

# Economic situation in first quarter of 2019 and latest GDP and price forecasts for 2019

The Government released today (May 17) the First Quarter Economic Report 2019, together with the revised figures on Gross Domestic Product (GDP) for the first quarter of 2019.

The Government Economist, Mr Andrew Au, described the economic situation in the first quarter of 2019 and provided the latest GDP and price forecasts for 2019.

## Main points

\* The Hong Kong economy expanded modestly by 0.6% in the first quarter of 2019 over a year earlier, slower than its growth of 1.2% in the preceding quarter. Exports were adversely affected by the weaker performance of the global economy and various external headwinds. Domestic demand also lacked momentum, reflecting cautious local economic sentiment amid a challenging external environment. The modest year-on-year growth also reflected the high base of comparison in the same quarter of last year when the economy grew strongly by 4.6%. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew by 1.3% in the first quarter against the low base of comparison in the preceding quarter when a contraction of 0.5% was recorded.

\* The uncertainties stemming from US-Mainland trade tensions and other external developments continued to dampen production and trading activities in Asia. As a result, total exports of goods weakened further to show a year-on-year decline of 4.1% in real terms in the first quarter, similar to the situations in many Asian economies. Exports of services also recorded decelerated growth of 1.1%, yet sustained expansion of inbound tourism continued to provide support.

\* Domestic demand weakened in the first quarter as compared with a year earlier. Private consumption expenditure only showed marginal expansion of 0.2% year-on-year in real terms, reflecting partly the cautious local consumer sentiment and partly the exceptionally high base of comparison in the same quarter of last year. Overall investment expenditure continued to fall by 7.1% as business sentiment has turned cautious since the latter part of last year.

\* The labour market remained tight. The seasonally adjusted unemployment rate held steady at a low level of 2.8% and the underemployment rate was likewise at a low level of 1.0%. Wages and earnings continued to record real gains.

\* In contrast to the performance of the real economy, the local stock market staged a strong rebound in the first quarter as investor sentiment improved along with the reported progress of the US-Mainland trade talks during the

quarter and receding concerns about further US interest rate hikes. The residential property market also rebounded, with trading activities picking up notably and flat prices reverting to an increase.

\* The global economy had a weak start in 2019 due to US-Mainland trade tensions and other headwinds. Lately, US-Mainland trade tensions have escalated again, as the US has raised the rate of additional tariffs on around US\$200 billion worth of imports from the Mainland and indicated its intention to further extend the scope of these tariffs. The Mainland has also announced countermeasures. Nevertheless, both sides reiterated that they would continue to negotiate. The recent developments show that there are deep differences between both sides. On the other hand, there have been some positive developments in the external environment so far this year, including the better-than-expected performance of the Mainland economy, solid performance of the emerging market economies in Asia and earlier improvement in global financial market sentiments. Yet, apart from US-Mainland trade tensions, other external uncertainties, such as Brexit, geopolitical tensions, and domestic politics in some advanced economies also warrant attention.

\* Hong Kong's export performance in the period ahead will, to a large extent, depend on whether the US and the Mainland can reach a trade agreement. If the two sides can reach an agreement shortly, this would help reduce uncertainties in the external environment and boost global economic sentiment, thereby rendering solid support to Asia's exports including Hong Kong's later this year and providing impetus to other segments of the local economy.

\* Domestic demand would also continue to be affected by various uncertainties in the external environment. Yet, the largely stable labour market should continue to provide support to local consumption. Moreover, various surveys conducted between February and April also suggested that business sentiment in Hong Kong, albeit still cautious, displayed some relative improvement.

\* With the global economy facing various challenges, the performance of the Hong Kong economy in the first quarter of 2019 was within expectations. As such, the forecast real GDP growth of 2-3% for 2019 as announced in the Budget is maintained in the current round of review. Currently, the near-term economic outlook is subject to a high level of uncertainty. If US-Mainland trade tensions do not show any easing in the near term, they would pose a drag on the global economy, and the Hong Kong economy would inevitably face greater downward pressure. The Government will continue to closely monitor developments on both the external and local fronts in the coming months and review the economic growth forecast for this year in the August round.

\* Underlying consumer price inflation went down slightly to 2.7% in the first quarter. Looking ahead, inflation will stay moderate in the near term. The earlier moderation in fresh-letting residential rentals should have a mitigating effect in the coming months. External price pressures also eased recently. The forecast rates of underlying and headline consumer price inflation for 2019 are thus both maintained at 2.5% in the current round of review, the same as those announced in the Budget.

## Details

### GDP

According to the revised data on the GDP released today by the Census and Statistics Department, GDP expanded modestly by 0.6% in real terms in the first quarter of 2019 over a year earlier (revised from the advance estimate of 0.5%), slower than its growth of 1.2% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew by 1.3% in the first quarter (revised from the advance estimate of 1.2%) against the low base of comparison in the preceding quarter when a contraction of 0.5% was recorded (Chart).

The latest figures on GDP and its major expenditure components up to the first quarter of 2019 are presented in Table 1. Developments in different segments of the economy in the first quarter of 2019 are described below.

### External trade

Total exports of goods weakened further to record a year-on-year decline of 4.1% in real terms in the first quarter of 2019, after showing virtually no change in the preceding quarter, as uncertainties stemming from US-Mainland trade tensions and other external developments continued to dampen production and trading activities in Asia. The weak export performance was similar to the situations in many economies in the region. Analysed by major market, and with reference to external merchandise trade statistics, exports to the US declined noticeably, especially for products directly affected by the additional tariffs imposed by the US last year. Exports to the Mainland posted an enlarged decrease. Exports to most other major markets in Asia also fell, though by varying degrees. On the other hand, exports to the EU, which were less affected by the trade frictions, increased. On a seasonally adjusted quarter-to-quarter basis, total exports of goods fell by 2.4% in real terms in the first quarter, having decreased by 2.5% in the preceding quarter.

Growth in exports of services also decelerated, from 3.3% year-on-year in real terms in the preceding quarter to 1.1% in the first quarter. Underpinned by a surge in visitor arrivals, exports of travel services saw further solid growth, albeit at a somewhat decelerated rate amid softer per capita visitor spending. Exports of financial services declined modestly amid less active global financial activities. Exports of transport services and business and other services likewise saw modest decreases. On a seasonally adjusted quarter-to-quarter basis, exports of services rose by 3.5% in real terms in the first quarter, having increased by 1.3% in the preceding quarter.

### Domestic sector

Domestic demand was lacklustre in the first quarter compared with the same quarter of last year. Private consumption expenditure expanded by a meagre 0.2% year-on-year in real terms in the first quarter of 2019 after an

increase of 2.7% in the preceding quarter. The marginal year-on-year growth has to be viewed against the high base of comparison resulting from the exceptionally strong growth of 8.9% in the same quarter of last year, though it also reflected the adverse impacts of various external uncertainties on local consumer sentiment. The late arrival of the Easter holidays (which started in mid-April this year but in late March last year) also dragged down the year-on-year comparison of residents' expenditure abroad. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure increased by 0.7% in real terms in the first quarter after showing virtually no change in the preceding quarter. Meanwhile, government consumption expenditure continued to grow solidly by 4.5% in real terms in the first quarter over a year earlier, after 4.9% growth in the preceding quarter.

Overall investment spending in terms of gross domestic fixed capital formation fell further by 7.1% year-on-year in real terms in the first quarter, following a decline of 5.8% in the preceding quarter, as business sentiment has turned cautious amid the external uncertainties since the latter part of last year. Within the total, expenditure on acquisitions of machinery, equipment and intellectual property products switched to a decline of 1.8%, dragged down by weakened spending by the private sector. Expenditure on building and construction recorded a further fall of 3.5% as spending by both the private and public sectors contracted. Meanwhile, as the number of property transactions remained below its year-ago level, the costs of ownership transfer continued to fall.

#### The labour sector

The labour market remained tight in the first quarter of 2019. The seasonally adjusted unemployment rate held steady at a low level of 2.8%. The underemployment rate was likewise at a low level of 1.0%. Meanwhile, on the back of the tight manpower situation, wages and earnings registered further year-on-year growth in real terms across most of the major sectors.

#### The asset markets

Following the sharp correction in 2018, the local stock market staged a strong rebound in the first quarter of 2019 as investor sentiment received a boost from easing concerns about US-Mainland trade tensions during the quarter and receding expectations of further interest rate hikes in the US. The Hang Seng Index soared and closed the quarter at 29 051, up by 12.4% from end-2018. On May 16, the Hang Seng Index closed at 28 275.

The residential property market rebounded in the first quarter. Trading activities picked up notably. 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, jumped by 55% from 8 900 in the fourth quarter of 2018 to 13 900 in the first quarter of 2019, yet was still 8% lower than a year earlier when the market was very buoyant. Flat prices reverted to an increase of 5% during the first quarter, and the level in March 2019 exceeded the 1997 peak by 118%. The index of home purchase affordability remained elevated at around 69% in the first quarter.

Meanwhile, flat rentals on average were little changed during the first quarter, with the increase in March offsetting the decreases in January and February. Rentals for offices and flatbed factories increased by 4% and 2% respectively during the quarter, while those for retail premises declined by 1%.

## Prices

Consumer price inflation went down slightly in the first quarter. Netting out the effects of the Government's one-off relief measures, underlying consumer price inflation eased to 2.7% in the first quarter from 2.9% in the preceding quarter. Headline consumer price inflation went down to 2.2% from 2.6%. Locally, the increase in the private housing rental component of consumer price inflation remained steady following the consolidation of fresh-letting residential rentals earlier on. Meanwhile, the increases in wages and earnings amid a tight labour market were accompanied by sustained labour productivity growth. This, coupled with the moderate increase in commercial rental costs, has helped keep the cost pressures faced by businesses largely in check. External price pressures showed some easing, thanks to lower inflation rates in many of our major import sources, the general softening in global commodity and energy prices, and the year-on-year appreciation of the Hong Kong dollar along with the US dollar against other major currencies.

## Latest GDP and price forecasts for 2019

The global economy had a weak start in 2019 due to US-Mainland trade tensions and other headwinds. Lately, US-Mainland trade tensions have escalated again, as the US has raised the rate of additional tariffs on around US\$200 billion worth of imports from the Mainland and indicated its intention to further extend the scope of these tariffs. The Mainland has also announced countermeasures. Nevertheless, both sides reiterated that they would continue to negotiate. The recent developments show that there are deep differences between both sides. On the other hand, there have been some positive developments in the external environment so far this year, including the better-than-expected performance of the Mainland economy, the solid performance of the emerging market economies in Asia and the earlier improvement in global financial market sentiments. Yet, apart from US-Mainland trade tensions, other external uncertainties, such as Brexit, geopolitical tensions, and domestic politics in some advanced economies also warrant attention.

Hong Kong's export performance in the period ahead will, to a large extent, depend on whether the US and the Mainland can reach a trade agreement. If the two sides can reach an agreement shortly, this would help reduce uncertainties in the external environment and boost global economic sentiment, thereby rendering solid support to Asia's exports including Hong Kong's later this year and providing impetus to other segments of the local economy.

Domestic demand would also continue to be affected by various

uncertainties in the external environment. Yet, the largely stable labour market should continue to provide support to local consumption. Moreover, various surveys conducted between February and April also suggested that business sentiment in Hong Kong, albeit still cautious, displayed some relative improvement.

With the global economy facing various challenges, the performance of the Hong Kong economy in the first quarter of 2019 was within expectations. As such, the forecast real GDP growth of 2-3% for 2019 as announced in the Budget is maintained in the current round of review (Table 2). Currently, the near-term economic outlook is subject to a high level of uncertainty. If US-Mainland trade tensions do not show any easing in the near term, they would pose a drag on the global economy, and the Hong Kong economy would inevitably face greater downward pressure. The Government will continue to closely monitor developments on both the external and local fronts in the coming months and review the economic growth forecast for this year in the August round. For reference, the latest forecasts by private sector analysts range from 1.2-2.7%, averaging around 2.2%.

Inflation will stay moderate in the near term. The earlier moderation in fresh-letting residential rentals should have a mitigating effect in the coming months. External price pressures also eased recently. The forecast rates of underlying and headline consumer price inflation for 2019 are thus both maintained at 2.5% in the current round of review, the same as those announced in the Budget (Table 2).

The First Quarter Economic Report 2019 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 2019, which contains the GDP figures up to the first quarter of 2019, 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).

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## Members of public reminded to stay alert to suspected fraudulent phone calls purporting to be made by OFCA

The Office of the Communications Authority (OFCA) today (May 17) reminded members of the public to stay alert to suspected fraudulent calls purporting to be made by OFCA.

A spokesperson for OFCA said, "OFCA received reports from members of the public today on their receipt of suspected fraudulent calls purporting to be made by OFCA. According to the information provided by the members of the

public who received the calls, most of the callers spoke Putonghua and were able to tell the called parties' personal information, such as their full Chinese name, identity card number and date of birth. Some callers also alleged that the called parties had engaged in illegal activities through the use of their telephone numbers.

"We wish to stress that OFCA never made the above phone calls. In addition, calling numbers with a '+' sign as a prefix displayed on mobile phones indicate that the calls originate from outside Hong Kong even though the calling numbers may be masqueraded as Hong Kong phone numbers," the spokesperson said.

"We urge members of the public to stay alert and report any suspected fraudulent calls to the Police, irrespective of whether a '+' sign is displayed as a prefix to the calling numbers. Under no circumstances should they disclose their personal information over the phone," the spokesperson added.

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## **Rehabus Feeder Service provided by new operator from June 1 (with photo)**

The Transport Department (TD) today (May 17) announced that starting from June 1, 2019, Kwoon Chung Inclusive and Accessible Transport Services Company Limited will operate the Rehabus Feeder Service.

The Rehabus Feeder Service operates a total of 10 hospital routes to 17 hospitals, with fixed routes and schedules, serving passengers with mobility difficulties (including the elderly) and their minders. Apart from designated stops, the feeder service may, upon users' request, stop at any points along the routes which are safe for boarding or alighting. No advance booking is required. To facilitate persons with mobility difficulties to commute to tourist attractions in Hong Kong at weekends and on public holidays, the feeder service also operates two recreational routes to/from Stanley, the Big Buddha and Tai O. Advance booking is required.

In December 2018, the TD invited interested and qualified applicants to submit proposals for operating the Rehabus Feeder Service. Kwoon Chung Inclusive and Accessible Transport Services Company Limited was selected as the service operator after the selection process, which will operate the 12 rehabuses provided by the TD.

Details of the Rehabus Feeder Service are available on the website ([www.kcbh.com.hk/rehabus.php](http://www.kcbh.com.hk/rehabus.php)). For enquiries and advance booking of the weekend recreational route service provided from June 1 onwards, users can contact Kwoon Chung Inclusive and Accessible Transport Services Company

Limited at 2979 8777.

The Hong Kong Society for Rehabilitation will continue to operate the Rehabus Scheduled Route and Dial-a-Ride Services. The TD has provided users with the latest information regarding the new operator of the Rehabus Feeder Service through various channels and will co-ordinate and monitor to ensure the smooth transition for the Rehabus Feeder Service.



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## [Hong Kong Customs seizes suspected illicit cigarettes \(with photo\)](#)

Hong Kong Customs yesterday (May 16) seized about 800 000 suspected illicit cigarettes with an estimated market value of about \$2.1 million and a duty potential of about \$1.5 million at Shenzhen Bay Control Point.

Customs officers intercepted an incoming truck declared as carrying metal frames at Shenzhen Bay Control Point yesterday. After inspection, Customs officers found the batch of suspected illicit cigarettes inside 45 machines.

The 56-year-old male driver was arrested and the truck was detained. Investigation is ongoing.

Smuggling is a serious offence. Under the Import and Export Ordinance, any person found guilty of importing or exporting unmanifested cargo is liable to a maximum fine of \$2 million and imprisonment for seven years.

Members of the public may report any suspected illicit cigarette activities to the Customs' 24-hour hotline 2545 6182 or its dedicated crime-reporting email account ([crimereport@customs.gov.hk](mailto:crimereport@customs.gov.hk)).



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## Pet adoption event to be held on May 25 and 26 (with photos)

A two-day pet adoption event themed "Pets with Love" will be held at 3/F, iSQUARE, Tsim Sha Tsui, from noon to 7pm on May 25 and 26. Admission is free. Members of the public are welcome to join.

Organised by the Agriculture, Fisheries and Conservation Department (AFCD), and co-organised by the Hong Kong Rabbit Society, the Hong Kong Society of Herpetology Foundation, the Lifelong Animal Protection Charity, the Society for Abandoned Animals and the Society for the Prevention of Cruelty to Animals, the event aims to encourage people to adopt abandoned or unclaimed animals and promote responsible pet ownership.

At the event, members of the public can meet rabbits and reptiles available for adoption, view photos or videos of cats that are up for adoption, and learn more about keeping animals and pet adoption. Other programmes include an educational exhibition, game booths, workshop, photo corner, speed sketching booth, and sharing by guests. To avoid causing stress to the small animals, dogs are not allowed to enter the venue.

The AFCD encourages members of the public who are interested in keeping a pet to adopt animals through animal welfare organisations. Currently, abandoned pets or unclaimed animals with a friendly temperament and good health will be sent to partner animal welfare organisations for adoption. Free desexing operations will be offered for dogs, cats and rabbits when they are adopted.

For details of the event, please read the attached poster, visit [www.petswithlove.com.hk/en/index.html](http://www.petswithlove.com.hk/en/index.html) or call 6931 3372 from 9am to 6pm between Monday and Saturday.

