

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

The Government released today (November 12) the Third Quarter Economic Report 2021, together with the revised figures on Gross Domestic Product (GDP) for the third quarter of 2021.

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

## Main points

\* Hong Kong's economic recovery became more entrenched in the third quarter alongside the further revival of global economic activity and stable local epidemic situation. Real GDP grew by 5.4% year-on-year in the third quarter, following a 7.6% growth in the second quarter. The pace of expansion moderated somewhat on account of the stronger-than-expected growth in the first half of the year and the higher base effect. For the first three quarters as a whole, real GDP grew by 7.0% over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, real GDP rose slightly by 0.1% in the third quarter.

\* Total exports of goods grew notably by 14.2% year-on-year in real terms in the third quarter, supported by the continued revival of major economies and vibrant regional trade flows. Exports of services increased moderately by 4.2% year-on-year in real terms as exports of transport services accelerated further amid active regional trade and cargo flows, while cross-border business and financial activities also increased. Yet, exports of travel services remained at a very low level as inbound tourism was virtually at a standstill, constraining the extent of the economic recovery.

\* Consumption and investment demand stayed on a firm recovery path in the third quarter. Private consumption expenditure rose appreciably by 7.1% year-on-year in real terms thanks to the stable local epidemic situation, improved labour market conditions and the Consumption Voucher Scheme. Overall investment expenditure grew by 10.8% year-on-year in real terms as business conditions improved and property transactions increased visibly over a year earlier.

\* The labour market continued to recover in the third quarter, along with the sustained revival of local economic activity. The seasonally adjusted unemployment rate fell further from 5.5% in the second quarter to 4.5% in the third quarter, and the underemployment rate from 2.5% to 2.1%, both visibly lower than their respective peaks of 7.2% and 4.0% in December 2020 – February 2021. Wages and labour earnings on average showed modest yet faster year on year increases in nominal terms in the second quarter, reversing the general trend of deceleration in the past two years or so.

\* The local stock market underwent a sharp correction in the third quarter, dampened by uncertainties over the monetary policy stance in the US, the regulatory requirements in the Mainland, and the global economic outlook amid the spread of COVID-19 variant cases across the world and disrupted transportation and supply chains. The residential property market remained generally active, while flat prices on average edged up by 1% for the quarter as a whole.

#### Latest economic forecasts for 2021

\* The global economy has stayed on the recovery track, but the momentum has slowed somewhat in recent months amid the surge in Delta variant infections and supply bottlenecks in many places. This may weigh on the performance of Hong Kong's merchandise exports going forward. Moreover, elevated energy and commodity prices and higher inflation in the US and Europe have cast uncertainties over the future course of major central banks' monetary policies. Developments in China-US relations and geopolitical tensions also require attention.

\* Domestically, business sentiment largely remained positive, but turned somewhat more cautious compared to a few months ago amid the increased external headwinds. Nonetheless, the stable local epidemic situation has created favourable conditions for the further revival of domestic activity. The improving employment and income conditions along with the Consumption Voucher Scheme should also remain supportive to consumption-related sectors in the near term. To pave way for a broader-based economic recovery, it is essential for the community to strive towards more widespread vaccination and abide by the anti-epidemic measures.

\* The COVID-19 pandemic development across the world remains the key source of uncertainty surrounding the economic outlook. Provided that the local epidemic remains under control, a solid year-on-year growth in the fourth quarter should be attainable for the Hong Kong economy. Considering the actual outturn in the first three quarters of the year, the real GDP growth forecast for 2021 as a whole is revised to 6.4% in the current round of review, close to the upper bound of the forecast range of 5.5%-6.5% as announced in mid-August. Yet, the latest forecast suggests that 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 by 1.1% in the third quarter over a year earlier, up from 0.3% in the preceding quarter. While this was partly due to the larger price increases in some consumption-related items amid the stabilised local epidemic situation and improved consumption demand, the low bases of comparison for some CPI items were also relevant. Looking ahead, while overall inflationary pressures will likely increase in the near term alongside the economic recovery and rising import prices, the underlying inflation should remain in check in the rest of this year. Given the actual outturn of 0.4% in the first three quarters of the year, the forecast rate of underlying inflation for 2021 as a whole is revised downwards to 0.7% from 1% in the August round of review. The corresponding forecast rate of headline inflation is 1.6%.

## Details

### GDP

According to the revised figures on the GDP released today by the Census and Statistics Department, GDP grew by 5.4% in real terms in the third quarter of 2021 over a year earlier (same as the advance estimate), following a 7.6% growth in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP rose slightly by 0.1% in the third quarter (same as the advance estimate), after falling by 0.9% in the preceding quarter (Chart).

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

### External trade

Total exports of goods registered notable year-on-year growth of 14.2% in real terms in the third quarter of 2021, having surged by 20.5% in the preceding quarter, thanks to the continued revival of major economies and vibrant regional trade flows. Analysed by market, exports to the Mainland, the US and the EU continued to show double-digit growth. Exports to most of the other major markets in Asia saw robust performance. On a seasonally adjusted quarter-to-quarter basis, total exports of goods fell by 1.7% in real terms in the third quarter, the same pace of decline as in the preceding quarter.

Exports of services increased moderately by 4.2% year-on-year in real terms in the third quarter of 2021 after a 3.0% growth in the preceding quarter. As regional trade and cargo flows remained active, exports of transport services accelerated further despite subdued cross-boundary passenger transport. Exports of business and other services posted mild growth amid the global economic recovery. Exports of financial services increased along with the pick-up in cross-border financial activities. Meanwhile, exports of travel services remained at a very low level as inbound tourism was virtually at a standstill. On a seasonally adjusted quarter-to-quarter basis, exports of services grew by 7.8% in real terms in the third quarter, after a fall of 7.3% in the preceding quarter.

### Domestic sector

Consumption and investment demand stayed on a solid recovery path in the third quarter of 2021. Private consumption expenditure grew appreciably by 7.1% in real terms over a year earlier, further to a 7.2% expansion in the preceding quarter. Consumption-related activities revived further in the third quarter thanks to the stable local epidemic situation, improved labour market conditions and the Consumption Voucher Scheme. Outbound tourism activities, though increased moderately from the low base last year, were still depressed amid the evolving global pandemic. On a seasonally adjusted quarter to quarter comparison, private consumption expenditure increased by

2.1% in real terms in the third quarter, further to a 2.0% growth in the preceding quarter. Meanwhile, government consumption expenditure rose by 4.3% year-on-year in real terms in the third quarter, after a 3.0% growth in the preceding quarter.

Overall investment spending in terms of gross domestic fixed capital formation grew by 10.8% in real terms in the third quarter of 2021 over a year earlier, following a 23.9% increase in the preceding quarter. Within the total, expenditure on acquisitions of machinery, equipment and intellectual property products surged by 19.6% thanks to improved business outlook. Expenditure on building and construction turned to a marginal increase of 0.3% as private sector spending grew modestly while public sector spending stayed virtually unchanged. Meanwhile, the costs of ownership transfer continued to rise sharply, as property transactions were visibly higher than a year earlier.

#### The labour sector

The labour market continued to improve in the third quarter of 2021, along with the sustained revival of local economic activity. The seasonally adjusted unemployment rate fell further from 5.5% in the second quarter to 4.5% in the third quarter, and the underemployment rate from 2.5% to 2.1%, both visibly lower than their respective peaks of 7.2% and 4.0% in December 2020 – February 2021. Wages and labour earnings on average showed modest yet faster year on year increases in nominal terms in the second quarter, reversing the general trend of deceleration in the past two years or so.

#### The asset markets

The local stock market underwent a sharp correction in the third quarter of 2021, dampened by uncertainties over the monetary policy in the US, the regulatory requirements in the Mainland, and the global economic outlook amid the spread of COVID-19 variant cases across the world and disrupted transportation and supply chains. The Hang Seng Index (HSI) fell to 24 099 on September 20, before closing the quarter at 24 576, down markedly by 14.8% from end June. On November 11, the HSI closed at 25 248.

In the third quarter of 2021, the residential property market continued to be supported by the low interest rate environment, firm end-user demand and the local economic recovery. While 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, retreated by 14% from the hectic level in the preceding quarter to 18 969 in the third quarter, it was 22% higher than a year earlier and significantly above the quarterly average of around 14 700 in 2016-2020. Flat prices on average edged up by 1% between June and September, and the index of home purchase affordability remained elevated at around 75%. Meanwhile, flat rentals on average saw a further increase of 3% during the third quarter. The commercial and industrial property markets continued to improve from the weakness in the latter part of 2019 and 2020, though trading activities for all major market segments retreated somewhat from the preceding quarter. Prices and rentals largely stayed firm in the third quarter.

## Prices

Underlying consumer price inflation went up but remained moderate in the third quarter of 2021. Netting out the effects of the Government's one-off relief measures to reflect the underlying inflation trend, the underlying CCPI rose by 1.1% in the third quarter over a year earlier, up from 0.3% in the preceding quarter. While this was partly due to the larger price increases in some consumption-related items amid the stabilised local epidemic situation and improved consumption demand, the low bases of comparison for some CPI items were also relevant. Domestically, the year-on-year decline in private housing rentals narrowed slightly as the effect of the recent rises in fresh-letting residential rentals gradually fed through. As the economy was still operating below capacity, business cost pressures remained tame, with wages registering modest year-on-year growth and commercial rentals staying soft. Yet, external price pressures increased further amid higher inflation in some major import sources resulting from increasing demand and supply bottlenecks. Elevated international commodity and energy prices, together with the lower exchange values of the US dollar vis-à-vis other major currencies than a year earlier, also contributed to a faster year-on-year increase in prices of many merchandise import items. The headline CCPI rose by 2.3% in the third quarter over a year earlier, having risen by 0.8% in the preceding quarter. The higher headline inflation rate in the third quarter partly reflected the low base of comparison arising from the payment of one-month public housing rentals by the Government and rent waiver for tenants by the Hong Kong Housing Society in July 2020.

## Latest GDP and price forecasts for 2021

The global economy has stayed on the recovery track, but the momentum has slowed somewhat in recent months amid the surge in Delta variant infections and supply bottlenecks in many places. This may weigh on the performance of Hong Kong's merchandise exports going forward. Moreover, elevated energy and commodity prices and higher inflation in the US and Europe have cast uncertainties over the future course of major central banks' monetary policies. Developments in China-US relations and geopolitical tensions also require attention.

Domestically, business sentiment largely remained positive, but turned somewhat more cautious compared to a few months ago amid the increased external headwinds. Nonetheless, the stable local epidemic situation has created favourable conditions for the further revival of domestic activity. The improving employment and income conditions along with the Consumption Voucher Scheme should also remain supportive to consumption-related sectors in the near term. To pave way for a broader-based economic recovery, it is essential for the community to strive towards more widespread vaccination and abide by the anti-epidemic measures.

The COVID-19 pandemic development across the world remains the key source of uncertainty surrounding the economic outlook. Provided that the local epidemic remains under control, a solid year-on-year growth in the fourth quarter should be attainable for the Hong Kong economy. Considering the actual outturn in the first three quarters of the year, the real GDP

growth forecast for 2021 as a whole is revised to 6.4% in the current round of review, close to the upper bound of the forecast range of 5.5%-6.5% as announced in mid-August (Table 2). Yet, the latest forecast suggests that 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 7.2%, averaging around 6.5%.

On the inflation outlook, while overall inflationary pressures will likely increase in the near term alongside the economic recovery and rising import prices, the underlying inflation should remain in check in the rest of this year. Given the actual outturn of 0.4% in the first three quarters of the year, the forecast rate of underlying inflation for 2021 as a whole is revised downwards to 0.7% from 1% in the August round of review. The corresponding forecast rate of headline inflation is 1.6% (Table 2).

The Third 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, Third Quarter 2021, which contains the GDP figures up to the third quarter of 2021, is also available for online download, free of charge at the homepage of the Census and Statistics Department at [www.censtatd.gov.hk](http://www.censtatd.gov.hk).