

Economic QuickView



Hong Kong GDP: Recovery Driven by Private Consumption and Inbound Tourism

- Hong Kong's real GDP grew by 4.1% year-on-year (YoY) in Q3 2023, taking the first three quarters average to 2.8%.
- Strong domestic spending continued, fuelled by improved job prospects and the Government's support measures. Inbound tourism and investment also recorded a notable rebound, while goods trade remained a major drag.
- Looking ahead, the Hong Kong economy is expected to continue its recovery, though likely short of the Government's original 4.0%-5.0% forecast.

Hong Kong's economic recovery endured in Q3 2023. Hong Kong's real GDP grew by 4.1% year-on-year (YoY) in Q3 2023, up from a 1.5% YoY growth in Q2 2023. On a quarter-to-quarter (QtQ) basis, real GDP growth returned to a positive 0.1% in Q3 2023, a turnaround from a 1.3% QtQ decline in Q2 2023. In Q3 2023, private consumption and inbound tourism continued to serve as the primary growth engines for the economic recovery. While global monetary tightening remained a major drag, investment expenditure also rebounded visibly due to a low comparison base last year. Changes in inventories also turned out to be a positive contributor. Together, they offset the negative impacts of subdued goods trades and the further contraction of post-pandemic normalisation of government expenditure. Overall, with continued support from a resilient labour market, pent-up demand and resurging visitor arrivals, Hong Kong's economic fundamentals remain sound to sustain a further recovery, though likely short of the Government's original 4.0%-5.0% forecast. The Government will release its updated forecast on 10th November.

Domestic consumption continued its strong expansion, driven by improved job prospects and the Government's support measures. Real private consumption expenditure rose by 6.5% YoY in Q3 2023, following a robust growth of 7.7% in Q2 2023. This reflected strong domestic consumption, boosted by

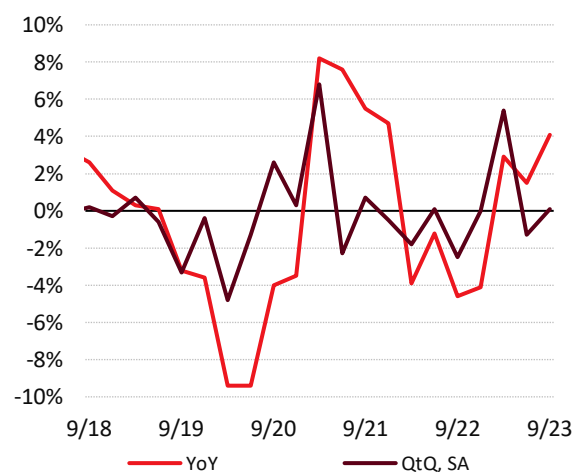
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improved employment and the Government's support measures. The labour market in Hong Kong remained tight and near full employment, with the unemployment rate edging down from 2.9% in April - June 2023 to 2.8% in July - September 2023. Throughout 2023, private job vacancies have consistently stayed high, at a monthly average of around 100,000. Additionally, the Government has maintained its support measures for the economy, including the disbursement of 2nd batch consumption vouchers and launching a series of mega events to encourage spending. Moving forward, private consumption will continue to be one of the primary growth drivers for the Hong Kong economy.

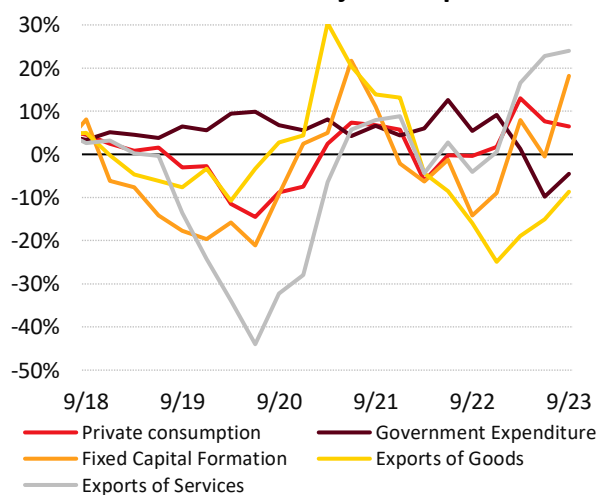
Inbound tourism has fuelled an acceleration in service exports. Since the resumption of normal cross-border travel in January 2023, visitor arrivals to Hong Kong have surged rapidly. In Q3 2023, total visitor arrivals rose to 10.4 million, a significant increase from 8.5 million in Q2 and 4.4 million in Q1. Despite occasional disruptions to tourist travel due to extreme weather conditions and typhoons, real exports of services managed to accelerate by 24.0% YoY in Q3 2023, up from 22.8% in Q2 and 16.6% in Q1. However, the recovery of outbound travel by local residents was even faster, with real imports of services growing notably by 28.5% YoY in Q3 2023, serving as a negative contributor to growth. Taken together, services trade was estimated to contribute positively on net to the headline yoy GDP growth in Q3 2023. In mid-September, the Government initiated the "Night Vibes Hong Kong" Campaign, featuring an array of night-time events that have gathered significant popularity among local residents and tourists. This is expected to enrich the travel experience for tourists and stimulate stronger demand and an ongoing recovery in the tourism sector in the upcoming holiday seasons.

Hong Kong Real GDP Growth Rate



Source: Hong Kong Census and Statistics Department

YoY Growth Rate of Major Components



Source: Hong Kong Census and Statistics Department

Private investment turned from red to black, and government spending continued to normalise. In Q3 2023, real gross domestic fixed capital formation, a measure of investment, reported a YoY growth of 18.2%, largely due to a low base of comparison (-14.2% YoY in Q3 2022). Indeed, real investment in Q3 2023 was still about 20% below its peak in 2018. Apart from base effects, the rebound in investment reflected a recovery in the construction industry, in tandem with the industry's employment level reaching a new post-pandemic high in July – September. Government spending registered a smaller decrease of 4.5% YoY in Q3 2023, up from a 9.8% decline in Q2 2023. This largely reflected a gradual return to the pre-pandemic public spending trend, especially after the huge Covid-related budgets in 2021 and 2022.

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Goods trade stayed subdued with a narrowing contraction. Amid weakened external demand, Hong Kong's goods trade has yet to recover meaningfully. In Q3 2023, real exports and imports of goods declined by 8.6% YoY and 6.0%, respectively. Most other economies in the Asia-Pacific Region also exhibited a similar downturn in goods trade. However, the declines in goods trade have narrowed gradually since Q3 2023. The YoY growth rate of nominal merchandise exports improved somewhat, from -9.1% in July to -3.7% in August and -5.3% in September. Similar improvements were seen in the monthly figures of nominal merchandise imports. With global growth momentum set to moderate further ahead, the external trade outlook remains highly uncertain, particularly amid rising geopolitical risks. That said, Hong Kong's goods trade is likely to see signs of stabilisation in Q4 2023, supported by the significantly low base effects in Q4 2022.

Looking ahead, the Hong Kong economy is set to leverage its solid fundamentals against a challenging external environment. On one hand, private consumption and inbound tourism, two major supporting forces for the economy, are expected to remain resilient to ensure a continued recovery. In particular, ongoing progress in resuming cross-border and international transportation capacity is likely to further boost visitor arrivals to Hong Kong. On the external front, with global monetary tightening remaining intact as interest rates are poised to stay higher for longer, demand for goods is likely to remain a drag on growth. It is worth noting that the 2023 Policy Address announced a series of measures to support the residential property market and rolled out a comprehensive plan to develop Hong Kong's economic strengths in the "eight centres" as outlined in the 14th Five-Year Plan. These new measures are likely to stabilise residential property market sentiment and promote a balanced and sustainable development path. On balance, the Hong Kong economy is anticipated to continue a steady recovery ahead.

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