

Press Release

(embargoed until 4:30 p.m. on 12 May 2017)

Economic Situation in the First Quarter of 2017 and Latest GDP and Price Forecasts for 2017

The Government released today (12 May) the First Quarter Economic Report 2017, together with the preliminary figures on Gross Domestic Product (GDP) for the first quarter of 2017.

Acting Government Economist, Mr Andrew Au, described the economic situation in the first quarter of 2017 and provided the latest GDP and price forecasts for 2017.

Main points

- * The Hong Kong economy grew notably by 4.3% in real terms in the first quarter of 2017 over a year earlier, sustaining the improving trend that began in the second quarter of last year. External demand continued to strengthen as the global economic environment further improved. Domestic demand also held up well, supported by favourable employment conditions and more positive business sentiment. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew further by 0.7% in the first quarter, after three consecutive quarters of rapid growth, averaging 1.2% per quarter.
- * On the back of strengthening global demand and continued expansion in regional trading and manufacturing activities, Hong Kong's total exports of goods grew briskly by 9.2% year-on-year in real terms in the first quarter, marking the fastest growth since the first quarter of 2013. Exports of services likewise picked up to a 2.6% year-on-year growth in real terms, benefitting from stronger trade and cargo flows as well as better global economic sentiment. With visitor arrivals resuming growth gradually, exports of travel services also continued to see relative improvement after a prolonged period of setback.
- * The domestic segment stayed resilient. Private consumption expenditure sustained a solid year-on-year growth of 3.7% in real terms in the first quarter, as local consumer sentiment was well underpinned by favourable job and income conditions and, to some extent, the relatively buoyant asset market performance. Overall investment expenditure increased notably by 6.4% year-on-year in real terms, thanks to the strong expansion of building and construction activity, despite the continued fall in machinery and equipment acquisition.
- * The labour market remained in a state of full employment, with total employment rising to a new quarterly high in the first quarter. The seasonally adjusted unemployment rate eased to 3.2% in the first quarter, a low level last seen in the second quarter of 2014, and the underemployment rate also fell to a three-year low of 1.2%. Wages and earnings showed further real improvements on the back of a tight labour market.

- * The local stock market rallied during the first quarter, alongside the worldwide increase in risk appetite that also fuelled many overseas stock markets. Global investors reacted positively to the improving global outlook despite the interest rate normalisation in the US and various policy and political uncertainties in the US and Europe. Separately, the residential property market showed some reactivation during the first quarter, with both flat prices and trading activities picking up.
- * Looking ahead, the global economy is likely to gradually improve further, given that many advanced economies are poised for sustaining modest to moderate growth and that the Mainland economy is firmly on track to attain medium-to-high growth. The ensuing recovery in global demand should continue to render support to Asia's trade flows in the near term and hence to Hong Kong's export performance. Also, the recent revival in visitor arrivals, if continued, could give an extra lift to our exports of services in the period ahead. However, downside risks in the external environment, though receded somewhat, still warrant attention. These include the US interest rate normalisation, policy divergence among major central banks, Brexit-related negotiations, and various uncertainties surrounding policy and political developments in the US and Europe. Moreover, the possible rise of protectionist sentiment and elevated geopolitical tensions in various regions are also potentially destabilising factors.
- * Domestic demand should stay resilient. Local consumption sentiment is likely to remain buttressed by favourable employment and income conditions. The latest Quarterly Business Tendency Survey indicated that large enterprises had turned somewhat positive about their near-term business outlook. In addition, the package of relief measures in the 2017-18 Budget, as well as expansion in building and construction activities, should also render growth impetus to the economy.
- * Overall, the actual growth outturn in the first quarter is better than expected amid the strengthening of global demand conditions. Nevertheless, as the global economic outlook is still subject to various uncertainties, the forecast real GDP growth of 2-3% for 2017, as announced in the Budget, is maintained in the current round of review. There is upside to the forecast if the global economy continues to improve and the downside risks do not materialise in the period ahead. The Government will continue to closely monitor the external developments and their possible ramifications on the Hong Kong economy.
- * Underlying consumer price inflation moderated to 1.4% in the first quarter. Inflation pressure was generally tame, though the low inflation rate in the first quarter was also partly due to some incidental factors that created a high base of comparison in the same quarter of last year. Taking into account the still-benign inflation in our major import sources, moderate rises in local costs, and continued feed-through of softer fresh-letting residential rentals last year, consumer price inflation should remain well contained in the near term. The forecast rates of underlying and headline consumer price inflation for 2017 as a

whole put out in the Budget round, at 2% and 1.8% respectively, are therefore maintained in the current round of review.

Details

GDP

According to the preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP grew by 4.3% in real terms in the first quarter of 2017 over a year earlier, up from the 3.2% growth in the preceding quarter (revised from the earlier estimate of 3.1%). The stronger year-on-year growth of the Hong Kong economy, which was the highest since the second quarter of 2011, also partly benefitted from the low base of comparison in the first quarter of last year, when economic growth hit a trough amid an austere external environment. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew further by 0.7% in the first quarter, after three consecutive quarters of rapid growth, averaging 1.2% per quarter (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the first quarter of 2017 are presented in *Table 1*. Developments in different segments of the economy in the first quarter of 2017 are described below.

External trade

3. *Total exports of goods* showed a brisk growth of 9.2% in real terms in the first quarter over a year earlier, up from an increase of 5.1% in the preceding quarter and 1.8% for 2016 as a whole. This marked the fastest quarterly growth in four years. Analysed by major market, by reference to external merchandise trade statistics, exports to many Asian economies, including the Mainland, registered strong growth in the first quarter, as the intensified Asian trading and manufacturing activities notably increased the region's intake for raw materials, semi-manufactures and capital goods. Meanwhile, our exports to major advanced markets also improved by various extents. Exports to Japan picked up amid the revival in regional trade flows, while those to the US and the EU both reverted to moderate growth. On a seasonally adjusted quarter-to-quarter basis, total exports of goods rose by 1.5% in real terms in the first quarter.

4. *Exports of services* also benefitted from better global economic conditions, up by 2.6% in real terms in the first quarter over a year earlier, compared to the 1.2% growth in the preceding quarter and the 3.2% decline for 2016 as a whole. Exports of transport services sustained brisk growth, amid stronger regional trade and cargo flows. Exports of financial services reverted to modest growth and exports of business and other services grew slightly, thanks to a more sanguine global economic environment. Exports of travel services also saw further relative improvement, reflecting the continued recovery of visitor arrivals. However, tourist spending had yet to resume growth, probably being constrained by currency movements and changing tourist spending patterns. On a seasonally

adjusted quarter-to-quarter basis, exports of services continued to rise by 0.5% in real terms in the first quarter.

Domestic sector

5. The domestic sector stayed resilient in the first quarter. Local consumption sentiment remained well underpinned by favourable job and income conditions and, to some extent, the positive wealth effect from higher asset prices. *Private consumption expenditure* grew solidly by 3.7% in real terms in the first quarter over a year earlier, similar to the expansion pace in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure increased by 0.4% in real terms in the first quarter. *Government consumption expenditure* went up further by 3.7% year-on-year in real terms in the first quarter, broadly similar to the growth pace in recent years.

6. Overall investment spending in terms of *gross domestic fixed capital formation* continued to increase notably in the first quarter, by 6.4% year-on-year in real terms, after the visible rebound of 6.3% in the second half of last year. Overall building and construction activity registered further strong growth, buttressed by the double-digit growth in public building and construction works and the visible expansion in private sector building and construction works. However, machinery and equipment acquisition continued to decline, as such spending by the private sector has yet to recover.

The labour sector

7. The labour market, while in a state of full employment, tightened slightly, with the *seasonally adjusted unemployment rate* easing to 3.2% in the first quarter, a low level last seen in the second quarter of 2014, and with the *underemployment rate* edging down to a three-year low of 1.2%. Amid a gradual recovery in labour demand, total employment picked up in growth to reach another quarterly high in the first quarter. Wages and earnings stayed on the rise in the fourth quarter of 2016 under a resilient and stable labour market.

The asset markets

8. The *local stock market* generally trended upwards throughout the first quarter, as risk aversion continued to recede amid a brightening global economic outlook that also boosted other major stock markets worldwide. The Hang Seng Index closed the first quarter at 24 112, up markedly by 9.6% from end-2016, registering the best first-quarter performance since 2012. On 11 May, the Hang Seng Index closed at 25 126.

9. The *residential property market* showed some reactivation in the first quarter. Trading volume picked up successively from the low in January, though for the quarter as a whole, it was still down by 22% from the preceding quarter. Residential property prices increased by 4% between December 2016 and March 2017. Overall flat prices in March 2017 exceeded the 1997 peak by 85%, and the housing affordability ratio worsened further to around 66% in the first quarter. Flat rentals rose by 2% during the first quarter. Meanwhile, office and shop rentals both went up by 1%. In early April, the Government announced to tighten up the exemption arrangement for Hong Kong permanent residents regarding the acquisition of more than one residential property under a single instrument, in respect of the New Residential Stamp Duty introduced in November 2016.

Prices

10. Consumer price inflation was modest in the first quarter. External cost pressures stayed largely tame, thanks to the low inflation in our major import sources and the strength of the US dollar against other major currencies over the past year. Locally, rises in labour costs remained steady along with the stable labour market conditions. Rental cost pressures, as reflected in consumer price inflation, were largely contained, as the slower increases in fresh-letting residential and commercial rentals during 2016 continued to feed through. Besides, the higher base of comparison in the first quarter of last year also contributed to lower consumer price inflation in the first quarter of this year, given the food price spikes early last year due to bad weather conditions, as well as the higher package tour charges in March last year due to the earlier onset of the Easter holidays. All in all, *headline consumer price inflation* went down to 0.5% in the first quarter, from 1.2% in the preceding quarter. 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 to 1.4% in the first quarter from 2.1% in the preceding quarter.

Latest GDP and price forecasts for 2017

11. Looking ahead, the global economy is likely to gradually improve further, given that many advanced economies are poised for sustaining modest to moderate growth and that the Mainland economy is firmly on track to attain medium-to-high growth. The ensuing recovery in global demand should continue to render support to Asia's trade flows in the near term and hence to Hong Kong's export performance. Also, the recent revival in visitor arrivals, if continued, could give an extra lift to our exports of services in the period ahead. However, downside risks in the external environment, though receded somewhat, still warrant attention. These include the US interest rate normalisation, policy divergence among major central banks, Brexit-related negotiations, and various uncertainties surrounding policy and political developments in the US and Europe. Moreover, the possible rise of protectionist sentiment and elevated geopolitical tensions in various regions are also potentially destabilising factors.

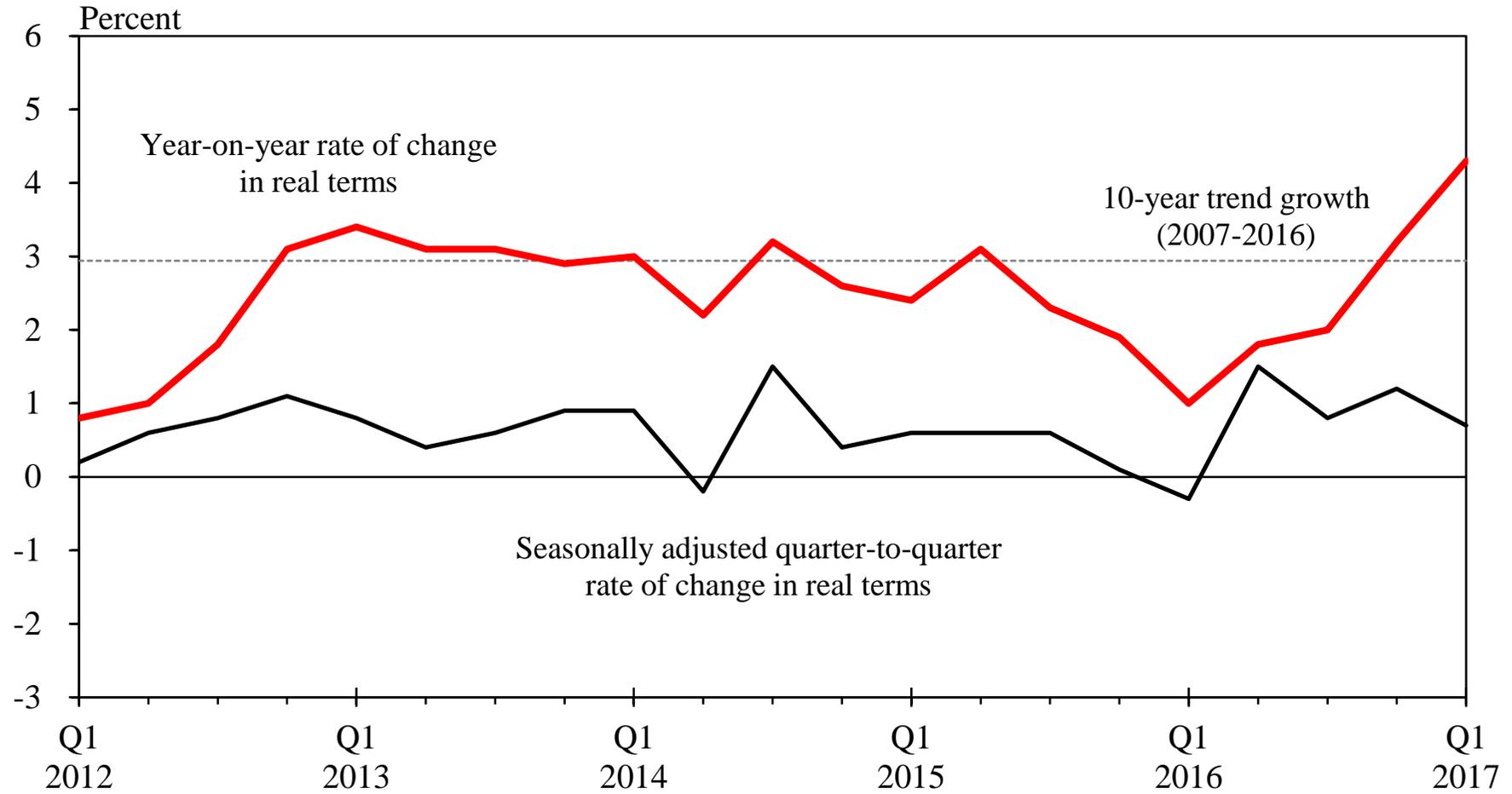
12. Domestic demand should stay resilient. Local consumption sentiment is likely to remain buttressed by favourable employment and income conditions. The latest Quarterly Business Tendency Survey indicated that large enterprises had turned somewhat positive about their near-term business outlook. In addition, the package of relief measures in the 2017-18 Budget, as well as expansion in building and construction activities, should also render growth impetus to the economy.

13. Overall, the actual growth outturn in the first quarter is better than expected amid the strengthening of global demand conditions. Nevertheless, as the global economic outlook is still subject to various uncertainties, the forecast real GDP growth of 2-3% for 2017, as announced in the Budget, is maintained in the current round of review (*Table 2*). There is upside to the forecast if the global economy continues to improve and the downside risks do not materialise in the period ahead. For reference, the latest forecasts by private sector analysts mostly range from 2.0-2.6%, averaging around 2.1%. The Government will continue to closely monitor the external developments and their possible ramifications on the Hong Kong economy.

14. On inflation outlook, taking into account the still-benign inflation in our major import sources, moderate rises in local costs, and continued feed-through of softer fresh-letting residential rentals last year, consumer price inflation should remain well contained in the near term. The forecast rates of underlying and headline consumer price inflation for 2017 as a whole put out in the Budget round, at 2% and 1.8% respectively, are therefore maintained in the current round of review (*Table 2*).

(The First Quarter Economic Report 2017 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, First Quarter 2017, which contains the GDP figures up to the first quarter of 2017, 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 first quarter of 2017 are preliminary estimates.

Table 1

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

	<u>2015[#]</u>	<u>2016[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>2016[#]</u> <u>Q3[#]</u>	<u>Q4[#]</u>	<u>2017⁺</u> <u>Q1⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	4.8	1.8	1.5 (0.2)	0.4 (0.7)	1.6 (1.1)	3.6 (1.5)	3.7 (0.4)
Government consumption expenditure	3.4	3.4	3.2 (0.9)	3.6 (1.0)	3.4 (0.5)	3.4 (0.9)	3.7 (1.2)
Gross domestic fixed capital formation	-3.2	-0.3	-8.7	-5.1	7.2	5.6	6.4
<i>of which :</i>							
Building and construction	2.2	3.9	1.5	2.4	4.3	7.5	9.6
Machinery, equipment and intellectual property products	-7.7	-4.6	-10.8	-10.3	7.6	-4.2	-8.9
Total exports of goods ^{&}	-1.7	1.8	-3.5 (-2.5)	2.4 (3.0)	2.5 (0.7)	5.1 (3.9)	9.2 (1.5)
Imports of goods ^{&}	-2.7	1.1	-5.6 (-3.8)	0.6 (3.6)	3.1 (1.9)	5.6 (4.0)	9.9 (0.2)
Exports of services ^{&}	0.3	-3.2	-5.4 (-1.0)	-6.2 (-0.6)	-2.5 (1.8)	1.2 (1.1)	2.6 (0.5)
Imports of services ^{&}	5.0	2.0	4.1 (1.7)	1.2 (-1.1)	0.8 (-0.2)	2.0 (1.6)	0.9 (0.5)
Gross Domestic Product	2.4	2.0	1.0 (-0.3)	1.8 (1.5)	2.0 (0.8)	3.2 (1.2)	4.3 (0.7)
<i>Change in the main price indicators (%)</i>							
GDP deflator	3.6	1.8	2.1 (0.5)	1.7 (0.5)	1.5 (0.2)	1.8 (0.6)	1.9 (0.6)
Composite CPI							
Headline	3.0[@]	2.4	2.8 (0.7)	2.6 (-0.6)	3.1 (0.4)	1.2 (0.7)	0.5 (0.1)
Underlying[^]	2.5[@]	2.3	2.8 (0.7)	2.3 (0.2)	2.1 (0.5)	2.1 (0.7)	1.4 (0.1)
Change in nominal GDP (%)	6.1	3.9	3.2	3.6	3.6	5.0	6.3

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.

(&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(#) Revised figures.

(+) Preliminary figures.

() Seasonally adjusted quarter-to-quarter rate of change.

(^) After netting out the effects of Government's one-off relief measures.

(@) The year-on-year rates of change of the CPIs from the fourth quarter of 2015 onwards are computed from the new 2014/15-based series, and those before are from the old 2009/10-based series. Splicing has been applied to the indices in order to obtain better estimates of the rates of change for the year 2015.

Table 2**Economic forecasts for 2017
(rate of change (%))**

	<u>Forecasts as released on 22.2.2017</u> (%)	<u>Latest forecasts on 12.5.2017</u> (%)
Real Gross Domestic Product (GDP)	2 to 3	2 to 3
Composite Consumer Price Index (CCPI)		
<i>Underlying CCPI</i>	2	2
<i>Headline CCPI</i>	1.8	1.8