

Hong Kong Economic Outlook

September 2009

The past year saw Hong Kong economy sailing into uncharted water. Triggered by the bankruptcy of Lehman Brothers, the lingering sub-prime mortgage crisis in the US rapidly swelled into a devastating financial meltdown, and its knock-on effects on the underlying economy has led to a global recession unprecedented in the post-World War II era. Hong Kong's external trade was hit hard by the "demand avalanche" in major developed countries, with total exports of goods registering a 22.7% and 12.4% precipitation respectively in the first two quarters of 2009. The outbreak of swine flu earlier this year has further weighed on the battered economy, in particular the tourism related industries. Hong Kong economy has been mired in a downturn since mid-2008; and the GDP dropped steeply by 7.8% year-on-year in the first quarter of 2009, following a contraction of 2.6% in the fourth quarter of 2008.

Nevertheless, the latest statistics released by the HKSAR Government have brought some encouraging signs. In the second quarter, the real GDP recorded a smaller decline of 3.8% over the preceding year; but on a seasonally-adjusted quarter-to-quarter comparison, the economy factually picky up by 1.4%, bring to an end the contraction over the previous four quarters. This uplift, especially when taking into account the relatively lower base of comparison last year, has raised the hope that a year-to-year growth may be resumed latter this year or in early 2010, paving the way for a V-shape rebound.

In comparison to the Asian Financial Crisis one decade ago, Hong Kong's overall economic performance is likely to fare relatively better this time, in terms of both the magnitude and the duration of contraction. After all, Hong Kong and most Asian economies have fortunately kept themselves distant from the epicenter of current financial turmoil. On the other hand, our economy enjoyed an upswing prior to the crisis, with a robust growth of 7.3% on average during year 2004 to 2007. Although the external trade sector has been hit hard, domestic consumption has displayed much resilience and factually assumed the prime mover for recovery.

Indeed, the year-on-year decline of private consumption expenditure narrowed to 1% in the second quarter, representing a significant improvement as compared to the 6% drop in the first quarter. Local consumer sentiments has stayed afloat under the combined effects of a host of factors, e.g. the wealth effect associated with the substantial gains in income and salary over the previous years, the relatively stable labor market, low interest rate, the brisk rebound in property and stock markets, as well as the relief measures by the Government. However, it

is noteworthy that the overall investment spending slacken further, down by 13.7% and 14% in the first two quarters respectively, indicating that the business sentiment remained cautious.

The world economy is seeing light at the end of the tunnel. Mainland China has closed in on the ambitious target of 8% year-on-year growth, and the US, Japan and major counties of European Union have in a row reported stronger-than-expected rebound in the second quarter, helped by the unprecedented expansionary monetary and fiscal policy stimuli. With the international environment gradually improving, Hong Kong's external trade is bound to pick up the momentum. On the other hand, given that the global economic outlook remains uncertain, the inflationary pressures have continued to ease, and the labor markets of many economies are still sluggish, it is anticipated that the economic life-support packages handed out by governments would stay in place for some time, and there are no odds for the "exit strategies" to be implemented before mid-2010. Beyond doubt, a sustained environment of low interest and high liquidity would help to alleviate the current credit crunch faced by many Hong Kong companies, give a boost to domestic consumption, and bode well for the come-back of business confidence.

However, the recovery path ahead is pretty bumpy and teeming with uncertainties. For example, the recovery of world economy is expected to be weak and uneven; the threat of human swine influenza is yet to diminish; and the rising propensity to save of American consumers might give rise to a far-reaching shift in the paradigm of international trade. Besides, asset market gyrations could occur once the governments especially the Mainland authority adjust or even reverse the macroeconomic and financial supports, causing the market liquidity to tighten up and international capital flows to change course.

In a nutshell, the CMA is cautious about Hong Kong's economic outlook. while projecting the GDP for 2009 as a whole to contract by 3%, we forecast that a 3% moderate growth would be recorded in year 2010.