



# Hong Kong SAR Government

## Half-yearly Economic Report 2014 & Updated economic forecasts for 2014

15 August 2014

# Latest economic assessment

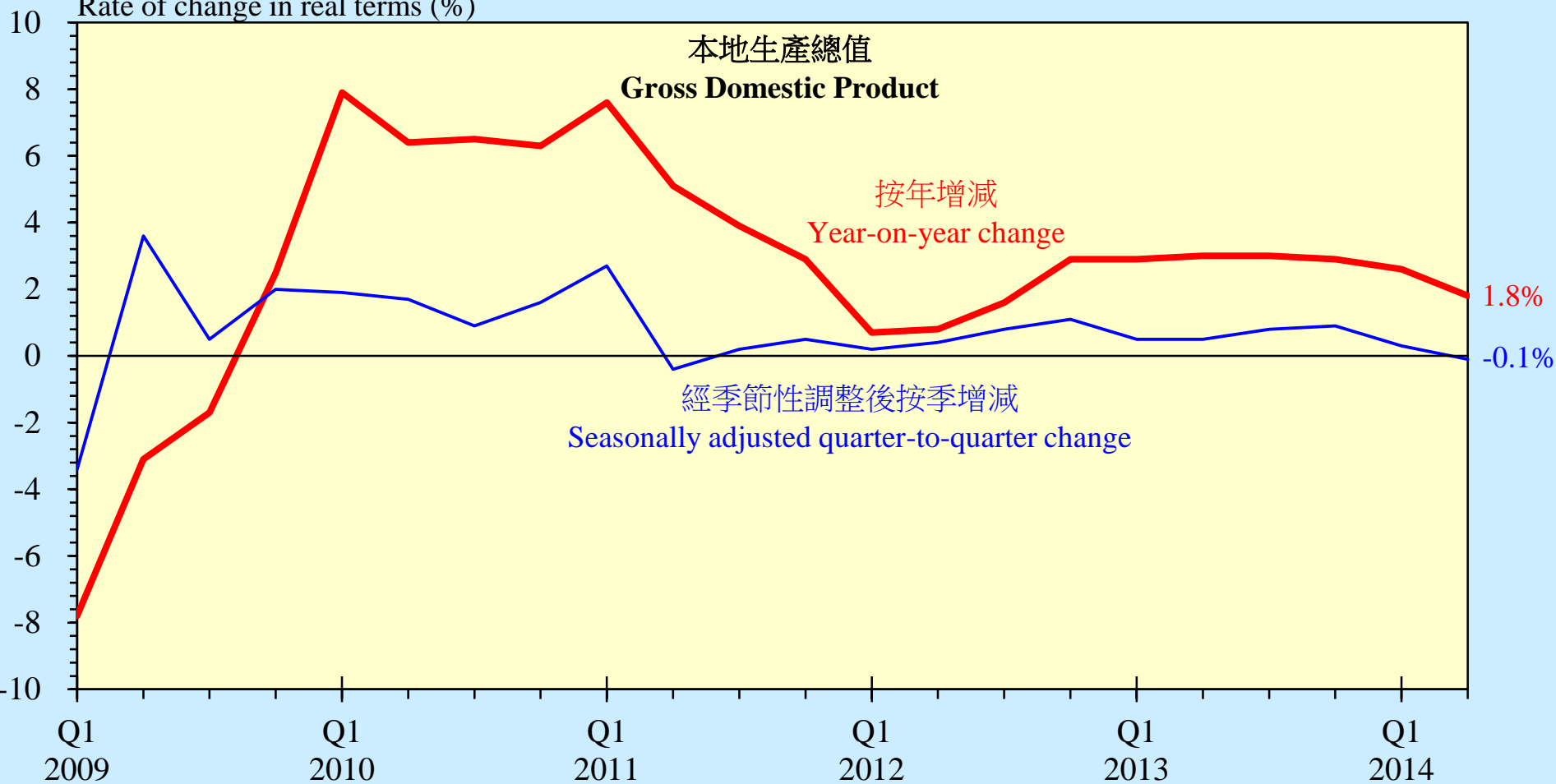
- HK economy slowed further in Q2
- Tourist spending plunged, domestic demand also lost steam; only merchandise exports showed some modest improvement
- GDP growth forecast marked down even with some expected stabilisation in H2
- Increased downside risks on both domestic and external fronts
- Property market showed some revival of late; risks of housing market bubble remain notable

# **Economic performance in Q2 2014**

# Economy slowed down further in Q2 2014

實質增減率 (%)

Rate of change in real terms (%)

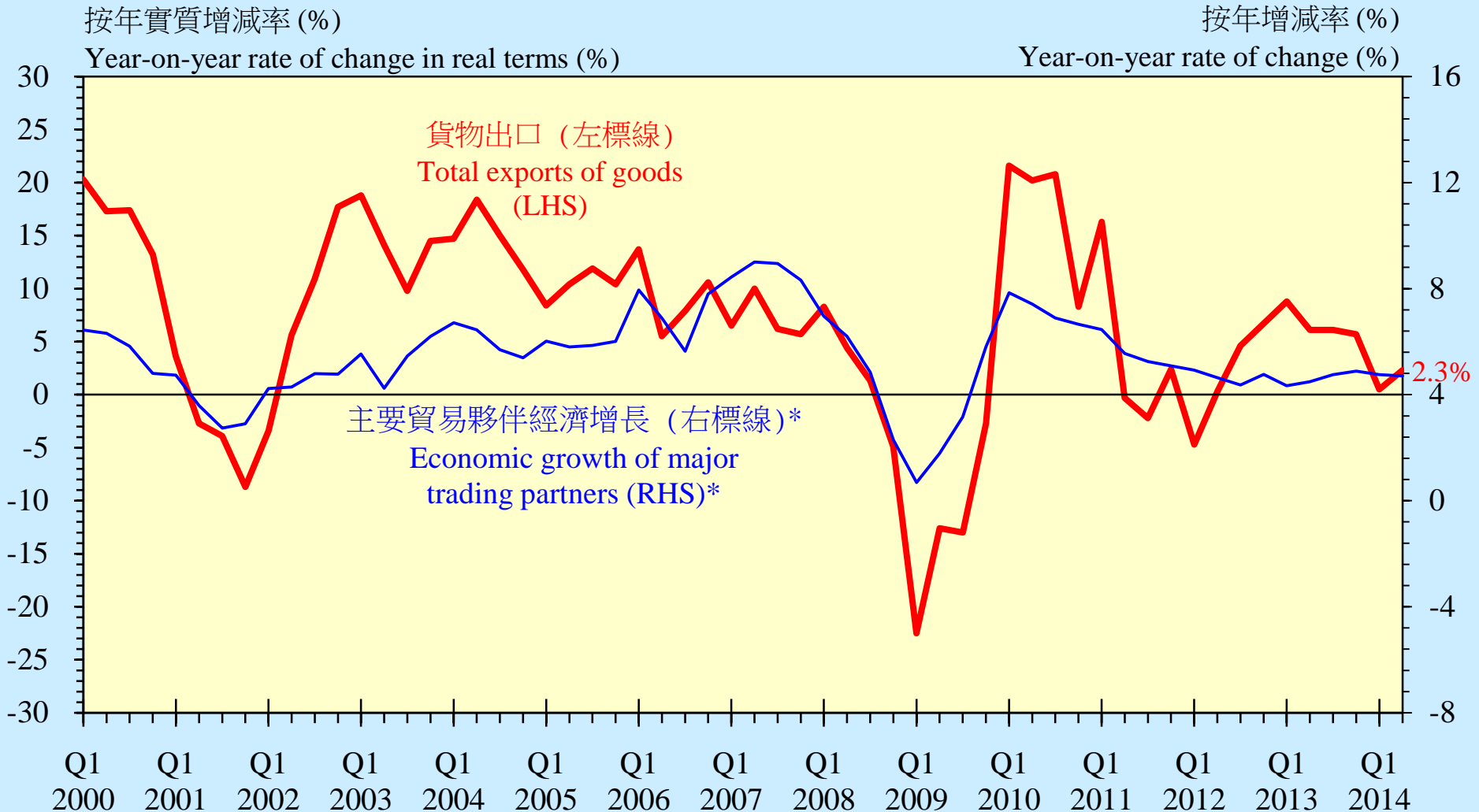


# Contribution to HK's GDP growth by domestic and external demand

	Domestic demand	Net exports of goods and services	Hong Kong's GDP growth
	(%)	(%)	(%)
2004-2008	4.0	2.3	6.3
2009	0.5	-2.9	-2.5
2010	6.5	0.3	6.8
2011	6.1	-1.3	4.8
2012	3.7	-2.2	1.5
2013	3.9	-1.0	2.9
2014 Q1	2.4	0.2	2.6
Q2	2.1	-0.3	1.8
<b>Change in Q2 relative to Q1</b>	<b>-0.3</b>	<b>-0.5</b>	<b>-0.8</b>

# External sector

# Exports of goods picked up slightly in growth

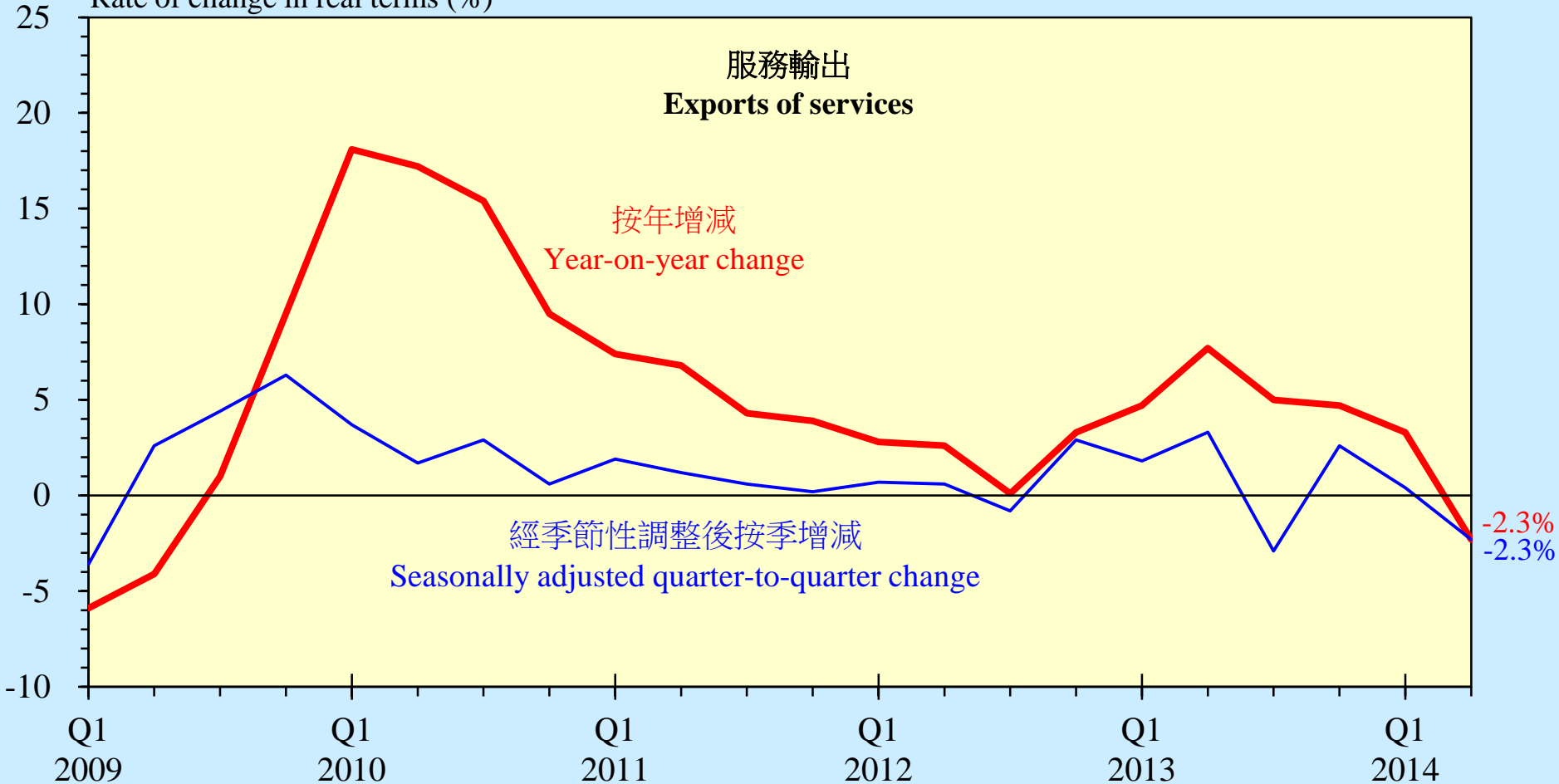


Note : (\*) Weighted by Hong Kong's merchandise exports.

# Exports of services contracted for the first time since Q2 2009

實質增減率 (%)

Rate of change in real terms (%)

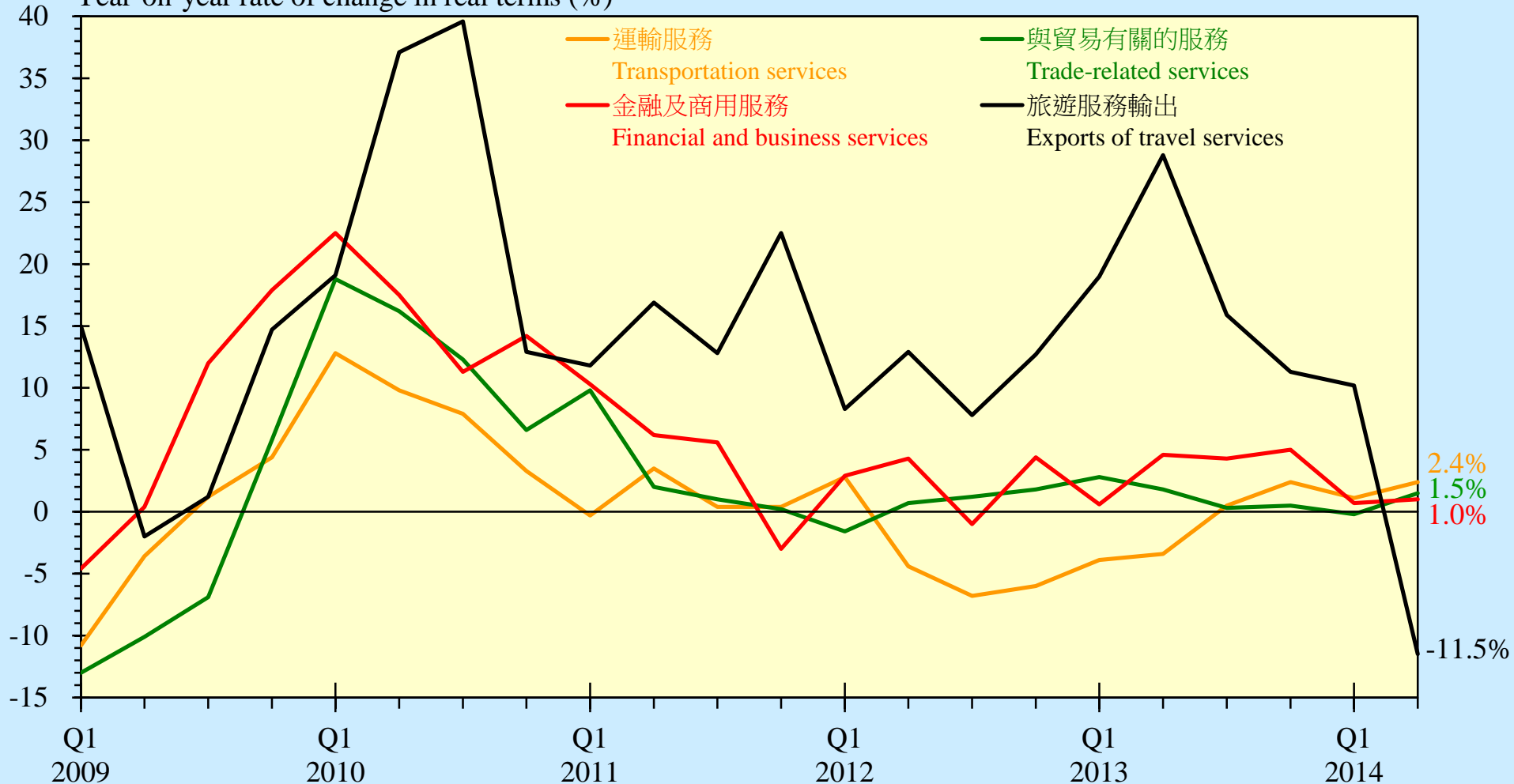




# The fall-off in travel services outweighed the slight improvement in other services exports

按年實質增減率 (%)

Year-on-year rate of change in real terms (%)



# Tourist spending accounted for a large share in retail sales

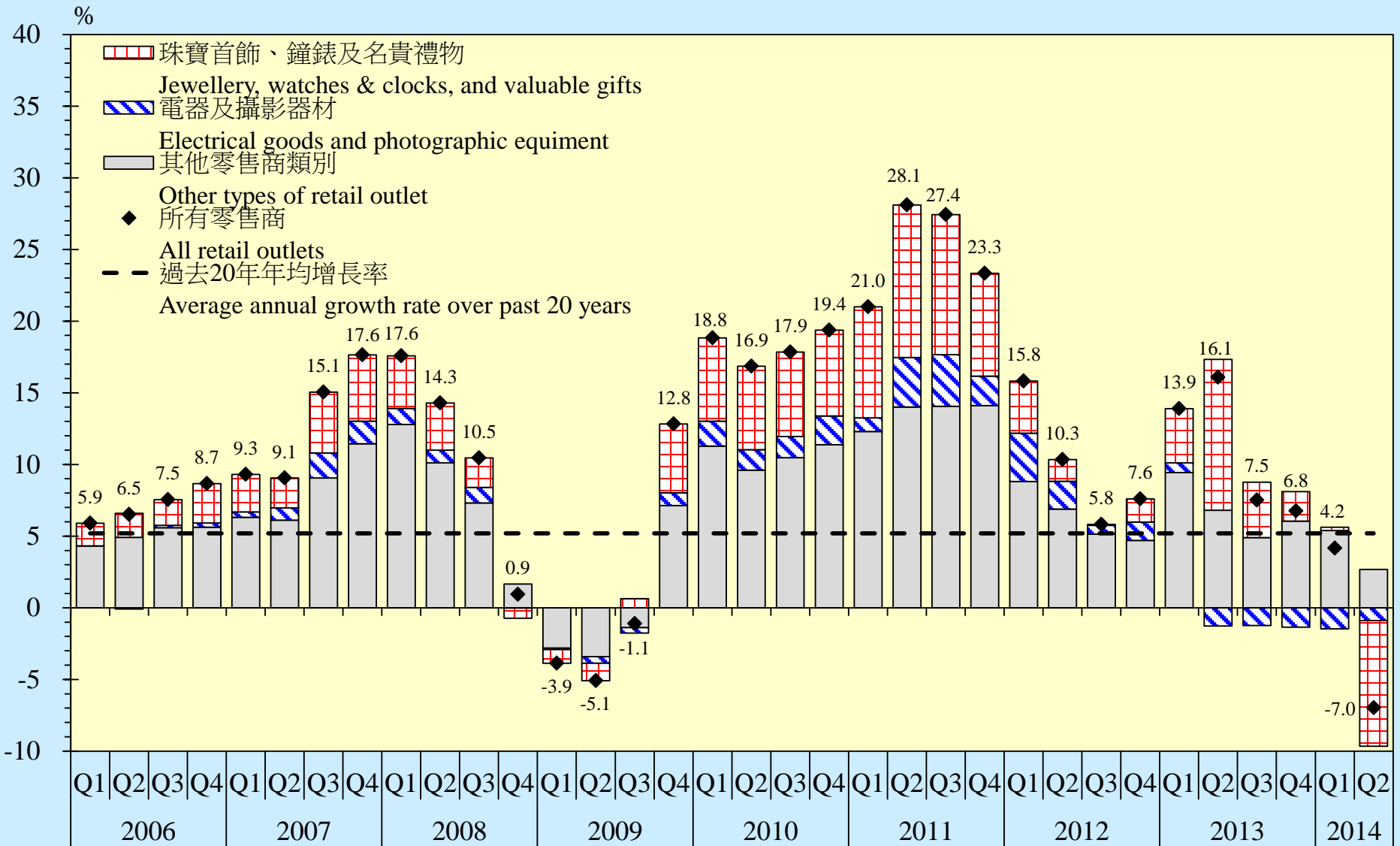
	<u>2013</u>		
	Tourist shopping expenditure by category	Share to sales of corresponding types of retail outlet*	Year-on-year rate of change in retail sales value in Q2 2014 <sup>#</sup>
	<u>(HK\$ billion)</u>	<u>(%)</u>	<u>(%)</u>
Jewellery and watch	51	43	-31.5
Electrical / photographic goods	22	59	-12.6
Others	116	34	4.1
<b>Overall</b>	<b>189</b>	<b>38</b>	<b>-7.0</b>

Source : HKTB; C&SD; EABFU estimates.

Notes : (\*) C&SD's Monthly Survey of Retail Sales categorises by type of retail outlet, while HKTB's "A Statistical Review of Hong Kong Tourism" reflects tourist spending on different types of products. Since there may be some differences in coverage of these two reports, such ratios are only rough estimates.

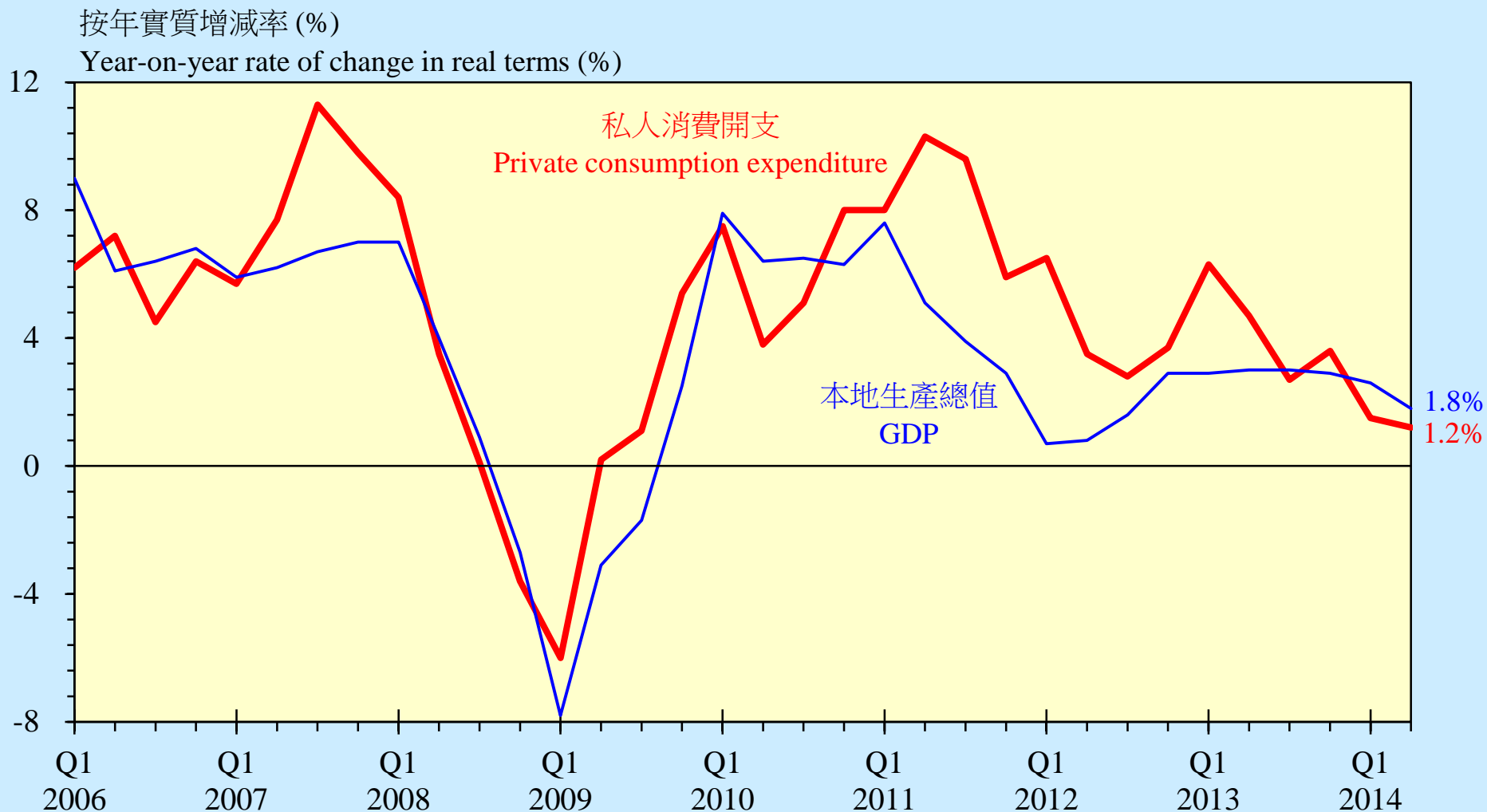
(#) Includes both local residents' spending and tourist spending.

# Retail sales performance was dragged down by lower tourist shopping expenditure on the high-end

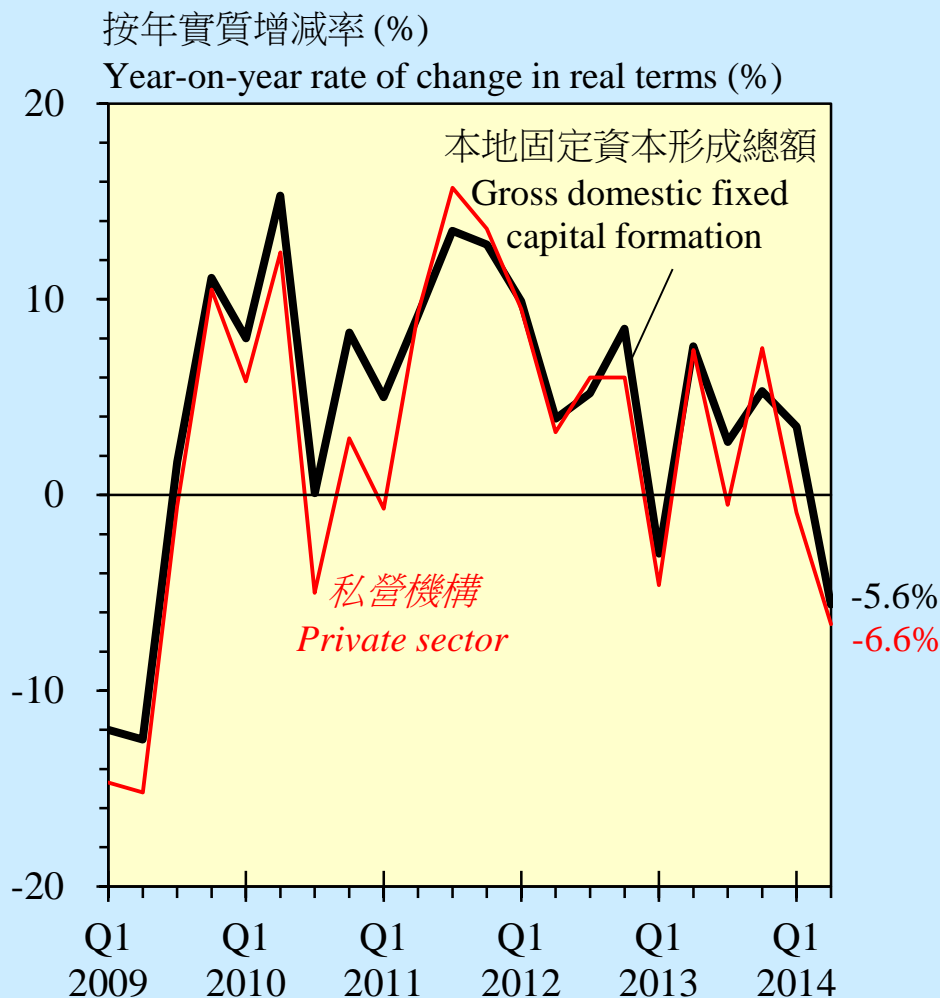


# **Domestic sector**

# Private consumption rose only mildly



# Investment spending fell y-o-y, due mainly to the plunge in private machinery acquisitions

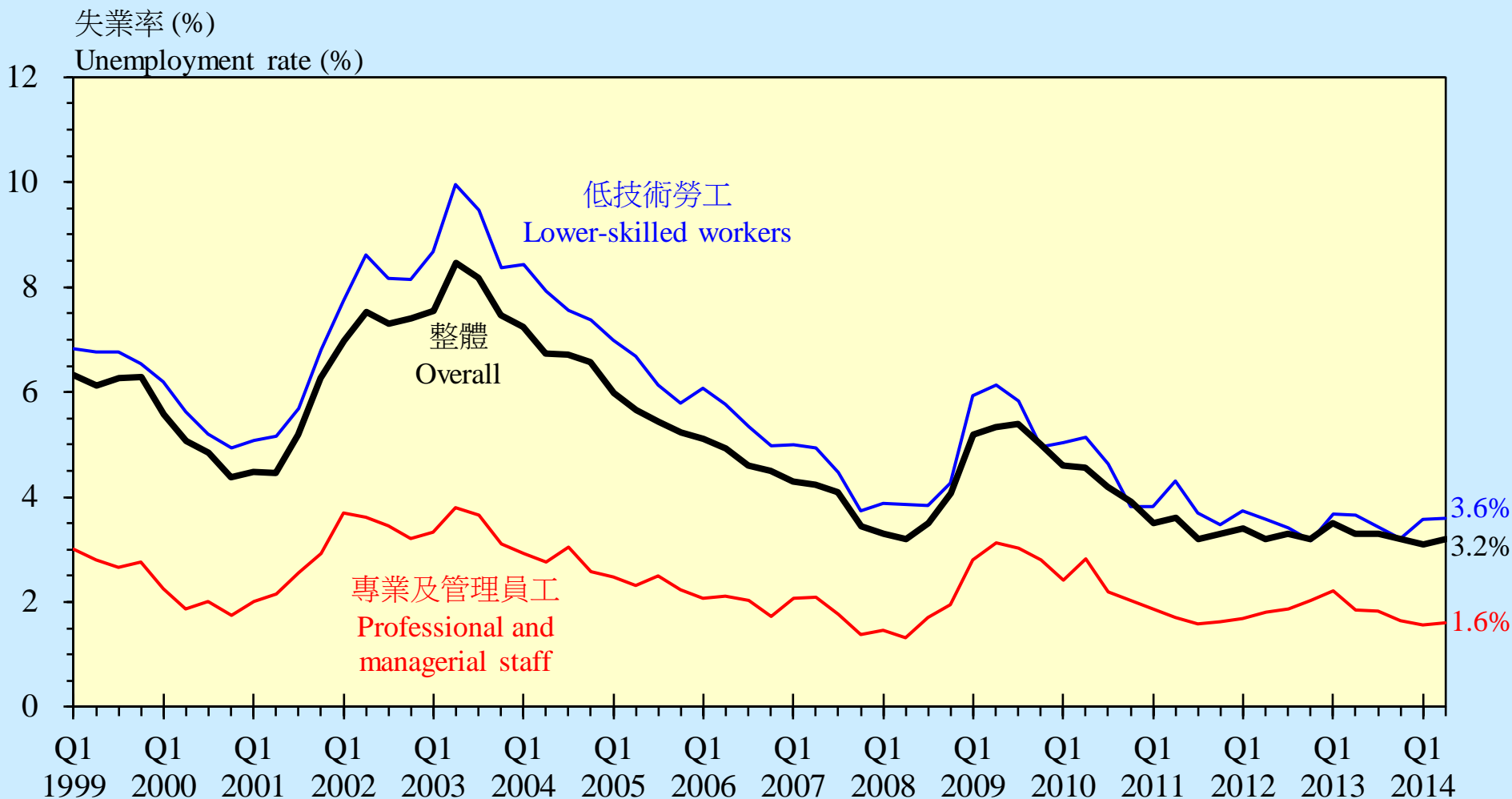


## 私營機構整體投資開支 Private sector investment spending

	按年實質增減率 (%) Year-on-year rate of change in real terms (%)	
	機器、設備及 知識產權產品 Machinery, equipment and intellectual property products	樓宇及建築 Building and construction
2012	10.5	4.8
2013	10.7	-3.7
2013 Q1	-6.0	-2.9
Q2	20.5	-4.7
Q3	7.0	-5.6
Q4	18.1	-1.5
2014 Q1	1.3	3.6
Q2	-10.3	1.1

# Labour market

# Employment conditions broadly stable



Note: Not seasonally adjusted except the overall unemployment rate.



# Earnings sustained real improvement

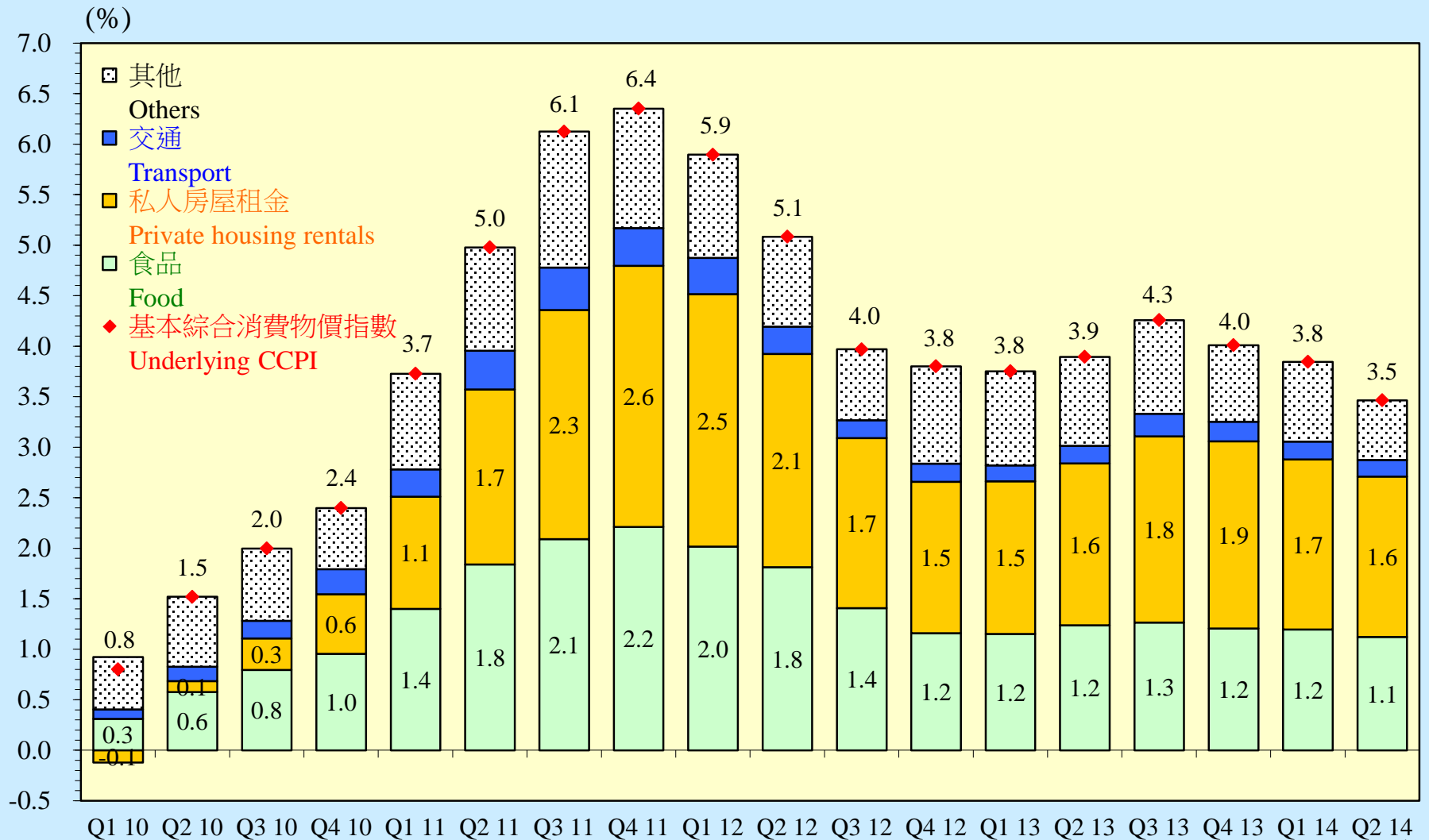
	Year-on-year rate of change		
	Nominal growth	Discounting for inflation*	Real growth
Index of payroll per person engaged (Q1 2014)	5.1%	4.2%	1.0%
Average employment earnings of full-time employees (Q2 2014)	6.3%	3.6%	2.5%
Average employment earnings of full-time unskilled employees (Q2 2014)	5.9%	3.8%	2.1%

Note : (\*) Inflation for the first two indicators was computed using the year-on-year rate of change of the Composite Consumer Price Index, while that for the third indicator was computed using the year-on-year rate of change of the Consumer Price Index (A).

# Inflation

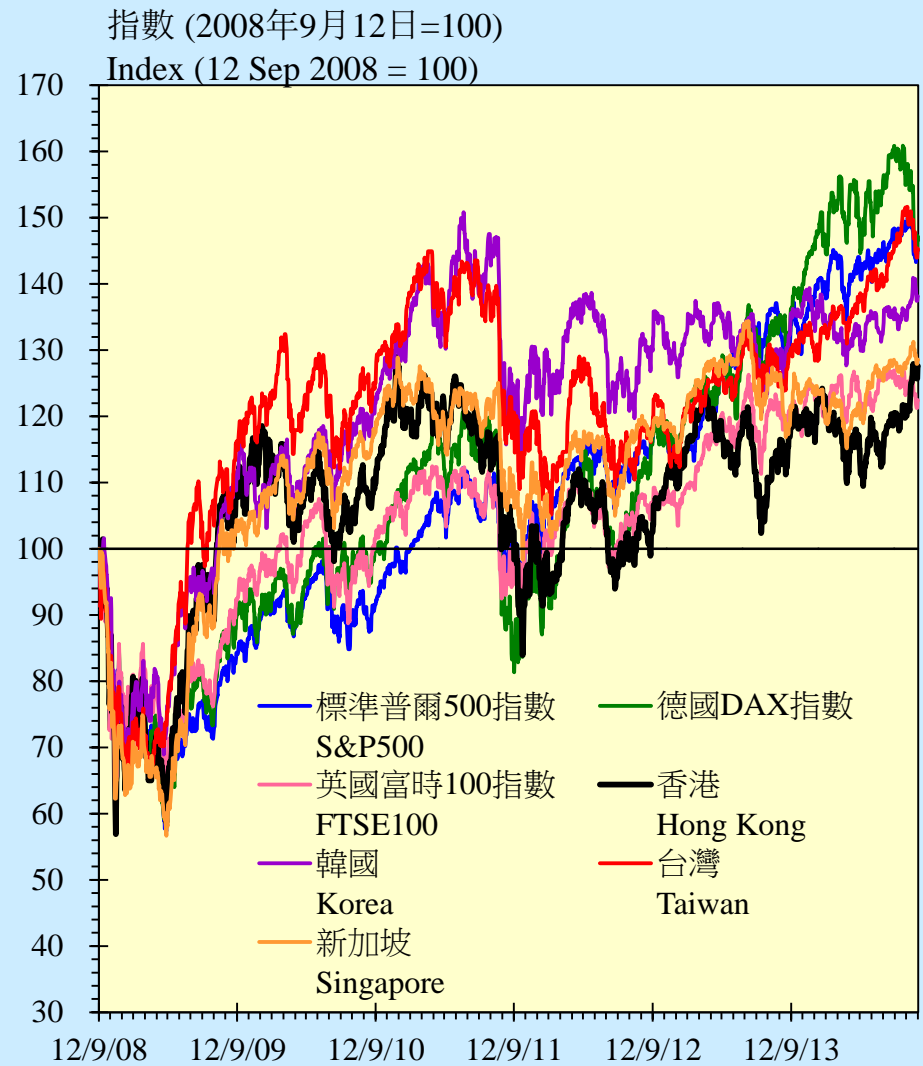
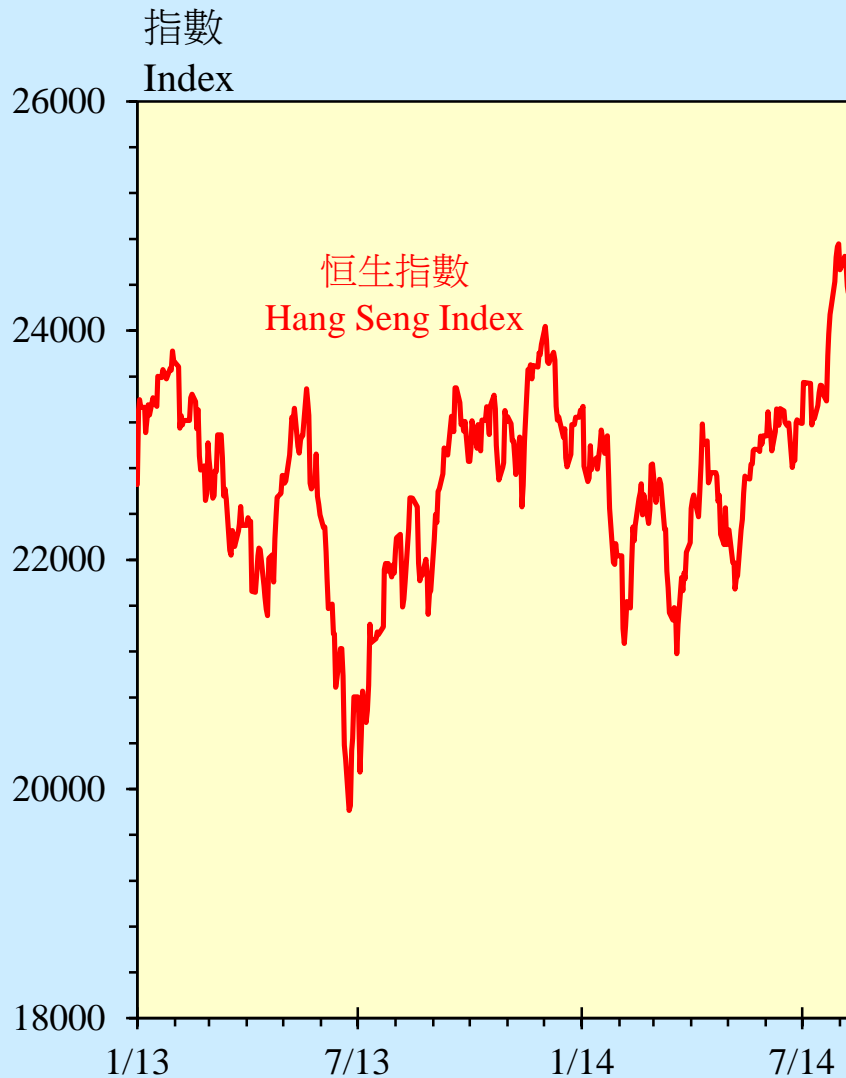
# Underlying inflation eased further

Contribution to the year-on-year rate of change in the underlying Composite Consumer Price Index by major component



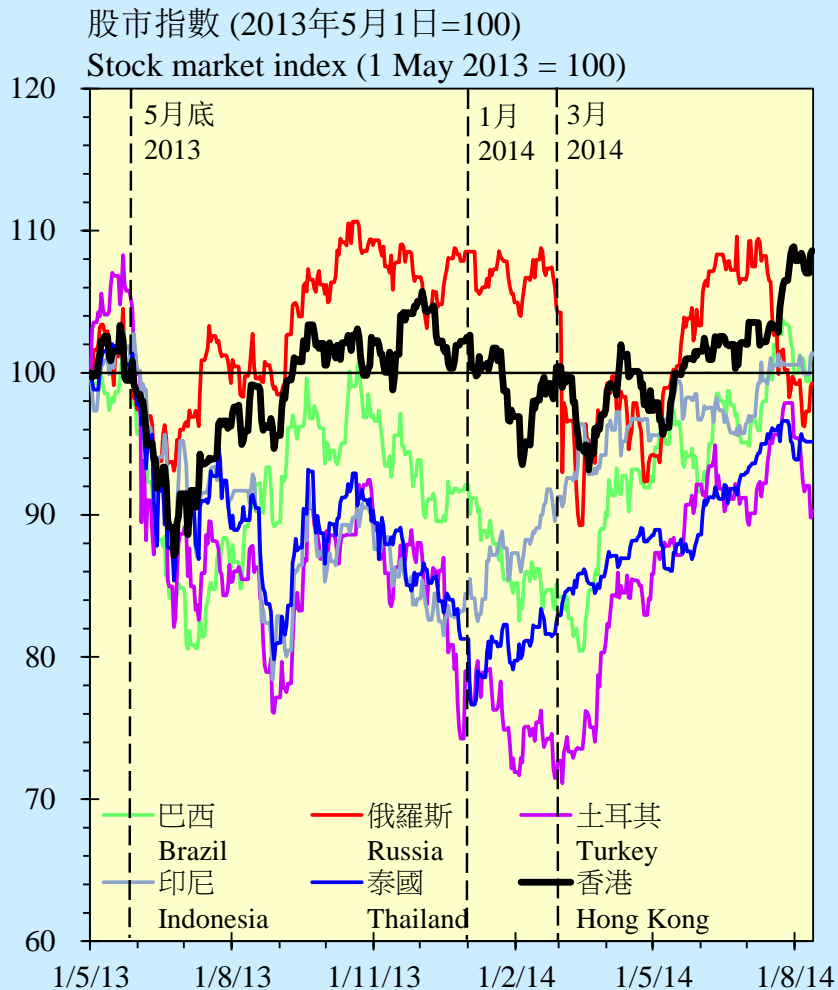
# Local asset markets

# HK stock market climbed successively in recent months

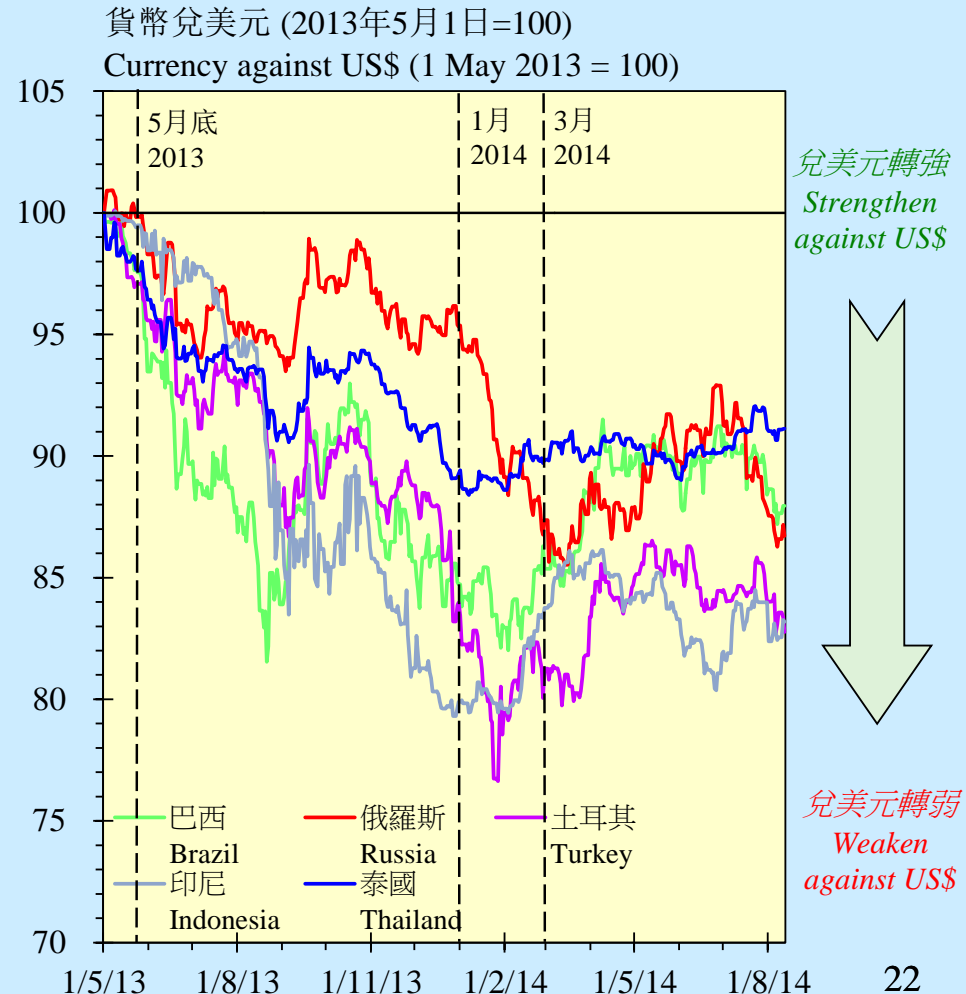


# Emerging market equities and currencies swung notably amid US tapering and heightened geopolitical tensions

## Stock markets



## Currency markets

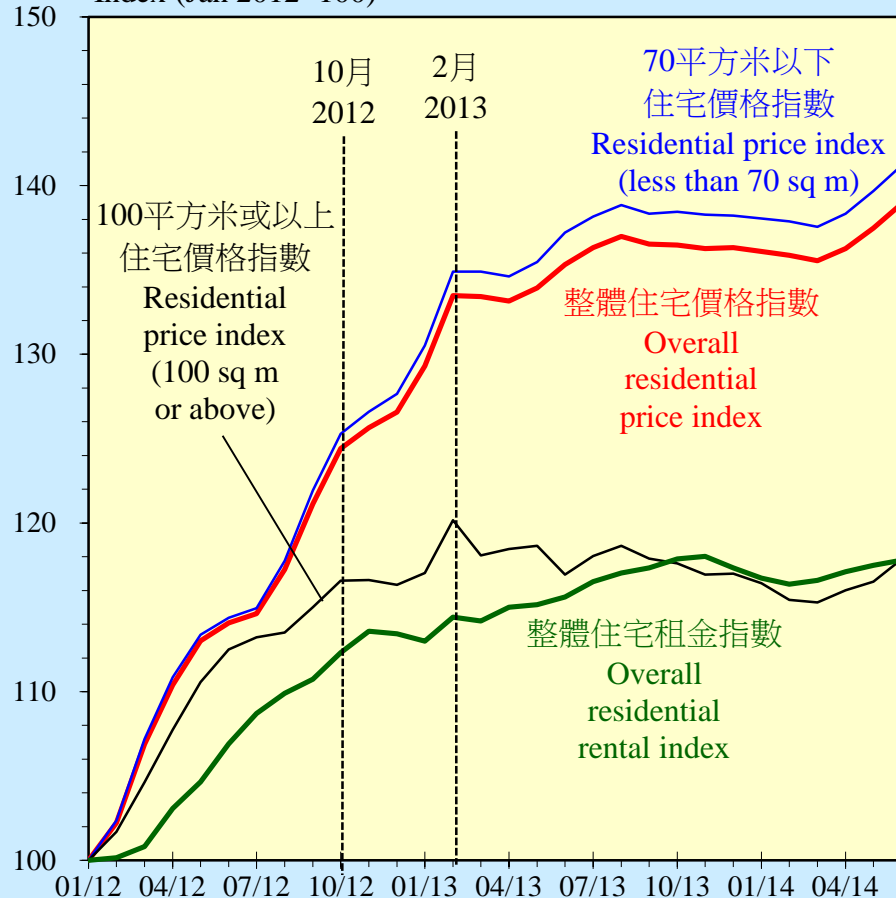


# Property market showed signs of revival

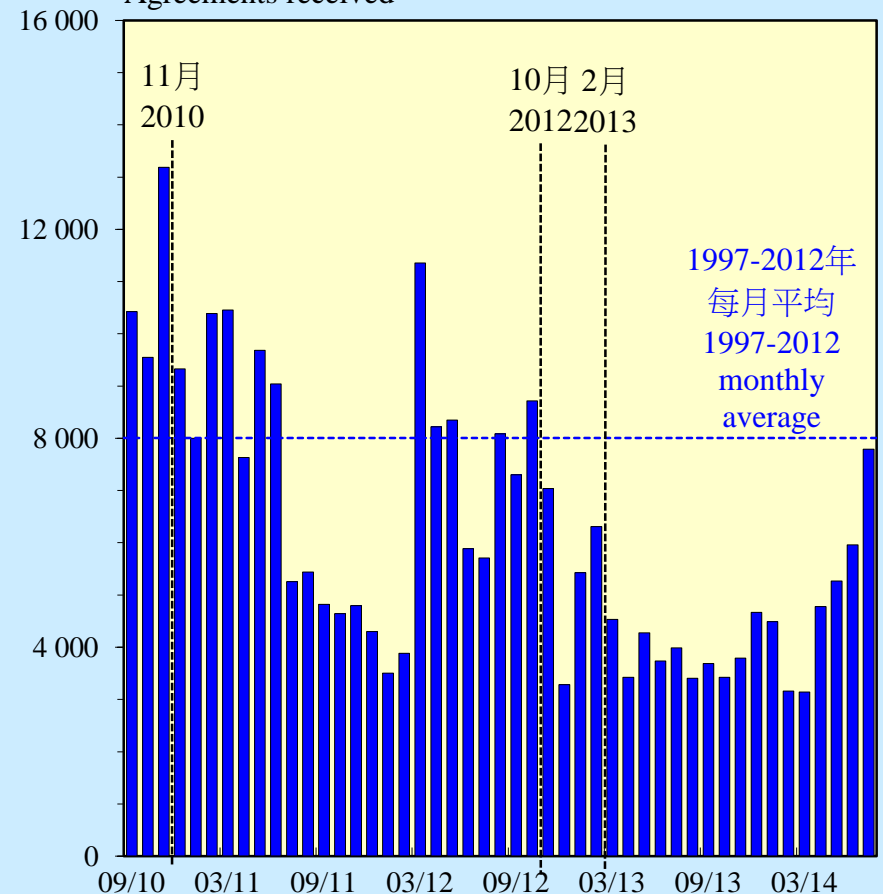
## 住宅價格略為回升 Flat price rose modestly

## 交投亦從低位回升 Trading also picked up from lows

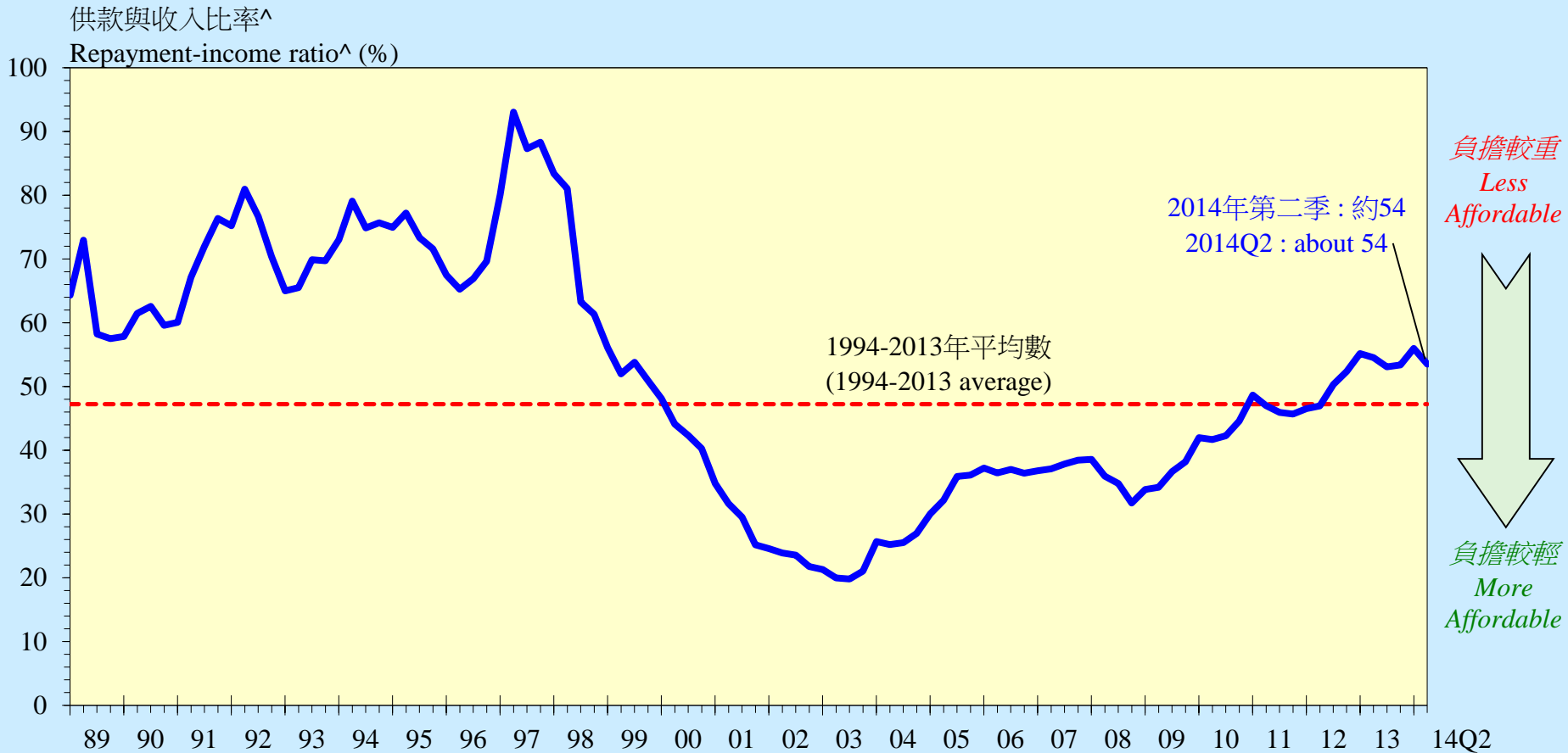
指數(二零一二年一月=100)  
Index (Jan 2012=100)



買賣合約數目  
Agreements received



# Elevated mortgage payment to income ratio

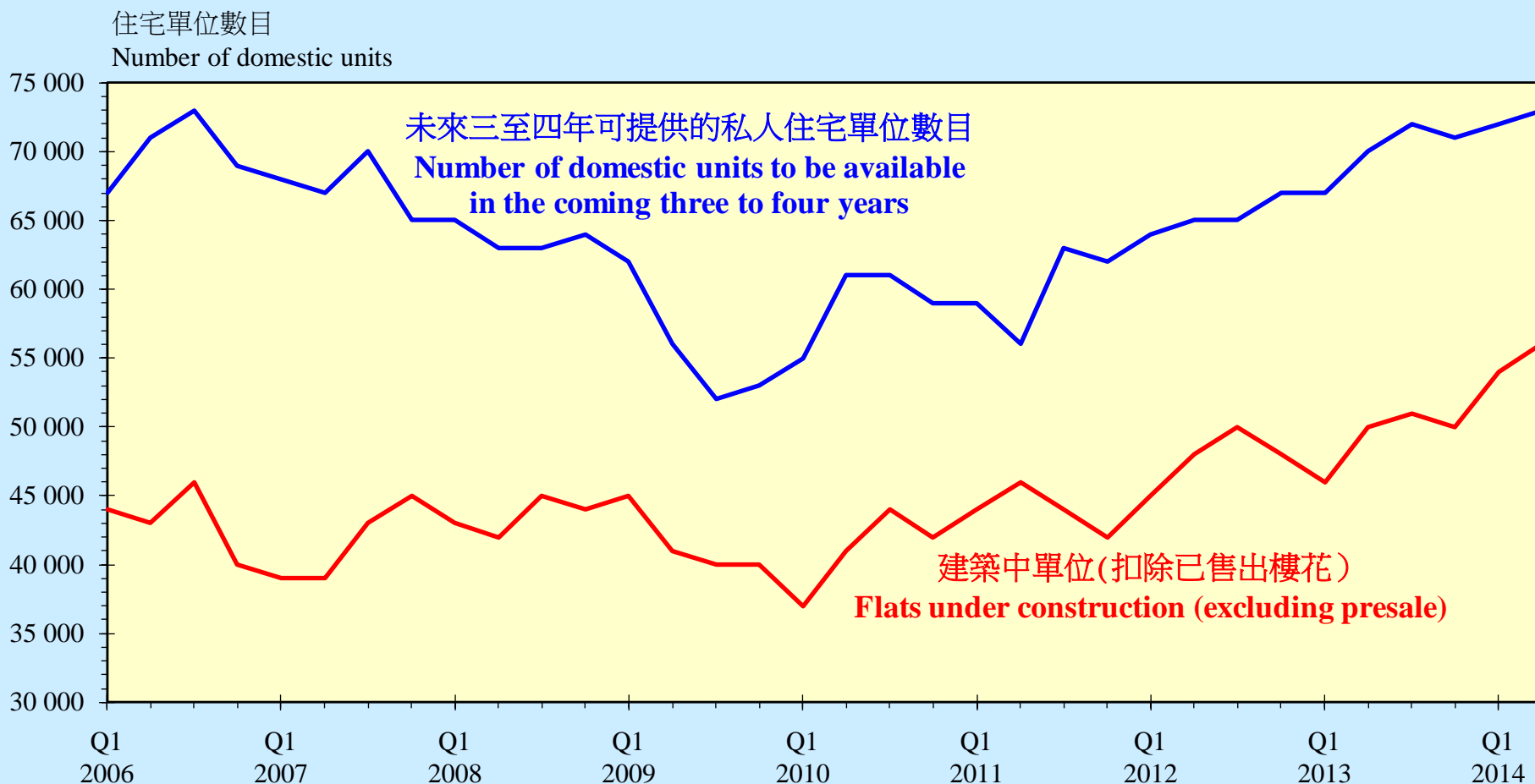


註：(^) 45平方米單位的按揭供款(假設按揭成數為70%及年期為20年) 相對住戶入息中位數(不包括居於公營房屋的住戶)的比率。這比率與金管局公布的平均供款與入息比率不同，後者是新批按揭貸款申請人的每月償還債務與每月收入的比率。

Note : (^) The ratio of mortgage payment for a flat with saleable area of 45 sq m (assuming 70% loan-to-value ratio and tenor of 20 years) to median income of households (excluding those living in public housing). This ratio is different from the debt servicing ratio published by the HKMA, which is the ratio of actual monthly debt obligations of mortgagees to their monthly income of newly approved mortgages.



# The Government's measures to increase flat supply continued to yield results



註： 以上數字包括已落成樓宇但仍未售出的單位數目、建築中而且尚未預售的單位數目，及已批出土地並可隨時動工的項目。

資料來源：運輸及房屋局。

Note : The above figures included unsold units in completed projects, units under construction but not yet sold by presale, and units from disposed sites where construction may start anytime.

Source : Transport and Housing Bureau.

# **Outlook for the remaining of 2014**

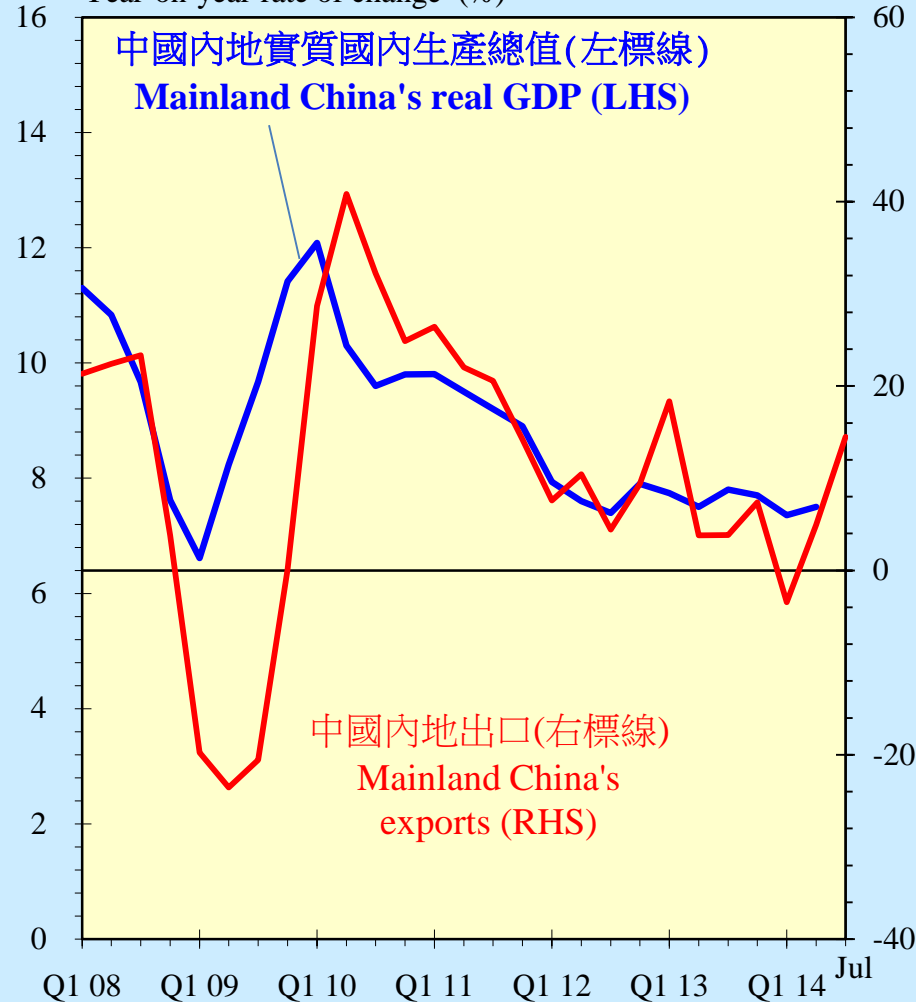
# Growth forecasts revised down further across the globe

	GDP growth in 2013	IMF forecasts on 2014 GDP growth		
		Jan 2014	Apr 2014	Jul 2014
<b>World</b>	<b>3.2</b>	<b>3.7</b>	<b>3.6</b>	<b>3.4</b>
US	2.2	2.8	2.8	1.7
Eurozone	-0.4	1.0	1.2	1.1
Japan	1.5	1.7	1.4	1.6
Mainland China	7.7	7.5	7.5	7.4
Developing Asia	6.6	6.7	6.7	6.4
Emerging market and developing economies	4.7	5.1	4.9	4.6

# Mainland's exports improved in recent months, while domestic demand also held steady

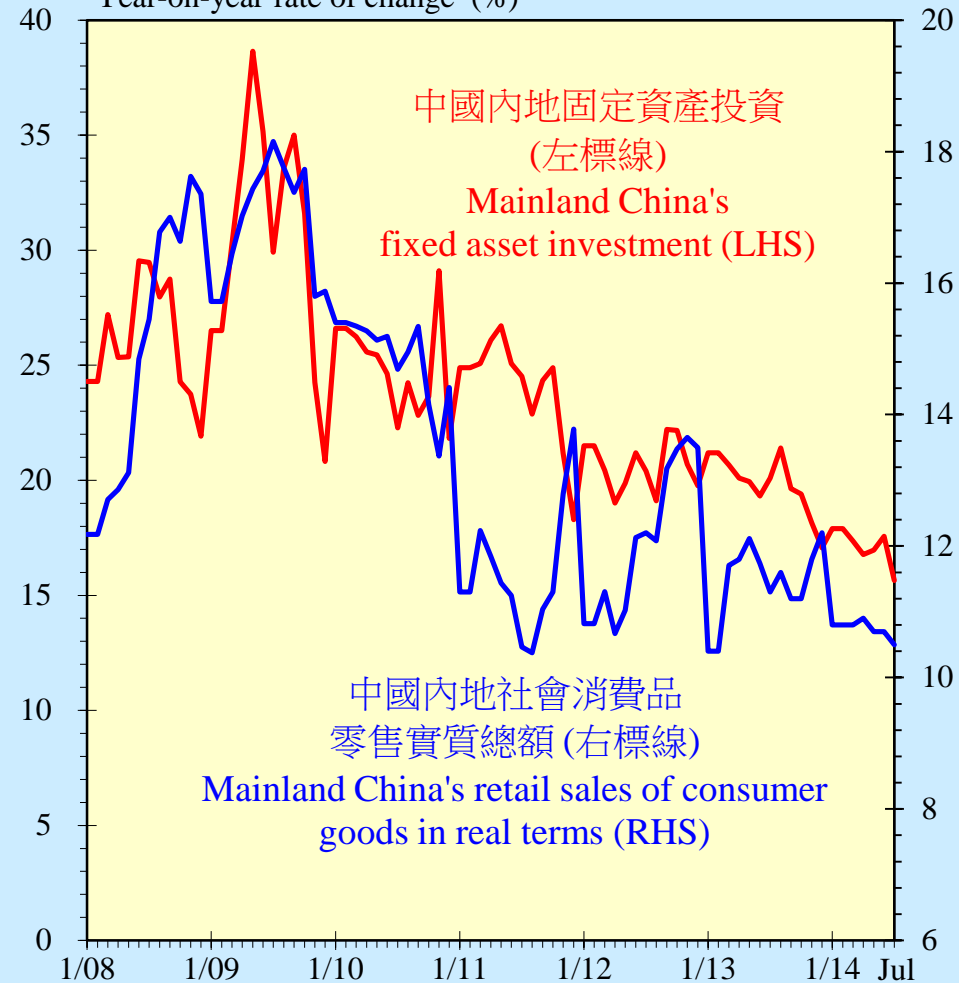
按年增減率(%)

Year-on-year rate of change (%)



按年增減率(%)

Year-on-year rate of change (%)



# Business sentiment by sector

## Business expectation by sector (net balance\*)

	<u>13 Q4</u>	<u>14 Q1</u>	<u>14 Q2</u>	<u>14 Q3</u>
Import/export trade and wholesale	-2	-14	-3	-6
Transportation, storage and courier services	10	0	0	9
Retail	27	11	5	0
Accommodation and food	18	-6	-8	-6
Information and telecommunication	15	15	20	24
Financing and insurance	29	30	34	26
<b>All sectors surveyed</b>	<b>12</b>	<b>6</b>	<b>8</b>	<b>6</b>

註：\* 淨差額展現了業務狀況預期較前一季的變動方向。它是填報「較佳」的機構單位百分比與填報「較差」的機構單位百分比的差距。正數指可能向上趨升，而負數則為可能跌勢。

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.

## **Even with some stabilisation in H2, economy poised to attain only modest growth for 2014 as a whole**

- ◆ Exports should improve somewhat in H2, though the scope of improvement limited by the mild recovery in US and EU
  - ◆ Exports of services should turn more stable as the high base effects of travel services fade
  - ◆ Domestic demand expected to grow modestly in the near term
- GDP growth forecast marked down to 2-3%**

## Sources of uncertainties

- Relapse in recovery in EU; situation in Japan also a concern
- Heightening geopolitical tensions on various fronts
- US monetary policy normalisation resulting in funds flow reversal and greater risks of financial market volatility
- Slowdown in tourist spending, if continued, would impact on economic and employment situation

# **Underlying inflation forecast marked down to 3.5%**

## **Receding domestic cost pressures**

- Domestic rental costs receded on a broad front
- Steady rise in labour costs

## **Limited imported inflation**

- Broadly stable international commodity prices
- Benign inflation trends in major import sources



# Latest economic forecasts for 2014 as a whole

**Forecasts as released  
on 16 May**

**Latest forecasts**

**Real GDP growth**

**3-4%**

**2-3%**

**Headline inflation**

**4.6%**

**4.4%**

**Underlying inflation**

**3.7%**

**3.5%**

**Thank you**



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