BEA 東亞銀行

Economic Research

November 2023

Market Monitor – Hong Kong

Private Consumption and Inbound Tourism Drove Recovery

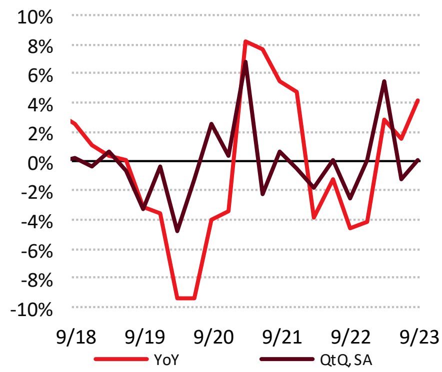
- Hong Kong's real GDP expanded by 4.1% year-on-year (YoY) in Q3 2023, with private consumption and inbound tourism serving as the major growth drivers.
- Domestic spending and private investment registered a strong gain, offsetting the negative contribution from subdued government spending and goods trade.
- The Policy Address announced measures to support the property market.

A sustained recovery lifted by private consumption and inbound tourism

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% 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. Despite global monetary tightening posing a serious challenge, investment 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 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.

Hong Kong Real GDP Growth Rate



Source: Hong Kong Census and Statistics Department

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. Hong Kong's labour market has remained solid in Q3, with the unemployment rate edging down further to 2.8% for July – September from 2.9% in April – June. Throughout 2023, private vacancies also stayed elevated at a monthly average of around 100,000, which reflected positive job market prospects. These favourable economic conditions, combined with the disbursement of 2nd batch consumption vouchers and a series of mega events organised by the Government, supported private consumption as one of the primary growth drivers for the Hong Kong economy.

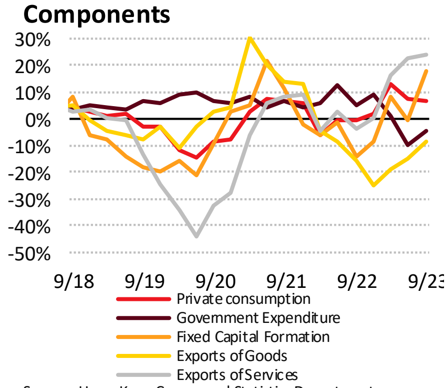
Private investment turned to growth, and government spending continued to decline. In Q3 2023, real gross domestic fixed capital formation, a measure of investment, reported a YoY growth of 18.2% from a 0.5% contraction in Q2 2023, largely due to a low base of comparison (-14.2% YoY in Q3 2022). Indeed, 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 decrease of 4.5% YoY in Q3 2023, following a 9.8% decline in Q2 2023. This largely reflected a gradual return to the pre-pandemic public spending trend, especially after the huge pandemic-related budgets in 2021 and 2022.

Resilient services trade offsets the drag from subdued goods trade

Buoyant services trade outpaced the subdued goods trade. Fuelled by a surge in visitor arrivals, Hong Kong's real services exports grew at a strong pace, accelerating from 22.8% in Q2 2023 to 24.0% YoY in Q3. The growth was impressive, particularly accounting for the impacts of extreme weather conditions during that period. Meanwhile, real imports of services increased rapidly by 28.5% YoY, driven by strong outward travel demand by Hong Kong residents. For merchandise trades, total exports of goods shrank in real terms by 8.6% YoY in Q3 2023, in line with other Asian exporters' performance. However, the trend appears to be stabilising. Recent monthly trade figures showed that the YoY declines in nominal exports have improved from double-digit to single-digit, with the latest readings at 5.3% YoY in September. Looking ahead, foreign demand, particularly from advanced economies, is likely to remain under pressure, given the restrictive monetary environment and heightened geopolitical uncertainties. However, Hong Kong's export performance is likely to stabilise gradually, thanks to the significantly low base effects towards the year-end. Given the much larger size of external trade relative to the domestic economy, changes in external demand will continue to induce significant volatility in Hong Kong's headline GDP growth.

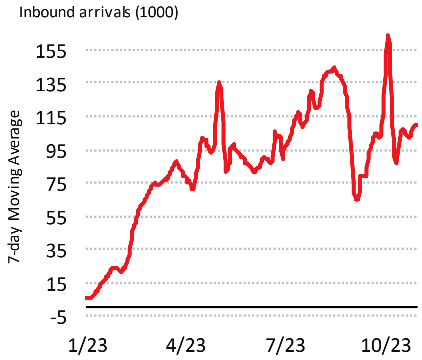
Inflation picked up slightly but remained largely modest. In September, the composite consumer price index (CPI) climbed by 2.0% YoY, up from 1.8% in August. Due to the impacts of extreme weather conditions, including heavy rainstorms and typhoons, food inflation rose from 2.2% in August to 3.0% YoY in September. Besides, housing inflation accelerated from 0.8% in August to 0.9% YoY in September. With a sustained economic recovery, rising private rentals and a tight labour market, Hong Kong's inflationary pressure is expected to rise modestly.

YoY Growth Rate of Major Components



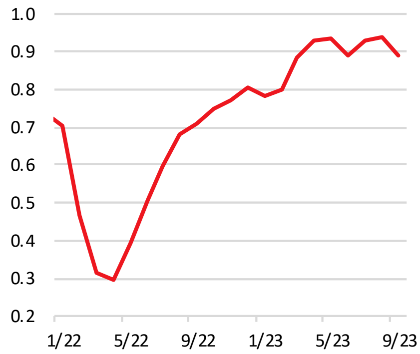
Source: Hong Kong Census and Statistics Department

Hong Kong Visitor Arrivals



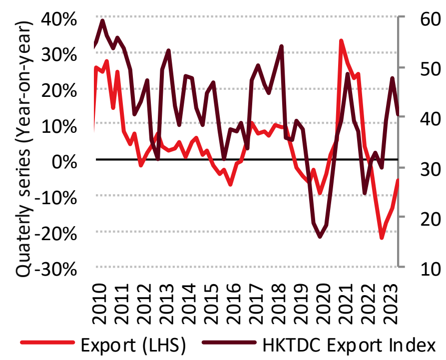
Sources: Bloomberg

Job Vacancies to Unemployed Ratio



Source: Hong Kong Census and Statistics Department

Hong Kong Trade Performance



Source: Hong Kong Census and Statistics Department, HKTDC

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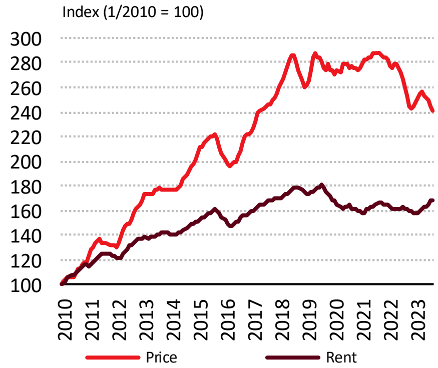
The Policy Address announced measures to support the property market

Support measures in the 2023 Policy Address are likely to support the property market amid persistently high interest rates. In October, 1-month HIBOR fluctuated between 4.90% and 5.10%, while 3-month HIBOR once surged to 5.29% and eventually declined to 5.24% by the end of the month. Higher borrowing costs have been a major hindrance to the property market. In September, the official residential price index dropped by 1.7% from August, putting the year-to-date growth at -0.8%. Meanwhile, the official rental price index maintained an uptrend from February to September, with year-to-date growth reaching 6.2%. It suggested that there was resilient demand in the rental market. On 25 October, the Chief Executive announced the 2023 Policy Address with a package to support the property market, including halving Buyer's Stamp Duty and New Residential Stamp Duty from 15% to 7.5%; a new stamp duty suspension arrangement for incoming talents; and shortening the applicable period of the Special Stamp Duty to 2 years. These measures are likely to support a steady development of the residential property market.

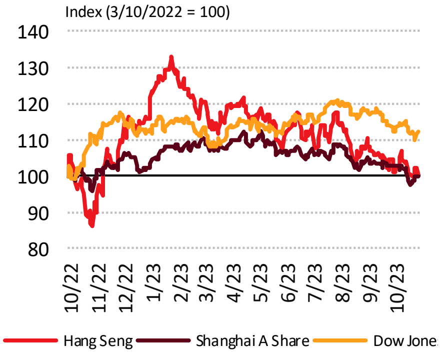
In October, Hong Kong's equity market declined as risk sentiment soured. A number of factors caused stronger selling pressure on the Hong Kong stock market, including the escalation of geopolitical tensions in the Middle East, rising longer-term treasury yields, uncertain global economic outlook, etc. By the end of October 2023, the Hang Seng Index had closed at 17,112.48, reflecting a 3.9% decrease from the end of September. Meanwhile, Shanghai A shares declined by 2.9%, while the Dow Jones Industrial Average fell by 1.4%.

Housing Price and Rent Indices



Source: Rating and Valuation Department

Stock Market Indices



Source: Bloomberg

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