

# Economic situation in third quarter of 2018 and latest GDP and price forecasts for 2018

The Government released today (November 16) the Third Quarter Economic Report 2018, together with the preliminary figures on Gross Domestic Product (GDP) for the third quarter of 2018.

The Government Economist, Mr Andrew Au, described the economic situation in the third quarter of 2018 and provided the latest GDP and price forecasts for 2018.

## Main points

- \* The Hong Kong economy grew solidly by 2.9% in the third quarter of 2018 over a year earlier. While marking the eighth consecutive quarter of above-trend growth, it moderated from the 3.5% growth in the second quarter. External demand continued to record visible growth for the quarter as a whole alongside further expansion of the global economy. Domestic demand held firm. Labour market conditions remained favourable, while consumer price inflation went up slightly. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew by 0.1% in the third quarter of 2018, having decreased by 0.2% in the preceding quarter.
- \* Total exports of goods sustained further notable growth of 5.0% year-on-year in real terms for the third quarter as a whole, with most major markets showing growth of varying degrees. Yet the pace of export growth decelerated in September, as the impact of the US-Mainland trade conflicts began to surface. Exports of services expanded moderately by 3.1% in the third quarter. Underpinned by visible expansion in inbound tourism, exports of travel services grew solidly, albeit at a decelerated rate. Amid the heightened external uncertainties and slower momentum of cross-border financial activities, growth in exports of financial services moderated, while exports of transport services, and business and other services recorded only modest increases.
- \* Domestic demand stayed largely resilient in the third quarter. Private consumption expenditure, albeit less buoyant than in the previous quarters, expanded notably by 5.2% year-on-year in real terms, buttressed by favourable job and income conditions. Overall investment expenditure picked up significantly to grow by 8.2%, as machinery and equipment acquisition surged and building and construction activity registered a narrower decline.
- \* The labour market remained tight in the third quarter. The seasonally adjusted unemployment rate stayed unchanged at a 20-year low of 2.8%, while the underemployment rate edged up to a still-low level of 1.2%. Total employment sustained visible growth on a year-on-year basis. Wages and earnings also registered solid and broad-based gains in real terms.

\* The local stock market saw further consolidation in the third quarter, as the increased external headwinds weighed on market sentiment. The residential property market showed some cool-off, with flat prices switching to fall amid shrinking transactions.

\* Looking ahead, the economic outlook is subject to increasing downside risks. The global economy has lost some momentum of late, as evidenced by the slower growth in the EU and in many Asian economies in the third quarter. The US-Mainland trade conflicts have weighed on global economic sentiment, with possible repercussions on global trade and investment activities. The impacts on Hong Kong's external trade have begun to surface, and are likely to become more apparent in the near term. The further tightening of financial conditions across advanced economies, particularly in the US, is another risk factor. The US Federal Reserve has hiked interest rate three times this year, and signalled further gradual rate hikes going forward. Rising US interest rates and a stronger US dollar had already wreaked financial havoc in some emerging market economies with weak fundamentals earlier this year. Global financial and asset markets could become even more volatile in the period ahead. Besides, developments related to Brexit, Italy's fiscal situation and geopolitical tensions also warrant close attention.

\* Domestic demand may also be subject to more pressure from the rising external headwinds. Consumer sentiment, while still being supported by the favourable job and income conditions, could increasingly be affected by the external uncertainties and weaker asset markets. Various surveys also revealed that local business sentiment has become more cautious in recent months.

\* Taking into account the actual growth outturn of 3.7% in the first three quarters of 2018 and the downside risks in the external environment, economic growth for 2018 as a whole is now forecast at 3.2%, within the range forecast of 3-4% announced in the August round. The Government will continue to monitor closely the external and domestic developments, for their possible impacts on the economic and employment situations.

\* Pressures on consumer prices continued to build up alongside sustained above-trend economic growth. The underlying consumer price inflation picked up to 2.8% in the third quarter, averaging 2.5% for the first three quarters as a whole. Looking ahead, the inflation rate may still be subject to some mild upward pressure in the rest of the year, as local costs have increased along with the sustained economic expansion, and as the earlier rises in fresh-letting residential rentals would continue to feed through. Taking into account the actual outturns so far this year, the forecast rates of underlying and headline consumer price inflation for 2018 as a whole are slightly revised upwards to 2.7% and 2.4% respectively in the current round of review, from 2.5% and 2.2% in the August round.

Details

GDP

According to the preliminary data on the GDP released today by the

Census and Statistics Department, GDP grew solidly by 2.9% in real terms in the third quarter of 2018 over a year earlier. While marking the eighth consecutive quarter of growth above the trend growth rate of 2.7% per annum in the past ten years, it moderated from the 3.5% growth in the second quarter (same as the preliminary estimate). On a seasonally adjusted quarter-to-quarter comparison, real GDP grew by 0.1% in the third quarter of 2018, having decreased by 0.2% in the preceding quarter (same as the preliminary estimate) (Chart).

The figures on GDP and its major expenditure components up to the third quarter of 2018 are presented in Table 1. Developments in different segments of the economy in the third quarter of 2018 are described below.

#### External trade

Total exports of goods grew notably by 5.0% in real terms in the third quarter over a year earlier, after a similar 4.6% growth in the second quarter. However, external merchandise trade statistics showed that export growth decelerated visibly in September, suggesting that the impacts of the US-Mainland trade conflicts have begun to surface. For the third quarter as a whole, exports to most major markets showed growth of varying degrees. Exports to the US grew visibly, underpinned by a pick-up in import demand alongside strong economic expansion there. While those re-exports of Mainland origin to the US affected by the additional tariffs imposed in July and August showed notable deceleration in August and September, they constituted only about 15% of Hong Kong's total exports to this market in the third quarter. As to exports to the EU, visible growth was also recorded amid sustained economic growth in the region. Exports to most major Asian markets also grew by varying extents alongside further expansion in intra-regional trade. Specifically, exports to the Mainland continued to grow visibly. Exports to India and major emerging markets in ASEAN posted discernible growth. As to the high-income Asian markets, exports to Korea picked up, and those to Singapore saw still-solid growth, but those to Japan and Taiwan registered declines. On a seasonally adjusted quarter-to-quarter basis, total exports of goods increased by 1.2% in real terms in the third quarter, having decreased by 0.4% in the second quarter.

Exports of services expanded moderately by 3.1% year-on-year in real terms in the third quarter, after a 5.9% growth in the preceding quarter. Underpinned by visible expansion in inbound tourism, exports of travel services grew solidly, albeit at a decelerated rate. Amid the heightened external uncertainties and slower momentum of cross-border financial activities, growth in exports of financial services moderated, while exports of transport services, and business and other services recorded only modest increases. On a seasonally adjusted quarter-to-quarter basis, exports of services increased by 0.1% in real terms in the third quarter, having declined by 3.3% in the preceding quarter.

#### Domestic sector

Domestic demand remained largely resilient in the third quarter. Private consumption expenditure expanded notably by 5.2% in real terms over a year

earlier, albeit moderated somewhat from the exceptionally strong growth of 7.4% in the first half of the year. Local consumer sentiment continued to be buttressed by favourable job and income conditions, though the wealth effect may have turned less supportive amid the stock market corrections. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure increased by 0.9% in real terms in the third quarter, after the decrease of 0.7% in the preceding quarter. Government consumption expenditure grew steadily by 3.3% in real terms in the third quarter over a year earlier, following the 4.3% growth in the preceding quarter.

Overall investment spending in terms of gross domestic fixed capital formation recorded a much faster year-on-year growth of 8.2% in real terms in the third quarter, compared with the 1.1% increase in the second quarter. Within the total, machinery and equipment acquisition, which is usually volatile, surged from a low base of comparison in the same quarter last year. However, local business sentiment has become more cautious in recent months owing to the increased headwinds in the external environment. Meanwhile, overall building and construction activity registered a narrower year-on-year decline.

#### The labour sector

The labour market remained tight in the third quarter. The seasonally adjusted unemployment rate stayed unchanged at a 20-year low of 2.8%, while the underemployment rate edged up to a still-low level of 1.2%. Total employment registered further visible growth on a year-on-year basis. Against this backdrop, wages and earnings sustained solid and broad-based growth in real terms. Earnings of grassroots workers also stayed on the rise after discounting inflation.

#### The asset markets

The local stock market consolidated further in the third quarter, as market sentiment was hit by escalating US-Mainland trade conflicts and successive US rate hikes. The Hang Seng Index closed the third quarter at 27 789, down by 4.0% from a quarter earlier. On November 15, the Hang Seng Index closed at 26 103.

The residential property market showed some cool-off. The number of residential property transactions fell by 24% from 18 900 in the second quarter to 14 400 in the third quarter. Overall flat prices edged down by 1% during the third quarter, with the month-to-month increase in July more than offset by declines in August and September. Notwithstanding the latest declines, prices in September were still higher than the 1997 peak by 125%. Meanwhile, the index of home purchase affordability stayed elevated at around 74% in the third quarter. Between June and September, flat rentals rose further by 2%. Over the same period, shop and office prices increased by 2% and 6% respectively, and their rentals also increased, by 2% and 1% respectively.

#### Prices

Alongside the sustained above-trend economic growth, pressures on consumer prices continued to build up in the third quarter. Domestically, the rises in fresh-letting residential rentals over the past year or so continued to feed through to consumer price inflation. Local cost pressures on factor inputs, while still largely contained, have turned more visible. While wages and earnings continued to register solid gains, rental pressures faced by businesses, albeit broadly moderate, edged up against the broad uptrend in rentals of retail premises and offices. Meanwhile, external price pressures largely held steady. Against this backdrop, the underlying consumer price inflation, which nets out the effects of the Government's one-off relief measures, averaged 2.8% in the third quarter, up from 2.4% in the second quarter. Headline consumer price inflation also went up to 2.5% from 2.1% over the same period.

#### Latest GDP and price forecasts for 2018

Looking ahead, the economic outlook is subject to increasing downside risks. The global economy has lost some momentum of late, as evidenced by the slower growth in the EU and in many Asian economies in the third quarter. The US-Mainland trade conflicts have weighed on global economic sentiment, with possible repercussions on global trade and investment activities. The impacts on Hong Kong's external trade have begun to surface, and are likely to become more apparent in the near term. The further tightening of financial conditions across advanced economies, particularly in the US, is another risk factor. The US Federal Reserve has hiked interest rate three times this year, and signalled further gradual rate hikes going forward. Rising US interest rates and a stronger US dollar had already wreaked financial havoc in some emerging market economies with weak fundamentals earlier this year. Global financial and asset markets could become even more volatile in the period ahead. Besides, developments related to Brexit, Italy's fiscal situation and geopolitical tensions also warrant close attention.

Domestic demand may also be subject to more pressure from the rising external headwinds. Consumer sentiment, while still being supported by the favourable job and income conditions, could increasingly be affected by the external uncertainties and weaker asset markets. Various surveys also revealed that local business sentiment has become more cautious in recent months.

Taking into account the actual growth outturn of 3.7% in the first three quarters of 2018 and the downside risks in the external environment, economic growth for 2018 as a whole is now forecast at 3.2%, within the range forecast of 3-4% announced in the August round (Table 2). The Government will continue to monitor closely the external and domestic developments, for their possible impacts on the economic and employment situations. For reference, the latest forecasts by private sector analysts range from 3.0-4.0%, averaging around 3.6%.

On inflation outlook, the inflation rate may still be subject to some mild upward pressure in the rest of the year, as local costs have increased along with the sustained economic expansion, and as the earlier rises in fresh-letting residential rentals would continue to feed through. Taking into

account the actual outturns so far this year, the forecast rates of underlying and headline consumer price inflation for 2018 as a whole are slightly revised upwards to 2.7% and 2.4% respectively in the current round of review, from 2.5% and 2.2% in the August round (Table 2).

The Third Quarter Economic Report 2018 is now available for online download, free of charge at [www.hkeconomy.gov.hk/en/reports/index.htm](http://www.hkeconomy.gov.hk/en/reports/index.htm). The Report of the Gross Domestic Product, Third Quarter 2018, which contains the GDP figures up to the third quarter of 2018, is also available for online download, free of charge at the homepage of the Census and Statistics Department, [www.censtatd.gov.hk](http://www.censtatd.gov.hk).

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## Unemployment and underemployment statistics for August – October 2018

According to the latest labour force statistics (i.e. provisional figures for August – October 2018) released today (November 16) by the Census and Statistics Department (C&SD), the seasonally adjusted unemployment rate stood at 2.8% in August – October 2018, same as that in July – September 2018. The underemployment rate also remained unchanged at 1.2% in the two periods.

Comparing August – October 2018 with July – September 2018, movements in the unemployment rate (not seasonally adjusted) and underemployment rate in different industry sectors varied, but were generally small in magnitude.

Total employment decreased by around 2 000 from 3 874 600 in July – September 2018 to 3 872 600 in August – October 2018. Over the same period, the labour force also decreased by around 3 800 from 3 992 400 to 3 988 600.

The number of unemployed persons (not seasonally adjusted) decreased by around 1 800 from 117 800 in July – September 2018 to 116 000 in August – October 2018. Over the same period, the number of underemployed persons also decreased by around 600 from 47 300 to 46 700.

### Commentary

Commenting on the latest unemployment figures, the Secretary for Labour and Welfare, Dr Law Chi-kwong, said, "The labour market remained tight in August – October 2018, with the unemployment rate (seasonally adjusted) and underemployment rate staying unchanged at 2.8% and 1.2% respectively. Total employment grew solidly on a year-on-year basis."

"When compared to the preceding three-month period, movements in unemployment rates varied across sectors, but were generally small in magnitude. The unemployment situation in most of the major service sectors

continued to improve on a year-on-year basis, notably in the accommodation services sector amid the buoyant performance of inbound tourism."

Looking ahead, Dr Law said, "The labour market is expected to stay tight in the near term. Yet, the employment outlook beyond the near term will hinge on how the increased external headwinds will affect the local economy going forward. The Government will stay vigilant and monitor the situation closely."

He noted that the Labour Department (LD) has adopted a series of on-going measures to promote the employment of elderly persons, including setting up special counters at job centres to provide priority registration and job referral services for elderly job seekers, organise tailor-made employment briefings for the elderly, setting up a dedicated webpage for elderly job seekers on the Interactive Employment Service website and enhancing the functions of the vacancy search terminals to facilitate their access to employment information and search for suitable vacancies.

On large-scale job fairs, the LD organised the Job Fair for Middle-aged and Elderly Employment on November 15 and 16 at the Dragon Centre in Sham Shui Po. 44 employers participated and offered about 4 200 vacancies suitable for middle-aged and elderly job seekers. Moreover, the LD will organise the North District Recruitment and Training Expo on January 4, 2019 at Wo Hing Sports Centre in Fanling. In addition, industry-based or district-based job fairs are regularly organised at the LD's industry-based recruitment centres and job centres located across the territory.

#### Further information

The unemployment and underemployment statistics were compiled from the findings of the continuous General Household Survey.

The survey for August – October 2018 covered a sample of some 25 000 households or 74 000 persons, selected in accordance with a scientifically designed sampling scheme to represent the population of Hong Kong.

Data on labour force characteristics were obtained from the survey by interviewing each member aged 15 or over in the sampled households.

In the survey, the definitions used in measuring unemployment and underemployment follow closely those recommended by the International Labour Organization.

Detailed analysis of labour force characteristics is given in the "Quarterly Report on General Household Survey" which is published four times a year. The latest issue of the publication contains statistics for the quarter April – June 2018 while the next issue covering the quarter July – September 2018 will be available by end November 2018. Users can download this publication free of charge at the website of the C&SD ([www.censtatd.gov.hk/hkstat/sub/sp200.jsp?productCode=B1050001](http://www.censtatd.gov.hk/hkstat/sub/sp200.jsp?productCode=B1050001)).

For enquiries about labour force statistics, please contact the Household Statistics Analysis Section of the C&SD (Tel: 2887 5508 or email:

## **Phishing emails related to The Hongkong and Shanghai Banking Corporation Limited**

The following is issued on behalf of the Hong Kong Monetary Authority:

The Hong Kong Monetary Authority (HKMA) wishes to alert members of the public to a press release issued by The Hongkong and Shanghai Banking Corporation Limited on phishing emails, which has been reported to the HKMA. Hyperlink to the press release is available on [the HKMA website](#) for ease of reference by members of the public.

Anyone who has provided his or her personal information to the emails concerned or has conducted any financial transactions through the emails should contact the bank concerned using the contact information provided in the press release, and report to the Police or contact the Cyber Security and Technology Crime Bureau of the Hong Kong Police Force at 2860 5012.

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## **Amended imports and exports classification list to take effect in 2019**

The Customs and Excise Department today (November 16) reminded importers and exporters that import and export declarations for shipments on or after January 1, 2019, must be completed in accordance with the amended classifications made to the current edition of the Hong Kong Imports and Exports Classification List (Harmonized System).

The amendments, published in the Gazette today, will take effect on January 1, 2019.

The amendments involve seven commodity items, including foodstuffs, chemical products, base metal and machinery. Another 11 commodity items involve amendments of the unit of quantity in Chinese.

These amendments will bring the classifications more in line with current requirements through the introduction and adoption of more appropriate sub-classifications.

Importers and exporters can obtain the amended list free of charge in the following ways:

(a) by downloading the list from the website of the Census and Statistics Department at [www.censtatd.gov.hk/trader/declaration/index.jsp](http://www.censtatd.gov.hk/trader/declaration/index.jsp); or

(b) by calling the Import/Export Declaration and Cargo Manifest Enquiry Hotline of the Census and Statistics Department at 2877 1818.

Enquiries can be made to the Trade Classification Section of the Census and Statistics Department through the Commodity Code Enquiry Hotline at 3178 8933, by fax to 2824 2782 or by email to [trade-declaration@censtatd.gov.hk](mailto:trade-declaration@censtatd.gov.hk).

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## **Appointment of lay members of HKICPA Council**

The Government announced today (November 16) the appointment of Ms Susie Ho Shuk-yee and Ms Theresa Ng Choi-yuk as lay members of the Council of the Hong Kong Institute of Certified Public Accountants (HKICPA) for a term of two years from December 1, 2018 to November 30, 2020.

The Secretary for Financial Services and the Treasury, Mr James Lau said, "The accountancy sector plays a pivotal role in Hong Kong's success as an international financial centre. We look forward to the contribution of Ms Ho and Ms Ng to the work of the HKICPA in regulating the accountancy profession and promoting its development."

Mr Lau also expressed his heartfelt gratitude to the outgoing lay members, Ms Melissa Brown and Mr Tam Wing-pong, for their contribution and support rendered to the Council in the past six years.

The HKICPA is the statutory licensing body for accountants in Hong Kong and currently has more than 42,000 members. It is responsible for the professional training, development and regulation of the accountancy profession. The HKICPA Council is the governing body of the Institute.

Under the Professional Accountants Ordinance (Cap. 50), the HKICPA Council comprises a maximum of 23 persons, including four lay members appointed by the Chief Executive. The power of the Chief Executive to make appointments to the Council has been delegated to the Secretary for Financial

Services and the Treasury.

The other two incumbent lay members are Mr Vincent Chui Yik-chiu and Mr Wilfred Wong Kam-pui.