

Economic situation in third quarter of 2023 and latest GDP and price forecasts for 2023

The Government released today (November 10) the Third Quarter Economic Report 2023, together with the revised figures on Gross Domestic Product (GDP) for the third quarter of 2023.

The Government Economist, Mr Adolph Leung, gave an account of the economic situation in the third quarter of 2023 and the latest GDP and price forecasts for 2023.

Main points

ĭ¼Š The Hong Kong economy continued to revive in the third quarter of 2023, supported by inbound tourism and private consumption. Real GDP grew by 4.1% year-on-year, having increased by 1.5% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP increased by 0.1%.

ĭ¼Š Total exports of goods declined further by 8.6% year-on-year in real terms in the third quarter amid weak external demand for goods. Exports to the Mainland fell further. Exports to the US recorded a further decline, and those to the EU continued to fall visibly. Exports to most other major Asian markets shrank in varying degrees. However, exports of services expanded notably further by 23.9%. Exports of travel services leapt almost nine fold thanks to the continued revival of visitor arrivals. Exports of transport services rose further in tandem. Exports of business and other services grew modestly, while exports of financial services fell further.

ĭ¼Š Domestically, private consumption expenditure rose further by 6.3% year-on-year in real terms in the third quarter alongside rising household income and the Government's various support initiatives, though the rate of increase moderated somewhat. Overall investment expenditure rebounded sharply by 18.4% against a low base of comparison.

ĭ¼Š The labour market improved further in the third quarter. The seasonally adjusted unemployment rate declined from 2.9% in the second quarter to 2.8% in the third quarter, and the underemployment rate edged down from 1.1% to 1.0%. The unemployment rates of the various major sectors stayed low in general, with those of many major sectors recording falls. Employment income continued to attain decent growth.

ĭ¼Š The local stock market remained under pressure in the third quarter, as concerns over the Mainland's economic outlook and expectations of a prolonged period of high interest rates continued to dampen sentiment. The Hang Seng Index (HSI) closed the quarter at 17 810, down by 5.9% from end-June. The residential property market turned more sluggish in the third quarter. Market

sentiment stayed cautious amid rising local interest rates and the challenging external environment.

ï¼ Consumer price inflation stayed moderate in overall terms in the third quarter. The underlying Composite Consumer Price Index rose by 1.6% year-on-year in the third quarter, compared with the 1.7% increase in the preceding quarter. Prices of meals out and takeaway food recorded a visible but softened increase over a year earlier, while prices of basic food continued to show a modest increase. The increase in prices of electricity remained notable despite a sharp deceleration. Prices of clothing and footwear continued to rise visibly. Price pressures on other major components stayed largely in check. Private housing rentals continued to decline.

ï¼ Looking ahead, inbound tourism and private consumption will continue to underpin economic growth for the rest of the year. More visitors could be received as handling capacity recovers further. As regards private consumption, continued improvement in household income and the Government's various support initiatives including Night Vibes Hong Kong should provide support. Yet, the difficult external environment amid increasing geopolitical tensions and tight financial conditions would continue to weigh on exports of goods and investment and consumption sentiment.

ï¼ Taking into account the actual outturn in the first three quarters of 2023 and the near-term outlook, the real GDP growth forecast for 2023 as a whole is revised down to 3.2%, from 4.0% to 5.0% in the August round of review. The Government will continue to closely monitor the situation.

ï¼ On the inflation outlook, overall inflation would stay moderate in the near term. External price pressures are expected to soften further. While domestic business cost might face some upward pressures as the economy continues to revive, it should remain contained in the near term. Taking into account the inflation situation in the first three quarters of 2023 and factors mentioned above, the forecast rates of underlying and headline consumer price inflation for 2023 are revised down to 1.8% and 2.2% respectively, from 2.0% and 2.4% in the August round of review.

Details

GDP

According to the revised figures released today by the Census and Statistics Department, real Gross Domestic Product (GDP) grew by 4.1% year-on-year in the third quarter of 2023 (same as the advance estimate), having increased by 1.5% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP increased by 0.1% in the third quarter (same as the advance estimate) after a 1.3% decrease in the preceding quarter (Chart).

The latest figures on GDP and its major expenditure components up to the third quarter of 2023 are presented in Table 1. Developments in different segments of the economy in the third quarter are described below.

External trade

Total exports of goods declined by 8.6% year-on-year in real terms in the third quarter of 2023, further to the fall of 15.1% in the preceding quarter. The weak external demand for goods continued to weigh on export performance. Analysed by major market and by reference to external merchandise trade statistics, exports to the Mainland fell further in the third quarter. Exports to the US recorded a further decline, and those to the EU continued to fall visibly. Exports to most other major Asian markets shrank in varying degrees. On a seasonally adjusted quarter-to-quarter basis, total exports of goods decreased by 0.3% in the third quarter, after a 0.5% decrease in the preceding quarter.

Exports of services expanded notably by 23.9% year on year in real terms in the third quarter, after growing by 22.8% in the preceding quarter. Exports of travel services leapt almost nine fold and recovered to 53% of the level in the same quarter in 2018, thanks to the continued revival of visitor arrivals during the quarter. Exports of transport services rose further in tandem. Exports of business and other services grew only modestly amid the difficult external environment. Meanwhile, exports of financial services fell further alongside subdued cross border financial and fund raising activities. On a seasonally adjusted quarter-to-quarter basis, exports of services declined by 1.8% in the third quarter, having increased by 5.3% in the preceding quarter.

Domestic sector

Consumption activities stayed strong in the third quarter of 2023, supported by rising household income and the Government's various support initiatives. Private consumption expenditure rose further by 6.3% year-on-year in real terms in the third quarter, though the growth rate narrowed from 7.7% in the preceding quarter as the difficult global economic environment dampened consumer sentiment. On a seasonally adjusted quarter to quarter basis, private consumption expenditure fell slightly by 0.8%, following an increase of 3.4% in the preceding quarter. Meanwhile, government consumption expenditure fell by 4.5% year-on-year in the third quarter, after a 9.8% decrease in the preceding quarter.

Having declined by 0.5% in the preceding quarter, overall investment spending in terms of gross domestic fixed capital formation rebounded sharply by 18.4% in real terms in the third quarter over a year earlier against a low base of comparison despite the eased business sentiment. Expenditure on acquisitions of machinery, equipment and intellectual property products surged by 39.9%. Expenditure on building and construction rose notably by 12.5%, with increases seen in both public and private sector spending. Separately, the costs of ownership transfer fell as property transactions shrank.

The labour sector

The labour market improved further in the third quarter of 2023. The

seasonally adjusted unemployment rate declined from 2.9% in the second quarter to 2.8% in the third quarter, and the underemployment rate edged down from 1.1% to 1.0%. The unemployment rates of the various major sectors stayed low in general, with those of many major sectors recording falls. The median monthly employment earnings continued to attain decent year-on-year growth of 7.1% in the third quarter.

The asset markets

The local stock market remained under pressure in the third quarter of 2023, as concerns over the Mainland's economic outlook and expectations of a prolonged period of high interest rates continued to dampen sentiment. The HSI was range-bounded in July, and trended down in the ensuing two months. It closed the quarter at 17 810, 5.9% lower than end-June. On November 9, the HSI closed at 17 511.

The residential property market turned more sluggish in the third quarter. Market sentiment stayed cautious amid rising local interest rates and the challenging external environment. The number of transactions, in terms of the total number of sale and purchase agreements for residential property received by the Land Registry, fell visibly by 25% from the preceding quarter or 21% from a year earlier to a low level of 9 174. Overall flat prices fell further by 4% between June and September. The index of home purchase affordability edged down to around 72% in the third quarter alongside the decline in overall flat prices, though the effect was partially offset by higher mortgage rates. Meanwhile, overall flat rentals rose further by 3% during the third quarter. The non-residential property market was quiet in the third quarter. Trading activities for all major market segments stayed subdued, while prices and rentals generally showed only small changes.

Prices

Consumer price inflation stayed moderate in overall terms in the third quarter of 2023. Netting out the effects of the Government's one-off relief measures, underlying Composite CPI inflation stayed moderate at 1.6% in the third quarter, compared with 1.7% in the preceding quarter. Prices of meals out and takeaway food recorded a visible but softened increase over a year earlier, while prices of basic food continued to show a modest increase. The increase in prices of electricity remained notable despite a sharp deceleration. Prices of clothing and footwear continued to rise visibly. Price pressures on other major components stayed largely in check. Private housing rentals continued to decline. Domestic business cost pressures remained contained. Wage growth accelerated further on the back of the continued improvement in labour market conditions, but was still largely moderate. Commercial rentals stayed soft. External price pressures showed some moderation, alongside easing inflation in many major economies from earlier peaks. The headline Composite CPI inflation rate was 1.9% in the third quarter, compared with 2.0% in the preceding quarter.

Latest GDP and price forecasts for 2023

Looking ahead, inbound tourism and private consumption will continue to underpin economic growth for the rest of the year. More visitors could be received as handling capacity recovers further. As regards private consumption, continued improvement in household income and the Government's various support initiatives including Night Vibes Hong Kong should provide support. Yet, the difficult external environment amid increasing geopolitical tensions and tight financial conditions would continue to weigh on exports of goods and investment and consumption sentiment.

Taking into account the actual outturn in the first three quarters of 2023 and the near-term outlook, the real GDP growth forecast for 2023 as a whole is revised down to 3.2%, from 4.0% to 5.0% in the August round of review (Table 2). The Government will continue to closely monitor the situation. For reference, the latest growth forecasts by private sector analysts range from 3.2% to 4.0%, averaging around 3.5%.

On the inflation outlook, overall inflation would stay moderate in the near term. External price pressures are expected to soften further. While domestic business cost might face some upward pressures as the economy continues to revive, it should remain contained in the near term. Taking into account the inflation situation in the first three quarters of 2023 and factors mentioned above, the forecast rates of underlying and headline consumer price inflation for 2023 are revised down to 1.8% and 2.2% respectively, from 2.0% and 2.4% in the August round of review (Table 2).

The Third Quarter Economic Report 2023 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 by Expenditure Component, which contains the GDP figures up to the third quarter of 2023, is also available for browse and download, free of charge on the homepage of the Census and Statistics Department, www.censtatd.gov.hk.