

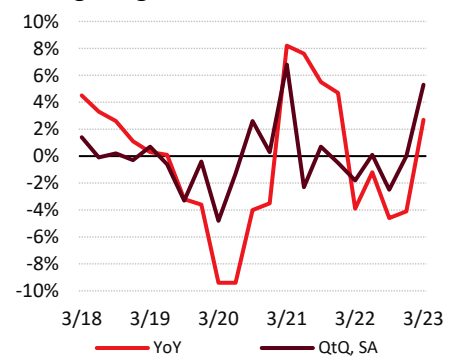
Market Monitor – Hong Kong
Hong Kong's economy enters a new expansionary cycle


- Hong Kong's real GDP expanded by 2.7% year-on-year (YoY) in Q1 2023, after four consecutive quarters of negative YoY growth in all of 2022.
- Hong Kong is expected to show a strong recovery in the coming quarters, with a potential upside of around 5% based on our forecast.
- The housing market stabilized after months of rapid recovery.

Hong Kong's economy returned to growth with amplifying momentum

Hong Kong's real GDP expanded by 2.7% YoY in Q1 2023, after four consecutive quarters of negative YoY growth in all of 2022. On a quarter-to-quarter (QtQ) basis, real GDP surged by 5.3% in Q1 2023, up from a 0.0% QtQ growth in Q4 2022. The recovery is boosted by a host of favourable factors, including Mainland China's rapid post-pandemic economic recovery, a resumption of cross-border travel between Hong Kong, Mainland, and the rest of the world, a solid labour market, improved business sentiment, and the still expansionary Government's fiscal measures.

Pent-up demand and economic reopening fuelled double-digit growth in services trade and private consumption. In Q1 2023, real exports of services surged by 16.9% YoY, driven by the swift rebound in visitor arrivals; real imports of services increased by 20.6% YoY, reflecting strong outward travel demand by Hong Kong residents and real private consumption expenditure rose by 12.5% YoY, supported by favourable job conditions. Investment spending resumed growth with a solid real growth of 5.8% YoY, given improving economic and business prospects. Together, these offset the drag from the sluggish goods trade (real exports of goods and imports of goods declined by 18.7% and 14.5% YoY). Meanwhile, government spending was roughly unchanged, up by 0.5% YoY, due to high anti-pandemic spending in 2022. Overall, most of the expenditure components recorded remarkable improvements in Q1 2023.

Hong Kong Real GDP Growth


Source: Hong Kong Census and Statistics Department

Economic data in March 2023 indicated visible improvements. Among the major monthly economic series, retail sales recorded remarkable growth in March with total values and volumes increasing sharply by 40.9% and 39.4% YoY, recovering to roughly 75-85% of pre-pandemic levels. Total goods trade also posted a much smaller contraction in March 2023, as exports of goods dropped slightly by 1.5% YoY, compared to an average 25.4% slump in January and February 2023. Regarding the local labour market conditions, the unemployment rate reached a post-pandemic low of 3.1% in January to March 2023, down from 3.3% in December 2022 to February 2023. Demand for workers remained strong. The ratio of the private sector vacancies to total unemployed persons increased to 0.89 in January to March 2023, up from 0.80 in December 2022 to February 2023. The improvements in monthly data revealed a solid foundation for the ongoing recovery.

Growth momentum continues to accelerate

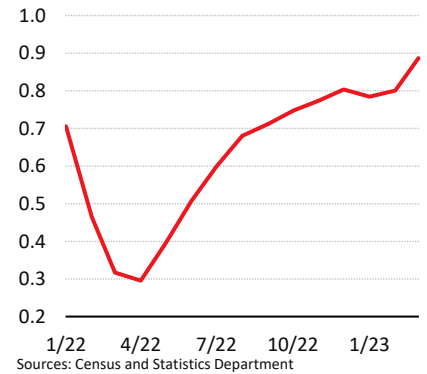
Hong Kong is expected to show a strong recovery in the coming quarters. During the golden week holidays in early May, visitor arrivals further rose, approaching 55% of the pre-pandemic levels in 2019. Tourism-related services are likely to grow substantially. With solid employment conditions, the disbursement of Government’s consumption vouchers and a stabilizing housing market, private domestic spending will continue to expand at a faster rate. Recent surveys indicated that both small and large enterprises remained sanguine about Hong Kong’s economic outlook, which will support further employment growth and boost confidence for investment activity. Along with the expected peak of global monetary tightening cycle, business investment is expected to revive. Looking ahead, the strong tourism recovery and robust domestic demand are expected to outweigh the headwinds from a global economic slowdown, supporting the Hong Kong economy to grow strongly in 2023, with a potential upside to 5% based on our forecast.

The housing market has stabilized after months of rapid recovery

Hong Kong’s housing market has generally held up. After a strong surge in activity in Q1 2023, total residential transactions moderated to 4,583 units, down from 6,690 units in March but higher than the 12-month average of 4,142 units. Home prices remained steady after a strong rally in Q1 2023. The official residential price index increased with year-to-date growth of 5.0% as of March 2023, while residential rentals also rebounded to a 0.5% year-to-date growth. Price gauges in secondary market transactions showed a stable trend in April, reflecting a continued housing market recovery.

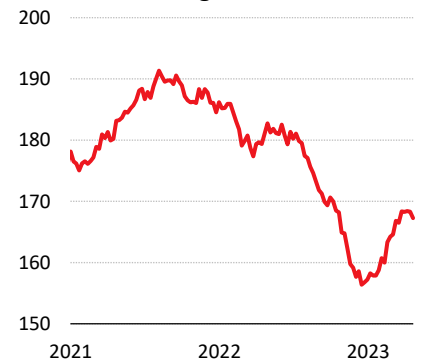
In early May, the Federal Reserve (Fed) raised the fed funds rate target by another 25 bps to 5.00%-5.25%. Wide interest rate differentials between the Hong Kong dollar (HKD) and the US dollar (USD) has provided high incentives for carry trades, which pressured the HKD to the Hong Kong Monetary Authority’s weak-side Convertibility Undertaking of 7.85 and led to a further drop in Hong Kong’s Aggregate Balance from April to early May. Given higher USD interest rates and lower interbank liquidity conditions, HKD Hibors have increased steadily since March. After the Fed’s 25 bps rate hike at its May meeting, large commercial banks in Hong Kong increased the HKD prime rate by 12.5 bps. Overall, the rise in borrowing costs is modest, which is expected to have little impact on Hong Kong’s market sentiment.

Job vacancy to unemployed ratio



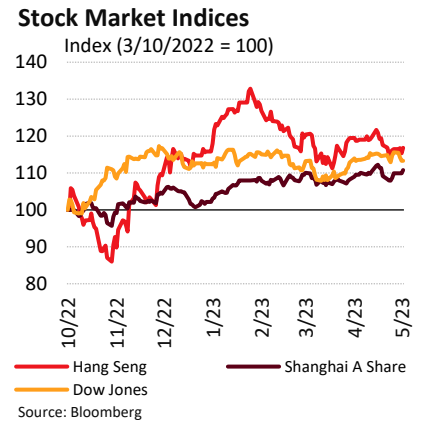
Sources: Census and Statistics Department

Centaine Housing Price Index



Source: Centaine Property Agency Ltd.

In April 2023, Hong Kong equity markets remained volatile. Stocks in Hong Kong generally went up during the first half of April, boosted by stronger-than-expected data on Mainland China’s economy. However, Hong Kong’s investor sentiment turned more risk averse amid news reports of a possible divestment on several leading technology stocks by their major shareholders, and renewed uncertainties about the China-US strategic competition. Worries about the US banking stability also intensified the risk-off mood. As of the end of April 2023, the Hang Seng Index closed at 19,895, down 2.5% from the end of March 2023. During the same period, the Shanghai A shares and the Dow Jones Industrial Average went up by 1.6% and 2.5%, respectively.



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