



Hong Kong SAR Government

Half-yearly Economic Report 2018 & Updated economic forecasts for 2018

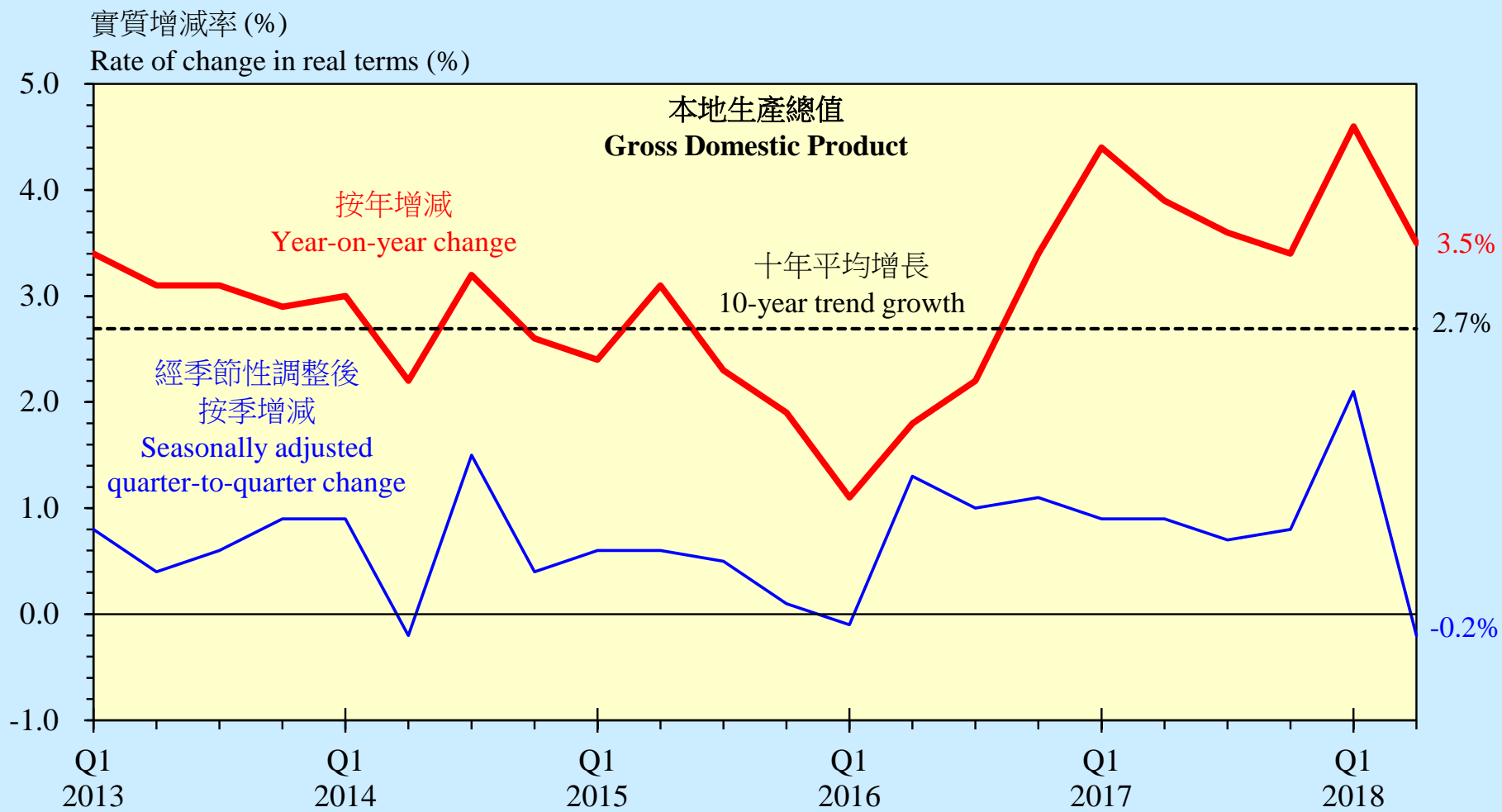
10 August 2018

Highlights of the latest economic situation

- Hong Kong's economy sustained strong momentum in Q2, expanding by 3.5% over a year earlier
- Riding on the robust global economy, external demand remained sturdy. Yet, external uncertainties increased markedly in the latter part of June, as the trade tensions between the US and the Mainland escalated
- Domestic demand expanded visibly on the back of favourable labour market conditions
- Consumer price inflation stayed moderate in Q2
- Latest real GDP growth forecast for 2018 maintained at 3-4%; underlying inflation rate forecast at 2.5%

Economic performance in Q2 2018

Hong Kong's economy sustained strong year-on-year growth in Q2

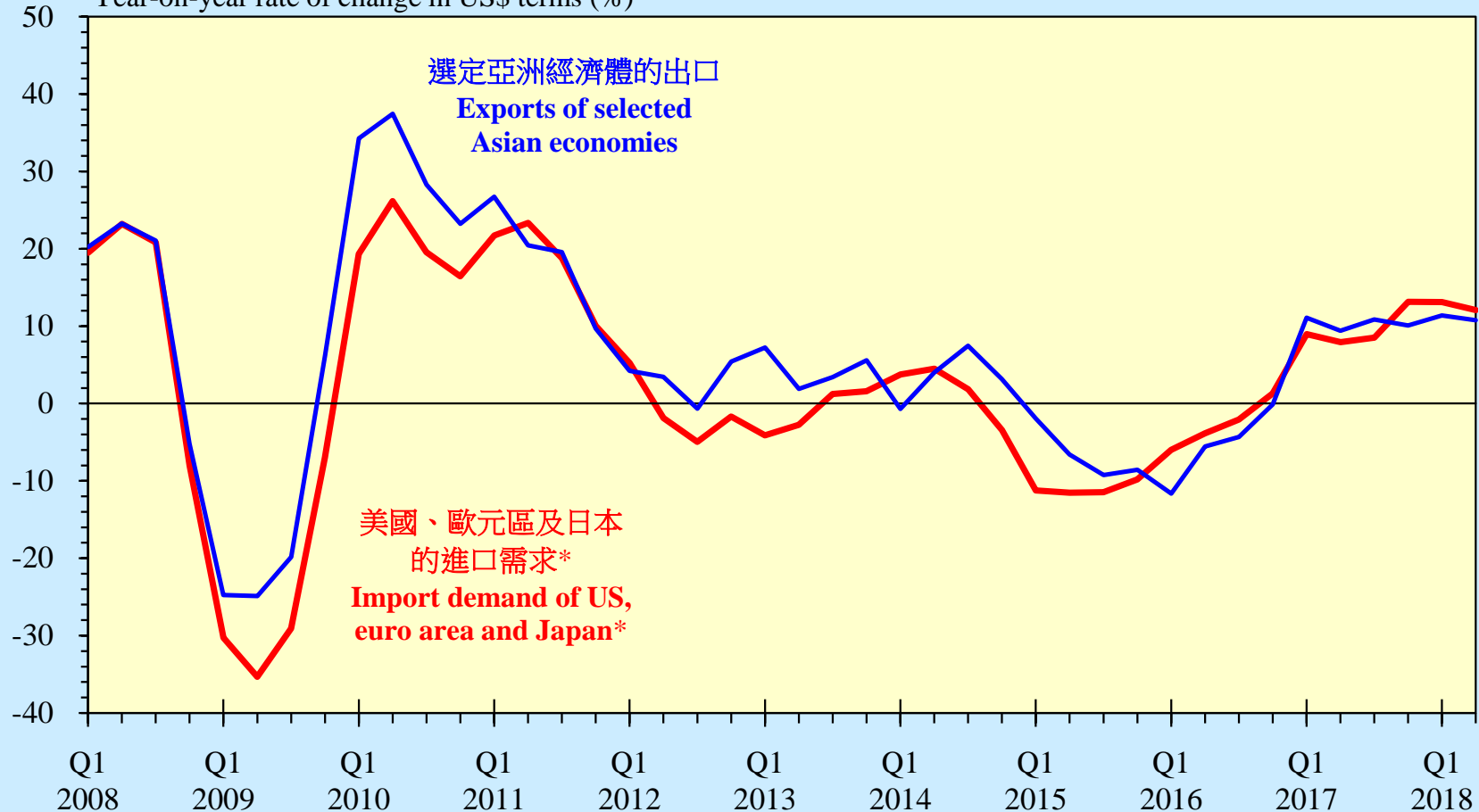


External sector

Trading activities in Asia were buoyant amid robust global economy

以美元計價按年增減率 (%)

Year-on-year rate of change in US\$ terms (%)



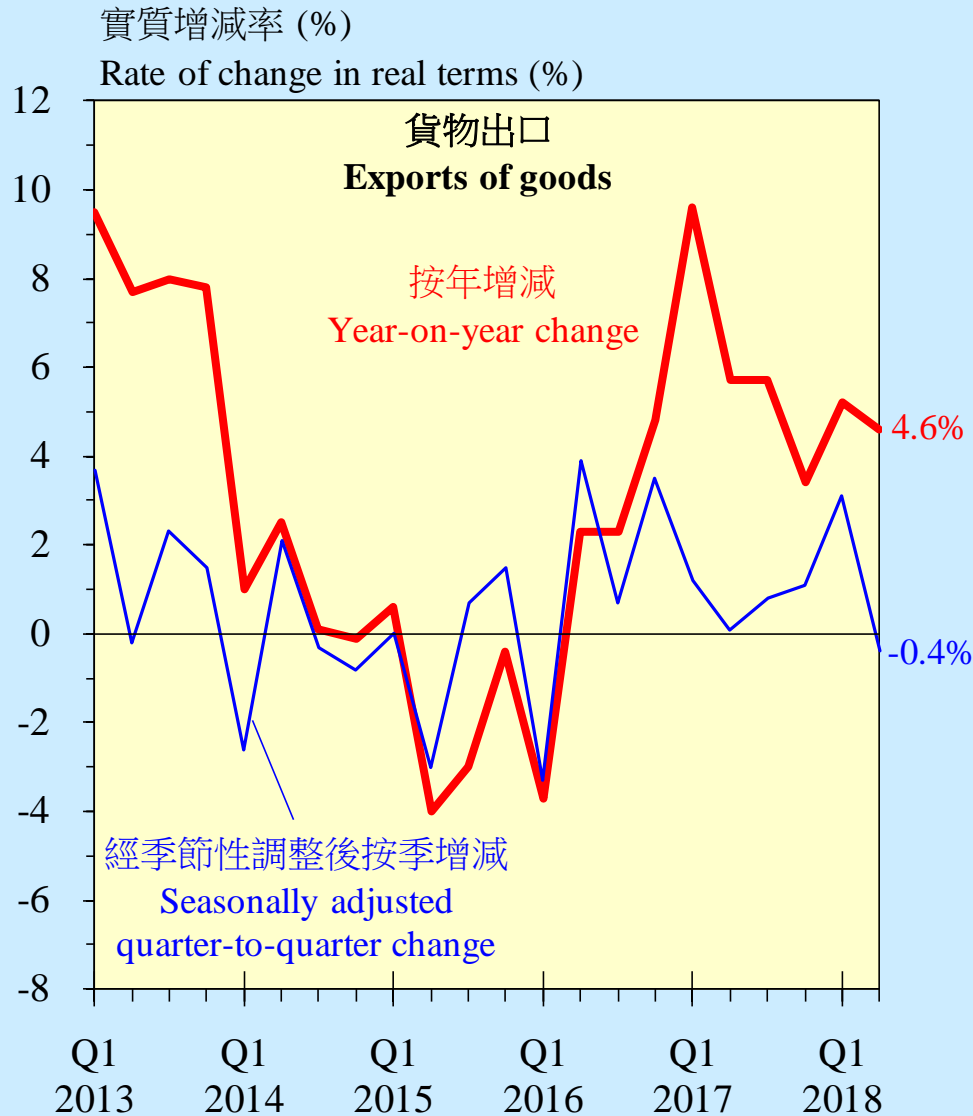
註： 選定亞洲經濟體包括中國內地、香港、印度、印尼、韓國、馬來西亞、菲律賓、新加坡、台灣及泰國。

(*) 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4-5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 Apr-May 2018 combined.

Hong Kong's exports of goods grew solidly for Q2 as a whole

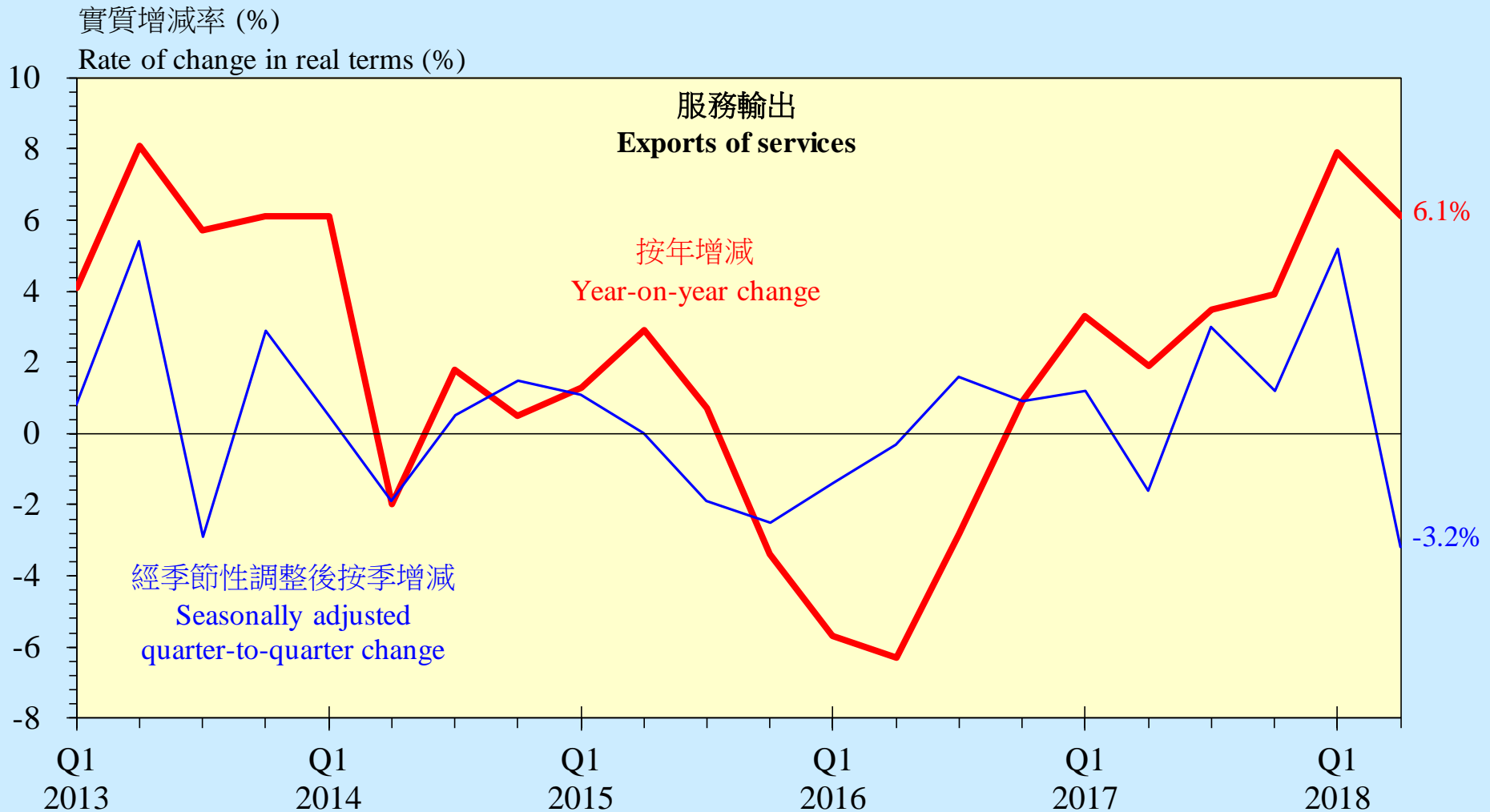


Total exports of goods by major market

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

	<u>2017</u>	<u>2018</u>	
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>
Mainland	5.4	9.4	7.7
U.S.	1.9	5.1	8.2
E.U.	4.6	9.1	7.2
Japan	10.3	5.2	2.8
India	35.1	-7.6	-33.1
Taiwan	16.1	8.4	-1.9
Korea	3.3	-3.1	1.5
Singapore	1.8	10.5	19.3

Exports of services expanded notably



All major components maintained momentum

Exports of services

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

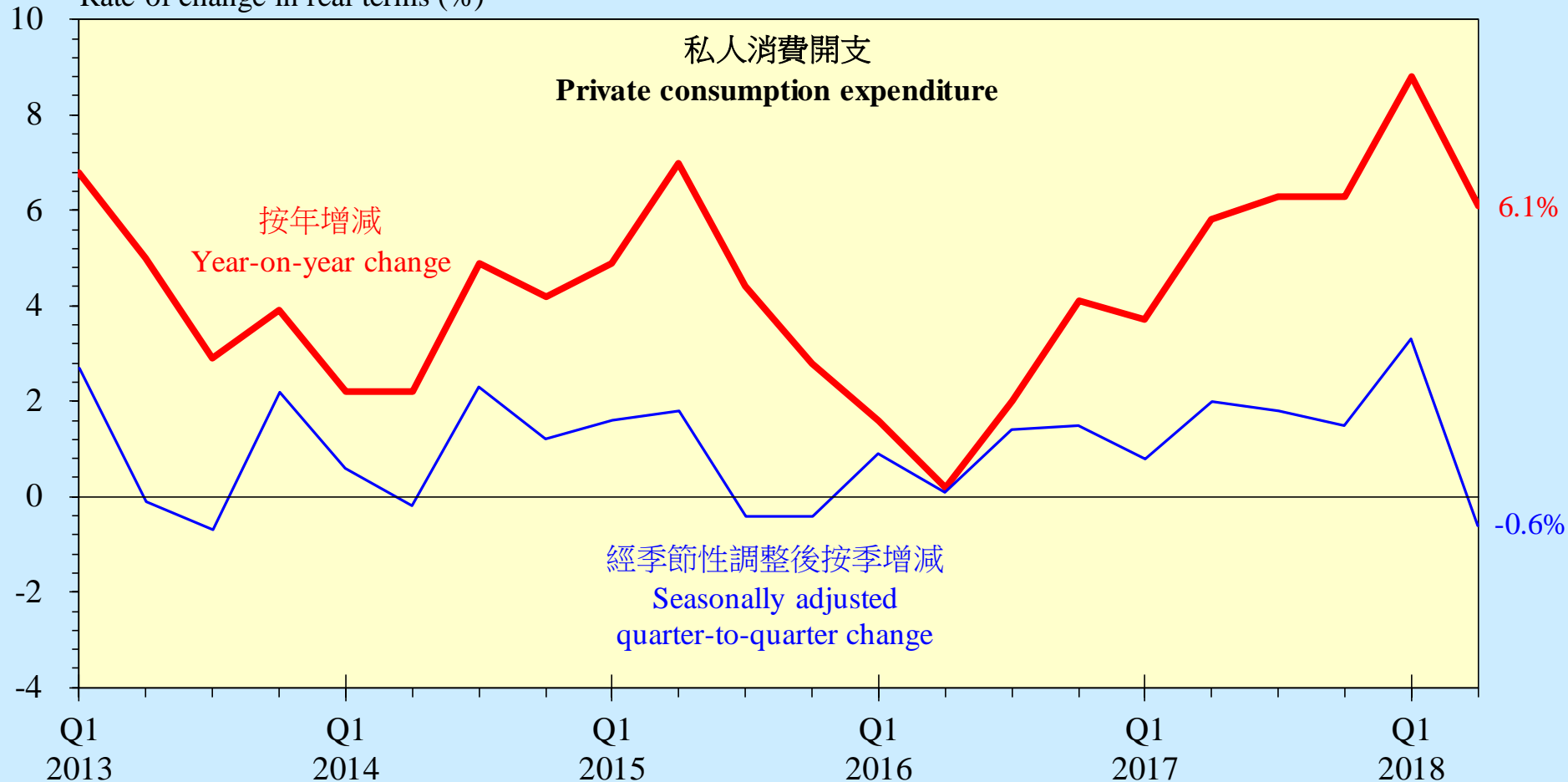
		<u>Travel</u>	<u>Transport</u>	<u>Financial services</u>	<u>Business and other services</u>
2017	Annual	1.5	6.1	4.4	0.7
	Q3	1.8	6.5	5.0	0.8
	Q4	4.0	3.3	8.0	0.7
2018	Q1	13.1	4.1	10.3	1.4
	Q2	11.1	3.2	7.6	1.4

Domestic sector

Private consumption expenditure grew significantly

實質增減率 (%)

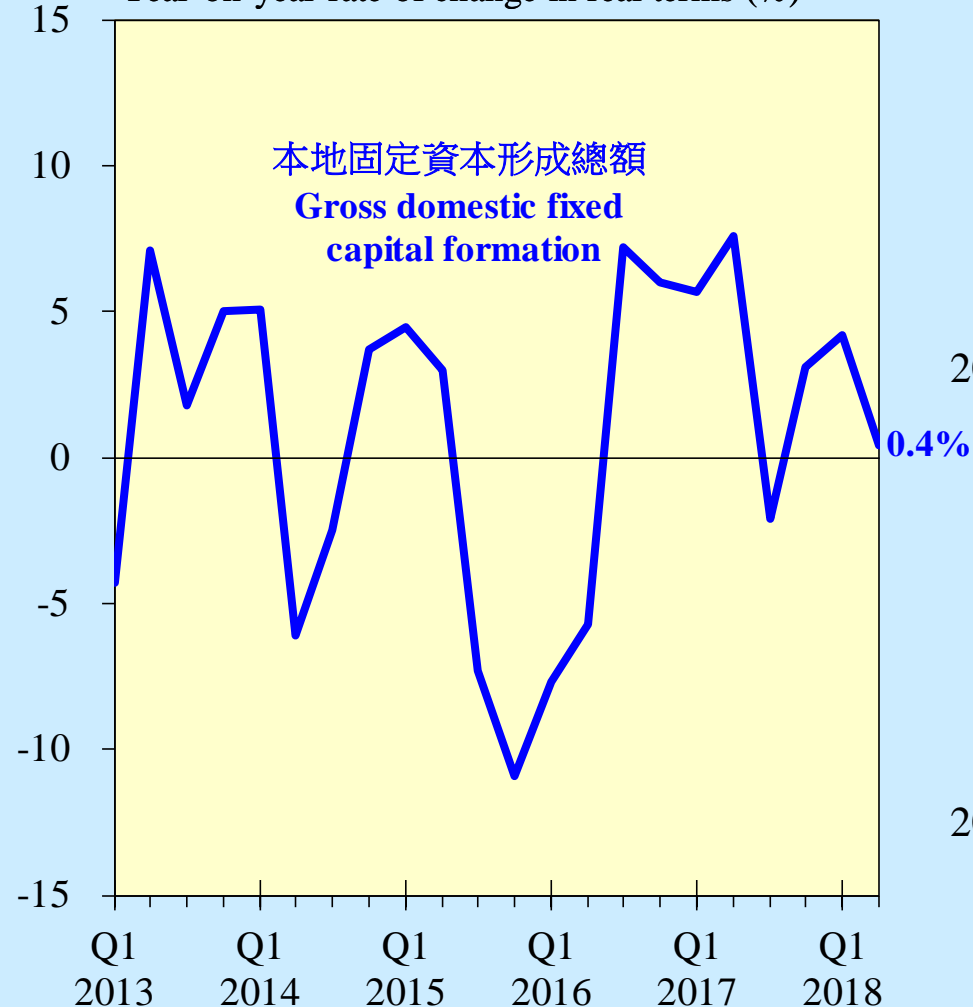
Rate of change in real terms (%)



Overall investment spending recorded further growth

按年實質增減率(%)

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



Overall investment spending

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

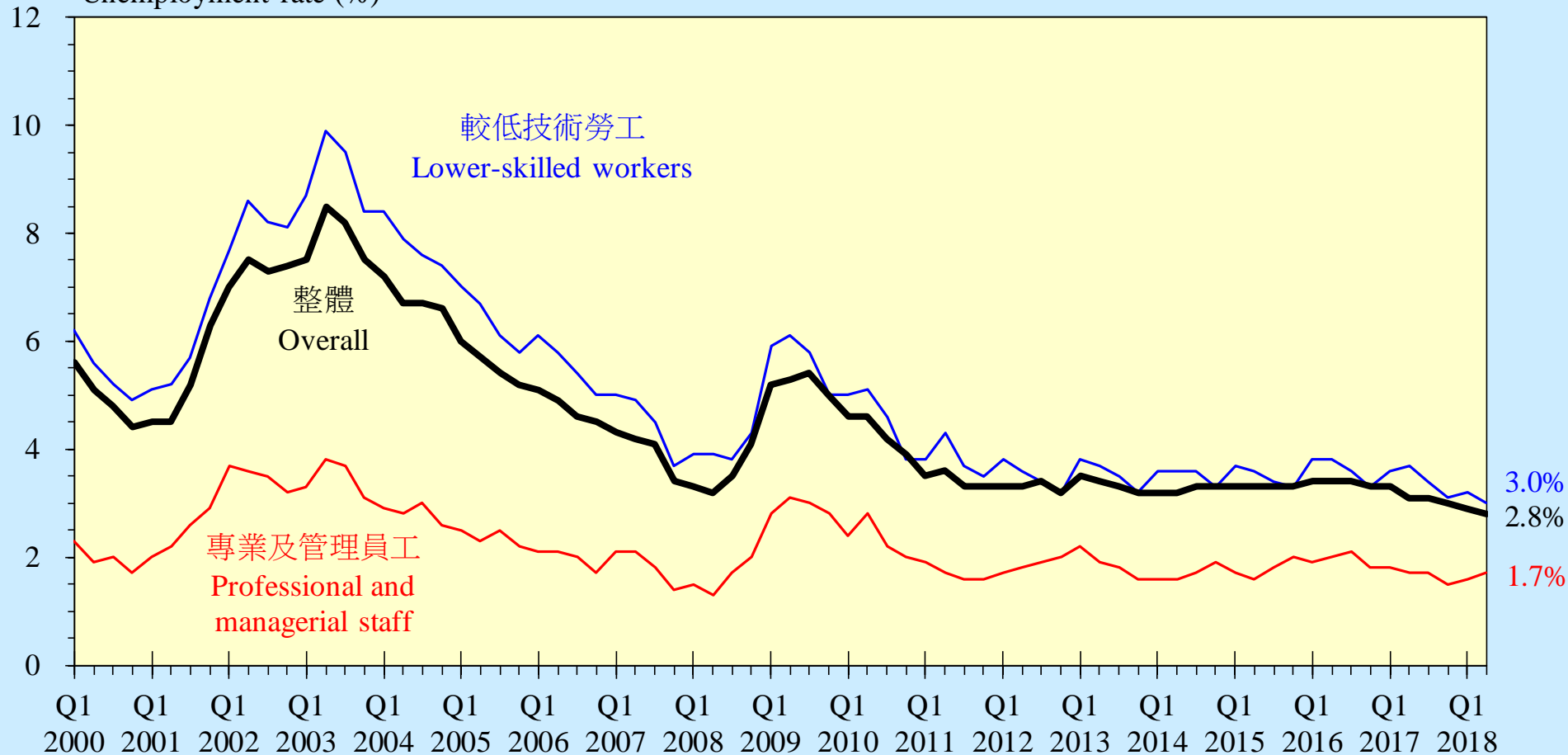
		Machinery, equipment and intellectual property products	Building and construction
2017	Annual	1.8	1.7
	Q1	-7.8	7.0
	Q2	6.1	2.0
	Q3	-3.0	0.9
	Q4	9.9	-2.6
2018	Q1	6.1	1.9
	Q2	4.7	-3.0

Labour market

Labour market tightened further

失業率 (%)

Unemployment rate (%)



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.

Wages and earnings continued to register broad-based gains in real terms

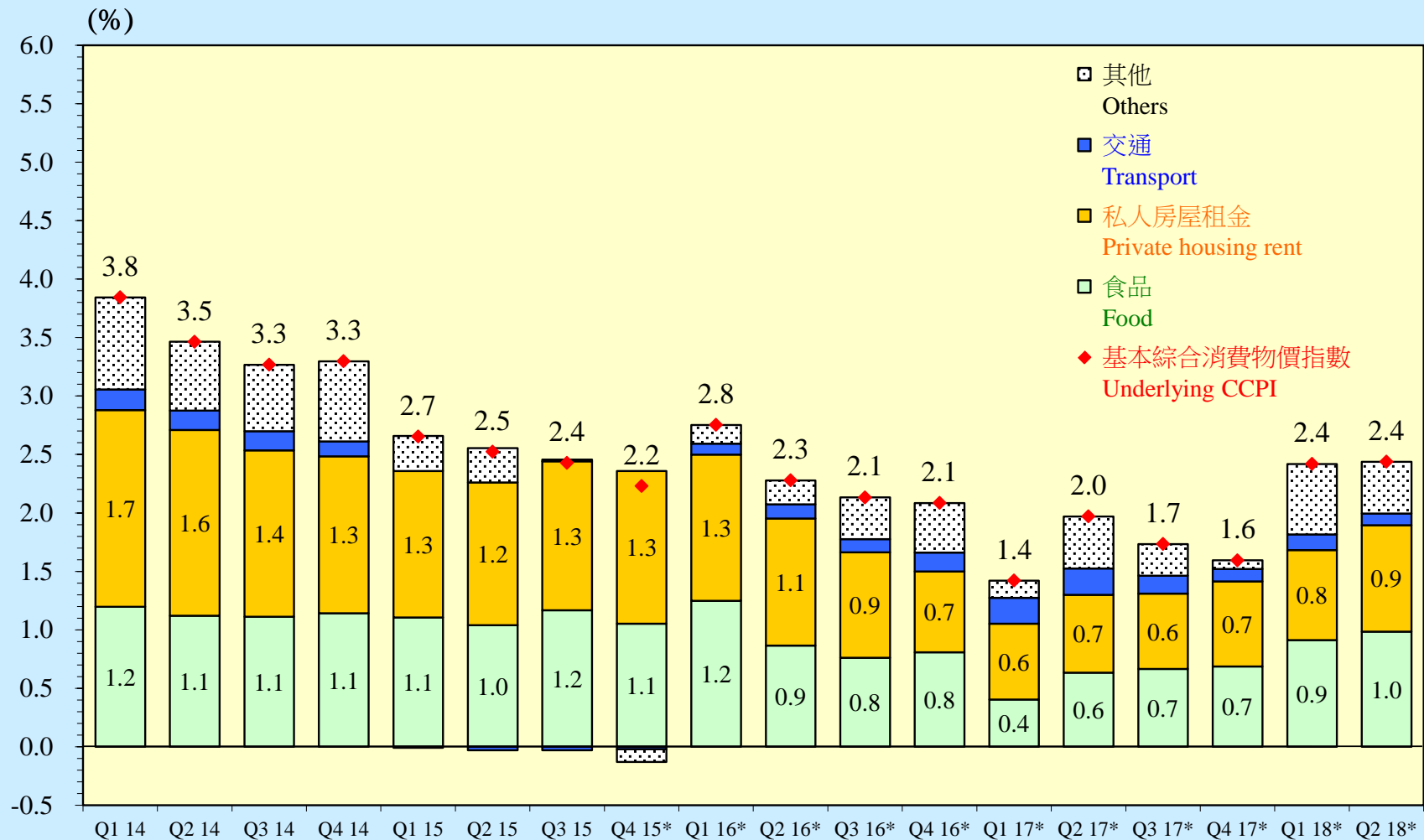
	<u>Income*</u>	
	Year-on-year rate of change (%)	
	<u>Nominal growth</u>	<u>Real growth</u>
Index of payroll per person engaged (Q1 2018)	3.8	1.3
Wage index (March 2018)	4.0	1.2
Median monthly household income (Q2 2018)	5.9	3.7
Average monthly employment earnings of full-time employees of the lowest three decile groups (Q2 2018)	4.7	2.3

Note: (*) Excluding foreign domestic helpers.

Inflation

Inflation pressure stayed moderate, though building up somewhat amid strong economic conditions

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

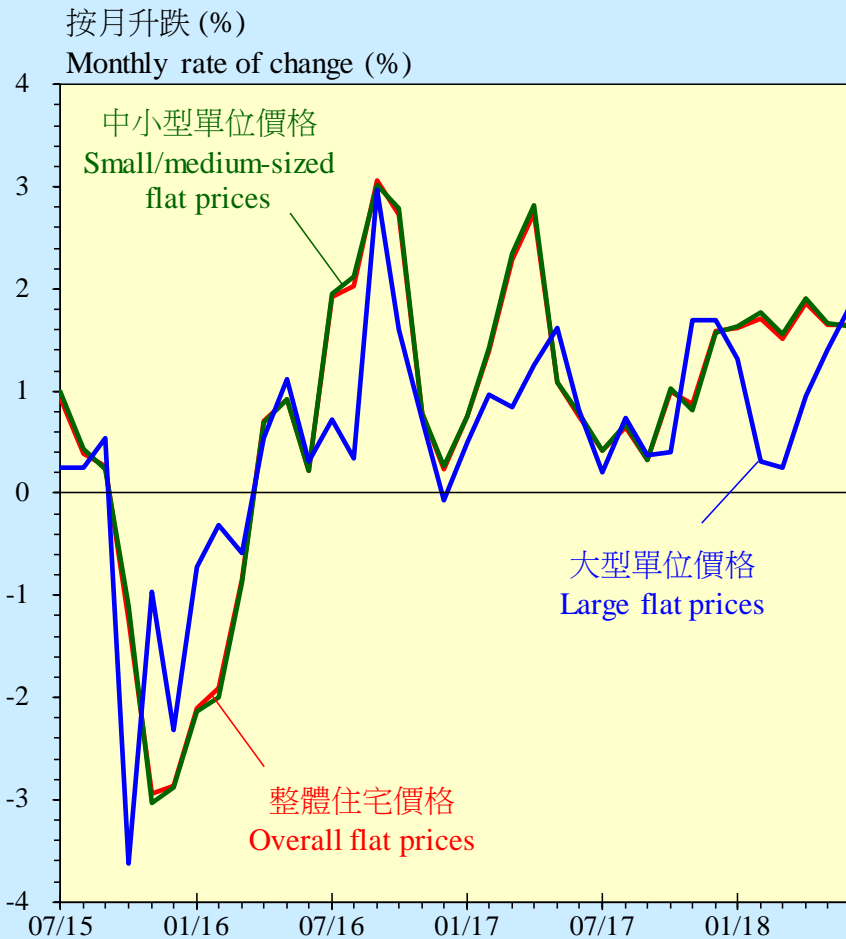


Note: (*) By reference to the new 2014/15-based CPI series.

Property market

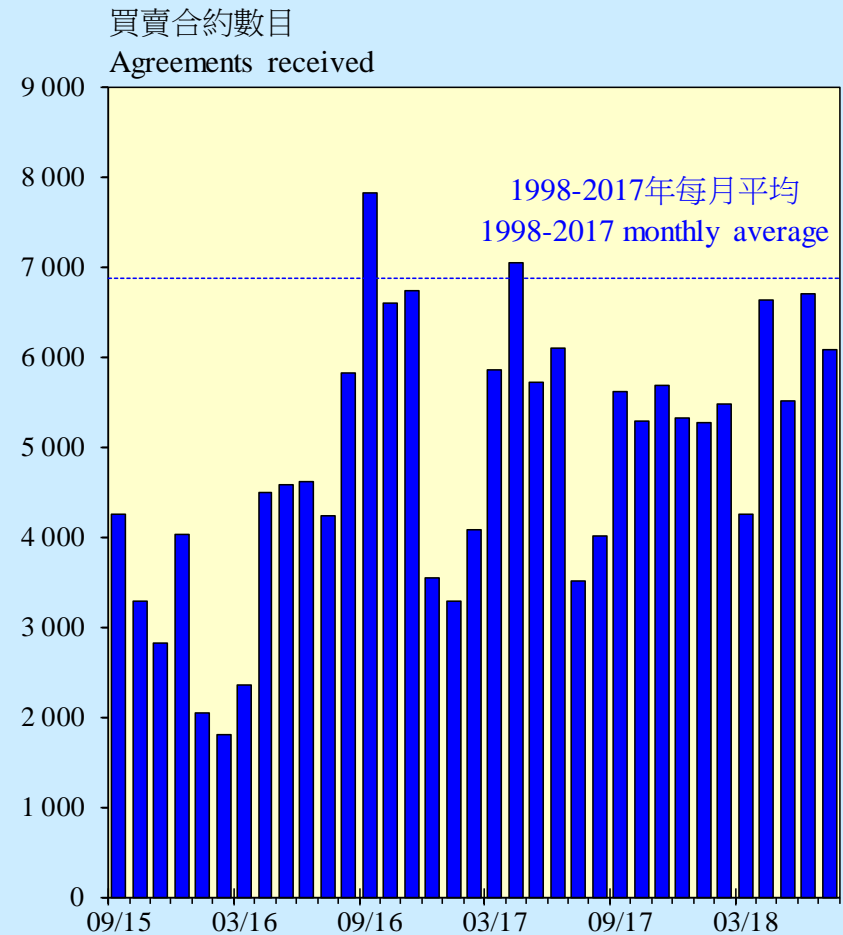
Residential property market stayed buoyant in Q2

住宅售價
Flat prices



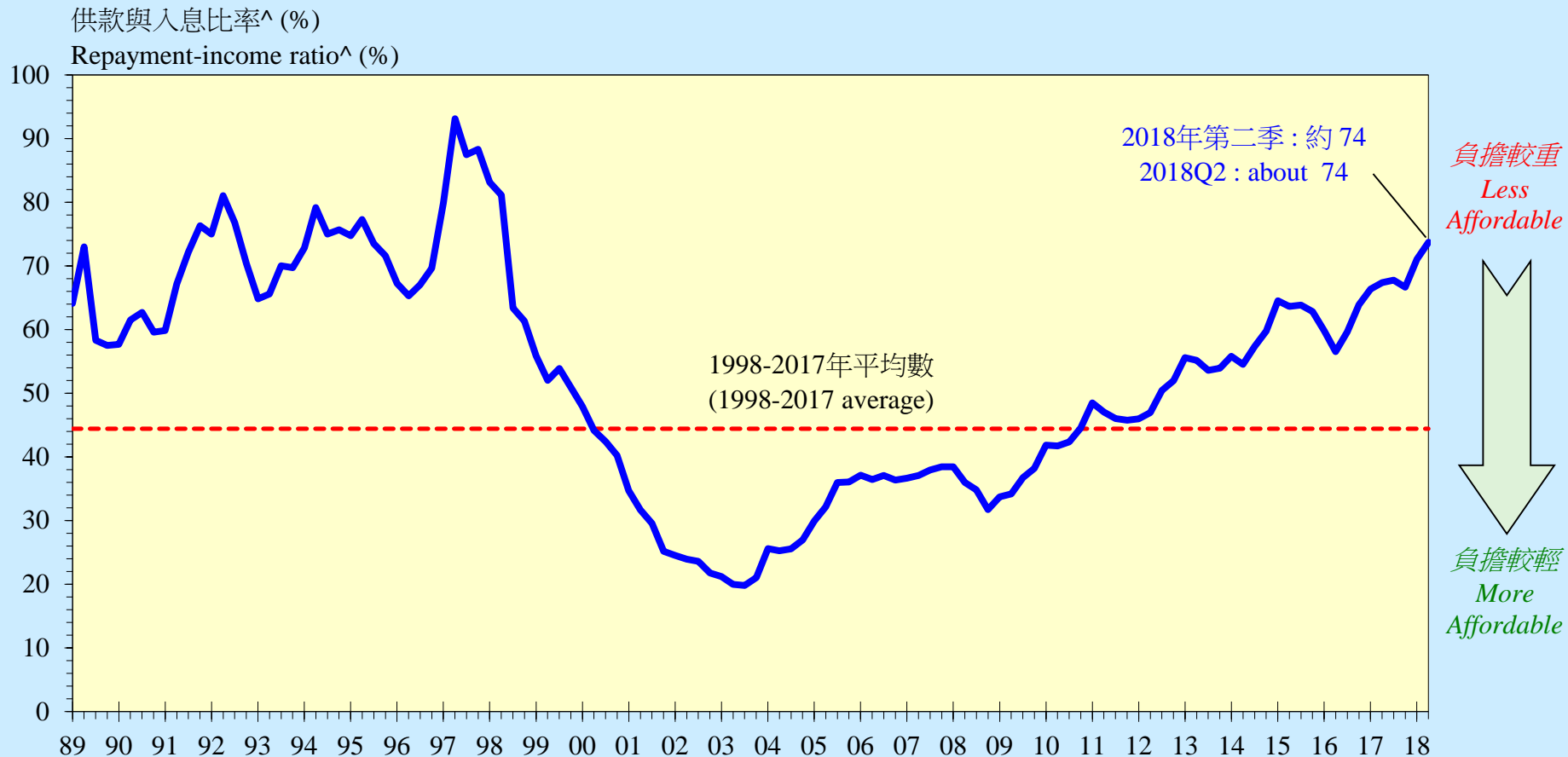
住宅物業買賣合約數目

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.

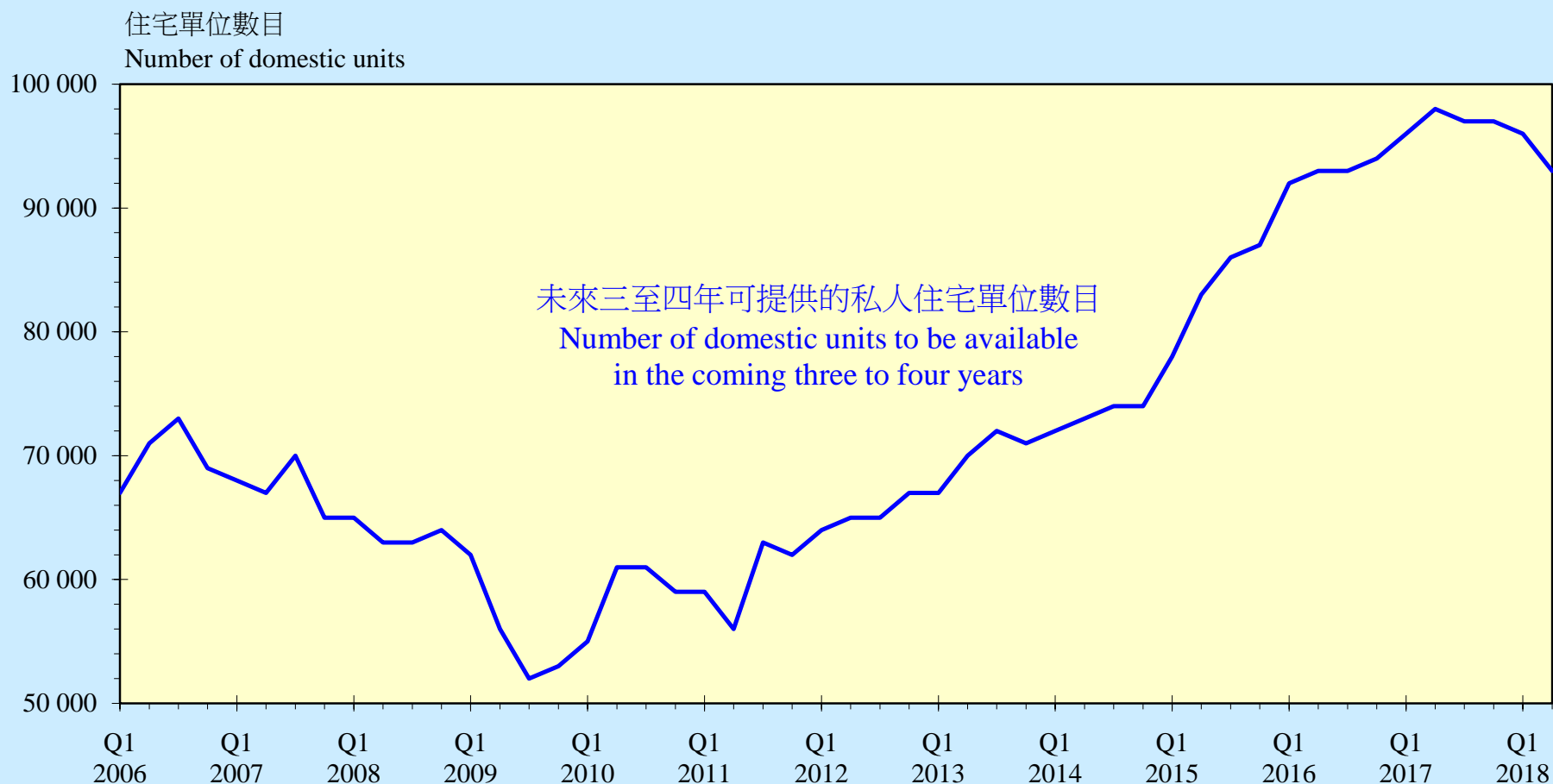
Index of home purchase affordability worsened



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 93 000



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

Global economy still strong in Q2, but turned less even

- ◆ **Mainland:** Economy remained firmly on track to achieve its official growth target of around 6.5% in 2018
- ◆ **U.S.:** Economy maintained above-trend growth, partly boosted by the tax reform
- ◆ **Euro area & Japan:** Economic activities continued to expand moderately, but the pace slowed somewhat
- ◆ **Rest of Asia:** Emerging market economies generally recorded notable growth, thanks to vibrant regional trade flows

IMF maintained its 2018 global growth forecast, but warned the balance of risks had shifted further to the downside

IMF forecasts for 2018 GDP growth

	GDP growth in 2017	2018			Change between Apr and Jul
		Jan	Apr	Jul	
World	3.7	3.9	3.9	3.9	0.0
U.S.	2.2	2.7	2.9	2.9	0.0
Euro area	2.4	2.2	2.4	2.2	-0.2
Japan	1.7	1.2	1.2	1.0	-0.2
Mainland China	6.9	6.6	6.6	6.6	0.0
Developing Asia	6.5	6.5	6.5	6.5	0.0
Emerging market and developing economies	4.7	4.9	4.9	4.9	0.0

Business outlook for large enterprises turned slightly more cautious

Business expectations by sector (net balance*)

	17Q4	18Q1	18Q2	18Q3
Import/export trade and wholesale	+1	-4	+5	-1
Retail	+24	+20	+4	-1
Accommodation and food services	+13	-3	-7	-10
Transportation, storage and courier services	-7	-5	-8	+5
Information and communications	+16	-2	+20	+16
Professional and business services	+7	+2	-2	+3
Financing and insurance	+13	+21	+28	+23
All sectors surveyed	+5	+2	+8	+6

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.

Supportive factors for the near-term outlook

- ◆ **Current momentum of the global economy, if continued, will help support Hong Kong's external demand**
- ◆ **Domestic demand should remain largely resilient, supported by favourable job and income conditions**

But HK economy faces increased external headwinds

- ◆ **Trade conflicts could weigh on global economic sentiment as well as trade and investment activities, thereby possibly putting a damper on Hong Kong's exports in the period ahead**
- ◆ **Local investor sentiment might feel the pinch should the US-Mainland trade conflicts intensify further**
- ◆ **Consumer sentiment may turn less sanguine in the wake of the increased external uncertainties**
- ◆ **Financial and asset markets could become more volatile upon further tightening of financial conditions across advanced economies**

Latest economic forecasts for 2018 as a whole

	Forecasts as released on 11 May	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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