

Press Release

(embargoed until 4:30 p.m. on 15 November 2013)

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

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

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

MAIN POINTS

- * The Hong Kong economy expanded moderately further in the third quarter of 2013, by 2.9% in real terms over a year earlier, slightly slower than the 3.2% growth in the second quarter. The external sector, with the notable exception of inbound tourism, was still constrained by the weak global economic conditions. Meanwhile, domestic demand held firm and the labour market remained in a state of full employment. On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded by 0.5% in the third quarter, compared to 0.7% in the preceding quarter.
- * Total exports of goods grew by 6.2% in real terms in the third quarter over a year earlier. However, export performance after excluding the surge in exports of non-monetary gold actually remained rather modest. Merchandise exports to major advanced economies stayed weak, while the performance of major Asian markets was mixed. Over the same period, exports of services showed a solid growth of 4.9% in real terms thanks to expansions of inbound tourism and cross-border financial activity.
- * As for domestic demand, private consumption expenditure rose moderately by 2.8% in the third quarter over a year earlier amid favourable job and income conditions. Investment expenditure also grew further, by 2.2%, though at a slower pace after a strong pick-up in the preceding quarter. Machinery and equipment investment expanded at a solid albeit slower pace, while infrastructure works accelerated, driving the growth of construction activity.
- * The labour market remained in a state of full employment, with the seasonally adjusted unemployment rate staying at 3.3% and total employment hitting another record high in the third quarter. Given the relatively tight labour market conditions, wages and earnings sustained solid and broad-based improvement. Nominal wages rose by 5.2% in the second quarter over a year earlier. Average employment earnings for full-time employees in the lowest decile group also rose further by 5.4% in nominal terms in the third quarter over a year earlier.

- * Local stock prices rebounded during the third quarter as the Mainland's economic indicators displayed resilience and the prospective Fed tapering did not start in September. The property market remained quiet with the increase in flat prices decelerating further amid thin trading during the quarter.
- * In the near term, there are still old and new challenges preventing the global economy from switching to a higher gear. The US economic performance in the fourth quarter may be weakened by the partial government shutdown in October. The uncertainties arising from the Fed's monetary policy and the unresolved fiscal issues would also put a drag on the US growth pace. The eurozone's recovery is likely to remain fragile, given the elevated unemployment rate and structural problems. The growth slowdown in some major emerging markets is also a source of concern. Yet, the Mainland economy has stayed resilient, which should lend some support to trade and production activity in Asia going forward. Against this backdrop, Hong Kong's merchandise trade performance may continue to see some fluctuations in the near term.
- * Locally, consumer sentiment should still be broadly supported by the favourable job and income conditions. The further expansion of inbound tourism should also be conducive to the consumption market. Moreover, the latest Quarterly Business Tendency Survey showed that large enterprises remained largely positive about the near-term business outlook. This, coupled with the intensive infrastructure works and the boost from the package of measures in the 2013-14 Budget, would also render a solid support to the domestic economy.
- * Given the actual outturn of the 3.0% year-on-year real GDP growth in the first three quarters of 2013, and that a further moderate growth is likely attainable in the fourth quarter, the real GDP growth for 2013 is now forecast at 3%, the mid-point of the range forecast of 2.5-3.5% announced in the August round.
- * Underlying consumer price inflation went up modestly to 4.3% in the third quarter, mainly driven by the continued feed-through of the private housing rental increases during 2012. Nevertheless, with the favourable effect on inflation arising from the milder increases in fresh-letting private residential rentals since the beginning of the year gradually being felt, and with external price pressures staying rather modest, the upside risks to inflation should be limited in the near term. Given that the inflation trend has so far been largely in line with earlier expectations, the forecast rates of headline and underlying consumer price inflation for 2013 as a whole are kept unchanged at 4.3% and 4% respectively.

DETAILS

GDP

According to preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP grew moderately by 2.9% in real terms in the third quarter of 2013 over a year earlier, after a 3.2% growth in the second quarter (revised downward from the earlier estimate of 3.3%). On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded by 0.5% in the third quarter of 2013, after a 0.7% growth in the preceding quarter (also revised downward from the earlier estimate of 0.8%) (*Chart*).

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

External trade

3. *Total exports of goods* rose by 6.2% year-on-year in real terms in the third quarter, same as the gain in the second quarter. Excluding the substantial increase in exports of non-monetary gold in the quarter, export performance actually remained modest. Merchandise exports to major advanced economies stayed weak, with those to the US and Japan registering further year-on-year declines. Exports to the EU saw a mild year-on-year growth, helped by the nascent recovery of the eurozone economy after a six-quarter contraction. Meanwhile, exports to the Mainland recorded a modest growth while the performance of major Asian markets was rather mixed. On a seasonally adjusted basis, total exports of goods rebounded by 3.1% in real terms in the third quarter over the preceding quarter.

4. *Exports of services* increased solidly by 4.9% year-on-year in real terms in the third quarter, following a notable 8.4% growth in the second quarter. Exports of travel services remained the key driving force, thanks largely to the further growth in inbound tourism. Exports of financial and other business services saw a solid growth amid further expansion of cross-border financial activity, while exports of trade-related services and those of transportation services both stayed slack, being dragged by sluggish trade flows. On a seasonally adjusted quarter-to-quarter comparison, exports of services fell by 4.6% in real terms in the third quarter.

Domestic sector

5. Domestic demand expanded further. *Private consumption expenditure* (PCE), supported by broadly positive job and income conditions, rose by 2.8% year-on-year in real terms in the third quarter, albeit slower than the 4.2% growth in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure fell by 0.8% in the third quarter. *Government consumption expenditure* also grew steadily by 2.7% in the third quarter over a year

earlier.

6. Overall investment spending in terms of *gross domestic fixed capital formation* increased by 2.2% year-on-year in real terms in the third quarter, after a notable 6.9% growth in the second quarter. Within this, the machinery and equipment acquisition still recorded a solid albeit slower growth. Meanwhile, overall building and construction expenditure showed a modest year-on-year rebound in real terms in the third quarter, as the pick-up in growth of large-scale public sector infrastructure works offset the decline in private sector construction activity.

The labour sector

7. The labour market stayed in a state of full employment, with the *seasonally adjusted unemployment rate* standing at 3.3% in the third quarter and the *underemployment rate* inching lower to 1.5%. Labour demand remained strong relative to supply, thanks to the largely stable domestic economy and further growth in inbound tourism, with private sector vacancies in June close to the 19-year high recorded in March. Total employment hit another record high in the third quarter. Given the relatively tight labour market conditions, wages and earnings sustained solid and broad-based improvement. Nominal wages rose by 5.2% in the second quarter over a year earlier. Average employment earnings for full-time employees in the lowest decile group also rose further by 5.4% in nominal terms in the third quarter over a year earlier, helped partly by the upward adjustment of the Statutory Minimum Wage rate in May 2013.

The asset markets

8. The *local stock market* rebounded during the third quarter, fuelled by the resilient Mainland economic indicators and the US Fed's decision to hold off tapering asset purchases in September. The Hang Seng Index recovered ground and finished the quarter 10% higher than end-June 2013, or 1% above end-2012.

9. The *residential property market* remained quiet in the third quarter. Residential property prices decelerated further, with a 1% gain during the third quarter, which was slightly slower than the increase during the second quarter and significantly lower than the 5% surge during the first quarter. Yet, overall flat prices in September exceeded the 1997 peak by 42%. Flat rentals increased slightly by about 1% during the quarter. As for non-residential property market, the upward pressures on office and shop rentals also turned milder, both posting increases of 1% during the third quarter.

Prices

10. Consumer price inflation went up modestly in the third quarter, mainly reflecting the pressure from the continued feed-through of the private housing rental increases in 2012. Yet, the favourable effect of the milder increases in fresh-letting

private residential rentals since the beginning of this year began to set in towards the end of the third quarter, helping to contain inflation. Overall labour costs rose steadily alongside a relatively tight labour market, but external price pressures remained subdued as international commodity prices were largely stable. *Headline consumer price inflation* rose to 5.3% in the third quarter from 4.0% in the second quarter, but this more visible increase was mainly because of a lower base of comparison resulting from the Government's payment of public housing rentals in July 2012. Netting out the effects of the Government's relief measures to reflect more accurately the underlying inflation situation, *underlying consumer price inflation* went up modestly from 3.9% in the second quarter to 4.3% in the third quarter.

Latest GDP and price forecasts for 2013

11. In the near term, there are still old and new challenges preventing the global economy from switching to a higher gear. The US economic performance in the fourth quarter may be weakened by the partial government shutdown in October. The uncertainties arising from the Fed's monetary policy and the unresolved fiscal issues would also put a drag on the US growth pace. The eurozone's recovery is likely to remain fragile, given the elevated unemployment rate and structural problems. The growth slowdown in some major emerging markets is also a source of concern. Yet, the Mainland economy has stayed resilient, which should lend some support to trade and production activity in Asia going forward. Against this backdrop, Hong Kong's merchandise trade performance may continue to see some fluctuations in the near term.

12. Locally, consumer sentiment should still be broadly supported by the favourable job and income conditions. The further expansion of inbound tourism should also be conducive to the consumption market. Moreover, the latest Quarterly Business Tendency Survey showed that large enterprises remained largely positive about the near-term business outlook. This, coupled with the intensive infrastructure works and the boost from the package of measures in the 2013-14 Budget, would also render a solid support to the domestic economy.

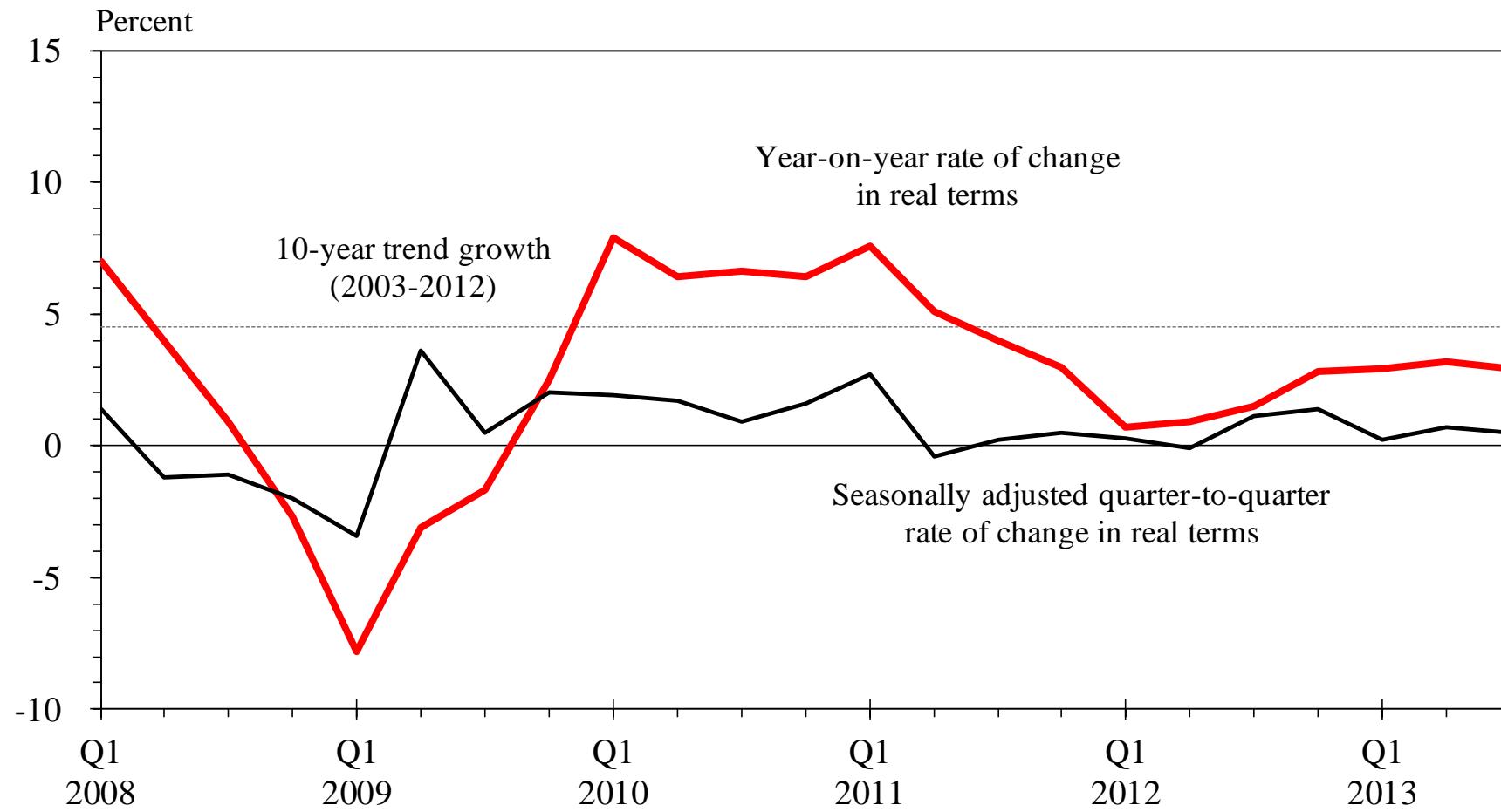
13. Given the actual outturn of the 3.0% year-on-year real GDP growth in the first three quarters of 2013, and that a further moderate growth is likely attainable in the fourth quarter, the real GDP growth for 2013 is now forecast at 3%, the mid-point of the range forecast of 2.5-3.5% announced in the August round of review (**Table 2**). For reference, the latest forecasts by private sector analysts mostly range from 2.7-3.5%, averaging around 3.1%.

14. On inflation outlook, the rather modest external price pressures and the milder increases in fresh-letting residential rentals since the beginning of the year should help contain the upside risks to inflation in the near term. Given that the inflation trend has so far been largely in line with earlier expectations, the forecast rates of headline and underlying consumer price inflation for 2013 as a whole are

kept unchanged at 4.3% and 4% respectively (**Table 2**).

(The Third 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 \$144 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, Third Quarter 2013, which contains the GDP figures up to the third 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 third 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>	<u>Q3[±]</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)	2.8 (-0.8)
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)	3.2 (2.2)	2.7 (0.1)
Gross domestic fixed capital formation	10.2	9.4	12.5	5.8	8.2	11.4	-3.3	6.9	2.2
<i>of which :</i>									
Building and construction	15.5	13.2	14.6	14.7	8.8	14.6	-2.6	-2.2	2.0
Machinery, equipment and intellectual property products	12.2	10.7	21.1	5.2	10.1	9.2	-4.0	19.3	7.0
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)	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)	6.8 (1.0)
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)	8.4 (4.2)	4.9 (-4.6)
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)	-0.8 (-2.4)	2.4 (1.2)
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)	3.2 (0.7)	2.9 (0.5)
<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)	0.8 (*)	1.8 (3.0)
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)	4.0 (1.1)	5.3 (-0.7)
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)	4.3 (0.9)
<i>Change in nominal GDP (%)</i>	9.0	5.5	4.6	3.9	5.8	7.3	4.3	4.0	4.7

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.

(*) Change within ±0.05%.

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

	<u>Forecasts for 2013 as released on 16.8.2013</u> (%)	<u>Latest forecasts for 2013 on 15.11.2013</u> (%)
Gross Domestic Product (GDP)		
<i>Real GDP</i>	2.5 to 3.5	3
<i>Nominal GDP</i>	4.5 to 5.5	4.5
Composite Consumer Price Index (CCPI)		
<i>Headline CCPI</i>	4.3	4.3
<i>Underlying CCPI</i>	4	4