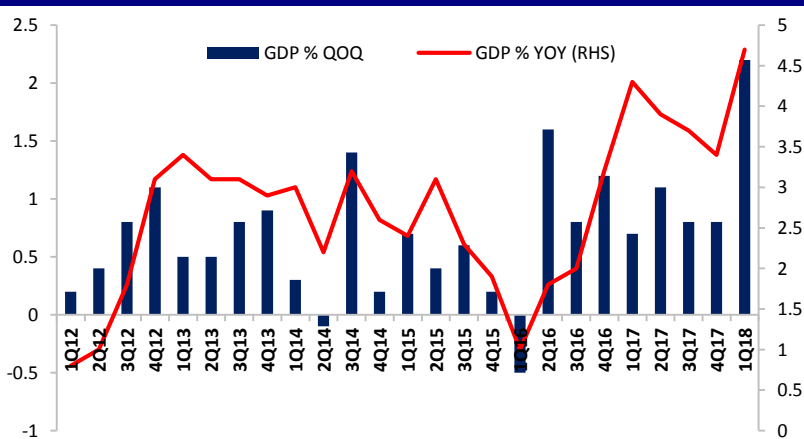


Strong 1Q but expect more moderate growth going forward

Hong Kong's GDP surprised to the upside, registering its best growth since 2Q2011 amid broad-based pick-up in all expenditure components. The strong showing is partly assisted by seasonal upswing in our view, and will likely to normalize going forward, leading to more moderate pace of growth that is likely to trend in line with the government's growth forecast of between 3% and 4%. A resilient China coupled with firm external and domestic demand are expected to continue to be supportive of economic conditions that would keep economic growth in an expansionary phase.

Figure 1: Hong Kong GDP Growth



Source: HKMA and Bloomberg

GDP grew 4.7% YOY in 1Q, from 3.47% in 4Q2017

All expenditure components saw acceleration, suggesting strong fundamentals

Prospects remain positive amid continued pace of global growth

Hong Kong's economy grew more than expected in 1Q2018, rising 4.7% YOY and accelerating from 3.4% in 4Q2017. The figure, best since 2Q2011, was underpinned by strong showings in both external and domestic demand. On a quarterly basis, the economy expanded 2.2% from 0.8% in 4Q2017.

Growth saw broad-based acceleration across expenditure components, which suggests that fundamentals remain strong. Household spending (largest contributor to growth), picked up pace to grow 8.6% YOY in 1Q, quickest since 3Q2011, from 6.3% in 4Q2017. Expansion in investments continue to register firmer growth (1Q: +3.8% vs 4Q: +3.1%) after rebounding from a contraction in 3Q2017. Government spending also grew quicker, rising 3.9% from 3.2% in 4Q. Demand for goods also improved (domestically and externally), likely with a big help from seasonal swings.

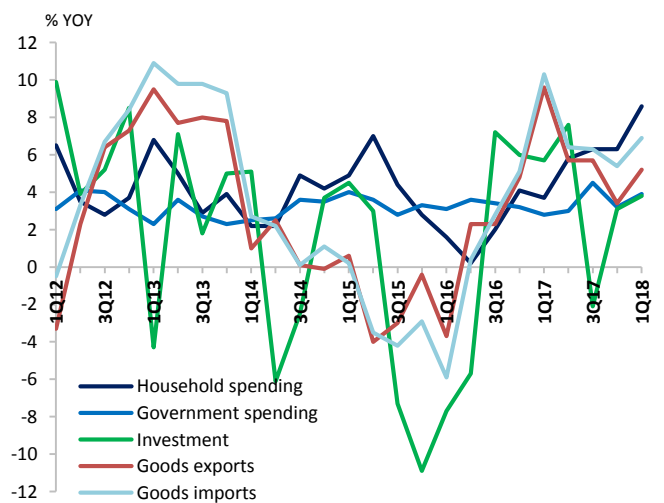
Exports growth averaged 9.3% YOY in 1Q, up from 6.8% in 4Q. The surging figure of 18.1% in Jan is likely a seasonal distortion and pace of growth will be more moderate going forward. We opine that continued global expansion is expected to remain supportive of external demand, on top of the aversion of a full-blown trade war between the US and China, thus keeping Hong Kong's exports positive.

On top of that, retail spending growth is gradually normalizing from seasonal distortions (Mar: +11.4% vs Feb: +29.9%) and is expected to see more moderate pace of growth going forward. However, signs of uptick in household spending and visitor arrivals, as well as the resilient economy of China, are factors that will continue to support retail sector growth.

Growth to remain positive but likely at a more moderate pace going forward

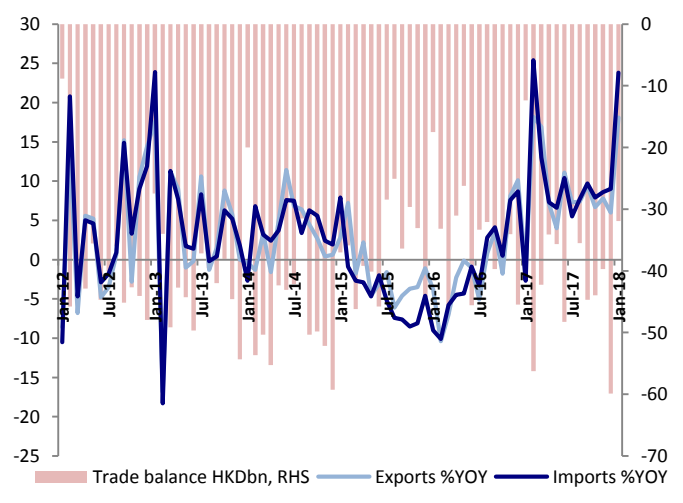
Economic conditions appear to be on firmer footing, supported by sustained global growth especially that of China's and decent domestic conditions. Nonetheless, while the economy is expected to remain in expansionary phase, pace of growth is likely to be more moderate going forward. The better than expected performance in 1Q did not spur the government to change its growth and inflation forecasts for this year; GDP growth is expected at between 3% and 4%, while headline inflation is expected at 2.5%.

Figure 2: GDP Expenditure Components



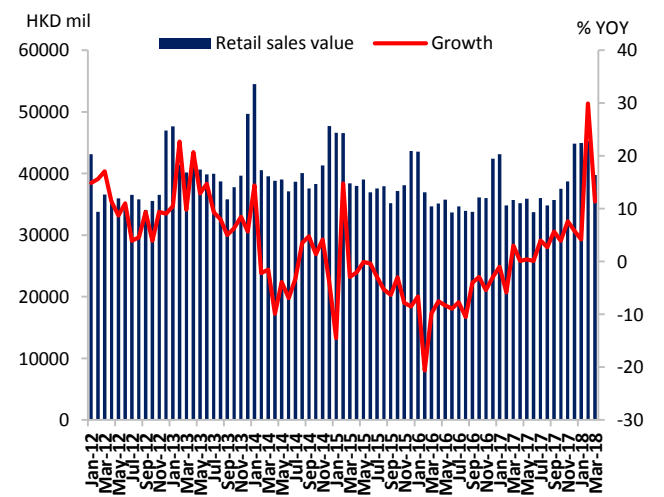
Source: HKMA and Bloomberg

Figure 3: External Trade



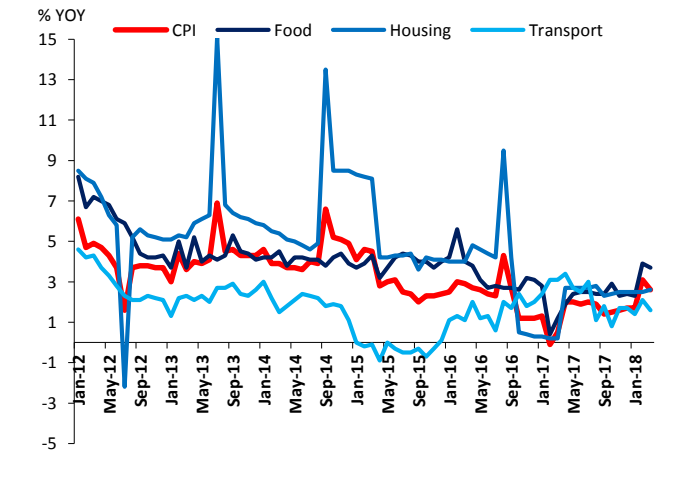
Source: HKMA and Bloomberg

Figure 4: Retail Sales



Source: HKMA and Bloomberg

Figure 5: CPI and Major Components



Source: HKMA and Bloomberg

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