Hong Kong's 4Q GDP growth accelerated to 4.3%

2023 growth at 3.2%; government expects sustained growth of 2.5-3.5% in 2024

Consumers remained the main pillar; but exports drove the acceleration

Headwinds from tight financial conditions; offset by Budget stimulus

Overview

Hong Kong's final 4Q GDP was left unchanged at +4.3% y/y and +0.4% q/q respectively from flash estimates (3Q: +4.1% y/y and +0.2% y/y), marking the second consecutive quarter of acceleration although growth was initially below consensus forecast. With this, the economy rebounded from -3.7% y/y in 2022 to +3.2% y/y in 2023 and is expected to grow between 2.5-3.5% y/y in 2024.

Details

Largely driving the stronger y/y growth in 4Q was a turnaround in exports of goods due to low base effect (+2.6% y/y vs -8.7% y/y), while exports of services remained robust with double digit expansion (+22.2% y/y vs +23.2% y/y), thanks to the revival of visitor arrivals after the resumption of normal travel with China and the rest of the world. Private consumption remained the main contributor to growth, although it moderated to 3.3% y/y (3Q: +6.2% y/y) due to tightened financial conditions, but also supported by the removal of anti-epidemic measures throughout the year, rising household income and the Government's various initiatives.

Outlook

The undershot in 4Q GDP largely shows that the economy is still feeling the pinch from a slowing China economy and tightened financial conditions globally, the latter weighing on exports but could stabilise in the year as the major economies cut rates. We view the 33.6% y/y jump in January exports as a blip, partially underpinned by low base effects due to the timing of the Lunar New Year.

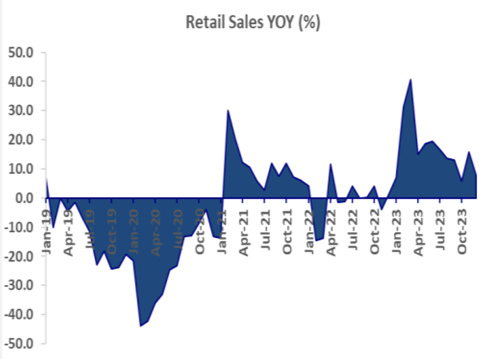
Moving forward, the Government is expecting the economy to expand by 2.5-3.5% in 2024, and averaging 3.2% from 2025 to 2028. With this, domestic cost pressures are also expected to accelerate alongside the economic recovery, partially offsetting the easing external price pressures. The Government also expects core and headline inflation rate to average 1.7% and 2.4% (2023: 1.7% and 2.1%).

The difficult external environment, especially from China, will continue to pose pressures on exports although it may stabilise later in the year if advanced economies cut interest rates as expected. External demand will also face headwinds from geopolitical tensions which could disrupt global supply chains. In fact, Maersk North America President Charles van der

Figure 1: Second consecutive quarter of stronger growths

Source: Bloomberg

Figure 2: More moderate consumer spending



Source: Bloomberg

Figure 3: Property market boost from the Budget should support transactions, but will be weighed down by tight financial conditions

Source: Bloomberg

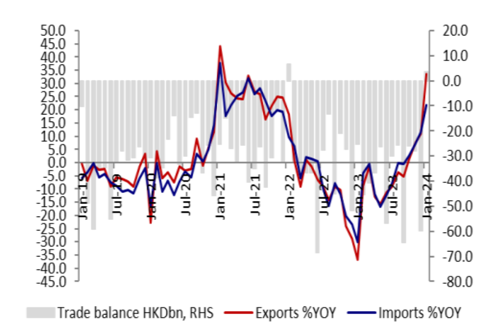
Steene also warned customers that they should be prepared for the Red Sea situation to last into the 2H of the year and to build longer transit times into their supply chain planning.

Domestic wise, visitor arrivals should increase further as handling capacity continues to recover, with additional boost from the Government's efforts to promote 80 mega events and tourism like Art Basel. Together with the Government's various measures to support consumers like the reduced salaries tax that is expected to benefit 2.06m taxpayers, rising household income should continue to support private consumption. However, high borrowing costs may remain a constraint and tourism spending could be hit by weakened spending power from the Mainland visitors in the near term.

Notwithstanding the tight financial conditions, investment, both fixed and non-fixed, should also grow further alongside continued economic growth further supported by newly unveiled Budget measures to boost:

- Businesses – such as giving funding to help SMEs to expand e-commerce operations and reduced profits tax by 100%, subject to HKD$3k ceiling
- Foreign investment – The Government is working to launch a Hong Kong-focused ETFs in the Middle East; will be proactively attracting family offices, asset and wealth management industry through the new Capital Investment Entrant Scheme; pressing ahead with the development of an offshore RMB ecosystem; in discussion with Mainland authorities over the introduction of block trading and the expansion of mutual market access regime to cover REITS
- Property sector – scrap all property cooling measures with immediate effect while HKMA has adjusted its mortgage rules that includes a reduction in its loan-to-value ratios. It remains questionable whether this is adequate to reverse the property downturn due to the expensive interest rates.
- Accelerating high-quality development in the green future, innovation & technology, aviation and maritime, intellectual property as well as legal and dispute resolution services. For example, the Government is expediting the establishment of an AI Supercomputing Centre and the AI Subsidy Scheme to advance technology companies.

Figure 4: Exports supported growth in 4Q and in January



Source: Bloomberg

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