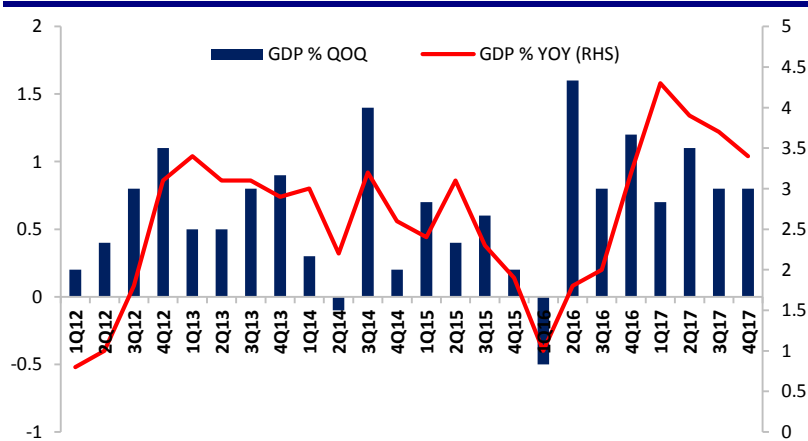


Moderated but firm growth in 4Q

Hong Kong's GDP grew at a more moderated pace in 4Q, but remains firm by historical comparisons. The lower growth figure was due to easier expansions across most expenditure components, such as household and government spending, though investments growth rebounded. Even though economic expansion this year is expected to moderate further, improved global outlook and recovering domestic demand will continue to support a firm growth pace.

Figure 1: Hong Kong GDP Growth



Source: HKMA and Bloomberg

GDP grew 3.4% YOY in 4Q, easing from 3.7% in 3Q.

Hong Kong's economic growth eased further in 4Q 2017, recording a growth of 3.4% YOY from 3.7% in 3Q. On quarterly basis, GDP steadied at 0.8% QOQ in 4Q. Despite extended moderation in economic growth, figures remain robust compared to the 5y average of 2.8%, and especially considering that growth was pulling back from 4.3% in 1Q2017 (highest since 2Q2011). Annually, GDP grew 3.8% in 2017, accelerating from 2.0% in 2016.

Most expenditure components recorded slower growth except for investments

Most expenditure components saw more moderate growth in 4Q, save for investments, which rebounded from an unexpected decline of 1.7% in 3Q to 4.7%. Household spending, the biggest contributor to growth, grew 6.3% in 4Q steadying from 3Q%. Meanwhile, expansion in government spending slowed to 3.1% from 4.5% in 3Q. Also registering slower growth were exports (4Q: +3.4% vs 3Q: +5.7%) and imports (4Q: +5.4% vs 3Q: +6.3%).

However, **some bright spots were noted of late, potentially contributing for a firm 1Q2018.**

Improved prospects amid recent upsides in data

Exports growth surged 18.1% YOY in Jan, jumping from 6.0% in Dec. Increased demand ahead of lunar new year lifted shipments to China (Jan: +29.0% vs Dec: +1.7%) and Taiwan (Jan: +40.0% vs Dec: -10.1%) that offset slowdown in demand from other major destinations such as the US, Japan and India. Lunar new year preparations also lifted domestic demand as imports surged 23.8% in Jan from 9.0%. The strong performance of exports helped reduce the trade deficit from HK\$ 59.9m to HK\$ 31.9m, the narrowest

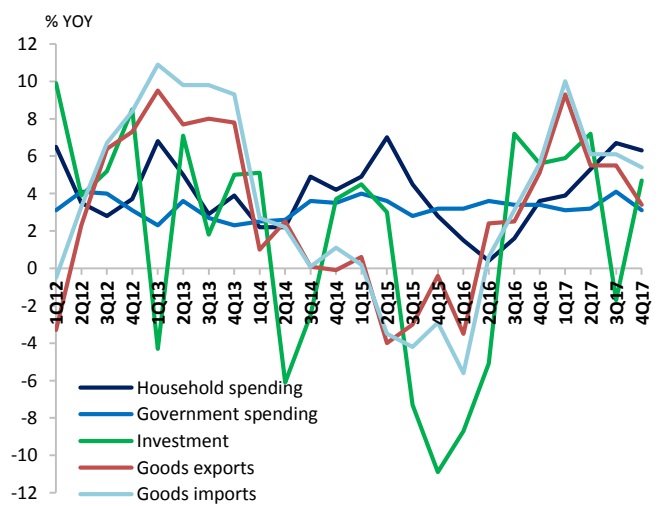
shortfall since Jul 2017.

Retail spending growth, while slightly softer at 5.8% YOY in Dec compared to 7.6% in Nov, is showing sign of a sustained uptrend after returning to positive growth since Mar 2017. Growth property transaction value and number of transactions have also rebounded starting Dec, though much of the upsides are due to low-base effect from a year ago.

Growth forecast slanted to the downside but not by much

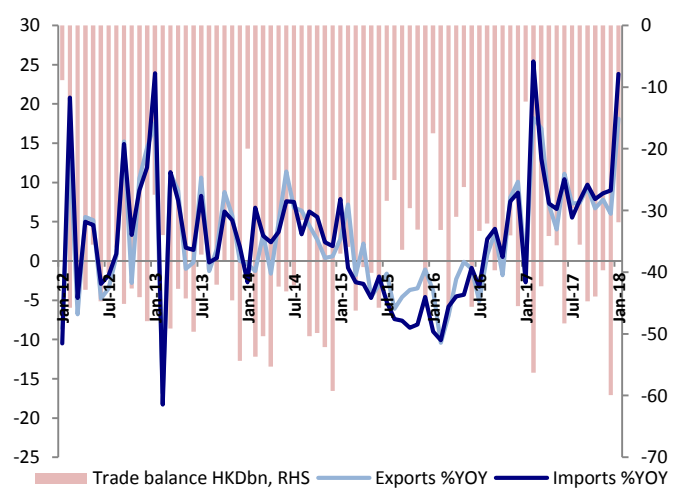
Improved global outlook that supports external demand as well as recovery in domestic demand are expected to continue contributing to firm growth pace in Hong Kong. The government expects GDP growth of between 3% and 4% this year, while inflation is expected to tick higher to 2.5%.

Figure 2: GDP Expenditure Components



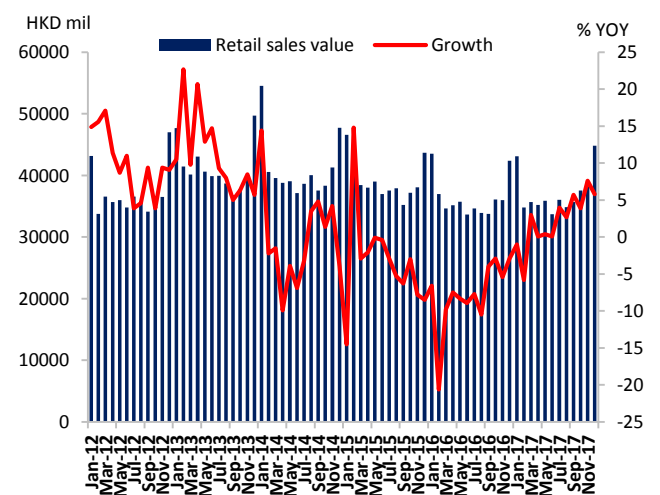
Source: HKMA and Bloomberg

Figure 3: External Trade



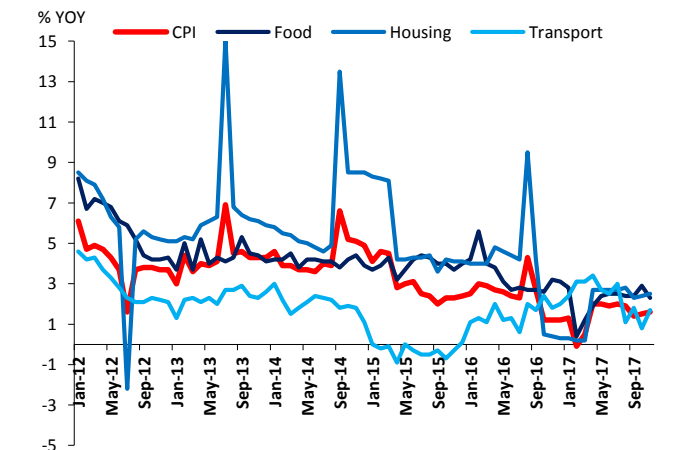
Source: HKMA and Bloomberg

Figure 4: Retail Sales



Source: HKMA and Bloomberg

Figure 5: CPI and Major Components



Source: HKMA and Bloomberg

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