



Hong Kong SAR Government

First Quarter Economic Report 2018 & Updated economic forecasts for 2018

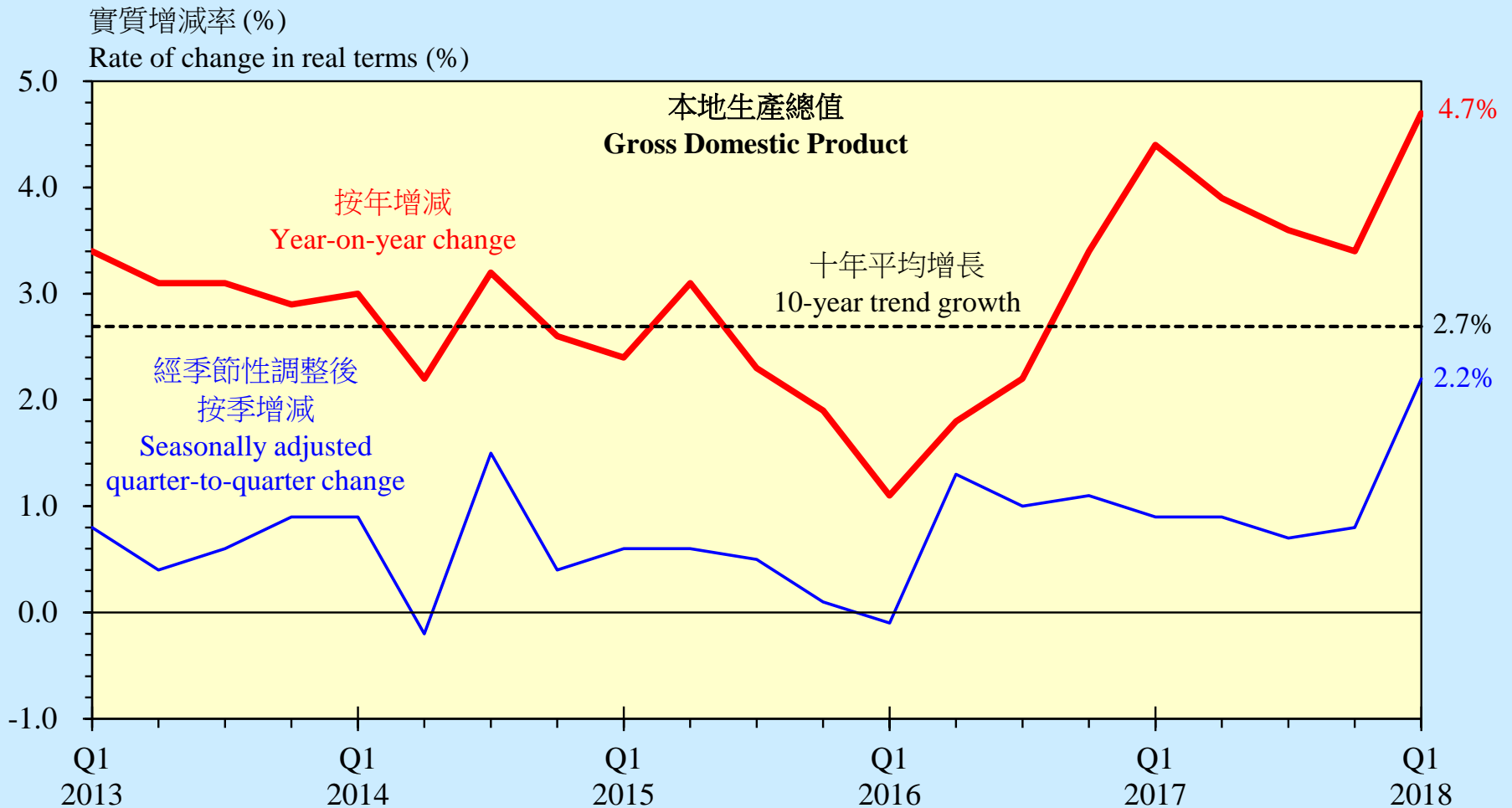
11 May 2018

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%

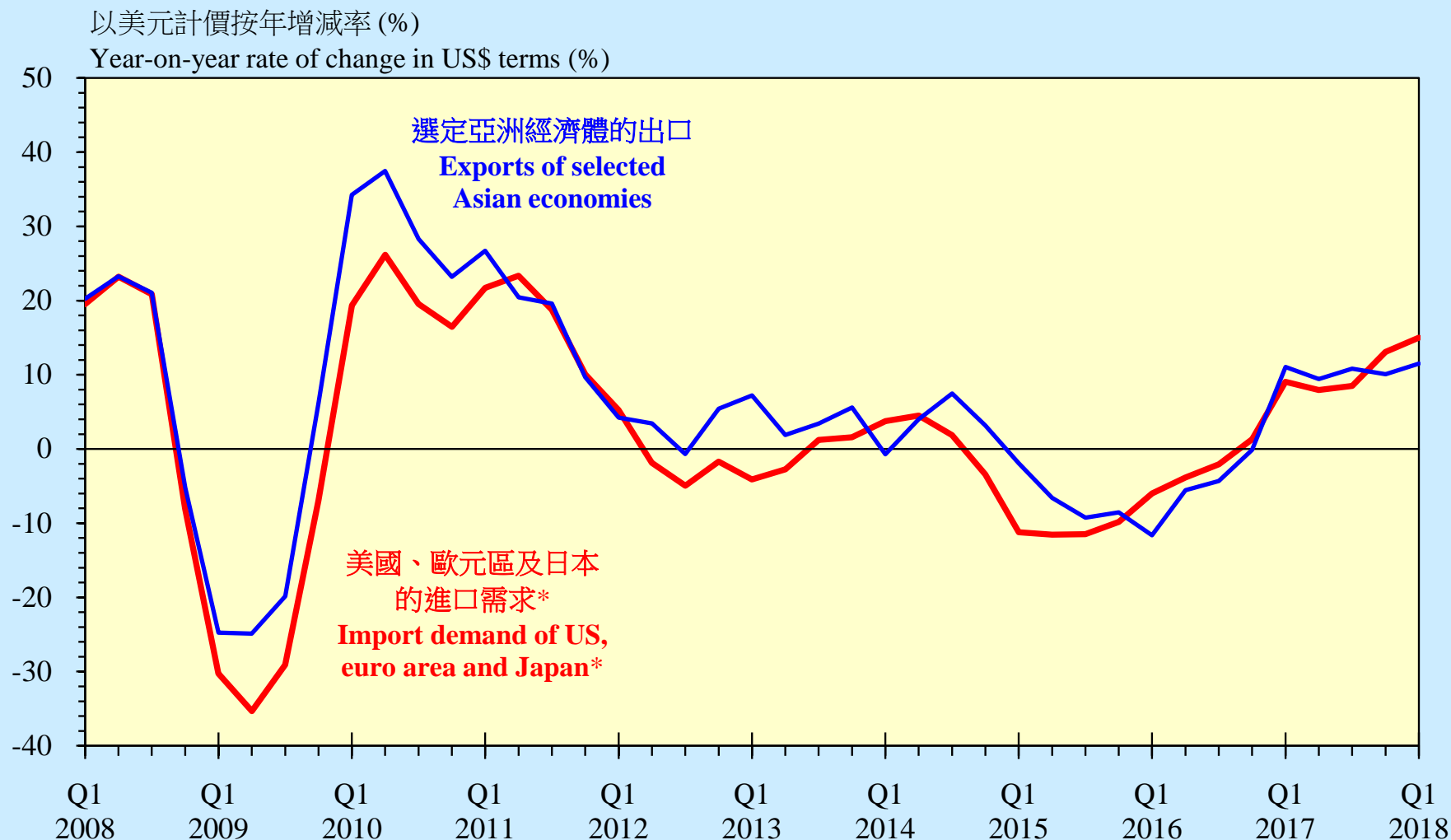
Economic performance in Q1 2018

Hong Kong's economy turned in robust growth in Q1



External sector

Asia's exports grew visibly as global demand strengthened



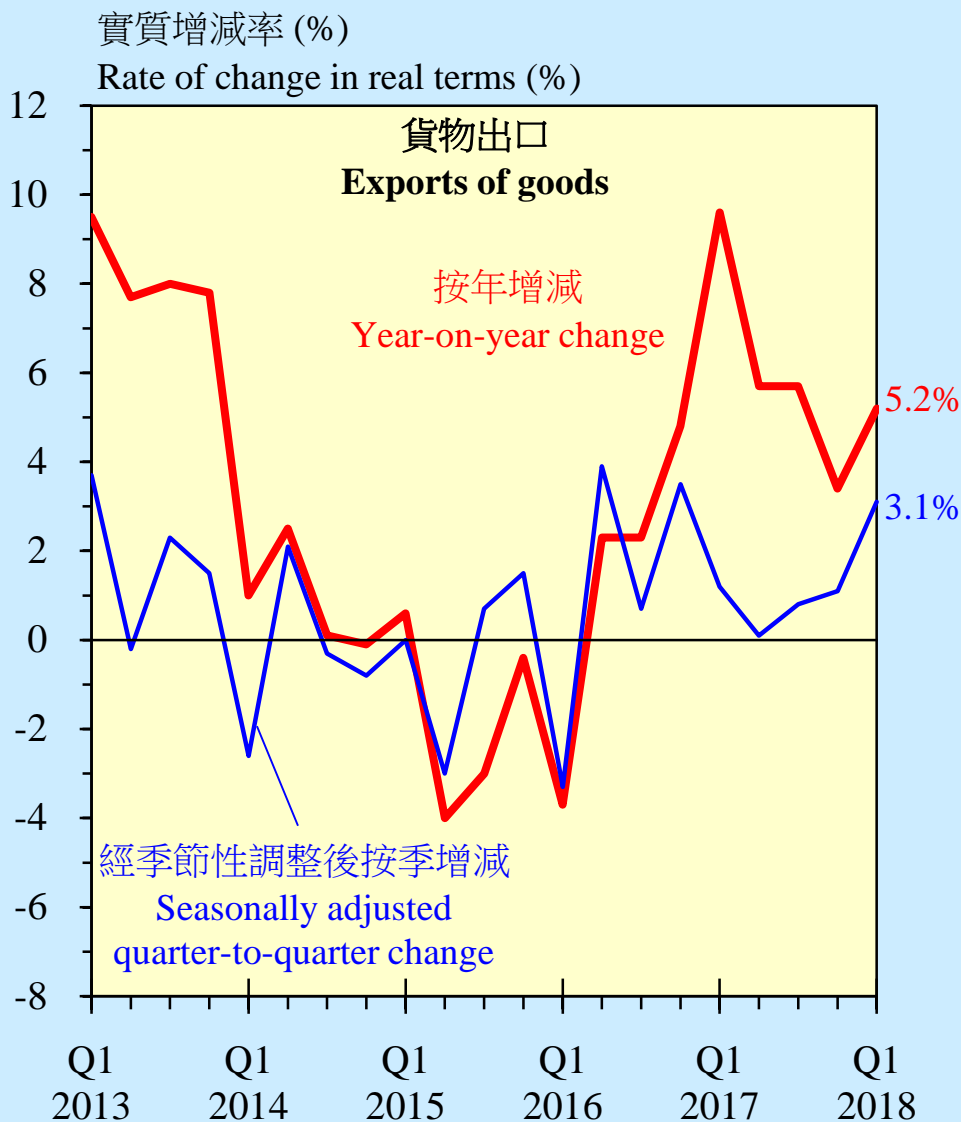
註： 選定亞洲經濟體包括中國內地、香港、印度、印尼、韓國、馬來西亞、菲律賓、新加坡、台灣及泰國。

(*) 由於數據有限，美國、歐元區及日本的進口需求最新數字為2018年1-2月合併的數字。

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.

Hong Kong's exports of goods grew strongly

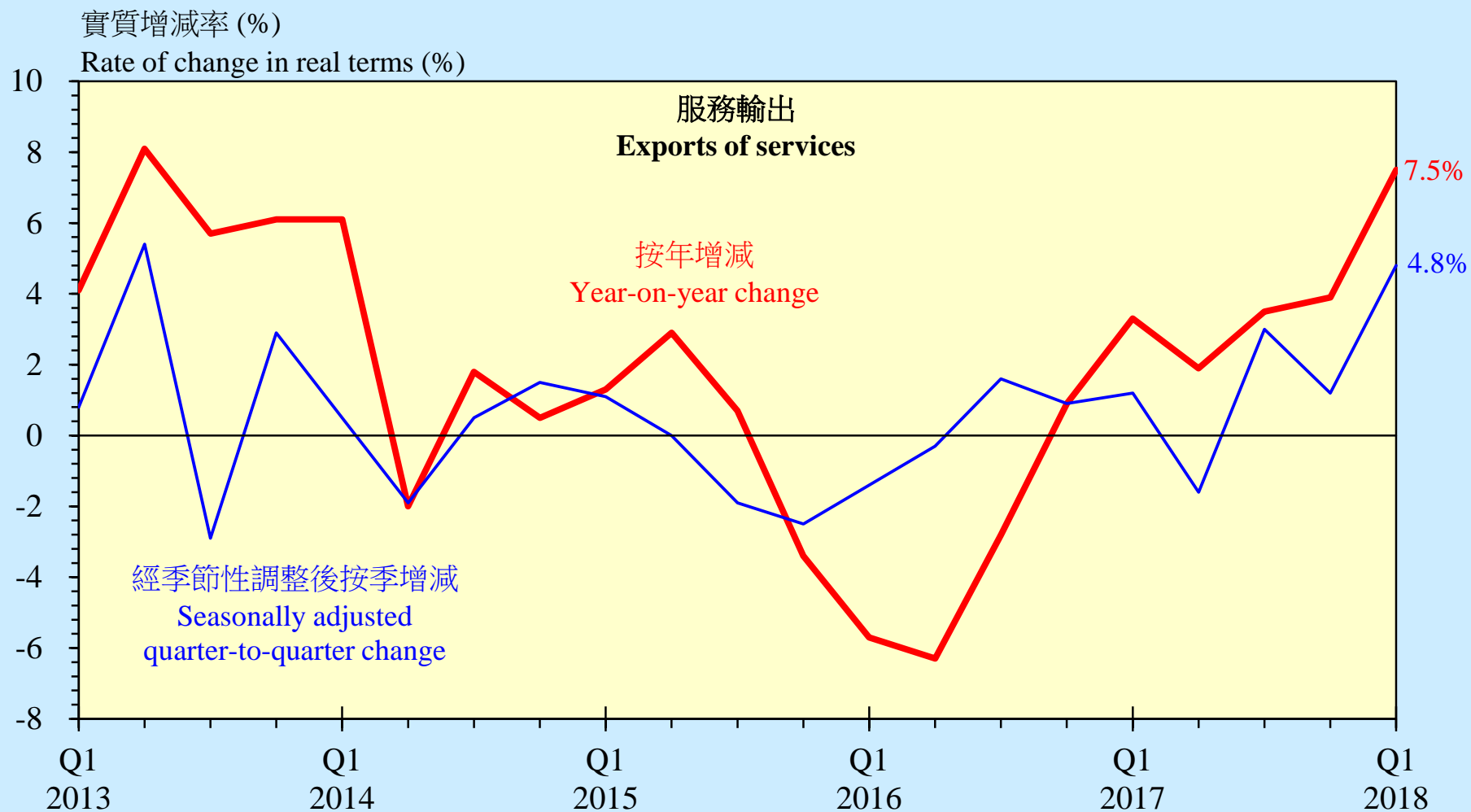


Total exports of goods by major market

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

	<u>2017</u>	<u>2018</u>		
	<u>Annual</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Mainland	5.4	6.0	3.0	9.4
U.S.	1.9	-0.5	3.8	5.1
E.U.	4.6	5.0	8.5	9.1
Japan	10.3	10.8	10.6	5.2
India	35.1	9.9	39.5	-7.6
Taiwan	16.1	14.7	-5.4	8.4
Korea	3.3	-1.5	3.5	-3.1
Singapore	1.8	11.7	-6.2	10.5

Exports of services accelerated in growth



Exports of services showed broad-based growth

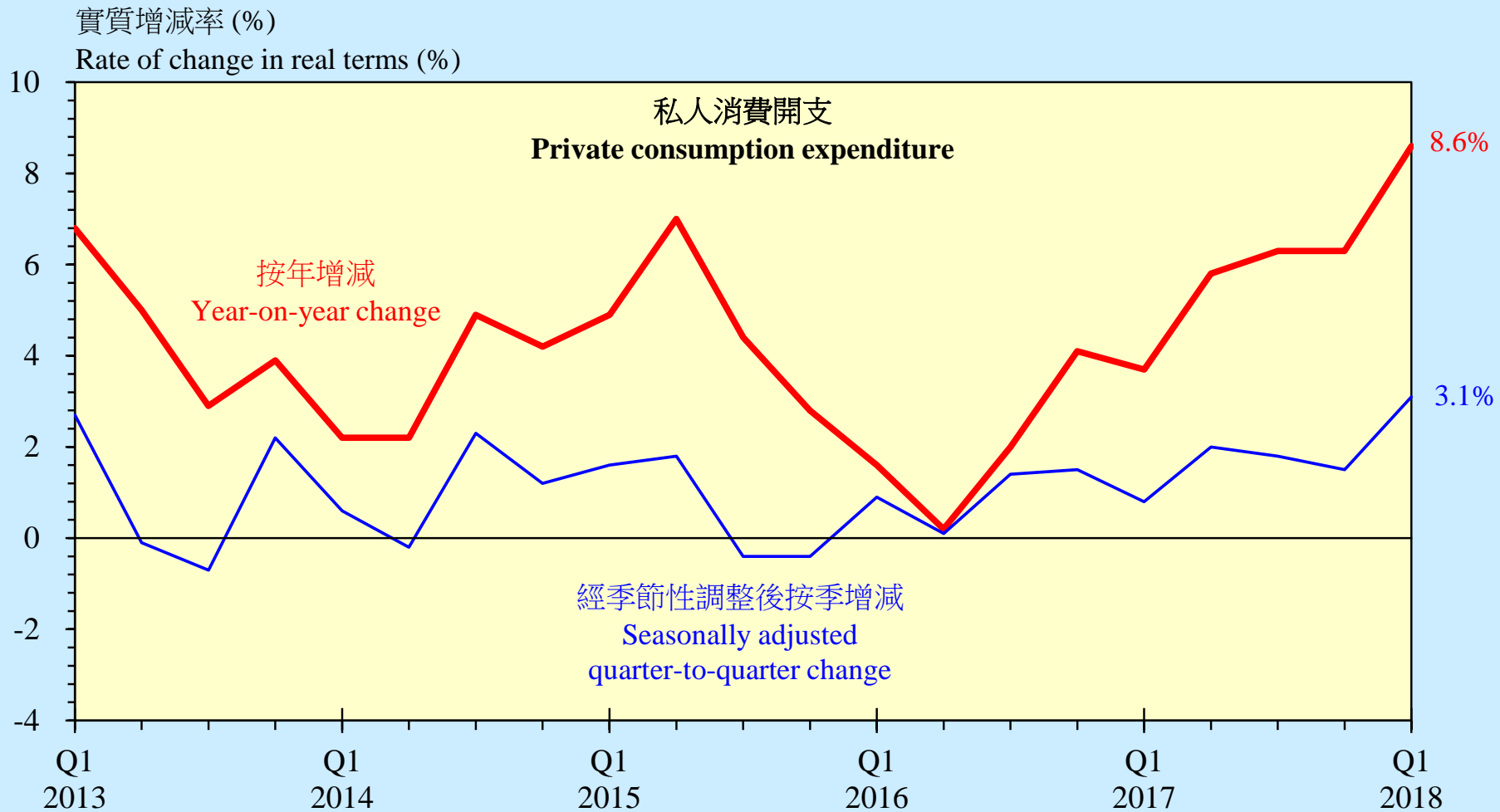
Exports of services

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

		<u>Travel</u>	<u>Transport</u>	<u>Financial services</u>	<u>Business and other services</u>
2017	Annual	1.5	6.1	4.4	0.7
	Q1	1.5	8.0	2.1	1.1
	Q2	-1.8	6.9	2.6	0.4
	Q3	1.8	6.5	5.0	0.8
	Q4	4.0	3.3	8.0	0.7
2018	Q1	11.8	4.1	10.7	1.4

Domestic sector

Private consumption expenditure grew notably

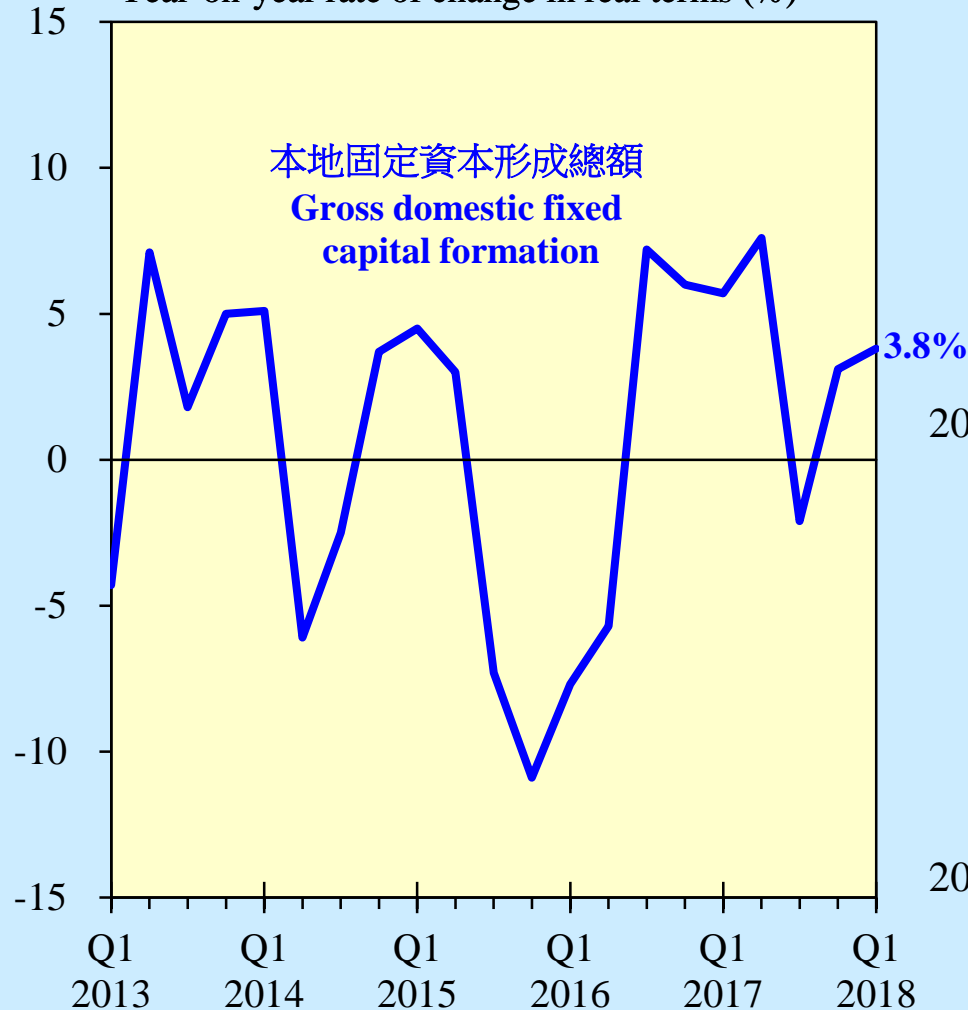


Overall investment spending registered further growth

按年實質增減率 (%)

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

本地固定資本形成總額
Gross domestic fixed
capital formation



Overall investment spending

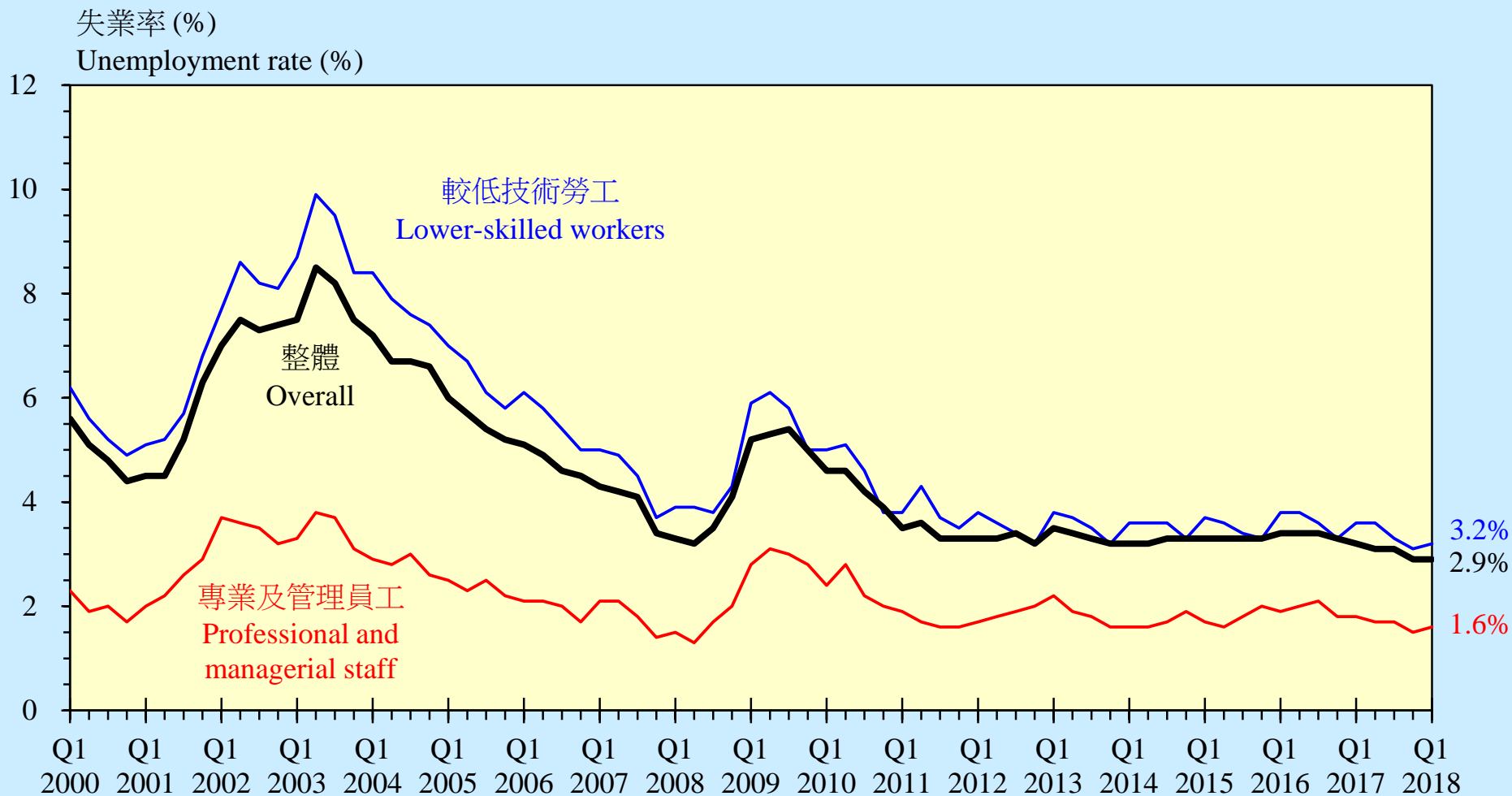
Year-on-year rate of change in real terms (%)

	<u>Machinery, equipment and intellectual property products</u>	<u>Building and construction</u>
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2017	Annual	1.8	1.7
	Q1	-7.8	7.0
	Q2	6.1	2.0
	Q3	-3.0	0.9
	Q4	9.9	-2.6
2018	Q1	6.2	1.0

Labour market

Labour market was tight



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 registered further real improvements

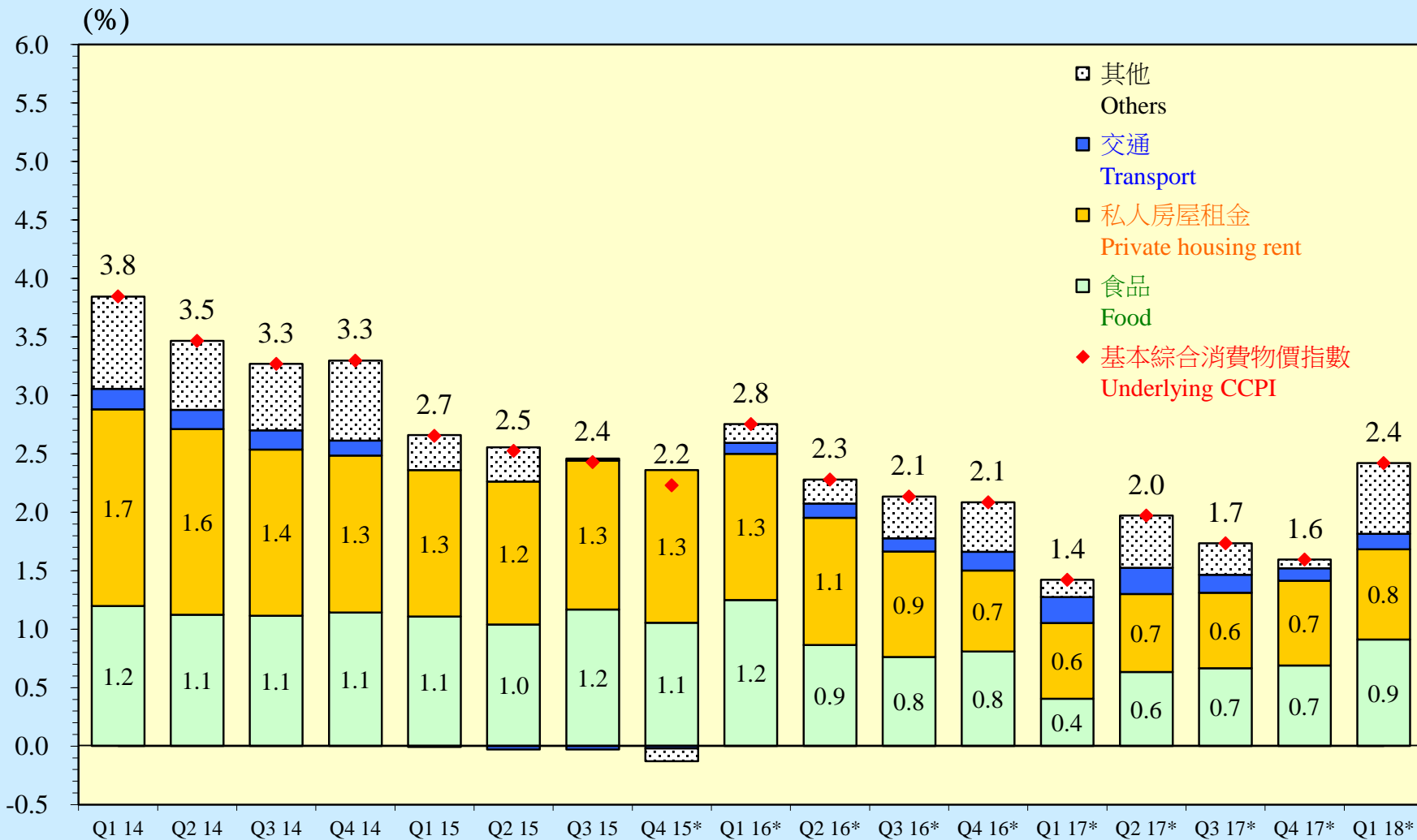
	<u>Income*</u>	
	Year-on-year rate of change (%)	
	<u>Nominal growth</u>	<u>Real growth</u>
Index of payroll per person engaged (Q4 2017)	4.2	2.6
Wage index (December 2017)	3.8	2.1
Average monthly employment earnings of full-time employees of the lowest three decile groups (Q1 2018)	5.3	2.6
Median monthly household income (Q1 2018)	7.7	5.1

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

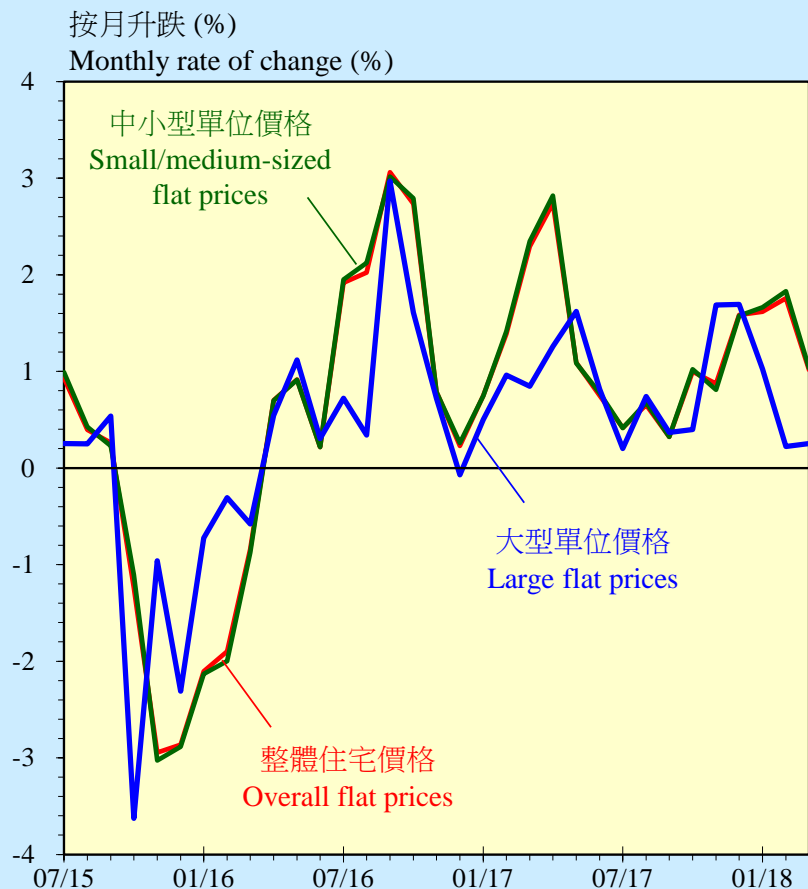


Note: (*) By reference to the new 2014/15-based CPI series.

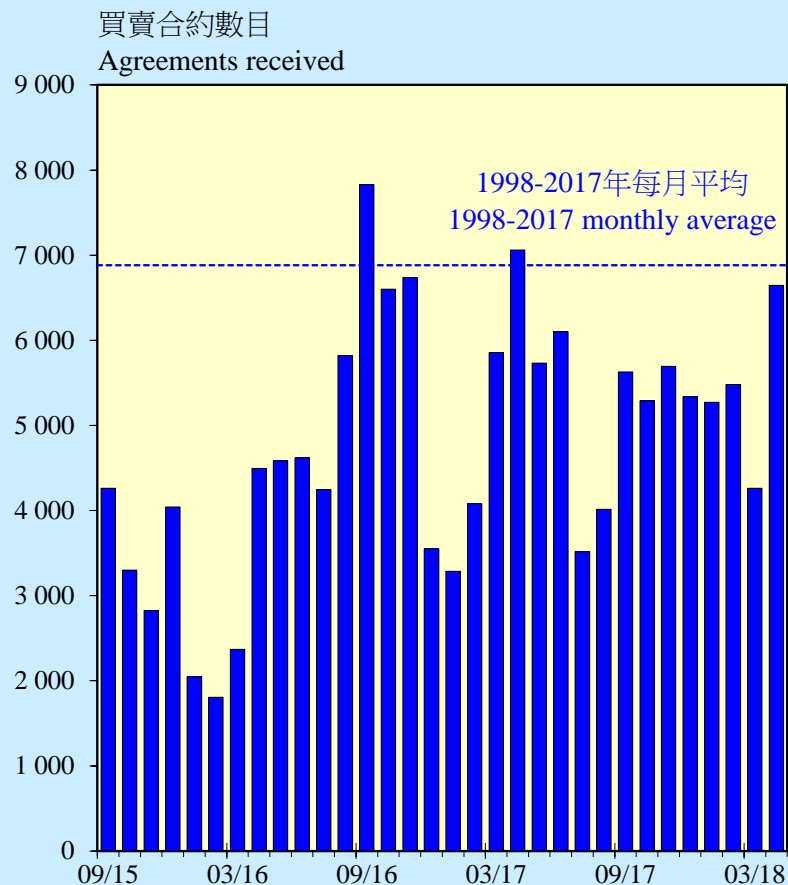
Property market

Residential property market remained buoyant in Q1

住宅售價
Flat prices

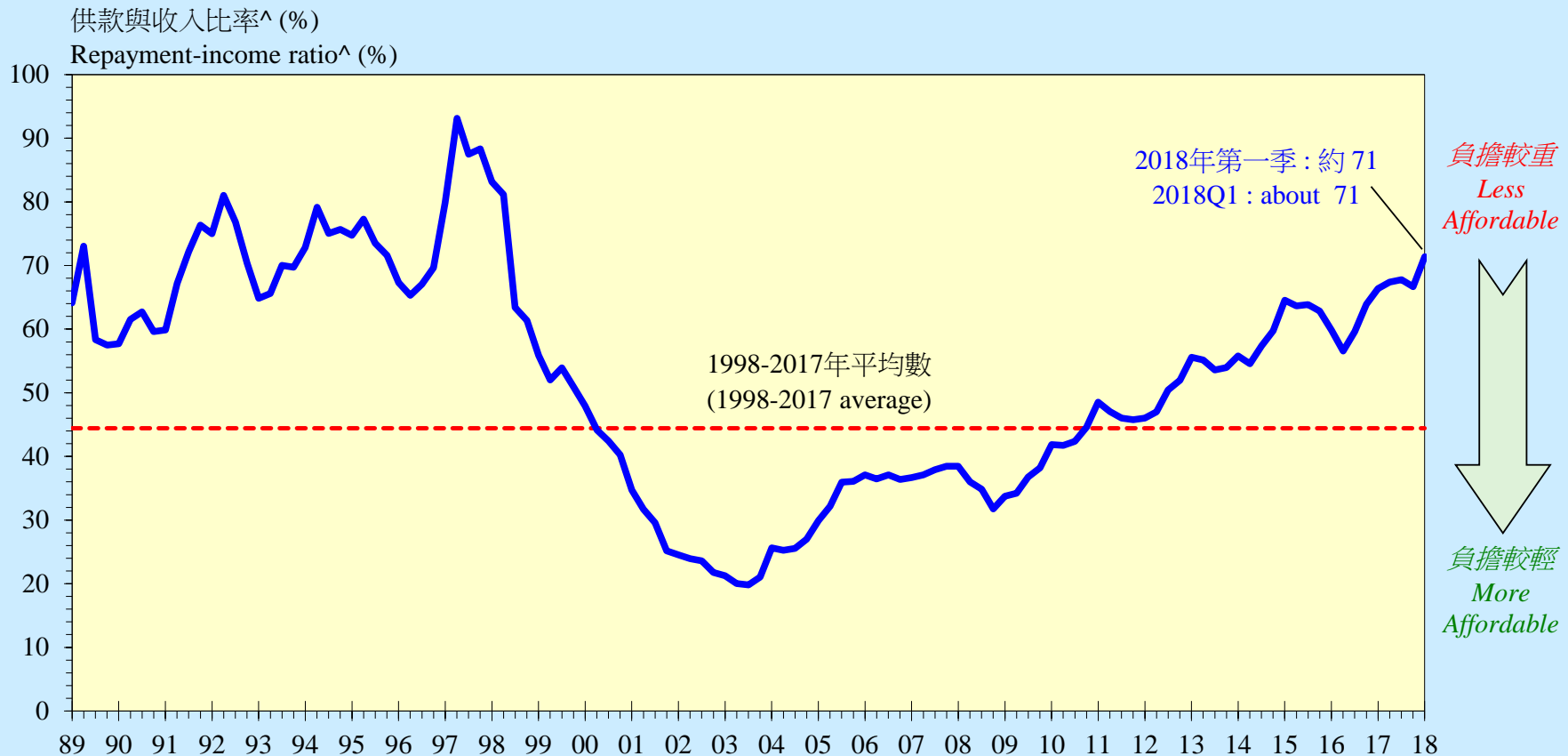


住宅物業買賣合約數目
No. of S&P agreements for residential property



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



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 mortgagees to their monthly income of newly approved mortgages.

Total medium-term flat supply at a high level of 96 000

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項目。

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.

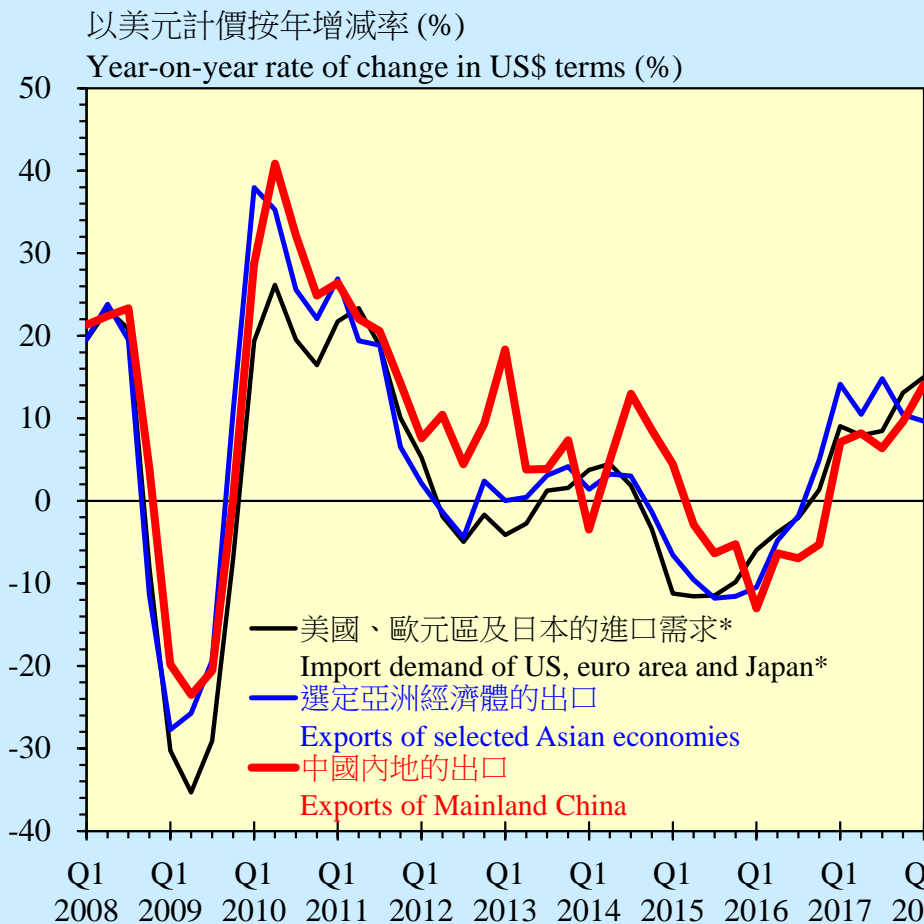
Outlook for the remaining 2018

Broad-based momentum in global economy likely to continue

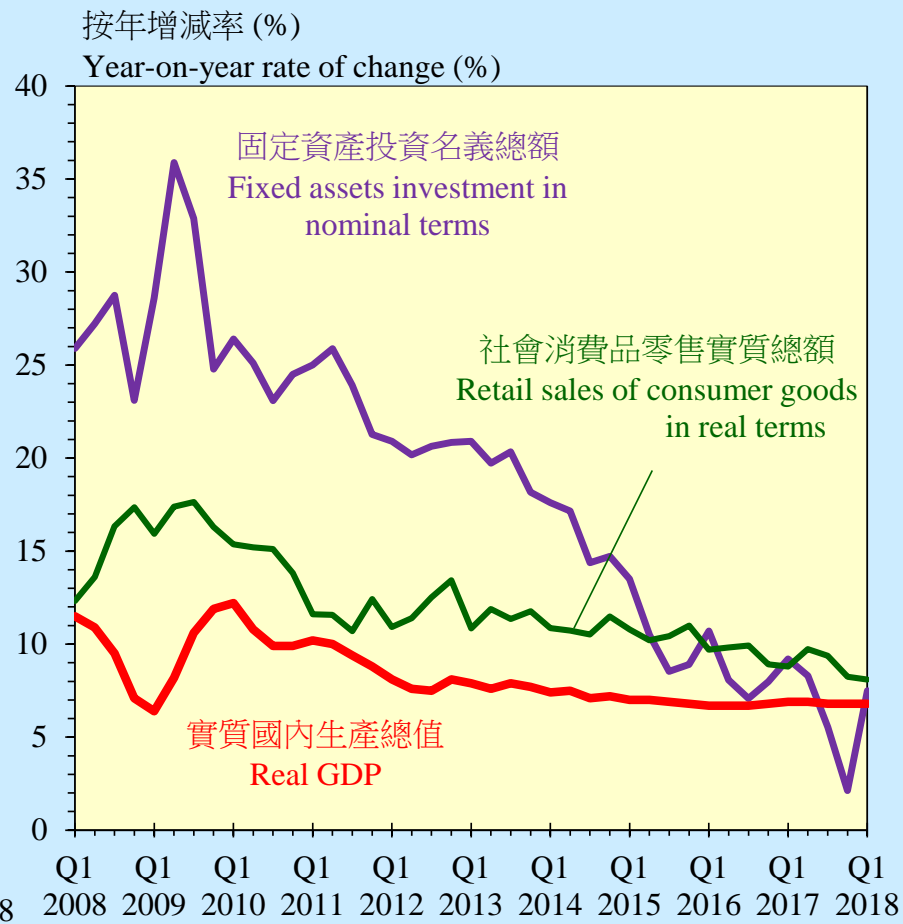
- ◆ **Mainland:** Economy should stay on a robust growth track this year following the strong performance in Q1
- ◆ **US :** Economy is expected to see faster growth this year as the stimulating effect of the expansionary fiscal policy kicks in
- ◆ **Euro area & Japan:** Recent indicators point to further 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



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IMF maintained its global growth forecast

	GDP growth in 2017	IMF forecasts for 2018 GDP growth		
		2018		Change between Jan and Apr
		Jan	Apr	
World	3.8	3.9	3.9	0.0
U.S.	2.3	2.7	2.9	0.2
Euro area	2.4	2.2	2.4	0.2
Japan	1.7	1.2	1.2	0.0
Mainland China	6.9	6.6	6.6	0.0
Developing Asia	6.5	6.5	6.5	0.0
Emerging market and developing economies	4.8	4.9	4.9	0.0

Business outlook for large enterprises turned more upbeat

Business expectations by sector (net balance*)

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

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**

Latest economic forecasts for 2018 as a whole

	Forecasts as released on 28 February	Latest forecasts
Real GDP growth	3-4%	3-4%
Underlying inflation	2.5%	2.5%
Headline inflation	2.2%	2.2%



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