

# Press Release

(embargoed until 4:30 p.m. on 14 May 2010)

## **Economic Situation in the First Quarter of 2010 and Latest GDP and Price Forecasts for 2010**

The Government released today (Friday) the First Quarter Economic Report 2010, together with the preliminary figures on Gross Domestic Product for the first quarter of 2010.

The Government Economist, Mrs Helen Chan, described the economic situation in the first quarter of 2010 and provided the latest GDP and price forecasts for the year.

### **MAIN POINTS**

- \* Economic recovery in Hong Kong became increasingly entrenched in the first quarter of 2010. Having resumed a positive year-on-year growth of 2.5% in the fourth quarter of 2009, GDP grew markedly further by 8.2% in real terms in the first quarter of 2010. On a seasonally adjusted quarter-to-quarter basis, GDP recorded another quarter of strong growth of 2.4% in real terms in the first quarter, similar to that in the preceding quarter.
- \* The improvement in the first quarter was broadly based. Merchandise exports rebounded strongly from the exceptionally low base in the same quarter last year, thanks to vibrant growth in the Mainland, the resurgence in intra-regional trade and a gradual return of import demand from the United States and Europe. For the first quarter as a whole, exports surged by 21.6% in real terms over a year earlier, and had by and large returned to the level prior to the global financial tsunami.
- \* Exports of services were likewise robust, up 17.9% year-on-year in real terms in the first quarter. Exports of financial and business services continued to thrive along with the surge in financial market and commercial activities. Transportation and trade-related services staged a visible turnaround on the reviving trade flows. Inbound tourism was likewise vibrant, with visitors from most major sources showing rapid growth.
- \* The local segment was highly resilient in the first quarter. Private consumption expenditure grew by 6.5% year-on-year in real terms amid the improving labour market conditions, with the Government's relief measures providing additional support. The distinctly low base of comparison in the same quarter last year was also relevant. Business sentiment continued to strengthen, with overall investment spending recording another quarter of double-digit growth at 10.5%.
- \* The seasonally adjusted unemployment rate had successively come down since mid-2009, to 4.4% in the first quarter of 2010. Wages and earnings in overall terms also rose back towards the end of last year.

- \* The stock market turned more volatile lately, as sentiment was heavily dominated by market concerns over rising fiscal deficits and public debts in a few European economies. The property market gained further momentum during the first quarter but has turned steadier more recently, following the series of measures introduced by the Government to ensure its stable and healthy development.
- \* Locally, the results of the latest Quarterly Business Tendency Survey conducted in March and early April confirmed a broad-based rise in optimism among the large enterprises surveyed, and an increasing number of firms have indicated their intention to reactivate hiring plans. Better job and income prospects should in turn render the key driver for consumption growth in the quarters ahead. Investment as a whole should show further growth, with private sector investment recovering further in addition to the expected pick-up in public sector works.
- \* Externally, the global recovery has proceeded quite well in the first quarter of 2010, with Asia taking the lead while the US economy also churning out a better-than-expected performance. But the European economies are still sluggish under the drag of high unemployment and huge fiscal deficits. The Greek sovereign-debt problem and the need for some European economies to implement austerity measures may pose a drag to the recovery in Europe and increase financial market volatility. Given the latest developments in the external environment, and the already fragile nature of the global recovery, the export outlook for Hong Kong has turned somewhat more uncertain, more so in the latter part of the year upon the waning of the exceptional fiscal boosts in the advanced economies.
- \* With the Hong Kong economy bouncing back for four quarters in a row, by the first quarter of 2010, GDP has largely returned to the peak in early 2008, recouping all the lost ground in the 2009 Great Recession. Given the current strong growth momentum in Hong Kong and in the region, and if no major external shocks occur, real GDP growth for 2010 as a whole would very likely exceed the forecast of 4-5% as announced in the Budget. However, recognising the prevailing uncertainties in the external environment, the forecast GDP growth is maintained in the current round. A further review will be conducted in the August round when more incoming data from both the global and Hong Kong economy are available.
- \* Consumer price inflation, which was once negative for several months in 2009, inched up in the first quarter of 2010. Underlying consumer price inflation was 0.8% in the first quarter, up from -0.1% in the preceding quarter. Looking ahead, inflation may creep up modestly further in the coming quarters, being part of the reflationary process as the economic recovery proceeds. With the movements of consumer prices so far largely in line with earlier expectations, the forecast rates of the headline and underlying consumer price inflation in 2010 as a whole remain unchanged at 2.3% and 1.5% respectively.

## DETAILS

### GDP

According to the preliminary figure on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, real GDP rose by 8.2% in the first quarter of 2010 over a year earlier. This was in stark contrast to the contraction of 2.8% for 2009 as a whole, and accelerated markedly from the growth of 2.5% in the fourth quarter of last year (revised from the earlier estimates of -2.7% and 2.6% respectively). On a seasonally adjusted quarter-to-quarter comparison, GDP rose by 2.4% in real terms in the first quarter, the fourth consecutive quarter-to-quarter expansion (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the first quarter of 2010 are presented in *Table 1*. Developments in different segments of the economy in the first quarter of 2010 are described below.

### External trade

3. *Total exports of goods* expanded by 21.6% in real terms in the first quarter of 2010 over a year earlier, in stark contrast with the 2.9% decline in the fourth quarter of 2009 and the 12.7% contraction for 2009 as a whole. The increase in the first quarter on a seasonally adjusted quarter-to-quarter basis was 8.4%, up from the 7.3% increase in the preceding quarter. The strong export performance was mainly led by the sizable growth in exports to the Mainland and other Asian markets. In addition, exports to the US finally resumed modest growth after quarters of significant decline. Exports to Europe were still down despite the already very low base of comparison a year ago. As a result, the volume of merchandise exports in the first quarter largely returned to levels prior to the outbreak of the global financial tsunami.

4. *Exports of services* also grew strongly in the first quarter of 2010, by 17.9% year-on-year in real terms, markedly up from the 8.9% increase in the fourth quarter of last year. On a seasonally adjusted basis, the quarter-to-quarter growth was likewise impressive, at 6.6% in the first quarter, versus the 4.8% growth in the preceding quarter. All major components turned in sizable growth in the first quarter of 2010. Exports of financial and business services grew vibrantly, thanks to the sustained pick-up in financial market and commercial activities. Exports of travel services also expanded rapidly, along with a notable and broad-based growth in visitor arrivals. Exports of trade-related and transportation services, which were severely battered during most of 2009, saw a notable turnaround in the first quarter of 2010 on the back of normalisation in global trade flows.

### Domestic sector

5. The domestic sector sustained a fairly strong momentum in the first quarter of 2010. *Private consumption expenditure* increased by 6.5% year-on-year

in real terms over a year earlier, up from the 4.8% growth in the fourth quarter of last year. Consumer confidence was firmly supported by the continued improvement in labour market and more optimistic economic outlook.

6. *Overall investment spending* remained strong, increasing significantly by 10.5% in real terms in the first quarter of 2010 over a year earlier, after a rebound of 14.1% in the preceding quarter. Machinery and equipment acquisition surged by 12.1%, with a greater contribution coming from the private sector component. Expenditure on building and construction declined modestly by 2.1% in the first quarter of 2010. Public sector works continued to grow rapidly as the Government expedited small-scale works and as some large-scale infrastructure projects started. However, private sector construction activity remained slack.

### **The labour sector**

7. Labour market showed extensive improvements in the first quarter of 2010 alongside the strong rebound in overall economic activities. The seasonally adjusted *unemployment rate* came down successively since mid-2009, reaching 4.4% by the first quarter. The *underemployment rate* also edged down to 2.2%. Downward pressure on labour wages and earnings that once prevailed in the aftermath of the financial tsunami by and large disappeared by the end of last year.

### **The asset markets**

8. The local stock market retreated from mid-January to early February 2010, before resuming its uptrend in the rest of the quarter. Market sentiments were sensitive to news that could affect the global economic outlook. Lately, the stock market turned more volatile, as sentiment was heavily dominated by market concerns over rising fiscal deficits and public debts in a few European economies. The property market gained further momentum during the first quarter but has turned steadier more recently, following the series of measures announced by the Government to ensure its stable and healthy development.

### **Prices**

9. Inflationary pressure increased slightly in the first quarter as the economic recovery became more entrenched. *Headline consumer price inflation* was higher at 1.9% in the quarter, mainly due to the low base of comparison in the same quarter last year as a result of the one-off electricity charge subsidy. Netting out the effect of the Government's one-off relief measures, *underlying consumer price inflation* edged up to 0.8% year-on-year in the first quarter, in contrast with the 0.1% decline in the fourth quarter of 2009. The *GDP deflator* rose by 0.9% in the first quarter over a year earlier, also picking up from the increase of 0.2% in the previous quarter.

## Latest GDP and price forecasts for 2010

10. Locally, the results of the latest Quarterly Business Tendency Survey conducted in March and early April confirmed a broad-based rise in optimism among the large enterprises surveyed, and an increasing number of firms have indicated their intention to reactivate hiring plans. Better job and income prospects should in turn render the key driver for consumption growth in the quarters ahead. Investment as a whole should show further growth, with private sector investment recovering further in addition to the expected pick-up in public sector works.

11. Externally, the global recovery has proceeded quite well in the first quarter of 2010, with Asia taking the lead while the US economy also churning out a better-than-expected performance. But the European economies are still sluggish under the drag of high unemployment and huge fiscal deficits. The Greek sovereign-debt problem and the need for some European economies to implement austerity measures may pose a drag to the recovery in Europe and increase financial market volatility. Given the latest developments in the external environment, and the already fragile nature of the global recovery, the export outlook for Hong Kong has turned somewhat more uncertain, more so in the latter part of the year upon the waning of the exceptional fiscal boosts in the advanced economies.

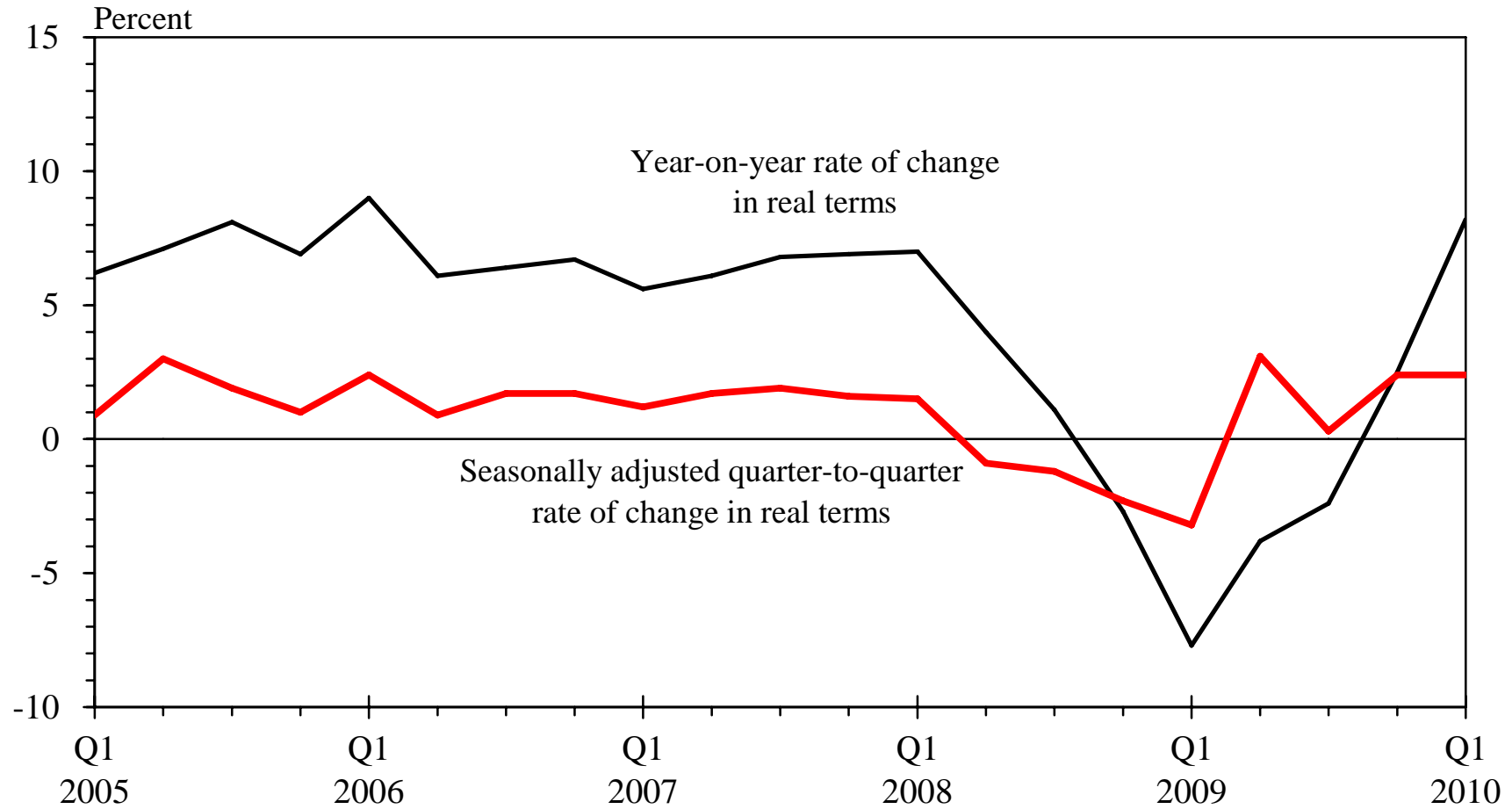
12. With the Hong Kong economy bouncing back for four quarters in a row, by the first quarter of 2010, GDP has largely returned to the peak in early 2008, recouping all the lost ground in the 2009 Great Recession. Given the current strong growth momentum in Hong Kong and in the region, and if no major external shocks occur, real GDP growth for 2010 as a whole would very likely exceed the forecast of 4-5% as announced in the Budget. However, recognising the prevailing uncertainties in the external environment, the forecast GDP growth is maintained in the current round (*Table 2*). A further review will be conducted in the August round when more incoming data from both the global and Hong Kong economy are available. For reference, most private sector analysts are currently projecting the economy to expand by 4-7%, averaging at around 5.2%.

13. Consumer price inflation, which was once negative for several months in 2009, inched up in the first quarter of 2010. Looking ahead, inflation may creep up modestly further in the coming quarters, being part of the reflationary process as the economic recovery proceeds. With the movements of consumer prices so far largely in line with earlier expectations, the forecast rates of the headline and underlying consumer price inflation in 2010 as a whole remain unchanged at 2.3% and 1.5% respectively.

(The First Quarter Economic Report 2010 is now available for online download, free of charge at <http://www.hkeconomy.gov.hk/en/reports/index.htm>. The print version is available for sale at \$100 per issue, plus postage charge. Users can purchase the print version 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 Report of the Gross Domestic Product, First Quarter 2010, which contains the GDP figures up to the first quarter of 2010, is also available for online download, free of charge at the homepage of the Census and Statistics Department, <http://www.censtatd.gov.hk>.)

# Hong Kong's Gross Domestic Product



Note : Figures for the first quarter of 2010 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>2008#</u>	<u>2009#</u>	<u>2009</u>				<u>2010</u>
			<u>Q1#</u>	<u>Q2#</u>	<u>Q3#</u>	<u>Q4#</u>	<u>Q1+</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	2.4	-0.4	-6.2 (-1.7)	-0.6 (4.1)	0.6 (0.4)	4.8 (2.0)	6.5 (*)
Government consumption expenditure	1.8	2.4	1.5 (-0.3)	2.6 (1.8)	3.4 (0.6)	2.0 (-0.2)	3.5 (1.3)
Gross domestic fixed capital formation	0.8	-1.8	-10.3	-11.8	3.2	14.1	10.5
<i>of which :</i>							
Building and construction	6.1	-0.5	-5.6	-2.4	5.4	1.3	-2.1
Machinery, equipment and computer software	-0.8	-2.6	-4.1	-16.6	-2.1	16.2	12.1
Total exports of goods	1.9	-12.7	-22.7 (-12.7)	-12.8 (6.0)	-13.2 (-1.3)	-2.9 (7.3)	21.6 (8.4)
Imports of goods	1.8	-9.5	-20.8 (-10.4)	-12.6 (5.3)	-8.3 (2.5)	3.3 (7.1)	28.0 (10.3)
Exports of services	5.0	0.3	-5.5 (-1.8)	-3.8 (1.9)	0.8 (3.7)	8.9 (4.8)	17.9 (6.6)
Imports of services	6.3	-3.7	-9.7 (-3.5)	-5.0 (1.9)	-2.7 (1.6)	2.5 (2.6)	10.2 (3.7)
<b>Gross Domestic Product</b>	<b>2.2</b>	<b>-2.8</b>	<b>-7.7</b> <b>(-3.2)</b>	<b>-3.8</b> <b>(3.1)</b>	<b>-2.4</b> <b>(0.3)</b>	<b>2.5</b> <b>(2.4)</b>	<b>8.2</b> <b>(2.4)</b>
<i>Change in the main price indicators (%)</i>							
<b>GDP deflator</b>	<b>1.5</b>	<b>0.2</b>	<b>0.7</b> <b>(0.2)</b>	<b>0.9</b> <b>(0.2)</b>	<b>-1.0</b> <b>(-0.6)</b>	<b>0.2</b> <b>(0.4)</b>	<b>0.9</b> <b>(0.9)</b>
<b>Composite CPI</b>							
<b>Headline</b>	<b>4.3</b>	<b>0.5</b>	<b>1.7</b> <b>(0.4)</b>	<b>-0.1</b> <b>(-0.2)</b>	<b>-0.9</b> <b>(-1.1)</b>	<b>1.3</b> <b>(2.2)</b>	<b>1.9</b> <b>(1.0)</b>
<b>Underlying^</b>	<b>5.6</b>	<b>1.0</b>	<b>3.1</b> <b>(-0.1)</b>	<b>1.2</b> <b>(-0.3)</b>	<b>-0.3</b> <b>(-0.2)</b>	<b>-0.1</b> <b>(0.5)</b>	<b>0.8</b> <b>(0.7)</b>
<b><u>Change in nominal GDP (%)</u></b>	<b>3.7</b>	<b>-2.6</b>	<b>-7.0</b>	<b>-2.9</b>	<b>-3.4</b>	<b>2.7</b>	<b>9.2</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.

(\*) Change of less than 0.05%.

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



**Table 2****Economic forecasts for 2010  
(rate of change (%))**

	Forecasts for 2010 as released on 24.2.2010 (%)	Latest forecasts for 2010 on 14.5.2010 (%)
<b>Gross Domestic Product (GDP)</b>		
<i>Real GDP</i>	4 to 5	<i>4 to 5</i>
<i>Nominal GDP</i>	4 to 5	<i>4 to 5</i>
<b>Composite Consumer Price Index (CCPI)</b>		
<i>Headline CCPI</i>	2.3	<i>2.3</i>
<i>Underlying CCPI</i>	1.5	<i>1.5</i>
<b>GDP Deflator</b>	0	<i>0</i>