

19 May 2025

Global Markets Research

Research Alert

Final Hong Kong's 1Q GDP growth was maintained at 3.1% y/y

Strongest growth since 4Q of 2023 driven by exports of goods and services

Sluggish consumption; residents continue to spend in Shenzhen due to a strong HKD

Officials maintained 2-3% GDP growth forecast for 2025; headline inflation at 1.8%

Summary

The final Hong Kong 1Q GDP growth print was left unchanged at +3.1% y/y (4Q24: +2.5% y/y) as expected, but the quarterly growth was revised 0.1ppts lower to +1.9% q/q (4Q24: +0.9% q/q). At 3.1% y/y, this is the strongest growth since 4Q of 2023, driven by increases in visitor arrivals and cross-boundary economic activities, as well as goods export bump before Trump's tariff. Private consumption remained weak, falling at a larger pace of 1.1% y/y as compared to -0.2% y/y in 4Q as residents continue to seek bargains in neighbouring Shenzhen due to the strong HKD.

That said, the pace is unlikely to last as exports is expected to take a hit in 2H from the paybacks from the front-loading, which will also cast a chilling effect on business sentiment and investment for Hong Kong. With this, the **IMF has recently cut its 2025 GDP growth projection for Hong Kong from 3.0% to 1.5%, a shade lower than the Government's projection of 2-3% for the year.**

Details

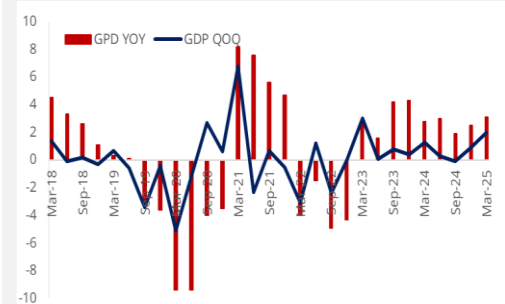
As mentioned, private consumption remained weak, falling at a larger pace of 1.1% y/y as compared to -0.2% y/y in 4Q as residents continue to seek bargains in neighbouring Shenzhen due to the strong HKD. Government consumption also eased, decelerating to +1.2% y/y from +2.1% y/y in 4Q.

On the flipside, gross domestic fixed capital formation rebounded to 2.8% y/y (4Q: -0.7% y/y), while the increase in visitor arrivals and cross-boundary economic activities, as well as goods export bump saw exports of services and goods accelerating to +6.6% y/y and +8.4% y/y in 1Q respectively (4Q: +6.5% y/y and +1.3% y/y).

Outlook

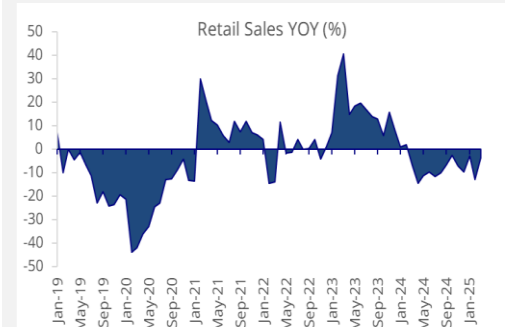
In the accompanying statement, officials maintained its growth projections of 2-3% for 2025, higher than economists' projections of between 1.0%-2.5%, and is also higher than IMF's 1.5% growth

Figure 1: Strongest y/y growth since 2023



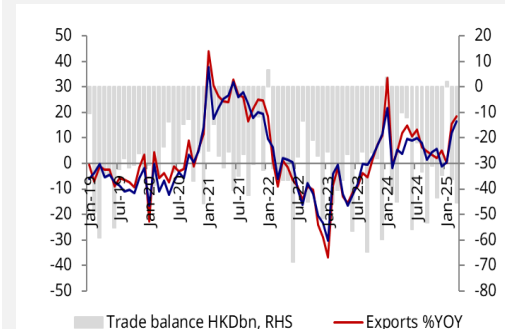
Source: Bloomberg

Figure 2: Retail sales slump continues



Source: Bloomberg

Figure 3: Goods exports bump ahead of US tariffs



Source: Bloomberg

forecast. We expect GDP growth to come in at the lower end of the official forecast of 2-3% for 2025, with risks tilted to the downside and highly dependable on trade and policy development.

Trade tensions have eased temporarily. Coupled with some signs of stability in the China's economy due to the proactive fiscal policies and the moderately accommodative monetary policies, this will may relieve part of the downward pressure on Hong Kong's exports at this juncture.

That said, uncertainties in the trade policies with the US persist, and its monetary policy trajectory going forward is still uncertain. This will continue to weigh on investment sentiment and capex plans going forward, not to mention the subsequently paybacks in export numbers from the front-loading.

On the domestic front, improving inbound tourism and targeted policy measures under Budget 2025 is expected to continue benefit Hong Kong's consumption, but a meaningful and sustained improvement is unlikely in our opinion given the significant cost differences in goods between Hong Kong and Shenzhen that will continue to spur resident spending across the border.

Overall inflation, meanwhile, should remain modest in the near term as pressures from domestic and external costs should stay broadly in check. As inflation has remained broadly in line with earlier expectations, officials also maintained its underlying and headline CPI forecasts at 1.5% and 1.8% respectively for 2025.

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