

Press Release

(embargoed until 4:30 p.m. on 10 May 2013)

Economic Situation in the First Quarter of 2013 and Latest GDP and Price Forecasts for 2013

The Government released today (Friday) the First Quarter Economic Report 2013, together with the preliminary figures on Gross Domestic Product for the first quarter of 2013.

The Government Economist, Mrs Helen Chan, described the economic situation in the first quarter of 2013 and provided the latest GDP and price forecasts for the year.

MAIN POINTS

- * The Hong Kong economy continued to grow moderately in the first quarter of 2013, by 2.8% in real terms over a year earlier, same as the growth pace in the preceding quarter. While the external sector still faced an unsteady global economic environment, the domestic sector remained relatively resilient. On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded only by 0.2% in the first quarter, after a 1.4% growth in the preceding quarter.
- * Total exports of goods grew by 8.8% in real terms in the first quarter over a year earlier. While the Mainland and some other Asian markets saw solid growth, the advanced markets remained the weak spots, with exports to the US, EU and Japan all posting different extents of year-on-year declines in the first quarter. The strong export growth was also largely helped by a surge in exports of non-monetary gold in the quarter. Exports of services picked up to a 4.9% year-on-year growth over the same period, under the support of vibrant inbound tourism and improved financial market activity.
- * Domestic demand largely held firm. Private consumption expenditure grew briskly by 7.0% in real terms over a year earlier, on the back of broadly supportive labour market conditions. Investment expenditure however fell back by 2.2% from the distinctly high level last year.
- * The labour market was largely steady in the first quarter. The seasonally adjusted unemployment rate edged up to 3.5%, albeit still at a relatively low level. In the first quarter, median household income rose by 5.8% in nominal terms over a year earlier, or by 2.0% in real terms after discounting inflation. Over the same period, average employment earnings for the lowest decile of full-time employees leaped by 7.7% in nominal terms or by 3.4% in real terms.
- * Local stock prices rose initially yet gave back the gains during the quarter amid the volatility in the overseas markets. Local property market resumed an uptrend early in the year, but cooled off in recent months after the Government's introduction of a new round of demand-management and macro-prudential measures in late February.

- * The global economic environment, albeit relatively improved from the dire situation in mid-2012, is still overcast by a considerable number of uncertain factors. The key source of downside risks continues to stem from the eurozone economy, which is wrought with structural problems and mired in recession under the debt overhang. The recovery in the US economy has yet to take hold, and the fiscal adjustment triggered by the tax rise and sequester will inevitably constrain its growth momentum. In view of the continued sluggishness in demand in the advanced economies, which would continue to put a drag on economic activity in Asia, Hong Kong's trade performance is likely to see some fluctuations in the period ahead. Nonetheless, the sustained solid growth of the Mainland economy should continue to lend some support to intra-regional trade going forward, to the benefit of Hong Kong.
- * The latest Quarterly Business Tendency Survey indicated that overall business sentiment among large enterprises has turned somewhat more positive compared with the previous quarter. Moreover, domestic consumption is expected to stay resilient, underpinned by the still largely favourable labour market conditions. The ongoing infrastructure works, thriving inbound tourism, and the boost from the package of measures in the 2013-14 Budget should also render growth impetus to the local economy.
- * Although global financial conditions have improved somewhat lately, the advanced economies still lack growth momentum and need to continue with aggressive quantitative easing measures. On the whole, the recent developments in the global economic environment have been largely consistent with the picture envisaged earlier this year, and Hong Kong's economic growth in the first quarter also accords with expectations. As such, the GDP growth forecast of 1.5-3.5% for 2013 as announced in the Budget is maintained in the current round of review.
- * Underlying consumer price inflation held stable at 3.8% in the first quarter of 2013, having eased successively over the course of 2012. Looking ahead, with the lagged effects of the surge in private housing rentals over the past year progressively feeding through, inflation is likely to rise back slightly in the coming months. Yet imported inflation should remain tame, and local housing rentals have softened more recently following the Government's two rounds of demand management measures. These favourable developments should help to contain the upward pressure on inflation in the latter part of this year. In light of all the above factors, and with the actual outturn in the first quarter also in line with expectations, the forecast rates of headline and underlying consumer price inflation for 2013 put out in the Budget round, at 4.5% and 4.2% respectively, are maintained in the current round of review.

DETAILS

GDP

According to preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, real GDP grew moderately further by 2.8% in real terms in the first quarter of 2013 over a year earlier, same as that in the preceding quarter (revised upwards from the earlier estimate of 2.5%). On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded slightly by 0.2% in the first quarter of 2013, after a 1.4% growth in the preceding quarter (revised upwards from the earlier estimate of 1.2%) (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the first quarter of 2013 are presented in *Table 1*. Developments in different segments of the economy in the first quarter of 2013 are described below.

External trade

3. *Total exports of goods* grew by 8.8% in real terms in the first quarter of 2013 over a year earlier, following the 6.7% growth in the fourth quarter of 2012. Yet the appreciable growth was boosted in part by a surge in exports of non-monetary gold in the quarter. Excluding this peculiar factor, merchandise export performance was actually rather modest. While the Mainland and some other Asian markets saw solid growth, the advanced markets remained the weak spots, with exports to the US, EU and Japan all posting year-on-year declines. On a seasonally adjusted basis, total exports of goods grew by 1.8% in real terms over the preceding quarter.

4. *Exports of services* picked up to a 4.9% year-on-year growth in real terms in the first quarter of 2013, from the 2.9% growth in the fourth quarter of 2012. On a seasonally adjusted basis, exports of services grew by 2.4% in real terms over the preceding quarter. Exports of travel services continued to render the key impetus, growing notably further amid sustained double-digit growth in visitor arrivals. Those of financial and other business services also picked up in growth, thanks to improved commercial activities and more stable global financial conditions. Yet held back by the generally still rather lacklustre trade environment, exports of trade-related services saw only modest growth, which in turn also dampened exports of transportation services.

Domestic sector

5. Domestically, *private consumption expenditure* held firm and grew briskly by 7.0% year-on-year in real terms in the first quarter of 2013, further to the 2.8% growth in the preceding quarter, thanks to the broadly supportive job conditions as well as continued improvement in incomes over the past year. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure leaped by 4.9% in the first quarter. *Government consumption expenditure* grew modestly by 2.0% in the first quarter over a year earlier.

6. *Overall investment spending* fell back modestly by 2.2% in real terms in the first quarter of 2013 from a year earlier, after sustaining notable growth throughout 2012 cumulating to a 9.4% growth for the year as a whole. The decline in the first quarter was mainly dragged by machinery and equipment investment, which contracted by 4.0%, though the distinctly high base of comparison in 2012 was also relevant. Meanwhile, the expenditure on building and construction was virtually unchanged in real terms from a year earlier, with large-scale public infrastructure works registering slower growth and private sector building activity falling back mildly, both after the robust growth over the past year.

The labour sector

7. The labour market remained rather tight during most of the first quarter of 2013. Amid keen labour demand on the back of buoyant local consumption, total employment maintained steady momentum, rising to a new high during the quarter. Labour supply, lured by the still largely favourable job and income conditions, also increased further, at a pace even slightly faster than that of job creation. As a result, the *seasonally adjusted unemployment rate* edged up from 3.3% in the final quarter of 2012 to 3.5% in the first quarter of 2013, albeit still at a relatively low level. The *underemployment rate* also edged up to 1.6% over the same period. In the first quarter, median household income rose by 5.8% in nominal terms over a year earlier, or by 2.0% in real terms after discounting inflation. Over the same period, average employment earnings for the lowest decile of full-time employees leaped by 7.7% in nominal terms or by 3.4% in real terms.

The asset markets

8. The *local stock market* entered 2013 on a strong note, extending the rally since late 2012 upon the expanded monetary easing in the advanced economies and some stabilisation in global financial conditions. Yet the stock market experienced a correction in the latter part of the first quarter, amid fluidity in the euro debt situation stemming from the inconclusive Italian election and Cypriot banking crisis, as well as uncertainties surrounding the global growth prospects. The Hang Seng Index closed the first quarter at 22 300, down slightly by 2% from end-2012.

9. The *residential property market*, after a brief calm in late 2012, heated up again in the first two months of 2013 amid a low interest rate environment. Then, with the Government introducing further demand management measures in late February, and with some major local banks also raising the mortgage rates in March, the housing market quietened down visibly. Residential property prices fell slightly by 0.1% during March 2013, reversing the exuberant situation in the first two months of 2013 when flat prices on average rose by 2.6% per month. Yet, overall flat prices in March 2013 still surpassed the 1997 historic peak by 38%. Upward pressures on flat rentals have been easing since the introduction of Buyer's Stamp Duty last October. This easing trend has continued into the first quarter, with only a marginal increase of 0.2% during the quarter. As for non-residential property market, market activities have also cooled off lately. Shop and office rentals saw gains of 1% and 3% respectively during the first quarter.

Prices

10. Consumer price inflation held steady in the first quarter of 2013, having tapered progressively over the course of 2012. Both external and domestic price pressures remained contained in early 2013. Externally, imported inflation stayed moderate, amid soft global food and commodity prices. Locally, wages have tapered in growth, while the pick-up in fresh-letting rentals during 2012 had yet to fully feed through to the inflation figures. Reflecting the combined influence of the above factors, *headline consumer price inflation* was 3.7% in the first quarter of 2013, slightly lower than the 3.8% in the preceding quarter. Netting out the effects of the Government's relief measures, *underlying consumer price inflation* held stable at 3.8%.

Latest GDP and price forecasts for 2013

11. The global economic environment, albeit relatively improved from the dire situation in mid-2012, is still overcast by a considerable number of uncertain factors. The key source of downside risks continues to stem from the eurozone economy, which is wrought with structural problems and mired in recession under the debt overhang. The recovery in the US economy has yet to take hold, and the fiscal adjustment triggered by the tax rise and sequester will inevitably constrain its growth momentum. In view of the continued sluggishness in demand in the advanced economies, which would continue to put a drag on economic activity in Asia, Hong Kong's trade performance is likely to see some fluctuations in the period ahead. Nonetheless, the sustained solid growth of the Mainland economy should continue to lend some support to intra-regional trade going forward, to the benefit of Hong Kong.

12. The latest Quarterly Business Tendency Survey indicated that overall business sentiment among large enterprises has turned somewhat more positive compared with the previous quarter. Moreover, domestic consumption is expected to stay resilient, underpinned by the still largely favourable labour market conditions. The ongoing infrastructure works, thriving inbound tourism, and the boost from the

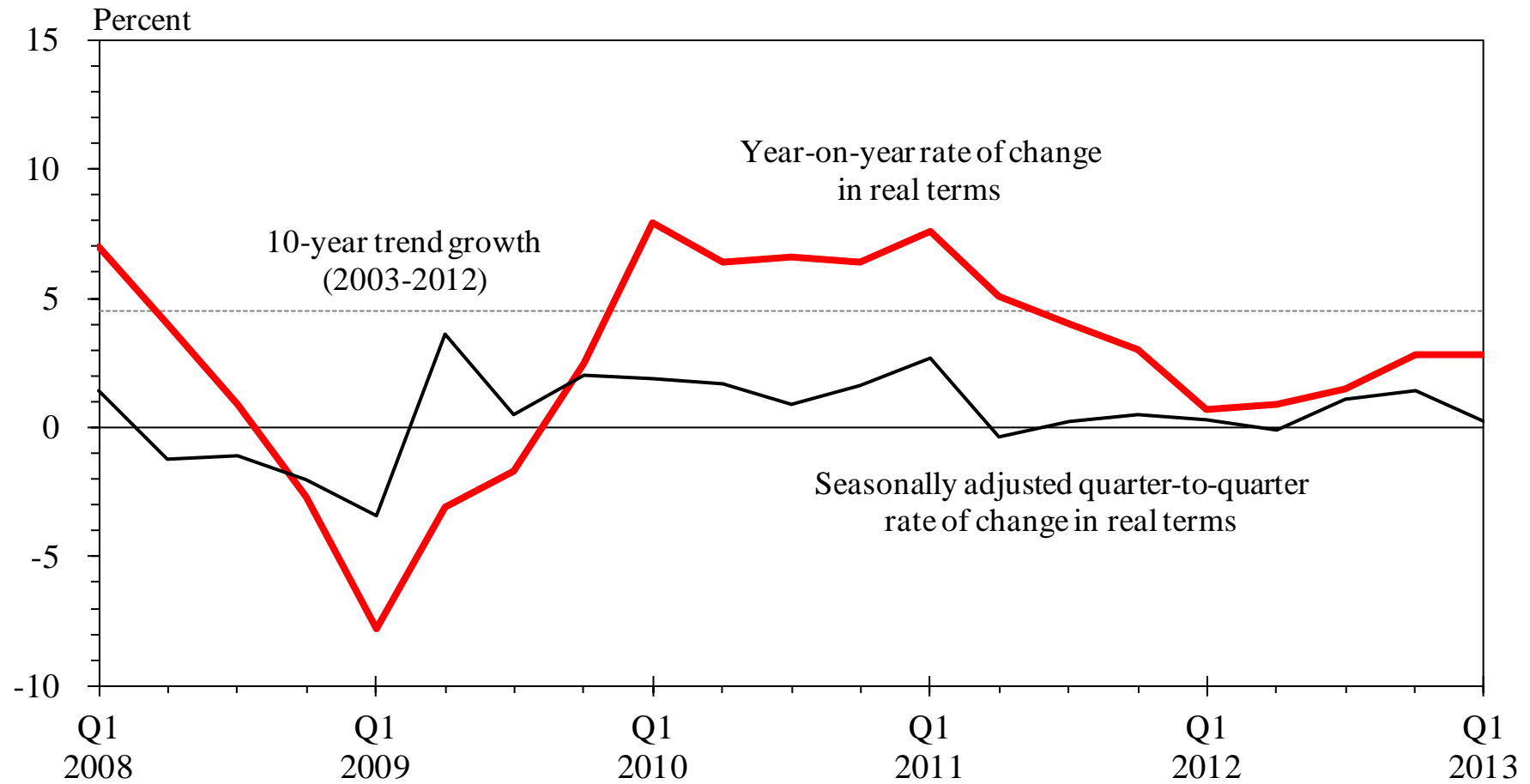
package of measures in the 2013-14 Budget should also render growth impetus to the local economy.

13. Although global financial conditions have improved somewhat lately, the advanced economies still lack growth momentum and need to continue with aggressive quantitative easing measures. On the whole, the recent developments in the global economic environment have been largely consistent with the picture envisaged earlier this year, and Hong Kong's economic growth in the first quarter also accords with expectations. As such, the GDP growth forecast of 1.5-3.5% for 2013 as announced in the Budget is maintained in the current round of review (*Table 2*). For reference, the latest forecasts by private sector analysts mostly range from 3-4%, averaging at around 3.3%.

14. On inflation outlook, with the lagged effects of the surge in private housing rentals over the past year progressively feeding through, inflation is likely to rise back slightly in the coming months. Yet imported inflation should remain tame, and local housing rentals have softened more recently following the Government's two rounds of demand management measures. These favourable developments should help to contain the upward pressure on inflation in the latter part of this year. In light of all the above factors, and with the actual outturn in the first quarter also in line with expectations, the forecast rates of headline and underlying consumer price inflation for 2013 put out in the Budget round, at 4.5% and 4.2% respectively, are maintained in the current round of review (*Table 2*).

(The First Quarter Economic Report 2013 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 \$124 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 2013, which contains the GDP figures up to the first quarter of 2013, 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 2013 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>2011[#]</u>	<u>2012[#]</u>	<u>2012</u>				<u>2013</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	9.0	3.2	5.7 (0.8)	2.6 (*)	1.9 (0.8)	2.8 (1.2)	7.0 (4.9)
Government consumption expenditure	2.5	3.7	3.2 (1.2)	4.2 (1.0)	4.0 (0.7)	3.3 (0.6)	2.0 (-0.3)
Gross domestic fixed capital formation	10.2	9.4	12.5	5.8	8.2	11.4	-2.2
<i>of which :</i>							
Building and construction	15.5	13.2	14.6	14.7	8.8	14.6	*
Machinery, equipment and intellectual property products	12.2	10.7	21.1	5.2	10.1	9.2	-4.0
Total exports of goods	3.4	1.8	-4.8 (1.3)	0.2 (-1.7)	4.5 (3.1)	6.7 (4.8)	8.8 (1.8)
Imports of goods	4.7	3.0	-1.8 (2.7)	1.2 (-1.0)	4.7 (1.6)	7.6 (5.2)	9.6 (3.1)
Exports of services	4.9	1.9	2.2 (0.4)	2.4 (1.2)	0.1 (-1.6)	2.9 (2.9)	4.9 (2.4)
Imports of services	3.5	0.4	3.0 (0.7)	0.9 (-1.3)	-1.5 (-2.0)	-0.8 (1.9)	1.2 (2.6)
Gross Domestic Product	4.9	1.5	0.7 (0.3)	0.9 (-0.1)	1.5 (1.1)	2.8 (1.4)	2.8 (0.2)
<i>Change in the main price indicators (%)</i>							
GDP deflator	3.9	3.9	3.9 (1.1)	3.0 (0.5)	4.3 (2.0)	4.3 (0.7)	1.2 (-2.0)
Composite CPI							
Headline	5.3	4.1	5.2 (1.2)	4.2 (0.8)	3.1 (-1.9)	3.8 (3.7)	3.7 (1.2)
Underlying[^]	5.3	4.7	5.9 (1.2)	5.1 (0.9)	4.0 (0.6)	3.8 (1.1)	3.8 (1.2)
<i>Change in nominal GDP (%)</i>	9.0	5.5	4.6	3.9	5.8	7.3	4.1

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 of less than 0.05%.

Table 2**Economic forecasts for 2013
(rate of change (%))**

	Forecasts for 2013 as released on <u>27.2.2013</u> (%)	Latest forecasts for 2013 on <u>10.5.2013</u> (%)
Gross Domestic Product (GDP)		
<i>Real GDP</i>	1.5 to 3.5	<i>1.5 to 3.5</i>
<i>Nominal GDP</i>	4.5 to 6.5	<i>4.5 to 6.5</i>
Composite Consumer Price Index (CCPI)		
<i>Headline CCPI</i>	4.5	<i>4.5</i>
<i>Underlying CCPI</i>	4.2	<i>4.2</i>