Hong Kong's Recent Economic Situation and Near-term Outlook

The Government released the Third Quarter Economic Report 2022 on 11 November. The Economic Report, together with the press release on the updated economic forecasts for the whole year of 2022, have been furnished to Legislative Council Members.

This paper analyses Hong Kong's overall economic development in the most recent period and the near-term outlook, and provides some preliminary analyses on the economic prospects for 2023.

Office of the Government Economist
Financial Secretary's Office
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Introduction

This paper analyses the latest performance of the Hong Kong economy and provides a preliminary analysis on the outlook for 2023.

Recent economic situation

2. The external environment deteriorated further in the third quarter of 2022. Major advanced economies recorded only modest economic growth amid elevated inflation and further stepping up of monetary policy tightening by respective central banks. The Mainland economy showed a moderate revival, but the extent was constrained by weak global demand and occasional increases in COVID-19 cases in various localities. In October, the International Monetary Fund ("IMF") maintained its global economic growth projection for 2022 at 3.2%, but warned that the outlook is faced with unusually large downside risks.

3. In face of a worsened external environment, the Hong Kong economy showed a widened year-on-year contraction in the third quarter. Import demand from many major markets fell or registered decelerated growth. This, coupled with continued disruptions to cross-boundary land cargo flows between the Mainland and Hong Kong, dealt a serious blow to Hong Kong's exports. Meanwhile, tightened financial conditions resulting from the sharp interest rate hikes by the major central banks also weighed on domestic demand. Nevertheless, the generally stable local epidemic situation, improved labour market conditions and the disbursement of consumption vouchers in August, etc. all rendered support to private consumption. Real Gross Domestic Product ("GDP") fell by 4.5% year-on-year(1) in the third quarter, further to a 1.3% decline in the preceding quarter. For the first three quarters of 2022 as a whole, the economy contracted by 3.3% from a year earlier. On a seasonally adjusted quarter-to-quarter comparison, real GDP decreased by 2.6% in the third quarter ***(Chart 1)***.

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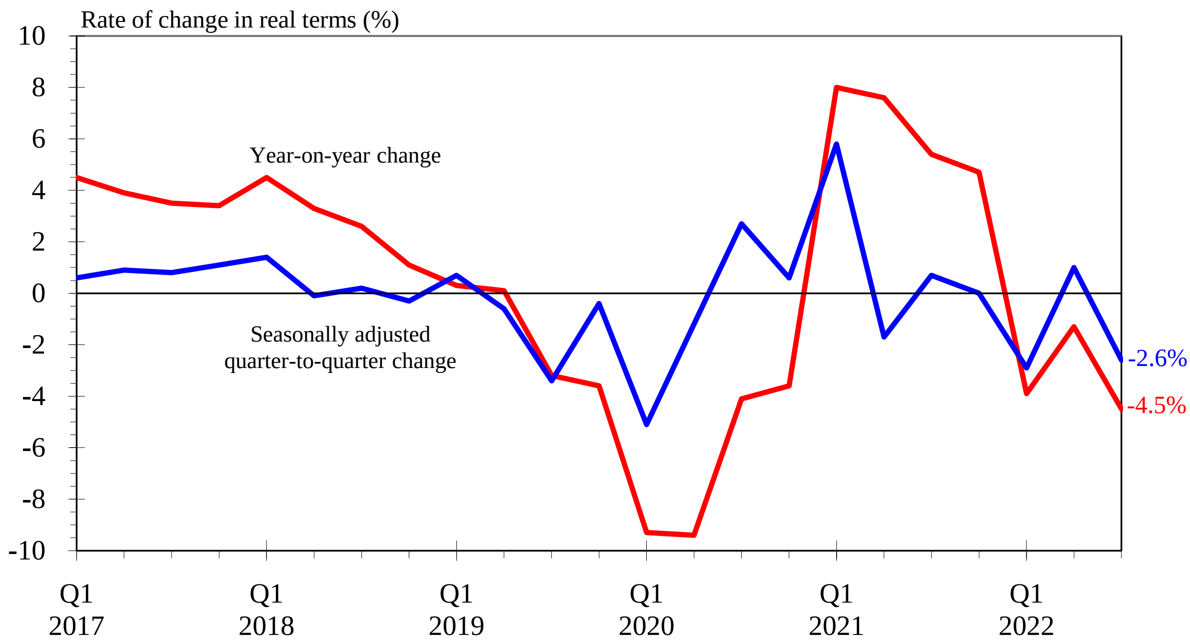
(1) Unless otherwise specified, all figures on change in the sections on recent economic situation, external trade and domestic sector in this document refer to year-on-year change in real terms.

Chart 1 : Real GDP showed a widened year-on-year contraction in the third quarter of 2022



External trade

4. The worsened external environment posed a visible drag on Hong Kong's export performance. In addition, disruptions to cross-boundary land transportation continued to affect exports to the Mainland and re-exports of Mainland origin to other parts of the world. Hong Kong's total exports of goods plummeted by 15.6% in the third quarter ***(Chart 2(a))***. Exports to the Mainland saw a widened decline and those to the United States ("US") and the European Union turned to visible falls. Growth in exports to most other major markets in Asia decelerated. Entering the fourth quarter, the value of total merchandise exports continued to record a year-on-year decline exceeding 10% in October.

5. Hong Kong's exports of services turned to a decline of 3.8% in the third quarter ***(Chart 2(b))***. Exports of financial services fell visibly due to weakened cross-border financial and fund-raising activities. Exports of transport services declined amid deteriorated trade performance, while exports of business and other services dropped alongside the worsened external environment. On the other hand, exports of travel services surged thanks to the relaxation of testing and quarantine arrangements for visitors, but remained far below the pre-pandemic level.

Chart 2(a) : Total exports of goods plummeted

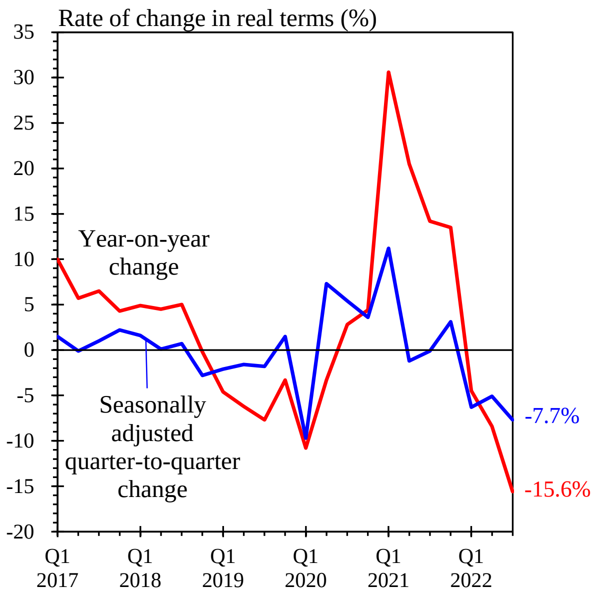
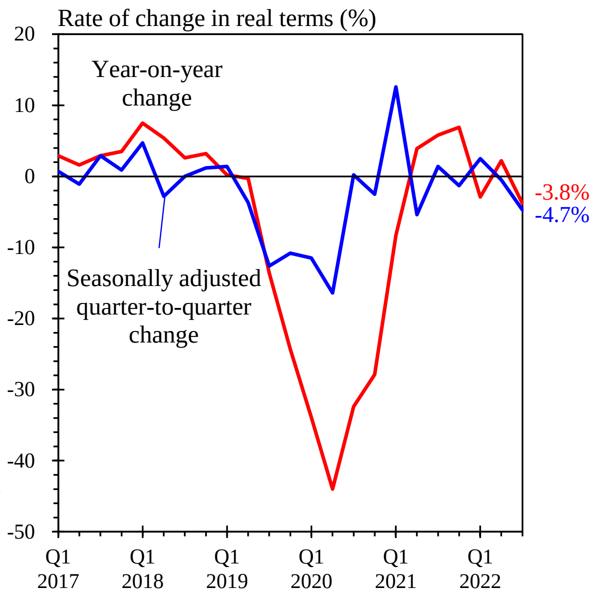


Chart 2(b) : Exports of services turned to a year-on-year decline

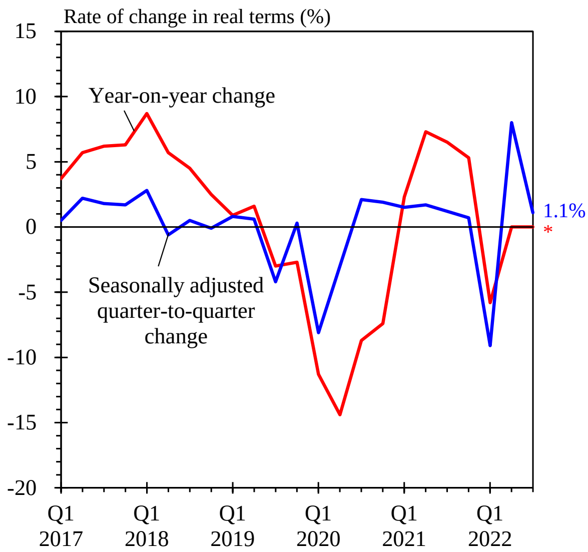


Domestic sector

6. Tightened financial conditions resulting from sharp interest rate hikes by major central banks dealt a blow to domestic demand. Nevertheless, the generally stable local epidemic situation, improved labour market conditions and the disbursement of consumption vouchers in August, etc. all rendered support to private consumption. Private consumption expenditure in the third quarter was virtually unchanged from a year ago, and continued to increase over the preceding quarter ***(Chart 3(a))***. The value of total retail sales increased by 1.3% year-on-year in the third quarter. Nonetheless, the value of total restaurant receipts declined mildly by 1.8% from a year earlier, though significantly narrowed from a 13.5% decline in the first half.

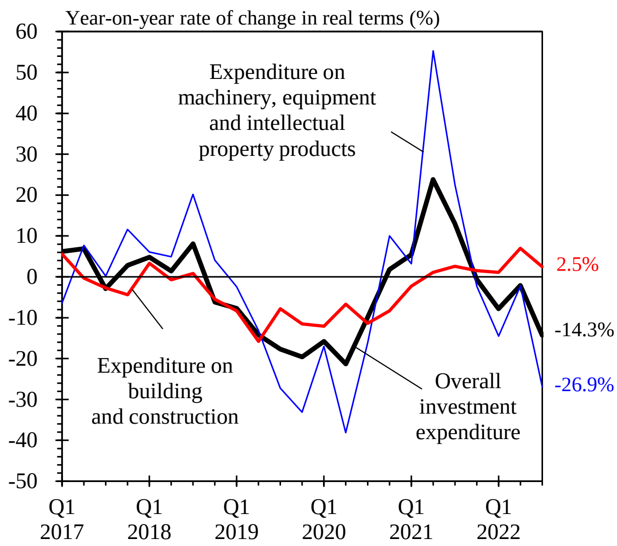
7. Overall investment spending in terms of gross domestic fixed capital formation saw a widened fall of 14.3% in the third quarter ***(Chart 3(b))***. Within the total, expenditure on acquisitions of machinery, equipment and intellectual property products fell sharply by 26.9% as business sentiment generally eased amid deteriorating economic outlook and higher borrowing costs. Expenditure on building and construction rose by 2.5% as the increase in public sector spending more than offset the decrease in private sector spending. The costs of ownership transfer (including expenditure on stamp duties, legal fees, agents' commissions, etc.) continued to plunge as transactions of property fell sharply from the hectic level a year earlier.

Chart 3(a) : Private consumption expenditure continued to increase over the preceding quarter



Note: (*) Change within ± 0.05%.

Chart 3(b) : Overall investment expenditure saw a widened year-on-year fall



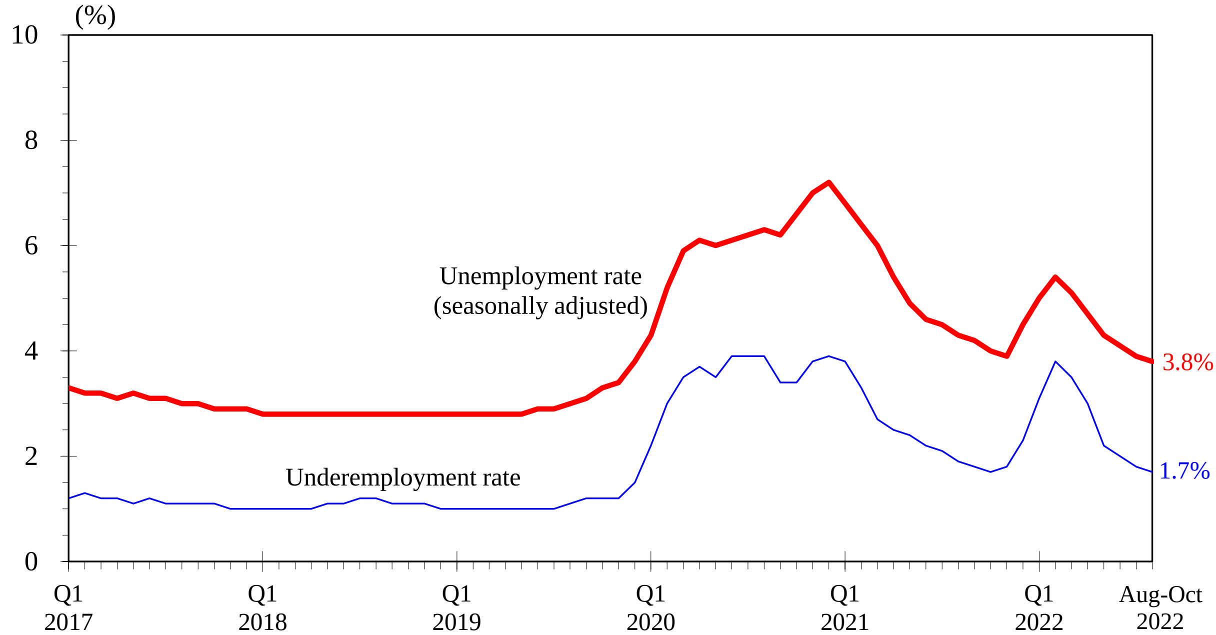
8. As for external direct investment ("DI"), the total stock of inward DI amounted to $14.8 trillion as at end-June, equivalent to 5.2 times of GDP. According to the latest available figures by source, the Mainland continued to be one of the most important sources of Hong Kong's inward DI, accounting for around 27% of the total stock as at end-2020. Separately, according to the survey results for 2022, the number of business operations in Hong Kong with parent companies either overseas or in the Mainland declined slightly as compared to 2021 but stayed at around 9 000, while the number of start-ups in Hong Kong increased to 3 985. This shows that Hong Kong's business environment remains attractive, and Hong Kong continues to be an ideal place for companies around the world to set up or expand their businesses.

Labour market

9. The labour market continued to improve over the past six months alongside the gradual revival of domestic economic activities. The seasonally adjusted unemployment rate fell from a high of 5.4% in February – April to 3.8% in August – October. The underemployment rate also declined from a high of 3.8% to 1.7% ***(Chart 4)***. Over the same period, the number of unemployed persons decreased sharply by 28.5% from 206 100 to 147 400, and the number of underemployed persons declined sharply by 55.4% from 142 000 to 63 400. Total employment also rose back by 2.7% to 3 648 600 in August – October from the low level in March – May this year.

10. Compared with February – April, the unemployment rates of most major sectors decreased in August – October. The unemployment rate of the consumption- and tourism-related sectors (viz. retail, accommodation and food services sectors) combined declined sharply by 4.8 percentage points to 5.2%. Among these sectors, the unemployment rates of the food and beverage services sector and the retail sector fell by 7.5 and 3.1 percentage points to 5.4% and 5.2% respectively, which were the main reason for the unemployment rate of the low-paying sectors ("LPS") [(2)] falling back by 2.5 percentage points to 3.4%[(3)] ***(Chart 5)***. Visible decreases were also seen in the unemployment rates of other sectors, including the decoration, repair and maintenance for buildings sector (down by 7.6 percentage points to 8.2%), and the arts, entertainment and recreation sector (down by 5.9 percentage points to 5.8%).

Chart 4 : The labour market continued to improve over the past six months alongside the gradual revival of domestic economic activities



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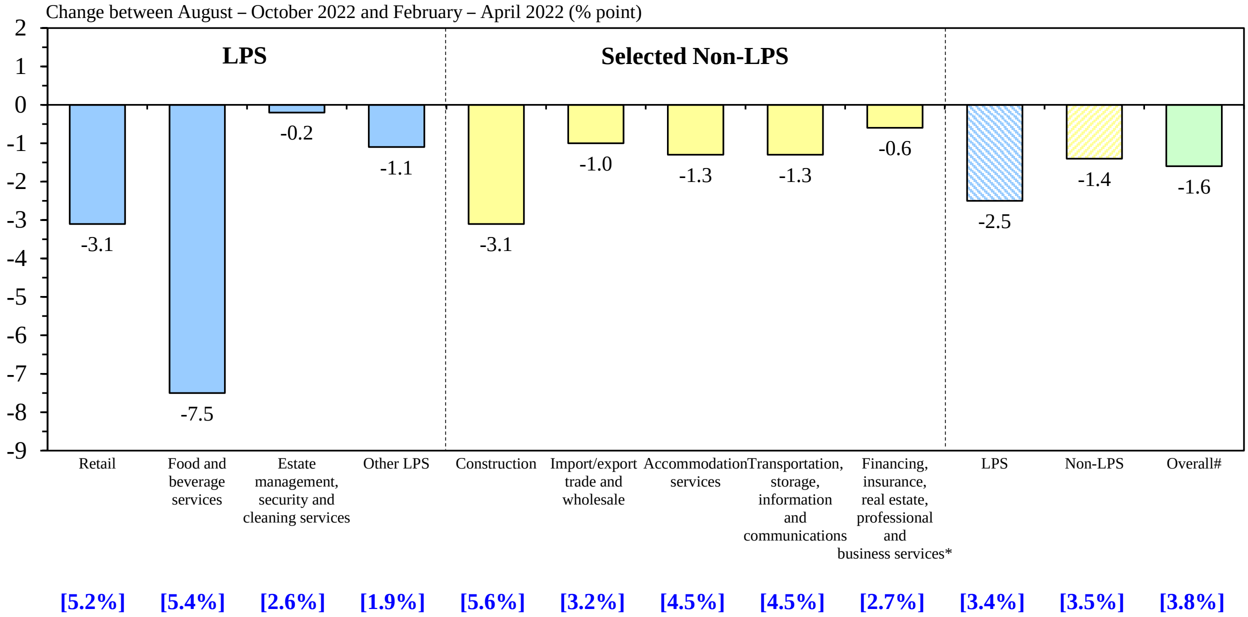
(2) The Minimum Wage Commission identifies LPS as (i) retail; (ii) food and beverage services; (iii) estate management, security and cleaning services; and (iv) other LPS, including elderly homes; laundry and dry cleaning services; hairdressing and other personal services; local courier services; and food processing and production.

(3) Within LPS, the unemployment rate of the estate management, security and cleaning services sector and that of other LPS also declined in August – October compared with February – April, but their decreases were smaller. The unemployment rates of the two fell by 0.2 percentage point to 2.6% and 1.1 percentage points to 1.9% respectively.

Chart 5 : The sharp declines in the unemployment rates of the food and beverage services sector and the retail sector were the main reason for the unemployment rate of the LPS falling back notably from the high level earlier this year



Notes: Figures in square brackets refer to the unemployment rate for that sector in August – October 2022 (provisional figures).
(*) Excluding real estate maintenance management, security and cleaning services.
(#) Seasonally adjusted, and including first-time job-seekers and re-entrants into the labour force.

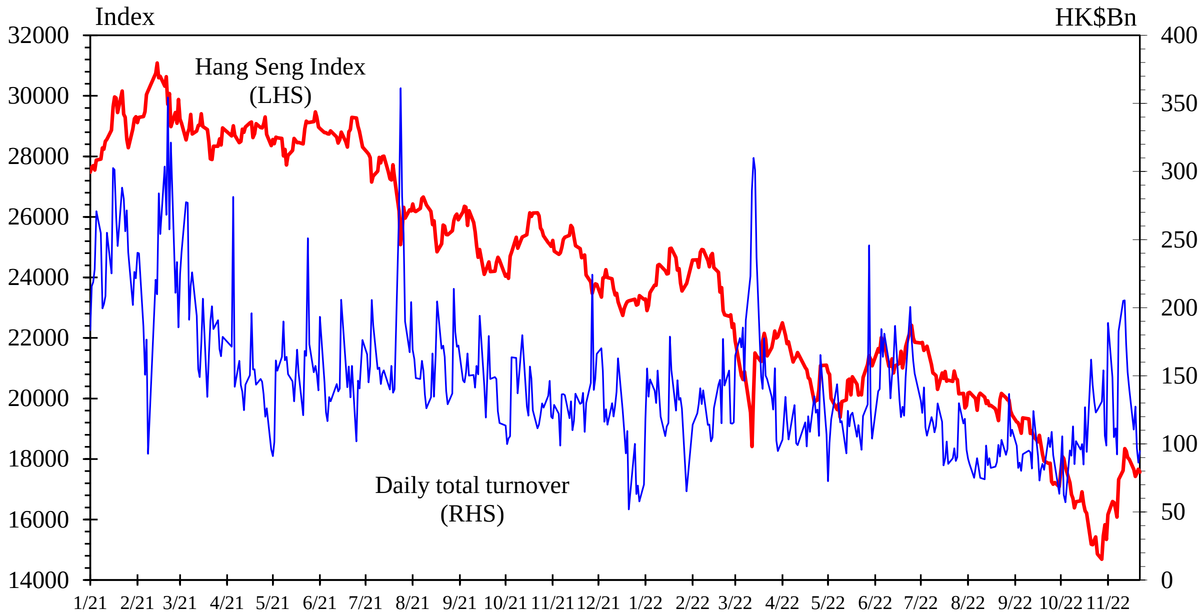
11. Analysed by skill segment, the unemployment rates of both the lower-skilled workers and the higher-skilled workers declined in August – October compared with February – April. The unemployment rate of the lower-skilled workers decreased by 2.4 percentage points to 4.1%, and that of the higher-skilled workers also declined by 0.8 percentage point to 2.6%. The unemployment rate of the lower-skilled workers was still notably higher than that of the higher-skilled workers.

12. Establishment surveys indicated that nominal wages and labour earnings showed accelerated year-on-year growth in the second quarter. The average nominal wage rate rose by 1.9% year-on-year in June, slightly faster than the increase of 1.8% three months ago. Labour earnings, as measured by the nominal index of payroll per person engaged, increased by 1.7% in nominal terms in the second quarter over a year earlier, visibly faster than the increase of 0.8% in the preceding quarter. More recent General Household Survey data showed that the median monthly employment earnings of full-time employees (excluding foreign domestic helpers) grew by 5.0% year-on-year in nominal terms in the third quarter, same as the increase in the preceding quarter. The pace of increase continued to be faster than the headline inflation rate (as measured by the year-on-year rate of change in the headline Composite Consumer Price Index ("CCPI")) of 2.7%. Meanwhile, the median monthly household income (excluding foreign domestic helpers) increased by 5.0% year-on-year in nominal terms. Please refer to ***Annex*** for details on the recent situation of household income.

Asset markets

13. The local stock market underwent a marked correction in July – October in tandem with the downslides in many stock markets across the globe. Market sentiment was hard hit by the sharp tightening of monetary policy by major central banks and slackening global growth momentum. The Hang Seng Index plunged by 34.5% from 22 419 on 28 June to 14 687 at end-October, before subsequently rebounding to 17 574 on 25 November mainly due to market expectation of a slower pace of US interest rate hike ***(Chart 6)***. Average daily turnover of the stock market was $99.3 billion during July – October, shrinking by 37.0% year-on-year. Fund raising activities were relatively tepid as market sentiment worsened.

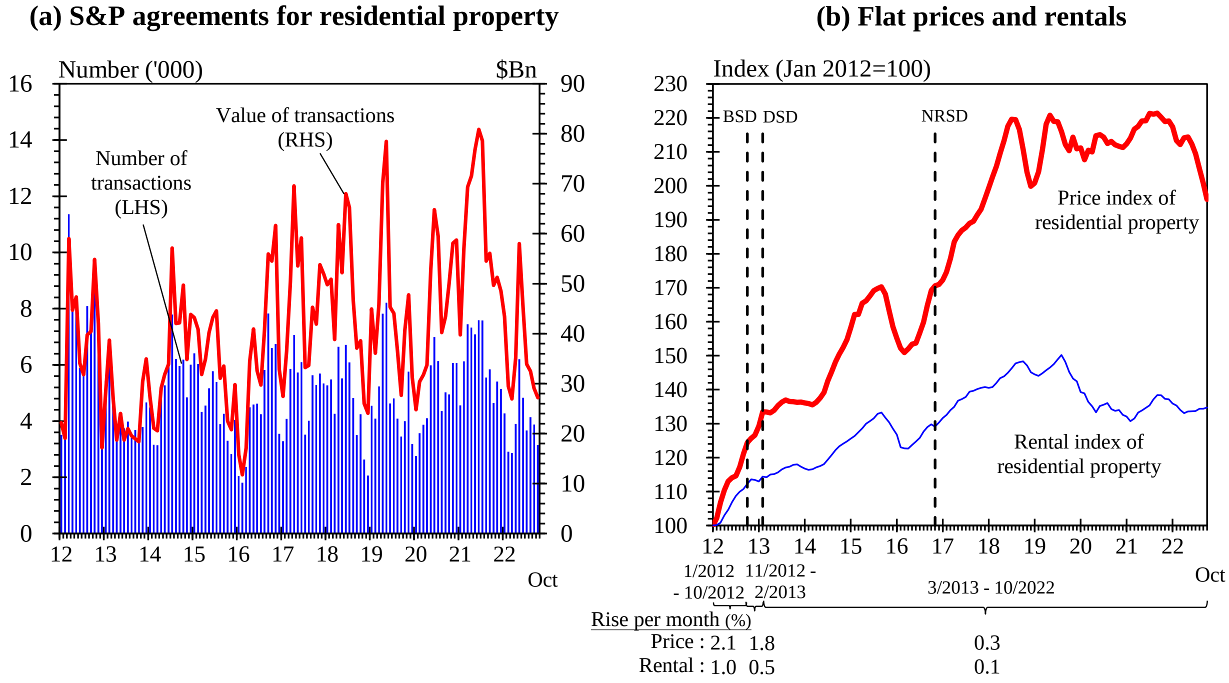
Chart 6 : The local stock market underwent a marked correction in July - October



14. The residential property market softened in recent months as financial conditions tightened and the global and local economic outlooks were not totally positive. The monthly average number of sale and purchase agreements for residential property received by the Land Registry retreated to 3 708 in July to October, 11% below that of 4 164 in the first half of the year and well below that of around 5 200 in 2017-2021 ***(Chart 7(a))***.

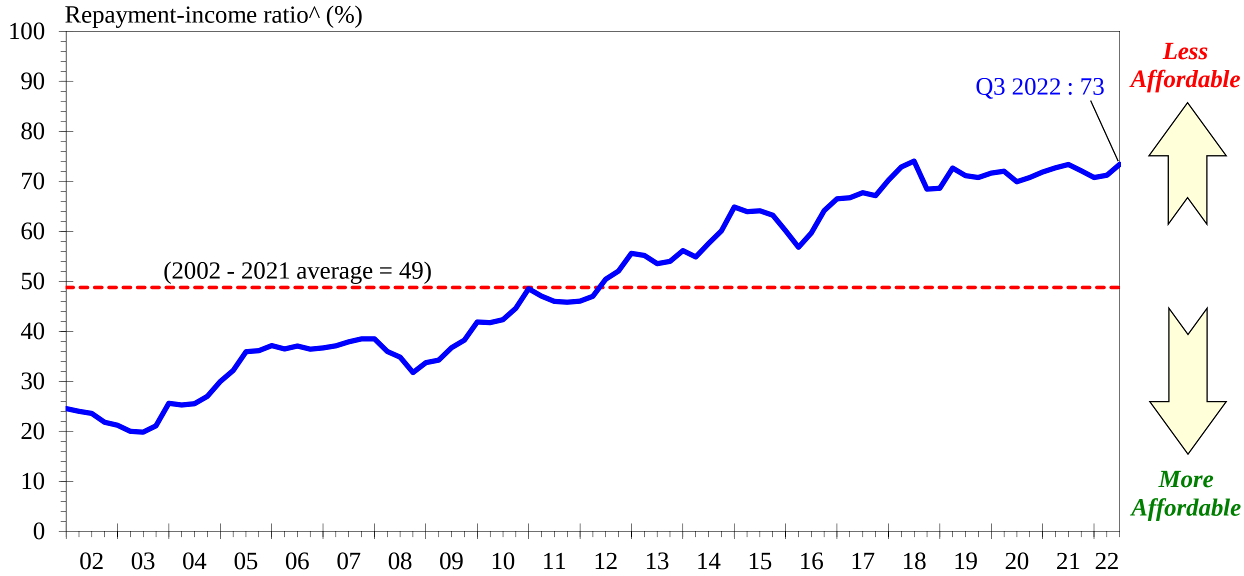
15. Following the decline of 3% during the first half of this year, flat prices fell by another 8% between June and October. Flat prices in October were on average 11% below the recent peak in September 2021. Flat rentals edged up by 1% between June and October, but were 10% below the peak in August 2019. During the first ten months of 2022, flat prices declined by 11%, while rentals edged down by 2% ***(Chart 7(b))***.

Chart 7 : The residential property market softened in recent months



16. The index of home purchase affordability (i.e. the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing) rose to around 73% in the third quarter due to rising mortgage rates, significantly above the long-term average of 49% over 2002-2021 ***(Chart 8)***.

Chart 8 : The index of home purchase affordability deteriorated

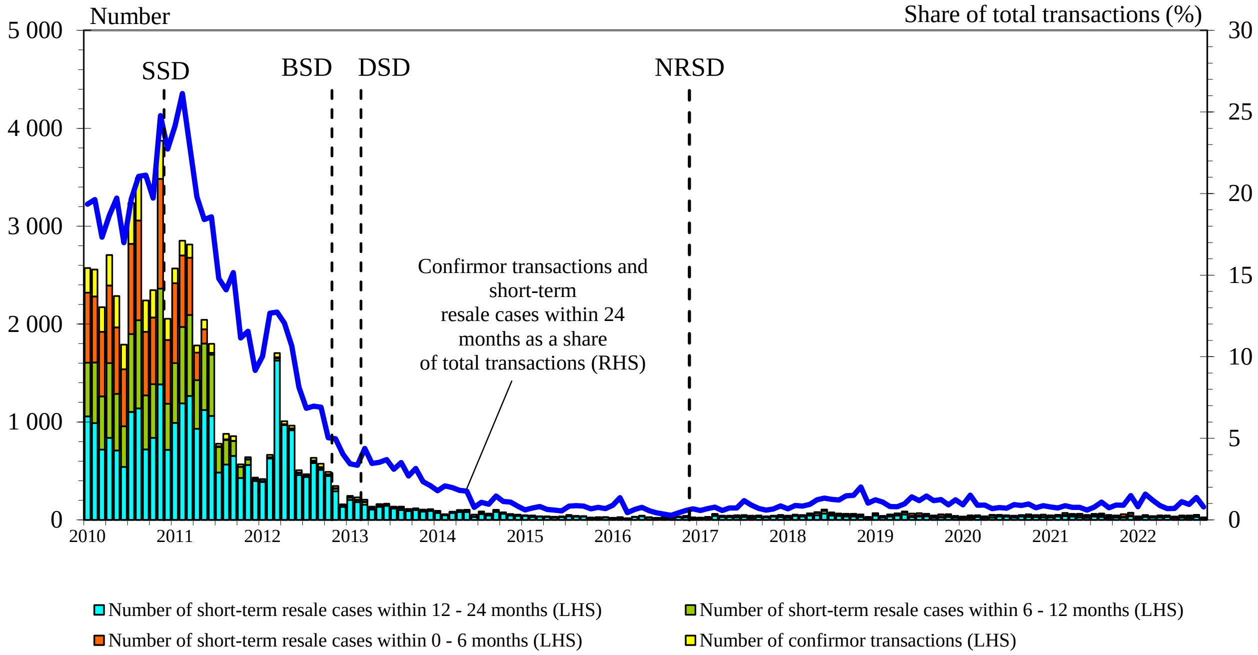


Note : (^) The ratio of the mortgage payment for a flat with saleable area of 45 sq m (assuming 70% loan-to-value ratio and tenor of 20 years) to the median income of households (excluding those living in public housing). This ratio is different from the debt servicing ratio published by the HKMA, which is the ratio of actual monthly debt obligations of mortgagees to their monthly income of newly approved mortgages.

17. Increasing land and housing supply tops the agenda of the current-term Government. The Government strives to address short-term public housing shortage and ensure a steady private housing supply at the same time. The Government will enhance the quantity, speed, efficiency, and quality in land production. In September, the Government announced to put up three residential sites for sale in the fourth quarter. Combining the various sources (including Government land sale, railway property development project, the Urban Renewal Authority's project, and private development and redevelopment projects), the private housing land supply in the fourth quarter is expected to produce around 5 900 flats. Together with the supply in the first half of 2022-23, the total private housing land supply for the first three quarters of this financial year is estimated to have a capacity to produce about 11 900 units, compared with the private housing supply annual target of 12 900 units. The total supply of first-hand flats in the private sector in the coming three to four years (comprising unsold flats of completed projects, flats under construction but not yet sold and flats on disposed sites where construction can start any time) would remain at a high level of 95 000 units as estimated at end-September 2022.

18. To dampen speculative, investment and non-local demand, and to reduce the possible risks to financial stability arising from an exuberant property market, the Government implemented a number of demand-side management and macro-prudential measures during 2009 to 2017. These measures have yielded notable results. On speculative activities, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) remained low at 41 cases per month or 1.0% of total transactions in the first ten months of this year, well below the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty) ***(Chart 9)***. Purchases by non-local individuals and non-local companies also stayed low at 23 cases per month or 0.5% of total transactions in the first ten months of this year, much lower than the monthly average of 365 cases or 4.5% in January to October 2012 (i.e. the period before the introduction of the Buyer's Stamp Duty) ***(Chart 10)***. As an indicator of investment activities, purchases subject to the New Residential Stamp Duty stayed at a moderate level of 185 cases per month or 4.3% of total transactions in the first ten months of this year, much lower than the monthly average of 1 412 cases (or 26.5%) subject to Doubled Ad Valorem Stamp Duty in January to November 2016 ***(Chart 11)***. As to mortgage lending, the average loan-to-value ratio of new mortgages was 57% in the first nine months of this year, below the average of 64% from January to October 2009 before the first round of macro-prudential measures for residential property mortgage lending was introduced by the Hong Kong Monetary Authority.

Chart 9 : Short-term speculative activities remained low



Note : Confirmor transactions refer to resale before assignment.

Chart 10 : Purchases by non-local buyers stayed low

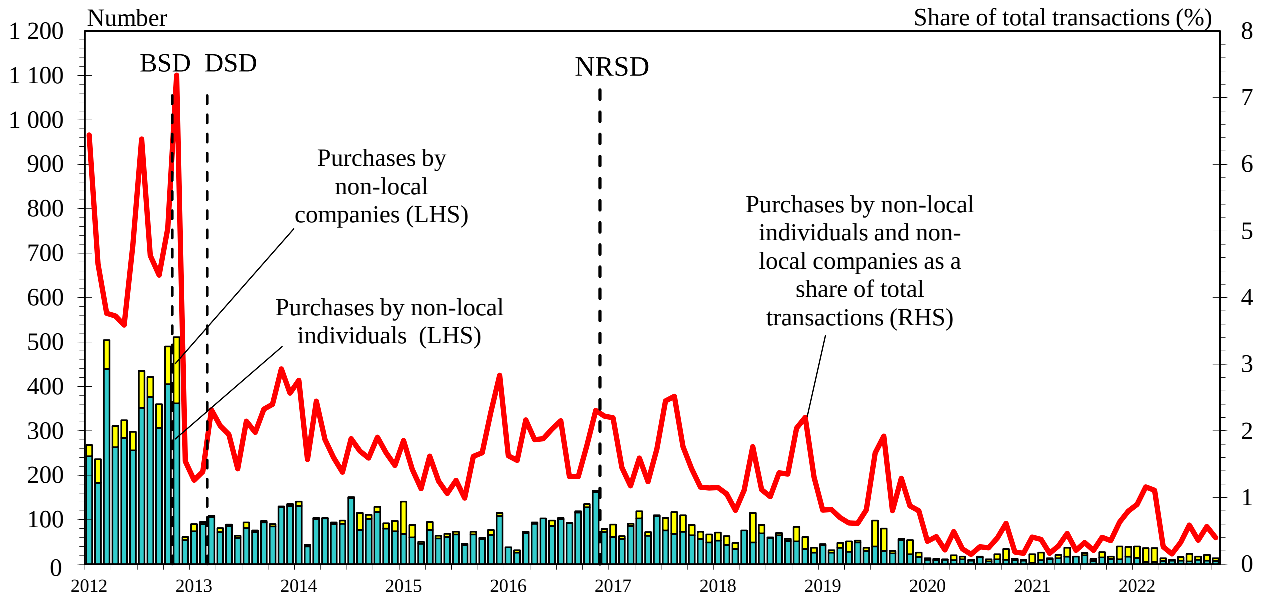
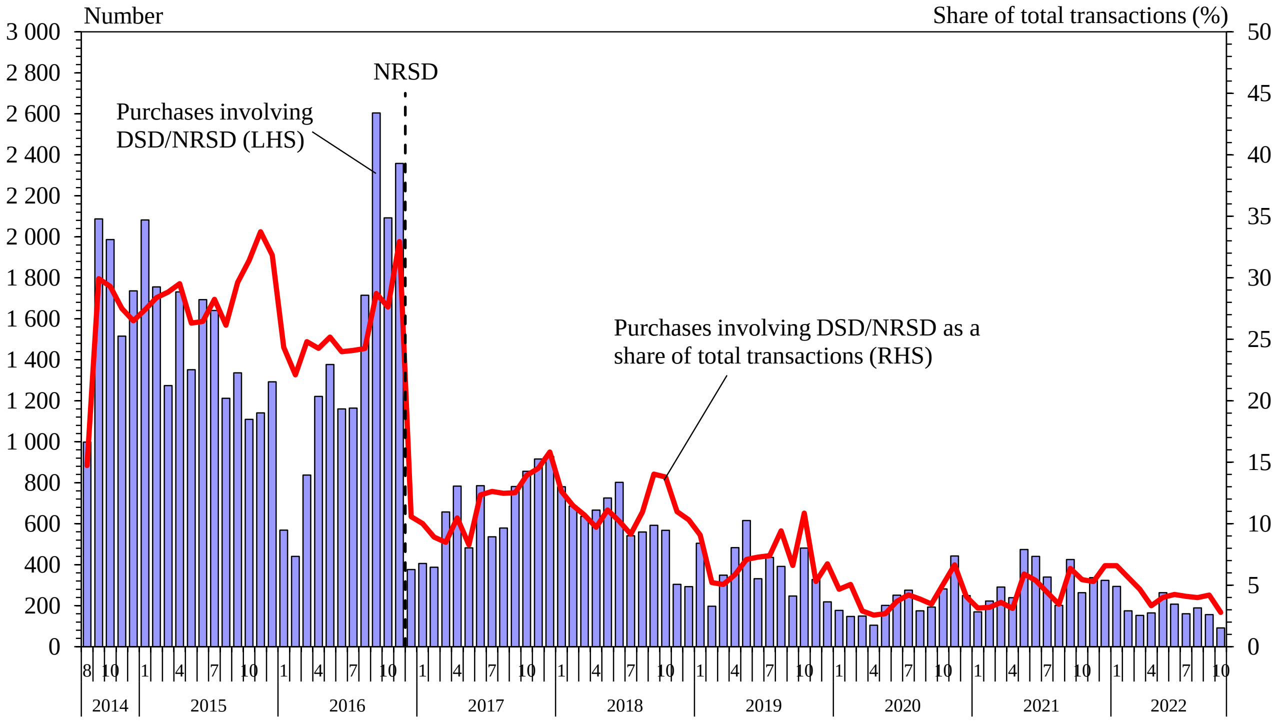


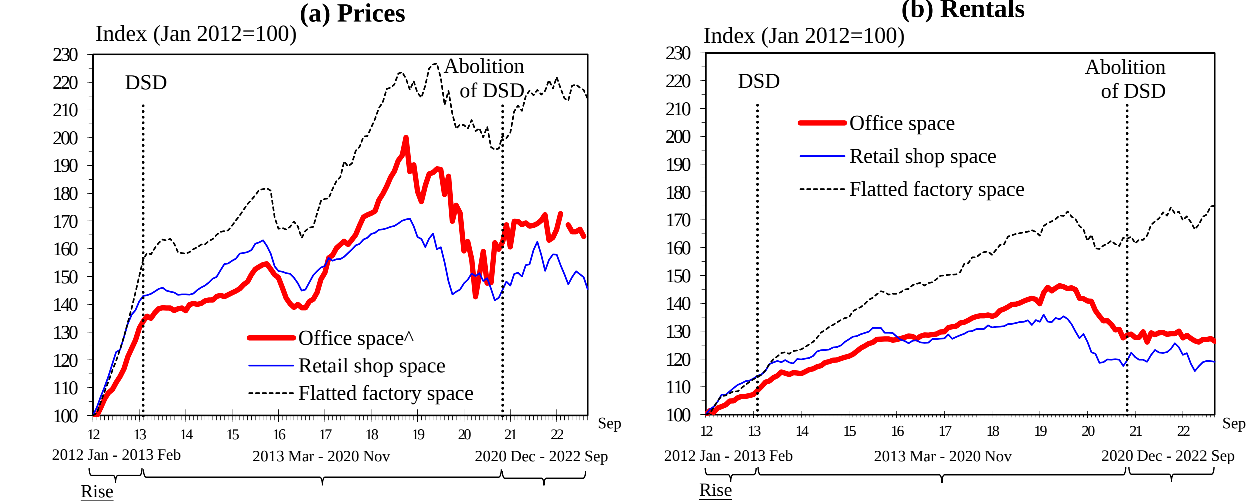
Chart 11 : Investment activities were moderate



19. The non-residential property market also turned quieter in the third quarter amid subdued economic conditions. Trading activities for all major market segments in the third quarter retreated from the first half of the year. Prices for major market segments fell, while rentals largely held steady. Comparing the latest available data (August this year)[(4)] with that in June, prices of office space on average edged down by 1%, while rentals remained virtually unchanged between June and September. Prices of retail shop space declined by 4% between June and September, while rentals were virtually unchanged. As for flatted factory space, prices fell by 2%, while rentals rose by 2% ***(Chart 12)***.

(4) Price index for overall office space, which is compiled based on the weighted average of the price indices for different office grades, was not available in September, as there were no transactions for Grade A office space in that month and hence the price index for this particular office grade cannot be compiled.

Chart 12 : Prices of non-residential properties fell during the third quarter, while rentals largely held steady



(a) Prices

Rise per month (%)	2012 Jan - 2013 Feb	2013 Mar - 2020 Nov	2020 Dec - 2022 Sep
Office space^ :	2.0	0.2	0.1#
Retail shop space :	2.7	*	*
Flatted factory space :	3.3	0.3	0.3

(b) Rentals

Rise per month (%)	2012 Jan - 2013 Feb	2013 Mar - 2020 Nov	2020 Dec - 2022 Sep
Office space :	0.7	0.2	-0.1
Retail shop space :	1.0	0.1	*
Flatted factory space :	1.0	0.4	0.3

Notes : (^) The price index of overall office space cannot be compiled in both March and September 2022, as there were no transactions for Grade A office space in those two months.
(#) The rise per month is up to August 2022.
(*) Change of less than ±0.05%.

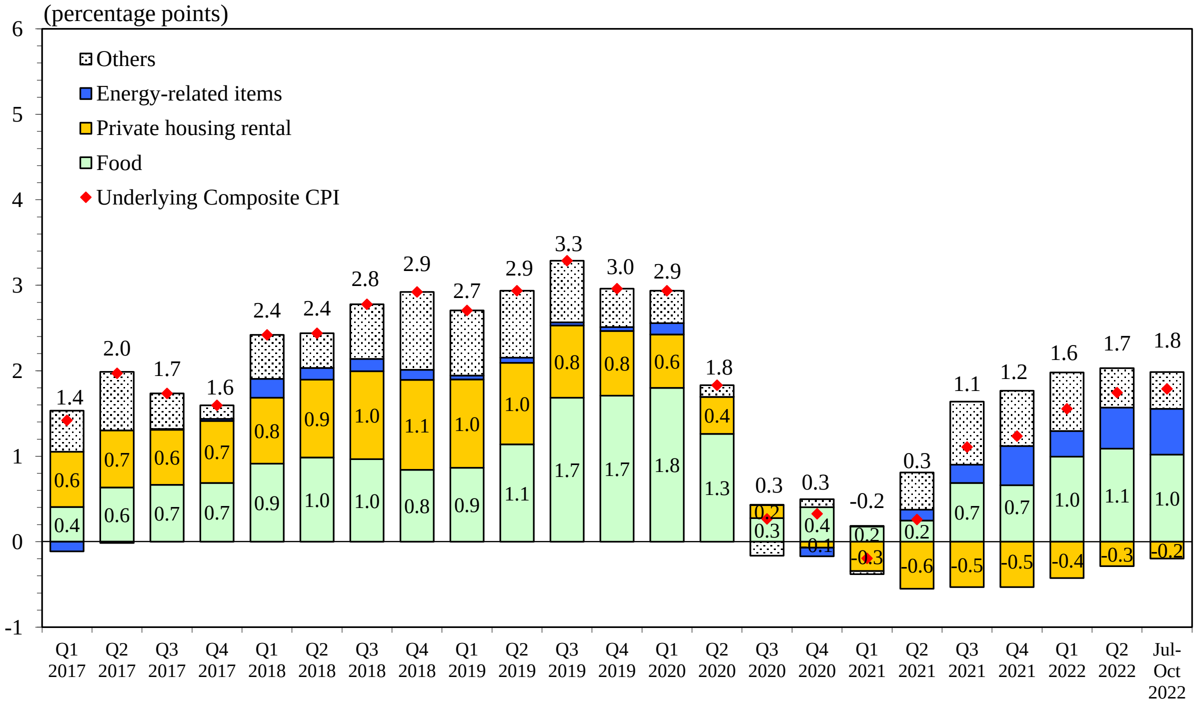
Inflation

20. Consumer price inflation remained moderate in overall terms. The underlying CCPI, which nets out the effects of the Government's one-off relief measures to reflect the underlying inflation trend, rose by 1.8% year-on-year during July – October 2022, similar to the 1.7% increase in the second quarter, and averaged 1.7% in the first ten months ***(Chart 13)***.

21. Analysed by major component of the underlying CCPI ***(Table 1)***, food prices, the component with the largest weight other than housing, continued to increase visibly by 3.8% year-on-year during July – October. Within food prices, prices of basic food increased visibly by 4.3%, but the rate of increase saw some moderation amid the continued stable supply of fresh food from the Mainland, whereas the increase in prices of meals out and takeaway food, at 3.4%, held broadly steady. The private housing rental component fell further from a year earlier, albeit at a narrowed rate of 0.6% alongside the continued feed-through of the earlier increase in fresh-letting residential rentals. Prices of energy-related items continued to register a double-digit increase amid elevated international energy prices. Prices of clothing and footwear continued to increase visibly. Meanwhile, prices of transport and miscellaneous services continued to record moderate increases, while those of miscellaneous goods and durable goods rose modestly.

Chart 13 : Consumer price inflation remained moderate in overall terms

Contribution (in percentage points) to the year-on-year rate of change in the underlying Composite CPI by major component



Note: The year-on-year rates of change of the Consumer Price Indices from the fourth quarter of 2020 onwards are computed from the new 2019/20-based series, and those before are from the old 2014/15-based series.

Table 1 : Underlying Composite Consumer Price Index by component (year-on-year rate of change (%))

Expenditure component	Weighting (%)	2021 Annual	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Jul-Oct
Food	27.41	1.7	0.7	0.9	2.6	2.5	3.7	4.0	3.8
Meals out and takeaway food	17.05	1.8	*	1.0	3.6	2.8	3.1	3.4	3.4
Basic food	10.36	1.4	1.8	1.1	1.0	1.9	4.6	5.0	4.3
Housing [(a)]	40.25	-0.7 (0.3)	-0.1 (1.7)	-0.7 (-0.7)	-0.9 (1.0)	-1.2 (-0.6)	-1.0 (-0.3)	-0.5 (-0.6)	-0.3 (1.4)
Private housing rent	35.46	-1.4 (-1.3)	-1.0 (-1.0)	-1.6 (-1.6)	-1.5 (-1.6)	-1.5 (-0.8)	-1.2 (-0.5)	-0.8 (-0.8)	-0.6 (-0.6)
Public housing rent	1.87	6.1 (29.3)	9.6 (59.2)	9.4 (11.0)	6.1 (100.3)	-0.1 (2.0)	-0.1 (2.0)	-0.1 (-0.1)	0.3 (32.4)
Electricity, gas and water	2.82	4.7 (27.0)	* (25.4)	2.2 (26.0)	4.8 (20.5)	12.3 (37.0)	6.5 (-2.4)	10.7 (2.7)	12.2 (14.5)
Alcoholic drinks and tobacco	0.49	0.1	0.6	-0.1	-0.4	0.2	0.3	1.5	1.8
Clothing and footwear	2.42	3.3	-1.5	2.1	5.4	7.1	6.1	4.9	5.0
Durable goods	4.00	1.0	-0.5	0.7	2.1	2.0	1.7	1.6	0.1
Miscellaneous goods	3.32	-3.1	-4.2	-4.1	-2.8	-1.2	-0.2	0.4	0.7
Transport	6.17	2.6	-2.8	2.4	5.9	5.1	6.1	1.8	1.8
Miscellaneous services	13.12	0.7 (0.7)	0.5 (0.5)	0.6 (0.6)	0.9 (0.8)	1.1 (1.0)	1.1 (1.0)	1.3 (1.3)	1.3 (1.4)
All items	100.00	0.6 (1.6)	-0.2 (1.2)	0.3 (0.8)	1.1 (2.3)	1.2 (2.0)	1.6 (1.5)	1.7 (1.5)	1.8 (2.4)

Notes: (a) The housing component covers rents, rates, Government rent, management fees and other housing charges. Its sub-components on private and public housing rents as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public housing rents is slightly less than the weighting of the entire housing component.

( ) Figures in brackets represent the headline rates of change before netting out the effects of Government's one-off relief measures.

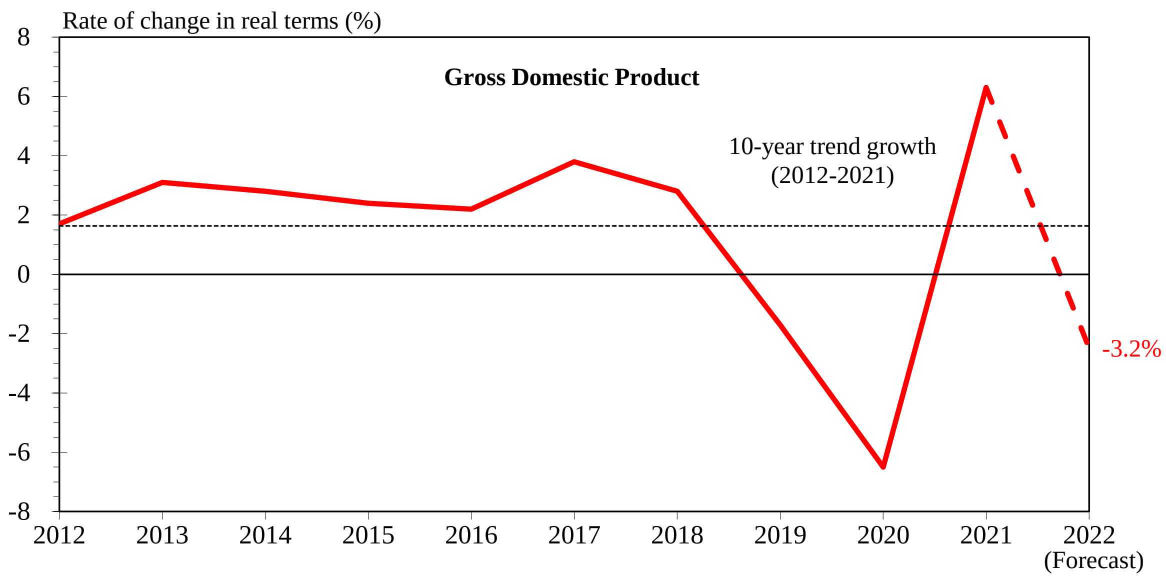
(*) Change within ±0.05%.

Updated economic forecasts for 2022

22. Looking ahead, the markedly deteriorating external environment will continue to pose immense pressure on Hong Kong's export performance. Elevated inflation and continued monetary policy tightening in major advanced economies will dampen global demand further. In addition, the continued geopolitical tensions and the fluctuating development of the pandemic will also add downside risks to the global economy. Nonetheless, the relaxed testing and quarantine arrangements for incoming visitors will provide some support to exports of services.

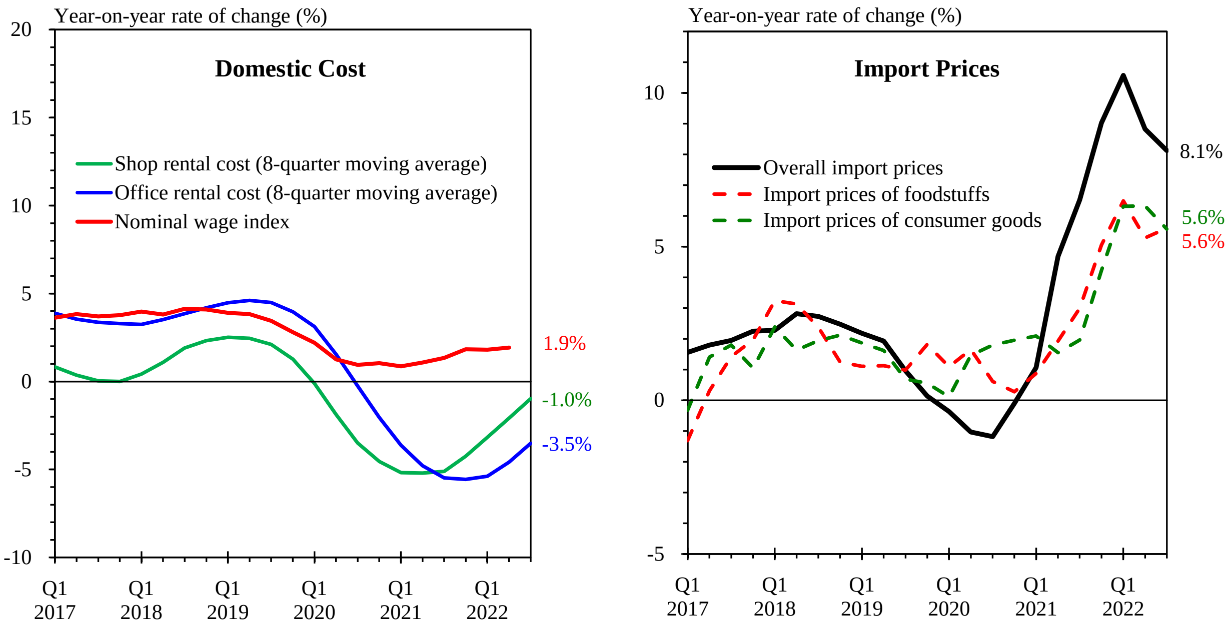
23. Domestically, while improved employment situation and the disbursement of consumption vouchers will continue to support consumption demand in the near term, tightened financial conditions and the consequential weak asset prices will partly offset the positive effects. The worsened economic outlook and rising borrowing costs will dampen fixed asset investment. Nonetheless, as long as the epidemic situation remains stable and under control, economic activities should revive gradually. Taking into account the actual outturn in the first three quarters of 2022 and the subdued short-term outlook, the Government revised down the real GDP growth forecast for 2022 as a whole to -3.2%, from -0.5% to 0.5% as announced in the August round of review ***(Chart 14)***. For reference, the latest forecasts for Hong Kong's economic growth in 2022 made by private sector analysts in November were in the range of -3.7% to 0.5%, averaging around -2.5%, whereas the forecast made by the IMF in October was -0.8%.

Chart 14 : Economic growth forecast for 2022 as a whole was revised down to -3.2%



24. On inflation, it is expected that import prices will continue to rise notably amid high inflation in many major economies, but the largely mild domestic cost pressures should help keep overall inflation moderate in the near term ***(Chart 15)***. The forecast rate of underlying consumer price inflation for 2022 was revised down to 1.8% from 2% as announced in the August round of review, while the corresponding forecast rate of headline consumer price inflation was also revised down to 1.9% from 2.1%.

Chart 15 : Domestic cost pressures are largely mild; import prices are expected to continue to rise notably



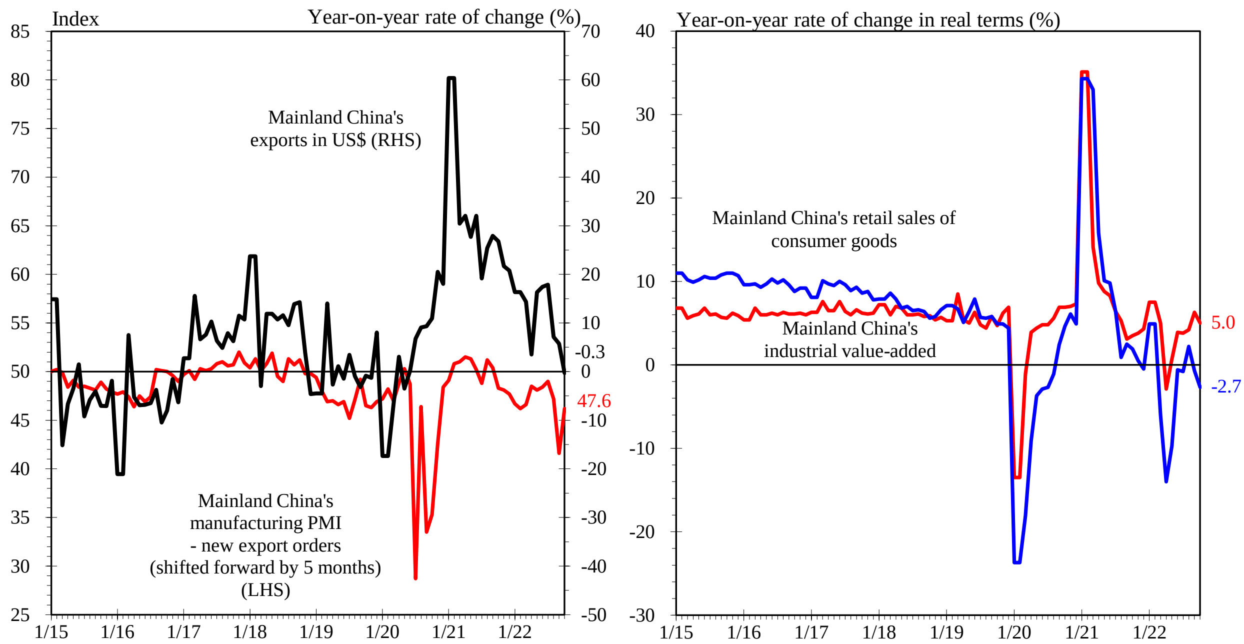
Economic outlook for 2023

25. The market generally expects the global economy to continue to deteriorate in 2023. In October this year, the IMF forecast that global economic growth would slow further from 3.2% in 2022 to 2.7% in 2023. The market expects that inflation in major advanced economies would remain elevated for some time, and the respective central banks thus have to continue to tighten their monetary policies. This will result in further tightening in financial conditions and slackening in global demand. In addition, the tension in Ukraine, whether the monetary policy adjustment level by major central banks to curb inflation is appropriate, and the debt issues in emerging market economies, etc. will all add downside risks to the global economy.

26. The Mainland economy showed a moderate revival in the third quarter, after recording a relatively tepid growth in the second quarter ***(Chart 16)***. However, the pace of growth moderated somewhat in October due to weak external demand and the resurgence of COVID-19 cases in various localities. Looking ahead to 2023, the

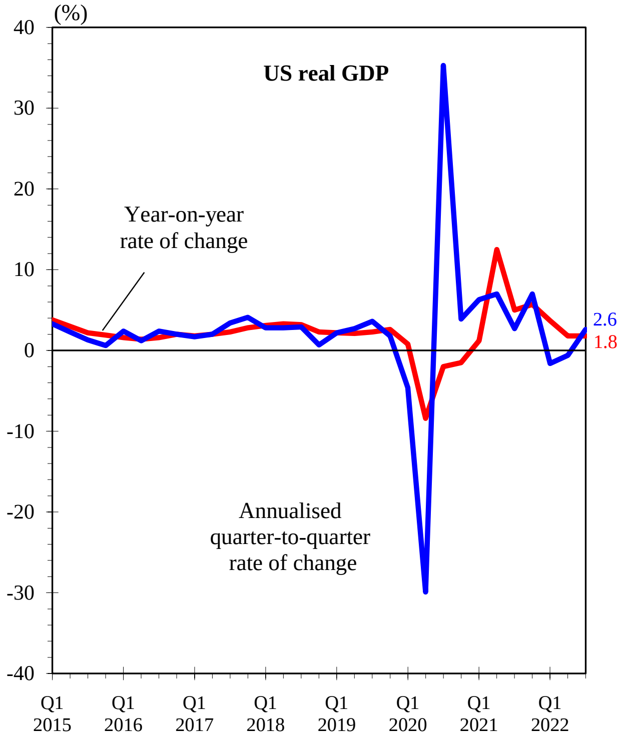
markedly deteriorating external environment should continue to weigh on the Mainland's exports. Yet, given the Mainland economy's resilience and solid fundamentals, and that the authorities have implemented a number of measures to support enterprises, expedite infrastructure investment and stimulate consumption as well as optimised epidemic prevention and control programmes, it is expected that the Mainland economy will continue to record moderate growth. The IMF forecast that the Mainland economy would grow by 4.4% next year.

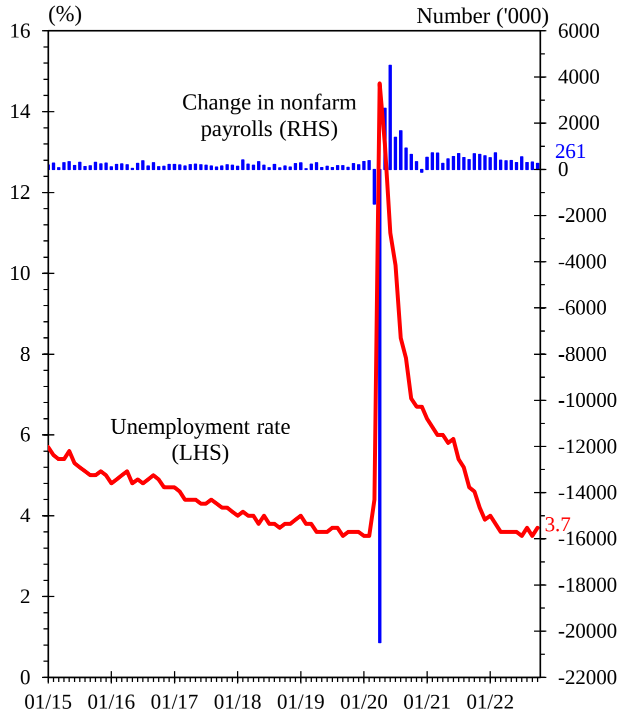
Chart 16: The Mainland economy showed a moderate revival in the third quarter



27. The US economy reverted to modest growth in the third quarter after recording quarter-to-quarter contraction in the first two quarters of this year ***(Chart 17)***, but private consumption expenditure softened. Meanwhile, the labour market remained largely resilient, and inflation stayed elevated. In order to contain inflation, the US Federal Reserve (Fed) has raised its interest rate by a total of 375 basis points so far this year to the current 3.75% to 4.00%, and started to reduce the size of its balance sheet since mid-2022. The market expects that the Fed would further raise interest rate by 125 basis points from now till mid-2023 and then keep interest rate at a relatively high level for some time. This would suppress consumption and investment, continuing to drag economic growth. The IMF forecast that the US economic growth would slow from 1.6% this year to 1.0% next year.

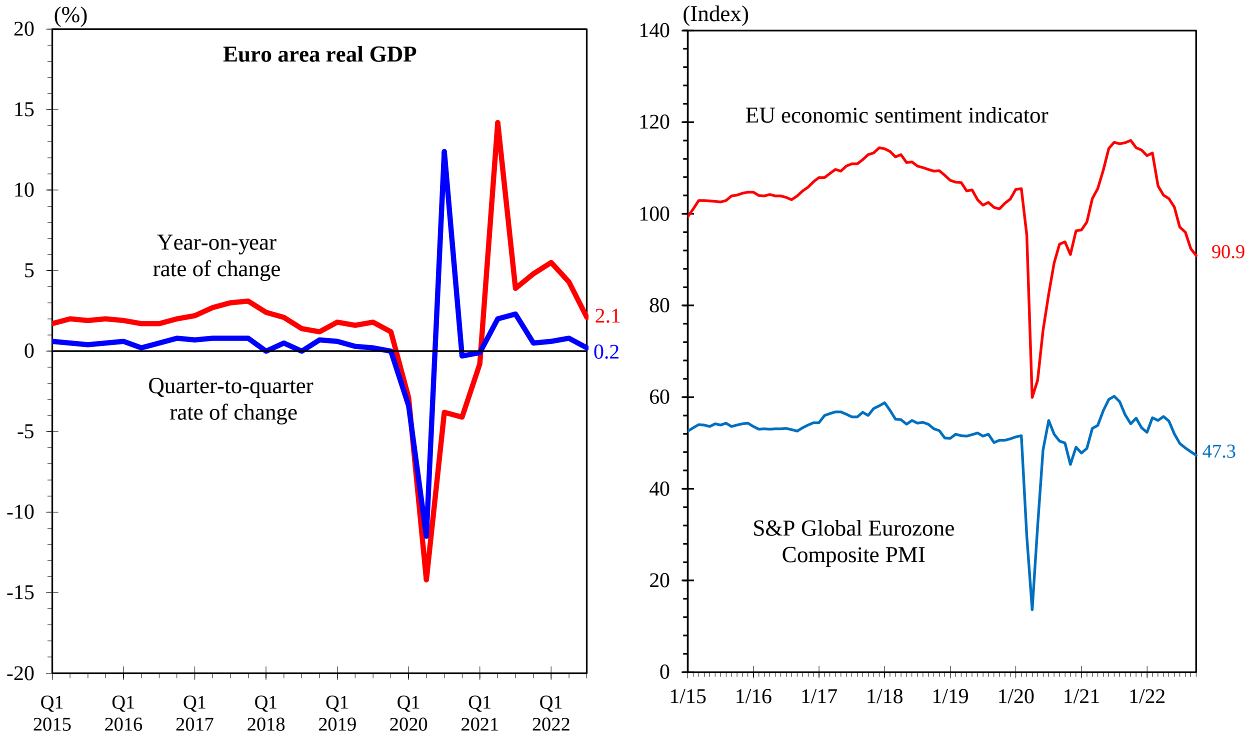
Chart 17 : The US economy recorded modest growth in the third quarter, while the labour market stayed largely resilient





28. The euro area economy saw notable moderation in the third quarter of this year and economic sentiment was subdued ***(Chart 18)***, while inflation increased to a record high in October. To curb inflation, the European Central Bank ("ECB") has tightened its monetary policy sharply this year, including ending net asset purchases and raising interest rates by a total of 200 basis points. The market expects ECB to raise its policy rates by another 150 basis points from now till mid-2023, which is expected to visibly dampen the growth in demand. In addition, the situation in Ukraine and energy (particularly natural gas) supply will continue to put downward pressures on the region's economic outlook. The IMF forecast that economic growth in the euro area would slow significantly from 3.1% this year to 0.5% next year.

Chart 18 : The euro area economy saw notable moderation in the third quarter and economic sentiment was subdued



29. For other parts of Asia, major economies in the region continued to grow in the third quarter of this year, despite the generally decelerated growth in exports of goods amid weakening global demand. In face of the generally increased inflationary pressure in the region in the third quarter, many central banks (including those of South Korea, Taiwan, Indonesia and the Philippines, etc.) tightened their monetary policies. However, the Bank of Japan continued to keep policy rates at record lows and indicated that it would not hesitate to unveil more easing measures to support enterprises. On the whole, the slackening of global economic momentum would pose pressure on exports of the economies in the region. Amid tightening financial conditions, emerging market economies with weaker fundamentals in the region may face pressures of capital outflows. Nonetheless, as many economies in the region gradually return from the epidemic to normalcy, domestic demand will render some support to these economies.

30. As for the Hong Kong economy, our exports of goods will still face immense pressure in 2023 as continued weakening of global economic growth momentum is expected to dampen external demand further. Yet the negative impact will be partly offset by the continued revival of the Mainland economy. Should the rate hike cycles in the advanced economies generally end in around mid-2023 in line with the market's expectation, the external economic situation may stabilise in the second half of the year. As regards exports of services, the number of visitor arrivals to Hong Kong will, to a large extent, depend on how fast travel will return to normal.

31. Domestic demand will continue to be affected amid tightened financial conditions. Nonetheless, as long as the epidemic situation remains stable and under control, and related social restrictive measures are gradually relaxed in an orderly manner under proper management of risks, economic activities will gradually regain momentum and the society will gradually move towards normalcy. Improving labour market conditions should help consumption, while the performance of fixed asset investment will hinge on the overall economic situation and confidence.

32. Overall speaking, the economic outlook for 2023 will be subject to a number of external and internal factors. If the deterioration of the external environment is not worse than expected and local economic activities can steadily return to normal, the Hong Kong economy should be able to gradually regain momentum in 2023.

33. In respect of prices, Hong Kong's inflation outlook will depend on a host of factors, including overall economic performance, local cost pressures, international commodity prices, inflation situation of Hong Kong's major import sources, and exchange rates movements, etc. The sharp tightening of monetary policies by major central banks is expected to yield results gradually in the coming year. The market expects that external inflation pressures would see some moderation next year albeit remaining notable. Domestic cost pressures would hinge on the pace of recovery of the Hong Kong economy.

34. The Government will closely monitor the developments on the domestic and external fronts and announce the economic growth and inflation forecasts for 2023 along with the 2023-24 Budget in February next year. For reference, the latest forecasts for Hong Kong's economic growth in 2023 made by private sector analysts were in the range of 0.5% to 5.6%, while those for consumer price inflation were in the range of 1.1% to 3.1%.

Office of the Government Economist
Financial Secretary's Office
28 November 2022

Annex

Recent Situation of Household Income[1]

Background

This Annex provides an update on the latest trends of household income and employment earnings in Hong Kong and those of the low-income households. The benchmark of monthly household income for low-income households is revised upward from $8,800 (at Q2 2019 prices) to $9,300 (at Q3 2022 prices) after adjusting for inflation[2].

Overall situation of household income and employment earnings

2. The labour market continued to improve over the past six months alongside the gradual revival of domestic economic activities. The seasonally adjusted unemployment rate fell from a high of 5.4% in February – April to 3.8% in August – October. The latest total employment also rose back by 2.7% from the low level in March – May this year, and saw a narrowed year-on-year decline of 1.4%.

3. Various household income / employment earnings indicators maintained positive year-on-year growth. The median monthly household income, an indication of the overall household income situation, increased by 5.0% in nominal terms or 2.2% in real terms in the third quarter of 2022 over a year earlier. Average employment earnings of full-time employees also recorded a year-on-year increase of 4.9% in nominal terms or 2.2% in real terms. Within the total, average employment earnings of unskilled employees went up by 4.9% year-on-year in nominal terms or 0.7% in real terms ***(Table 1)***.

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(1) This annex was originally provided in response to a Member's request at the meeting of the Panel on Financial Affairs on 5 December 2005. It has since been updated regularly for Members' information. Foreign domestic helpers are excluded from the analysis except general labour market statistics.

(2) Based on Consumer Price Index (A).

Table 1 : Selected household income / employment earnings indicators (year-on-year rate of change (%))

Period		Median monthly household income		Overall employment earnings of employees^		Employment earnings of unskilled employees^	
2018		6.7	(4.2)	5.6	(3.1)	5.4	(2.6)
2019		3.0	(0.1)	4.6	(1.7)	2.5	(-0.9)
2020		-6.1	(-6.4)	5.4	(5.1)	4.5	(5.2)
2021	Q1	-8.1	(-9.2)	0.1	(-1.1)	4.0	(0.6)
	Q2	3.8	(3.0)	-1.3	(-2.1)	4.2	(2.5)
	Q3	1.3	(-0.9)	-2.7	(-4.8)	3.5	(-0.6)
	Q4	7.3	(5.1)	1.7	(-0.3)	3.8	(1.3)
2022	Q1	6.3	(4.7)	3.6	(2.0)	1.7	(0.2)
	Q2	0.5	(-0.9)	4.0	(2.5)	2.0	(0.7)
	Q3	5.0	(2.2)	4.9	(2.2)	4.9	(0.7)

Notes: (^) Average employment earnings of full-time employees.
( ) Rate of change (%) in real terms.
Median monthly household income and overall employment earnings of employees in real terms are adjusted based on headline Composite Consumer Price Index, while employment earnings of unskilled employees in real terms is adjusted based on headline Consumer Price Index (A).

Economically active households with monthly household income below $9,300

4. In the third quarter of 2022, the number of economically active households with monthly household income below $9,300 (referred to as "low-income households") declined by 9 900 from a year earlier to 91 600. Its proportion in total domestic households also decreased by 0.4 percentage point over the same period to 3.4% (3).

5. An analysis of the number and proportion of low-income households over the past years suggests that their changes largely followed economic cycles. During 2000 to 2008 when the economy sustained growth for most of the period, the proportion of low-income households fell successively from a peak of 5.5% in the third quarter of 2003 to 3.2% in the third quarter of 2007. After the onset of the global financial crisis in late 2008, the corresponding proportion rose back to 4.1% in the third quarter of 2009, but subsequently declined in tandem with the economic recovery. As the epidemic took its toll, labour market conditions deteriorated over the course of 2020, and the proportion of low-income households rose visibly to 5.0% in the third quarter. Alongside an improving local labour market, the number and proportion of low-income households reduced to 91 600 and 3.4% respectively in the

(3) All figures pertaining to low-income households in the third quarter of 2022 are provisional figures.

third quarter of 2022, which were lower than the respective figures in 2020 and 2021, but still above the pre-pandemic levels ***(Table 2 and Chart 1)***.

Table 2 : Number and proportion of low-income households*

Period	Household type: Elderly households#	Household type: Non-elderly households	**Total**	Of which: Economically active persons therein
Q3 2003	3 000	113 400	**116 500**	140 600
	(0.1)	(5.3)	**(5.5)**	[4.3]
Q3 2007	2 700	70 500	**73 200**	80 600
	(0.1)	(3.1)	**(3.2)**	[2.4]
Q3 2008	2 700	79 100	**81 700**	91 200
	(0.1)	(3.5)	**(3.6)**	[2.7]
Q3 2009	1 700	91 800	**93 500**	107 600
	(0.1)	(4.0)	**(4.1)**	[3.1]
Q3 2011	3 800	55 600	**59 300**	66 000
	(0.2)	(2.3)	**(2.5)**	[1.9]
Q3 2013	4 400	67 600	**72 000**	79 300
	(0.2)	(2.8)	**(3.0)**	[2.2]
Q3 2015	3 900	56 200	**60 100**	67 400
	(0.2)	(2.3)	**(2.4)**	[1.9]
Q3 2017	6 800	64 900	**71 700**	79 000
	(0.3)	(2.6)	**(2.8)**	[2.2]
Q3 2019	6 000	61 300	**67 400**	72 300
	(0.2)	(2.4)	**(2.6)**	[2.0]
Q3 2020	9 500	122 300	**131 800**	152 900
	(0.4)	(4.6)	**(5.0)**	[4.3]
Q3 2021	9 900	91 600	**101 500**	115 200
	(0.4)	(3.4)	**(3.8)**	[3.2]
Q3 2022	10 700	80 900	**91 600**	100 600
	(0.4)	(3.0)	**(3.4)**	[2.9]

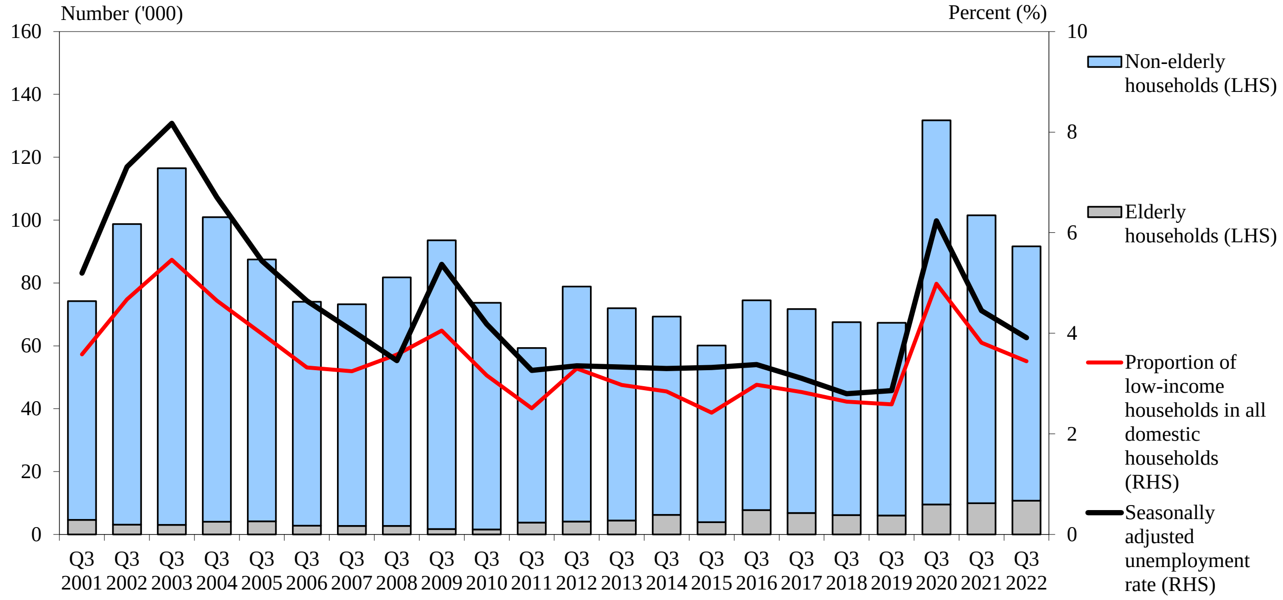
Notes : (*) Low-income households refer to households with monthly household income less than $9,300 (Q3 2022 prices). This does not include households with all members being economically inactive.

(#) Elderly households refer to domestic households with all members aged 65 and above.

( ) Proportion in all domestic households (%).

[ ] Proportion in total labour force (%).

Chart 1 : Number and proportion of low-income households*



Note : (*) Low-income households refer to households with monthly household income less than $9,300 (Q3 2022 prices). This does not include households with all members being economically inactive.

Socio-economic characteristics of low-income households

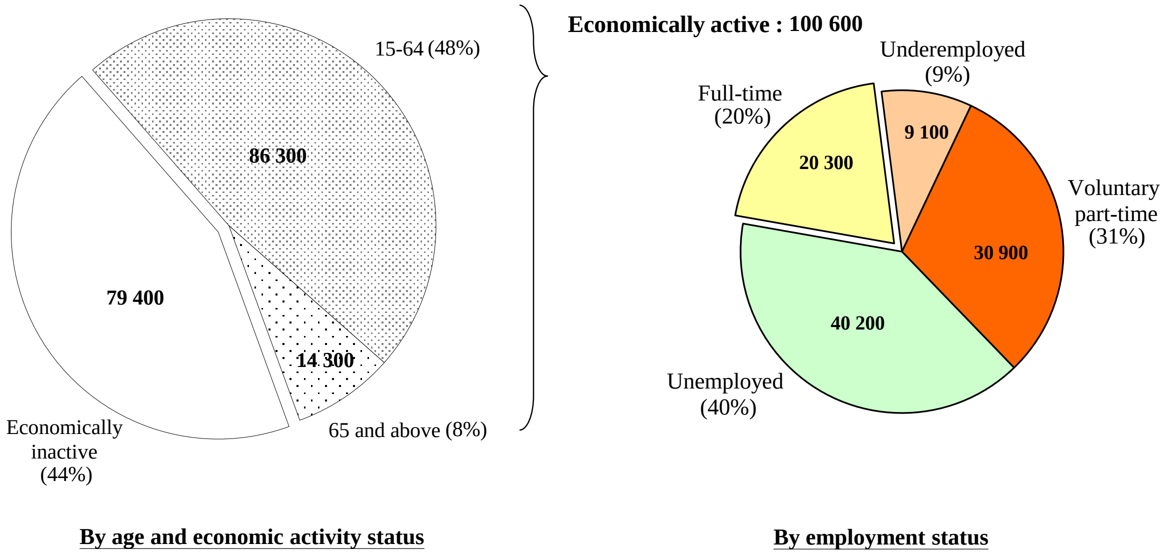
6. Further analysis of low-income households in the third quarter of 2022 yields the following observations:

- There were 180 000 persons living in low-income households, among whom 100 600 were economically active. Most of these economically active persons (86 300 or 86%) were aged 15-64, with the majority of them in the older age group of 40-64 (64 600 or 64%) and some being elders aged 65 and above (14 300 or 14%).

- The remaining 79 400 persons were economically inactive, among whom 36 200 (46%) were either children aged below 15 or elders aged 65 and above.

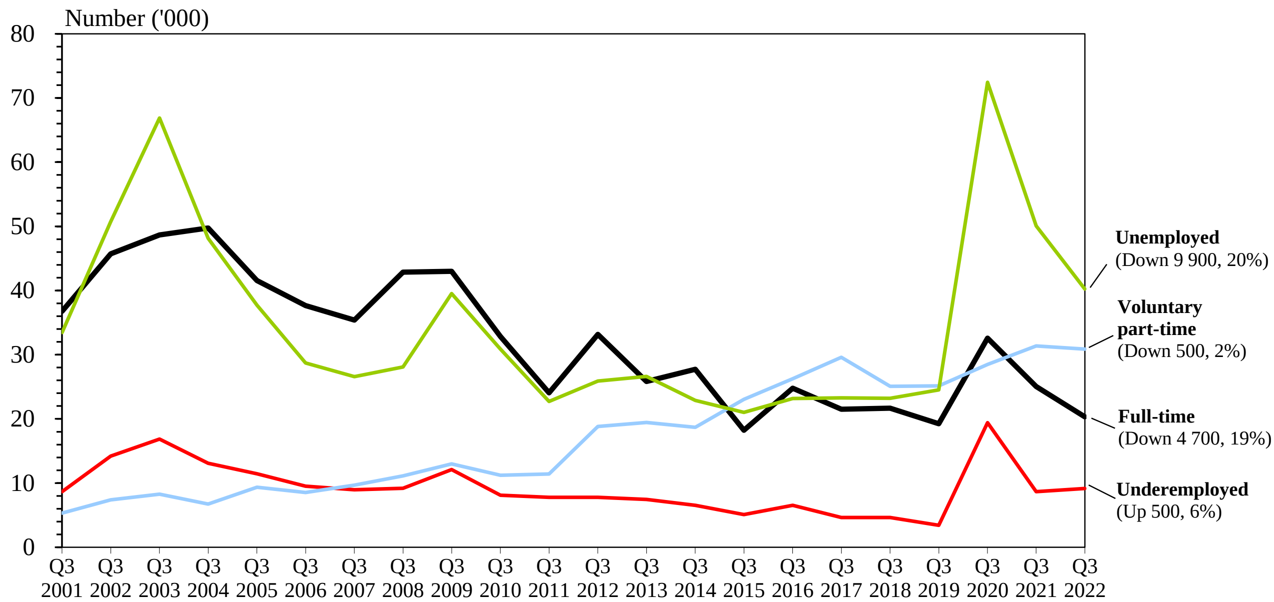
- Further analysis by employment status shows that among the 100 600 economically active persons, unemployed persons accounted for 40%, lower than that of 43% in the same period in 2021, and their number also decreased by 20% to 40 200. The proportions of voluntary part-timers and underemployed persons were 31% and 9% respectively. The proportion of full-time workers was 20%, and the number fell by 19% year-on-year ***(Charts 2 and 3)***.

Chart 2 : Persons living in low-income households* by age and economic activity status in the third quarter of 2022



Note : (*) Low-income households refer to households with monthly household income less than $9,300 (Q3 2022 prices). This does not include households with all members being economically inactive.

Chart 3 : Composition of economically active persons in low-income households*



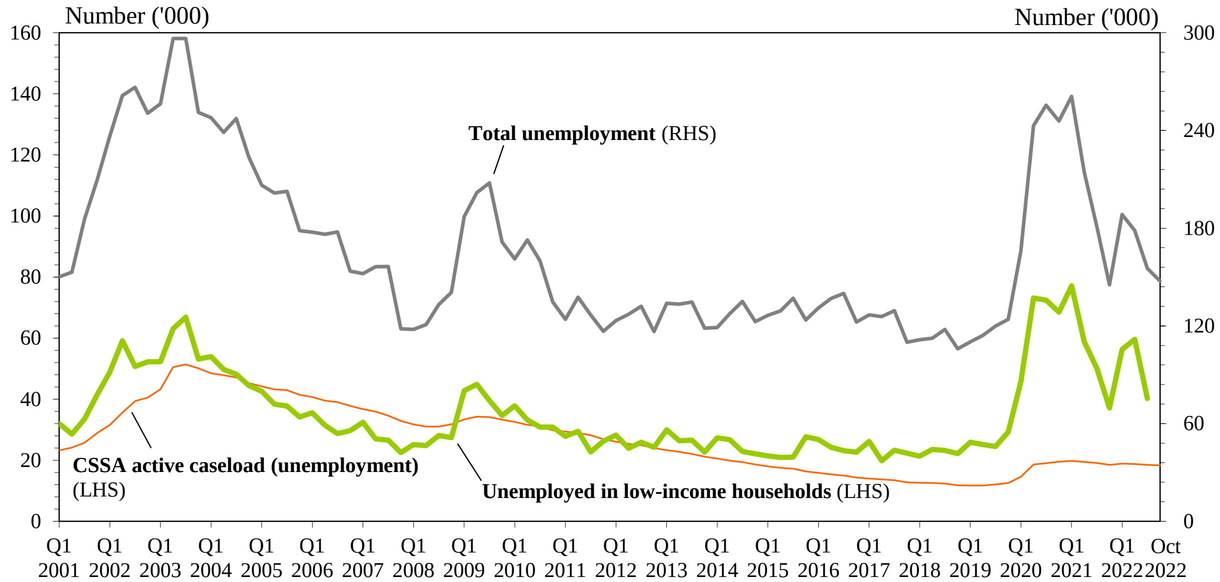
Notes : (*) Low-income households refer to households with monthly household income less than $9,300 (Q3 2022 prices). This does not include households with all members being economically inactive.
Figures in brackets are the year-on-year changes in number of economically active persons in the third quarter of 2022.

➢ Analysed by occupation, the majority of the employed persons in low-income households (73%) were lower-skilled workers (28% were service and sales workers, and 26% were elementary workers). A breakdown by economic sector reveals that most of them were engaged in the retail, accommodation and food services sector (13 200 or 22%), followed by repair, laundry, domestic and other personal service activities (6 200 or 10%) and transportation (6 100 or 10%).

The number of Comprehensive Social Security Assistance ("CSSA") cases

7. The unemployment rate of lower-skilled workers fell by 0.6 percentage point from a year earlier to 4.1% in August – October 2022. The number of CSSA unemployment cases was 18 317 in October 2022, down by 516 or 2.7% from a year earlier ***(Chart 4)***. As for the number of overall CSSA caseload, there were 208 496 cases in October 2022, down by 9 837 or 4.5% year-on-year.

Chart 4 : The relationship between the unemployed in low-income households*, CSSA active caseload (unemployment)^, and total unemployment



Notes : (*) Low-income households refer to households with monthly household income less than $9,300 (Q3 2022 prices). This does not include households with all members being economically inactive.

(^) Monthly period-end figures.