



Hong Kong's Economic Growth to Remain Moderate in the Second Half

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In the first quarter of 2015, Hong Kong economy expanded 2.1% in real terms over the same period of last year, slightly slower than the 2.4% in the previous quarter and lower than 3.9% average over the past decade. The first quarter growth continued its 2.4% moderate growth trend since 2012. The subdued global economic recovery, weak trade-related activities, moderating Mainland economic momentum as well as the local labour and land constraints were the causes of Hong Kong's moderate growth over the past few years. Hong Kong economy is not likely to return to the around 4% growth in the past, and a 2%-3% growth trend is likely to be the new normal.

Weak external and moderate domestic growth continued in the first half

In the first quarter, Hong Kong economy was primarily supported by domestic demand, while external demand remained sluggish. Among the 2.1% real growth in the first quarter, domestic demand contributed 2.8 percentage points, in line with last year, while net exports subtracted 0.7 percentage points, weaker than the 0.3 percentage points drag last year. The poor performance of net exports was not only reflected on exports of goods, but also exports of services. The real exports of goods are likely to be held at around 1% in April after allowing for price effect, sustaining the sub-1% growth in the past three quarters. The weak trade performance was a result of the subdued global economic recovery and strong US dollar exchange rate. Real exports of goods to the European Union (-3.5%), Japan (-5.8%) and the Mainland (-0.2%) all posted negative growth in the first quarter, while those to the more steady US recorded expansion (3.3%).

Comparing to exports of goods, the real exports of services were even weaker in the first quarter. In three out of the past four quarters, real exports of services registered contraction over the same period of the previous year, largely dragged by the exports of tourism and trade-related services. In relation to the tourism activities, the growth of the number of visitors decelerated notably and their spending pattern also shifted. As such, the real exports of tourism services recorded four consecutive quarters of negative growth in the first quarter. The growth of the number of overall and Mainland visitors plunged from 12.0% and 16.0% in 2014 to 3.9% and 6.9% in the first four months of 2015 respectively. Among them, the number of higher-spending overnight visitors and overnight Mainland visitors even declined 3.6% and 3.7%. However, the adverse impact of the "one trip per week policy" for Shenzhen residents has not been surfaced. In addition, the competitiveness of Hong Kong tourism industry is weakening amid stronger Hong Kong dollar exchange rate, high rental level and lack of new tourism hot spots etc. Separately, the real exports of trade-related activities also contracted 1.1% in the first quarter, in line with the poor exports of goods and subdued global trade performance.

Fortunately, the domestic demand remained resilient, supported by the stable employment market and buoyant asset markets, offsetting the negative shock from the external environment. Despite the relatively slow economic growth over the past few years, the employment market remains stable. The seasonally-adjusted unemployment rate held at 3.2% between March and May 2015 and hovered at the lower end of its 3.1%-3.5% range since the second half of 2011, propelling continuous income growth. Moreover, the asset markets remained buoyant. The residential property price increased 21.3% in April over the same period of last year. The Hang Seng Index also broke the 25,000 resistant level since the global financial crisis. This has supported private consumption performance, which grew 3.5% in real terms in the first quarter. On the other hand, the government consumption expenditure also increased steadily by 3.5%. Investment spending accelerated to 7.3% in the first quarter, largely driven by strong increases in machinery and equipment spending. Moreover, buildings and construction recorded modest growth. Going forward, businesses are likely to remain cautious towards raising investment spending, given the lingering uncertain external environment.

Inflationary pressure eased somewhat. With the decline of international energy and food prices, global inflationary pressure was also retreating. Together with the moderating economic growth locally, inflationary pressure remains contained in the short term. In the first four months of 2015, the underlying composite consumer price index stood at 2.6%, lower than the 3.5% in 2014.

Global recovery is likely to improve gradually in the second half

In the second half of 2015, Hong Kong economic performance will depend on the global economic and financial market conditions. Externally, even though the International Monetary Fund (IMF) expects the global economy to recover gradually in the second half, the economic performance in the US, the Mainland and Japan remained relatively weak. In June, both the World Bank and Organisation for Economic Co-operation and Development (OECD) trimmed their global economic forecasts to 2.8% and 3.1% respectively to reflect the sluggish performance in the first quarter. However, the global economy is likely to improve gradually in the second half, given the low oil prices, accommodative monetary policy and the relatively less stringent fiscal austerity measures. In addition, it is expected that the IMF will also lower its global economic forecast when it releases its World Economic Outlook Update in July, given its latest downward revision of the US economic forecast from 3.1% to 2.5%. As such, though the major economies, such as the US, the Mainland and euro area will recover as expected in the second half, the external performance of Hong Kong is still unlikely to improve significantly.

The US GDP growth is likely to pick up gradually in the second quarter. In the first quarter, the US economy contracted 0.7% on a seasonally-adjusted annualised basis, sharply lower than the 2.2% expansion in the fourth quarter last year. The performance was greatly affected by a number of transitory factors, such as decline of energy-related investment, poor weather condition, port strike, as well as strong US dollar. However, the economy is recovering gradually into the second quarter. The non-farm payrolls increased at a monthly rate of around 255,000 over the past year and the unemployment rate declined to 5.5%. The latter is already rather close to the Federal Reserve's long-term objective of 5.1%. This resulted in a stronger growth of real disposable income as well as a higher saving rate. In addition, the steady stock and property market performance will also support private consumption. Moreover, with the impact from port strike subsiding, net exports are unlikely to lead to another large drag on the

economy ahead. Manufacturing and non-manufacturing purchasing manager indices showed business activities continue to expand in the second quarter. Together with the support of the low oil prices, relatively less stringent fiscal austerity measures and the accommodative monetary policy, the real GDP is likely to reach 2.4% this year in the US, making it the best performer among the advanced economies. However, it should be mindful that the strong US dollar exchange rate and the reduction of shale gas investment might continue to pull the economy back.

The euro area recovery was somewhat strengthening. In the first quarter, the euro area economy expanded 0.4% over the preceding quarter and 1.0% over the same period of last year, largely driven by the lower oil price slump, low interest rates, asset purchases by the European Central Bank and low euro exchange rate. Moreover, the economic expansion also spread from Germany and Spain to France and Italy. It was also the first time for all the four largest euro area economies to post positive quarterly growth since 2011, signifying a narrowing of divergence among the member states. In the past few months, a number of economic indicators, such as retail sales, economic confidence, purchasing manager indices and credit growth all showed improvement. The euro area GDP will likely accelerate to around 1.2% this year, achieving the strongest growth since the euro debt crisis. However, the Greece debt issue has not been resolved. A number of uncertain factors still lie on the way before an agreement could be reached. Currently, its debt to GDP ratio is still at an elevated level of 177%. The negotiation on the third bailout package involves debt restructuring, the role of IMF, as well as reform and austerity measures. Therefore, the Greece debt issue will continue to threaten the euro area performance ahead.

The downward pressure on the Mainland economy remains intense. The unfavorable impact from the weak global economic recovery, appreciation of real RMB exchange, overcapacity and weak growth momentum etc, continued to drag on the Mainland economy. Following the moderating economic growth of 7.0% in the first quarter, the growth of external trade, value-added of industrial output, fixed assets investment and consumption all showed that the Mainland economy was stabilising at low level in May. The value-added of industrial output posted second consecutive month of slight improvement, while fixed assets investment rose slightly by 0.3 percentage points from April. However, apart from those first-tier cities, the property market in the Mainland is still consolidating. Combined with the weak external and domestic demand, the growth of property and manufacturing investment as well as value-added of industrial output was still constrained. Meanwhile, retail sales also stabilised and edged up one-tenth to 10.1%, with most of the product category showing steady performance. As such, consumption is still the largest contributor to the overall economic growth. In addition, new RMB loan and total social financing in May also increased over the preceding month. Overall, following several rounds of the interest rate and reserve requirement ratio cuts, it is fortunate that Mainland authorities still have ample policy room to support growth. It is expected that the Mainland will meet its economic target of around 7% this year.

Against this background, the economic growth of Hong Kong in the second half of this year will still depend on whether the US, Mainland and euro area economy can recover as expected, while the US dollar strength will undoubtedly weaken Hong Kong exports' competitiveness. Nevertheless, if the US economic growth is faster than expected, and the Mainland economy gradually stabilises, the Asian trade outlook is likely to be positive.

Exports of tourism services are not optimistic, likely restraining exports of services performance. The growth of the number of visitors decelerated notably in the first four

months of this year, with worse performance from higher-spending overnight visitors. In addition, the exports of tourism services in Hong Kong will suffer from various factors, including the shift of spending pattern of visitors, the State Council's decision to rationalise its imports and exports policy on consumer goods, the implementation of "one trip per week policy" for Shenzhen residents, as well as stronger Hong Kong dollar exchange rate and the lack of new tourism hot spots etc. Fortunately, its impact on the employment market remains limited.

Employment and asset markets supported steady domestic growth

Employment market is likely to remain strong. Over the past two to three years, the employment market in Hong Kong stayed at full employment level. Even though the recent slowdown in tourism activities might put downward pressure on the lower-skilled segment of the employment market, the impact has yet to be seen. The seasonally-adjusted unemployment rate edged down one-tenth to 3.2% between February and April 2015 and hovered at the lower end of its 3.1%-3.5% range since the second half of 2011.

Stock and property markets continued to flourish, supporting domestic growth. The Hong Kong stock markets have turned buoyant since April. Hang Seng Index (as at 17 June) increased around 13% after dipping to its lowest point in March, while the average daily turnover increased to over HK\$ 100 billion. Going forward, the relatively firm earning fundamentals, the accommodative global liquidity environment, and the further financial market reform in the Mainland (such as the expansion of the Shanghai-Hong Kong Stock Connect pilot programme and the establishment of the Shenzhen-Hong Kong Stock Connect pilot programme) will continue to support the performance of Hong Kong stock markets. As such, it is likely to attract more Mainland, local and foreign capital to invest in the stock markets here.

As for the property market, Hong Kong residential property prices soured over the past decade. Even though the Hong Kong government and the Hong Kong Monetary Authority have implemented several rounds of demand management measures and prudential measures for mortgage loans respectively, the property prices continued to rise amid tight demand-supply balance and low interest rate environment. However, it takes time to increase property supply and the timing and pace of US interest rate hikes remain uncertain. It is expected that the Hong Kong property prices will record moderate growth this year. As such, the robust asset markets performance will lead to stronger direct demand for the financial and business services, and the wealth effect will also sustain private consumption expenditure in the second half of this year. Moreover, construction activities will continue to grow in the years ahead, with more and more infrastructure, public housing, and private housing projects, continuing to support the growth momentum in the investment activities in Hong Kong.

Overall, with the external environment recovering gradually and the domestic demand remaining steadily, Hong Kong economy is expected to grow at around 2.5% this year. Inflationary pressure will remain mild and the underlying composite consumer price index is expected to increase 2.8% this year, lower than the 3.5% in 2014, marking the fourth consecutive year of slowdown. Finally, it should be noted that the timing and pace of Federal Reserve's monetary policy normalisation, divergence of monetary policy stances among major central banks, interest rate and capital flow movement etc, are likely to significantly affect the financial market performance. Greece debt issue, geopolitical conflicts and the outbreak of Middle East Respiratory Syndrome in South Korea etc will likely lead to new uncertainties to the global and Hong Kong economies.

主要經濟指標 (Key Economic Indicators)

一. 本地生產總值 GDP	2013	2014	2014/Q4	2015/Q1
總量 (億元) GDP(\$100 Million)	20,961	21,446	6,127	5,724
升幅 (%) Change(%)	2.9	2.3	2.4	2.1
二. 對外貿易 External Trade	2013	2014	2015/4	2015/1-4
外貿總值 (億元) Total trade(\$100 Million)				
港產品出口 Domestic exports	544	553	42	156
轉口 Re-exports	35,053	36,175	2,877	11,125
總出口 Total exports	35,597	36,728	2,919	11,281
進口 Total imports	40,607	42,190	3,311	12,851
貿易差額 Trade balance	-5,010	-5,463	-392	-1,569
年增長率 (%) YOY Growth(%)				
港產品出口 Domestic exports	-7.6	1.7	-13.7	-11.0
轉口 Re-exports	3.8	3.2	2.5	2.5
總出口 Total exports	3.6	3.2	2.2	2.3
進口 Imports	3.8	3.9	-2.9	0.3
三. 消費物價 Consumer Price	2013	2014	2015/4	2015/1-4
綜合消費物價升幅 (%) Change in Composite CPI(%)	4.3	4.4	2.8	4.0
四. 樓宇買賣 Sale & Purchase of Building Units			2015/5	2015/1-5
合約宗數 (宗) No. of agreements	70,503	81,489	6,785	28,804
年升幅 (%) Change(%)	-29.9	15.6	0.8	33.1
五. 勞動就業 Employment			2015/1-2015/3	2015/2-2015/4
失業人數 (萬人) Unemployed(ten thousands)	11.84	14.95	12.73	12.75
失業率 (%) Unemployment rate(%)	3.4	3.2	3.3	3.2
就業不足率 (%) Underemployment rate(%)	1.5	1.5	1.4	1.3
六. 零售市場 Retail Market			2015/4	2015/1-4
零售額升幅 (%) Change in value of total sales(%)	11.0	-0.2	-2.2	-2.3
零售量升幅 (%) Change in volume of total sales(%)	10.6	0.6	2.4	0.5
七. 訪港遊客 Visitors				
總人數 (萬人次) arrivals (ten thousands)	5,430	6,077	479	2,021
年升幅 (%) Change(%)	11.7	11.9	0.9	3.9
八. 金融市場 Financial Market			2015/4	2015/5
港幣匯價 (US\$100=HK\$)	775.4	775.6	775	775.2
H.K. Dollar Exchange Rate (US\$100 = HK\$)				
貨幣供應量升幅 (%) change in Money Supply(%)			2015/3	2015/4
M1	9.7	13.0	27.5	18.0
M2	12.3	9.5	11.9	10.3
M3	12.4	9.6	11.8	10.3
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	10.6	9.7	13.3	11.8
港元存款 In HK\$	5.1	9.3	16.0	15.1
外幣存款 In foreign currency	16.2	10.1	10.7	8.8
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	16.0	12.7	11.7	8.0
當地放款 use in HK	13.8	12.1	13.8	8.0
海外放款 use outside HK	21.4	14.2	13.6	14.3
貿易有關放款 Trade financing	43.8	-1.4	-8.5	-9.4
最優惠貸款利率 (%) Best lending rate (%)	5.0000	5.0000	5.0000	5.0000
恆生指數 Hang Seng index	23,306	23,605	24,901	28,133