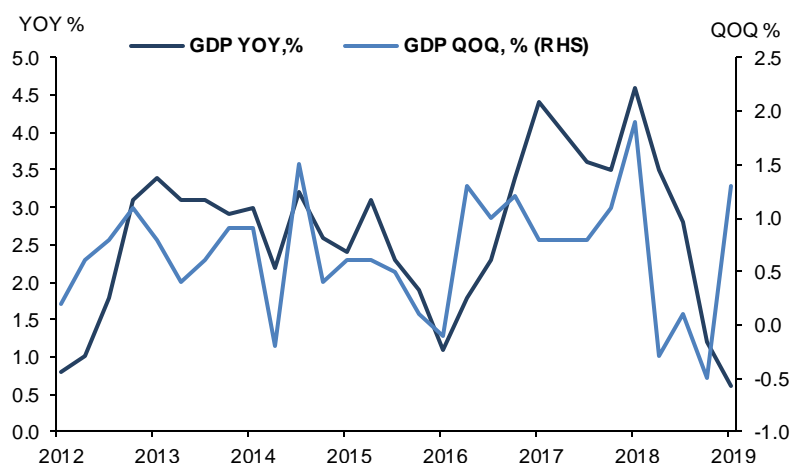


1Q GDP growth weakened to lowest since GFC on weak private spending & exports

Hong Kong first quarter GDP growth eased further to 0.6% YOY, its slowest since the Global Financial Crisis nearly a decade ago, highlighting entrenched domestic demand and its vulnerabilities to slower global growth abroad. Heavy reliance on China for incoming tourists, exports of goods as well as investment continues to pose downside risk to the economy in general, and could stand to lose more should US-China trade tensions escalate further. On a positive note, GDP managed to rebound on a quarterly basis by 1.3% offering reprieves that momentum is not deteriorating further as home prices recover in recent months. Looking ahead, we are still bearish of the Hong Kong's economy but expect growth to rebound from the low in first quarter and stabilize in the second half of 2019 barring the above mentioned trade fallout as a recovery in the property sector could improve household wealth which in turn could lend some support to domestic demand.

Figure 1: Hong Kong GDP Growth



Source: Censtatd, Bloomberg

GDP growth decelerated to slowest level since Global Financial Crisis.

Hong Kong real GDP growth decelerated further to 0.6% YOY in the first quarter of 2019 (4Q: +1.2% revised) marking its slowest growth since the global financial crisis nearly a decade ago. The number was revised slightly upward from the Censtat's advance estimate of 0.5% YOY released in early May. The latest release also confirmed a downward revision to 4Q18 GDP print from 1.3% YOY to 1.2% YOY. On a positive note, GDP managed to rebound by 1.2% QOQ on a seasonally adjusted basis (4Q: -0.5% revised) offering some reprieves that momentum may be slowly picking up in the Hong Kong economy.

Private consumption expenditure nearly stagnated

Breaking down the major GDP components, private consumption expenditure is one culprit behind the poor headline figure, posting a mere 0.2% YOY gain (4Q: 2.7% revised). The near stagnation was driven by a sharp fall in consumer durables (-6.1% vs +4.4%) and a further decline in spending on

food (-1.2% vs -0.6%). Expenditure on consumer non-durables (+4.5% vs +1.2% vs +2.3%) also appeared to be softer, largely in line with the poor retail sales performance in the last two months of the first quarter as consumers severely cut spending after Lunar New Year celebration in early February. Government consumption expenditures continued to see solid growth of 4.5% YOY albeit at a slower pace compared to the 4.9% YOY gain in the previous quarter.

Investment extended further decline

Investment dipped further for the second running quarter, by a larger margin of 7.1% YOY (4Q: -5.8% revised) after recording its first decline since 3Q17 in the last quarter, again reflecting the extended but slower contraction in building and construction investment (-3.5% vs -4.9%) and the fall in machinery, equipment and intellectual property products (-1.8% vs 4.7%).

Trade sector dragged down by outsized fall in exports.

International trade weakened tremendously in the first quarter. Goods exports fell 4.1% YOY (4Q: 0.0% revised) after a flat 4Q, its first decline since 1Q16, as shipments to majority of key trading partners recorded decline. Notably, exports to China fell sharply by 8.9% YOY (4Q: -2.3%) while shipment to the US also fell by 9.9% YOY (4Q: +3.1%). Growth in services exports meanwhile pulled back to 1.1% YOY (4Q: +3.3% revised), continuing its downward trend since 1Q18.

Similarly goods imports also saw an outsized fall of 4.7% YOY (4Q: -0.5% while services imports experienced a change in direction as it posted a decline of -0.8% YOY (4Q: +2.1% revised), underscoring the severe lack of domestic demand for overseas products.

Bearish growth outlook as Hong Kong is vulnerable to slower growth abroad and uncertain US-China trade relation.

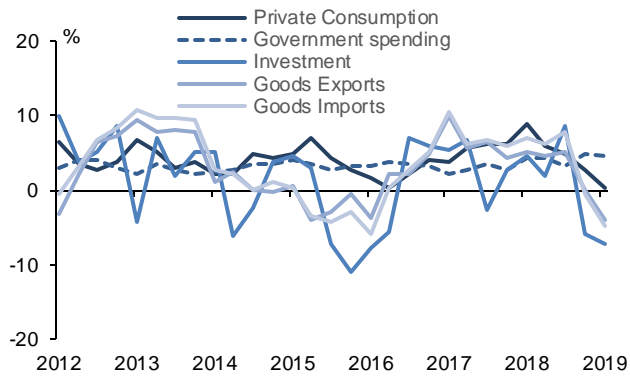
The much slower growth in the first quarter is not surprising in our view as the Hong Kong economy continues to face domestic and external headwinds stemming from both slower domestic and overseas demand. Hong Kong's highly open economy means that it is extremely vulnerable to demand conditions abroad. Globally, growth trajectory for major developed economies appear to be bumpy, with the Eurozone, UK and Japan poised to see only modest gains. The US is not exactly in its exceptional state as manufacturing and retail data softened amidst waning stimulus effect.

Hong Kong's huge reliance on China for incoming tourists, exports of goods as well as investment continues to pose downside risk to the economy in general. Despite upbeat first quarter GDP print which shows that the economy is stabilizing, we think that outlook for China remains skewed to the downside as proven in the recently disappointing retail sales and industrial production. Uncertain US-China trade relation future is of course the crux of the whole big issue, the most recent tariff hikes could be extended further to impact the largely untaxed Chinese-made consumer goods, elevating the current trade spat to a full blown scale.

Looking ahead, we are still bearish of the Hong Kong's economy but expect growth to rebound from the low in first quarter and stabilize in the second half barring the above mentioned trade war escalation, as the recovery in home prices is set to improve household wealth which in turn could lend some support to domestic demand. With the latest revised figure, the Hong Kong government has maintained its growth forecast for 2019 at 2-3% as announced in the FY2019/2020 Budget.

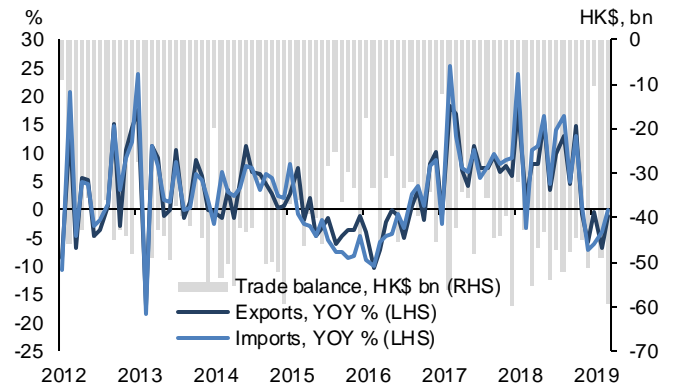
Hong Kong Overview:

Figure 2: GDP Expenditure Components



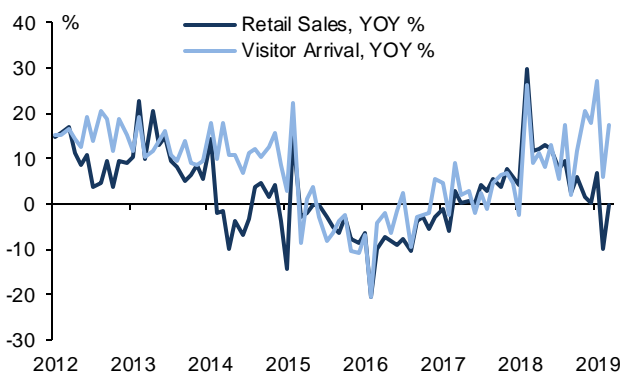
Source: Censatad, Bloomberg

Figure 3: External Trade



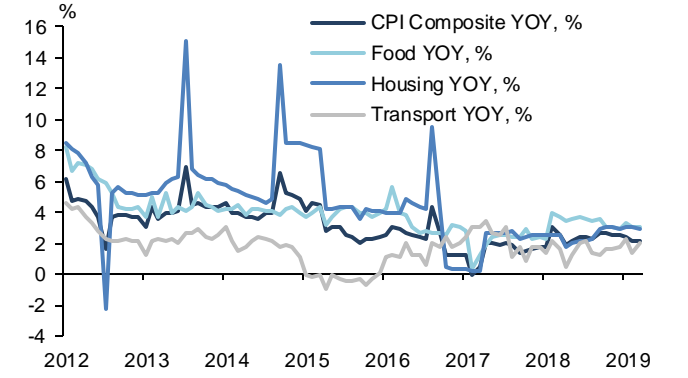
Source: Bloomberg

Figure 4: Retail Sales and Visitor Arrival



Source: Bloomberg

Figure 5: CPI and Major Components



Source: Bloomberg

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 1221

Fax: 603-2081 8936

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

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