14 November 2022

Global Markets Research

Research Alert

Hong Kong shaved GDP forecast to -3.2% for 2022

The city state's GDP contraction widened to -4.5% y/y in 3Q 2022
Sluggish exports worsened with a 15.6% contraction
Consumer spending virtually unchanged

Background

The contraction in Hong Kong's economy widened to -4.5% y/y in 3Q from -1.3% y/y in 2Q as the worsened external environment and continued disruption to cross-boundary land cargo flows dealt a serious blow to Hong Kong's exports, while tightened financial conditions resulting from the sharp interest rate hikes by the major central banks weighed heavily on domestic demand. Growth fell 2.6% q/q while YTD, real GDP fell by 3.3% y/y.

External demand has worsened

The decline in exports worsened in 3Q, with exports plunging 15.6% y/y (2Q: -8.4% y/y) amidst a worsened external environment and continued disruptions to cross-boundary land transportation. Exports to the Mainland saw a bigger decline. Exports to the US and the EU turned to visible falls. Growth in exports to most other major markets in Asia decelerated. Meanwhile, exports of services turned to a 3.8% decline (2Q: +2.2% y/y) as exports of financial services fell visibly due to weakened cross-border financial and fund-raising activities.

As it is, Hong Kong's export will continue to face immense pressure from the deteriorating external environment as well as cross-boundary transportation disruption. Heightened geopolitical tensions, Russia-Ukraine, China-US, and supply-chain disruptions also add uncertainties. If cross-boundary logistics disruptions between the Mainland and Hong Kong show more visible easing, Hong Kong's external trade may get some relief but we are not optimistic here. Shipment to China continued to make up 50-60% of Hong Kong's monthly exports and this saw a decline of 8.5% y/y in September alone.

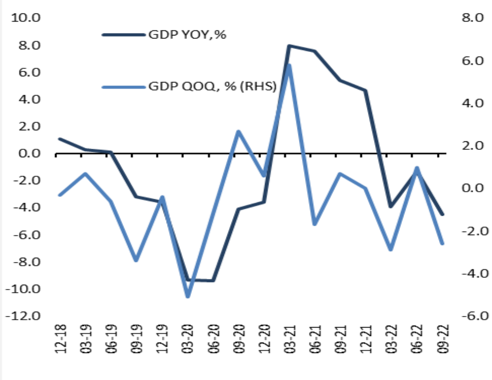
Shaky consumer spending

In terms of domestic demand, while the roll out of Consumption Voucher Scheme and a favourable labour market (unemployment rate of 3.9% in 3Q) should support consumer spending, indicators like retail sales remained shaky. Retail sales posted a marginal y/y increase in September (+0.2% y/y). Going forward, we reiterate that keeping local epidemic situation remains under control and recent tightened financial conditions, and its consequential weak asset prices, may pose some constraints. Rising borrowing costs will also dampen fixed asset investment. Difficulty to achieve pre-pandemic visitor arrivals, meanwhile, will also prevent a strong rebound in the retail and services sector. While we note that Mainland China may cut the week-long quarantine imposed upon arrivals from HK to 4 days before the end of the year, this rule remains onerous. Tourist arrivals into Hong Kong, although rose to 56,499 person in Aug from its low of 1,603 in March, it is still significantly lower than its all-time high of 2,910,934 person in Dec 2018.

Prices jumped in September on import prices

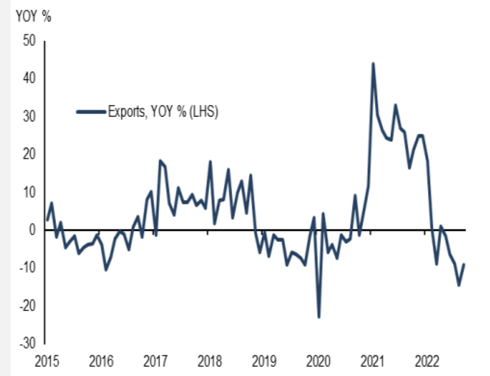
Hong Kong's consumer prices jumped in September to 4.4% y/y, the highest in seven years. Price of food, clothing and energy-related items rose, but price pressures for other major areas were broadly in check. Going forward, import

Figure 1: Third y/y contraction in a row



Source: Bloomberg

Figure 2: Exports continue to fall



Source: Bloomberg

prices will continue to rise, but mild domestic cost pressures should keep overall inflation moderate in the near term.

Outlook

Taking into account the worse-than-expected economic performance in the first 3 quarters of 2022 and markedly deteriorating external sector, the Government revised its real GDP growth forecast for 2022 downwards sharply to -3.2% from -0.5% to 0.5% previously. This is significantly below IMF's projection of -0.8%. At the same time, with inflation rate at 1.7% for the for the first 9 months of the year, the government also revised forecast rate of underlying CPI down to 1.8% from 2.0% and headline inflation to 1.9% from 2.1%.

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