

## 3. Domestic economy

Hong Kong's economy recovered visibly in the first half of 2021, driven by strong merchandise exports and improving domestic demand. Thanks in part to progress in the vaccinations and a boost from the Government's Consumption Voucher Scheme, economic recovery is expected to continue in the second half of the year, with the outlook subject to some risks and uncertainties such as the Delta variant and China-US tensions. The unemployment rate declined notably in recent months and is likely to ease further alongside the economic recovery. Local inflationary pressures will likely edge up in the near term but should remain mild for 2021 as a whole, partly due to limited upward pressure on housing rentals.

### 3.1 Real activities

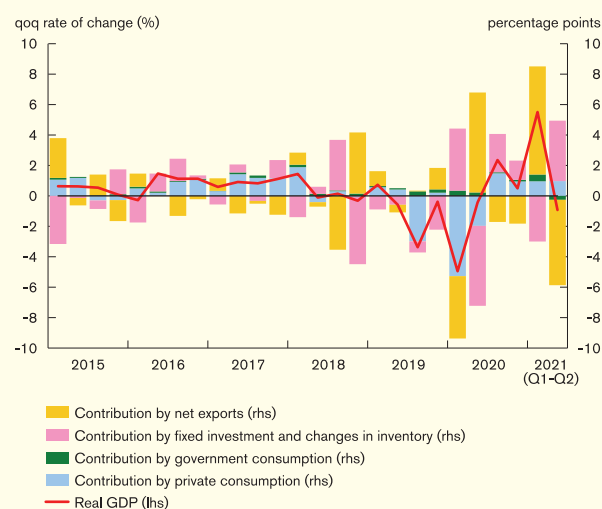
Overall economic activities recovered visibly in the first half of 2021, even though they remained below pre-recession levels. Real gross domestic product (GDP) grew by 8.0% and 7.6% year on year in the first and second quarters respectively, after six consecutive quarters of contraction (Table 3.A). However, the recovery was uneven as social-distancing requirements and travel restrictions continued to weigh on certain economic segments.

**Table 3.A**  
Real GDP growth

		Year-on-year growth rate (%)	Seasonally adjusted quarter-on-quarter growth rate (%)
2020	Q1	-9.1	-5.0
	Q2	-9.0	-0.4
	Q3	-3.6	2.4
	Q4	-2.8	0.5
2021	Q1	8.0	5.5
	Q2	7.6	-0.9

Source: C&SD.

**Chart 3.1**  
Real GDP growth and contribution by major expenditure component



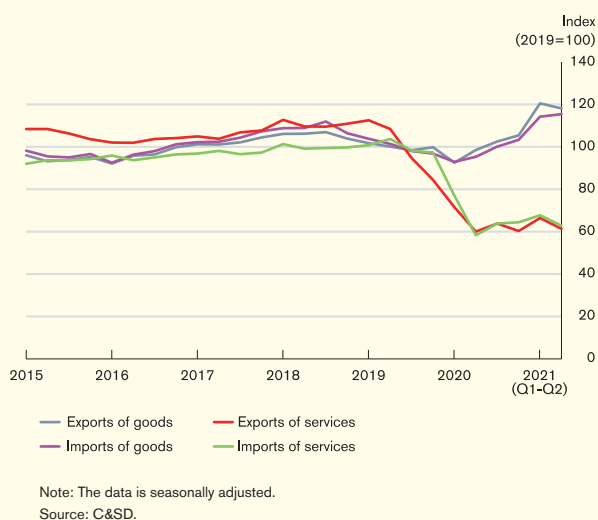
Note: Growth rates are seasonally adjusted.  
Sources: C&SD and HKMA staff estimates.

On a quarter-on-quarter basis, real GDP grew notably by 5.5% in the first quarter, before moderating somewhat in the second quarter against the high base of comparison (Table 3.A and Chart 3.1). Domestically, growth in private consumption accelerated during the first half of the year along with a decreasing unemployment

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rate and improving consumer confidence<sup>24</sup>. Overall investment spending also rebounded amid recovering business sentiment<sup>25</sup>. Externally, Hong Kong's trade in goods exhibited strong growth alongside the global economic recovery while the service trade remained lacklustre, partly because border restrictions continued to restrain tourism (Chart 3.2)<sup>26</sup>. Overall, net trade contributed positively to GDP growth in the first quarter, but weighed on GDP in the second quarter as imports increased at an even faster pace than exports.

**Chart 3.2**  
Export and import volume



Economic recovery is expected to continue for the rest of 2021. In particular, private consumption is set to strengthen further, thanks to improving labour market conditions, the

vaccination progress<sup>27</sup> and a boost from the Government's Consumption Voucher Scheme<sup>28</sup>. Better economic prospects may also increase capital expenditure as well as building and construction activities. Externally, the improved global economic conditions should continue to support Hong Kong's export growth in the near term, but inbound tourism is likely to take time to recover. The Government and private-sector analysts have revised upwards their forecasts of Hong Kong's real GDP growth for 2021 to 5.5–6.5% and 6.4% respectively. This positive economic outlook is subject to a number of risks and uncertainties as discussed in the previous chapters, especially those factors stemming from the pandemic (e.g. the Delta variant), China-US tensions and the Fed's monetary policy outlook.

### 3.2 Labour market conditions

The labour market saw some improvement in the past few months. The seasonally adjusted unemployment rate declined from a recent high of 7.2% in February to 4.7% in August (Chart 3.3), and the decline was broad-based across most economic sectors<sup>29</sup>. In tandem with the drop, more vacancies have become available, as suggested by the number of online job advertisements, and total employment has shown signs of bottoming out. Looking ahead, pressures on the labour market should ease further with the continued revival in overall economic activities, although some sectors will still face challenges, given the uneven recovery.

<sup>24</sup> The Consumer Confidence Index compiled by the City University of Hong Kong rose from 62.4 in the first quarter to 65.7 in the second quarter.

<sup>25</sup> The Purchasing Managers' Index returned to the expansionary zone in February 2021 and rose to 53.3 in August, the highest level since February 2014. The Standard Chartered Hong Kong SME Leading Business Index also increased for three consecutive quarters, reaching 46.6 in the third quarter of 2021, a three-year high since the third quarter of 2018.

<sup>26</sup> During the first half of 2021, tourist arrivals totalled about 34,000, down from 53,000 in the second half of 2020.

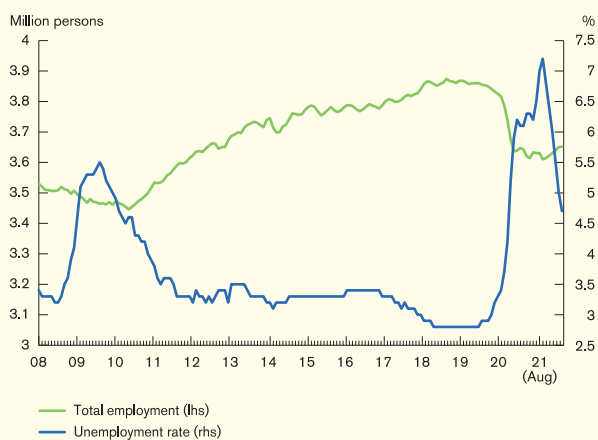
<sup>27</sup> After rolling out the vaccination programme in February, the Government launched the "Early Vaccination for All" campaign in May and worked with various sectors to encourage vaccine take-up. As of end-August, over 60% of the eligible population (aged 12 or above) have received at least one dose.

<sup>28</sup> The Government has begun the distribution of the HK\$5,000 electronic consumption vouchers in two or three disbursements in August. According to the Financial Secretary, this measure is expected to boost consumption and increase real GDP growth by 0.7 percentage points in total.

<sup>29</sup> For example, the unemployment rate of the food and beverage services sector fell notably to 8.6% in August, and that of the construction sector to 7.4%. The underemployment rate also declined to 2.2% in the same month.

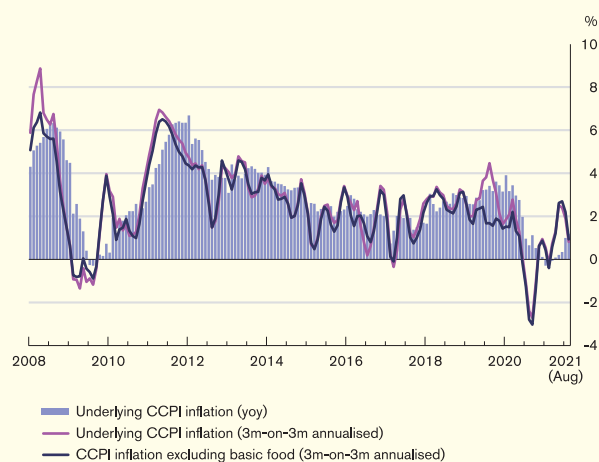
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**Chart 3.3**  
Labour market conditions



Source: C&SD.

**Chart 3.4**  
Different measures of consumer price inflation

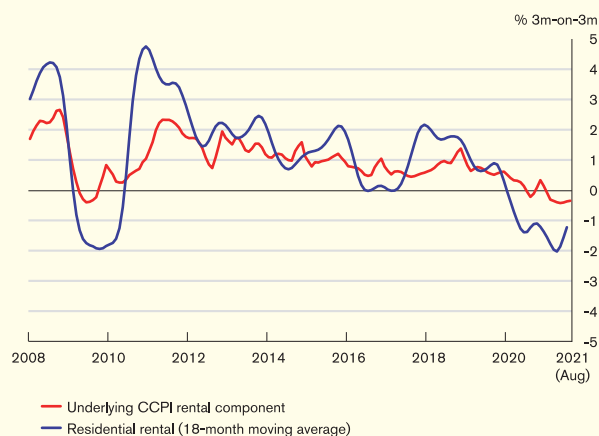


Sources: C&SD and HKMA staff estimates.

### 3.3 Inflation

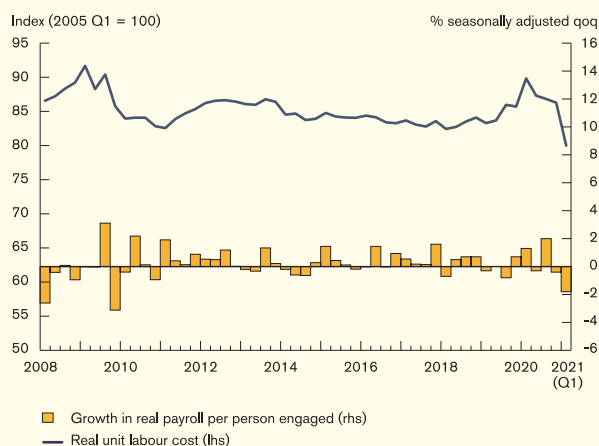
Local inflationary pressures remained mild, although they have edged up recently. On a year-on-year comparison, the underlying composite consumer price index (CCPI) declined by 0.2% in the first quarter, but increased slightly by 0.3% in the second quarter and 1.2% in August (Chart 3.4)<sup>30</sup>. Inflation momentum, as measured by the annualised three-month-on-three-month underlying inflation rate, also picked up in recent months. In particular, prices of meals out, takeaway food, clothing, footwear and some miscellaneous services saw faster increases as the local COVID-19 situation stabilised and consumption demand was revived. By contrast, the housing rental component of the CCPI continued to decline, thereby constraining the overall inflation momentum (Chart 3.5). Real unit labour costs also moderated in the first quarter as the payroll per person declined in real terms (Chart 3.6).

**Chart 3.5**  
CCPI rental component and market rental



Sources: C&SD and Rating and Valuation Department (R&VD).

**Chart 3.6**  
Unit labour cost



Sources: C&SD and HKMA staff estimates.

<sup>30</sup> The headline inflation rate was 1.2% and 0.8% in the first and second quarters respectively, higher than the underlying inflation rate because of the effects of the Government's one-off relief measures, such as a reduction in subsidies for electricity charges.

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Looking ahead, while local inflation will likely pick up further in the near term alongside the economic recovery, overall price pressures should stay mild for 2021 as a whole due to the feed-through of earlier consolidation in fresh-letting residential rentals and restrained local labour costs. The Government projects the underlying and headline inflation rates for 2021 to be 1% and 1.6% respectively, while the latest market consensus forecasts the headline inflation rate for the year will hit 1.8%.