18 November 2024

Global Markets Research

Research Alert

Deceleration in Hong Kong 3Q GDP growth

Slower growth across the board except for exports of services

Officials cut its 2024 GDP growth forecast to 2.5%; headline CPI to 1.7%

A strong HKD to spur outbound tourism and weigh on overall consumption

Overview

The Hong Kong economy expanded at a slower pace of 1.8% y/y in 3Q (prior: 3.2% y/y), unchanged from its initial estimate and contracted on a q/q basis by -1.1% (prior: +0.3% q/q). The deceleration on a y/y basis was weighed down by slower growth across the board, save for exports of services. Household spending notably fell for the second quarter to -1.3% y/y (prior: -1.6% y/y).

The Government has cut its full year growth forecast to 2.5% for 2024, suggesting expectations for further moderation in growth in 4Q, given YTD growth of 2.6% y/y. This was in line with our earlier observation that economic for 2024 will likely be at the lower range of the Government's forecast of 2.5-3.5%. On the inflation outlook, the Government also revised down its underlying and headline CPI for 2024 to 1.1% and 1.7% respectively (prior: 1.3% and 1.9%) as officials expect inflation to stay modest in the near term due to milder external price pressures.

Domestic demand slowed; pick-up in exports of services

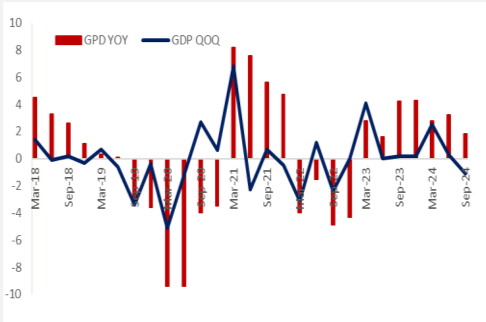
In terms of external demand, exports of goods grew by a softer pace of 4.0% y/y (prior: +7.5% y/y) due to softer demand from some major Asian markets as well as from the US. Exports to China increased notably, while exports to the EU rebounded. Exports of services accelerated to 2.4% y/y (prior: +1.1% y/y), due to improved cross-border financial and fund-raising activities, business and transport services, which more than offset the decline in travel services, partially due to the strong HKD.

In terms of domestic demand, private consumption expenditure remained weak in the quarter while overall investment expenditure eased slightly to 3.7% (prior: 4.1% y/y). The latter was pulled down by the decline in spending on building and construction as well as a moderation, but still positive growth in property transactions following the cancellation of the DSMMs for residential properties.

Outlook

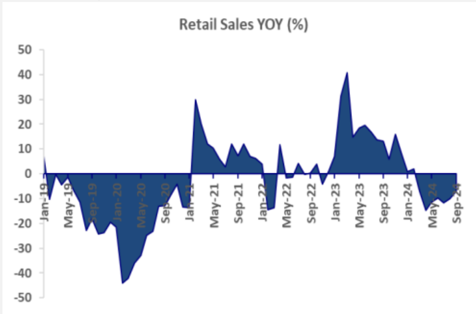
As mentioned, the Government has cut its 2024 GDP forecast to 2.5% and we expect this to be achievable as this suggests a modest pick-up in 4Q growth to 2.2% y/y. While no official projections were provided for 2025, the IMF is expecting the economy to grow by 2.9% y/y in 2024 and 2.7% y/y in 2025 (2023: 3.3% y/y).

Figure 1: Weaker y/y growth on soft consumption



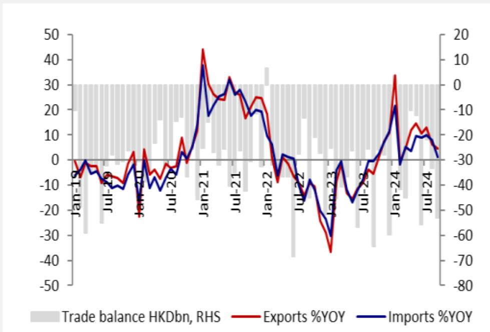
Source: Bloomberg

Figure 2: Retail sales has been falling and is expected to stay weak as a strong HKD encouraged outbound tourism



Source: Bloomberg

Figure 3: A sustainable turnaround in exports is dependent on China's growth story as well as development in trade tensions



Source: Bloomberg

- While exports of goods could benefit from improved outlook for China after its recent round of stimulus and front-loading of shipments to the US ahead of the tariff hike, increased global economic uncertainties and escalation of trade tension could weigh on a sustainable trade recovery in 2025.

- Consumer spending is expected to remain soft as a strong HKD could encourage outbound tourism, as well as deter tourist arrivals/spending. 4Q spending, will nonetheless benefit from seasonal factors as well as a tight labour market.

- Gradually easing financial conditions, recent measures by China to support their economy as well as the Government's various measures in the latest Budget could boost sentiment and should bode well for private investment. In fact, this is already seen in the two quarters of expansion in property transactions as well as pick up in acquisitions of machinery, equipment and intellectual property, the latter one of the key sectors targeted by the Government.

On the inflation outlook, the Government also revised down its underlying and headline CPI for 2024 to 1.1% and 1.7% respectively (prior: 1.3% and 1.9%) as officials expect inflation to stay modest in the near term due to milder external price pressures.

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 122
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my

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