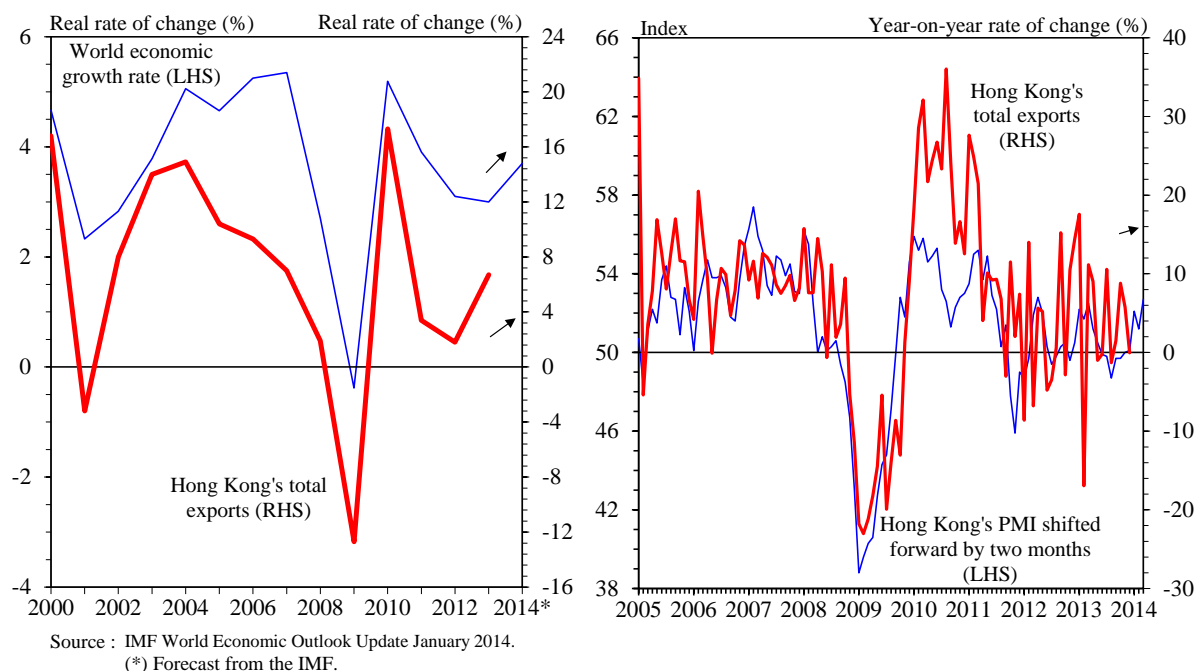


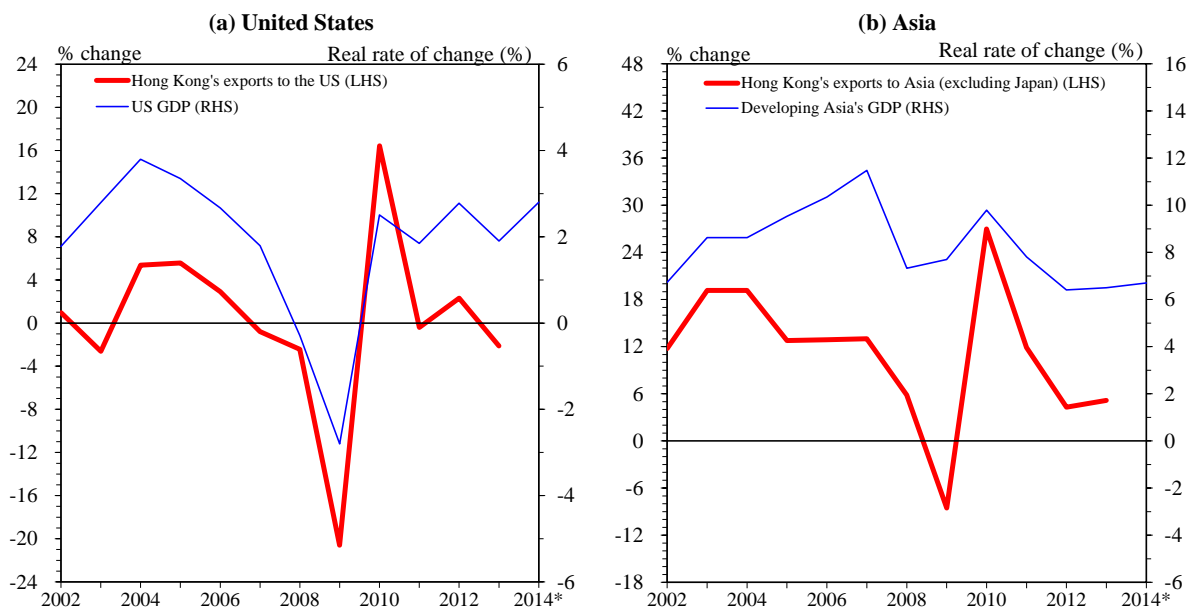
## Outlook for the Hong Kong economy in 2014

2.19 As a small open economy, Hong Kong's economic performance will hinge crucially on the global economic and financial conditions. If the global economic expansion gains more traction alongside the pick-up in import demand from the advanced economies, and if the Fed steers the tapering at a measured pace with a clear communication strategy, minimising its impact on the emerging market economies, Hong Kong's *total exports of goods* should improve somewhat further in 2014.

**Diagram 2.5 : Hong Kong's exports of goods should show modest acceleration in 2014**



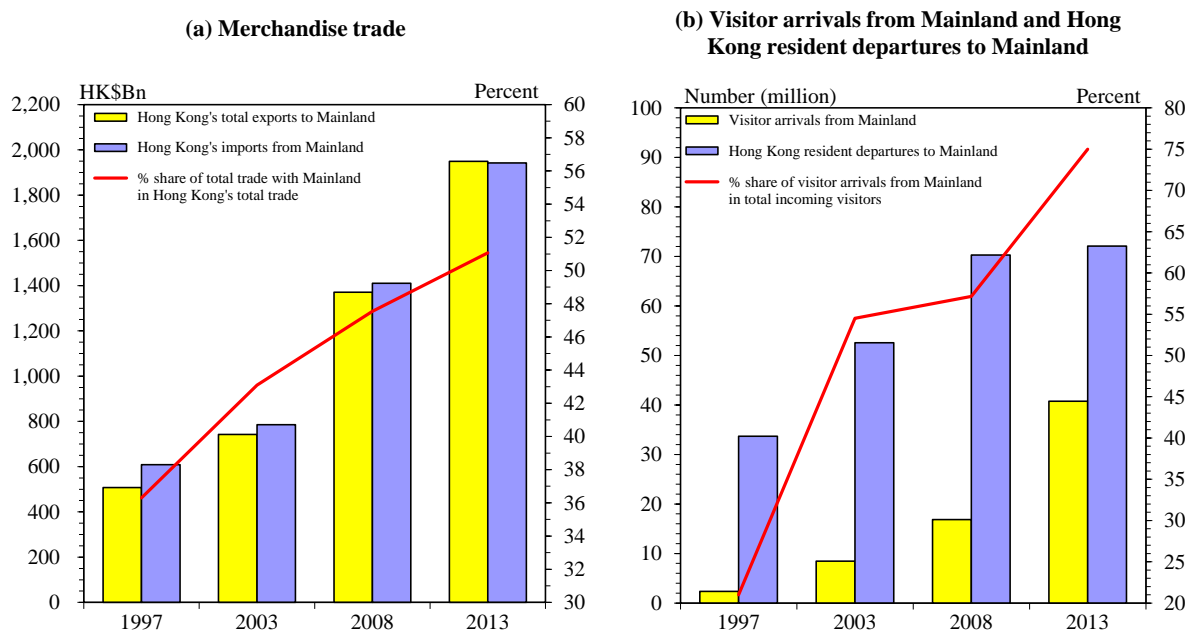
**Diagram 2.6 : Regional trade should continue to be supported by the solid growth of the Mainland economy**



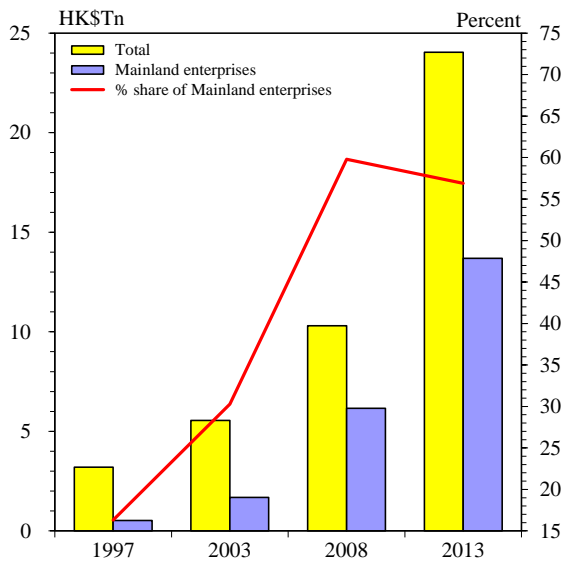
Note : (\*) Forecasts from the IMF World Economic Outlook Update, January 2014.

2.20 *Exports of services* should extend further gains in 2014. In particular, the inbound tourism will likely maintain rather notable growth, driven by the influx of visitors from the Mainland. Exports of financial and business services should benefit from stronger fund-raising and cross-border financial activities and pick up further. Meanwhile, exports of trade-related services, comprising mostly offshore trade, and exports of transportation services, should also stage some relative improvement, the extent of which hinges on the strength of regional and international trade flows.

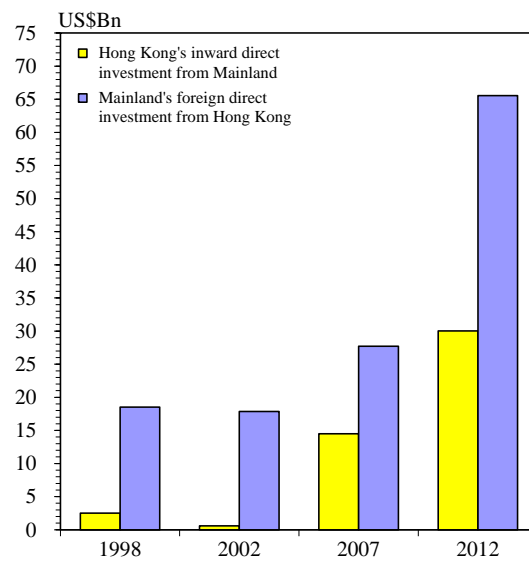
**Diagram 2.7 : The Mainland factor will continue to support the Hong Kong economy**



(c) Market capitalisation of Mainland enterprises in the Hong Kong stock market (end-year figures)

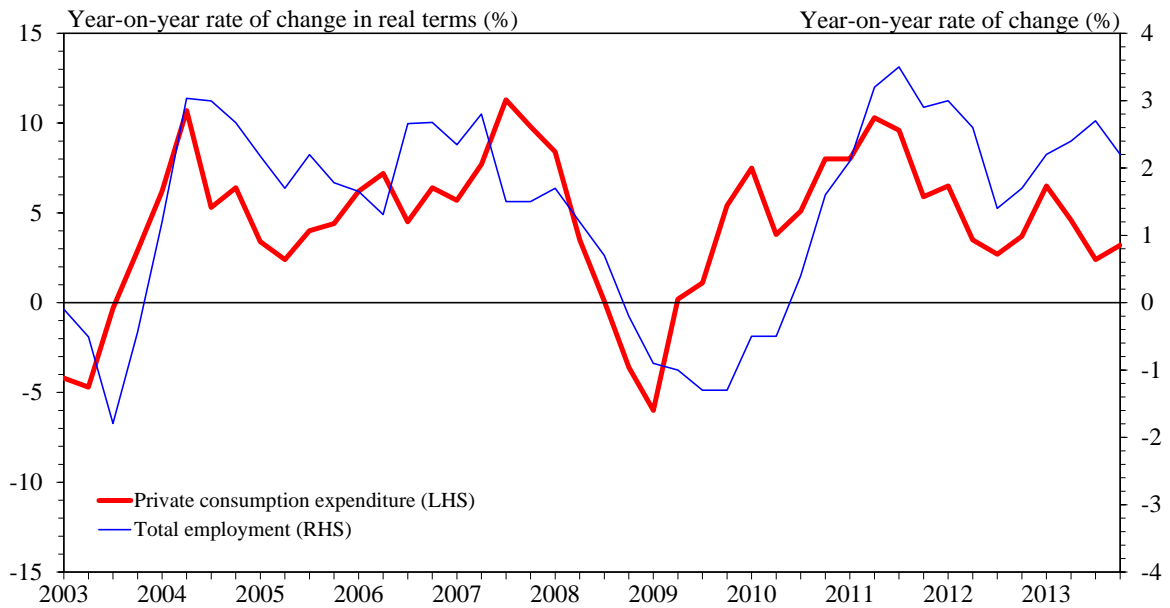


(d) Mainland's foreign direct investment from Hong Kong and Hong Kong's inward direct investment from Mainland

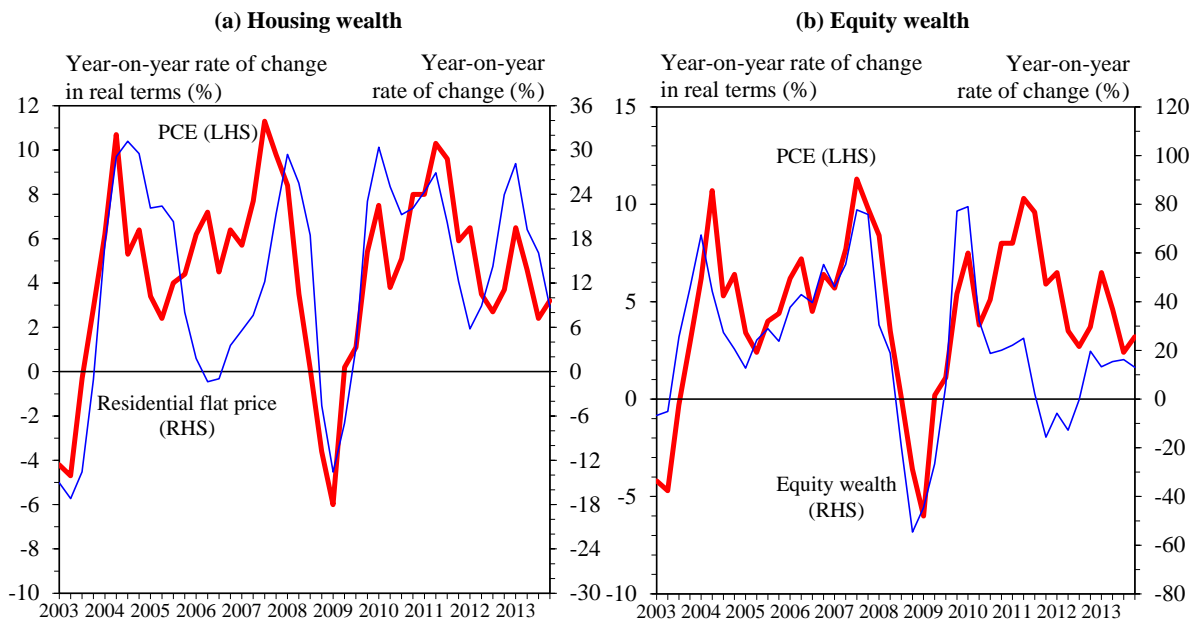


2.21 *Domestic demand*, a resilient growth driver, should be able to hold up in 2014, even though the pace may not be as fast as in the past few years. Specifically, the positive hiring sentiment reported in the latest Quarterly Business Tendency Survey and the stable employment conditions among the small and medium-sized enterprises (SMEs) should bode well for labour market outlook in the near term, thereby lending support to the local consumption market. As for investment, public infrastructure works are expected to stay hectic. Machinery and equipment acquisition is poised to further growth in tandem with the general pick-up in business activity, though they are typically volatile and sensitive to swings in the external environment. Indeed, given the uncertain path of US monetary policy and its potential negative impacts on the global economic and financial conditions, it is important to stay vigilant to the possibility of large financial and asset markets fluctuations, which may dampen consumer and business sentiments.

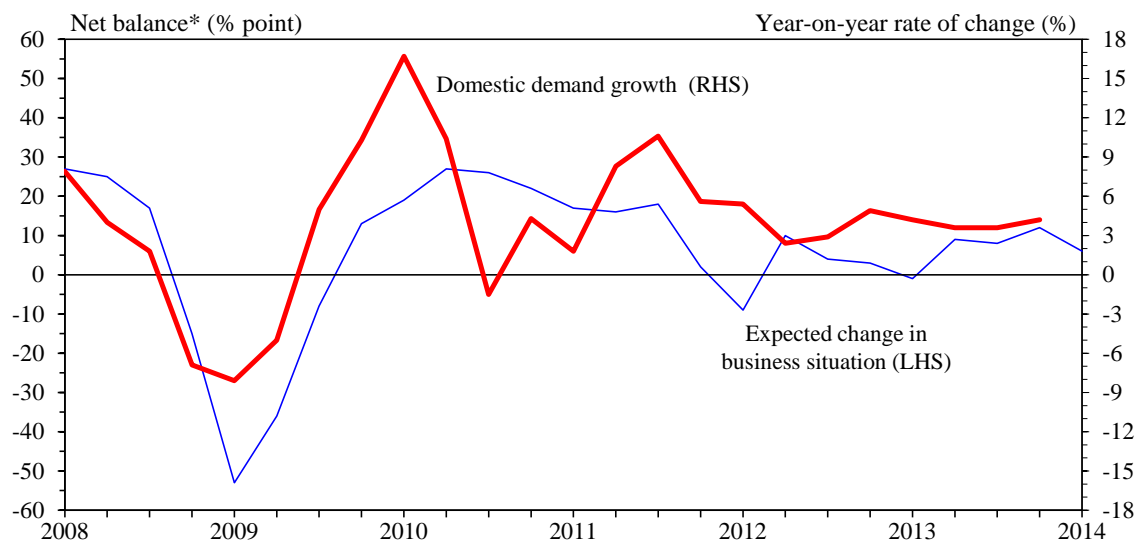
**Diagram 2.8 : Private consumption should be supported by the still favourable labour market conditions**



**Diagram 2.9 : Consumer sentiment may be affected by asset market performance**

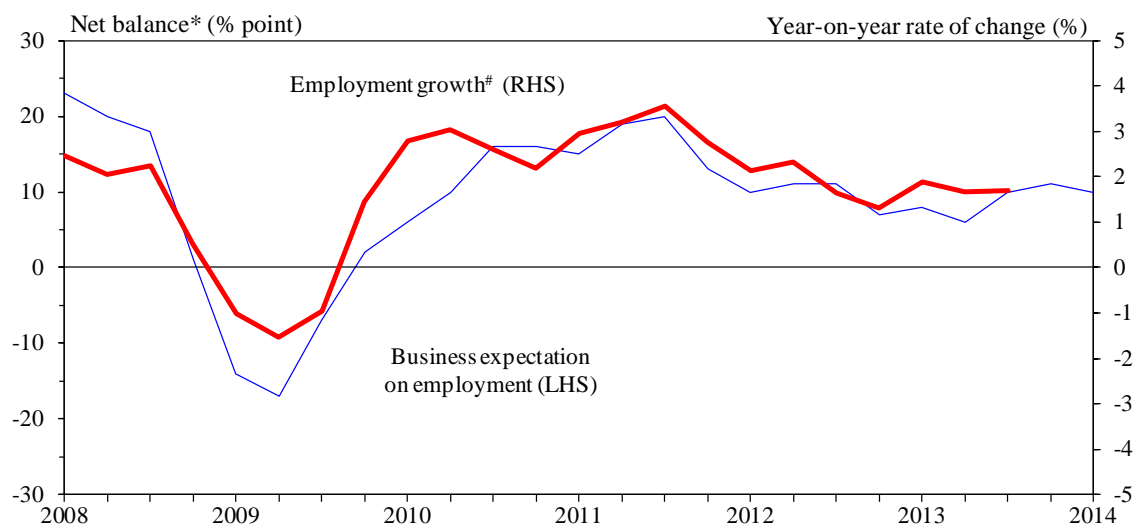


**Diagram 2.10 : Sanguine business sentiment should help sustain domestic demand growth**



Note : (\*) Net balance indicates the direction of expected change in business situation versus preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "better" over that choosing "worse". A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

**Diagram 2.11 : Hiring sentiment stays positive**

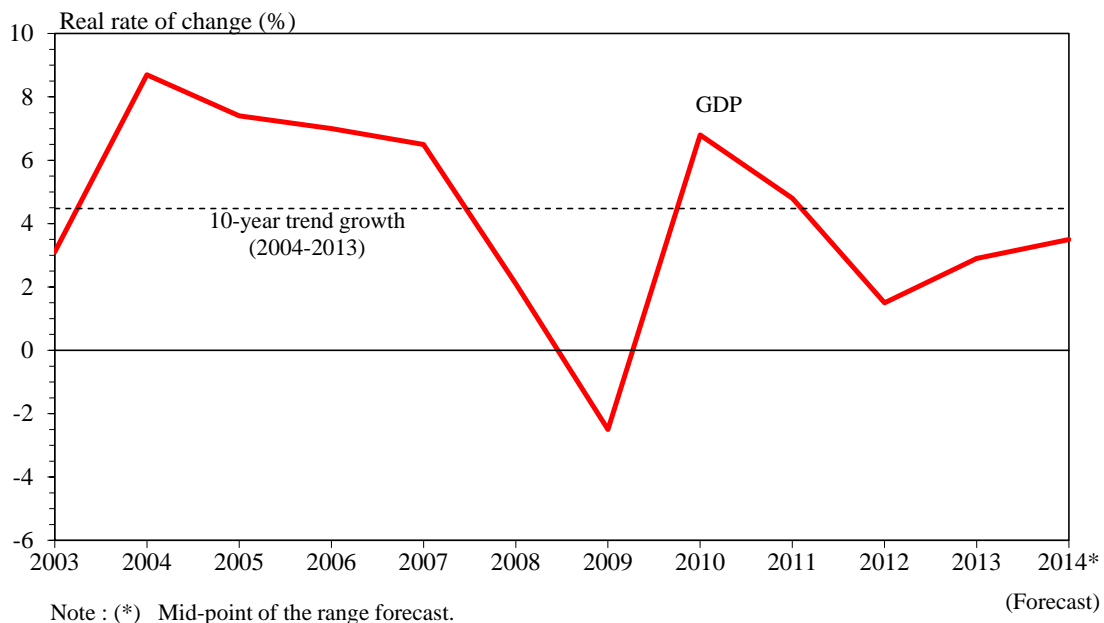


Notes : (\*) Net balance indicates the direction of expected change in number of persons engaged versus preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "up" over that choosing "down". A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.  
 (#) Employment in private sector.

2.22 Taking into account the likely improvement in export growth, the Hong Kong economy is projected to expand by 3-4% in 2014, after the 2.9% growth in 2013. This would still be slightly lower than the average growth of 4.5% in the past ten years. Compared with the previous two years, the range of the forecast is reduced back to the normal range of one percentage point, reflecting notably reduced acute risks from the US fiscal and euro debt problems over the past year. The prevailing forecasts by the private sector analysts mostly fall within the range of 3-4%, averaging around 3.6%. The official forecast is built on the assumptions that the US economic recovery

could make further progress with smooth tapering by the Fed causing no significant disturbance to global financial stability, while the slow eurozone recovery would continue. The major downside would come from the possible volatile global financial conditions, as financial strains arising from shifts in US monetary policy could re-surface again and develop quickly to hamper global real activity. The possibility for the progress of the advanced economies to stall or even set back, though diminishing, also cannot be ruled out. On the other hand, there could be some upside potential to the forecast, should the global economic recovery pick up better than expected and create a more favourable environment, or Asia's domestic demand provides more powerful support to intra-regional trade to the benefit of Hong Kong.

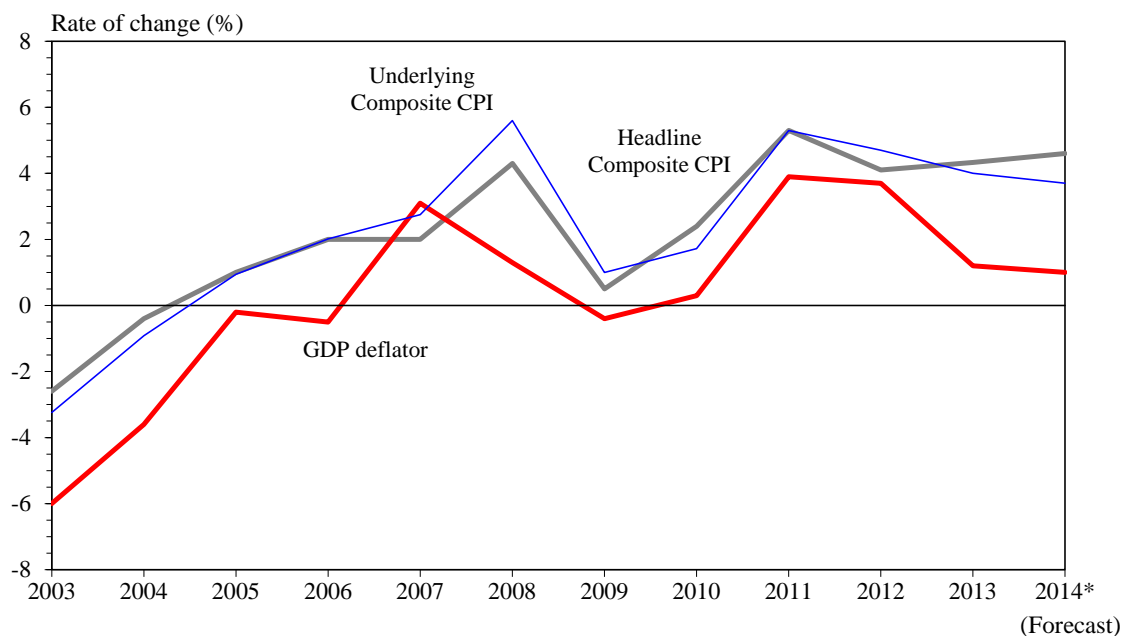
**Diagram 2.12 : Economy expected to grow moderately further**



2.23 Underlying inflation in Hong Kong has declined from 5.3% in 2011 to 4.7% in 2012 and further to 4.0% in 2013. The easing trend will likely continue in 2014. Externally, the still-pronounced excess capacity in the advanced economies and the tame inflation outlook of Hong Kong's major trading partners should help reduce price pressures from imports. The mild increase in global food prices recently is also a favourable development for our food inflation. Domestically, the movements of private housing rentals, a major contributor to inflation in the previous year, should become more favourable as the much moderated rise in fresh-letting flat rentals in the past few quarters successively feeds through. Barring unforeseen spikes in international commodity prices, *underlying Composite CPI* is forecast to increase by 3.7% for 2014 as a whole, slightly lower than the average of 4.0% in 2013. Taking into account the effects of the Government's one-off measures, *headline*

Composite CPI is forecast to increase by 4.6% in 2014, after 4.3% in 2013. The GDP deflator is forecast to rise by 1%, largely on account of the expected modest increase in domestic prices and the likely change in the terms of trade.

**Diagram 2.13 : Inflation is expected to remain stable in 2014**



**Forecast rate of change in 2014 (%)**

**Gross Domestic Product (GDP)**

<i>Real GDP</i>	<b>3 to 4</b>
<i>Nominal GDP</i>	4 to 5
<i>Per capita GDP, in real terms</i>	2.1 to 3.1
<i>Per capita GDP at current market prices</i>	HK\$304,500-307,400 (US\$39,000-39,400)

**Composite Consumer Price Index**

<i>Headline</i>	<b>4.6</b>
<i>Underlying</i>	<b>3.7</b>

**GDP Deflator** **1**

**Forecast on Hong Kong's GDP growth in 2014  
recently made by other selected parties**

	(%)
The University of Hong Kong	3.3 to 4.1
Average forecast by private sector analysts <sup>#</sup>	3.6

Note : (#) Forecast GDP growth rates by private sector analysts mostly fall between 3% and 4%.

## ECONOMIC PERFORMANCE IN 2013

1. Estimated rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2013:

	(%)
(a) Growth rates in real terms of:	
Private consumption expenditure	4.2
Government consumption expenditure	2.7
Gross domestic fixed capital formation	3.3
<i>of which :</i>	
Building and construction	-1.2
Machinery, equipment and intellectual property products	10.5
Total exports of goods	6.7
Imports of goods	7.6
Exports of services	5.8
Imports of services	1.5
<b>Gross Domestic Product (GDP)</b>	<b>2.9</b>
<i>Per capita GDP in real terms</i>	2.5
<i>Per capita GDP at current market prices</i>	HK\$295,300 (US\$38,100)
(b) Rates of change in:	
<b>Composite Consumer Price Index</b>	<b>4.3</b>
<b>GDP Deflator</b>	<b>1.2</b>
<b>Government Consumption Expenditure Deflator</b>	<b>4.3</b>
(c) <b>Growth rate of nominal GDP</b>	<b>4.2</b>



2. Annual growth rates in real terms of re-exports and domestic exports based on external trade quantum index numbers:

	<i>Re-exports</i> (%)	<i>Domestic exports</i> (%)
2011	3	-12
2012	0	-13
2013	3	-9
<i>Share in the value of total exports of goods in 2013</i>	98	2

3. Annual growth rates in real terms of retained imports by type:

	<i>Retained imports</i>					
	<i>Total</i> (%)	<i>Consumer goods</i> (%)	<i>Foodstuffs</i> (%)	<i>Capital goods</i> (%)	<i>Raw materials and semi-manufactures</i> (%)	<i>Fuels</i> (%)
2011	8	33	6	15	-4	-10
2012	4	6	2	22	-6	-7
2013	6	3	9	22	-3	0

4. Annual growth rates in real terms of retained imports of capital goods by type:

	<i>Retained imports of capital goods</i>				
	<i>Total</i> (%)	<i>Office equipment</i> (%)	<i>Industrial machinery</i> (%)	<i>Construction machinery</i> (%)	<i>Telecommunications equipment</i> (%)
2011	15	-20	-10	-14	126
2012	22	22	-26	-26	100
2013	22	9	-24	57	52

5. Annual growth rates in real terms of exports of services by type:

*Exports of services*

	<i>Total</i> (%)	<i>Trade-related services</i> (%)	<i>Transportation services</i> (%)	<i>Travel services</i> (%)	<i>Finance, insurance, business and other services</i> (%)
2011	5	3	1	16	5
2012	2	1	-4	10	3
2013	6	1	0	19	4

6. Hong Kong's visible and invisible trade balance in 2013 reckoned on GDP basis <sup>(Note 1)</sup>:

	(HK\$ billion)
Total exports of goods	3,816.4
Imports of goods	4,394.9
<b><i>Visible trade balance</i></b>	<b>-578.5</b>
Exports of services	1,066.0
Imports of services	465.2
<b><i>Invisible trade balance</i></b>	<b>600.9</b>
<b><i>Combined visible and invisible trade balance</i></b>	<b>22.3</b>

Note 1 Preliminary figures.

7. Annual averages of the unemployment and underemployment rates and growth in labour force and total employment:

	<i>Unemployment rate (%)</i>	<i>Underemployment rate (%)</i>	<i>Growth in labour force (%)</i>	<i>Growth in total employment (%)</i>
2011	3.4	1.7	2.0	2.9
2012	3.3	1.5	2.2	2.4
2013	3.3	1.5	2.3	2.3

8. Annual rates of change in the Consumer Price Indices:

	<i>Composite CPI</i>		<i>CPI(A)</i>	<i>CPI(B)</i>	<i>CPI(C)</i>
	<i>Headline (%)</i>	<i>Underlying (%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>
2011	5.3	5.3	5.6	5.2	5.1
2012	4.1	4.7	3.6	4.3	4.1
2013	4.3	4.0	5.1	4.1	3.8

## ECONOMIC PROSPECTS FOR 2014

Forecast rates of change in the Gross Domestic Product and prices in 2014:

	(%)
<b>Gross Domestic Product (GDP)</b>	
<i>Real GDP</i>	<b>3 to 4</b>
<i>Nominal GDP</i>	4 to 5
<i>Per capita GDP in real terms</i>	2.1 to 3.1
<i>Per capita GDP at current market prices</i>	HK\$304,500-307,400 (US\$39,000-39,400)
<b>Composite Consumer Price Index</b>	
<i>Headline Composite Consumer Price Index</i>	<b>4.6</b>
<i>Underlying Composite Consumer Price Index</i>	<b>3.7</b>
<b>GDP Deflator</b>	<b>1</b>
<b>Government Consumption Expenditure Deflator</b>	<b>4</b>