

Press Release

(embargoed until 4:30 p.m. on 16 August 2024)

Economic Situation in the Second Quarter of 2024 and Latest GDP and Price Forecasts for 2024

The Government released today (16 August) the Half-yearly Economic Report 2024, together with the revised figures on Gross Domestic Product (GDP) for the second quarter of 2024.

The Government Economist, Mr Adolph Leung, gave an account of the economic situation in the second quarter of 2024 and the latest GDP and price forecasts for 2024.

Main points

- * The Hong Kong economy continued to record moderate growth in the second quarter of 2024. Externally, total exports of goods continued to grow strongly while exports of services saw decelerated growth. Domestically, overall investment expenditure rose further, but private consumption expenditure turned to a slight decline. Real GDP grew by 3.3% year-on-year, having increased by 2.8% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP increased by 0.4%.
- * Total exports of goods continued to grow strongly by 7.5% year-on-year in real terms in the second quarter, supported by the sustained external demand for goods. Exports to the Mainland continued to rise notably. Exports to the US returned to a visible increase, while those to the EU recorded a narrowed decline. Exports to many major Asian markets also showed improvements. Meanwhile, exports of services recorded decelerated growth of 1.4%. Exports of transport services grew further in tandem with increased visitors and regional trade flows. Exports of financial services reverted to an increase. Exports of business and other services continued to grow moderately. Yet, exports of travel services turned to a contraction amid the change in consumption patterns of visitors and the strength of the Hong Kong dollar.
- * Domestically, private consumption expenditure turned to a slight decline of 1.5% year-on-year in real terms in the second quarter, mainly affected by the changes in the consumption patterns of residents. Meanwhile, overall investment expenditure rose further by 6.0% alongside the overall economic growth.
- * The labour market stayed tight in the second quarter. The seasonally adjusted unemployment rate stayed low at 3.0%, same as the preceding quarter. The underemployment rate was also low at 1.2%, though slightly higher than the level of 1.1% in the preceding quarter. Employment earnings continued to record solid growth.
- * The local stock market fared better in the second quarter. As market sentiment improved following the announcement of enhancement measures on mutual access between the capital markets of the Mainland and Hong Kong, the Hang Seng Index (HSI) rose markedly to a near 10-month high of 19 636 on 20 May. Yet, dampened by expectations for delayed US interest rate cuts and concerns

about the Mainland's economic recovery momentum, it then retreated and closed the quarter at 17 719 or 7.1% higher than end-March. The residential property market was very active at the beginning of the second quarter following the cancellation of the demand-side management measures (DSMMs) for residential properties, but quietened progressively thereafter as pent-up demand faded. Market sentiment turned increasingly cautious during the quarter as the prospect of US interest rate cuts dimmed. Flat prices declined for the quarter as a whole.

- * Underlying consumer price inflation remained modest in the second quarter. The underlying Composite Consumer Price Index (Composite CPI) rose by 1.0% year-on-year, same as that in the preceding quarter. Prices of meals out and takeaway food continued to increase at a relatively fast pace. Increases in private housing rentals remained small. Meanwhile, prices of electricity continued to decrease notably against a high base of comparison. Price pressures on other major components were broadly in check.
- * Looking ahead, the economy should continue to grow in the remainder of the year, but various factors including geopolitical tensions and global economic and interest rates outlook may pose uncertainties on different fronts. Exports of goods should sustain a positive performance if external demand holds up, though trade conflicts would present risks. Continued local economic expansion should lend support to fixed asset investment, but geopolitical tensions and interest rate uncertainties may dampen business confidence and asset markets. As regards inbound tourism and private consumption, the Central Government's various measures benefitting Hong Kong, our strenuous efforts to boost market sentiment and improving employment earnings would provide support, but the changes in the consumption patterns of visitors and residents and the relatively strong Hong Kong dollar may continue to pose challenges.
- * Taking into account the actual outturn in the first half of the year and the latest developments of the global and local situation, the real GDP growth forecast for 2024 as a whole is maintained at 2.5%-3.5%, the same as that in the May round of review. The Government will continue to closely monitor the situation.
- * On the inflation outlook, overall inflation should stay mild in the near term. Domestic cost may face some moderate upward pressures as the Hong Kong economy continues to grow. External price pressures should remain on a broad moderating trend, though geopolitical tensions may bring uncertainties. Taking into account the inflation situation in the first half of the year and factors mentioned above, the forecast rates of underlying and headline consumer price inflation for 2024 are revised down to 1.3% and 1.9% respectively, from 1.7% and 2.4% in the May round of review.

Details

GDP

According to the revised figures released today by the Census and Statistics Department, real *GDP* grew by 3.3% year-on-year in the second quarter of 2024 (same as the advance estimate), having increased by 2.8% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP increased by 0.4% (same as the advance estimate), after a 2.5% increase in the preceding quarter (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the second quarter of 2024 are presented in *Table 1*. Developments in different segments of the economy in the second quarter are described below.

External trade

3. *Total exports of goods* grew strongly by 7.5% year-on-year in real terms in the second quarter of 2024, after rising by 6.8% in the preceding quarter. The sustained external demand for goods rendered support to export performance. Analysed by major market and by reference to external merchandise trade statistics, exports to the Mainland continued to rise notably. Exports to the US returned to a visible increase, while those to the EU recorded a narrowed decline. Exports to many major Asian markets also showed improvements. On a seasonally adjusted quarter-to-quarter basis, total exports of goods increased by 0.2% in the second quarter, further to a 4.0% increase in the preceding quarter.

4. *Exports of services* recorded decelerated growth of 1.4% year-on-year in real terms in the second quarter, after growing by 9.4% in the preceding quarter. Exports of transport services grew further in tandem with increased visitors and regional trade flows. Exports of financial services reverted to an increase as cross-border financial and fund raising activities showed improvement. Exports of business and other services continued to grow moderately. Meanwhile, exports of travel services turned to a contraction amid the change in consumption patterns of visitors and the strength of the Hong Kong dollar. On a seasonally adjusted quarter-to-quarter basis, exports of services declined by 2.2% in the second quarter, following a 0.2% decrease in the preceding quarter.

Domestic sector

5. Consumption activities weakened in the second quarter of 2024, mainly affected by the changes in the consumption patterns of residents. After increasing by 1.2% year-on-year in real terms in the preceding quarter, *private consumption expenditure* declined by 1.5% in the second quarter. On a seasonally adjusted quarter-to-quarter basis, private consumption expenditure increased by 0.7% in the second quarter, having decreased by 0.7% in the preceding quarter. Meanwhile, *government consumption expenditure* rose by 2.0% year-on-year in the second quarter, after a 2.2% decrease in the preceding quarter.

6. Alongside the overall economic growth, overall investment expenditure in terms of *gross domestic fixed capital formation* rose by 6.0% in real terms in the second quarter over a year earlier, after a 0.1% increase in the preceding quarter. Expenditure on building and construction rose by an accelerated pace, with public sector spending showing particularly strong growth. Expenditure on acquisitions of machinery, equipment and intellectual property products continued to decline amid tight financial conditions and generally weakened business sentiment. Separately, the costs of ownership transfer rebounded strongly as property transactions increased after the cancellation of all DSMMs for residential properties and the adjustments of macroprudential measures.

The labour sector

7. The labour market stayed tight in the second quarter of 2024. The seasonally adjusted *unemployment rate* stayed low at 3.0% in the second quarter, same as the preceding quarter. The *underemployment rate* was also low at 1.2%, though slightly higher than the level of 1.1% in the preceding quarter. The median monthly employment earnings continued to record solid year-on-year growth of 6.8% in the second quarter.

The asset markets

8. The *local stock market* fared better in the second quarter of 2024. Market sentiment improved following the announcement of enhancement measures on mutual access between the capital markets of the Mainland and Hong Kong in late April. The HSI rose markedly to 19 636 on 20 May, the highest in almost 10 months. Yet, dampened by expectations for delayed US interest rate cuts and concerns about the Mainland's economic recovery momentum, the HSI then retreated and closed the quarter at 17 719 or 7.1% higher than end-March. On 15 August, the HSI closed at 17 109.

9. The *residential property market* was very active at the beginning of the second quarter following the cancellation of the DSMMs for residential properties,

but quietened progressively thereafter as pent-up demand faded. Market sentiment turned increasingly cautious during the quarter as the prospect of US interest rate cuts dimmed. Flat prices declined for the quarter as a whole, and many developers adopted a conservative pricing strategy when launching new projects. The number of transactions, in terms of the total number of sale and purchase agreements for residential property received by the Land Registry, surged to 8 551 in April, the highest level since October 2012, and then fell to 5 546 in May and 3 856 in June. There were in total 17 953 sale and purchase agreements received in the second quarter, up by 83% over the preceding quarter or 47% over a year earlier. Overall flat prices recorded a 2% decline during the second quarter, with the small increase in April more than offset by the decreases in May and June. The index of home purchase affordability was virtually unchanged at around 65% in the second quarter, and it remained above the long-term average of 54% over 2004-2023. Meanwhile, overall flat rentals rose by 2% during the second quarter. The *non-residential property market* remained sluggish. Despite some rebound from the low levels in the preceding quarter, trading activities for all major market segments stayed generally subdued. Prices and rentals fell further.

Prices

10. Underlying consumer price inflation remained modest in the second quarter of 2024. Prices of meals out and takeaway food continued to increase at a relatively fast pace over a year earlier. Increases in private housing rentals remained small. Meanwhile, prices of electricity continued to decrease notably against a high base of comparison. Price pressures on other major components were broadly in check. Netting out the effects of the Government's one-off relief measures, the *underlying Composite CPI* rose by 1.0% year-on-year in the second quarter, same as that in the preceding quarter. Domestic business cost pressures remained largely contained. Nominal wages continued to record moderate growth, while commercial rentals stayed soft. External price pressures eased for most end-use categories. Meanwhile, *headline Composite CPI* rose by 1.2% in the second quarter, compared with a 1.9% increase in the preceding quarter. The headline inflation rate was higher than its underlying counterpart in the second quarter, mainly due to the decrease in electricity charges subsidy provided by the Government during the quarter compared to the same period last year.

Latest GDP and price forecasts for 2024

11. Looking ahead, the economy should continue to grow in the remainder of the year, but various factors including geopolitical tensions and global economic and interest rates outlook may pose uncertainties on different fronts. Exports of goods should sustain a positive performance if external demand holds up, though trade conflicts would present risks. Continued local economic expansion should lend support to fixed asset investment, but geopolitical tensions and interest rate

uncertainties may dampen business confidence and asset markets. As regards inbound tourism and private consumption, the Central Government's various measures benefitting Hong Kong, our strenuous efforts to boost market sentiment and improving employment earnings would provide support, but the changes in the consumption patterns of visitors and residents and the relatively strong Hong Kong dollar may continue to pose challenges.

12. Taking into account the actual outturn in the first half of 2024 and the latest developments of the global and local situation, the real GDP growth forecast for 2024 as a whole is maintained at 2.5%-3.5%, the same as that in the May 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 2.0% to 3.7%, averaging around 2.8%.

13. On the inflation outlook, overall inflation should stay mild in the near term. Domestic cost may face some moderate upward pressures as the Hong Kong economy continues to grow. Meanwhile, external price pressures should remain on a broad moderating trend, though geopolitical tensions may bring uncertainties. Taking into account the inflation situation in the first half of 2024 and factors mentioned above, the forecast rates of underlying and headline consumer price inflation for 2024 revised down to 1.3% and 1.9% respectively, from 1.7% and 2.4% in the May round of review (*Table 2*).

(The Half-yearly Economic Report 2024 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 second quarter of 2024, is also available for browse and download, free of charge at the homepage of the Census and Statistics Department, www.censtatd.gov.hk.)

Hong Kong's Gross Domestic Product

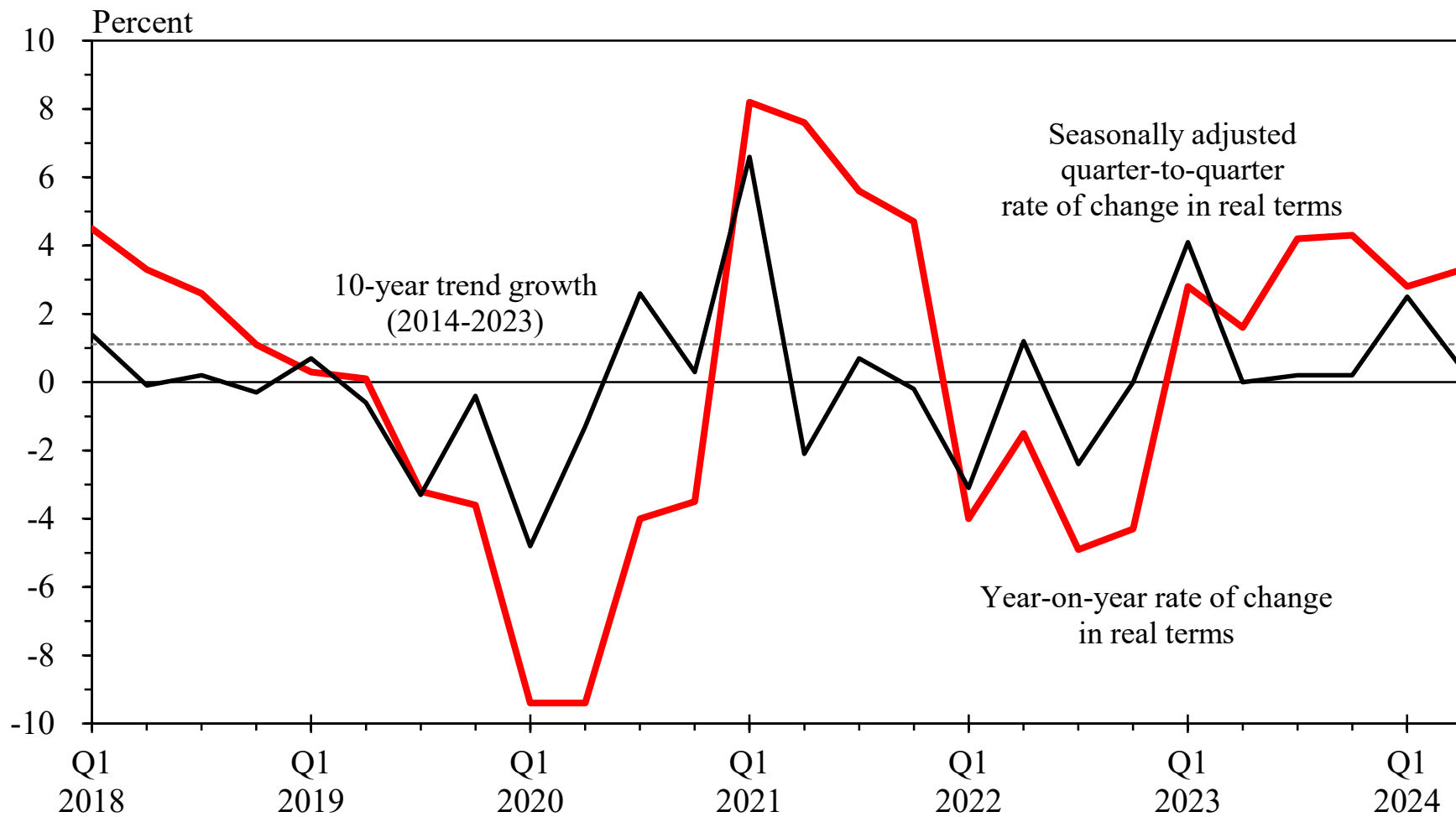


Table 1

**Gross Domestic Product, its main expenditure components
and the main price indicators
(year-on-year rate of change (%))**

	<u>2022[#]</u>	<u>2023[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>2024</u> <u>Q1[#]</u>	<u>Q2[#]</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption Expenditure	-2.2	7.7	13.0 (1.5)	8.4 (3.6)	6.7 (-0.8)	3.5 (-0.7)	1.2 (-0.7)	-1.5 (0.7)
Government consumption expenditure	8.0	-4.3	1.2 (-3.7)	-9.5 (-4.4)	-3.9 (1.8)	-5.2 (1.3)	-2.2 (-0.9)	2.0 (-0.4)
Gross domestic fixed capital formation	-7.4	11.1	8.9	-1.9	21.7	17.5	0.1	6.0
Building and construction	7.4	7.5	0.7	8.0	16.0	6.1	10.6	16.0
Costs of ownership transfer	-43.2	0.2	25.8	-6.0	-15.6	-3.4	-27.6	36.0
Machinery, equipment and intellectual property products	-18.9	20.5	25.4	-17.1	42.0	43.7	-14.2	-21.8
Total exports of goods ^{&}	-14.0	-10.3	-19.1 (0.4)	-15.1 (-0.2)	-8.7 (0.1)	2.8 (3.0)	6.8 (4.0)	7.5 (0.2)
Imports of goods ^{&}	-13.2	-8.6	-14.8 (2.3)	-16.0 (-1.1)	-6.1 (1.3)	3.8 (1.8)	3.3 (1.4)	3.4 (-1.3)
Exports of services ^{&}	-0.5	20.9	15.7 (12.3)	23.4 (5.3)	23.4 (2.0)	21.2 (1.9)	9.4 (-0.2)	1.4 (-2.2)
Imports of services ^{&}	-1.2	25.9	21.1 (12.3)	27.0 (5.9)	28.7 (2.9)	26.7 (3.8)	18.0 (4.3)	12.4 (0.7)
Gross Domestic Product	-3.7	3.3	2.8 (4.1)	1.6 (*)	4.2 (0.2)	4.3 (0.2)	2.8 (2.5)	3.3 (0.4)
<i>Change in the main price indicators (%)</i>								
GDP deflator	1.7	2.8	2.1 (0.8)	2.7 (0.8)	2.4 (1.6)	3.8 (0.6)	3.8 (0.8)	4.2 (1.1)
Composite CPI								
Headline	1.9	2.1	1.9 (0.6)	2.0 (0.2)	1.9 (0.4)	2.6 (1.3)	1.9 (0.1)	1.2 (-0.5)
Underlying[^]	1.7	1.7	1.9 (0.7)	1.7 (0.3)	1.6 (0.3)	1.6 (0.3)	1.0 (*)	1.0 (0.3)
<i>Change in nominal GDP (%)</i>	-2.1	6.1	5.0	4.3	6.7	8.3	6.8	7.6

Notes : Figures are subject to revision later on as more data become available. The seasonally adjusted quarter-to-quarter rate of change is not applicable to gross domestic fixed capital formation, as no clear seasonal pattern is found for this category due to the presence of considerable short-term fluctuations.

(&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(#) Revised figures.

() Seasonally adjusted quarter-to-quarter rate of change.

(^) After netting out the effects of the Government's one-off relief measures.

(*) Change within $\pm 0.05\%$.

Table 2**Economic forecasts for 2024
(rate of change (%))**

	<u>Forecasts as released on 17.5.2024</u> (%)	<u>Latest forecasts on 16.8.2024</u> (%)
Real Gross Domestic Product (GDP)	2.5 to 3.5	2.5 to 3.5
Composite Consumer Price Index (CCPI)		
<i>Underlying CCPI</i>	1.7	1.3
<i>Headline CCPI</i>	2.4	1.9