

Economic situation in the second quarter of 2021 and latest GDP and price forecasts for 2021

The Government released today (August 13) the Half-yearly Economic Report 2021, together with the revised figures on Gross Domestic Product (GDP) for the second quarter of 2021.

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

Main points

* The Hong Kong economy remained on track for recovery in the second quarter of 2021 alongside the improving global economic conditions and receding local epidemic. Real GDP continued to grow notably by 7.6% in the second quarter over a year earlier. For the first half of 2021 as a whole, real GDP grew by 7.8% year-on-year. Yet the economic recovery remained uneven, with exports of goods surpassing the high recorded in the same period of 2018 by a considerable margin while inbound tourism remaining frozen. Consumption-related activities revived further but were still far below their pre-recession levels. On a seasonally adjusted quarter-to-quarter comparison, real GDP fell modestly by 0.9%, mainly reflecting the high base created by the exceptionally strong performance of exports of goods in the first quarter when real GDP expanded by 5.5%.

* Total exports of goods grew strongly by 20.2% year-on-year in real terms in the second quarter, underpinned by the revival of external demand and vibrant production activity in the region. Exports of services resumed modest growth of 2.6% in real terms from a low base of comparison. While services exports relating to inbound tourism and passenger transport remained in the doldrums and exports of financial services fell marginally, those relating to cargo flows and business services improved further along with the global economic recovery.

* Consumption and investment demand gathered further steam. Private consumption expenditure grew by 6.8% year-on-year in real terms in the second quarter on the back of the receding local epidemic and improving labour market situation. Overall investment expenditure saw accelerated growth of 23.8% year-on-year in real terms, reflecting improved business sentiment and a low base of comparison.

* The labour market improved as economic activity continued to recover. The seasonally adjusted unemployment rate declined visibly, from the peak of 7.2% in December 2020 – February 2021 to 6.8% in the first quarter of 2021 and further to 5.5% in the second quarter. Average wages and labour earnings rose further year-on-year in nominal terms in the first quarter, albeit at the

slowest pace in more than 11 years.

* The local stock market stayed range-bound during the second quarter, though market sentiment was swayed by various developments from time to time, including the improved global economic outlook amid the progress in mass vaccination in many major economies, worries about the threat of new virus variants, and concerns over a faster than expected monetary policy tightening in the US. The residential property market turned more active with flat prices rising by another 1% during the quarter.

* The global economy has continued to recover, thanks to the rollout of mass vaccinations and strong fiscal and monetary support in many major economies. The reviving external demand should continue to support Hong Kong's exports of goods in the rest of the year, though there may be some moderation from the exceptionally strong growth in the first half. Services exports should likewise sustain growth. Nevertheless, the more infectious Delta variant has been raging around the world of late, posing a threat to the global economy. Other major risk factors such as China-US relations, geopolitical tensions and the evolving monetary policy stance of major central banks also warrant attention.

* Domestically, consumption and business sentiments turned more positive in recent months amid the global economic recovery and the stabilised local epidemic situation. The improving labour market, coupled with the boost from the Consumption Voucher Scheme, will help stimulate consumption sentiment and lend support to consumption-related sectors. To create conditions for a broader based economic recovery, it is essential for the community to keep the epidemic under control and strive towards more widespread vaccination.

* Barring any abrupt worsening in global economic conditions due to the pandemic developments, the Hong Kong economy should stay on the path to recovery in the rest of 2021. Considering the robust real GDP outturn in the first half of the year and the support from the Consumption Voucher Scheme, the real GDP growth forecast for 2021 as a whole is revised upwards to 5.5%-6.5% in the current round of review, from 3.5%-5.5% as announced in the May round of review. Yet, even if economic growth attains the upper bound of the latest range forecast, real GDP for 2021 as a whole will still be about 2% below the level in 2018. The Government will continue to closely monitor the situation.

* The underlying Composite Consumer Price Index (CCPI) rose modestly by 0.3% year-on-year in the second quarter of 2021, after a decline of 0.2% in the preceding quarter as domestic economic activity continued to recover and external price pressures increased. Looking ahead, while underlying inflation will likely go up somewhat in the near term alongside the economic recovery and rising import prices, overall price pressures should remain largely contained as the local economy is still operating below capacity. 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 May round of review.

Details

GDP

According to the revised figures on the GDP released today by the Census and Statistics Department, GDP grew notably by 7.6% in real terms in the second quarter of 2021 over a year earlier (revised from the advance estimate of 7.5%), further to an 8.0% increase in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP fell modestly by 0.9% in the second quarter (revised from the advance estimate of -1.0%), after posting very strong growth of 5.5% in the preceding quarter led by an exceptionally rapid expansion in exports of goods (Chart).

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

External trade

Total exports of goods grew markedly by 20.2% in real terms in the second quarter of 2021 over a year earlier, after surging by 30.1% in the preceding quarter. Strong revival of import demand in major economies and vibrant production activity in the region rendered support to Hong Kong's export performance. Analysed by market, exports to the Mainland saw notable growth, and those to the US and the EU sustained double-digit increases. Exports to other major markets in Asia also posted visible gains. On a seasonally adjusted quarter-to-quarter basis, total exports of goods fell by 1.9% in real terms in the second quarter, having soared by 14.3% in the preceding quarter.

Exports of services resumed modest year-on-year growth of 2.6% in real terms in the second quarter of 2021 from a low base of comparison, having declined by 7.3% in the preceding quarter. Inbound tourism remained frozen, though exports of travel services posted a double-digit increase due to base effect. Exports of transport services saw accelerated growth amid improved regional trade and cargo flows, but cross-boundary passenger transport remained subdued. Exports of business and other services resumed growth alongside the global economic recovery. Meanwhile, exports of financial services fell marginally due to moderated cross border financial activities. On a seasonally adjusted quarter-to-quarter basis, exports of services fell by 7.7% in real terms in the second quarter, after a notable increase of 10.2% in the preceding quarter.

Domestic sector

Consumption and investment demand gathered further steam in the second quarter of 2021. Private consumption expenditure grew by 6.8% year-on-year in real terms against a low base of comparison, after expanding by 2.1% in the preceding quarter. Consumption-related activities continued to revive alongside the receding local epidemic and improving labour market situation. However, outbound tourism activities remained severely hindered amid widespread travel restrictions. On a seasonally adjusted quarter to quarter

comparison, private consumption expenditure grew further by 1.5% in real terms in the second quarter after increasing by 1.4% in the preceding quarter. Meanwhile, government consumption expenditure rose by 2.8% year-on-year in real terms in the second quarter, after a 7.0% growth in the preceding quarter.

Overall investment spending in terms of gross domestic fixed capital formation saw accelerated growth of 23.8% in real terms in the second quarter of 2021 against a low base a year earlier, following a 4.8% increase in the preceding quarter. Within the total, expenditure on acquisitions of machinery, equipment and intellectual property products surged by 61.7%, reflecting improved business sentiment alongside the global economic recovery and the stabilised local epidemic situation. Expenditure on building and construction continued to fall, albeit by a narrowed 1.1%, as the weakness in private sector spending more than offset the increase in public sector spending. Meanwhile, the costs of ownership transfer rose visibly, buttressed by markedly higher volumes of both residential and non-residential property transactions than year-ago levels.

The labour sector

The labour market showed improvement as economic activity continued to recover. The seasonally adjusted unemployment rate declined visibly, from the peak of 7.2% in December 2020 – February 2021 to 6.8% in the first quarter of 2021 and further to 5.5% in the second quarter. The unemployment rates of retail, accommodation and food services, construction, and arts, entertainment and recreation sectors fell visibly. The underemployment rate likewise decreased from the peak of 4.0% to 3.8% and further to 2.5%. Wages and labour earnings on average rose further in nominal terms in the first quarter over a year earlier, albeit at the slowest pace in more than 11 years. The median monthly household income reverted to a year-on-year increase of 3.0% in the second quarter, though still visibly below the pre-recession level.

The asset markets

The local stock market stayed range-bound during the second quarter of 2021, though market sentiment was swayed by various developments from time to time, including the improved global economic outlook amid the progress in mass vaccination in many major economies, worries about the threat of new virus variants, and concerns over a faster than expected monetary policy tightening in the US. The Hang Seng Index (HSI) moved within a range of around 27 700 to 29 500 during the quarter and closed at 28 828 at end-June, up by 1.6% over end March. On August 12, the HSI closed at 26 518.

The residential property market was buoyant in the second quarter of 2021, supported by the low interest rate environment, firm end-user demand and improving economic prospects. 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, increased notably by 21% over the preceding quarter or 29% over a year earlier to 22 000 in the second quarter, the highest since the second quarter of 2012. Flat prices

rose by 1% during the second quarter, and the index of home purchase affordability rose to around 75%. Meanwhile, flat rentals reverted to an increase of 2% during the quarter. The commercial and industrial property markets stayed firm. Trading activities for all major market segments recorded further increases over the preceding quarter. Prices and rentals for most major market segments turned firmer.

Prices

Underlying consumer price inflation remained tame in the second quarter of 2021, though going up slightly as domestic economic activity continued to recover and external price pressures increased. Netting out the effects of the Government's one-off relief measures to reflect the underlying inflation trend, the underlying CCPI registered a modest year-on-year increase of 0.3% in the second quarter, after a decline of 0.2% in the preceding quarter. This was mainly attributable to the reversal to increase in prices of transport and meals out and takeaway food. Domestically, the year-on-year decline in private housing rentals widened as the effect of earlier softening in fresh-letting residential rentals continued to feed through. Business cost pressures were mild as wage growth remained slow and commercial rentals were lower than year-ago levels. External price pressures however increased rather visibly. Inflation in many import sources picked up alongside the global economic recovery, surges in international commodity and energy prices, and supply bottlenecks in many economies. These developments, together with the weakness of the US dollar over the past year, resulted in a faster year-on-year increase in prices of merchandise imports. Nevertheless, the increases in import prices of consumer goods and foodstuffs were still moderate. The headline CCPI went up by 0.8% year on-year in the second quarter, after an increase of 1.2% in the preceding quarter. The higher headline inflation rate in the first quarter was mainly due to the low base of comparison arising from the Government's payment of public housing rentals and waiver of rent for tenants by the Hong Kong Housing Society in January last year.

Latest GDP and price forecasts for 2021

The global economy has continued to recover, thanks to the rollout of mass vaccinations and strong fiscal and monetary support in many major economies. The reviving external demand should continue to support Hong Kong's exports of goods in the rest of the year, though there may be some moderation from the exceptionally strong growth in the first half. Services exports should likewise sustain growth. Nevertheless, the more infectious Delta variant has been raging around the world of late, posing a threat to the global economy. Other major risk factors such as China-US relations, geopolitical tensions and the evolving monetary policy stance of major central banks also warrant attention.

Domestically, consumption and business sentiments turned more positive in recent months amid the global economic recovery and the stabilised local epidemic situation. The improving labour market, coupled with the boost from the Consumption Voucher Scheme, will help stimulate consumption sentiment and lend support to consumption-related sectors. To create conditions for a broader based economic recovery, it is essential for the community to keep

the epidemic under control and strive towards more widespread vaccination.

Barring any abrupt worsening in global economic conditions due to the pandemic developments, the Hong Kong economy should stay on the path to recovery in the rest of 2021. Considering the robust real GDP outturn in the first half of the year and the support from the Consumption Voucher Scheme, the real GDP growth forecast for 2021 as a whole is revised upwards to 5.5%-6.5% in the current round of review, from 3.5%-5.5% as announced in the May round of review (Table 2). Yet, even if economic growth attains the upper bound of the latest range forecast, real GDP for 2021 as a whole will still be about 2% below the level in 2018. The Government will continue to closely monitor the situation. For reference, the latest forecasts by private sector analysts range from 5.0% to 7.3%, averaging around 6.4%.

On the inflation outlook, while underlying inflation will likely further go up somewhat in the near term alongside the economic recovery and rising import prices, overall price pressures should remain largely contained as the local economy is still operating below capacity. 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 May round of review (Table 2).

The Half-yearly Economic Report 2021 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, Second Quarter 2021, which contains the GDP figures up to the second 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).