



# Hong Kong SAR Government

## Third Quarter Economic Report 2014 & Updated economic forecasts for 2014

14 November 2014

# Highlights of the latest economic situation

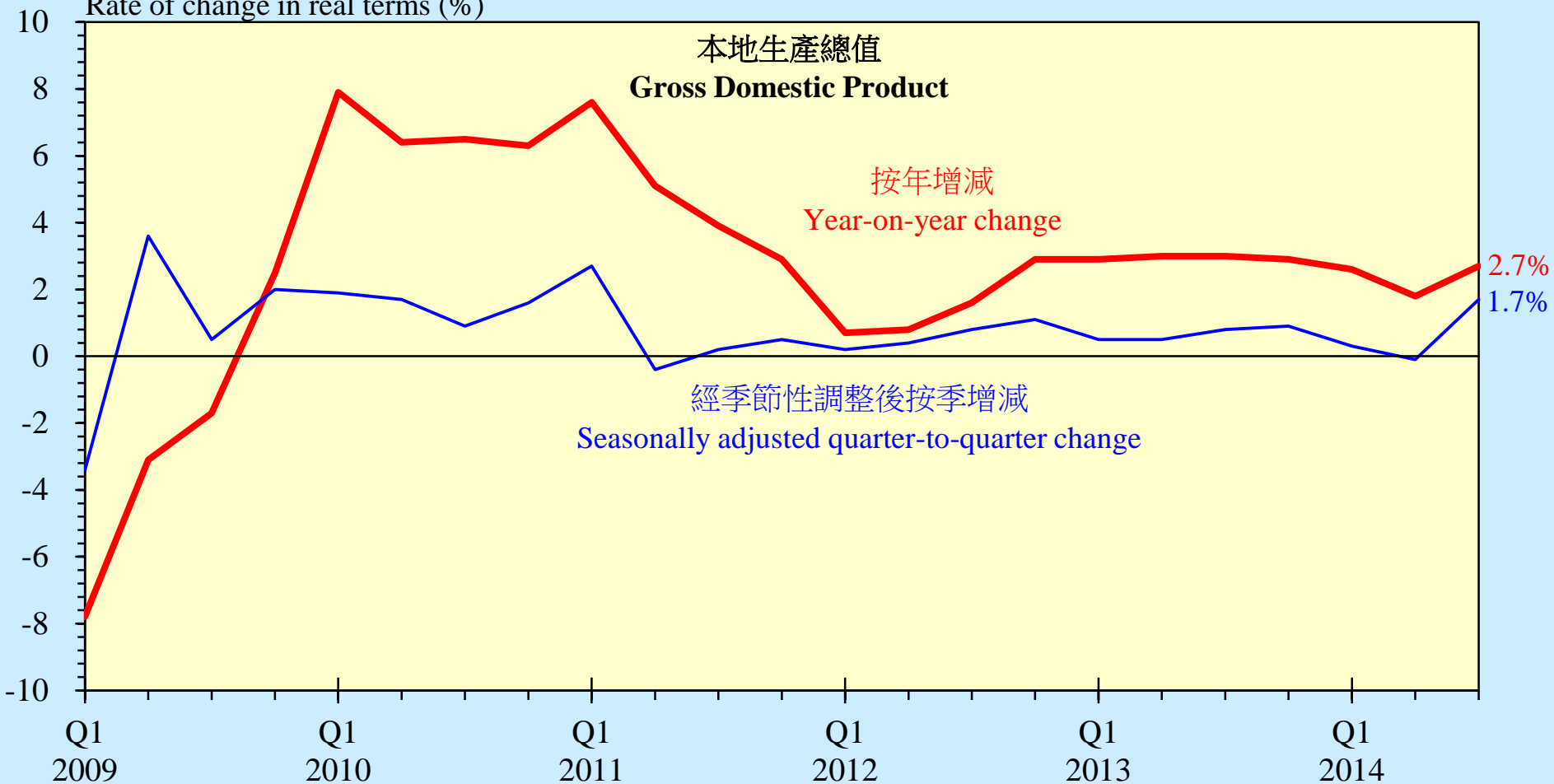
- HK economy regained momentum in Q3, thanks to improvement in services exports and local consumption
- Labour market still in full employment; inflation eased further
- Since “Occupy Movement” started, certain consumption segments more hard hit than others; business sentiment worsened; adding to downside risks in the domestic segment
- GDP forecast for 2014 as a whole marked down to 2.2%; forecast underlying inflation rate marked down to 3.4%

# **Economic performance in Q3 2014**

# HK economy regained some momentum in Q3

實質增減率 (%)

Rate of change in real terms (%)



# Contribution to HK's GDP growth by key component

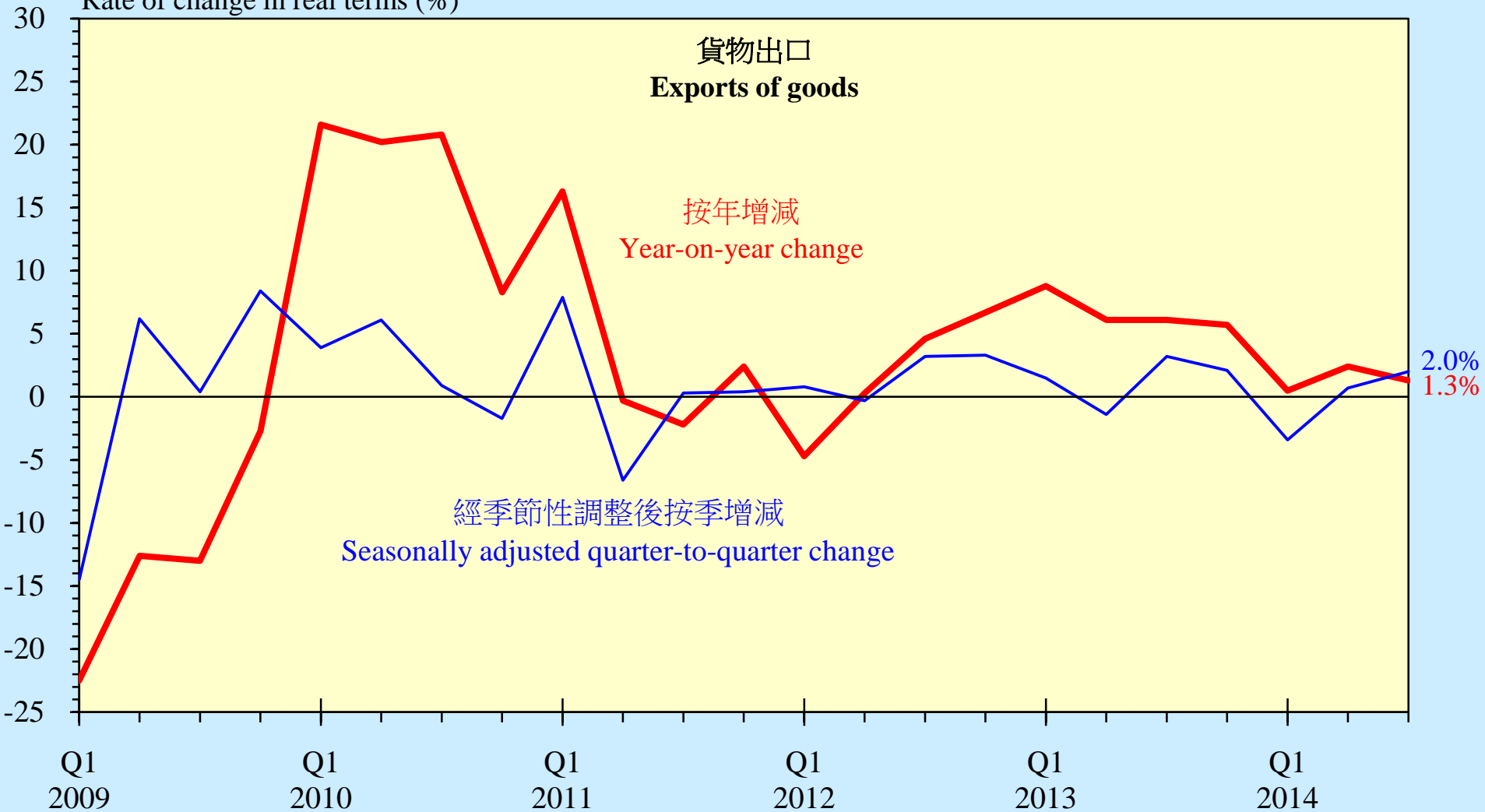
	(% point(s))			(%)
	<u>Net exports</u>	<u>Private consumption expenditure</u>	<u>Investment and changes in inventories</u>	<u>HK's GDP growth</u>
2004-2008	2.3	3.2	0.8	6.3
2009	-2.9	0.1	0.1	-2.5
2010	0.3	3.7	2.5	6.8
2011	-1.3	5.2	0.7	4.8
2012	-2.2	2.6	0.8	1.5
2013	-1.0	2.8	0.9	2.9
2014 Q1	0.1	1.1	1.1	2.6
Q2	-0.2	0.9	0.9	1.8
Q3	1.7	2.0	-1.2	2.7
<hr style="border-top: 1px dashed black;"/>				
<b>Change in Q3 relative to Q2</b>	<b>+1.9</b>	<b>+1.1</b>	<b>-2.1</b>	<b>+0.9</b>

# External sector

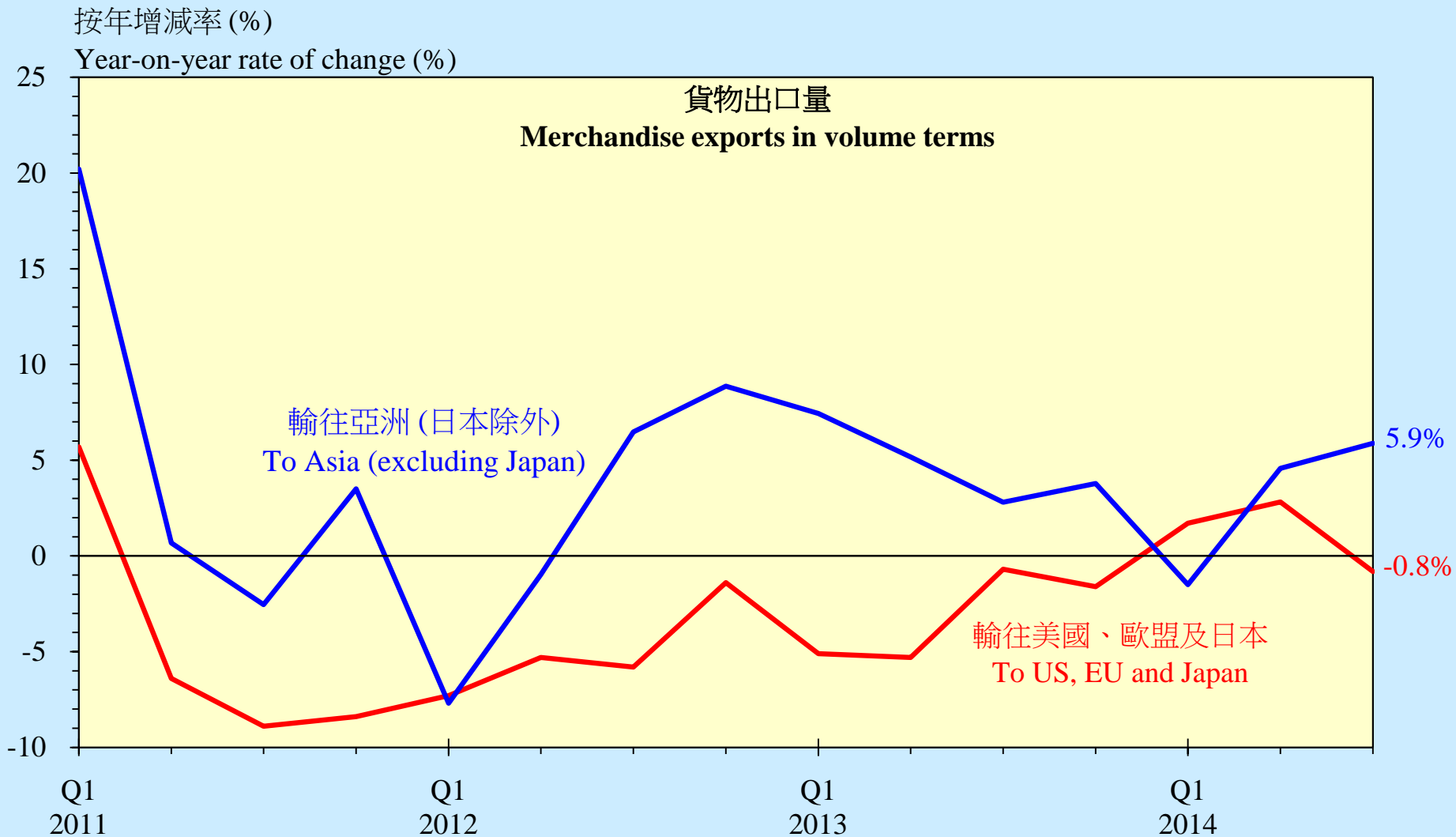
# Exports of goods made further moderate growth

實質增減率 (%)

Rate of change in real terms (%)

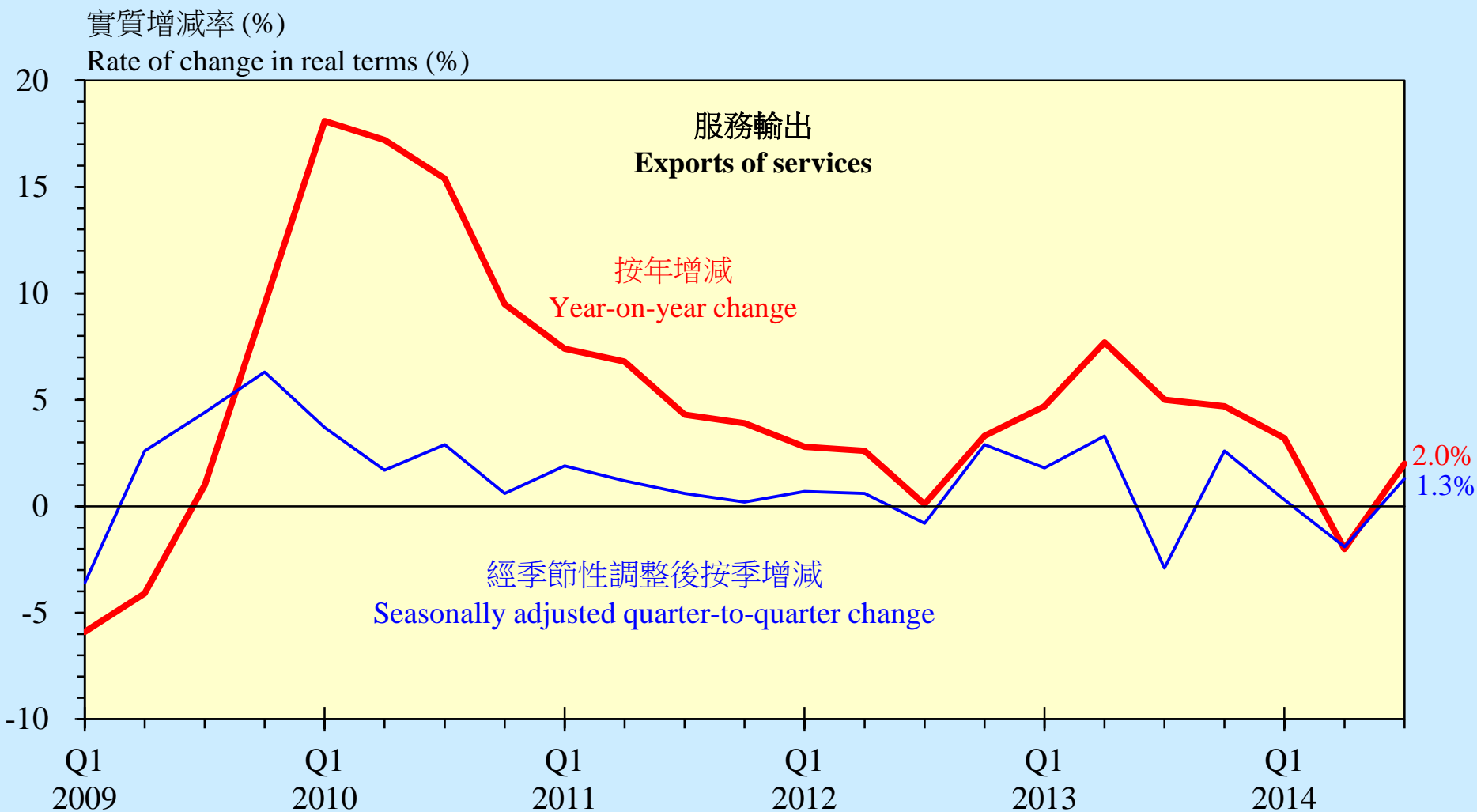


# Asian markets were the key growth spots





# Exports of services resumed growth in Q3, reversing the decline in Q2



**...thanks to much smaller decline in travel services and also broad-based improvement in other components**

**Exports of services**

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

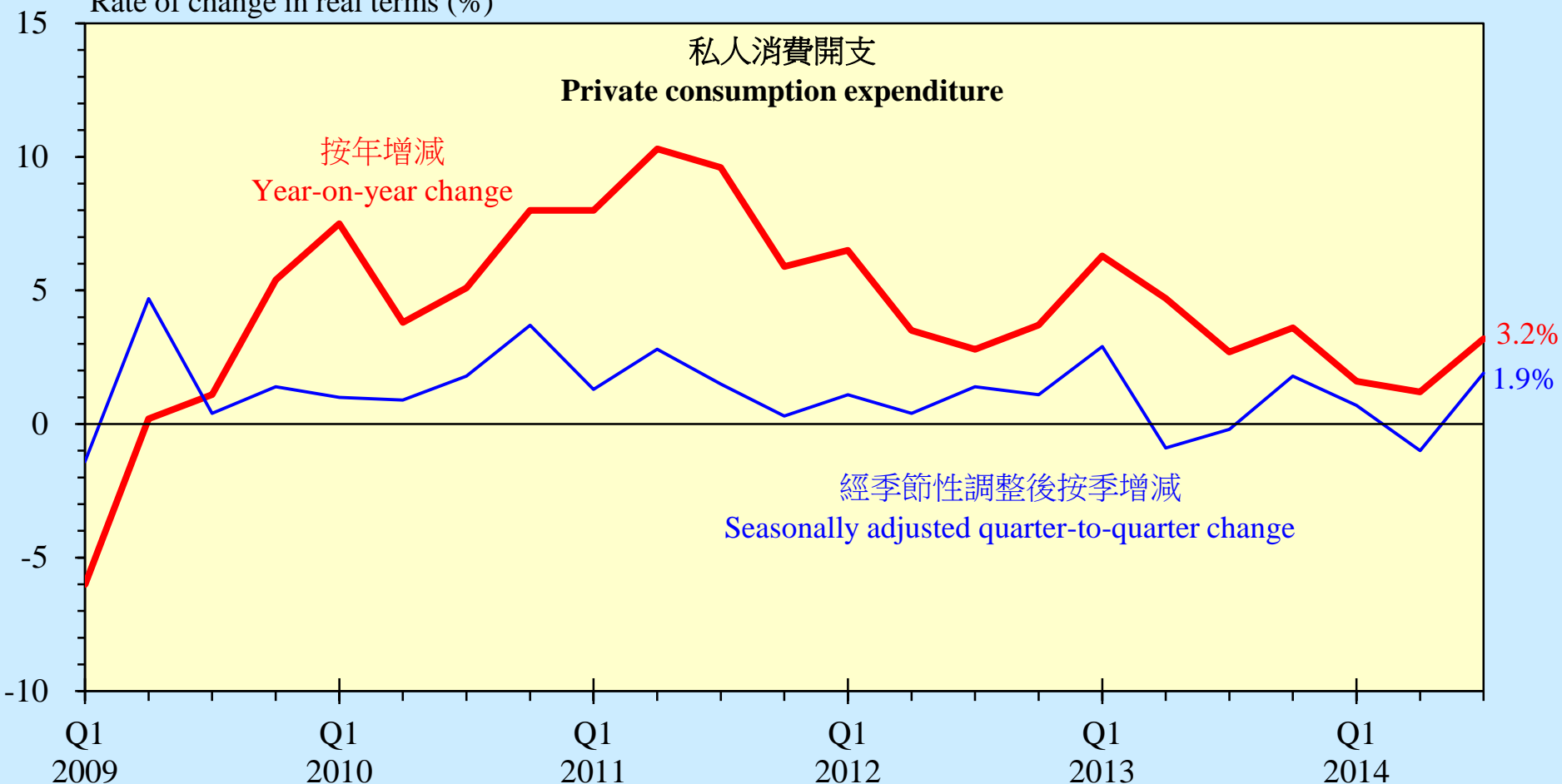
	<u>Travel services</u>	<u>Trade-related services</u>	<u>Financial and business services</u>	<u>Transportation services</u>
2013	18.2	1.2	3.5	-1.1
2014 Q1	9.9	-0.2	0.7	1.1
Q2	-10.7	1.6	0.8	2.7
Q3	-0.8	2.7	6.4	0.5

# Domestic sector

# Private consumption strengthened after two consecutive quarters of relapse

實質增減率 (%)

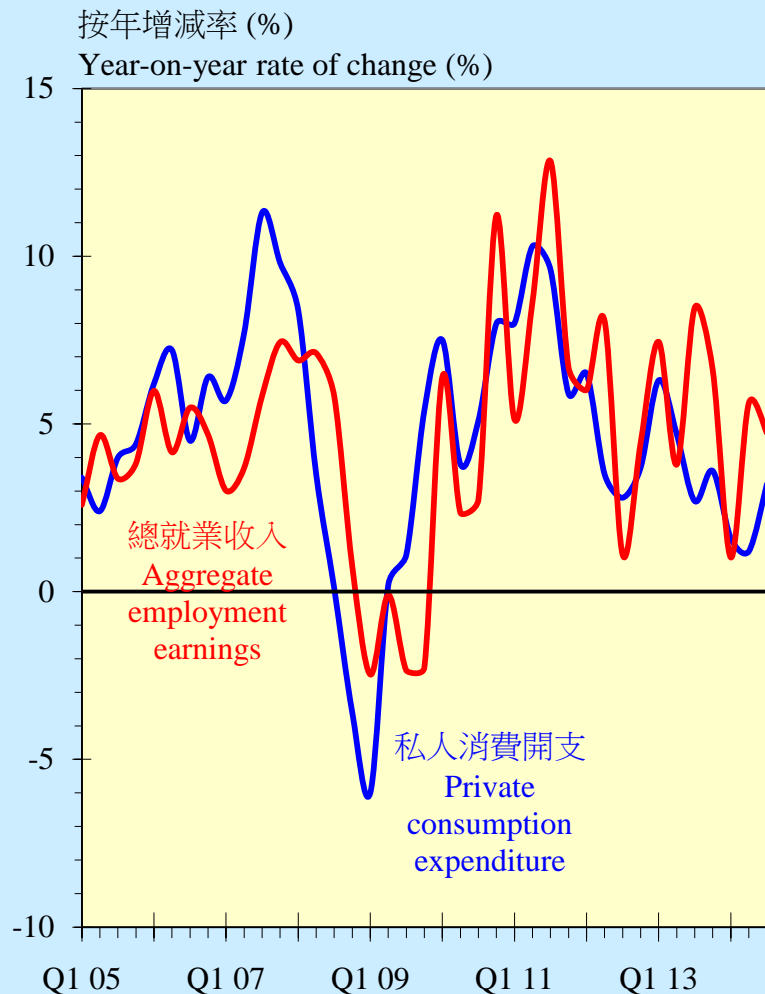
Rate of change in real terms (%)



# ...thanks to favourable income and employment conditions, and also positive wealth effect

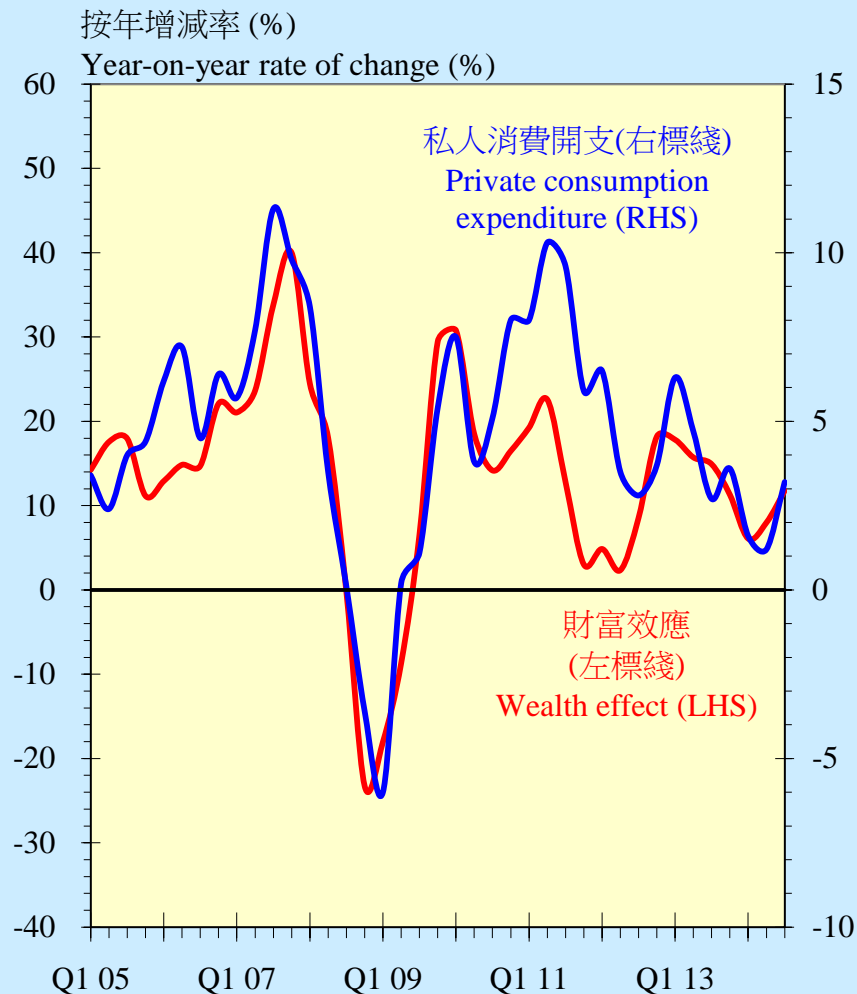
## 收入因素

### Income factor

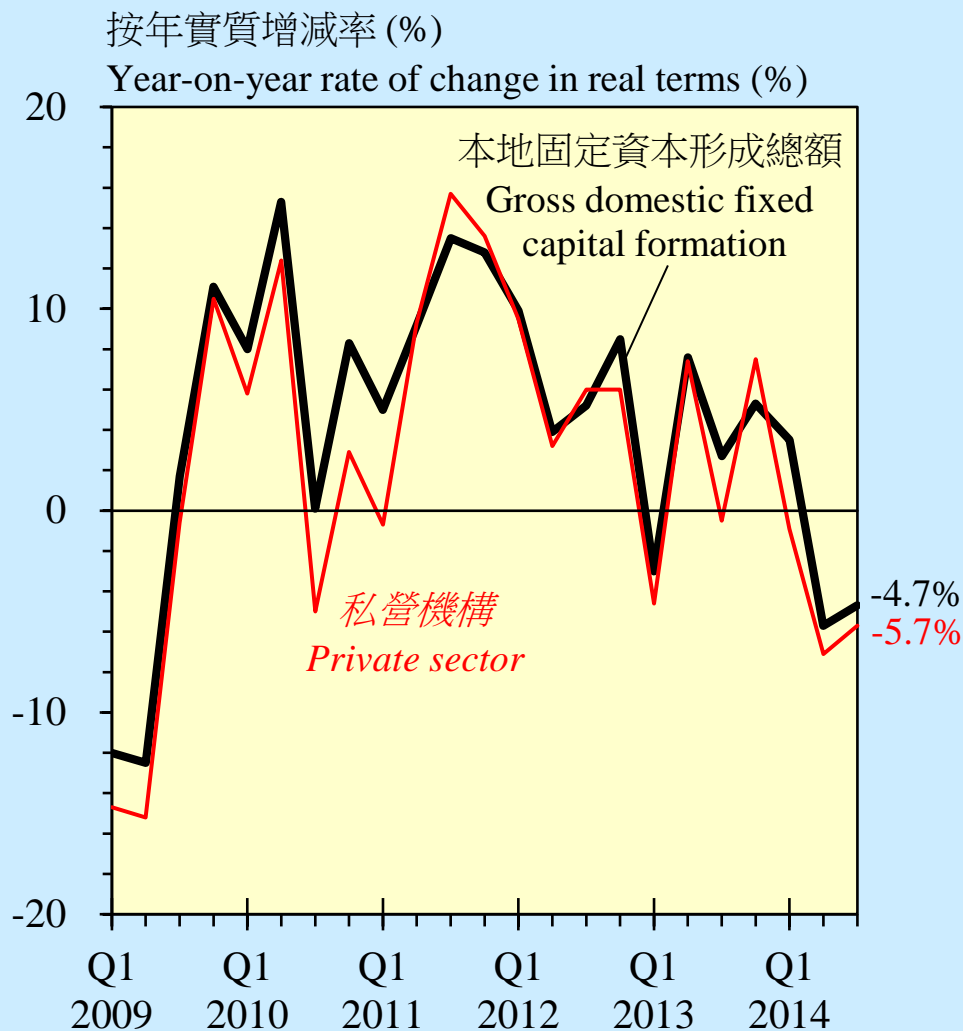


## 財富效應

### Wealth effect



# Investment spending remained on a decline as private sector machinery acquisitions plunged



## 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 (%)

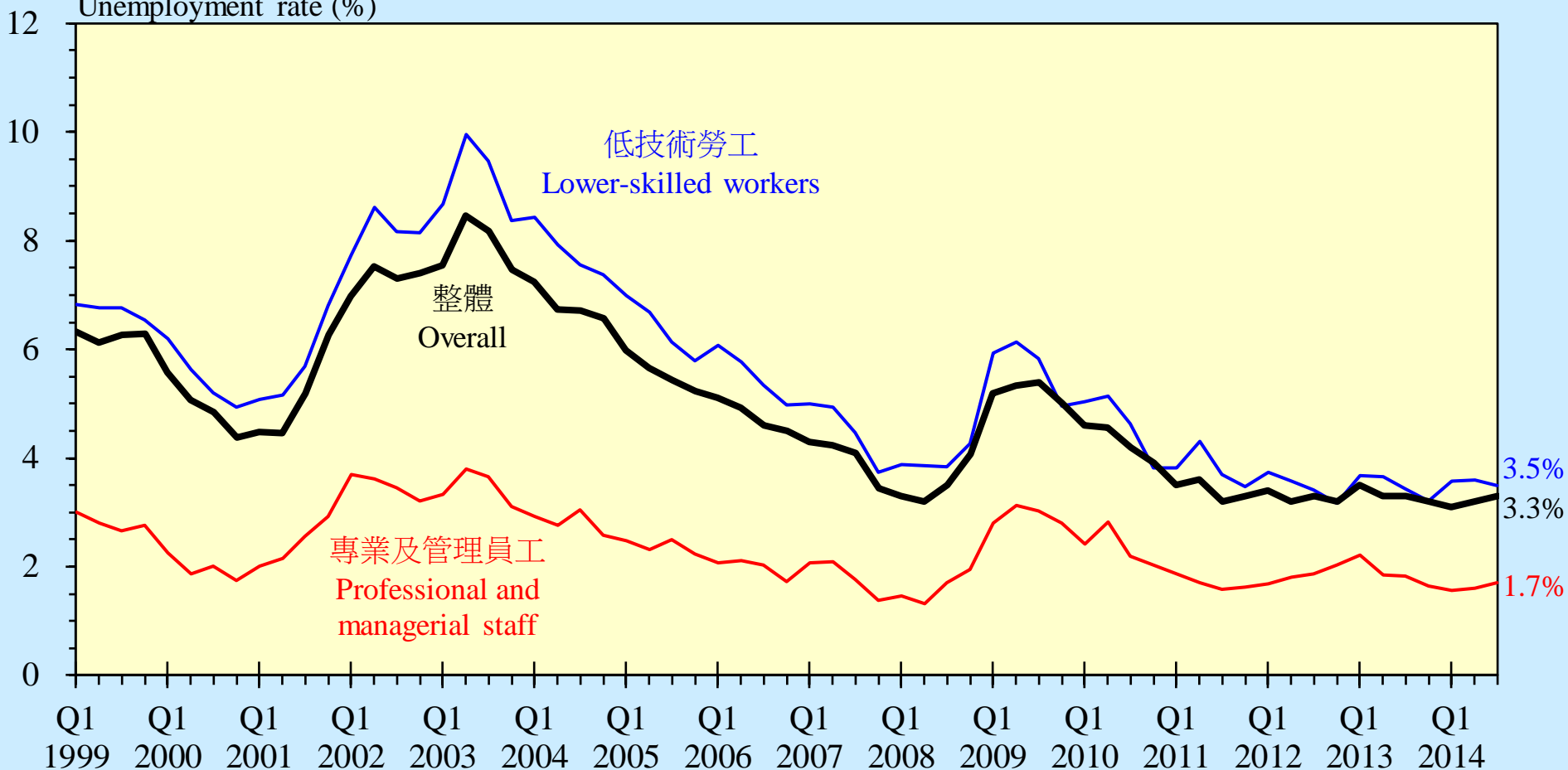
	機器、設備及 知識產權產品 Machinery, equipment and intellectual property products	樓宇及建築 Building and construction
2012	10.5	4.8
2013	10.7	-3.7
2013 Q1	-6.0	-2.9
Q2	20.5	-4.7
Q3	7.0	-5.6
Q4	18.1	-1.5
2014 Q1	1.3	3.6
Q2	-11.0	0.8
Q3	-12.9	2.0

# Labour market

# Labour market held largely stable with low jobless rate

失業率 (%)

Unemployment rate (%)



Note: Not seasonally adjusted except the overall unemployment rate.



# Earnings growth sustained in real terms

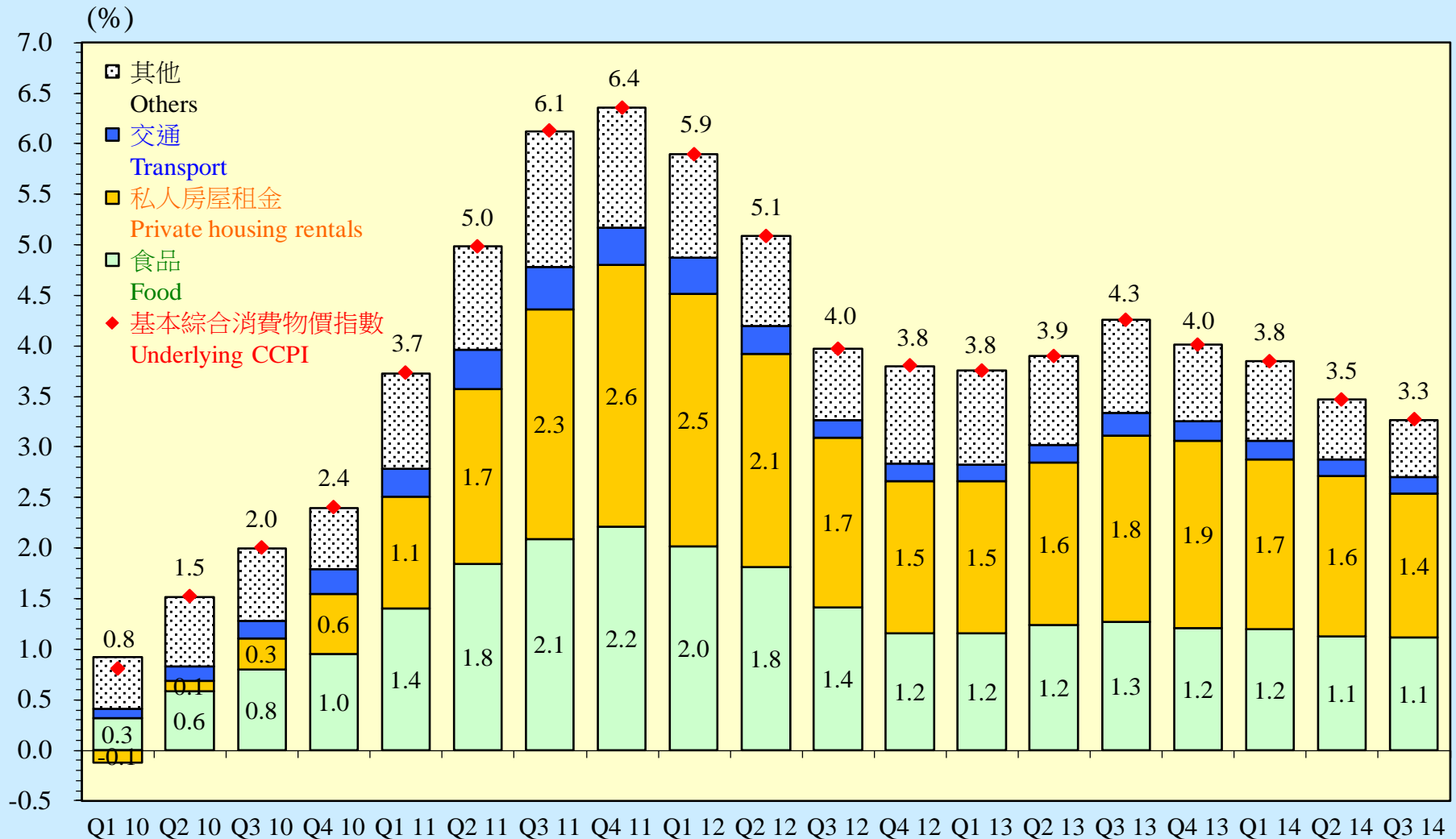
	Year-on-year rate of change (%)	
	<u>Nominal growth</u>	<u>Real growth</u>
Index of payroll per person engaged (Q2 2014)	4.8	1.0
Wage index (June 2014)	4.5	0.7
Average employment earnings of full-time unskilled employees (Q1-Q3 2014)	6.6	1.5

# **Inflation**

# Underlying inflation eased further

基本綜合消費物價指數按年變動率的主要組成項目

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



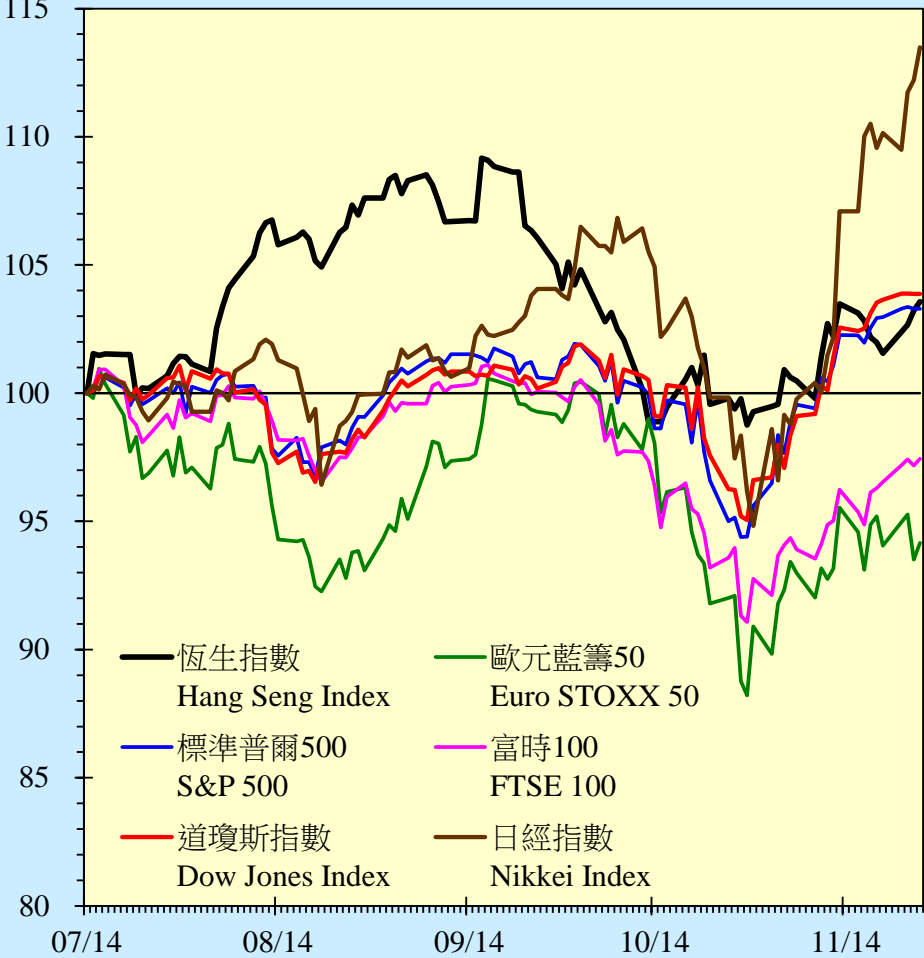
# Local asset markets

# Global stock markets exhibiting increased volatilities of late

主要股票市場指數

Indices of major stock markets

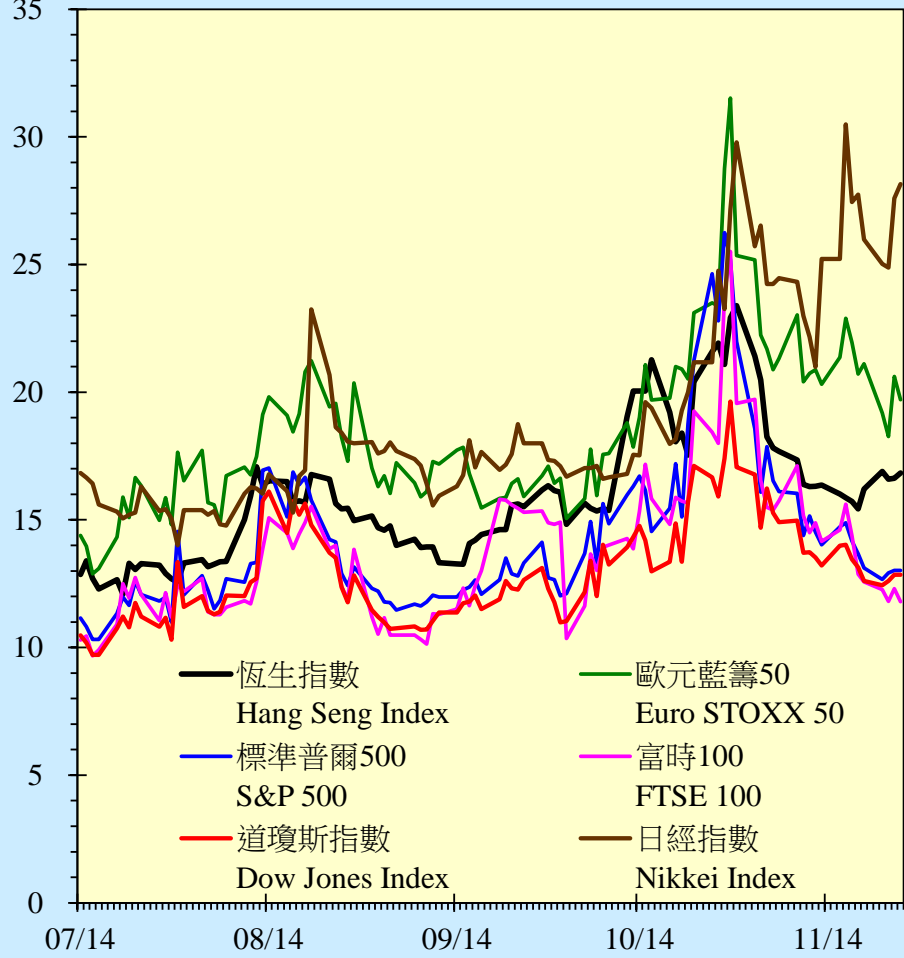
指數 (2014年7月1日=100)  
Index (1 Jul 2014 = 100)



主要股票市場的波幅指數

Volatility indices of major stock markets

指數  
Index



# Housing market bubble risk remained visible

- Property prices rising since April, with a cumulative increase of 8% in September as compared with end-2013
- Mortgage payment to income ratio stood high at 57%, above long-term average
- Proportions of speculative activities and overseas purchases have been reduced visibly
- Medium-term housing supply expected to rise to record high of 74 000 units

# **Preliminary assessment of “Occupy Movement”**

# Some observations on the economic impact of “Occupy Movement” (1)

## (1) Immediate impact

- Financial system functioning properly in good order, with no abnormality spotted in the stock market or fund flows
- Retail, catering, and transportation activities in the affected districts more hard hit
- Impact on inbound tourism to surface more
- Blockage of main trunk roads reducing operation efficiency



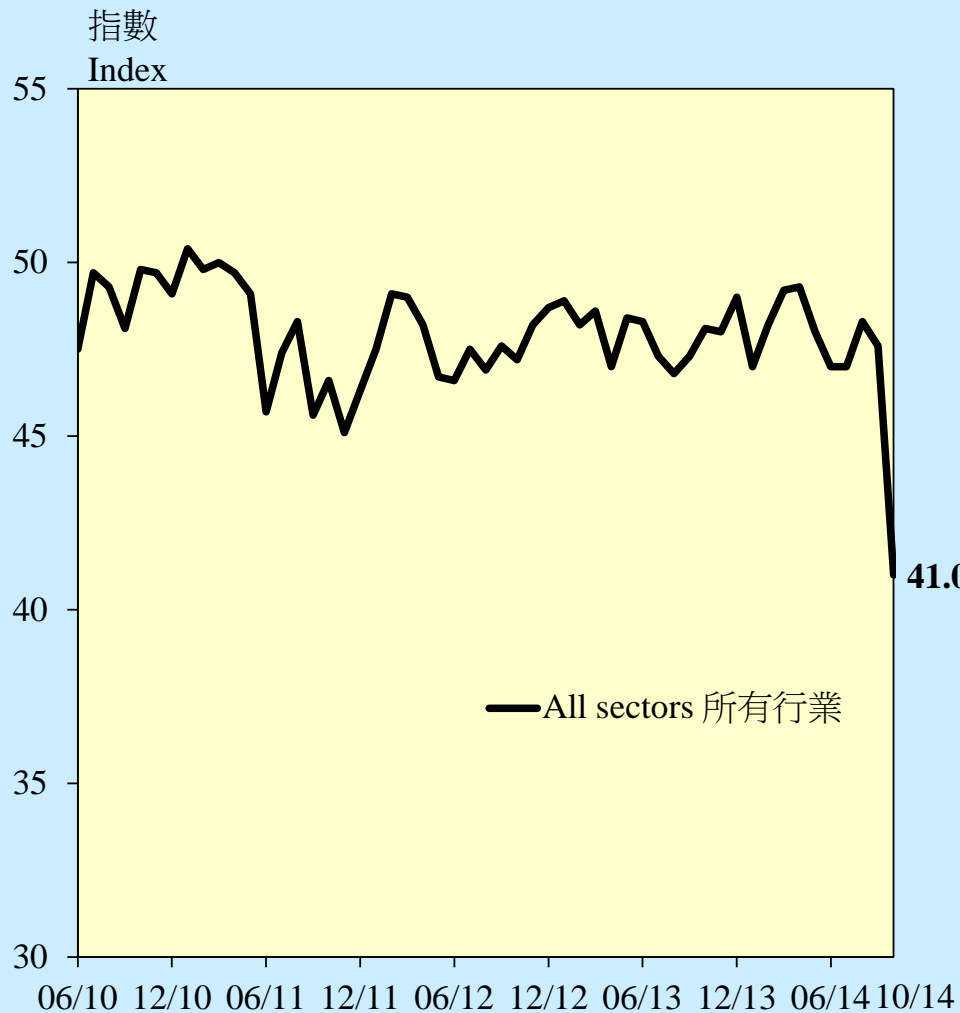
## **Some observations on the economic impact of “Occupy Movement” (2)**

**(2) Downside risks in the domestic segment have risen, weighing on Q4 performance**

- **Income and employment prospects worsening**
- **Negative impacts to surface progressively in the coming months**

**(3) If the situation gets protracted, the medium- and long-term economic development and international competitiveness of HK could be affected**

# SME's diffusion indices plummeted, reflecting abrupt worsening in business sentiment after “Occupy Movement”



	<u>Overall</u>	<u>Restaurants</u>	<u>Retail trade</u>	<u>Logistics</u>
2014				
Jun	47.0	45.3	46.9	47.2
Jul	47.0	47.1	46.1	47.2
Aug	48.3	48.1	48.4	44.4
Sep	47.6	47.1	48.0	47.2
Oct	41.0	38.2	40.3	36.1
<b>Change in Oct relative to Sep</b>	<b>-6.6</b>	<b>-8.9</b>	<b>-7.7</b>	<b>-11.1</b>

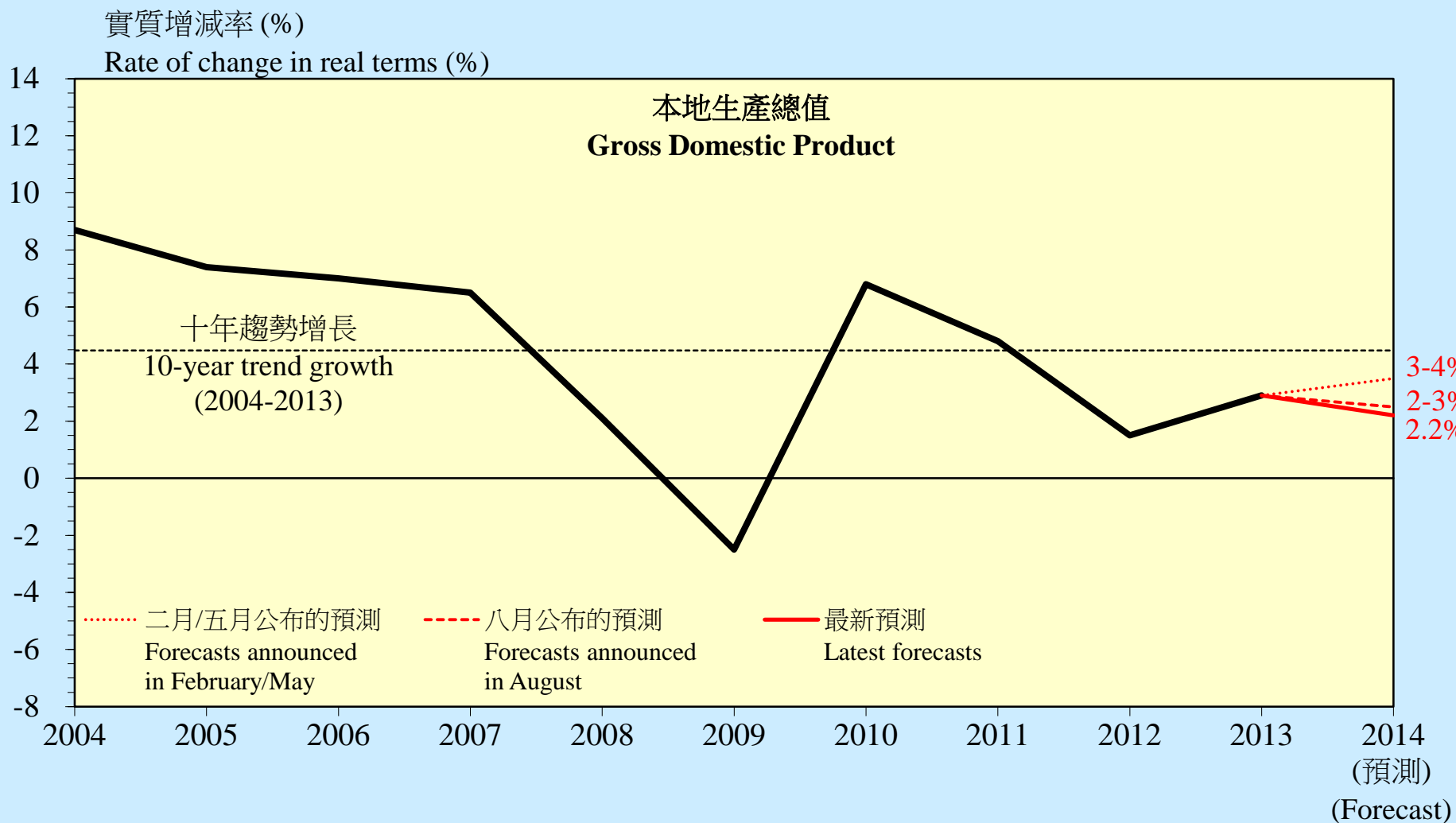
## **External environment also fraught with considerable uncertainties**

- ◆ Mark-down in IMF's global GDP forecast for three times, reflecting weaker-than-expected economic recovery
- ◆ Timing of interest rate hike still uncertain, despite the end of asset purchase programme by US
- ◆ Rising downside risks of the eurozone; Japanese economy still lacklustre
- ◆ Market volatility set to increase, as monetary policy stances by major central banks diverge
- ◆ Geopolitical risks elevated

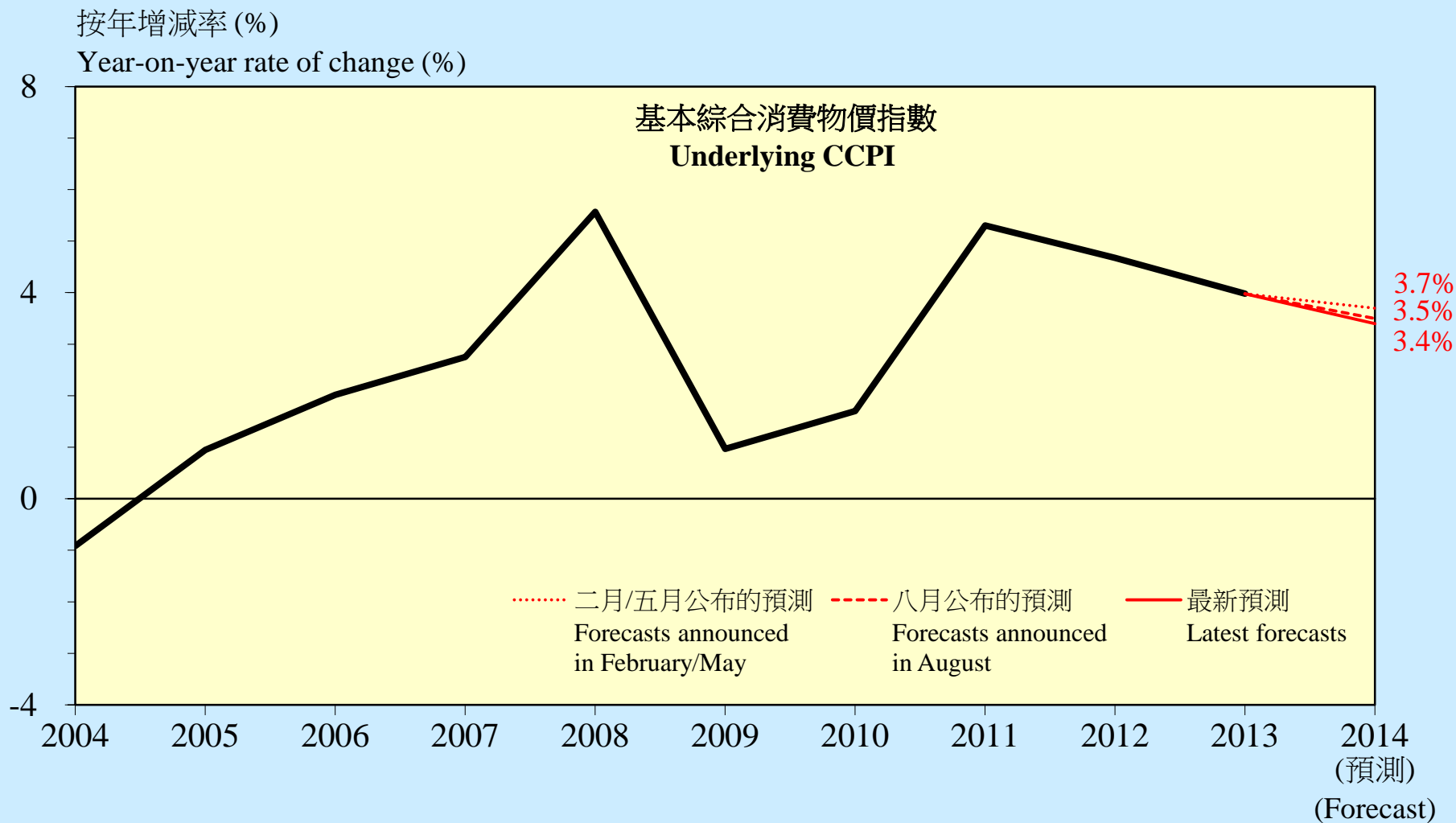
# Economic growth forecast: subject to unusually large uncertainty

- ◆ Q4 economic outlook not optimistic
  - Domestic segment: clouded by uncertainties from “Occupy Movement”; downside risks have risen
  - External demand: exports poised for only modest growth
- ◆ Economic forecasts marked down further

# GDP growth forecast revised down to 2.2% for 2014 as a whole



# Forecast underlying inflation rate also revised down to 3.4%



# Latest economic forecasts for 2014 as a whole

**Forecasts as released  
on 15 August**

**Latest forecasts**

**Real GDP growth**

**2-3%**

**2.2%**

**Underlying inflation**

**3.5%**

**3.4%**

**Headline inflation**

**4.4%**

**4.3%**





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