

**Global Markets Research**
**Economics – Hong Kong**

## 3Q growth surprisingly upbeat

Hong Kong's pace of economic expansion surprised on the upside again, in tandem with increasing signs of stabilization in China. The small open economy grew 1.90% YOY to HKD 599.70 billion in 3Q, accelerating from the 1.70% YOY pace in 2Q. The improvement in overall growth was driven by acceleration in private consumption and a rebound in fixed investment. In seasonally adjusted quarter-on-quarter term, Hong Kong grew 0.60% QOQ in 3Q (2Q: +1.60% QOQ). Amid broad based recovery in the global economy, trailing the pick-up in inflation and manufacturing sector, Hong Kong's economy is on track to achieve its growth target of 1.0-2.0% this year.

	3Q16	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15
<b>Real GDP Growth</b>	<b>1.9</b>	<b>1.7</b>	<b>0.8</b>	<b>1.9</b>	<b>2.3</b>	<b>3.1</b>	<b>2.4</b>
Private Consumption	1.2	0.5	1.2	2.7	4.4	6.8	5.0
Government Consumption	3.3	3.5	3.3	3.3	2.8	3.6	3.9
Gross Fixed Capital Formation	6.0	-5.0	-9.6	-9.4	-6.2	3.9	5.6
Exports of Goods	1.9	2.0	-3.6	-0.5	-3.1	-3.8	0.2
Exports of Services	-1.8	-4.6	-5.0	-2.7	-0.2	1.6	0.7
Import of Goods	2.4	0.2	-5.4	-2.8	-4.2	-3.3	-0.2
Import of Services	1.7	1.6	4.9	5.4	5.5	5.1	6.7

The economy expanded 1.90% YOY in 3Q (2Q: +1.70% YOY)

Household consumption gathered steam while fixed capital investment rebounded.

**The Hong Kong's economy expanded 1.90% YOY to HKD 599.70 billion in 3Q, quickening from 1.70% YOY in the previous quarter.** The headline print reflected broad based stabilization observed in China and mirrored global recovery from the slacks in the first half of the year.

After slowing down for four straight quarters and expanding a mere 0.50% YOY in 2Q, household consumption rebounded to expand 1.20% YOY in 3Q. That underscored that domestic demand was picking up steam from a sluggish 1H as outlook on economic conditions improved.

Followed four straight contractions, gross capital investment staged a positive turnaround and increased 6.00% YOY last quarter (2Q: -5.00% YOY). The rebound led to the surge in overall growth. However, the raise in stamp duties on home purchases to 15% effective Nov 5 may dampen investment in the coming quarters. Government spending was little changed, growing 3.30% YOY in 3Q (2Q: +3.50% YOY).

Goods exports rose 1.90% YOY in 3Q (2Q: +2.0% YOY) but services exports continued to contract (3Q: -1.80% YOY vs 2Q: -4.60% YOY). Imports of goods (3Q: +2.40% YOY vs 2Q: +0.20% YOY) and services (3Q: +1.70% YOY vs 2Q: +1.60% YOY) on the other hand, increased at quicker pace.

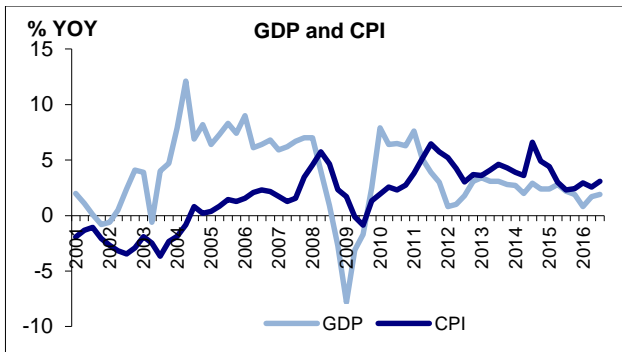
*Unemployment rate was unchanged at 3.40%*

**Unemployment rate was unchanged at 3.4%**, a high since late 2013 as Hong Kong took the beating from a slowing global economy. Near term employment outlook remained overshadowed by the unsteady external environment and the slowing local economic growth, according to the Secretary for Labor and Welfare Matthew Cheung. Separately, CPI quickened to average pace of 3.10% YOY in 3Q (2Q: +2.60% YOY), tracking the rise in household consumption.

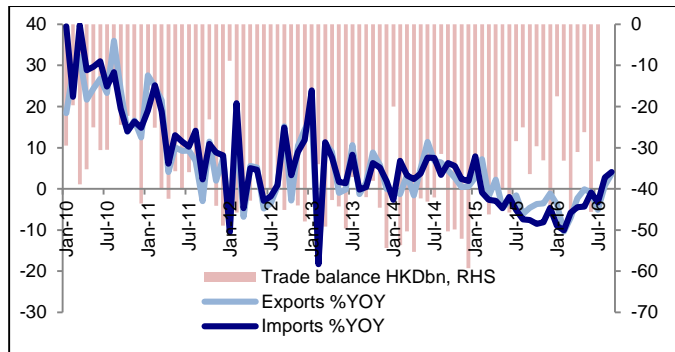
Amid broad based recovery in the global economy, trailing the pick- up in inflation and manufacturing sector, Hong Kong's economy is on track to achieve its growth target of 1.0-2.0% this year.

Hong Kong Pictorial Overview

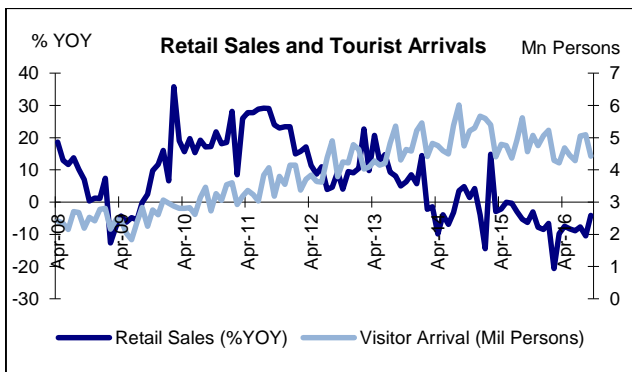
**Figure 1.** The economy expanded at a quicker pace of 1.90% YOY last quarter (2Q: +1.70% YOY). Improvement in the headline figure was driven by acceleration in private consumption and a rebound in fixed investment. CPI grew at an average pace of 3.10% YOY (2Q: +2.60% YOY).



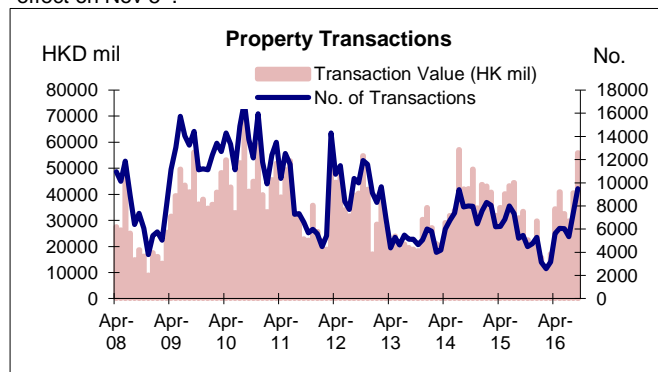
**Figure 2.** Exports increased 3.60% YOY to HKD 328.0 billion in September after a 0.80% YOY climb in August. That was the second straight positive growth after fifteen months of contractions, driven by the surge in shipments to China. Exports to China rose 5.10% YOY in September.



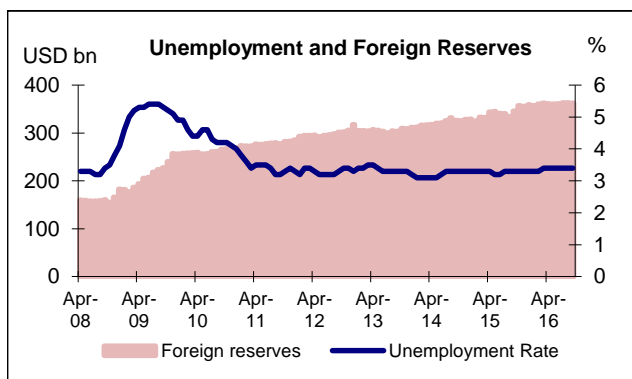
**Figure 3.** Retail sales slipped 4.10% YOY to HKD 33.67 billion in September, marking its nineteenth straight declines followed a 10.50% YOY drop in August. The rebound in fuels sales and smaller declines in consumer durable goods such as electronics and furniture also alleviated larger drop in headline retail sales.



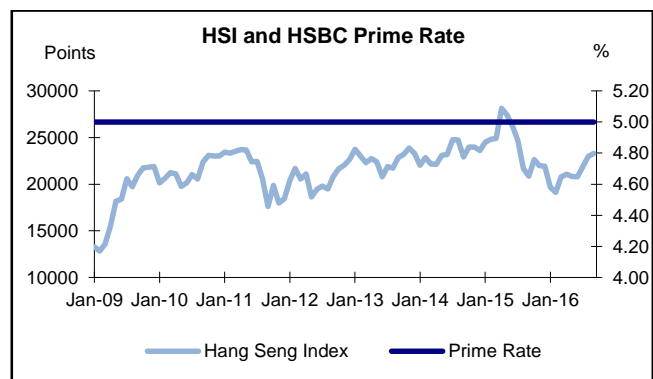
**Figure 4.** The number of property transactions jumped 74% in September from a year ago. Price of homes rose for the sixth consecutive month in September, bringing the accumulated increase to 8.90% in Jan- Sept. The rapid growth in prices prompted the government to raise stamp duty on property transactions for non first time buyers to 15%, which came into effect on Nov 5<sup>th</sup>.



**Figure 5.** Unemployment rate was unchanged at 3.4%, a high since late 2013 as Hong Kong took the beating from a slowing global economy. In September, foreign reserves position was relatively steady at USD362.5 billion (August: USD362.7 billion).



**Figure 6.** Prime rate was flat since end of 2008. Stocks market was picking up steam, recovering from the slide last year. Expectation of gradual path of policy tightening will keep equities on solid footing in 4Q.



Source: Bloomberg, HKMA and CEIC

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