

Global Markets Research
Economics – Hong Kong

Robust growth in 1Q

Hong Kong's economy accelerated at quicker pace for four straight quarters. The small open economy grew 4.30% YOY to HKD 611.40 billion last quarter, expanding at its quickest pace since June 2011 followed an expansion of 3.20% YOY in 4Q16. Financial markets uncertainties have somewhat dwindled since the start of the year, aiding the recovery in Hong Kong stocks prices. The Hong Kong bourses have nearly increased 15.00% YTD, and coupled with optimism on global recovery, may continue to boost consumer spending, investment and trade activities this year. Quicker than expected first quarter growth and resilient expansion in the Chinese economy through 2017 will tilt risks to the upside to Hong Kong's target of 2.0-3.0% GDP growth this year.

	1Q17	2016	4Q16	3Q16	2Q16	1Q16	2015
Real GDP Growth	4.3	1.9	3.2	2.0	1.8	1.0	2.0
Private Consumption	3.7	1.6	3.6	1.6	1.6	1.5	1.2
Government Consumption	3.7	3.3	3.4	3.4	3.3	3.2	3.3
Gross Fixed Capital Formation	6.4	-0.5	5.6	7.2	-0.5	-8.7	6.7
Exports of Goods	9.2	1.4	5.1	2.5	1.4	-3.5	2.4
Exports of Services	2.6	-3.1	1.2	-2.5	-3.1	-5.4	-2.4
Import of Goods	9.9	1.0	5.6	3.1	1.0	-5.6	3.1
Import of Services	0.9	1.9	2.0	0.8	1.2	4.1	0.7

The economy expanded 4.30% YOY in 1Q (4Q: +3.20% YOY)

Household consumption and trade activities were robust in 1Q

The Hong Kong's economy grew 4.30% YOY to HKD 611.4 billion in the first quarter of 2017, marking the fastest pace of expansion since June 2011. This marked a commendable improvement after growth slowed to 1.90% for full year 2016 from 2.40% in 2015.

Last quarter, household consumption rose 3.70% YOY, building on a 3.60% YOY growth in 4Q. Spending in the food (+3.50% YOY) and services categories (+3.90% YOY) increased the most, leading to quicker growth in overall household consumption. Fixed investment increased 6.40% YOY (4Q: +5.60% YOY) amid the increase in public construction and building activities (+18.00% YOY), offsetting the steep 14.10% YOY decline in private investment in machinery, equipment and intellectual property products.

Exports and imports growth were also commendable although quicker growth in imports masked the impact of quicker exports growth to headline 1Q GDP. Goods exports increased 9.20% YOY (4Q: 5.10% YOY) but goods imports accelerated 9.90% YOY in 1Q (4Q: +5.60% YOY).

Unemployment rate was down by 0.10 ppt to 3.20%

Unemployment rate ticked down by 0.10 ppt to 3.20%, the lowest in nearly three years. Average CPI growth in 1Q softened to 0.60%, half the pace in 4Q16. The decline in cost of utilities and spending on durable goods hindered last quarter's price pressure growth, masking impact of oil price recovery on headline CPI.

Financial markets uncertainties have somewhat dwindled since the start of the year, aiding the recovery in Hong Kong stocks prices. Bourses have nearly increased 15.00% YTD, and coupled with optimism on global recovery may continue to boost consumer spending, investment and trade activities this year. Quicker than expected first quarter growth and resilient expansion in the Chinese economy through 2017 will tilt risks to the upside to Hong Kong's target of 2.0-3.0% GDP growth this year.

Hong Kong Pictorial Overview

Figure 1. The economy expanded at a quicker pace of 4.30% YOY in 1Q17 (4Q16: +3.20% YOY). On the other hand, average CPI in 1Q accelerated at half the pace (+0.60% YOY), no thanks to the decline in cost of utilities and durable goods spending.

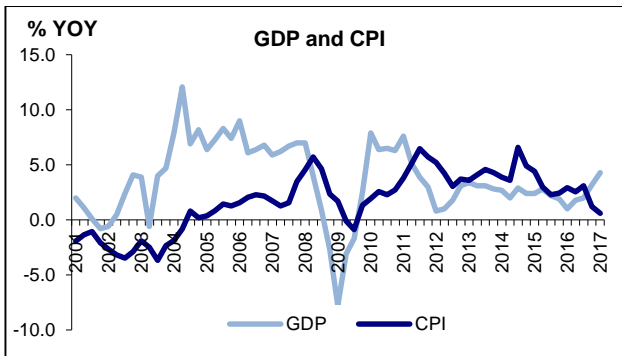


Figure 2. Exports increased 16.90% YOY to HKD 321.90 billion in March after 18.20% YOY climb in February, marking two straight positive growth. Imports climbed 13.00% YOY in March followed 25.40% YOY increase in February. Trade gap narrowed to HKD 42.30 billion.

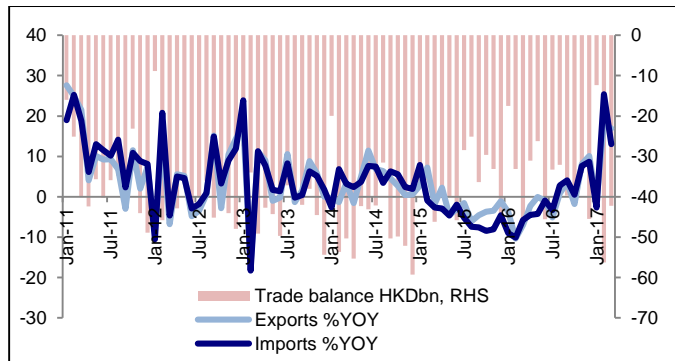


Figure 3. Retail sales increased 3.10% YOY to HKD 35.73 billion in March, reversing the 5.10% YOY drop in February. The number of tourists' arrival increased 8.80% from a year ago, boosting headline retail sales growth.

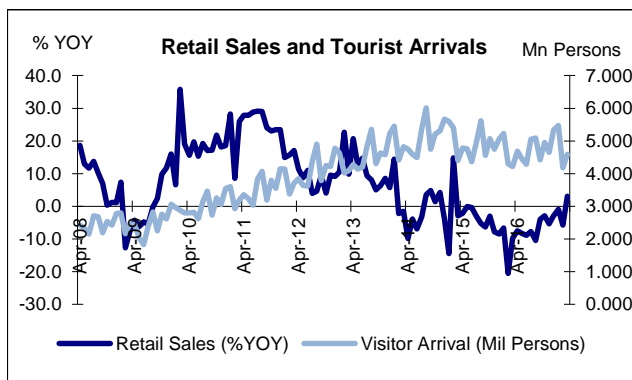


Figure 4. Impact of property curbs on demand were notably diminishing as the number of property transactions more than doubled to 7605 in March17 compared to 3154 in March16. Private home prices hit a record high for the fifth month in a row in March and surged 17.80% from a year ago, according to an index compiled by the Rating and Valuation Department.

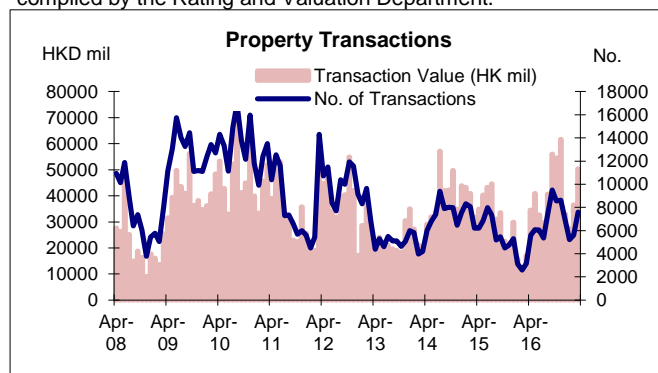


Figure 5. Unemployment rate slipped to a 33-month low of 3.20% in March. Foreign reserves position was up by USD 1.0 billion to USD 395.5 in the same period.

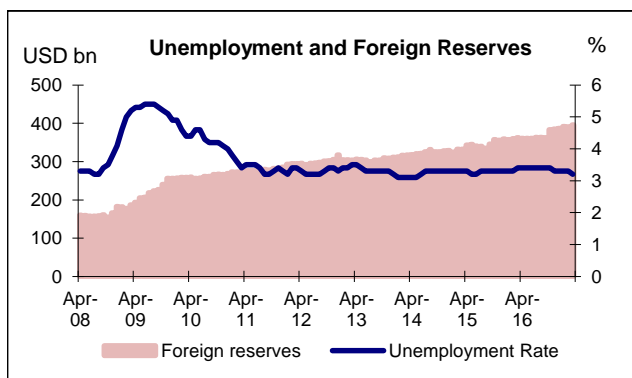
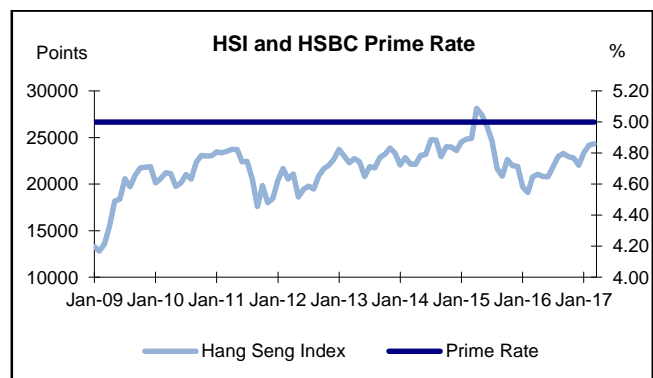


Figure 6. Prime rate was flat since end of 2008. Stocks market was picking up steam, and continue to surge higher. The Hang Seng index climbed nearly 15.00% since the start of the year.



Source: Bloomberg, HKMA and CEIC

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