



# Hong Kong SAR Government

## First Quarter Economic Report 2016 & Updated economic forecasts for 2016

13 May 2016

# Highlights of the latest economic situation

- Hong Kong economy slowed further in Q1
- External environment deteriorated further, leading to a deeper setback in exports of goods and services
- Increased downside risks to the global economy, coupled with fluctuations in asset markets, affected local economic sentiment
- Domestic sector also lost momentum. But labour market was still broadly stable, and inflation stayed moderate
- Latest GDP growth forecast for 2016 unchanged at 1-2%

# **Economic performance in Q1 2016**

# Hong Kong economy slowed further in Q1

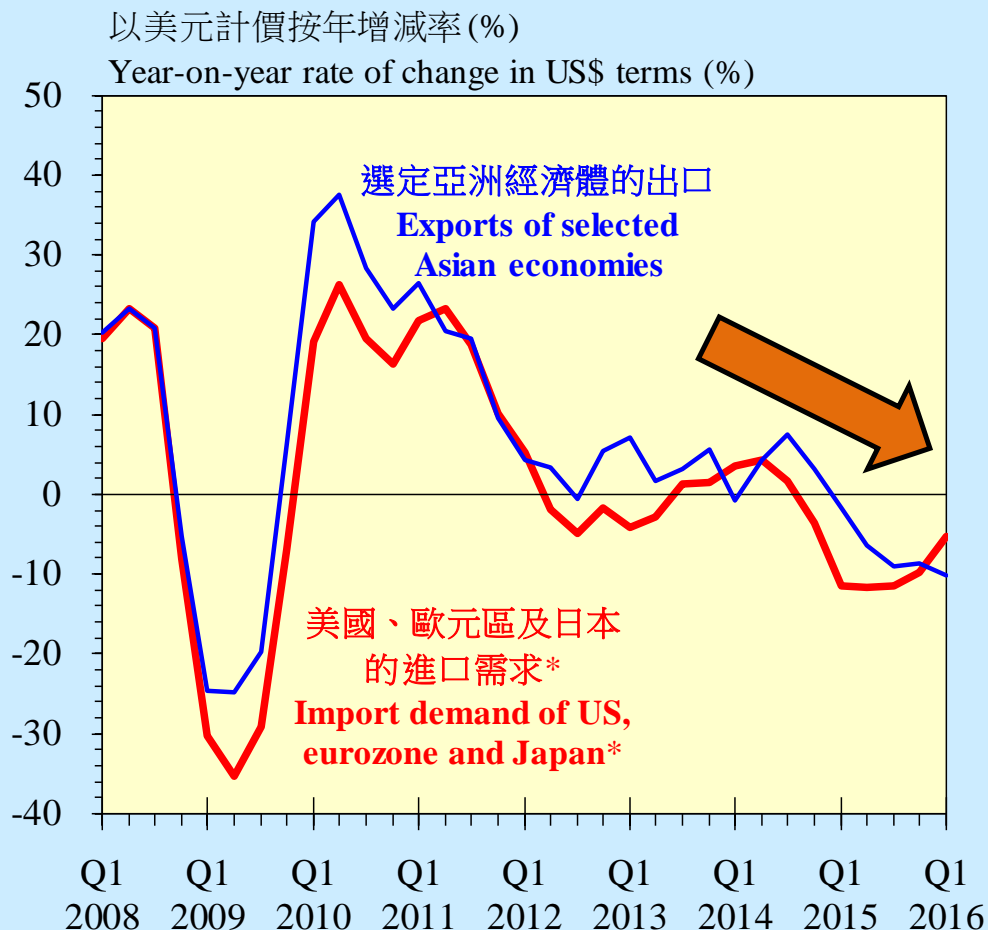
實質增減率 (%)

Rate of change in real terms (%)



# External sector

# Asian exports continued to fall amid persistently weak global demand conditions



## Export performance of selected Asian economies

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

	<u>2015</u>			<u>2016</u>
	<u>全年</u> <u>Annual</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Mainland	-2.9	-6.4	-5.2	-9.6
Taiwan	-10.9	-14.0	-13.9	-12.1
Korea	-8.0	-9.5	-12.0	-13.3
Singapore <sup>^</sup>	-8.0	-12.0	-11.3	-12.0
Malaysia	-14.6	-16.9	-15.2	-12.8
Indonesia	-14.6	-16.2	-18.8	-14.0

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。

Notes: Selected Asian economies include Mainland China, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand.

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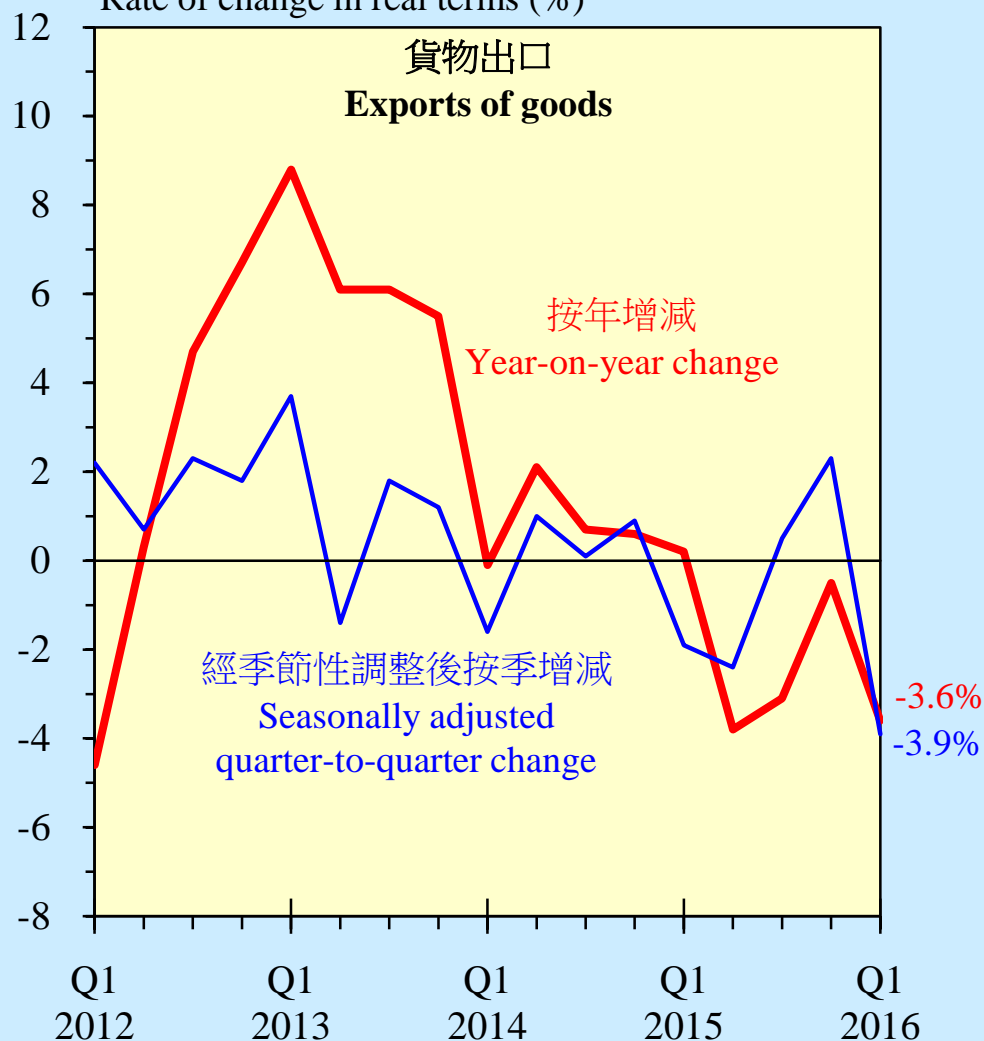
Note: (^) Non-oil domestic exports.



# As part of a region-wide phenomenon, Hong Kong's exports of goods worsened further in Q1

實質增減率 (%)

Rate of change in real terms (%)

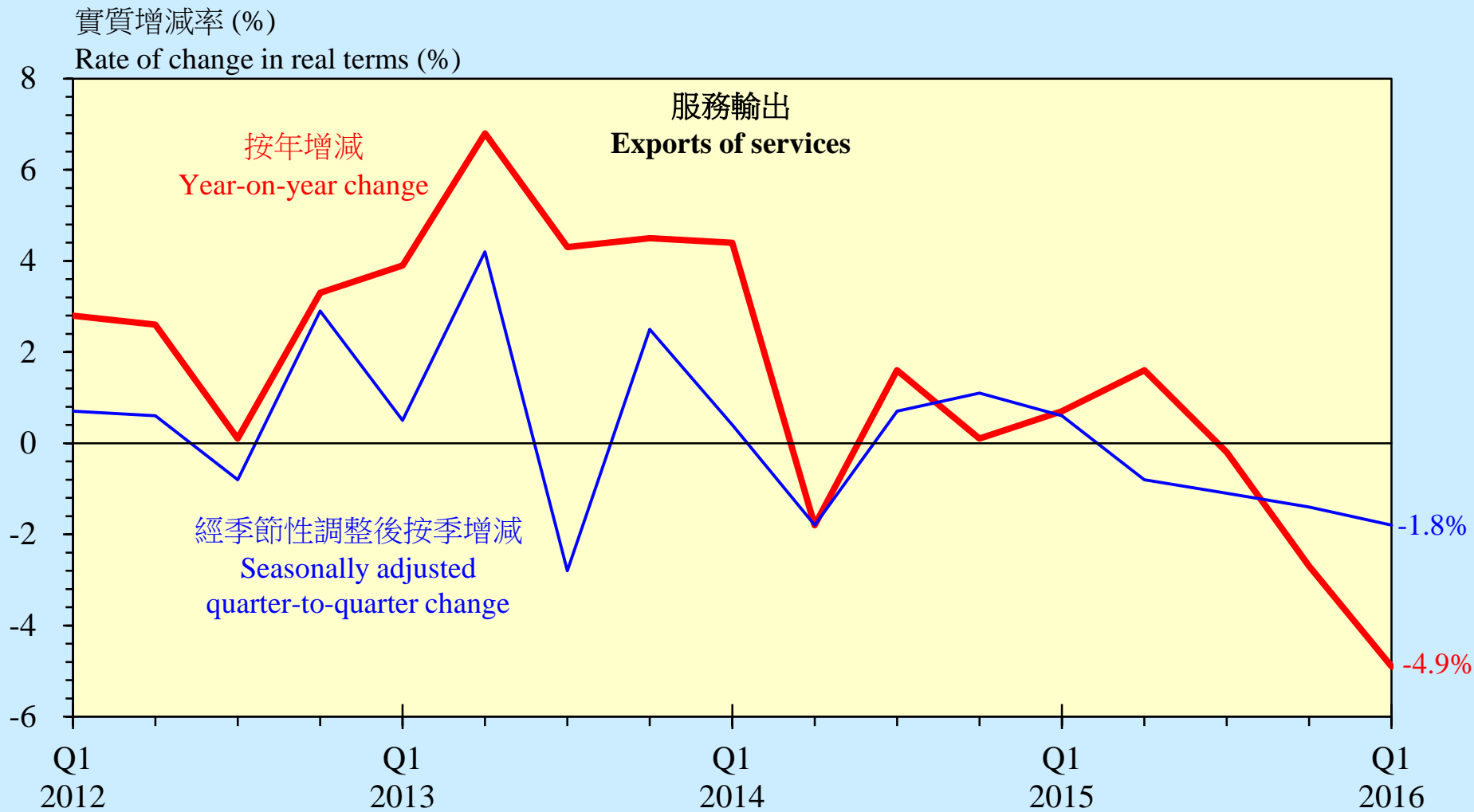


## Total exports of goods by market

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

	<u>2015</u> 全年 <u>Annual</u>	<u>Q3</u>	<u>Q4</u>	<u>2016</u> <u>Q1</u>
Mainland	-2.0	-3.5	0.6	-5.6
U.S.	1.0	-1.4	-0.6	-4.8
E.U.	-4.1	-6.0	-0.2	-2.6
Japan	-3.6	-1.7	-2.8	-3.3
Taiwan	-15.0	-23.5	-2.1	-2.9
Korea	-13.4	-19.1	-14.2	-14.0
Singapore	-4.3	-8.7	-4.9	-0.4

# Widened decline in services exports amid further drag from inbound tourism





# All major groups of service exports fell in Q1

## Exports of services

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

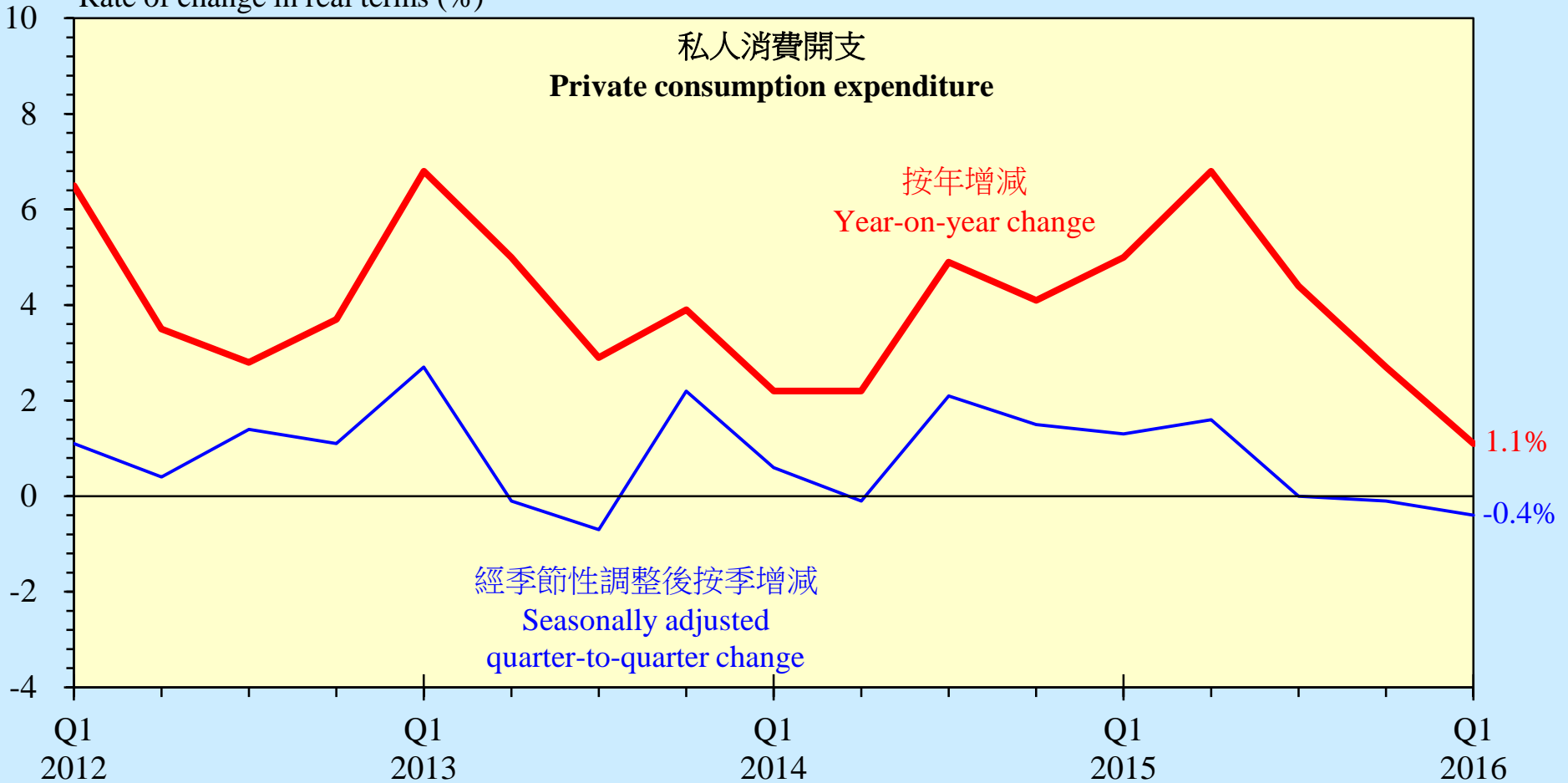
		<u>Travel services</u>	<u>Trade-related services</u>	<u>Transportation services</u>	<u>Financial and business services</u>
2015	Annual	-3.8	-1.8	0.2	5.6
	Q1	-3.3	-1.4	1.8	6.2
	Q2	-0.8	-2.3	0.8	11.1
	Q3	-3.8	-3.0	0.8	6.5
	Q4	-6.7	-0.5	-2.7	-1.0
2016	Q1	-13.3	-2.1	-1.4	-1.5

# **Domestic sector**

# Private consumption rose only mildly

實質增減率 (%)

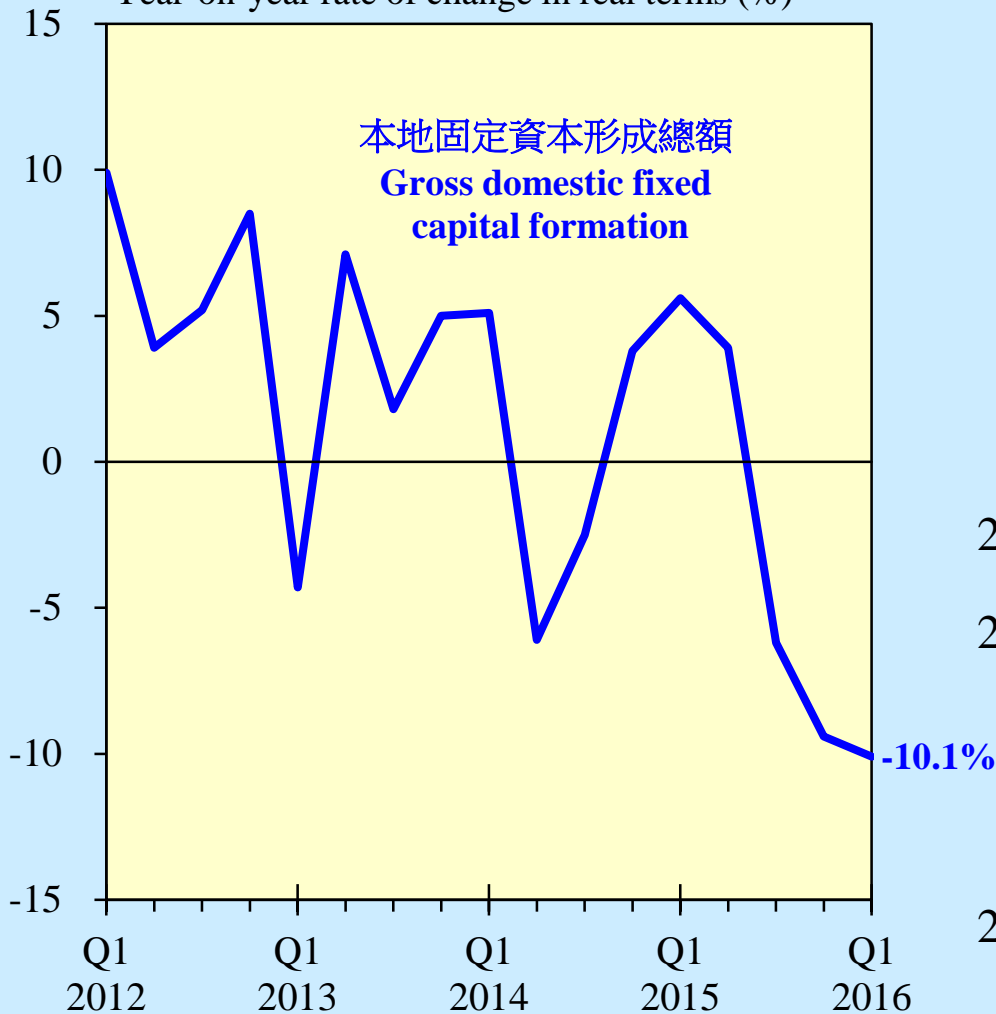
Rate of change in real terms (%)



# Investment spending further declined

按年實質增減率 (%)

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



## Overall investment spending

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

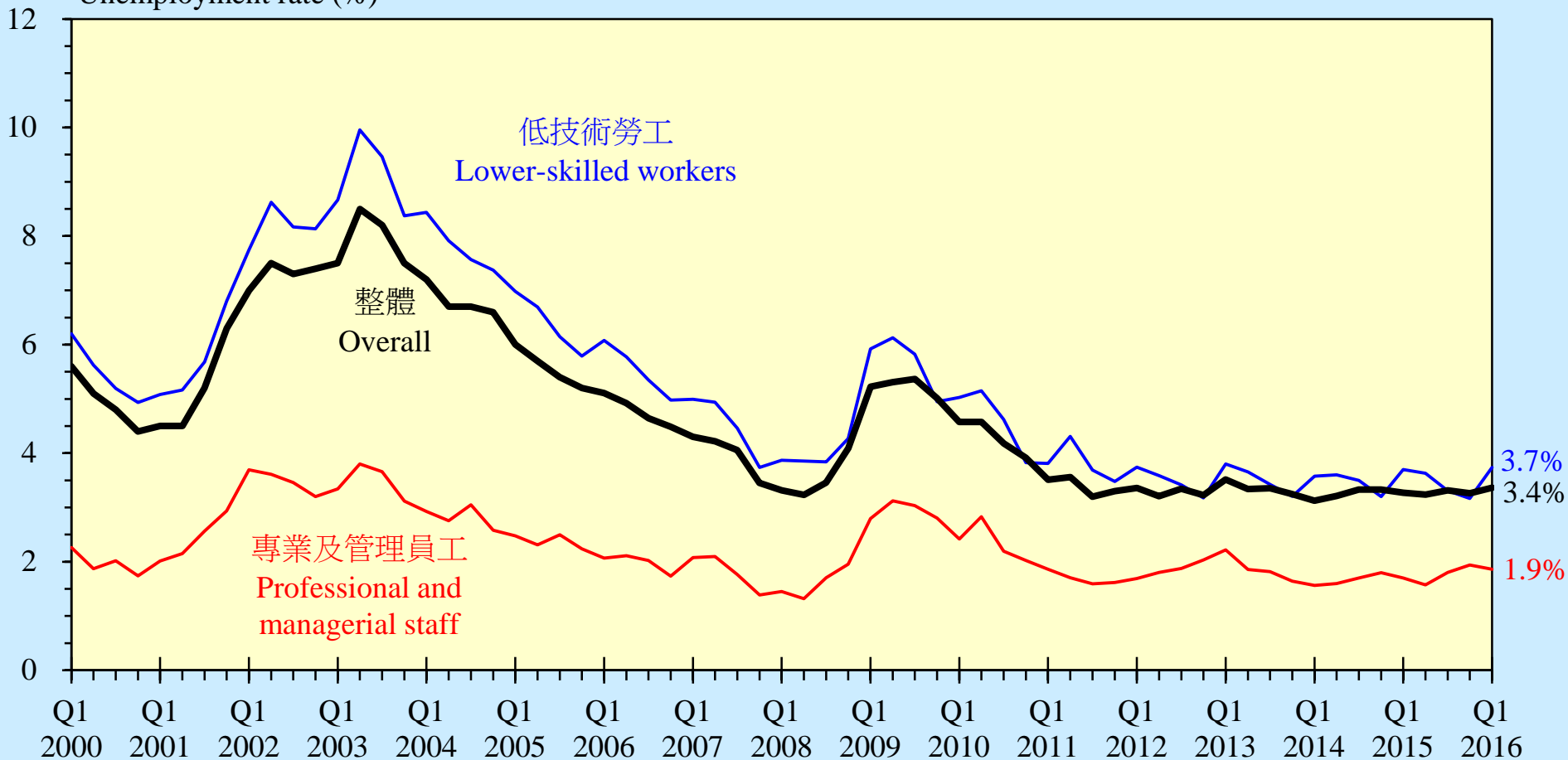
Year	Quarter	Machinery, equipment and intellectual property products	Building and construction
2014	Annual	-8.6	9.3
2015	Annual	-5.8	2.9
	Q3	-10.7	4.2
	Q4	-12.9	-0.9
2016	Q1	-11.9	-0.8

# Labour market

# Unemployment rate edged up in Q1

失業率 (%)

Unemployment rate (%)



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, though growth also slowed

	<u>Income*</u>	
	Year-on-year rate of change (%)	
	<u>Nominal growth</u>	<u>Real growth</u>
Index of payroll per person engaged (Q4 2015)	4.3	1.9
Average employment earnings of full-time employees (Q1 2016)	4.4	1.6
<i>Among those: with elementary occupations</i>	6.2	3.0

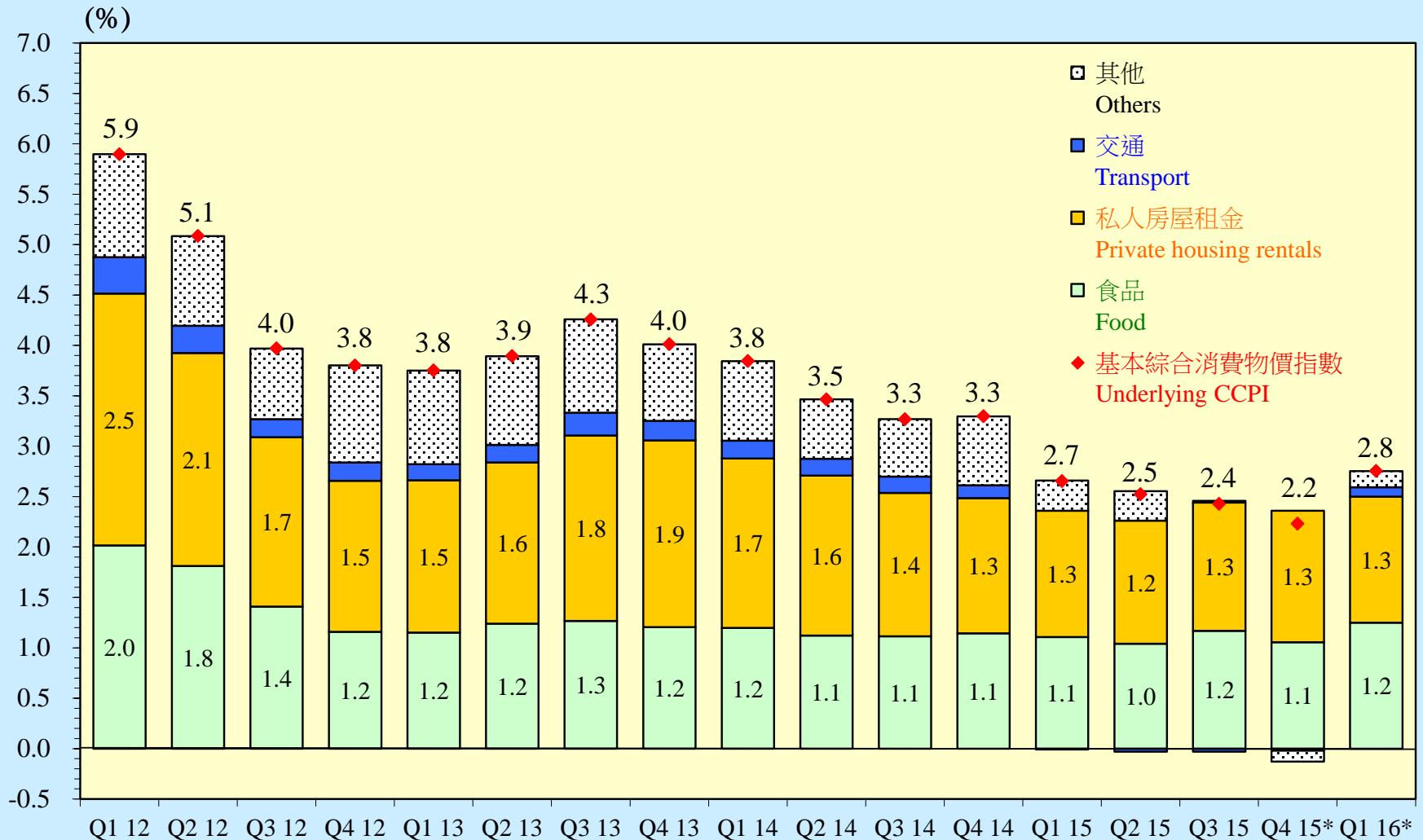
Note: (\*) Excluding foreign domestic helpers.



# Inflation

# Underlying inflation remained moderate

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



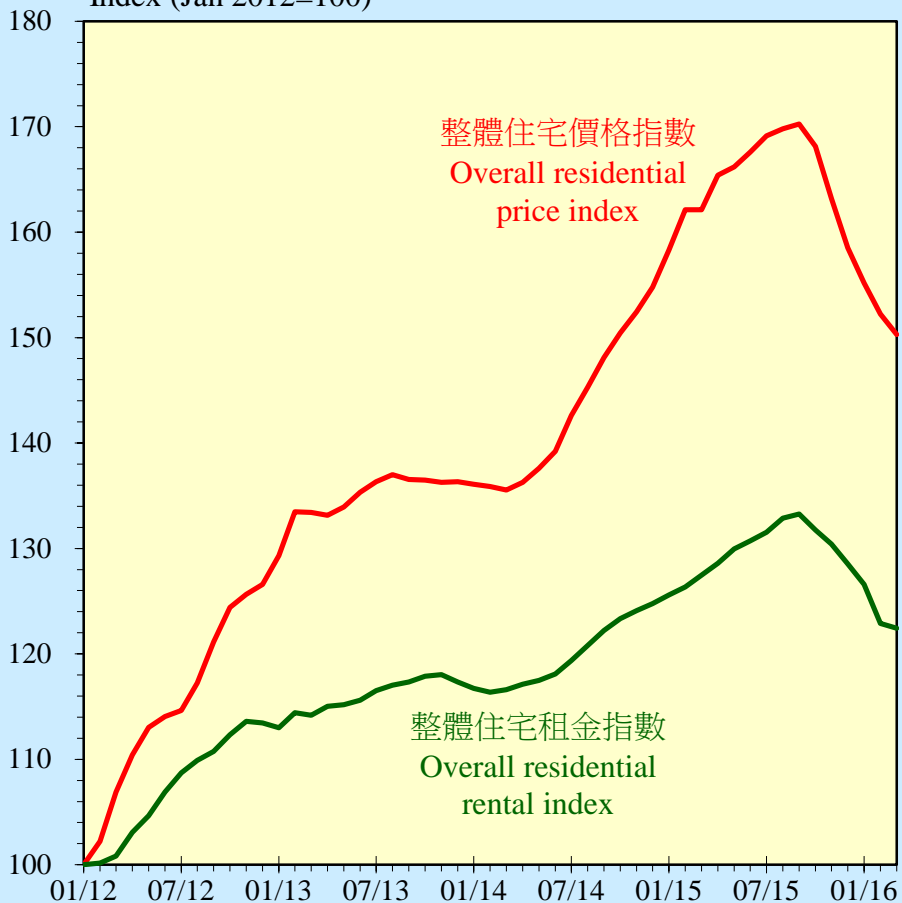
Note: (\*) By reference to the new 2014/15-based CPI series.

# Property market

# Housing market continued to consolidate

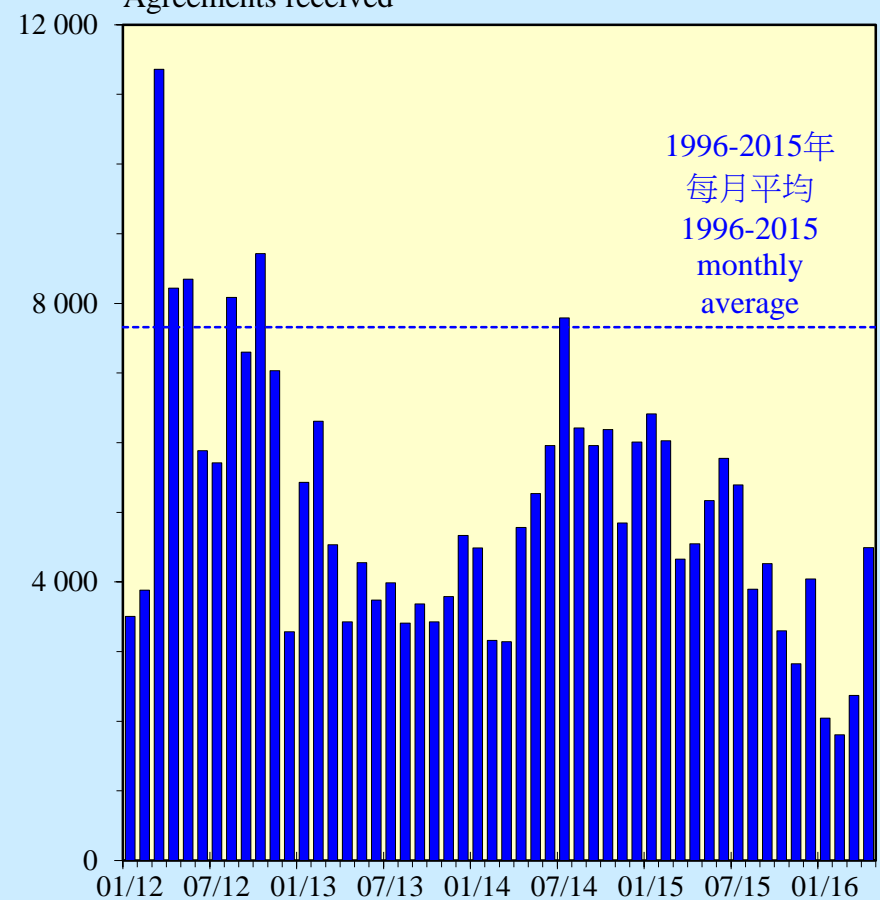
住宅售價  
Flat price

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

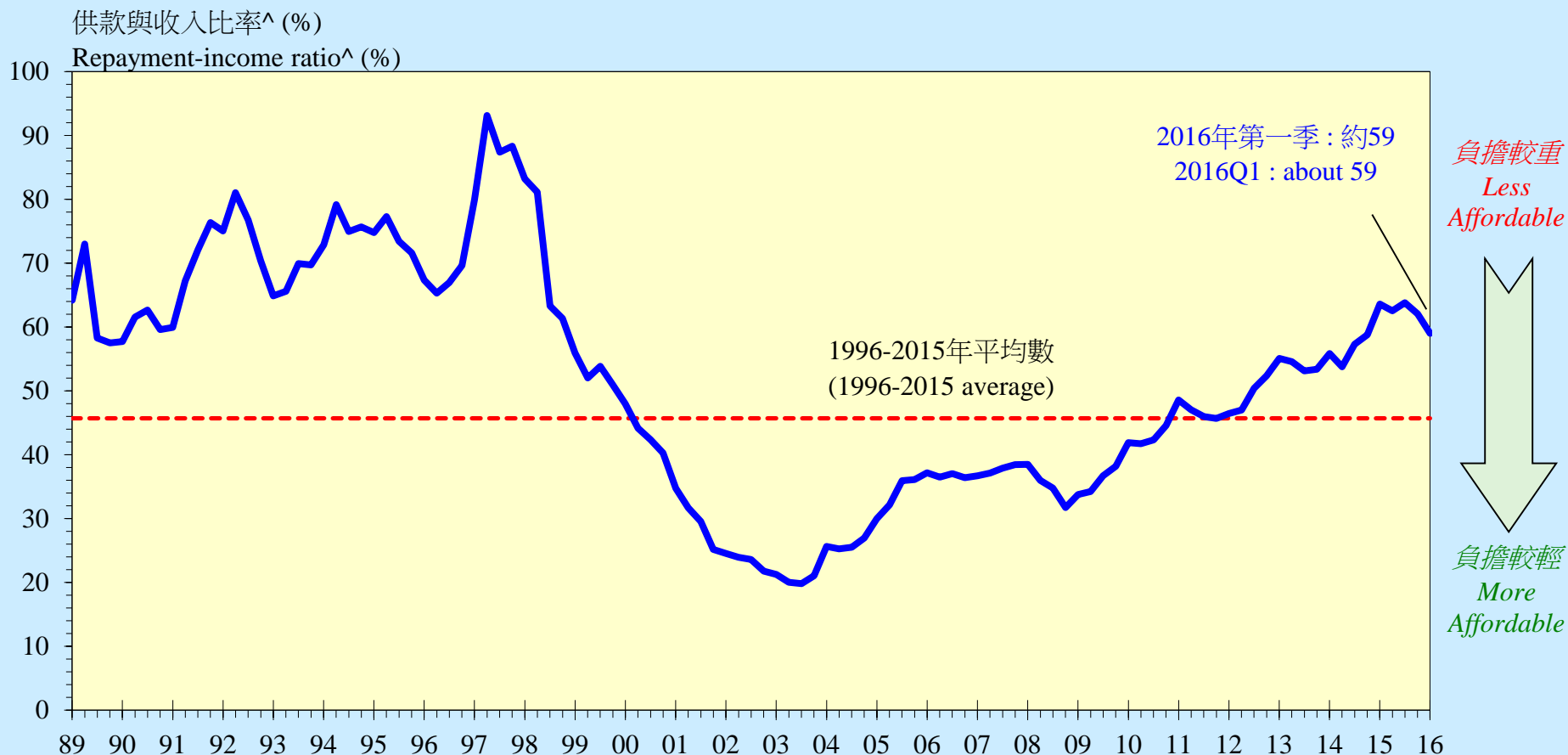


住宅物業買賣合約總數  
No. of S&P agreements

買賣合約數目  
Agreements received



# 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 mortgagors to their monthly income of newly approved mortgages.

# **Outlook for the remaining 2016**

# Global economic growth still slow and uneven

- ◆ **US:** Growth slowdown, sluggish production and trading sectors; uncertainty in timing of interest rate hikes
- ◆ **Eurozone:** Slow recovery; persisting deflation risks
- ◆ **Japan:** On the verge of recession; still constrained by structural problems
- ◆ **Emerging markets:** Growth slowdown of varying degrees amid continued weakness in exports and production activities



# IMF revised down its global growth forecasts

	GDP growth in 2015	IMF forecasts for 2016 GDP growth		Change between Jan-Apr
		2016 Jan	2016 Apr	
<b>World</b>	<b>3.1</b>	<b>3.4</b>	<b>3.2</b>	<b>-0.2</b>
U.S.	2.4	2.6	2.4	-0.2
Eurozone	1.6	1.7	1.5	-0.2
Japan	0.5	1.0	0.5	-0.5
Mainland China	6.9	6.3	6.5	0.2
Developing Asia	6.6	6.3	6.4	0.1
Emerging market and developing economies	4.0	4.3	4.1	-0.2

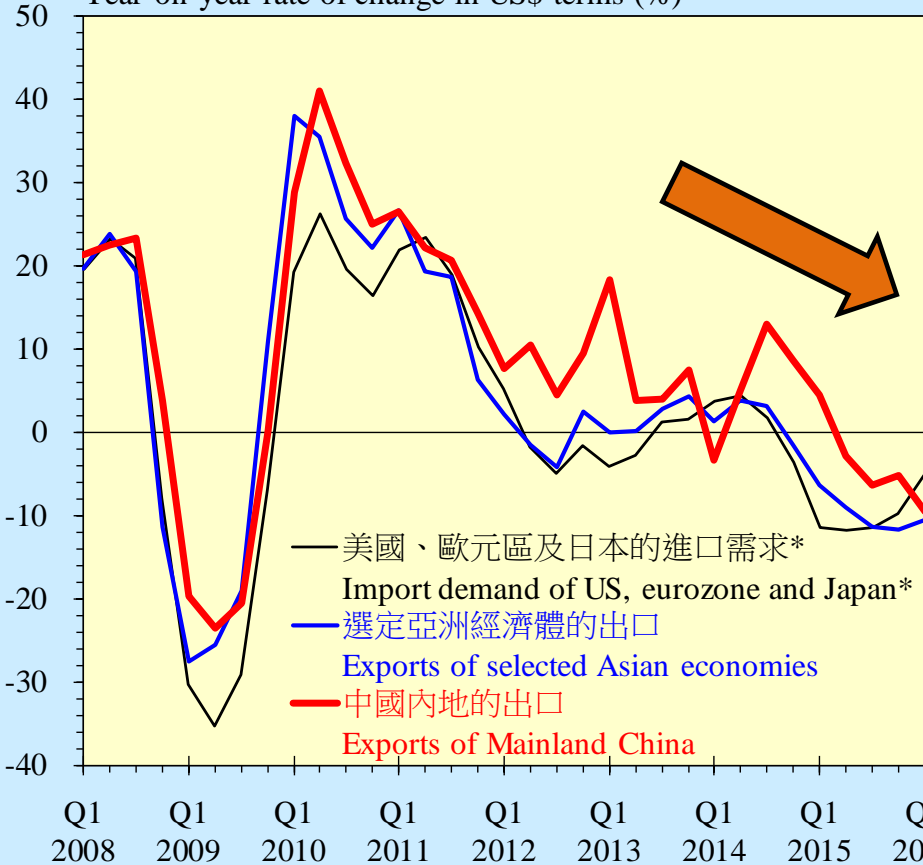
# Mainland economy saw steady growth in Q1

## Mainland exports also dampened by external environment

## Domestic demand still growing solidly

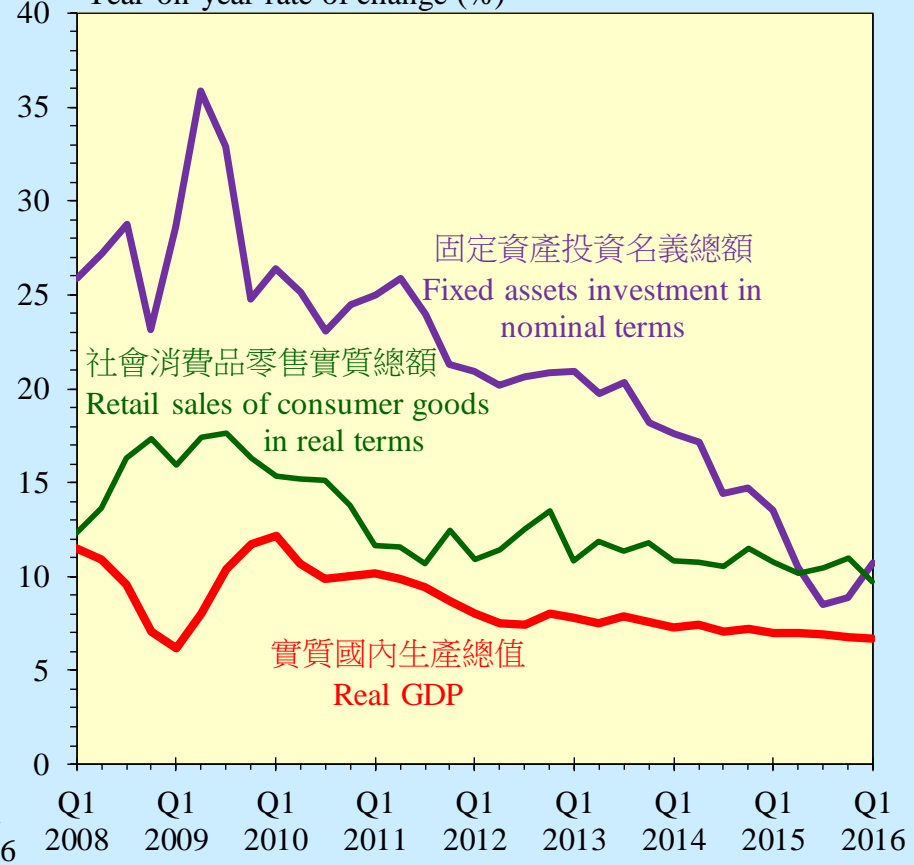
以美元計價按年增減率 (%)

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



按年增減率 (%)

Year-on-year rate of change (%)



註：選定亞洲經濟體包括香港、印度、印尼、韓國、馬來西亞、菲律賓、新加坡、台灣及泰國。  
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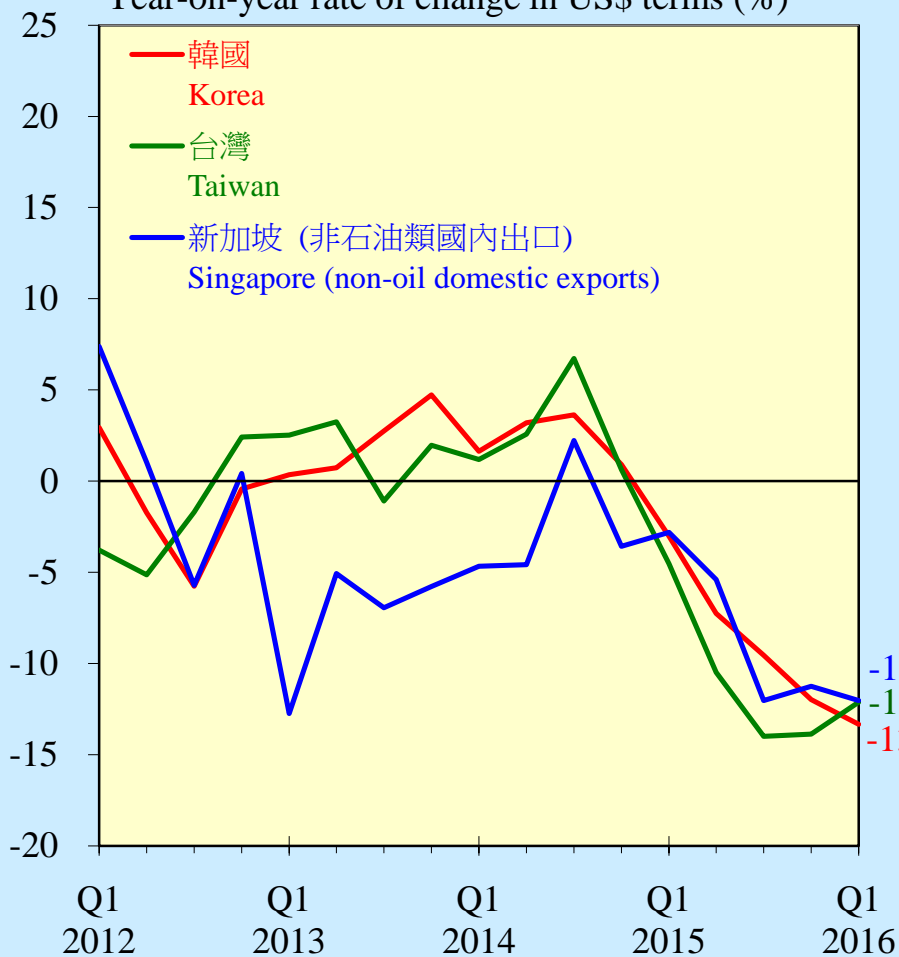
# Production and trading activities in Asia likely to remain unsteady under the weak global demand conditions

貨物出口

Exports of goods

以美元計價按年增減率(%)

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

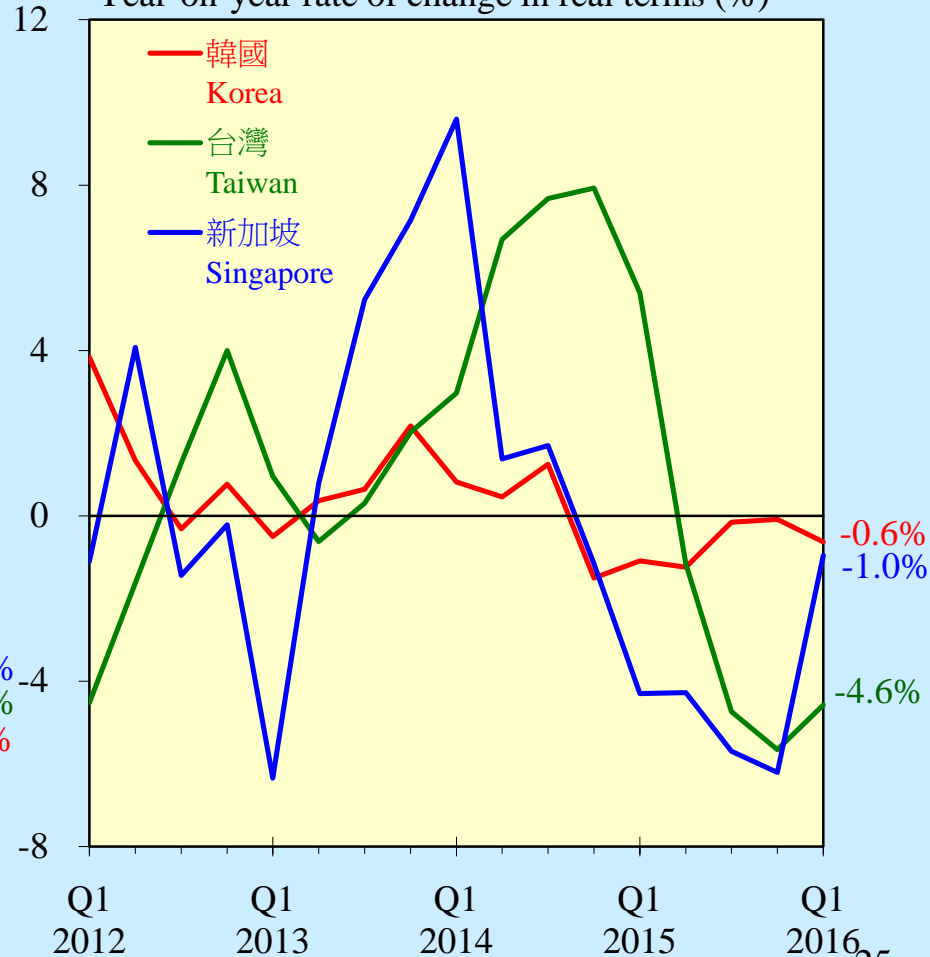


工業生產

Industrial production

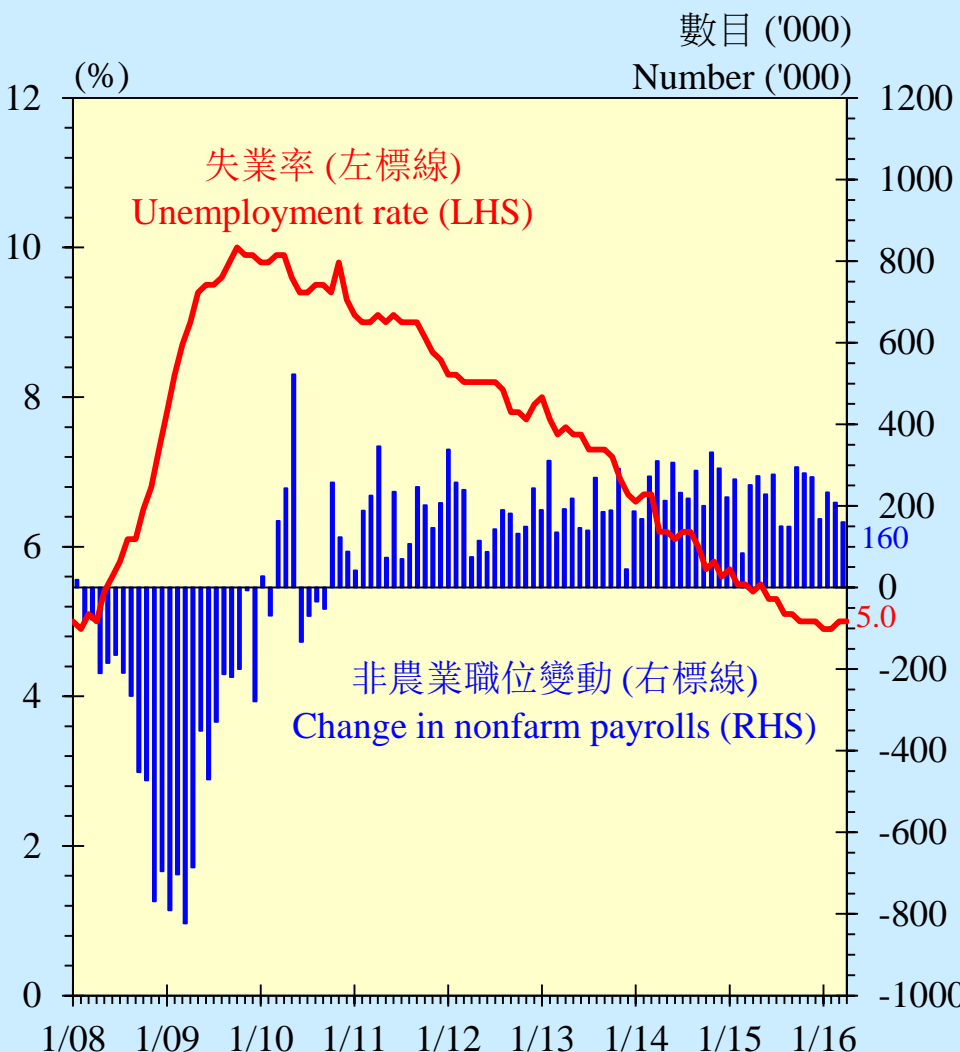
按年實質增減率(%)

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

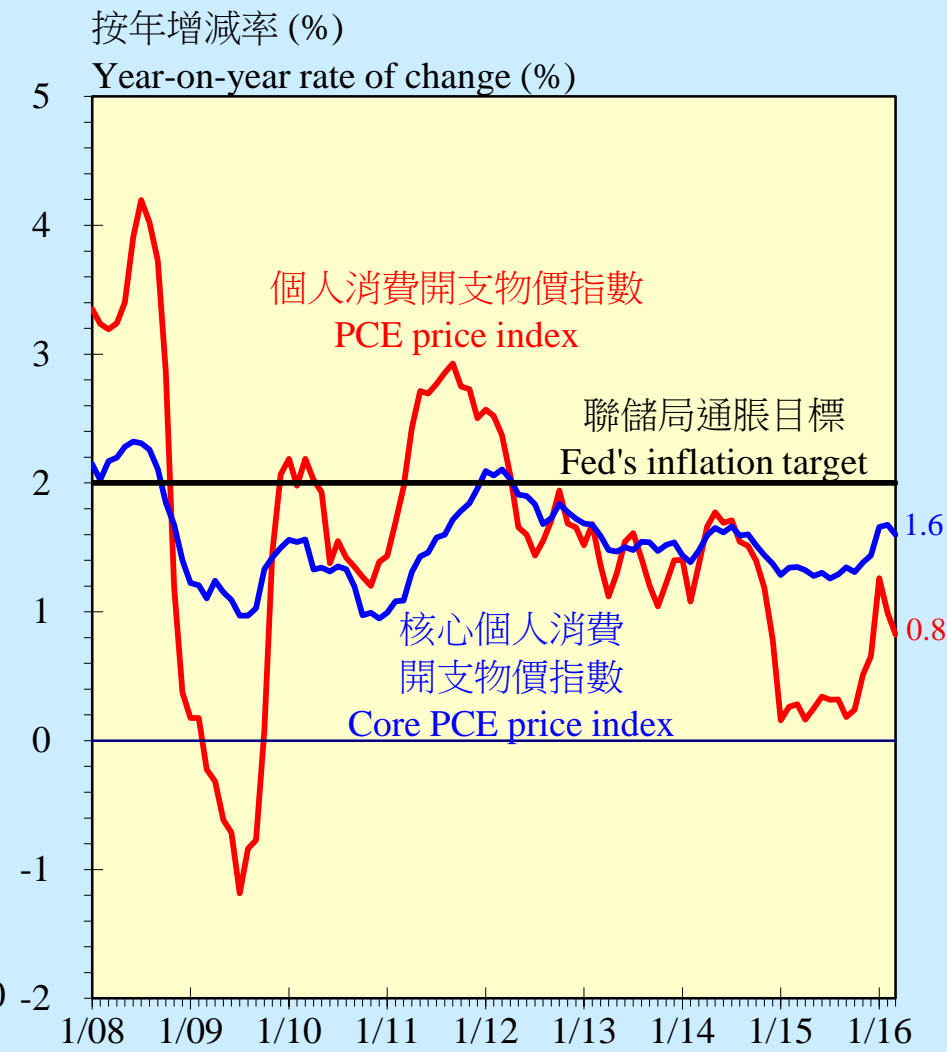


# Uncertainty about US interest rate hikes further complicated the global monetary environment

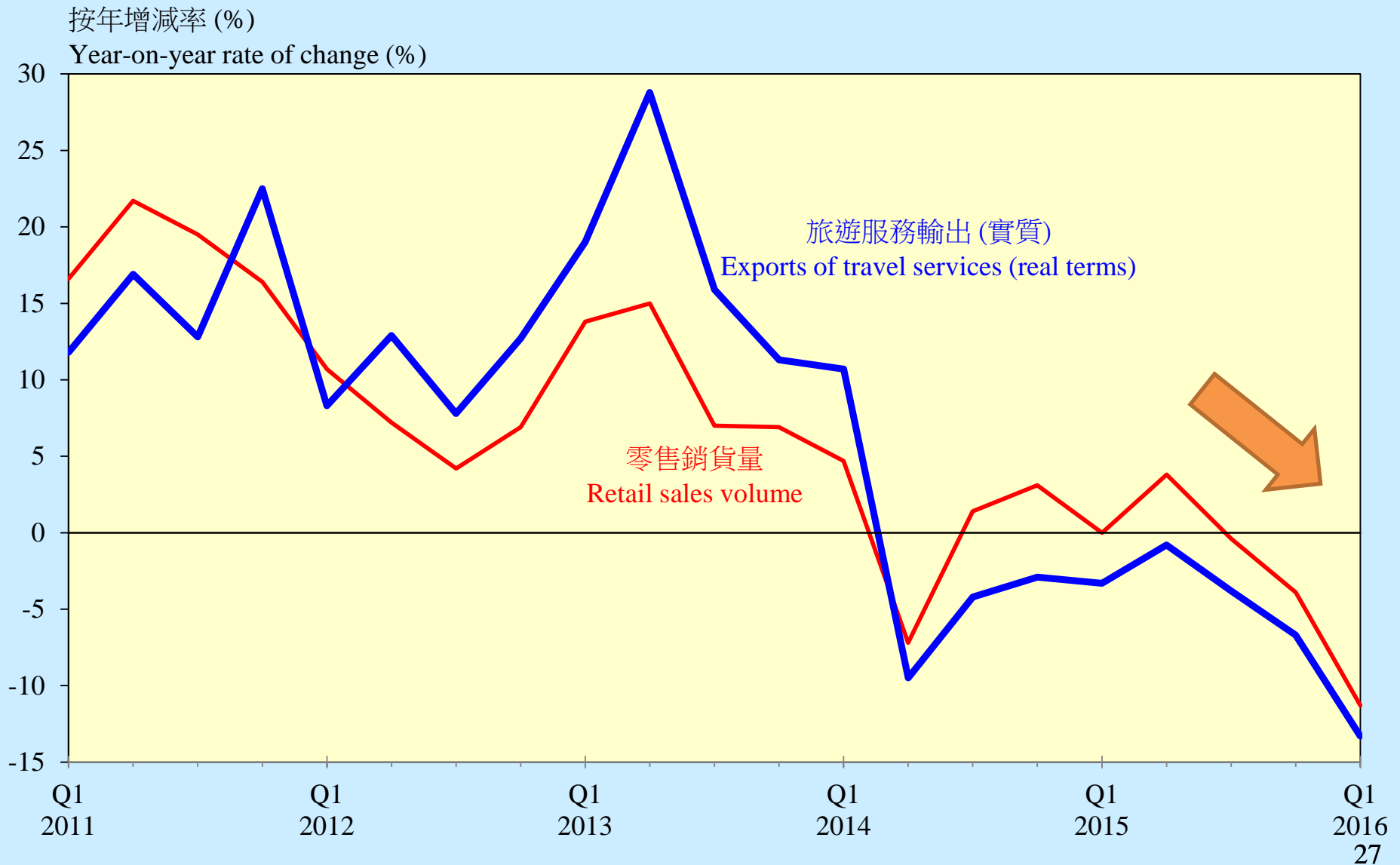
## Further improvements in the US labour market



## Inflation still below Fed's target



# Impacts of slowdown in inbound tourism and softening local demand on the economy warrant concern



# Large enterprises were cautious over business outlook

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

	15Q3	15Q4	16Q1	16Q2
Import/export trade and wholesale	-3	-10	-30	-8
Retail	-2	-15	-47	-40
Accommodation and food services	0	+8	-15	-17
Transportation, storage and courier services	+17	+13	+1	+8
Information and communications	+14	+11	+13	0
Professional and business services	0	-5	0	-11
Financing and insurance	+18	+6	+7	+9
<b>All sectors surveyed</b>	<b>+5</b>	<b>-1</b>	<b>-11</b>	<b>-4</b>

Note: (\*) Net balance indicates the direction of expected change in business situation versus the 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 in some sectors weakened

## Hiring expectations by sector (net balance\*)

	<u>15Q3</u>	<u>15Q4</u>	<u>16Q1</u>	<u>16Q2</u>
Import/export trade and wholesale	+2	-5	-3	-3
Retail	+5	-7	+9	-2
Accommodation and food services	+14	+11	+7	+12
Transportation, storage and courier services	+14	+19	+10	+11
Information and communications	+16	+7	+13	+12
Professional and business services	+5	+2	+5	-4
Financing and insurance	+5	+11	+7	+7

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



# Near-term economic outlook

## External sector likely to remain challenging

### Slow growth in domestic demand

- ◆ Uncertain global outlook may continue to affect local economic sentiment
- ◆ Yet, building and construction works, if sustained, should render some support to the local economy
- ◆ Rate of decline in visitor arrivals has narrowed recently
- ◆ Boost from the package of relief measures in 2016-17 Budget

### Inflation pressures likely to stay moderate

- ◆ Subdued inflation in major import sources
- ◆ Domestic cost pressures in check: receding rental cost pressures

# Downside risks that need close monitoring

- ◆ Slow global economic growth
- ◆ Risks of recurring global financial volatility amid uncertain monetary policy actions by major central banks
- ◆ Geopolitical risks in various regions
- ◆ Local asset market fluctuations
- ◆ Developments in inbound tourism, retail business and the labour market going forward

# Latest economic forecasts for 2016 as a whole

	Forecasts as released on 24 February	Latest forecasts
<b>Real GDP growth</b>	<b>1-2%</b>	<b>1-2%</b>
<b>Underlying inflation</b>	<b>2%</b>	<b>2%</b>
<b>Headline inflation</b>	<b>2.3%</b>	<b>2.3%</b>



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