

Global Markets Research
Research Alert

Hong Kong's GDP moderated to 2.7% in 1Q

Slower expansion across the board from consumption to investment and exports
Full year growth likely settles at the lower end of 2.5-3.5% official forecast for 2024
Headwinds from tight financial conditions, slower domestic and tourism spending

Overview

As per expectations, Hong Kong's final GDP print was left unchanged at +2.3% q/q and +2.7% y/y growth in 1Q, a pick up on a q/q basis but moderation on a y/y basis (4Q: +0.2% q/q and +4.3% y/y). Just a recap, 1Q advance GDP had earlier beat consensus forecast, and in our opinion, a tentative sign that the post-pandemic recovery is stabilizing but remains challenging.

Details

Largely weighing on the moderate growth in 1Q was a slowdown in household spending (+1.0% y/y vs +3.5% y/y) partially due to high base effect and weak sentiment, as well as private investment (+0.3% y/y and +17.5% y/y) due to tight financial conditions. Meanwhile, exports of services (+8.4% y/y vs +21.2% y/y) and goods (+6.8% y/y vs 2.8% y/y) continued to grow notably thanks to a further increase in visitor arrivals for the former and favourable external demand as well as low base effect for the latter.

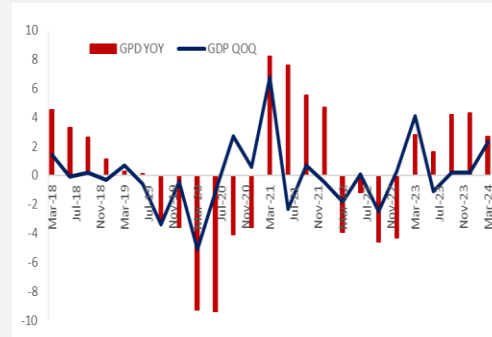
Outlook

The Government has projected economic growth of between 2.5%-3.5% in 2024 (2023: 3.2% growth in 2023) and we believe that the projected growth target is achievable at this juncture but at a normalized level of 2.8%, as per consensus and ADB's forecast, as private consumption and the tourism boost from reopening boost fades.

In 2024, private consumption will benefit from rising income growth but Hong Kong's dull property continue to weigh down on sentiment and spending. Exports of goods will pick up in line with gradual global economic recovery, but could face headwinds from a tepid China economic recovery. Investment will pick up on the back of government infrastructure initiatives and anticipated property market rebound, the latter benefitting from the removal of all residential property demand management measures in its latest Budget but could face headwinds from tight financial conditions with HKD still pegged to the USD.

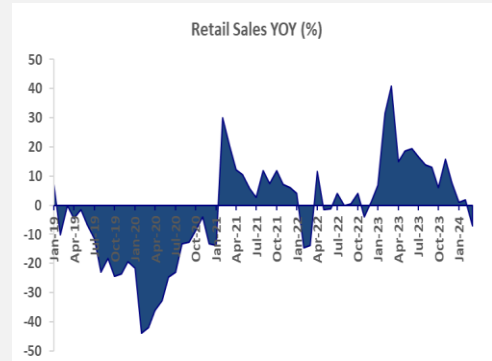
Risks are mostly related to developments in the China. 1) Greater tensions between China and US are also a threat for Hong Kong given its strong economic links with both the economies. 2) While the number of tourist arrivals, especially from China continued to pick up, it has not provided

Figure 1: Slower growth amid broad-based deceleration from both domestic and external fronts



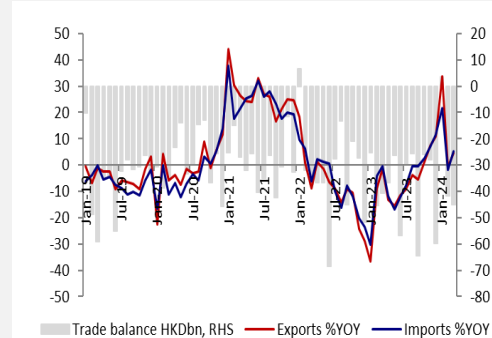
Source: Bloomberg

Figure 2: First contraction in retail sales in March, due to high base effect and weak sentiment



Source: Bloomberg

Figure 3: Glimpses of recovery in exports



much boost to spending. 3) Hong Kong residents are also increasing spending outside the city, especially the neighbouring Shenzhen, during the weekends and major holidays, weighing on consumption growth.

Source: Bloomberg

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