

## Market Monitor – Hong Kong

## Navigating the Road from Recession to Recovery

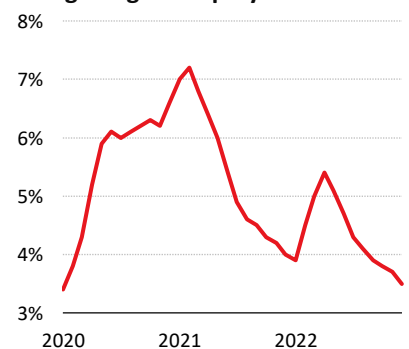


- Hong Kong's GDP contracted by 3.5% in 2022 but a recovery is already gathering steam.
- The Mainland's border reopening is set to boost Hong Kong's services sectors.
- Further signs of stabilization were seen in asset markets.

**Hong Kong's GDP contracted notably in 2022**

For 2022 as a whole, the Hong Kong economy recorded a 3.5% contraction. A slowdown was seen among the major economic components in 2022 due to weakened external demand, Covid-19 outbreaks, rapid tightening of financial conditions, and elevated geopolitical tensions, etc. Real exports of goods slumped by 13.1%; Real exports of services was down by 0.8%; Real private consumption expenditure dropped by 1.1%; and real gross domestic fixed capital formation fell by 8.5%. That said, the Hong Kong economy is expected to stage a solid recovery ahead, propelled by the border reopening with the Mainland and the strengthening pace of the Mainland economic recovery.

In Q4 2022, real GDP posted a slightly narrowing contraction at 4.2% year-on-year (YoY), from a decline of 4.6% in Q3. On a quarter-to-quarter (QtQ) basis, the growth of real GDP recovered to 0.0% in Q4, up from -2.6% in Q3. The major supporting forces for the economy in Q4 were private consumption and government spending, which rose by 1.7% and 9.1% YoY respectively. Since Q2 2022, Labour market conditions have continued to improve. The unemployment rate went down to 3.5% in Q4 2022, from the recent peak of 5.4% between February and April 2022. In addition, the disbursement of consumption vouchers in August and October and the further lifting of social distancing measures probably encouraged households to spend. In December 2022, the growth of real retail sales improved to a mild YoY decline of 0.7%, up from the -5.3% slump one month ago.

**Hong Kong Unemployment Rate**

Source: Hong Kong Census and Statistics Department

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Looking ahead, the upcoming Budget is expected to deliver measures fostering both a speedy recovery and long-term economic development. Growth momentum in the domestic sector is expected to strengthen further given a steadily improving labour market and a reviving economic activities after lifting social distancing rules and reopening.

### The Mainland's border reopening is set to boost Hong Kong's services sectors

**The Mainland's border reopening is expected to drive a V-shape rebound for Hong Kong's visitor arrivals.** On 8 January 2023, quarantine-free travel between the Mainland and Hong Kong was resumed. Transport and tourism services are also gradually restarted. Since then, visitor arrivals to Hong Kong continued to surge. The 7-day moving average of inbound visitors increased to 21,900 on 31 January 2023, up from around 6,000 in late-December 2022. The increases were seen for visitors from both the Mainland and overseas. In early February, the border arrangements were further optimized. The quota system and testing requirements were dropped, with all boundary control points to be reopened. These policy relaxations are likely to promote a sturdy rebound for Hong Kong's visitor arrivals.

**Increased cross-border people flows are likely to stimulate a wide range of services sectors.** Accommodation, retail trade, catering, leisure, and transportation sectors have lagged far behind the rest of the economy. Hence, a strong catch-up in these sectors is expected to be realized ahead. Moreover, the financial and professional services sectors are likely to see more opportunities, as growing cross-border activities will reinvigorate demand for financing, payment, investing, insurance, advisory, marketing, trading, medical services, etc.

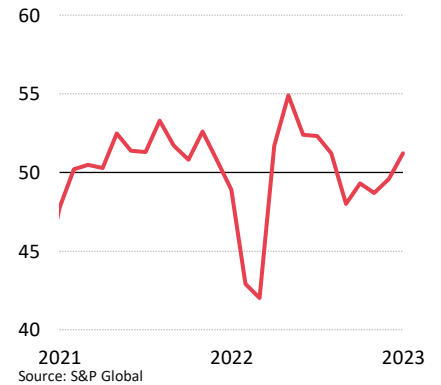
**Business optimism kept rising.** The Census and Statistics Department's Quarterly Business Tendency Survey for Q1 2023 showed an increase in business sentiment among the large enterprises in Hong Kong. The S&P Global Purchasing Managers' Index (PMI) of Hong Kong rose to 51.2 in January 2023, the first expansion since September 2022. These survey results indicated stronger demand conditions and improving outlook. In addition to higher hiring needs, businesses are likely to step up their capital expenditures too.

**Going forward, the border reopening with the Mainland sharply brightens Hong Kong's economic outlook in 2023.** While external environment remains challenging, Hong Kong's services sector, consumption, and investment activity are expected to recover strongly, thereby offsetting the soft global economic momentum and tight monetary conditions. Overall, Hong Kong's GDP forecast for 2023 is upgraded from 3.5% to around 5.0%, the inflation rate will remain moderate at 1.9%, and the unemployment rate will fall to a near-full employment level of 3%.

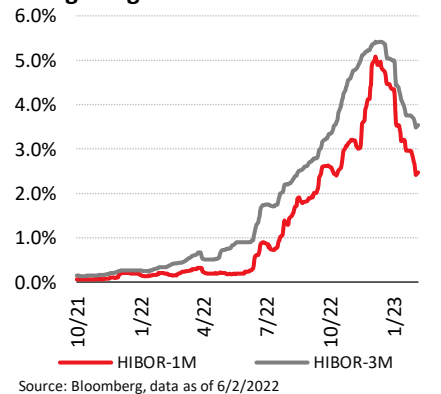
### Further signs of stabilization were seen in asset markets

**The housing market showed first sign of stabilization.** In January 2023, total transactions of private residential units increased to 3,051 from 2,507 one month earlier. Price gauges in secondary market transactions also indicated a pause in its months-long downtrend in late-January. Meanwhile, ample liquidity conditions in Hong Kong allowed the Hong Kong dollar (HKD) interest rates to stay notably lower than the US dollar (USD) interest rates

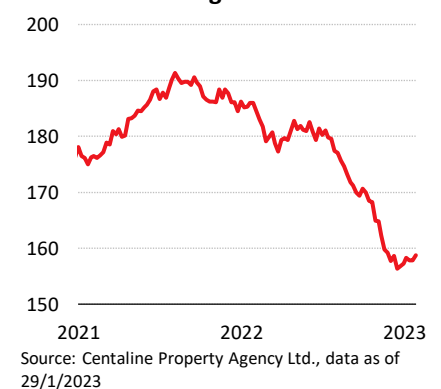
Hong Kong Purchasing Managers' Index



Hong Kong Interbank Rates



Centaine Housing Price Index



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after the year-end seasonal impacts faded. Even though the Fed raised interest rates by 25 bps on 1 February, major commercial banks kept their prime rates unchanged. While it is unlikely to last long given the dollar peg, the temporary halt in further increases in lending rates would provide relief to mortgage borrowers and stabilize housing market sentiment.

**In January 2023, Hong Kong equity markets rallied further.** Risk appetite continued to improve along with expectations of: a stronger economic recovery in the Mainland and Hong Kong; regulatory loosening for Mainland technology firms and property developers; the passing of peak inflation level in advanced economies; and the possible end of interest rate hike cycle soon, etc. As of 31<sup>st</sup> January 2023, the Hang Seng Index closed at 21,842, up 10.4% from the end of December 2022. During the period, the Shanghai A shares and the Dow Jones Industrial Average went up by 7.4% and 2.8% respectively.

### Stock Market Indices



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