

Global Markets Research

Research Alert

Hong Kong GDP contracted again in 2Q22

The city state's second quarter GDP contracted 1.3% q/q
Sluggish exports and lacklustre private consumption prevented recovery
Government revised down GDP forecast, warning of third annual contraction

Background

Hong Kong 2Q22 GDP growth was revised slightly higher to 1.0% q/q in the second quarter of 2022, from the preliminary estimates of 0.9%. This followed the 2.9% q/q contraction in the first quarter, indicating only a partial recovery from the Covid-driven downturn early in the year. On a y/y basis, GDP shrank by 1.3% in the second quarter, extending from the 3.9% decline prior, reflecting sluggish exports stemming from Hong Kong-mainland China's transportation barrier as well as the lingering Covid-19 impact although the government relaxed pandemic rules in May onwards. The smaller y/y contraction was attributed to the positive contribution from government spending (+1.6ppts) which helped offset the negative net exports and fixed investment. Private consumption contributed only 0.1ppts to headline GDP.

Weak exports and consumption stifled recovery

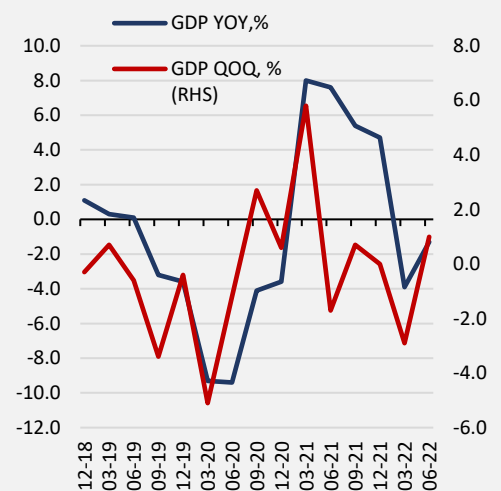
Private consumption growth was stagnant at 0.1% y/y (1Q: +5.8%) as spending was stifled by the extended albeit relaxed Covid-19 restrictions. Government spending rose 13.0% y/y (1Q22: +6.7%) as the government handed out HK\$5,000 e-vouchers to eligible residents to encourage consumption. Investment dropped for the third consecutive quarter by 3.0% y/y (1Q: -7.8%). Goods exports fell for the second consecutive quarter (-8.6% y/y) while services exports rose 2.3% y/y. Goods and services imports fell 6.2% y/y and 0.5% y/y respectively. Shipment to China continued to make up 50-60% of Hong Kong's monthly exports and has since fallen for the fourth consecutive month since March this year. The Shanghai lockdown disrupted trade and the reopening effect failed to boost a strong demand thus far.

Hope of robust economic revival fades

Looking ahead, we think that the path for a robust economic revival is fraught with challenges. Domestic consumption could be boosted by the latest round of government vouchers distribution and supported by the rebound in the labour market. However, the difficulty to achieve pre-pandemic visitor arrivals will continue to prevent a strong rebound in the retail and services sector. Travelling rules have been relaxed but still onerous (hotel quarantine days for inbound travellers cut to three days + four days of home monitoring) and are expected to deter the arrival of international visitors. Hong Kong-Mainland China's travelling requirement remains in place as well, effectively limiting the arrival of Chinese visitors who have always been the city state's main tourism customers.

Meanwhile, rising recession risks in the western developed economies and the expected slowdown in China are threatening Hong Kong's external trade sector. Hong Kong has been over-reliant in the exports of manufactured goods to China, thus a general and prolonged slowdown in the Mainland will weigh on Hong Kong's overall businesses, labour market and thus consumption. Premised on the above, the Hong Kong government now warned that the city state may see its third annual GDP contraction in 2022. GDP growth is now forecast to contract or expand in the range of -0.5% to 0.5% this year, compared to the previous forecast of 1-2% growth.

Figure 1: Second y/y contraction in a row



Source: Bloomberg

Figure 2: Exports to China continue to fall



Source: CEIC Data

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