

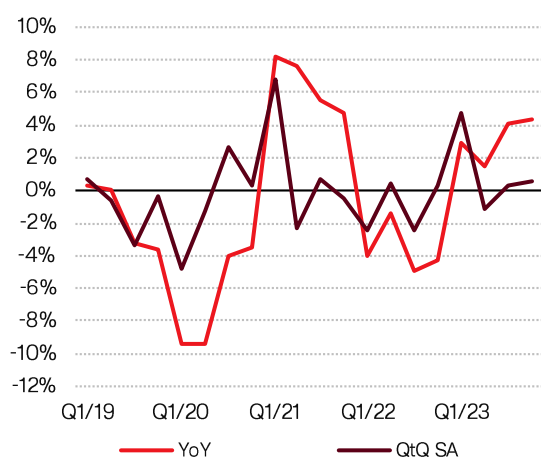
Economic QuickView



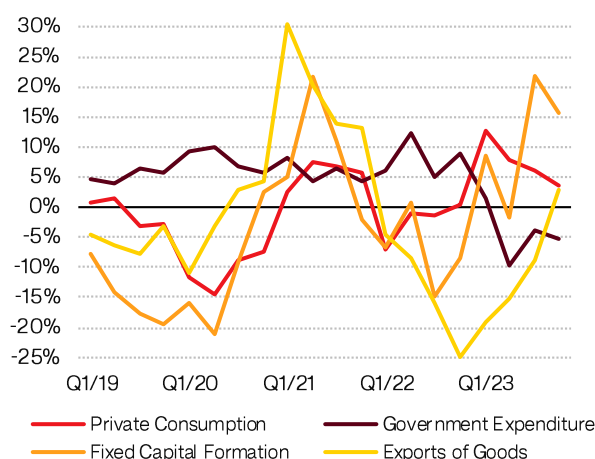
Hong Kong GDP: The economy posted a steady growth in 2023, with a more balanced outlook in 2024

- The Hong Kong economy expanded by 4.3% in Q4 2023, with a full-year growth rate of 3.2%.
- The economic recovery in Q4 2023 continued to be led by private consumption and inbound tourism, with a rebound in investment and muted goods trade.
- With global interest rates likely to normalise starting in mid-2024, Hong Kong is set to see a more balanced outlook this year.

In 2023, Hong Kong's real GDP expanded steadily by 3.2%. With Hong Kong entering a period of post-pandemic normalisation, the economy staged a steady recovery in 2023, registering positive year-on-year (YoY) growth in all four quarters: 2.9% in Q1, 1.5% in Q2, 4.1% in Q3 and 4.3% in Q4. Among the major economic components, private consumption and inbound tourism led the economic growth amidst a continuous unleashing of pent-up demand and the resumption of normal cross-border travel. Meanwhile, subdued external demand posed a drag on overall growth as inventory destocking, global monetary tightening and persistent geopolitical tensions weakened demand for Hong Kong's good exports. Investment rose, mainly due to low base effects, with its growth limited by cautious business sentiment given the muted performance of asset markets and high interest rates. Government spending declined, primarily attributed to the resumption of the normal public spending pattern following years of elevated spending during the pandemic. Overall, while the recovery in 2023 was slower than expected amid the headwinds from the global economic slowdown, Hong Kong's economic fundamentals remain sound, which should support a stable expansion in the future.

Hong Kong Real GDP Growth Rate


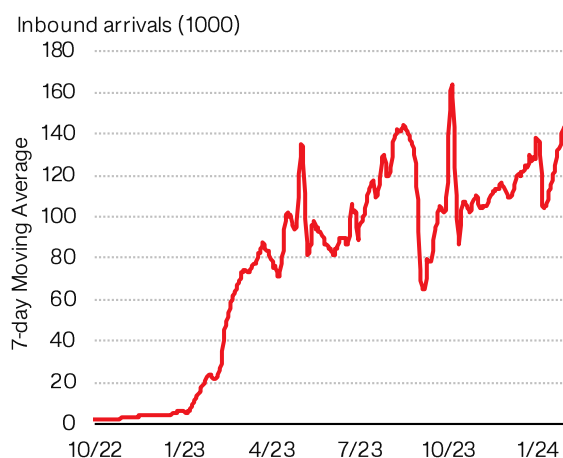
Sources: Hong Kong Census and Statistics Department

YoY Growth Rate of Major Components


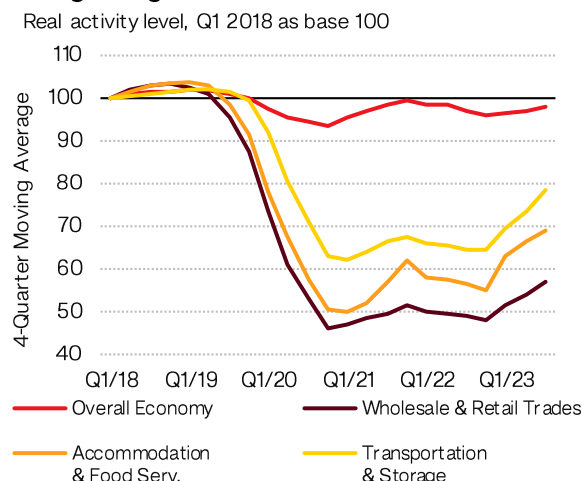
Sources: Hong Kong Census and Statistics Department

Private consumption served as the major pillar for economic recovery. In 2023, real private consumption expenditure (PCE) maintained a faster expansion of 7.4%, with its quarterly growth at 12.7% YoY in Q1, 7.8% in Q2, 6.2% in Q3, and 3.5% in Q4. Several factors contributed to solid support for private consumption, including a return to normalcy in various economic activities, a resilient labour market with a low unemployment rate (2.9% for Q4 2023) and positive real household income growth, and the Government's stimulus measures like the distribution of consumption vouchers as well as the launch of major campaigns (e.g. "Happy Hong Kong" and "Night Vibes Hong Kong"). Looking ahead, while it remains to be seen whether the Government will implement another round of consumption vouchers with a similar scale in the upcoming Budget 2024/25, solid labour market conditions and an expected stabilisation of asset markets are likely to enable PCE to grow steadily in 2024.

The tourism sector revived markedly, with room for upside. Thanks to the full border reopening, along with the Government's efforts to promote Hong Kong and enrich travel experiences by organising a series of mega events, Hong Kong's visitor arrivals recovered swiftly. In 2023, the whole-year visitor arrivals almost reached 34 million, up from just 0.6 million in 2022, during which pandemic-related restrictive measures were in force. The sharp rebound in inbound tourism propped up the economic recovery, with a visible leap in Hong Kong's real exports of services, which grew by 21.2% in 2023, a turnaround from a 0.5% decline in 2022. Outbound travel also surged, with its growth pace even brisker than that of inbound travel, lifting the growth of real imports of services to 26.0% in 2023 from a 1.2% decline in 2022. In Q4 2023, real exports and imports of services grew by 22.1% and 27.4%, respectively. Moving forward, inbound tourism is likely to sustain its rapid growth momentum, driven by enhanced cross-border and international transportation services, the upgrades of Hong Kong's travel offerings in recent years (e.g. World of Frozen' at Hong Kong Disneyland, Water World Ocean Park, M+ Museum, Hong Kong Palace Museum and numerous world class sports, cultural, arts and festive events), as well as the extension of service hours for immigration clearance services. Moreover, the completion of the Three-runway System at Hong Kong International Airport in 2024 is set to tremendously enhance its handling capacity. During 1-28 January 2024, Hong Kong's visitor arrivals averaged about 122,000 per day, representing about 71% of the pre-pandemic levels in the same period of 2018. It suggests that there is lots of room for Hong Kong's inbound tourism to grow in 2024.

Hong Kong Visitor Arrivals


Sources: Bloomberg

Hong Kong's Tourism Related Sectors


Sources: Hong Kong Census and Statistics Department

The goods trade remained lacklustre but showed signs of stabilisation. In 2023, real exports and imports of goods were down by 10.3% and 8.5%, respectively. Similar downtrends were seen in other Asian economies as global demand weakened due to monetary tightening, rising geopolitical tensions, a consolidation of the tech product cycle and inventory destocking in advanced economies. That said, real exports and imports of goods returned to growth of 2.8% and 3.9% in Q4 2023, thanks to a lower base of comparison in Q4 2022. In 2024, major central banks are set to cut interest rates and multinational corporations are likely to rebuild their inventories, which should underpin Hong Kong's trade performance to attain modest growth ahead.

Investment spending rose amid low base effects. The real gross domestic fixed capital formation observed a 10.6% expansion in 2023, mainly due to a lower base of comparison in 2022. Investment sentiment stayed cautious, reflecting a combination of high interest rates, geopolitical uncertainty and declining asset prices. It also led to weak capital market activities and a slight contraction in loan demand. Meanwhile, real government consumption expenditure fell by 4.3% in 2023, after a strong rise of 8.0% in 2022. This was in line with expectations, as the Government has gradually reduced its provisional support measures during the pandemic.

Hong Kong's economic prospects remain positive. First, there is ample room for inbound tourism to expand further, led by substantial pent-up demand as well as the Government's efforts to enhance Hong Kong's tourism offerings, such as the "Mega-Event Economy" initiatives. Second, solid labour market conditions are poised to bolster steady consumption growth. Third, expected rate cuts by major central banks will reduce financial burdens and revive confidence, which should generate new growth momentum for investment as well as financial activities. Fourth, external demand is likely to pick up, which should provide certain support for Hong Kong's trade performance. Going forward, the Hong Kong economy is expected to continue its steady recovery trend and grow by 3.5% in 2024, with the CPI inflation rate going up mildly to 2.3% and the unemployment rate staying low.

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