

Press Release

(embargoed until 4:30 p.m. on 12 August 2022)

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

The Government released today (12 August) the Half-Yearly Economic Report 2022, together with the revised figures on Gross Domestic Product (GDP) for the second quarter of 2022.

The Government Economist, Mr Adolph Leung, gave an account of the economic situation in the second quarter of 2022 and the latest GDP and price forecasts for 2022.

Main points

- * The Hong Kong economy improved in overall terms in the second quarter of 2022, but the extent of improvement was weaker than expected. Weakened global demand and continued cross-boundary transportation disruptions dragged heavily on export performance. Meanwhile, domestic activities saw some revival but the momentum softened in the latter part of the quarter. Real GDP decreased at a moderated pace of 1.3% from a year earlier, after contracting by 3.9% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP reverted to an increase of 1.0%.
- * Total exports of goods recorded a widened year-on-year fall of 8.6% in real terms in the second quarter. Exports to the Mainland fell visibly further. Exports to the US and the EU showed moderated growth. Meanwhile, exports to most other major markets in Asia continued to increase. Exports of services reverted to a mild increase of 2.3% in real terms. Exports of travel services grew visibly, but were still very subdued. Exports of financial services improved as cross-border financial activities recovered somewhat.
- * Domestic demand showed some improvement in the second quarter. Private consumption expenditure regained lost ground with marginal growth of 0.1% in real terms over a year earlier, thanks to the generally improved local epidemic situation and relaxed social distancing measures in tandem, as well as the Government's various support measures. Overall investment expenditure saw a narrowed decline of 3.0% in real terms along with improved business sentiment.
- * The labour market improved in the second quarter. After rising from 5.0% in the first quarter to 5.4% in February – April, the seasonally adjusted unemployment rate fell successively to 4.7% in the second quarter. The unemployment rates of most major sectors decreased in the second quarter from the high levels in February – April, particularly those of the food and beverage service activities sector, the retail sector, the construction sector, and the arts, entertainment and recreation sector. The underemployment rate increased from 3.1% in the first quarter to 3.8% in February-April, before declining to 3.0% in the second quarter.
- * The local stock market was lacklustre in the second quarter after a sharp correction in the preceding quarter. The Hang Seng Index moved within a range of 19 380 to 22 502 and closed at 21 860 at end-June, down by 0.6% from end-March.

Market sentiment remained cautious amid concerns over more aggressive tightening of US monetary policy, poor performance of global stock markets, continued conflict in Ukraine, and the epidemic situation in the Mainland in the earlier part of the quarter. The residential property market showed some revival on entering the second quarter along with the moderation of the local epidemic, but quietened thereafter. Flat prices showed little change. Trading activities surged over the low base in the preceding quarter, but were lower than a year earlier.

- * Looking forward, the markedly deteriorating external environment will weigh heavily on Hong Kong's export performance in the remainder of the year. Elevated inflation in the advanced economies and the aggressive tightening of monetary policy by many major central banks in response will further weaken the global growth momentum, though the expected revival of the Mainland economy should provide some offset. Risk factors including the evolving pandemic and heightened geopolitical tensions warrant close attention. Nonetheless, if cross-boundary logistics disruptions between the Mainland and Hong Kong show more visible easing, Hong Kong's external trade may get some relief. The latest adjustments to the quarantine and testing arrangements for inbound visitors should also help exports of services.
- * Domestically, economic activities should revive further provided that the local epidemic situation remains under control. The Consumption Voucher Scheme will continue to support consumption demand, but tighter financial conditions may have some dampening effect on consumer sentiment and spending. Rising borrowing costs may also make businesses more cautious in undertaking fixed asset investment. It remains vital for the community to work in unison with the Government to keep the epidemic under control.
- * Taking into account the worse-than-expected economic performance in the first half and the sharp deterioration of global economic prospects, the real GDP growth forecast for 2022 is revised down to -0.5% to 0.5%, from 1%-2% as announced in the May round of review. The Government will continue to closely monitor the situation.
- * Underlying consumer price inflation, though edging up further to 1.7% in the second quarter from 1.6% in the preceding quarter, remained moderate in overall terms. Prices of meals out and takeaway food showed an accelerated increase amid the generally moderated local epidemic situation and relaxed social distancing measures. Prices of energy-related items soared, while those of basic food and clothing and footwear continued to see visible increases. Nonetheless, price pressures on other major components stayed broadly in check. Looking ahead, external price pressures are expected to remain notable in view of elevated inflation in some major import sources. Yet, overall inflation should remain moderate in the near term as domestic cost pressures stay 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 May round of review.

Details

GDP

According to the revised figures on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, real GDP decreased at a moderated pace of 1.3% year-on-year in the second quarter of 2022 (revised from the advance estimate of a 1.4% decrease), after contracting by 3.9% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP reverted to an increase of 1.0% in the second quarter (revised from the advance estimate of a 0.9% increase), having declined by 2.9% in the preceding quarter (*Chart*).

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

External trade

3. *Total exports of goods* fell by 8.6% year-on-year in real terms in the second quarter of 2022, widened from a 4.5% decline in the preceding quarter. In addition to the weakened external demand, disruptions to cross-boundary land cargo flows between the Mainland and Hong Kong, despite the gradual improvement from the very severe situation in March, continued to constrain both exports to the Mainland and re-exports of Mainland origin to other parts of the world. Analysed by major market, exports to the Mainland fell visibly further in the second quarter. Exports to the US and the EU showed moderated growth. Exports to most other major markets in Asia continued to increase, but those to Japan fell visibly. On a seasonally adjusted quarter-to-quarter basis, total exports of goods fell by 5.2% in real terms in the second quarter, after a decrease of 6.3% in the preceding quarter.

4. *Exports of services* reverted to a mild year-on-year increase of 2.3% in real terms in the second quarter, from a fall of 2.9% in the preceding quarter. Exports of travel services grew visibly as the number of inbound visitors rebounded alongside the relaxation of some travel restrictions, but remained far below the pre-pandemic level. Exports of financial services improved as cross-border financial activities recovered somewhat. Exports of transport services fell amid weakened trade flows, while exports of business and other services continued to decline alongside the worsening external environment. On a seasonally adjusted quarter-to-quarter basis, exports of services fell by 0.5% in real terms in the second quarter, having increased by 2.5% in the preceding quarter.

Domestic sector

5. Domestic activities showed some improvement in the second quarter of 2022. *Private consumption expenditure* increased marginally by 0.1% in real terms in the second quarter over a year earlier, after falling by 5.8% in the preceding quarter. Local consumption activities revived thanks to the generally improved local epidemic situation and relaxed social distancing measures in tandem. The Government's various support measures also helped support demand. However, the momentum in the latter part of the quarter was constrained by the increase in the number of COVID-19 cases and tightened financial conditions. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure increased by 8.0% in real terms, after falling by 9.1% in the preceding quarter. Meanwhile, *government consumption expenditure* expanded further by 13.0% year-on-year in real terms in the second quarter, after a 6.7% increase in the preceding quarter.

6. Overall investment spending in terms of *gross domestic fixed capital formation* declined by 3.0% year-on-year in real terms in the second quarter, narrowed from the 7.8% decrease in the preceding quarter. Within the total, expenditure on acquisitions of machinery, equipment and intellectual property products saw a much narrowed decline of 2.1% along with improved business sentiment. Expenditure on building and construction rose by an accelerated 5.2% as the increase in public sector spending more than offset the decrease in private sector spending. The costs of ownership transfer continued to plunge as transactions of property dwindled from the hectic level a year earlier.

The labour sector

7. The labour market improved in the second quarter of 2022. After rising from 5.0% in the first quarter to 5.4% in February – April, the *seasonally adjusted unemployment rate* fell successively to 4.7% in the second quarter. The unemployment rates of most major sectors decreased in the second quarter from the high levels in February – April, particularly those of the food and beverage service activities sector, the retail sector, the construction sector, and the arts, entertainment and recreation sector. The unemployment rates of both lower-skilled and higher-skilled workers declined from the earlier high levels, with the former still visibly higher than the latter. The *underemployment rate* increased from 3.1% in the first quarter to 3.8% in February – April, before declining to 3.0% in the second quarter.

The asset markets

8. The *local stock market* was lacklustre in the second quarter of 2022 after a sharp correction in the first quarter. Market sentiment remained cautious amid concerns over more aggressive tightening of US monetary policy, poor performance of global stock markets, continued conflict in Ukraine, and the epidemic situation in

the Mainland in the earlier part of the quarter. The Hang Seng Index (HSI) moved within a range of 19 380 to 22 502 and closed at 21 860 at end-June, down by 0.6% from end-March. On 11 August, the HSI closed at 20 082.

9. The *residential property market* showed some revival on entering the second quarter along with the moderation of the local epidemic, but quietened thereafter. Market sentiment turned more cautious as the US Fed and many major central banks stepped up the tightening of monetary policy and the global economic outlook worsened. 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 48% over the low base in the preceding quarter to 14 925 in the second quarter, but was still 32% lower than the hectic level a year earlier. Flat prices showed little change for the quarter as a whole. The index of home purchase affordability remained elevated at around 71%. Meanwhile, overall flat rentals remained virtually unchanged between March and June. The *non-residential property market* stayed generally lacklustre in the second quarter. Trading activities rebounded from the low levels in the preceding quarter, but remained largely subdued. Prices and rentals of office space softened further, while those of retail shop space and flatted factory space stabilised.

Prices

10. Underlying consumer price inflation, though edging up further, remained moderate in overall terms in the second quarter of 2022. 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)* inflation edged up to 1.7% in the second quarter from 1.6% in the preceding quarter. Prices of meals out and takeaway food showed an accelerated increase amid the generally moderated local epidemic situation and relaxed social distancing measures. Prices of energy-related items soared, while those of basic food and clothing and footwear continued to see visible increases. Nonetheless, price pressures on other major components stayed broadly in check. Private housing rentals continued to decline, albeit at a narrowed rate as the earlier increase in fresh-letting residential rentals gradually fed through.

11. Domestic business cost pressures stayed largely mild, with commercial rentals staying soft and wage growth remaining moderate. External price pressures remained intensive. Inflation in many major economies climbed further alongside continued supply bottlenecks and elevated international commodity and energy prices caused by the persisting tension in Ukraine.

12. The *headline CCPI* rose by 1.5% year-on-year in the second quarter, same as in the preceding quarter. The lower headline inflation rate than the underlying inflation rate in the second quarter was due to the additional electricity charge subsidy provided by the Government.

Latest GDP and price forecasts for 2022

13. Looking forward, the markedly deteriorating external environment will weigh heavily on Hong Kong's export performance in the remainder of the year. Elevated inflation in the advanced economies and the aggressive tightening of monetary policy by many major central banks in response will further weaken the global growth momentum, though the expected revival of the Mainland economy should provide some offset. Risk factors including the evolving pandemic and heightened geopolitical tensions warrant close attention. Nonetheless, if cross-boundary logistics disruptions between the Mainland and Hong Kong show more visible easing, Hong Kong's external trade may get some relief. The latest adjustments to the quarantine and testing arrangements for inbound visitors should also help exports of services.

14. Domestically, economic activities should revive further provided that the local epidemic situation remains under control. The Consumption Voucher Scheme will continue to support consumption demand, but tighter financial conditions may have some dampening effect on consumer sentiment and spending. Rising borrowing costs may also make businesses more cautious in undertaking fixed asset investment. It remains vital for the community to work in unison with the Government to keep the epidemic under control.

15. Taking into account the worse-than-expected economic performance in the first half and the sharp deterioration of global economic prospects, the real GDP growth forecast for 2022 is revised down to -0.5% to 0.5%, from 1%-2% as announced in the May round of review (*Table 2*). The Government will continue to closely monitor the situation. For reference, the latest growth forecasts by private sector analysts range from -1.7% to 1.5%, averaging around 0.2%.

16. On the inflation outlook, external price pressures are expected to remain notable in view of elevated inflation in some major import sources. Yet, overall inflation should remain moderate in the near term as domestic cost pressures stay 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 May round of review (*Table 2*).

(The Half-yearly 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, Second Quarter 2022, which contains the GDP figures up to the second 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

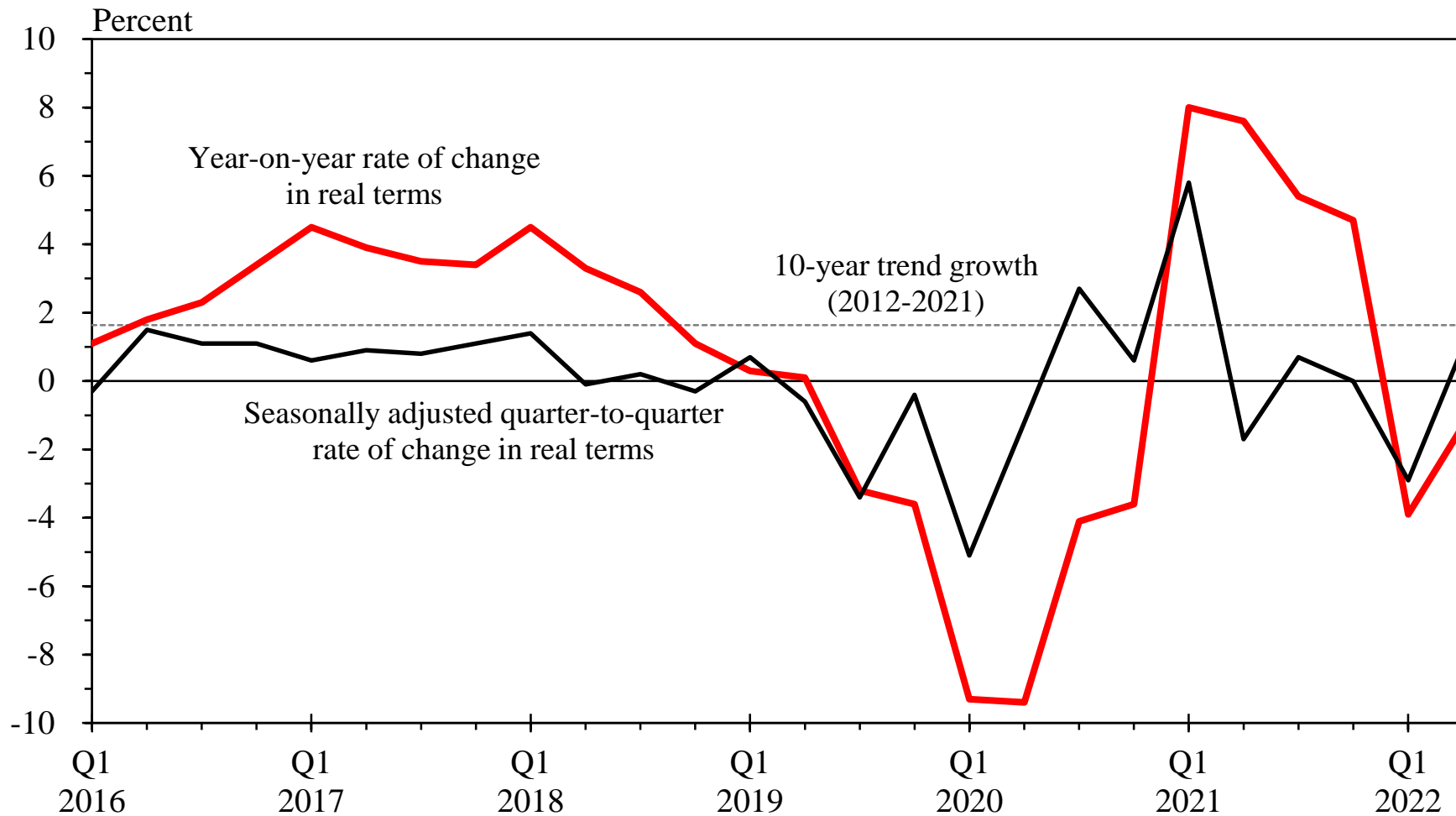


Table 1

**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>	<u>Q2[#]</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)	-5.8 (-9.1)	0.1 (8.0)
Government consumption expenditure	7.9	4.6	6.3 (2.7)	2.8 (-0.9)	5.1 (2.0)	4.1 (0.4)	6.7 (4.9)	13.0 (5.2)
Gross domestic fixed capital formation	-11.5	9.8	5.4	23.8	13.0	-0.6	-7.8	-3.0
Building and construction	-9.8	0.7	-2.3	1.1	2.6	1.5	1.1	5.2
Costs of ownership transfer	-4.0	39.2	82.0	61.7	37.3	-2.2	-34.1	-36.8
Machinery, equipment and intellectual property products	-16.0	16.8	3.2	55.3	22.5	-2.3	-14.5	-2.1
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)	-8.6 (-5.2)
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)	-6.2 (1.6)
Exports of services ^{&}	-34.8	1.5	-8.3 (12.6)	3.9 (-5.4)	5.8 (1.4)	6.9 (-1.3)	-2.9 (2.5)	2.3 (-0.5)
Imports of services ^{&}	-32.2	1.7	-11.1 (2.8)	10.8 (-1.5)	5.9 (1.7)	4.5 (1.3)	-3.8 (-5.5)	-0.5 (2.4)
Gross Domestic Product	-6.5	6.3	8.0 (5.8)	7.6 (-1.7)	5.4 (0.7)	4.7 (*)	-3.9 (-2.9)	-1.3 (1.0)
<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)	1.0 (-0.4)	0.9 (0.3)
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)	1.5 (0.3)
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)	1.7 (0.5)
<i>Change in nominal GDP (%)</i>	-5.9	7.2	7.5	8.4	6.5	6.8	-3.0	-0.4

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 the Government's one-off relief measures.

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

(@) 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 13.5.2022</u> (%)	<u>Latest forecasts on 12.8.2022</u> (%)
Real Gross Domestic Product (GDP)	1 - 2	-0.5 to 0.5
Composite Consumer Price Index (CCPI)		
<i>Underlying CCPI</i>	2	2
<i>Headline CCPI</i>	2.1	2.1