

Global Markets Research
Economics – Hong Kong

Upbeat growth in 4Q

Hong Kong's pace of economic expansion surprised on the upside again, accelerating at quicker pace for three straight quarters. The small open economy grew 3.10% YOY to HKD 633.50 billion in 4Q, expanding at its quickest pace in six quarters followed an expansion of 2.00% YOY in 3Q. For the full year, the economy grew 1.90% in 2016, moderating from the 2.40% YOY growth in 2015. On the other hand, brighter global growth prospect will put growth on track for a quicker 2.00-3.00% growth this year.

	2016	4Q16	3Q16	2Q16	1Q16	2015	4Q15
Real GDP Growth	1.9	3.1	2.0	1.7	0.8	2.4	1.9
Private Consumption	1.6	3.2	1.2	0.5	1.2	4.8	2.7
Government Consumption	3.3	3.3	3.3	3.5	3.3	3.5	3.3
Gross Fixed Capital Formation	-0.5	5.2	6.7	-5.0	-9.6	-3.2	-9.4
Exports of Goods	1.4	5.1	2.4	2.0	-3.6	-1.9	-0.5
Exports of Services	-3.1	1.4	-2.4	-4.6	-5.0	0.3	-2.7
Import of Goods	1.0	5.5	3.1	0.2	-5.4	-2.7	-2.8
Import of Services	1.9	1.8	0.7	1.6	4.9	5.1	5.4

The economy expanded 3.10% YOY in 4Q (3Q: +2.00% YOY)

The Hong Kong's economy expanded 3.10% YOY to HKD 633.50 billion in 4Q, quickening from the 2.00% YOY in 3Q. Marking the fastest pace of growth since June 2015, last quarter's expansion was mostly driven by the increase in private consumption and pick up in trade activities. Growth for the full year however, slipped from 2.40% in 2015 to 1.90% in 2016.

Household consumption and trade activities picked up steam.

Household consumption accelerated 3.20% YOY to HKD 421.40 billion in 4Q, gaining momentum for two straight quarters. That painted the picture of a pick-up in economic activities toward the second half of the year, building on the 1.20% YOY increase in household consumption in 3Q. Meanwhile, investment spending decelerated to 5.20% YOY last quarter (3Q: +6.70% YOY). Government spending was unchanged, increasing 3.30% from a year ago in 4Q.

Last quarter's headline growth was helped by exports driven industries. Goods exports grew 5.10% YOY in 4Q (3Q: +2.40% YOY) and adding to flow in goods trades, services exports staged a positive upturn to increase 1.40% YOY in 4Q (3Q: -2.40% YOY). Imports of goods (4Q: +5.50% YOY vs 3Q: +3.10% YOY) and services (4Q: +1.80% YOY vs 3Q: +0.70% YOY) also quickened.

Unemployment rate was unchanged at 3.30%

Unemployment rate was unchanged at 3.3% for three straight months. Consumer prices rose 1.20% on average in the three months through December, depicting a slowdown in price growth partly due to slower increase in cost of housing. In addition, price of clothing & footwear and durable goods were lower compared to a year ago.

Favorable economic conditions in China may aid the recovery of the retail sales industry this year, and exports oriented industries could get a boost from an anticipated pick up in global growth this year. **With a brighter economic outlook in the near future, Hong Kong's economy looks poised to achieve its GDP growth target of 2.00-3.00% this year.**

Hong Kong Pictorial Overview

Figure 1. The economy expanded at a quicker pace of 3.10% YOY last quarter (3Q: +2.00% YOY). For the full year, GDP grew 1.90%. On the other hand, CPI climbed 1.20% YOY on average in the three months through December.

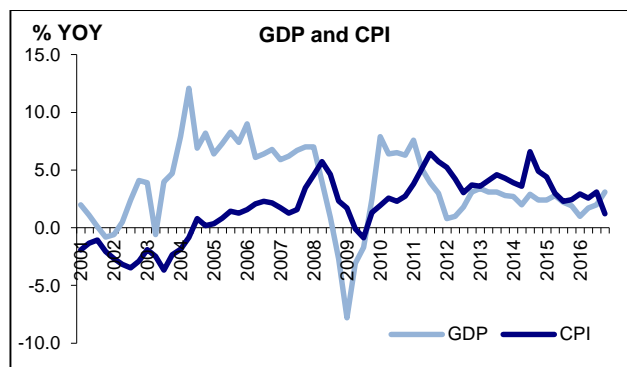


Figure 2. Exports increased 10.10% YOY to HKD 340.30 billion in December after 8.10% YOY climb in November, marking two straight positive growth. Imports climbed 8.70% YOY in December followed 7.60% YOY jump in November. Trade gap widened to HKD 45.48 billion.

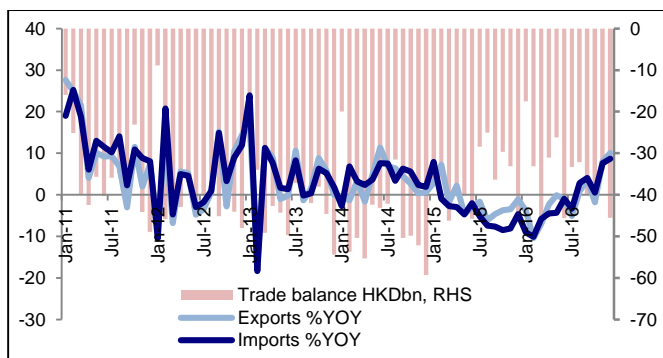


Figure 3. Retail sales declined 2.90% YOY to HKD 42.40 billion in December, slumping at a softer pace than the 5.40% YOY in November. The drop in durable goods, clothing & footwear and wearing apparel categories contributed to the drop in the headline retail sales figure.

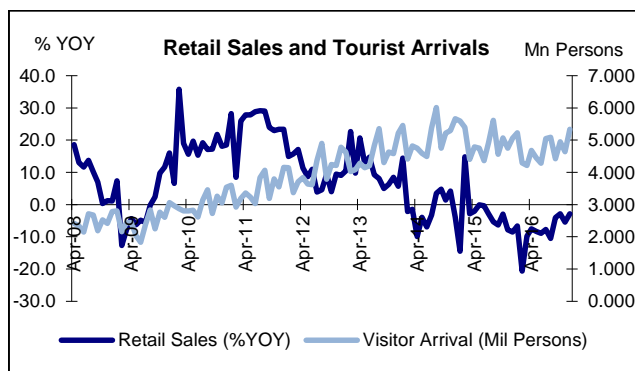


Figure 4. The number of property transactions slipped to 5220 in January and was almost half the number of property changed hands the same time last year. For the whole of 2016, total transactions came to 73k, a 4.10% drop from 76k in 2015.

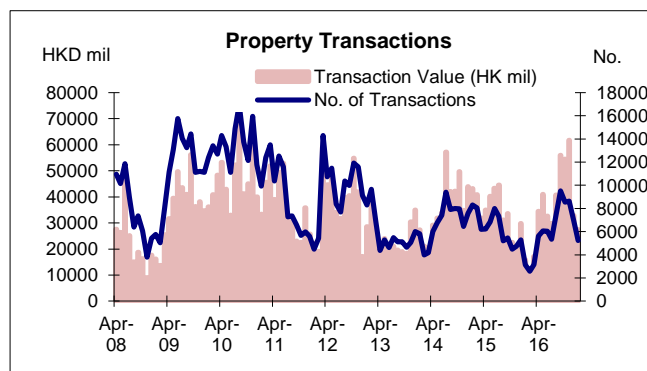


Figure 5. Unemployment rate was unchanged at 3.3% for three straight months. Foreign reserves position climbed to USD 391.5 billion in January

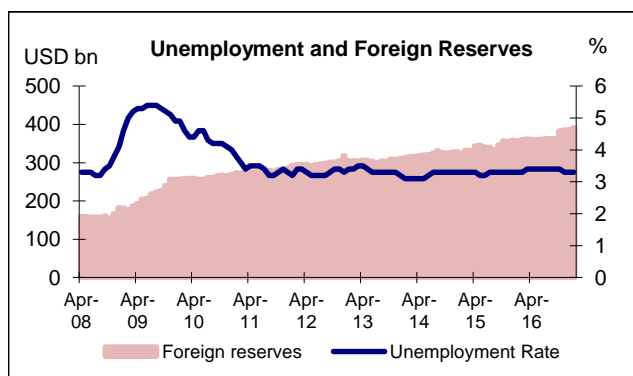
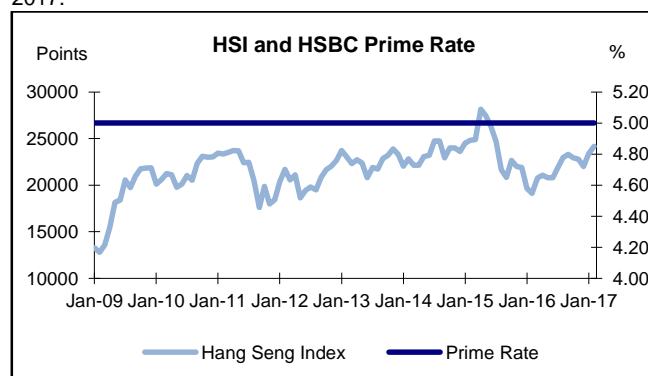


Figure 6. Prime rate was flat since end of 2008. Stocks market was picking up steam, and continue to surge higher. The Hang Seng index climbed 19.00% from February 2016 to February 2017.



Source: Bloomberg, HKMA and CEIC

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