

Press Release

(embargoed until 4:30 p.m. on 11 November 2022)

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

The Government released today (11 November) the Third Quarter Economic Report 2022, together with the revised figures on Gross Domestic Product (GDP) for the third quarter of 2022.

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

Main points

- * The Hong Kong economy showed a widened year-on-year contraction in the third quarter of 2022. The worsened external environment and continued disruptions to cross-boundary land cargo flows dealt a serious blow to Hong Kong's exports. Tightened financial conditions resulting from the sharp interest rate hikes by the major central banks weighed heavily on domestic demand, though the generally stable epidemic situation, improved labour market conditions and the disbursement of consumption vouchers in August rendered support to private consumption. In the third quarter, real GDP fell by 4.5% from a year earlier, further to a 1.3% decline in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP decreased by 2.6%. For the first three quarters as a whole, real GDP fell by 3.3% from a year earlier.
- * Total exports of goods plummeted by 15.6% year-on-year in real terms in the third quarter. Exports to the Mainland saw a widened decline. Exports to the US and the EU turned to visible falls. Growth in exports to most other major markets in Asia decelerated. Meanwhile, exports of services turned to a 3.8% decline in real terms. Exports of financial services fell visibly due to weakened cross-border financial and fund-raising activities. Exports of travel services surged thanks to the relaxation of testing and quarantine arrangements for visitors, but remained far below the pre-pandemic level.
- * Domestically, private consumption expenditure was virtually unchanged in real terms from a year ago in the third quarter, but continued to increase on a seasonally adjusted quarter-to-quarter basis. Yet, overall investment expenditure saw a widened fall of 14.3% in real terms from a year earlier.
- * The labour market continued to improve in the third quarter. The seasonally adjusted unemployment rate fell further from 4.7% in the second quarter to 3.9% in the third quarter. The unemployment rates of most major sectors decreased, particularly those of the decoration, repair and maintenance for buildings sector, the food and beverage service activities sector, and the arts, entertainment and recreation sector. The underemployment rate fell from 3.0% in the second quarter to 1.8% in the third quarter.

- * The local stock market underwent a marked correction in the third quarter in tandem with the downslides in many stock markets across the globe. The Hang Seng Index plunged by 21.2% from end-June to 17 223 at end-September, as market sentiment was hard hit by the sharp tightening of monetary policy by major central banks as well as slackening global growth momentum. Meanwhile, the residential property market softened amid tightened financial conditions as well as weakened global and local economic outlooks. Trading activities quietened visibly. Flat prices declined during the quarter.
- * Looking forward, the markedly deteriorating external environment will continue to pose immense pressure on Hong Kong's export performance. Elevated inflation and continued monetary policy tightening in major advanced economies will dampen global demand further. Heightened geopolitical tensions and the development of the pandemic will also add downside risks. Nonetheless, the relaxed testing and quarantine arrangements for incoming visitors should provide some support to exports of services.
- * Domestically, while improved labour market conditions and the Consumption Voucher Scheme will continue to support consumption demand in the near term, tightened financial conditions and the consequential weak asset prices will partly offset the positive effects. The weakened economic outlook and rising borrowing costs will dampen fixed asset investment. Nonetheless, as long as the epidemic situation remains under control and related restrictive measures are relaxed further, economic activities should gradually return to normal.
- * Taking into account the actual outturn in the first three quarters of the year and the subdued short-term outlook, the real GDP growth forecast for 2022 as a whole is revised down to -3.2%, from -0.5% to 0.5% as announced in the August round of review. The Government will continue to closely monitor the situation.
- * Consumer price inflation remained moderate in overall terms in the third quarter of 2022. The underlying composite consumer price index rose by 1.8% year-on-year in the third quarter, similar to the 1.7% increase in the preceding quarter. Prices of food as well as clothing and footwear continued to register visible increases. Prices of energy-related items surged further. Nonetheless, price pressures on other major components remained contained. Looking ahead, while import prices will continue to rise notably amid high inflation in many major economies, the largely mild domestic cost pressures should help keep overall inflation moderate in the near term. Given the actual outturn of 1.7% in the first three quarters, the forecast rate of underlying consumer price inflation for 2022 as a whole is revised down to 1.8%, from 2% as announced in the August round of review. The corresponding forecast rate of headline inflation is also revised down to 1.9% from 2.1%.

Details

GDP

According to the revised figures on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, real GDP showed a widened year-on-year contraction of 4.5% in the third quarter of 2022 (same as the advance estimate), further to a 1.3% decline in the preceding quarter. On a seasonally adjusted quarter-to-quarter basis, real GDP decreased by 2.6% in the third quarter (same as the advance estimate), having increased by 1.0% in the preceding quarter (*Chart*).

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

External trade

3. *Total exports of goods* plummeted by 15.6% year-on-year in real terms in the third quarter of 2022, widening notably from the 8.4% decline in the preceding quarter. The worsened external environment posed a visible drag on Hong Kong's export performance. In addition, disruptions to cross-boundary land transportation continued to affect exports to the Mainland and re-exports of Mainland origin to other parts of the world. Analysed by major market, exports to the Mainland saw a widened decline in the third quarter. Exports to the US and the EU turned to visible falls. Growth in exports to most other major markets in Asia decelerated. On a seasonally adjusted quarter-to-quarter basis, total exports of goods fell by 7.7% in real terms in the third quarter, after a decrease of 5.1% in the preceding quarter.

4. *Exports of services* turned to a year-on-year decline of 3.8% in real terms in the third quarter, after a 2.2% increase in the preceding quarter. Exports of financial services fell visibly due to weakened cross-border financial and fund-raising activities. Exports of transport services declined amid deteriorated trade performance, while exports of business and other services dropped alongside the worsened external environment. On the other hand, exports of travel services surged thanks to the relaxation of testing and quarantine arrangements for visitors, but remained far below the pre-pandemic level. On a seasonally adjusted quarter-to-quarter basis, exports of services fell by 4.7% in real terms in the third quarter, after a decrease of 0.5% in the preceding quarter.

Domestic sector

5. In the third quarter of 2022, local consumption was supported by the generally stable epidemic situation, improved labour market conditions and the disbursement of consumption vouchers in August, though the positive effects were partly offset by tightened financial conditions and the consequential weak asset market performance. *Private consumption expenditure* was virtually unchanged in real terms from a year earlier in the third quarter, the same as in the preceding quarter. On a seasonally adjusted quarter-to-quarter basis, private consumption expenditure increased by 1.1% in real terms in the third quarter, following an increase of 8.0% in the preceding quarter. Meanwhile, *government consumption expenditure* expanded by a moderated 5.1% year-on-year in real terms in the third quarter, after a 13.0% increase in the preceding quarter.

6. Overall investment spending in terms of *gross domestic fixed capital formation* saw a widened fall of 14.3% in real terms in the third quarter from a year earlier, compared to a 2.1% decrease in the preceding quarter. Within the total, expenditure on acquisitions of machinery, equipment and intellectual property products fell sharply by 26.9% as business sentiment generally eased amid higher borrowing costs and the deteriorated economic outlook. Expenditure on building and construction rose by 2.5% 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 fell sharply from the hectic level a year earlier.

The labour sector

7. The labour market continued to improve in the third quarter of 2022. The *seasonally adjusted unemployment rate* fell further from 4.7% in the second quarter to 3.9% in the third quarter. The unemployment rates of most major sectors decreased, particularly those of the decoration, repair and maintenance for buildings sector, the food and beverage service activities sector, and the arts, entertainment and recreation sector. The unemployment rates of both lower-skilled and higher-skilled workers declined, with the former still visibly higher than the latter. The *underemployment rate* fell from 3.0% in the second quarter to 1.8% in the third quarter.

The asset markets

8. The *local stock market* underwent a marked correction in the third quarter of 2022 in tandem with the downslides in many stock markets across the globe. Market sentiment was hard hit by the sharp tightening of monetary policy by major central banks as well as slackening global growth momentum. The Hang Seng Index (HSI) plunged by 21.2% from end-June to 17 223 at end-September. On

10 November, the HSI closed at 16 081.

9. The *residential property market* softened in the third quarter amid tightened financial conditions as well as weakened global and local economic outlooks. 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 22% from the preceding quarter to a low level of 11 683 in the third quarter, 38% lower than a year earlier. Flat prices declined during the quarter as sentiment turned increasingly cautious. The index of home purchase affordability rose to around 73% due to rising mortgage rates. Meanwhile, flat rentals on average edged up by 1% between June and September. The *non-residential property market* turned quieter in the third quarter amid subdued economic conditions. Trading activities for all major market segments retreated from the preceding quarter. Prices fell, while rentals largely held steady.

Prices

10. Consumer price inflation remained moderate in overall terms in the third 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)* rose by 1.8% year-on-year in the third quarter, similar to the 1.7% increase in the preceding quarter. Prices of food as well as clothing and footwear continued to register visible increases. Prices of energy-related items surged further. Nonetheless, price pressures on other major components remained contained. Private housing rentals fell further, albeit at a narrowed rate as the earlier increase in fresh-letting residential rentals continued to feed through.

11. Domestic business cost pressures remained largely mild, as wage growth continued to be moderate and commercial rentals stayed soft in the third quarter. External price pressures were still intensive. As inflation in many major economies stayed high amid elevated global energy and food prices, prices of overall merchandise imports rose markedly further.

12. The *headline CCPI* rose by 2.7% year-on-year in the third quarter, up from 1.5% in the preceding quarter. The much higher headline inflation rate than its underlying counterpart in the third quarter mainly reflected the low base of comparison for the former due to the rent waiver for tenants provided by the Hong Kong Housing Authority in September last year.

Latest GDP and price forecasts for 2022

13. Looking forward, the markedly deteriorating external environment will continue to pose immense pressure on Hong Kong's export performance. Elevated inflation and continued monetary policy tightening in major advanced economies will dampen global demand further. Heightened geopolitical tensions and the

development of the pandemic will also add downside risks. Nonetheless, the relaxed testing and quarantine arrangements for incoming visitors should provide some support to exports of services.

14. Domestically, while improved labour market conditions and the Consumption Voucher Scheme will continue to support consumption demand in the near term, tightened financial conditions and the consequential weak asset prices will partly offset the positive effects. The weakened economic outlook and rising borrowing costs will dampen fixed asset investment. Nonetheless, as long as the epidemic situation remains under control and related restrictive measures are relaxed further, economic activities should gradually return to normal.

15. Taking into account the actual outturn in the first three quarters of the year and the subdued short-term outlook, the real GDP growth forecast for 2022 as a whole is revised down to -3.2%, from -0.5% to 0.5% as announced in the August 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 -1.1% to -3.7%, averaging around -2.8%.

16. On the inflation outlook, while import prices will continue to rise notably amid high inflation in many major economies, the largely mild domestic cost pressures should help keep overall inflation moderate in the near term. Given the actual outturn of 1.7% in the first three quarters, the forecast rate of underlying consumer price inflation for 2022 as a whole is revised down to 1.8%, from 2% as announced in the August round of review. The corresponding forecast rate of headline inflation is also revised down to 1.9% from 2.1% (*Table 2*).

(The Third 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, Third Quarter 2022, which contains the GDP figures up to the third 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

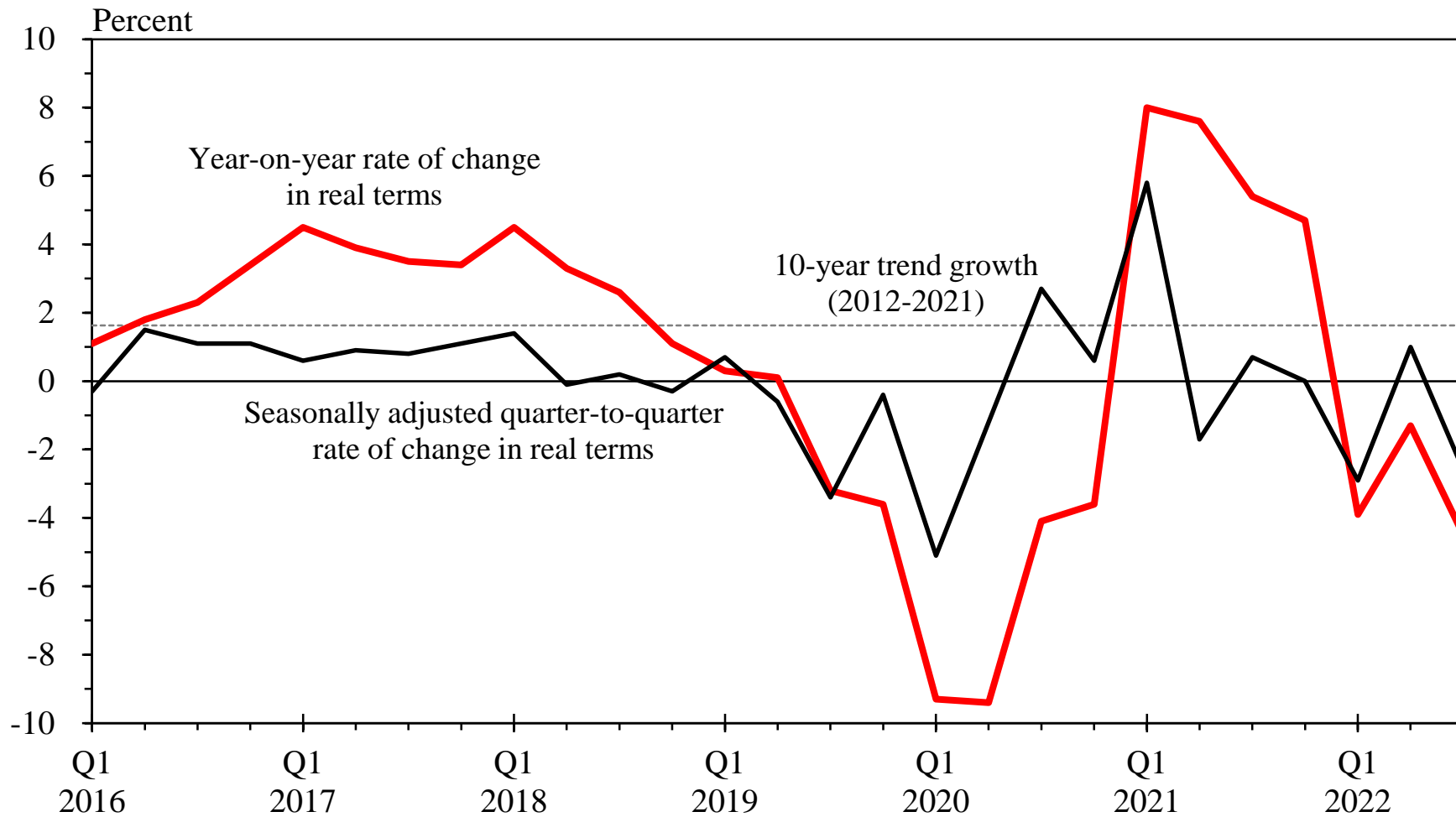


Table 1

**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>	<u>Q3[#]</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)	* (8.0)	* (1.1)
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)	5.1 (-5.2)
Gross domestic fixed capital formation	-11.5	9.8	5.4	23.8	13.0	-0.6	-7.8	-2.1	-14.3
Building and construction	-9.8	0.7	-2.3	1.1	2.6	1.5	1.1	7.0	2.5
Costs of ownership transfer	-4.0	39.2	82.0	61.7	37.3	-2.2	-34.1	-36.8	-42.6
Machinery, equipment and intellectual property products	-16.0	16.8	3.2	55.3	22.5	-2.3	-14.5	-2.2	-26.9
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)	-8.4 (-5.1)	-15.6 (-7.7)
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)	-5.9 (1.9)	-16.1 (-9.9)
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)	2.2 (-0.5)	-3.8 (-4.7)
Imports of services ^{&}	-32.2	1.7	-11.1 (2.8)	10.8 (-1.5)	5.9 (1.7)	4.5 (1.3)	-3.8 (-5.5)	-2.4 (0.5)	-3.6 (0.2)
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)	-4.5 (-2.6)
<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)	0.5 (-0.1)	4.5 (4.4)
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)	2.7 (0.4)
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)	1.8 (0.3)
Change in nominal GDP (%)	-5.9	7.2	7.5	8.4	6.5	6.8	-3.0	-0.8	-0.2

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 12.8.2022</u> (%)	<u>Latest forecasts on 11.11.2022</u> (%)
Real Gross Domestic Product (GDP)	-0.5 to 0.5	-3.2
Composite Consumer Price Index (CCPI)		
<i>Underlying CCPI</i>	2	1.8
<i>Headline CCPI</i>	2.1	1.9