

Press Release

(embargoed until 4:30 p.m. on 16 May 2014)

Economic Situation in the First Quarter of 2014 and Latest GDP and Price Forecasts for 2014

The Government released today (Friday) the First Quarter Economic Report 2014, together with the preliminary figures on Gross Domestic Product for the first quarter of 2014.

The Government Economist, Mrs Helen Chan, described the economic situation in the first quarter of 2014 and provided the latest GDP and price forecasts for the year.

MAIN POINTS

- * Hong Kong's economic growth remained moderate in the first quarter of 2014, at 2.5% year-on-year in real terms, somewhat slower than that of 2.9% in the preceding quarter. Merchandise exports were sluggish, reflecting the slow improvements in the advanced markets. Nevertheless, services exports and the domestic sector kept expanding, thereby maintaining the labour market in a state of full employment. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew slightly by 0.2% in the first quarter, after a 0.9% increase in the preceding quarter.
- * Total exports of goods decelerated markedly, to a 0.5% year-on-year growth in real terms in the first quarter. Exports to major advanced markets slackened sharply at the start of the quarter, though followed by a visible pick-up in March. Added to this was the lacklustre performance of major Asian markets during most of the quarter. Exports of services likewise slowed, to a 3.1% year-on-year growth in real terms, dragged by the subdued performance of trade-related and transportation services.
- * Domestic demand held steady. Despite a high base of comparison a year ago, private consumption expenditure still grew further, by 2.0% year-on-year in real terms in the first quarter. Investment expenditure increased moderately, by 3.0%, mainly driven by the surge in building and construction expenditure. Machinery and equipment acquisition recorded a slight increase after several quarters of robust growth.
- * The labour market stayed tight, with the seasonally adjusted unemployment rate edging down to a 16-year low of 3.1% in the first quarter. On the back of the persistently tight manpower resource balance, earnings sustained real improvements for 2013 as a whole. Grassroots workers continued to enjoy appreciable earnings growth in the first quarter of this year.
- * The local stock market underwent some correction in the first quarter. The residential property market stayed quiet, with both prices and rentals edging down during the first quarter.

- * Looking ahead, while the global economy had a slow start in 2014, the improved outlook for the year as a whole does not seem to have shifted by a significant extent. Indeed, recent US economic data have turned more positive after the adverse effects of the unusually cold weather on economic activity faded. Also, the recuperation of the eurozone economy has proceeded on a firmer footing. With the advanced economies likely to show faster growth in the coming quarters, the ensuing better trading environment should bring support to Asia's exports. The sustained solid growth of the Mainland economy will also be another mainstay to Hong Kong's exports going forward. Nonetheless, the external environment is still overcast by considerable uncertainties, including those associated with the US Federal Reserve's further tapering, which could possibly change interest rate expectations, heighten global financial volatility, and add headwinds to emerging markets with weaker fundamentals. The geopolitical tensions in Eastern Europe are also a concern, which if escalated further, could impinge on the economic confidence in Europe and hence disrupt the recovery process there.
- * Domestic demand is likely to stay steady. The latest Quarterly Business Tendency Survey indicated that overall business sentiment among large enterprises remained largely positive compared with the previous quarter. Infrastructure works, as a key driving force of domestic demand, should stay hectic. Moreover, favourable job and income conditions should be conducive to the local consumption market, although the growth pace would likely turn more moderate after expanding notably for a prolonged period.
- * The outlook for the global economy should hopefully brighten up in the rest of the year, barring unexpected relapse stemming from the normalisation of US monetary policy and the geopolitical tensions. This should provide ground for somewhat faster growth of the Hong Kong economy in the latter part of this year. The GDP growth forecast of 3-4% for 2014, as announced in the Budget, is maintained in the current round of review.
- * Underlying consumer price inflation eased slightly further, to 3.8% in the first quarter of 2014, from 4.0% in the preceding quarter. With rentals easing on a broad front, wage rise staying steady, while imported price pressures still modest, the upside risks to consumer price inflation should remain limited this year. With the actual outturn in the first quarter in line with expectations, the forecast rates of headline and underlying consumer price inflation for 2014 as put out in the Budget round, at 4.6% and 3.7% respectively, are maintained in the current round of review.

DETAILS

GDP

According to the preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP grew moderately by 2.5% in real terms in the first quarter of 2014 over a year earlier, slower than that of 2.9% in the preceding quarter (revised downward from the earlier estimate of 3.0%). On a seasonally adjusted quarter-to-quarter comparison, real GDP grew slightly by 0.2% in the first quarter of 2014, after the 0.9% growth in the preceding quarter (revised downward from the earlier estimate of 1.1%) (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the first quarter of 2014 are presented in *Table 1*. Developments in different segments of the economy in the first quarter of 2014 are described below.

External trade

3. *Total exports of goods* slowed markedly, with a meagre 0.5% year-on-year growth in real terms in the first quarter of 2014. The deceleration from the 5.7% rise in the preceding quarter was in part due to the sharp moderation in exports of non-monetary gold after the strong growth in the previous quarters. The decline in exports to the US and the EU at the start of the year was another factor, due to the sluggishness of the advanced economies, especially the US, which was temporarily disrupted by the adverse weather conditions. The weak demand conditions in the advanced economies also weighed on the regional trade flows in Asia, causing a relapse in Hong Kong's exports to major Asian markets. Nevertheless, as the weather-related effects on the US economy abated and the eurozone recovery continued, exports to these two markets picked up visibly in March, resulting in moderate growth for the quarter as a whole. On a seasonally adjusted basis, total exports of goods fell by 3.4% in real terms in the first quarter from the preceding quarter.

4. *Exports of services* likewise slowed, to a 3.1% growth in real terms in the first quarter over a year earlier, down from the 4.7% growth in the preceding quarter. The main drag came from the setback in exports of trade-related services and transportation services in tandem with the relapse in trade flows. On the other hand, thanks to the sustained expansion of inbound tourism, exports of travel services grew notably further, albeit not as significant as the double-digit growth attained last year. Exports of financial and other business services also expanded further. On a seasonally adjusted basis, exports of services rose slightly by 0.2% in real terms in the first quarter over the preceding quarter.

Domestic sector

5. Domestic demand held steady. *Private consumption expenditure* grew further by 2.0% year-on-year in real terms in the first quarter of 2014. This was somewhat slower than the 3.6% growth in the preceding quarter, due partly to a high base of comparison in the same quarter of 2013 and partly affected by the difference in the timing of Easter holidays in 2013 and 2014. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure grew solidly further, by 1.1% in the first quarter. *Government consumption expenditure* also maintained steady growth at 2.4% in the first quarter over a year earlier.

6. Overall investment spending in terms of *gross domestic fixed capital formation* increased moderately, by 3.0% year-on-year in real terms in the first quarter of 2014, following a 5.3% growth in the preceding quarter. Within this, machinery and equipment acquisition, which was typically volatile, grew slightly by 1.4% after notable gains in the preceding three quarters. On the other hand, overall building and construction expenditure rebounded notably, as expenditure on large-scale infrastructure works surged while private sector construction activity also revived somewhat.

The labour sector

7. The labour market remained tight. The *seasonally adjusted unemployment rate* edged down to a 16-year low of 3.1% in the first quarter. The *underemployment rate* likewise fell to 1.2%, the lowest since September-November 1997. Thanks to full employment, wages and earnings saw further growth. With the tight manpower resource situation in the low-skilled segment and an additional boost from the upward adjustment of the Statutory Minimum Wage rate since May 2013, average employment earnings for full-time employees engaged in elementary occupations rose by 6.4% in the first quarter of 2014 over a year earlier, representing an increase of 2.0% in real terms.

The asset markets

8. The *local stock market* underwent some correction in the first quarter, amid the swaying sentiment towards emerging markets under Fed's tapering, signs of slower growth momentum in the Mainland and the geopolitical risks surrounding Eastern Europe. The Hang Seng Index ended the first quarter at 22 151, 5% lower than at end-2013.

9. The *residential property market* stayed quiet in the midst of uncertainty over future US monetary policy and the continued impact from the Government's further demand management measures. Residential property prices and rentals edged lower, both by 1% during the first quarter. Despite this, overall flat prices in March still surpassed the 1997 peak by 41%. Meanwhile, office and shop rentals were flat, indicating that the upward pressures in non-residential property market had also abated.

Prices

10. Consumer price inflation eased slightly. Domestically, the increase in private housing rental component moderated as the milder increases in fresh-letting rentals continued to feed through. The growth in wage costs was also basically steady. Externally, international food and commodity prices generally saw little upward pressure, while inflation in Hong Kong's most major import partners remained in check. *Headline consumer price inflation* was 4.2% in the first quarter of 2014, down from 4.3% in the fourth quarter of 2013. Netting out the effects of the Government's relief measures to more accurately reflect the underlying inflation trend, *underlying consumer price inflation* edged down to 3.8% in the first quarter of 2014, from 4.0% in the fourth quarter of 2013.

Latest GDP and price forecasts for 2014

11. Looking ahead, while the global economy had a slow start in 2014, the improved outlook for the year as a whole does not seem to have shifted by a significant extent. Indeed, recent US economic data have turned more positive after the adverse effects of the unusually cold weather on economic activity faded. Also, the recuperation of the eurozone economy has proceeded on a firmer footing. With the advanced economies likely to show faster growth in the coming quarters, the ensuing better trading environment should bring support to Asia's exports. The sustained solid growth of the Mainland economy will also be another mainstay to Hong Kong's exports going forward. Nonetheless, the external environment is still overcast by considerable uncertainties, including those associated with the US Federal Reserve's further tapering, which could possibly change interest rate expectations, heighten global financial volatility, and add headwinds to emerging markets with weaker fundamentals. The geopolitical tensions in Eastern Europe are also a concern, which if escalated further, could impinge on the economic confidence in Europe and hence disrupt the recovery process there.

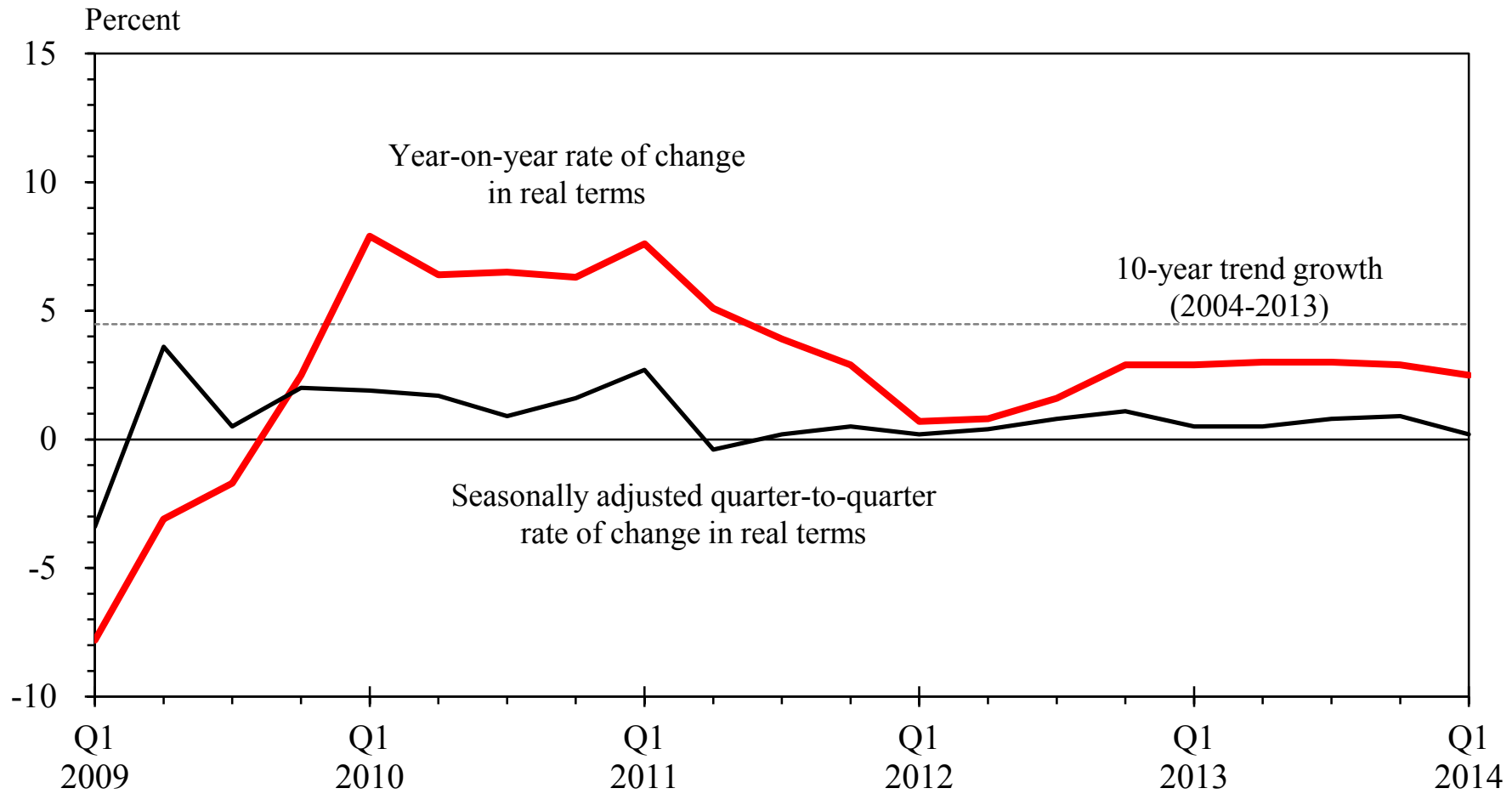
12. Domestic demand is likely to stay steady. The latest Quarterly Business Tendency Survey indicated that overall business sentiment among large enterprises remained largely positive compared with the previous quarter. Infrastructure works, as a key driving force of domestic demand, should stay hectic. Moreover, favourable job and income conditions should be conducive to the local consumption market, although the growth pace would likely turn more moderate after expanding notably for a prolonged period.

13. The outlook for the global economy should hopefully brighten up in the rest of the year, barring unexpected relapse stemming from the normalisation of US monetary policy and the geopolitical tensions. This should provide ground for somewhat faster growth of the Hong Kong economy in the latter part of this year. The GDP growth forecast of 3-4% for 2014, 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 around 3.5%.

14. On inflation outlook, with rentals easing on a broad front, wage rise staying steady, while imported price pressures still modest, the upside risks to consumer price inflation should remain limited this year. With the actual outturn in the first quarter in line with expectations, the forecast rates of headline and underlying consumer price inflation for 2014 as put out in the Budget round, at 4.6% and 3.7% respectively, are maintained in the current round of review (*Table 2*).

(The First Quarter Economic Report 2014 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 \$162 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 2014, which contains the GDP figures up to the first quarter of 2014, 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 2014 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>2012[#]</u>	<u>2013[#]</u>	<u>2013</u>				<u>2014</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	4.1	4.3	6.3 (2.9)	4.7 (-0.9)	2.7 (-0.2)	3.6 (1.8)	2.0 (1.1)
Government consumption expenditure	3.6	2.3	1.9 (*)	3.1 (1.8)	2.3 (*)	2.0 (0.3)	2.4 (0.4)
Gross domestic fixed capital formation	6.8	3.3	-3.0	7.6	2.7	5.3	3.0
<i>of which :</i>							
Building and construction	7.2	-0.9	-1.5	-0.7	3.1	-3.8	10.2
Machinery, equipment and intellectual property products	10.1	10.8	-4.4	19.8	7.6	17.5	1.4
Total exports of goods	1.8	6.6	8.8 (1.5)	6.1 (-1.4)	6.1 (3.2)	5.7 (2.1)	0.5 (-3.4)
Imports of goods	3.0	7.4	9.5 (3.4)	7.6 (-1.7)	6.6 (1.7)	6.1 (2.3)	1.2 (-0.6)
Exports of services	2.2	5.5	4.7 (1.8)	7.7 (3.3)	5.0 (-2.9)	4.7 (2.6)	3.1 (0.2)
Imports of services	1.9	2.0	0.3 (1.1)	-0.7 (-1.1)	2.6 (1.7)	5.5 (3.7)	-0.2 (-4.4)
Gross Domestic Product	1.5	2.9	2.9 (0.5)	3.0 (0.5)	3.0 (0.8)	2.9 (0.9)	2.5 (0.2)
<i>Change in the main price indicators (%)</i>							
GDP deflator	3.7	1.4	1.8 (-0.7)	0.6 (*)	1.6 (1.7)	1.5 (0.5)	2.0 (-0.1)
Composite CPI							
Headline	4.1	4.3	3.7 (1.1)	4.0 (1.3)	5.3 (-0.8)	4.3 (2.7)	4.2 (1.0)
Underlying[^]	4.7	4.0	3.8 (1.1)	3.9 (1.1)	4.3 (0.8)	4.0 (1.0)	3.8 (0.9)
<i>Change in nominal GDP (%)</i>	5.3	4.3	4.8	3.6	4.6	4.4	4.6

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 2014
(rate of change (%))**

	Forecasts for 2014 as released <u>on 26.2.2014</u> (%)	Latest forecasts for 2014 <u>on 16.5.2014</u> (%)
Gross Domestic Product (GDP)		
<i>Real GDP</i>	3 to 4	<i>3 to 4</i>
<i>Nominal GDP</i>	4 to 5	<i>4 to 5</i>
Composite Consumer Price Index (CCPI)		
<i>Headline CCPI</i>	4.6	<i>4.6</i>
<i>Underlying CCPI</i>	3.7	<i>3.7</i>