

Press Release

(embargoed until 4:30 p.m. on 10 November 2017)

Economic Situation in the Third Quarter of 2017 and Latest GDP and Price Forecasts for 2017

The Government released today (10 November) the Third Quarter Economic Report 2017, together with the preliminary figures on Gross Domestic Product (GDP) for the third quarter of 2017.

Acting Government Economist, Mr Andrew Au, described the economic situation in the third quarter of 2017 and provided the latest GDP and price forecasts for 2017.

Main points

- * The Hong Kong economy continued to expand notably in the third quarter of 2017, by 3.6% in real terms over a year earlier, following the 4.1% growth in the first half of the year. This marked the fourth consecutive quarter of above-trend economic expansion. External demand stayed vibrant, supported by the broadly benign global economic conditions. Domestic demand attained solid growth, led by the brisk expansion of private consumption. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew by 0.5% in the third quarter.
- * Benefitting from a broad-based global economic upturn, Hong Kong's total exports of goods maintained notable year-on-year growth of 5.5% in real terms in the third quarter, with those to the Asian markets staying as the major propelling force. Meanwhile, exports of services picked up to grow by 3.7% year-on-year in real terms in the third quarter, thanks to vibrant regional trade and cargo flows and the recovery in inbound tourism.
- * Domestic demand stayed firm in the third quarter. Private consumption expenditure expanded notably, by 6.7% year-on-year in real terms in the third quarter, as local consumer sentiment was underpinned by the favourable job and income conditions and to a certain extent also by stronger wealth effects. Overall investment expenditure, on the other hand, recorded a modest decline of 1.7% year-on-year in real terms, as machinery and equipment acquisition, a volatile component, fell. Nevertheless, building and construction works accelerated to show solid year-on-year growth.
- * The labour market remained in a state of full employment. In the third quarter, the seasonally adjusted unemployment rate held steady at a low level of 3.1%, while total employment registered robust year-on-year growth. Wages and earnings generally sustained gains in real terms, with those of lower-paid workers registering more appreciable growth.
- * The local stock market was largely on the rise in the third quarter, alongside the rallies in major overseas markets. The moderation of the residential property market continued in the third quarter, with visibly lower trading activities and slower increase in prices.

- * Along with an improving global outlook, major advanced economies are likely to show further moderate expansion in the rest of the year. The Mainland economy is also set to sustain sound and notable growth. The expansion in global demand should bode well for Asia's and Hong Kong's goods exports in the near term. Exports of services should also benefit amid vibrant regional trade flows and recovery in inbound tourism. That said, there remain various external uncertainties. The US monetary policy normalisation, coupled with the tapering of monetary stimuli by other major central banks, may have repercussions on global financial conditions and capital fund flows. Besides, the possible rise in protectionist sentiment and heightened geopolitical tensions in various regions also warrant attention.
- * Domestic demand should hold up well in the near term, buttressed by sanguine consumption sentiment under the favourable employment and income conditions, as well as intensive building and construction activity level. Recent surveys on enterprises also continued to point to positive business sentiments.
- * Taking into account the actual growth outturn of 3.9% in the first three quarters of 2017, and as the economy is poised to attain further solid growth in the rest of the year even against a higher base of comparison in the fourth quarter of last year, economic growth for 2017 as a whole is now forecast at 3.7%, higher than the mid-point of the range forecast of 3-4% announced in the August round.
- * Inflation pressure was largely contained. The underlying consumer price inflation rate averaged 1.7% in the first three quarters of 2017, thanks to slow increases in import prices and moderate local cost pressure. As these favourable developments will likely continue in the months ahead, the upside risks to inflation remain limited in the rest of the year. Against this background, the forecast rates of underlying and headline consumer price inflation for 2017 as a whole are slightly revised downwards to 1.7% and 1.5% respectively in the current round of review, from 1.8% and 1.6% respectively in the August round.

Details

GDP

According to the preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP grew by 3.6% in the third quarter of 2017 in real terms over a year earlier, after the notable growth of 3.9% in the preceding quarter (revised from the earlier estimate of 3.8%). This marked the fourth consecutive quarter of economic growth that stayed above the past-ten-year trend rate of 2.9% per annum. On a seasonally adjusted quarter-to-quarter basis, real GDP grew by 0.5% in the third quarter, after the strong expansion of 1.1% in the preceding quarter (revised from the earlier estimate of 1.0%) (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the third quarter of 2017 are presented in *Table 1*. Developments in different segments of the economy in the third quarter of 2017 are described below.

External trade

3. *Total exports of goods* grew visibly by 5.5% in real terms in the third quarter over a year earlier, the same growth pace as that in the preceding quarter. Among major markets, with reference to external merchandise trade statistics in the third quarter, exports to Asian markets as a whole outperformed those to the other regions, thanks to sustained growth in demand for raw materials, semi-manufactures and capital goods amid vibrant manufacturing activities in the region. Specifically, on a year-on-year comparison in real terms, exports to the Mainland picked up to show notable growth. Exports to Taiwan, Singapore and Japan all attained double-digit growth, and those to India also grew notably. Exports to the EU picked up somewhat to show a moderate growth for the third quarter as a whole, whereas those to the US continued to lag behind by comparison. On a seasonally adjusted quarter-to-quarter basis, total exports of goods rose by 0.7% in real terms in the third quarter.

4. *Exports of services* picked up to grow by 3.7% year-on-year in real terms in the third quarter, from the 2.6% growth in the preceding quarter. Exports of transport services grew notably alongside vibrant regional trade and cargo flows. Exports of travel services resumed moderate growth after declining for over three years, signifying the recovery of inbound tourism. Exports of financial services picked up in growth amid supportive global financial conditions, while those of business and other services stayed on a modest expansion path. On a seasonally adjusted quarter-to-quarter basis, exports of services grew by 2.8% in real terms in the third quarter.

Domestic sector

5. Domestic demand grew solidly in the third quarter. *Private consumption expenditure* expanded notably, by 6.7% year-on-year in real terms in the third quarter, following the growth of 4.7% in the first half of this year. Local consumer sentiment continued to be underpinned by favourable job and income conditions, with added support from a somewhat stronger boost from positive wealth effects. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure grew further by 2.4% in real terms in the third quarter. *Government consumption expenditure* grew at a slightly faster pace of 4.1% year-on-year in real terms in the third quarter, after growing by 3.2% in the preceding quarter.

6. Overall investment spending in terms of *gross domestic fixed capital formation* recorded a modest decline of 1.7% year-on-year in real terms in the third quarter, following the marked growth of 6.6% in the first half of the year. The decline in the third quarter was due partly to a decrease of 6.0% year-on-year in real terms in machinery and equipment acquisition, a volatile component, and partly to the notable fall in costs of ownership transfer amid a visible slowdown in property market transactions on a year-on-year basis of comparison. Nevertheless, overall building and construction expenditure accelerated to show solid year-on-year growth of 4.1% in real terms, as building and construction works in the public sector accelerated markedly and those in the private sector continued to grow.

The labour sector

7. The labour market remained in a state of full employment. The *seasonally adjusted unemployment rate* held steady at a low level of 3.1% in the third quarter. The *underemployment rate* edged lower to 1.1% in the same quarter. Total employment registered robust growth over a year earlier in the third quarter. Wages and earnings generally sustained growth in real terms. Benefitting partly from the upward adjustment of the Statutory Minimum Wage rate since May 2017 and partly from a tight labour market, the average monthly employment earnings of full-time employees (excluding foreign domestic helpers) of the lowest three decile groups continued to increase in real terms, by 4.0% in the third quarter over a year earlier.

The asset markets

8. The *local stock market* was largely on the rise in the third quarter, alongside rallies in major stock markets overseas. Investor sentiment remained generally upbeat as the global economic outlook improved. The Hang Seng Index closed the third quarter at 27 554, up by 6.9% from the level at the end of the previous quarter. The Index rose further over the past month or so, closing at 29 137 on 9 November.

9. The *residential property market* continued to show moderation in the third quarter, extending the trend that began in June. Trading activities slowed down visibly from the hectic level in the preceding quarter, with the number of residential property transactions falling from 18 900 in the second quarter to 13 200 in the third quarter. Residential property prices recorded a decelerated increase of 1% between June and September. Yet, compared to the 1997 peak, overall flat prices in September were 97% higher. Moreover, the housing affordability ratio worsened to around 68% in the third quarter. During the third quarter, flat rentals rose by 2%, while shop and office rentals increased, by 1% and 2% respectively.

Prices

10. Inflation pressure was largely contained. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, *underlying consumer price inflation* averaged 1.7% in the third quarter, lower than that of 2.0% in the second quarter. Meanwhile, *headline consumer price inflation* also eased to 1.8%. External price pressure remained modest, thanks to the mild inflation in our major import sources. Local cost pressures stayed contained, as the labour cost pressures were relatively modest when viewed against the sustained expansion of economic output at an above-trend pace. Rental cost pressures as reflected in consumer price inflation were broadly moderate as well, as the feed-through from the general uptrend in fresh-letting residential rentals since the second quarter of 2016 was only gradual. The launch of some new government subsidies to education in the 2017-18 academic year, together with dissipation of the effect from upward adjustment in public housing rentals in September last year, also contributed to the more discernible easing of the inflation rate in September 2017.

Latest GDP and price forecasts for 2017

11. Along with an improving global outlook, major advanced economies are likely to show further moderate expansion in the rest of the year. The Mainland economy is also set to sustain sound and notable growth. The expansion in global demand should bode well for Asia's and Hong Kong's goods exports in the near term. Exports of services should also benefit amid vibrant regional trade flows and recovery in inbound tourism. That said, there remain various external uncertainties. The US monetary policy normalisation, coupled with the tapering of monetary stimuli by other major central banks, may have repercussions on global financial conditions and capital fund flows. Besides, the possible rise in protectionist sentiment and heightened geopolitical tensions in various regions also warrant attention.

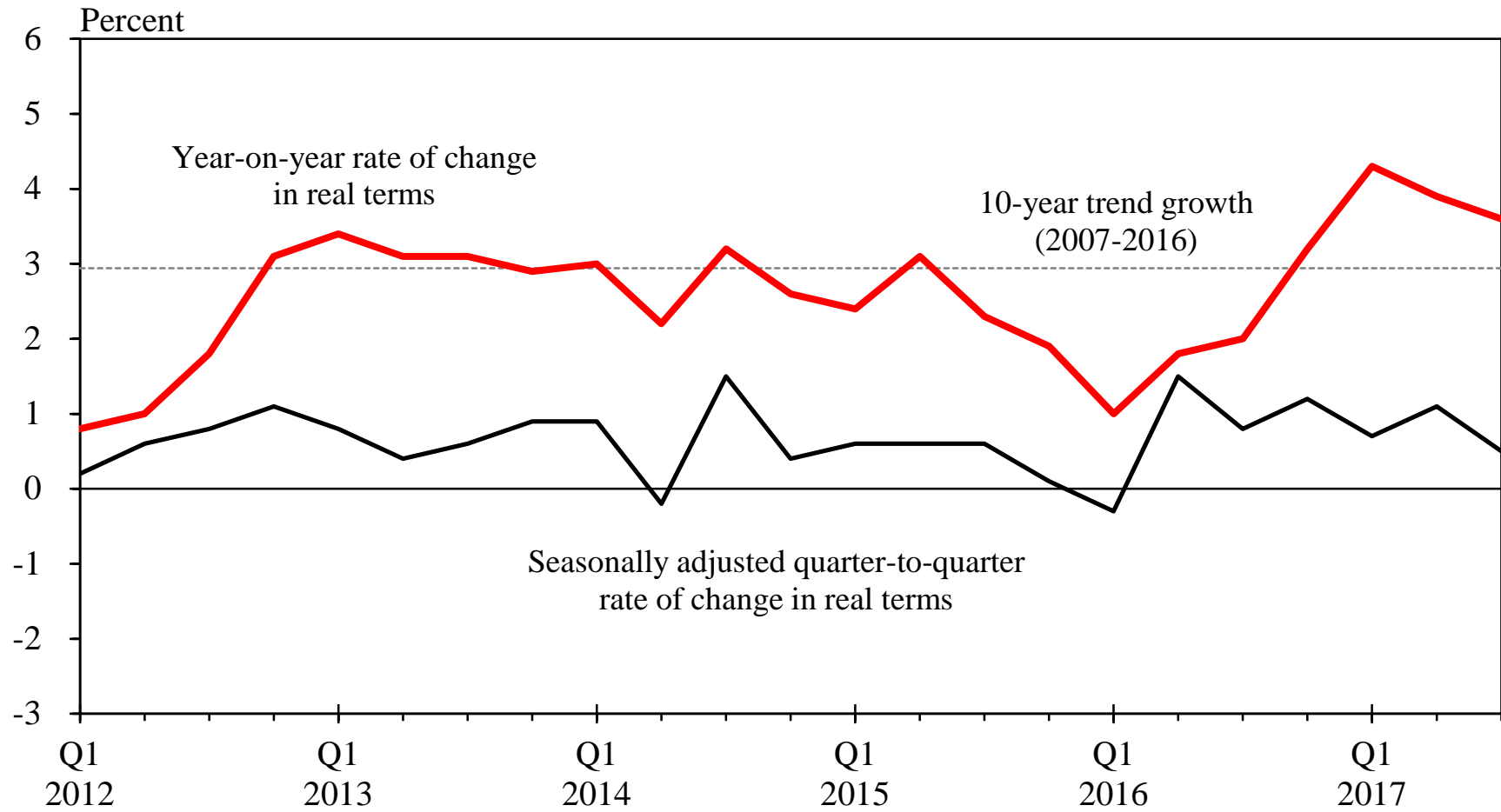
12. Domestic demand should hold up well in the near term, buttressed by sanguine consumption sentiment under the favourable employment and income conditions, as well as intensive building and construction activity level. Recent surveys on enterprises also continued to point to positive business sentiments.

13. Taking into account the actual growth outturn of 3.9% in the first three quarters of 2017, and as the economy is poised to attain further solid growth in the rest of the year even against a higher base of comparison in the fourth quarter of last year, economic growth for 2017 as a whole is now forecast at 3.7%, higher than the mid-point of the range forecast of 3-4% announced in the August round (*Table 2*). For reference, the latest forecasts by private sector analysts mostly range from 2.7-3.8%, averaging around 3.4%.

14. On inflation outlook, as the recent favourable developments, such as slow increases in import prices and moderate local cost pressure, will likely continue in the months ahead, the upside risks to inflation remain limited in the rest of the year. Against this background, the forecast rates of underlying and headline consumer price inflation for 2017 as a whole are slightly revised downwards to 1.7% and 1.5% respectively in the current round of review, from 1.8% and 1.6% respectively in the August round (*Table 2*).

(The Third Quarter Economic Report 2017 is now available for online download, free of charge at www.hkeconomy.gov.hk/en/reports/index.htm. The Report of the Gross Domestic Product, Third Quarter 2017, which contains the GDP figures up to the third quarter of 2017, is also available for online download, free of charge at the homepage of the Census and Statistics Department, www.censtatd.gov.hk.)

Hong Kong's Gross Domestic Product



Note : Figures for the third quarter of 2017 are preliminary estimates.

Table 1

**Gross Domestic Product, its main expenditure components
and the main price indicators
(year-on-year rate of change (%))**

| | <u>2015[#]</u> | <u>2016[#]</u> | <u>Q1[#]</u> | <u>Q2[#]</u> | <u>2016</u> <u>Q3[#]</u> | <u>Q4[#]</u> | <u>Q1[#]</u> | <u>2017</u> <u>Q2[#]</u> | <u>Q3⁺</u> |
|--|-------------------------|-------------------------|-----------------------------|-----------------------------|--------------------------------------|----------------------------|----------------------------|--------------------------------------|----------------------------|
| <i>Change in real terms of GDP and its main expenditure components (%)</i> | | | | | | | | | |
| Private consumption expenditure | 4.8 | 1.8 | 1.5 (0.2) | 0.4 (0.7) | 1.6 (1.1) | 3.6 (1.5) | 3.9 (0.5) | 5.4 (2.1) | 6.7 (2.4) |
| Government consumption expenditure | 3.4 | 3.4 | 3.2 (0.9) | 3.6 (1.0) | 3.4 (0.5) | 3.4 (0.9) | 3.1 (0.6) | 3.2 (1.1) | 4.1 (1.5) |
| Gross domestic fixed capital formation | -3.2 | -0.3 | -8.7 | -5.1 | 7.2 | 5.6 | 5.9 | 7.2 | -1.7 |
| Building and construction | 2.2 | 3.9 | 1.5 | 2.4 | 4.3 | 7.5 | 8.6 | 2.4 | 4.1 |
| Costs of ownership transfer | -8.3 | -2.9 | -50.9 | -19.2 | 22.5 | 63.7 | 77.3 | 53.2 | -12.4 |
| Machinery, equipment and intellectual property products | -7.7 | -4.6 | -10.8 | -10.3 | 7.6 | -4.2 | -8.6 | 4.7 | -6.0 |
| Total exports of goods ^{&} | -1.7 | 1.8 | -3.5 (-2.5) | 2.4 (3.0) | 2.5 (0.7) | 5.1 (3.9) | 9.3 (1.6) | 5.5 (-0.9) | 5.5 (0.7) |
| Imports of goods ^{&} | -2.7 | 1.1 | -5.6 (-3.8) | 0.6 (3.6) | 3.1 (1.9) | 5.6 (4.0) | 10.0 (0.3) | 6.1 (-0.3) | 6.1 (1.9) |
| Exports of services ^{&} | 0.3 | -3.2 | -5.4 (-1.0) | -6.2 (-0.6) | -2.5 (1.8) | 1.2 (1.1) | 2.8 (0.6) | 2.6 (-1.0) | 3.7 (2.8) |
| Imports of services ^{&} | 5.0 | 2.0 | 4.1 (1.7) | 1.2 (-1.1) | 0.8 (-0.2) | 2.0 (1.6) | 0.9 (0.5) | 3.7 (1.8) | 1.5 (-2.3) |
| Gross Domestic Product | 2.4 | 2.0 | 1.0 (-0.3) | 1.8 (1.5) | 2.0 (0.8) | 3.2 (1.2) | 4.3 (0.7) | 3.9 (1.1) | 3.6 (0.5) |
| <i>Change in the main price indicators (%)</i> | | | | | | | | | |
| GDP deflator | 3.6 | 1.8 | 2.1 (0.5) | 1.7 (0.5) | 1.5 (0.2) | 1.8 (0.6) | 2.1 (0.8) | 3.3 (1.6) | 3.2 (0.2) |
| Composite CPI | | | | | | | | | |
| Headline | 3.0[@] | 2.4 | 2.8 (0.7) | 2.6 (-0.6) | 3.1 (0.4) | 1.2 (0.7) | 0.5 (0.1) | 2.0 (0.7) | 1.8 (0.2) |
| Underlying[^] | 2.5[@] | 2.3 | 2.8 (0.7) | 2.3 (0.2) | 2.1 (0.5) | 2.1 (0.7) | 1.4 (0.1) | 2.0 (0.7) | 1.7 (0.2) |
| Change in nominal GDP (%) | 6.1 | 3.9 | 3.2 | 3.6 | 3.6 | 5.0 | 6.5 | 7.4 | 6.9 |

Notes : Figures are subject to revision later on as more data become available. The seasonally adjusted quarter-to-quarter rate of change is not applicable to gross domestic fixed capital formation, as no clear seasonal pattern is found for this category due to the presence of considerable short term fluctuations.

(&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchandising under the standards stipulated in the *System of National Accounts 2008*.

(#) Revised figures.

(+) Preliminary figures.

() Seasonally adjusted quarter-to-quarter rate of change.

(^) After netting out the effects of Government's one-off relief measures.

(@) The year-on-year rates of change of the CPIs from the fourth quarter of 2015 onwards are computed from the new 2014/15-based series, and those before are from the old 2009/10-based series. Splicing has been applied to the indices in order to obtain better estimates of the rates of change for the year 2015.

Table 2

**Economic forecasts for 2017
(rate of change (%))**

| | <u>Forecasts as released on 11.8.2017</u> (%) | <u>Latest forecasts on 10.11.2017</u> (%) |
|--|--|--|
| Real Gross Domestic Product (GDP) | 3 to 4 | 3.7 |
| Composite Consumer Price Index (CCPI) | | |
| <i>Underlying CCPI</i> | 1.8 | 1.7 |
| <i>Headline CCPI</i> | 1.6 | 1.5 |