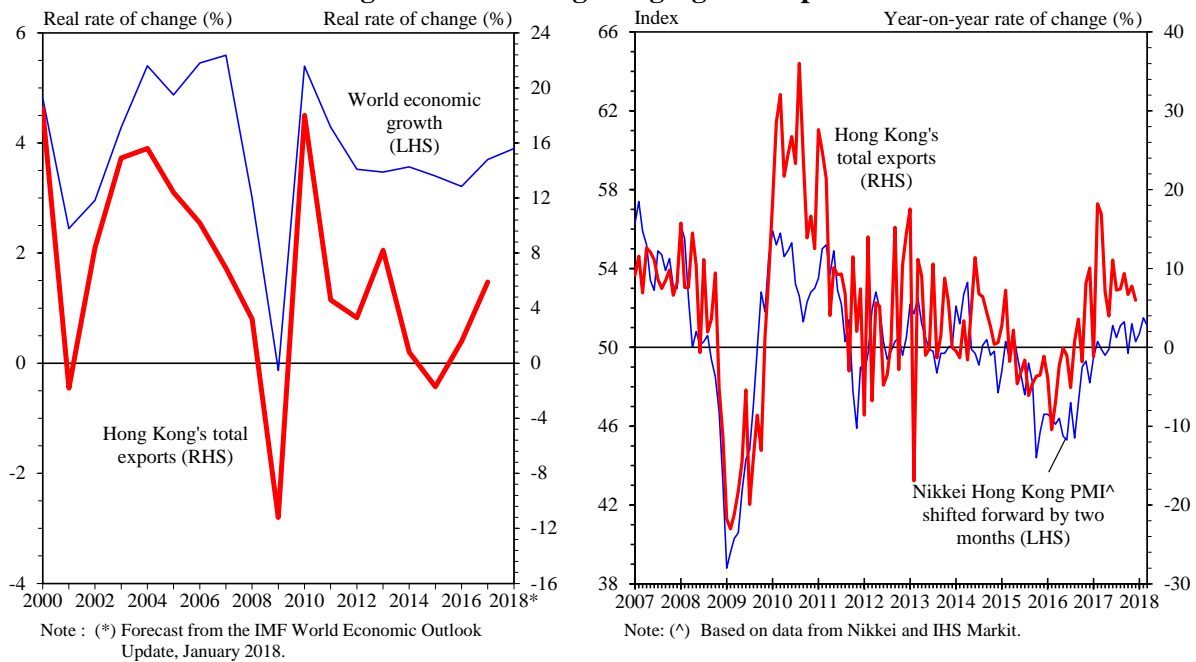


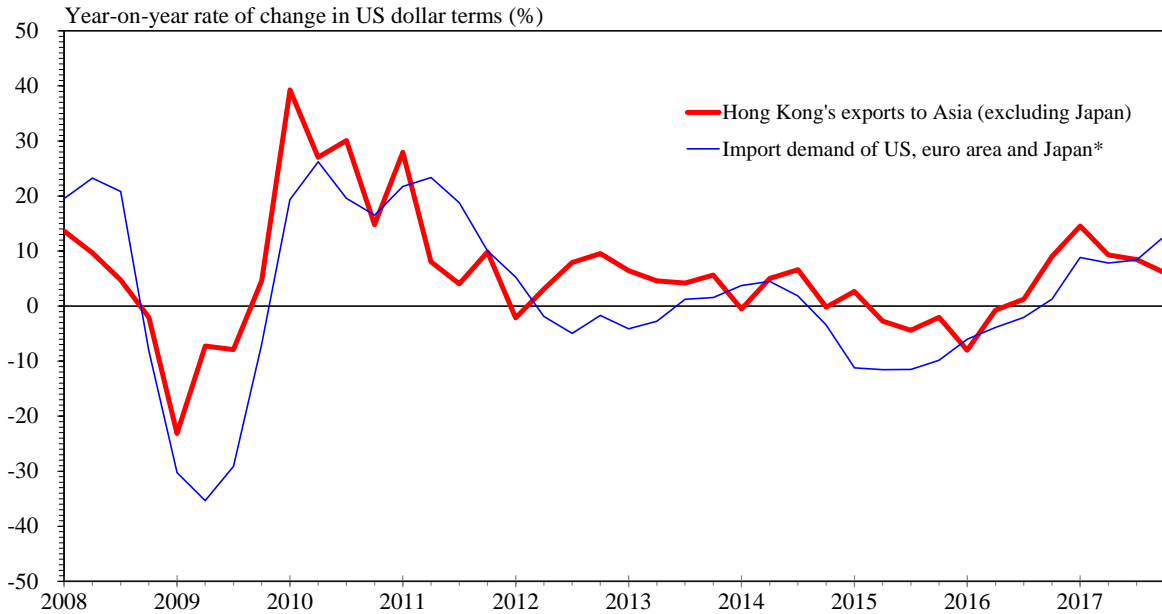
## Outlook for the Hong Kong economy in 2018

2.20 As a small and open economy, Hong Kong's economic outlook in 2018 will mainly hinge on the global economic and financial conditions. As the current momentum in the global economic upswing is expected to extend into 2018, the ensuing firm support for trading and manufacturing activities in Asia should augur well for Hong Kong's exports of goods in 2018. Barring any disruptions to international trade arising from trade conflicts or abrupt changes in global economic sentiment, Hong Kong's exports of goods is poised to attain another year of solid growth in 2018.

**Diagram 2.5 : The current momentum in global economic upswing should augur well for Hong Kong's goods exports in 2018**



**Diagram 2.6 : Regional trade improved in 2017 amid recovery in external demand**

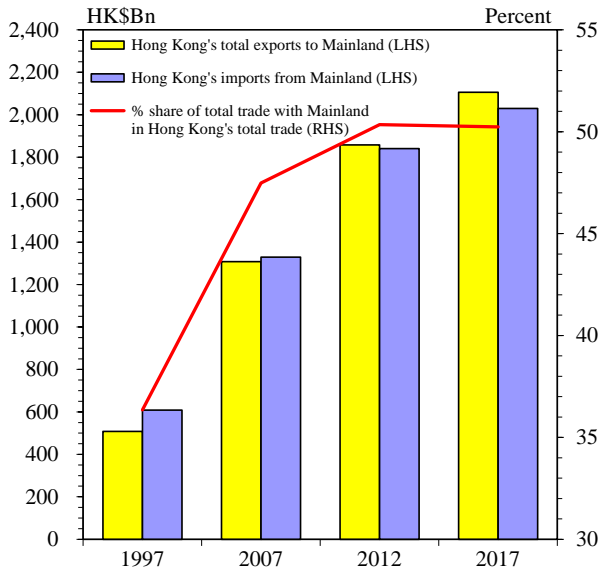


Note : (\*) The latest figure refers to October-November 2017 combined.

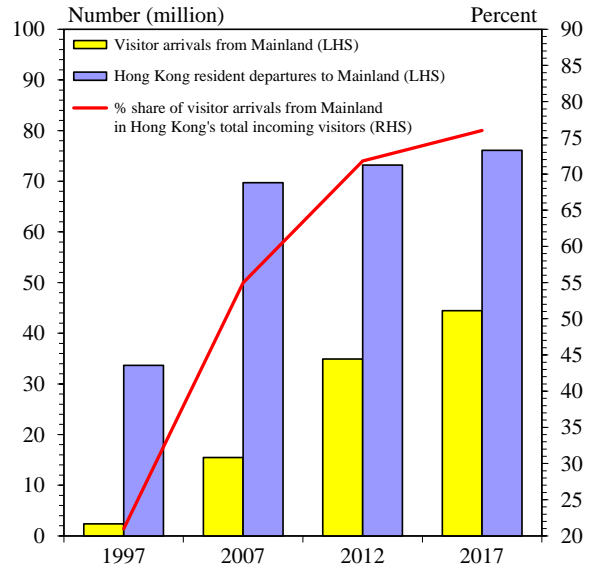
2.21 The expected solid expansion of global economic activity, if not derailed by severe shocks, should likewise bode well for exports of services in 2018. Thanks to the surge in regional trade flows, the revival of inbound tourism as well as buoyant financial markets, exports of services reverted to moderate growth in 2017 as a whole. Looking ahead in 2018, among the various major components, exports of transport services should see further growth, being supported by vibrant regional trade flows in Asia. Exports of travel services, having resumed growth in 2017 after three consecutive years of annual decline, should continue to benefit from the ongoing recovery in inbound tourism. The global financial markets, while turning more volatile of late, could stay active. This, coupled with the increasing cross-border financial and fund-raising activities of the Mainland enterprises, should be supportive of exports of financial services going forward.

**Diagram 2.7 : Economic links with the Mainland are important for Hong Kong**

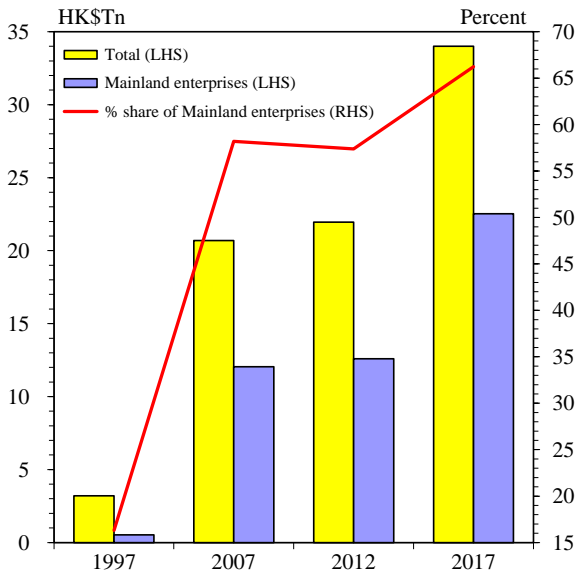
**(a) Merchandise trade**



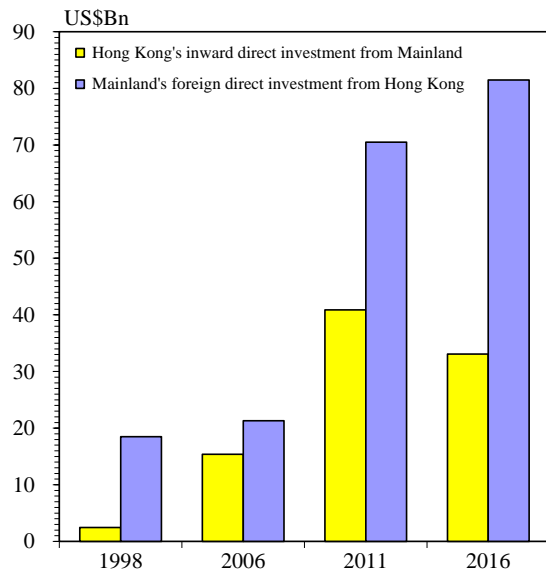
**(b) Visitor arrivals from Mainland and Hong Kong resident departures to Mainland**



**(c) Market capitalisation of Mainland enterprises in the Hong Kong stock market (end-year figures)**

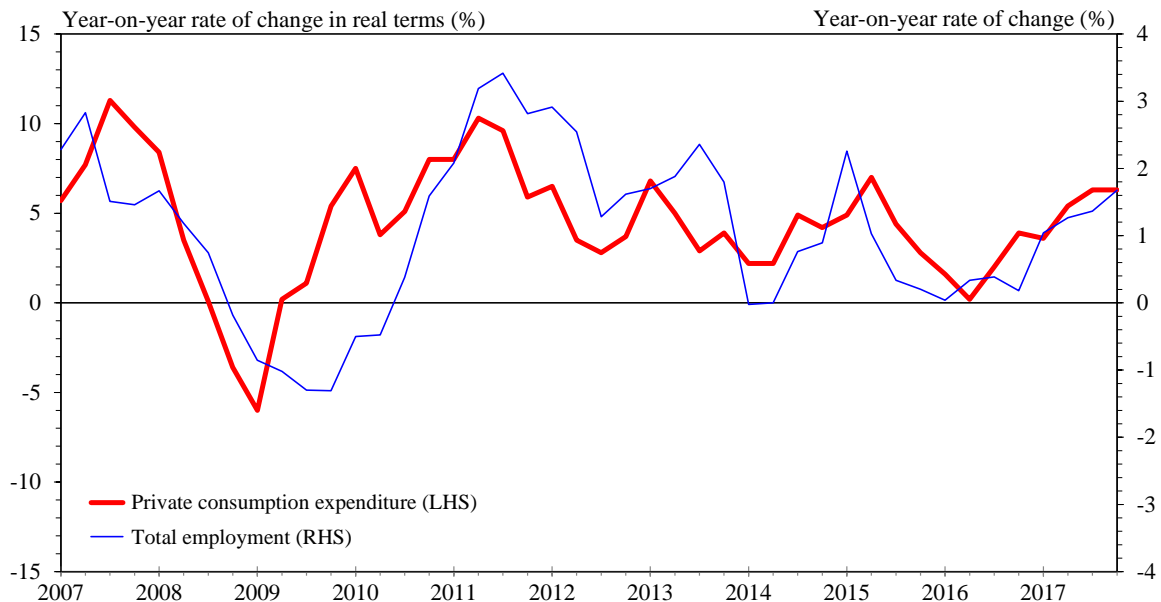


**(d) Hong Kong's inward direct investment from Mainland and Mainland's foreign direct investment from Hong Kong**

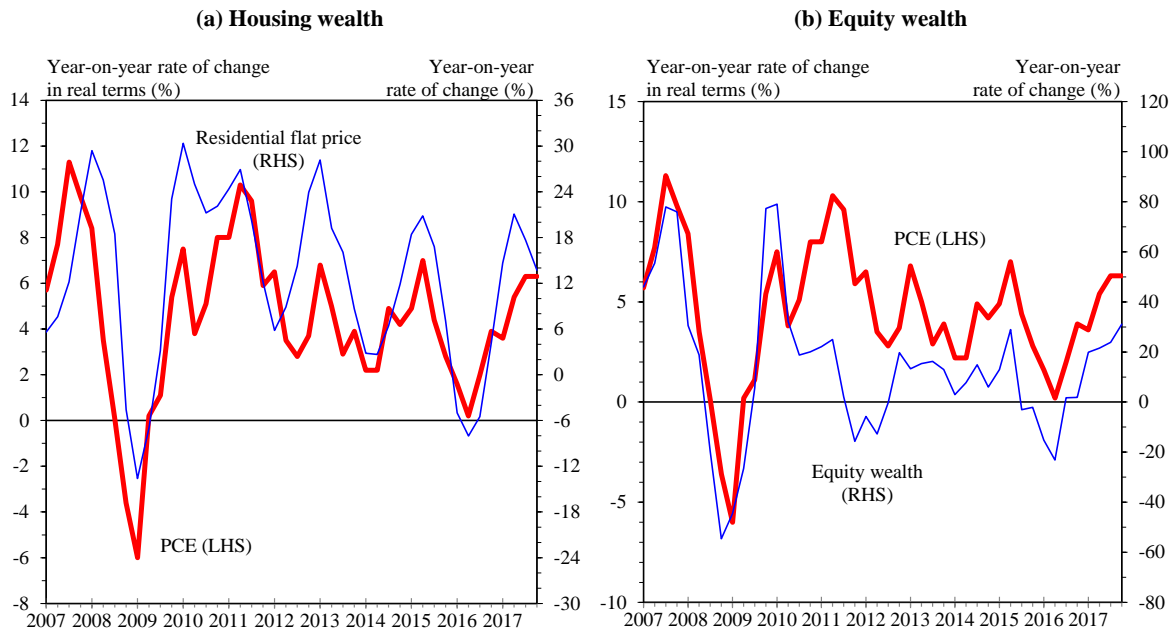


2.22 Hong Kong’s domestic demand picked up notably in 2017, thanks to the strong growth of private consumption expenditure and the rebound in investment spending. Looking ahead, private consumption expenditure is likely to show further solid growth in 2018, underpinned by the tight labour market and solid income growth. Investment expenditure in 2018 is poised for further growth, thanks to the benign business sentiment, intensive infrastructure works as well as further expansion in building works in both public and private sectors given the Government’s efforts in increasing housing supply.

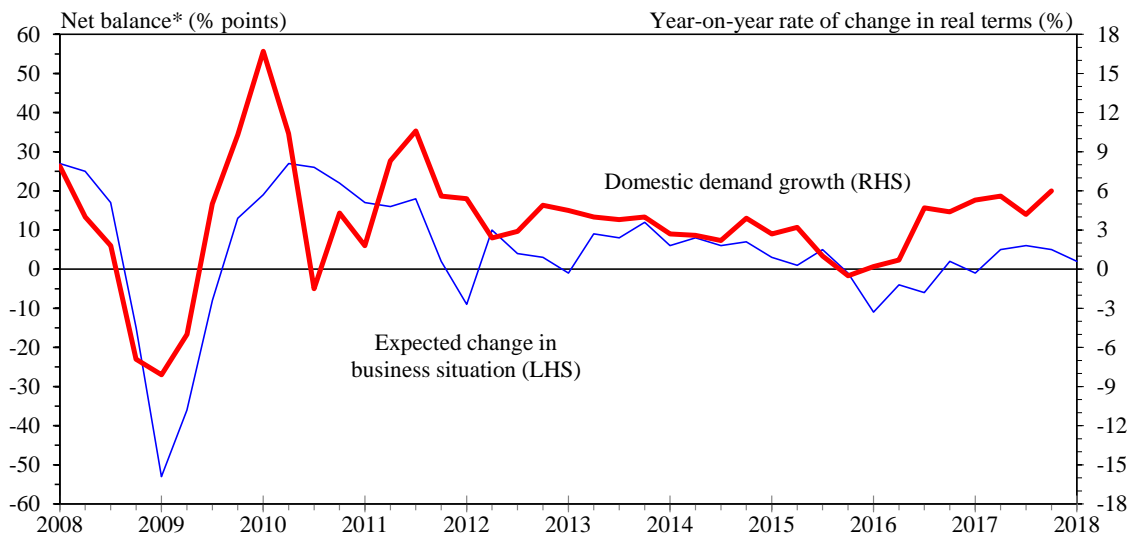
**Diagram 2.8 : Private consumption is likely to show further solid growth in 2018**



**Diagram 2.9 : Consumer sentiment will also be swayed by the performance of the asset markets**

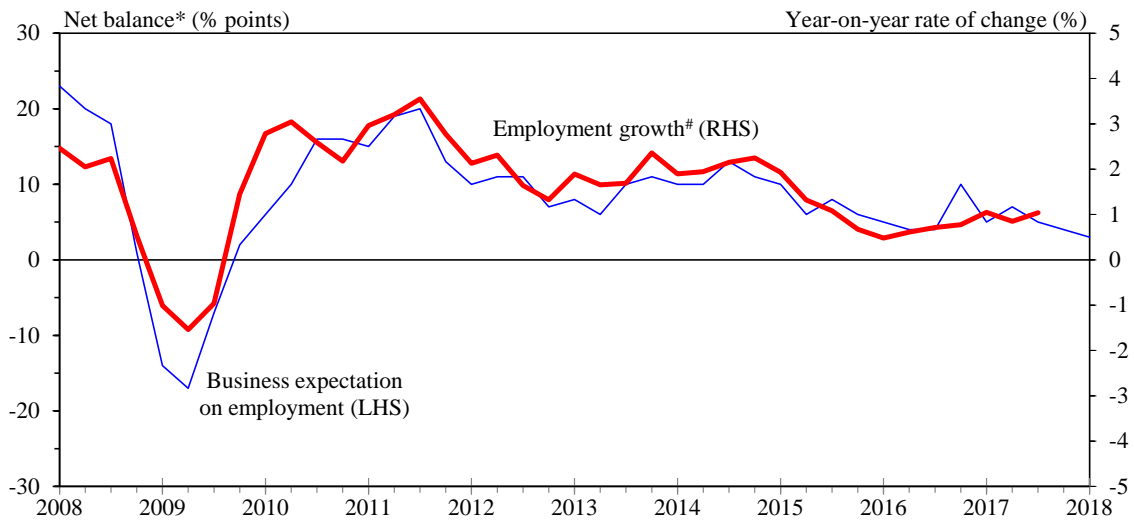


**Diagram 2.10 : Overall business sentiment of large enterprises has remained positive of late**



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.

**Diagram 2.11 : Hiring sentiment held broadly stable**

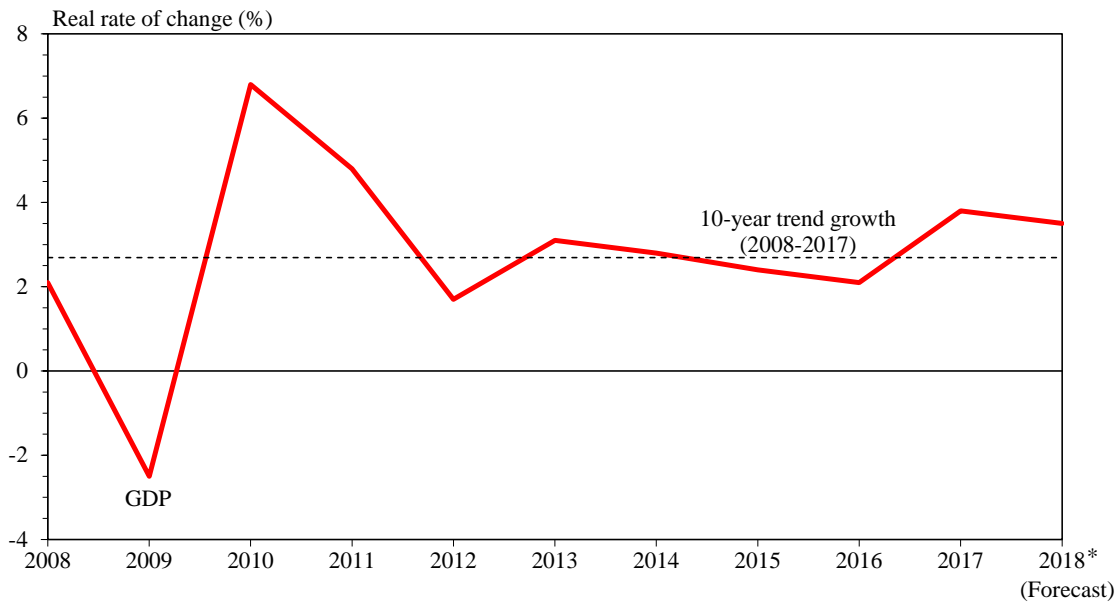


Notes : (\*) Net balance indicates the direction of expected change in number of persons engaged versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "up" over that choosing "down". A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.  
 (#) Employment in the private sector.

2.23 Under the Linked Exchange Rate System, the movements of interest rates in Hong Kong will eventually follow those of their US counterparts. In 2018, the Fed is poised to proceed with the monetary policy normalisation. However, there is still uncertainty about its pace of interest rate hikes, which will remain data dependent. The possible policy actions by other major central banks and impacts of the US tax reform on capital flows could also add uncertainty and heighten global financial volatility. Thus, despite the generally bright outlook, we should stay alert to the potential repercussions originating from the rising trend of interest rates and a more volatile global monetary environment on the local asset markets and economic sentiment.

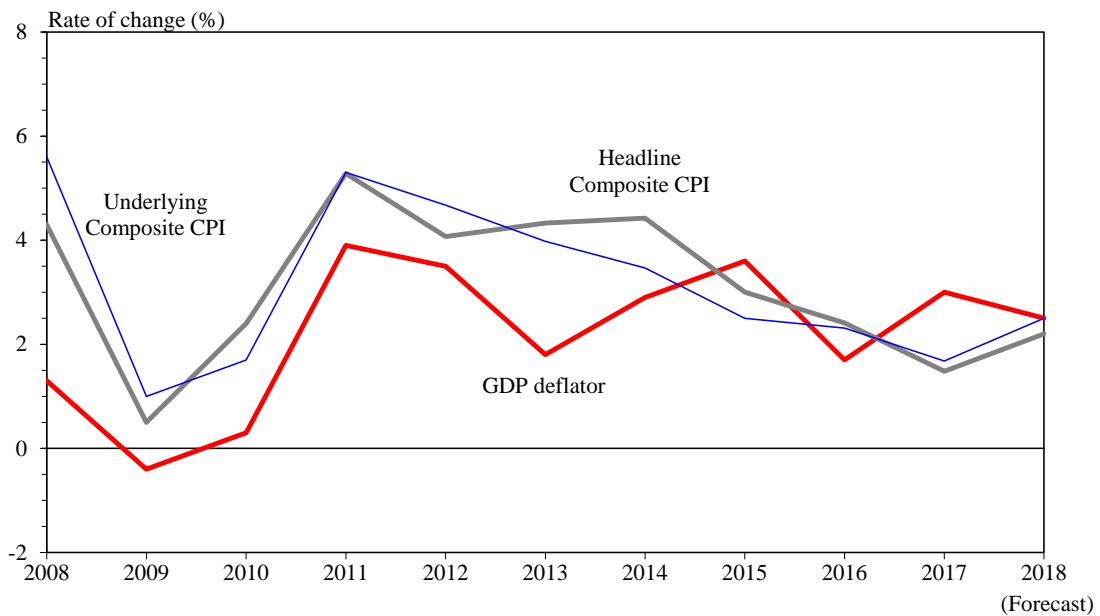
2.24 In sum, the continued momentum in global economic expansion and strength in domestic demand are expected to render solid support to the Hong Kong economy going forward. Barring any drastic external shocks, the real GDP in 2018 is forecast to grow by 3-4%, as compared to the 3.8% growth in 2017 and the trend growth of 2.7% per annum in the past ten years. If materialised, this will represent the second consecutive year of above-trend growth. However, such growth forecast is predicated on a sustained upturn in the global economy, with risks to growth broadly balanced. The Government will be mindful of various uncertainties in the external environment, for their possible ramifications on the Hong Kong economy. For comparison, the latest forecasts by private sector analysts for Hong Kong's economic growth in 2018 mostly fall within the range of 2.7-3.5%, averaging around 2.9%, and that by the IMF is 2.8%.

**Diagram 2.12 : Hong Kong economy is forecast to grow by 3-4% in 2018**



2.25 Underlying inflation in Hong Kong went down from 2.3% in 2016 to 1.7% in 2017, marking the sixth consecutive year of easing. Looking ahead in 2018, consumer price pressures are expected to increase somewhat. Externally, inflation in Hong Kong’s major import sources is expected to go slightly higher from the current low levels amid a stronger global economy. The prevailing weakness in the US dollar, if sustained, may also add to imported inflation somewhat. Locally, the feed-through into the consumer price inflation from the rise in fresh-letting residential rentals over the past year or so will likely turn more visible in 2018, and local cost pressure may also go up somewhat as the economy is expected to continue to expand at an above-trend rate. Overall, the underlying Composite CPI is forecast to increase by 2.5% for 2018 as a whole, up from the 1.7% increase in 2017. Taking into account the effects of the Government’s one-off measures, the headline Composite CPI is forecast to increase by 2.2% in 2018, as compared to that of 1.5% in 2017. For reference, the latest forecasts of consumer price inflation in 2018 by private sector analysts averaged 2.3%, while that by the IMF in January 2018 was 1.8%. The GDP deflator is forecast to rise by 2.5% in 2018, as price pressures from both the local and external sources are expected to be largely moderate.

**Diagram 2.13 : Consumer price pressures are expected to increase somewhat in 2018**



**Forecast rate of change in 2018 (%)**

**Gross Domestic Product (GDP)**

<i>Real GDP</i>	<b>3 to 4</b>
<i>Nominal GDP</i>	5.5 to 6.5
<i>Per capita GDP in real terms</i>	2.2 to 3.1
<i>Per capita GDP at current market prices</i>	HK\$376,900 – 380,500 (US\$48,300 – 48,800)

**Composite Consumer Price Index**

<i>Underlying</i>	<b>2.5</b>
<i>Headline</i>	<b>2.2</b>

<b>GDP Deflator</b>	<b>2.5</b>
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**Forecast on Hong Kong’s real GDP growth in 2018  
recently made by other selected parties**

	(%)
Asian Development Bank (December 2017)	3.2
IMF (January 2018)	2.8
Average forecast by private sector analysts <sup>#</sup>	2.9

Note : (#) Real GDP growth forecasts by private sector analysts mostly fall between 2.7% and 3.5%.



## ECONOMIC PERFORMANCE IN 2017

1. Rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2017 <sup>(Note 1)</sup>:

	(%)
(a) Growth rates in real terms of:	
Private consumption expenditure	5.4
Government consumption expenditure	3.4
Gross domestic fixed capital formation	4.2
<i>of which :</i>	
Building and construction	3.0
Machinery, equipment and intellectual property products	1.9
Total exports of goods	5.9
Imports of goods	6.9
Exports of services	3.5
Imports of services	1.8
<b>Gross Domestic Product (GDP)</b>	<b>3.8</b>
<i>Per capita GDP in real terms</i>	3.0
<i>Per capita GDP at current market prices</i>	HK\$360,200 (US\$46,200)
(b) Rates of change in:	
<b>Underlying Composite Consumer Price Index</b>	<b>1.7</b>
<b>GDP Deflator</b>	<b>3.0</b>
<b>Government Consumption Expenditure Deflator</b>	<b>2.4</b>
(c) <b>Growth rate of nominal GDP</b>	<b>6.9</b>

2. Annual rates of change in total exports based on external merchandise trade index numbers:

	<i>Total exports</i>	
	<i>In value terms</i> (%)	<i>In real terms</i> (%)
2015	-2	-2
2016	0	1
2017	8	6

3. Annual rates of change in real terms of total exports by major market based on external merchandise trade quantum index numbers:

	<i>Total exports</i>					
	<i>Total</i> (%)	<i>The Mainland</i> (%)	<i>EU</i> (%)	<i>US</i> (%)	<i>India</i> (%)	<i>Japan</i> (%)
2015	-2	-2	-4	1	8	-4
2016	1	2	-1	-2	18	-2
2017	6	5	5	2	35	10

4. Annual rates of change in real terms of imports and retained imports based on external merchandise trade quantum index numbers:

	<i>Imports</i> (%)	<i>Retained imports</i> (%)
2015	-3	-7
2016	1	-1
2017	7	8

5. Annual rates of change in real terms of exports of services by type:

	<i>Exports of services</i>				
	<i>Total</i> (%)	<i>Transport services</i> (%)	<i>Travel services</i> (%)	<i>Financial services</i> (%)	<i>Other services</i> (%)
2015	0	1	-4	9	-1
2016	-3	2	-9	-5	0
2017 <i>(Note 1)</i>	4	7	1	4	1

6. Hong Kong's goods and services trade balance in 2017 reckoned on GDP basis *(Note 1)*:

	(HK\$ billion)
Total exports of goods	4,190.2
Imports of goods	4,377.2
<b><i>Goods trade balance</i></b>	<b>-187.0</b>
Exports of services	810.3
Imports of services	602.3
<b><i>Services trade balance</i></b>	<b>208.1</b>
<b><i>Combined goods and services trade balance</i></b>	<b>21.0</b>

*Note 1 Preliminary figures.*

7. Annual averages of the unemployment and underemployment rates and growth in labour force and total employment:

	<i>Unemployment rate (%)</i>	<i>Underemployment rate (%)</i>	<i>Growth in labour force (%)</i>	<i>Growth in total employment (%)</i>
2015	3.3	1.4	0.8	0.8
2016	3.4	1.4	0.4	0.4
2017	3.1	1.1	0.9	1.2

8. Annual rates of change in the Consumer Price Indices:

	<i>Composite CPI</i>		<i>CPI(A)</i>	<i>CPI(B)</i>	<i>CPI(C)</i>
	<i>Underlying (%)</i>	<i>Headline (%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>
2015	2.5	3.0	4.0	2.9	2.1
2016	2.3	2.4	2.8	2.3	2.1
2017	1.7	1.5	1.5	1.4	1.5

## ECONOMIC PROSPECTS FOR 2018

Forecast rates of change in the Gross Domestic Product and prices in 2018:

	(%)
<b>Gross Domestic Product (GDP)</b>	
<i>Real GDP</i>	<b>3 to 4</b>
<i>Nominal GDP</i>	5.5 to 6.5
<i>Per capita GDP in real terms</i>	2.2 to 3.1
<i>Per capita GDP at current market prices</i>	HK\$376,900-380,500 (US\$48,300-48,800)
<b>Composite Consumer Price Index</b>	
<i>Underlying Composite Consumer Price Index</i>	<b>2.5</b>
<i>Headline Composite Consumer Price Index</i>	<b>2.2</b>
<b>GDP Deflator</b>	<b>2.5</b>
<b>Government Consumption Expenditure Deflator</b>	<b>3</b>