



Hong Kong SAR Government

Third Quarter Economic Report 2019 & Updated economic forecasts for 2019

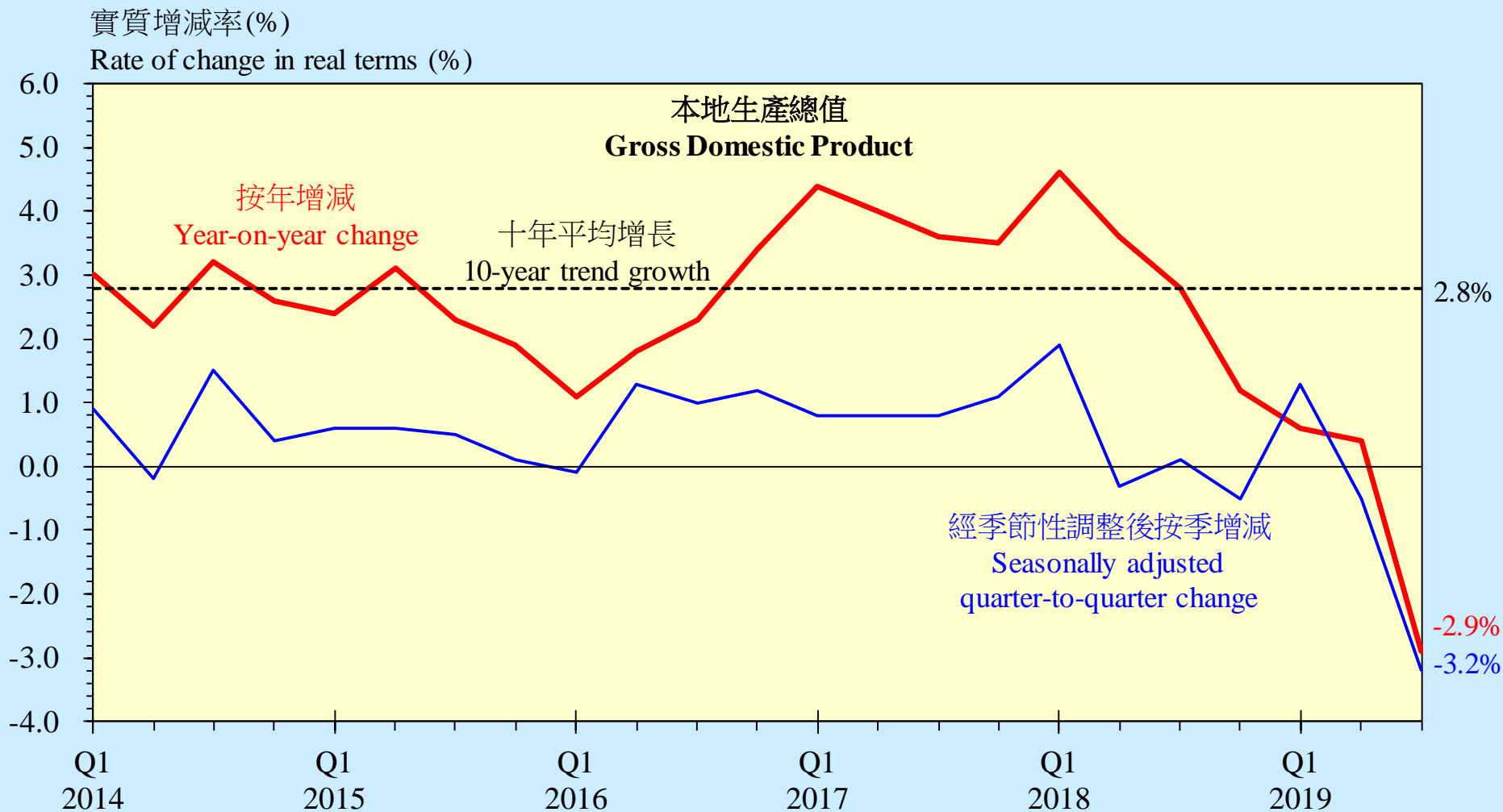
15 November 2019

Highlights of the latest economic situation

- The Hong Kong economy saw an abrupt deterioration in Q3, contracting by 2.9% from a year earlier, the first year-on-year contraction since 2009. The economy has entered a recession
- The local social incidents took a heavy toll on consumption- and tourism-related sectors, dealing a very severe blow to the economy
- The synchronised global economic slowdown and escalated US-Mainland trade tensions in Q3 weighed further on the export performance
- Labour market showed some easing; Consumer price inflation went up further
- Real GDP growth forecast for 2019 is revised downwards to -1.3%; Underlying inflation rate forecast is revised upwards to 3.0%

Economic performance in Q3 2019

The Hong Kong economy contracted significantly in Q3 and entered a recession

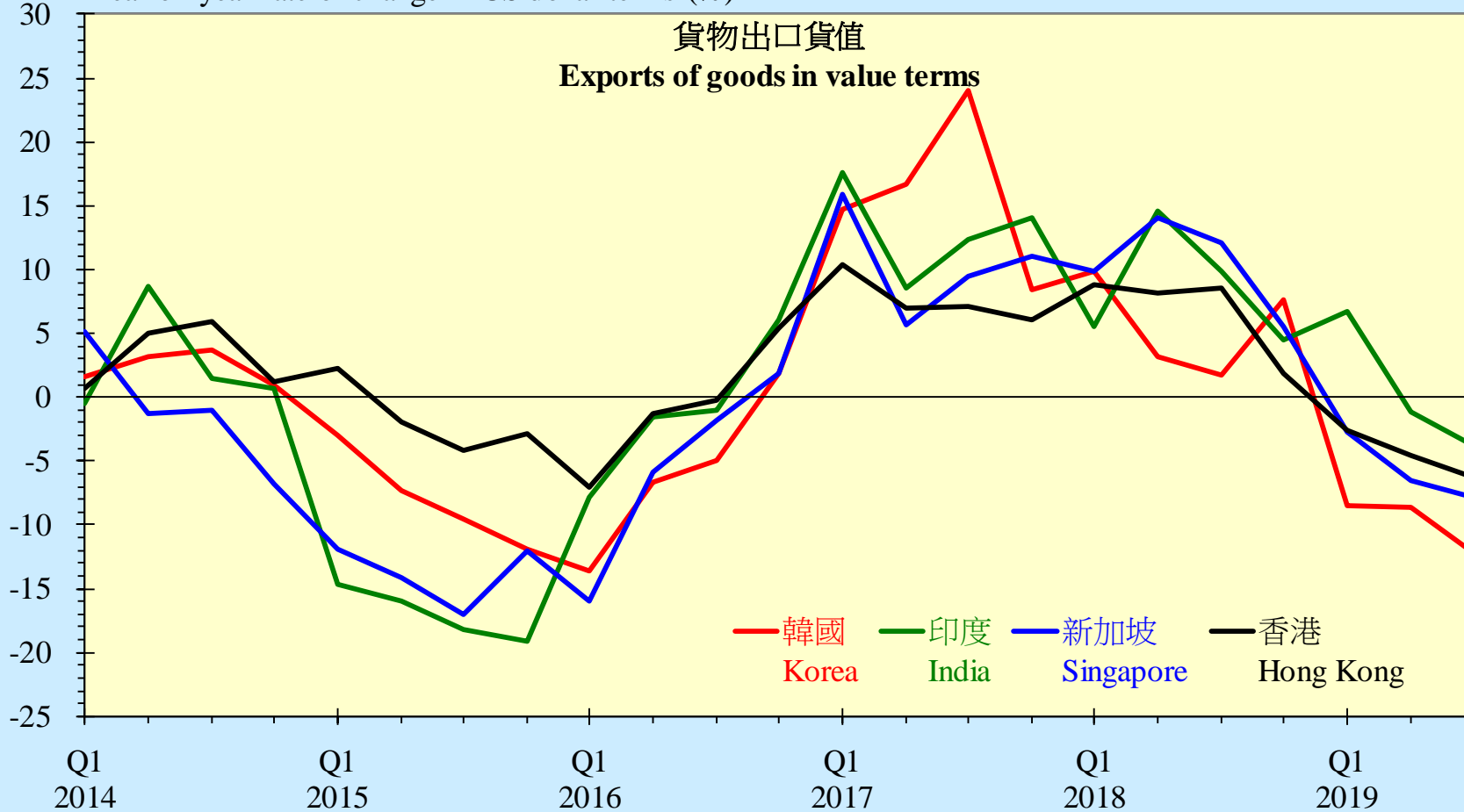


External sector

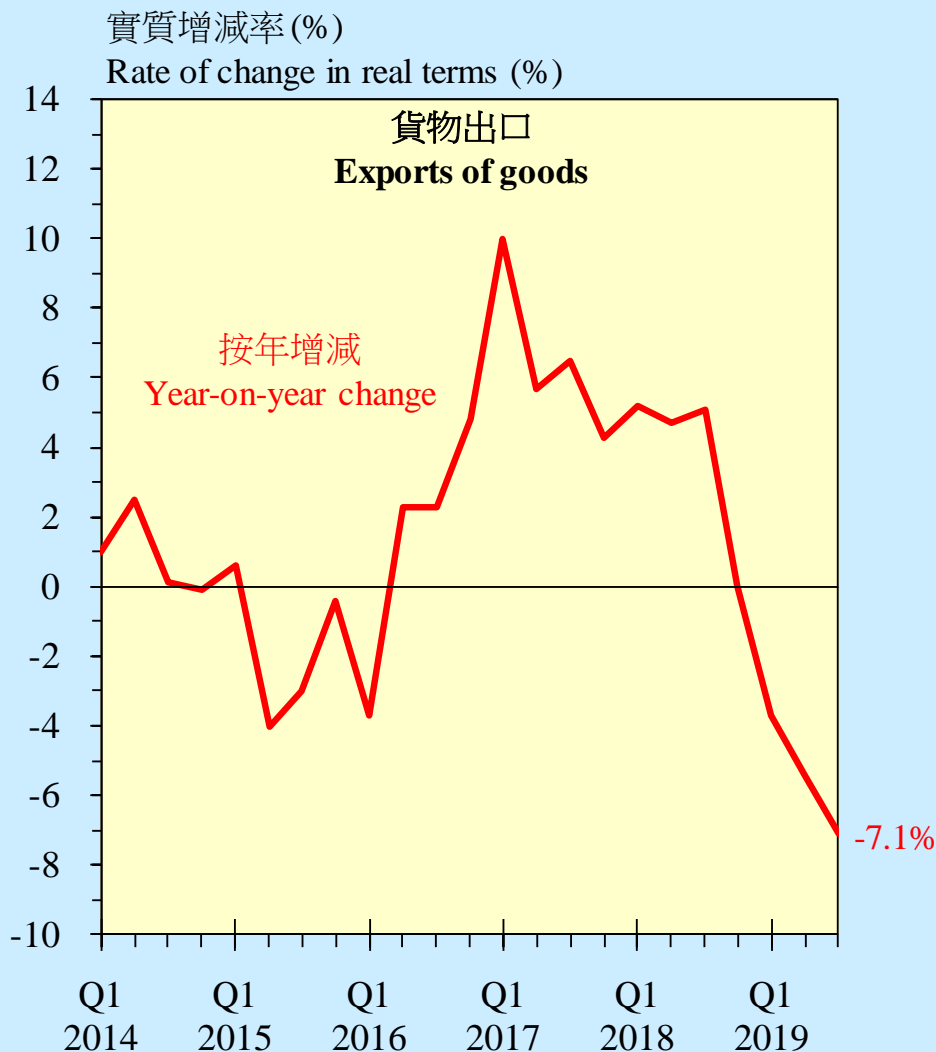
Trading activities in most Asia economies stayed sluggish amid soft global demand and escalated US-Mainland trade tensions in Q3

以美元計算的按年增減率(%)

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



Exports of goods to many major markets weakened further

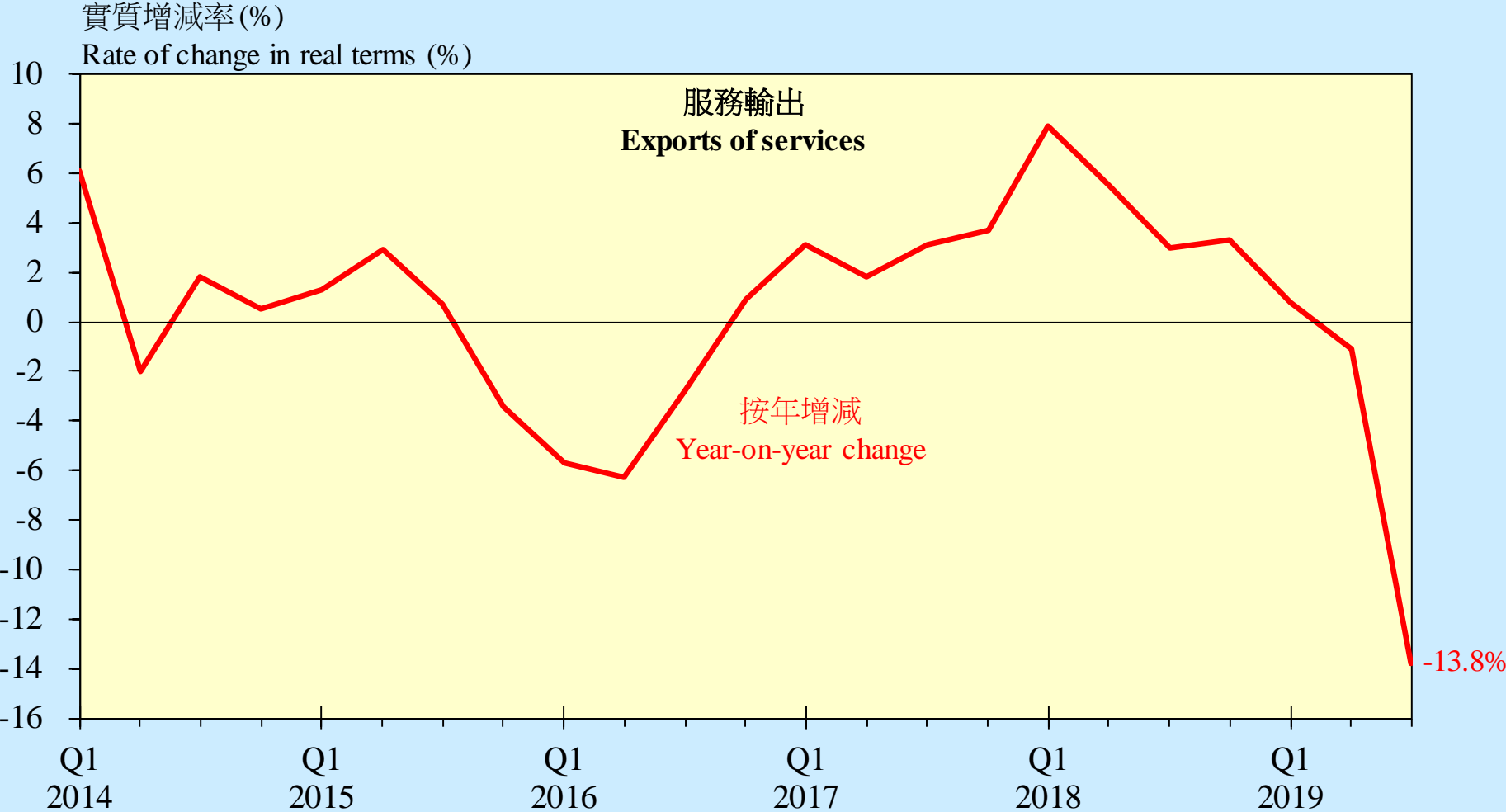


Total exports of goods by major markets

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

	<u>2019</u>		
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Mainland	-8.9	-7.7	-7.2
U.S.	-9.9	-14.4	-15.3
E.U.	9.0	-1.7	-12.0
Japan	-5.8	-7.3	-3.6
India	-28.6	-1.5	-12.7
Korea	4.7	10.0	-5.2
Singapore	22.5	10.3	-0.1

Exports of services deteriorated sharply in Q3



Exports of travel services plunged as the local social incidents took a heavy toll on inbound tourism; other services export components also fell

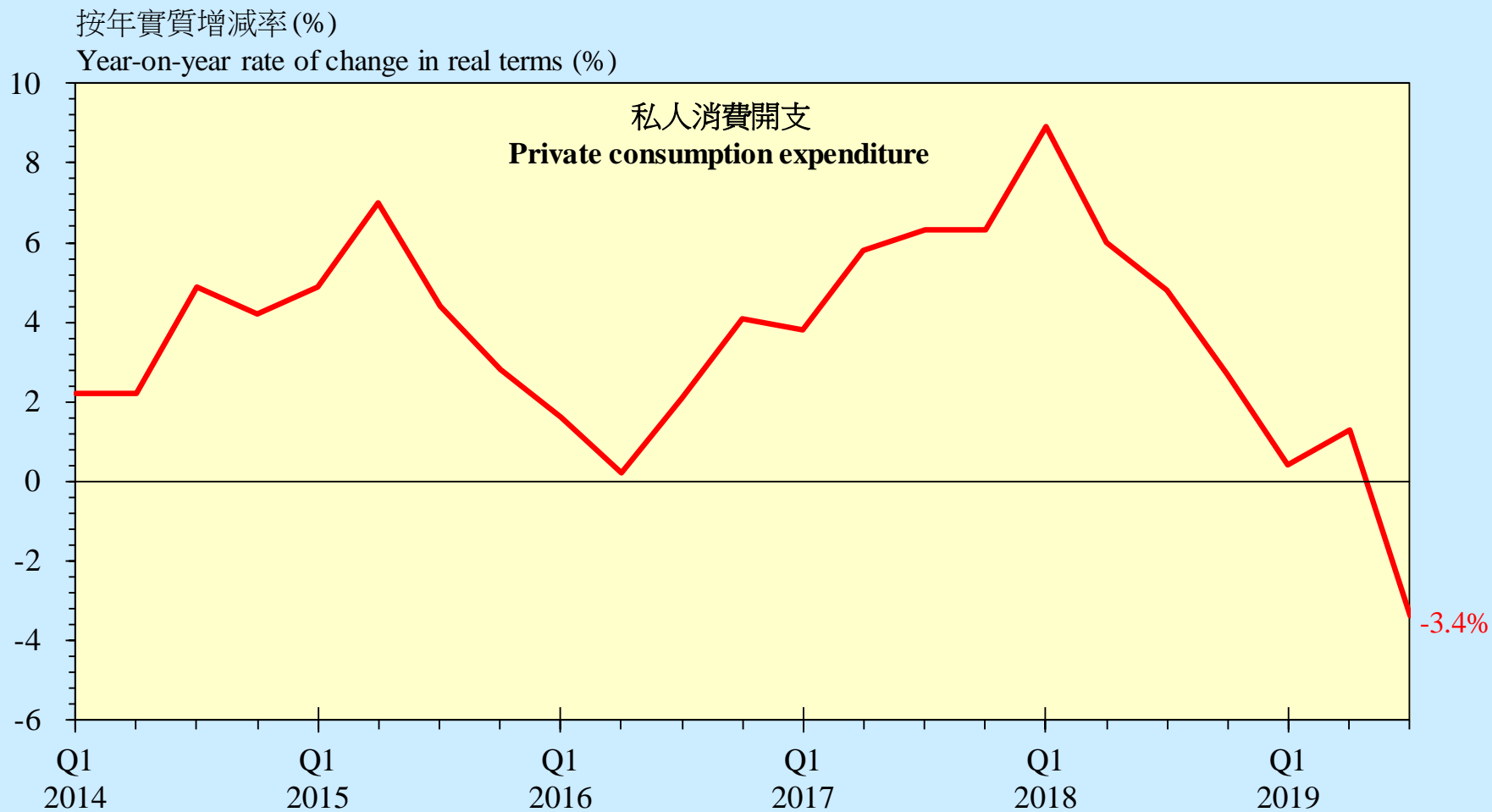
Exports of services

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	1.1	-3.5	1.1	-2.8
	Q3	-32.2	-8.9	-0.9	-5.2

Domestic sector

With the local social incidents causing serious disruptions to consumption-related activities, private consumption expenditure recorded its first year-on-year decline in more than 10 years



The fall in overall investment spending widened

按年實質增減率(%)
Year-on-year rate of change in real terms (%)



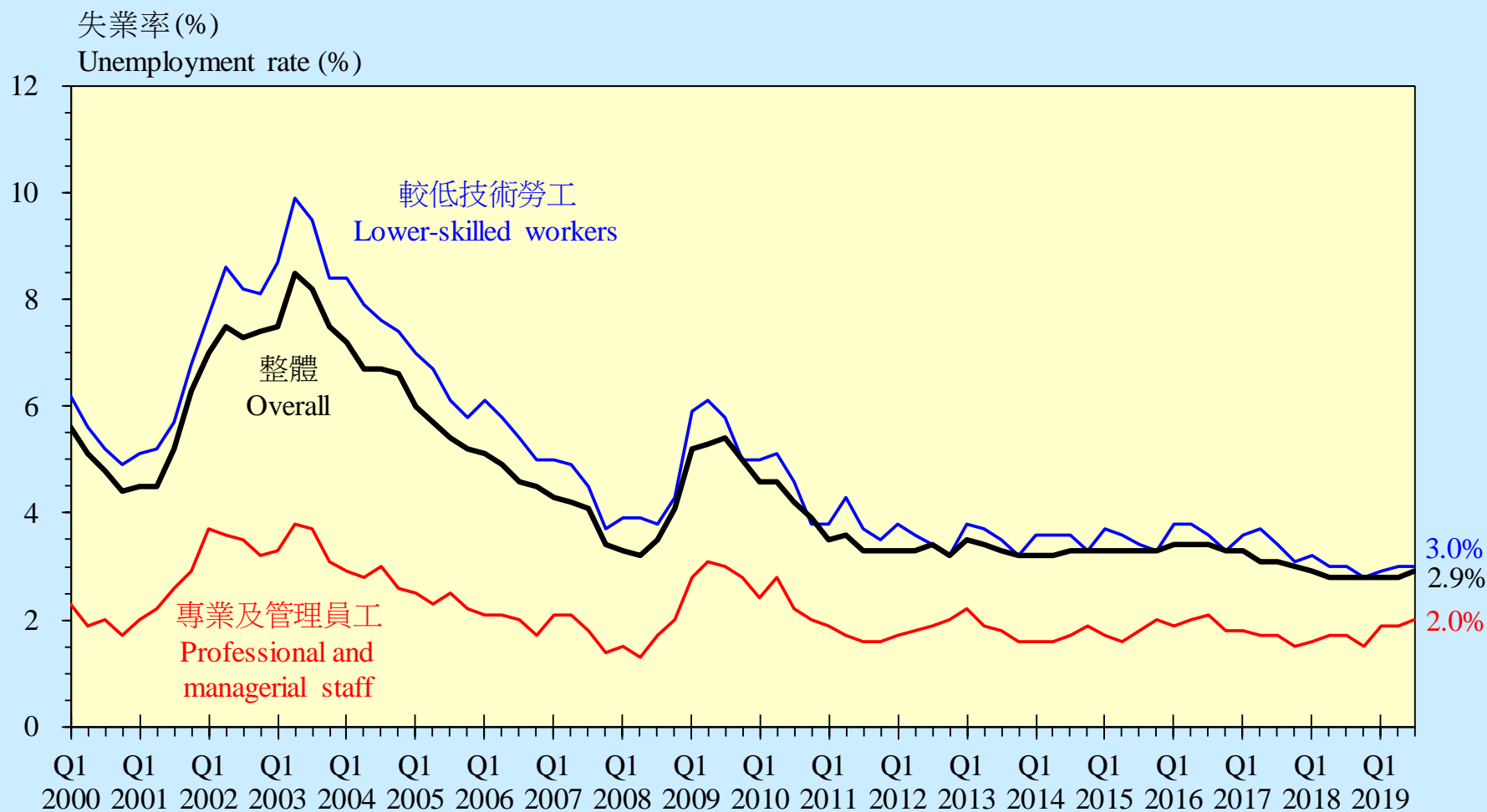
Overall investment expenditure

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

		Machinery, equipment and intellectual property products	Building and construction
2018	Annual	8.9	-0.6
	Q3	21.0	1.3
	Q4	4.7	-4.9
	2019	Q1	-1.7
	Q2	-12.1	-9.3
	Q3	-26.6	-5.7

Labour market

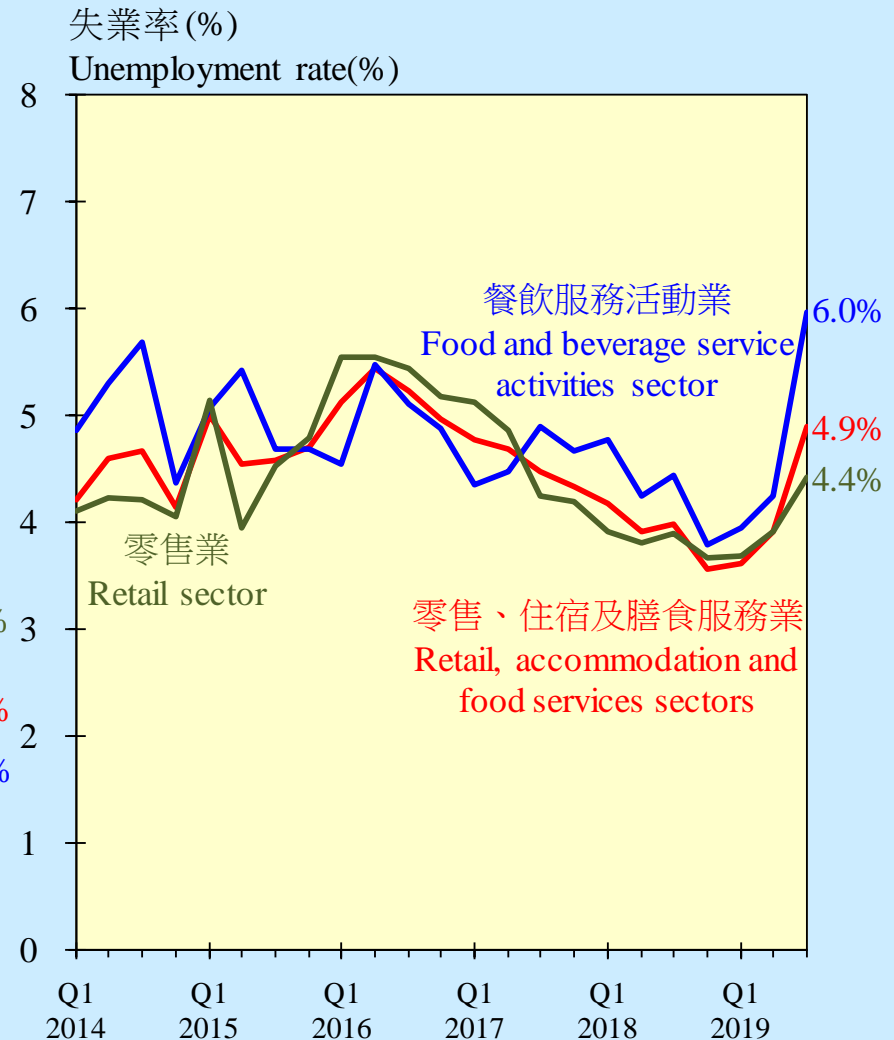
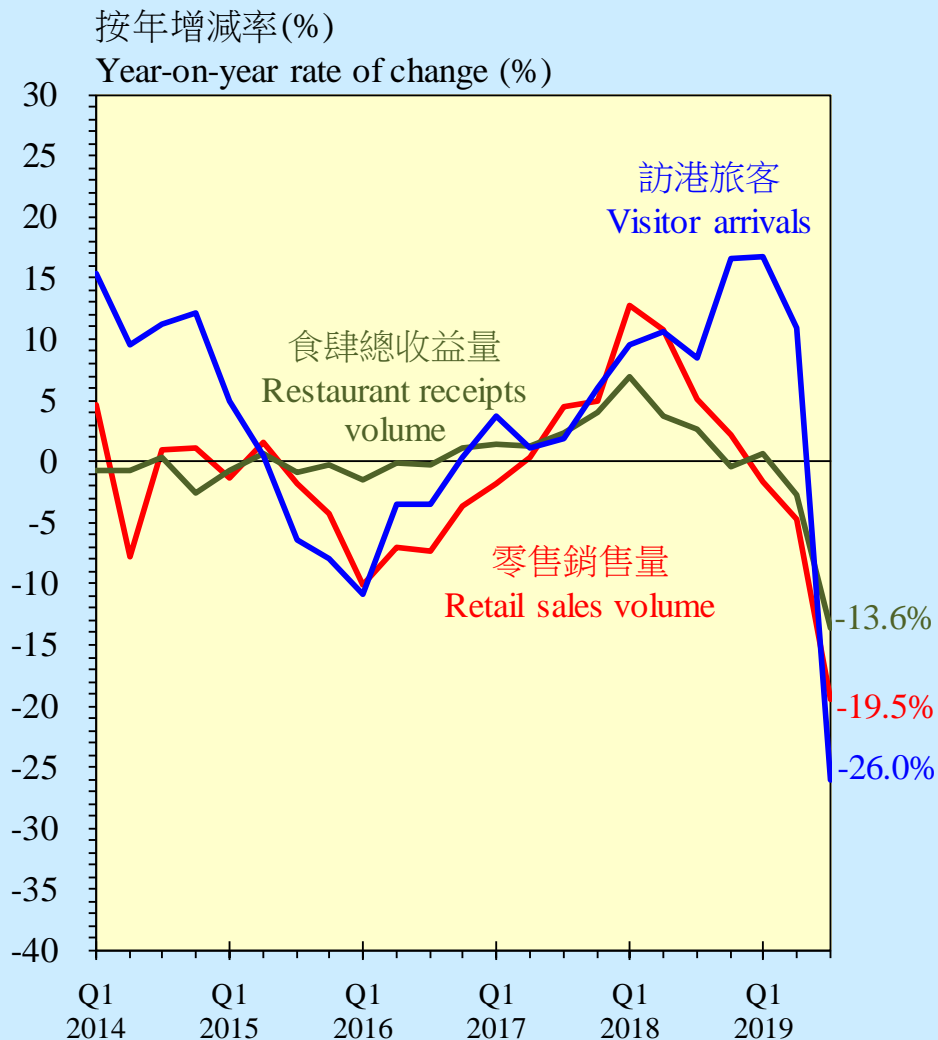
Labour market showed some easing as economic conditions worsened



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.

Consumption- and tourism-related sectors, being hard hit by the local social incidents, saw more visible increases in unemployment rates



While earnings of low-income workers continued to increase over a year earlier, there was moderation in overall earnings growth

	<u>Income*</u>	
	Year-on-year rate of change (%)	
	<u>Nominal growth</u>	<u>Real growth</u>
Index of payroll per person engaged (Q2 2019)	4.1	1.1
Wage index (June 2019)	3.8	-0.1
Average monthly employment earnings of full-time employees of the lowest three decile groups (Q3 2019)	3.8	-0.1
Median monthly household income (Q3 2019)	-1.0	-4.2

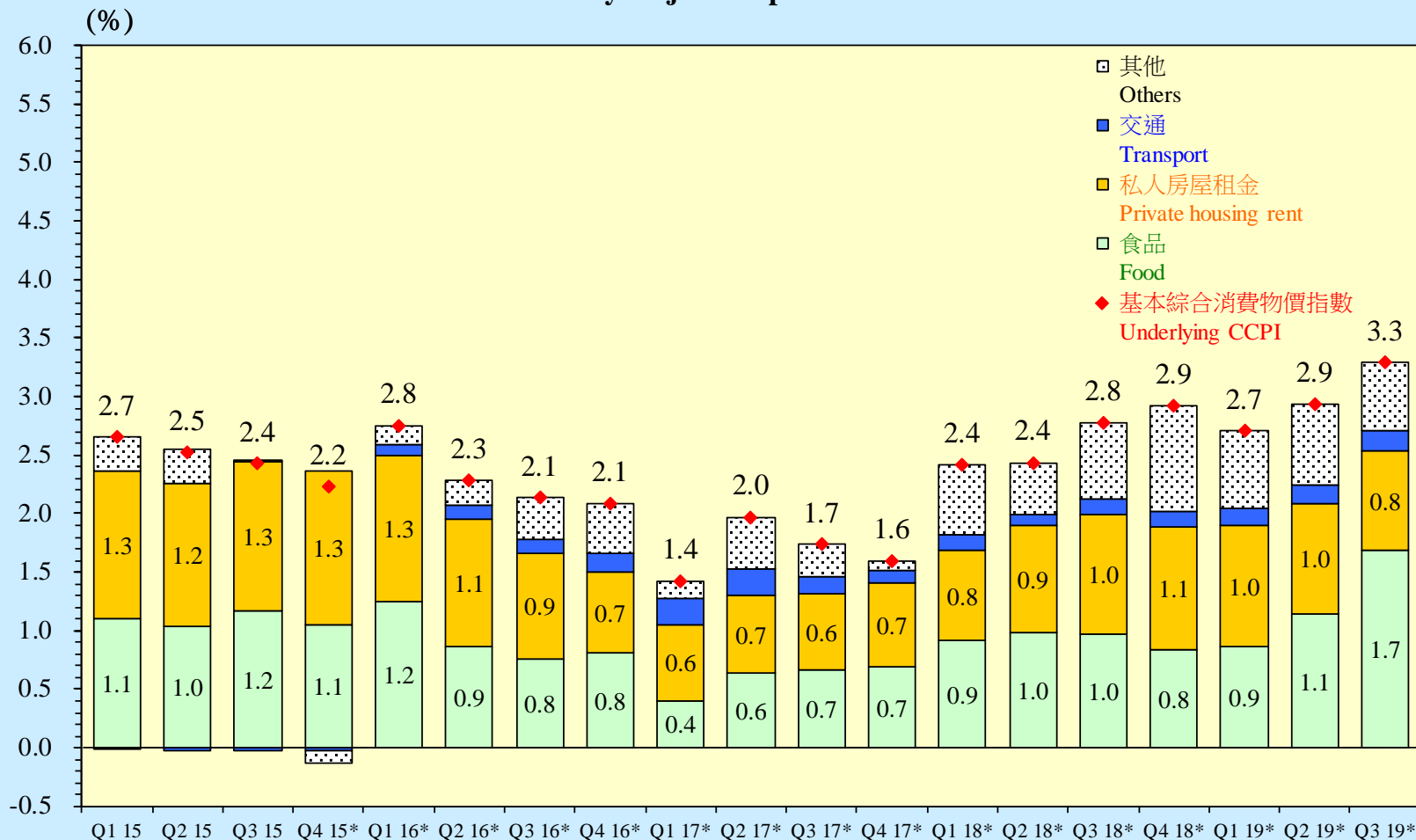
Note: (*) Excluding foreign domestic helpers.

Inflation

Consumer price inflation went up further, mainly due to an accelerated increase in 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



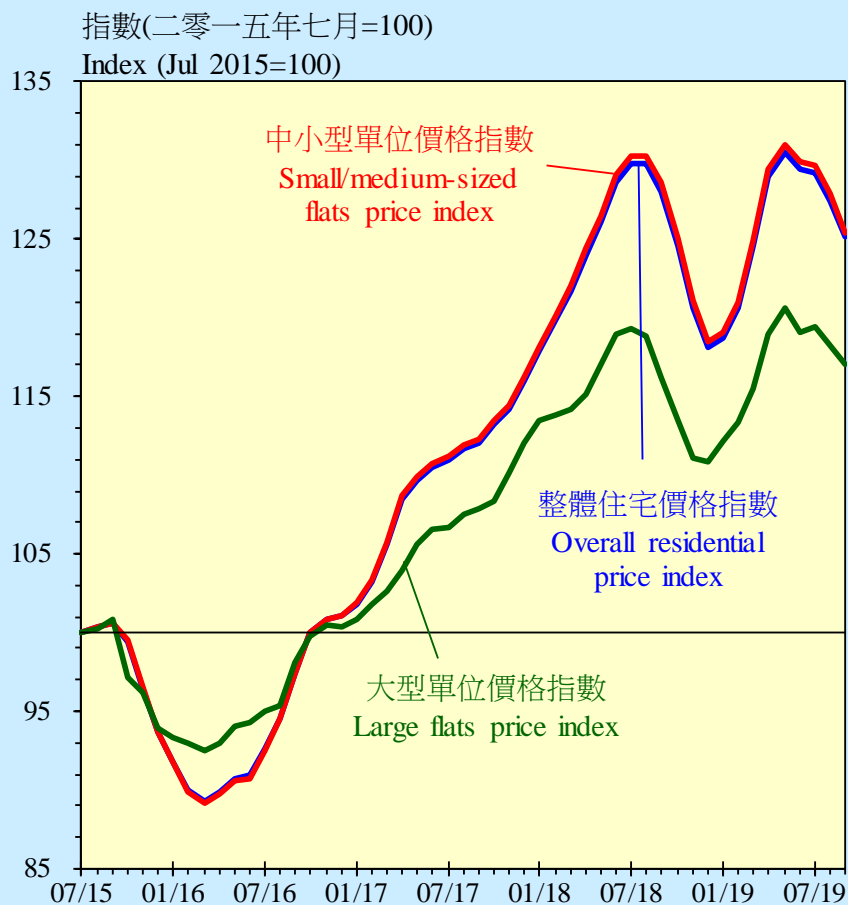
註： (*) 根據以二零一四至一五年度為基期的消費物價指數新數列計算。

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

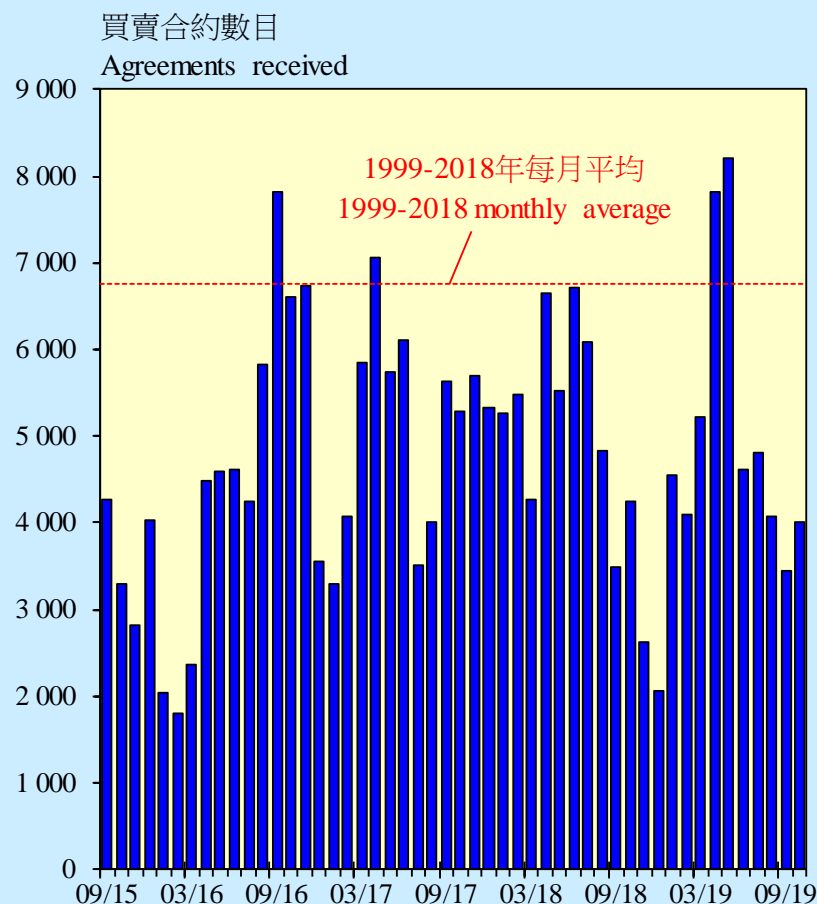
Property market

The residential property market softened further in Q3

住宅售價
Flat prices



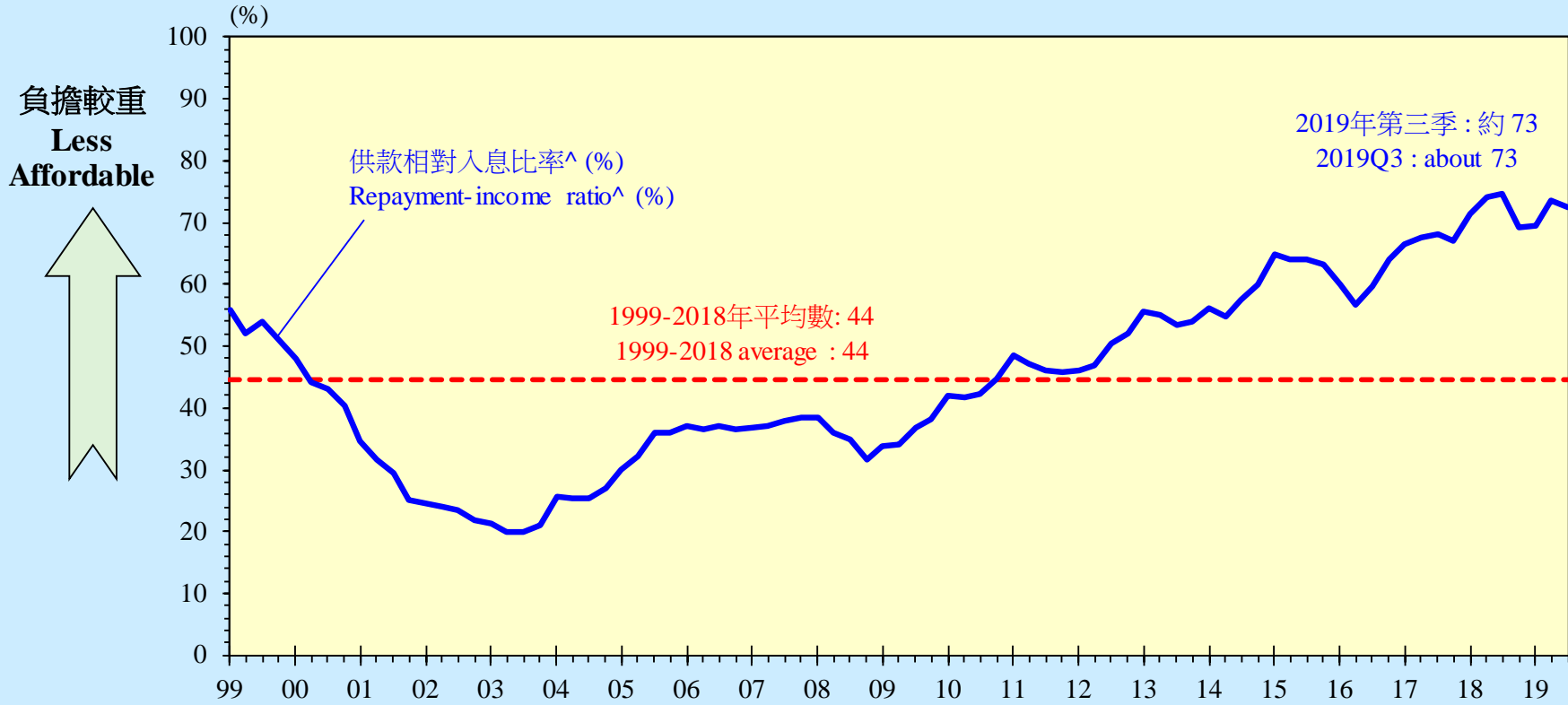
住宅物業買賣合約數目
No. of S&P agreements for residential property



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.

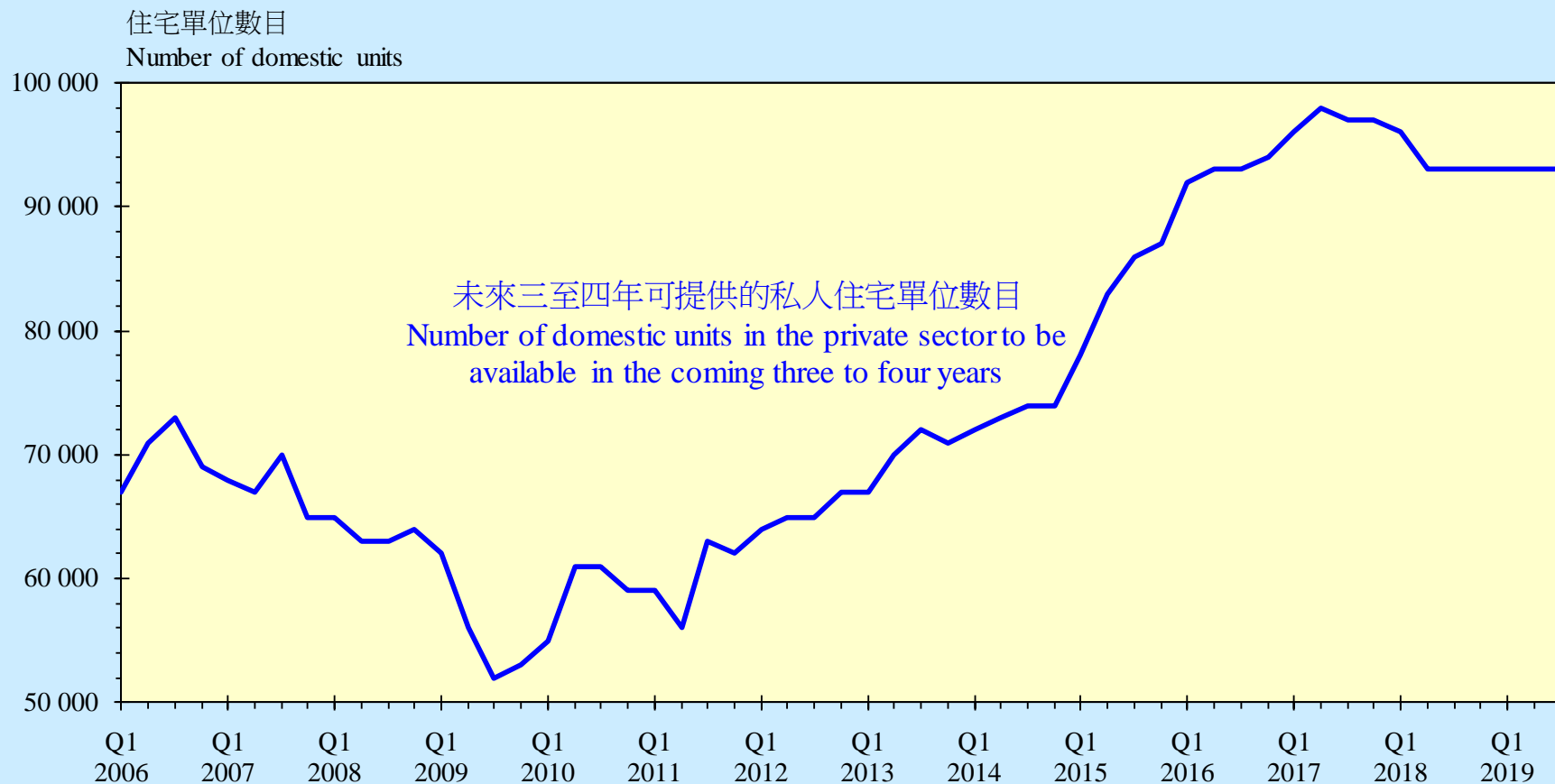
Index of home purchase affordability (i.e. mortgage repayment to income ratio) remained elevated



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 rest of 2019

Global economic growth is expected to remain soft in the near term

- ◆ **Mainland:** The economy, though remaining largely resilient, but still faces downward pressures
- ◆ **U.S.:** Economic growth has slackened, mainly reflecting a marked deceleration in private investment
- ◆ **Euro area:** The economy has stayed weak, along with flagging business sentiment and low inflation
- ◆ **Rest of Asia:** Production and trading activities in many Asian economies are still sluggish

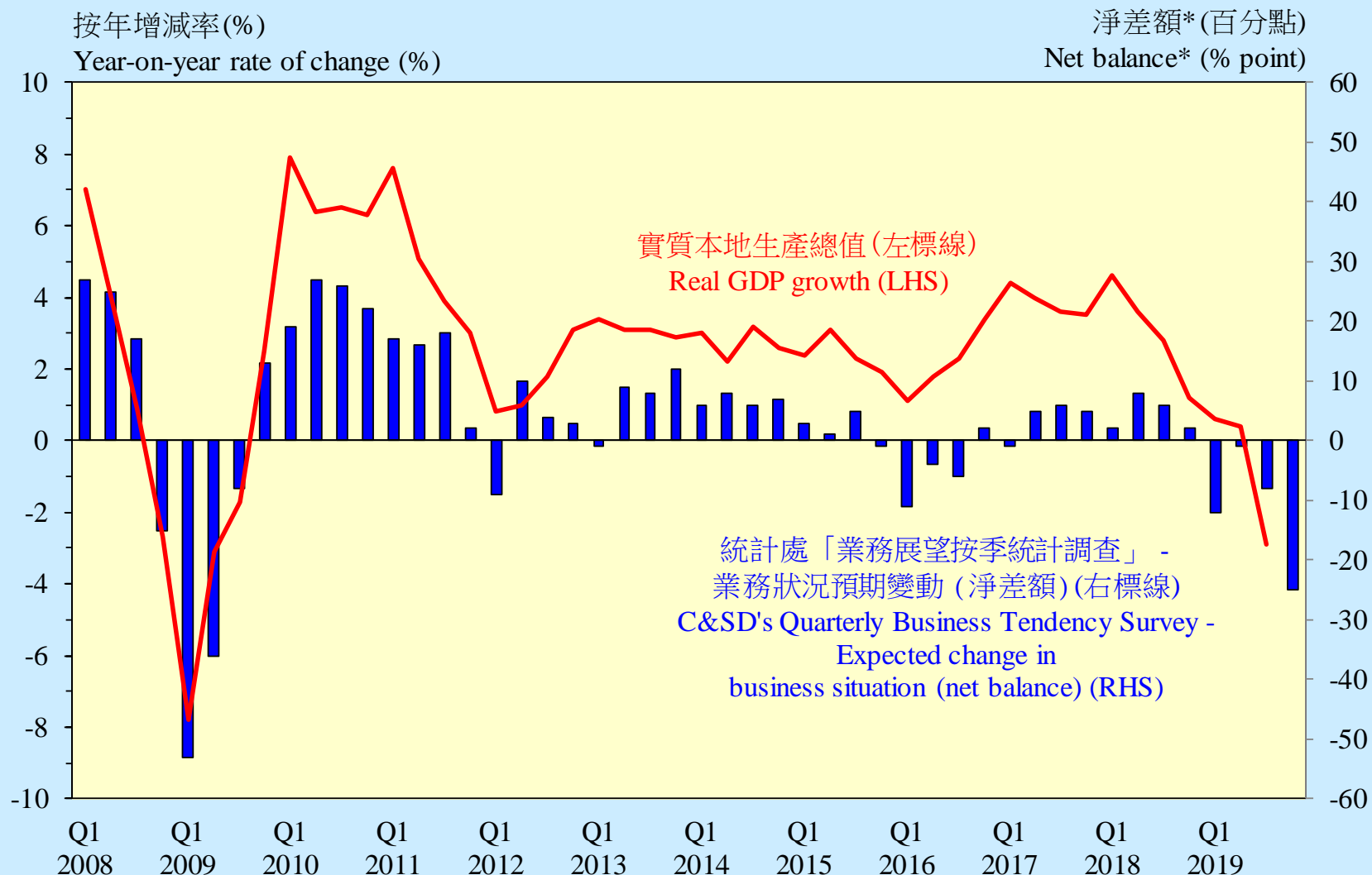
IMF revised downwards its 2019 global economic growth forecast in mid-October

	GDP growth in 2018	IMF forecasts for 2019 GDP growth			Change between Jul and Oct
		Apr	Jul	Oct	
World	3.6	3.3	3.2	3.0	-0.2
U.S.	2.9	2.3	2.6	2.4	-0.2
Euro area	1.9	1.3	1.3	1.2	-0.1
Japan	0.8	1.0	0.9	0.9	0.0
Mainland China	6.6	6.3	6.2	6.1	-0.1
Developing Asia	6.4	6.3	6.2	5.9	-0.3
Emerging market and developing economies	4.5	4.4	4.1	3.9	-0.2

Economy still facing mounting headwinds

- ◆ As the adverse impacts of the local social incidents have yet to show signs of abating, local consumption and investment demand will likely remain in the doldrums for the rest of the year. Ending violence and restoring calm are pivotal to the recovery of the economy
- ◆ While trade relations between the Mainland and the US tend to stabilise for the time being, uncertainties remain given that differences in some key issues have yet to be resolved
- ◆ The evolving situation of Brexit and geopolitical tensions in the Middle East also warrant attention

Local business sentiment turned very pessimistic

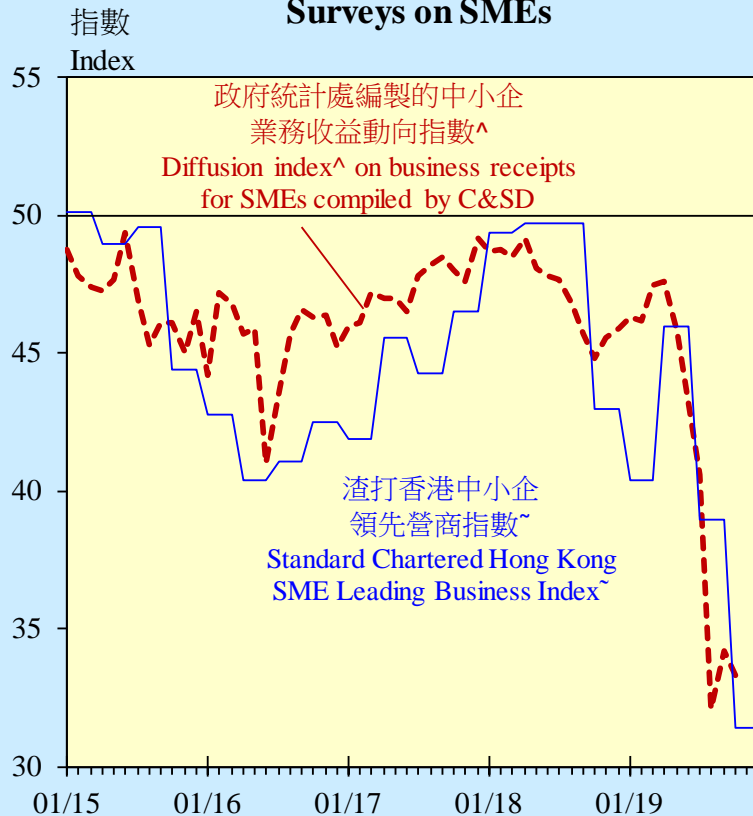


註：(*) 淨差額展現了業務狀況預期較前一季的變動方向。它是填報「較佳」的機構單位百分比與填報「較差」的機構單位百分比的差距。正數指可能向上趨升，而負數則為可能跌勢。

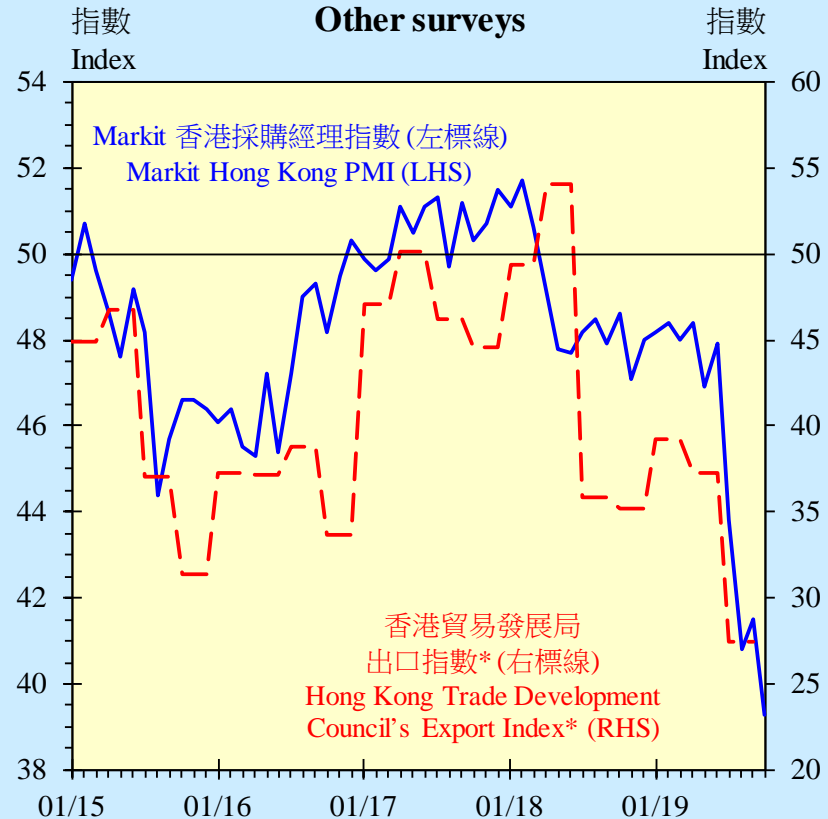
Note: (*) Net balance indicates the direction of expected change in business situation versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing “better” over that choosing “worse”. A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

Business sentiment among SMEs is particularly pessimistic

中小企調查
Surveys on SMEs



其他調查
Other surveys



註： (A) 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: (A) 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 in mid-August	Latest forecasts
Real GDP growth	0-1%	-1.3%
Underlying inflation	2.7%	3.0%
Headline inflation	2.6%	2.9%



Hong Kong SAR Government

Third Quarter Economic Report 2019 & Updated economic forecasts for 2019

15 November 2019