

**Global Markets Research**  
**Research Alert**

## Hong Kong: Strongest GDP growth in nearly five years

**Upbeat growth of 5.9% y/y in 1Q; broad-based acceleration observed**

**Downside risks from US-Iran war; but official 2026 growth forecast of 2.5-3.5% is intact**  
**2026's CPI forecasts revised up 0.8ppt to 2.5% (for underlying) and 2.6% (headline)**

### Summary

The final 1Q GDP growth was left unchanged at 5.9% y/y and 2.9% q/q, an acceleration from 4.0% y/y and 1.1% q/q in the final quarter of 2025. The 1Q print had surpassed consensus forecast, and marked its strongest growth in nearly 5 years. We saw broad-based acceleration with the exception of exports of services. Taking cue from this robust growth, there is no change to the official growth projection of 2.5-3.5% for 2026, and this is an achievable target in our opinion despite headwind from the Middle East war. Resilient business and consumer sentiment, AI boom, sustained growth in visitor arrivals and robust cross-boundary financial activities, will continue to underpin growth going forward.

### Pick-up in both external and domestic demand

The robust growth in 1Q was driven by continued strong growth in external trade and pick-up in domestic demand. Domestic demand strengthened across both consumption and investment. Private consumption expenditure grew by 4.9% y/y in 1Q (4Q25: 2.5% y/y) reflecting more entrenched recovery in household spending and modest improvement in the labour market (unemployment rate: -0.1ppt to 3.7%), while total investment continued to expand at a double-digit rate of 17.7% y/y (4Q25: 11.7% y/y). Domestic demand has over the past two months been supported, and will continue to benefit from the Government's short-term targeted measures to provide relief to sectors with relatively high fuel cost.

Goods exports of goods grew markedly by 23.7% y/y in 1Q (4Q25: 15.4% y/y), underpinned by sustained global demand for AI products and buoyant regional trade flows in Asia, while exports of services continued to expand solidly albeit at a softer pace of 3.5% y/y (4Q25: 4.7% y/y) amid modest growth across all major service groups.

### Outlook

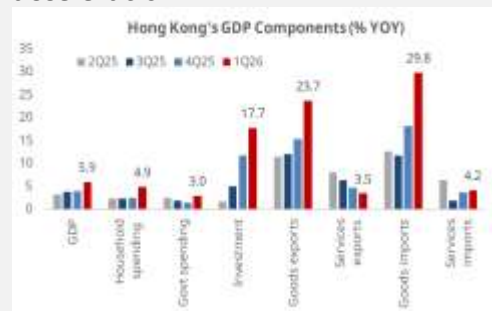
Taking into account the stronger outturn in 1Q and the potential headwinds in the external environment for the rest of the year,

**Figure 1: Fastest growth since 2021 in 1Q26**



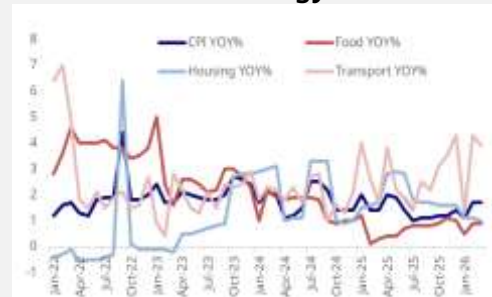
Source: Bloomberg

**Figure 2: Stronger external and domestic demand drove the acceleration**



Source: Bloomberg

**Figure 3: Upward revision to CPI forecasts due to energy costs**



Source: Bloomberg

we are maintaining our view that 2026 growth will likely come between government's projection of 2.5-3.5% (consensus: 3.0%) pending more clarity on the duration of the US-Iran conflict.

As mentioned, elevated uncertainty from the war could weigh on growth drivers that underpinned 1Q's performance. On the domestic front, a sharp reversal in risk appetite and tighter financial condition could derail the recovery in property prices, weigh on household spending through negative wealth effect, constrain borrowing for capex for corporates and is negative on capital market activities.

On the external front, prolonged closure of the Strait of Hormuz and higher crude oil prices will continue to keep freight costs up and disrupt global shipping flows and trade volume. This will have a significant impact on Hong Kong, being a major transshipment hub. The tightening in global financial conditions, meanwhile, could curtail the AI capex boom which has provided tailwind to Hong Kong's trade thus far.

In terms of inflation, the feed-through of higher oil prices to fuel-related components in the CPI should continue, but overall inflation is expected to be limited given the city's low energy intensity as a predominantly service-oriented economy, and amid stable energy supplies from Mainland China. Taking into account the pick-up in 1Q CPI and recent developments on the external front, the Government nonetheless revised up its underlying and headline inflation projections for the year to 2.5% and 2.6% respectively, up from its initial estimates of 1.7% and 1.8%.

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