

Outlook for the Hong Kong economy in 2021

2.16 The global economy started to recover in the second half of 2020, but its recovery path going forward will hinge crucially on the development of the pandemic. The raging epidemic situations in a number of major advanced economies and the restrictive measures in place may continue to constrain their revival in the near term. Nevertheless, if their mass vaccination campaigns can gradually alleviate the threat of the pandemic, global economic conditions should improve in 2021, particularly so in the second half of the year. Policy support from central banks and governments around the world, if continued, will also help fuel the recovery. Besides, the expected strong growth of the Mainland economy should continue to bode well for Asia's production and trading activities, as well as Hong Kong's merchandise exports. That said, China-US relations under the new US administration still warrant attention.

Diagram 2.5 : A rebound in the global economy should render support to Hong Kong's exports in 2021, but the strength of recovery would hinge on the pandemic development

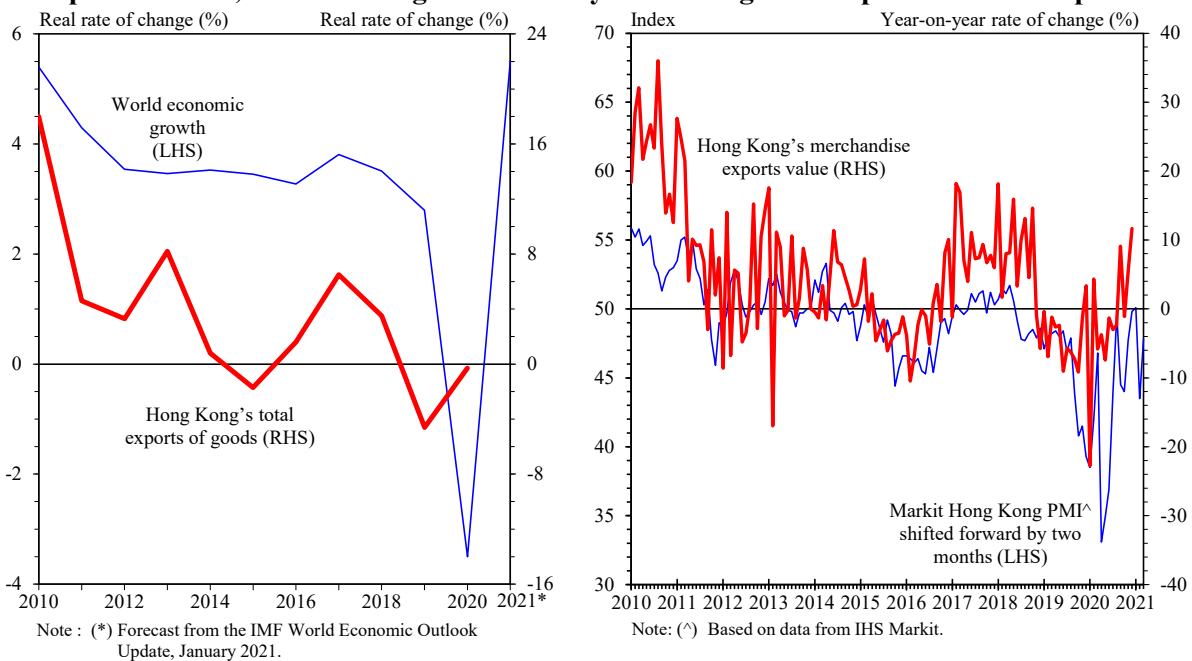
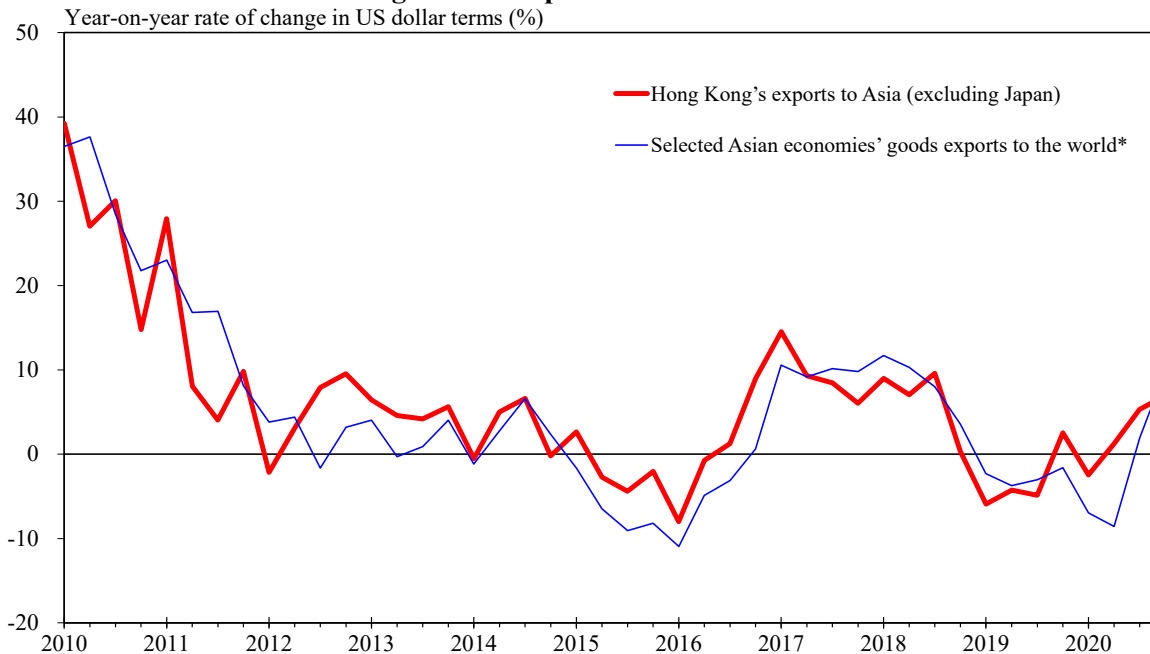


Diagram 2.6 : Regional trade flows were heavily dampened in the first half of 2020, but showed some revival alongside the improved external environment in the second half



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 posted a record fall in 2020, as inbound tourism was brought to a standstill since February and cross-boundary transport and commercial activities fell distinctly amid austere global economic conditions. Looking into 2021, exports of services should show some recovery amid a more benign external environment. However, the recovery pace would be constrained by the state of cross-border travel, which may take time to gradually return to normal. Inbound tourism will likely remain subdued in the near term, but may begin to recover later this year when vaccinations yield the intended results. Meanwhile, continued revival of regional trade flows would render support to trade-related services, and the improving global economic landscape should help bolster cross-border financial and commercial services.

2.18 Domestic demand took a big hit in 2020, as the threat of COVID-19 and the resultant social distancing requirements severely disrupted local consumption activities and weighed on business sentiment. The sharp deterioration in labour market conditions also dented consumption sentiment. Looking into 2021, the performance of domestic demand will hinge critically on how fast the local epidemic can be contained. Restrictive measures of varying degrees will likely remain in place before the epidemic is effectively under control, inevitably affecting local consumption sentiment and economic activities requiring more people contact. In this regard, putting the epidemic under control at the soonest possible with the concerted effort of the whole community is of pivotal importance to the revival of hard-hit domestic activities and hence the attainment of a full-fledged economic recovery.

2.19 If the Government's enhanced efforts to fight the virus and the local vaccination campaign can yield the intended results, there should be a more solid and broad-based revival of domestic economic activities in the second half of the year. The Government's relief measures and policy initiatives as unveiled in the 2021-22 Budget will help cushion the impact of COVID-19 on the local economy and support a sustained recovery. The Government's continued efforts in raising public and private housing supply, infrastructure investment, as well as promotion of innovation and technology should also underpin investment demand.

Diagram 2.7 : Both private consumption expenditure and total employment saw record declines amid the pandemic

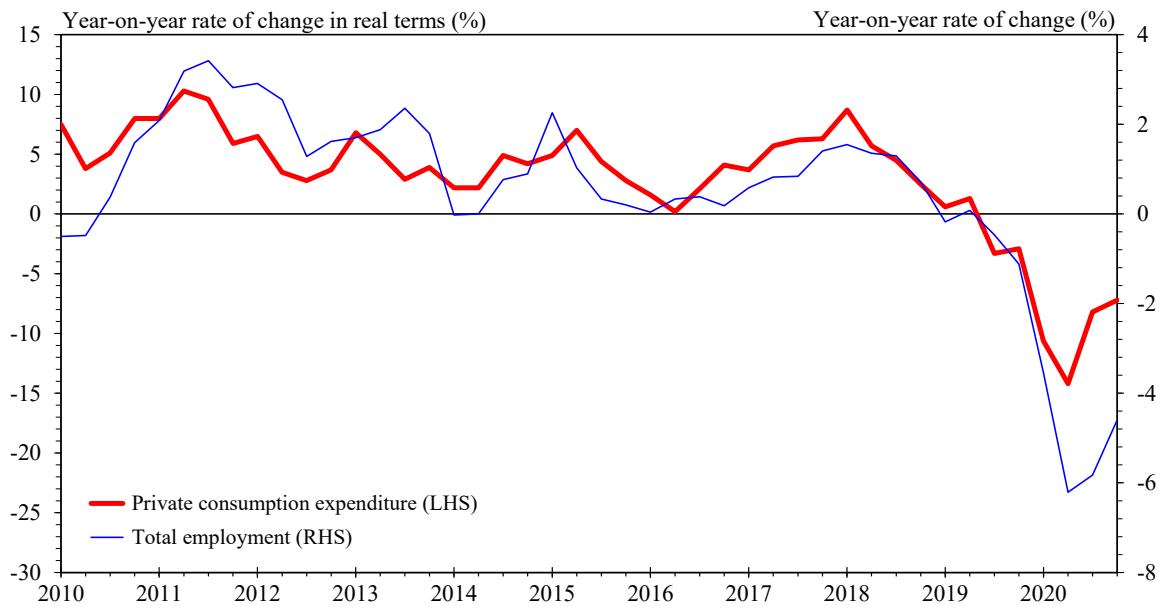


Diagram 2.8 : Wealth effect could hardly render any support to private consumption expenditure as consumption activities were severely disrupted by the pandemic

(a) Housing wealth

(b) Equity wealth

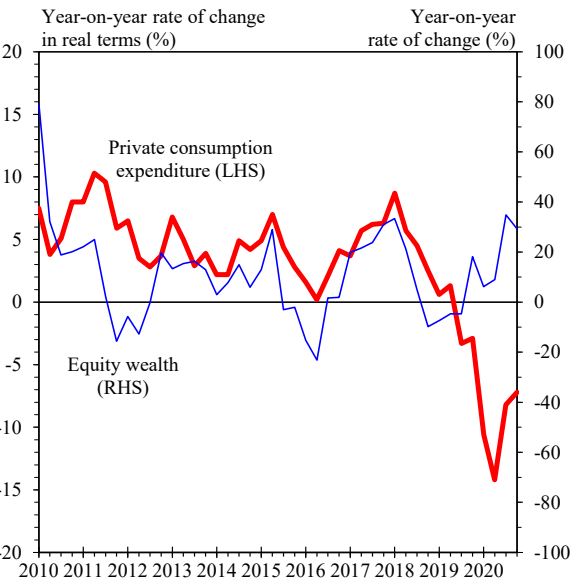
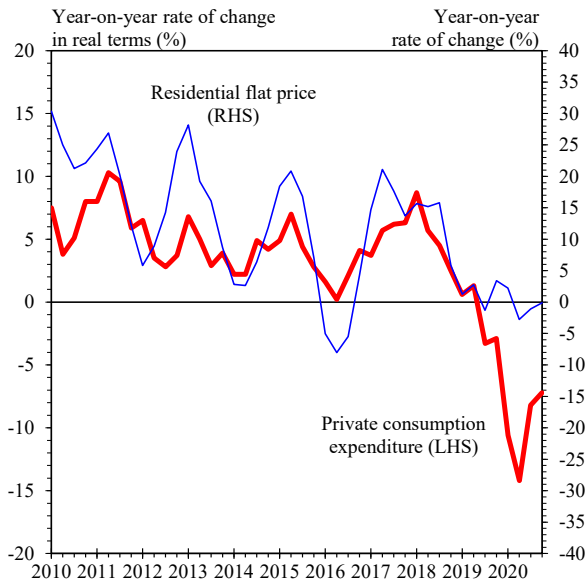
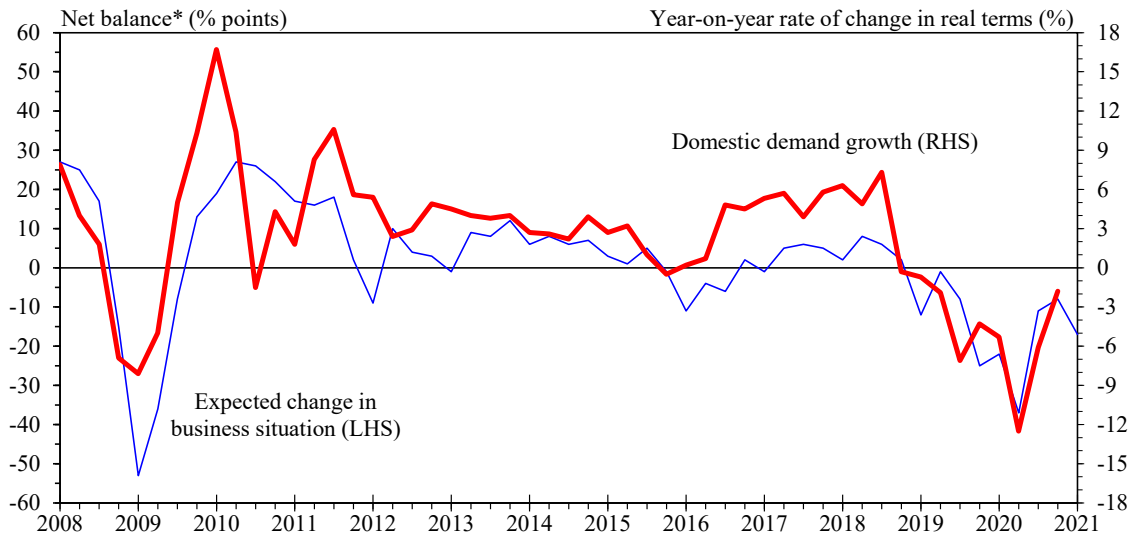
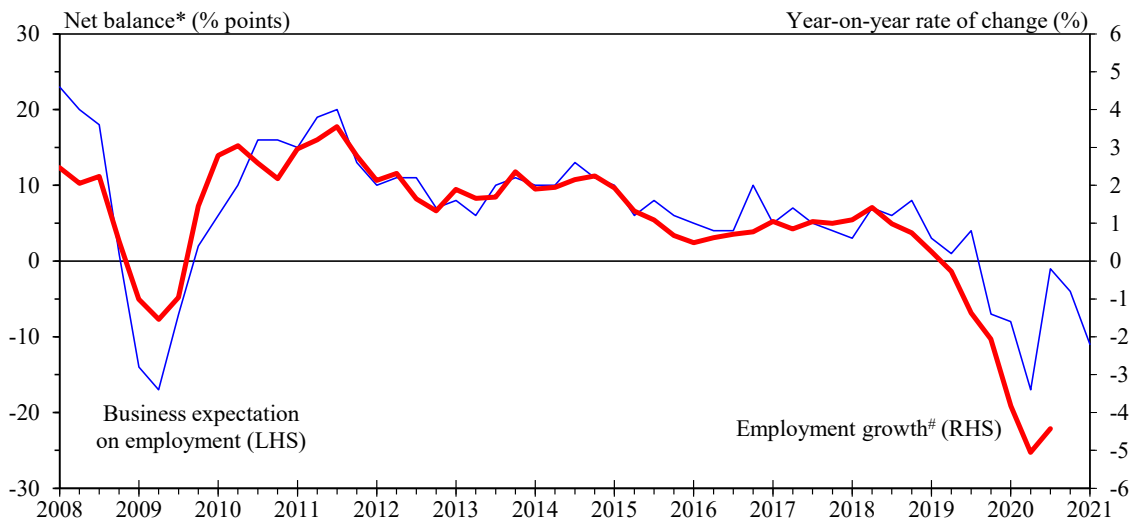


Diagram 2.9 : Business sentiment was generally negative during 2020



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 still stayed weak in recent months

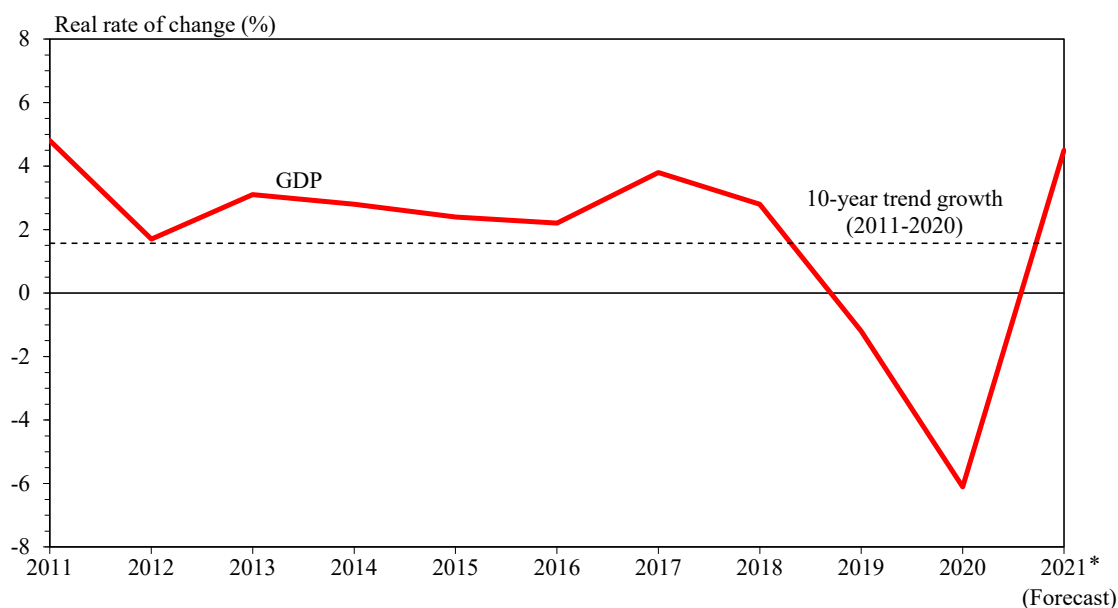


Notes : (*) Net balance indicates the direction of expected change in number of persons engaged versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing “up” over that choosing “down”. A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.
 (#) Employment in the private sector.

2.20 In sum, the Hong Kong economy is expected to resume growth in 2021, but the breadth and strength of the recovery is subject to the high uncertainty associated with the pandemic. Evolving China-US relations and geopolitical tensions are also risk factors that warrant attention. Overall, taking into account the supporting effects from the Government measures, the Hong Kong economy is forecast to grow by 3.5% to 5.5% in 2021, compared with the record contraction of 6.1% in 2020. The range forecast is predicated on the assumptions that the global and local epidemic situations would gradually improve over the course of 2021 along with the progress of mass vaccinations and that China-US tensions would not escalate significantly.

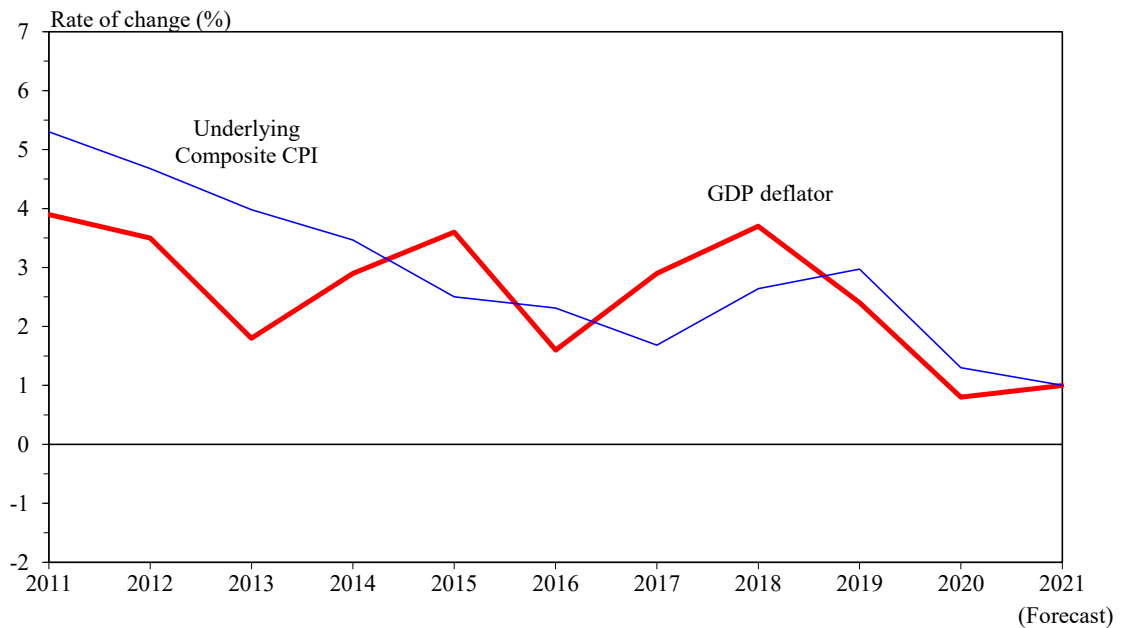
2.21 The relatively wide range of the growth forecast reflects the high uncertainty facing both the global and local economies. The growth outturn could be close to the lower end of the forecast if mass vaccination campaigns around the world only proceed slowly during the year, or if China-US relations deteriorate noticeably under the new US administration. On the other hand, it could be close to the upper end of the range if the pandemic can be largely contained within the first half of the year and some existing trade barriers are lifted. The Government will stay vigilant to the developments. For comparison, the latest forecasts by private sector analysts for Hong Kong's economic growth in 2021 fall within the range of 3.0% to 7.1%, averaging around 4.4%, and that put out by the IMF in October 2020 is 3.7%.

Diagram 2.11 : The Hong Kong economy is forecast to grow by 3.5-5.5% in 2021



2.22 Underlying consumer price inflation in Hong Kong receded visibly in 2020. Looking ahead, consumer price inflation should remain modest in 2021. External price pressures are likely to stay tame as inflation in our major import suppliers should remain contained when the global economy is still struggling to return to its pre-pandemic activity level. Domestic cost pressures are also likely to be modest. The softening in fresh-letting residential rentals since late 2019 will continue to feed through. Pressures from the commercial rental and labour cost fronts should be limited, as the local economy would likely operate below capacity during most of 2021 after an extended period of severe contraction. Overall, underlying consumer price inflation is forecast at 1% in 2021, down from 1.3% in 2020. For reference, the latest forecasts for consumer price inflation in 2021 by private sector analysts average 1.3%, and that put out by the IMF in October 2020 is 2.4%. The GDP deflator is forecast to rise by 1% in 2021, on par with underlying consumer price inflation.

Diagram 2.12 : Underlying consumer price inflation is forecast to remain modest at 1% in 2021



Forecast rate of change in 2021 (%)

Gross Domestic Product (GDP)

<i>Real GDP</i>	3.5 to 5.5
<i>Nominal GDP</i>	4.5 to 6.5
<i>Per capita GDP in real terms</i>	2.5 to 4.5
<i>Per capita GDP at current market prices</i>	HK\$375,100 – 382,200 (US\$48,100 – 49,000)

Underlying Composite Consumer Price Index **1**

GDP Deflator **1**

**Forecast on Hong Kong's real GDP growth in 2021
recently made by other selected parties**

	(%)
Asian Development Bank (December 2020)	5.1
IMF (October 2020)	3.7
Average forecast by private sector analysts [#]	4.4

Note : (#) Real GDP growth forecasts by private sector analysts fall between 3.0% and 7.1%.

ECONOMIC PERFORMANCE IN 2020

1. Rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2020:

	(%)
(a) Growth rates in real terms of:	
Private consumption expenditure	-10.1
Government consumption expenditure	7.8
Gross domestic fixed capital formation	-11.5
<i>of which :</i>	
Building and construction	-8.2
Machinery, equipment and intellectual property products	-19.2
Total exports of goods	-0.3
Imports of goods	-2.1
Exports of services	-36.8
Imports of services	-35.1
Gross Domestic Product (GDP)	-6.1
<i>Growth rate of per capita GDP in real terms</i>	-5.8
<i>Per capita GDP at current market prices</i>	HK\$362,300 (US\$46,700)
(b) Rates of change in:	
Underlying Composite Consumer Price Index	1.3
GDP Deflator	0.8
Government Consumption Expenditure Deflator	2.7
(c) Growth rate of nominal GDP	-5.4

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> (%)
2018	7	5
2019	-4	-5
2020	-2	-1

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> (%)
2018	5	5	9	6	-1	-13
2019	-5	-5	-7	-15	-8	-12
2020	-1	5	-7	-13	-7	-16

Note: # Exports to the EU exclude those to the UK, as the UK formally withdrew from the EU on 31 January 2020. Taking the UK and the EU together, exports increased by 8% in real terms in 2018, and decreased by 6% and 7% in 2019 and 2020 respectively.

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> (%)
2018	6	9
2019	-8	-15
2020	-3	-9

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> (%)
2018	5	3	9	2	2
2019	-10	-8	-21	-2	-4
2020	-37	-30	-91	3	-12

6. Hong Kong's goods and services trade balance in 2020 reckoned on GDP basis:

	(HK\$ billion)
Total exports of goods	4,282.3
Imports of goods	4,329.1
<i>Goods trade balance</i>	-46.8
Exports of services	494.9
Imports of services	395.8
<i>Services trade balance</i>	99.1
<i>Combined goods and services trade balance</i>	52.3

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>
2018	2.8	1.1	0.8	1.1
2019	2.9	1.1	-0.3	-0.4
2020	5.9	3.3	-2.2	-5.1

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>
2018	2.6	2.4	2.7	2.3	2.2
2019	3.0	2.9	3.3	2.7	2.6
2020	1.3	0.3	-0.5	0.7	0.8

ECONOMIC PROSPECTS FOR 2021

Forecast rates of change in the Gross Domestic Product and main price indicators in 2021:

	(%)
Gross Domestic Product (GDP)	
<i>Real GDP</i>	3.5 to 5.5
<i>Nominal GDP</i>	4.5 to 6.5
<i>Growth rate of per capita GDP in real terms</i>	2.5 to 4.5
<i>Per capita GDP at current market prices</i>	HK\$375,100-382,200 (US\$48,100-49,000)
Composite Consumer Price Index	
<i>Underlying Composite Consumer Price Index</i>	1
<i>Headline Composite Consumer Price Index</i>	1.6
GDP Deflator	1
Government Consumption Expenditure Deflator	0.5