

## Economic QuickView



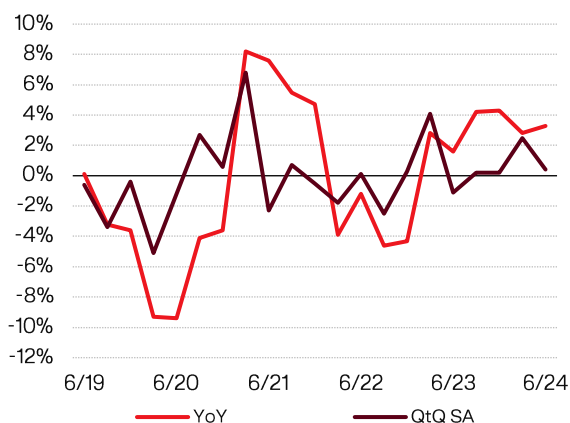
### **Hong Kong GDP: Robust merchandise trade supports steady economic recovery**

- The Hong Kong economy grew by 3.3% YoY in Q2 2024, thanks to a notable recovery in global trade and a lower base of comparison last year.
- Private consumption fell mildly amid high interest rates, volatile asset market performance and the termination of consumption voucher scheme.
- Hong Kong's economic outlook remains stable, underpinned by an ongoing global and Chinese Mainland economic recovery as well as expected rate cuts by the Fed ahead.

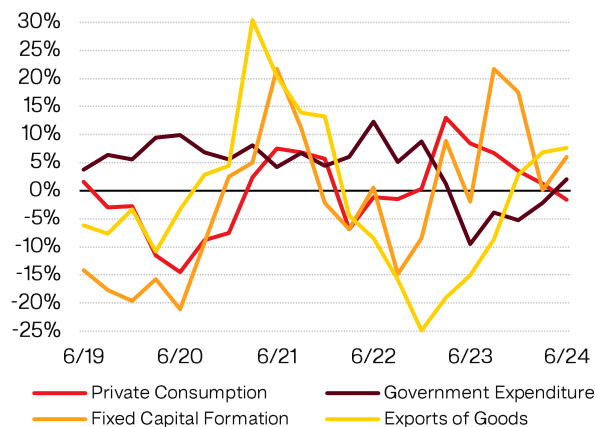
**Hong Kong's real GDP growth picked up in Q2 2024.** The Hong Kong economy posted a steady growth of 3.3% year-on-year (YoY) in Q2 2024, higher than the upwardly revised 2.8% growth in Q1 2024, achieving an around 3.0% growth in 1H 2024. On a quarter-to-quarter (QtQ) basis, economic growth slowed notably, reaching 0.4% in Q2 2024, down from 2.5% in Q1 2024. Based on our estimates, net exports of goods were the largest growth driver in Q2 2024, contributing around 6.0 percentage points (pps) to the headline YoY growth; private investment added 1.1 pps, following by government spending (0.3 pps). Meanwhile, net exports of services saw a wider subtraction of 2.3 pps. Private consumption became a drag, cutting growth by 1.2 pps. Changes in inventories also made a negative contribution to growth by about 0.6 pps. Overall, major economic components performed at varied paces in Q2 2024.

**A rebound in external demand provided a significant support to growth.** Hong Kong's real exports of goods rebounded notably, up by 7.6% YoY in Q2 2024. Strong export growth was attributed to resurging demand for electrical products across the globe as well as a lower base of comparison (real exports of goods down by 15.1% YoY in Q2 2023). Real imports of goods were up by 3.4% YoY in Q2 2024. Together, this led to a significant narrowing of trade deficit, thus generating a support to growth in Q2 2024. While base effects are set to gradually diminish in 2H 2024, leading indicators suggested a continued expansion in global trade, which should help sustain the recovery of Hong

Hong's merchandise trade ahead.

**Hong Kong Real GDP Growth Rate**


Sources: Census and Statistics Department

**YoY Growth Rate of Major Components**


Sources: Census and Statistics Department

**Investment increased while inventory levels remained in consolidation.** Real gross domestic fixed capital formation rose by 6.0% YoY in Q2 2024, accelerating from 0.1% in Q1 2024. This was partly driven by a low base a year ago, as business sentiment generally stayed muted in Q2 2024 amid persistently high interest rates. Surveys on small and large enterprises generally pointed to weaken confidence in Q2 2024. Besides, changes in inventories showed a notable decline in Q2 2024 (our estimate: around HKD 23.4 billion, exceeding the largest quarterly decline of HKD 20.4 billion decline in Q4 2021). On balance, private business investment still hovered at low levels. With the Fed sets to begin easing in 2H 2024, lower borrowing costs are likely to be a catalyst to improve business sentiment, thereby unleashing the growth potential for investment spending. Moreover, real government spending remains in a normalising path to trend rate and went up 2.0% YoY in Q2 2024, from a decline of 2.2% in Q1 2024.

**Private consumption fell mildly.** Real private consumption declined by 1.6% YoY in Q2 2024, down from a 1.2% growth in Q1 2024. Weak domestic consumption has been widely anticipated, as seen from the consecutive YoY declines in real retail sales from March to May. The termination of consumption voucher scheme this year (1<sup>st</sup> batch of HKD3,000 vouchers began disbursement in April 2023) meant no more boost for consumption sentiment. Besides, elevated interest rates and volatile performance asset markets were also among the key factors for weak private consumption. That said, the robust labour market, steady wage growth and an expected monetary easing in 2H 2024 would offer a steady support for private consumption ahead.

**Steady performance in inbound tourism was overshadowed by strong outbound travel demand.** In 1H 2024, total visitor arrivals totalled 21.2 million visitors, which was roughly 70% of the level seen for the same period in 2018. This suggested a steady recovery in inbound tourism. But other exports of services like finance, professional and business services were likely subdued in Q2 2024, as market activities were yet to recover meaningfully. In Q2 2024, growth in real exports of services narrowed to 1.3% YoY in Q2 2024, moderating notably from 9.4% growth seen in Q1 2024. In contrast, real imports of services were strong, up by 12.4% YoY in Q2 2024 (18.0% in Q1 2024). This was likely driven by strong demand for outbound travel, as total Hong Kong residents' outbound

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trips reached a record high of 49.5 million in 1H 2024. Weaker currency in other Asian economies also reduced the attractiveness for tourists to come and spend in Hong Kong. As such, the boost from inbound tourism was outweighed by the outbound travel. Looking ahead, the expansion of Individual Visit Scheme, an increase in duty-free allowance for Chinese Mainland's tourists, and organising more mega events will enhance Hong Kong's capacity to receive tourists, supporting a further recovery of inbound tourism.

**The Hong Kong economy is poised to grow further ahead.** Despite an uneven recovery in Q2 2024, there are multiple factors that would drive a steady economic growth ahead. Specifically, a steady global economy recovery should sustain the recovery for Hong Kong's merchandise trade. In addition, the Central Government has introduced and enhanced various support measures for Hong Kong, along with the SAR Government's efforts to attract talents and enterprises and talents, Hong Kong's private sectors should see more business opportunities ahead. Furthermore, expected rate cuts by the Fed in 2H 2024 would improve investment sentiment and further stabilise Hong Kong's asset markets. Overall, the Hong Kong economy is on track to reach the SAR Government's forecast of 2.5-3.5% for 2024.

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