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Global Markets Research

Research Alert

Hong Kong raised 2026 GDP forecast to 3.5-4.5%

Final 2Q GDP growth maintained at 4.3% y/y; easing from 5.9% y/y in 1Q

Growth spearheaded by the robust external sector; domestic demand remains firm

Slower growth in 2H amid unfavourable base effects; headwind from external sector

Summary

Hong Kong's final GDP was left unchanged at 4.3% y/y and -0.6% q/q in 2Q (prior: 5.9% y/y and 2.9% q/q), the latter marking its first quarterly contraction in nearly four years with domestic demand softening while exports remained robust. Notwithstanding the quarterly contraction, 1H growth was better than what the government had forecast, and its strongest in nearly 5 years at 5.1% y/y.

Robust external sector, domestic demand remains firm

On a yearly basis, the robust growth in 2H was driven by a buoyant external sector, while domestic demand stayed resilient. On the external front, export of goods surged 28.9% y/y (prior: 23.8%y/y) thanks to strong global demand for AI-related electronic products, complemented by a broad-based increase for exports of services (3.4% y/y vs 3.3% y/y).

Domestic demand saw some moderation amid flat government consumption (prior: 2.8% y/y) and a sharp deceleration in overall investment expenditure (4.4% y/y vs 18.3% y/y) primarily due to a slowdown in public sector expenditure. Private consumption (2.8% y/y vs 4.9% y/y) expanded for the fifth quarter, saw broad-based increases across all the categories, but notably robust demand for consumer durable goods (double-digit growth). Consumer spending is expected to continue rising, supported by the generally positive macroeconomic backdrop, rising employment earnings and positive wealth effects from higher asset prices.

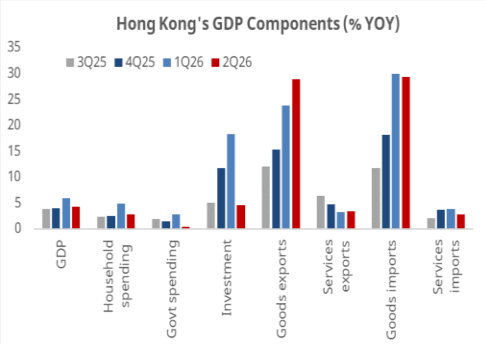
Outlook

With the stronger than expected 1H and expectations that the economy should see solid momentum for the rest of the year, the government upped its full year projection to 3.5%-4.5% in 2026 from its previous estimate of 2.5%-3.5%. This suggests a realistic but moderated 2H growth of at least 2.0%, reflecting a less favourable base effect, as well as downside risks from the

Figure 1: First quarterly contraction since 3Q of 2022

Source: Bloomberg

Figure 2: Robust external sector amid softer, but still resilient domestic demand



Source: Bloomberg

geopolitical tension, trade protectionism measures, tighter financial conditions and deterioration in global risk sentiment.

The external sector is expected to continue supporting growth amid the global AI capex boom and its positive spillover to Hong Kong's electronic goods exports, logistics activity and related business services. Exports of services are also expected to benefit from solid growth in visitor arrivals, alongside steady demand for financial and business services. As mentioned earlier, domestic demand is expected to stay firm, supported by stable labour market conditions, and solid business and consumer sentiment.

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