



# Hong Kong SAR Government

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

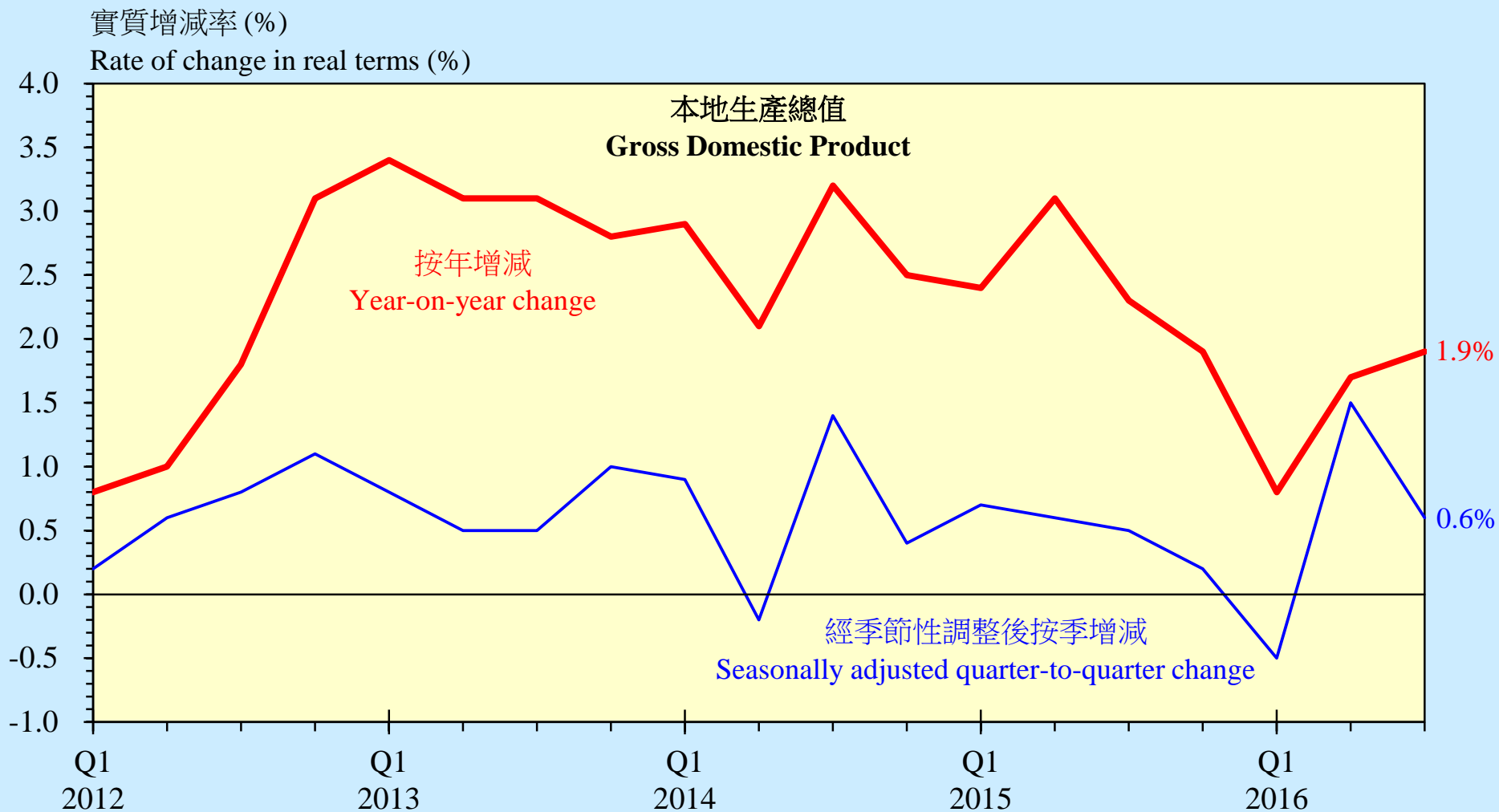
11 November 2016

# Highlights of the latest economic situation

- Hong Kong economy picked up slightly further to grow by 1.9% year-on-year in real terms in Q3
- External trade saw relative improvement amid subsiding headwinds
- Domestic demand also strengthened visibly
- Labour market remained in a state of full employment; inflation eased further
- Latest real GDP growth forecast for 2016 at 1.5%; underlying inflation forecast at 2.3%

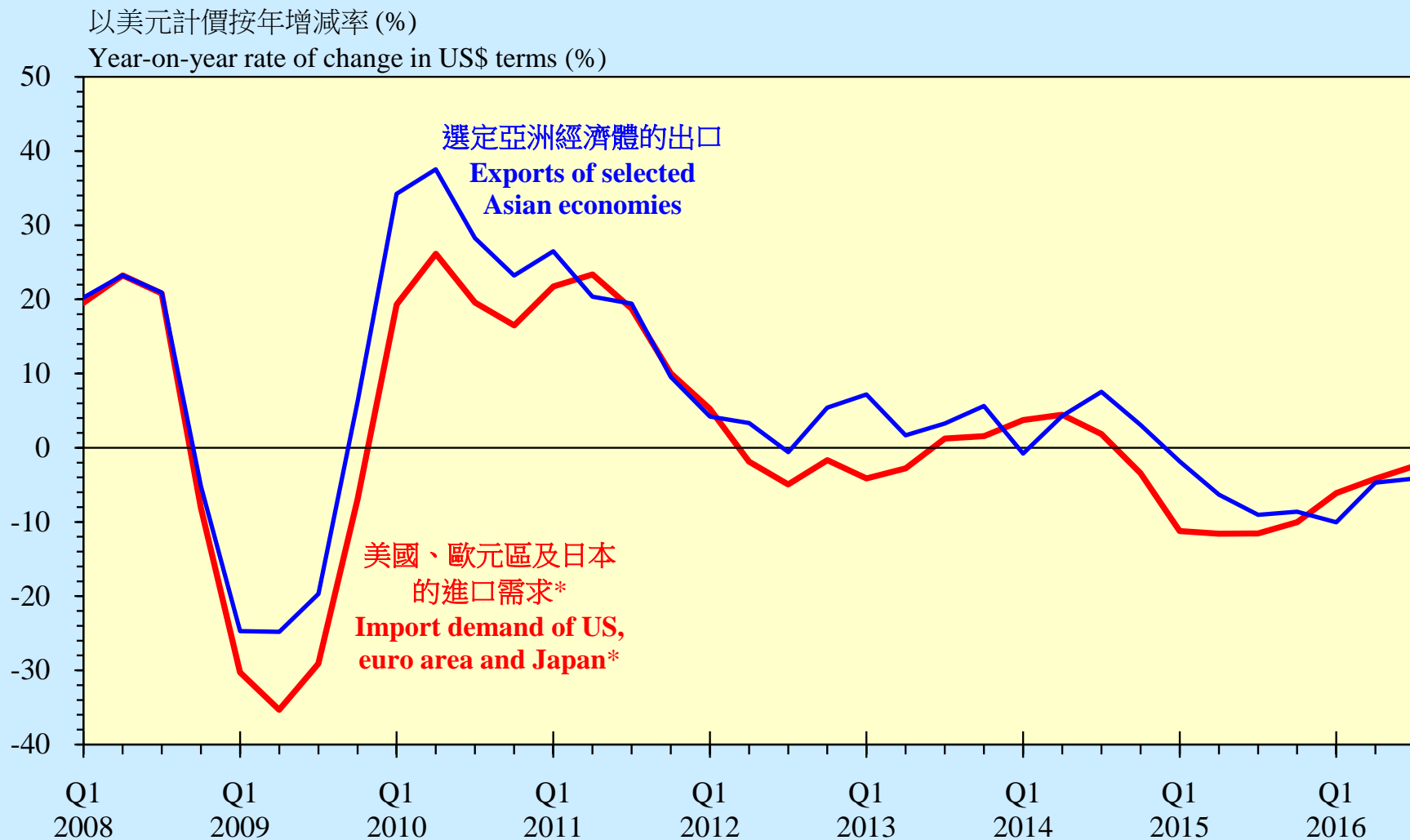
# **Economic performance in Q3 2016**

# Hong Kong's economic growth picked up slightly further in Q3



# External sector

# Asia's exports stabilised somewhat of late, alongside some improvement in global demand



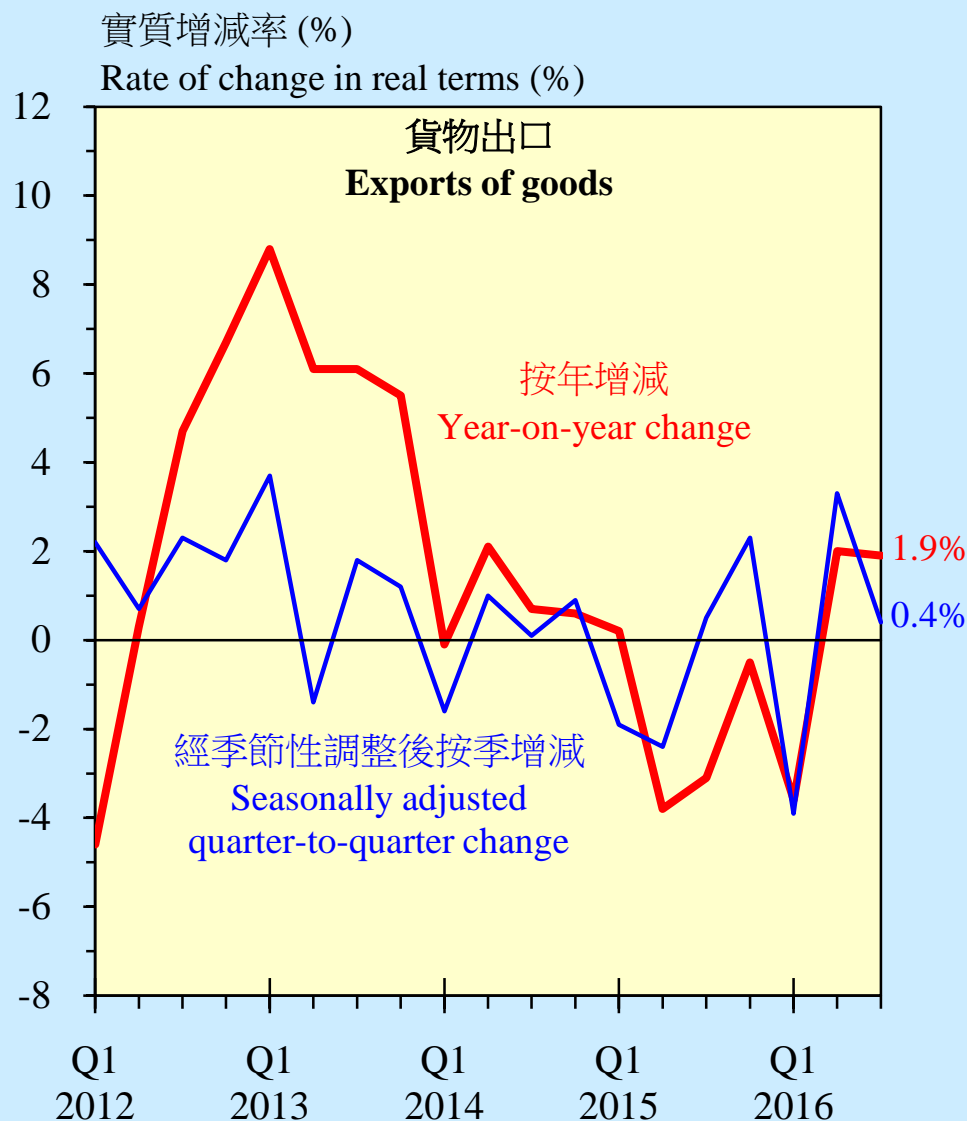
註： 選定亞洲經濟體包括中國內地、香港、印度、印尼、韓國、馬來西亞、菲律賓、新加坡、台灣及泰國。

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

Notes: (\*) 由於數據有限，美國、歐元區及日本的進口需求最新數字為2016年7-8月合併的數字。

(\*) Due to data limitations, the latest figure for import demand of US, euro area and Japan is Jul-Aug 2016 combined.

# Hong Kong's exports of goods also made further growth



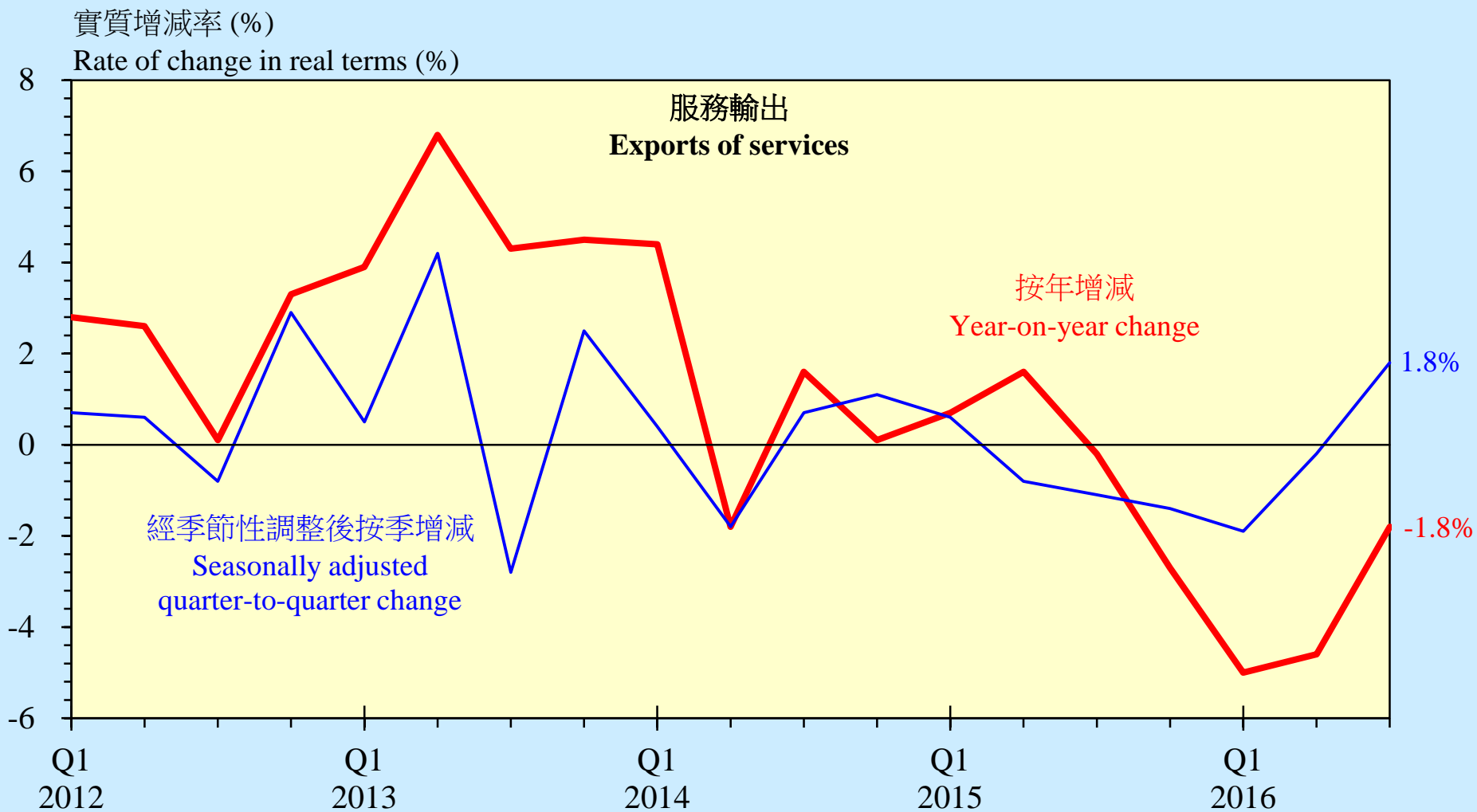
## Total exports of goods by major market

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

	<u>2015</u>		<u>2016</u>	
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Mainland	-2.0	-5.6	2.0	2.7
U.S.	1.0	-4.8	-1.4	0.2
E.U.	-4.1	-2.6	3.8	-0.4
Japan	-3.6	-3.3	-6.6	-1.1
India	7.9	15.8	28.0	15.8
Taiwan	-15.0	-2.9	17.1	27.5
Korea	-13.4	-14.0	3.2	6.7
Singapore	-4.3	-0.4	-1.6	7.7



# Services exports staged visible improvement and the year-on-year decline continued to narrow





# Other major groups of service exports generally improved, though inbound tourism remained weak

## Exports of services

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

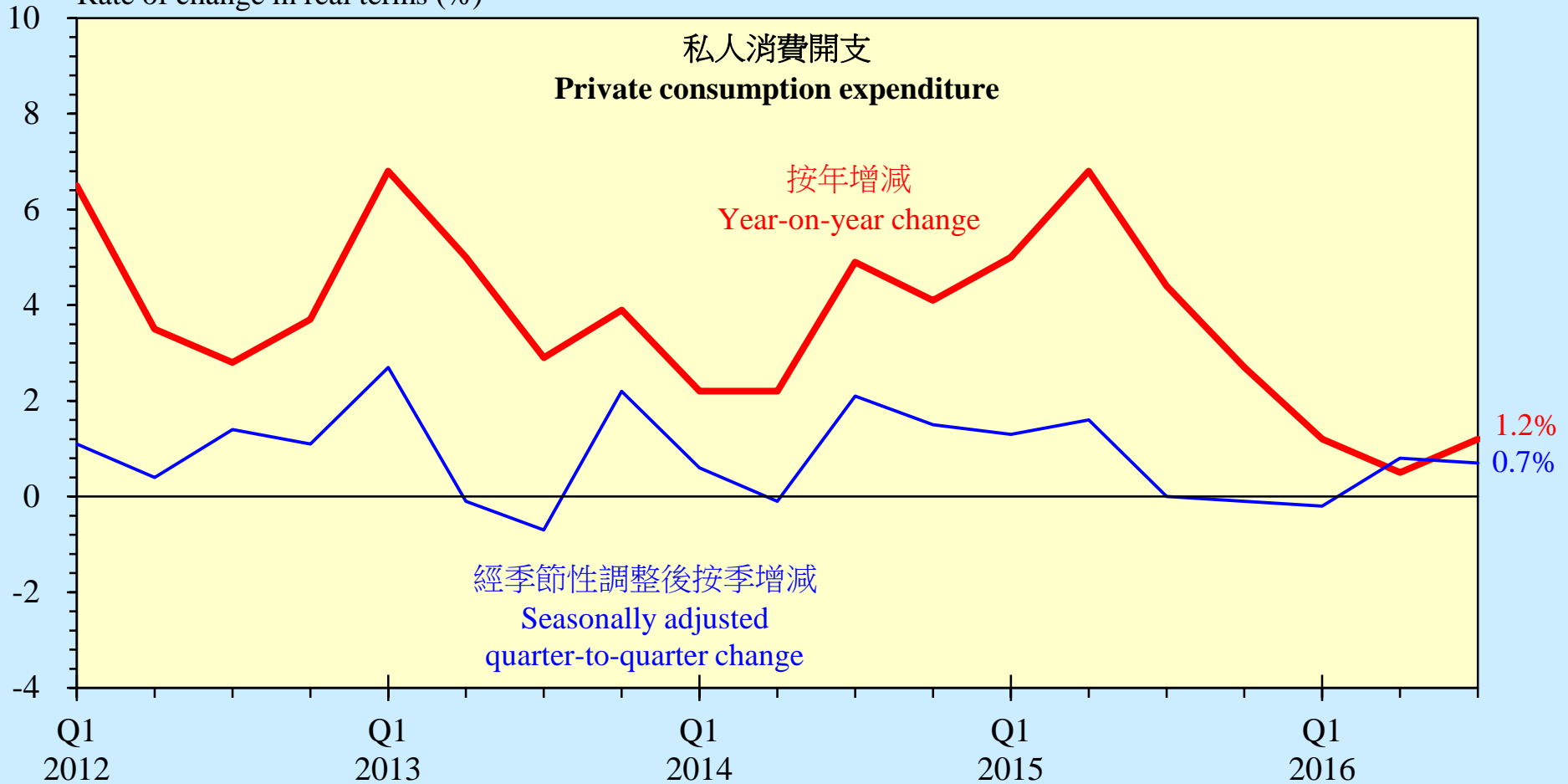
		<u>Travel services</u>	<u>Trade-related services</u>	<u>Transportation services</u>	<u>Financial and business services</u>
2015	Annual	-3.8	-1.8	0.2	5.6
	Q3	-3.8	-3.0	0.8	6.5
	Q4	-6.7	-0.5	-2.7	-1.0
2016	Q1	-13.9	-2.2	-1.8	-0.6
	Q2	-9.8	0.4	-1.3	-7.6
	Q3	-9.0	0.6	1.8	-0.7

# **Domestic sector**

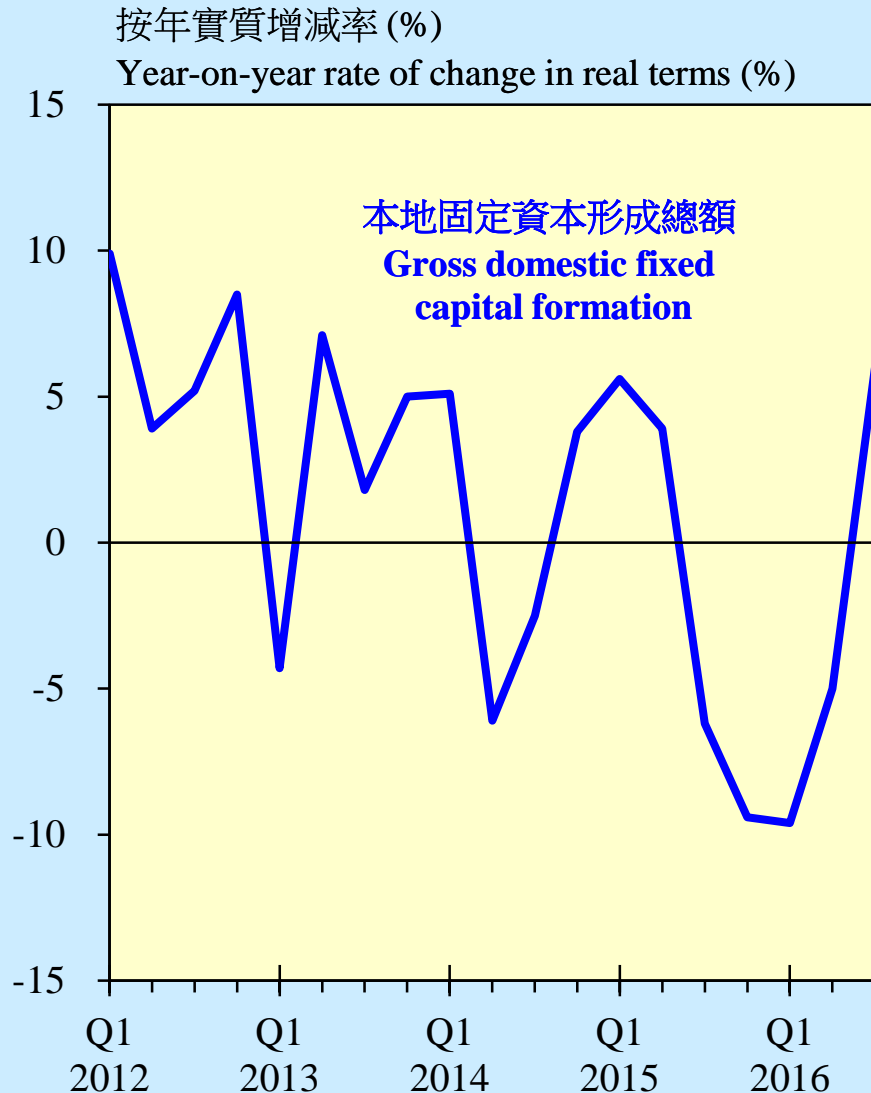
# Private consumption grew modestly further

實質增減率 (%)

Rate of change in real terms (%)



# Overall investment spending rebounded strongly



## Overall investment spending

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

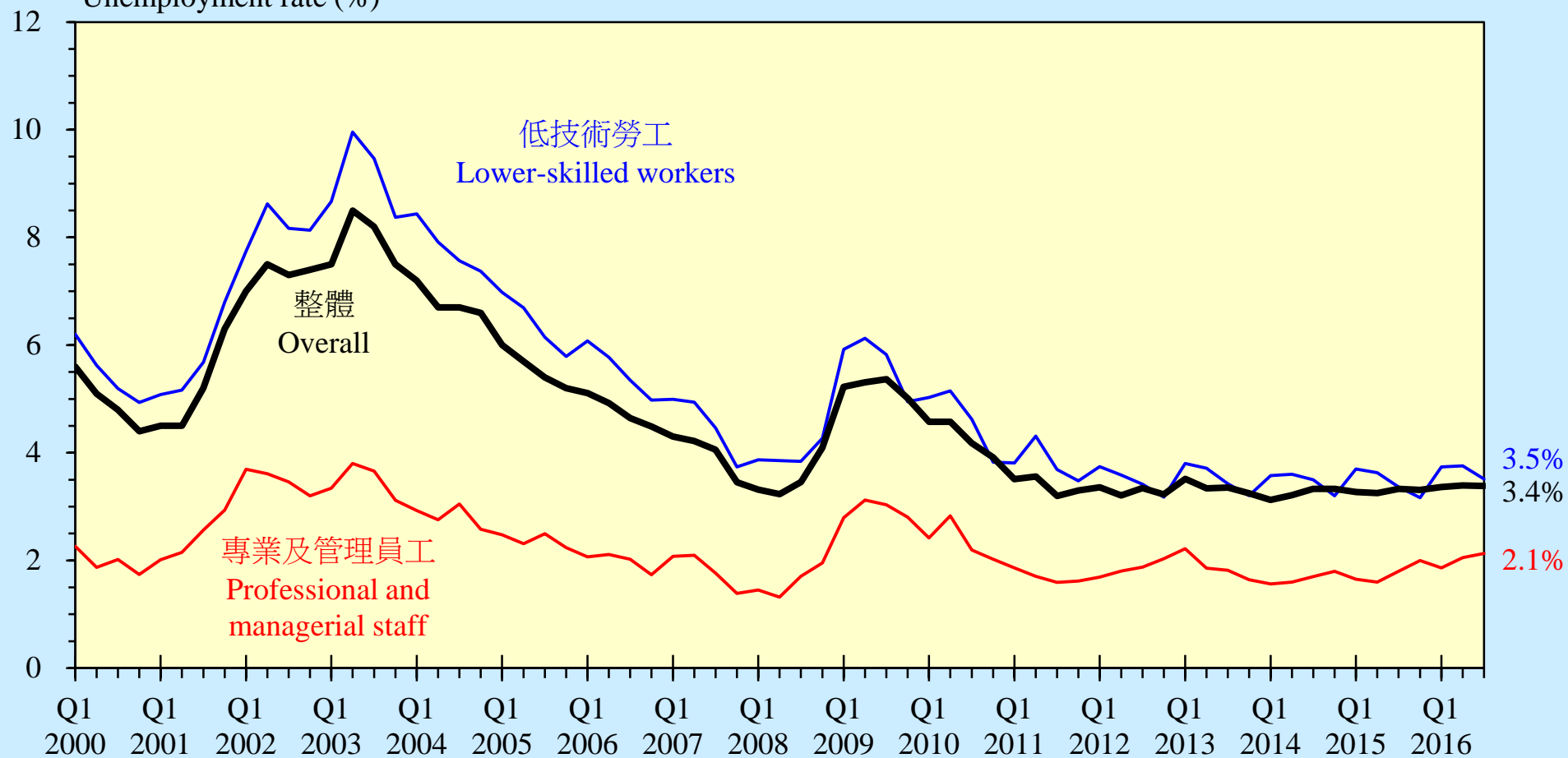
		Machinery, equipment and intellectual property products	Building and construction
2015	Annual	-5.8	2.9
	Q3	-10.7	4.2
	Q4	-12.9	-0.9
2016	Q1	-11.9	0.2
	Q2	-11.2	3.5
	Q3	6.1	3.4

# Labour market

# Unemployment rate stayed at a low level of 3.4%

失業率 (%)

Unemployment rate (%)



Note: Not seasonally adjusted except for the overall unemployment rate.

# Incomes sustained real improvements

	<u>Income*</u>	
	Year-on-year rate of change (%)	
	<u>Nominal growth</u>	<u>Real growth</u>
Index of payroll per person engaged (Q2 2016)	4.2	1.5
Average employment earnings of full-time employees (Q3 2016)	5.4	2.3
<i>Among those: with elementary occupations</i>	5.3	0.8

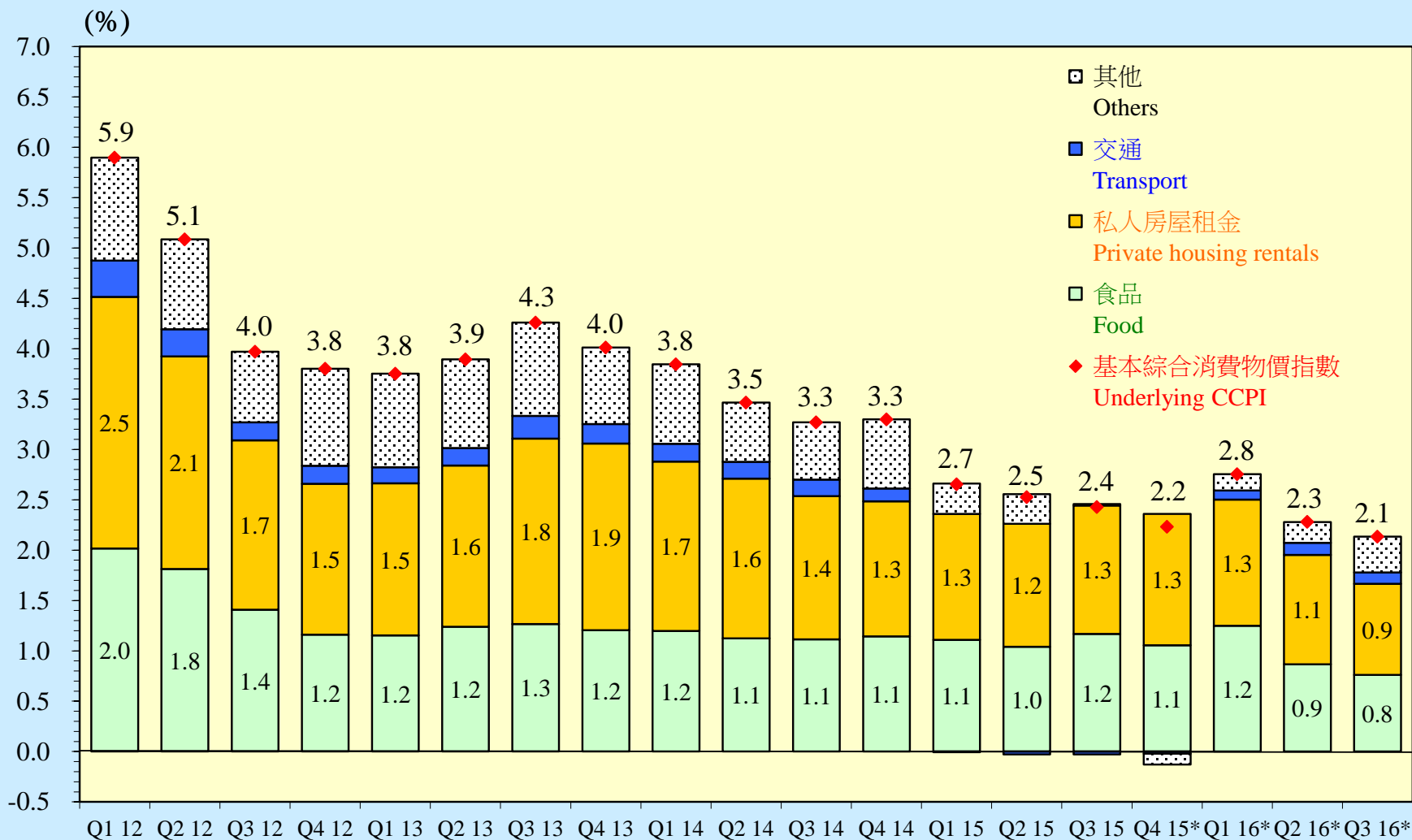
Note: (\*) Excluding foreign domestic helpers.



# **Inflation**

# Underlying inflation eased further

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



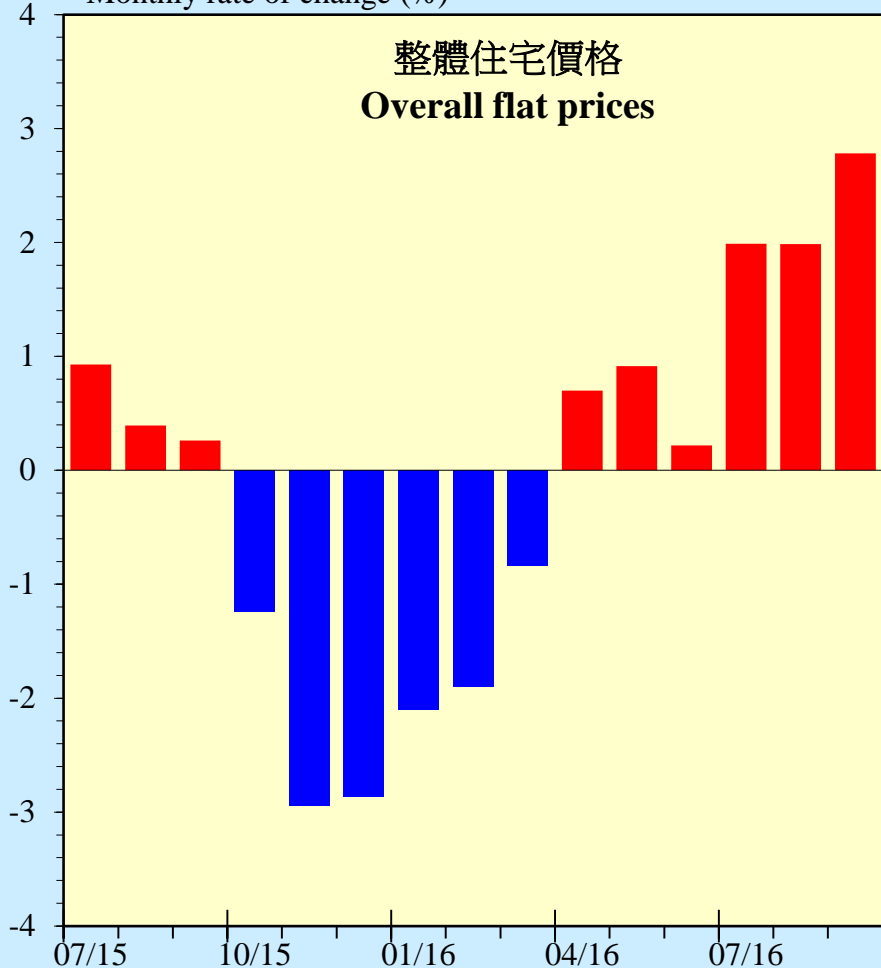
Note: (\*) By reference to the new 2014/15-based CPI series.

# Property market

# Property market saw renewed signs of exuberance

按月升跌 (%)  
Monthly rate of change (%)

整體住宅價格  
Overall flat prices



**Cumulative increase  
in flat prices between  
September and  
March 2016 (%)**

Overall +8.9

Mass market flats +9.3

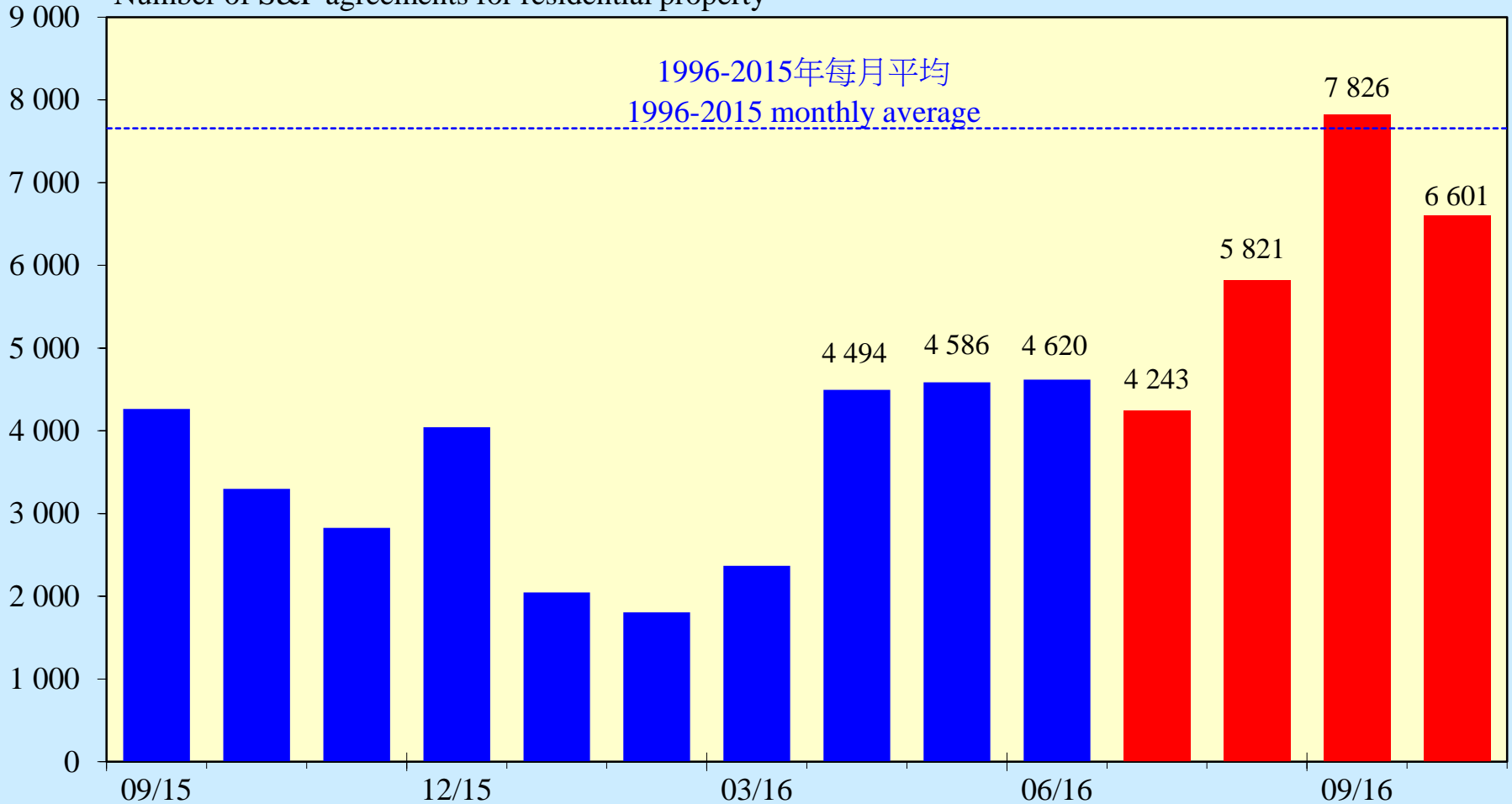
Large flats +5.9

Note: Mass market flats refer to those with a saleable area of less than 70 m<sup>2</sup>, while large flats refer to those with a saleable area of at least 100 m<sup>2</sup>.

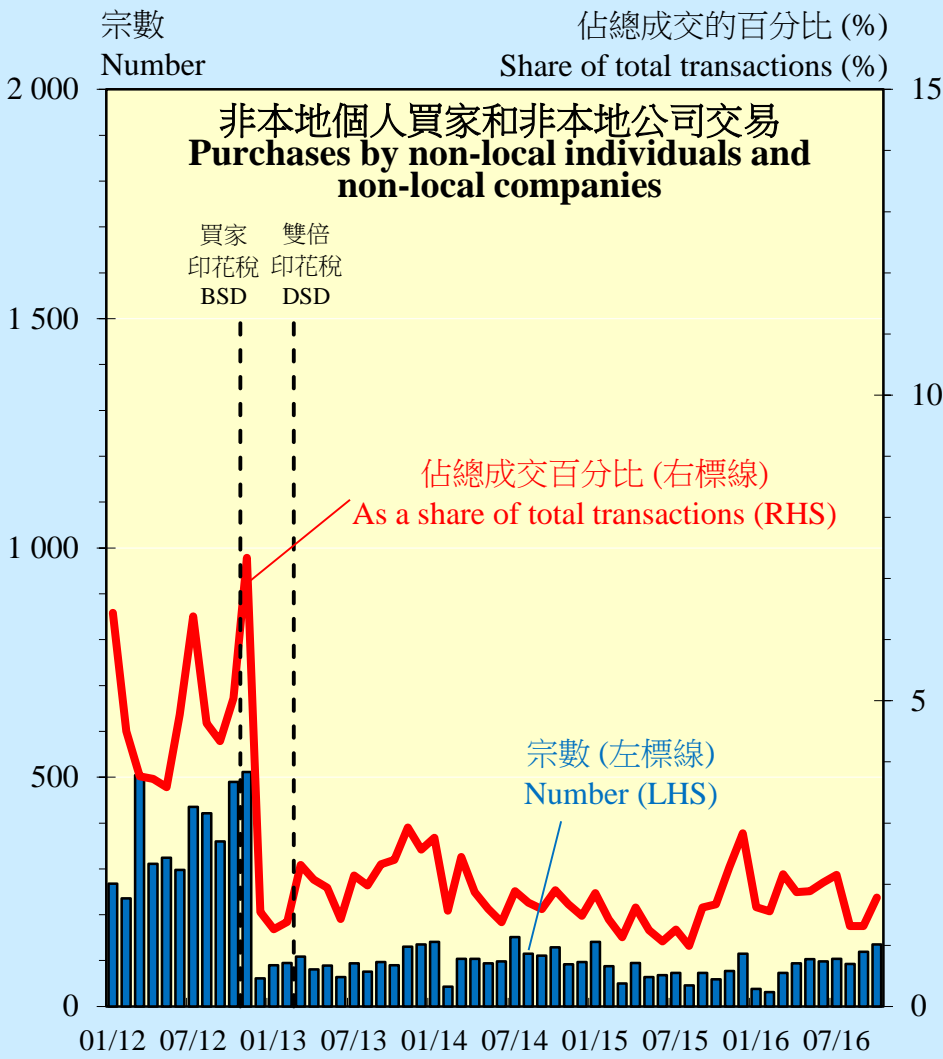
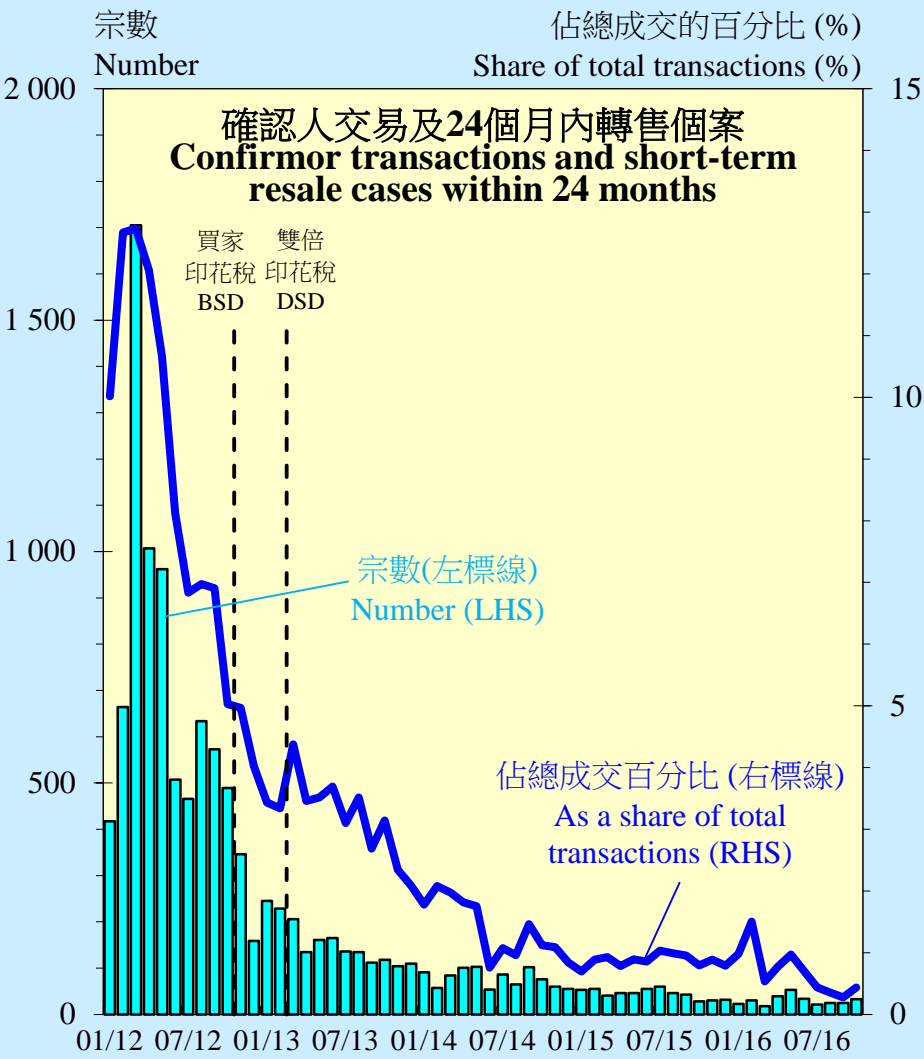
# Transactions picked up again

住宅物業買賣合約數目

Number of S&P agreements for residential property



# Speculative activities and non-local demand accounted for very small shares in total transactions

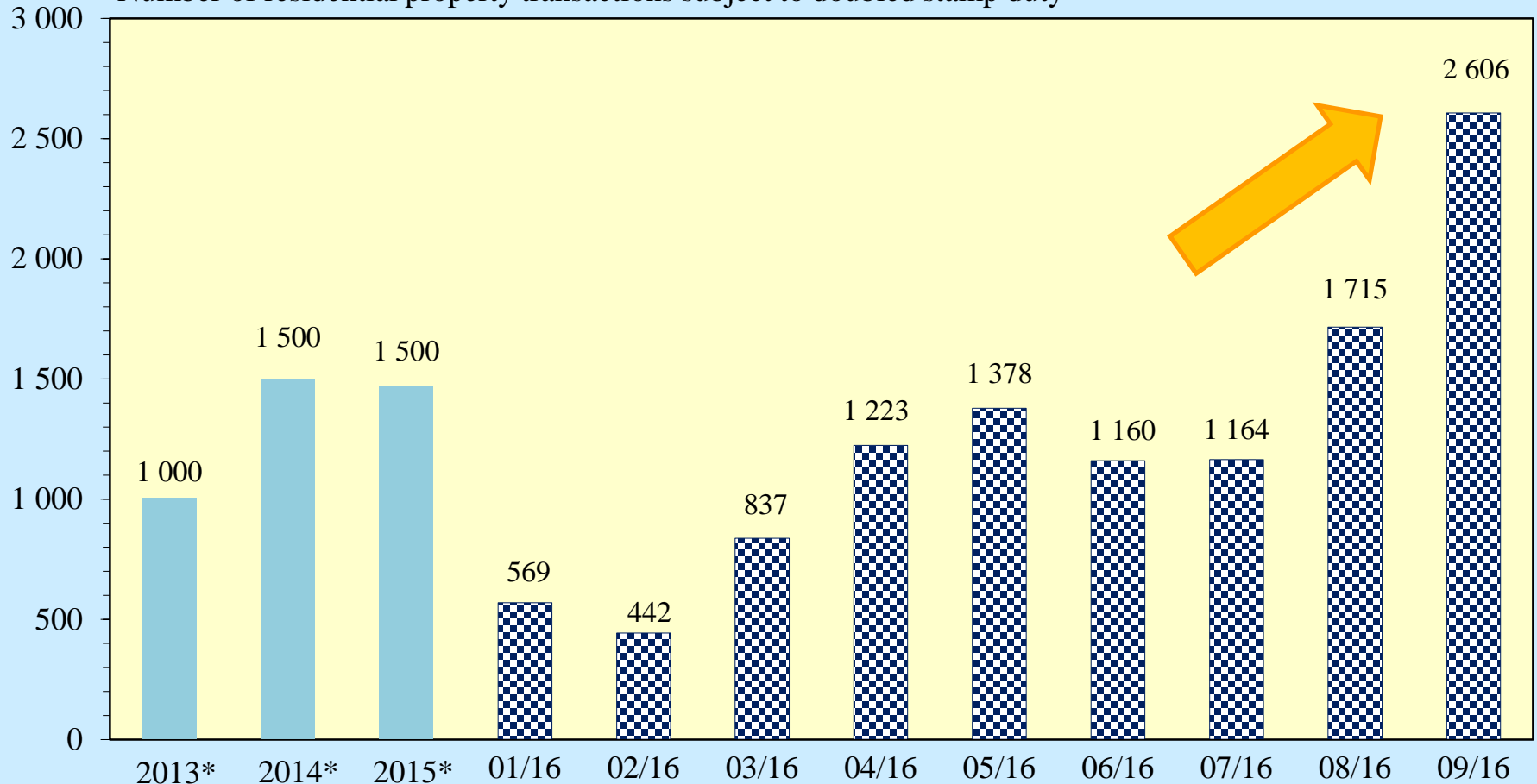


註：確認人交易指於未完成交易之前轉售。  
Note: Confirmor transactions refer to resale before assignment.

# Investment demand surged in the past few months

涉及雙倍印花稅的住宅物業成交宗數

Number of residential property transactions subject to doubled stamp duty

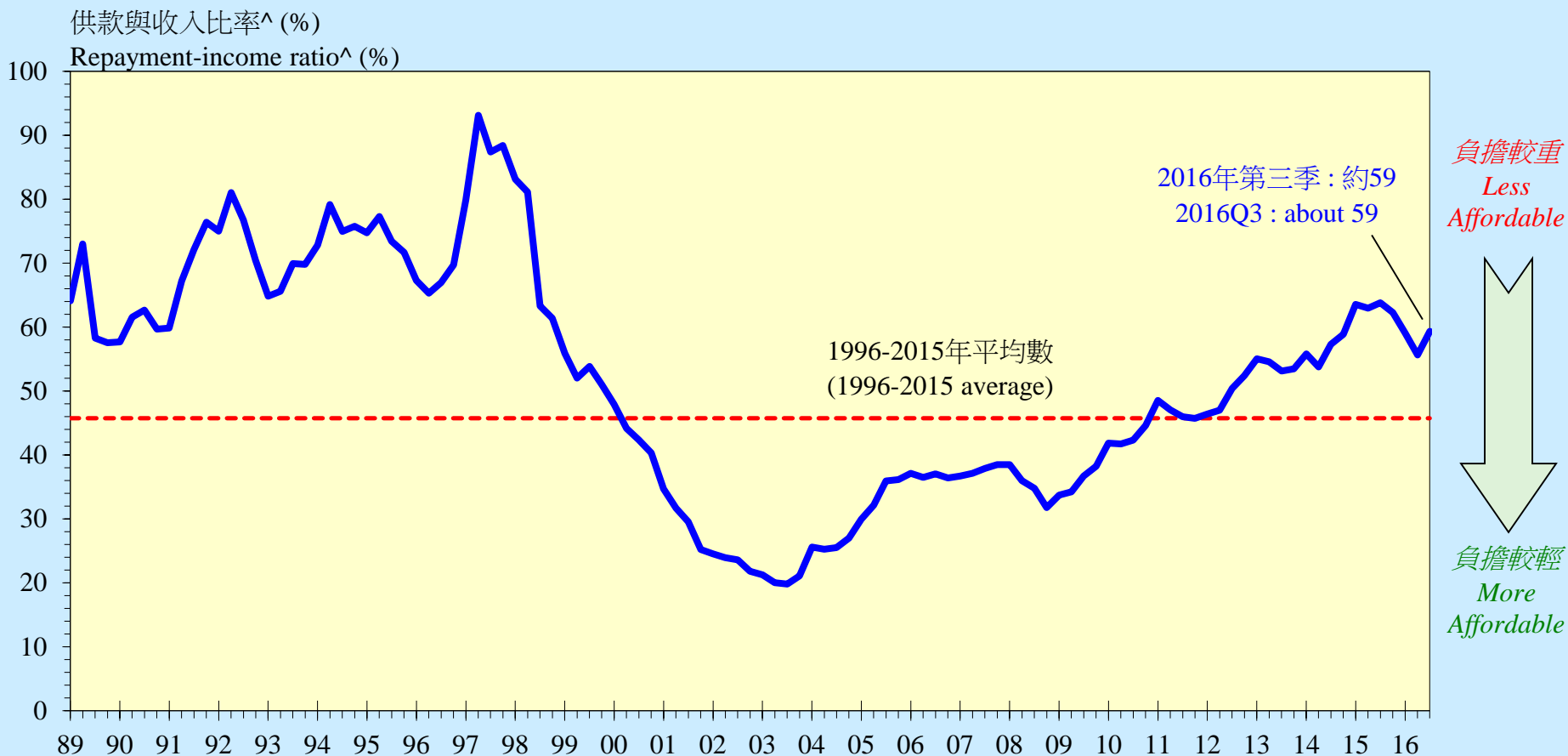


註：(\*) 每月平均數。

Note: (\*) Monthly average figures.



# Mortgage payment to income ratio worsened again



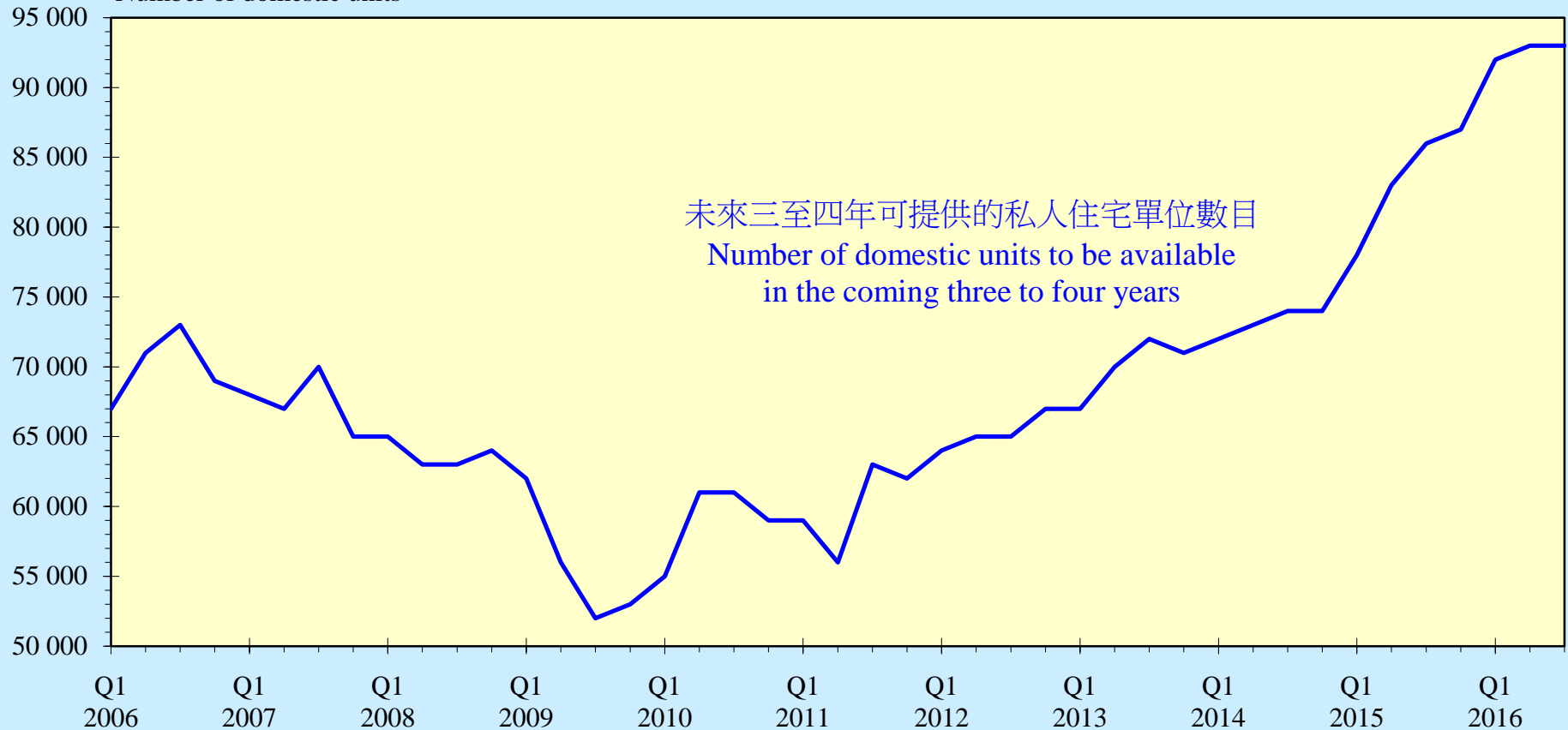
註：(^) 45平方米單位的按揭供款(假設按揭成數為70%及年期為20年)相對住戶入息中位數(不包括居於公營房屋的住戶)的比率。這比率與金管局公布的平均供款與入息比率不同，後者是新批按揭貸款申請人的每月償還債務與每月收入的比率。

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.

# Total medium-term flat supply rose to a record high of 93 000

住宅單位數目

Number of domestic units



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项目。

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 2016**

# Global economic growth likely to stay modest

- ◆ **US:** Economic growth picked up in Q3, but the pace of expansion remained moderate
- ◆ **Euro area:** Limited impact of Brexit thus far
- ◆ **Japan:** Still-sluggish economic data
- ◆ **Asia:** Solid economic growth in the Mainland, and generally stable economic performance in other emerging markets

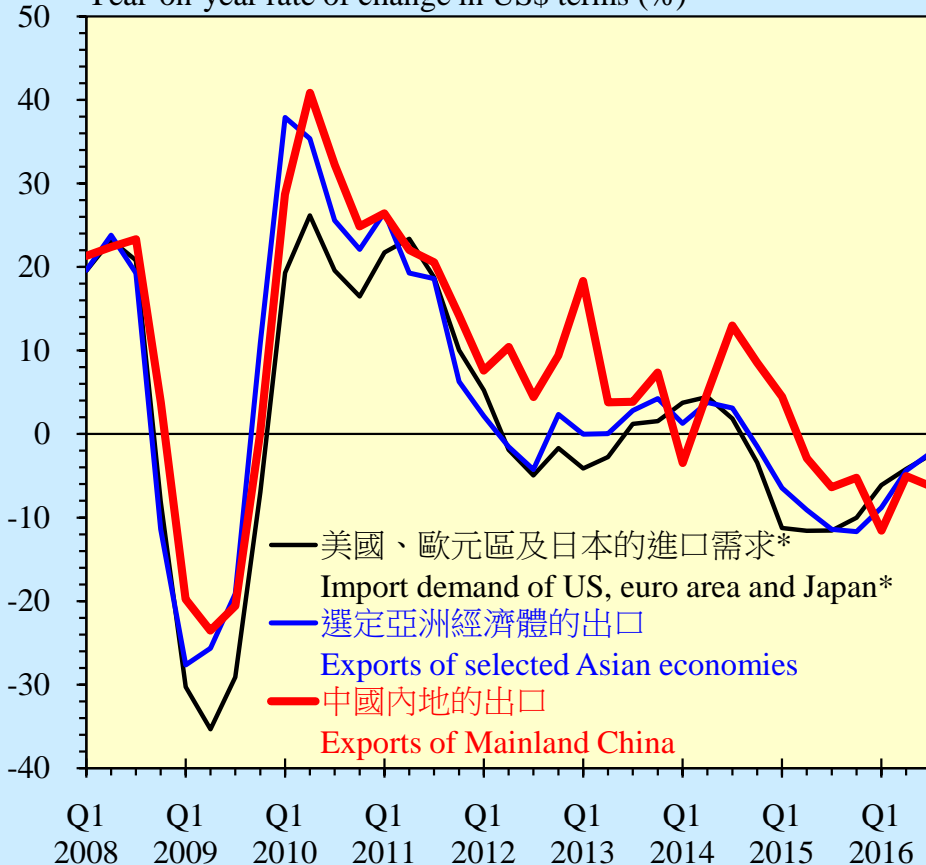
# Mainland economy expanded steadily in Q3

**Export performance still depends on global demand conditions**

**Domestic demand continued to grow solidly**

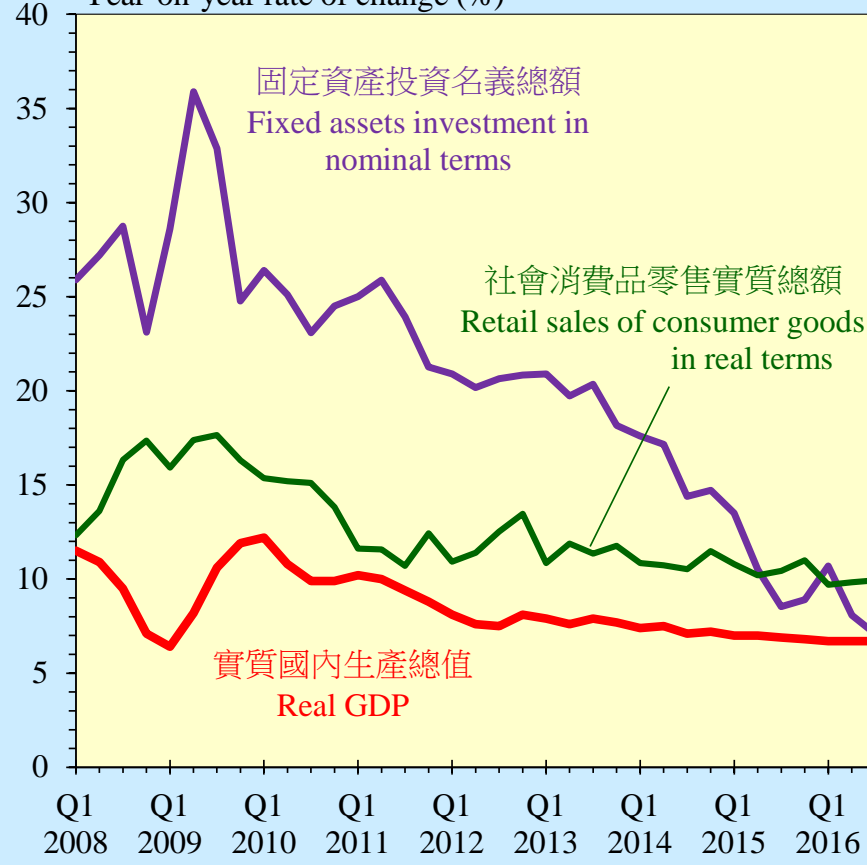
以美元計價按年增減率 (%)

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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# Local business sentiment turned slightly more positive

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

	<u>16Q1</u>	<u>16Q2</u>	<u>16Q3</u>	<u>16Q4</u>
Import/export trade and wholesale	-30	-8	-14	-14
Retail	-47	-40	-38	-2
Accommodation and food services	-15	-17	-11	+13
Transportation, storage and courier services	+1	+8	+5	+12
Information and communications	+13	0	+12	+15
Professional and business services	0	-11	-14	+9
Financing and insurance	+7	+9	+6	+12
<b>All sectors surveyed</b>	<b>-11</b>	<b>-4</b>	<b>-6</b>	<b>+2</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 stayed positive

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

	<u>16Q1</u>	<u>16Q2</u>	<u>16Q3</u>	<u>16Q4</u>
Import/export trade and wholesale	-3	-3	-6	-5
Retail	+9	-2	-4	+4
Accommodation and food services	+7	+12	+15	+16
Transportation, storage and courier services	+10	+11	+18	+20
Information and communications	+13	+12	+21	+13
Professional and business services	+5	-4	-7	+15
Financing and insurance	+7	+7	+10	+10

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.



# Hong Kong's economic outlook for 2016

**Exports: Only mild recovery**

**Domestic demand: Holding up**

- ◆ Economic sentiment improved slightly of late
- ◆ Stable labour market with favourable job and income conditions

**Hong Kong economy grew by 1.4% year-on-year in real terms in Q1-Q3, in line with expectations**



**Latest 2016 GDP growth forecast: 1.5%**

# Underlying inflation is expected to ease to 2.3% in 2016, as domestic and external cost pressures remain in check



# Latest economic forecasts for 2016 as a whole

	Forecasts as released on 24 February	Forecasts as released on 13 May	Forecasts as released on 12 August	Latest forecasts
<b>Real GDP growth</b>	<b>1-2%</b>	<b>1-2%</b>	<b>1-2%</b>	<b>1.5%</b>
<b>Underlying inflation</b>	<b>2%</b>	<b>2%</b>	<b>2.2%</b>	<b>2.3%</b>
<b>Headline inflation</b>	<b>2.3%</b>	<b>2.3%</b>	<b>2.3%</b>	<b>2.4%</b>

## Uncertainties that would affect the current outlook

- ◆ A possible US interest rate hike by end-2016, but pace of future hikes still uncertain; monetary policy divergence among central banks
- ◆ Uncertainties associated with the US economy and policy directions after the presidential election
- ◆ Brexit still unfolding
- ◆ Slow recoveries in the advanced economies
- ◆ Financial markets still face risks of increased volatility under the complicated global economic and monetary environment
- ◆ Heightened geopolitical tensions in various regions



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