

Press Release

(embargoed until 4:30 p.m. on 11 August 2023)

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

The Government released today (11 August) the Half-yearly Economic Report 2023, together with the revised figures on Gross Domestic Product (GDP) for the second quarter of 2023.

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

Main points

- * Led by inbound tourism and private consumption, the Hong Kong economy continued to recover in the second quarter of 2023, though the momentum softened on the back of the strong rebound in the preceding quarter. Real GDP grew by 1.5% year-on-year, having increased by 2.9% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP fell by 1.3%.
- * Total exports of goods plunged further by 15.2% year-on-year in real terms in the second quarter amid weak external demand for goods. Exports to the Mainland, the US and the EU fell sharply. However, exports of services continued to grow markedly by 22.9%. Exports of travel services jumped over eight-fold as visitor arrivals surged further. Exports of transport services rose further alongside the continued recovery of inbound tourism, and exports of business and other services showed modest growth. Meanwhile, exports of financial services declined further.
- * Domestically, private consumption expenditure rose notably further by 8.2% year-on-year in real terms in the second quarter alongside the continued economic recovery. Overall investment expenditure reverted to a mild decline of 0.9% amid tightened financial conditions.
- * The labour market continued to improve in the second quarter. The seasonally adjusted unemployment rate declined further from 3.1% in the first quarter to 2.9% in the second quarter, and the underemployment rate edged down from 1.2% to 1.1%. The unemployment rates of many major sectors declined.
- * The local stock market was under pressure in the second quarter amid concerns over the recovery momentum of the Mainland economy and expectations of further rate hikes by the US Federal Reserve (Fed). The Hang Seng Index (HSI) closed the quarter at 18 916, down by 7.3% from end-March. The residential property market showed some consolidation after the rebound in the first quarter. Market sentiment turned cautious.

- * Looking ahead, inbound tourism and private consumption will remain the major drivers of economic growth for the rest of the year. As transportation and handling capacity continue to recover, visitor arrivals should increase further. The improving economic situation and prospects should bode well for domestic demand, though tight financial conditions may impose constraints. Improved labour market conditions and the Government's various measures that boost the momentum of the recovery will provide additional support to private consumption. Yet, the difficult global economic environment will continue to weigh on Hong Kong's exports of goods.
- * Taking into account the actual outturn in the first half of 2023 and the factors mentioned above, the real GDP growth forecast for 2023 as a whole is revised to 4.0%-5.0%, from 3.5%-5.5% in the May round of review. The Government will continue to closely monitor the situation.
- * Consumer price inflation stayed moderate in overall terms in the second quarter. The underlying Composite Consumer Price Index rose by 1.7% year-on-year in the second quarter, compared with the 1.9% increase in the preceding quarter. Prices of energy-related items as a whole continued to soar over a year earlier, but at a moderated pace. Prices of meals out and takeaway food, and clothing and footwear rose further visibly, but the former showed a decelerated increase. Meanwhile, price pressures on other major components were broadly in check. Private housing rentals continued to decline.
- * Looking ahead, overall inflation should stay moderate in the near term. External price pressures should recede further. While domestic business cost might face some upward pressures alongside the economic recovery, it should remain largely moderate in the near term. Taking into account the inflation situation in the first half of 2023 and factors mentioned above, the forecast rates of underlying and headline consumer price inflation for 2023 are revised down to 2.0% and 2.4% respectively, from 2.5% and 2.9% in the May round of review.

Details

GDP

According to the revised figures released today by the Census and Statistics Department, real *Gross Domestic Product (GDP)* grew by 1.5% year-on-year in the second quarter of 2023 (same as the advance estimate), having increased by 2.9% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP decreased by 1.3% in the second quarter (same as the advance estimate) after a 5.4% increase in the preceding quarter (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the second quarter of 2023 are presented in *Table 1*. Developments in different segments of the economy in the second quarter are described below.

External trade

3. *Total exports of goods* plunged by 15.2% in real terms in the second quarter of 2023 from a year earlier, after falling by 18.9% in the preceding quarter. The weak external demand for goods continued to put intense pressure on export performance. Analysed by major market and by reference to external merchandise trade statistics, exports to the Mainland fell sharply in the second quarter. Exports to the US and the EU plunged further. Exports to other major Asian markets continued to record notable declines. On a seasonally adjusted quarter-to-quarter basis, total exports of goods decreased by 0.6% in the second quarter, after an increase of 0.7% in the preceding quarter.

4. *Exports of services* grew markedly by 22.9% year-on-year in real terms in the second quarter, further to 16.6% growth in the preceding quarter. Exports of travel services jumped over eight-fold, recovering to 48% of the pre-pandemic level, as visitor arrivals surged further. Exports of transport services rose further in tandem. Exports of business and other services showed modest growth alongside the difficult external environment. Meanwhile, exports of financial services declined further as cross-border financial and fund raising activities softened amid tightened financial conditions. On a seasonally adjusted quarter-to-quarter basis, exports of services increased by 5.4% in the second quarter, after a 16.8% surge in the preceding quarter.

Domestic sector

5. Consumption activities increased notably further in the second quarter of 2023 alongside the continued economic recovery. Improved labour market conditions and the Government's various initiatives, such as the disbursement of consumption vouchers and the launch of the "Happy Hong Kong" campaign, also provided support. *Private consumption expenditure* rose by 8.2% year-on-year in real terms in the second quarter, further to the 13.0% surge in the preceding quarter. On a seasonally adjusted quarter-to-quarter basis, private consumption expenditure increased by 3.9%, following an increase of 1.4% in the preceding quarter. Meanwhile, *government consumption expenditure* turned to a fall of 9.6% year-on-year in the second quarter, after a 1.3% increase in the preceding quarter.

6. Overall investment spending in terms of *gross domestic fixed capital formation* saw a mild decline of 0.9% in real terms in the second quarter from a year earlier, after a 7.9% increase in the preceding quarter, as business sentiment generally eased amid tightened financial conditions and the uncertain global growth outlook. Expenditure on acquisitions of machinery, equipment and intellectual property products fell by 10.5%. Meanwhile, expenditure on building and construction increased by 5.6%, with increases seen in both public and private sector spending. Separately, the costs of ownership transfer fell as property transactions shrank.

The labour sector

7. The labour market continued to improve in the second quarter of 2023 along with the local economic recovery. The seasonally adjusted *unemployment rate* declined further from 3.1% in the first quarter to 2.9% in the second quarter, and the *underemployment rate* edged down from 1.2% to 1.1%. The unemployment rates of many major sectors declined, and those of the remaining sectors stayed low in general.

The asset markets

8. The *local stock market* was under pressure in the second quarter of 2023. Dampened by concerns over the recovery momentum of the Mainland economy and expectations of further rate hikes by the US Fed, the HSI fell visibly in the latter part of May and hit a low of 18 217 on 1 June. It then recouped some of the loss and closed the quarter at 18 916, down by 7.3% from end-March. On 10 August, the HSI closed at 19 248.

9. The *residential property market* showed some consolidation in the second quarter, after the rebound in the first quarter. Market sentiment turned cautious amid an uncertain global economic outlook, rising local interest rates and expectations of further rate hikes by the US Fed. The number of transactions, in terms of the total number of sale and purchase agreements for residential property received by the Land

Registry, declined by 13% from the preceding quarter or 18% from a year earlier to 12 199. Overall flat prices recorded a 1% decline during the second quarter. The index of home purchase affordability rose further to 75% in the second quarter along with the increase in mortgage rates, significantly above the long-term average of 51% over 2003-2022. Meanwhile, overall flat rentals increased by 3% during the second quarter. The *non-residential property market* largely held steady. While trading activities remained subdued, prices and rentals of different segments showed mixed performance.

Prices

10. Consumer price inflation stayed moderate in overall terms in the second quarter of 2023. Netting out the effects of the Government's one-off relief measures, *underlying Composite CPI inflation* stayed moderate at 1.7% in the second quarter, compared with 1.9% in the preceding quarter. Prices of energy-related items as a whole continued to soar over a year earlier, but at a moderated pace. Prices of meals out and takeaway food, and clothing and footwear rose further visibly, but the former showed a decelerated increase. 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. As inflation in many major economies stayed high, external price pressures remained generally notable. The *headline Composite CPI inflation rate* was 2.0%, compared with 1.9% in the preceding quarter.

Latest GDP and price forecasts for 2023

11. Looking ahead, inbound tourism and private consumption will remain the major drivers of economic growth for the rest of the year. As transportation and handling capacity continue to recover, visitor arrivals should increase further. The improving economic situation and prospects should bode well for domestic demand, though tight financial conditions may impose constraints. Improved labour market conditions and the Government's various measures that boost the momentum of the recovery will provide additional support to private consumption. Yet, the difficult global economic environment will continue to weigh on Hong Kong's exports of goods.

12. Taking into account the actual outturn in the first half of 2023 and the factors mentioned above, the real GDP growth forecast for 2023 as a whole is revised to 4.0%-5.0%, from 3.5%-5.5% 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 3.3% to 5.5%, averaging around 4.2%.

13. On the inflation outlook, overall inflation should stay moderate in the near term. External price pressures should recede further. While domestic business cost might face some upward pressures alongside the economic recovery, it should remain largely moderate in the near term. Taking into account the inflation situation in the first half of 2023 and factors mentioned above, the forecast rates of underlying and headline consumer price inflation for 2023 are revised down to 2.0% and 2.4% respectively, from 2.5% and 2.9% in the May round of review (*Table 2*).

(The Half-yearly 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 second 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

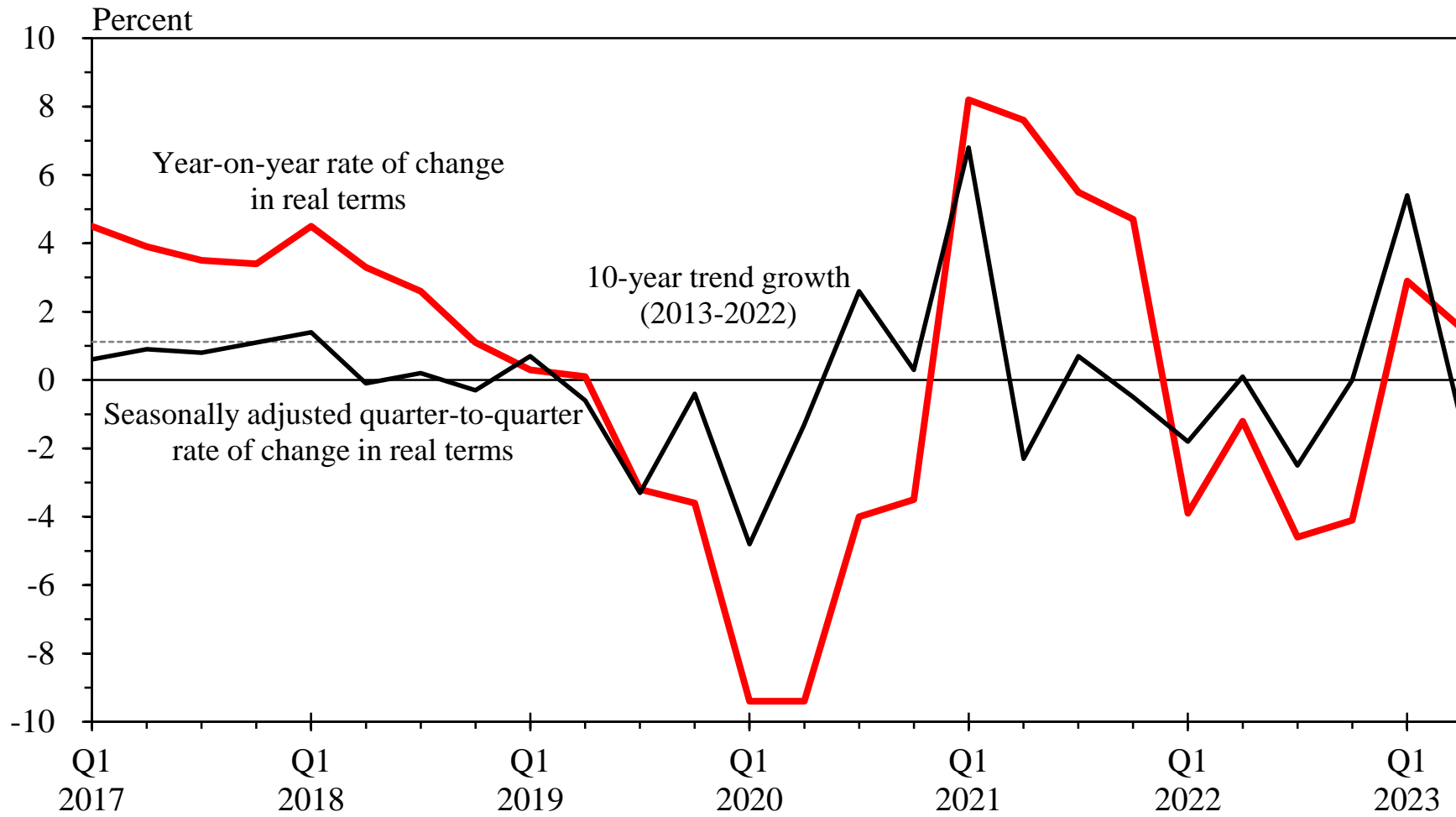


Table 1

**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>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> [#]	<u>Q2</u> [#]
			<u>2022</u>				<u>2023</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)	8.2 (3.9)
Government consumption expenditure	5.9	8.2	6.0 (4.7)	12.6 (5.4)	5.4 (-3.9)	9.1 (2.8)	1.3 (-2.9)	-9.6 (-5.8)
Gross domestic fixed capital formation	8.3	-7.7	-6.3	-1.2	-14.2	-8.9	7.9	-0.9
Building and construction	-0.5	5.1	1.9	9.1	2.5	7.2	-0.8	5.6
Costs of ownership transfer	36.3	-41.0	-34.8	-39.5	-40.9	-50.0	24.3	-3.4
Machinery, equipment and intellectual property products	15.2	-16.8	-14.8	-1.5	-28.8	-21.2	24.1	-10.5
Total exports of goods ^{&}	18.7	-13.9	-4.4 (-6.9)	-8.5 (-5.4)	-15.9 (-7.7)	-24.9 (-7.8)	-18.9 (0.7)	-15.2 (-0.6)
Imports of goods ^{&}	17.2	-13.2	-5.9 (-7.4)	-6.0 (-0.1)	-16.5 (-9.7)	-22.9 (-7.8)	-14.6 (2.6)	-15.9 (-1.5)
Exports of services ^{&}	3.4	-1.4	-4.3 (0.9)	2.7 (*)	-4.0 (-2.9)	0.6 (2.7)	16.6 (16.8)	22.9 (5.4)
Imports of services ^{&}	2.5	-1.7	-3.5 (-3.0)	-1.5 (0.8)	-3.2 (-0.5)	1.2 (3.7)	20.7 (16.0)	29.0 (7.9)
Gross Domestic Product	6.4	-3.5	-3.9 (-1.8)	-1.2 (0.1)	-4.6 (-2.5)	-4.1 (*)	2.9 (5.4)	1.5 (-1.3)
<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)	2.1 (0.8)	2.9 (1.0)
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)	2.0 (0.3)
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)	1.7 (0.3)
<i>Change in nominal GDP (%)</i>	7.2	-1.7	-2.9	-0.2	-1.3	-2.5	5.1	4.4

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 $\pm 0.05\%$.

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

	<u>Forecasts as released on 12.5.2023</u> (%)	<u>Latest forecasts on 11.8.2023</u> (%)
Real Gross Domestic Product (GDP)	3.5 to 5.5	4.0 to 5.0
Composite Consumer Price Index (CCPI)		
<i>Underlying CCPI</i>	2.5	2.0
<i>Headline CCPI</i>	2.9	2.4