

Press Release

(embargoed until 4:45 p.m. on 13 November 2020)

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

The Government released today (13 November) the Third Quarter Economic Report 2020, together with the revised figures on Gross Domestic Product (GDP) for the third quarter of 2020.

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

Main points

- * The Hong Kong economy saw some improvement in the third quarter of 2020, thanks to an improved external trading environment amid the accelerated growth of the Mainland economy, the stabilisation of the local epidemic situation in the latter part of the quarter, and stronger financial market activity. However, economic activity was still notably below the pre-recession level. Real GDP registered a year-on-year decline of 3.5% in the third quarter, visibly narrower than the 9.0% contraction in the second quarter. For the first three quarters as a whole, real GDP contracted by 7.2% from the same period last year. On a seasonally adjusted quarter-to-quarter comparison, real GDP rebounded by 2.8% in the third quarter, arresting the declines in the preceding five quarters.
- * Total exports of goods resumed moderate year-on-year growth of 3.9% in real terms in the third quarter, mainly underpinned by the sharp pick-up in September along with the recovery of import demand in many major markets. Exports of services plummeted further by 34.6% year-on-year in real terms as inbound tourism remained at a standstill and cross-boundary transport and business services stayed sluggish, though exports of financial services saw further growth.
- * Domestic demand improved somewhat but stayed weak. Private consumption expenditure posted a smaller though still notable year-on-year decline of 8.2% in real terms in the third quarter, as local consumption sentiment revived somewhat in the latter part of the quarter when the third wave of local COVID-19 infections was contained. Overall investment expenditure continued to fall visibly by 11.1% year-on-year in real terms amid difficult business environment and weak construction activity.
- * The labour market deteriorated for the third quarter as a whole, but the pressure faced by the labour market showed signs of stabilisation towards the end of the quarter as the local epidemic situation abated in September. Meanwhile, the Employment Support Scheme continued to provide support. The seasonally adjusted unemployment rate went up from 6.2% in the second quarter to 6.4% in the third quarter, the highest in close to 16 years. The underemployment rate rose slightly to a post-SARS high of 3.8%.
- * The local stock market underwent some consolidation in the third quarter as sentiment was dampened by tense China-US relations and the still-uncertain

global economic outlook amid the COVID-19 pandemic. The residential property market softened somewhat on entering the third quarter, but showed some revival in the latter part of the quarter. Trading activities recorded a mild decline from the preceding quarter, while flat prices edged down by 1% during the quarter.

- * Consumption and business sentiments have turned less gloomy in the more recent months. Yet the near-term outlook will hinge critically on the local COVID-19 situation. Provided that the local epidemic remains well contained, domestic economic activities will likely see further modest improvement in the fourth quarter of the year. However, the still-weak job and income conditions will inevitably continue to constrain private consumption, and the highly uncertain economic outlook to dampen business investment.
- * As for the external environment, the global economy has recovered at a faster-than-expected pace so far, but the short-term outlook still faces considerable uncertainties. On the bright side, the Mainland economy is expected to post further strong growth. On the other hand, the recent surge of COVID-19 infections and the resultant social distancing measures or even lockdowns in a number of advanced economies may slow the pace or even reverse the course of their recovery. The evolving China-US relations, heightened geopolitical tensions, and the Brexit negotiations also warrant attention. These factors may drag any further revival of Hong Kong's exports. The widespread travel restrictions will also continue to hard hit our inbound tourism.
- * On balance, barring any sharp resurgence of local COVID-19 infections or abrupt relapse in global economic activity, the Hong Kong economy is likely to see further modest improvement in the fourth quarter of 2020. Considering the actual outturn in the first three quarters of the year and the cushioning effects of the Government's massive relief measures, the real GDP growth forecast for 2020 as a whole is revised from -6% to -8% as announced in the August round of review to -6.1% in the current round. The Government will continue to closely monitor the situation and introduce measures as necessary to support economic recovery.
- * Underlying consumer price inflation eased visibly from 1.8% in the second quarter to 0.3% in the third quarter, reflecting a notably smaller year-on-year rise in prices of basic foodstuffs, particularly pork, due mainly to the high base effects, the fall in charges for meals-out, as well as softening price pressures on many other major CPI components amid austere economic conditions. Looking ahead, overall inflationary pressures should stay mild in the rest of the year as global and local economic conditions remain subdued amid the threat of COVID-19. Also taking into account the actual outturn in the first three quarters of the year, the forecast rates of underlying and headline inflation for 2020 as a whole are revised downwards to 1.3% and 0.3% respectively, from 1.8% and 0.8% in the August 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 registered a year-on-year decline of 3.5% in the third quarter of 2020 (revised from the advance estimate of -3.4%), visibly narrower than the 9.0% contraction in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP rebounded by 2.8% in the third quarter (revised from the advance estimate of 3.0%), having experienced a cumulative decline of 9.2% in the preceding five quarters (*Chart*).

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

External trade

3. *Total exports of goods* grew moderately by 3.9% in real terms year-on-year in the third quarter of 2020, after the 2.2% decline in the preceding quarter. The improvement mirrored the gradual recovery of the global economy led by the Mainland and the parallel revival of import demand in many major markets. Analysed by market, exports to the Mainland continued to stage a strong growth. Exports to the US and the EU showed narrowed declines. Exports to many other major Asian markets also improved. On a seasonally adjusted quarter-to-quarter basis, total exports of goods rose by 4.8% in real terms in the third quarter, having increased by 6.7% in the preceding quarter.

4. *Exports of services* plummeted further by 34.6% year-on-year in real terms in the third quarter of 2020, though narrower than the record fall of 45.6% in the preceding quarter. Exports of travel services almost vanished as inbound tourism remained at a standstill. Exports of transport services fell sharply as passenger flows tumbled, but the pace of decline moderated somewhat alongside improved regional trade and cargo flows. Exports of business and other services continued to record a double-digit decline amid still weak global economic conditions. In contrast, exports of financial services saw further growth, buttressed by active cross-border financial and fund-raising activities. On a seasonally adjusted quarter-to-quarter basis, exports of services increased by 4.6% in real terms in the third quarter, having decreased by 16.1% in the preceding quarter.

Domestic sector

5. Domestic demand improved somewhat but stayed weak. *Private consumption expenditure* posted a notable year-on-year decline of 8.2% in real terms in the third quarter of 2020, though considerably narrower than the record 14.2% fall in the preceding quarter. Local consumption sentiment took a big hit amid the third wave of COVID-19 infections in July and August and the austere labour market conditions, but revived somewhat in September alongside the stabilised epidemic situation and relaxation of social distancing measures. Outbound tourism remained frozen through the quarter amid widespread travel restrictions. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure rebounded by 2.5% in real terms in the third quarter, having contracted by 3.8% in the preceding quarter. In contrast, *government consumption expenditure* rose markedly by 7.0% year-on-year in real terms in the third quarter, after a 9.7% surge in the preceding quarter.

6. Overall investment spending in terms of *gross domestic fixed capital formation* fell noticeably by 11.1% year-on-year in real terms in the third quarter of 2020. The decline narrowed from that of 21.4% in the preceding quarter. Within the total, expenditure on acquisitions of machinery, equipment and intellectual property products saw another double-digit fall of 20.9% amid the still exceptionally uncertain business outlook. Expenditure on building and construction declined further by 10.4%, as spending from both the private and public sectors remained subdued. In contrast, the costs of ownership transfer rose visibly, as property transactions were much more active than a year earlier.

The labour sector

7. The labour market deteriorated for the third quarter of 2020 as a whole, but the pressure faced by the labour market showed signs of stabilisation towards the end of the quarter as the local epidemic situation abated in September. Meanwhile, the Employment Support Scheme continued to provide support. The *seasonally adjusted unemployment rate* increased from 6.2% in the second quarter to 6.4% in the third quarter, the highest in close to 16 years. The *underemployment rate* rose slightly to a post-SARS high of 3.8%.

The asset markets

8. The *local stock market* underwent some consolidation in the third quarter of 2020 as sentiment was dampened by tense China-US relations and the still-uncertain global economic outlook amid the COVID-19 pandemic. The Hang Seng Index (HSI) fell from a high of 26 339 on 6 July to a low of 23 235 on 25 September, and closed the quarter at 23 459, down 4.0% from end-June. On 12 November, the HSI closed at 26 169.

9. The *residential property market* softened somewhat on entering the third

quarter of 2020, but showed some revival in the latter part of the quarter. Market sentiment was dented by the third wave of the local epidemic in July and early August, but gradually improved in September as the situation stabilised. The low interest rate environment and firm end-user demand also appeared to render support to the market. Trading activities showed a mild decline in the 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, declined by 9% from the preceding quarter to 15 515 in the third quarter, though rising by 26% over the low base a year earlier. Flat prices edged down by 1% during the third quarter, with the decline in the first two months partly offset by a mild rebound in September. However, the index of home purchase affordability remained elevated at around 77%. Meanwhile, flat rentals showed virtually no change for the quarter as a whole. The commercial and industrial property markets stayed generally weak, with prices and rentals for major market segments exhibiting diverse movements during the quarter.

Prices

10. Consumer price inflation eased visibly in the third quarter of 2020. Netting out the effects of the Government's one-off relief measures, *underlying consumer price inflation* went down from 1.8% in the second quarter to 0.3% in the third quarter. The sharp deceleration was attributed to a notably smaller year-on-year rise in prices of basic foodstuffs, particularly pork, due mainly to the high base effects, the fall in charges for meals-out, as well as softening price pressures on many other major CPI components amid austere economic conditions. Domestic price pressures receded further amid the weak economy. The year-on-year increase in private housing rentals continued to moderate. Commercial rentals softened further while wages recorded the slowest growth in more than a decade. External price pressures continued to abate. As global demand stayed sluggish, inflation in many major import sources eased, and world energy prices were still sharply lower than their year-ago levels even after some rebound since May. Against this backdrop, import prices continued to record a modest year-on-year decline. The *headline Composite CPI* turned from a 1.3% increase to a 1.7% decline over the same period. The significant gap between the headline and underlying inflation rates in the third quarter mainly reflected the payment of one-month rentals for public housing tenants by the Government and the waiver of two-thirds of rent for tenants of Group B estates by the Hong Kong Housing Society in July, and the rent waiver to public housing tenants by the Hong Kong Housing Authority in September.

Latest GDP and price forecasts for 2020

11. Consumption and business sentiments have turned less gloomy in the more recent months. Yet the near-term outlook will hinge critically on the local COVID-19 situation. Provided that the local epidemic remains well contained, domestic economic activities will likely see further modest improvement in the fourth quarter of the year. However, the still-weak job and income conditions will inevitably continue to constrain private consumption, and the highly uncertain economic outlook to dampen business investment.

12. As for the external environment, the global economy has recovered at a faster-than-expected pace so far, but the short-term outlook still faces considerable uncertainties. On the bright side, the Mainland economy is expected to post further strong growth. On the other hand, the recent surge of COVID-19 infections and the resultant social distancing measures or even lockdowns in a number of advanced economies may slow the pace or even reverse the course of their recovery. The evolving China-US relations, heightened geopolitical tensions, and the Brexit negotiations also warrant attention. These factors may drag any further revival of Hong Kong's exports. The widespread travel restrictions will also continue to hard hit our inbound tourism.

13. On balance, barring any sharp resurgence of local COVID-19 infections or abrupt relapse in global economic activity, the Hong Kong economy is likely to see further modest improvement in the fourth quarter of 2020. Considering the actual outturn in the first three quarters of the year and the cushioning effects of the Government's massive relief measures, the real GDP growth forecast for 2020 as a whole is revised from -6% to -8% as announced in the August round of review to -6.1% in the current round (*Table 2*). The Government will continue to closely monitor the situation and introduce measures as necessary to support economic recovery. For reference, the latest forecasts by private sector analysts range from -5.7% to -8.0%, averaging around -6.8%.

14. On the inflation outlook, overall inflationary pressures should stay mild in the rest of the year as global and local economic conditions remain subdued amid the threat of COVID-19. Also taking into account the actual outturn in the first three quarters of the year, the forecast rates of underlying and headline inflation for 2020 as a whole are revised downwards to 1.3% and 0.3% respectively, from 1.8% and 0.8% in the August round of review (*Table 2*).

(The Third Quarter 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, Third Quarter 2020, which contains the GDP figures up to the third 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

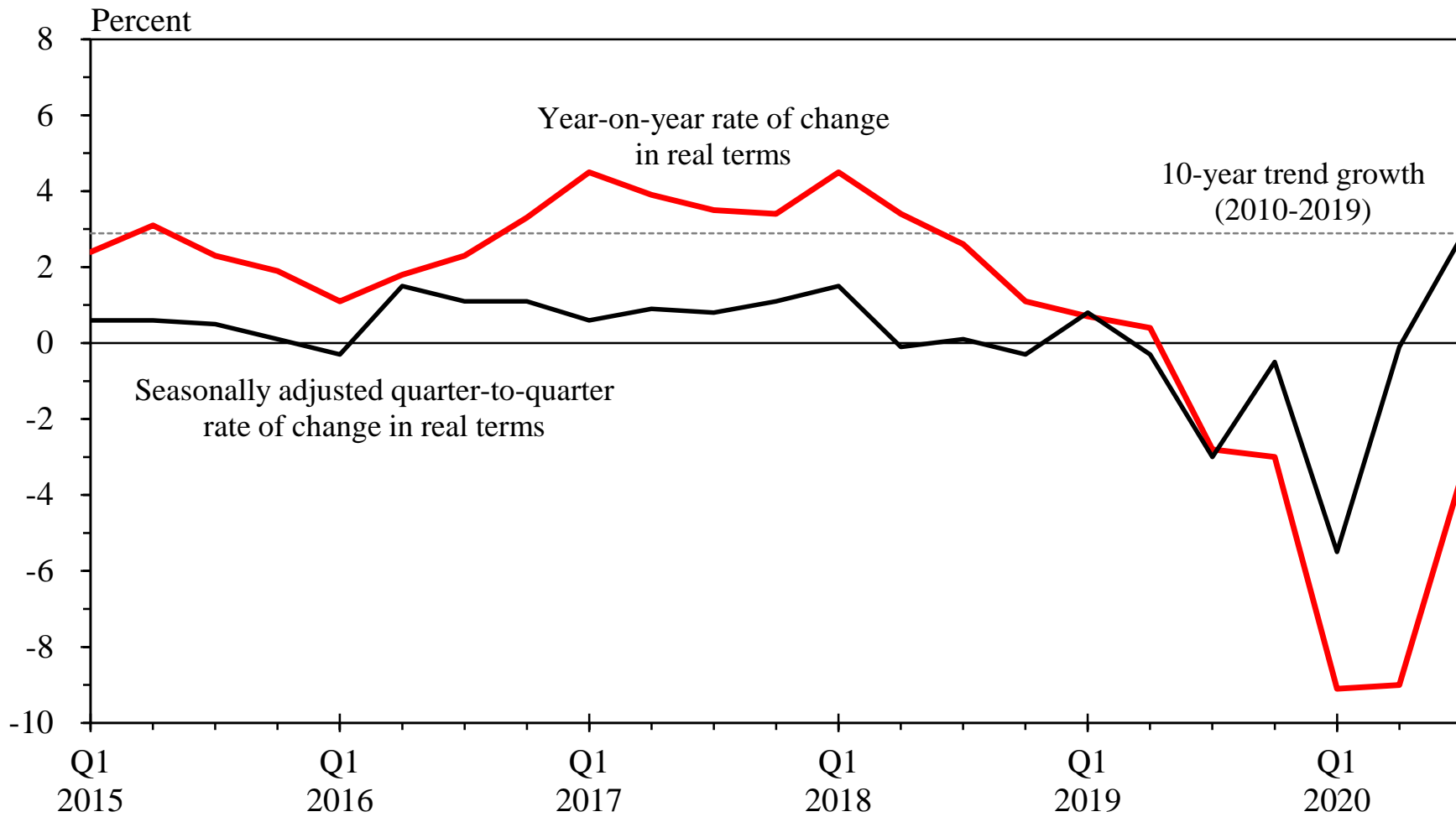


Table 1

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

	<u>2018#</u>	<u>2019#</u>	<u>2019</u>				<u>2020</u>		
			<u>Q1#</u>	<u>Q2#</u>	<u>Q3#</u>	<u>Q4#</u>	<u>Q1#</u>	<u>Q2#</u>	<u>Q3#</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>									
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)	-8.2 (2.5)
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)	9.7 (1.7)	7.0 (*)
Gross domestic fixed capital formation	1.7	-12.3	-5.3	-11.6	-15.1	-16.8	-15.8	-21.4	-11.1
Building and construction	-0.5	-6.2	-4.3	-11.1	-2.8	-6.5	-11.5	-4.0	-10.4
Costs of ownership transfer	-11.2	-13.4	-20.0	-13.4	-22.4	7.6	-32.4	-23.8	26.3
Machinery, equipment and intellectual property products	8.8	-20.0	-2.0	-12.2	-26.5	-32.3	-17.9	-43.6	-20.9
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)	-2.2 (6.7)	3.9 (4.8)
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)	-6.7 (2.4)	1.8 (6.8)
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)	-45.6 (-16.1)	-34.6 (4.6)
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)	-44.5 (-26.1)	-36.8 (7.2)
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)	-3.5 (2.8)
<i>Change in the main price indicators (%)</i>									
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)	0.8 (-1.2)	0.6 (0.3)
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)	-1.7 (-2.0)
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)	0.3 (-0.6)
<i>Change in nominal GDP (%)</i>	6.6	1.1	3.4	3.0	-0.5	-1.2	-6.5	-8.3	-2.9

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.

(*) Change within $\pm 0.05\%$.

Table 2**Economic forecasts for 2020
(rate of change (%))**

	<u>Forecasts as released on 14.8.2020</u> (%)	<u>Latest forecasts on 13.11.2020</u> (%)
Real Gross Domestic Product (GDP)	-6 to -8	-6.1
Composite Consumer Price Index (CCPI)		
<i>Underlying CCPI</i>	1.8	1.3
<i>Headline CCPI</i>	0.8	0.3