Economic Research

September 2024

Market Monitor – Hong Kong

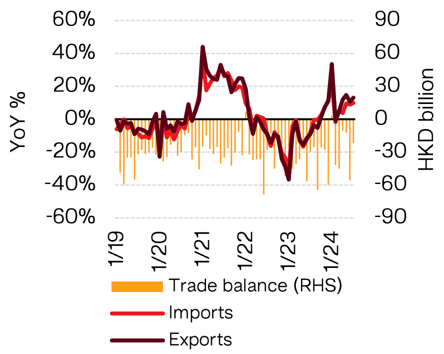
External demand remained a tailwind for the economy

- Hong Kong's merchandise exports in July marked five consecutive months of growth, indicating continued tailwinds from external demand.
- Home prices dropped to a near 8-year low amidst elevated interest rates, whereas rental levels were just 3% shy of the record high seen in Q3 2019 on the back of an influx of talent via various admission schemes.
- Activities for both property and stock markets have stayed muted in recent months, but the upcoming rate cut would help stabilise the markets.

Strong external demand propelled trade growth

Merchandise exports remained on an uptrend. Hong Kong's total merchandise exports jumped by 13.1% YoY in July, marking the third-fastest monthly growth so far in 2024. The revival of global trade momentum and a low comparison base are the key drivers behind robust trade growth. Notable export growth was recorded with key trading partners such as the Chinese Mainland (+23.0% YoY in July) and the US (+19.7%). Besides, imports grew by 9.9% YoY in July, the second-fastest monthly growth in 2024, possibly indicating a rebound in domestic demand. Meanwhile, trade deficits for the first 7 months of 2024 were down notably by 30% YoY, signalling a positive contribution to GDP growth from net exports. In addition, the updated figures for GDP showed that the Hong Kong economy grew by 3.3% YoY in Q2, consistent with the advanced estimates published in late July. The SAR Government kept its 2024 economic growth forecast unchanged at a range of 2.5%-3.5%. We view that the growth forecast should be attainable as the recovery continues to progress steadily.

Trade growth and trade balance



Source: Bloomberg

Inbound tourism saw ongoing recovery during the summer. Visitor arrivals in August jumped by 14% MoM (or 9% YoY) to 4.5 million, marking the best monthly arrival figures since the post-pandemic normalisation of cross border travel in early 2023. For the first 8 months of 2024, visitor arrivals grew by 44% YoY to around 30 million, equivalent to around 70% of the pre-pandemic levels during the same period in 2018. However, outbound tourism remained strong as the number of residents' outbound trips increased by 7% YoY to a new record high of 9.4 million in August. Meanwhile, retail sales remained largely sluggish, with the retail sales value in July down by 11.8% YoY, marking the fifth consecutive month of decline. Changes in consumption patterns among visitors as well as a strong HKD exchange rate are some of the factors affecting Hong Kong's retail sales, despite the rebound in visitor arrivals.

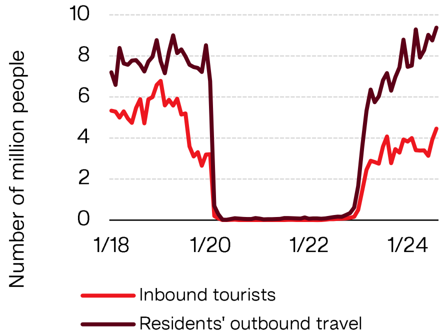
Asset market activities stayed muted. The residential property market has been under pressure along with a volatile stock market performance. Particularly, the official home price index saw another MoM decline of 1.9% in July, marking the third consecutive month of decline. As of July 2024, the index was down by 4.7% year-to-date and by around 25% from its peak in Q3 2021. Concerns over housing oversupply and elevated interest rates were the key factors weighing on the market. Home sales momentum also slowed. The number of private residential transactions dropped to 3,654 units in August, reaching a new low after the relaxation of demand management measures in February. That said, the residential rental market has been resilient, with an influx of migrants under various talent admission schemes. The official rental rate edged up by 1.1% MoM in July and was just 3% shy of the record high seen in Q3 2019.

In the stock market, the average daily turnover of the Hong Kong securities market was down by another 3% MoM to HKD 96 billion in August, marking the second-lowest monthly figure so far in 2024. Besides, IPO fundraising for the first seven months of 2024 was down by 15% YoY to around HKD 18 billion, the lowest first seven-month figure in the past decade. Nevertheless, the anticipated interest rate cut is expected to uplift stock market sentiment and bolster confidence among consumers, investors and potential homebuyers, thereby strengthening the outlook of the asset and retail markets.

The Hong Kong stock market soared on rising hopes of rate cuts

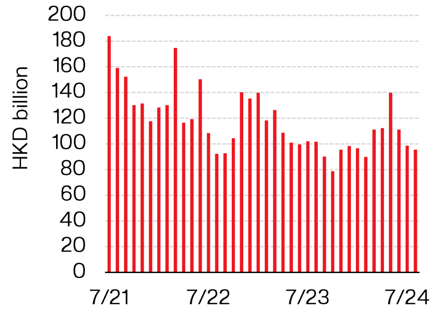
The Hang Seng Index surged in August. Rising expectations of US interest rate cuts became a major catalyst for the Hong Kong stock market, fuelling a resurgence of risk-on sentiment. Particularly, rate-sensitive sectors in Hong Kong edged notably higher. At present, Hong Kong stocks' valuation remains near the lowest end of historical records. Overall, the Hang Seng Index was up by 3.7% MoM in August.

Inbound tourist vs outbound travel by HK residents



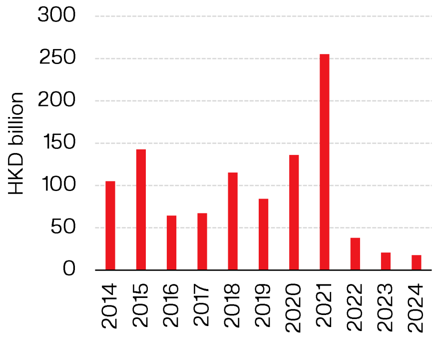
Source: CEIC

Average daily turnover of securities market



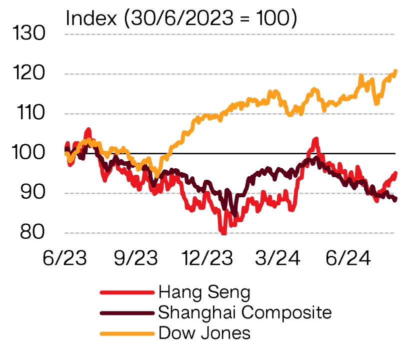
Source: Hong Kong Stock Exchange

IPO proceeds for first 7 months



Source: Hong Kong Stock Exchange

Equity Indices



Source: Bloomberg

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