

Outlook for the Hong Kong economy in 2019

2.17 Global economic growth has lost some steam since mid-2018, and is envisaged to decelerate in 2019. The expected moderation in growth momentum in many of Hong Kong's key trading partners would dampen Hong Kong's exports. Moreover, if the US-Mainland trade tensions are to drag on or deteriorate, the impacts on Hong Kong's external trade would become even more significant. Indeed, exports of goods already eased sharply in recent months alongside the slowdown in regional trade. On the contrary, if the US and the Mainland could make some progress in resolving their trade conflict, it could boost sentiment and stimulate production and trading activity in the region, and our exports may have a better performance.

Diagram 2.5 : The expected moderation in growth momentum in many of Hong Kong's key trading partners would dampen Hong Kong's exports

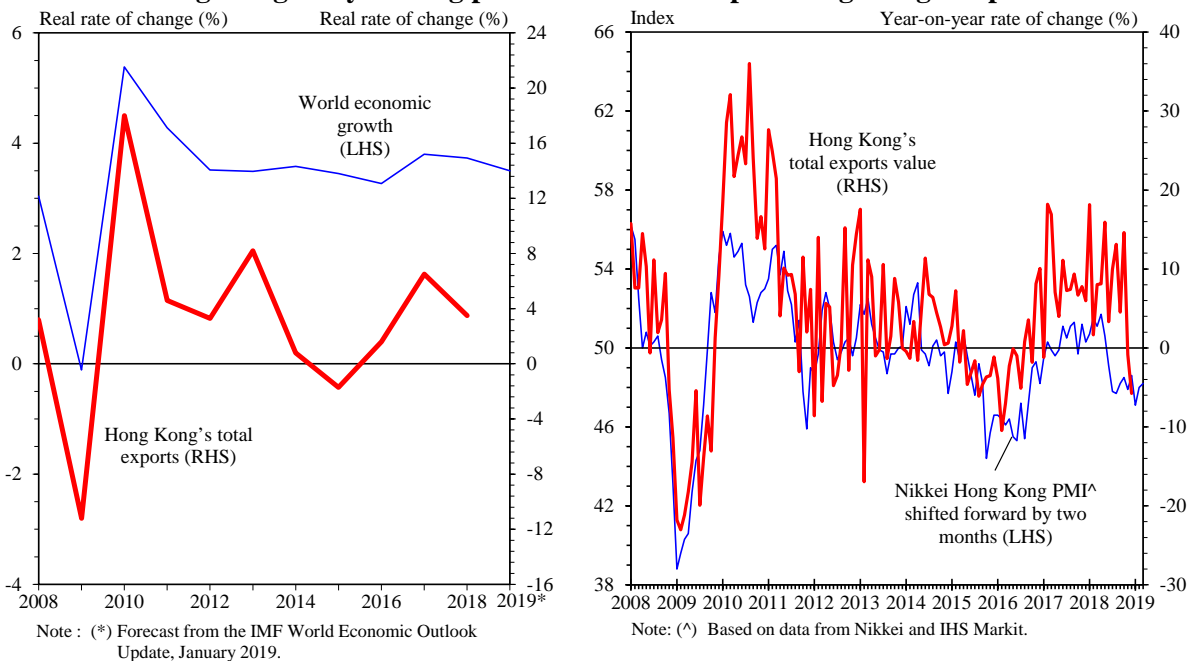
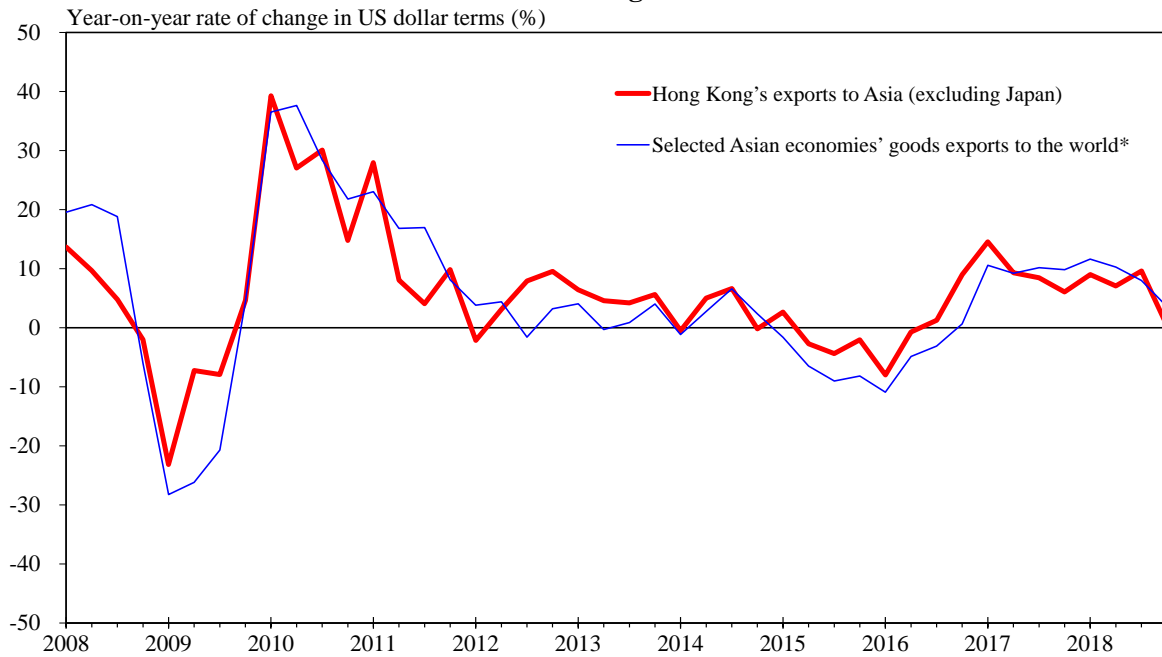


Diagram 2.6 : Exports of goods eased sharply in the fourth quarter of 2018 alongside the slowdown in regional trade



Note : (*) "Selected Asian economies" include the Mainland of China, Hong Kong, Singapore, Korea, Taiwan, Japan, Indonesia, Malaysia, Thailand and the Philippines. Trade figure for the fourth quarter of 2018 are based on the information available as of mid-February 2019.

2.18 Exports of services decelerated noticeably in the second half of 2018. Looking ahead, moderating global growth may continue to restrain external demand for our services. Among the key components, exports of transport services may continue to be held back by the expected weaker performance of regional trade and cargo flows. The global and local financial markets may be subject to larger volatilities amid the complicated global monetary environment, which may not augur well for exports of financial services. On the positive side, helped by the commencement of the large-scale cross-boundary infrastructures last year, inbound tourism is likely to stay vibrant, helping to support exports of travel services.

2.19 Hong Kong's domestic demand was broadly resilient in 2018, but faced increasing pressures over the course of the year. The corrections of the local stock market and property market led to a moderated growth in private consumption expenditure in the second half. Conceivably dampened by the deteriorated business environment, private sector investment slackened sharply to a decline in the fourth quarter. Looking ahead, the growth in private consumption expenditure is likely to remain moderate in the near term amid various external uncertainties and weaker wealth effect, though the full employment situation should continue to provide some support. Investment expenditure may also be affected by the cautious business sentiment. Nonetheless, the Government's various policy initiatives as unveiled in the

2019-20 Budget should render some support to the economy.

Diagram 2.7 : Private consumption expenditure growth is likely to remain moderate in the near term

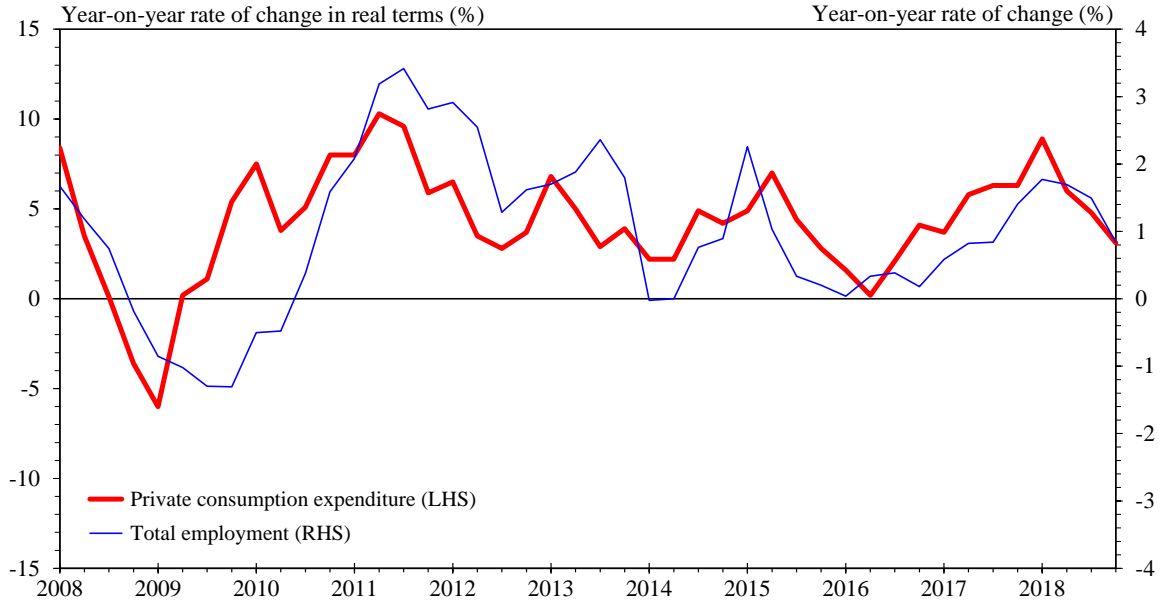


Diagram 2.8 : The corrections in the local asset markets led to a moderated growth in private consumption expenditure in the second half of 2018

(a) Housing wealth

(b) Equity wealth

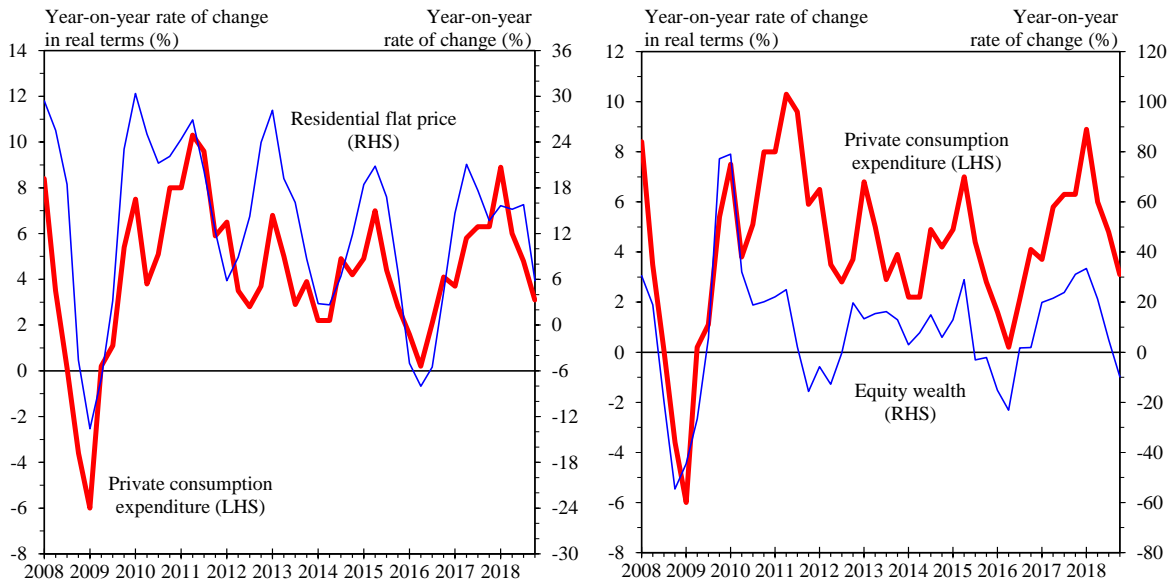
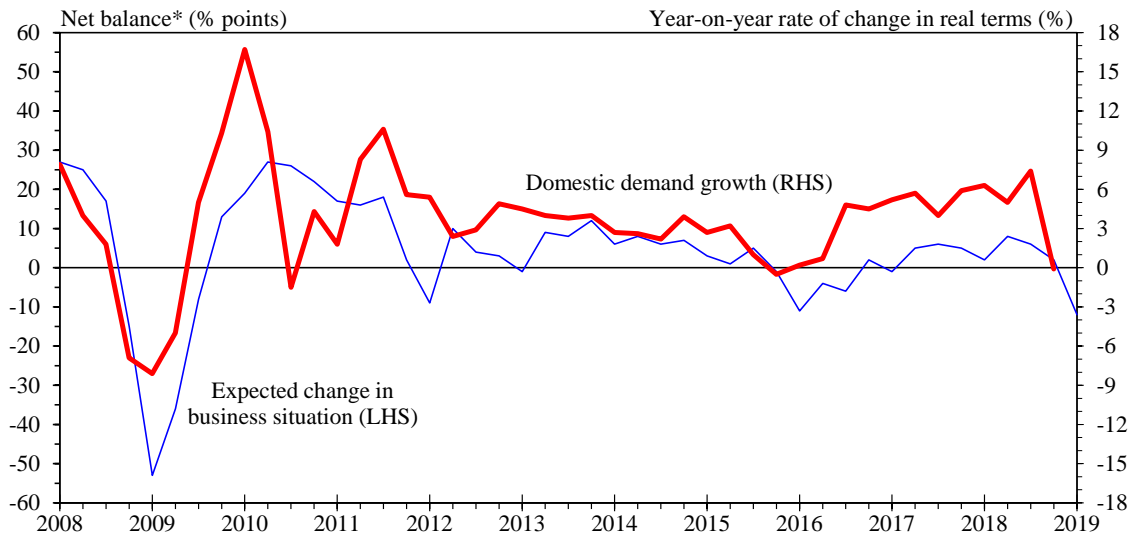
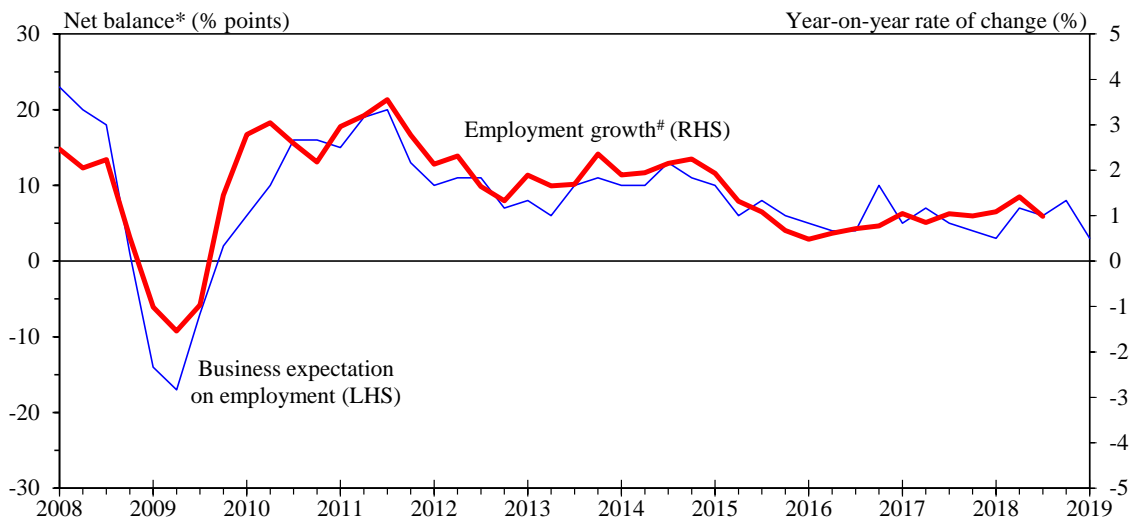


Diagram 2.9 : Business sentiment has weakened recently



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.

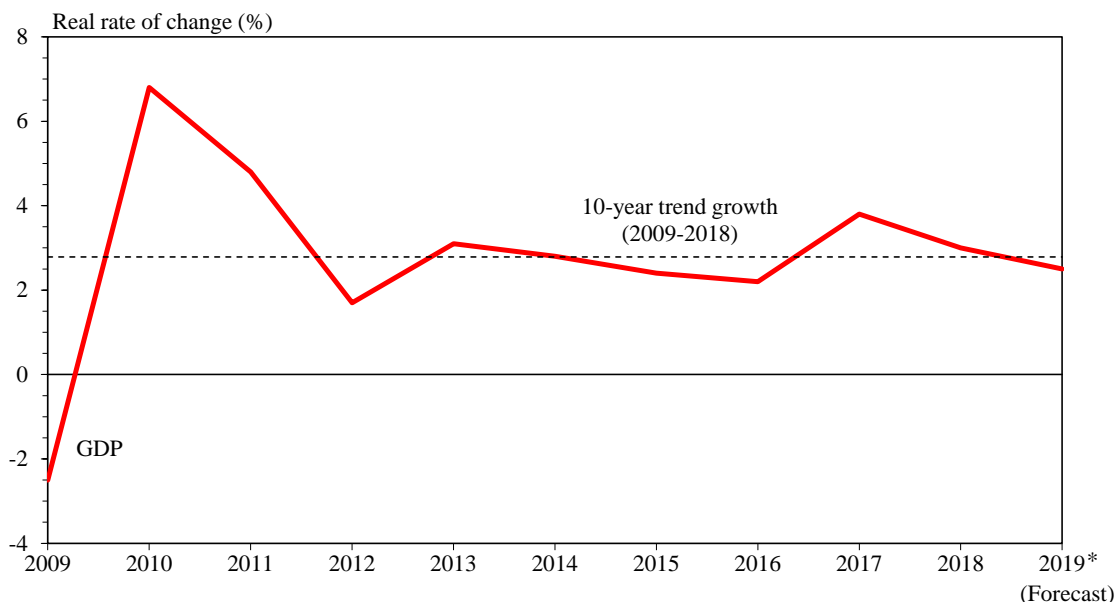
Diagram 2.10 : Overall hiring sentiment was still broadly positive



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.

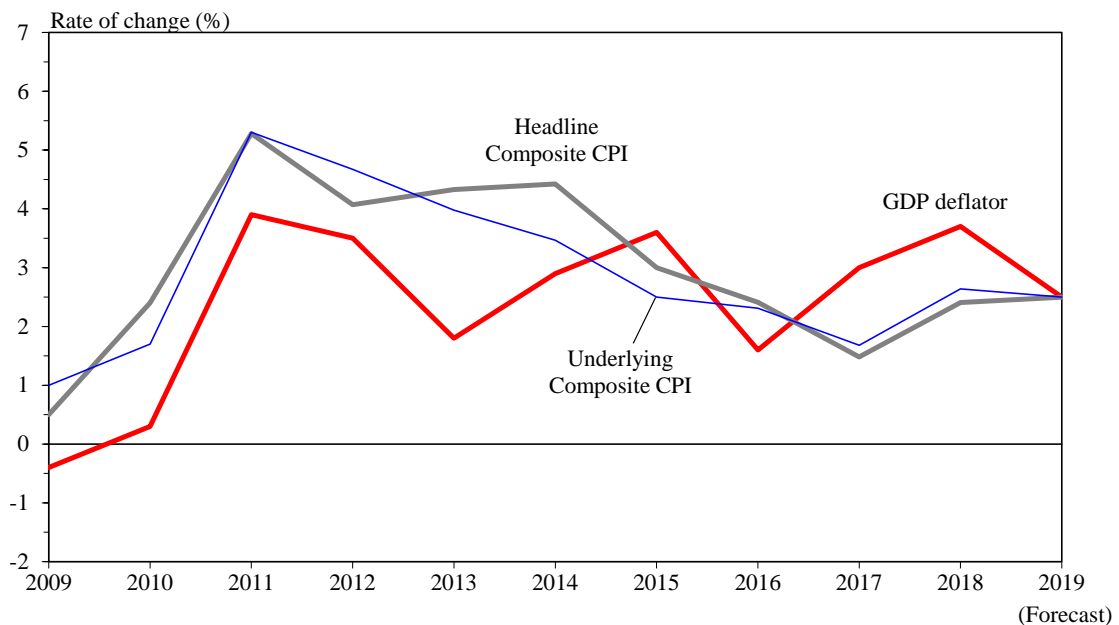
2.20 In sum, Hong Kong’s economic outlook for 2019 is subject to notable challenges. Considering that global economic growth is likely to decelerate, and also taking into account the boosting effect from the measures in the 2019-20 Budget, the Hong Kong economy is forecast to grow by 2-3% in 2019, compared with the 3.0% growth in 2018 and the average annual growth of 2.8% in the past 10 years. The growth forecast is predicated on the assumption that the US-Mainland trade tensions would not escalate from the tariff measures announced so far or might even ease somewhat. There are both downside and upside risks to the forecast. If the US-Mainland trade tensions drag on or even intensify, Hong Kong’s economic performance may turn out to be worse than expected. On the other hand, if the US and the Mainland can largely resolve their trade conflict and remove some or all of the additional tariffs introduced earlier, this would give a strong boost to sentiment and it is possible that Hong Kong’s economic growth would be better than forecast. The Government will stay vigilant to the developments in the external environment, for their possible implications on the local economic and employment situations. For comparison, the latest forecasts by private sector analysts for Hong Kong’s economic growth in 2019 mostly fall within the range of 2.0-2.8%, averaging around 2.4%, and that by the IMF is 2.9%.

Diagram 2.11 : The Hong Kong economy is forecast to grow by 2-3% in 2019



2.21 Underlying consumer price inflation in Hong Kong went up in 2018 as the economy recorded another year of above-trend growth. Going forward, the recent moderation in fresh-letting residential rentals could help ease the overall inflation in the months ahead. The expected moderate economic growth would also contain the upward pressures on domestic costs in 2019. Amid moderating global economic growth, inflation expectations of our major import sources are well anchored at modest or moderate levels (see **Box 2.1**). This, coupled with the earlier strengthening of the US dollar, should help keep external price pressures in check. Overall, underlying consumer price inflation is forecast at 2.5% in 2019, slightly slower than the 2.6% in 2018. Taking into account the effects of the Government’s one-off measures, the headline consumer price inflation is forecast at 2.5% in 2019, as compared to 2.4% in 2018. For reference, the latest forecasts for consumer price inflation in 2019 by private sector analysts average 2.3%, while that by the IMF is 2.1%. The GDP deflator is forecast to rise by 2.5% in 2019, on par with consumer price inflation.

Diagram 2.12 : Underlying consumer price inflation is forecast to ease slightly to 2.5% in 2019



Forecast rate of change in 2019 (%)

Gross Domestic Product (GDP)

<i>Real GDP</i>	2 to 3
<i>Nominal GDP</i>	4.5 to 5.5
<i>Per capita GDP in real terms</i>	1.3 to 2.3
<i>Per capita GDP at current market prices</i>	HK\$396,300 – 400,100 (US\$50,800 – 51,300)

Composite Consumer Price Index

<i>Underlying</i>	2.5
<i>Headline</i>	2.5

GDP Deflator	2.5
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**Forecast on Hong Kong's real GDP growth in 2019
recently made by other selected parties**

	(%)
Asian Development Bank (December 2018)	2.8
IMF (January 2019)	2.9
Average forecast by private sector analysts [#]	2.4

Note : (#) Real GDP growth forecasts by private sector analysts mostly fall between 2.0% and 2.8%.

ECONOMIC PERFORMANCE IN 2018

1. Rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2018 ^(Note 1):

	(%)
(a) Growth rates in real terms of:	
Private consumption expenditure	5.6
Government consumption expenditure	4.2
Gross domestic fixed capital formation	2.2
<i>of which :</i>	
Building and construction	-0.7
Machinery, equipment and intellectual property products	9.1
Total exports of goods	3.5
Imports of goods	4.9
Exports of services	4.9
Imports of services	2.2
Gross Domestic Product (GDP)	3.0
<i>Per capita GDP in real terms</i>	2.2
<i>Per capita GDP at current market prices</i>	HK\$381,900 (US\$48,700)
(b) Rates of change in:	
Underlying Composite Consumer Price Index	2.6
GDP Deflator	3.7
Government Consumption Expenditure Deflator	3.1
(c) Growth rate of nominal GDP	6.9

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> (%)
2016	0	1
2017	8	6
2018	7	5

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> (%)
2016	1	2	-1	-2	18	-2
2017	6	5	5	2	35	10
2018	5	5	8	6	-13	-1

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> (%)
2016	1	-1
2017	7	8
2018	6	9

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> (%)
2016	-3	1	-9	-5	0
2017	3	7	2	3	0
2018 <i>(Note 1)</i>	5	2	8	6	2

6. Hong Kong's goods and services trade balance in 2018 reckoned on GDP basis *(Note 1)*:

	(HK\$ billion)
Total exports of goods	4,457.9
Imports of goods	4,712.0
<i>Goods trade balance</i>	-254.1
Exports of services	892.3
Imports of services	635.9
<i>Services trade balance</i>	256.3
<i>Combined goods and services trade balance</i>	2.3

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>
2016	3.4	1.4	0.4	0.4
2017	3.1	1.2	0.7	1.0
2018	2.8	1.1	1.0	1.3

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>
2016	2.3	2.4	2.8	2.3	2.1
2017	1.7	1.5	1.5	1.4	1.5
2018	2.6	2.4	2.7	2.3	2.2

ECONOMIC PROSPECTS FOR 2019

Forecast rates of change in the Gross Domestic Product and main price indicators in 2019:

	(%)
Gross Domestic Product (GDP)	
<i>Real GDP</i>	2 to 3
<i>Nominal GDP</i>	4.5 to 5.5
<i>Per capita GDP in real terms</i>	1.3 to 2.3
<i>Per capita GDP at current market prices</i>	HK\$396,300-400,100 (US\$50,800-51,300)
Composite Consumer Price Index	
<i>Underlying Composite Consumer Price Index</i>	2.5
<i>Headline Composite Consumer Price Index</i>	2.5
GDP Deflator	2.5
Government Consumption Expenditure Deflator	3