Hong Kong SAR Government

First Quarter Economic Report 2018
&
Updated economic forecasts for 2018

11 May 2018
Highlights of the latest economic situation

• Hong Kong’s economy was vibrant in Q1, turning in robust growth of 4.7% over a year earlier

• External demand picked up as the global economy sustained broad-based momentum

• Domestic demand strengthened, buttressed by favourable job and income conditions as well as broadly positive business sentiments

• Consumer price inflation stayed broadly moderate

• Latest real GDP growth forecast for 2018 maintained at 3-4%; underlying inflation rate forecast at 2.5%
Economic performance in Q1 2018
Hong Kong’s economy turned in robust growth in Q1

Graph showing the rate of change in real terms (%):
- Year-on-year change (紅色)
- Seasonally adjusted quarter-to-quarter change (藍色)

Key data points:
- Q1 2013: 2.2%
- Q1 2014: 2.7%
- Q1 2015: 4.7%
- Q1 2016: 2.7%
- Q1 2017: 2.2%
- Q1 2018: 4.7%

十年平均增长 (10-year trend growth) is shown at 2.7%.
External sector
Asia’s exports grew visibly as global demand strengthened

![Graph showing the year-on-year rate of change in US$ terms for selected Asian economies and import demand of US, euro area, and Japan.](image)

**Notes:**

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

(*) Due to data limitations, the latest figure for import demand of US, euro area, and Japan is Jan-Feb 2018 combined.

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Hong Kong’s exports of goods grew strongly

Total exports of goods by major market

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Annual</td>
<td>Q3</td>
</tr>
<tr>
<td>Mainland</td>
<td>5.4</td>
<td>6.0</td>
</tr>
<tr>
<td>U.S.</td>
<td>1.9</td>
<td>-0.5</td>
</tr>
<tr>
<td>E.U.</td>
<td>4.6</td>
<td>5.0</td>
</tr>
<tr>
<td>Japan</td>
<td>10.3</td>
<td>10.8</td>
</tr>
<tr>
<td>India</td>
<td>35.1</td>
<td>9.9</td>
</tr>
<tr>
<td>Taiwan</td>
<td>16.1</td>
<td>14.7</td>
</tr>
<tr>
<td>Korea</td>
<td>3.3</td>
<td>-1.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>1.8</td>
<td>11.7</td>
</tr>
</tbody>
</table>
Exports of services accelerated in growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate of change in real terms (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 Q1</td>
<td>7.5%</td>
</tr>
<tr>
<td>2014 Q1</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

-8 -6 -4 -2 0 2 4 6 8 10

Q1 2013  Q1 2014  Q1 2015  Q1 2016  Q1 2017  Q1 2018

服務輸出
Exports of services

按年增減
Year-on-year change

經季節性調整後按季增減
Seasonally adjusted quarter-to-quarter change
Exports of services showed broad-based growth

### Exports of services

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

<table>
<thead>
<tr>
<th></th>
<th>Travel</th>
<th>Transport</th>
<th>Financial services</th>
<th>Business and other services</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>Annual</td>
<td>1.5</td>
<td>6.1</td>
<td>4.4</td>
</tr>
<tr>
<td>Q1</td>
<td>1.5</td>
<td>8.0</td>
<td>2.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Q2</td>
<td>-1.8</td>
<td>6.9</td>
<td>2.6</td>
<td>0.4</td>
</tr>
<tr>
<td>Q3</td>
<td>1.8</td>
<td>6.5</td>
<td>5.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Q4</td>
<td>4.0</td>
<td>3.3</td>
<td>8.0</td>
<td>0.7</td>
</tr>
<tr>
<td>2018</td>
<td>Q1</td>
<td>11.8</td>
<td>4.1</td>
<td>10.7</td>
</tr>
</tbody>
</table>
Domestic sector
Private consumption expenditure grew notably

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate of change in real terms (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2013</td>
<td>-4%</td>
</tr>
<tr>
<td>Q1 2014</td>
<td>3.1%</td>
</tr>
<tr>
<td>Q1 2015</td>
<td>8.6%</td>
</tr>
<tr>
<td>Q1 2016</td>
<td>3.1%</td>
</tr>
<tr>
<td>Q1 2017</td>
<td>3.1%</td>
</tr>
<tr>
<td>Q1 2018</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

Year-on-year change

Seasonally adjusted quarter-to-quarter change
Overall investment spending registered further growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1.8</td>
<td>-7.8</td>
<td>6.1</td>
<td>-3.0</td>
<td>9.9</td>
</tr>
<tr>
<td>2018</td>
<td>6.2</td>
<td>7.0</td>
<td>2.0</td>
<td>0.9</td>
<td>-2.6</td>
</tr>
</tbody>
</table>

Overall investment spending

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

- Machinery, equipment and intellectual property products
- Building and construction

Annual: 1.8
Q1: -7.8
Q2: 6.1
Q3: -3.0
Q4: 9.9

Gross domestic fixed capital formation

本地固定資本形成總額

按年實質增減率 (%)

Year-on-year rate of change in real terms (%)
Labour market
Labour market was tight

失業率 (%)  
Unemployment rate (%)

較低技術勞工  
Lower-skilled workers

整體  
Overall

專業及管理員工  
Professional and managerial staff

Note: Not seasonally adjusted except the overall unemployment rate.
Incomes registered further real improvements

<table>
<thead>
<tr>
<th>Income*</th>
<th>Year-on-year rate of change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nominal growth</td>
</tr>
<tr>
<td>Index of payroll per person engaged (Q4 2017)</td>
<td>4.2</td>
</tr>
<tr>
<td>Wage index (December 2017)</td>
<td>3.8</td>
</tr>
<tr>
<td>Average monthly employment earnings of full-time employees of the lowest three decile groups (Q1 2018)</td>
<td>5.3</td>
</tr>
<tr>
<td>Median monthly household income (Q1 2018)</td>
<td>7.7</td>
</tr>
</tbody>
</table>

Note: (*) Excluding foreign domestic helpers.
Inflation
Inflation pressures remained generally 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
Residential property market remained buoyant in Q1

Note: Small/medium-sized flats refer to those with a saleable area of less than 100 m², while large flats refer to those with a saleable area of at least 100 m².
Mortgage payment to income ratio worsened

供款與收入比率^ (%)
Repayment-income ratio^ (%)

1998-2017年平均數
(1998-2017 average)

2018年第一季度：約 71
2018Q1: about 71

注：(*) 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.
Total medium-term flat supply at a high level of 96,000

Number of domestic units

Future three to four years available domestic units

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.

Note:

Source:
Outlook for the remaining 2018
Broad-based momentum in global economy likely to continue

- **Mainland:** Economy should stay on a robust growth track this year following the strong performance in Q1

- **US:** Economy is expected to see faster growth this year as the stimulating effect of the expansionary fiscal policy kicks in

- **Euro area & Japan:** Recent indicators point to further moderate economic growth

- **Rest of Asia:** Strengthening global demand should be conducive to manufacturing and trading activities in the region
Mainland economy showed a strong performance in Q1

Vibrant exports

Resilient domestic demand

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

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### IMF maintained its global growth forecast

<table>
<thead>
<tr>
<th>Region</th>
<th>GDP growth in 2017</th>
<th>IMF forecasts for 2018 GDP growth</th>
<th>Change between Jan and Apr</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jan</td>
<td>Apr</td>
<td></td>
</tr>
<tr>
<td>World</td>
<td>3.8</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>U.S.</td>
<td>2.3</td>
<td>2.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Euro area</td>
<td>2.4</td>
<td>2.2</td>
<td>2.4</td>
</tr>
<tr>
<td>Japan</td>
<td>1.7</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Mainland China</td>
<td>6.9</td>
<td>6.6</td>
<td>6.6</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>6.5</td>
<td>6.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Emerging market and developing economies</td>
<td>4.8</td>
<td>4.9</td>
<td>4.9</td>
</tr>
</tbody>
</table>
## Business outlook for large enterprises turned more upbeat

<table>
<thead>
<tr>
<th>Sector</th>
<th>17Q3</th>
<th>17Q4</th>
<th>18Q1</th>
<th>18Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Import/export trade and wholesale</td>
<td>0</td>
<td>+1</td>
<td>-4</td>
<td>+5</td>
</tr>
<tr>
<td>Retail</td>
<td>-4</td>
<td>+24</td>
<td>+20</td>
<td>+4</td>
</tr>
<tr>
<td>Accommodation and food services</td>
<td>-2</td>
<td>+13</td>
<td>-3</td>
<td>-7</td>
</tr>
<tr>
<td>Transportation, storage and courier services</td>
<td>+2</td>
<td>-7</td>
<td>-5</td>
<td>-8</td>
</tr>
<tr>
<td>Information and communications</td>
<td>+17</td>
<td>+16</td>
<td>-2</td>
<td>+20</td>
</tr>
<tr>
<td>Professional and business services</td>
<td>0</td>
<td>+7</td>
<td>+2</td>
<td>-2</td>
</tr>
<tr>
<td>Financing and insurance</td>
<td>+19</td>
<td>+13</td>
<td>+21</td>
<td>+28</td>
</tr>
<tr>
<td>All sectors surveyed</td>
<td>+6</td>
<td>+5</td>
<td>+2</td>
<td>+8</td>
</tr>
</tbody>
</table>

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.
Near-term economic outlook

Strengthening global demand should benefit Hong Kong’s exports
- Further improvement in inbound tourism should render additional support to exports of services

Domestic demand should continue to stay resilient
- Local consumption sentiment well underpinned by favourable job and income conditions
  - Broadly positive business outlook
  - Ongoing infrastructure works
  - Measures in the Budget

Inflation pressures may go up somewhat, but should remain moderate
However, external uncertainties have increased of late

- Trade tensions between the US and its trading partners (notably the Mainland)
- Evolving global financial conditions amid the US rate hikes
<table>
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<tr>
<th></th>
<th>Forecasts as released on 28 February</th>
<th>Latest forecasts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
<td>3-4%</td>
<td>3-4%</td>
</tr>
<tr>
<td>Underlying inflation</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Headline inflation</td>
<td>2.2%</td>
<td>2.2%</td>
</tr>
</tbody>
</table>