

Press Release

(embargoed until 4:30 p.m. on 10 November 2023)

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

The Government released today (10 November) the Third Quarter Economic Report 2023, together with the revised figures on Gross Domestic Product (GDP) for the third quarter of 2023.

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

Main points

- * The Hong Kong economy continued to revive in the third quarter of 2023, supported by inbound tourism and private consumption. Real GDP grew by 4.1% year-on-year, having increased by 1.5% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP increased by 0.1%.
- * Total exports of goods declined further by 8.6% year-on-year in real terms in the third quarter amid weak external demand for goods. Exports to the Mainland fell further. Exports to the US recorded a further decline, and those to the EU continued to fall visibly. Exports to most other major Asian markets shrank by varying degrees. However, exports of services expanded notably further by 23.9%. Exports of travel services leapt almost nine-fold thanks to the continued revival of visitor arrivals. Exports of transport services rose further in tandem. Exports of business and other services grew modestly, while exports of financial services fell further.
- * Domestically, private consumption expenditure rose further by 6.3% year-on-year in real terms in the third quarter alongside rising household income and the Government's various support initiatives, though the rate of increase moderated somewhat. Overall investment expenditure rebounded sharply by 18.4% against a low base of comparison.
- * The labour market improved further in the third quarter. The seasonally adjusted unemployment rate declined from 2.9% in the second quarter to 2.8% in the third quarter, and the underemployment rate edged down from 1.1% to 1.0%. The unemployment rates of the various major sectors stayed low in general, with those of many major sectors recording falls. Employment income continued to attain decent growth.
- * The local stock market remained under pressure in the third quarter, as concerns over the Mainland's economic outlook and expectations of a prolonged period of high interest rates continued to dampen sentiment. The Hang Seng Index (HSI) closed the quarter at 17 810, down by 5.9% from end-June. The residential property market turned more sluggish in the third quarter. Market sentiment stayed cautious amid rising local interest rates and the challenging external environment.
- * Consumer price inflation stayed moderate in overall terms in the third quarter.

The underlying Composite Consumer Price Index rose by 1.6% year-on-year in the third quarter, compared with the 1.7% increase in the preceding quarter. Prices of meals out and takeaway food recorded a visible but softened increase over a year earlier, while prices of basic food continued to show a modest increase. The increase in prices of electricity remained notable despite a sharp deceleration. Prices of clothing and footwear continued to rise visibly. Price pressures on other major components stayed largely in check. Private housing rentals continued to decline.

- * Looking ahead, inbound tourism and private consumption will continue to underpin economic growth for the rest of the year. More visitors could be received as handling capacity recovers further. As regards private consumption, continued improvement in household income and the Government's various support initiatives including "Night Vibes Hong Kong" should provide support. Yet, the difficult external environment amid increasing geopolitical tensions and tight financial conditions would continue to weigh on exports of goods and investment and consumption sentiment.
- * Taking into account the actual outturn in the first three quarters of 2023 and the near-term outlook, the real GDP growth forecast for 2023 as a whole is revised down to 3.2%, from 4.0%-5.0% in the August round of review. The Government will continue to closely monitor the situation.
- * On the inflation outlook, overall inflation would stay moderate in the near term. External price pressures are expected to soften further. While domestic business cost might face some upward pressures as the economy continues to revive, it should remain contained in the near term. Taking into account the inflation situation in the first three quarters of 2023 and factors mentioned above, the forecast rates of underlying and headline consumer price inflation for 2023 are revised down to 1.8% and 2.2% respectively, from 2.0% and 2.4% in the August 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 4.1% year-on-year in the third quarter of 2023 (same as the advance estimate), having increased by 1.5% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP increased by 0.1% in the third quarter (same as the advance estimate) after a 1.3% decrease in the preceding quarter (*Chart*).

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

External trade

3. *Total exports of goods* declined by 8.6% year-on-year in real terms in the third quarter of 2023, further to the fall of 15.1% in the preceding quarter. The weak external demand for goods continued to weigh on export performance. Analysed by major market and by reference to external merchandise trade statistics, exports to the Mainland fell further in the third quarter. Exports to the US recorded a further decline, and those to the EU continued to fall visibly. Exports to most other major Asian markets shrank by varying degrees. On a seasonally adjusted quarter-to-quarter basis, total exports of goods decreased by 0.3% in the third quarter, after a 0.5% decrease in the preceding quarter.

4. *Exports of services* expanded notably by 23.9% year-on-year in real terms in the third quarter, after growing by 22.8% in the preceding quarter. Exports of travel services leapt almost nine-fold and recovered to 53% of the level in the same quarter in 2018, thanks to the continued revival of visitor arrivals during the quarter. Exports of transport services rose further in tandem. Exports of business and other services grew only modestly amid the difficult external environment. Meanwhile, exports of financial services fell further alongside subdued cross-border financial and fund raising activities. On a seasonally adjusted quarter-to-quarter basis, exports of services declined by 1.8% in the third quarter, having increased by 5.3% in the preceding quarter.

Domestic sector

5. Consumption activities stayed strong in the third quarter of 2023, supported by rising household income and the Government's various support initiatives. *Private consumption expenditure* rose further by 6.3% year-on-year in real terms in the third quarter, though the growth rate narrowed from 7.7% in the preceding quarter as the difficult global economic environment dampened consumer sentiment. On a seasonally adjusted quarter-to-quarter basis, private consumption expenditure fell slightly by 0.8%, following an increase of 3.4% in the preceding quarter. Meanwhile, *government consumption expenditure* fell by 4.5% year-on-year in the third quarter, after a 9.8% decrease in the preceding quarter.

6. Having declined by 0.5% in the preceding quarter, overall investment spending in terms of *gross domestic fixed capital formation* rebounded sharply by 18.4% in real terms in the third quarter over a year earlier against a low base of comparison despite the eased business sentiment. Expenditure on acquisitions of machinery, equipment and intellectual property products surged by 39.9%. Expenditure on building and construction rose notably by 12.5%, 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 improved further in the third quarter of 2023. The seasonally adjusted *unemployment rate* declined from 2.9% in the second quarter to 2.8% in the third quarter, and the *underemployment rate* edged down from 1.1% to 1.0%. The unemployment rates of the various major sectors stayed low in general, with those of many major sectors recording falls. The median monthly employment earnings continued to attain decent year-on-year growth of 7.1% in the third quarter.

The asset markets

8. The *local stock market* remained under pressure in the third quarter of 2023, as concerns over the Mainland's economic outlook and expectations of a prolonged period of high interest rates continued to dampen sentiment. The HSI was range-bounded in July, and trended down in the ensuing two months. It closed the quarter at 17 810, 5.9% lower than end-June. On 9 November, the HSI closed at 17 511.

9. The *residential property market* turned more sluggish in the third quarter. Market sentiment stayed cautious amid rising local interest rates and the challenging external environment. The number of transactions, in terms of the total number of sale and purchase agreements for residential property received by the Land Registry, fell visibly by 25% from the preceding quarter or 21% from a year earlier to a low

level of 9 174. Overall flat prices fell further by 4% between June and September. The index of home purchase affordability edged down to around 72% in the third quarter alongside the decline in overall flat prices, though the effect was partially offset by higher mortgage rates. Meanwhile, overall flat rentals rose further by 3% during the third quarter. The *non-residential property market* was quiet in the third quarter. Trading activities for all major market segments stayed subdued, while prices and rentals generally showed only small changes.

Prices

10. Consumer price inflation stayed moderate in overall terms in the third quarter of 2023. Netting out the effects of the Government's one-off relief measures, *underlying Composite CPI inflation* stayed moderate at 1.6% in the third quarter, compared with 1.7% in the preceding quarter. Prices of meals out and takeaway food recorded a visible but softened increase over a year earlier, while prices of basic food continued to show a modest increase. The increase in prices of electricity remained notable despite a sharp deceleration. Prices of clothing and footwear continued to rise visibly. Price pressures on other major components stayed largely in check. Private housing rentals continued to decline. Domestic business cost pressures remained contained. Wage growth accelerated further on the back of the continued improvement in labour market conditions, but was still largely moderate. Commercial rentals stayed soft. External price pressures showed some moderation, alongside easing inflation in many major economies from earlier peaks. The *headline Composite CPI inflation rate* was 1.9% in the third quarter, compared with 2.0% in the preceding quarter.

Latest GDP and price forecasts for 2023

11. Looking ahead, inbound tourism and private consumption will continue to underpin economic growth for the rest of the year. More visitors could be received as handling capacity recovers further. As regards private consumption, continued improvement in household income and the Government's various support initiatives including "Night Vibes Hong Kong" should provide support. Yet, the difficult external environment amid increasing geopolitical tensions and tight financial conditions would continue to weigh on exports of goods and investment and consumption sentiment.

12. Taking into account the actual outturn in the first three quarters of 2023 and the near-term outlook, the real GDP growth forecast for 2023 as a whole is revised down to 3.2%, from 4.0%-5.0% 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 3.2% to 4.0%, averaging around 3.5%.

13. On the inflation outlook, overall inflation would stay moderate in the near term. External price pressures are expected to soften further. While domestic business cost might face some upward pressures as the economy continues to revive, it should remain contained in the near term. Taking into account the inflation situation in the first three quarters of 2023 and factors mentioned above, the forecast rates of underlying and headline consumer price inflation for 2023 are revised down to 1.8% and 2.2% respectively, from 2.0% and 2.4% in the August round of review (*Table 2*).

(The Third 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 third 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

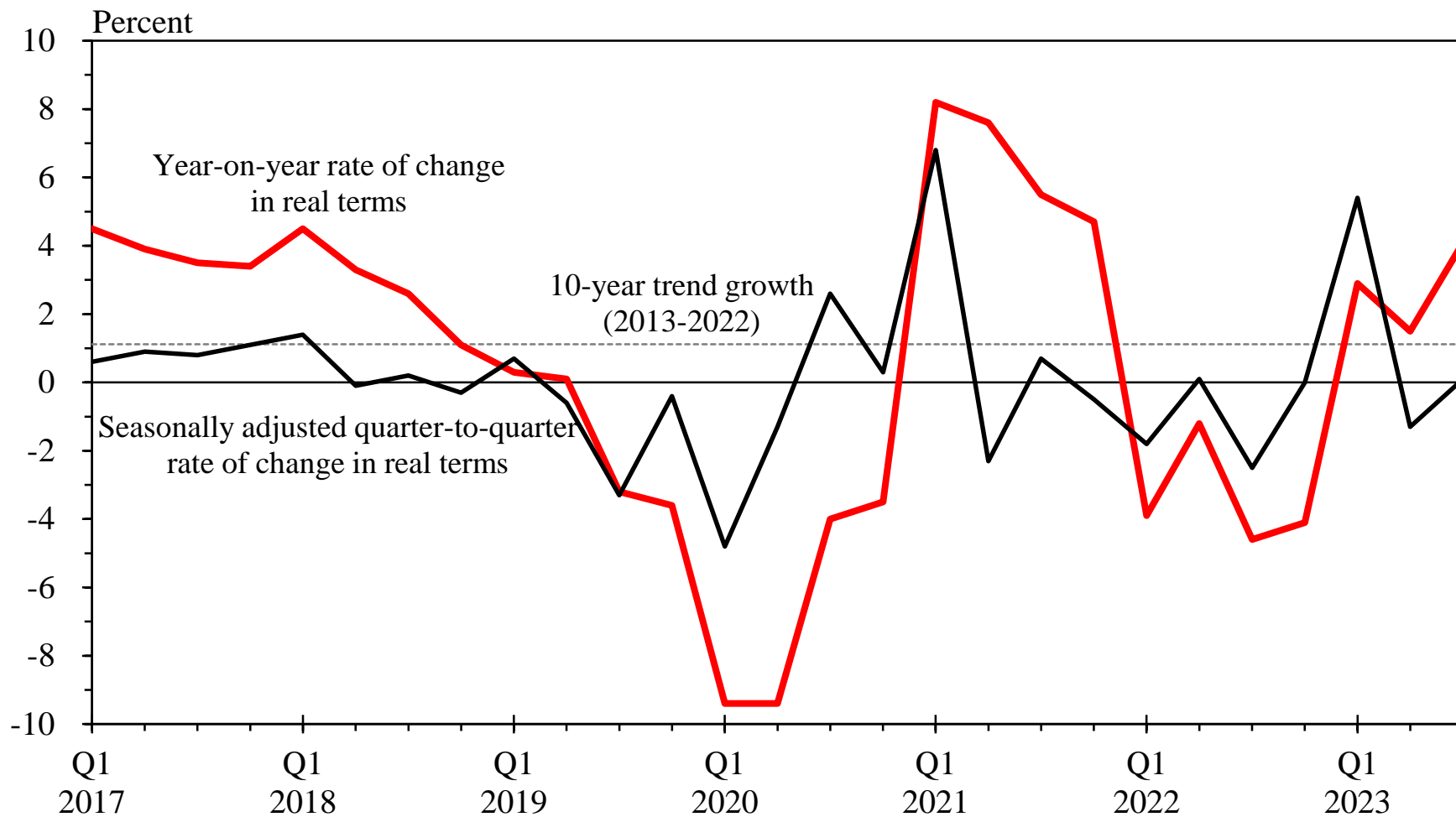


Table 1

**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>2022</u> <u>Q3</u> [#]	<u>Q4</u> [#]	<u>Q1</u> [#]	<u>2023</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	-1.2	-6.2 (-8.8)	-0.2 (8.5)	-0.4 (0.6)	1.7 (2.0)	13.0 (1.4)	7.7 (3.4)	6.3 (-0.8)
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)	-9.8 (-5.9)	-4.5 (1.7)
Gross domestic fixed capital formation	8.3	-7.7	-6.3	-1.2	-14.2	-8.9	7.9	-0.5	18.4
Building and construction	-0.5	5.1	1.9	9.1	2.5	7.2	-0.8	8.0	12.5
Costs of ownership transfer	36.3	-41.0	-34.8	-39.5	-40.9	-50.0	24.3	-5.0	-20.4
Machinery, equipment and intellectual property products	15.2	-16.8	-14.8	-1.5	-28.8	-21.2	24.1	-12.8	39.9
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)	-15.1 (-0.5)	-8.6 (-0.3)
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)	-15.8 (-1.3)	-5.9 (1.1)
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)	22.8 (5.3)	23.9 (-1.8)
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)	25.4 (4.9)	28.3 (1.7)
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)	4.1 (0.1)
<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 (0.9)	2.2 (2.1)
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)	1.9 (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)	1.6 (0.3)
<i>Change in nominal GDP (%)</i>	7.2	-1.7	-2.9	-0.2	-1.3	-2.5	5.1	4.4	6.4

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 11.8.2023</u> (%)	<u>Latest forecasts on 10.11.2023</u> (%)
Real Gross Domestic Product (GDP)	4.0 to 5.0	3.2
Composite Consumer Price Index (CCPI)		
<i>Underlying CCPI</i>	2.0	1.8
<i>Headline CCPI</i>	2.4	2.2