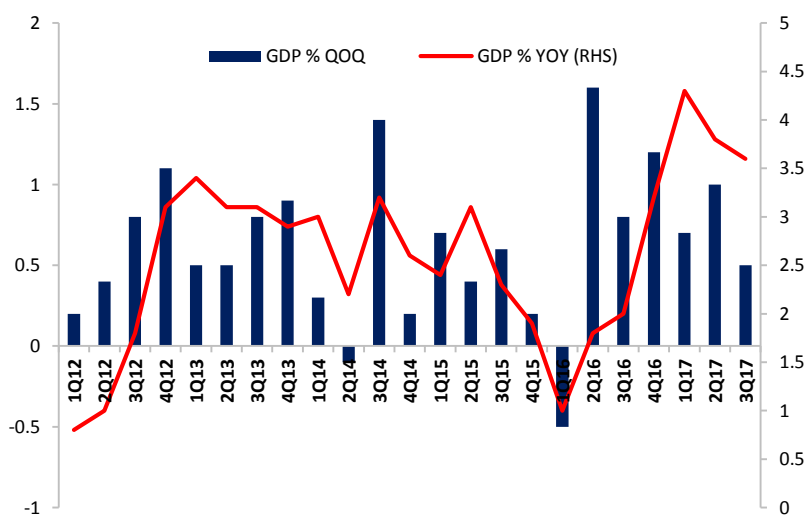


Global Markets Research
Economics – Hong Kong

Growth moderated in 3Q

Hong Kong's GDP growth moderated in 3Q. Although headline figure was weighed down by a decline in investments, growth momentum is looking encouraging as household spending grew at the quickest pace since 1Q2013 while an improving global outlook continues to support external trade. Overall economic indicators have also been on an uptick, supported by rising demand from major economies while China continues to play a firm role in driving consumption. Even though growth is likely to continue to moderate going into 4Q, optimistic factors give room for continued upside surprises.

Figure 1: Hong Kong GDP Growth


Source: HKMA and Bloomberg

GDP increased 3.6% YOY in 3Q, moderating from 3.9% in 2Q

Decline in investments weighed down headline figure, but underlying momentum in household spending encouraging

Hong Kong's economic growth moderated in 3Q, rising 3.6% YOY after expanding 3.9% in 2Q. The figure was nonetheless better than expected figure of 3.5%, on top of upward revision to 2Q figure from 3.8%, and continuing to support the notion of an improving outlook after growth outperformed in 1Q and 2Q. On a quarterly basis, GDP eased to 0.5% from 1.0% in 2Q.

Breaking down by expenditure components, **stronger growth was recorded in household spending and government spending but headline figure was pressured by the first decline in investments since 2Q 2016.**

Household spending increased at the quickest pace since 1Q2013 (3Q: +6.7% vs 2Q: +5.4%) while government spending matched the strongest growth since 2Q2012 (3Q: +4.1% vs 2Q: +3.2%). Expansion in investments unexpectedly tumbled (3Q: -1.7% vs 2Q: +7.2%). Goods exports and imports growth both steadied at 5.5% and 6.1% respectively.

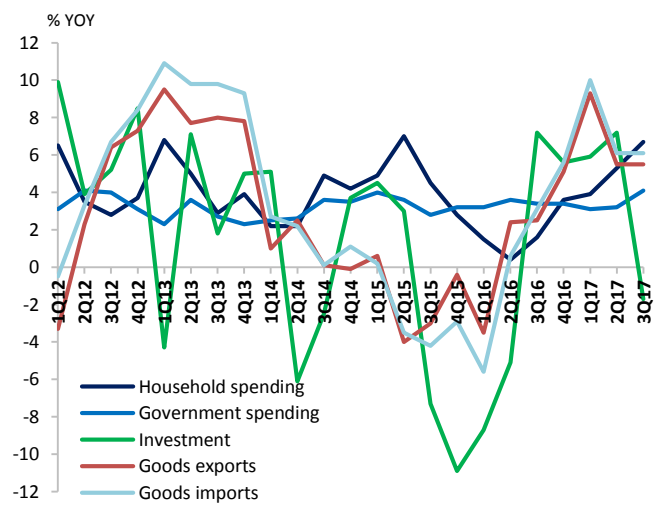
Exports growth picked up further in Sept, increasing 9.4% YOY from 7.4% in Aug. Meanwhile, imports growth also quickened, rising 9.7% from 7.7% in Aug. Trade deficit widened to HK\$ 44.7bn from a shortfall of HK\$ 35.5bn.

Exports was driven by sharp increase in shipments to India (Sept: +30.8% vs Aug: +5.1%), Japan (Sept: +18.1% vs Aug: +11.4%) and rebound in exports to the US (Sept: +4.1% vs Aug: -5.5%). Meanwhile, demand from China moderated (Sept: +7.5% vs Aug: +10.8%).

Still room for upside surprises in 4Q amid improving outlook in major economies

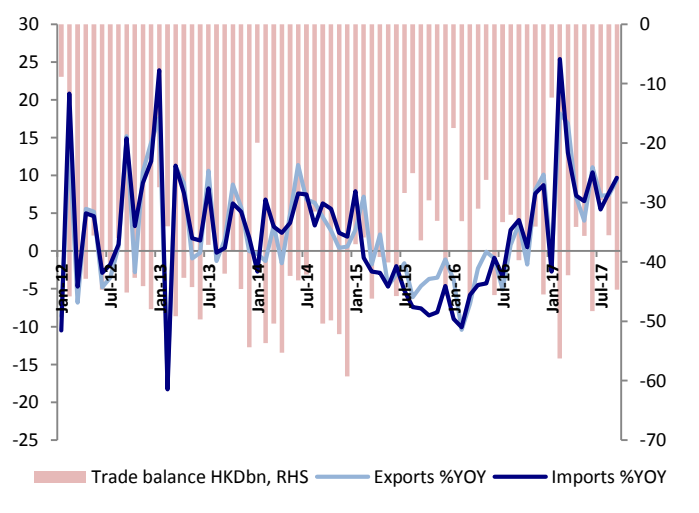
After 3 quarters of better than expected growth, the government has revised its growth forecast from between 3% and 4% to 3.7% this year. Even though this suggests that growth will continue to moderate going into 4Q, we reckon that improving global demand and outlook of major economies will continue to provide upside support to Hong Kong's economy, leaving room for GDP to outperform. Despite a slowing theme still prevailing over China, we opine that growth remains decent and will continue to underpin Hong Kong's expansion.

Figure 2: GDP Expenditure Components



Source: HKMA and Bloomberg

Figure 3: External Trade



Source: HKMA and Bloomberg

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