

Press Release

(embargoed until 4:30 p.m. on 13 May 2022)

Economic Situation in the First Quarter of 2022 and Latest GDP and Price Forecasts for 2022

The Government released today (13 May) the First Quarter Economic Report 2022, together with the revised figures on Gross Domestic Product (GDP) for the first quarter of 2022.

The Government Economist, Mr Adolph Leung, described the economic situation in the first quarter of 2022 and the latest GDP and price forecasts for 2022.

Main points

- * The Hong Kong economy saw a marked deterioration in the first quarter of 2022. Externally, slower global demand growth and epidemic-induced cross-boundary transportation disruptions posed significant drags to exports. Domestically, the fifth wave of local epidemic and resultant restrictive measures weighed heavily on a wide range of economic activities as well as economic sentiment. Real Gross Domestic Product (GDP) contracted by 4.0% from a year earlier, reversing the growth trend in the previous four quarters. On a seasonally adjusted quarter-to-quarter comparison, real GDP fell by 3.0%.
- * Total exports of goods worsened abruptly and fell by 4.5% year-on-year in real terms in the first quarter. Exports to the Mainland turned to a sharp fall, while those to the US, EU and other major markets in Asia posted moderated growth. Exports of services contracted by 2.8% year-on-year in real terms as global economic growth decelerated, cargo movements shrank, and cross-border financial and fund-raising activities softened.
- * Domestic demand weakened markedly. Private consumption expenditure turned to a decline of 5.5% in real terms from a year earlier amid a drastic fall in people flow and deteriorating labour market conditions. Overall investment expenditure saw an enlarged year-on-year decline of 8.4% in real terms as business sentiment worsened.
- * The labour market was under severe pressure. The seasonally adjusted unemployment rate rose notably from 4.0% in the fourth quarter of 2021 to 5.0% in the first quarter of 2022, reversing the downtrend since early 2021. The unemployment rates of most major sectors increased, particularly those of the consumption- and tourism-related sectors, the arts, entertainment and recreation sector, and the construction sector. The underemployment rate also increased markedly from 1.7% to 3.1%.
- * The local stock market exhibited substantial volatility in the first quarter. The Hang Seng Index underwent a sharp correction between mid-February and mid-March amid concerns over the impending tightening of US monetary policy, situation in Ukraine, regulatory requirements in the Mainland and the austere local epidemic situation, but recouped most of the loss towards the end of the quarter. The residential property market remained soft. Flat prices fell further amid

subdued trading.

- * Looking forward, the worsened global economic prospects may continue to weigh on Hong Kong's export performance. Persisting tension in Ukraine will likely keep international energy and commodity prices elevated, aggravate supply chain and transportation disruptions, and dampen economic sentiments. In the face of mounting inflation, major central banks are expected to expedite their monetary policy tightening, further dampening global economic growth. The evolving global pandemic and development of China-US relations will add further uncertainties. Nonetheless, cross-boundary transportation disruptions between the Mainland and Hong Kong may gradually ease alongside the improving local epidemic situation, thus providing some relief to our external trade.
- * Domestically, economic activities should show some revival going forward in tandem with the receding local epidemic and progressive relaxation of social distancing measures. The new round of Consumption Voucher Scheme, along with the 2022 Employment Support Scheme and Temporary Unemployment Relief Scheme, will render additional support to domestic demand. In fact, consumer and business sentiments have shown visible improvement lately. It is thus essential for the community to keep working in unison with the Government to further stabilise the local epidemic situation.
- * Given the worse-than-expected performance in the first quarter, and taking into account the deteriorating export outlook on the one hand but the expected gradual revival of local economic activities on the other, the real GDP growth forecast for 2022 is revised down to 1%-2%, from 2%-3.5% as announced in the Budget. The Government will continue to closely monitor the situation.
- * The underlying Composite Consumer Price Index rose by 1.6% year-on-year in the first quarter, up from 1.2% in the preceding quarter. Prices of basic food picked up visibly amid epidemic-induced temporary supply disruptions. Prices of energy-related items as well as clothing and footwear also recorded notable increases. Nonetheless, price pressures on other major components were broadly in check. Looking ahead, external price pressures may remain elevated as inflation in many major economies stays high amid heightened geopolitical tensions and supply chain bottlenecks. Nonetheless, overall inflation should remain moderate in the near term as domestic cost pressures stay largely mild. The forecast rates of underlying and headline consumer price inflation for 2022 are maintained at 2% and 2.1% respectively, the same as those announced in the Budget.

Details

GDP

According to the revised figures on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, real GDP contracted by 4.0% year-on-year in the first quarter of 2022 (the same as the advance estimate), having expanded by 4.7% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP decreased by 3.0% in the first quarter (revised from the advance estimate of -2.9%), after staying virtually unchanged in the preceding quarter (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the first quarter of 2022 are presented in *Table 1*. Developments in different segments of the economy in the first quarter of 2022 are described below.

External trade

3. *Total exports of goods* fell by 4.5% year-on-year in real terms in the first quarter of 2022, in stark contrast to the increase of 13.5% in the preceding quarter. In addition to the slower growth in external demand, disruptions to cross-boundary cargo flows between the Mainland and Hong Kong amid the fifth wave of local epidemic also constrained export performance in the latter part of the quarter. An exceptionally high base of comparison contributed to the fall as well. Analysed by major market, exports to the Mainland turned to a sharp decline, while those to the US and the EU posted moderated growth. Growth in exports to other major markets in Asia also decelerated in general, though remaining robust in many cases. On a seasonally adjusted quarter-to-quarter basis, total exports of goods fell by 6.3% in real terms in the first quarter, having increased by 3.1% in the preceding quarter.

4. *Exports of services* contracted by 2.8% year-on-year in real terms in the first quarter, after growing by 6.9% in the preceding quarter. Exports of transport services declined as cargo movements shrank and passenger flows remained scant. Exports of business and other services fell along with decelerated global economic growth, while exports of financial services declined amid moderated cross-border financial and fund-raising activities. Meanwhile, exports of travel services stayed at a very low level as inbound tourism remained frozen. On a seasonally adjusted quarter-to-quarter basis, exports of services grew by 2.7% in real terms in the first quarter, having decreased by 1.3% in the preceding quarter.

Domestic sector

5. Domestic demand weakened markedly in the first quarter of 2022. *Private consumption expenditure* declined by 5.5% year-on-year in real terms in the first quarter, having increased by 5.3% in the preceding quarter. The austere epidemic situation and various social distancing measures led to a drastic fall in people flow and seriously disrupted consumption activities. The deteriorating labour market further dampened consumption sentiment. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure fell by 8.8% in real terms after increasing by 0.7% in the preceding quarter. Meanwhile, *government consumption expenditure* rose by 6.0% year-on-year in real terms in the first quarter, after a 4.1% growth in the preceding quarter.

6. Overall investment spending in terms of *gross domestic fixed capital formation* dropped by 8.4% year-on-year in real terms in the first quarter, enlarged from the 0.6% decrease in the preceding quarter. Within the total, expenditure on acquisitions of machinery, equipment and intellectual property products fell by 14.0% as business sentiment worsened. Expenditure on building and construction declined by 0.2% as the decrease in private sector spending more than offset the increase in public sector spending. The costs of ownership transfer plunged along with sharp falls in both residential and non-residential property transactions.

The labour sector

7. The labour market was under severe pressure. The *seasonally adjusted unemployment rate* increased notably from 4.0% in the fourth quarter of 2021 to 5.0% in the first quarter of 2022, reversing the downtrend since early 2021. The unemployment rates of most major sectors increased, particularly those of the consumption- and tourism-related sectors, the arts, entertainment and recreation sector, and the construction sector. The unemployment rates of both lower-skilled and higher-skilled workers went up, with the former remaining visibly higher than the latter. The *underemployment rate* also increased markedly from 1.7% to 3.1%.

The asset markets

8. The *local stock market* exhibited substantial volatility in the first quarter of 2022. The Hang Seng Index (HSI) underwent a sharp correction between mid-February and mid-March amid concerns over the impending tightening of US monetary policy, situation in Ukraine, regulatory requirements in the Mainland and the austere local epidemic situation, but recouped most of the loss towards the end of the quarter. The HSI closed the quarter at 21 997, down by 6.0% from end-2021. On 12 May, the HSI closed at 19 380.

9. The *residential property market* remained soft in the first quarter. Market sentiment was dampened by monetary policy tightening of the US Federal Reserve and the austere local epidemic situation, with the latter also disrupting trading activities. 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, plunged by 34% from the preceding quarter or 45% from a year earlier to 10 056 in the first quarter, the lowest level since the fourth quarter of 2018. Flat prices fell by 3% during the first quarter. The index of home purchase affordability remained elevated at around 71%. Meanwhile, flat rentals on average declined by 2%. The commercial and industrial property markets quietened down visibly in the quarter, with trading activities retreating to low levels. Prices and rentals for major market segments generally softened.

Prices

10. Inflationary pressures increased further in the first quarter of 2022, but remained moderate in overall terms. Netting out the effects of the Government's one-off relief measures to reflect the underlying inflation trend, the *underlying Composite Consumer Price Index (CCPI)* rose by 1.6% year-on-year in the first quarter, up from 1.2% in the preceding quarter. Prices of basic food picked up visibly amid epidemic-induced temporary supply disruptions. Prices of energy-related items as well as clothing and footwear also recorded notable increases, partly due to the low bases of comparison. Nonetheless, price pressures on other major components were broadly in check. Private housing rentals continued to decline, though at a narrowed rate as the earlier increase in fresh-letting residential rentals gradually fed through.

11. Domestic business cost pressures were mild, with commercial rentals staying soft and wage growth remaining moderate. Meanwhile, external price pressures continued to intensify. On top of the pandemic-induced supply chain and transportation disruptions, tension in Ukraine pushed up international commodity and energy prices and thus inflation in many major economies. Against this backdrop, the year-on-year increase in prices of overall merchandise imports accelerated further.

12. The *headline CCPI* rose by 1.5% year-on-year in the first quarter, having risen by 2.0% in the preceding quarter. The headline inflation rate was marginally lower than the underlying inflation rate in the first quarter, as the effect of the Government's provision of additional electricity charge subsidy slightly outweighed that of a lower quarterly ceiling of rates concession for domestic tenement.

Latest GDP and price forecasts for 2022

13. Looking forward, the worsened global economic prospects may continue to weigh on Hong Kong's export performance. Persisting tension in Ukraine will likely keep international energy and commodity prices elevated, aggravate supply chain and transportation disruptions, and dampen economic sentiments. In the face of mounting inflation, major central banks are expected to expedite their monetary policy tightening, further dampening global economic growth. The evolving global pandemic and development of China-US relations will add further uncertainties. Nonetheless, cross-boundary transportation disruptions between the Mainland and Hong Kong may gradually ease alongside the improving local epidemic situation, thus providing some relief to our external trade.

14. Domestically, economic activities should show some revival going forward in tandem with the receding local epidemic and progressive relaxation of social distancing measures. The new round of Consumption Voucher Scheme, along with the 2022 Employment Support Scheme and Temporary Unemployment Relief Scheme, will render additional support to domestic demand. In fact, consumer and business sentiments have shown visible improvement lately. It is thus essential for the community to keep working in unison with the Government to further stabilise the local epidemic situation.

15. Given the worse-than-expected performance in the first quarter, and taking into account the deteriorating export outlook on the one hand but the expected gradual revival of local economic activities on the other, the real GDP growth forecast for 2022 is revised down to 1%-2%, from 2%-3.5% as announced in the Budget (*Table 2*). The Government will continue to closely monitor the situation. For reference, the latest growth forecasts by private sector analysts range from -0.5% to 2.2%, averaging around 1.3%.

16. On the inflation outlook, external price pressures may remain elevated as inflation in many major economies stays high amid heightened geopolitical tensions and supply chain bottlenecks. Nonetheless, overall inflation should remain moderate in the near term as domestic cost pressures stay largely mild. The forecast rates of underlying and headline consumer price inflation for 2022 are maintained at 2% and 2.1% respectively, the same as those announced in the Budget (*Table 2*).

(The First Quarter Economic Report 2022 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, First Quarter 2022, which contains the GDP figures up to the first quarter of 2022, 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

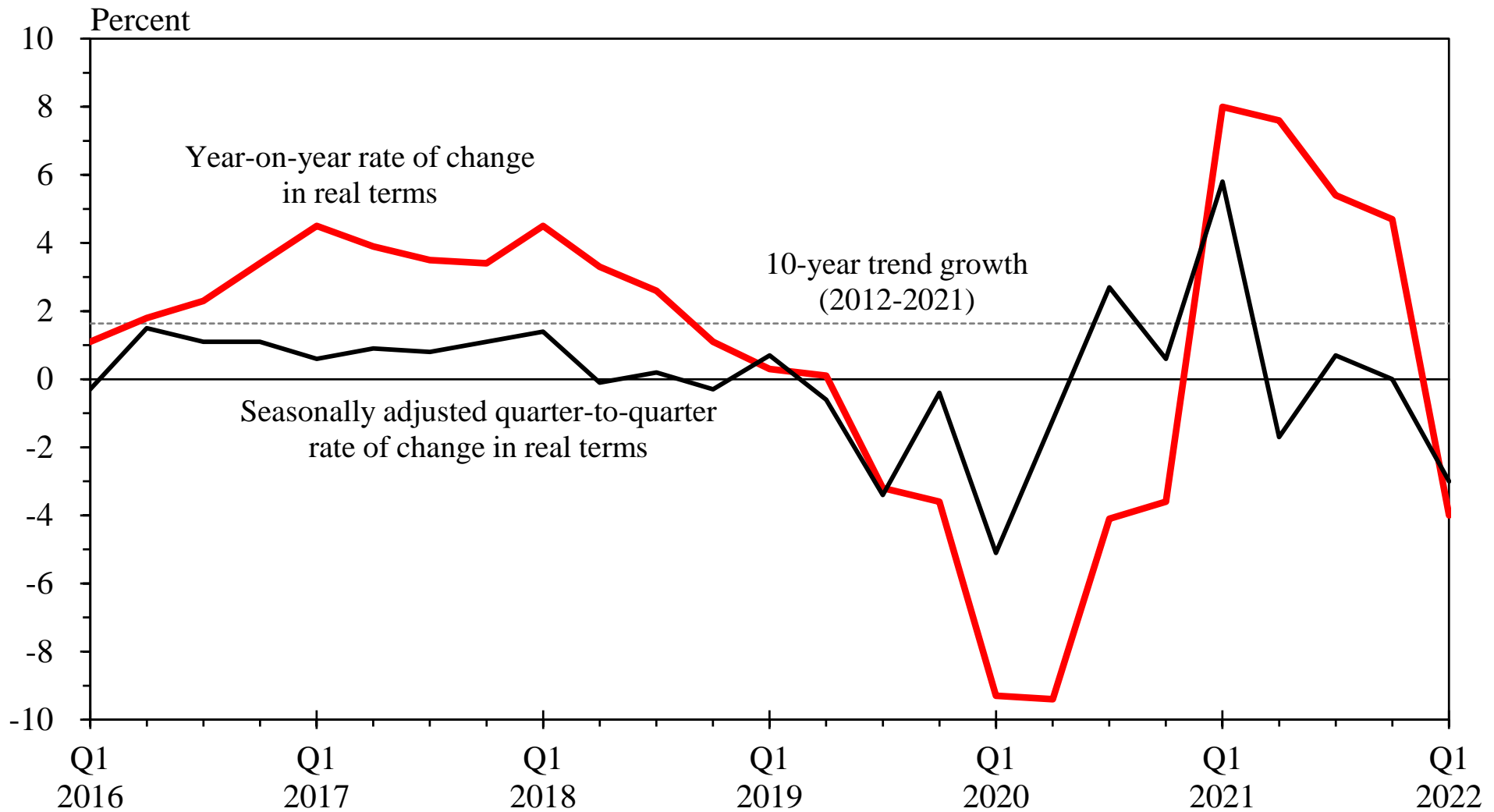


Table 1

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

	<u>2020[#]</u>	<u>2021[#]</u>	<u>2021</u>				<u>2022</u>
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	-10.5	5.4	2.3 (1.5)	7.3 (1.7)	6.5 (1.2)	5.3 (0.7)	-5.5 (-8.8)
Government consumption expenditure	7.9	4.6	6.3 (2.7)	2.8 (-0.9)	5.1 (2.0)	4.1 (0.4)	6.0 (4.2)
Gross domestic fixed capital formation	-11.5	9.8	5.4	23.8	13.0	-0.6	-8.4
Building and construction	-9.8	0.7	-2.3	1.1	2.6	1.5	-0.2
Costs of ownership transfer	-4.0	39.2	82.0	61.7	37.3	-2.2	-33.7
Machinery, equipment and intellectual property products	-16.0	16.8	3.2	55.3	22.5	-2.3	-14.0
Total exports of goods ^{&}	-1.4	18.9	30.6 (11.2)	20.5 (-1.2)	14.2 (-0.1)	13.5 (3.1)	-4.5 (-6.3)
Imports of goods ^{&}	-3.2	17.4	23.3 (7.2)	21.7 (1.7)	16.7 (1.0)	9.9 (-0.4)	-5.9 (-8.2)
Exports of services ^{&}	-34.8	1.5	-8.3 (12.6)	3.9 (-5.4)	5.8 (1.4)	6.9 (-1.3)	-2.8 (2.7)
Imports of services ^{&}	-32.2	1.7	-11.1 (2.8)	10.8 (-1.5)	5.9 (1.7)	4.5 (1.3)	-3.4 (-5.1)
Gross Domestic Product	-6.5	6.3	8.0 (5.8)	7.6 (-1.7)	5.4 (0.7)	4.7 (*)	-4.0 (-3.0)
<i>Change in the main price indicators (%)</i>							
GDP deflator	0.6	0.9	-0.4 (0.8)	0.7 (0.3)	1.0 (0.4)	2.0 (0.5)	0.4 (-0.9)
Composite CPI							
Headline	0.3[@]	1.6[@]	1.2[@] (1.1)[@]	0.8[@] (0.3)[@]	2.3[@] (-0.8)[@]	2.0[@] (1.4)[@]	1.5[@] (0.7)[@]
Underlying[^]	1.3[@]	0.6[@]	-0.2[@] (0.3)[@]	0.3[@] (0.4)[@]	1.1[@] (0.3)[@]	1.2[@] (0.3)[@]	1.6[@] (0.6)[@]
<i>Change in nominal GDP (%)</i>	-5.9	7.2	7.5	8.4	6.5	6.8	-3.6

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 merchandising 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 the Government's one-off relief measures.

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

(@) By reference to the new 2019/20-based CPI series. Splicing has been applied to the indices in order to obtain better estimates of the rates of change for the year 2020.

Table 2**Economic forecasts for 2022
(rate of change (%))**

	<u>Forecasts as released on 23.2.2022</u> (%)	<u>Latest forecasts on 13.5.2022</u> (%)
Real Gross Domestic Product (GDP)	2 to 3.5	<i>1 to 2</i>
Composite Consumer Price Index (CCPI)		
<i>Underlying CCPI</i>	2	2
<i>Headline CCPI</i>	2.1	<i>2.1</i>