

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.

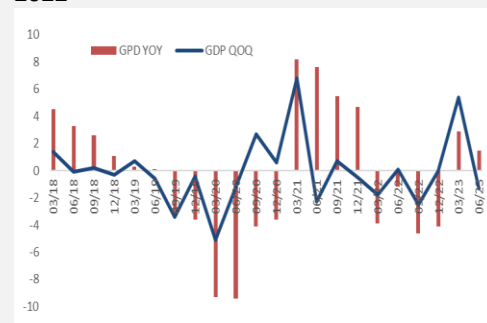
The government remained optimistic over the state of the economy, with expectations that improving labour market conditions, inbound tourism as well as Government's various measures to support a still robust consumer spending, but this will be weighed down by tighter financial conditions as well as a 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:

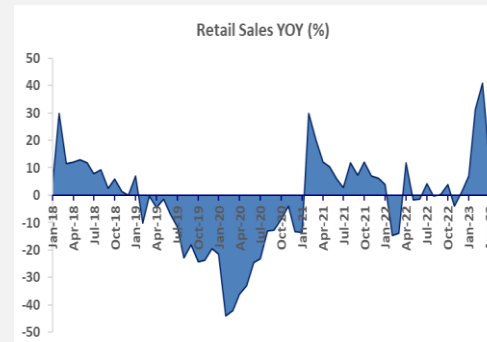
- Financial Secretary Paul Chan has recently flagged more muted spending habits amongst residents, in some cases taking their money to neighbouring Shenzhen.
- Tourist arrivals appeared to have peaked. While arrivals, and thus consumer spending will benefit from the low base in 2022, tourist arrivals 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



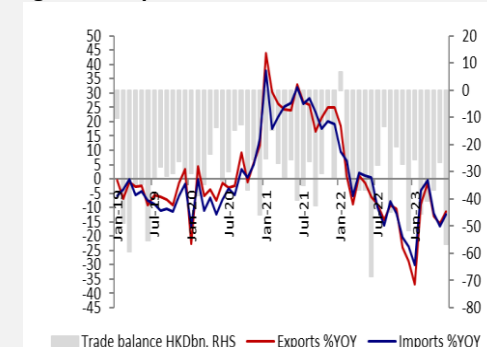
Source: Bloomberg

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 14th 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.

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global Markets

Level 8, Hong Leong Tower

6, Jalan Damansara

Bukit Damansara

50490 Kuala Lumpur

Tel: 603-2081 122

Fax: 603-2081 8936

Email: HLMarkets@hlbb.hongleong.com.my**DISCLAIMER**

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter.

Potential and actual conflict of interest may arise from the activities of HLB Group. HLB Group constitute a diversified financial services group. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and other activities for their own account or the account of others. In the ordinary course of their business, HLB Group may effect transactions for their own account or for the account of their customers and hold long or short positions in the financial instruments. HLB Group, in connection with its business activities, may possess or acquire material information about the financial instruments. Such activities and information may involve or have an effect on the financial instruments. HLB Group have no obligation to disclose such information about the financial instruments or their activities.

The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.