



Hong Kong SAR Government

Half-yearly Economic Report 2019 & Updated economic forecasts for 2019

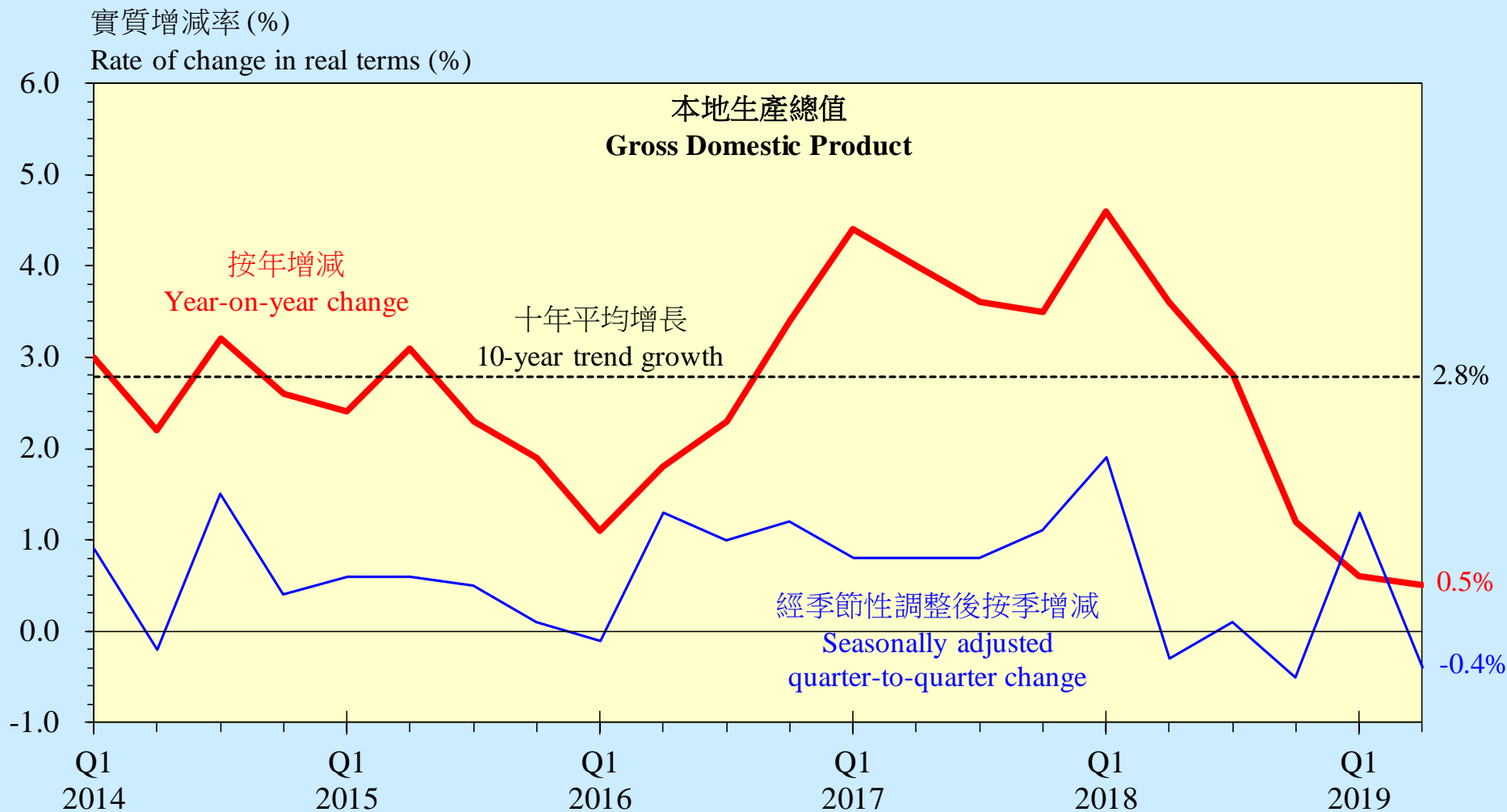
16 August 2019

Highlights of the latest economic situation

- The Hong Kong economy continued to face significant downward pressure, expanding only modestly by 0.5% in Q2 over a year earlier
- External demand contracted amid softening global economic growth, intensifying US-Mainland trade and technology tensions and the resultant slowdown in manufacturing and trading activities in Asia
- Domestic demand stayed sluggish as subdued economic conditions and various headwinds weighed on local economic sentiment
- Labour market was largely stable; Underlying consumer price inflation went up somewhat
- Real GDP growth forecast for 2019 was revised downwards to 0-1%; Underlying inflation rate forecast was revised upwards to 2.7%

Economic performance in Q2 2019

The Hong Kong economy expanded only modestly in Q2 over a year earlier, much worse than expected



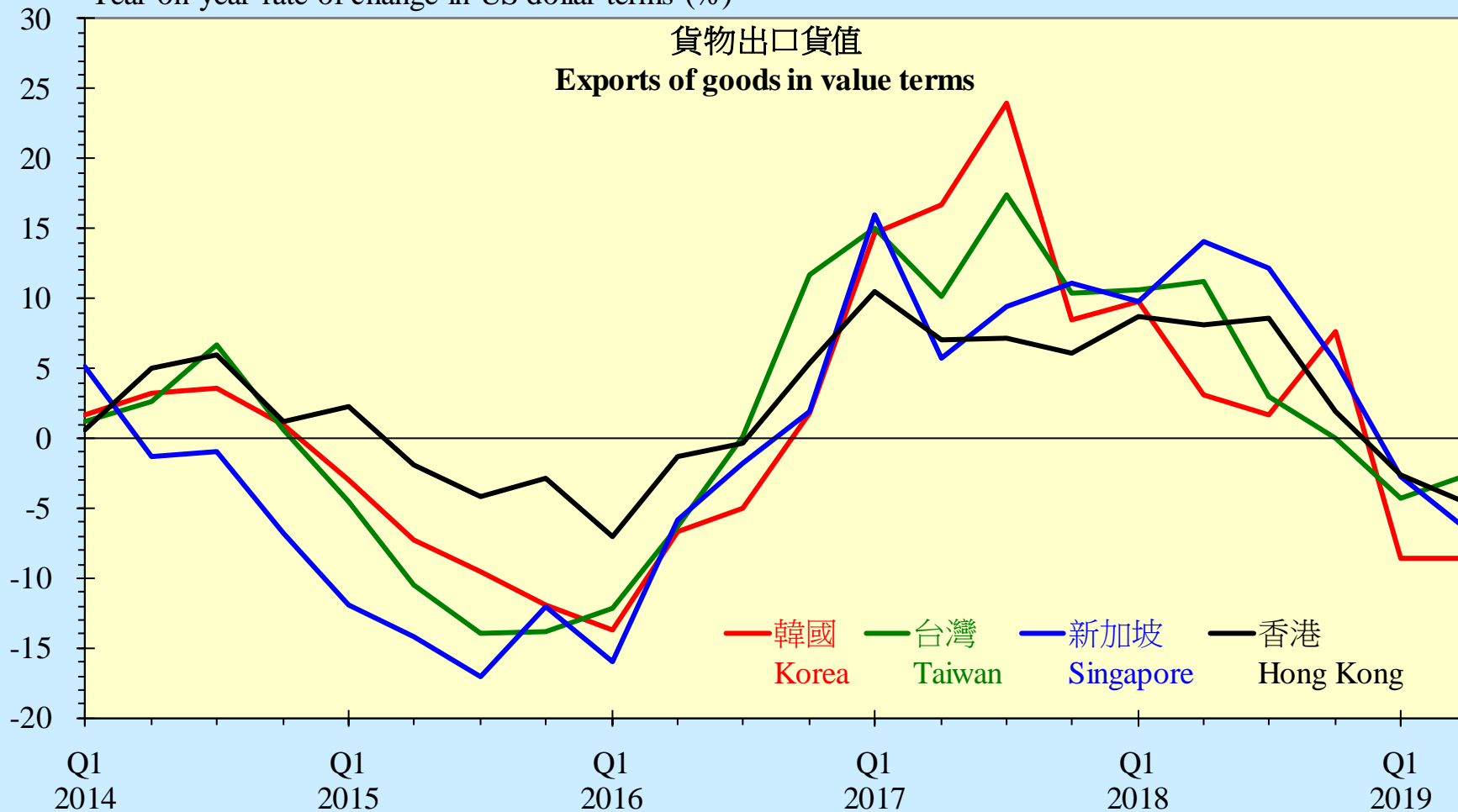
External sector

Amid softer global economic environment and US-Mainland trade tensions, many Asian economies saw weaker export performance

以美元計算的按年增減率(%)

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

貨物出口貨值
Exports of goods in value terms



Exports of goods to many major markets registered declines of varying degrees in the second quarter

實質增減率 (%)

Rate of change in real terms (%)



Total exports of goods by major market

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

	<u>2018</u>	<u>2019</u>	
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>
Mainland	5.2	-8.9	-7.7
U.S.	6.1	-9.9	-14.4
E.U.	8.2	9.0	-1.7
Japan	-1.3	-5.8	-7.3
Taiwan	-4.8	-10.1	-3.2
Korea	2.5	4.7	10.0
Singapore	15.1	22.5	10.3

Exports of services declined slightly in Q2



Exports of travel and financial services showed moderate growth, other services export components continued to decline

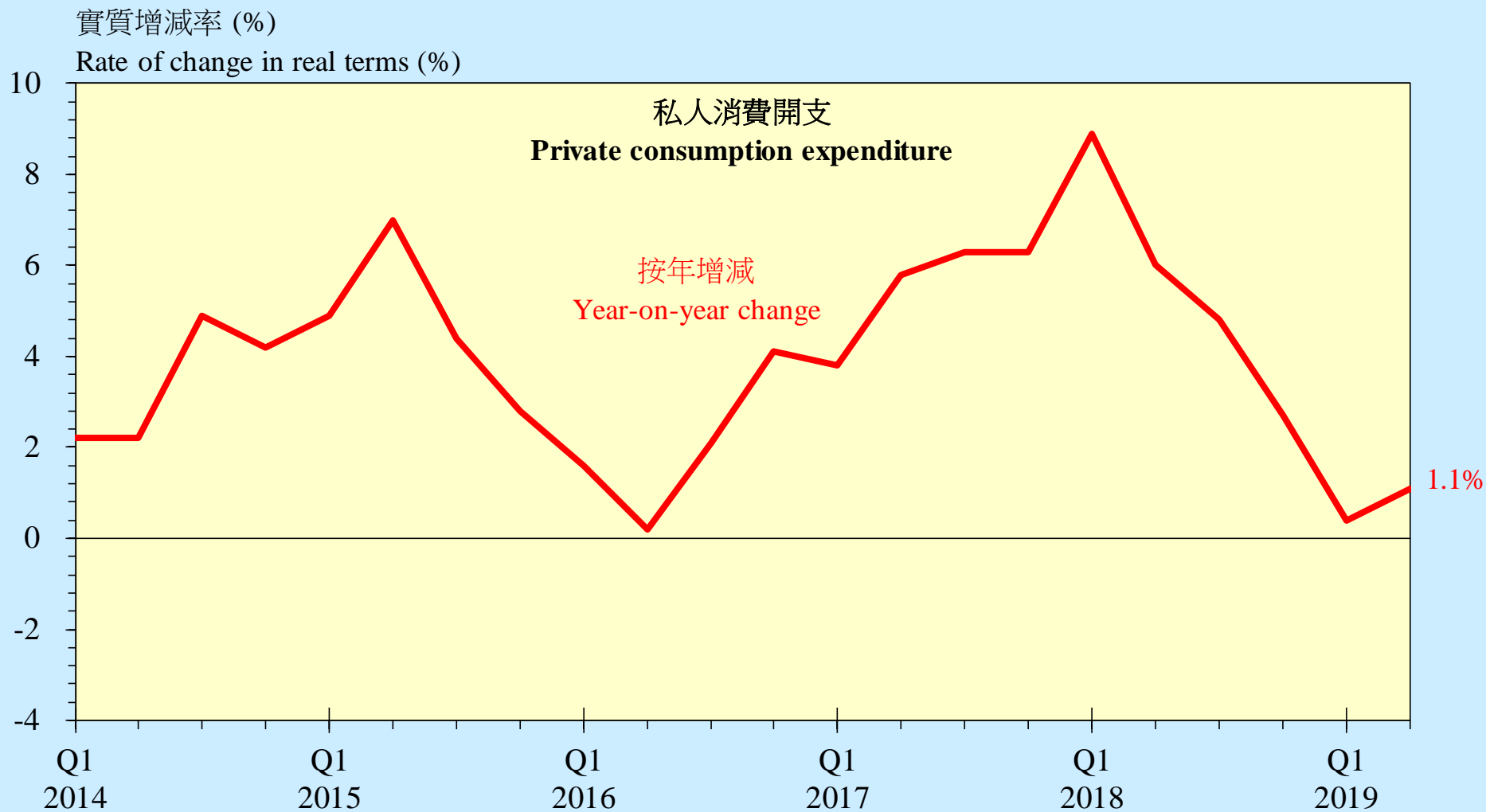
Exports of services

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>
2018	Annual	8.7	2.5	5.7	1.3
	Q3	4.7	2.0	2.1	2.0
	Q4	7.2	1.0	3.7	0.3
2019	Q1	3.9	-0.5	-0.6	-1.3
	Q2	2.0	-3.5	2.8	-1.2

Domestic sector

Private consumption expenditure only grew modestly as consumer sentiment stayed cautious



Overall investment expenditure fell markedly, reflecting worsening business sentiment

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 expenditure

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

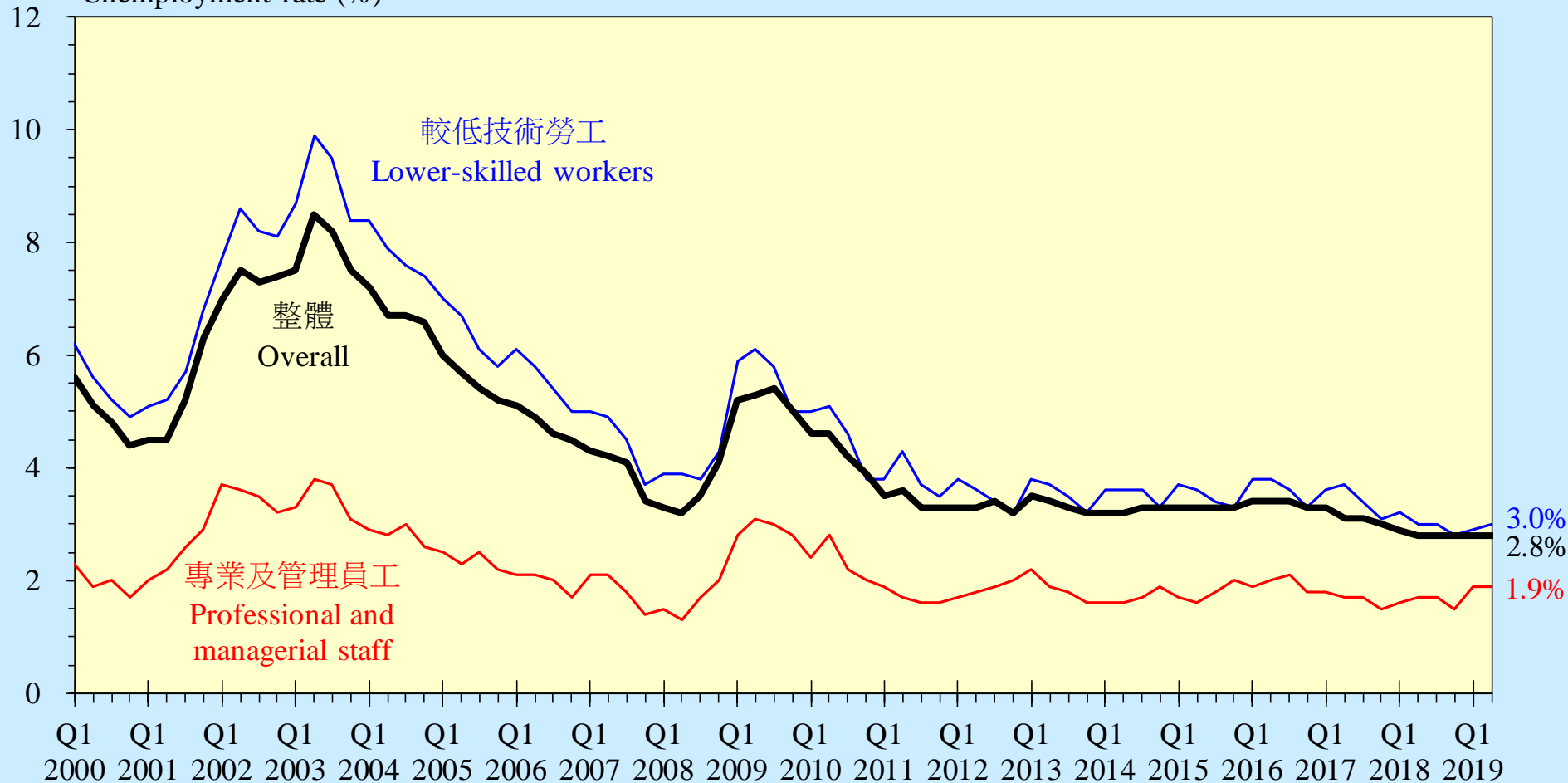
		Machinery, equipment and intellectual property products	Building and construction
2018	Annual	8.9	-0.6
	Q1	5.5	2.2
	Q2	4.2	-0.9
	Q3	21.0	1.3
	Q4	4.7	-4.9
2019	Q1	-1.7	-3.5
	Q2	-12.4	-10.6

Labour market

Labour market was largely stable, but labour demand in some sectors showed signs of easing

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.

Overall wages and earnings of low-income workers saw further real improvement

	<u>Income*</u>	
	Year-on-year rate of change (%)	
	<u>Nominal growth</u>	<u>Real growth</u>
Index of payroll per person engaged (Q1 2019)	4.0	1.8
Wage index (March 2019)	3.9	1.4
Median monthly household income (Q2 2019)	5.6	2.5
Average monthly employment earnings of full-time employees of the lowest three decile groups (Q2 2019)	3.7	0.4

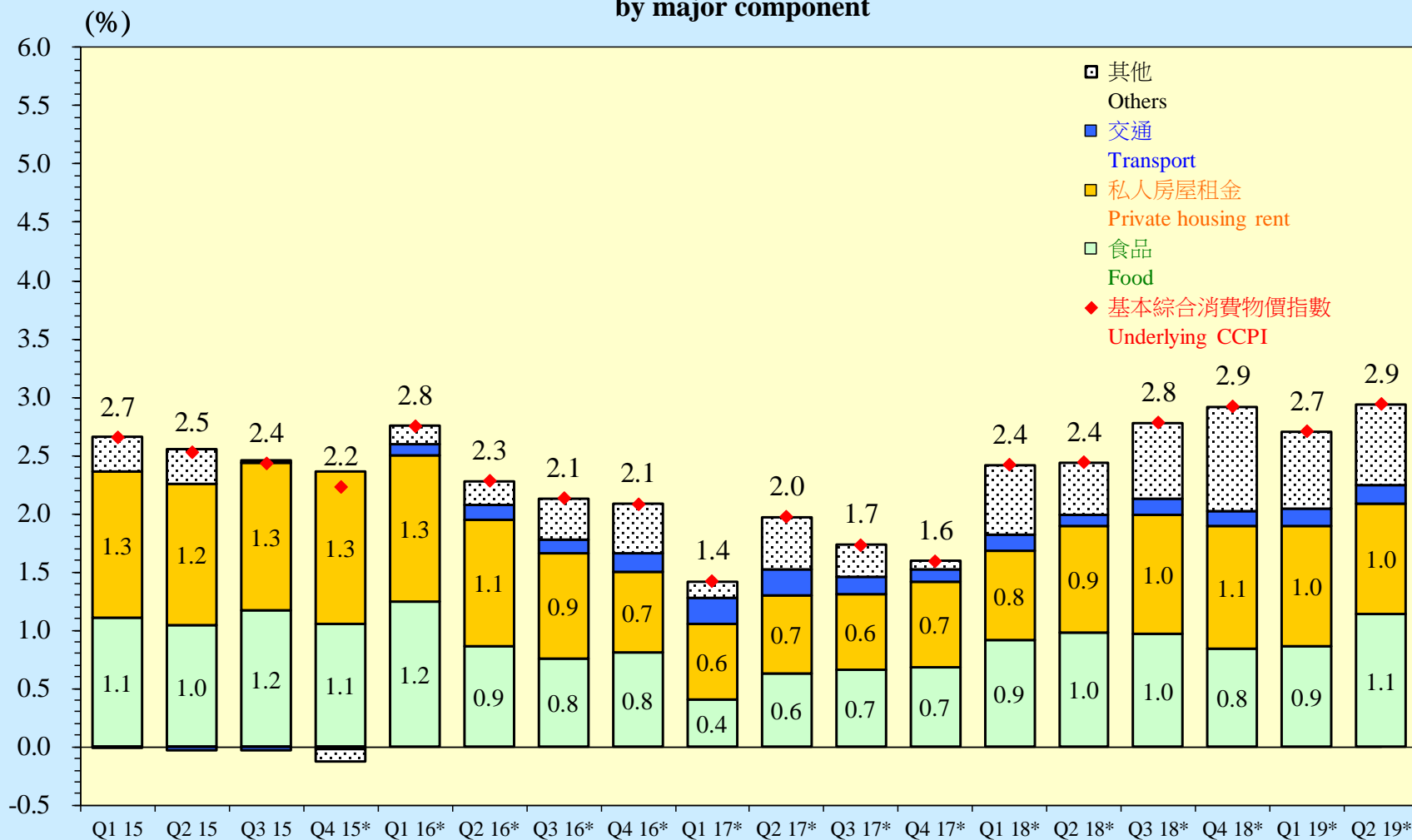
Note: (*) Excluding foreign domestic helpers.

Inflation

Underlying consumer price inflation went up somewhat, mainly affected by pork prices

各主要組成項目對基本綜合消費物價指數按年變動率的貢獻

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



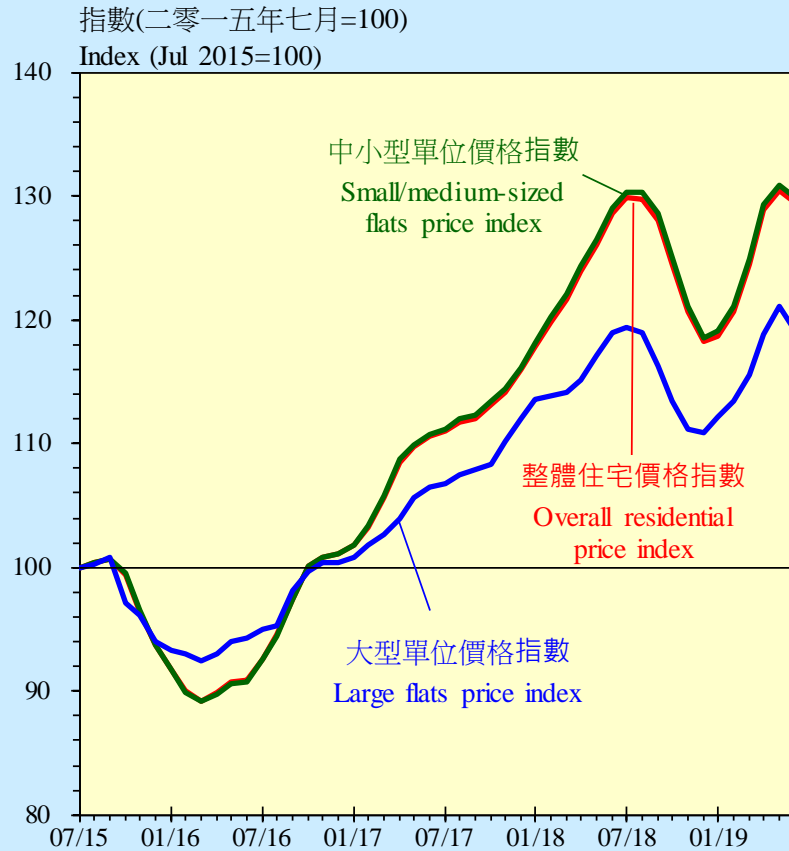
註：(*) 根據以二零一四至一五年度為基期的消費物價指數新數列計算。

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

Property market

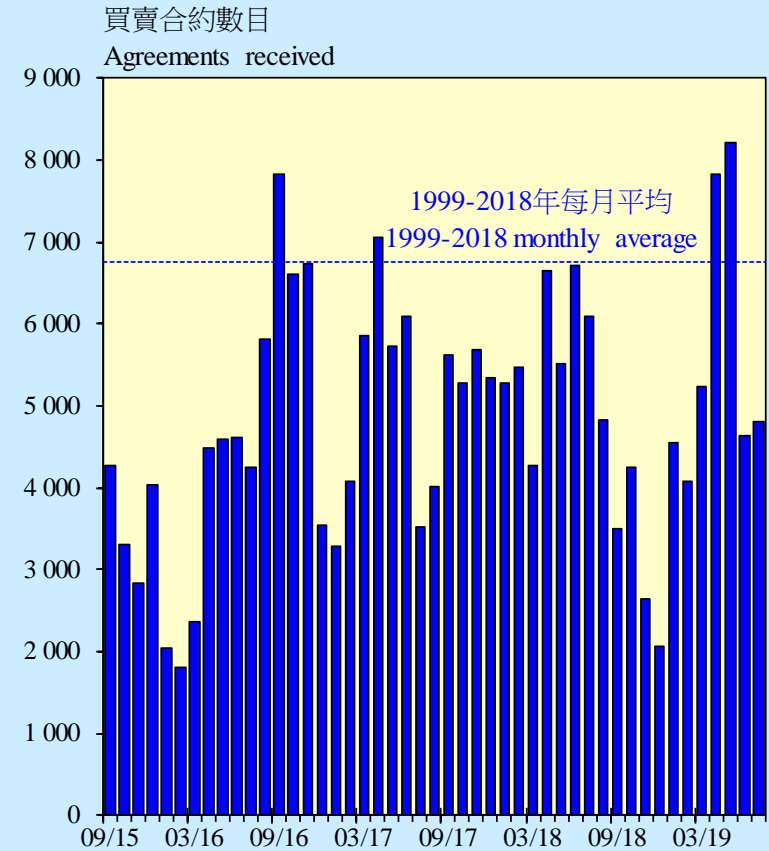
The residential property market showed signs of softening in recent months

住宅售價
Flat prices



住宅物業買賣合約數目

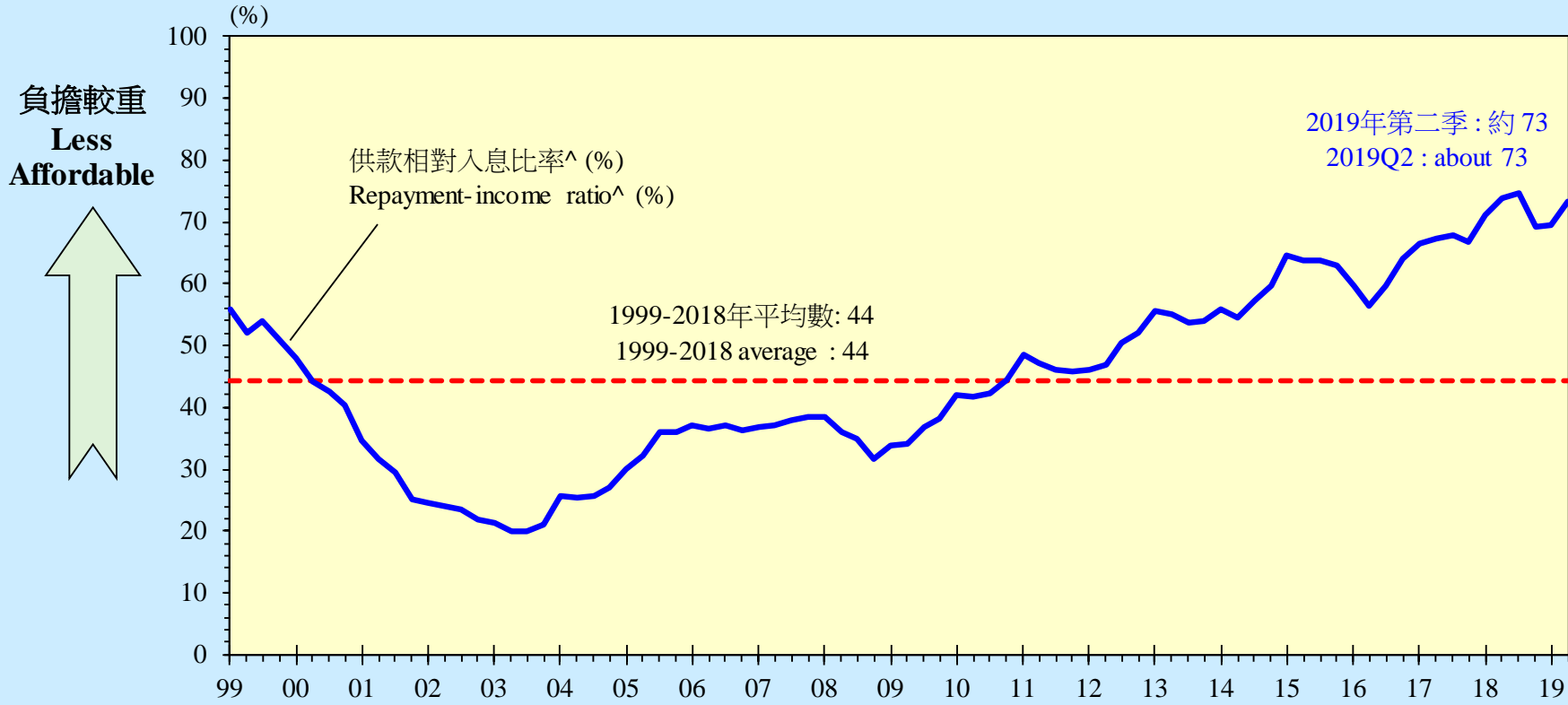
No. of S&P agreements for residential property



註： 中小型單位指實用面積小於100平方米的單位，而大型單位指實用面積至少達100平方米的單位。

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 (i.e. mortgage repayment to income ratio) remained elevated



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 stayed high at 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 2019

Global economic growth should soften further in the near term

- ◆ **Mainland:** While the economy has displayed resilience, it also faces downward pressures stemming from trade tensions
- ◆ **U.S.:** Economic momentum has slackened, with weaker private investment and exports
- ◆ **Euro area:** Economic growth remains modest
- ◆ **Rest of Asia:** The performance of many economies in the region has been constrained by lacklustre industrial production and enlarged declines in exports

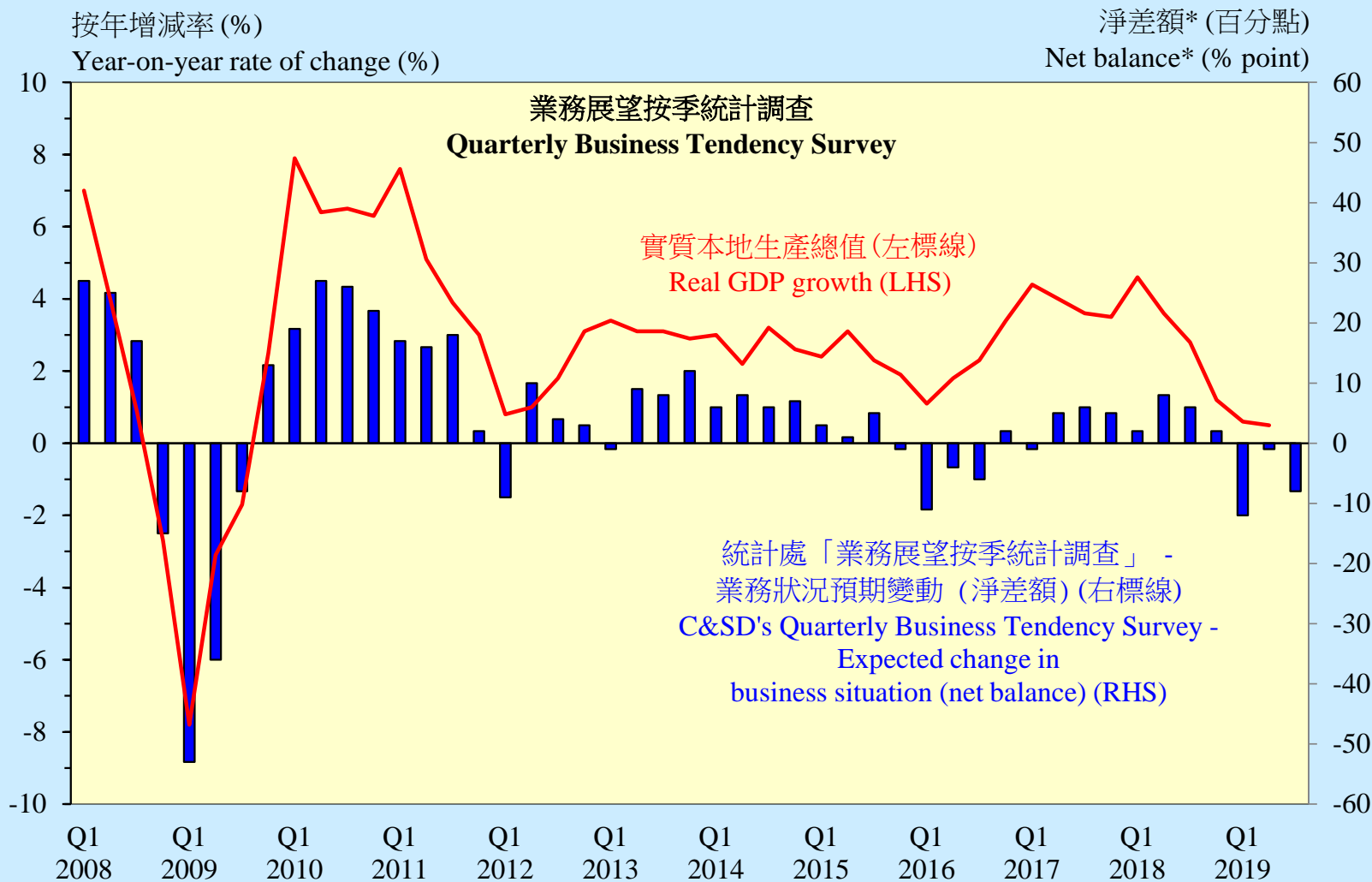
IMF revised downwards its 2019 global economic growth forecast in July

	GDP growth in 2018	IMF forecasts for 2019 GDP growth			Change between Apr and Jul
		Jan	Apr	Jul	
World	3.6	3.5	3.3	3.2	-0.1
U.S.	2.9	2.5	2.3	2.6	0.3
Euro area	1.9	1.6	1.3	1.3	0.0
Japan	0.8	1.1	1.0	0.9	-0.1
Mainland China	6.6	6.2	6.3	6.2	-0.1
Developing Asia	6.4	6.3	6.3	6.2	-0.1
Emerging market and developing economies	4.5	4.5	4.4	4.1	-0.3

Notable downside risks to near-term economic outlook

- ◆ US-Mainland trade tensions have escalated further in August. Although the two sides agreed to resume high-level negotiations shortly, it would still be difficult for the two sides to reach a trade deal in the near future given their deep differences across a range of issues
- ◆ The possibility of a no-deal Brexit and geopolitical tensions in the Middle East
- ◆ The recent local social incidents, if continued, will cause significant disruptions to inbound tourism and consumption-related economic activities, further dampen economic sentiment, and even hurt the reputation of Hong Kong as an international financial, business and travel hub

Local business sentiment has turned pessimistic



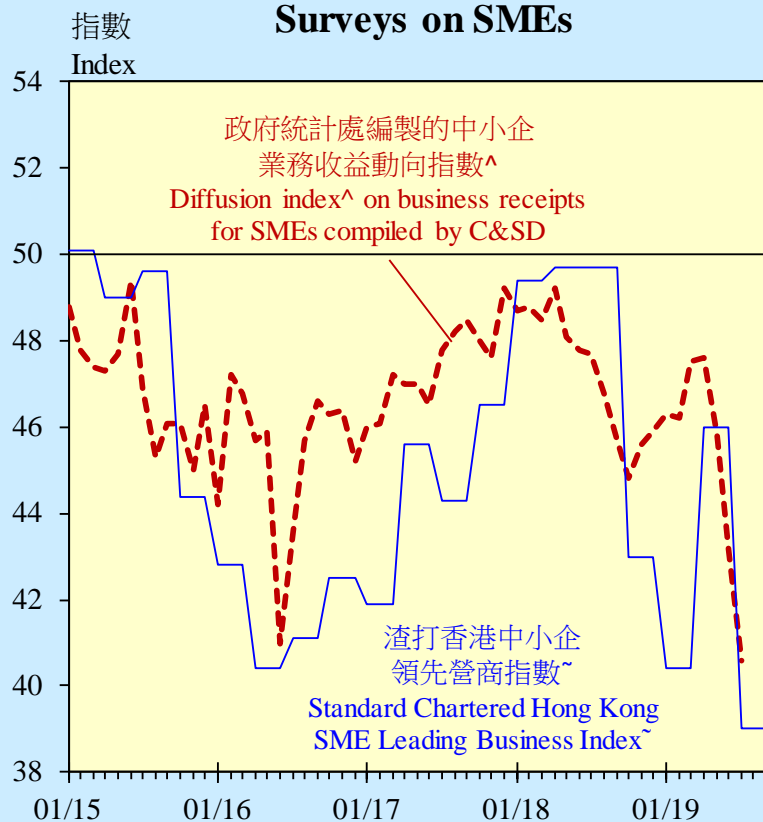
註：(*) 淨差額展現了業務狀況預期較前一季的變動方向。它是填報「較佳」的機構單位百分比與填報「較差」的機構單位百分比的差距。正數指可能向上趨升，而負數則為可能跌勢。

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.

Most of the surveys on business situation pointed to much weaker business sentiment

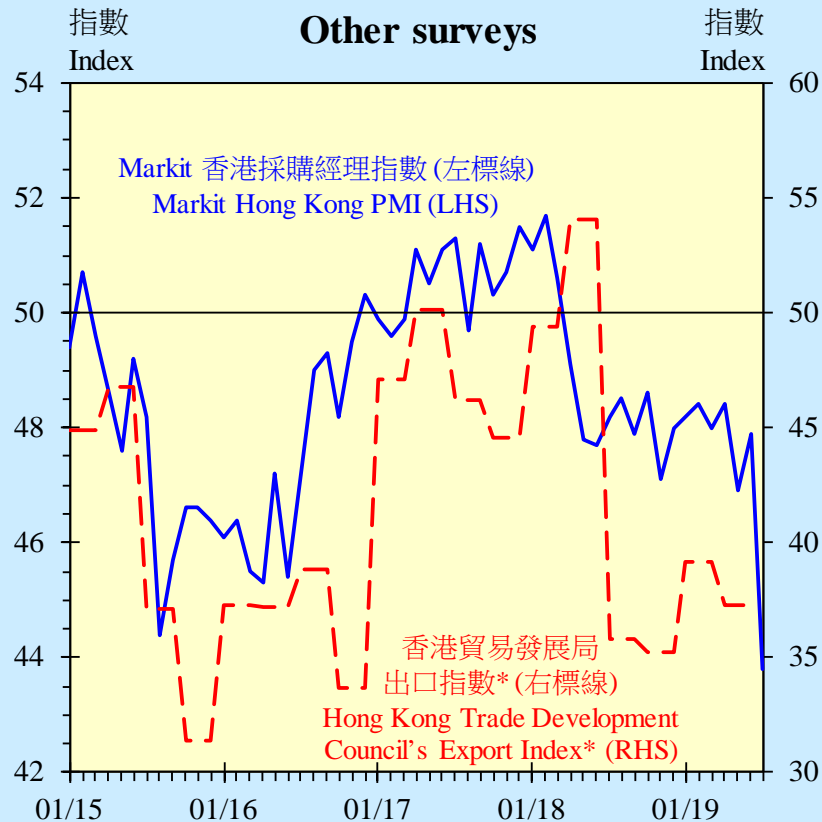
中小企調查

Surveys on SMEs



其他調查

Other surveys



註：^(^) 動向指數是按報稱「上升」的中小企百分比，加上報稱「相同」的中小企百分比的一半計算。動向指數高於50表示業務狀況普遍向好，低於50則表示情況恰恰相反。受訪企業在填報意見時已撇除季節性因素的影響。

^(~) 自二零一二年第三季開始提供的季度數據。

^(*) 指數高於50，表示超過一半受訪貿易商的意見傾向正面，可解讀為業務向好和信心增強；指數低於50則表示情況恰恰相反。

Notes: ^(^) The diffusion index is computed by adding the percentage of SMEs reporting “up” to one half of the percentage of SMEs reporting “same”. A diffusion index reading above 50 indicates that the business condition is generally favourable, whereas an index below 50 indicates otherwise. Respondents were requested to exclude seasonal effects in reporting their views.

^(~) Launched in Q3 2012 and quarterly data.

^(*) A reading above 50 indicates that more than half of the surveyed traders incline towards the upside, which can be interpreted as an upward trend and an increase in confidence, and vice versa for a reading below 50.

Latest economic forecasts for 2019 as a whole

	Forecasts as released on 17 May	Latest forecasts
Real GDP growth	2-3%	0-1%
Underlying inflation	2.5%	2.7%
Headline inflation	2.5%	2.6%



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