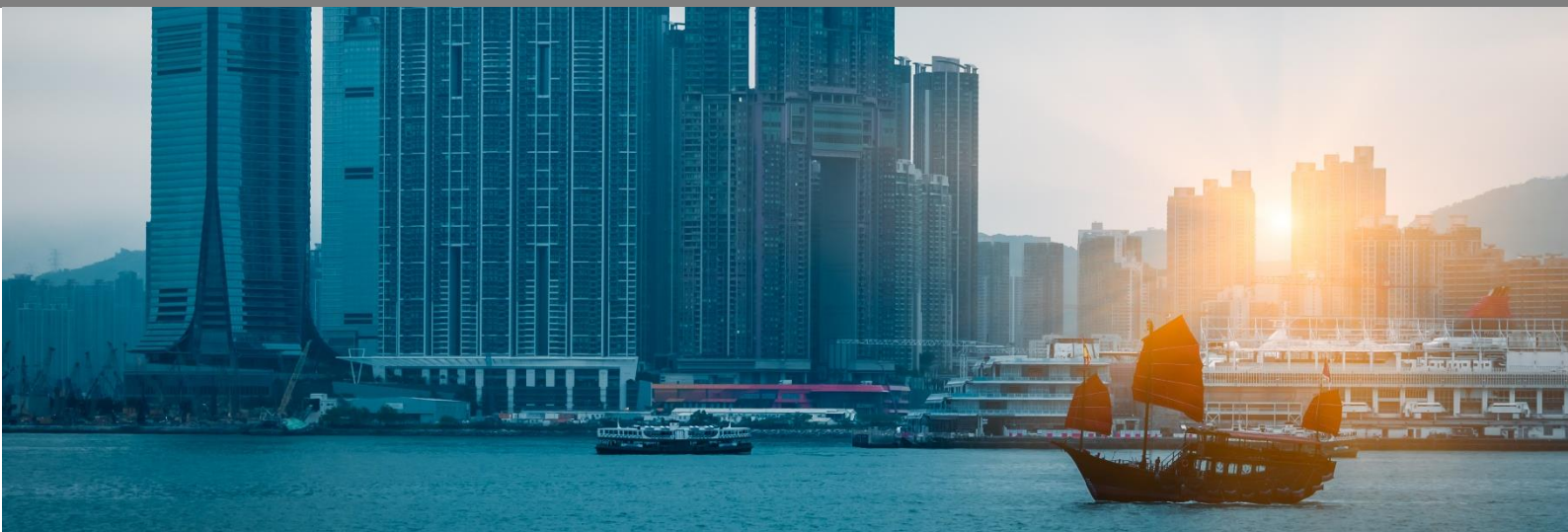


*Market Monitor – Hong Kong*

## On the way to a more balanced recovery



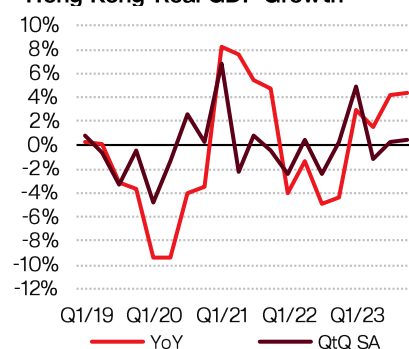
- The Hong Kong economy staged a steady recovery in 2023, with a more balanced outlook in 2024.
- Business sentiment remained soft.
- Housing market transactions bounced back somewhat in early 2024.

### The Hong Kong economy grew steadily in 2023, with a more balanced outlook in 2024

**Hong Kong's real GDP expanded by 3.2% in 2023.** The Hong Kong economy grew steadily throughout 2023, with 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, up from a 3.7% contraction in 2022. Private consumption and inbound tourism served as the major drivers of the economic recovery in 2023, with real private consumption and exports of services growing by 7.4% and 21.2%, respectively. Investment rebounded due to low base effects. Government spending declined as public consumption gradually returned to normalcy. Yet, the recovery was largely limited by the sluggish goods trade and softened asset market performance.

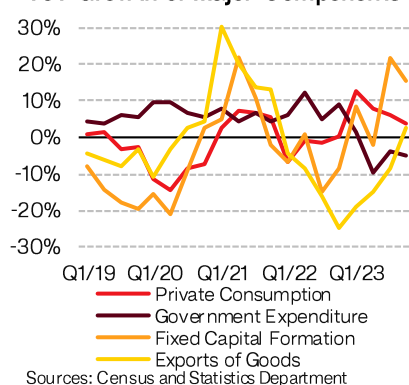
**A more balanced recovery outlook is expected in 2024.** With rate cuts expected by major central banks around mid-2024, a steady economic recovery in the Chinese Mainland, and the Government's supportive policy measures, investment and goods trade should gradually recover. Meanwhile, resilient labour market conditions and a further rise in visitor arrivals are anticipated to support a continued recovery of private consumption and inbound tourism. Overall, the Hong Kong economy is forecast to grow by 3.5% in 2024.

**Hong Kong Real GDP Growth**



Sources: Census and Statistics Department

**YoY Growth of Major Components**



Sources: Census and Statistics Department

## Economic Research

### Business sentiment remained soft

**Business sentiment in Hong Kong suggests a largely steady condition in early 2024.** According to the Quarterly Business Tendency Survey for Q1 2024, Hong Kong large enterprises' sentiment softened further. The share of respondents expecting a better business situation went down from 17% in Q4 2023 to 13% in Q1 2024, whereas the share of those expecting a worse situation climbed from 9% to 12%. This suggested that large enterprises showed weakened optimism compared to a quarter ago. In addition, the S&P Global Hong Kong SAR Purchasing Manager's Index fell to 49.9 in January 2024, down from 51.3 in December 2023. The decline was primarily due to the lower number of new orders; however, output continued to expand, supported by existing orders. Taken together, it still takes time for private confidence to revive, given the drag from multiple headwinds such as high interest rates, geopolitical tensions and declining asset prices.

### Housing market transactions bounced back in early 2024

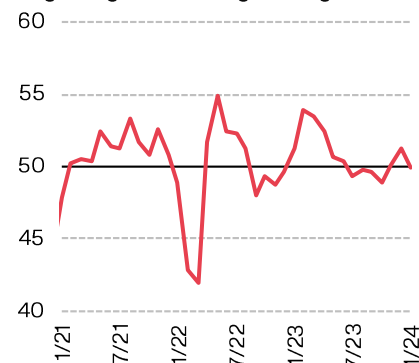
**Residential property market activity stabilised somewhat at a low level.** In January 2024, total residential property transactions increased to 3,477 units, up from 2,929 units in December 2023, attaining a 6-month high. Given a highly restrictive monetary environment, the official residential price index reversed its positive trend in early 2023 and registered a 6.8% decline in 2023, following a 15.0% drop in 2022. That said, the official residential rental price index remained in an uptrend during the year and grew by 6.6%. This suggests that new incoming talents and potential homebuyers took a wait-and-see approach and turned to the rental market. Looking ahead, global financial conditions will become more supportive when major central banks begin their rate normalisation process. Recently, Hong Kong Dollar (HKD) interbank interest rates have already retreated after the year-end. This should pave the way for a gradual reduction in HKD borrowing costs, while rate cuts in the HKD prime rate couldn't be ruled out in the later part of 2024. On balance, Hong Kong's property market is expected to stay in orderly consolidation in the near term and steadily recover towards year-end.

### Market sentiment remained subdued amid various uncertainties

**Hong Kong stocks retreated in January 2024.** The stronger-than-expected US economic performance led to a shift in market expectations for the timing of the first rate cut by the Fed, which drove US treasury yields to surge, notably in tandem with a strengthening USD. Since then, risk-off sentiment has started to intensify. Furthermore, market expectations for rate cuts by the People's Bank of China (PBoC) in mid-January were not realised, resulting in sell-off pressures for Chinese stocks. Nonetheless, the PBoC took an unexpected move to cut the reserve requirement ratio by 50 basis points, which effectively prevented Hong Kong stocks from further widening their losses. In January 2024, the Hang Seng Index and Shanghai Composite Index declined by 9.2% and 6.3% MoM, respectively, as compared to a 1.2% MoM increase for the Dow Jones Industrial Average.

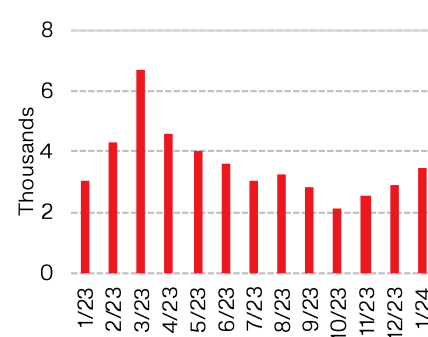
## February 2024

Hong Kong Purchasing Managers' Index



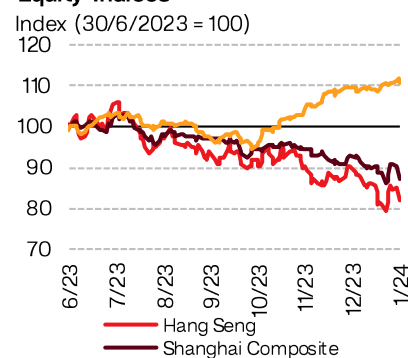
Source: S&P Global, data as of 05/02/2024

No. of Residential Properties Sales



Source: Land Registry

Equity Indices



Source: Bloomberg, data as of 31/01/2024

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