

Press Release

(embargoed until 4:30 p.m. on 16 August 2013)

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

The Government released today (Friday) the Half-yearly Economic Report 2013, together with the preliminary figures on Gross Domestic Product for the second quarter of 2013.

The Acting Government Economist, Mr Andrew Au, described the economic situation in the second quarter of 2013 and provided the latest GDP and price forecasts for the year.

MAIN POINTS

- * The Hong Kong economy grew moderately in the second quarter of 2013, by 3.3% in real terms over a year earlier, slightly up from the 2.9% growth in the first quarter. Domestic demand continued to be the key growth driver, while the external sector was still constrained by the unsteady global economic environment. On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded by 0.8% in the second quarter, up from the 0.2% growth in the preceding quarter.
- * The external environment stayed challenging in the second quarter. Although total exports of goods grew by 6.2% in real terms in the second quarter over a year earlier, the increase after excluding the surge in exports of non-monetary gold was actually rather modest. The advanced markets in general were still sluggish, while Asian markets showed a mixed performance. By contrast, exports of services picked up visibly further, with a notable growth of 8.1% year-on-year in real terms, thanks to a marked acceleration in visitor spending.
- * Domestic demand held up well. Private consumption expenditure rose further in the second quarter by 4.2% year-on-year in real terms, thanks to favourable job and income conditions. Investment expenditure reverted to quite a notable 6.9% growth after a brief dip in the first quarter, mainly on the acceleration of machinery and equipment acquisition and hectic infrastructure works.
- * The labour market remained in a state of full employment. In the second quarter, total employment increased further to another new high, pushing the seasonally adjusted unemployment rate down to 3.3%. Wages and earnings also experienced further increases in recent periods. Median household income rose by 5.5% in nominal terms in the second quarter over a year earlier, or by 1.4% in real terms after discounting inflation. Average employment earnings for the lowest decile of full-time employees rose even more, by 7.7% in nominal terms or by 2.9% in real terms, reflecting the tightness in labour market conditions in the lower-skilled segment, but also helped by the upward adjustment of the Statutory Minimum Wage rate in May this year.

- * The local stock market turned more volatile in the latter part of the second quarter, amid concerns about the possibility that the US Federal Reserve would taper its asset purchases later this year as well as the weaker growth prospects for major emerging markets. The local property market cooled off visibly after the Government's further demand management measures in late February, with thinner trading and moderated increases in flat prices during the second quarter.
- * Looking ahead, the global economy is likely to continue to expand at a modest pace in the near term. While recent data on the advanced economies have been more positive and acute risks for the global economic outlook have somewhat receded, uncertainties in the external environment still abound. In the US, the growth pace is likely to remain moderate under the constraint of the fiscal adjustment. The future direction of the US monetary policy has also emerged as a new source of uncertainty, which may entail greater volatility in the global financial conditions. In the eurozone, although the economy has shown some signs of bottoming out, the fiscal and structural reform measures for addressing the sovereign debt problems would continue to pose a drag on its recovery. The recent growth slowdown in major emerging markets is another concern. Nevertheless, the Mainland economy, growing at 7.5% in the second quarter, still outperformed other major economies and should continue to be an important stabilising force in the region. Against this background, Hong Kong's trade performance, particularly in respect of merchandise trade, is likely to see some fluctuations in the period ahead.
- * The domestic sector should stay rather resilient, with local consumption underpinned by improving job and income conditions. As for business confidence, the results of the latest Quarterly Business Tendency Survey showed that large enterprises were slightly positive on the near-term business outlook. In addition, the ongoing infrastructure works, thriving inbound tourism, and the boost from the package of measures in the 2013-14 Budget should also provide support to the local economy.
- * Given the actual outturn of the 3.1% year-on-year real GDP growth in the first half of 2013, and the somewhat reduced downside risks to the global economy, Hong Kong's economic growth this year will likely lie within the upper-half of the previously announced range forecast. The GDP growth forecast for 2013 as a whole is thus revised from 1.5-3.5% in the May round to 2.5-3.5% in the current round of review.
- * Inflation remained largely stable in the first half of 2013. Underlying consumer price inflation edged up by only 0.1 percentage point from the first quarter to 3.9% in the second quarter, reflecting mainly the progressive feed-through of the rise in private housing rentals in 2012, and also a temporary surge in prices of basic foodstuffs in April. Inflation is still expected to edge up in the coming months as the past increases in private housing rentals continue to feed through. But the still-subdued imported inflation and the milder increases in fresh-letting residential rentals during the first half of 2013 should help cap the upside risks to inflation. In light of the above factors, and with a

slightly lower-than-expected outturn in the first half of this year, the headline and underlying consumer price inflation forecasts for 2013 are revised slightly downward to 4.3% and 4% respectively, from 4.5% and 4.2% in the previous round.

DETAILS

GDP

According to preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP grew moderately by 3.3% in real terms in the second quarter of 2013 over a year earlier, after a 2.9% growth in the first quarter (revised upward from the earlier estimate of 2.8%). On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded by 0.8% in the second quarter of 2013, after a 0.2% growth in the preceding quarter (same as the earlier estimate) (*Chart*).

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

External trade

3. *Total exports of goods* grew by 6.2% in real terms in the second quarter over a year earlier, slower than the 8.8% growth in the first quarter. Excluding the substantial increase in exports of non-monetary gold in the quarter, export performance was actually rather lacklustre. The advanced markets were still the weak spots, as exports to the US, EU and Japan continued to post moderate year-on-year declines in the second quarter. Moreover, exports to the major Asian markets including the Mainland, Taiwan and Singapore also showed some slowdown. Reflecting the drag from sluggish external demand and its negative spillover to Asian production activities and domestic demand, exports of raw materials and consumer goods to many Asian economies remained subdued in the second quarter. On a seasonally adjusted basis, total exports of goods fell back by 3.1% in real terms in the second quarter over the preceding quarter.

4. *Exports of services* fared visibly better and picked up further to an 8.1% year-on-year growth in real terms in the second quarter, up from the 5.3% growth in the first quarter. Exports of travel services remained the key growth driver, with visitor spending accelerating markedly in the second quarter. Exports of financial and other business services also saw some improvement. Yet exports of trade-related services grew only mildly in tandem with the subdued trading activities. Those of transportation services recorded a further modest decline on the slowdown in cargo flows. On a seasonally adjusted quarter-to-quarter comparison, exports of services grew markedly by 3.9% in real terms in the second quarter.

Domestic sector

5. The domestic sector stayed resilient in the second quarter. On the back of sanguine local consumer sentiment amid sustained job and income growth, *private consumption expenditure* (PCE) rose by 4.2% in real terms in the second quarter over a year earlier, following the notable 6.3% increase in the first quarter. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure fell by 2.0% in the second quarter. *Government consumption expenditure* grew steadily further, by 3.1% in real terms in the second quarter over a year earlier.

6. *Overall investment spending* reverted to increase by 6.9% year-on-year in real terms in the second quarter, after dipping by 3.3% in the first quarter. The improvement was mainly supported by a strong rebound in machinery and equipment investment, which surged by 19.4% in the second quarter. Meanwhile, building and construction expenditure edged down in real terms in the second quarter over a year earlier, as the growth in public sector infrastructure works was offset by the decline in private sector construction activity.

The labour sector

7. The labour market remained in a state of full employment. In the second quarter, total employment increased further to another new high, pushing the *seasonally adjusted unemployment rate* down to 3.3%, from 3.5% in the first quarter. The *underemployment rate* also stayed low at 1.6%. Wages and earnings also experienced further increases in recent periods. In the second quarter, median household income rose by 5.5% in nominal terms over a year earlier, or by 1.4% in real terms after discounting inflation. Average employment earnings for the lowest decile of full-time employees rose even more, by 7.7% in nominal terms or by 2.9% in real terms, reflecting the tightness in labour market conditions in the lower-skilled segment, but also helped by the upward adjustment of the Statutory Minimum Wage rate in May this year.

The asset markets

8. The *local stock market* rallied in the first half of the second quarter on some stabilisation of the euro debt situation, as well as the aggressive monetary easing in Japan and rate cut by the European Central Bank. Yet the stock market experienced a sharp correction in the latter part of the second quarter, along with other major overseas stock markets, amid increasing signs of slowdown in the major emerging markets as well as US Fed's indication of a possible scale-back in asset purchases. The Hang Seng Index closed the second quarter at 20 803, down 7% from end-March 2013 and down 8% from end-2012.

9. The *residential property market* cooled off visibly after the Government's introduction of further demand management measures in late February. Residential property prices edged up by 1% during the second quarter, a

notable moderation from the surge of 5% during the preceding quarter. Yet, overall flat prices in June still surpassed the 1997 peak by 40%. Flat rentals rose by about 1% between March and June. As for non-residential property market, the upward pressures on office rentals eased somewhat, registering a 2% gain over the same period, while shop rentals rose further by 5% in tandem with the strength in consumption market.

Prices

10. Consumer price inflation edged up slightly in the second quarter, reflecting the progressive feed-through of the rise in private housing rentals in 2012 and a temporary surge in food inflation in April upon the volatile fresh vegetable prices. Yet, many other major components saw moderate price increases. Locally, apart from the lagged effects of rental increases last year, the growth in wage costs remained moderate. Externally, imported inflation stayed tame and actually went lower amid the generally still soft global commodity prices as well as easing inflation in Hong Kong's major import sources. *Headline consumer price inflation* was 4.0% in the second quarter of 2013, up from 3.7% in the first quarter. Netting out the effects of the Government's relief measures to reflect more accurately the underlying inflation situation, *underlying consumer price inflation* went up only marginally to 3.9% in the second quarter, from 3.8% in the first quarter.

Latest GDP and price forecasts for 2013

11. Looking ahead, the global economy is likely to continue to expand at a modest pace in the near term. While recent data on the advanced economies have been more positive and acute risks for the global economic outlook have somewhat receded, uncertainties in the external environment still abound. In the US, the growth pace is likely to remain moderate under the constraint of the fiscal adjustment. The future direction of the US monetary policy has also emerged as a new source of uncertainty, which may entail greater volatility in the global financial conditions. In the eurozone, although the economy has shown some signs of bottoming out, the fiscal and structural reform measures for addressing the sovereign debt problems would continue to pose a drag on its recovery. The recent growth slowdown in the major emerging markets is another concern. Nevertheless, the Mainland economy, growing at 7.5% in the second quarter, still outperformed other major economies and should continue to be an important stabilising force in the region. Against this background, Hong Kong's trade performance, particularly in respect of merchandise trade, is likely to see some fluctuations in the period ahead.

12. The domestic sector should stay rather resilient, with local consumption underpinned by improving job and income conditions. As for business confidence, the results of the latest Quarterly Business Tendency Survey showed that large enterprises were slightly positive on the near-term business outlook. In addition,

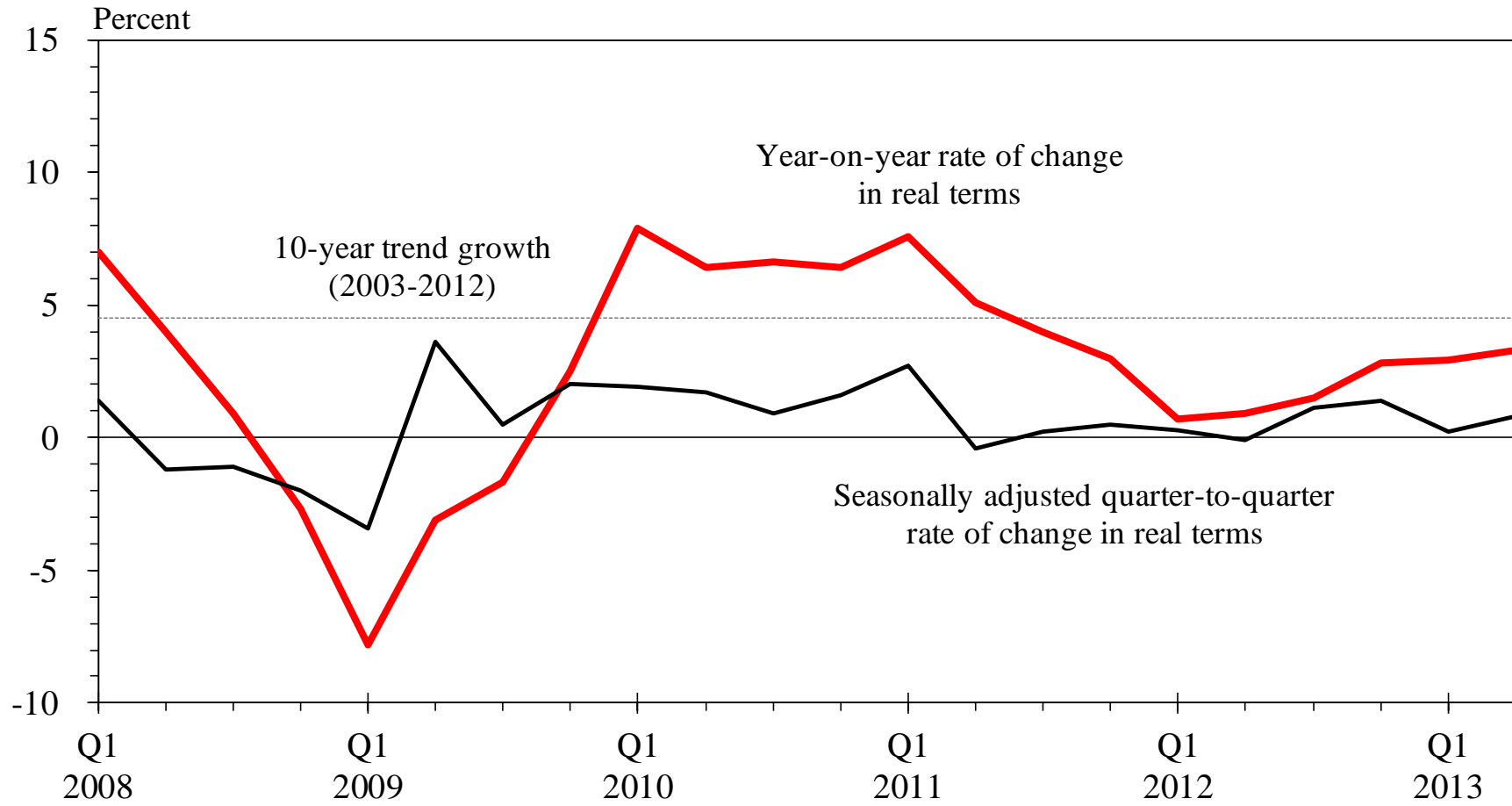
the ongoing infrastructure works, thriving inbound tourism, and the boost from the package of measures in the 2013-14 Budget should also provide support to the local economy.

13. Given the actual outturn of the 3.1% year-on-year real GDP growth in the first half of 2013, and the somewhat reduced downside risks to the global economy, Hong Kong's economic growth this year will likely lie within the upper-half of the previously announced range forecast. The GDP growth forecast for 2013 as a whole is thus revised from 1.5-3.5% in the May round to 2.5-3.5% in the current round of review (*Table 2*). For reference, the latest forecasts by private sector analysts mostly range from 2.5-3.5%, averaging at around 3%.

14. On inflation outlook, inflation is still expected to edge up in the coming months as the past increases in private housing rentals continue to feed through. But the still-subdued imported inflation and the milder increases in fresh-letting residential rentals during the first half of 2013 should help cap the upside risks to inflation. In light of the above factors, and with a slightly lower-than-expected outturn in the first half of this year, the headline and underlying consumer price inflation forecasts for 2013 are revised slightly downward to 4.3% and 4% respectively, from 4.5% and 4.2% in the previous round (*Table 2*).

(The Half-yearly 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 \$140 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, Second Quarter 2013, which contains the GDP figures up to the second 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 second 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>	<u>Q2[±]</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	8.4	3.0	5.5 (1.0)	2.3 (-0.1)	1.5 (0.6)	2.7 (1.2)	6.3 (4.4)	4.2 (-2.0)
Government consumption expenditure	2.5	3.7	3.2 (1.2)	4.2 (1.0)	4.0 (0.7)	3.3 (0.6)	2.1 (-0.2)	3.1 (2.1)
Gross domestic fixed capital formation	10.2	9.4	12.5	5.8	8.2	11.4	-3.3	6.9
<i>of which :</i>								
Building and construction	15.5	13.2	14.6	14.7	8.8	14.6	-2.6	-2.1
Machinery, equipment and intellectual property products	12.2	10.7	21.1	5.2	10.1	9.2	-4.0	19.4
Total exports of goods	3.4	1.8	-4.7 (1.3)	0.3 (-1.7)	4.6 (3.1)	6.7 (4.8)	8.8 (1.8)	6.2 (-3.1)
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)	7.6 (-2.2)
Exports of services	5.6	2.0	2.3 (0.4)	2.6 (1.3)	0.2 (-1.5)	3.0 (2.9)	5.3 (2.7)	8.1 (3.9)
Imports of services	3.5	0.4	3.0 (0.8)	0.9 (-1.3)	-1.5 (-2.0)	-0.7 (1.9)	0.5 (1.9)	-1.4 (-3.0)
Gross Domestic Product	4.9	1.5	0.7 (0.3)	0.9 (-0.1)	1.5 (1.1)	2.8 (1.4)	2.9 (0.2)	3.3 (0.8)
<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)	1.4 (-1.8)	0.7 (-0.1)
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)	4.0 (1.1)
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)	3.9 (1.0)
<i>Change in nominal GDP (%)</i>	9.0	5.5	4.6	3.9	5.8	7.3	4.3	4.0

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 of private consumption expenditure, exports of goods, and imports and exports of services were revised back to 2009 as a result of a technical revision exercise conducted by the Census and Statistics Department in mid-2013.

(#) 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 2013
(rate of change (%))**

	Forecasts for 2013 as released <u>on 10.5.2013</u> (%)	Latest forecasts for 2013 <u>on 16.8.2013</u> (%)
Gross Domestic Product (GDP)		
<i>Real GDP</i>	1.5 to 3.5	2.5 to 3.5
<i>Nominal GDP</i>	4.5 to 6.5	4.5 to 5.5
Composite Consumer Price Index (CCPI)		
<i>Headline CCPI</i>	4.5	4.3
<i>Underlying CCPI</i>	4.2	4