

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

The Government released today (May 11) the First Quarter Economic Report 2018, together with the preliminary figures on Gross Domestic Product (GDP) for the first quarter of 2018.

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

Main points

* The Hong Kong economy turned in robust growth of 4.7% over a year earlier in the first quarter of 2018, sustaining the full-fledged upturn in 2017. External demand picked up as the global economy maintained broad-based momentum. Domestic demand also strengthened, buttressed by favourable labour market conditions and positive business sentiment. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew notably by 2.2% in the first quarter.

* Total exports of goods grew strongly by 5.2% year-on-year in real terms in the first quarter, as the upswing in global investment and trade translated into booming production and trading activities in Asia. Exports of services likewise accelerated to show broad-based growth of 7.5% year-on-year in real terms, bolstered by a strong recovery in inbound tourism, active global financial market activities and buoyant regional trade flows.

* Domestic demand continued to strengthen. Private consumption expenditure grew notably by 8.6% year-on-year in real terms in the first quarter, reflecting optimistic consumer sentiment on the back of favourable job and income as well as asset market conditions. Overall investment expenditure registered further real year-on-year growth of 3.8%, amid notable growth in machinery and equipment acquisition as well as modest expansion in building and construction activity.

* The labour market remained tight. The seasonally adjusted unemployment rate stayed at a 20-year low of 2.9% in the first quarter, while the underemployment rate showed a further decline. Total employment continued to record sturdy growth. In tandem, wages and earnings registered further real improvements, with more notable increases in the lower-skilled segments of the labour market.

* The local stock market was bullish on entering 2018, but experienced corrections in the latter part of the first quarter amid a firmer outlook for gradual US interest rate hikes and intensified concerns over the global trading environment. Separately, the residential property market remained

buoyant, with flat prices rising further amid active trading.

* Looking ahead, the broad-based momentum in the global economy is likely to continue in 2018. The Mainland economy should stay on a robust growth track in 2018 following the strong performance in the first quarter. The US economy is also expected to see faster growth this year as the stimulating effect of the expansionary fiscal policy kicks in. In the euro area and Japan, recent indicators point to further moderate economic growth. The strengthening global demand should be conducive to manufacturing and trading activities in Asia, to the benefit of Hong Kong's exports. Further improvement in inbound tourism should also render additional support to Hong Kong's exports of services. However, external uncertainties have increased of late. Of particular concern are the trade tensions between the US and its trading partners, notably the Mainland, for their potential adverse impacts on global trade flows and investor sentiment. Separately, the evolving global financial conditions amid the expected US rate hikes also warrant close attention.

* Domestic demand should continue to stay resilient. Local consumption sentiment is likely to be well underpinned by favourable job and income conditions. The latest Quarterly Business Tendency Survey indicated that large enterprises have turned more upbeat about their near-term business outlook. Ongoing infrastructure works and the measures in the 2018-19 Budget (the Budget) should provide further growth impetus to the economy.

* The actual growth outturn of the Hong Kong economy in the first quarter was stronger than expected. Nonetheless, considering the increased uncertainties in the external environment, particularly on the trade and financial fronts, the forecast real GDP growth of 3-4% for 2018, as announced in the Budget, is maintained in the current round of review. The Government will continue to closely monitor developments on the external and local fronts.

* Inflation pressures have generally been moderate. Underlying consumer price inflation went up to 2.4% in the first quarter, due to favourable global and local economic situations as well as some temporary factors. Looking ahead, the robust economic conditions, if continued, are likely to exert some upward pressures on inflation over the course of 2018, though the inflation rate for the year as a whole should remain moderate. As the outturn in inflation so far has largely been in line with expectations, the forecast rates of underlying and headline consumer price inflation for 2018 as a whole put out in the Budget, at 2.5% and 2.2% respectively, are maintained in the current round of review.

Details

GDP

According to the preliminary data on the GDP released today by the Census and Statistics Department, GDP grew notably by 4.7% in real terms in the first quarter of 2018 over a year earlier, up from 3.4% in the preceding quarter (same as the earlier estimate), marking the sixth consecutive quarter of growth above the trend growth rate of 2.7% per annum in the past 10 years. On a seasonally adjusted quarter-to-quarter comparison, real GDP

surged by 2.2% in the first quarter, up from 0.8% in the preceding quarter (same as the earlier estimate) (Chart).

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

External trade

Total exports of goods picked up to show notable year-on-year growth of 5.2% in real terms in the first quarter, from that of 3.4% in the preceding quarter. This was broadly similar to the growth of 5.9% for 2017 as a whole. Analysed by major market, with reference to external merchandise trade statistics, exports to Asian markets as a whole continued to show robust growth, on the back of buoyant manufacturing activities in the region that generated solid demand for exports of raw materials and semi-manufactures. In particular, exports to the Mainland saw a visible acceleration in growth. Also, exports to the US and the EU increased sizeably, thanks to sustained improvement in final demand in these economies. On a seasonally adjusted quarter-to-quarter basis, total exports of goods grew by 3.1% in real terms in the first quarter.

Exports of services likewise displayed strength in the first quarter, with broad-based growth of 7.5% in real terms over a year earlier, up from 3.9% growth in the preceding quarter and 3.2% growth for 2017 as a whole. Exports of travel services strengthened to show double-digit growth, reflecting the strong recovery of inbound tourism. Notwithstanding the somewhat more volatile financial markets in the first quarter, the solid momentum in the global economy underpinned active financial market activities, resulting in sizeable growth in exports of financial services. Exports of transport services expanded solidly amid vibrant regional trade flows, while exports of business and other services grew modestly. On a seasonally adjusted quarter-to-quarter basis, exports of services continued to rise, by 4.8% in real terms in the first quarter.

Domestic sector

The domestic sector continued to strengthen in the first quarter. Private consumption expenditure grew markedly by 8.6% in real terms over a year earlier. Consumer sentiment was firmly supported by favourable job and income conditions as well as the wealth effect resulting from the buoyant asset markets. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure increased by 3.1% in real terms in the first quarter. Government consumption expenditure continued to grow steadily by 3.9% year-on-year in the first quarter, following 3.2% growth in the preceding quarter.

Overall investment spending in terms of gross domestic fixed capital formation increased further by 3.8% year-on-year in real terms in the first quarter, following growth of 3.5% in 2017. Thanks to the sustained upturn in the global economy, local business sentiment was broadly positive in early 2018. This, together with the sizeable increase in purchases by the public

sector, rendered a notable year-on-year increase in overall machinery and equipment acquisition. Overall building and construction activity saw modest growth in the first quarter, backed by the expansion in public building and construction works. Costs of ownership transfer showed a double-digit increase as property market transactions went up visibly over a year earlier.

The labour sector

The labour market remained tight, with the seasonally adjusted unemployment rate staying at a 20-year low of 2.9% in the first quarter of 2018. The underemployment rate edged down to 1.0%, the lowest level in over 20 years. Total employment continued to grow sturdily over a year earlier. In tandem, wages and earnings registered further year-on-year improvements in real terms, with more notable increases in the lower-skilled segments of the labour market.

The asset markets

The local stock market was bullish on entering 2018, but experienced corrections in the latter part of the first quarter amid a firmer outlook for gradual US interest rate hikes and intensified concerns over the global trading environment. The Hang Seng Index closed the first quarter at 30093, up by only 0.6% from end-2017 and down by 9.2% from its peak in late January. On May 10, the Hang Seng Index closed at 30809.

The residential property market remained buoyant in the first quarter of 2018. While trading volume was 8% lower than the fervent level in the preceding quarter, it was 14% higher than a year ago. Residential property prices increased by 4% between December 2017 and March 2018. Overall flat prices in March 2018 exceeded the 1997 peak by 113%, and the housing affordability ratio worsened to around 71% in the first quarter. Flat rentals rose by 1% during the first quarter. In contrast, office rentals stayed virtually flat over the same period, while those for retail premises fell by 1%.

Prices

Consumer price inflation was moderate in the first quarter, though going up somewhat on the back of strong economic growth as well as some temporary factors. Locally, labour cost pressure was held in check on a unit cost basis, as rises in wages and earnings were largely matched with concurrent growth in labour productivity. Commercial rental cost pressure was contained in general, while the increase in fresh-letting residential rentals over the past year or so continued to feed through gradually to consumer price inflation. External price pressures also remained moderate, only edging up slightly due to the weaker US dollar over the past year and mildly higher inflation in some major import sources amid the global economic upturn. Overall, netting out the effects of the Government's one-off relief measures, underlying consumer price inflation was 2.4% in the first quarter, up from 1.6% in the preceding quarter. Headline consumer price inflation rose to 2.4% from 1.6% in parallel.

Latest GDP and price forecasts for 2018

Looking ahead, the broad-based momentum in the global economy is likely to continue in 2018. The Mainland economy should stay on a robust growth track in 2018 following the strong performance in the first quarter. The US economy is also expected to see faster growth this year as the stimulating effect of the expansionary fiscal policy kicks in. In the euro area and Japan, recent indicators point to further moderate economic growth. The strengthening global demand should be conducive to manufacturing and trading activities in Asia, to the benefit of Hong Kong's exports. Further improvement in inbound tourism should also render additional support to Hong Kong's exports of services. However, external uncertainties have increased of late. Of particular concern are the trade tensions between the US and its trading partners, notably the Mainland, for their potential adverse impacts on global trade flows and investor sentiment. Separately, the evolving global financial conditions amid the expected US rate hikes also warrant close attention.

Domestic demand should continue to stay resilient. Local consumption sentiment is likely to be well underpinned by favourable job and income conditions. The latest Quarterly Business Tendency Survey indicated that large enterprises have turned more upbeat about their near-term business outlook. Ongoing infrastructure works and the measures in the Budget should provide further growth impetus to the economy.

The actual growth outturn of the Hong Kong economy in the first quarter was stronger than expected. Nonetheless, considering the increased uncertainties in the external environment, particularly on the trade and financial fronts, the forecast real GDP growth of 3-4% for 2018, as announced in the Budget, is maintained in the current round of review (Table 2). The Government will continue to closely monitor developments on the external and local fronts. For reference, the latest forecasts by private sector analysts mostly range from 2.8-3.5%, averaging around 3.1%.

On the inflation outlook, the robust economic conditions, if continued, are likely to exert some upward pressures on inflation over the course of 2018, though the inflation rate for the year as a whole should remain moderate. As the outturn in inflation so far has largely been in line with expectations, the forecast rates of underlying and headline consumer price inflation for 2018 as a whole put out in the Budget, at 2.5% and 2.2% respectively, are maintained in the current round of review (Table 2).

The First Quarter Economic Report 2018 is now available for online download, free of charge at www.hkeconomy.gov.hk/en/reports/index.htm. The Report of the Gross Domestic Product, First Quarter 2018, which contains the GDP figures up to the first 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.

Thirty-four immigration offenders arrested

The Immigration Department (ImmD) mounted a series of territory-wide anti-illegal worker operations, including an operation codenamed "Twilight" and a joint operation with the Hong Kong Police Force and the Labour Department codenamed "Champion", from May 7 to 10. A total of 28 illegal workers and six suspected employers were arrested.

During operation "Twilight", ImmD Task Force officers raided 21 target locations including carparks, restaurants, a company, street stalls, a market, warehouses and residential flats. Twenty-one illegal workers and five employers were arrested. The illegal workers comprised 16 men and five women, aged 21 to 54. Among them, eight men and two women were holders of recognisance forms, which prohibit them from taking any employment. Furthermore, five men and four women were also suspected of using and being in possession of forged Hong Kong identity cards. Meanwhile, four men and a woman, aged 38 to 58, were suspected of employing the illegal workers.

Furthermore, during operation "Champion", enforcement officers raided 39 target locations in Aberdeen, Kwai Chung, Tsing Yi and Mongkok district including food stalls, shops, an industrial building, a massage parlour, street stalls, residential flats, a vegetable stall, restaurants and warehouses. Seven illegal workers and one employer were arrested. The illegal workers comprised four men and three women, aged 30 to 61. Among them, one man was also suspected of using and being in possession of a forged Hong Kong identity card. Meanwhile, a woman, aged 52, was suspected of employing the illegal workers.

"Any person who contravenes a condition of stay in force in respect of him shall be guilty of an offence. Also, visitors are not allowed to take employment in Hong Kong, whether paid or unpaid, without the permission of the Director of Immigration. Offenders are liable to prosecution and upon conviction face a maximum fine of \$50,000 and up to two years' imprisonment. Aiders and abettors are also liable to prosecution and penalties," an ImmD spokesman said.

The spokesman warned that, as stipulated in section 38AA of the Immigration Ordinance, illegal immigrants or people who are the subject of a removal order or a deportation order are prohibited from taking any employment, whether paid or unpaid, or establishing or joining in any business. Offenders are liable upon conviction to a maximum fine of \$50,000 and up to three years' imprisonment. The Court of Appeal has issued a guideline ruling that a sentence of 15 months' imprisonment should be applied in such cases.

The spokesman also warned that it is an offence to use or possess a forged Hong Kong identity card or a Hong Kong identity card related to

another person. Offenders are liable to prosecution and a maximum penalty of a \$100,000 fine and up to 10 years' imprisonment.

The spokesman reiterated that it is a serious offence to employ people who are not lawfully employable. The maximum penalty is imprisonment for three years and a fine of \$350,000. The High Court has laid down sentencing guidelines that the employer of an illegal worker should be given an immediate custodial sentence. According to court sentencing, employers must take all practicable steps to determine whether a person is lawfully employable prior to employment. Apart from inspecting a prospective employee's identity card, the employer has the explicit duty to make enquiries regarding the person and ensure that the answers would not cast any reasonable doubt concerning the lawful employability of the person. The court will not accept failure to do so as a defence in proceedings. It is also an offence if an employer fails to inspect the job seeker's valid travel document if the job seeker does not have a Hong Kong permanent identity card. The maximum penalty for failing to inspect such a document is imprisonment for one year and a fine of \$150,000.

Under the existing mechanism, the ImmD will, as a standard procedure, conduct initial screening of vulnerable persons, including illegal workers, illegal immigrants, sex workers and foreign domestic helpers, who are arrested during any operation with a view to ascertaining whether they are trafficking in persons (TIP) victims. When any TIP indicator is revealed in the initial screening, the officers will conduct a full debriefing and identification by using a standardised checklist to ascertain the presence of TIP elements, such as threat and coercion in the recruitment phase and the nature of exploitation. Identified TIP victims will be provided with various forms of support and assistance, including urgent interference, medical services, counselling, shelter, temporary accommodation and other supporting services. The ImmD calls on TIP victims to report crimes to the relevant departments.

Effective Exchange Rate Index

The effective exchange rate index for the Hong Kong dollar on Friday, May 11, 2018 is 99 (down 0.3 against yesterday's index).

High-Level Meeting cum First Plenary

of the Hong Kong-Sichuan Co-operation Conference held in Sichuan (with photo)

The Government of the Hong Kong Special Administrative Region (HKSAR) and the Sichuan Provincial People's Government held the high-level meeting cum First Plenary of the Hong Kong-Sichuan Co-operation Conference (the meeting cum plenary) today (May 11) in Chengdu, Sichuan. The meeting cum plenary established a new co-operation mechanism as a platform for the multifaceted co-operation between Hong Kong and Sichuan.

The meeting cum plenary was led by the Chief Executive of the HKSAR, Mrs Carrie Lam, and the Secretary of the CPC Sichuan Provincial Committee, Mr Peng Qinghua. The Director of the Hong Kong and Macao Affairs Office of the State Council, Mr Zhang Xiaoming, and the Director of the Liaison Office of the Central People's Government in the HKSAR, Mr Wang Zhimin, also attended the meeting cum plenary as special guests.

At the meeting, both sides agreed to establish the Hong Kong-Sichuan Co-operation Conference. Plenaries of the Conference would be jointly convened from time to time as necessary by the Chief Secretary for Administration of the HKSAR Government and the Vice-Governor of the Sichuan Provincial People's Government responsible for Hong Kong and Macao affairs.

"Exchanges between Hong Kong and Sichuan have always been close. Through the HKSAR's participation in the reconstruction work after the massive May 12 Wenchuan earthquake 10 years ago, a solid foundation has been laid down for the co-operation between Hong Kong and Sichuan. This year marks the 40th anniversary of the reform and opening up of China and the 10th anniversary of the massive Wenchuan earthquake. It is especially meaningful to enhance our co-operation with Sichuan at this special juncture," Mrs Lam said.

Hong Kong and Sichuan reached consensus on the following 11 co-operation areas:

The Belt and Road Initiative and economic and trade fronts

To jointly promote strategic partnership between enterprises of the two places for collaborative participation in the Belt and Road Initiative. The HKSAR Government will invite Sichuan Province to join the third Belt and Road Summit in Hong Kong in June 2018. Sichuan enterprises will be invited to participate in investment and business matching sessions and one-to-one business matching meetings, with a view to facilitating co-operation between Hong Kong and Sichuan enterprises in seeking out opportunities related to the Belt and Road Initiative.

The HKSAR Government will organise various types of investment promotion

events, such as seminars, in Chengdu and the other major cities in Sichuan Province, to promote Hong Kong's unique advantages as an international financial centre, with a view to attracting Sichuan enterprises to make use of Hong Kong as an investment platform and to jointly capitalise on the opportunities brought about by the Belt and Road Initiative.

Cultural and creative industries

The Chengdu Management Committee of the Tianfu New Area of Chengdu, Sichuan Province, the Hong Kong Federation of Design Associations and other participating parties have signed a Strategic Co-operation Framework Agreement to take forward the Hong Kong-Sichuan Design and Innovation Hub project. The goal is to construct a platform for in-depth co-operation, with culture and creativity at its core, and design, music and film/TV as extensions.

Hong Kong and Sichuan will enhance cultural exchange in the art form of Xiqu. The West Kowloon Cultural District Authority will send a delegation to Sichuan to study the development of Sichuan opera. The HKSAR Government will also invite operatic troupes from Sichuan Province to participate in the Chinese Opera Festival in Hong Kong when appropriate opportunities arise.

Innovation and technology

To encourage exchange and co-operation in innovation and technology among universities and research and development (R&D) institutions of the two places, including the joint establishment of incubation bases, R&D centres and technology transfer platforms. The HKSAR Government will encourage the supporting organisations of Hong Kong technology start-ups to strengthen exchanges with the relevant organisations in Sichuan Province, with a view to promoting the development of new and advanced technologies and the related industries of the two places.

Finance

To encourage Sichuan enterprises which meet the relevant requirements to "go global" using Hong Kong's financial platforms, including cross-boundary listing, bond issuance, merger and acquisition, risk management, and the establishment of corporate treasury centres in Hong Kong. To encourage Sichuan enterprises which meet the relevant requirements to finance green projects through the capital market of Hong Kong, including the issuance of green bonds in Hong Kong.

Youth development

To jointly promote co-operation in youth exchange. Under the Funding Scheme for Youth Exchange in the Mainland and the Funding Scheme for Youth Internship in the Mainland, the HKSAR Government will provide funding support

to non-governmental organisations (NGOs) of Hong Kong to organise exchange and internship programmes in Sichuan for young people of Hong Kong. The Sichuan Provincial People's Government plans to invite young people of Hong Kong to visit Sichuan through the HKSAR Government's funding schemes under the framework of "Ba-Shu Cultural Exchange for Young People of Hong Kong", with a view to providing opportunities for them to experience the local customs and learn about the new developments of Sichuan, thereby fostering youth exchange of the two places.

The HKSAR Government will continue to organise and enhance the Youth Internship Programme at Wolong National Nature Reserve in the summer of 2018.

Building and construction

The two places will continue to co-organise exchange programmes for construction-related professionals from Sichuan to receive short-term training in Hong Kong.

Education

To continue to promote the pairing up of sister primary and secondary schools, and the co-operation between higher education institutions of the two places. To overcome the constraint of physical distance, the HKSAR Government will set up an online platform for sister schools to facilitate exchanges.

To strengthen the co-operation in vocational education of the two places, the Vocational Training Council (VTC) and the Department of Education of Sichuan Province will enhance co-operation in curriculum development, teacher training, internship and career development for students, as well as innovation and entrepreneurship. The VTC would also co-operate with the Sichuan Vocational and Technical College of Communications in drawing up a talent development programme for railway engineering professionals. The two parties will explore the use of digitalised teaching materials for vocational training, and further co-operate in curriculum development.

Chinese medicine and food safety

To step up co-operation in Chinese medicine, including enhancing academic exchanges, experience-sharing in Chinese hospital development and clinical services, promoting co-operation in research of Chinese medicine testing and standards, conducting meetings from time to time to foster exchange of talents and knowledge, and to jointly promote the internationalisation of Chinese medicine.

To further step up co-operation in food safety between the two places through exchanges on risk management and standards, co-operation in testing technologies, the creation of synergy in emergency management and the establishment of a reciprocal visit and exchange system.

Tourism

To forge co-operation in multi-destination tourism and join hands to conduct activities including publicity and promotion, business matching and familiarisation visits.

Airport and railway construction and management

The MTR Corporation Limited is discussing with the Chengdu Rail Transit Group the co-operation model for the construction and management of the Chengdu metro, property development and the training of railway professionals. The two parties have signed a Memorandum of Co-operation, and will set up a working group to study the feasibility of joint property development above the stations along the rail lines in Chengdu.

The Airport Authority Hong Kong and the Sichuan Airport Group will strengthen exchanges among aviation professionals. The Hong Kong International Aviation Academy and the Sichuan Airport Group will jointly formulate the 2018 airport operations and management training proposal. The Sichuan Airport Group will also send its staff to join the courses conducted by the Academy in Hong Kong.

Facilitation measures for Hong Kong people

For the policy measures introduced by the relevant Central Government departments to facilitate Hong Kong people studying, working and living in the Mainland (facilitation measures), the Sichuan Provincial People's Government will ensure the smooth implementation of these measures at the local level, so as to allow Hong Kong people in Sichuan Province to enjoy the same treatment as Mainland residents in the areas of education, employment, setting up business and daily life matters. The Sichuan Provincial People's Government has rolled out a "one-stop" advisory services portal to serve Hong Kong people in Sichuan Province by providing information related to the facilitation measures and answering enquires.

Officials of the HKSAR Government accompanying the Chief Executive to attend the meeting cum plenary include the Chief Secretary for Administration, Mr Matthew Cheung Kin-chung; the Secretary for Constitutional and Mainland Affairs, Mr Patrick Nip; the Secretary for Food and Health, Professor Sophia Chan; the Secretary for Development, Mr Michael Wong; and other representatives of the relevant bureaux and departments.



Special traffic arrangements for race meeting in Sha Tin tomorrow

Police advise motorists that special traffic arrangements will be implemented in Sha Tin to facilitate the race meeting tomorrow (May 12).

The arrangements will come into effect two hours before the start of the first race and will last until the crowds have dispersed after the race meeting.

Appropriate traffic signs will be put up and police will be on hand to guide motorists.

The Police also appeal to people going to Sha Tin Racecourse for the race meeting and to Happy Valley Racecourse for cross betting to make maximum use of public transport.

Parking spaces at the two racecourses are available only to holders of appropriate permits issued by Hong Kong Jockey Club and any vehicles illegally parked will be towed away.