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Global Markets Research

Research Alert

Hong Kong economy contracted 3.5% in 2022

GDP expected to grow by 3.5% to 5.5% in 2023; average +3.7% from 2024-2027

Underlying and headline inflation rate of 2.5% and 2.9% for 2023

Budget 2023 entails a smaller fiscal deficit amid scaling-back of support measures

Budget 2023: Leaping Forward Steadily, Together We Bolster Prosperity under Our New Vision.

With the theme "Leaping Forward Steadily, Together We Bolster Prosperity under Our New Vision," Hong Kong's Financial Secretary Paul Chan Mo-po, unveiled a slimmer fiscal deficit of HK$54.5bn (2022: HK$140.0bn) as the government scaled back on its anti-pandemic support measures.

Other key highlights of this Budget include 1) The economy is expected to grow by 3.5% to 5.5% in 2023 (2022: -3.5%) and an average of 3.7% from 2024 to 2027. 2) Underlying and headline inflation rate of 2.5% and 2.9% for 2023 (2022: +1.7% and +1.9%). 3) HK$5k consumption vouchers to eligible resident delivered in 2 tranches and personal tax rebate pf up to HK$6bn to support consumer spending. 4) Reduction in stamp duty for first-time buyers of properties valued less than $20m, although other taxes will remain unchanged.

Economy hit hard by external and domestic factors in 2022

The Hong Kong economy showed a narrower y/y contraction in 4Q. Real GDP fell 4.2% y/y after 3Q's 4.6% y/y decline as external environment and continued disruptions to cross-boundary land cargo flows dealt a serious blow to Hong Kong's exports. As a result, Hong Kong's total exports of goods posted a notable decline of 13.9% y/y in 2022, while exports of services declined mildly by 0.9% y/y. This dragged full year GDP lower by 3.5% y/y.

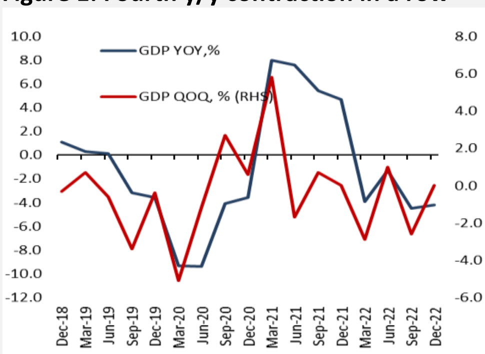
Private consumption meanwhile, resumed growth at +1.9 y/y in +4Q (3Q: -0.4% y/y; 2022: -1.0% y/y). As it is, domestic consumer spending has seen improvement on a q/q basis since 2Q of 2022, on the back of stabilised local epidemic situation and thus progressive relaxation of social distancing measures, improved labour market conditions and disbursement of consumption vouchers.

Exports to improve riding on China's recovery

In December, the y/y decline in merchandise exports widened further, reflecting the significant drags of the deteriorating external environment and disruptions to cross-boundary land transportation. Exports to the Mainland plunged 30.4% y/y, the United States (-26.7% y/y) and the European Union all continued to fall sharply. Exports to other major Asian markets recorded decreases. As a whole, total exports to Asia as a whole dropped by 29.2% y/y.

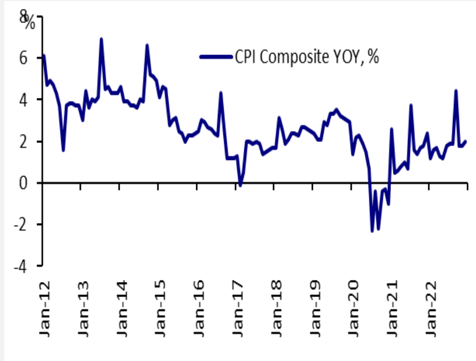
Looking ahead, there is no doubt that external demand is poised for recovery on the back of; 1) Recovery in Chinese economy, especially given that shipment to China continued to make up 50-60% of Hong Kong's monthly exports. Having that said, we cautioned against being overly optimistic at this juncture as China's January PMIs are still flirting with the 50-threshold. 2) Relaxation of cross-boundary truck movement restrictions. 3) Removal of quarantine arrangements for visitors, especially land travel to China should lend support for exports of

Figure 1: Fourth y/y contraction in a row



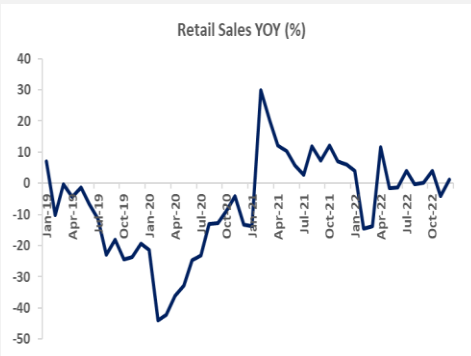
Source: Bloomberg

Figure 2: Inflation has remained moderate



Source: Bloomberg

Figure 3: Retail sales growth has been choppy



Source: Bloomberg

services. Nevertheless, softer growth in advanced economies will continue to pose significant headwind to the Hong Kong economy.

Consumer spending has not seen significant recovery

As it is, Hong Kong started to relax certain social distancing measures on 6th Oct 2022 before scrapping all by the end of the same quarter. Despite this, sales volume has been choppy so far, gaining 2.5% m/m in Oct, but reversed and fell 5.3% m/m and 0.7% m/m in November and December.

As such, while a favourable labour market (unemployment rate: 3.5% in 4Q) and a return to normalcy for both social distancing and resumption in travel will provide boost to spending, this is not a given especially since tightened financial conditions may partly offset the positive effects, be it through consequential weak asset prices or damped fixed asset investments. As it is, the HK$5k consumption vouchers is half of what it used to be while tourist arrivals has remained low so far. We do, however note, the efforts by the government to support this in its latest budget from the rolling out of the "Happy Hong Kong" campaign to local residents to reducing or waiving airport charges.

Inflation rate will increase on improved domestic activities

Inflation rate has remained moderate at 2.0% in December (Nov: 1.8%), though showing some increase from the preceding month mainly due to a surge in fresh vegetable prices. Price of energy-related items as well as clothing and footwear continued to increase. Going forward, external price pressures should remain notable on improved domestic economic activities, although this will be negated by some moderation in food prices. This will be driven by cross-border truck drivers given green light for direct pickups in mainland China as well as consumers switching to cheaper alternatives. Already, we have seen price of pork fallen by almost 50%. Easing inflationary pressure is expected to augur well with real consumer spending and growth going forward.

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 122
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my