

# Economic situation in first quarter of 2021 and latest GDP and price forecasts for 2021

The Government released today (May 14) the First Quarter Economic Report 2021, together with the revised figures on Gross Domestic Product (GDP) for the first quarter of 2021.

The Government Economist, Mr Andrew Au, described the economic situation in the first quarter of 2021 and the latest GDP and price forecasts for 2021.

## Main points

\* The Hong Kong economy recovered visibly in the first quarter of 2021, led by very strong growth of exports of goods alongside a sharp rebound in global demand. Real GDP resumed appreciable year-on-year growth of 7.9%, ending six consecutive quarters of contraction. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew notably by 5.4%, increasing for three quarters in a row. However, the economic recovery was uneven and overall economic activity remained below the pre-recession level, as the pandemic continued to weigh on certain economic segments, particularly those involving consumer-facing activities.

\* Total exports of goods surged by 30.2% year-on-year in real terms in the first quarter, thanks to the global economic recovery led by the Mainland and the US. Exports of services saw a visibly narrowed year-on-year decline of 8.1% in real terms. Although inbound tourism remained in the doldrums, cross-boundary transport and business services improved alongside the improving external environment and vibrant regional trade flows, and exports of financial services continued to expand.

\* Consumption and investment demand revived somewhat but stayed relatively subdued. Private consumption expenditure grew only modestly by 1.6% year-on-year in real terms in the first quarter even against an exceptionally low base of comparison, as the fourth wave of the local epidemic disrupted consumption activities especially in the early part of the quarter, and outbound tourism was severely hindered. Overall investment expenditure sustained moderate year-on-year growth of 4.5% in real terms.

\* The labour market was under notable pressure in the first quarter, though it stabilised in the latter part of the quarter as the epidemic receded. It may take some time before the economic recovery is translated into a more visible labour market recovery. The seasonally adjusted unemployment rate went up from 6.6% in the fourth quarter of 2020 to a 17-year high of 7.2% in the three-month period ending February 2021, before declining to 6.8% in the first quarter of 2021.

\* The local stock market showed some volatility in the first quarter. It

extended its rally in early 2021 amid hopes for a sustained global economic recovery with the rollout of mass COVID-19 vaccination programmes in many economies, but retreated somewhat alongside rising inflation expectations in the US and concerns over possible monetary tightening in the Mainland. As to the residential property market, trading activities picked up further in the first quarter amid more upbeat sentiment, while flat prices reverted to an increase of 2%.

\* The global economy has gathered steam entering 2021 thanks to strong fiscal and monetary support worldwide and the rollout of mass vaccination. The sustained revival of some major economies, particularly the Mainland and the US, should continue to bode well for regional trade flows and Hong Kong's external segments in the near term. Nonetheless, the pandemic remains a key source of uncertainty surrounding the global economic outlook. International travel and inbound tourism will likely take time to recover in view of the still austere epidemic situation in many places around the world. Other key uncertain factors, including China-US relations and geopolitical tensions, also warrant attention.

\* Domestically, the business receipts of many consumer-facing sectors remained far below the pre-recession levels, but business sentiment has shown improvement recently alongside the receding local epidemic. The economic recovery, coupled with the support from various government relief measures, should also help domestic demand to improve in the period ahead. Nevertheless, it is essential for the community as a whole to work together to keep the epidemic under control and to actively participate in the COVID-19 Vaccination Programme so as to create conditions for a more visible revival of consumer-facing activities and hence a full-fledged economic recovery.

\* Considering that the economic recovery is uneven and the uncertainty associated with the pandemic is still high, the real GDP growth forecast of 3.5% to 5.5% for 2021 as announced in the Budget is maintained in the current round of review. Yet, the actual outturn can hopefully be near the upper end of the range forecast if the pandemic situation improves in the period ahead. The Government will continue to closely monitor the situation.

\* The underlying Composite Consumer Price Index (CCPI) fell mildly by 0.1% year-on-year in the first quarter after rising by 0.2% in the preceding quarter, mainly attributable to easing food inflation and an enlarged fall in private housing rentals. Price pressures on other major CCPI components stayed very mild. Looking ahead, while local inflation may go up slightly alongside the economic recovery, overall price pressures should stay mild for the year as a whole as the local economy is still operating below its capacity and global inflation remains largely contained. As the developments so far have been largely in line with expectations, the forecast rates of underlying and headline consumer price inflation for 2021 are maintained at 1% and 1.6% respectively in the current round of review, the same as those announced in the Budget.

Details

## GDP

According to the revised figures on GDP released today by the Census and Statistics Department, GDP grew appreciably by 7.9% in real terms in the first quarter of 2021 over a year earlier (revised from the advance estimate of 7.8%), having declined by 2.8% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew notably by 5.4% in the first quarter (revised from the advance estimate of 5.3%), a marked acceleration from the 0.5% increase in the preceding quarter (Chart).

The latest figures on GDP and its major expenditure components up to the first quarter of 2021 are presented in Table 1. Developments in different segments of the economy in the first quarter of 2021 are described below.

### External trade

Total exports of goods surged by 30.2% in real terms in the first quarter of 2021 over a year earlier, much faster than the 5.5% increase in the preceding quarter. The strong performance was driven by the visible revival of global trading and production activities along with the pickup of demand in many major markets, especially the Mainland. Analysed by market, exports to the Mainland soared, and those to the US and the EU registered strong increases. Those to other major markets in Asia also picked up visibly. On a seasonally adjusted quarter-to-quarter basis, total exports of goods grew notably by 14.4% in real terms in the first quarter, having increased by 2.9% in the preceding quarter.

Exports of services saw a visibly narrowed decline of 8.1% year-on-year in real terms in the first quarter of 2021 partly due to a low base of comparison a year earlier, having plunged by 28.8% in the preceding quarter. Exports of travel services remained in the doldrums amid continued travel restrictions worldwide. Nonetheless, exports of transport services resumed growth thanks to vibrant regional trade and cargo flows. Exports of business and other services saw some improvement along with the recovery of the global economy. Exports of financial services continued to expand, supported by cross-border financial and fund-raising activities. On a seasonally adjusted quarter-to-quarter basis, exports of services grew by 9.2% in real terms in the first quarter, having decreased by 5.5% in the preceding quarter.

### Domestic sector

Consumption and investment demand revived somewhat but stayed relatively subdued. Private consumption expenditure grew only modestly by 1.6% in real terms in the first quarter of 2021 even against an exceptionally low base of comparison due to the COVID-19 outbreak a year earlier, having declined by 6.9% in the preceding quarter. Consumption activities were disrupted by the fourth wave of the local epidemic, especially in the early part of the quarter. The austere labour market situation also affected consumer sentiment. Meanwhile, outbound tourism was severely hindered through the quarter. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure grew by 0.9% in real terms in the first quarter after increasing by 1.4% in the preceding quarter. Meanwhile, government

consumption expenditure rose by 6.8% year-on-year in real terms in the first quarter, after 6.1% growth in the preceding quarter.

Overall investment spending in terms of gross domestic fixed capital formation grew moderately by 4.5% in real terms in the first quarter of 2021 over a year earlier, following a 3.6% increase in the preceding quarter. Within the total, expenditure on acquisitions of machinery, equipment and intellectual property products increased further by 3.4%, as the business outlook turned less gloomy amid a more benign external environment and the receding local epidemic. Expenditure on building and construction continued to decline by 5.0%, as the noticeable fall in private sector spending more than offset the increase in public sector spending. Meanwhile, the costs of ownership transfer surged, as the volumes of both residential and non-residential property transactions were much higher than a year earlier.

### The labour sector

The labour market was under notable pressure in the first quarter of 2021, though it stabilised in the latter part of the quarter as the epidemic receded. It may take some time before the economic recovery is translated into a more visible labour market recovery. The seasonally adjusted unemployment rate went up from 6.6% in the fourth quarter of 2020 to a 17-year high of 7.2% in the three-month period ending February 2021, before declining to 6.8% in the first quarter of 2021. Likewise, the underemployment rate increased from 3.4% in the fourth quarter of 2020 to a post-SARS high of 4.0% in the three-month period ending February 2021, and then edged down to 3.8% in the first quarter of 2021. Overall wages and labour earnings continued to show year-on-year increases in nominal terms in the fourth quarter of 2020, but the rates of increase were the slowest in over a decade.

### The asset markets

The local stock market showed some volatility in the first quarter of 2021. It extended its rally in early 2021 amid hopes for a sustained global economic recovery with the rollout of mass COVID-19 vaccination programmes in many economies, but retreated somewhat alongside rising inflation expectations in the US and concerns over possible monetary tightening in the Mainland. The Hang Seng Index (HSI) closed the quarter at 28 378, 4.2% higher than end-2020. On May 13, the HSI closed at 27 719.

The residential property market turned more active in the first quarter of 2021 amid more upbeat sentiment. The low interest rate environment and firm end-user demand continued to render support to the market, and the abating local epidemic situation towards the end of the quarter also helped. Trading activities picked up further. 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, rose by 6% from the preceding quarter or 78% over the low base a year earlier to 18 131 in the first quarter. Flat prices reverted to an increase of 2% during the first quarter. The index of home purchase affordability rose to about 73%. Meanwhile, flat rentals edged down by 1% during the quarter. The commercial

and industrial property markets continued to revive, following the abolition of the Double Stamp Duty on non-residential property transactions in late November 2020. Trading activities for all major market segments recorded further increases over the preceding quarter, though remaining at relatively low levels by historical standards. Prices for major market segments rose during the quarter, while rentals declined.

## Prices

Consumer price pressures eased further in the first quarter of 2021. Netting out the effects of the Government's one-off relief measures to reflect the underlying inflation trend, the underlying CCPI fell mildly by 0.1% year-on-year in the first quarter after rising by 0.2% in the preceding quarter. The decline was mainly attributable to easing food inflation and an enlarged fall in private housing rentals. Price pressures on other major CCPI components stayed very mild as the economy was still operating below its capacity. Domestically, the decline in private housing rentals widened as the effect of softening fresh-letting residential rentals in the past year or so turned more apparent. Business cost pressures continued to abate, with wages rising at the slowest pace in nearly 11 years and commercial rentals falling further. Meanwhile, external price pressures remained tame. While inflation rates in some import sources rose slightly alongside the revival in economic activities and the recent surge of international commodity and energy prices, the substantial slack in the global economy kept a lid on imported inflation. Overall prices of merchandise imports thus only saw a modest year-on-year increase. The headline CCPI went up by 0.9% year-on-year in the first quarter, after posting a modest decline of 0.3% in the preceding quarter, reflecting the low base of comparison arising from the Government's one-off relief measures in January last year.

## Latest GDP and price forecasts for 2021

The global economy has gathered steam entering 2021 thanks to strong fiscal and monetary support worldwide and the rollout of mass vaccination. The sustained revival of some major economies, particularly the Mainland and the US, should continue to bode well for regional trade flows and Hong Kong's external segments in the near term. Nonetheless, the pandemic remains a key source of uncertainty surrounding the global economic outlook. International travel and inbound tourism will likely take time to recover in view of the still austere epidemic situation in many places around the world. Other key uncertain factors, including China-US relations and geopolitical tensions, also warrant attention.

Domestically, the business receipts of many consumer-facing sectors remained far below the pre-recession levels, but business sentiment has shown improvement recently alongside the receding local epidemic. The economic recovery, coupled with the support from various government relief measures, should also help domestic demand to improve in the period ahead. Nevertheless, it is essential for the community as a whole to work together to keep the epidemic under control and to actively participate in the COVID-19 Vaccination Programme so as to create conditions for a more visible revival of consumer-facing activities and hence a full-fledged economic

recovery.

Considering that the economic recovery is uneven and the uncertainty associated with the pandemic is still high, the real GDP growth forecast of 3.5% to 5.5% for 2021 as announced in the Budget is maintained in the current round of review (Table 2). Yet, the actual outturn can hopefully be near the upper end of the range forecast if the pandemic situation improves in the period ahead. The Government will continue to closely monitor the situation. For reference, the latest forecasts by private sector analysts range from 2.5% to 9.2%, averaging around 5.3%.

On the inflation outlook, while local inflation may go up slightly alongside the economic recovery, overall price pressures should stay mild for the year as a whole as the local economy is still operating below its capacity and global inflation remains largely contained. As the developments so far have been largely in line with expectations, the forecast rates of underlying and headline consumer price inflation for 2021 are maintained at 1% and 1.6% respectively in the current round of review, the same as those announced in the Budget (Table 2).

The First Quarter Economic Report 2021 is now available for online download, free of charge at [www.hkeconomy.gov.hk/en/situation/index.htm](http://www.hkeconomy.gov.hk/en/situation/index.htm). The Report of the Gross Domestic Product, First Quarter 2021, which contains the GDP figures up to the first quarter of 2021, 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).