

## **Press Release**

(embargoed until 4:30 p.m. on 11 May 2012)

### **Economic Situation in the First Quarter of 2012 and Latest GDP and Price Forecasts for 2012**

The Government released today (Friday) the First Quarter Economic Report 2012, together with the preliminary figures on Gross Domestic Product for the first quarter of 2012.

The Government Economist, Mrs Helen Chan, described the economic situation in the first quarter of 2012 and provided the latest GDP and price forecasts for the year.

#### **MAIN POINTS**

- \* The Hong Kong economy slowed further in the first quarter of 2012, with real GDP posting a slight year-on-year growth of 0.4%, after a 3.0% expansion in the fourth quarter of 2011. The weak performance in the first quarter was mainly dragged by the lull in exports amid a difficult external environment. The domestic sector nevertheless continued to display strength and help cushion the overall economic performance. On a seasonally adjusted quarter-to-quarter comparison, real GDP also grew slightly by 0.4% in the first quarter, similar to that in the preceding quarter.
- \* Total exports of goods dipped by 5.7% in real terms in the first quarter of 2012 over a year earlier. Although this was partly exaggerated by the exceptionally high base of comparison a year earlier, widespread weaknesses were seen across exports to many regions, including Asia. Exports of services likewise moderated but still grew modestly by 3.6% year-on-year in real terms in the first quarter of 2012, thanks to the strong cushion rendered by thriving inbound tourism.
- \* On the domestic front, private consumption expenditure held up well on the back of the much improved income conditions, with a further brisk growth of 5.6% year-on-year in real terms in the first quarter. Investment spending also remained strong with a further surge of 12.2% over a year earlier, buttressed by active machinery and equipment acquisition and hectic public sector infrastructure works.
- \* The labour market remained virtually in a state of full employment, with total employment reaching a fresh record high and the seasonally adjusted unemployment rate staying relatively low at 3.4% in the first quarter. Against this background and with the additional boost from the implementation of statutory minimum wage since May 2011, both wages and earnings saw notable increases over the past year. The median household income rose by 9.5% in the first quarter in nominal terms over a year earlier, or by 4.1% in real terms after discounting inflation. Over the same period, average employment earnings for the lowest decile of full-time employees rose even more by 13.4% in nominal terms or by 8.4% in real terms.

- \* Local stock prices rebounded in the first quarter alongside other markets worldwide. Local property market likewise revived since February, with overall flat prices posting a 5% gain during the quarter, and with the number of transactions leaping by 36% over the preceding quarter.
- \* Looking ahead, the downside risks in the external environment remain notable, due mainly to the lingering eurozone sovereign debt crisis. The fragile fundamentals and fiscal restraints of the advanced economies, particularly the eurozone, would continue to weigh on their economic growth, with spillovers to the Asian economies. Yet the Mainland economy is expected to stay firm, thereby rendering an important stabilising force in the region. Also, the US economy has performed better than earlier expected. These positive developments, if continued, will provide some support to Hong Kong's exports going forward.
- \* The domestic sector is expected to stay relatively resilient. Local consumption demand will be underpinned by the still favourable income and employment conditions. The latest Quarterly Business Tendency Survey also indicated increased optimism among large enterprises lately. Meanwhile, hectic public sector infrastructure works and the package of measures in the 2012-13 Budget should render additional impetus to domestic demand.
- \* After the lacklustre performance in the first quarter, the Hong Kong economy is poised to gradually regain momentum in the coming quarters. In particular, in view of improved export orders and also a rise-back in business sentiment in the trade-related sectors lately, exports should bottom out and revert to some growth during the year. In addition, the sustained vibrancy of inbound tourism and further growth of infrastructure spending will continue to support the local economy. Barring any abrupt deterioration of the eurozone debt situation, the forecast GDP growth of 1-3% for 2012 as a whole announced in the Budget should be attainable, and is thus maintained in the current round of review.
- \* Underlying consumer price inflation, after an almost uninterrupted acceleration since late 2010, eased back to 5.9% in the first quarter of 2012, from 6.4% in the fourth quarter of 2011. The price pressures from the external sources have generally softened, following the retreat in global food and commodity prices and receding inflation in the Mainland. On the domestic front, the increase in fresh-letting rentals has also tapered. With both imported inflation and domestic cost pressures easing back progressively in tandem with a slowing global and local economy, Hong Kong's inflation is expected to taper further in the coming quarters. The forecast rates of headline and underlying consumer price inflation for 2012 as a whole put out in the Budget round, at 3.5% and 4% respectively, are therefore maintained in the current round of review. Nonetheless, some upside risks to inflation, including the elevated international oil prices stemming from geopolitical tensions as well as a possible resurgence in global commodity and food prices amid abundant global liquidity, need to be watched over closely.

## DETAILS

### GDP

According to preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, real GDP grew slightly by 0.4% in real terms over a year earlier in the first quarter of 2012, compared to the 3.0% growth in the fourth quarter of 2011 and the 5.0% growth for 2011 as a whole (both figures are the same as the earlier estimates). The slight year-on-year expansion has also to be viewed against the relatively high base of comparison in the first quarter of last year, when real GDP expanded strongly by 7.6%. On a seasonally adjusted quarter-to-quarter comparison, real GDP also expanded slightly by 0.4% in the first quarter of 2012, similar to that in the preceding quarter (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the first quarter of 2012 are presented in *Table 1*. Developments in different segments of the economy in the first quarter of 2012 are described below.

### External trade

3. *Total exports of goods* fell by 5.7% in real terms in the first quarter of 2012 over a year earlier, after a brief rebound of 2.0% in the fourth quarter of 2011. While the rather noticeable year-on-year decline was partly exacerbated by the exceptionally high base of comparison in the same quarter of last year, the weakness of exports in the first quarter was widespread across the major markets. Apart from the further dip in exports to the US and the EU, those to the Asian markets also slackened distinctly alongside the slowing intra-regional trade flows, particularly those related to the intake of raw materials caused by the subdued final demand in the advanced markets. Yet on a seasonally adjusted quarter-to-quarter basis, total exports of goods actually grew modestly by 1.8% in real terms over the preceding quarter.

4. *Exports of services* grew by 3.6% year-on-year in real terms in the first quarter of 2012, following the 5.3% growth in the fourth quarter of 2011. Exports of trade-related services felt more of the pinch from the slackening trade flows, while exports of financial and business services also dipped marginally on slower cross-border financing activities. Nevertheless, exports of travel services continued to grow robustly amid the prevailing strength of inbound tourism, while exports of transportation services also fared somewhat better, thereby cushioning the overall services exports performance. On a seasonally adjusted basis, exports of services grew steadily further by 1.8% in real terms over the preceding quarter.

## **Domestic sector**

5. Domestically, *private consumption expenditure* held firm and grew briskly by 5.6% year-on-year in real terms in the first quarter of 2012, further to the 6.6% growth in the preceding quarter, thanks to the stable job conditions and notably improved income levels over the past year. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure held broadly stable in the first quarter. *Government consumption expenditure* also expanded steadily in the first quarter, by 2.5% in real terms over a year earlier.

6. *Overall investment spending* posted a strong growth of 12.2% year-on-year in real terms in the first quarter of 2012, up further from the 9.8% growth in the preceding quarter. The significant investment growth in the first quarter was broadly based. On the one hand, machinery and equipment acquisition stayed robust, leaping by 23.1% year-on-year in real terms. On top of this, continued hectic pace of public sector infrastructure works, together with the further growth in private sector construction activity, had provided additional impetus. Overall building and construction expenditure showed a faster increase of 11.1% in real terms in the first quarter, up from 7.6% in the preceding quarter.

## **The labour sector**

7. Labour market conditions remained largely buoyant in the first quarter of 2012. Job creation continued across many sectors, pushing total employment to another record high, though this was matched by an even faster growth in the labour force. As a result, the *seasonally adjusted unemployment rate* edged up from 3.3% in the fourth quarter of 2011 to 3.4% in the first quarter of 2012, still a relatively low level. The *underemployment rate* also stayed low at 1.6%. With the labour market remaining virtually in a state of full employment, labour wages and earnings were notably higher than their year-ago levels. In particular, the median household income rose by 9.5% in the first quarter in nominal terms over a year earlier, or by 4.1% in real terms after discounting inflation. Over the same period, average employment earnings for the lowest decile of full-time employees rose even more, by 13.4% in nominal terms or by 8.4% in real terms.

## **The asset markets**

8. The *local stock market* staged a rebound on entering 2012 alongside other markets worldwide, amid some positive developments pertinent to the US economy and the eurozone sovereign debt situation early in the year. The Hang Seng Index, though largely staying range-bound in March, closed the first quarter at 20 556, 12% higher than at end-2011.

9. The *residential property market* regained some momentum after the Lunar New Year Holidays, in tandem with the rebound in stock markets, and further helped by the cut in mortgage rates by several banks during the quarter. Residential property prices, after a slight dip in January, recouped all the lost ground

in February and March, resulting in a 5% gain during the first quarter of 2012, further to the 11% increase during 2011. By March 2012, overall flat prices surpassed the previous historical peak in 1997 by around 10%. On the other hand, flat rentals extended its softening trend on entering 2012, and posted a 2% decline during the first quarter. Yet both shop and office rentals edged up further by 3% and 1% respectively over the same period.

## Prices

10. Consumer price inflation, having risen almost uninterruptedly since late 2010, receded in the first quarter of 2012, thanks to the easing of price pressures on both the domestic and external fronts. Locally, the relative stabilisation of fresh-letting residential rentals in the latter part of 2011 was progressively fed through, resulting in a less rapid increase in the private housing rental component of the Consumer Price Index. Externally, global food and commodity prices also eased back visibly compared with the elevated levels a year ago. Thus, with slower increases in food prices and private housing rentals (which account for over half of the consumption basket), *headline consumer price inflation* went down to 5.2% in the first quarter of 2012, from 5.7% in the preceding quarter. Netting out the effects of the Government's relief measures, *underlying consumer price inflation* also receded to 5.9% in the first quarter, from 6.4% in the previous quarter.

## Latest GDP and price forecasts for 2012

11. Looking ahead, the downside risks in the external environment remain notable, due mainly to the lingering eurozone sovereign debt crisis. The fragile fundamentals and fiscal restraints of the advanced economies, particularly the eurozone, would continue to weigh on their economic growth, with spillovers to the Asian economies. Yet the Mainland economy is expected to stay firm, thereby rendering an important stabilising force in the region. Also, the US economy has performed better than earlier expected. These positive developments, if continued, will provide some support to Hong Kong's exports going forward.

12. The domestic sector is expected to stay relatively resilient. Local consumption demand will be underpinned by the still favourable income and employment conditions. The latest Quarterly Business Tendency Survey also indicated increased optimism among large enterprises lately. Meanwhile, hectic public sector infrastructure works and the package of measures in the 2012-13 Budget should render additional impetus to domestic demand.

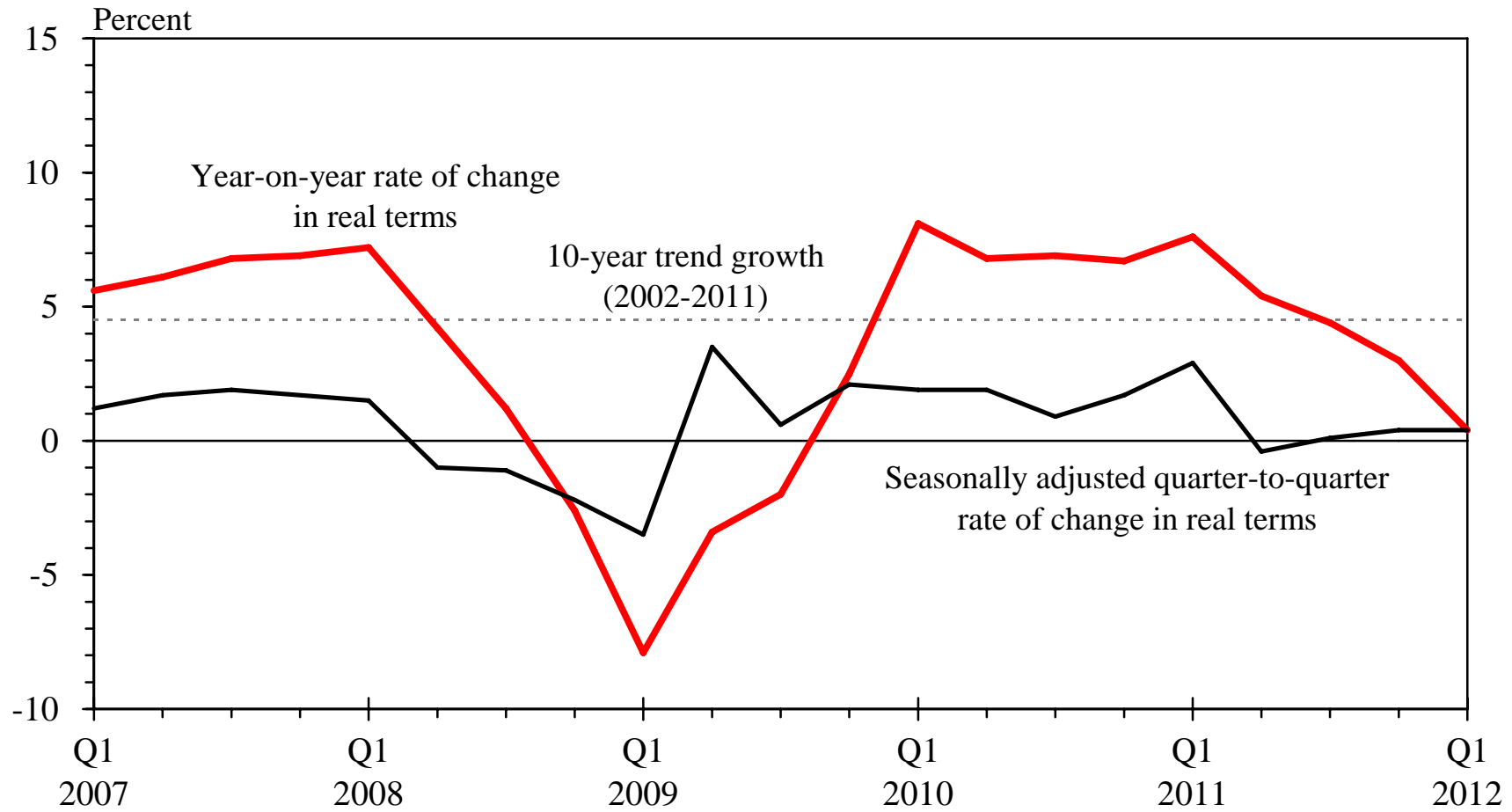
13. After the lacklustre performance in the first quarter, the Hong Kong economy is poised to gradually regain momentum in the coming quarters. In particular, in view of improved export orders and also a rise-back in business sentiment in the trade-related sectors lately, exports should bottom out and revert to some growth during the year. In addition, the sustained vibrancy of inbound tourism and further growth of infrastructure spending will continue to support the local economy. Barring any abrupt deterioration of the eurozone debt situation, the

forecast GDP growth of 1-3% for 2012 as a whole announced in the Budget should be attainable, and is thus maintained in the current round of review (*Table 2*). For reference, the latest forecasts by private sector analysts mostly range from 2-3.5%, averaging at around 2.8%.

14. On inflation outlook, with both imported inflation and domestic cost pressures easing back progressively in tandem with a slowing global and local economy, Hong Kong's inflation is expected to taper further in the coming quarters. The forecast rates of headline and underlying consumer price inflation for 2012 as a whole put out in the Budget round, at 3.5% and 4% respectively, are therefore maintained in the current round of review (*Table 2*). Nonetheless, some upside risks to inflation, including the elevated international oil prices stemming from geopolitical tensions, as well as a possible resurgence in global commodity and food prices amid abundant global liquidity need to be watched over closely.

(The First Quarter Economic Report 2012 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 \$110 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 2012, which contains the GDP figures up to the first quarter of 2012, 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 2012 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>2010<sup>#</sup></u>	<u>2011<sup>#</sup></u>	<u>2011</u>				<u>2012</u>
			<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Q1<sup>+</sup></u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	6.7	8.5	8.0 (0.7)	9.9 (3.3)	9.5 (1.6)	6.6 (0.8)	5.6 (-0.2)
Government consumption expenditure	2.8	1.8	2.5 (1.7)	1.0 (-0.8)	1.3 (1.0)	2.2 (0.4)	2.5 (1.8)
Gross domestic fixed capital formation	7.7	7.6	0.7	7.7	11.7	9.8	12.2
<i>of which :</i>							
Building and construction	5.6	5.7	17.8	-4.2	3.0	7.6	11.1
Machinery, equipment and computer software	6.4	13.7	-11.2	17.8	26.7	20.5	23.1
Total exports of goods	17.3	3.6	16.8 (10.1)	0.3 (-9.5)	-2.2 (0.7)	2.0 (1.5)	-5.7 (1.8)
Imports of goods	18.1	4.8	12.6 (8.6)	2.6 (-5.1)	1.4 (-0.2)	3.9 (0.9)	-2.7 (1.7)
Exports of services	14.6	6.7	9.0 (3.5)	7.4 (0.6)	5.3 (0.4)	5.3 (0.7)	3.6 (1.8)
Imports of services	10.4	3.1	5.6 (-0.2)	2.9 (0.3)	1.4 (-0.5)	2.8 (3.2)	2.5 (-0.5)
<b>Gross Domestic Product</b>	<b>7.1</b>	<b>5.0</b>	<b>7.6 (2.9)</b>	<b>5.4 (-0.4)</b>	<b>4.4 (0.1)</b>	<b>3.0 (0.4)</b>	<b>0.4 (0.4)</b>
<i>Change in the main price indicators (%)</i>							
<b>GDP deflator</b>	<b>0.2</b>	<b>3.7</b>	<b>1.3 (1.3)</b>	<b>4.9 (1.4)</b>	<b>4.8 (2.0)</b>	<b>3.7 (-1.1)</b>	<b>2.8 (0.3)</b>
<b>Composite CPI</b>							
<b>Headline</b>	<b>2.4</b>	<b>5.3</b>	<b>3.8 (1.8)</b>	<b>5.2 (1.8)</b>	<b>6.4 (-0.9)</b>	<b>5.7 (3.0)</b>	<b>5.2 (1.3)</b>
<b>Underlying<sup>^</sup></b>	<b>1.7</b>	<b>5.3</b>	<b>3.7 (1.8)</b>	<b>5.0 (1.7)</b>	<b>6.1 (1.5)</b>	<b>6.4 (1.2)</b>	<b>5.9 (1.3)</b>
<i>Change in nominal GDP (%)</i>	<b>7.3</b>	<b>8.9</b>	<b>9.0</b>	<b>10.6</b>	<b>9.4</b>	<b>6.8</b>	<b>3.2</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.

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



**Table 2****Economic forecasts for 2012  
(rate of change (%))**

	Forecasts for 2012 as released on <u>1.2.2012</u> (%)	Latest forecasts for 2012 on <u>11.5.2012</u> (%)
<b>Gross Domestic Product (GDP)</b>		
<i>Real GDP</i>	1 to 3	<i>1 to 3</i>
<i>Nominal GDP</i>	2.5 to 4.5	<i>2.5 to 4.5</i>
<b>Composite Consumer Price Index (CCPI)</b>		
<i>Headline CCPI</i>	3.5	<i>3.5</i>
<i>Underlying CCPI</i>	4	<i>4</i>
<b>GDP Deflator</b>	1.5	<i>1.5</i>