

Outlook for the Hong Kong economy in 2020

2.16 With some easing of US-Mainland trade tensions and the modest boost from the accommodative moves by major central banks, the global economy has shown signs of stabilisation towards the end of 2019. While this should provide support to the Asian economies in 2020, the threat of the novel coronavirus infection of late has added significant downward pressures in the near term. With the infection and related control measures hitting regional production activities and trade flows, Hong Kong's exports of goods will inevitably be affected. Meanwhile, uncertainties surrounding the US-Mainland economic and technology relations remain when the two sides proceed to negotiate for a phase two deal. The Mainland and the US will likely need more time to resolve their differences in a number of key issues, so the bilateral economic and trade relations may see twists and turns in the period ahead, fuelling uncertainties in the external environment. If trade tensions intensify again, Hong Kong's external trade would face further downward pressures.

Diagram 2.5 : The easing of trade tensions should render some support to Hong Kong's exports in 2020, but the novel coronavirus infection could weigh

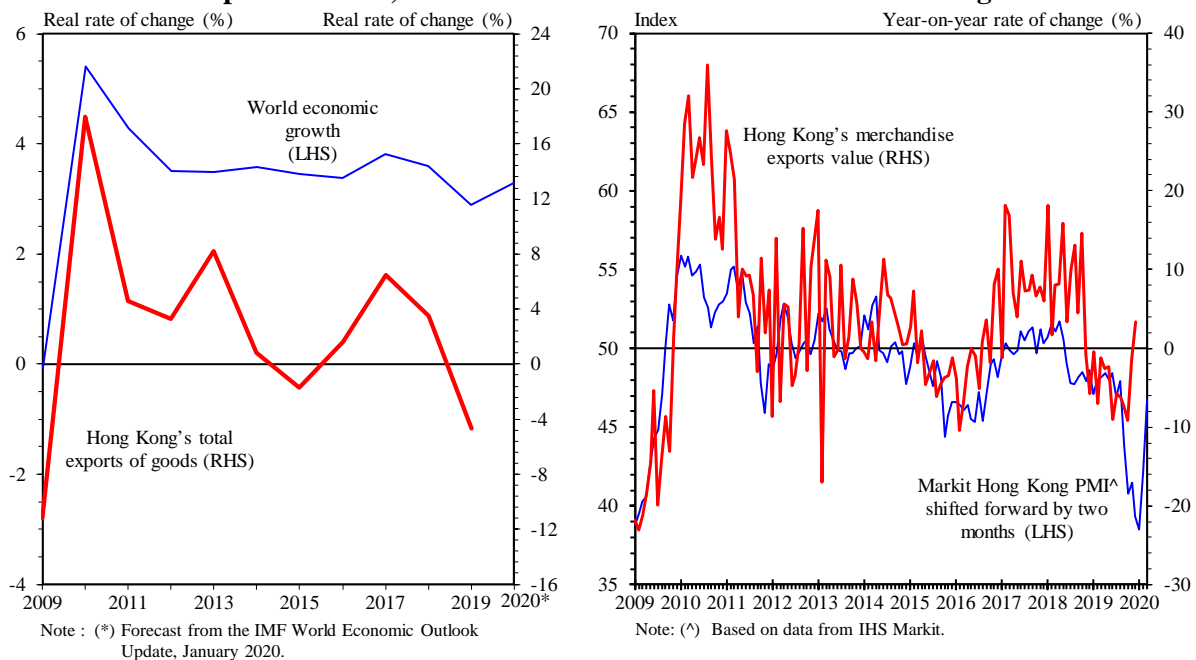
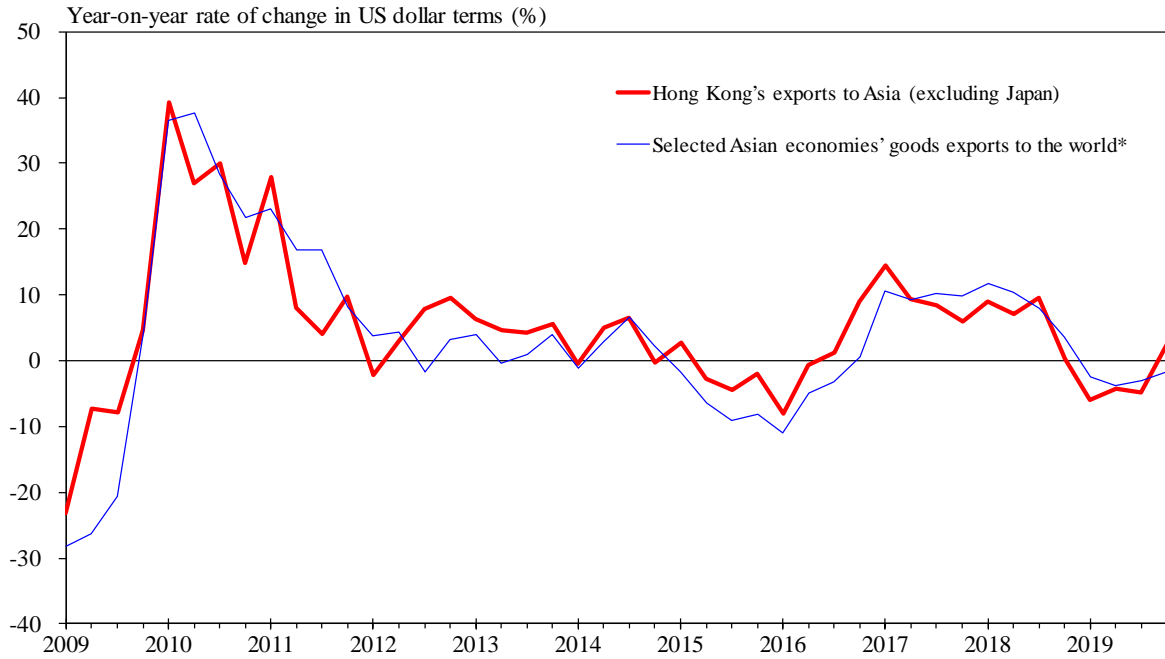


Diagram 2.6 : Regional trade flows slackened in 2019 amid trade tensions



Note : (*) "Selected Asian economies" include the Mainland of China, Hong Kong, Singapore, Korea, Taiwan, Japan, Indonesia, Malaysia, Thailand and the Philippines.

2.17 Exports of services deteriorated sharply in the second half of 2019, reflecting primarily the severe disruptions to tourism-related activities caused by the local social incidents with violence. The global economic slowdown and shrinking trade flows also contributed. The outlook for 2020 has become even more gloomy. In particular, exports of travel services would be hard hit by the threat of the infection, amid measures restricting cross-border travels. The performance will also depend on the development of the local social incidents. Visitors' confidence in travelling to Hong Kong would likely take time to recover, even if the infection is kept under control and the social atmosphere calms down.

2.18 Domestic demand softened visibly in 2019, affected by weaker economic conditions and various uncertainties. The deterioration was particularly sharp in the second half of the year, as the local social incidents involving violence wreaked havoc on consumption-related economic activities and business sentiment. Looking into 2020, domestic demand will be heavily weighed on by the situation of the new coronavirus infection. It also depends on how the local social incidents unfold. The former has already severely hurt overall economic sentiment and disrupted a wide range of economic activities. Keeping the infection under control and ending the violence in the local social incidents are thus essential to the recovery of domestic consumption and investment activities in the second half of the year. The Government's various policy initiatives as unveiled in the 2020-21 Budget, together with the several rounds of helping measures to support enterprises and employment since August 2019, should render some support to the local economy. Meanwhile, the Government's continued efforts in raising public and private housing supply should also help cushion investment demand. However, if the impact of the novel coronavirus infection turns out to be more severe and prolonged, or if the violence in the local social incidents intensifies again, economic confidence would be severely debilitated, dragging the economy down to the extent even worse than what happened in the second half of last year, with significant repercussions on unemployment and livelihood of the grassroots workers.

Diagram 2.7 : The performance of private consumption expenditure is important to the stability of the labour market

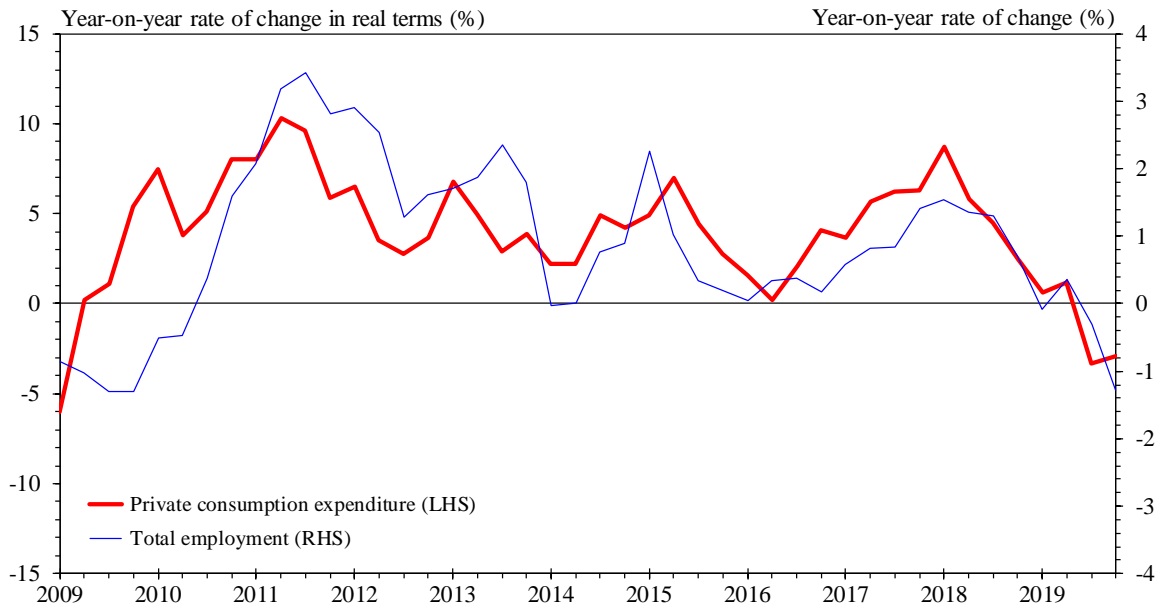


Diagram 2.8 : Private consumption expenditure weakened sharply in the second half of 2019, due largely to the local social incidents involving violence

(a) Housing wealth

(b) Equity wealth

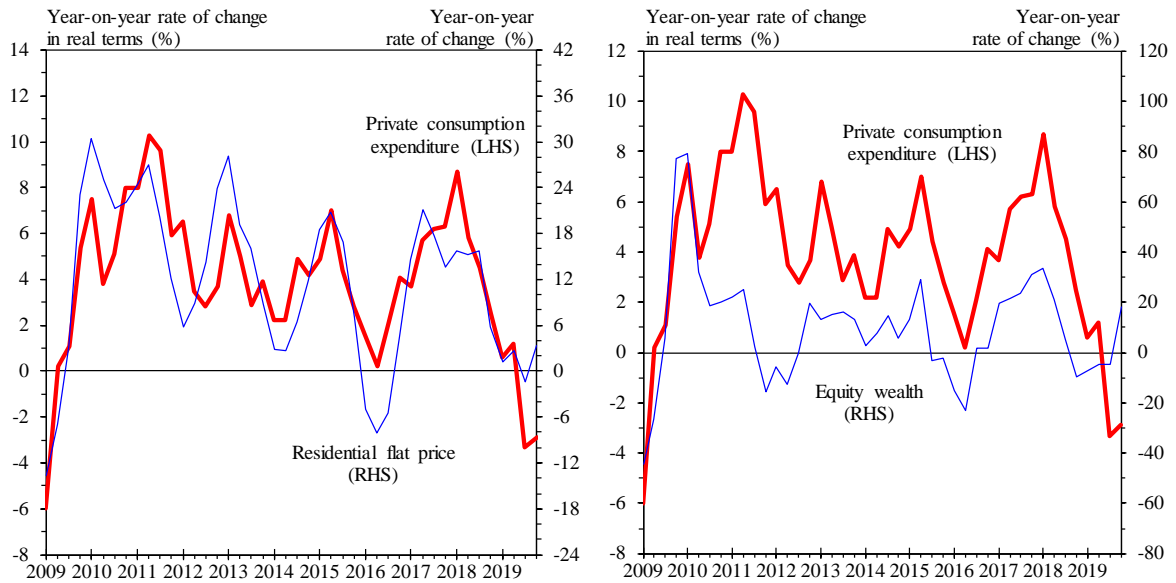
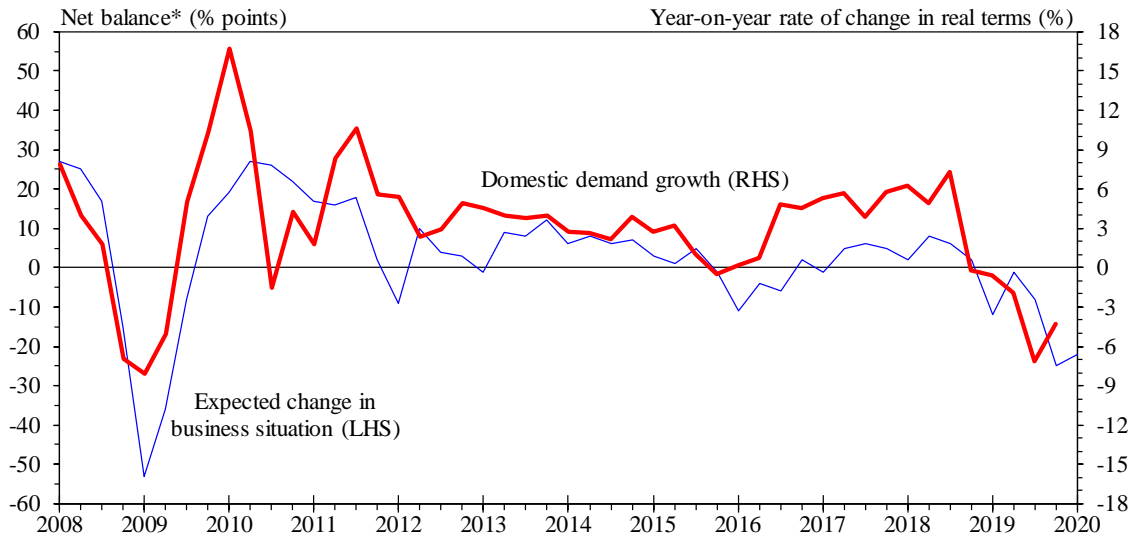
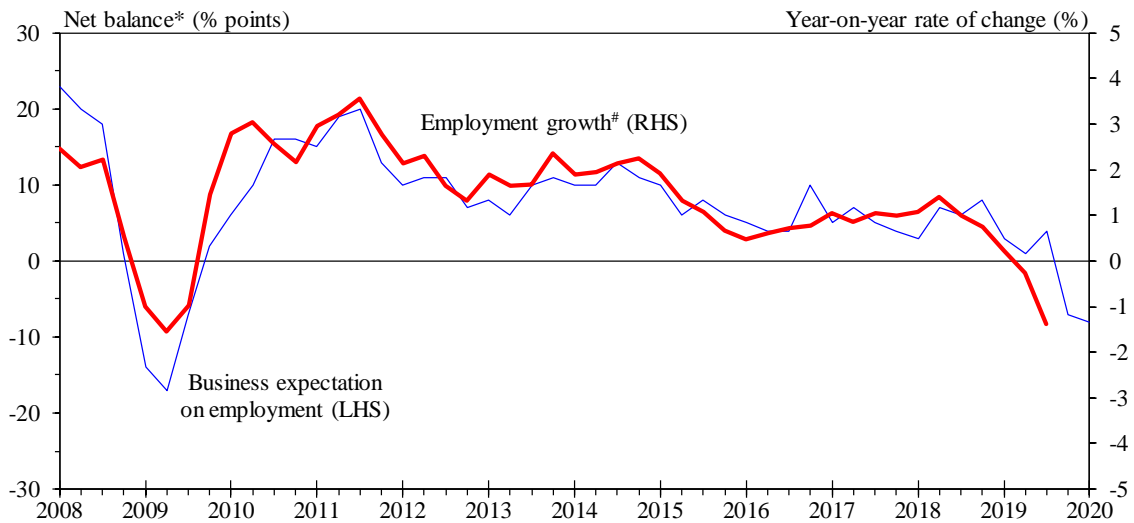


Diagram 2.9 : Business sentiment remained very pessimistic of late



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.

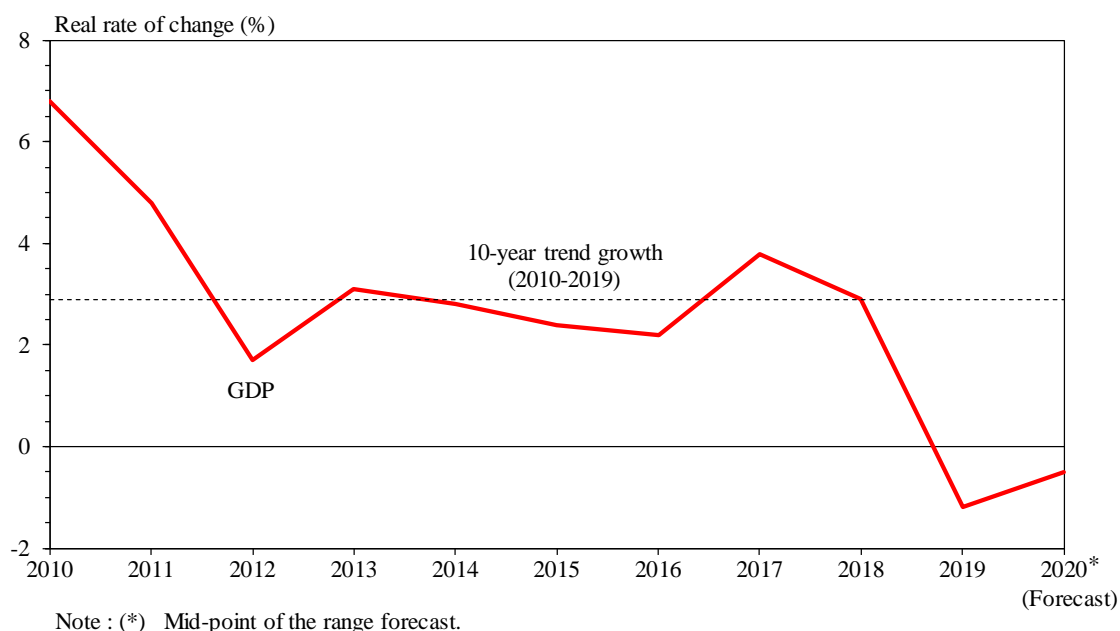
Diagram 2.10 : Overall hiring sentiment turned negative in recent quarters



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.

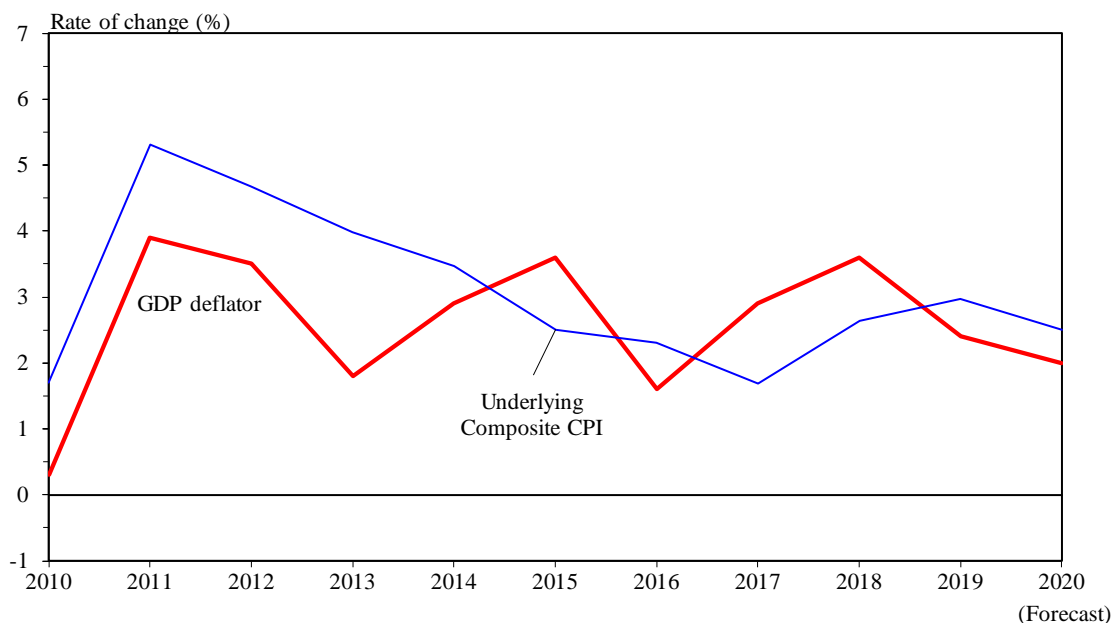
2.19 In sum, the near-term outlook for the Hong Kong economy is extremely challenging, and the probability of another year of economic contraction has notably increased. At this juncture, uncertainty surrounding the severity and duration of the novel coronavirus infection remains high. The outturn for the economy in 2020 will also hinge on the developments in US-Mainland trade relations and the local social incidents. Overall, taking into account the boosting effect from the measures in the 2020-21 Budget and the additional helping measures introduced since August 2019, the Hong Kong economy is forecast to grow by -1.5% to 0.5% in 2020. This compares with the 1.2% contraction in 2019 and the trend growth of 2.9% in the past decade. The range forecast is predicated on the assumptions that the novel coronavirus infection in the region would be kept under control within several months, that local social incidents would not cause extreme and protracted disruptions to economic activities, and that there would not be a significant re-escalation of US-Mainland trade tensions. The growth outturn could be lower than forecast, particularly if the severe impact of the infection turns out to last longer than expected, or if the social unrest persists and turns even more violent. On the other hand, it could be higher than forecast if the global recovery would be stronger than expected and some rollback of existing trade barriers would take place. The Government will closely monitor the situation, and will not hesitate to roll out additional measures as appropriate to support the economy. For comparison, the latest forecasts by private sector analysts for Hong Kong's economic growth in 2020 mostly fall within the range of -2.0% to 1.0%, averaging around -0.9%, and that put out by the IMF in late December 2019 is 0.2%.

Diagram 2.11 : The Hong Kong economy is forecast to grow by -1.5% to 0.5% in 2020



2.20 Underlying consumer price inflation in Hong Kong went up in 2019, primarily due to a surge in pork prices since May 2019. Price pressures on other major consumer price index components were largely moderate. Looking ahead, consumer price inflation should go somewhat lower in 2020. External price pressures are likely to remain contained as inflation rates in our major import sources are expected to be kept in check (see **Box 2.1**). Locally, the moderation in fresh-letting residential rentals since late 2018 should help contain overall inflation at least in the early part of 2020. Domestic cost pressures are likely to be kept at bay amid sub-par local economic conditions and softening wage growth. Moreover, the disruptions to prices of certain daily necessities, if any, by the situation of the infection should be temporary, and the upward pressure on consumer price inflation from the surge in pork prices is likely to wane after May 2020 against a high base of comparison. Underlying consumer price inflation is forecast at 2.5% in 2020, down from 3.0% in 2019. For reference, the latest forecasts for consumer price inflation in 2020 by private sector analysts average 2.1%, while that by the IMF is 1.8%. The GDP deflator is forecast to rise by 2% in 2020, slightly slower than consumer price inflation.

Diagram 2.12 : Underlying consumer price inflation is forecast to go somewhat lower to 2.5% in 2020



Forecast rate of change in 2020 (%)

Gross Domestic Product (GDP)

<i>Real GDP</i>	-1.5 to 0.5
<i>Nominal GDP</i>	0.5 to 2.5
<i>Per capita GDP in real terms</i>	-2.2 to -0.2
<i>Per capita GDP at current market prices</i>	HK\$381,100 – 388,700 (US\$48,900 – 49,800)

Underlying Composite Consumer Price Index **2.5**

GDP Deflator **2**

**Forecast on Hong Kong’s real GDP growth in 2020
recently made by other selected parties**

	(%)
Asian Development Bank (December 2019)	0.3
IMF (December 2019)	0.2
Average forecast by private sector analysts [#]	-0.9

Note : (#) Real GDP growth forecasts by private sector analysts mostly fall between -2.0% and 1.0%.

ECONOMIC PERFORMANCE IN 2019

1. Rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2019:

	(%)
(a) Growth rates in real terms of:	
Private consumption expenditure	-1.1
Government consumption expenditure	5.1
Gross domestic fixed capital formation	-12.3
<i>of which :</i>	
Building and construction	-6.1
Machinery, equipment and intellectual property products	-20.0
Total exports of goods	-4.7
Imports of goods	-7.4
Exports of services	-10.4
Imports of services	-2.3
Gross Domestic Product (GDP)	-1.2
<i>Growth rate of per capita GDP in real terms</i>	-1.9
<i>Per capita GDP at current market prices</i>	HK\$382,000 (US\$48,800)
(b) Rates of change in:	
Underlying Composite Consumer Price Index	3.0
GDP Deflator	2.4
Government Consumption Expenditure Deflator	4.5
(c) Growth rate of nominal GDP	1.2

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> (%)
2017	8	6
2018	7	5
2019	-4	-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>Japan</i> (%)	<i>India</i> (%)
2017	6	5	5	2	10	35
2018	5	5	8	6	-1	-13
2019	-5	-5	-6	-15	-8	-12

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> (%)
2017	7	8
2018	6	9
2019	-8	-15

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> (%)
2017	3	7	2	2	0
2018	5	3	9	2	2
2019	-10	-8	-21	-2	-4

6. Hong Kong's goods and services trade balance in 2019 reckoned on GDP basis:

	(HK\$ billion)
Total exports of goods	4,291.3
Imports of goods	4,415.3
<i>Goods trade balance</i>	-124.0
Exports of services	793.9
Imports of services	619.1
<i>Services trade balance</i>	174.8
<i>Combined goods and services trade balance</i>	50.8

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>
2017	3.1	1.2	0.7	1.0
2018	2.8	1.1	0.8	1.1
2019	3.0	1.1	-0.3	-0.4

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>
2017	1.7	1.5	1.5	1.4	1.5
2018	2.6	2.4	2.7	2.3	2.2
2019	3.0	2.9	3.3	2.7	2.6

ECONOMIC PROSPECTS FOR 2020

Forecast rates of change in the Gross Domestic Product and main price indicators in 2020:

	(%)
Gross Domestic Product (GDP)	
<i>Real GDP</i>	-1.5 to 0.5
<i>Nominal GDP</i>	0.5 to 2.5
<i>Growth rate of per capita GDP in real terms</i>	-2.2 to -0.2
<i>Per capita GDP at current market prices</i>	HK\$381,100-388,700 (US\$48,900-49,800)
Composite Consumer Price Index	
<i>Underlying Composite Consumer Price Index</i>	2.5
<i>Headline Composite Consumer Price Index</i>	1.7
GDP Deflator	2
Government Consumption Expenditure Deflator	3