

Press Release

(embargoed until 4:30 p.m. on 14 August 2009)

Economic Situation in the Second Quarter of 2009 and Latest GDP and Price Forecasts for 2009

According to the preliminary figures on Gross Domestic Product (GDP) for the second quarter of 2009 released today by the Government, on a seasonally adjusted quarter-to-quarter comparison, real GDP resumed growth at 3.3% in the second quarter, after contracting for four consecutive quarters. The year-on-year decline of GDP in real terms also narrowed notably from 7.8% in the first quarter to 3.8% in the second quarter.

Commenting on the rebound, the Financial Secretary, Mr John C. Tsang said, “I am glad to see the economy resuming growth in the second quarter on a quarterly basis, reversing the contraction in the preceding four quarters.”

Mr Tsang said that thanks to the strong and forceful stimulus measures by the Mainland Authorities, the Mainland economy has regained faster growth momentum, thereby benefiting the Hong Kong economy. Equally important has been the confidence exhibited by the Hong Kong people despite the tremendous shocks of the global financial tsunami, which has underpinned the relatively stable local consumption.

“I am glad that the strategy of the Government to stabilise the financial system, support enterprises and preserve employment has yielded positive results in supporting the economy and helping to slow the rise in unemployment.”

Mr Tsang added, “We are seeing encouraging signs of an economic recovery and the economy will hopefully improve further in the second half of the year. For 2009 as a whole, the forecast for the economy is now revised upward to a contraction of 3.5-4.5%.”

However, he pointed out, “As the global economy is still subject to uncertainties, we cannot afford to be complacent. While continuing with the strategy of stabilising the financial system, supporting enterprises and preserving employment, the Government will remain vigilant and make timely moves in response to the evolving external situation.”

MAIN POINTS

- * The Hong Kong economy rebounded in the second quarter, benefiting from the faster growth of the Mainland economy and the waning of recessionary forces in the advanced economies. Following a sharp year-on-year contraction of 7.8% in the first quarter of 2009, real GDP registered a smaller decline of 3.8% in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, the economy resumed growth at 3.3% in the second quarter, ending the contraction

in the previous four quarters.

- * With the external environment improving relatively, Hong Kong's total exports of goods declined notably less year-on-year in the second quarter, and actually picked up strongly from the first quarter on a seasonally adjusted basis. Indeed, Hong Kong's export performance continued to fare relatively better than many other Asian economies in the second quarter.
- * Exports of services also showed a smaller year-on-year rate of decline in the second quarter, helped by the rebound in financial market activities and the stabilisation in the global trading environment. The spread of the human swine flu, however, weighed on inbound tourism.
- * Local consumer sentiments recovered during the quarter under the combined effects of more stable employment conditions, rebound in asset markets and the boost from the various rounds of relief measures by the Government. The year-on-year decline in private consumption expenditure tapered significantly in the second quarter, with a distinct pick-up on a quarter-to-quarter basis. Nevertheless, business sentiments remained cautious given the still uncertain global economic outlook, leading to a further notable year-on-year decline in investment.
- * Labour market displayed much resilience. In tandem with the relative improvement in the economy, total employment stabilised in the second quarter, thereby helping to slow the pace of increase in unemployment rate. In the second quarter, the seasonally adjusted unemployment rate was 5.4%.
- * Following the strong policy actions taken by governments around the world, the global economy is finally taking some breather after a dismal first quarter. In Asia, with the stimulus measures successively in place, the Mainland economy regained much strength by the second quarter, thereby providing an anchor in the region. Many other Asian economies have also shown different extents of relative improvement. With the global economy gradually bottoming out and the Mainland economy back to faster growth, Hong Kong's external sector is poised for some further improvement in the second half of 2009.
- * Locally, consumption in the coming quarters should continue to benefit from lesser job loss, low interest rates and the boost from the several rounds of Government's relief packages. Nevertheless, business sentiments, though also somewhat better than at the beginning of the year, are still cautious. In the coming quarters, private sector investment is likely to remain depressed. But public sector investment should pick up further to provide a partial offset to the slack in its private sector counterpart, reflecting the Government's pursuit of counter-cyclical strategy to mitigate the impact from the global downturn.
- * With the stronger-than-expected rebound in the second quarter, the gradual bottoming out in the global economy, and also taking into account the boost from the Government's additional relief measures announced on 26 May, GDP for 2009 as a whole is now forecast to contract by 3.5-4.5% in real terms, up from

the forecast decline of 5.5-6.5% in the May round.

- * While Hong Kong is seeing light at the end of the tunnel, the economic outlook remains highly uncertain. For a small open economy like Hong Kong, a sustained and solid recovery still hinges on a visible improvement in the external environment. The impact of the human swine influenza is another risk factor. Locally, asset market gyrations could occur if the global recovery process turned out to be unsteady and weaker-than-expected. Also, the strength of recovery in the domestic sector will hinge on the evolving employment and income situation. In short, the recovery path ahead can still be rather bumpy.
- * On the price front, the underlying consumer price inflation eased to 1.2% in the second quarter, as both local and external price pressures were virtually absent in the midst of the global recession. With import prices now falling and local costs also receding, it is not unlikely that consumer price inflation may turn slightly negative in the coming months. Taking into account the actual outturn in the first half of 2009, for the year as a whole, underlying consumer price inflation is forecast at 0.9%, same as in the May round. Taking into account the effects of the relief measures announced on 26 May 2009, the headline consumer price inflation for 2009 is forecast at 0.5%, revised downward from that of 1% in the May round.

DETAIL

GDP

According to the preliminary figure on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, real GDP registered a smaller decline of 3.8% in the second quarter over a year earlier. Compared to the 7.8% contraction in the first quarter, the rebound in the Hong Kong economy in the second quarter was underpinned by the faster growth of the Mainland economy and the easing of recessionary forces in the advanced economies. On a seasonally adjusted quarter-to-quarter comparison, GDP resumed growth at 3.3% in real terms in the second quarter of 2009, ending the contraction in the previous four quarters (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the second quarter of 2009 are presented in *Table 1*. Developments in different segments of the economy in the second quarter of 2009 are described below.

External trade

3. *Total exports of goods* declined by 12.4% in real terms year-on-year in the second quarter of 2009, much smaller than the 22.7% decline in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods rebounded strongly by 11.6% in real terms in the second quarter of 2009. The relative improvement was most evident in exports to the Mainland market, and to a lesser extent in some other Asian markets, while the performance of the US and EU markets still lagged behind others. As compared to many other Asian economies, Hong Kong's export performance continued to fare relatively better in the second quarter.

4. *Exports of services* declined by 5.7% in real terms in the second quarter over a year earlier, likewise narrowed from the 6.3% decline in the first quarter. Exports of services had benefited from the rebound in merchandise trade, manifested mainly in the lesser declines in trade-related services and freight transportation services. Exports of financial services also staged a recovery upon the more active financial markets since March. However, the double-digit decline in visitor arrivals in May and June following the spread of human swine flu had weighed on inbound tourism, putting a drag on the overall performance in exports of services in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, exports of services recovered to a 1.2% growth in real terms in the second quarter.

Domestic sector

5. Local consumer sentiments recovered during the quarter, under the support of a more stable labour market, low interest rates, rebound in asset markets and cushion rendered by the various rounds of relief measures by the Government.

Private consumption expenditure (PCE) rebounded strongly, by 4.0% in real terms in the second quarter over the first quarter on a seasonally adjusted basis, leading to a much lesser year-on-year decline of 1.0% than the 6.0% decline in the first quarter.

6. Business sentiments however remained cautious given the still uncertain global economic outlook. *Overall investment spending* fell markedly further by 14.0% in the second quarter over a year earlier, having decreased by 13.7% in the first quarter. Machinery and equipment investment fell notably in the second quarter. Nevertheless, the results of latest Quarterly Business Tendency Survey conducted by the Census and Statistics Department in June and early July indicated that large companies are still worried about the near-term business situation, but the extent of pessimism has lessened significantly further compared with the survey results obtained three months earlier. The decline in expenditure on building and construction also tapered in the second quarter, as public sector construction work staged a strong rebound upon the Government's efforts to expedite public sector projects, thereby rendering a partial offset to the distinct decline in private sector construction activity.

The labour sector

7. Labour market displayed much resilience. In tandem with the relative improvement in the economy, total employment stabilised in the second quarter, thereby helping to slow the pace of increase in unemployment rate. In the second quarter, the seasonally adjusted *unemployment rate* was 5.4% and the *underemployment rate* was 2.3%. Meanwhile, earnings and wages continued to face downward pressure.

Prices

8. Consumer prices remained on an easing trend in the second quarter as both local and external inflationary pressures were virtually absent in the midst of the global recession. *Underlying consumer price inflation* came down to 1.2% in the second quarter, while *headline consumer price inflation*, being pulled down by the one-off measures (mainly the electricity subsidy), went even lower to -0.1%. On the *GDP deflator*, an increase of 1.7% was recorded in the second quarter, as the more favourable terms of trade offset the decline in domestic demand deflator.

Latest GDP and price forecasts for 2009

9. Following the strong policy actions taken by governments around the world, the global economy is finally taking some breather after a dismal first quarter. In Asia, with the stimulus measures successively in place, the Mainland economy regained much strength by the second quarter, thereby providing an anchor in the region. Many other Asian economies have also shown different extents of relative improvement. With the global economy gradually bottoming out and the Mainland economy back to faster growth, Hong Kong's external sector is poised for some further improvement in the second half of 2009.

10. Locally, consumption in the coming quarters should continue to benefit from lesser job loss, low interest rates and the boost from the several rounds of Government's relief packages. Nevertheless, business sentiments, though also somewhat better than at the beginning of the year, are still cautious. In the coming quarters, private sector investment is likely to remain depressed. But public sector investments should pick up further to provide a partial offset to the slack in its private sector counterpart, reflecting the Government's pursuit of counter-cyclical strategy to mitigate the impact from the global downturn.

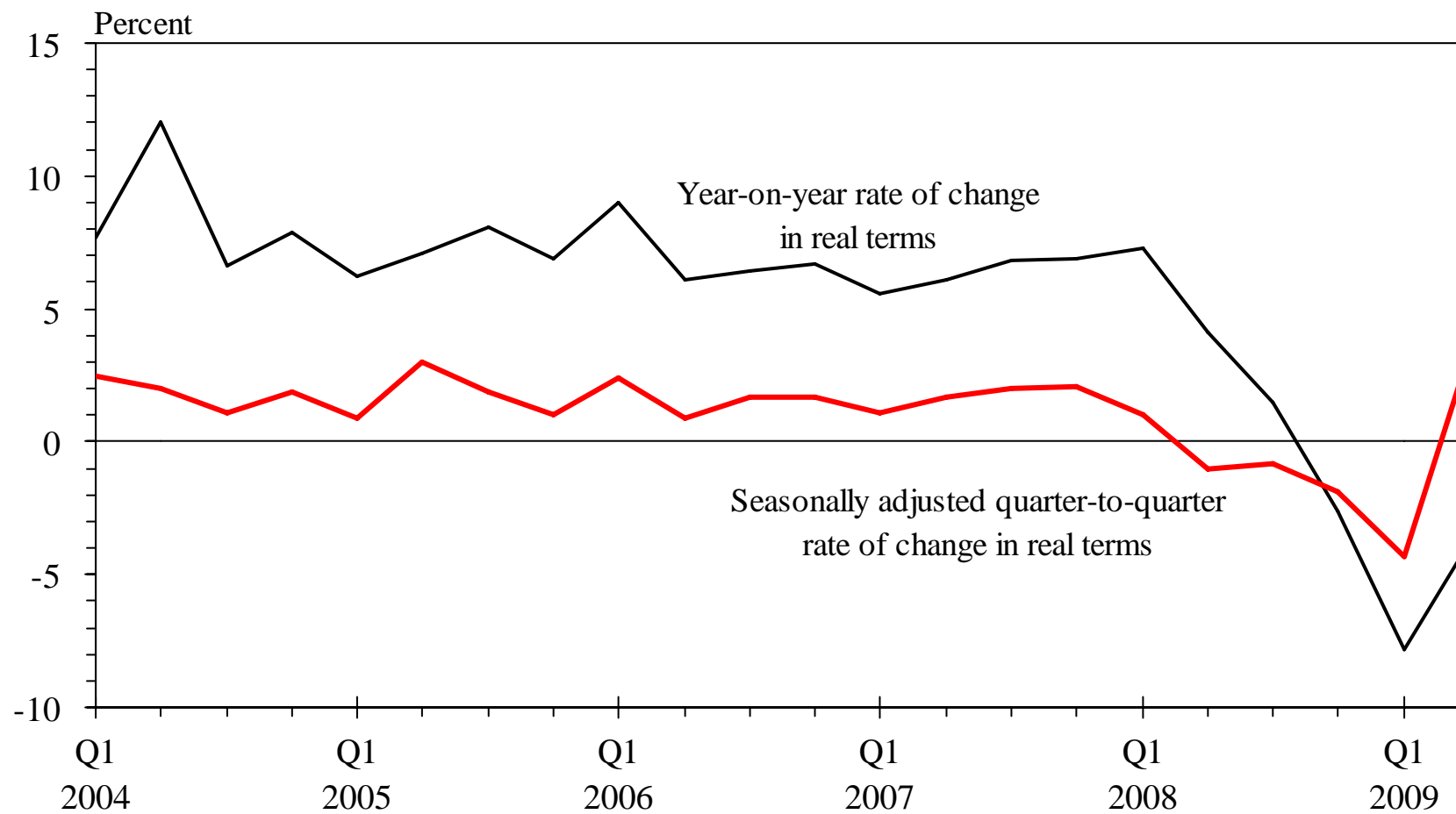
11. With the stronger-than-expected rebound in the second quarter, the gradual bottoming out in the global economy, and also taking into account the boost from the Government's additional relief measures announced on 26 May, GDP for 2009 as a whole is now forecast to contract by 3.5-4.5% in real terms, up from the forecast decline of 5.5-6.5% in the May round (*Table 2*). By comparison, most private sector analysts are currently projecting the economy to contract by 3.5-5.5%, averaging at around -4.5%.

12. While Hong Kong is seeing light at the end of the tunnel, the economic outlook remains highly uncertain. For a small open economy like Hong Kong, a sustained and solid recovery still hinges on a visible improvement in the external environment. The impact of the human swine influenza is another risk factor. Locally, asset market gyrations could occur if the global recovery process turned out to be unsteady and weaker-than-expected. Also, the strength of recovery in the domestic sector will hinge on the evolving employment and income situation. In short, the recovery path ahead can still be rather bumpy.

13. On the price outlook, with import prices now falling and local costs also receding, it is not unlikely that underlying CCPI inflation, as the benchmark indicator for the underlying trend in inflation, may turn slightly negative in the coming months. But this is all part of the global phenomenon, a manifestation of the necessary cost/price adjustments to weather the global financial tsunami and the ensuing global economic recession. Taking into account the actual outturn in the first half of 2009, for the year as a whole, *underlying consumer price inflation* is forecast at 0.9%, same as in the May round. Taking into account the effects of the relief measures announced on 26 May 2009, the *headline consumer price inflation* for 2009 is forecast at 0.5%, revised downward from that of 1% in the May round.

(The Half-yearly Economic Report 2009 is now available for online download, free of charge at <http://www.hkeconomy.gov.hk/en/reports/index.htm>. The Report of the Gross Domestic Product, Second Quarter 2009, which contains the GDP figures up to the second quarter of 2009, is also available for online download, free of charge at the homepage of the Census and Statistics Department (<http://www.censtatd.gov.hk>). Users can purchase the print version of these two publications online at the Government Bookstore at <http://www.bookstore.gov.hk>, or by calling the Publications Sales Unit of the Information Services Department at 2537 1910. The print version of the two reports is available for sale at \$90 and \$49 per issue respectively, plus postage charge.)

Hong Kong's Gross Domestic Product



Note : Figures for the second quarter of 2009 are preliminary estimates.

Table 1

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

	<u>2007#</u>	<u>2008#</u>	<u>2008</u>				<u>2009</u>	
			<u>Q1#</u>	<u>Q2#</u>	<u>Q3#</u>	<u>Q4#</u>	<u>Q1#</u>	<u>Q2+</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	8.5	1.5	8.0 (*)	3.0 (-1.3)	-0.2 (-0.6)	-4.1 (-2.2)	-6.0 (-2.0)	-1.0 (4.0)
Government consumption expenditure	3.0	1.7	0.6 (-0.3)	3.1 (1.6)	1.6 (-0.5)	1.8 (0.8)	1.4 (-0.3)	1.6 (1.5)
Gross domestic fixed capital formation	3.4	-0.5	9.9	5.1	2.9	-17.8	-13.7	-14.0
<i>of which :</i>								
Building and construction	-0.3	1.6	9.1	-0.1	-2.8	0.1	-10.9	-5.9
Machinery, equipment and computer software	3.0	-0.3	4.3	7.4	10.7	-21.1	-6.6	-18.0
Total exports of goods	7.0	1.9	8.3 (0.9)	4.4 (0.1)	1.3 (-1.8)	-4.9 (-4.3)	-22.7 (-16.8)	-12.4 (11.6)
Imports of goods	8.8	1.8	8.4 (-1.7)	4.8 (1.9)	2.0 (-1.2)	-6.4 (-5.6)	-21.4 (-15.9)	-12.7 (10.9)
Exports of services	14.1	5.7	10.1 (1.5)	8.4 (0.3)	4.8 (0.1)	0.4 (-1.3)	-6.3 (-5.6)	-5.7 (1.2)
Imports of services	12.1	3.3	11.2 (1.3)	3.8 (-2.6)	2.2 (-0.1)	-3.4 (-1.8)	-9.6 (-5.5)	-5.6 (1.8)
Gross Domestic Product	6.4	2.4	7.3 (1.0)	4.1 (-1.0)	1.5 (-0.8)	-2.6 (-1.9)	-7.8 (-4.3)	-3.8 (3.3)
<i>Change in the main price indicators (%)</i>								
GDP deflator	2.9	1.4	2.3 (-1.5)	1.9 (0.6)	2.0 (0.9)	-0.2 (-0.2)	0.4 (-0.8)	1.7 (1.9)
Composite CPI								
Headline	2.0	4.3	4.6 (0.9)	5.7 (1.5)	4.6 (-0.2)	2.3 (0.1)	1.7 (0.3)	-0.1 (-0.2)
Underlying^	2.8	5.6	4.9 (2.0)	5.7 (1.5)	6.3 (1.3)	5.4 (0.4)	3.1 (-0.2)	1.2 (-0.3)
<u>Change in nominal GDP (%)</u>	9.5	3.8	9.7	6.1	3.5	-2.8	-7.4	-2.2

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.

(*) Change of less than 0.05%.

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

Table 2

**Economic forecasts for 2009
(rate of change (%))**

	Forecasts for 2009 as released <u>on 15.5.2009</u> (%)	Latest forecasts for 2009 <u>on 14.8.2009</u> (%)
Gross Domestic Product (GDP)		
<i>Real GDP</i>	-5.5 to -6.5	-3.5 to -4.5
<i>Nominal GDP</i>	-5.5 to -6.5	-3.5 to -4.5
Composite Consumer Price Index (CCPI)		
<i>Headline CCPI</i>	1	0.5
<i>Underlying CCPI</i>	0.9	0.9
GDP Deflator	0	0