

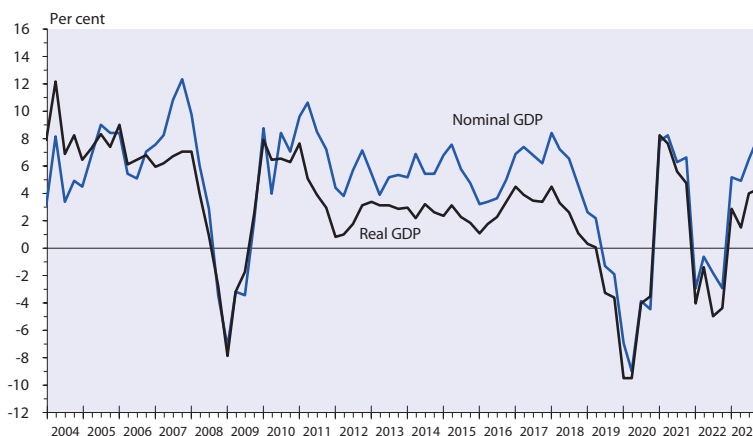
Chapter 4

Economy

The Hong Kong economy staged a recovery in 2023 in the aftermath of the Covid-19 pandemic. Economic activities revived following the removal of anti-epidemic measures and resumption of normal travel, though the challenging external environment amid heightened geopolitical tensions and tightened financial conditions constrained the pace of recovery. The labour market improved. Underlying consumer price inflation stayed moderate in overall terms.

Gross Domestic Product (GDP) expanded by 3.3 per cent in real terms in 2023, having contracted by 3.7 per cent in the preceding year (*chart 1*). Inbound tourism and domestic demand revived strongly following the removal of anti-epidemic measures and resumption of normal travel. However, the challenging external environment amid heightened geopolitical tensions and tightened financial conditions continued to weigh on exports of goods and dampened economic sentiment.

Chart 1 **Quarterly Gross Domestic Product**
(year-on-year rate of change)



The Hong Kong economy staged a recovery in 2023 in the aftermath of the pandemic.

After a brief rebound in early 2023, the residential property market turned sluggish, as market sentiment was weighed down by tightened financial conditions, lacklustre local stock market performance and slowing global economic growth.

The local stock market was under pressure during most of 2023. While the Hang Seng Index extended its rally in January alongside market expectations of economic activities returning to normal, sentiment was then dampened by banking sector stress in the United States and Europe, concerns over the global and Mainland's economic outlook, and expectations of a prolonged period of high interest rates. The Hang Seng Index, after reaching its year-high of 22,689 points on 27 January, subsequently drifted down and closed the year at 17,047 points, down 13.8 per cent from a year earlier.

Structure and Development of 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 2023, according to the World Trade Organisation, and was home to one of the world's busiest airports in terms of the volume of

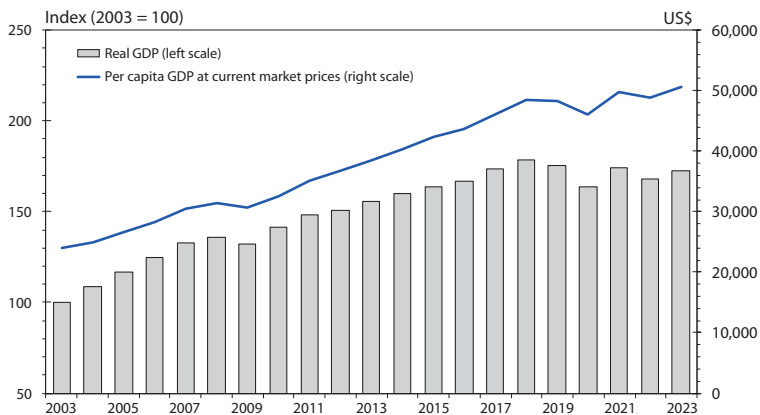
international air cargo handled, as well as one of the busiest container ports by container throughput.

Hong Kong was also the world's sixth-largest banking centre in terms of external positions as at end-2023, 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 fifth largest in Asia by market capitalisation as at end-2023, and ranked sixth 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 tradition of the rule of law and judicial independence; an unfettered flow of goods, services, capital, people 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. Hong Kong was ranked seventh globally and third in Asia in the *World Competitiveness Yearbook 2023* published by the International Institute for Management Development. Hong Kong also ranked the world's second-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 high-income economies. Over the same period, per capita GDP rose about 55 per cent in real terms, posting an average annual growth rate of 2.2 per cent. Per capita GDP at current market prices was US\$50,535 in 2023 (*chart 2*), exceeding many advanced economies.

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.

Trade links with other parts of the world have grown extensively. Trade in goods and services has nearly doubled in real terms over the past two decades, despite some retreat during the Covid-19 pandemic. The total value of the goods trade based on the GDP compilation framework reached \$9,126 billion in 2023, equivalent to 306 per cent of GDP, higher than the ratio of 245 per cent in 2003. Including the value of trade in services, the ratio of total trade to GDP was 353 per cent in 2023, up from 292 per cent in 2003.

As an international financial centre with huge cross-territory fund flows, Hong Kong has substantial external financial assets and liabilities, of \$48,302 billion and \$34,362 billion respectively at the end of 2023. The corresponding ratios to GDP were 1,620 per cent and 1,152 per cent. Reflecting the city's robust international investment position, its net external financial assets amounted to \$13,939 billion at the end of 2023, equivalent to 468 per cent of GDP.

Hong Kong is also one of the most preferred destinations for external direct investment. The stock of direct investment liabilities is enormous, at \$18,167 billion in market value at the end of 2023, equivalent to 609 per cent of GDP. The corresponding figures for Hong Kong's stock of direct investment assets were likewise huge, at \$17,554 billion, or 589 per cent of GDP.

Gross National Income, comprising GDP and net external primary income flow, stood at \$3,249 billion in 2023, higher than the corresponding GDP by 9 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 \$2,049 billion and \$1,781 billion respectively, equivalent to 69 per cent and 60 per cent of GDP respectively.

Contributions of Various Economic Sectors

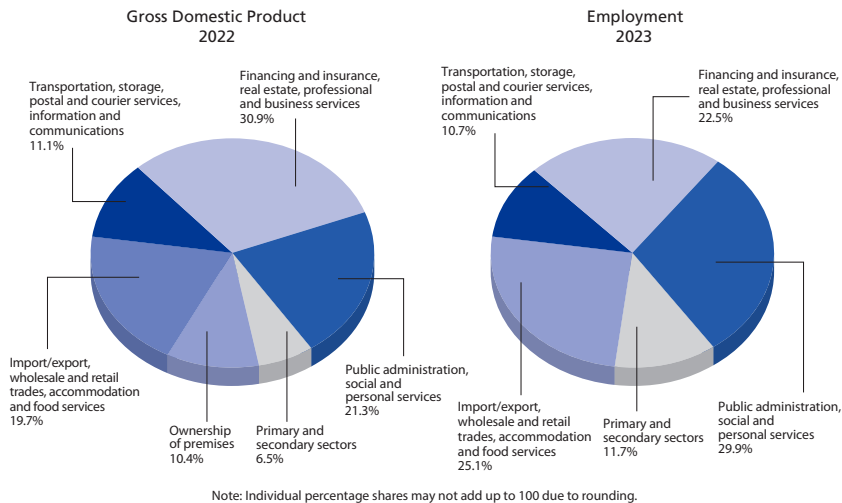
Primary production, including agriculture, fisheries, mining and quarrying, is tiny in terms of both value-added contribution to GDP and share in total employment.

Secondary production comprises manufacturing, construction, and electricity, gas and water supply. In 2022, 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 2023, 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 2022. The largest services sector continued to be financing and insurance, real estate, professional and business services, accounting for 31 per cent of GDP. This was followed by public administration, social and personal services (21 per cent); import/export, wholesale and retail trades, accommodation and food 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 2023. 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 (25 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.

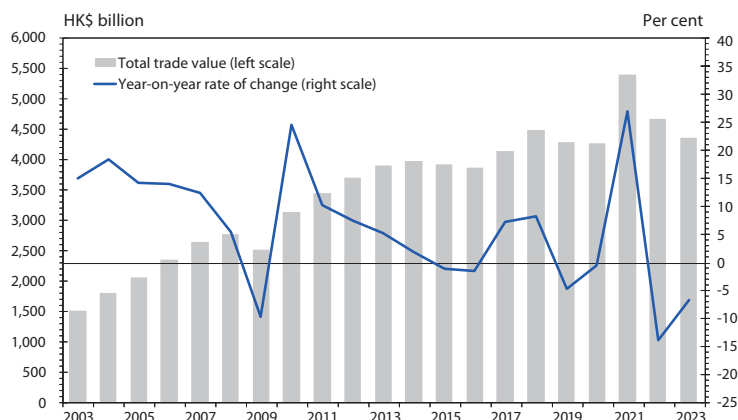
The eastward shift of global economic gravity and the Mainland's pursuit of high-quality development presents enormous opportunities for Hong Kong's services sector. The government is pressing ahead with land development projects, investing in infrastructure, and attracting enterprises, capital and talent to build capacity for economic development. Moreover, it strengthens traditional industries where Hong Kong has a competitive edge and promotes the development of emerging strategic areas with an industry-oriented approach. By leveraging its unique advantages under 'one country, two systems', integrating into the overall national development, and strengthening relations with other Asian economies and the Middle East region, the services sector is well positioned to seize opportunities and withstand competition.

Economic Links with Mainland

The flow of goods, services, people and capital between Hong Kong and the Mainland, and between the Mainland and the world through Hong Kong, have brought significant mutual benefits to both Hong Kong and the Mainland.

With its total merchandise trade surging from US\$851 billion in 2003 to US\$5.9 trillion in 2023, the Mainland plays a prominent role in driving global economic growth. Hong Kong has benefited substantially from the Mainland's external trade growth. In 2023, although visible trade between Hong Kong and the Mainland shrank mainly due to diminishing global trade, it was still nearly three times that of 20 years ago, representing growth of more than 5 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 2023.

Chart 4 Goods Trade between Hong Kong and the 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 2023. At the same time, Hong Kong was the Mainland's fourth-largest trading partner in 2023, accounting for about 5 per cent of the Mainland's total trade value. About two-thirds 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.

Hong Kong has always been a principal gateway to and from the Mainland, for tourism, business and investment. In 2023, people flows gradually resumed. Visitors made around 1.2 million trips through Hong Kong to the Mainland, and Mainland residents made 26.8 million trips to or through Hong Kong.

As for investment, Hong Kong remained the largest external investor in the Mainland in 2022. According to Mainland statistics, the cumulative value of realised direct investment in the Mainland from Hong Kong exceeded US\$1.5 trillion as at end-2022, more than half of the total.

Reciprocally, Hong Kong is the largest destination for the Mainland's outward direct investment. Based on Mainland statistics, Hong Kong accounted for 58 per cent of the Mainland's total outward direct investment position as at end-2022, reflecting Hong Kong's role as a platform for Mainland companies to explore other markets and go global. Based on Hong Kong statistics, the Mainland is Hong Kong's second-largest source of external direct investment, accounting for 30 per cent of Hong Kong's total inward direct investment stock as at end-2022. Mainland companies were operating 2,177 regional headquarters and regional or local offices in Hong Kong as at mid-2023, up from 901 a decade ago.

Due to proximity, Guangdong's economic links with Hong Kong are the closest of all the provinces. Based on the Mainland statistics, the value of realised direct investment in Guangdong from Hong Kong was US\$16.4 billion in 2023, accounting for 71.7 per cent of the province's total realised 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 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.

Over the years, financial links between Hong Kong and the Mainland have strengthened substantially, due to increasing cross-boundary economic activities and the Central People's Government's policies to enhance Hong Kong's position as an international financial centre. Further to the inclusion of exchange-traded funds under Stock Connect in 2022, mutual market access milestones between the Mainland and Hong Kong in 2023 included:

- Stock Connect was expanded to include stocks of foreign companies primary-listed in Hong Kong under Southbound trading and more companies listed on the Shanghai and Shenzhen stock exchanges under Northbound trading in March;
- Swap Connect was launched in May, extending the mutual access arrangements to the realm of financial derivative products for the first time;
- Mainland and Hong Kong regulators announced in August their consensus to introduce block trading under the mutual market access programme; and
- regulators in both places announced in November the impending launch of Mainland government bond futures in Hong Kong.

¹ Support regarding the 'eight international centres or hubs' includes supporting Hong Kong's development as an international innovation and technology centre, a centre for international legal and dispute resolution services 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 maritime centre, an international trade centre and an international aviation hub.

As a major funding centre for Mainland enterprises, Hong Kong had 1,447 Mainland enterprises listed on its stock market at end-2023. Of these, 68 were listed during the year, raising more than \$41 billion of funds through initial public offerings (IPOs). IPOs and secondary market financing of all listed Mainland companies combined raised more than \$129 billion in aggregate funds in 2023.

Hong Kong possesses the world's largest offshore pool of RMB liquidity, holding about RMB1,045 billion of RMB customer deposits and outstanding RMB certificates of deposit issued as at end-2023. RMB bank lending and outstanding RMB bonds stood at about RMB441 billion and RMB686 billion respectively. RMB trade settlements handled by banks in Hong Kong were about RMB11.7 trillion in 2023.

Hong Kong is also the largest offshore RMB investment product market. As at end-2023, there were 38 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 RMB16.9 billion, and 39 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 RMB50.1 billion.

Economy in 2023

External Trade

The weak external demand continued to weigh heavily on export performance. Total exports of goods, based on external merchandise trade statistics, fell by 11.6 per cent in real terms in 2023, after plunging by 14.8 per cent in 2022. Year-on-year declines of 20.9 per cent, 16.6 per cent and 9.2 per cent were recorded in the first three quarters respectively, while a low base of comparison led to modest growth of 1.4 per cent in the fourth quarter (*chart 5*). Analysed by major market, exports to the Mainland, the US and the European Union fell visibly further in 2023. Exports to other major Asian markets shrank by varying degrees.

Chart 5

Hong Kong's Goods Trade
(year-on-year rate of change in volume terms)

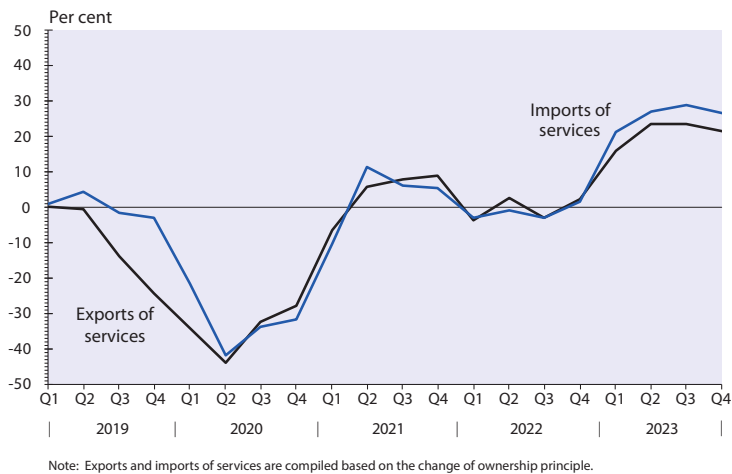


Merchandise exports fell in the first three quarters of 2023.

Imports of goods declined by 9.2 per cent in real terms in 2023, having fallen by 13.9 per cent in 2022. Retained imports, which refer to imports for domestic use and accounted for around one-fifth of merchandise imports in 2023, reverted to an increase of 0.9 per cent. Imports for subsequent re-export continued to shrink visibly.

Exports of services grew by 20.9 per cent in real terms in 2023, reversing the decline of 0.5 per cent in 2022 (*chart 6*). Exports of travel services jumped more than sixfold and recovered to 48 per cent of the level in 2018, thanks to the revival of visitor arrivals during the year. Exports of transport services resumed a moderate increase in tandem. Exports of business and other services reverted to growth, but at a mild pace against the challenging external environment. Meanwhile, exports of financial services fell further as cross-border financial and fund-raising activities weakened amid tight financial conditions.

Chart 6 **Hong Kong's Services Trade**
(year-on-year rate of change in real terms)



Exports of services reverted to visible growth in 2023.

Imports of services expanded notably by 25.9 per cent in real terms in 2023, after decreasing by 1.2 per cent in 2022. This was mainly led by the surge in imports of travel services. Imports of business and other services grew modestly. On the other hand, imports of manufacturing services and transport services continued to fall as trade and cargo flows stayed weak.

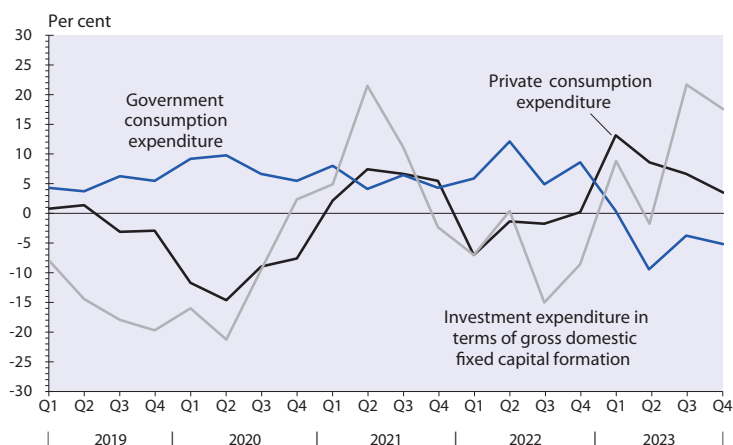
Compiled based on the change of ownership principle, the goods deficit widened in 2023, as the value of exports of goods saw a larger decline than that of imports. Meanwhile, the services surplus narrowed marginally. The combined goods and services account registered a surplus of \$22 billion in 2023, compared with a surplus of \$115 billion in 2022.

Domestic Demand

Consumption activities rebounded in 2023. Consumer sentiment improved sharply following the removal of anti-epidemic measures in both Hong Kong and the Mainland in early 2023. Improved labour market conditions, rising household income and the government's various initiatives and activities, including another round of the Consumption Voucher Scheme, and the 'Happy Hong Kong' and 'Night Vibes Hong Kong' campaigns, also rendered support through the year. For 2023 as a whole, private consumption expenditure rose by 7.7 per cent in real terms, having fallen by 2.2 per cent in 2022 (*chart 7*). Meanwhile, government consumption expenditure fell by 4.3 per cent in real terms in 2023, after an 8 per cent increase in 2022.

Chart 7

Main Components of Domestic Demand (year-on-year rate of change in real terms)



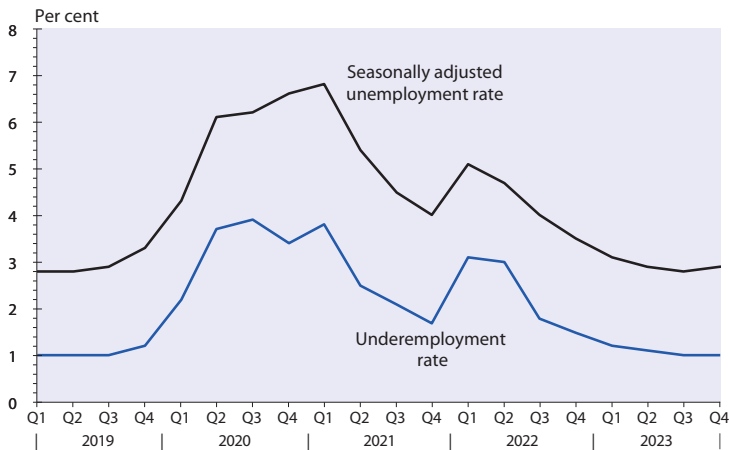
Private consumption expenditure rebounded in 2023. Overall investment spending turned to an increase.

Overall investment spending in terms of gross domestic fixed capital formation increased 11.1 per cent in real terms in 2023 in tandem with the economic recovery, after falling by 7.4 per cent in 2022. Notwithstanding tight financial conditions, expenditure on acquisitions of machinery, equipment and intellectual property products surged by 20.5 per cent amid an improved business outlook. Expenditure on building and construction rose by 7.5 per cent, with the increase in private sector spending more than offsetting the decline in public sector spending. Separately, the costs of ownership transfer edged up by 0.2 per cent.

Labour Market

The labour market improved in 2023 along with the local economic recovery. The seasonally adjusted unemployment rate declined from 3.5 per cent in the fourth quarter of 2022 to 2.8 per cent and 2.9 per cent in the third and fourth quarters of 2023 respectively (*chart 8*). The underemployment rate declined from 1.5 per cent in the fourth quarter of 2022 to 1 per cent in both the third and fourth quarters of 2023. The unemployment rates of major sectors were generally low in the fourth quarter of 2023. Compared with a year earlier, the unemployment rates of most major sectors declined, particularly those of arts, entertainment and recreation; transportation and storage; construction; and retail, accommodation and food services.

Chart 8 Unemployment and Underemployment Rates



The labour market improved in 2023 along with the local economic recovery.

The labour force continued to be constrained by the secular trend of population ageing. Having bounced back in the second and third quarters of 2023 with an increase in the working-age population (i.e. land-based non-institutional population aged 15 and above), the labour force shrank again in the fourth quarter (*chart 9*). Compared with a year ago, the labour force declined by 0.9 per cent to 3,812,500 in the fourth quarter. This mainly reflected the decline of 0.7 percentage points in the overall labour force participation rate to a low of 57.3 per cent as a result of the persistent drag from population ageing, which more than offset the increase of 0.3 per cent in the working-age population to 6,649,400.

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



The labour force and total employment rebounded in the second and third quarters of 2023, but declined again in the fourth quarter.

Total employment rebounded in the second and third quarters of 2023, before declining again in the fourth quarter. Compared with a year ago, total employment declined by 0.4 per cent to 3,706,800 in the fourth quarter of 2023. Employment in many major sectors declined, particularly import/export trade and wholesale; postal and courier activities; warehousing and support activities for transportation; manufacturing; and financing and insurance. Employment in some major sectors increased, notably social work activities; education; information and communications; and construction.

Growth in nominal labour earnings accelerated in 2023, yielding solid growth in real terms after discounting for inflation. 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 3 per cent in the first quarter to 3.2 per cent in the second quarter, and further to 3.5 per cent in the third quarter and 3.6 per cent in the fourth quarter. For 2023 as a whole, nominal labour earnings rose by 3.3 per cent, faster than the increase of 1.7 per cent in the preceding year. After discounting for inflation, labour earnings increased by 1.1 per cent in real terms in 2023, after a slight decline of 0.2 per cent in the preceding year.

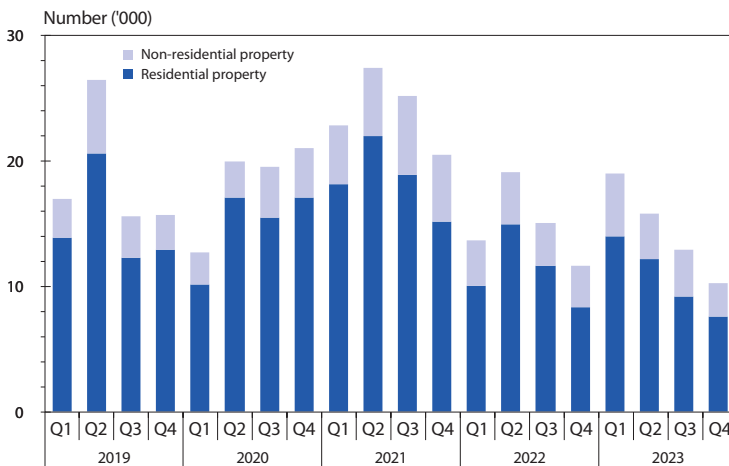
The median monthly household income (excluding foreign domestic helpers) attained decent growth throughout 2023, increasing 3.5 per cent in nominal terms over a year earlier to \$30,000 in the fourth quarter. For 2023 as a whole, it increased by 6.7 per cent in nominal terms to \$29,900, faster than the increase of 3.3 per cent in the preceding year. After discounting for inflation, it rose by 4.6 per cent in real terms in 2023, faster than the increase of 1.4 per cent in the preceding year.

Property Market

After a brief rebound in early 2023, the residential property market turned sluggish as market sentiment was weighed down by tightened financial conditions, lacklustre local stock market performance and slowing global economic growth.

Trading activities rebounded in the first quarter of 2023 but quietened visibly in the subsequent quarters. For the year as a whole, the total number of sale and purchase agreements for residential property received by the Land Registry fell by another 5 per cent to 43,002, the lowest level since figures were available and well below the five-year average of 59,254 in 2018-2022 (*chart 10*). Total consideration also declined by 5 per cent to \$389.2 billion.

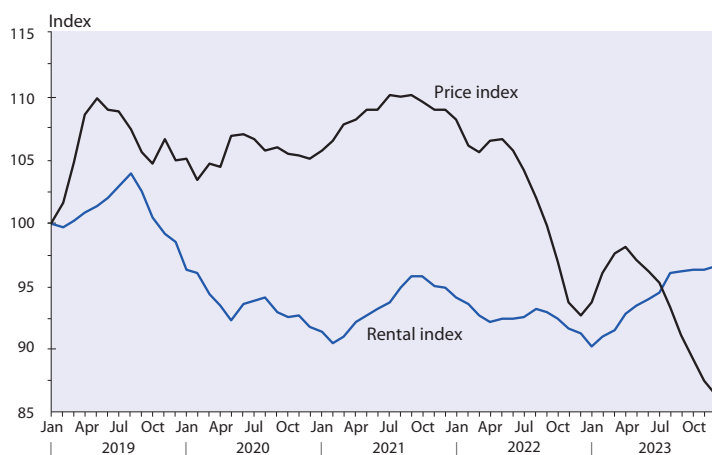
Chart 10 Sale and Purchase Agreements by Broad Type of Property



Trading activities rebounded in the first quarter of 2023 but quietened visibly in the subsequent quarters.

Overall flat prices bounced back by 6 per cent during the first four months, but reverted to a decline of 12 per cent during the rest of the year. Flat prices in December 2023 were on average 7 per cent lower than in December 2022, and 22 per cent below the peak in September 2021. Analysed by size, prices of small/medium-sized flats and large flats both fell by 7 per cent during the year. Meanwhile, the leasing market for residential property revived over the course of the year. Overall flat rentals in December 2023 were on average 6 per cent higher than in December 2022, but still 7 per cent below the peak in August 2019. Analysed by size, rentals of small/medium-sized flats and large flats rose by 6 per cent and 4 per cent respectively during the year (*chart 11*).

Chart 11 **Prices and Rentals of Residential Property**
(Jan 2019=100)



Flat prices fell during 2023, while rentals revived.

The index of home purchase affordability² fell to around 67 per cent in the fourth quarter of 2023 alongside the decline in flat prices. This was lower than the figure of 70 per cent a year earlier, but it remained significantly above the long-term average of 51 per cent over 2003-2022³.

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 109,000 units as estimated at end-2023. The demand-supply balance of private flats remained tight during 2023. The vacancy rate fell from 4.4 per cent at end-2022 to 4.1 per cent at end-2023, below the long-term average of 4.6 per cent over 2003-2022.

To dampen speculative activities as well as investment and non-local demand against the backdrop of a tight housing demand-supply balance, the government implemented a number of demand-side management measures from 2010 to 2017 to facilitate the steady development of the property market and accord priority to the home ownership needs of the people of Hong Kong. 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.

In the face of rising interest rates, moderated growth in many economies, declining transactions in the local residential property market alongside a downward adjustment of property prices, as well as the increasing housing supply in the coming years, and having considered the overall situation, the government made adjustments to the demand-side management measures for residential properties on 25 October 2023. These included shortening the applicable period of the Special Stamp Duty from three to two years, reducing the respective rates of the Buyer's Stamp Duty and the New Residential Stamp Duty by half to 7.5 per cent, and introducing a stamp duty suspension arrangement for incoming talents' acquisition of residential properties.

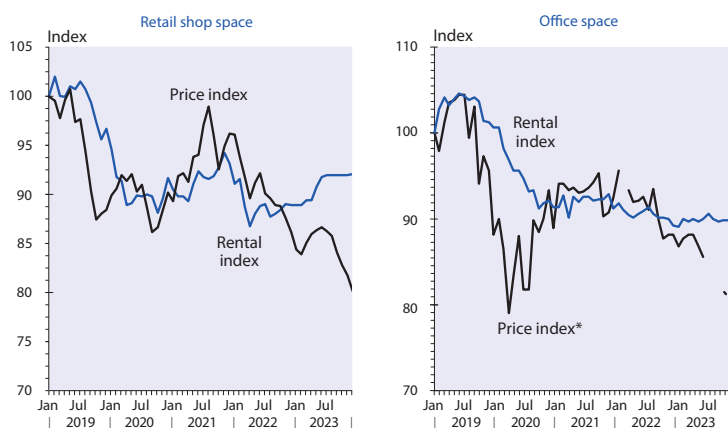
In order to contain the possible risks to financial stability arising from the property market, the Hong Kong Monetary Authority has introduced multiple rounds of macro-prudential measures since 2009, and made several adjustments to the measures on 7 July 2023 in accordance with the evolving market situation.

The non-residential property market stayed weak in 2023 with trading activities remaining at low levels. For 2023 as a whole, the number of sale and purchase agreements for non-residential property stayed low at 15,000 and below the five-year average of 17,400 in 2018-2022, while total consideration plunged by 40 per cent to \$88.7 billion.

Prices for all major market segments declined, while rentals generally showed some improvement. Sale prices of retail shop space declined 7 per cent between December 2022 and December 2023, while rentals increased by 3 per cent. Compared with the respective peaks in 2018 and 2019, prices and rentals in December 2023 were 23 per cent and 10 per cent lower. For office space, prices on average fell by 7 per cent between December 2022 and November 2023⁴, with prices of grade A, B and C office space declining by 3 per cent, 9 per cent and 8 per cent respectively. Overall office rentals in December 2023 were virtually unchanged from a year earlier, with rentals of grade A office space retreating by 1 per cent and those of grade B and C office space going up by 1 per cent and 2 per cent respectively. Compared with the respective peaks in 2018 and 2019, office prices in November 2023 and rentals in December 2023 on average were 26 per cent and 14 per cent lower (*chart 12*). For flatted factory space, prices fell by 5 per cent between December 2022 and December 2023, while rentals rose by 3 per cent. Prices in December 2023 were 15 per cent lower than the peak in 2019, while rentals were 2 per cent higher than the peak in 2021.

⁴ The price index of overall office space cannot be compiled in December 2023, as there were insufficient transactions for Grade A office space in that month.

Chart 12 Prices and Rentals of Retail Shop Space and Office Space
(Jan 2019=100)



* The price index of overall office space cannot be compiled in March 2022, August to October 2023 and December 2023, as there were insufficient transactions for Grade A office space in those months.

Prices of non-residential properties declined in 2023, while rentals generally showed some improvement.

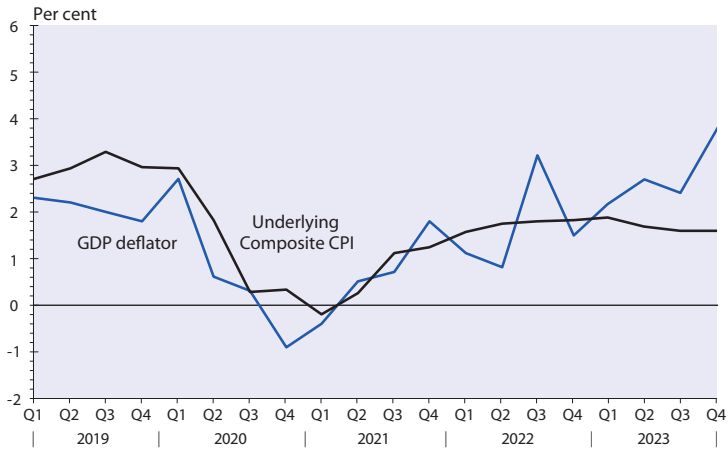
As to demand-supply balance, the vacancy rate of retail shop space fell from 10.5 per cent at end-2022 to 10.3 per cent at end-2023, and that of flatted factory space went up from 5.3 per cent to 5.7 per cent. The vacancy rate of office space climbed up from 14.4 per cent to 14.9 per cent. The respective long-term averages for the vacancy rates of these three types of non-residential property over 2003-2022 were 9.1 per cent, 6.5 per cent and 9.3 per cent.

Price Movements

Underlying consumer price inflation stayed moderate in overall terms in 2023. Prices of meals out and takeaway food as well as clothing and footwear rose visibly. Prices of electricity soared for the year as a whole, but the rate of increase moderated successively and turned to a decline in the fourth quarter. Price pressures on other major components remained broadly in check. Private housing rentals continued to fall, though 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 2023, the same as in 2022. Quarterly figures moved within a narrow range of 1.6 per cent to 1.9 per cent (*chart 13*). Meanwhile, headline consumer price inflation picked up slightly to 2.1 per cent in 2023 from 1.9 per cent in 2022. The headline inflation rate was higher than its underlying counterpart in 2023 mainly due to the lower rates concession.

Chart 13

Main Inflation Indicators (year-on-year rate of change)



Underlying consumer price inflation stayed moderate in overall terms in 2023.

Domestic business cost pressures remained contained. Nominal wage growth picked up during the year on the back of improved labour market conditions, but remained largely moderate. Commercial rentals stayed soft. External price pressures eased alongside receding inflation in many major economies, though remaining visible. Import prices of most end-use categories recorded moderated albeit still notable increases, while those of fuels turned to a sharp decline against a high base of comparison.

The GDP deflator picked up to 2.8 per cent in 2023 from 1.7 per cent in 2022. Within the GDP deflator, the terms of trade edged down by 0.4 per cent for 2023 as a whole. Taking out the external trade components, the domestic demand deflator increased by 3.6 per cent in 2023.

Website

Office of the Government Economist, Financial Secretary's Office: www.oge.gov.hk