

Economic QuickView

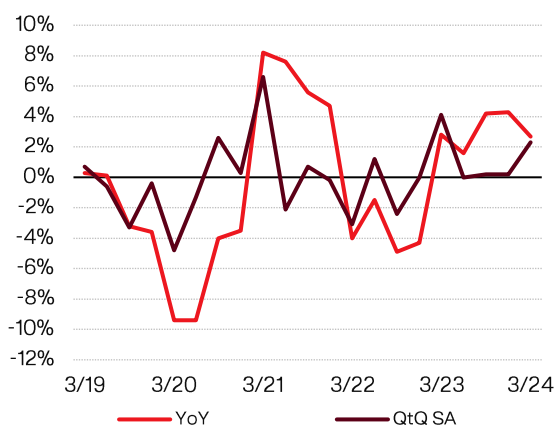


Hong Kong GDP: Merchandise trade drove recovery in Q1 2024

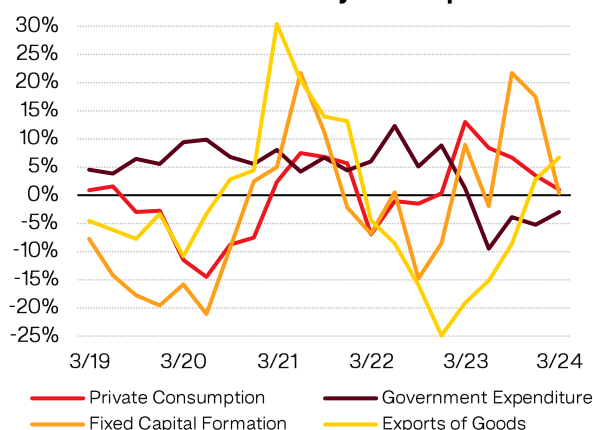
- The Hong Kong economy grew by 2.7% YoY in Q1 2024, led by external demand.
- Growth of private consumption and investment spending notably moderated.
- A further global economic recovery and supportive policy measures should underpin a stable outlook for Hong Kong.

Hong Kong's real GDP staged a moderate growth in Q1 2024. The Hong Kong economy grew steadily by 2.7% year-on-year (YoY) in Q1 2024. On a quarter-to-quarter (QtQ) basis, real GDP growth picked up from 0.2% in Q4 2023 to 2.3% in Q1 2024. Among major economic components, headline growth was mainly driven by net exports of goods, as global trade rebounded during the quarter. Meanwhile, inbound tourism continued to recover, but its boost was more than offset by residents' strong demand of outbound tourism. Amid high comparison base, elevated interest rate environment and generally weak asset markets, private consumption and investment spending moderated notably. Government spending retreated, reflecting a post-Covid normalising trend.

Good trades served as the primary growth driver in Q1 2024. Thanks to rebounding demand for global electronic products and a low base of comparison, Hong Kong's real exports of goods bounced back visibly, up by 6.7% YoY in Q1 2024, outpacing imports of goods (+3.2%). It resulted with narrower trade deficits, providing a substantial boost to headline GDP growth in Q1. A similar recovery trend in good trades was also seen in Chinese Mainland and other Asian economies. Leading indicators showed that global trade momentum continued to gain traction recently, which pointed to a further recovery for Hong Kong's merchandise trade performance ahead.

Hong Kong Real GDP Growth Rate


Sources: Census and Statistics Department

YoY Growth Rate of Major Components


Sources: Census and Statistics Department

Inbound tourism continued to rebound albeit at a moderating pace. Hong Kong's total visitor arrivals summed up to 11.2 million in Q1 2024, attaining around 72% of the pre-pandemic level in Q1 2018. The ratio went up from about 60% in Q4 2023. The growth was led by both Mainland and non-Mainland visitors, which grew by 159.1% YoY and 139.3% respectively. Robust inbound tourism supported real exports of services to grow visibly by 8.1% YoY in Q1 2024, though moderating from 21.2% in Q4 2023 as the border reopening enters into the second year. On the other hand, demand of outbound tourism by Hong Kong residents stayed strong and drove real imports of services to expand faster by 17.6% YoY. This inevitably reduced the boost from a continued inbound tourism recovery. In March, the Mainland authorities expanded the Individual Visit Scheme's coverage to Xi'an and Qingdao, along with the SAR Government's initiatives to promote mega events and enhance tourism offerings, Hong Kong's inbound tourism should have further room to recover.

Private consumption moderated. Real private consumption slowed to a YoY growth of 1.0% in Q1 2024, down from 3.5% in Q4 2023. Fading pent-up demand for domestic spending, high interest rates, subdued asset markets were some of the causes for moderating private consumption. Besides, an increasing popularity for Hong Kong residents to travel in the Greater Bay Area could somewhat impact local spending. That said, the labour market stayed largely stable during Q1 2024, with the unemployment rate remaining low at 3.0%. Along with positive real wage growth, Hong Kong's private consumption should gradually recover ahead.

Investment was muted as rate cuts will arrive later than expected. Real gross domestic fixed capital formation was nearly stalled, with a YoY gain of 0.3% in Q1 2024, down from 17.5% in Q4 2023. Changes in inventories were a negative drag, with an estimated subtraction of around 0.7 percentage point to the headline GDP growth in Q1 2024. Investment sentiment was subdued due to lowered rate cut expectations, but some positive signs started to emerge in April such as a notable surge in market transactions in the property market and a rebound in stock market performance. Indeed, Hong Kong's investment spending has remained at decade-low levels, meaning a significant room to recover in future. On the public front, government spending was down by 3.0% YoY in Q1 2024, reflecting the normalising trend from elevated levels during the Covid period.

The Hong Kong economy should continue to see a stable growth ahead. As a whole, risks to the Hong Kong economy are roughly balanced. On the upside, a stable global economy should continue to be favourable for Hong Kong's trade performance. And the Mainland has stepped up the policy support to shore up the economy, which will generate positive spill over effects to Hong Kong. The lifting of demand-side management measures on Hong Kong's property market has also boosted market activity with improved sentiment. A steady property market will be conducive to private spending and investment. These positive drivers are set to mitigate the drag from global monetary tightening, as the Fed is likely to delay its rate cut timeline. Looking ahead, we expect the Hong Kong economy to grow at around the mid-point of the SAR Government's forecast of 2.5% to 3.5% in 2024.

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