

Outlook for the Hong Kong economy in 2022

2.16 The global economy recovered strongly in 2021 and the growth path down the road will continue to depend crucially on the development of the pandemic and how supply chain bottlenecks in various places unfold. The ongoing spread of the Omicron variant in many economies and the restrictive measures in place may constrain the pace of revival in the near term. However, provided that the pandemic situation gradually improves and supply chain disruptions begin to ease later this year, the global economy should be able to gather steam again. This, together with the envisaged steady expansion of the Mainland economy, will render support to production and trading activities in Asia as well as Hong Kong's exports of goods in 2022. That said, the development of China-US relations, the pace of monetary policy tightening by some major central banks, and geopolitical tensions still warrant attention.

Diagram 2.5 : The global economic recovery should continue to support Hong Kong's exports of goods in 2022

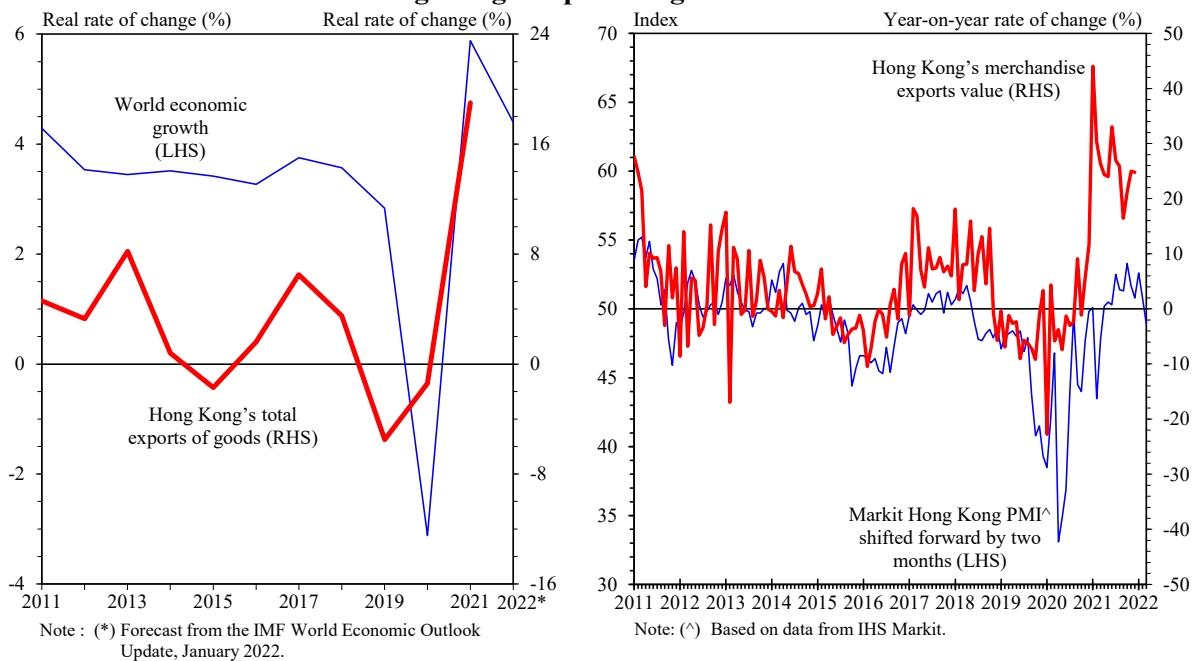
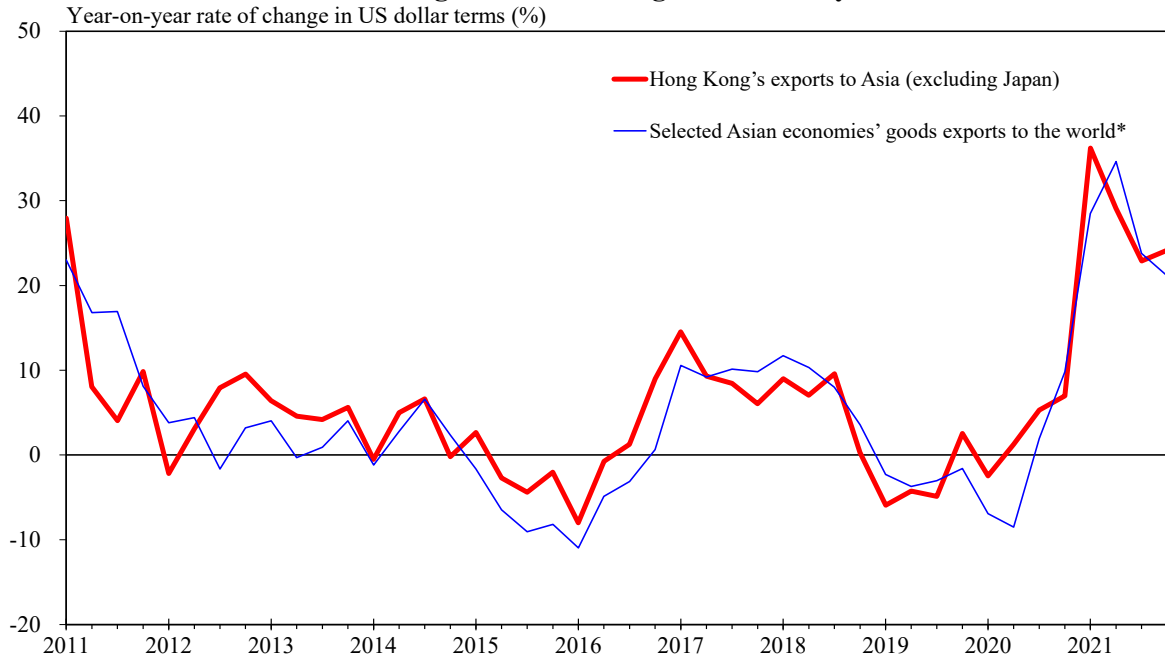


Diagram 2.6 : Regional trade flows turned vibrant in 2021 alongside the strong rebound of the global economy



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 resumed a mild increase in 2021 alongside improved global economic conditions, but their recovery remained uneven. In particular, travel and cross-boundary passenger transport services remained in the doldrums as inbound tourism was frozen throughout the year. Looking into 2022, should the overall economic environment continue to turn better and regional trade flows remain active, exports of services will likely improve further. However, the pace of recovery will hinge critically on the state of inbound tourism, which should see some improvement if cross-boundary travel, especially with the Mainland, can be resumed in an orderly manner later this year.

2.18 Domestic demand regained momentum in 2021, thanks to the stable local epidemic situation during most of the year, improved business outlook, better labour market conditions and the Consumption Voucher Scheme. Looking ahead into 2022, the performance of domestic demand would hinge on the development of the local epidemic. Various restrictive measures in place will inevitably continue to pose pressures on economic activities and weigh on sentiment. Yet, as long as the recent wave of infections can gradually abate and the situation remains stable afterwards, employment and income conditions will likely see further improvement, supporting consumption sentiment. It is thus essential for the community to work together with the Government to contain the epidemic and abide by the anti-epidemic measures. A stable epidemic situation will also be favourable to business sentiment. This, coupled with the Government's continued efforts in increasing housing supply, pursuing infrastructure investment projects and promoting innovation and technology, should help underpin investment demand. The Government's relief measures and policy initiatives as unveiled in the 2022-23 Budget will also give support to the local economy.

Diagram 2.7 : Both private consumption expenditure and total employment resumed growth over the course of 2021 alongside the local economic recovery

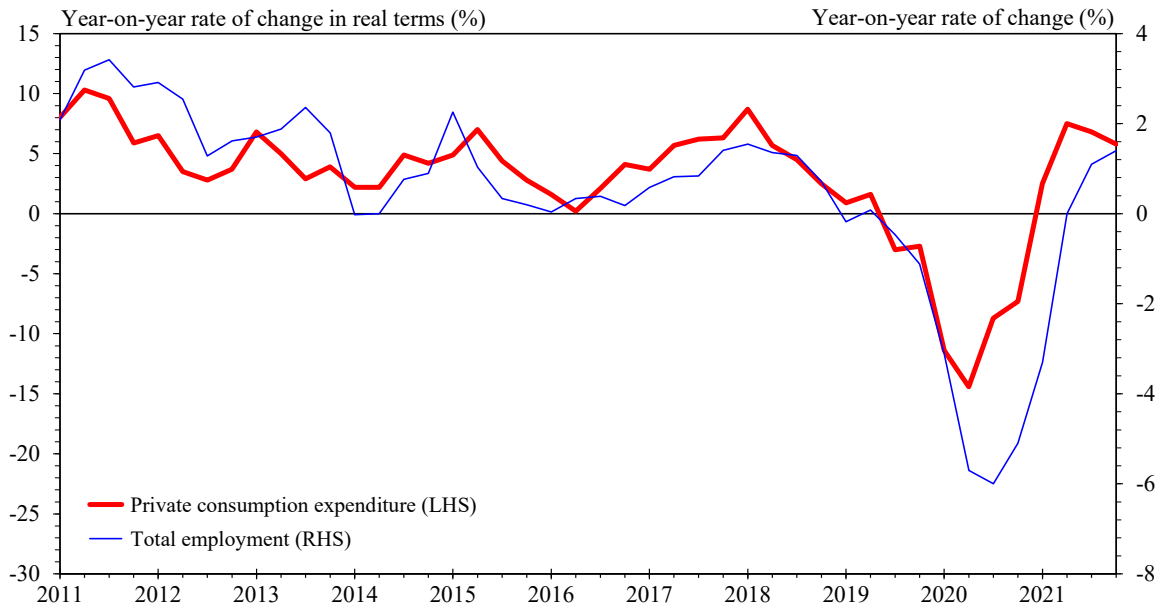


Diagram 2.8 : Private consumption expenditure in 2021 was affected more by the epidemic than by wealth effects

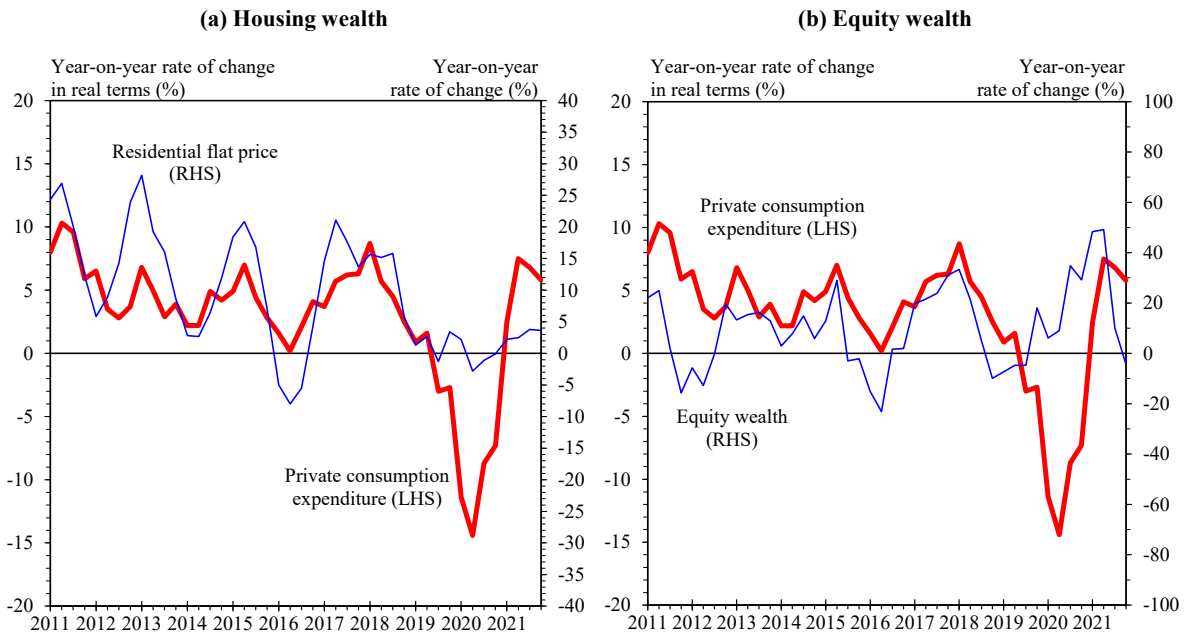
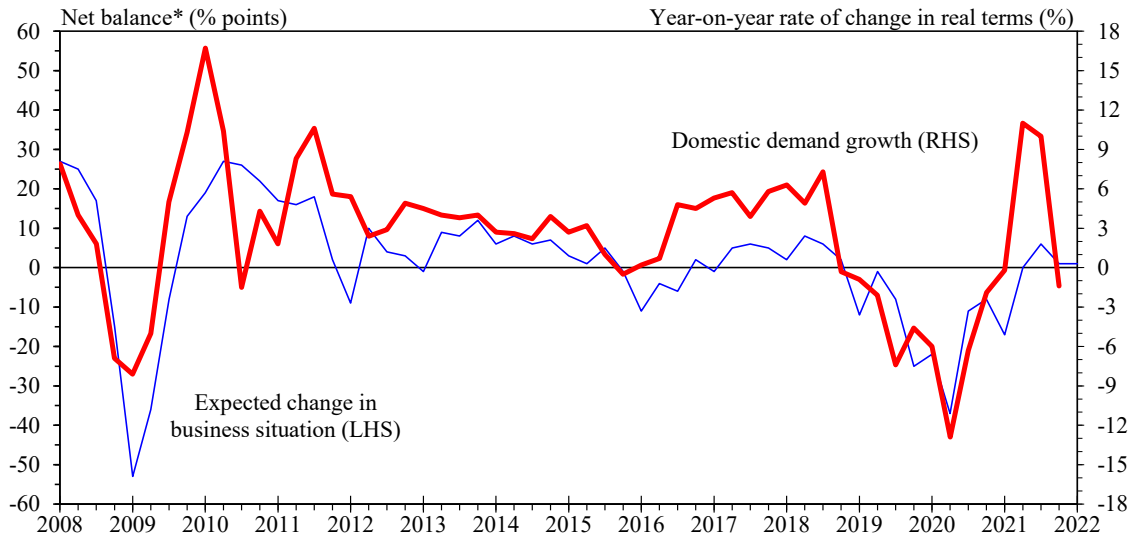
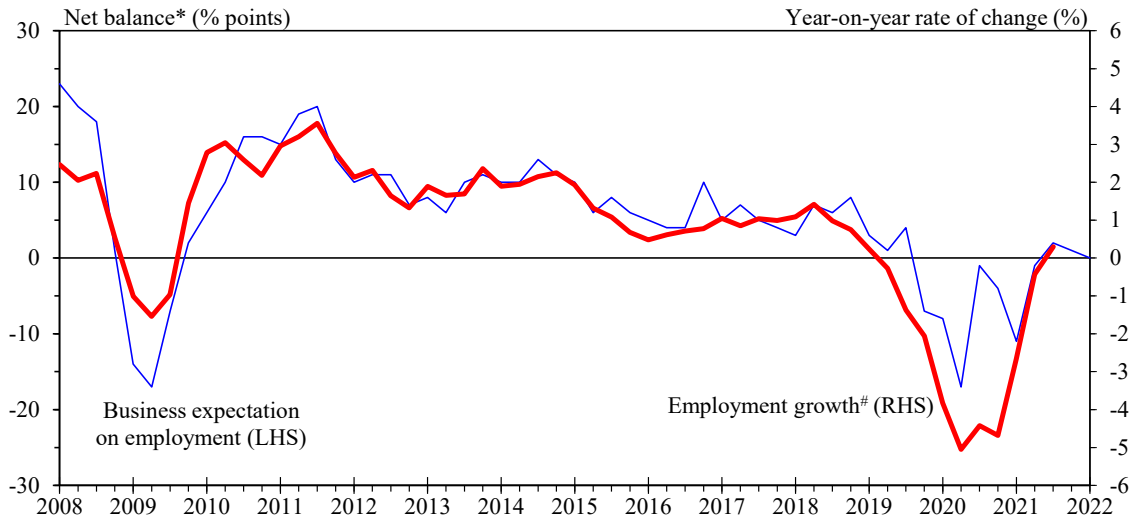


Diagram 2.9 : Business sentiment improved over the course of 2021



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.

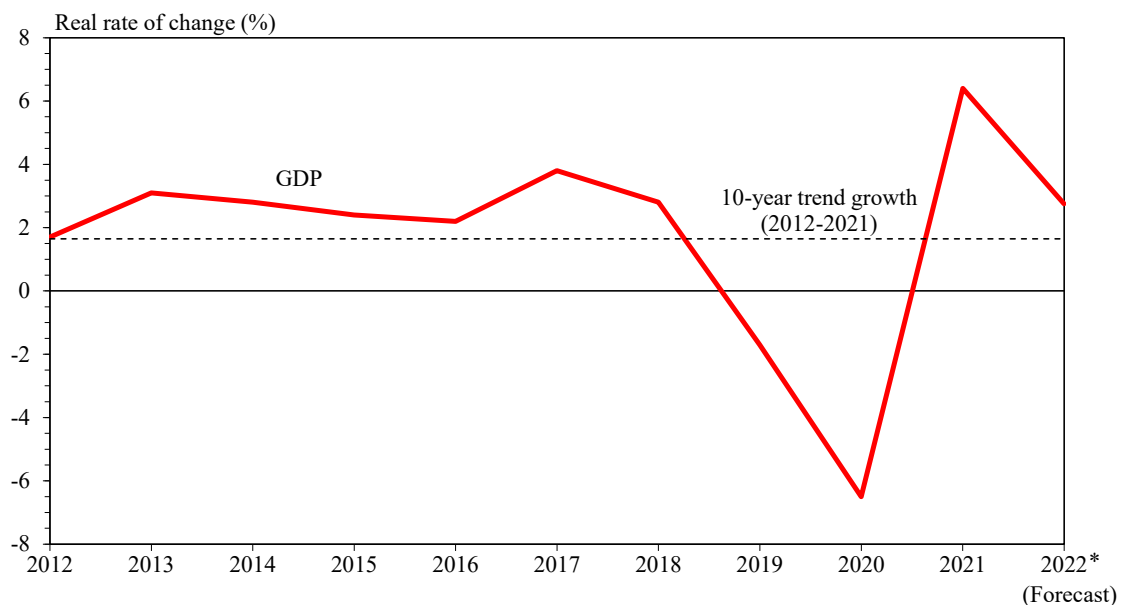
Diagram 2.10 : Overall hiring sentiment held largely stable before the latest wave of local epidemic



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.

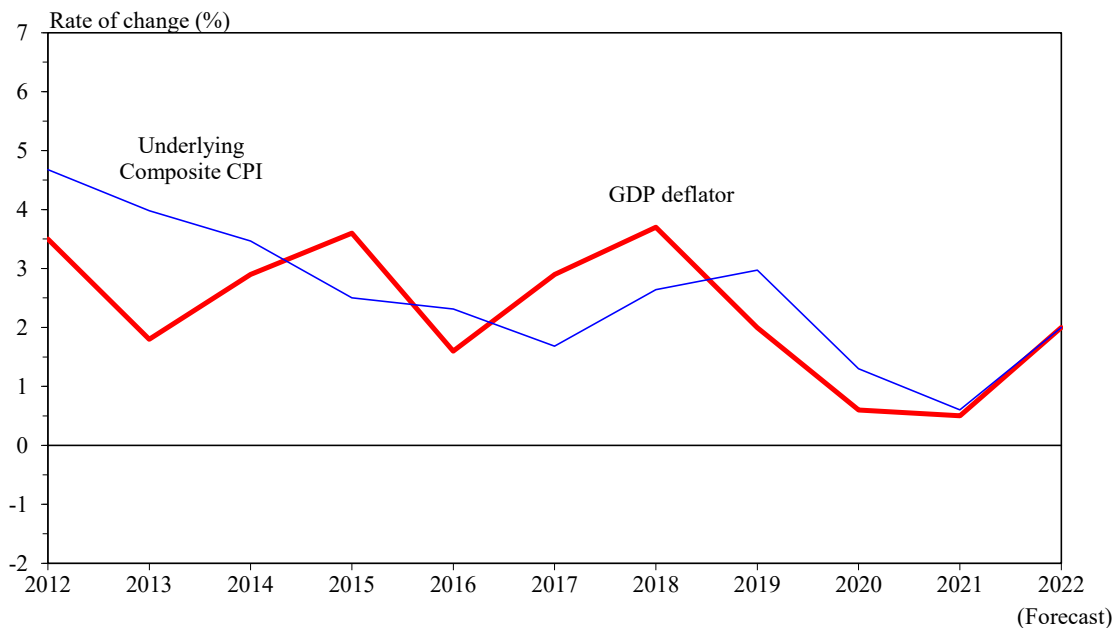
2.19 In sum, the Hong Kong economy is expected to expand further in 2022, but the pandemic remains a key source of uncertainty. Overall, taking into account the supporting effects from the Government’s various measures, the Hong Kong economy is forecast to grow by 2% to 3.5% in 2022, following a 6.4% expansion in 2021. The forecast is predicated on the assumptions that the latest wave of local epidemic can be gradually put under control and people flows with the Mainland could be resumed in a gradual and orderly manner later this year, and that there is no abrupt deterioration of the external environment. The growth outturn could be worse than forecast if the threat of Omicron and other new variants pose a more severe drag on global growth, and the recent wave of local epidemic turns out to be more protracted, resulting in a much weaker economic sentiment and a setback to the resumption of cross-border travel. On the other hand, it would be near the upper end if more widespread vaccination across the globe helps reduce the threat of variants and allows a stronger global economic recovery, while cross-border travel resumes at a faster pace. The Government will stay vigilant to developments. For comparison, the latest forecasts by private sector analysts for Hong Kong’s economic growth in 2022 range from 1.5% to 4.1%, averaging around 2.6%, and the IMF forecast 3.0% in January 2022.

Diagram 2.11 : The Hong Kong economy is forecast to grow by 2-3.5% in 2022



2.20 Underlying consumer price inflation in Hong Kong went up modestly over the course of 2021. Looking ahead, underlying consumer price inflation will likely pick up further in 2022, but should remain moderate for the year as a whole. External price pressures are likely to persist for some time, as the global economy is expected to recover further and bottlenecks in global supply chains will take time to resolve (See **Box 2.1**). Domestically, commercial rentals and labour costs should increase gradually alongside the further economic expansion, but should remain in check given that there is still some slack in the economy. Meanwhile, fresh letting residential rentals are already higher than a year earlier, though the impact of firmer fresh letting residential rentals in the past year on consumer prices will take time to surface. Overall, underlying consumer price inflation is forecast at 2% in 2022, up from 0.6% in 2021. For reference, the latest forecasts for consumer price inflation in 2022 by private sector analysts average 2.0%, and the IMF forecast 2% in January 2022. The GDP deflator is forecast to rise by 2% in 2022, on par with underlying consumer price inflation.

Diagram 2.12 : Underlying consumer price inflation is forecast to go up to 2% in 2022



Forecast rate of change in 2022 (%)

Gross Domestic Product (GDP)

<i>Real GDP</i>	2 to 3.5
<i>Nominal GDP</i>	4 to 5.5
<i>Per capita GDP in real terms</i>	1 to 2.5
<i>Per capita GDP at current market prices</i>	HK\$398,800 – 404,500 (US\$51,100 – 51,900)

Underlying Composite Consumer Price Index **2**

GDP Deflator **2**

**Forecast on Hong Kong's real GDP growth in 2022
recently made by other selected parties**

	(%)
Asian Development Bank (December 2021)	3.4
IMF (January 2022)	3.0
Average forecast by private sector analysts [#]	2.6

Note : (#) Real GDP growth forecasts by private sector analysts fall between 1.5% and 4.1%.

ECONOMIC PERFORMANCE IN 2021

1. Rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2021:

	(%)
(a) Growth rates in real terms of:	
Private consumption expenditure	5.6
Government consumption expenditure	4.6
Gross domestic fixed capital formation	10.1
<i>of which :</i>	
Building and construction	0.3
Machinery, equipment and intellectual property products	16.7
Total exports of goods	19.0
Imports of goods	17.6
Exports of services	1.1
Imports of services	1.7
Gross Domestic Product (GDP)	6.4
<i>Growth rate of per capita GDP in real terms</i>	7.7
<i>Per capita GDP at current market prices</i>	HK\$387,000 (US\$49,800)
(b) Rates of change in:	
Underlying Composite Consumer Price Index	0.6
GDP Deflator	0.5
Government Consumption Expenditure Deflator	1.0
(c) Growth rate of nominal GDP	7.0

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> (%)
2019	-4	-5
2020	-2	-1
2021	26	20

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>Taiwan</i> (%)	<i>India</i> (%)
2019	-5	-5	-7	-15	4	-12
2020	-1	5	-7	-13	11	-16
2021	20	18	20	20	35	33

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 decreased by 6% and 7% in real terms in 2019 and 2020 respectively, but increased by 25% in 2021.

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> (%)
2019	-8	-15
2020	-3	-9
2021	18	13

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> (%)
2019	-10	-4	-22	-1	-7
2020	-35	-25	-90	2	-10
2021	1	4	-44	2	2

6. Hong Kong's goods and services trade balance in 2021 reckoned on GDP basis:

	(HK\$ billion)
Total exports of goods	5,241.5
Imports of goods	5,219.9
<i>Goods trade balance</i>	21.6
Exports of services	593.9
Imports of services	479.8
<i>Services trade balance</i>	114.1
<i>Combined goods and services trade balance</i>	135.7

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>
2019	2.9	1.1	-0.3	-0.4
2020	5.8	3.3	-2.0	-4.9
2021	5.2	2.5	-1.0	-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>
2019	3.0	2.9	3.3	2.7	2.6
2020	1.3	0.3	-0.6	0.6	0.8
2021	0.6	1.6	2.9	1.0	0.9

ECONOMIC PROSPECTS FOR 2022

Forecast rates of change in the Gross Domestic Product and main price indicators in 2022:

	(%)
Gross Domestic Product (GDP)	
<i>Real GDP</i>	2 to 3.5
<i>Nominal GDP</i>	4 to 5.5
<i>Growth rate of per capita GDP in real terms</i>	1 to 2.5
<i>Per capita GDP at current market prices</i>	HK\$398,800-404,500 (US\$51,100-51,900)
Composite Consumer Price Index	
<i>Underlying Composite Consumer Price Index</i>	2
<i>Headline Composite Consumer Price Index</i>	2.1
GDP Deflator	2
Government Consumption Expenditure Deflator	2.5