

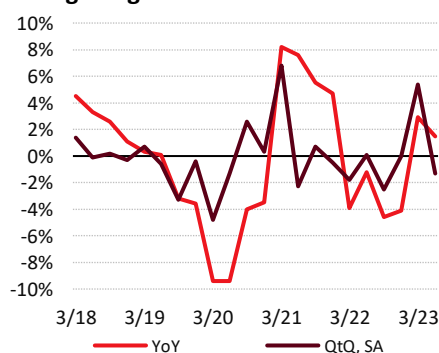
*Market Monitor – Hong Kong*
**Consumption and Inbound Tourism Remain the Growth Drivers**


- Hong Kong's real GDP expanded by 1.5% year-on-year (YoY) in Q2 2023, with private consumption and inbound tourism serving as the major growth drivers.
- Domestic spending continued a strong gain, offsetting the negative contribution from subdued external demand and change in inventories.
- Housing market activities are somewhat stabilizing amid a further increase in HIBOR in recent months.

**Private consumption continued to drive the steady economic recovery**

**Hong Kong's economy continued its recovery in 1H 2023 despite downside pressure from monetary tightening and the global economic slowdown.** Hong Kong's real GDP expanded by 1.5% YoY in Q2 2023, down from 2.9% YoY growth in Q1 2023. On a quarter-to-quarter (QtQ) basis, real GDP contracted by 1.3% in Q2 2023, down from a 5.4% QtQ growth in Q1 2023. Private consumption and inbound tourism served as the main drivers of economic growth in Q2, while the goods trade remained subdued. Effects from the global monetary tightening also surfaced, leading to a YoY decline in private investment and a drawdown in inventories. Meanwhile, the Hong Kong PMI in July declined to 49.4 from 50.3 in June. This indicated the end of six straight months of expansion due to weakening demand in a high rate environment. Nevertheless, a solid labour market and pent-up demand from the economic reopening are set to deliver a sustained boost to Hong Kong's economic recovery ahead.

**Domestic consumption continued to grow rapidly powered by a low unemployment rate, the disbursement of the Government's consumption vouchers, and an improved economic outlook.** Real private consumption expenditure rose by 8.5% YoY in Q2 2023 after a strong YoY growth of 13.0% in Q1 2023. Monthly figures also showed that recent retail sales continued to post solid growth, rising 18.5% YoY and 19.6% in May and June,

**Hong Kong Real GDP Growth**


## Economic Research

August 2023

respectively. Moreover, Hong Kong's labour market has steadily improved, with the unemployment rate edging down to 2.9% for April – June 2023. Private vacancies also stayed elevated, which reflected positive job prospects. These favourable conditions indicated that the jobs market would continue to stay resilient, which could possibly improve household income expectations, thereby supporting private consumption.

**Private investment and government spending recorded negative growth.** In Q2 2023, real gross domestic fixed capital formation turned from a 7.9% YoY growth in Q1 2023 to a YoY contraction of 1.0%, reflecting both the effects of global monetary tightening as well as uncertain economic outlook. During the quarter, Hong Kong dollar interest rates rose sharply, raising the cost of borrowing faced by businesses. Businesses also drew down on inventories, which became one of the largest drags on growth in Q2 2023. Moreover, real government spending recorded a YoY decline of 9.6% in Q2 2023, down from an increase of 1.3% in Q1 2023. The drop could be explained by the normalization of public spending towards the pre-pandemic trend after a huge increase in Covid-related spending in 2022. The drop may be related to the increase in expenditure by the government in response to the pandemic last year. It is expected that government expenditure will gradually return to the pre-pandemic level.

### Labour market remained resilient but sluggish trade flows continued

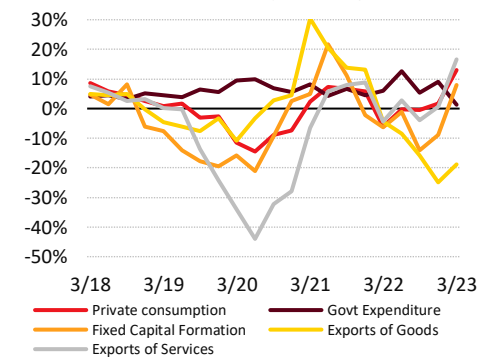
**The labour market improved further along with the economic recovery.** In April - June 2023, the unemployment rate fell to a four-year low of 2.9% since the pandemic. The up-to-date underemployment rate was 1.1%, down slightly by 0.1 percentage point (ppt) from that of March - May. The unemployment rate in the retail sector declined by 0.3 ppts to 3.5% and the accommodation services sector dropped 0.5 ppts to 3.0%. Meanwhile, private vacancies recorded a monthly average of 101,364 in Q2, representing a year-on-year (YoY) increase of 11.9% and a mild decrease of 4.4% over the March – May period. The labour market and household income expectations are expected to improve in line with the continuous recovery of the overall economy.

**Buoyant services trade outpaced the sluggish goods trade.** Fuelled by a surge in visitor arrivals, real exports of services staged a strong upsurge of 22.6% YoY in Q2 2023, up from 16.6% YoY in Q1 2023. Real imports of services also rapidly increased by 30.2% YoY during the quarter, driven by strong outward travel demand by Hong Kong residents. Inbound tourism has continued to recover briskly since 2023. As of the end of July 2023, daily visitor arrivals were estimated to exceed 70% of the pre-pandemic level in 2019. For merchandise trades, total exports of goods shrank in real terms by 15.3% YoY in Q2 2023, in line with other Asian exporters' performance. Recent monthly trade figures showed a somewhat narrowing decline in June, down 12.3% YoY as compared to a 16.7% decline in May. With a notably lower comparison base in 2H as compared to 1H, together with a visible improvement in exporters' business outlook according to the HKTDC Export Index. A somewhat stabilization in the goods trade is likely to be seen in 2H 2023.

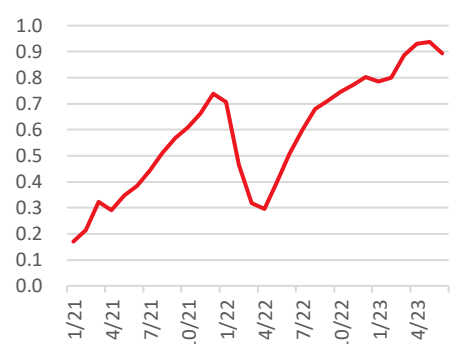
### Housing market activities stabilized amid rising HIBOR

Housing market activities have somewhat stabilized in recent months amid further

YoY Growth rate of major components

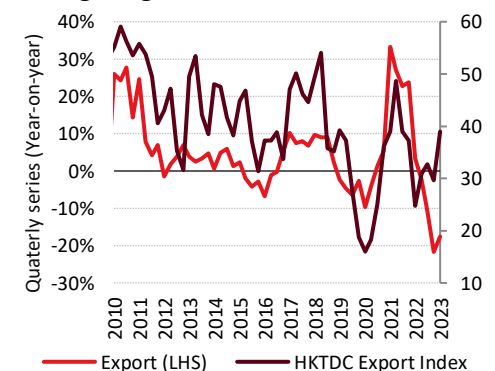


Job Vacancies to Unemployment Ratio



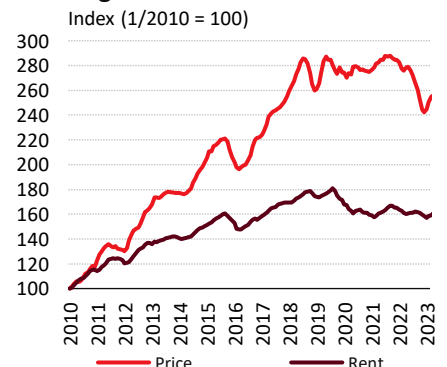
Source: Hong Kong Census and Statistics Department

Hong Kong Trade Performance



Source: Hong Kong Census and Statistics Department, HKTDC

Housing Price and Rent Indices

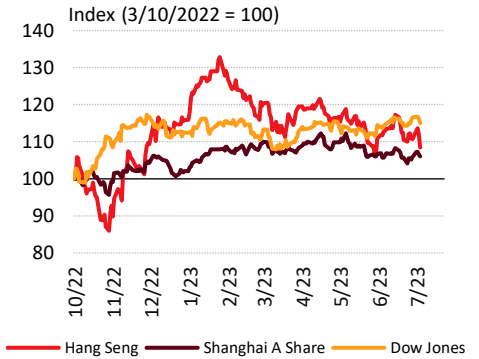


Source: Rating and Valuation Department

**increases in Hong Kong dollar (HKD) interest rates.** The 1M HIBOR climbed to a fresh decade-high level of above 5.3% in early August after the Fed raised rates again in late July. The official private residential property price index fell 0.5% MoM in June, narrowing the price increases to 4.3% in 1H 2023. The number of sale and purchase agreements of building units also declined in Q2 to 4,777 units in June, shrinking by 9.6% MoM and 24.1% YoY, with a transaction value of HKD 39.7 billion, dropping by 11% MoM and 25.4% YoY. Meanwhile, the Hong Kong Monetary Authority adjusted the countercyclical macroprudential measures for property mortgage loans, raising the loan-to-value ratio for mortgage loans from 50% to 60%-70% for residential properties worth up to HKD 30 million. It is believed that the elevated interest rates will continue to weigh on the property market in the near term, though the positive impact from a continuous economic recovery, resilient labour market, and adjustment of macroprudential measures, etc., should lend some support to hold the property market largely steady in 2H 2023.

**Stock markets benefited from expected policy support from Mainland authorities.** Despite weaker-than-expected Chinese Mainland economic data and further rate hikes in advanced economies, the Hang Seng Index retook the 20,000-level at the end of July, rising 6.1% over the month. Technology companies, and those that are expected to benefit from the Chinese Mainland’s measures, took the lead in the rebound. During the same period, Shanghai A shares and the Dow Jones Industrial Average went down by 3.2% and rose by 3.3%, respectively.

**Stock Market Indices**



Source: Bloomberg

**Disclaimer**

This material is prepared by The Bank of East Asia, Limited (“BEA”) for customers’ reference only. The content is based on information available to the public and reasonably believed to be reliable, but has not been independently verified. Any projections and opinions contained herein are expressed solely as general market commentary, and do not constitute an offer of securities or investment, nor a solicitation, suggestion, investment advice, or guaranteed return in respect of such an offer. The information, forecasts, and opinions contained herein are as of the date hereof and are subject to change without prior notification, and should not be regarded as any investment product or market recommendations. This material has not been reviewed by the Securities and Futures Commission of Hong Kong, Hong Kong Monetary Authority, or any regulatory authority in Hong Kong.

BEA will update the published research as needed. In addition to certain reports published on a periodic basis, other reports may be published at irregular intervals as appropriate without prior notice.

No representation or warranty, express or implied, is given by or on behalf of BEA, as to the accuracy or completeness of the information and stated returns contained in this material, and no liability is accepted for any loss arising, directly or indirectly, from any use of such information (whether due to infringements or contracts or other aspects). Investment involves risks. The price of investment products may go up or down, and may become valueless. Past performance is not indicative of future performance. The investments mentioned in this material may not be suitable for all investors, and the specific investment objectives or experience, financial situation, or other needs of each recipient are not considered. Therefore, you should not make any investment decisions based solely on this material. You should make investment decisions based on your own investment objectives, investment experience, financial situation, and specific needs; if necessary, you should seek independent professional advice before making any investment.

This material is the property of BEA and is protected by relevant intellectual property laws. Without the prior written consent of BEA, the information herein is not allowed to be copied, transferred, sold, distributed, published, broadcast, circulated, modified, or developed commercially, in either electronic or printed forms, nor through any media platforms that exist now or are developed later.

For more information, please visit our webpage at <https://www.hkbea.com/html/en/bea-about-bea-economic-research.html>. For any enquiries, please contact the Economic Research Department of BEA (email: [lerd@hkbea.com](mailto:lerd@hkbea.com)/telephone number: (852) 3609-1504/postal address: GPO Box 31, Hong Kong).

