

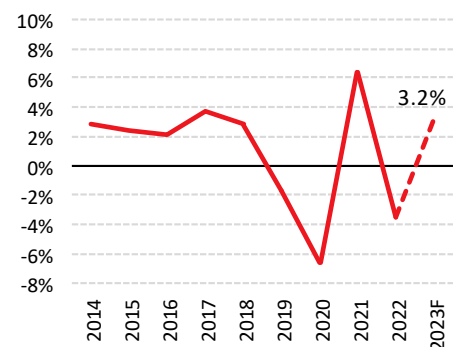
Market Monitor – Hong Kong
Economic Recovery Stays Intact Despite External Headwinds


- Retail sales resumed to a steady recovery trend. External trade returned to positive growth. Business sentiment rebounded visibly to expansion territory.
- The Government revised down Hong Kong’s GDP forecast for 2023 to 3.2%, citing risks from increasing geopolitical tensions and tight financial conditions.
- Labour market stayed resilient with inflationary pressure remaining moderate.

Moderate pace of economic recovery stays intact

Hong Kong’s growth momentum turned more stable in Q4 2023. After a rapid surge during the National Day Golden Week in early October, Hong Kong’s inbound tourism resumed a steady recovery trend, with average daily visitor arrivals from mid-October to November maintaining at near 55% of the pre-pandemic levels in 2018. Total visitor arrivals exceeded the Government’s full-year target of 30 million as of end-November. Meanwhile, total retail sales value grew by 5.6% year-on-year (YoY) in October, down from 13.0% in September. This reflected a higher base of comparison as well as a transition for retail sales to enter a more stable growth path, following 10 consecutive months of double-digit YoY growth. Overall, consumption will remain a key growth driver ahead.

Both external trade and business sentiment stabilised further. In October, Hong Kong’s merchandise trade beat expectations, with exports and imports rising by 1.4% YoY and 2.6%, respectively. It marked an end to a 17-month contraction for exports. The rebound was mainly driven by stronger trade performance with Chinese Mainland. Besides, business sentiment registered a visible improvement. In November 2023, the S&P Global Purchasing Managers’ Index (PMI) of Hong Kong increased from 48.9 in October to 50.1 in November. It indicated stabilising operating conditions for businesses.

Hong Kong GDP Growth (Annual)


Economic Research

However, a challenging external environment is poised to continue amid rapid global monetary tightening, which would also weigh on consumption and delay investment plans. In this connection, the Government revised down the GDP growth forecast for 2023 from 4.0%-5.0% to 3.2%. That said, recent pickup in external trade and business sentiment suggested that a more balanced recovery would be attained in 2024.

Labour market remained solid

Hong Kong's labour market strength remained a pivot support for economic recovery. In August-October 2023, the unemployment rate ticked up slightly to 2.9%, staying at near its full-employment level; the underemployment rate stayed unchanged at 1.0%; and private vacancies remained elevated at a monthly average of 98,222, with the ratio of vacancies per unemployed person at 0.85. These favourable conditions helped boost household income. In Q3 2023, median monthly household income increased by 6.4% YoY. In addition, the Government's efforts in attracting talents begin to bear fruit. As of early December, more than 70,000 talents entered Hong Kong under various schemes. Overall, a solid labour market will lay a solid foundation for private consumption.

Hong Kong's inflation accelerated as certain pandemic-related fiscal support ended. In October, the composite consumer price index (CPI) increased by 2.7% YoY, up visibly from 2.0% in September. The jump in CPI inflation was primarily due to the end of Government's relief measures, including rates concession and waiver of the extra public housing rent payable. These led to a faster growth of housing inflation from 0.9% YoY in September to 2.7% in October. Taking out the effects of all Government's one-off relief measures, the underlying inflation rate was at 1.7% YoY in October, down from 1.8% in September, reflecting a backdrop of moderate inflationary pressure. Looking ahead, along with an ongoing economic recovery, inflation is expected to rise slightly further.

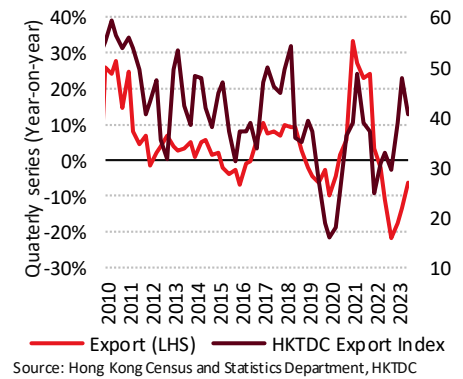
Year-end seasonal factors drove HKD interest rates higher. In November, 1-month HIBOR fluctuated between 4.83% and 5.65%, while 3-month HIBOR once surged to 5.73% and eventually declined to 5.61% by the end of the month. High borrowing costs have been a major hindrance to the property market sentiment. In October, the official residential price index dropped by 2.2% from September, putting the year-to-date change at -4.0%. However, demand from incoming talents began to show up. Since the launch of a stamp duty suspension arrangement, there were 183 applications as of end-November, which accounted for around 5% of overall market transactions.

Investors' cautiousness weighed on equity market performance

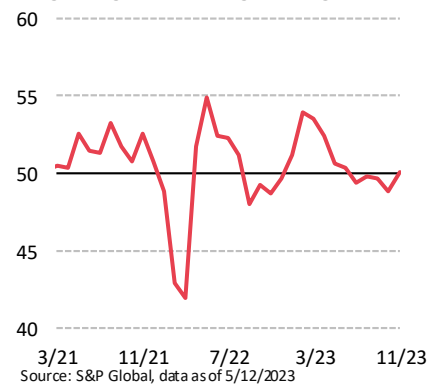
In November, Hong Kong's equity market remained subdued. With global funds flowing into US and European markets to catch their recent rally, it led to softening demand for Hong Kong stocks. By the end of November 2023, the Hang Seng Index had closed at 17,042.88, reflecting a 0.41% decrease from the end of October. Meanwhile, Shanghai A shares declined by 2.1%, while the Dow Jones Industrial Average rose by 8.8%.

December 2023

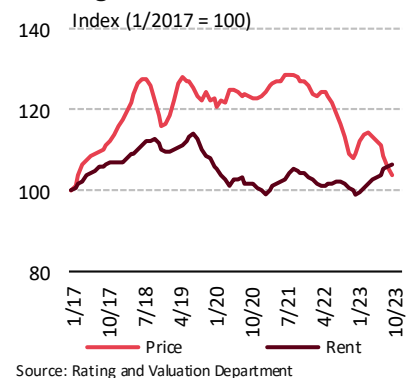
Hong Kong Trade Performance



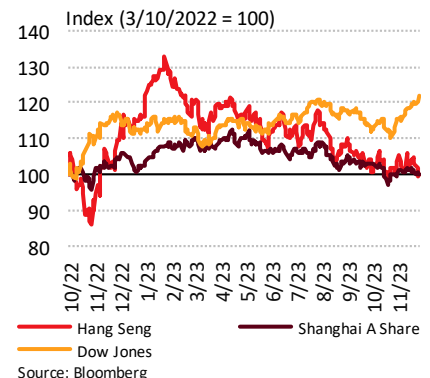
Hong Kong Purchasing Managers' Index



Housing Price and Rent Indices



Stock Market Indices



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