in check. Taking into account the actual inflation outturn in the first nine months, the forecast rates of underlying and headline consumer price inflation for 2016 as a whole are slightly revised to 2.3% and 2.4% respectively in the current round of review, from 2.2% and 2.3% respectively in the August round (*Table 2*).

(The Third Quarter Economic Report 2016 is now available for online download, free of charge at [www.hkeconomy.gov.hk/en/reports/index.htm](http://www.hkeconomy.gov.hk/en/reports/index.htm). The Report of the Gross Domestic Product, Third Quarter 2016, which contains the GDP figures up to the third quarter of 2016, is also available for online download, free of charge at the homepage of the Census and Statistics Department, [www.censtatd.gov.hk](http://www.censtatd.gov.hk).)

# Hong Kong's Gross Domestic Product



Note : Figures for the third quarter of 2016 are preliminary estimates.

**Table 1**

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

	<u>2014</u>	<u>2015</u>	<u>Q1</u>	<u>Q2</u>	<u>2015</u> <u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>2016</u> <u>Q2</u> <sup>#</sup>	<u>Q3</u> <sup>+</sup>
<i>Change in real terms of GDP and its main expenditure components (%)</i>									
Private consumption expenditure	3.3	4.7	5.0 (1.3)	6.8 (1.6)	4.4 (*)	2.7 (-0.1)	1.2 (-0.2)	0.5 (0.8)	1.2 (0.7)
Government consumption expenditure	3.0	3.4	3.9 (1.0)	3.6 (0.8)	2.8 (0.5)	3.3 (1.0)	3.3 (1.0)	3.5 (0.9)	3.3 (0.3)
Gross domestic fixed capital formation	-0.1	-2.0	5.6	3.9	-6.2	-9.4	-9.6	-5.0	6.0
<i>of which :</i>									
Building and construction	9.3	2.9	-3.9	14.1	4.2	-0.9	0.2	3.5	3.4
Machinery, equipment and intellectual property products	-8.6	-5.8	10.4	-4.7	-10.7	-12.9	-11.9	-11.2	6.1
Total exports of goods	0.8	-1.9	0.2 (-1.9)	-3.8 (-2.4)	-3.1 (0.5)	-0.5 (2.3)	-3.6 (-3.9)	2.0 (3.3)	1.9 (0.4)
Imports of goods	0.9	-2.7	-0.2 (-2.6)	-3.3 (-2.4)	-4.2 (-0.8)	-2.8 (2.0)	-5.4 (-4.2)	0.2 (3.5)	2.4 (1.3)
Exports of services	1.1	-0.2	0.7 (0.6)	1.6 (-0.8)	-0.2 (-1.1)	-2.7 (-1.4)	-5.0 (-1.9)	-4.6 (-0.2)	-1.8 (1.8)
Imports of services	1.8	5.7	6.7 (1.8)	5.1 (1.9)	5.5 (0.2)	5.4 (1.4)	4.9 (1.4)	1.6 (-1.5)	1.7 (0.4)
<b>Gross Domestic Product</b>	<b>2.7</b>	<b>2.4</b>	<b>2.4</b> <b>(0.7)</b>	<b>3.1</b> <b>(0.6)</b>	<b>2.3</b> <b>(0.5)</b>	<b>1.9</b> <b>(0.2)</b>	<b>0.8</b> <b>(-0.5)</b>	<b>1.7</b> <b>(1.5)</b>	<b>1.9</b> <b>(0.6)</b>
<i>Change in the main price indicators (%)</i>									
<b>GDP deflator</b>	<b>2.9</b>	<b>3.6</b>	<b>4.3</b> <b>(1.2)</b>	<b>4.2</b> <b>(1.0)</b>	<b>3.4</b> <b>(0.1)</b>	<b>2.8</b> <b>(0.4)</b>	<b>2.3</b> <b>(0.7)</b>	<b>2.1</b> <b>(0.7)</b>	<b>1.5</b> <b>(-0.2)</b>
<b>Composite CPI</b>									
<b>Headline</b>	<b>4.4</b>	<b>3.0</b> <sup>@</sup>	<b>4.4</b> <b>(0.3)</b> <sup>@</sup>	<b>3.0</b> <b>(-0.6)</b> <sup>@</sup>	<b>2.3</b> <b>(-0.1)</b> <sup>@</sup>	<b>2.3</b> <sup>@</sup> <b>(2.7)</b> <sup>@</sup>	<b>2.8</b> <sup>@</sup> <b>(0.7)</b> <sup>@</sup>	<b>2.6</b> <sup>@</sup> <b>(-0.7)</b> <sup>@</sup>	<b>3.1</b> <sup>@</sup> <b>(0.4)</b> <sup>@</sup>
<b>Underlying</b> <sup>^</sup>	<b>3.5</b>	<b>2.5</b> <sup>@</sup>	<b>2.7</b> <b>(0.3)</b> <sup>@</sup>	<b>2.5</b> <b>(0.6)</b> <sup>@</sup>	<b>2.4</b> <b>(0.5)</b> <sup>@</sup>	<b>2.2</b> <sup>@</sup> <b>(0.9)</b> <sup>@</sup>	<b>2.8</b> <sup>@</sup> <b>(0.7)</b> <sup>@</sup>	<b>2.3</b> <sup>@</sup> <b>(0.2)</b> <sup>@</sup>	<b>2.1</b> <sup>@</sup> <b>(0.4)</b> <sup>@</sup>
<b>Change in nominal GDP (%)</b>	<b>5.6</b>	<b>6.2</b>	<b>6.8</b>	<b>7.5</b>	<b>5.8</b>	<b>4.8</b>	<b>3.1</b>	<b>3.7</b>	<b>3.4</b>

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  $\pm 0.05\%$ .

(@) By reference to the new 2014/15-based CPI series.



**Table 2****Economic forecasts for 2016  
(rate of change (%))**

	<u>Forecasts as released on 12.8.2016</u> (%)	<u>Latest forecasts on 11.11.2016</u> (%)
<b>Real Gross Domestic Product (GDP)</b>	1 to 2	1.5
<b>Composite Consumer Price Index (CCPI)</b>		
<i>Underlying CCPI</i>	2.2	2.3
<i>Headline CCPI</i>	2.3	2.4