

Press Release

(embargoed until 4:30 p.m. on 12 May 2023)

Economic Situation in the First Quarter of 2023 and Latest GDP and Price Forecasts for 2023

The Government released today (12 May) the First Quarter Economic Report 2023, together with the revised figures on Gross Domestic Product (GDP) for the first quarter of 2023.

The Government Economist, Mr Adolph Leung, gave an account of the economic situation in the first quarter of 2023 and the latest GDP and price forecasts for 2023.

Main points

- * The Hong Kong economy improved visibly in the first quarter of 2023, led by the strong recovery of inbound tourism and domestic demand. Real GDP resumed year-on-year growth of 2.7%, having contracted by 4.1% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP surged by 5.3%.
- * Total exports of goods plummeted further by 18.7% year-on-year in real terms in the first quarter amid the challenging external environment, though the lifting of restrictions on cross-boundary truck movements between Hong Kong and the Mainland provided some relief. Exports to the Mainland, the US and the EU continued to fall notably. On the other hand, exports of services expanded visibly by 16.5%. Exports of travel services leapt more than six-fold thanks to the resumption of normal travel with the Mainland and the rest of the world. Exports of transport services reverted to a moderate increase, and exports of business and other services turned to mild growth. Exports of financial services, however, declined.
- * Domestically, private consumption expenditure surged by 13.0% year-on-year in real terms in the first quarter, as consumption sentiment improved sharply along with the removal of anti-epidemic measures in both Hong Kong and the Mainland. Overall investment expenditure reverted to 5.8% growth amid an improved economic outlook.
- * The unemployment and underemployment situation continued to improve in the first quarter alongside the economic recovery. The seasonally adjusted unemployment rate declined further from 3.5% in the preceding quarter to 3.1% in the first quarter, and the underemployment rate went down from 1.5% to 1.2%. The unemployment rates of most major sectors fell in the first quarter compared with the preceding quarter. The unemployment rates of both lower-skilled and higher-skilled workers declined.

- * The local stock market exhibited considerable volatility in the first quarter. The Hang Seng Index (HSI) was first supported by expectations of a slower pace of US monetary policy tightening and the return of economic activities to normalcy, then dampened by concerns over the global economic outlook and the banking sector stress in the US and Europe. The HSI closed the quarter at 20 400, 3.1% higher than end-2022. The residential property market revived, as market sentiment improved along with the local economic recovery. Both trading activities and flat prices rebounded.
- * Looking forward, inbound tourism and domestic demand will remain the major drivers of economic growth this year. Visitor arrivals should recover further as transportation and handling capacity continue to catch up. The improving economic situation and prospects should boost domestic demand, though tight financial conditions will remain a constraint. The continued improvement of the labour market, the disbursement of consumption vouchers, and a series of “Happy Hong Kong” events will provide additional support to private consumption.
- * On the other hand, exports of goods will continue to face significant challenges. Slower growth in the advanced economies will continue to weigh on external demand, though the faster recovery of the Mainland economy should provide some relief. The recent banking sector stress in the US and Europe also added uncertainties to the global economic outlook.
- * Taking into account the actual outturn in the first quarter and the factors mentioned above, the real GDP growth forecast for 2023 as a whole is maintained at 3.5%-5.5%, the same as announced in the Budget. If the current momentum of economic recovery is sustained, growth will likely be near the higher end of the forecast range. The Government will continue to closely monitor the situation.
- * Consumer price inflation edged up while remaining moderate in overall terms in the first quarter. The underlying Composite Consumer Price Index rose by 1.9% year-on-year in the first quarter, slightly faster than the 1.8% increase in the preceding quarter. Prices of energy-related items soared further. Prices of meals out and takeaway food, and clothing and footwear continued to increase notably. Nevertheless, price pressures on other major components were broadly in check.
- * Looking ahead, while external price pressures should see some moderation, they are expected to remain notable for some time. Domestic cost pressures may increase alongside the economic recovery. Overall inflation will likely pick up in the rest of 2023, though remaining largely moderate. The forecast rates of underlying and headline consumer price inflation for 2023 are maintained at 2.5% and 2.9% respectively, the same as those announced in the Budget.

Details

GDP

According to the revised figures released today by the Census and Statistics Department, real *Gross Domestic Product (GDP)* grew by 2.7% year-on-year in the first quarter of 2023 (same as the advance estimate), having contracted by 4.1% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP surged by 5.3% in the first quarter (same as the advance estimate), 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 2023 are presented in *Table 1*. Developments in different segments of the economy in the first quarter of 2023 are described below.

External trade

3. *Total exports of goods* plummeted by 18.7% year-on-year in real terms in the first quarter of 2023, despite narrowing from a decline of 24.9% in the preceding quarter. The challenging external environment posed a significant drag on export performance, though the lifting of restrictions on cross-boundary truck movements between Hong Kong and the Mainland provided some relief. Analysed by major market and by reference to external merchandise trade statistics, exports to the Mainland plunged further in the first quarter. Exports to the US and the EU continued to record notable decreases. Exports to most other major Asian markets also fell sharply. On a seasonally adjusted quarter-to-quarter basis, total exports of goods increased by 1.0% in the first quarter, after a decrease of 7.8% in the preceding quarter.

4. *Exports of services* expanded visibly by 16.5% year-on-year in real terms in the first quarter, after 0.6% growth in the preceding quarter. Exports of travel services leapt more than six-fold and recovered to almost 40% of the pre-pandemic level, thanks to the resumption of normal travel with the Mainland and the rest of the world. Exports of transport services reverted to a moderate increase as visitor arrivals rebounded. Exports of businesses and other services also turned to mild growth. Meanwhile, exports of financial services declined alongside weakened cross-border financial and fund raising activities. On a seasonally adjusted quarter-to-quarter basis, exports of services surged by 16.7% in the first quarter, after a 2.7% increase in the preceding quarter.

Domestic sector

5. Consumption activities expanded notably in the first quarter of 2023, as consumption sentiment improved sharply along with the removal of anti-epidemic measures in both Hong Kong and the Mainland. The improved labour market also provided support. After increasing by 1.7% year-on-year in real terms in the preceding quarter, *private consumption expenditure* surged by 13.0% in the first quarter, though a low base of comparison also contributed. On a seasonally adjusted quarter-to-quarter basis, private consumption expenditure increased by 1.4% in the first quarter, following an increase of 2.0% in the preceding quarter. Meanwhile, *government consumption expenditure* rose by 0.9% year-on-year in the first quarter, further to a 9.1% increase in the preceding quarter.

6. Overall investment spending in terms of *gross domestic fixed capital formation* increased by 5.8% in real terms in the first quarter over a year earlier, after a 8.9% decrease in the preceding quarter. Despite tight financial conditions, expenditure on acquisitions of machinery, equipment and intellectual property products rebounded sharply by 24.0% amid an improved economic outlook. Expenditure on building and construction fell by 4.0%, with the decline in public sector spending more than offsetting the increase in private sector spending. Separately, the costs of ownership transfer rose as property transactions increased.

The labour sector

7. The unemployment and underemployment situation continued to improve in the first quarter of 2023 alongside the economic recovery. The *seasonally adjusted unemployment rate* declined further from 3.5% in the preceding quarter to 3.1% in the first quarter, and the *underemployment rate* went down from 1.5% to 1.2%. The unemployment rates of most major sectors fell in the first quarter compared with the preceding quarter. The unemployment rates of both lower-skilled and higher-skilled workers declined.

The asset markets

8. The *local stock market* exhibited considerable volatility in the first quarter of 2023. Supported by expectations of a slower pace of US monetary policy tightening and the return of economic activities to normalcy, the Hang Seng Index (HSI) extended its rally on entering the year. This was followed by a sharp correction driven by concerns over the global economic outlook and the banking sector stress in the US and Europe. The HSI then recouped some of the loss and closed the quarter at 20 400, 3.1% higher than end-2022. On 11 May, the HSI closed at 19 744.

9. The *residential property market* revived in the first quarter after

undergoing a marked correction last year. Market sentiment improved as the local economy recovered. The number of transactions, in terms of the total number of sale and purchase agreements for residential property received by the Land Registry, jumped by 67% over the extremely low level in the preceding quarter or 39% over a year earlier to 14 023. Flat prices on average rose back by 5% during the first quarter. The index of home purchase affordability rose to 73% alongside the rebound in flat prices, significantly above the long-term average of 51% over 2003-2022. Meanwhile, overall flat rentals were virtually unchanged during the quarter. The *non-residential property market* stabilised somewhat. Trading activities of all major segments rebounded, particularly towards the end of the quarter, though were still at relatively low levels. Prices and rentals showed mixed performance.

Prices

10. Consumer price inflation edged up while remaining moderate in overall terms in the first quarter of 2023. Netting out the effects of the Government's one-off relief measures, *underlying Composite CPI inflation* edged up from 1.8% in the preceding quarter to 1.9% in the first quarter. Prices of energy-related items soared further. Prices of meals out and takeaway food, and clothing and footwear continued to increase notably. Nevertheless, price pressures on other major components were broadly in check. Private housing rentals continued to decline. Domestic business cost pressures stayed largely mild, as wage growth remained moderate while commercial rentals continued to be soft. External price pressures remained notable. As inflation in many major economies stayed high despite some deceleration, prices of overall merchandise imports continued to increase noticeably year-on-year. The *headline Composite CPI inflation* also inched up from 1.8% to 1.9%.

Latest GDP and price forecasts for 2023

11. Looking forward, inbound tourism and domestic demand will remain the major drivers of economic growth this year. Visitor arrivals should recover further as transportation and handling capacity continue to catch up. The improving economic situation and prospects should boost domestic demand, though tight financial conditions will remain a constraint. The continued improvement of the labour market, the disbursement of consumption vouchers, and a series of "Happy Hong Kong" events will provide additional support to private consumption.

12. On the other hand, exports of goods will continue to face significant challenges. Slower growth in the advanced economies will continue to weigh on external demand, though the faster recovery of the Mainland economy should provide some relief. The recent banking sector stress in the US and Europe also added uncertainties to the global economic outlook.

13. Taking into account the actual outturn in the first quarter and the factors mentioned above, the real GDP growth forecast for 2023 as a whole is maintained at 3.5%-5.5%, the same as announced in the Budget (*Table 2*). If the current momentum of economic recovery is sustained, growth will likely be near the higher end of the forecast range. The Government will continue to closely monitor the situation. For reference, the latest growth forecasts by private sector analysts range from 3.5% to 6.5%, averaging around 4.4%.

14. On the inflation outlook, while external price pressures should see some moderation, they are expected to remain notable for some time. Domestic cost pressures may increase alongside the economic recovery. Overall inflation will likely pick up in the rest of 2023, though remaining largely moderate. The forecast rates of underlying and headline consumer price inflation for 2023 are maintained at 2.5% and 2.9% respectively, the same as those announced in the Budget (*Table 2*).

(The First Quarter Economic Report 2023 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 by Expenditure Component, which contains the GDP figures up to the first quarter of 2023, is also available for browse and download, free of charge at the homepage of the Census and Statistics Department, www.censtatd.gov.hk.)

Hong Kong's Gross Domestic Product

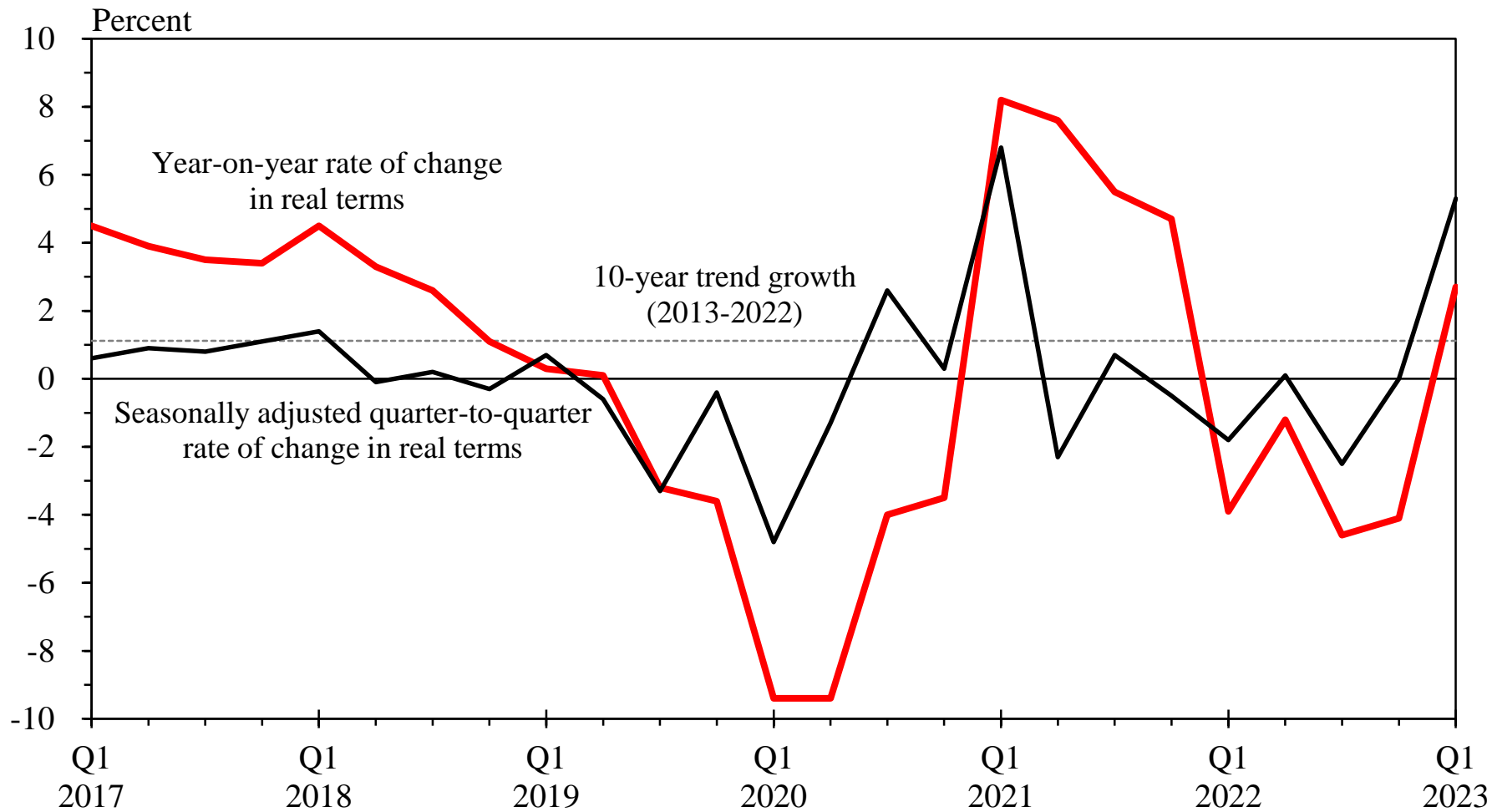


Table 1

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

	<u>2021</u> [#]	<u>2022</u> [#]	<u>2022</u>				<u>2023</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	5.6	-1.2	-6.2 (-8.8)	-0.2 (8.5)	-0.4 (0.6)	1.7 (2.0)	13.0 (1.4)
Government consumption expenditure	5.9	8.2	6.0 (4.7)	12.6 (5.4)	5.4 (-3.9)	9.1 (2.8)	0.9 (-3.3)
Gross domestic fixed capital formation	8.3	-7.7	-6.3	-1.2	-14.2	-8.9	5.8
Building and construction	-0.5	5.1	1.9	9.1	2.5	7.2	-4.0
Costs of ownership transfer	36.3	-41.0	-34.8	-39.5	-40.9	-50.0	24.7
Machinery, equipment and intellectual property products	15.2	-16.8	-14.8	-1.5	-28.8	-21.2	24.0
Total exports of goods ^{&}	18.7	-13.9	-4.4 (-6.9)	-8.5 (-5.4)	-15.9 (-7.7)	-24.9 (-7.8)	-18.7 (1.0)
Imports of goods ^{&}	17.2	-13.2	-5.9 (-7.4)	-6.0 (-0.1)	-16.5 (-9.7)	-22.9 (-7.8)	-14.4 (2.9)
Exports of services ^{&}	3.4	-1.4	-4.3 (0.9)	2.7 (*)	-4.0 (-2.9)	0.6 (2.7)	16.5 (16.7)
Imports of services ^{&}	2.5	-1.7	-3.5 (-3.0)	-1.5 (0.8)	-3.2 (-0.5)	1.2 (3.7)	20.4 (15.8)
Gross Domestic Product	6.4	-3.5	-3.9 (-1.8)	-1.2 (0.1)	-4.6 (-2.5)	-4.1 (*)	2.7 (5.3)
<i>Change in the main price indicators (%)</i>							
GDP deflator	0.7	1.8	1.1 (0.2)	1.0 (0.3)	3.5 (2.7)	1.7 (-1.6)	1.8 (0.5)
Composite CPI							
Headline	1.6	1.9	1.5 (0.6)	1.5 (0.2)	2.7 (0.5)	1.8 (0.6)	1.9 (0.7)
Underlying[^]	0.6	1.7	1.6 (0.5)	1.7 (0.5)	1.8 (0.4)	1.8 (0.4)	1.9 (0.7)
<i>Change in nominal GDP (%)</i>	7.2	-1.7	-2.9	-0.2	-1.3	-2.5	4.6

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 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 $\pm 0.05\%$.

Table 2**Economic forecasts for 2023
(rate of change (%))**

	<u>Forecasts as released on 22.2.2023</u> (%)	<u>Latest forecasts on 12.5.2023</u> (%)
Real Gross Domestic Product (GDP)	3.5 to 5.5	3.5 to 5.5
Composite Consumer Price Index (CCPI)		
<i>Underlying CCPI</i>	2.5	2.5
<i>Headline CCPI</i>	2.9	2.9