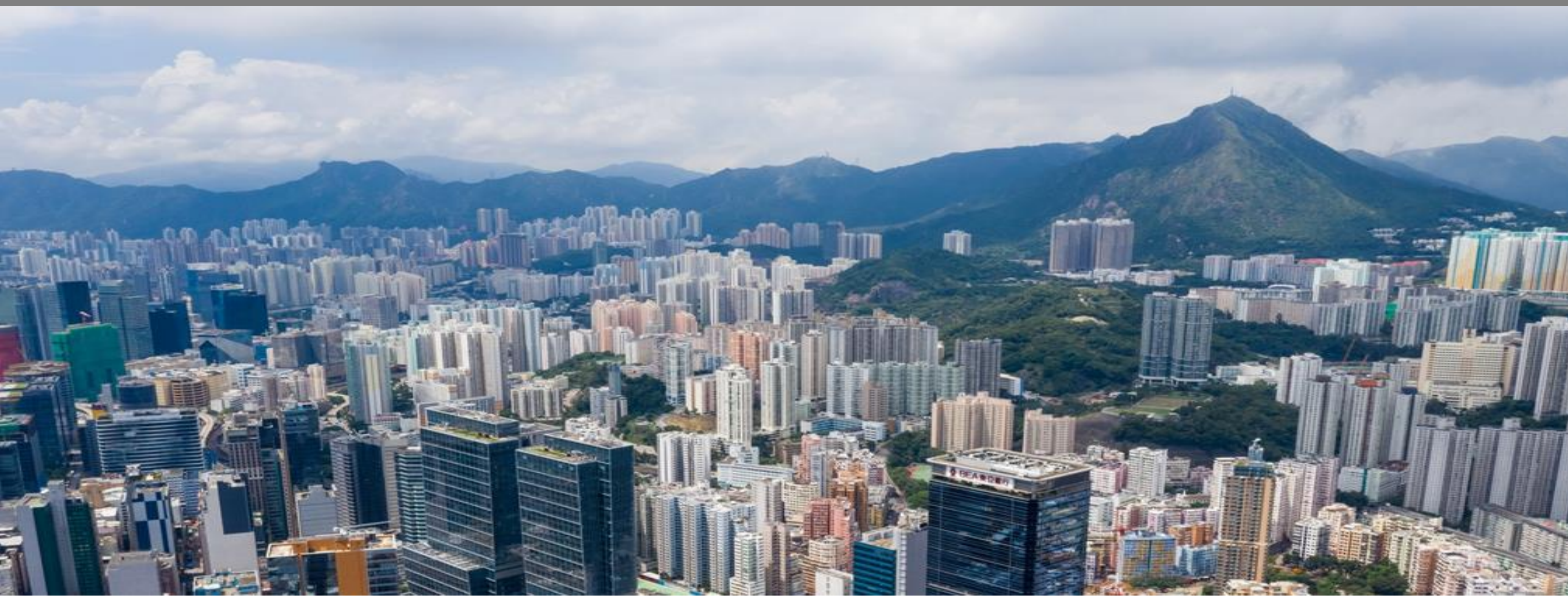
Economic Research Department 2 May 2025

Economic QuickView



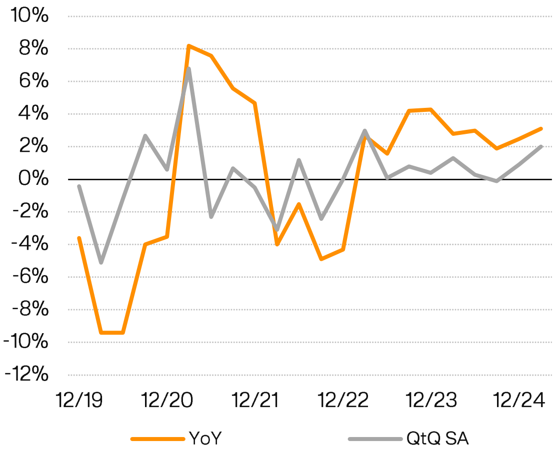
Hong Kong: Growth in Q1 Accelerated Driven by External Demand

- The Hong Kong economy expanded by 3.1% YoY in Q1 2025, up from 2.5% in Q4 2024, reflecting a strong start in 2025.
- Goods trade growth remained the major growth driver in Q1, possibly led by front-loading. Exports of services maintained robust growth, while investment activities recovered.
- Strong public investment, a supportive policy backdrop in the Mainland, and a gradual global monetary easing are anticipated to underpin a steady economic outlook ahead.

Hong Kong's real GDP growth surprised to the upside in Q1 2025. The economy grew by 3.1% year-on-year (YoY) in Q1 2025, up from 2.5% in Q4 2024 and exceeding market consensus of 2.1%. On a quarter-to-quarter (QtQ) basis, growth picked up to 2.0% in Q1, up from 0.9% in Q4, indicating a notable acceleration. According to our estimates, net exports of goods remained the largest growth driver, contributing about 1.9 percentage points (ppts) to headline GDP growth in Q1 2025, up from 1.4 ppts in Q4 2024. Meanwhile, net exports of services turned positive in Q1, adding to GDP growth by 0.4 ppts. Besides, private investment and government spending added 0.4 and 0.2 ppts, respectively. On the contrary, private consumption declined further, reducing GDP by 0.8 ppts.

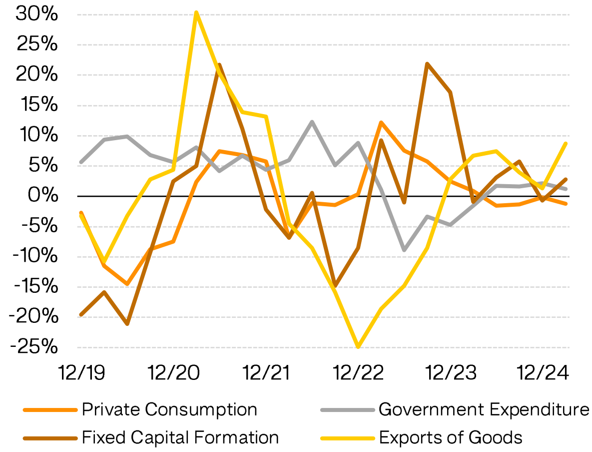
External demand remained the major growth driver. Hong Kong's real net exports of goods soared notably in Q1 2025, as real exports of goods rose by 8.7% YoY, outpacing the 7.4% growth of imports of goods and resulting in a widening of trade surplus and a boost to GDP growth. This strong growth in exports was possibly due to the front-loading, as businesses sought to avoid the US tariff measures in April. Moving forward, Hong Kong's trade outlook is likely to be more challenging and will hinge on the efforts to enhance trade ties with non-US markets.

Hong Kong Real GDP Growth Rate



Sources: Census and Statistics Department

YoY Growth Rate of Major Components



Sources: Census and Statistics Department

Exports of services recovered further. Inbound tourism has continued a solid recovery, with visitor arrivals up by 8.9% YoY to 12.2 million in Q1 2025. This growth was led by non-Mainland visitors, which rose by 17.7%, while Mainland visitors also increased 6.3%. During the quarter, several positive drivers enhanced Hong Kong tourism offerings, such as the launch of the Kai Tak Sports Park and a series of mega-events and international conferences. In addition, Hong Kong has seen a remarkable pickup in capital market activities, as rising optimism in Chinese Mainland's economic outlook boosted demand of fund raising activities and various professional services. Together, the strength in inbound tourism and a rise of cross-border financial services, supported real exports of services to rise 6.6% YoY growth in Q1 2025, up from 6.5% in Q4 2024. On the other hand, growth in real imports of services moderated to 6.2% YoY in Q1, as outbound travel demand reached a mature phase. Looking ahead, it is expected that Hong Kong's exports of services will expand further, serving as vital growth driver ahead.

Investment activities rebounded. Real gross domestic fixed capital formation grew by 2.8% YoY in Q1 2025, recovering from a 0.7% decline in Q4 2024. This was likely boosted by public construction, as the SAR Government has been taking forward the development of the Northern Metropolis in full steam. In addition, the growth in investment spending was likely linked to a resurgence of residential property transactions, as market sentiment improved markedly following the easing on stamp duty in the 2025 Budget. Looking ahead, although geopolitical uncertainties could slow new investment process as businesses turn more cautious, elevated levels of public investment and a continuation of the global monetary easing cycle are likely to support a steady recovery in Hong Kong's investment activities.

Private consumption remained subdued. Real private consumption declined by 1.2% YoY in Q1 2025, compared with a 0.2% decline in Q4 2024. The changes in residents' consumption patterns remain a major force in constraining domestic consumption. That said, the consolidation is expected to come to an end soon, as Hong Kong's private consumption is poised to benefit from a gradual stabilisation of housing market as well as a low unemployment rate of 3.2%.

The escalation of trade tensions is expected to have modest direct impacts but with broader indirect influences on the Hong Kong economy. As we noted earlier, higher US tariffs is estimated to have limited direct effects on Hong Kong's external trade, given that exports between the US and the Chinese Mainland routed through Hong Kong comprised only 5.6% of Hong Kong's total exports in 2024. However, indirect impacts could be more pronounced. In particular, the private sector would become more cautious about long-term capital commitments and delay investment due to tariff uncertainties. Furthermore, escalating trade tensions could induce stock market volatility and weigh on consumption through negative wealth effects from market declines.

Solid fundamentals are poised to ensure a steady growth outlook for Hong Kong. While external demand is facing significant uncertainties due to the implementation of US tariff measures, there are several supportive drivers for the Hong Kong economy. First, the SAR Government is set to continue high levels of public investment ahead. Specifically, capital works expenditure is expected to increase to about HKD 120 billion per annum in the coming 3-5 years, up from the previous estimate of HKD 90 billion per annum on average. Second, the Mainland's stimulus policies to expand domestic demand are expected to generate positive spill over effects and provide stronger tailwinds for the Hong Kong economy. Third, the anticipated rate cuts from major central banks will help alleviate financial pressures and improve household and business confidence. On balance, despite a challenging external environment, Hong Kong's economy is expected to leverage its domestic strengths and deep integration with the Mainland to maintain steady growth trend.

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