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Global Markets Research

Research Alert

Hong Kong's GDP grew by 1.5% in 2Q

A deceleration from 1Q's +2.9% y/y; First contraction q/q since 3Q of 2022

Led by slower consumer spending y/y; Investment, exports of goods contractionary

Government revised GDP forecast to 4%-5%; Appears far-fetched given headwinds

Overview

Hong Kong's final GDP was left unchanged at +1.5% y/y in 2Q (1Q: +2.9% y/y, while on a q/q basis, growth registered its first contraction since 3Q of 2022, dipping by 1.3% q/q (1Q: +5.4% q/q).

Details

On a y/y basis, the moderation in growth was underpinned by slower consumer spending (+8.5% y/y vs 2Q: +13.0% y/y), while government spending and investment turned contractionary during the quarter. Trade in goods continued to register double digit contractions amidst softer global growth which affected external demand, especially from China, US and EU, while conversely, exports and imports of services continued to chalk second consecutive quarters of double-digit growths, benefitting from the reopening of the border and thus, revival of tourism activities.

The government remained optimistic over the state of the economy, with expectations that improving labour market conditions, inbound tourism as well as Government's various measures to support a still robust consumer spending, but this will be weighed down by tighter financial conditions as well as a difficult global economic environment which will weigh down on exports of goods. Taking account of these factors as well as its 1H's performance, the Government narrowed its 2023 GDP projection to "4.0%-5.0%" from "3.5%-5.5% previously.

Outlook

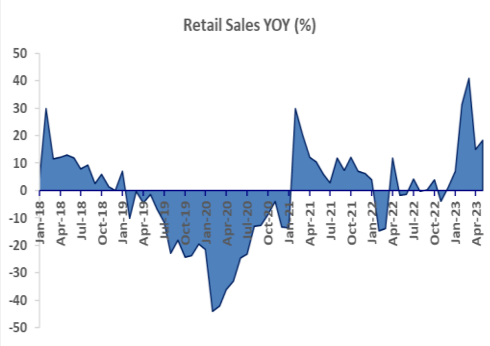
On average, the economy grew by a mere 2.2% in 1H and as such, we think that the government's full year GDP forecast appears a stretch at this juncture. While we foresee consumer spending holding up, we expect the economy to face headwinds from:

- Financial Secretary Paul Chan has recently flagged more muted spending habits amongst residents, in some cases taking their money to neighbouring Shenzhen.
- Tourist arrivals appeared to have peaked. While arrivals, and thus consumer spending will benefit from the low base in 2022, tourist arrivals have contracted for the month of May and June on a m/m basis. As such, it is more likely that tourist arrivals will average the 2-3m per month, as observed in the latest 4 months data, excluding seasonal effects.

Figure 1: First q/q contraction since 3Q of 2022

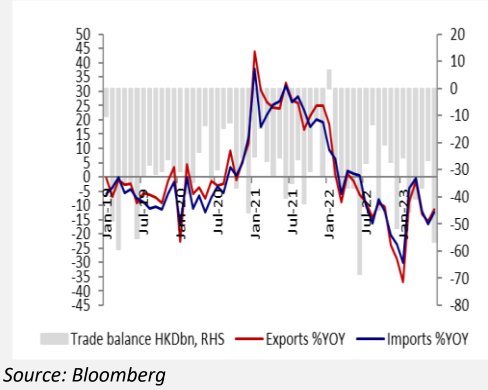
Source: Bloomberg

Figure 2: Retail sales growth has picked up with the return to normalcy and increased tourist arrivals



Source: Bloomberg

Figure 3: Exports continued to contract



Source: Bloomberg

- Tightened financial conditions will continue to weigh down on the economy. In fact, the number of transacted properties has fallen for the past 2 months.
- Exports of goods will continue to face intense pressure, as slower global economic growth weighs on external demand. In fact, exports contracted for the 14^{th} month in a row in June at -11.4% y/y in June (May: -15.6% y/y). The slump was driven by weak demand in the US, EU as well as from its largest trading partner, Mainland. In tandem with this, Hong Kong PMI shrank for the first time in July, dipping to 49.4 (June: 50.3) as a result of decline in new orders, pointing to prevalent headwinds in the China-dependent economy.

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