



Hong Kong SAR Government

Half-yearly Economic Report 2015 & Updated economic forecasts for 2015

14 August 2015

Highlights of the latest economic situation

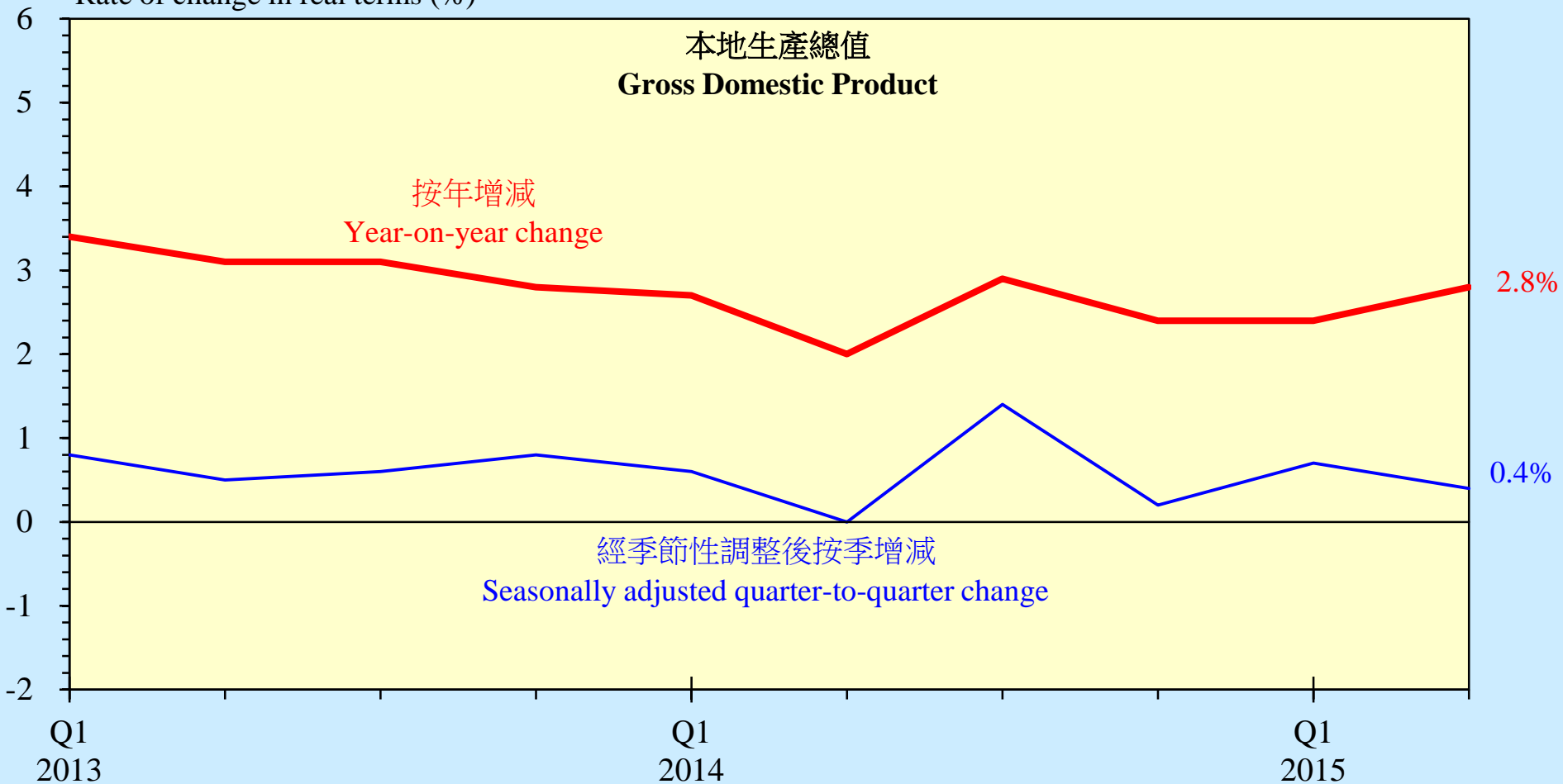
- HK economy picked up slightly to grow by 2.8% in Q2
- Goods exports stayed lacklustre; inbound tourism sluggish
- Domestic demand stayed resilient, offsetting the external sector's sluggish performance
- Labour market in full employment; inflation eased further
- GDP growth forecast for 2015 revised to 2-3%
- Subdued external environment; US' interest rate lift-off approaching; stock market volatility increased; prominent risks of housing market bubble

Economic performance in Q2 2015

HK economy picked up slightly to grow by 2.8% in Q2

實質增減率 (%)

Rate of change in real terms (%)



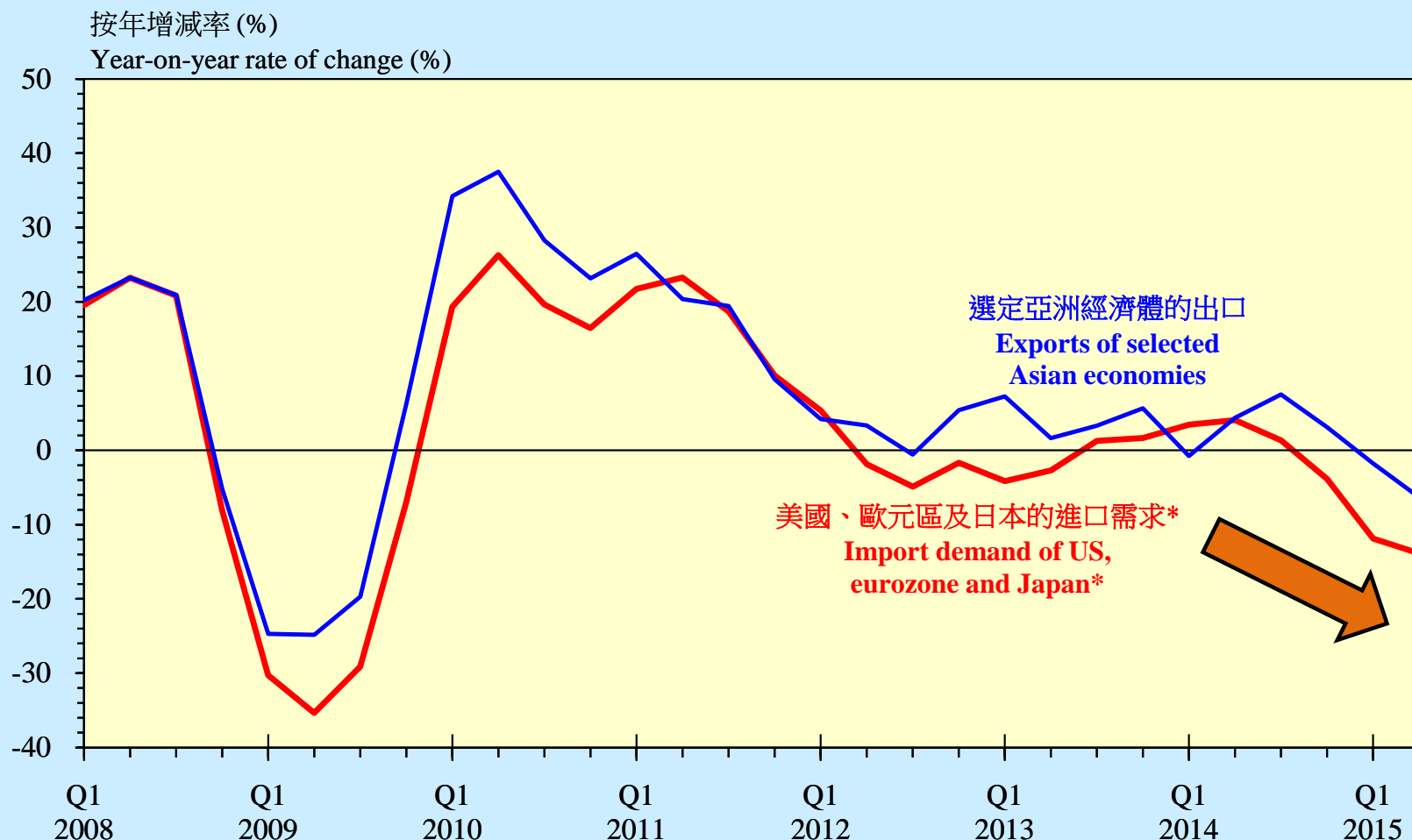
Resilient domestic demand cushioned the setback from the external front

Contribution to HK's GDP growth by key component

	(% point(s))		(%)
	<u>Net exports</u>	<u>Domestic demand</u>	<u>HK's GDP growth</u>
2004-2008	2.3	4.0	6.3
2009-2013	-1.4	4.2	2.8
2014	-0.3	2.8	2.5
2015 Q1	-0.8	3.2	2.4
Q2	-0.4	3.2	2.8

External sector

Sluggish import demand of advanced economies led to falling Asian exports

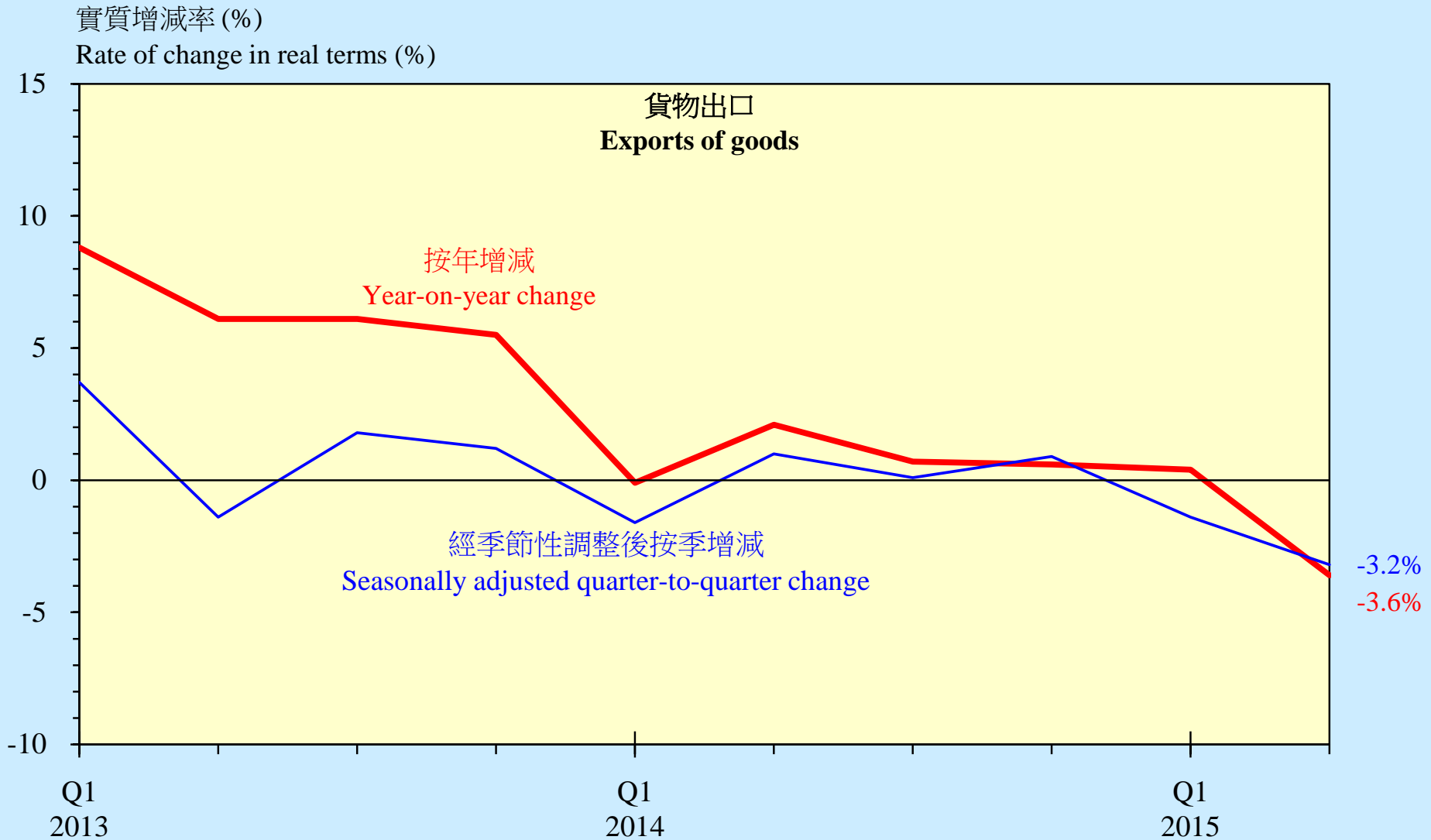


註：選定亞洲經濟體包括中國內地、香港、印度、印尼、韓國、馬來西亞、菲律賓、新加坡、台灣及泰國。
Note: Selected Asian economies include Mainland China, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand.

(*) 由於數據有限，美國、歐元區及日本的進口需求最新數字為2015年4-5月合併的數字。

(*) Due to data limitations, the latest figure for import demand of US, eurozone and Japan is April-May 2015 combined.

HK's exports inevitably affected, relapsing to a decline in Q2



HK's exports fared relatively better than other Asian counterparts

Export performance of selected Asian economies

Year-on-year rate of change in US\$ terms (%)

	<u>Q1</u>	<u>Q2</u>
Hong Kong	2.3	-1.9
Mainland China	4.6	-2.2
Singapore*	-2.1	-4.7
Korea	-3.0	-7.2
Taiwan	-4.2	-9.8

Note: (*) denotes non-oil domestic exports.

Services exports fared better than goods exports



...financial services exports stood out as the bright spot during the quarter

Exports of services

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

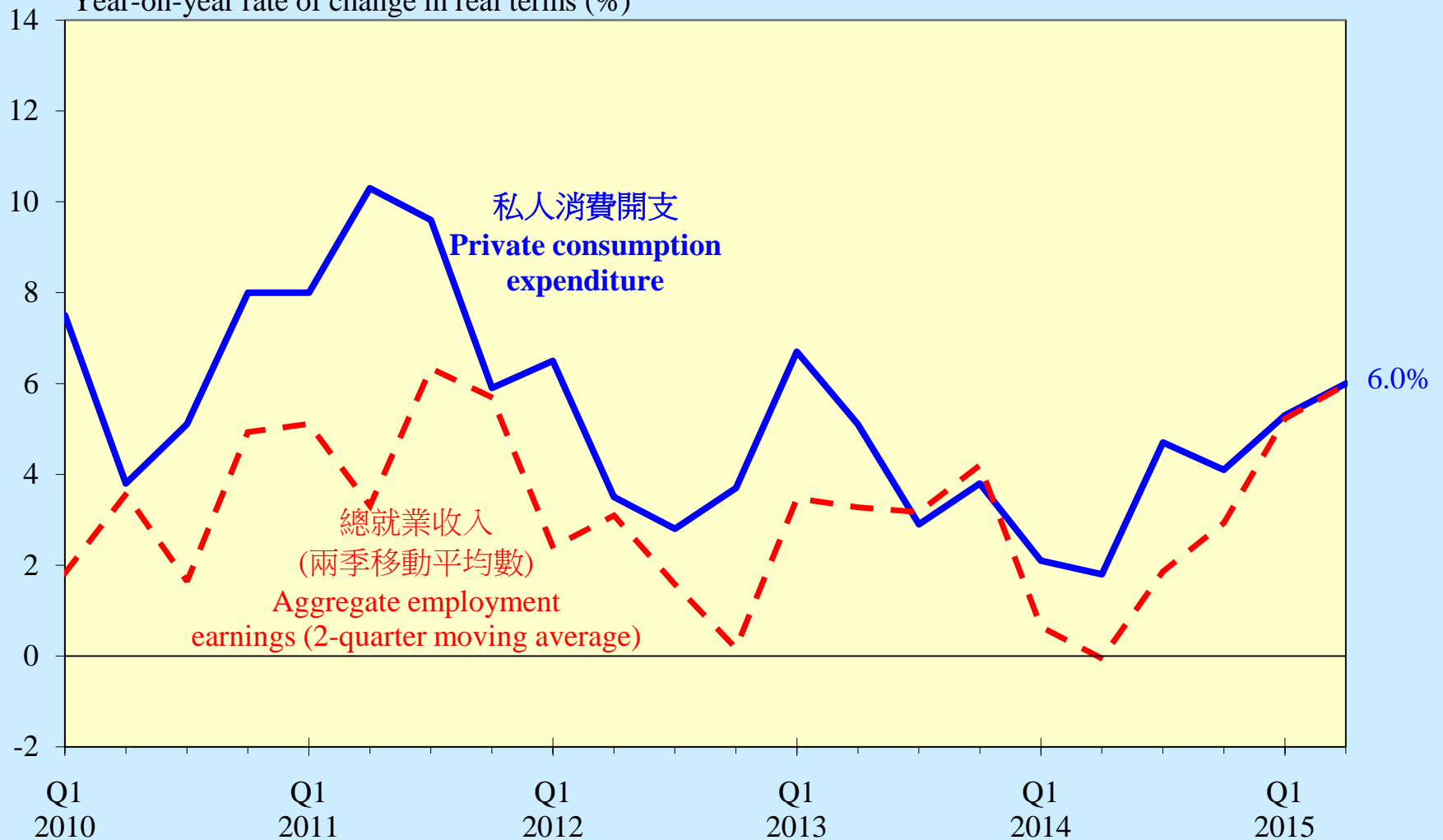
		<u>Financial and business services</u>	<u>Travel services</u>	<u>Trade-related services</u>	<u>Transportation services</u>
2014	Q1	2.5	11.1	-0.2	1.5
	Q2	0.5	-9.6	1.5	3.9
	Q3	4.2	-3.8	2.7	2.9
	Q4	-0.5	-2.9	0.8	1.9
2015	Q1	5.4	-4.4	-1.0	1.0
	Q2	11.0	-1.5	-1.8	-1.8

Domestic sector

Private consumption grew strongly, supported by favourable job and income conditions

按年實質增減率 (%)

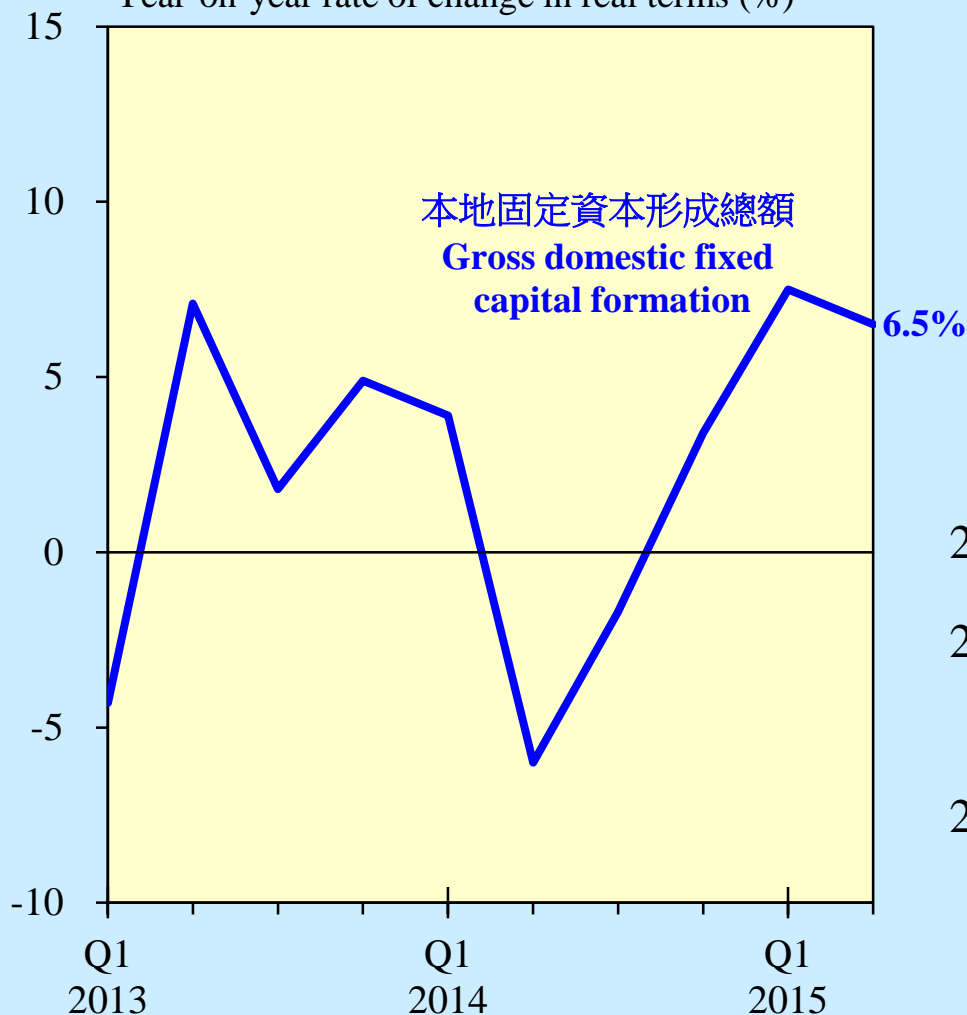
Year-on-year rate of change in real terms (%)



Investment spending expanded further

按年實質增減率 (%)

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



投資開支

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

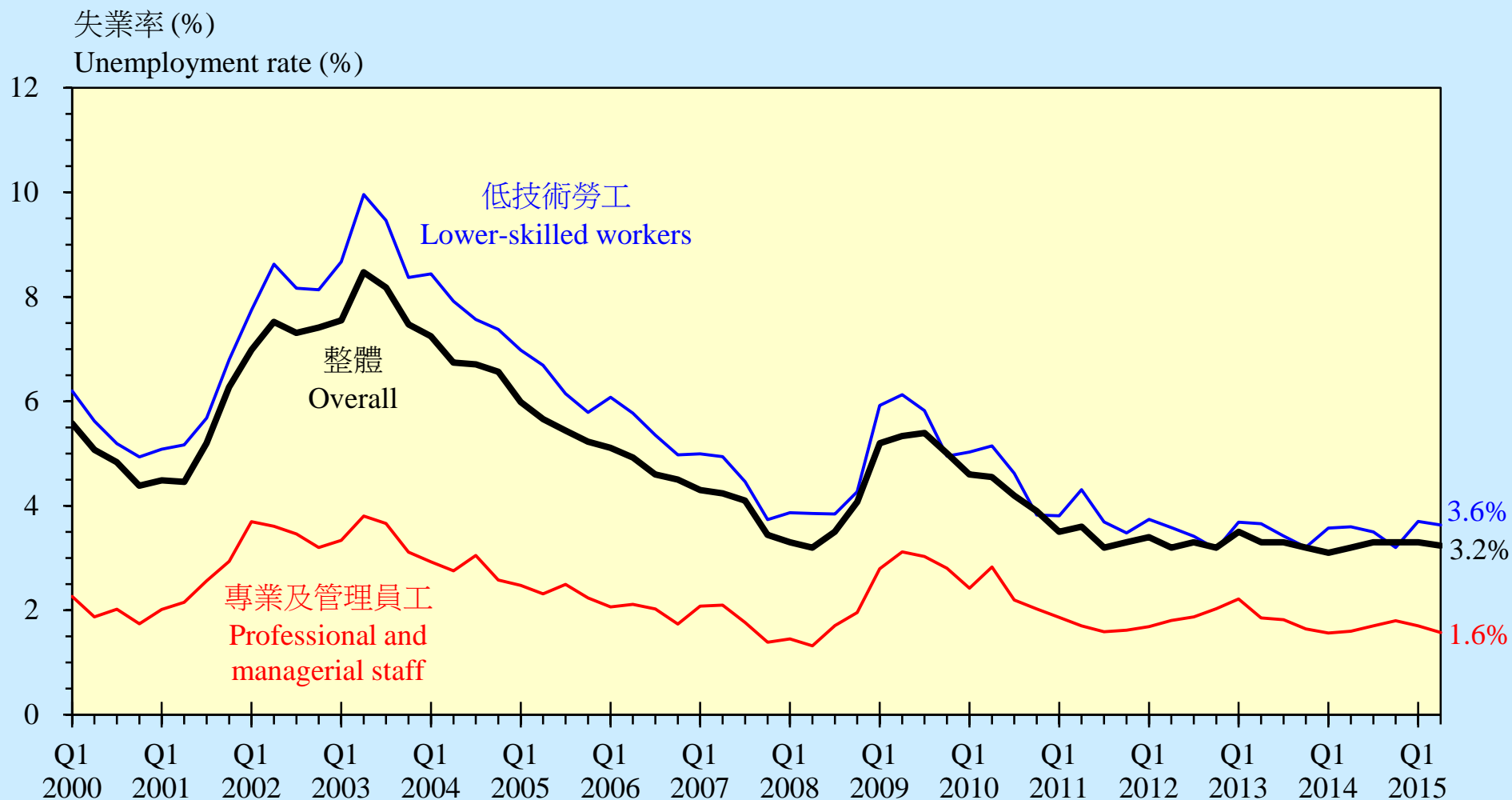
Building and

construction

Year	Machine, equipment and intellectual property products (%)	Building and construction (%)
2013	11.3	-4.3
2014	-6.5	6.5
2015 Q1	14.4	-3.3
Q2	1.6	12.5

Labour market

Labour market remained in full employment, with unemployment rate staying at low level



註：除整體失業率外，其他均為未經季節性調整數字。
Note: Not seasonally adjusted except the overall unemployment rate.

Incomes* sustained real improvements in Q2

	<u>Income</u>	
	Year-on-year rate of change (%)	
	<u>Nominal growth</u>	<u>Real growth</u>
Median household income	7.9	4.7
Average employment earnings of full-time employees	4.0	0.9
<i>Among those: with elementary occupations</i>	6.3	2.0

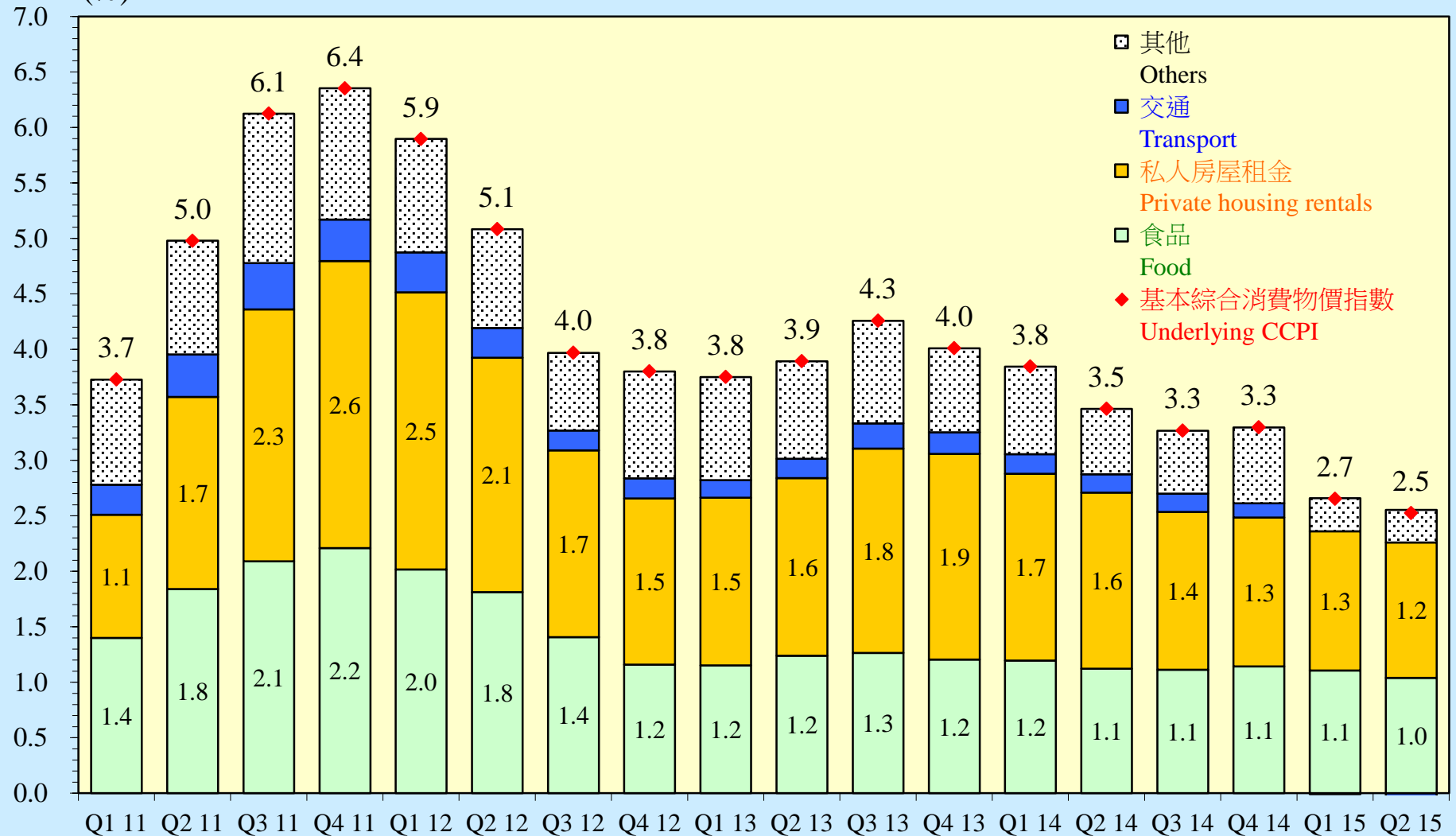
Note: (*) denotes excluding foreign domestic helpers.

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

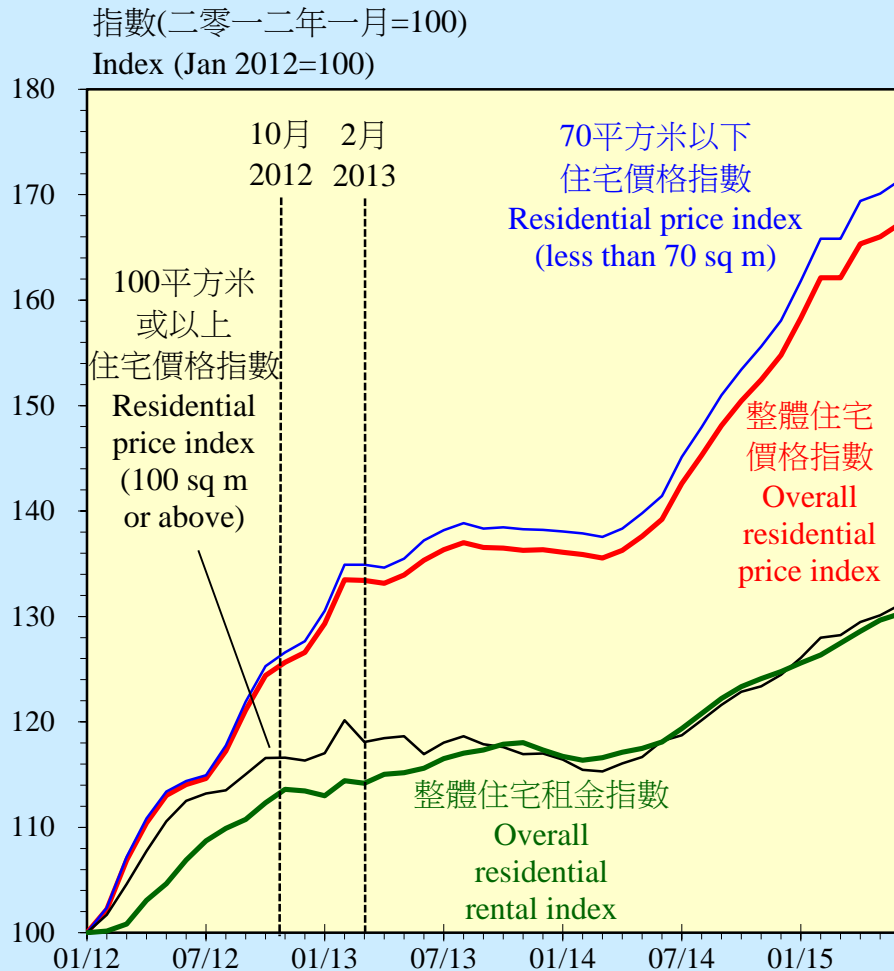
Contribution to the year-on-year rate of change in the underlying Composite Consumer Price Index by major component (%)



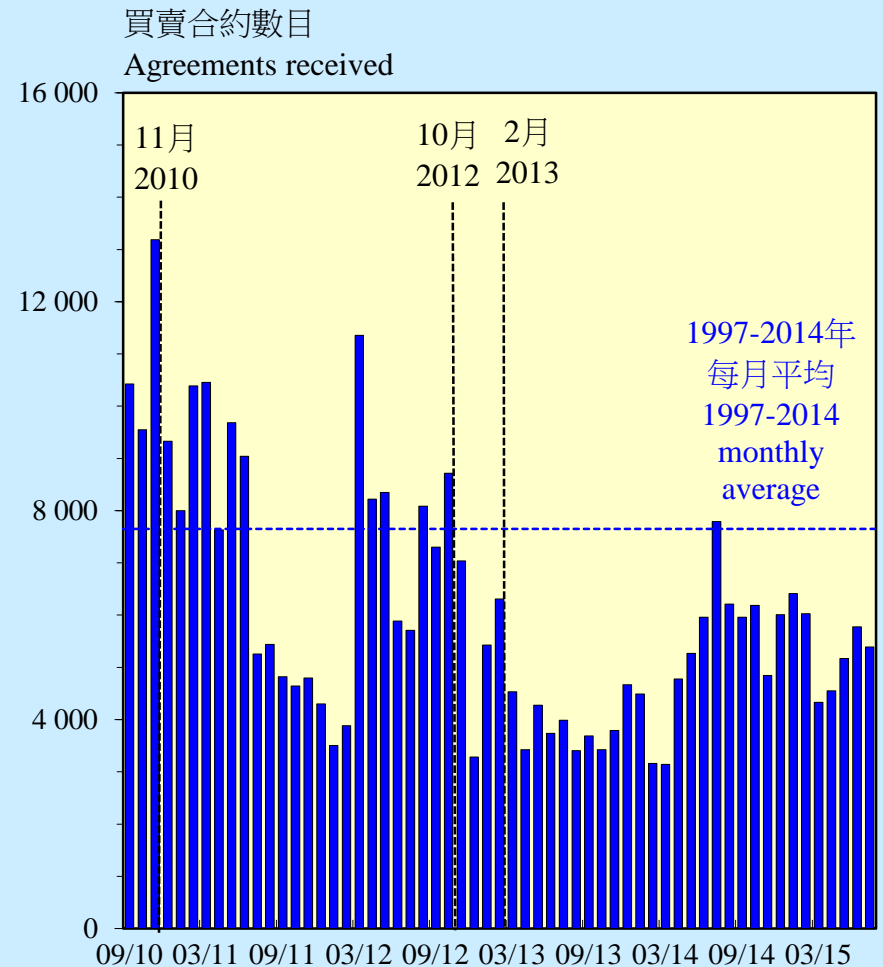
Property market

Housing market bubble risk remained prominent

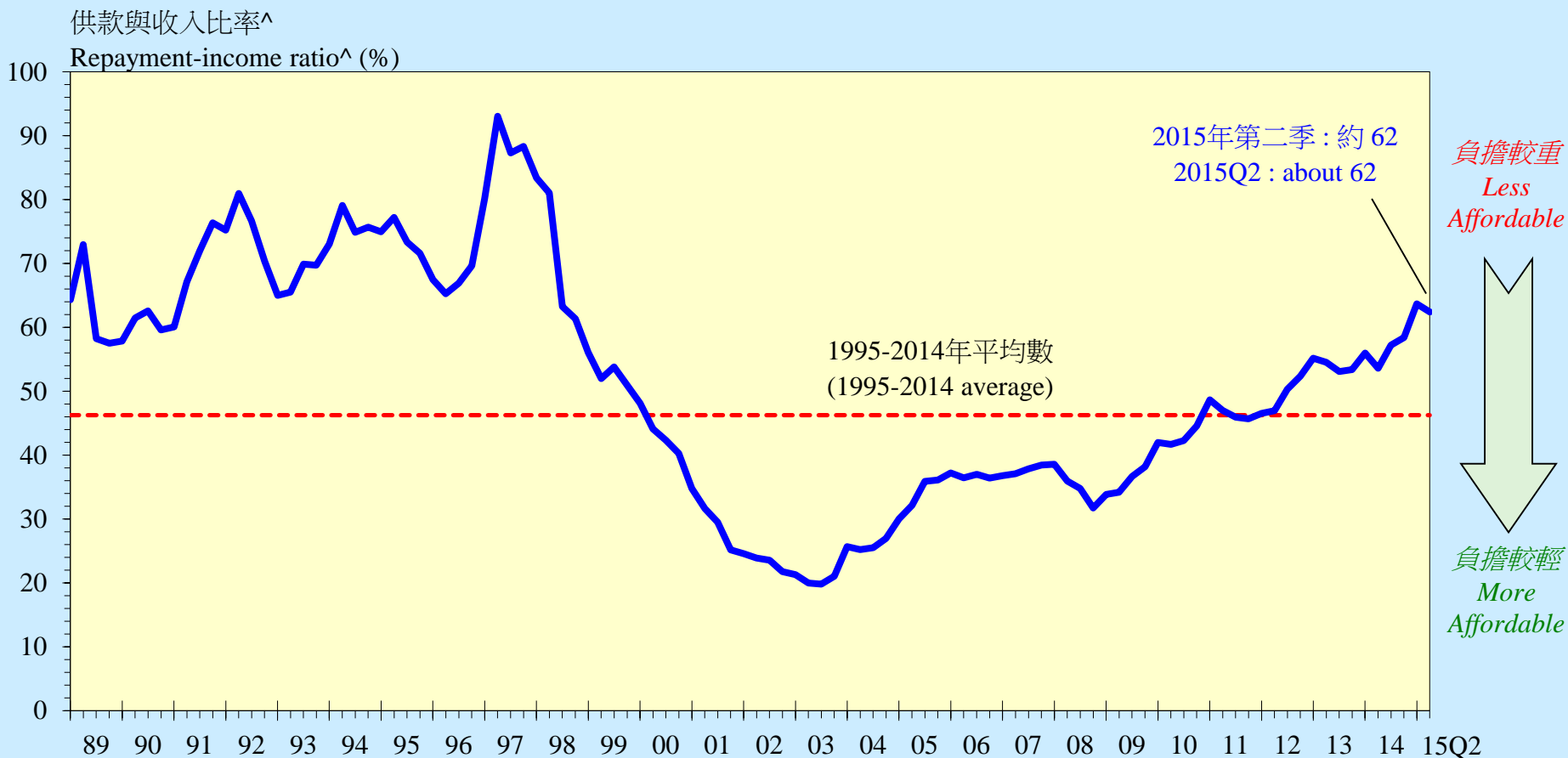
住宅售價及租金指數
Flat price and rental indices



住宅物業買賣合約總數
No. of S&P agreements



Mortgage payment to income ratio stayed elevated



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.

Outlook for the remaining 2015

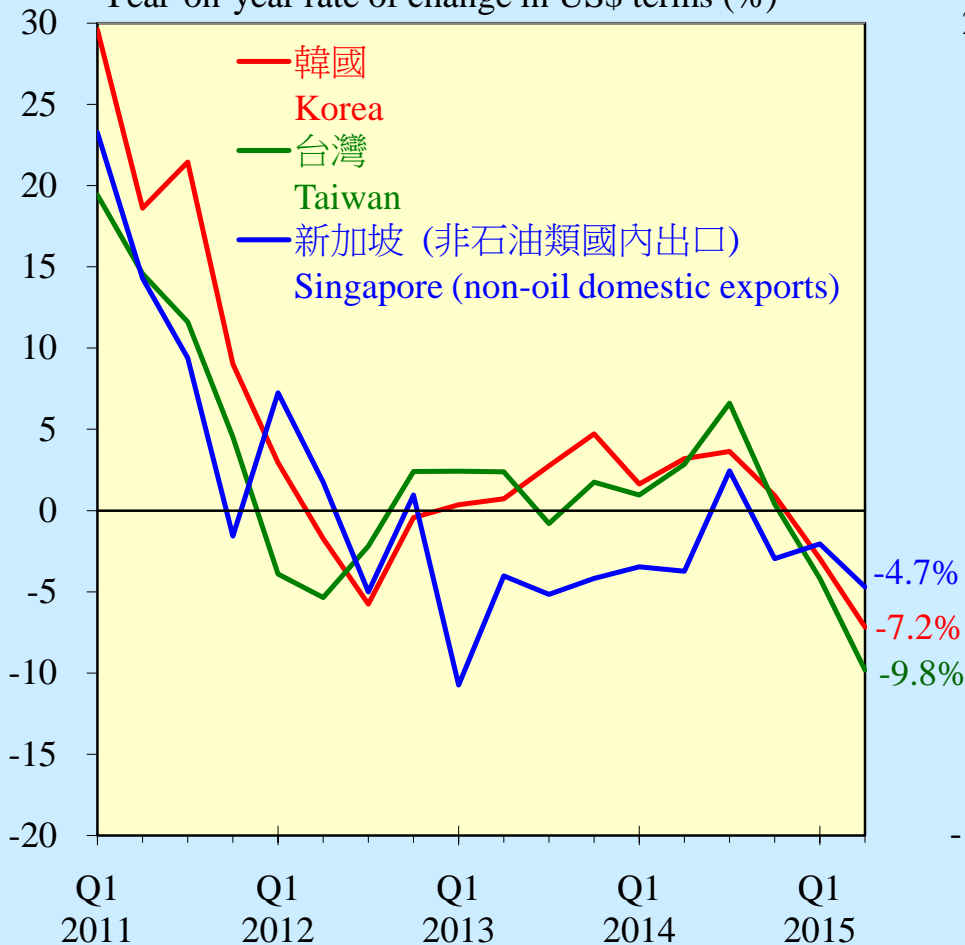
External environment was weaker than expected

	GDP growth in 2014	IMF forecasts on 2015 GDP growth		
		Apr	Jul	Change between Apr-Jul
World	3.4	3.5	3.3	-0.2
US	2.4	3.1	2.5	-0.6
Eurozone	0.8	1.5	1.5	(-)
Japan	-0.1	1.0	0.8	-0.2
Mainland China	7.4	6.8	6.8	(-)
Developing Asia	6.8	6.6	6.6	(-)
Emerging market and developing economies	4.6	4.3	4.2	-0.1

Production and trading activities in Asia likely to be subdued under the unsteady external environment

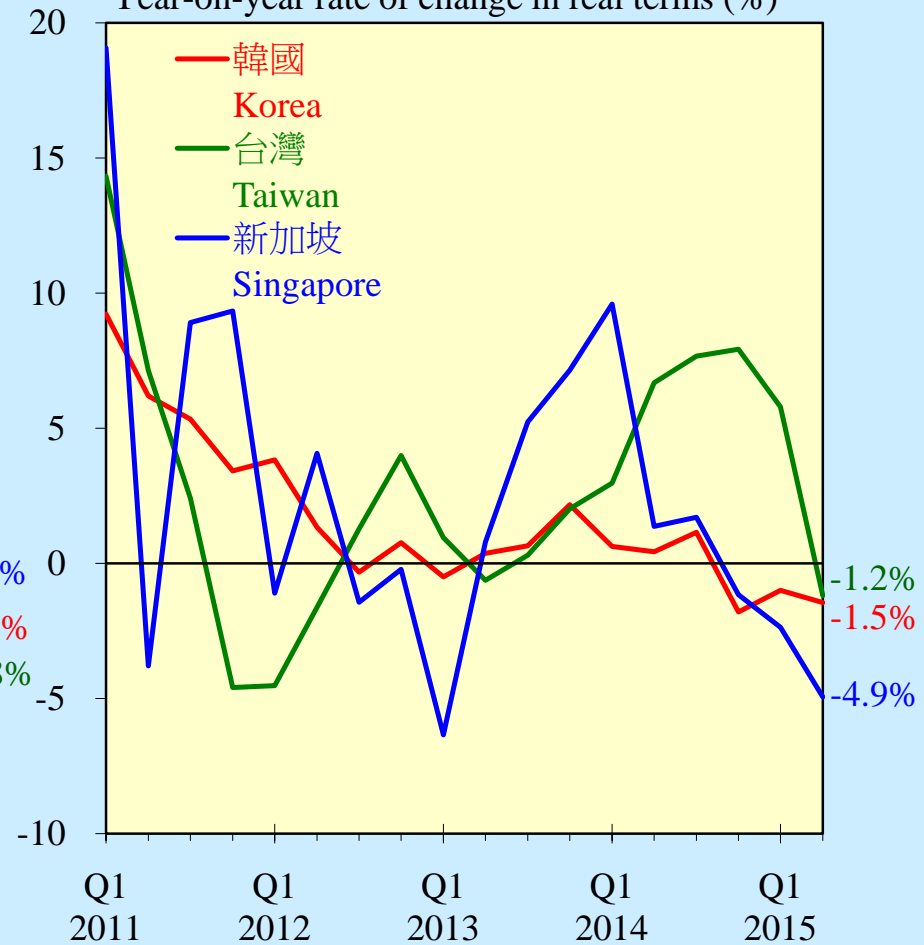
貨物出口
Exports of goods

以美金計價按年增減率(%)
Year-on-year rate of change in US\$ terms (%)

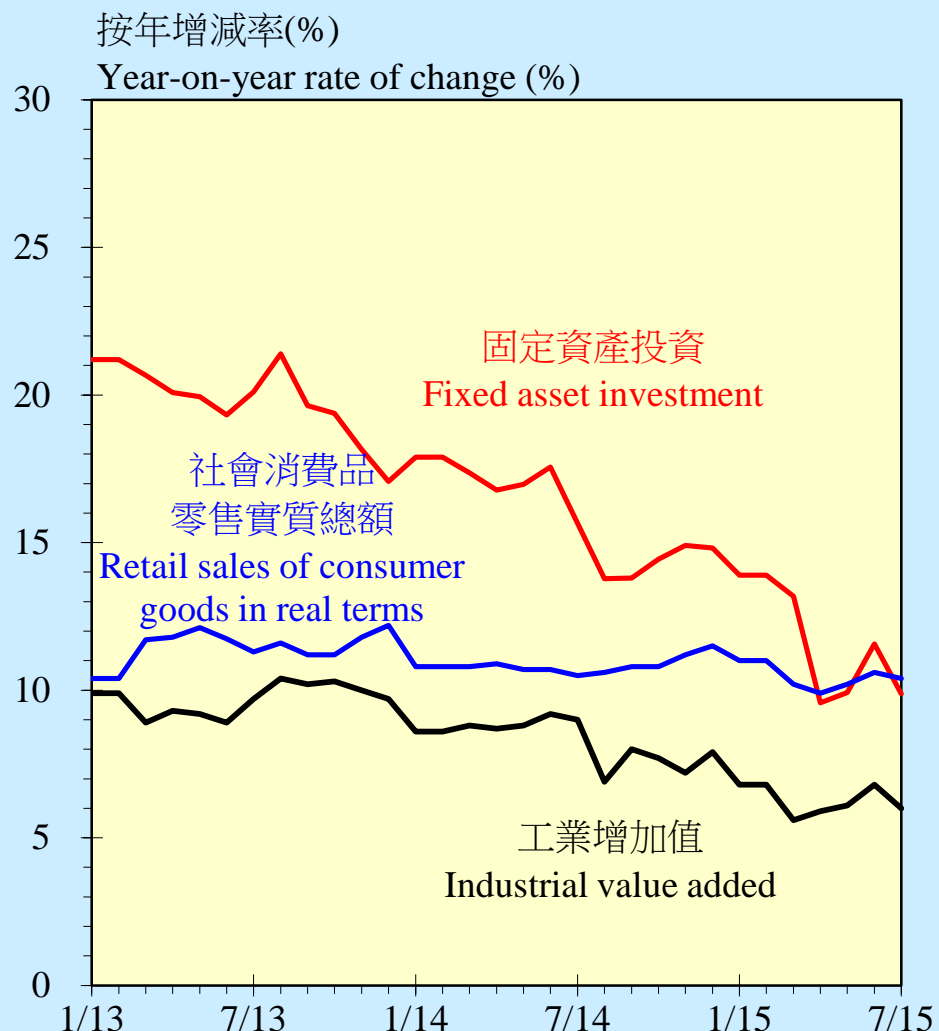
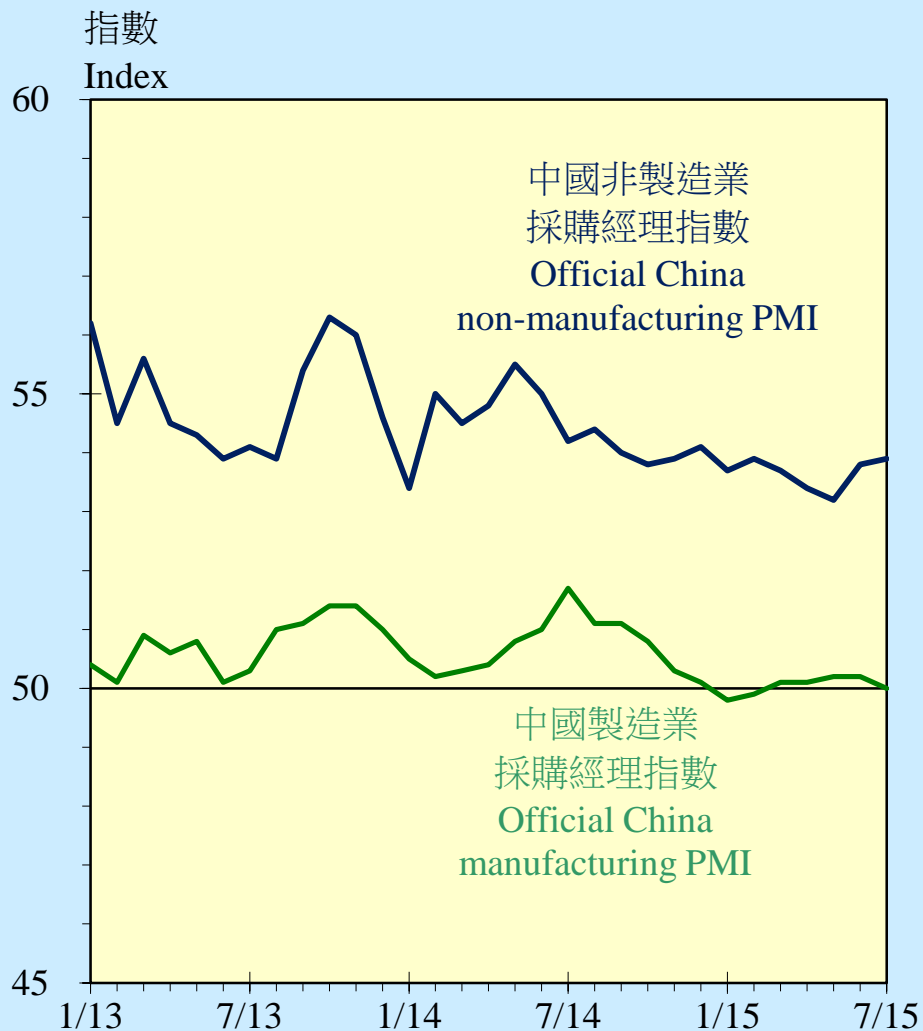


工業生產
Industrial production

按年實質增減率(%)
Year-on-year rate of change in real terms (%)



Mainland economic growth reached 7% in Q2, but still faces downward pressures



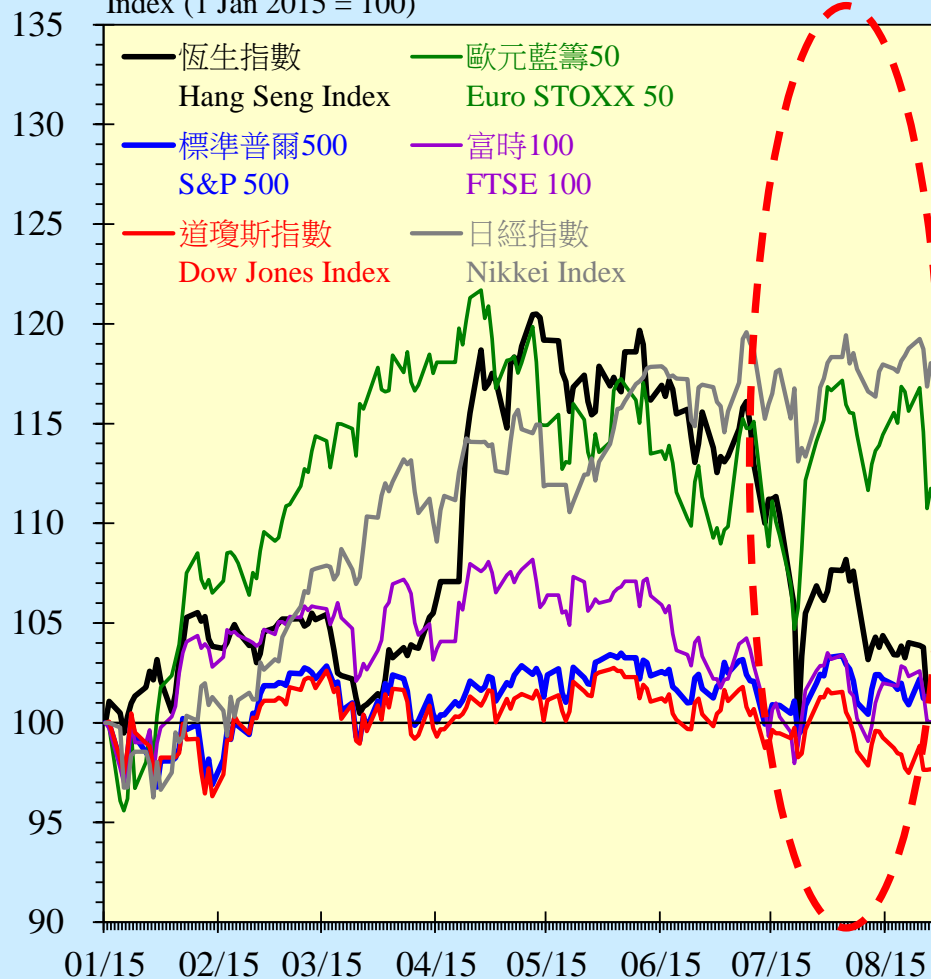
Increasing risks of sharp swings in global stock markets amid US' eventual interest rate lift-off

主要股票市場指數

Indices of major stock markets

指數 (二零一五年一月一日=100)

Index (1 Jan 2015 = 100)

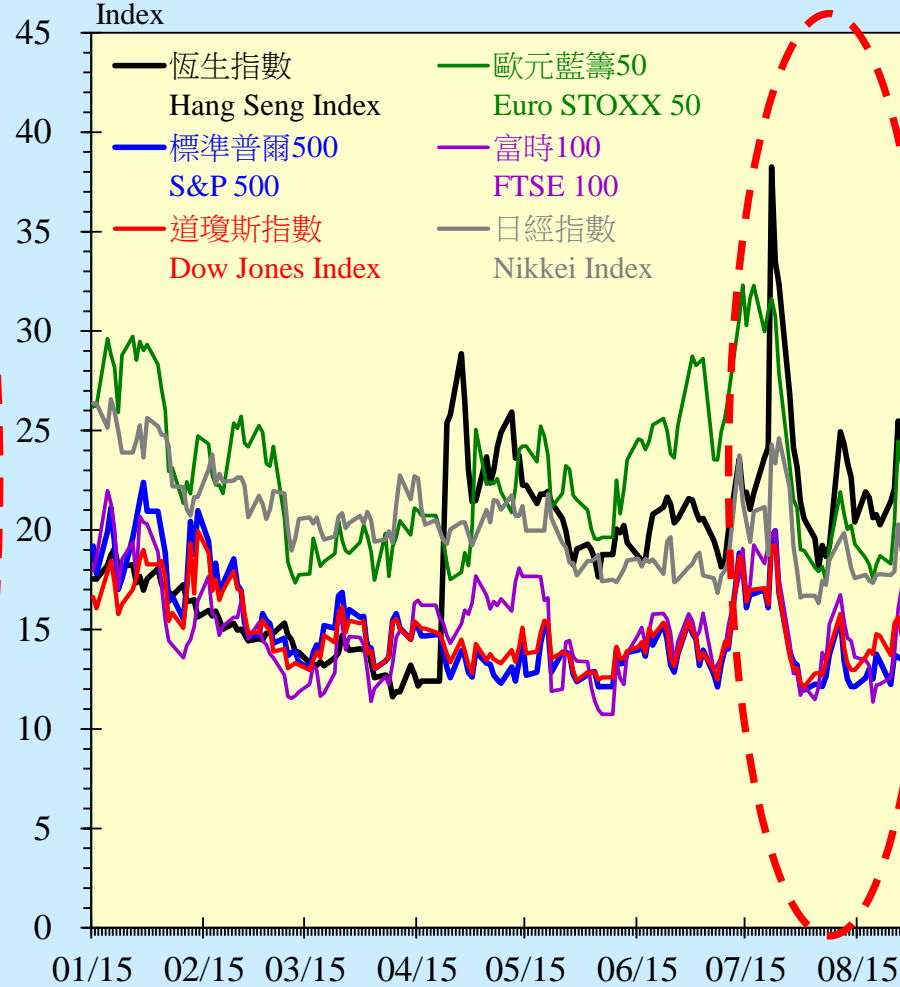


主要股票市場的波幅指數

Volatility indices of major stock markets

指數

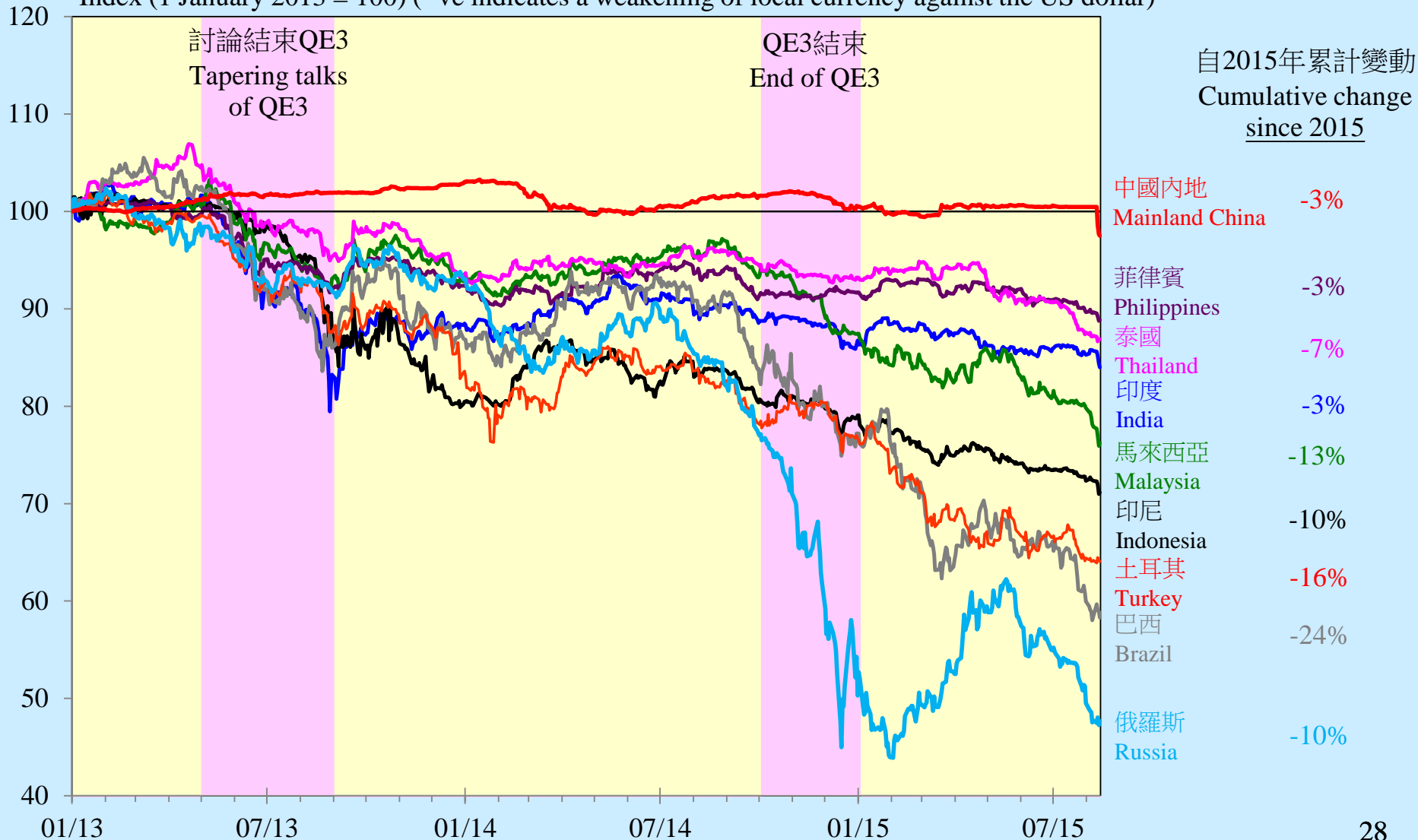
Index



Individual emerging markets saw visible weakening of their currencies

指數 (二零一三年一月一日 = 100) (下跌指當地貨幣兌美元轉弱)

Index (1 January 2013 = 100) (-ve indicates a weakening of local currency against the US dollar)



Overall business outlook generally positive, though some individual sectors stayed cautious

Business expectation by sector (net balance*)

	15 Q1	15 Q2	15Q3
Import/export trade and wholesale	-12	-15	-3
Retail	+13	-18	-2
Accommodation and food services	+11	-9	0
Transportation, storage and courier services	+3	+10	+17
Information and telecommunications	+21	+20	+14
Professional and business services	0	-11	0
Financing and insurance	+13	+19	+18
All sectors surveyed	+3	+1	+5

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.

Hiring sentiment remained positive

	Hiring expectation by sector (net balance*)		
	<u>15 Q1</u>	<u>15 Q2</u>	<u>15Q3</u>
Import/export trade and wholesale	-1	-1	+2
Retail	+16	-2	+5
Accommodation and food services	+9	+9	+14
Transportation, storage and courier services	+9	+17	+14
Information and telecommunications	+20	+35	+16
Professional and business services	+4	-6	+5
Financing and insurance	+13	+11	+5

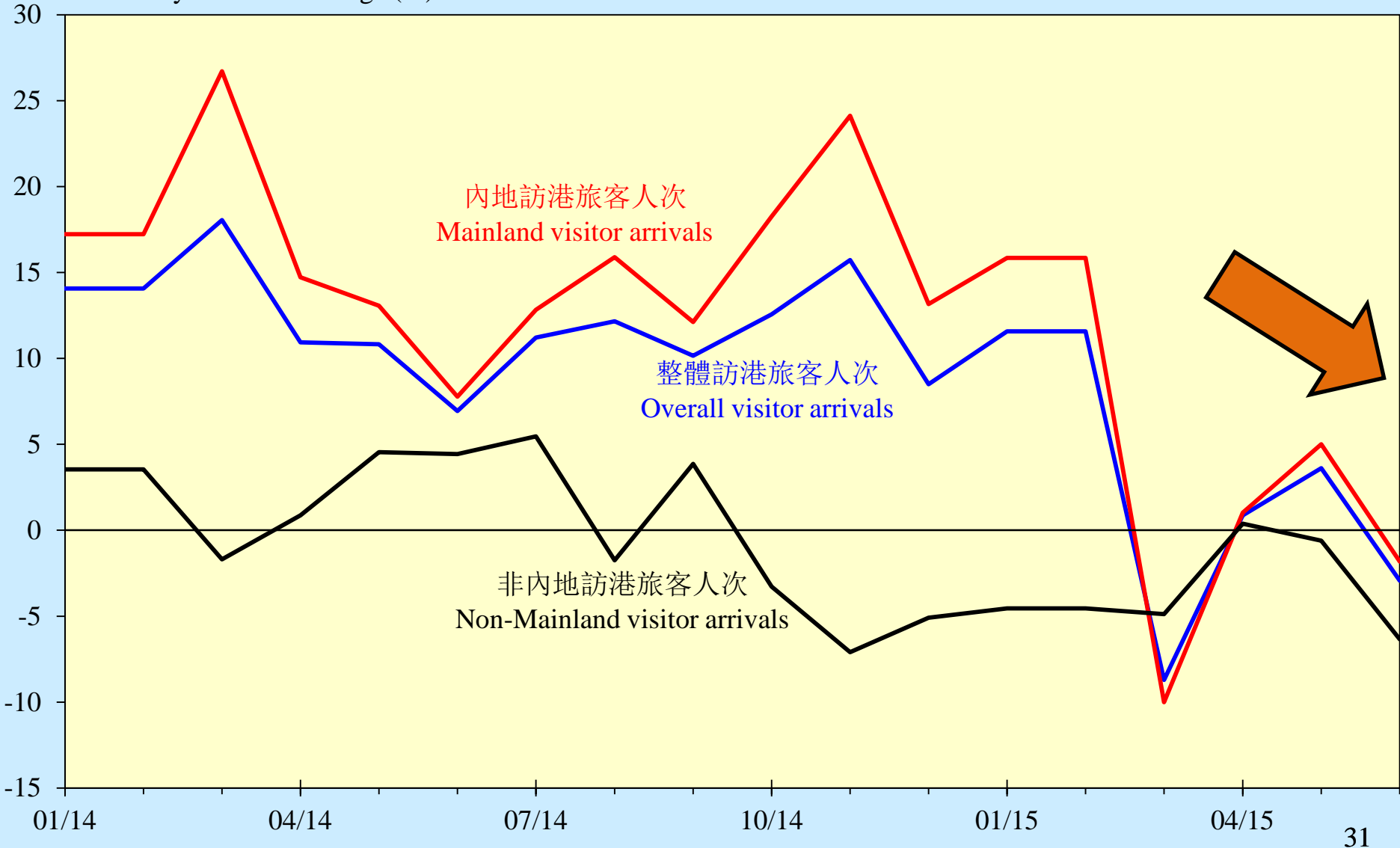
註：* 淨差額展現了就業人數預期較前一季的變動方向。它是填報「較佳」的機構單位百分比與填報「較差」的機構單位百分比的差距。正數指可能向上趨升，而負數則為可能跌勢。

Note: * Net balance indicates the direction of expected change in number of persons engaged 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.

Yet, the downtrend in inbound tourism warrants concern

按年增減率 (%)

Year-on-year rate of change (%)

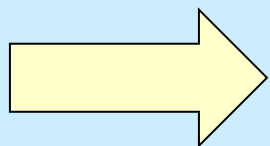


Outlook for 2015

Near-term export performance likely to remain subdued

Domestic demand expected to be the key growth driver:

- ◆ Local consumption supported by steady labour market with favourable job and income conditions
- ◆ Ongoing infrastructure works
- ◆ Stimulus effect from Budget initiatives



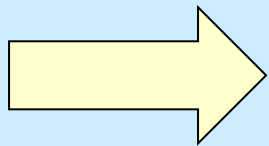
2015 GDP growth forecast: 2-3%

Inflation outlook

Imported inflation tame

- Soft international commodity prices
- Low inflation in major import sources

Domestic cost pressures in check



Annual underlying inflation rate revised down from 2.7% to 2.6%

Sources of uncertainties

- ◆ US interest rate lift-off inevitably heightening volatility in global financial markets; ensuing impact on asset markets needs watch-over
- ◆ Shocks inflicted by sudden capital outflows on emerging market economies
- ◆ Fragile recovery of eurozone and Japan; world economic growth lacking support
- ◆ Geopolitical risks in various regions remain notable
- ◆ Downtrend in inbound tourism more entrenched

Latest economic forecasts for 2015 as a whole

**Forecasts as released
on 15 May**

Latest forecasts

Real GDP growth

1-3%

2-3%

Underlying inflation

2.7%

2.6%

Headline inflation

3.2%

3.1%



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