Chapter 4

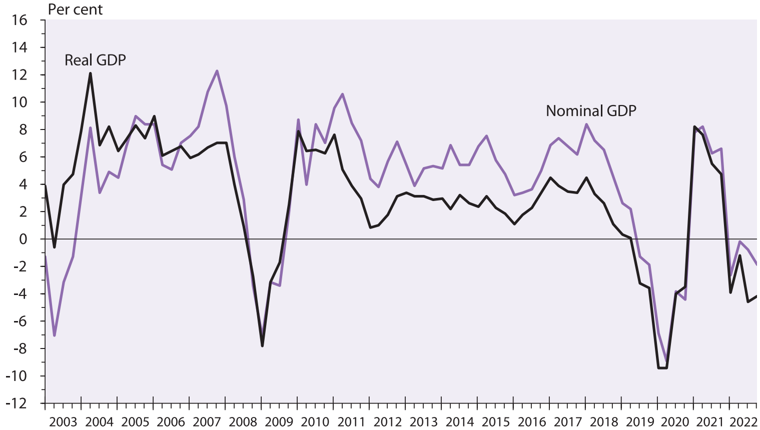
Economy

Hong Kong's economy weakened notably in 2022. Economic activities were first dampened by the fifth wave of the COVID-19 epidemic and subsequently by the deteriorating external environment and tightened financial conditions. The labour market was under pressure in the early months but subsequently improved. Underlying consumer price inflation, though showing some increase, remained moderate in overall terms.

Gross Domestic Product (GDP) contracted 3.5 per cent in real terms in 2022, having expanded by 6.4 per cent in the preceding year. As private consumption plunged due to the fifth wave of the local epidemic, real GDP contracted 3.9 per cent year on year in the first quarter. The fall moderated to 1.2 per cent in the second quarter as the epidemic stabilised, but widened to 4.6 per cent and 4.1 per cent in the third and fourth quarters respectively as the external environment deteriorated and tightened financial conditions weighed on exports of goods and fixed asset investment *(chart 1)*.

Chart 1 **Quarterly Gross Domestic Product**

(year-on-year rate of change)



The Hong Kong economy weakened notably in 2022.

The residential property market underwent a marked correction in 2022 amid tightened financial conditions and worsened global and local economic outlook.

The local stock market was volatile. Since the early part of the year, market sentiment was dampened by a series of adverse developments, including tensions in Ukraine, occasional increases in COVID-19 cases in the Mainland, the stepping up of monetary tightening by the US Federal Reserve and slackening global growth momentum. The Hang Seng Index fell to 14,687 points on 31 October, the lowest since April 2009. It then rebounded strongly amid the expectation of slower US interest rate hikes and the optimisation of anti-epidemic measures in the Mainland, and closed the year at 19,781 points, down 15.5 per cent from a year earlier.

Structure and Development of the Economy

Hong Kong is a global centre for world trade, finance, transportation and business, located strategically at the doorstep of the Mainland's huge and vibrant economy. Hong Kong was the world's 10th-largest merchandise trading entity in 2022, according to the World Trade Organisation, and was home to one of the world's busiest airports in terms of the volume of international air cargo handled, as well as one of the busiest container ports by container throughput.

Hong Kong was also the world's sixth-largest banking centre in terms of external positions as at end-2022, and the fourth-largest global foreign exchange market according to a triennial survey conducted by the Bank for International Settlements in 2022. Its stock market was the fourth largest in Asia by market capitalisation as at end-2022, and ranked fourth globally in terms of initial public offering equity funds raised during the year.

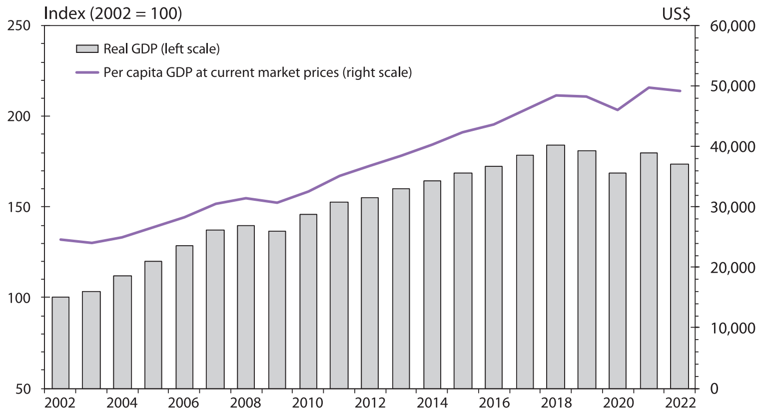
As an international business hub, Hong Kong offers a business-friendly environment with a fine tradition of the rule of law and judicial independence; an unfettered flow of capital, people, goods and information; open and fair competition; a well-established and comprehensive financial network; superb transport and communications infrastructure; sophisticated support services; and a flexible labour market with a well-educated workforce and a pool of efficient and innovative entrepreneurs. The city has sizeable foreign exchange reserves, a fully convertible and stable currency, prudent fiscal management and a simple tax system with low tax rates. Thanks to these virtues, Hong Kong was ranked fifth globally and second in Asia in the *World Competitiveness Yearbook 2022* published by the International Institute for Management Development. Hong Kong has also been consistently ranked as the world's freest economy by the Fraser Institute.

The Hong Kong economy expanded at an average annual rate of 2.8 per cent over the past two decades, faster than most other advanced economies. Over the same period, per capita GDP rose about 59 per cent in real terms, posting an average annual growth rate of 2.4 per cent. Per capita GDP at current market prices was US$49,000 in 2022 *(chart 2)*, exceeding many advanced economies.

Trade links with other parts of the world have grown extensively. Trade in goods and services has more than doubled in real terms over the past two decades, despite some retreat during the pandemic. The total value of the goods trade based on the GDP compilation framework reached $9,672 billion in 2022, equivalent to 343 per cent of GDP, far higher than the ratio of 209 per cent in 2002. Including the value of exports and imports of services, the ratio of total trade to GDP was 384 per cent in 2022, up from 256 per cent in 2002.

As an international financial centre with huge cross-territory fund flows, Hong Kong has substantial external financial assets and liabilities, of $47,438 billion and $33,686 billion respectively at the end of 2022. The corresponding ratios to GDP were 1,683 per cent and 1,195 per cent. Reflecting the city's robust international investment position, its net external financial assets amounted to $13,752 billion at the end of 2022, equivalent to 488 per cent of GDP.

Chart 2 Gross Domestic Product



Over the past two decades, the Hong Kong economy grew an average of 2.8 per cent annually, faster than most high-income economies.

Hong Kong is also one of the most preferred destinations for external direct investment. The stock of direct investment liabilities is enormous, at $17,302 billion in market value at the end of 2022, equivalent to 614 per cent of GDP. The corresponding figures for Hong Kong's stock of direct investment assets were likewise huge, at $17,021 billion, or 604 per cent of GDP.

Gross National Income, comprising GDP and net external primary income flow, stood at $3,018 billion in 2022, higher than the corresponding GDP by 7.1 per cent. The difference represented a net inflow of external primary income. Owing to the huge stocks of Hong Kong's outward and inward investment, inflows and outflows of external primary income were both substantial, at $1,757 billion and $1,558 billion respectively, equivalent to 62 per cent and 55 per cent of GDP respectively.

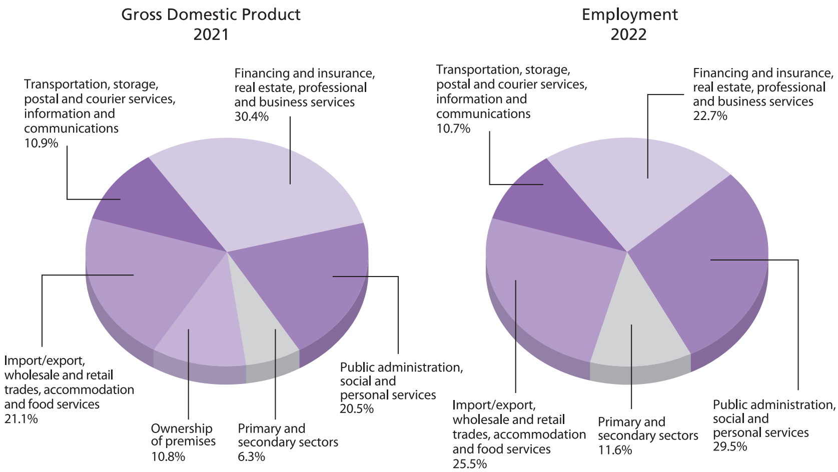
Contributions of Various Economic Sectors

Primary production, including agriculture, fisheries, mining and quarrying, is tiny in terms of both value-added contribution to GDP and share in total employment.

Secondary production comprises manufacturing, construction and electricity, gas and water supply. In 2021, the value-added contributions of manufacturing and of electricity, gas and water supply each accounted for only 1 per cent of GDP, while the construction sector contributed 4 per cent. As for the share in total employment in 2022, manufacturing constituted only 2 per cent, and electricity, gas and water supply less than 1 per cent. Construction took up 9 per cent.

The services sector is the mainstay of the Hong Kong economy, making up 94 per cent of GDP in 2021. The largest services sector continued to be financing and insurance, real estate, professional and business services, accounting for 30 per cent of GDP. This was followed by import/export, wholesale and retail trades, accommodation and food services (21 per cent); public administration, social and personal services (20 per cent); and transportation, storage, postal and courier services, and information and communications (11 per cent). In terms of total employment, the services sector accounted for 88 per cent in 2022. In particular, public administration, social and personal services accounted for 30 per cent of total employment, followed by import/export, wholesale and retail trades, accommodation and food services (26 per cent); financing and insurance, real estate, professional and business services (23 per cent); and transportation, storage, postal and courier services, information and communications (11 per cent) *(chart 3)*.

Chart 3 Gross Domestic Product and Employment by Sector



The services sector continued to be the mainstay of the economy.

It is worth noting that although the manufacturing sector accounts for only a small share of the economy in terms of value added and employment, Hong Kong's manufacturers are versatile and resilient in coping with the changing global and regional economic landscapes. The city's productive capacity has effectively expanded over the years, thanks to increasingly sophisticated supply-chain arrangements involving the Mainland and other neighbouring economies and continued enhancement of innovation and technology. The well-established links between Hong Kong's offshore productive capacity and the local economy underpin the growth of its services sector, especially the rapid development of trading, financial and other support services.

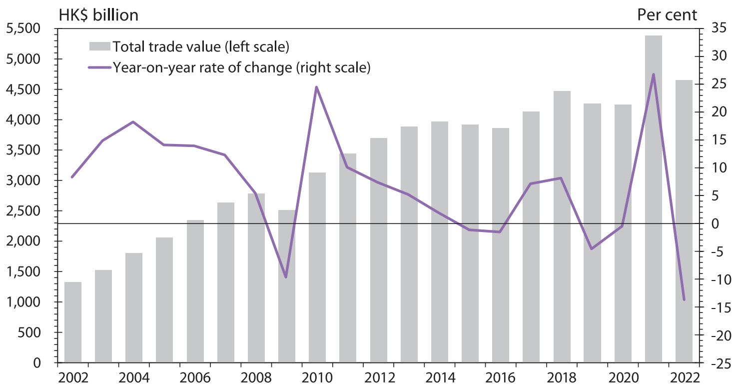
With its unique advantages under 'one country, two systems' and strong competitive edge, Hong Kong's services sector is well positioned to take advantage of the opportunities presented by national development and the eastward shift of global economic gravity. The government is committed to competing for enterprises and talent, creating new land expeditiously and increasing infrastructure investment to build capacity for economic development. It encourages the development of innovation and technology to create new impetus for the economy and strives to integrate further with national development and strengthen relations with other Asian economies.

Economic Links with Mainland

Economic ties between Hong Kong and the Mainland are stronger than ever. The flow of goods, services, people and capital between the two places, and between the Mainland and the world through Hong Kong, have been flourishing over the years alongside the continued reform and opening up of the Mainland. The activities have brought significant mutual benefits to both Hong Kong and the Mainland.

With its total merchandise trade surging from US$621 billion in 2002 to US$6.3 trillion in 2022, the Mainland plays a prominent role in driving global economic growth. Hong Kong has benefited substantially from the Mainland's remarkable external trade growth. In 2022, although visible trade between Hong Kong and the Mainland shrank due to moderated global economic growth and pandemic-related disruptions to cross-boundary truck movements, it was still more than three times that of 20 years ago, representing growth of 6 per cent per annum in value terms *(chart 4)*. The Mainland was the world's largest merchandise trading entity while Hong Kong ranked 10th in 2022.

Chart 4 **Goods Trade between Hong Kong and Mainland**



Merchandise trade between Hong Kong and the Mainland grew notably in the past two decades.

The Mainland has long been Hong Kong's largest trading partner, contributing to about half of the city's total merchandise trade value in 2022. At the same time, Hong Kong was the Mainland's fifth-largest trading partner in 2022, accounting for about 5 per cent of the Mainland's total trade value. More than 60 per cent of Hong Kong's exports to the Mainland, which were mainly re-exports, involved raw materials and semi-manufactures, reflecting the Mainland's role as a production hinterland and the highly integrated production network within Asia.

Meanwhile, the rise of the Mainland as the world's second-largest economy with increasing emphasis on high-quality development has brought about enormous opportunities for various services. Hong Kong, being highly competitive in many high-end services, has risen with the tide. The Plan for the Development of the Guangdong-Macao Intensive Cooperation Zone in Hengqin, the Plan for Comprehensive Deepening Reform and Opening up of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, and the Overall Plan for Deepening Globally Oriented Comprehensive Cooperation among Guangdong, Hong Kong and Macao in Nansha of Guangzhou were promulgated by the Central Government on 5 September 2021, 6 September 2021 and 14 June 2022 respectively. These plans set out the key development directions for the three major Guangdong-Hong Kong-Macao cooperation platforms in Hengqin of Zhuhai, Qianhai of Shenzhen, and Nansha of Guangzhou, while expanding the scope of development for different sectors and enterprises in Hong Kong.

Hong Kong has always been a principal gateway to and from the Mainland, though the flow of people between the two was severely disrupted by the pandemic. In 2022, foreign visitors made around 22,000 trips through Hong Kong to the Mainland, and Mainland residents made 375,000 trips to or through Hong Kong, up 629 per cent and 471 per cent respectively from the preceding year but far below their pre-pandemic levels. Nevertheless, capital flow between the two places continued to thrive. In 2021, Hong Kong remained the largest external investor in the Mainland. According to the Mainland's statistics, the cumulative value of realised direct investment in the Mainland from Hong Kong exceeded US$1 trillion as at end-2021, more than half of the total.

Reciprocally, Hong Kong is the largest destination for the Mainland's outward direct investment. Based on the Mainland's statistics, the Mainland's stock of outward direct investment to Hong Kong accounted for 56 per cent of its total outward direct investment position as at end-2021, reflecting Hong Kong's role as a platform for Mainland companies to explore other markets and go global. Based on Hong Kong's statistics, the Mainland is Hong Kong's second-largest source of external direct investment, accounting for 28 per cent of Hong Kong's total inward direct investment stock as at end-2021. Mainland companies maintain a strong presence in Hong Kong as well. As at mid-2022, Mainland companies were operating 2,114 regional headquarters and regional or local offices in Hong Kong, up from 853 a decade ago.

Due to proximity, Guangdong's economic links with Hong Kong are understandably the closest of all the provinces. Based on the Mainland's statistics, the value of realised direct investment in Guangdong from Hong Kong was US$23.5 billion in 2022, accounting for 84 per cent of the province's total inward direct investment in the year.

The Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives Through the Year 2035, approved by the National People's Congress in 2021, supports Hong Kong to enhance its competitiveness as eight international centres or hubs[1], with a view to better integrating Hong Kong into the overall development of the country.

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1 Support regarding the 'eight international centres or hubs' includes supporting Hong Kong's development as an international innovation and technology hub, an international legal and dispute resolution services centre in the Asia-Pacific region, an East-meets-West centre for international cultural exchange, and a regional intellectual property trading centre; and enhancing its status as an international financial centre, an international transportation centre, an international trade centre and an international aviation hub.

Over the years, financial links between Hong Kong and the Mainland have strengthened substantially, thanks to increasing cross-boundary economic activities and the Central Government's policy to enhance Hong Kong's position as an international financial centre. In addition to the inclusion of exchange-traded funds under Stock Connect in July, the Mainland authorities announced their support for further expanding mutual market access through the establishment of Swap Connect; the expansion of Stock Connect by including securities of overseas enterprises primarily listed in Hong Kong and more companies listed on the Shanghai and Shenzhen stock exchanges; study to set up a Renminbi (RMB) trading counter under southbound Stock Connect; and issuance of Mainland government bond futures in Hong Kong.

As a major funding centre for Mainland enterprises, Hong Kong had 1,409 Mainland enterprises listed on its stock market as at end-2022. Of these, 75 were listed in 2022, raising more than $96 billion of funds through initial public offerings (IPOs). IPOs and secondary market financing combined raised more than $220 billion in aggregate funds.

Hong Kong possesses the world's largest offshore pool of RMB liquidity, holding about RMB982 billion of RMB customer deposits and outstanding RMB certificates of deposit issued as at end-2022. RMB bank lending and outstanding RMB bonds stood at about RMB192 billion and RMB392 billion respectively. RMB trade settlements handled by banks in Hong Kong were about RMB9.3 trillion in 2022.

Hong Kong is also the largest offshore RMB investment product market. As at end-2022, there were 41 Securities and Futures Commission (SFC)-authorised, RMB-denominated unlisted funds primarily investing onshore via the Qualified Foreign Investor scheme, Stock Connect, Bond Connect and the China Interbank Bond Market, with an aggregate net asset value of RMB16.6 billion, and 36 SFC-authorised, RMB-denominated exchange-traded funds listed on the Stock Exchange of Hong Kong, primarily investing onshore via the same channels with an aggregate net asset value of RMB51.3 billion.

The Economy in 2022

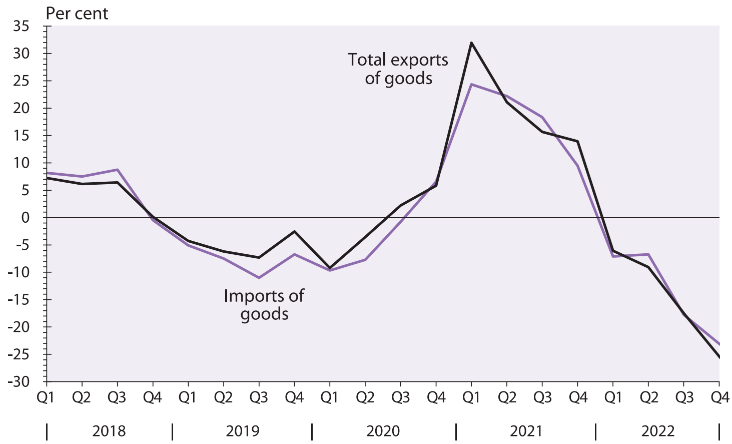
External Trade

Total exports of goods, based on external merchandise trade statistics, plunged 14.8 per cent in real terms in 2022, after surging 19.9 per cent in 2021. Moderated global economic growth, coupled with disruptions to cross-boundary truck movements between Hong Kong and the Mainland, posed a significant drag on Hong Kong's export performance. Merchandise exports turned to a year-on-year decline of 6.0 per cent in real terms in the first quarter, and recorded widened declines of 8.9 per cent, 17.4 per cent and 25.3 per cent in the subsequent quarters *(chart 5)*. Analysed by major market, exports to the Mainland, US and European Union declined. Exports to Japan recorded a double-digit decline, while those to other major markets in Asia decreased or grew at a decelerated pace.

Imports of goods shrank markedly by 13.9 per cent in real terms in 2022, after increasing 18.1 per cent in 2021. Retained imports, which refer to imports for domestic use and accounted for around one-fifth of merchandise imports in 2022, declined 10.2 per cent. Imports for subsequent re-export also declined.

Chart 5 **Hong Kong's Goods Trade**

(year-on-year rate of change in volume terms)

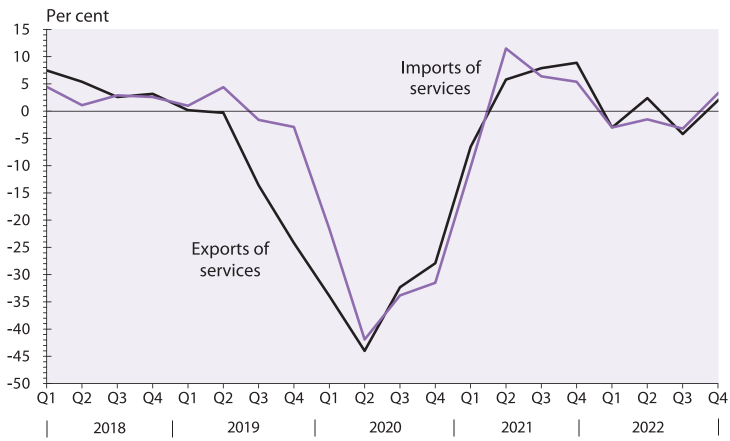


Merchandise exports plunged in 2022.

Exports of services declined slightly by 1.4 per cent in real terms in 2022, after increasing 3.4 per cent in 2021 *(chart 6)*. Exports of transport services declined alongside the weak trade performance. Exports of financial services and business and other services also fell amid the deteriorating external environment. On the other hand, with testing and quarantine arrangements for inbound visitors progressively relaxed, particularly towards the end of the year, exports of travel services surged but were still far below the pre-pandemic level.

Chart 6 **Hong Kong's Services Trade**

(year-on-year rate of change in real terms)



Exports of services declined slightly in 2022.

Note: Exports and imports of services are compiled based on the change of ownership principle.

Imports of services decreased 1.7 per cent in real terms in 2022, after rising 2.5 per cent in 2021. Imports of manufacturing services and transport services fell as trade and cargo flows plunged. Imports of business and other services also dropped against the backdrop of a weakened global economy. On the other hand, imports of travel services grew as outbound tourism revived, particularly in the fourth quarter following the adjustments to travel restrictions in other places and quarantine arrangements on arriving in Hong Kong, but the level remained meagre.

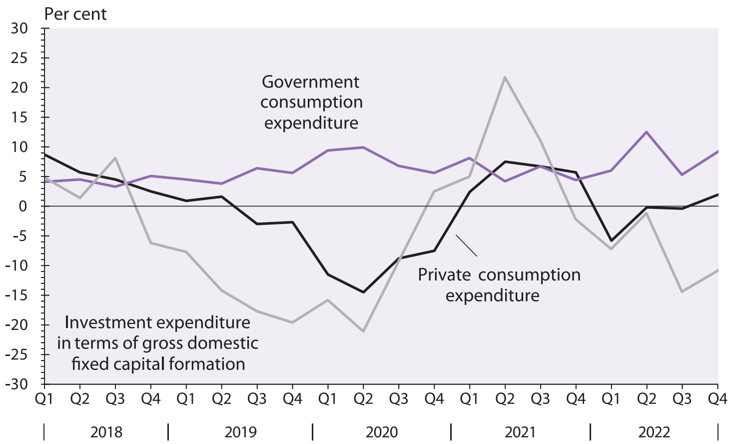
Compiled based on the change of ownership principle, the goods balance turned to a deficit in 2022 as the value of exports of goods saw a larger decline than that of imports. Over the same period, the services surplus widened. The combined goods and services account registered a surplus of $111 billion in 2022, compared with the surplus of $160 billion in 2021.

Domestic Demand

Consumption activities were seriously disrupted by the fifth wave of the local epidemic in the first quarter of 2022. As the situation stabilised and social distancing measures progressively relaxed, there was an improvement from the second quarter and the disbursement of consumption vouchers provided further support. For 2022 as a whole, private consumption expenditure recorded a mild decline of 1.2 per cent in real terms, after a 5.6 per cent increase in 2021 *(chart 7)*. Meanwhile, government consumption expenditure rose 8.2 per cent in real terms in 2022, further to a 5.9 per cent increase in 2021.

Chart 7 **Main Components of Domestic Demand**

(year-on-year rate of change in real terms)



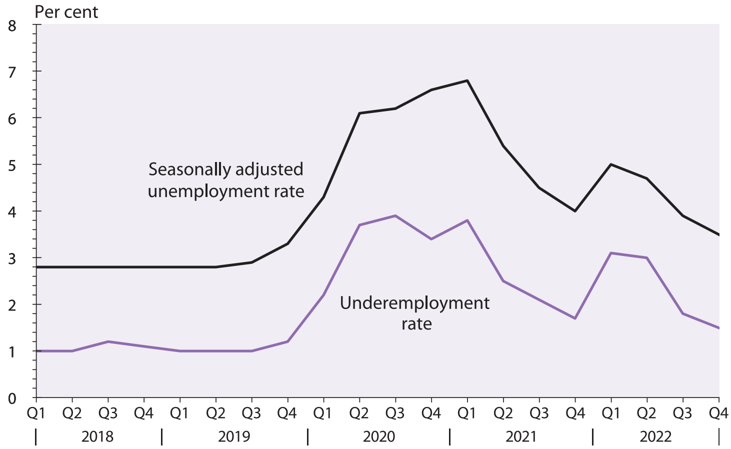
Private consumption expenditure has seen improvement since the second quarter of 2022. Overall investment spending fell notably.

Overall investment spending in terms of gross domestic fixed capital formation fell by 7.7 per cent in real terms in 2022, after increasing 8.3 per cent in 2021. Expenditure on acquisitions of machinery, equipment and intellectual property products plunged 16.8 per cent amid the subdued business outlook and rising borrowing costs. Expenditure on building and construction expenditure rose 5.1 per cent, with the increase in public sector spending more than offsetting the decline in private sector spending. Separately, the costs of ownership transfer plummeted as property transactions fell sharply from 2021.

Labour Market

The labour market was under pressure in the early months of 2022, but improved subsequently as domestic economic activities gradually revived alongside the generally stable local epidemic situation. The seasonally adjusted unemployment rate rose notably to a high of 5.4 per cent in February to April, and then fell successively to 3.5 per cent in the fourth quarter *(chart 8)*. The underemployment rate also rose to a high of 3.8 per cent in February to April, before declining to 1.5 per cent in the fourth quarter. The seasonally adjusted unemployment rate and the underemployment rate in the fourth quarter of 2022 were lower than their respective levels of 4.0 per cent and 1.7 per cent a year earlier. The unemployment rates of most major sectors fell in the fourth quarter compared with February to April, particularly for those sectors that saw notable increases in early 2022, such as the decoration, repair and maintenance for buildings sector, the food and beverage service activities sector, and the arts, entertainment and recreation sector.

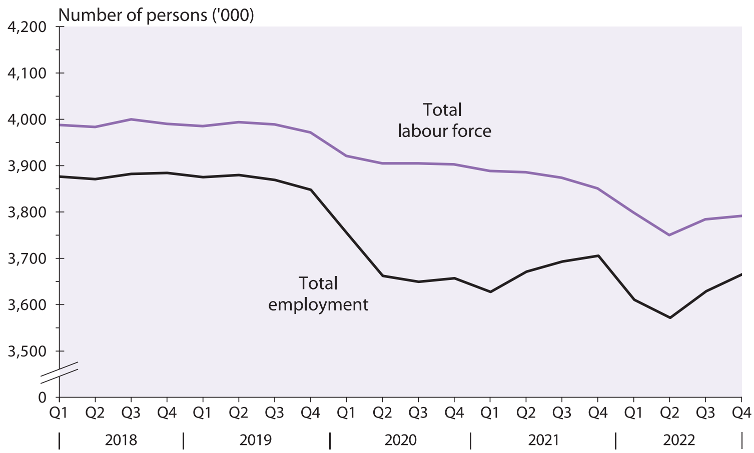
Chart 8 **Unemployment and Underemployment Rates**



The labour market was under pressure in the early months of 2022, but improved subsequently in the rest of the year.

The labour force continued to decline entering 2022, to a low of 3,745,200 in March to May *(chart 9)*. This reflected partly a decline in the labour force participation rate as a result of some people choosing to leave the labour force and the persistent drag from population ageing, and partly a fall in the working-age population. The labour force then rose back in the rest of the year to 3,791,300 in the fourth quarter, as improved employment conditions attracted more people to enter or re-join the labour market. Analysed by contributing factor, the labour force participation rate rose back from the low of 58.1 per cent in March to May to 58.3 per cent in the fourth quarter. The working-age population also increased from 6,444,300 to 6,504,000 over the same period.

Chart 9 **Total Labour Force and Total Employment**



Both labour force and total employment declined to the low levels in March to May, then rose back in the rest of 2022.

Total employment also reached a low of 3,553,800 in March to May, before rising back to 3,665,300 in the fourth quarter. Most major sectors saw increases in employment in the fourth quarter compared with March to May, particularly the arts, entertainment and recreation sector, the food and beverage service activities sector, and the decoration, repair and maintenance for buildings sector.

Growth in nominal labour earnings accelerated during 2022. The year-on-year increase of the nominal index of payroll per person engaged for all selected industry sections, which covers basic wage, overtime pay, discretionary bonuses and other irregular payments, accelerated from 0.8 per cent and 1.7 per cent in the first and second quarter to 2.0 per cent and 2.3 per cent in the third and fourth quarter. For 2022 as a whole, nominal labour earnings rose 1.7 per cent, faster than the growth of 1.0 per cent in the preceding year.

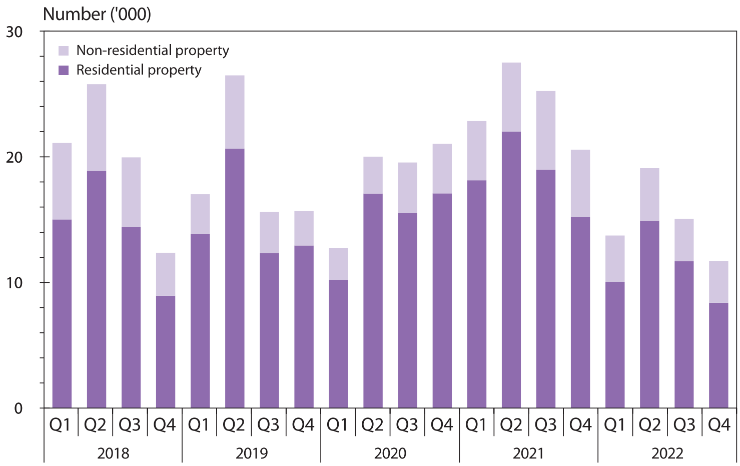
The median monthly household income (excluding foreign domestic helpers) saw year-on-year growth in nominal terms throughout 2022, increasing 3.3 per cent to $28,900 in the fourth quarter. For 2022 as a whole, it increased 3.3 per cent to $28,000 after a slight decline of 0.2 per cent in the preceding year.

Property Market

The residential property market underwent a marked correction in 2022. Market sentiment turned increasingly cautious throughout the year as financial conditions tightened amid the sharp monetary policy tightening by the US Federal Reserve and the global and local economic outlook worsened.

Trading activities were moderate in the first half of 2022, and then quietened visibly in the second half. For 2022 as a whole, the total number of sale and purchase agreements for residential property received by the Land Registry plunged 39 per cent to 45,100, the lowest level since figures were available, and well below the five-year average of 62,600 from 2017 to 2021 *(chart 10)*. Total consideration fell sharply by 44 per cent to $407.7 billion.

Chart 10 **Sale and Purchase Agreements by Broad Type of Property**

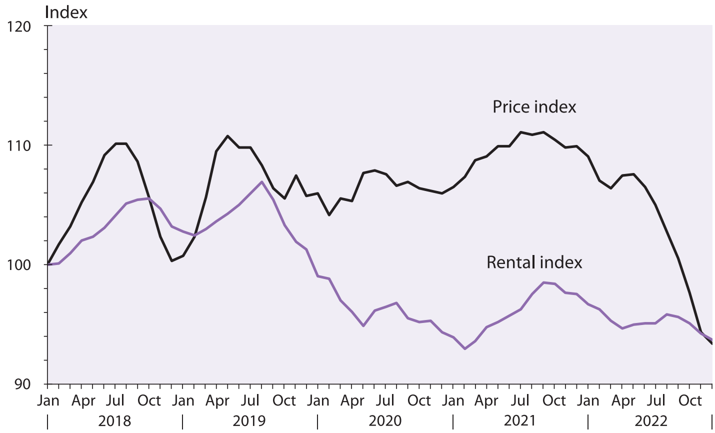


Trading activities were moderate in the first half of 2022, and then quietened visibly in the second half.

Overall flat prices declined 3 per cent during the first half of the year, and then visibly faster by 12 per cent during the second half despite some signs of stabilisation towards the end of the year. Flat prices in December 2022 were on average 15 per cent lower than a year earlier and 16 per cent below the peak in September 2021. Analysed by size, comparing December 2022 with December 2021, prices of small and medium-sized flats and large flats fell 15 per cent and 8 per cent respectively. The leasing market also weakened. Flat rentals in December 2022 were on average 4 per cent lower than in December 2021 and 12 per cent below the peak in August 2019. Analysed by size, rentals of small and medium-sized flats and large flats fell 4 per cent and 5 per cent respectively during the year *(chart 11)*.

Chart 11 **Prices and Rentals of Residential Property**

(Jan 2018=100)



Flat prices and rentals declined during 2022.

The index of home purchase affordability[2] remained elevated at around 70 per cent in the fourth quarter of 2022, significantly above the long-term average of 49 per cent over 2002-2021[3], though slightly lower than the 72 per cent a year earlier as the effect of rising mortgage rates was more than offset by the decline in flat prices. Should interest rates rise two percentage points to a level closer to the historical standards, the ratio would reach 83 per cent.

Reflecting the government's sustained efforts in raising land and flat supply, 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 rise to a record high of 105,000 units as estimated at end-2022. The demand-supply balance of private flats showed some improvement during 2022. The vacancy rate rose from 4.1 per cent at end-2021 to 4.4 per cent at end-2022, though still slightly below the long-term average of 4.7 per cent over 2002-2021.

The government has implemented a number of demand-side management and macro-prudential measures during 2009 to 2017 to dampen speculative, investment and non-local demand, and to reduce the possible risks to financial stability arising from an exuberant property market. These measures have yielded notable results.

2 The ratio of mortgage payment for a 45-square-metre flat to median income of households, excluding those living in public rental housing and public temporary housing.

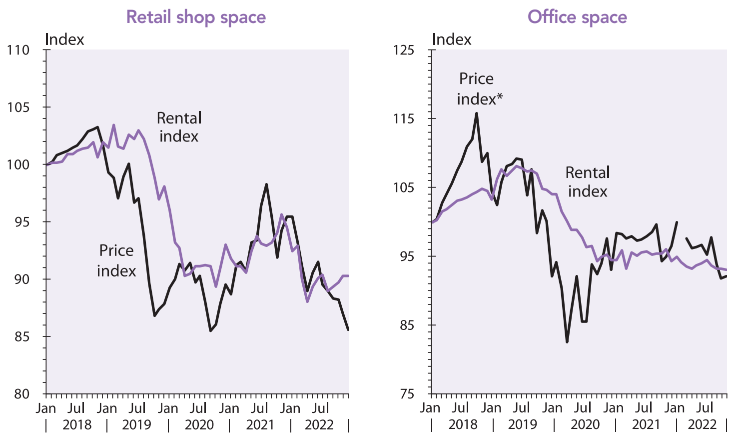
3 Starting from the third quarter of 2019, the index of home purchase affordability is calculated based on, among others, the mortgage rates of new mortgage loans with reference to both the Best Lending Rate (BLR) and the Hong Kong Interbank Offered Rate. As such, the data from the third quarter of 2019 onwards may not be strictly comparable with those in previous quarters, which were based on the mortgage rates of new mortgage loans with reference to the BLR only. Figures may be subject to revision.

The non-residential property market weakened during 2022 amid subdued economic conditions. Trading activities fell to very low levels. For 2022 as a whole, the number of sale and purchase agreements for non-residential property plunged 33 per cent to 14,600, while total consideration fell 20 per cent to $146.7 billion.

Prices and rentals for most major market segments declined. Sale prices and rentals of retail shop space fell 10 per cent and 5 per cent respectively between December 2021 and December 2022. Prices and rentals in December 2022 were 17 per cent and 13 per cent lower than their respective peaks in 2018 and 2019. For office space, prices on average dropped 3 per cent between December 2021 and December 2022, with prices of grade A, B and C office space all declining 5 per cent[4]. Office rentals on average fell 3 per cent, with rentals of grade A, B and C office space retreating 3 per cent, 4 per cent and 3 per cent respectively. Compared with the respective peaks in 2018 and 2019, office prices and rentals in December 2022 have on average plummeted 20 per cent and 14 per cent respectively *(chart 12)*. For flatted factory space, prices in December 2022 were 6 per cent lower than in December 2021 and 10 per cent below the peak in 2019. Rentals moved within a narrow range during the year, ending little changed from a year earlier or 1 per cent lower than the peak in 2021.

Chart 12 Prices and Rentals of Retail Shop Space and Office Space

(Jan 2018=100)



* The price index of overall office space cannot be compiled in March 2022, as there were no transactions for grade A office space in that month.

Prices and rentals of non-residential properties generally declined during 2022.

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4 The overall price index of office space is compiled by calculating a weighted average of the price indices of grade A, B and C office space. The weightings are based on the total floor area transacted of the respective categories in the current and previous 11 months. As the weightings of grade A, B and C office space calculated using the floor area showed visible changes between December 2021 and December 2022, the decline in the overall prices of office space during this period was smaller than the respective declines in the prices of grade A, B and C office space.

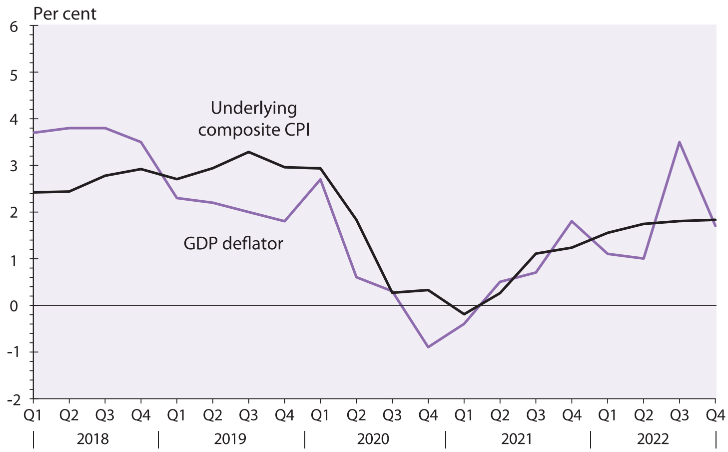
As to demand-supply balance, the vacancy rate of retail shop space rose from 10.2 per cent at end-2021 to 10.5 per cent at end-2022, and that of office space from 12.3 per cent to 14.4 per cent. The vacancy rate of flatted factory space went down from 5.7 per cent to 5.3 per cent. The respective long-term averages for the vacancy rates of these three types of non-residential property over 2002-2021 were 9.1 per cent, 9.2 per cent and 6.8 per cent.

Price Movements

Underlying consumer price inflation, though showing some increase, remained moderate in overall terms in 2022. Prices of food and clothing and footwear increased notably, while prices of energy-related items soared. Price pressures on other major components remained largely contained. Private housing rentals continued to fall, albeit at a narrowed rate. Netting out the effects of the government's one-off relief measures, underlying consumer price inflation averaged 1.7 per cent in 2022, up from 0.6 per cent in 2021. Quarterly figures moved within a narrow range of 1.6 per cent to 1.8 per cent *(chart 13)*. Meanwhile, headline consumer price inflation rose from 1.6 per cent in 2021 to 1.9 per cent in 2022. The slightly higher headline inflation rate than its underlying counterpart in 2022 mainly reflected the lower base of comparison for the former due to the rent waiver for tenants provided by the Hong Kong Housing Authority in 2021.

Chart 13 **Main Inflation Indicators**

(year-on-year rate of change)



Underlying consumer price inflation remained moderate overall in 2022.

Domestic business cost pressures were largely mild, as wage growth remained moderate and commercial rentals stayed soft. External price pressures were intensive. Inflation in many major economies surged as pandemic-induced supply chain bottlenecks and tensions in Ukraine pushed up international energy, commodity and food prices. While the stronger Hong Kong dollar provided some offset against rising inflation, prices of overall merchandise imports still rose markedly.

GDP deflator picked up from 0.7 per cent in 2021 to 1.8 per cent in 2022. Within the GDP deflator, the terms of trade edged down 0.2 per cent in 2022. Taking out the external trade components, the domestic demand deflator increased 2.1 per cent in 2022.

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