

Market Monitor – Hong Kong

# Hong Kong economic momentum is set to accelerate



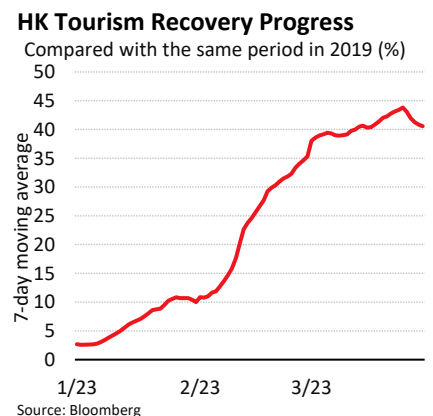
- Hong Kong's economy is expected to return to positive growth in Q1 2023.
- The boost from the economic reopening will be further unleashed ahead.
- The housing market sentiment has improved visibly as buyers returned.

## Hong Kong's economy is expected to return positive growth in Q1 2023

While the global economic outlook darkens amid a series of bank failures in the US and Europe, Hong Kong's economy is expected to remain resilient, driven by the rapid pace of Mainland's China economic recovery, full economic reopening, solid labour market, stronger business sentiment and the still expansionary Government's fiscal measures, etc.

**Hong Kong's tourism sector continues to recover at an accelerating pace.** As of end-March 2023, the 7-day moving average of daily visitor arrivals in Hong Kong exceeded 80,000 (around 40-50% of the pre-pandemic levels in 2019). It contributed to a marked revival in travel-related services spending such as catering, retail, accommodating, leisure, transport, medical and personal care, financial and insurance.

**Labour market conditions strengthened further.** In December 2022 – February 2023, the unemployment rate went down to 3.3% with the number of unemployed persons declining to 115,700. Records from the Government's Labour Department showed a monthly average of 92,624 private vacancies in the same period, up 23.3% year-on-year (YoY). Unlike other advanced economies, Hong Kong's inflation pressure remained moderate. The consumer price index increased by 2.1% YoY in January - February 2023, up from 2.0% in December 2022. Putting together, a solid labour market along with moderate inflation allows the household sector to remain positive on their financial outlook, which can further support the recovery of consumer spending ahead.



With higher purchases from tourists and local residents, retail sales volume jumped by 15.5% YoY in January – February 2023. Even so, recent retail sales volume was merely around 70% of the pre-pandemic levels in 2019. That suggests a significant room for retail sales to catch up as overall economic activity resumes normal.

**External demand remained weak.** In January - February 2023, Hong Kong’s total exports and imports declined by 25.4% and 18.9% YoY respectively, reflecting a higher base of comparison last year and waning demand for goods across the globe. The merchandise trade balance recorded HK\$ 70.7 billion deficits in the first two months of 2023, widening notably from the HK\$ 25.5 billion deficits in the same period of last year, offsetting the positive momentum in both tourism and domestic economic activities. Nevertheless, the trade outlook is expected to gradually stabilize. The HKTDC Export Index, a survey to gauge the near-term export performance of Hong Kong traders, rose remarkably to 39.0 in Q1 2023, up from 29.7 in Q4 2022. Mainland China’s economy and its trade activities have also regained momentum in recent months, which would offset the impacts of slowing US and European demand and possibly bolster Hong Kong’s trade performance.

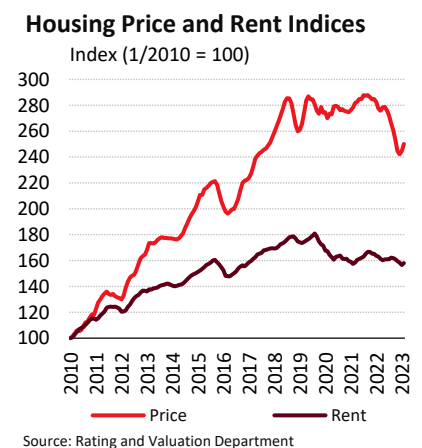
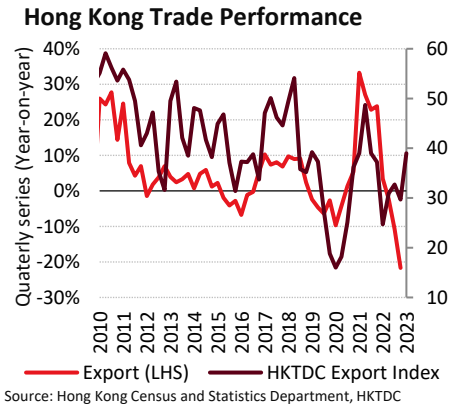
**The boost from economic reopening will be further unleashed**

**The recent sharp rebound of Hong Kong’s visitor arrivals is impressive with abundant growth potential ahead.** In Q1 2023, most of the arrivals were same-day visitors. It would be attributed to the fact that the capacity of long-haul transport services connecting Hong Kong and Mainland cities as well as overseas countries was yet to resume full operation. These limitations are set to be eased. Starting from 1 April 2023, Hong Kong’s high-speed railway fully resumed the long-haul trips to and from destinations outside Guangdong Province. At the same time, airline carriers continue to increase flights and expand routes traveling to and from Hong Kong. These developments will be supportive in attracting more overnight visitors to Hong Kong.

**Government’s efforts to spur tourism activity and domestic spending are fueling the recovery.** Since the lifting of pandemic control measures, the Government has organized a series of mega events to attract visitors, including Clockenflap (a major annual music and arts festival in Hong Kong), Art Basel Hong Kong, Hong Kong Sevens, etc. All these events received enthusiastic responses from both locals and visitors. More flagship events and exhibitions will be held throughout 2023, bringing more business opportunities for local enterprises. Moreover, the Government will disburse its first round of consumption voucher as early as mid-April. Going forward, the Government’s stimulus measures are expected to have a positive impact on the domestic economy.

**Housing market sentiment improved visibly as buyers returned**

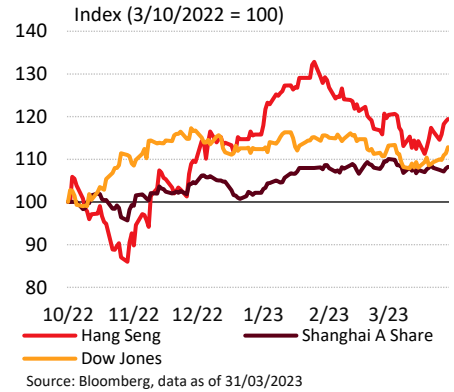
**With improving market sentiment, Hong Kong’s housing market has continued to recover.** After a market consolidation in 2022, more home buyers have returned to take advantage of lower house prices in Q1 2023. Total residential property transactions soared to 6,690 units in March, up from 3,051 units and 4,282 units in January and February respectively. Primary sales were particularly strong as developers launched more projects amid positive sentiment. House prices went up further in February with year-to-date growth at 3.3%. In March, banks in Hong Kong held their prime rates



unchanged, even though the Fed raised the fed funds rate by another 25 bps to 4.75-5.00%. The interest rate spreads between US dollar (USD) and Hong Kong dollar (HKD) remained large, which offered incentives for carry trade activities, thereby weakening the HKD exchange rate. On 4 Apr, HKD exchange rate hit HK\$ 7.85 to US\$ 1, which triggered the HKMA to buy HKD and sell USD in the market. Accordingly, the Aggregate Balance dropped by HK\$ 7.1 billion to HK\$ 69.9 billion. Looking ahead, high USD interest rates are expected to bring modest upward pressure to HKD interest rates.

**In March 2023, Hong Kong equity markets underwent a volatile month.** Investors were in a risk-on mood in early March on hopes of more supportive policies by the Mainland authorities during the annual “Two Sessions”. However, global financial markets experienced sharp sell-offs in mid-March as investors increasingly worried over the global financial stability after several bank failures in the US and Europe. Towards the end of March, the banking crisis seems to be contained in the near term, but its impacts on lending standards and the broader economy will require further monitoring. As of 31<sup>st</sup> March 2023, the Hang Seng Index closed at 20,400, up 3.1% from the end of February 2023. During the same period, the Shanghai A shares went down slightly by 0.2%, while the Dow Jones Industrial Average increased 1.9%.

**Stock Market Indices**



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