

Global Markets Research
Research Alert

Hong Kong's 3Q GDP accelerated to 4.1% y/y

Milder than expected quarterly rebound; challenges from exports

Stronger investment due to low base; consumer spending supported by tourism

Government revised GDP growth forecast lower to 3.2%, from 4.0-5.0% previously

Overview

Hong Kong's final 3Q GDP was left unchanged at +4.1% y/y and +0.1% q/q (2Q: +1.5% y/y and -1.3% q/q). Although an acceleration from 2Q, growth was nevertheless below consensus forecast.

Details

Largely driving the stronger y/y growth was investment due to low base effect (+18.4% y/y vs 2Q: -0.5% y/y), while household spending moderated slightly to +6.3% y/y (2Q: +7.7% y/y). In terms of the external sector, exports of goods remained contractionary amidst a weak external environment and increasing geopolitical tension (-8.6% y/y vs. -15.1% y/y), while exports of services expanded notably further thanks to the continued revival of visitor arrivals (+23.9% y/y vs. +22.8% y/y).

Outlook

In tandem with the release of the 3Q result, the Government slashed its 2023 forecasts to 3.2% from 4.0%-5.0% previously. Averaging GDP growth of 3.8% for the first 9 months of the year, this suggests that the Hong Kong economy would have to grow by 4.3% in 4Q to reach its target. We believe that this is achievable at this juncture and is in fact, in line with consensus estimates of between 3.2-4.0% for the full year.

Moving forward...

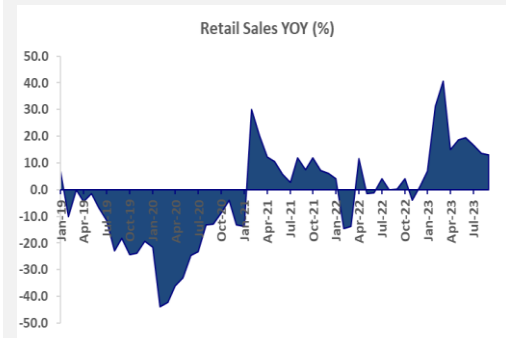
- 1) Tourism reboot, especially with the reopening of China's borders, will remain the growth driver. Indeed, tourist arrivals has increased steadily from an average of 1.5m in 1Q, to 2.8m in 2Q and 3.5m in 3Q. Spending, will nonetheless, face headwind from weakened spending power from the Mainland visitors. Meanwhile, tight financial conditions will weigh on corporate investment and sentiment, as well as the property market. In fact, property transactions have continued to record double digit y/y contractions during the quarter.
- 2) Challenging external environment and increasing geopolitical tensions will dampen exports of goods. Exports to the US recorded a further decline in 3Q, and those to the EU continued to fall visibly. Exports to the Mainland, its major export markets, fell further and with China's manufacturing PMIs still a whisker below the 50-threshold, we do not expect a turnaround soon.
- 3) The slower than anticipated 3Q GDP growth essentially highlights the headwinds that the economy is facing. To support the economy, the

Figure 1: Meagre q/q growth



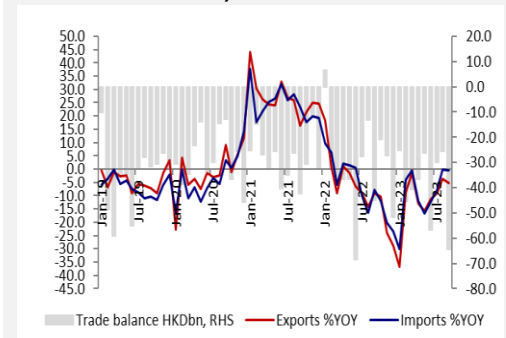
Source: Bloomberg

Figure 2: Retail sales growth continued to register double digit growth due to tourism



Source: Bloomberg

Figure 3: Exports remained contractionary no thanks to China, US and EU



Source: Bloomberg

government has recently rolled out various support initiatives such as "Night Vibes Hong Kong" as well as tax cuts for some property purchases and stock trades.

- 4) The impact from longer-term initiatives like the multi-entry China visas and HK\$30m capital investment entrant scheme to increase its competitiveness and promising family-friendly initiatives to reverse the falling birth rate, if any, will only be felt earliest 2024.

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