

Global Markets Research

Research Alert

# Hong Kong economy contracted in 1Q22

**The Hong Kong GDP growth turned negative at -4.0% y/y**  
**Private consumption, investment and exports weakened**  
**Revival in economic activity expected as government eased Covid restrictions.**

**Background**

The Hong Kong economy slumped into a downturn in the first quarter after having stabilised in the previous two quarters, reflecting softer global demand and the woes related to the deterioration of the local Covid situation. Real GDP contracted by 3.0% q/q on a seasonally adjusted basis (4Q21: 0%); the economy had last shrunk in 2Q20 at the onset of the global pandemic. On a y/y basis, real GDP contracted by 4.0% (4Q21: +4.7%), marking its first such decline since end-2020.

**Private consumption, investment and exports dragged on GDP**

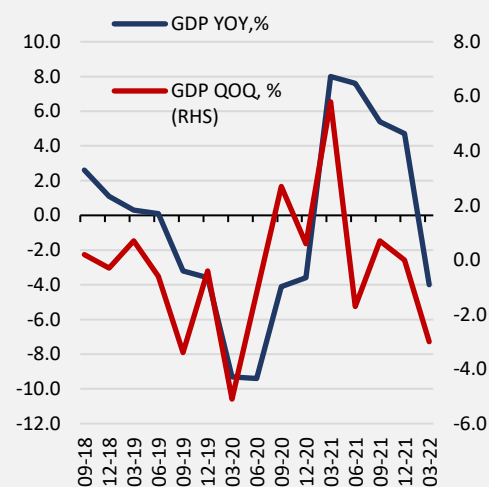
In the first quarter, the fifth wave of the Covid-19 virus broke out and the local authority's responding move to tighten restrictions severely weakened domestic demand. Private consumption shed 3.5ppts from the headline GDP growth and was 5.5% y/y lower compared to a year ago. Investment fell substantially by 8.4% y/y (-1.4ppts) as Covid measures disrupted businesses and weighed on sentiment.

International trade took a serious hit as exports of goods and services slumped 4.5% y/y and 2.8% y/y respectively. Imports of goods and services also saw concurrent declines of 5.9% y/y and 3.4% y/y. The period coincides with the sharp fall in exports to Mainland China while shipments to the US, EU and other major Asian markets saw moderate growth. This came as the global economy experienced a general slowdown in demand amid the broad-based increase in inflation that was made worse by the Russian invasion of Ukraine in late February. Mainland China's adherence to zero Covid policy further exacerbated the situation, given that it remains Hong Kong's main export destination (55-60% of total trade in 1Q22). Exports to China fell by a whopping 12.8% y/y in March (Feb: +1.1%) while exports to other countries were down by 2.3% y/y in the same month (Feb: +0.6%).

**Economic reopening suggests imminent economic revival**

The Hong Kong SAR government trimmed its 2022 growth forecast to 1-2%, down from the 2-3.5% range in the February projections. The downward revision is consistent with the softer global growth forecasts in the wake of the Ukraine-Russia conflicts and persistently high inflation worldwide. Hong Kong is on track to further ease its social distancing policy this week as the fifth virus wave began subsiding in April with the number of cases largely ranging at 200-300 in May, thus paving the way for domestic economic revival in the second half of 2Q22. The S&P Global Hong Kong PMI turned around to 51.7 in April after recording three sub-50 or contractionary readings in a row. Accordingly, the rebound in business sentiment showed local businesses turning more hopeful in the

Figure 1: Quarterly & Yearly GDP Growth



Source: Bloomberg

Figure 2: Exports Trend in Recent Months



Source: Bloomberg

medium term as demand may soon pick up in the absence of stringent restrictions. The government maintained the 2022 underlying inflation forecast at 2%, as it expects local inflation to be milder compared to the external price pressure. Nonetheless, headline inflation began to creep up in recent months despite staying below 2% and could further erode consumer purchasing power this year. The expected increase in interest rates also serves as another roadblock to consumer spending recovery as Hong Kong's largest banks are bound to follow in the footsteps of the Federal Reserve to raise their prime rates. On the external front, the main driver remains China's Covid policy given its direct implication on Hong Kong's export sector as well as the indirect effect it could create on the global supply chain.

### **Hong Leong Bank Berhad**

Fixed Income & Economic Research, Global Markets  
Level 8, Hong Leong Tower  
6, Jalan Damanlela  
Bukit Damansara  
50490 Kuala Lumpur  
Tel: 603-2081 1221  
Fax: 603-2081 8936  
Email: [HLMarkets@hlbb.hongleong.com.my](mailto:HLMarkets@hlbb.hongleong.com.my)

#### **DISCLAIMER**

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter.

Potential and actual conflict of interest may arise from the activities of HLB Group. HLB Group constitute a diversified financial services group. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and other activities for their own account or the account of others. In the ordinary course of their business, HLB Group may effect transactions for their own account or for the account of their customers and hold long or short positions in the financial instruments. HLB Group, in connection with its business activities, may possess or acquire material information about the financial instruments. Such activities and information may involve or have an effect on the financial instruments. HLB Group have no obligation to disclose such information about the financial instruments or their activities.

The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.