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Global Markets Research

Research Alert

Hong Kong economy fuelled by spending in 2Q

GDP registered its second successive year-on-year gain
Spending may still be limited by the absence of tourists
Government's e-voucher schemes and higher property prices seen as positives

Background

Hong Kong's second quarter GDP growth was revised slightly higher to 7.6% y/y, from 7.5% in the advance report. This followed the 8.0% y/y expansion in the first quarter as the successful containment of the coronavirus had allowed the Special Administrative Region (SAR) to stay on track with economic recovery although the low base from last year also contributed to a certain extent. On a quarter-on-quarter basis, GDP fell 0.9%, following a sharp 5.5% rebound in the first quarter.

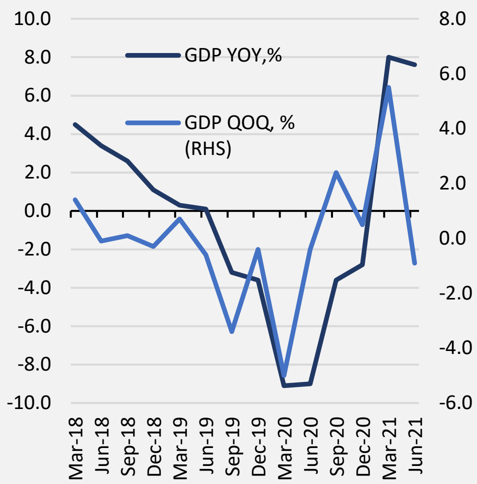
In the second quarter, private consumption (+4.7 percentage points) and gross investment (+3.9ppts) contributed the most to growth, followed by a modest gain in inventories (+1.5ppts) and government spending (+0.4ppts). In terms of y/y changes, personal consumption rose 6.8% in 2Q (1Q: +2.1%), reflecting higher spending in consumer goods (both durables and non-durables). Investment growth was driven by surge in expenditure in machinery, equipment and intellectual property products. Net exports (-2.9ppts) were a drag no thanks to firmer imports. Exports however, remained supported by robust overseas demand, particularly from China.

Robust spending may fade in 2H21

We are wary of a sustained momentum in spending as domestic demand alone may not be sufficient to see through a robust recovery, as evident in the slowdown in retail sales growth in recent months. The year-on-year retail sales growth had dwindled off its February peak to a single-digit print in June (+5.8% y/y), although partly reflecting the dissipating effects of the low bases from last year. We do not expect HK authorities to reopen its international borders any time soon (thus the continuous absence of tourists) especially when the city had just imported a number of Delta variant cases that had resulted in the tightening of quarantine rules.

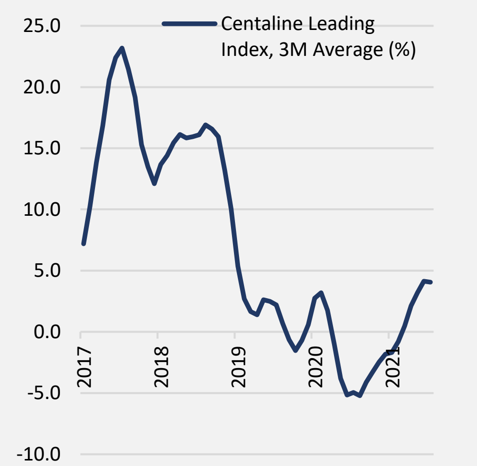
Having said that, the sharp decrease in unemployment rate to 5.5% in the three months to June was a positive development for the near-term spending outlook, not to mention the expected added boost from the government's HK$36b e-voucher schemes. The distribution of the HK$5,000 vouchers had started in August. Apart from that, spending may also be supported by the household wealth effect coming from the surge in home prices. The Centaline leading index, a gauge for HK housing market had turned positive since March this year. The factors above gave us reasons to believe that spending may register modest but nonetheless unimpressive gains for the second half of 2021.

Figure 1: YoY growth extended into 2Q21



Source: Bloomberg

Figure 2: Positive development in housing market



Source: Bloomberg

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