Economic Research

August 2024

Market Monitor – Hong Kong

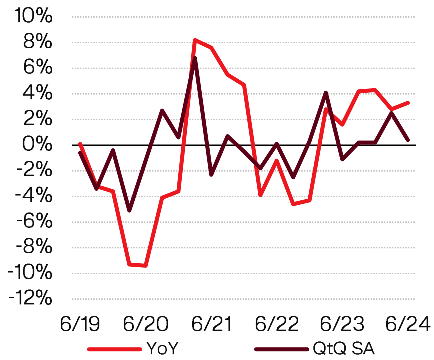
Goods trade remained the key growth driver

- Hong Kong's economy grew 3.3% in Q2 2024, thanks to strong goods trade and a lower base of comparison from last year.
- Early figures in July pointed to a steady recovery at the start of Q3.
- Asset market activities have been slowing down recently.

Further recovery in goods trade supported Q2 growth

Hong Kong's real GDP growth accelerated somewhat in Q2 2024. The Hong Kong economy saw 3.3% year-on-year (YoY) growth in real terms in Q2 2024, higher than the upwardly revised 2.8% growth in Q1 2024, achieving around 3.0% growth in 1H 2024. On a quarter-to-quarter (QtQ) basis, economic growth slowed notably from 2.5% in Q1 2024 to 0.4% in Q2 2024. Net exports of goods were the largest growth driver in Q2 2024 and contributed around 6.0 percentage points (pps) to the headline growth rate, while gross domestic fixed capital formation added 1.1 pps, followed by government spending (0.3 pps). On balance, there are multiple factors that could drive steady economic growth in Hong Kong moving forward. Specifically, a steady recovery of the global economy should sustain the recovery of Hong Kong's merchandise trade. The Central Government has also introduced and enhanced various support measures for Hong Kong, while the SAR Government's efforts to attract talents and enterprises are gradually bearing fruit. Together with the expected US rate cuts soon, all these are expected to boost consumer, business and asset market sentiments, attracting more business opportunities for Hong Kong's business sectors as well. Therefore, the Hong Kong economy is on track to reach the SAR Government's forecast of 2.5-3.5% for 2024.

Hong Kong Real GDP Growth Rate



Sources: Census and Statistics Department

Early figures in July pointed to a steady recovery at the start of Q3. On business sentiment, the S&P Global Hong Kong SAR PMI went up slightly from 48.2 in June to 49.5 in July. The survey showed Hong Kong companies cited heightened competition and economic uncertainty as the key reasons for lowering output in the year ahead. Even though business sentiment stayed soft, the pace of decline has eased since June, possibly signalling that the downward pressure has started to ease since the start of Q3. On the retail and tourism sectors, the decline of retail sales narrowed from 11.4% YoY in May to 9.7% in June, despite high interest rates, volatile asset market performance, and the termination of the consumption voucher scheme. Furthermore, the number of inbound tourists in July grew 9% YoY (or 25% month-on-month (MoM)) to 3.9 million, marking the second-best monthly figure so far in 2024. Recent supportive policies, including the expansion of the Individual Visit Scheme, an increase in duty free allowance for Mainland tourists, and the hosting of mega events, should help support the local economy.

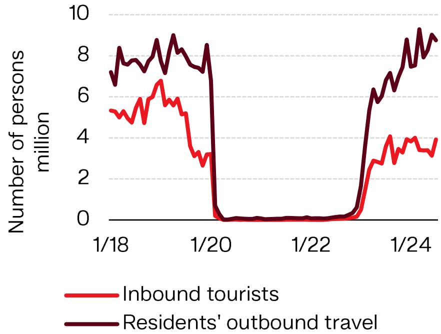
Asset market activities have been slowing down recently. After the boost from the relaxation of demand management and prudential mortgage loan measures, residential market activities gradually normalised. The official home price index declined for two consecutive months, down 1.2% MoM in June, by 3.1% in 1H 2024, and by around 24% from its peak in Q3 2021, as the elevated interest rate environment has prompted most owner occupiers and investors to defer their buying decisions. As such, the private residential rental index climbed 0.2% MoM in June, with a 1.6% increase seen in 1H 2024. The home sales momentum slowed further, with the number of residential transactions down 3.4% MoM to 3,723 units in July, marking the third consecutive MoM drop. The slowing sales will continue to put pressure on property prices in the near term, but the upcoming interest rate cuts could help gradually improve the supply and demand conditions for the property markets.

Similarly, stock market activities also retreated, with the average daily trading turnover for Hong Kong's securities market being down 11% MoM to an estimated HKD 99 billion in July, marking the lowest trading volume since March 2024, based on our estimate. The elevated interest rate environment and moderation of the Chinese Mainland economy, as well as the rising risk of geopolitical tensions, have kept investors' sentiment cautious, though the upcoming rate cuts could help support the market sentiment ahead.

Stock markets declined amid growth outlook concerns

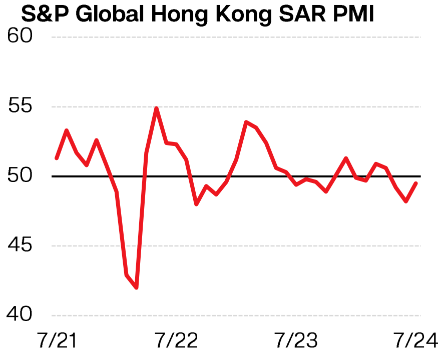
Hong Kong stock markets declined in July. The slowdown in retail sales and the property sector in the Chinese Mainland has raised concerns about its growth momentum, weakening investors' sentiment and sending Hong Kong stock markets lower. The Hang Seng Index and Shanghai Composite Index were down by 2.1% and 1.0% MoM in July, respectively, whereas the Dow Jones Industrial Average Index was up 4.4%.

Inbound tourist vs outbound travel by HK residents



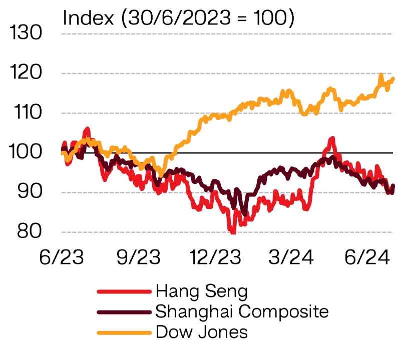
Source: Bloomberg

S&P Global Hong Kong SAR PMI



Source: S&P Global

Equity Indices



Source: Bloomberg

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