Press Release

(embargoed until 4:45 p.m. on 14 August 2020)

Economic Situation in the Second Quarter of 2020 and Latest GDP and Price Forecasts for 2020

The Government released today (14 August) the Half-yearly Economic Report 2020, together with the revised figures on Gross Domestic Product (GDP) for the second quarter of 2020.

The Government Economist, Mr Andrew Au, described the economic situation in the second quarter of 2020 and the latest GDP and price forecasts for 2020.

Main points

* The Hong Kong economy remained very weak in the second quarter of 2020, as the COVID-19 pandemic continued to deal heavy blows to global and local economic activities. Real GDP fell notably by 9.0% year-on-year in the second quarter, following the record decline of 9.1% in the preceding quarter. Yet, the economy showed signs of stabilisation along with the abated local epidemic situation in the latter half of the quarter. The rebound of the Mainland economy also helped offset part of the downward pressures on exports of goods. On a seasonally adjusted quarter-to-quarter comparison, real GDP fell marginally by 0.1% in the second quarter, having plunged by a record 5.5% in the preceding quarter.

* Total exports of goods saw a visibly narrower year-on-year decline of 2.4% in real terms in the second quarter despite the global recession, mainly reflecting the swift resumption of production and other economic activities in the Mainland. Exports of services plunged further by a record 46.1% year-on-year in real terms, as inbound tourism was frozen by widespread travel restrictions, and as cross-boundary transport and commercial services plummeted.

* Domestic demand took a big hit. Private consumption expenditure recorded the steepest ever year-on-year decline of 14.2% in real terms in the second quarter, as local consumption activities were severely disrupted by the threat of COVID-19 and social distancing requirements throughout the quarter, and outbound tourism came to a halt amid stringent travel restrictions. The sharp deterioration of labour market conditions also weighed on consumer sentiment. Overall investment expenditure continued to tumble by 21.4% year-on-year in real terms amid negative business environment and subdued private construction activity.

* The labour market continued to deteriorate in the second quarter. The seasonally adjusted unemployment rate surged to 6.2%, the highest in more than 15 years. The underemployment rate also rose visibly to 3.7%, the highest in close to 17 years. Total employment fell markedly from a year earlier. Nonetheless, signs of stabilisation emerged towards the end of the quarter thanks to the abated local epidemic situation in May and June. The Employment Support Scheme also provided cushion.

* The local stock market stabilised in the second quarter. Market sentiment

improved thanks to the gradual easing of epidemic situation in some advanced economies in May and June and the massive economic support measures rolled out by governments and central banks around the world. The residential property market turned active, with trading activities picking up notably from a very low level in the preceding quarter and flat prices rising moderately during the quarter.

* While the worst seems to be over in many major economies, and central banks and governments around the world have implemented massive support measures, the recovery of the global economy will likely be uneven and bumpy. The threat of COVID-19 will continue to cloud the global economic outlook until an effective vaccine or treatment is widely available. The tense China-US relations and heightened geopolitical tensions also fuel uncertainties. On the bright side, the Mainland economy has returned to solid growth, and should render some support to Hong Kong's export performance amid a difficult external environment. Yet, it is hard for inbound tourism to recover during the rest of the year given the evolving pandemic and widespread travel restrictions in place.

* Locally, the outlook for domestic demand will hinge on the local epidemic situation. The recent surge of COVID-19 infections and the resultant tightening of social distancing measures, and austere labour market conditions will heavily weigh on private consumption in the coming weeks. The strength and speed of any recovery will depend much on how fast local infection can be brought under control. This will also be a key factor affecting business sentiment and thus fixed asset investment.

* Hong Kong's short-term economic outlook is still highly uncertain. Considering the actual outturn in the first half of the year, and the difficult and uncertain economic environment in the second half, but also the cushioning effects of the Government's massive relief measures, the real GDP growth forecast for 2020 as a whole is revised downwards to -6% to -8% in the current round of review, from -4% to -7% as announced in late April. If the current wave of local infection can be contained within a short time and barring any further sharp deterioration in the external environment, economic performance for 2020 as a whole can hopefully fall within the upper half of the range forecast. The Government will continue to closely monitor the situation and roll out measures as necessary to maintain the vitality of the economy and pave the way for a speedy recovery once the threat of the pandemic recedes.

* Underlying consumer price inflation went visibly lower from 2.9% in the first quarter to 1.8% in the second quarter, thanks to moderated food inflation and abating price pressures on many other consumption items. With the impact of the surge in pork prices since May last year having largely dissipated, inflationary pressures will likely ease further in the rest of the year amid subdued economic conditions. Taking into account the actual outturn in the first half of the year and the impending waiver of one-month public housing rentals in September, the forecast rates of underlying and headline inflation rates for 2020 as a whole are revised downwards to 1.8% and 0.8% respectively, from 2.2% and 1.4% in the May round of review.

Details

GDP

According to the revised data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, real GDP fell sharply by 9.0% year-on-year in the second quarter of 2020 (the same as the advance estimate), following the record decline of 9.1% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP fell marginally by 0.1% in the second quarter (the same as the advance estimate), having plunged by a record 5.5% in the preceding quarter ***(Chart)***.

2. The latest figures on GDP and its major expenditure components up to the second quarter of 2020 are presented in ***Table 1***. Developments in different segments of the economy in the second quarter are described below.

External trade

3. *Total exports of goods* fell by 2.4% in real terms in the second quarter of 2020 from a year earlier, much narrower than the plunge of 9.7% in the preceding quarter. While the performance was constrained by the deep global economic recession, the swift resumption of production and other economic activities in the Mainland provided support. Exports to the Mainland turned to a solid increase. Exports to the US and the EU fell at moderated rates. Exports to many other major Asian markets saw declines of varying degrees. On a seasonally adjusted quarter-to-quarter basis, total exports of goods rose by 6.5% in real terms in the second quarter, having decreased by 9.0% in the preceding quarter.

4. *Exports of services* plunged by a record 46.1% year-on-year in real terms in the second quarter of 2020, widening from the 37.4% decline in the preceding quarter. Exports of travel services came to a halt as inbound tourism was frozen by widespread travel restrictions throughout the quarter. The decline in exports of transport services remained noticeable, dragged by scant passenger traffic and subdued cargo flows. Exports of business and other services continued to register a double-digit decline amid the austere global economic environment. Nonetheless, exports of financial services grew moderately thanks to active cross-border financial and fund-raising activities. On a seasonally adjusted quarter-to-quarter basis, exports of services declined further by 17.0% in real terms in the second quarter, having decreased by 16.3% in the preceding quarter.

Domestic sector

5. Domestic demand took a big hit. *Private consumption expenditure* recorded the steepest ever year-on-year decline of 14.2% in real terms in the second quarter of 2020, after falling by 10.6% in the preceding quarter, as local consumption activities were severely disrupted by the threat of COVID-19 and social distancing requirements throughout the quarter, and outbound tourism came to a halt amid stringent travel restrictions. The sharp deterioration of labour market conditions also weighed further on consumer sentiment. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure fell by 3.8% in real terms in the second quarter after decreasing by 7.2% in the preceding quarter. In contrast, *government consumption expenditure* grew appreciably by 9.8% year-on-year in real terms in the second quarter, after an 8.8% growth in the preceding quarter.

6. Overall investment spending in terms of *gross domestic fixed capital formation* continued to tumble by 21.4% year-on-year in real terms in the second quarter of 2020, having declined sharply by 15.8% in the preceding quarter. This also marked the seventh consecutive quarter of decline. Within the total, expenditure on acquisitions of machinery, equipment and intellectual property products showed a steeper decline of 44.1%, reflecting the negative business environment and a highly uncertain economic outlook. Expenditure on building and construction dipped further by 3.6%, as the increased spending from the public sector was not enough to offset the sharp fall in the private sector. Meanwhile, the costs of ownership transfer continued to fall markedly, as property transactions in both residential and non-residential segments declined sharply from the high base a year earlier.

The labour sector

7. The labour market continued to deteriorate in the second quarter of 2020. The *seasonally adjusted unemployment rate* surged to 6.2%, the highest in more than 15 years. The *underemployment rate* also rose visibly to 3.7%, the highest in close to 17 years. Total employment fell markedly from a year earlier. Nonetheless, signs of stabilisation emerged towards the end of the quarter, thanks to abating local epidemic situation as well as the cushioning effect of the Employment Support Scheme.

The asset markets

8. The *local stock market* stabilised in the second quarter of 2020. Market sentiment improved thanks to the gradual easing of epidemic situation in some advanced economies in May and June and the massive economic support measures rolled out by governments and central banks around the world. The Hang Seng Index (HSI) moved between 22 930 and 25 057 in the quarter and closed at 24 427 at end-June, up 3.5% from end-March. On 13 August, the HSI closed at 25 231.

9. The *residential property market* turned active in the second quarter of

2020. Declining interest rates amid massive monetary stimulus around the world and the gradual stabilisation of the local COVID-19 situation during the quarter rendered support to market sentiment. Trading activity picked up notably from a very low level in the preceding quarter. The number of residential property transactions, in terms of the total number of sale and purchase agreements for residential property received by the Land Registry, surged by 67% over preceding quarter to 17 073 in the second quarter, though still down 17% from a year earlier when the market was very buoyant. Flat prices increased by 2% during the second quarter. The index of home purchase affordability worsened to around 76%. Meanwhile, flat rentals edged down by 1% during the quarter. The commercial and industrial property markets stayed subdued amid thin trading. Prices and rentals for major market segments remained generally soft.

Prices

10. Consumer price inflation continued to ease in the second quarter of 2020. Netting out the effects of the Government's one-off relief measures, *underlying consumer price inflation* went down from 2.9% in the preceding quarter to 1.8% in the second quarter. Food prices recorded a slower year-on-year increase as the impact of the surge in pork prices which started in May last year began to wane, while price pressures on many other major CPI components receded amid the economic recession. Domestically, the increase in the private housing rental component narrowed further, as the effect of easing fresh-letting residential rentals in the past year or so became more apparent. Business cost pressures continued to abate amid weak economic conditions, with wages and commercial rentals staying soft. Meanwhile, external price pressures subsided further. In tandem with the deep recession in the global economy, inflation rates in many of our key import sources eased visibly, and international commodity and energy prices were far below year-ago levels. These developments, together with the continued strength of the Hong Kong dollar along with the US dollar against other major currencies in the second quarter, contributed to a widened year-on-year decline in import prices. The *headline consumer price inflation* also dropped from 2.0% to 1.3% over the same period. The lower headline inflation rate as compared to its underlying counterpart in the second quarter was mainly due to the Government's provision of additional electricity charge subsidy starting from January 2020.

Latest GDP and price forecasts for 2020

11. While the worst seems to be over in many major economies, and central banks and governments around the world have implemented massive support measures, the recovery of the global economy will likely be uneven and bumpy. The threat of COVID-19 will continue to cloud the global economic outlook until an effective vaccine or treatment is widely available. The tense China-US relations and heightened geopolitical tensions also fuel uncertainties. On the bright side, the Mainland economy has returned to solid growth, and should render some support to Hong Kong's export performance amid a difficult external environment. Yet, it is hard for inbound tourism to recover during the rest of the year given the evolving

pandemic and widespread travel restrictions in place.

12. Locally, the outlook for domestic demand will hinge on the local epidemic situation. The recent surge of COVID-19 infections and the resultant tightening of social distancing measures, and austere labour market conditions will heavily weigh on private consumption in the coming weeks. The strength and speed of any recovery will depend much on how fast local infection can be brought under control. This will also be a key factor affecting business sentiment and thus fixed asset investment.

13. Hong Kong's short-term economic outlook is still highly uncertain. Considering the actual outturn in the first half of the year, and the difficult and uncertain economic environment in the second half, but also the cushioning effects of the Government's massive relief measures, the real GDP growth forecast for 2020 as a whole is revised downwards to -6% to -8% in the current round of review, from -4% to -7% as announced in late April ***(Table 2)***. If the current wave of local infection can be contained within a short time and barring any further sharp deterioration in the external environment, economic performance for 2020 as a whole can hopefully fall within the upper half of the range forecast. The Government will continue to closely monitor the situation and roll out measures as necessary to maintain the vitality of the economy and pave the way for a speedy recovery once the threat of the pandemic recedes. For reference, the latest forecasts by private sector analysts range from -4.7% to -8.5%, averaging around -6.6%.

14. On the inflation outlook, with the impact of the surge in pork prices since May last year having largely dissipated, inflationary pressures will likely ease further in the rest of the year amid subdued economic conditions. Taking into account the actual outturn in the first half of the year and the impending waiver of one-month public housing rentals in September, the forecast rates of underlying and headline inflation rates for 2020 as a whole are revised downwards to 1.8% and 0.8% respectively, from 2.2% and 1.4% in the May round of review ***(Table 2)***.

(The Half-yearly Economic Report 2020 is now available for online download, free of charge at www.hkeconomy.gov.hk/en/situation/index.htm. The Report of the Gross Domestic Product, Second Quarter 2020, which contains the GDP figures up to the second quarter of 2020, is also available for online download, free of charge at the homepage of the Census and Statistics Department, www.censtatd.gov.hk.)

Hong Kong's Gross Domestic Product

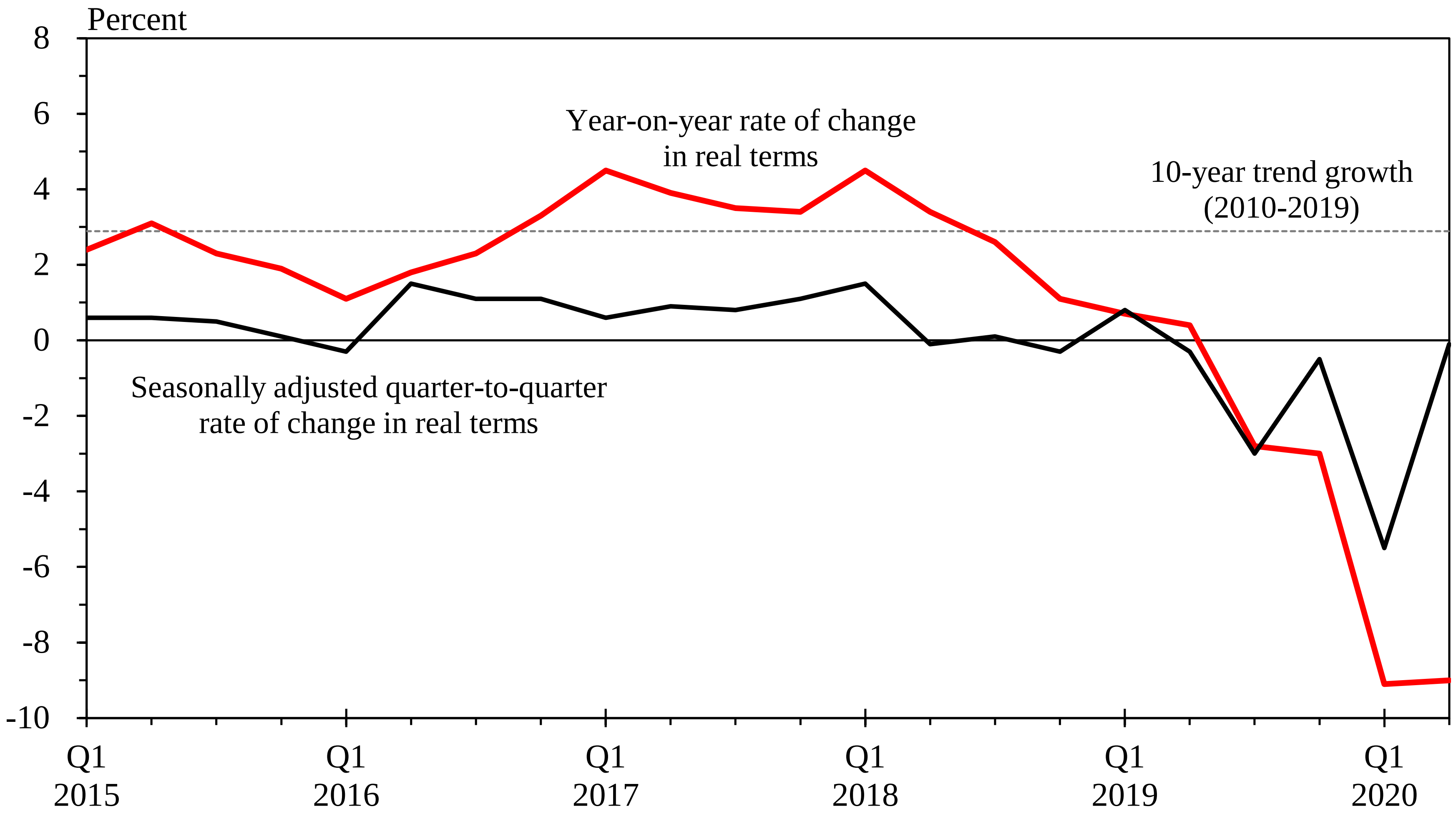

Table 1

Gross Domestic Product, its main expenditure components and the main price indicators (year-on-year rate of change (%))

	2018#	2019#	2019 Q1#	2019 Q2#	2019 Q3#	2019 Q4#	2020 Q1#	2020 Q2#
Change in real terms of GDP and its main expenditure components (%)								
Private consumption expenditure	5.3	-1.1	0.6 (0.8)	1.3 (0.2)	-3.3 (-4.1)	-2.9 (0.3)	-10.6 (-7.2)	-14.2 (-3.8)
Government consumption expenditure	4.2	5.1	4.4 (0.9)	3.9 (0.8)	5.9 (2.6)	6.1 (1.7)	8.8 (3.5)	9.8 (1.8)
Gross domestic fixed capital formation	1.7	-12.3	-5.3	-11.6	-15.1	-16.8	-15.8	-21.4
Building and construction	-0.5	-6.2	-4.3	-11.1	-2.8	-6.5	-11.5	-3.6
Costs of ownership transfer	-11.2	-13.4	-20.0	-13.4	-22.4	7.6	-32.4	-23.8
Machinery, equipment and intellectual property products	8.8	-20.0	-2.0	-12.2	-26.5	-32.3	-17.9	-44.1
Total exports of goods&	3.5	-4.6	-3.7 (-1.7)	-5.3 (-1.6)	-6.9 (-1.2)	-2.5 (2.0)	-9.7 (-9.0)	-2.4 (6.5)
Imports of goods&	4.7	-7.3	-4.2 (-2.2)	-6.7 (-2.6)	-11.0 (-2.0)	-7.0 (-0.3)	-11.1 (-6.6)	-7.1 (1.8)
Exports of services&	4.6	-10.2	-0.4 (1.0)	-1.3 (-3.6)	-14.2 (-13.1)	-24.2 (-10.6)	-37.4 (-16.3)	-46.1 (-17.0)
Imports of services&	2.8	-2.4	-1.2 (0.3)	1.8 (0.5)	-4.5 (-5.9)	-5.2 (-0.3)	-24.5 (-20.0)	-42.9 (-24.0)
Gross Domestic Product	**2.8**	**-1.2**	**0.7** **(0.8)**	**0.4** **(-0.3)**	**-2.8** **(-3.0)**	**-3.0** **(-0.5)**	**-9.1** **(-5.5)**	**-9.0** **(-0.1)**
Change in the main price indicators (%)								
GDP deflator	**3.7**	**2.4**	**2.7** **(0.6)**	**2.7** **(0.9)**	**2.3** **(0.3)**	**1.8** **(0.2)**	**2.8** **(1.4)**	**1.0** **(-1.0)**
Composite CPI								
Headline	**2.4**	**2.9**	**2.2** **(0.4)**	**3.0** **(1.2)**	**3.3** **(0.9)**	**3.0** **(0.5)**	**2.0** **(-0.6)**	**1.3** **(0.6)**
Underlying^	**2.6**	**3.0**	**2.7** **(0.6)**	**2.9** **(1.0)**	**3.3** **(1.0)**	**3.0** **(0.4)**	**2.9** **(0.5)**	**1.8** **(-0.1)**
Change in **nominal GDP** *(%)*	**6.6**	**1.1**	**3.4**	**3.0**	**-0.5**	**-1.2**	**-6.5**	**-8.1**

Notes : Figures are subject to revision later on as more data become available. The seasonally adjusted quarter-to-quarter rate of change is not applicable to gross domestic fixed capital formation, as no clear seasonal pattern is found for this category due to the presence of considerable short term fluctuations.

(&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(#) Revised figures.

( ) Seasonally adjusted quarter-to-quarter rate of change.

(^) After netting out the effects of Government's one-off relief measures.

Table 2

Economic forecasts for 2020
(rate of change (%))

	Forecasts as released on 15.5.2020 (%)	Latest forecasts on 14.8.2020 (%)
Real Gross Domestic Product (GDP)	-4 to -7 (as announced on 29.4.2020)	*-6 to -8*
Composite Consumer Price Index (CCPI)		
Underlying CCPI	2.2	*1.8*
Headline CCPI	1.4	*0.8*