

Economic QuickView

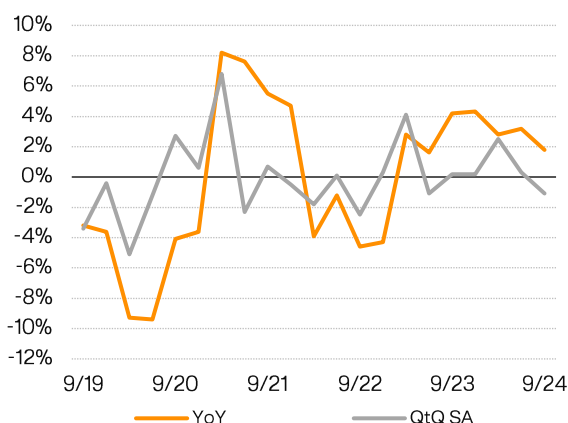


Hong Kong GDP: Growth momentum softened amid moderating trade growth

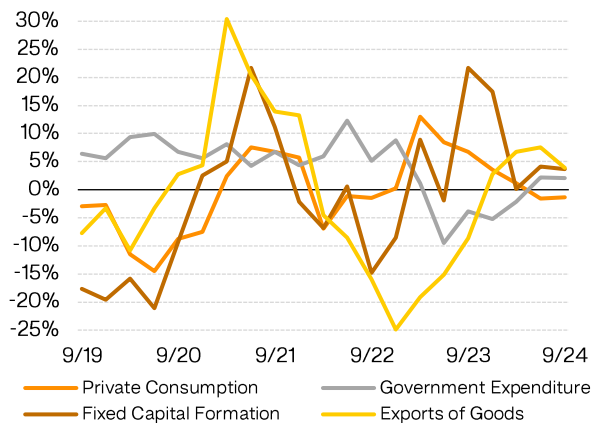
- The Hong Kong economy expanded by 1.8% YoY in Q3 2024, softening from the 3.2% growth registered in Q2 2024.
- Goods trade grew slower as low base effects faded. Services trade continued to experience a faster rise of imports. Private consumption declined. Investment spending stabilised.
- Hong Kong is expected to maintain moderate growth ahead, supported by the implementation of forceful stimulus policies by Mainland authorities, sound fundamentals and the global easing cycle.

Hong Kong's real GDP growth softened in Q3 2024. The Hong Kong economy expanded 1.8% year-on-year (YoY) in Q3 2024, moderating from the 3.2% growth in Q2. GDP growth for the first three quarters of 2024 reached 2.6% YoY. On a quarter-to-quarter (QtQ) basis, Hong Kong economy contracted by 1.1% in Q3 2024, reversing from a 0.3% growth in Q2. This reflected a loss of momentum during the quarter. According to our estimates, net exports of goods remained the biggest growth driver, contributing around 1.9 percentage points (pps) to the headline GDP growth in Q3, compared to the 5.8 pps contribution seen in Q2. Meanwhile, private investment and government spending contributed 0.7 and 0.3 pps to growth, respectively. Changes in inventories also rebounded notably, adding GDP growth by 1.0 pps. On the contrary, net exports of services deducted 1.1 ppts from GDP growth, as the imbalances between inbound and outbound tourism persisted. The contraction in private consumption lowered GDP growth by 0.9 pps. On balance, the slowdown in Q3 reflected differing recovery paces among various economic components.

The growth of goods trade eased in Q3 2024. Hong Kong's real exports of goods grew by 3.9% YoY in Q3, down from 7.5% in Q2. This partly reflected fading low base effects, as the downturn in external demand began to stabilise from Q3 2023. In the meantime, real imports of goods were relatively stable, growing by 2.6% YoY in Q3. As a result, the boost from goods trade to headline GDP growth became smaller in Q3 than Q2. Moving forward, a gradual easing trend in trade growth is likely, as low base effects would diminish further in Q4.

Hong Kong Real GDP Growth Rate


Sources: Census and Statistics Department

YoY Growth Rate of Major Components


Sources: Census and Statistics Department

Imbalances between inbound and outbound tourism persisted. Inbound tourism continued to recover, with total visitor arrivals to Hong Kong up by 10% YoY to 11 million visitors in Q3. Real exports of services increased by 2.4% YoY in Q3, accelerating from a 1.1% growth in Q2. A faster growth in services export could also be linked to a steady rise in cross-boundary economic activities. In contrast, real imports of services remained robust, growing by 8.2% YoY in Q3, following a 12.3% growth in Q2. This reflected local residents' strong demand for outbound travel. Particularly, total outbound trips by local residents grew notably by 31% YoY to 27 million in Q3, significantly higher than total visitor arrivals during the same period. In this connection, the recovery in inbound tourism was offset by robust growth in outbound travel by local residents. Looking ahead, a steady recovery of the Chinese Mainland economy, an expansion of Individual Visit Scheme and the SAR Government's efforts in improving Hong Kong's tourism offerings capacity and transport handling capacity would support a further expansion in inbound tourism.

Private consumption remained muted but look set to turnaround with global monetary easing and a revival of asset market activities. Real private consumption fell by 1.4% YoY in Q3, from a 1.6% decline in Q2. Most notably, the retail sector has been under a challenging consolidation, given the change in both residents' and tourists' consumption patterns. The cessation of consumption vouchers this year was another factor behind the declines in consumer spending. Moreover, tight monetary environment and sluggish asset market performance potentially weakened consumer confidence. However, some of these downside risks are now reduced. In particular, the forceful stimulus policies promulgated by Mainland authorities have improved market sentiment, lifting asset prices. The start of an easing cycle from mid-September also reduces household financial burdens. Along with a low unemployment rate, recent positive developments are likely to support private consumption to recover ahead.

Investment expenditure grew steadily at low levels. Real gross domestic fixed capital formation expanded by 3.7% YoY in Q3, compared to a 4.1% growth in Q2. Meanwhile, we estimate that change in inventories boosted GDP by around HKD 8.8 billion in Q3. In addition, real government spending continued its normalising trend and grew by 2.1% YoY in Q3, from 2.2% in Q2. In the 2024 Policy Address, the SAR Government further eased mortgage lending policies, encouraging more

homebuyers and investors to home purchases. Market responded positively with a notable surge in transactions from mid-October. Besides, a stronger economic outlook in Chinese Mainland and the start of a global easing cycle following the Fed's jumbo rate cut in September should help boost business sentiment, thereby stimulating more investment activities in Hong Kong.

Hong Kong economy is heading towards a moderate recovery. Despite a slowdown in Q3, multiple supportive factors are emerging to drive Hong Kong's economic growth. First, the Mainland authorities have implemented a series of forceful stimulus measures to strengthen growth momentum, with its positive spillover effects providing stronger tailwinds for the Hong Kong economy. Second, a global easing cycle has started, with banks in Hong Kong joining to cut rates. This mitigates a major drag faced by the Hong Kong economy. Third, the SAR Government's initiatives including talent and enterprise attraction policies, the enhancement of various Connect Schemes and tourism-related policies are set to increase Hong Kong's competitiveness, fostering sustainable growth drivers ahead. On balance, Hong Kong's economic growth is on track to meet the lower end of the SAR Government's forecast range of 2.5-3.5% for 2024.

Disclaimer

This material is prepared by The Bank of East Asia, Limited ("BEA") for customers' reference only. The content is based on information available to the public and reasonably believed to be reliable, but has not been independently verified. Any projections and opinions contained herein are expressed solely as general market commentary, and do not constitute an offer of securities or investment, nor a solicitation, suggestion, investment advice, or guaranteed return in respect of such an offer. The information, forecasts, and opinions contained herein are as of the date hereof and are subject to change without prior notification, and should not be regarded as any investment product or market recommendations. This material has not been reviewed by the Securities and Futures Commission of Hong Kong, Hong Kong Monetary Authority, or any regulatory authority in Hong Kong.

BEA will update the published research as needed. In addition to certain reports published on a periodic basis, other reports may be published at irregular intervals as appropriate without prior notice.

No representation or warranty, express or implied, is given by or on behalf of BEA, as to the accuracy or completeness of the information and stated returns contained in this material, and no liability is accepted for any loss arising, directly or indirectly, from any use of such information (whether due to infringements or contracts or other aspects). Investment involves risks. The price of investment products may go up or down, and may become valueless. Past performance is not indicative of future performance. The investments mentioned in this material may not be suitable for all investors, and the specific investment objectives or experience, financial situation, or other needs of each recipient are not considered. Therefore, you should not make any investment decisions based solely on this material. You should make investment decisions based on your own investment objectives, investment experience, financial situation, and specific needs; if necessary, you should seek independent professional advice before making any investment.

This material is the property of BEA and is protected by relevant intellectual property laws. Without the prior written consent of BEA, the information herein is not allowed to be copied, transferred, sold, distributed, published, broadcast, circulated, modified, or developed commercially, in either electronic or printed forms, nor through any media platforms that exist now or are developed later.

For more information, please visit our webpage at <https://www.hkbea.com/html/en/bea-about-bea-economic-research.html>. For any enquiries, please contact the Economic Research Department of BEA (email: lerd@hkbea.com/telephone number: (852) 3609-1504/postal address: GPO Box 31, Hong Kong).