

## 3. Domestic economy

*After a sharp contraction in the first quarter, Hong Kong's economy improved sequentially in the second quarter as the local epidemic stabilised and domestic demand revived amid policy support measures. However, overall economic activities remained weak compared to a year ago mainly due to declines in merchandise exports. Looking ahead, the economic recovery will still face multiple challenges including the worsened global economic prospects. The unemployment rate fell in recent months and is likely to ease further in the near term. Despite surging external prices, local inflation remained moderate due to soft domestic cost pressures.*

### 3.1 Real activities

The Hong Kong economy saw some sequential improvement during the first half of the year, but overall economic activities remained weak compared to a year ago. On a quarter-on-quarter basis, GDP picked up by 1.0% in the second quarter, following a broad-based contraction of 2.9% in the first quarter amid the fifth wave of the local epidemic (Table 3.A and Chart 3.1). As the situation stabilised, private consumption bounced back in the second quarter along with a decreasing unemployment rate and the implementation of a new round of the Consumption Voucher Scheme (CVS). Overall investment spending also rebounded amid recovering business sentiment.<sup>17</sup> Externally, Hong Kong's merchandise trade performance deteriorated in the first half of the year due to moderating external demand and epidemic-induced cross-boundary transportation disruptions<sup>18</sup> (Chart 3.2). Although it is still way

below its pre-pandemic level, trade in services continued to stabilise, in part, because tourist arrivals edged up.<sup>19</sup> On a year-on-year comparison, however, real GDP declined successively in the second quarter (Table 3.A), mainly reflecting external headwinds.

**Table 3.A**  
**Real GDP growth**

		Seasonally adjusted quarter-on-quarter growth rate (%)	Year-on-year growth rate (%)
2021	Q1	5.8	8.0
	Q2	-1.7	7.6
	Q3	0.7	5.4
	Q4	0.0	4.7
2022	Q1	-2.9	-3.9
	Q2	1.0	-1.3

Source: C&SD.

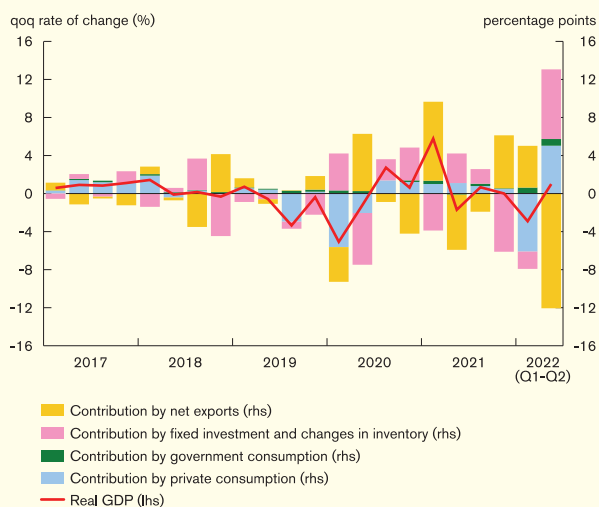
<sup>17</sup> The Purchasing Managers' Index has returned to the expansionary zone since April 2022 and rose to 54.9 in May, the highest level in the recent decade.

<sup>18</sup> The fifth wave of the local epidemic has disrupted cross-boundary cargo truck services between Mainland China and Hong Kong since late January 2022, resulting in delays and rising transport costs. In particular, the disruption to the cross-boundary land transport of goods has created a ripple effect across the supply chains in Hong Kong, partly because land transport cannot be seamlessly connected to ocean or air transport. This has further increased trade costs and weighed on trade volume.

<sup>19</sup> The Government has lifted the ban on non-Hong Kong residents entering Hong Kong since May and suspended the circuit breaker mechanism applied to airline routes since July. The quarantine rules for overseas arrivals were also adjusted in August and September respectively. Total tourist arrivals rose to about 107,900 in May–July, up from around 16,200 in January–April. Still, the number of tourist arrivals is far below the pre-pandemic level.

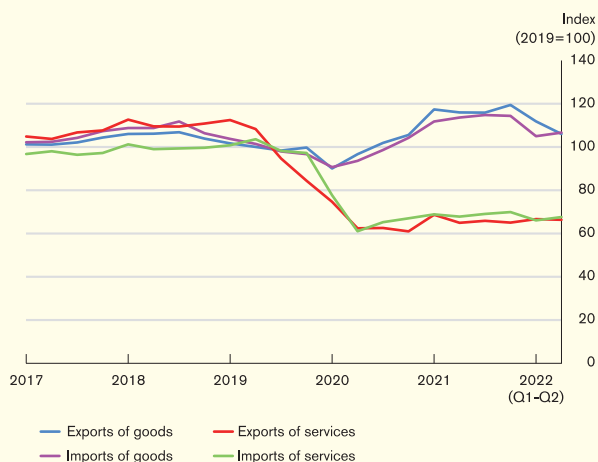
## Domestic economy

**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.

**Chart 3.2**  
Export and import volume



Note: The data are seasonally adjusted.  
Source: C&SD.

In the near term, Hong Kong's economic outlook will still face considerable challenges. While an improving labour market and the disbursement of Phase II consumption vouchers<sup>20</sup> will support private consumption and hence overall economic recovery, tighter financial conditions could dampen growth. In addition, the

<sup>20</sup> The Government began the disbursement of the Phase II electronic consumption vouchers (HK\$5,000) in August. According to the Financial Secretary, the CVS is expected to boost consumption and increase real GDP growth by 1.2 percentage points in the long run.

worsened global growth prospects may continue to drag on Hong Kong's export performance.<sup>21</sup> In view of the worse-than-expected economic performance in the first half of the year, the Government and private-sector analysts have revised their forecasts of Hong Kong's economic growth for 2022 downwards to -0.5% to 0.5% and 0% respectively. This economic outlook is subject to other risks and uncertainties, including those stemming from the pandemic, the pace of monetary policy normalisation of major central banks and geopolitical concerns (see discussion in the previous chapters).

### 3.2 Labour market conditions

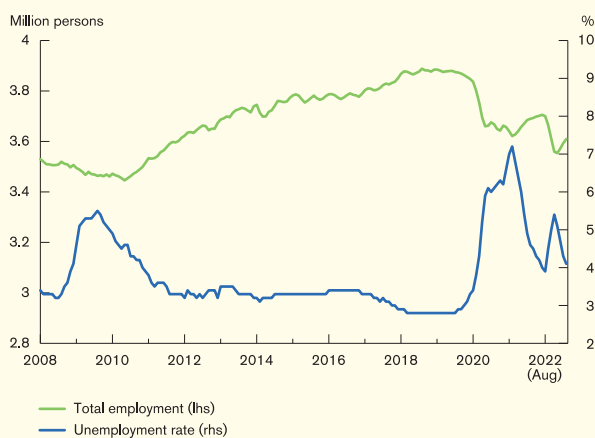
Following a deterioration in early 2022, the labour market saw some improvement in the past few months, partly supported by the gradual relaxation of social distancing measures and various policy measures, including the 2022 Employment Support Scheme. The seasonally adjusted unemployment rate declined from a recent high of 5.4% in April to 4.1% in August (Chart 3.3), and the decline was broad-based across all major economic sectors.<sup>22</sup> Total employment and the labour force participation rate have also picked up since June, though still below their pre-pandemic levels. Data on online job advertisements also indicate that more vacancies have become available. In the near term, pressures on the labour market are likely to ease further alongside a pick-up in local economic activities.

<sup>21</sup> However, cross-boundary transportation disruptions may gradually ease alongside a stabilisation in local epidemic situation, thereby providing some relief to external trade.

<sup>22</sup> For example, the unemployment rate of the food and beverage services sector fell notably from 12.9% in April to 6.7% in August, and that of the construction sector also decreased by 2.3 percentage points to 6.4% in August.

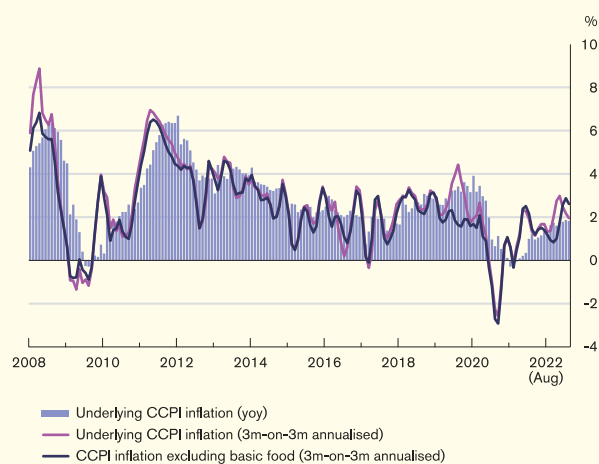
## Domestic economy

**Chart 3.3**  
Labour market conditions



Source: C&SD.

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

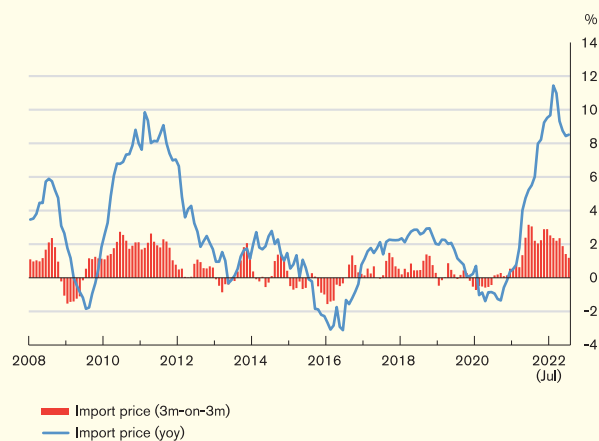


Sources: C&SD and HKMA staff estimates.

### 3.3 Inflation

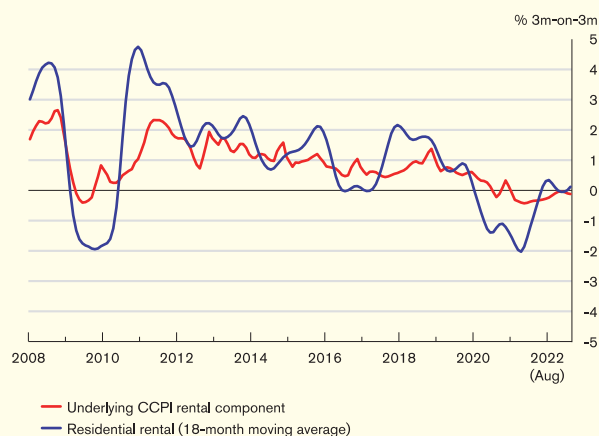
Local inflationary pressures remained moderate, although they have edged up recently (Chart 3.4). On a year-on-year comparison, the underlying composite consumer price index (CCPI) increased by 1.6% and 1.7% in the first and second quarters respectively, and by 1.8% in August.<sup>23</sup> Inflation momentum, as measured by the annualised three-month-on-three-month underlying inflation rate, also picked up. Prices of basic food and energy-related items saw a stronger increase along with the persistent rise in import prices (Chart 3.5). The price of clothing, footwear and meals out also rose as the local COVID-19 situation stabilised and consumption demand revived. By contrast, the housing rental component of the CCPI was broadly stable, thereby constraining the overall inflation momentum (Chart 3.6). Real unit labour costs also moderated in the first and second quarters (Chart 3.7).

**Chart 3.5**  
Hong Kong's import prices



Source: C&SD.

**Chart 3.6**  
CCPI rental component and market rental

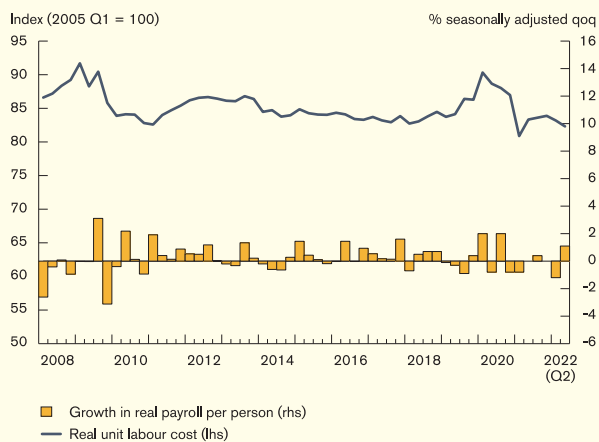


Sources: C&SD and R&VD.

<sup>23</sup> Inclusive of the effects of the Government's relevant one-off relief measures, the year-on-year headline inflation rate was 1.9% in August, and 1.5% in both the first and second quarters of 2022.

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**Chart 3.7**  
**Unit labour cost**



Sources: C&SD and HKMA staff estimates.

While external price pressures are expected to remain elevated in the near term, local inflation should stay mild due to the moderated fresh-letting residential rentals earlier and restrained local labour costs. The Government projection of underlying and headline inflation rates for 2022 is maintained at 2.0% and 2.1% respectively, while the latest market consensus forecasts that the headline inflation rate for the year will hit 2.1%.