

Press Release

(embargoed until 4:30 p.m. on 15 November 2019)

Economic Situation in the Third Quarter of 2019 and Latest GDP and Price Forecasts for 2019

The Government released today (15 November) the Third Quarter Economic Report 2019, together with the revised figures on Gross Domestic Product (GDP) for the third quarter of 2019.

The Government Economist, Mr Andrew Au, described the economic situation in the third quarter of 2019 and provided the latest GDP and price forecasts for 2019 as a whole.

Main points

- * The Hong Kong economy saw an abrupt deterioration in the third quarter of 2019, as the local social incidents dealt a very severe blow to an economy already weakened by a synchronised global economic slowdown and US-Mainland trade tensions. After growing mildly by 0.4% in the second quarter, the economy contracted by 2.9% in the third quarter from a year earlier, marking its first year-on-year decline since the Great Recession of 2009. On a seasonally adjusted quarter-to-quarter comparison, real GDP contracted significantly by 3.2% in the third quarter after a 0.5% decline in the preceding quarter, indicating that the economy has entered a recession.
- * Total exports of goods registered an enlarged year-on-year decline of 7.1% in real terms in the third quarter, due to slackening global demand and escalated US-Mainland trade tensions. Exports of services deteriorated sharply and plunged by 13.8%, the biggest year-on-year fall since the second quarter of 2003, as inbound tourism suffered severely from the local social incidents with increasing violence. Other services exports also fell by varying degrees amid a more austere external environment and shrinking trade flows.
- * Domestic demand worsened significantly in the third quarter, as the local social incidents took a heavy toll on consumption-related activities and subdued economic prospects weighed on consumption and investment sentiment. Private consumption expenditure weakened sharply to fall by 3.4% in real terms, its first year-on-year decline in more than 10 years. The decline in overall investment expenditure steepened to 16.3%. Machinery and equipment acquisition plunged amid very pessimistic business sentiment, while building and construction activities fell further.
- * The labour market showed some easing as economic conditions worsened, with the seasonally adjusted unemployment rate edging up to 2.9% in the third quarter. The consumption-related sectors witnessed more visible increases in unemployment rates. Overall earnings growth also moderated.
- * The local stock market underwent a sharp correction during the third quarter. The residential property market likewise softened somewhat. With most buyers

turning more cautious and sellers generally adopting softer stances in price negotiations, flat prices fell by 3% during the quarter amid thinner trading.

- * Looking ahead, the difficult external environment is likely to persist in the near term. Recent economic data point to the continuation of a synchronised growth slowdown in the major economies. Yet, US-Mainland trade tensions have eased somewhat of late, as negotiations are underway for sealing a first-phase trade agreement. While trade relations may tend to stabilise for the time being, uncertainties remain given that differences in some key issues have yet to be resolved. The evolving situation of Brexit and geopolitical risks in the Middle East also warrant attention. Many central banks have taken steps to ease monetary policy, but these steps are probably not enough to reverse the trend of decelerating global growth in the rest of the year. As such, Hong Kong's export performance is likely to remain weak in the near term.
- * The local social incidents with intensifying violence in the past few months have kept visitors away, taken a heavy toll on local consumption demand, and seriously dampened economic sentiment. Latest surveys on both large enterprises and small-and-medium-sized enterprises all indicated that business sentiment has turned very pessimistic. As the impacts of the local social incidents have yet to show signs of abating, consumption and investment demand will likely remain in the doldrums for the rest of the year.
- * Considering the actual outturn of a 0.6% contraction in the first three quarters of 2019 and the persistent notable downward pressures, the real GDP growth forecast for the year as a whole is revised downwards from 0-1% as announced in the August round of review to -1.3% in the current round. This would be the first annual decline since 2009. Ending violence and restoring calm are pivotal to the recovery of the economy. The Government will continue to closely monitor the situation and introduce measures as necessary to support enterprises and safeguard jobs.
- * Underlying consumer price inflation went up from 2.9% in the second quarter to 3.3% in the third quarter, mainly because of a faster increase in pork prices amid the reduced supply of fresh pork. Price pressures on other major consumer price index components stayed largely moderate. Looking forward, modest global inflation and subdued economic conditions should help contain overall inflation in the rest of 2019. Yet, considering that inflation may stay somewhat elevated in the near term given the supply situation of fresh pork, the forecast of underlying consumer price inflation for 2019 as a whole is revised upwards from 2.7% in the August round of review to 3.0% in the current round. The forecast of headline consumer price inflation for 2019 as a whole is also revised upwards, from 2.6% to 2.9%.

Details

GDP

According to the revised data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP contracted by 2.9% year-on-year in real terms in the third quarter of 2019 (the same as the advance estimate), deteriorating sharply from its growth of 0.4% in the preceding quarter. For the first three quarters of 2019 as a whole, real GDP decreased by 0.6% from a year earlier. On a seasonally adjusted quarter-to-quarter comparison, real GDP decreased significantly by 3.2% in the third quarter (the same as the advance estimate) after a 0.5% decline in the preceding quarter (*Chart*). With two consecutive quarters of contraction, the economy has entered a recession in the third quarter, the first time since the Great Recession of 2009.

2. The latest figures on GDP and its major expenditure components up to the third quarter of 2019 are presented in *Table 1*. Developments in different segments of the economy in the third quarter of 2019 are described below.

External trade

3. *Total exports of goods* registered an enlarged year-on-year decline of 7.1% in real terms in the third quarter, after a 5.4% fall in the preceding quarter, as the external environment turned more austere amid a slowing global economy and escalated US-Mainland trade tensions. The decline was the largest for an individual quarter since the third quarter of 2009. External merchandise trade statistics showed that export performance worsened progressively towards the end of the quarter. Analysed by market, exports to the US continued to fall noticeably, and those to the EU worsened sharply to record a double-digit decline. Exports to many major Asian markets, including the Mainland and Japan, also registered declines of varying degrees. On a seasonally adjusted quarter-to-quarter basis, total exports of goods fell by 0.6% in real terms in the third quarter, having declined by 2.0% in the second quarter.

4. *Exports of services* deteriorated sharply and plunged by 13.8% year-on-year in real terms in the third quarter, the biggest decline since the second quarter of 2003. This followed a 1.1% contraction in the preceding quarter. As continued protests involving violence dealt a severe blow to inbound tourism, exports of travel services plunged by 32.2%. The fall in exports of transport services widened visibly, reflecting subdued cargo and passenger flows. Exports of financial services as well as business and other services also fell due to weaker cross-border financial and commercial activities amid softening global economic growth. On a seasonally adjusted quarter-to-quarter basis, exports of services declined noticeably by 12.5% in real terms in the third quarter, having decreased by 5.8% in the second quarter.

Domestic sector

5. Domestic demand worsened significantly in the third quarter. *Private consumption expenditure* weakened sharply and fell by 3.4% in real terms, its first year-on-year decline since the first quarter of 2009, after expanding modestly by 1.3% in the preceding quarter. The decline was mainly attributable to the serious disruptions to consumption-related activities caused by the local social incidents, while consumer sentiment was also affected by the subdued economic outlook. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure decreased by 4.1% in real terms in the third quarter, having decreased mildly by 0.1% in the second quarter. Partly counteracting this development was the solid growth of *government consumption expenditure* at 5.9% in the third quarter, faster than its growth of 4.0% in the preceding quarter.

6. Overall investment spending in terms of *gross domestic fixed capital formation* fell markedly by 16.3% year-on-year in real terms in the third quarter, representing a further widening from its 10.8% decline in the preceding quarter and the biggest quarterly drop since the second quarter of 1999. Within the total, expenditure on acquisitions of machinery, equipment and intellectual property products plunged by 26.6% as mounting external headwinds and the local social incidents inflicted considerable uncertainties on near-term business prospects. Meanwhile, expenditure on building and construction continued to decline by 5.7%. In addition to slower private sector building activity amid subdued local economic conditions, spending by the public sector also shrank as new projects had yet to generate sufficient output to offset the completion of some major infrastructure projects.

The labour sector

7. The labour market showed some easing as economic conditions worsened. The *seasonally adjusted unemployment rate* edged up to 2.9% in the third quarter, while the *underemployment rate* held steady at 1.0%. The unemployment rates for the consumption-related sectors, which were hard hit by the local social incidents, showed more visible increases. While earnings of low-income workers continued to increase over a year earlier, there was moderation in overall earnings growth.

The asset markets

8. The *local stock market* underwent a sharp correction in the third quarter. The local social incidents, together with uncertainties associated with US-Mainland trade tensions and softening global economic growth, significantly dampened investment sentiment. The Hang Seng Index (HSI) slid by 8.6% from end-June to 26 092 at end-September, the largest quarterly loss since the third quarter of 2015. On 14 November, the HSI closed at 26 324.

9. The *residential property market* softened somewhat in the third quarter, as

sentiment was dampened by the local social incidents, escalated US-Mainland trade tensions and a weaker global economy. Most buyers turned more cautious and sellers generally adopted softer stances in price negotiations. 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 40% from its hectic level in the preceding quarter or 14% from a year earlier to 12 336 in the third quarter. Flat prices declined by 3% during the quarter, but were still 6% higher than in December 2018. The index of home purchase affordability remained elevated at around 73%. The leasing market for residential property held relatively steady, with flat rentals edging up by 1% during the quarter. Meanwhile, the commercial and industrial property markets also turned quieter. Trading activities fell markedly for all major market segments. Prices decreased during the quarter, while rentals exhibited diverse movements.

Prices

10. Consumer price inflation went up further in the third quarter, mainly because of a faster increase in pork prices amid the reduced supply of fresh pork. *Underlying consumer price inflation*, which nets out the effects of the Government's one-off relief measures, rose from 2.9% in the second quarter to 3.3% in the third quarter, of which the increase in pork prices directly contributed 1.0 percentage point. Price pressures on other major consumer price index components remained largely moderate. The year-on-year increase in private housing rentals has been generally moderating since late 2018. On business costs, labour costs continued to increase steadily, whereas pressures on commercial rental costs eased slightly amid a weak economy. External price pressures eased further. In tandem with slower global economic growth, inflation in many major import sources moderated, and international commodity and energy prices remained generally soft. These factors, together with the appreciation of the Hong Kong dollar along with the US dollar against other major currencies over the past year or so, helped reduce price pressures on imports somewhat. Meanwhile, *headline consumer price inflation* went up from 3.0% in the second quarter to 3.3% in the third quarter.

Latest GDP and price forecasts for 2019

11. Looking ahead, the difficult external environment is likely to persist in the near term. Recent economic data point to the continuation of a synchronised growth slowdown in the major economies. Yet, US-Mainland trade tensions have eased somewhat of late, as negotiations are underway for sealing a first-phase trade agreement. While trade relations may tend to stabilise for the time being, uncertainties remain given that differences in some key issues have yet to be resolved. The evolving situation of Brexit and geopolitical risks in the Middle East also warrant attention. Many central banks have taken steps to ease monetary policy, but these steps are probably not enough to reverse the trend of decelerating global growth in the rest of the year. As such, Hong Kong's export performance is likely to remain weak in the near term.

12. The local social incidents with intensifying violence in the past few months have kept visitors away, taken a heavy toll on local consumption demand, and seriously dampened economic sentiment. Latest surveys on both large enterprises and small-and-medium-sized enterprises all indicated that business sentiment has turned very pessimistic. As the impacts of the local social incidents have yet to show signs of abating, consumption and investment demand will likely remain in the doldrums for the rest of the year.

13. Considering the actual outturn of a 0.6% contraction in the first three quarters of 2019 and the persistent notable downward pressures, the real GDP growth forecast for the year as a whole is revised downwards from 0-1% as announced in the August round of review to -1.3% in the current round (*Table 2*). This would be the first annual decline since 2009. Ending violence and restoring calm are pivotal to the recovery of the economy. The Government will continue to closely monitor the situation and introduce measures as necessary to support enterprises and safeguard jobs. For reference, the latest forecasts by private sector analysts range from -2.1% to 0.7%, averaging around -0.7%.

14. On the inflation outlook, modest global inflation and subdued economic conditions should help contain overall inflation in the rest of 2019. Yet, considering that inflation may stay somewhat elevated in the near term given the supply situation of fresh pork, the forecast of underlying consumer price inflation for 2019 as a whole is revised upwards from 2.7% in the August round of review to 3.0% in the current round (*Table 2*). The forecast of headline consumer price inflation for 2019 as a whole is also revised upwards, from 2.6% to 2.9%.

(The Third Quarter Economic Report 2019 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 2019, which contains the GDP figures up to the third quarter of 2019, 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

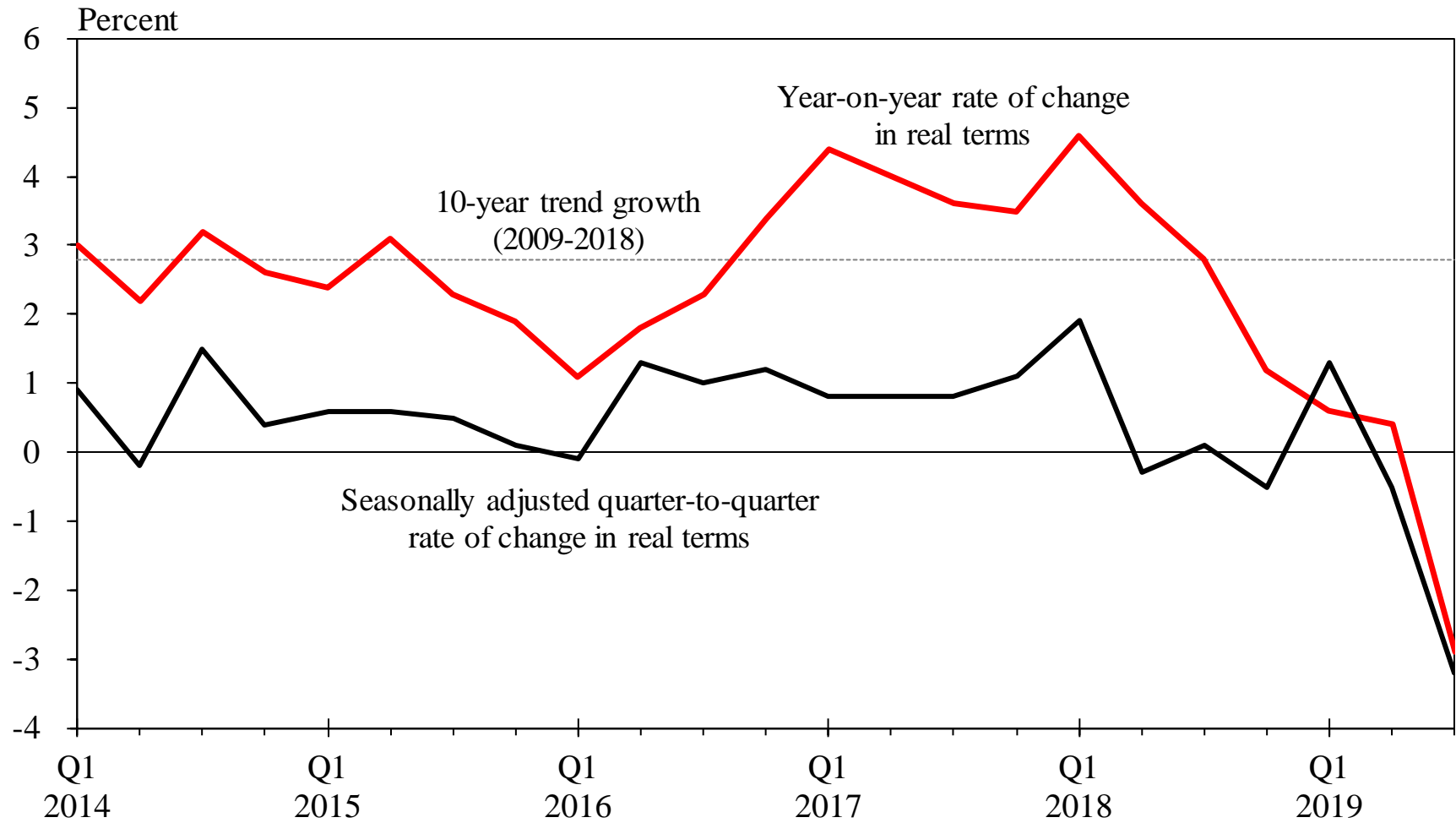


Table 1

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

	<u>2017#</u>	<u>2018#</u>	<u>Q1#</u>	<u>Q2#</u>	<u>2018</u> <u>Q3#</u>	<u>Q4#</u>	<u>Q1#</u>	<u>2019</u> <u>Q2#</u>	<u>Q3#</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>									
Private consumption expenditure	5.6	5.5	8.9 (3.2)	6.0 (-1.0)	4.8 (0.5)	2.7 (*)	0.4 (0.9)	1.3 (-0.1)	-3.4 (-4.1)
Government consumption expenditure	2.8	4.2	4.2 (1.7)	4.3 (1.1)	3.3 (0.6)	4.9 (1.3)	4.5 (1.4)	4.0 (0.6)	5.9 (2.5)
Gross domestic fixed capital formation	2.9	2.0	4.7	1.9	8.6	-5.8	-7.0	-10.8	-16.3
Building and construction	-0.5	-0.6	2.2	-0.9	1.3	-4.9	-3.5	-9.3	-5.7
Costs of ownership transfer	21.1	-8.3	12.5	4.8	0.7	-43.2	-38.0	-12.9	-21.8
Machinery, equipment and intellectual property products	3.8	8.9	5.5	4.2	21.0	4.7	-1.7	-12.1	-26.6
Total exports of goods&	6.5	3.6	5.2 (1.8)	4.7 (-0.4)	5.1 (1.3)	* (-2.5)	-3.7 (-2.1)	-5.4 (-2.0)	-7.1 (-0.6)
Imports of goods&	7.3	4.9	6.9 (1.6)	6.3 (-0.2)	7.7 (3.1)	-0.5 (-4.7)	-4.2 (-2.3)	-6.7 (-2.8)	-11.2 (-1.9)
Exports of services&	2.9	4.9	7.9 (5.6)	5.5 (-3.9)	3.0 (0.4)	3.3 (1.3)	0.8 (3.2)	-1.1 (-5.8)	-13.8 (-12.5)
Imports of services&	2.1	2.3	4.0 (3.7)	0.5 (-2.2)	2.5 (0.5)	2.1 (0.2)	-1.5 (0.1)	1.3 (0.5)	-4.0 (-4.7)
Gross Domestic Product	3.8	3.0	4.6 (1.9)	3.6 (-0.3)	2.8 (0.1)	1.2 (-0.5)	0.6 (1.3)	0.4 (-0.5)	-2.9 (-3.2)
<i>Change in the main price indicators (%)</i>									
GDP deflator	3.0	3.6	3.8 (1.8)	3.7 (0.8)	3.8 (0.6)	3.4 (0.3)	3.2 (1.4)	2.9 (0.5)	2.5 (0.3)
Composite CPI									
Headline	1.5	2.4	2.4 (0.8)	2.1 (0.4)	2.5 (0.6)	2.6 (0.7)	2.2 (0.5)	3.0 (1.2)	3.3 (1.0)
Underlying^	1.7	2.6	2.4 (0.8)	2.4 (0.8)	2.8 (0.6)	2.9 (0.7)	2.7 (0.6)	2.9 (1.0)	3.3 (0.9)
Change in nominal GDP (%)	6.9	6.8	8.6	7.3	6.8	4.7	3.8	3.4	-0.5

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 2019
(rate of change (%))**

	<u>Forecasts as released on 16.8.2019</u> (%)	<u>Latest forecasts on 15.11.2019</u> (%)
Real Gross Domestic Product (GDP)	0 to 1	-1.3
Composite Consumer Price Index (CCPI)		
<i>Underlying CCPI</i>	2.7	3.0
<i>Headline CCPI</i>	2.6	2.9