

## Hong Kong Watch

## 3Q GDP growth trailed expectations amid weak consumption momentum

**Exhibit 2: Hong Kong 3Q GDP (announced: 31 October 2023)**

3Q23 GDP rose 4.1% yoy on a low base, trailing estimates

Real GDP growth	Actual	Previous	Consensus	BofAe
3Q23A (% yoy)	4.1	1.5	5.2	5.1

Source: BofA Global Research, Bloomberg, Census and Statistics Department

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**3Q GDP trailed estimates**

The Hong Kong economy pick up to 4.1% yoy in 3Q23 (vs. 1.5% in 2Q23). Considering the low year-ago base (-4.6% yoy in 3Q22), the growth pace was underwhelming, trailing both market consensus and our estimate. In sequential terms, GDP rose a mere 0.1% sa qoq (vs. -1.3% in 2Q23). Private consumption likely weakened sequentially, and goods trade remained a drag. Investment, on the other hand, held up better than expected amid the elevated interest rates.

**Consumption recovery stalled; trade remained a drag**

Growth of private consumption (6.5% yoy in 3Q23, vs. 8.2% in 2Q) slowed on a low base, indicating a sequential moderation. Falling property prices and elevated interest rates likely weighed on consumer sentiment. Trade remained a drag, with contraction of imports (-6.0% yoy) narrowed more than exports (-8.6%). Services exports sustained a healthy yoy growth (24.0% yoy) on tourism rebound but the sequential momentum was sluggish. Imports of services held up, likely supported by outbound tourism. Government consumption continued to contract (-4.5% yoy) as pandemic-era relief measures faded.

On the other hand, investment held up surprisingly well (18.2% yoy) even amid high interest rates and weak property market.

**Downgrade 2023 GDP growth forecast to 3.4%**

With HK battling headwinds of a China growth slowdown and tight financial conditions due to the Fed's rate hikes, we are turning less optimistic about the city's growth trajectory. While the latest measures including relaxing home purchase curbs could help thaw property transactions and underpin sentiment, we believe the effect on boosting growth would be limited. (Read more: [Hong Kong to relax home-purchase curbs and cut stock stamp duty to revive growth](#))

Therefore, we are cutting our GDP forecasts further for 2023 to 3.4% (from 4.7% previously) and 2024 to 2.1% (from 3.0%). This implies HK's economy contracted slightly in 2022 and 2023 combined. The downgrade reflects (1) the weaker-than-expected 3Q23 momentum, especially the sluggish consumption; and (2) the rising rates and falling property prices, which could weigh on both consumption and investment.

We see balanced risks on either side of our new forecast. If the mainland China economy recovers better than expected or the Fed starts cutting rates earlier, we could see further upside to HK growth. However, China growth persistently below the trend level or the Fed maintaining rates higher for longer could impose additional headwinds.

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**Exhibit 1: GDP breakdown by expenditure**

3Q23 growth trailed estimates

	3Q23	2Q23	1Q23
GDP	4.1	1.5	2.9
Private			
Consumption	6.5	7.7	13.0
Gov't consumption	-4.5	-9.8	1.3
GFCF	18.2	-0.5	7.9
Exports of goods	-8.6	-15.1	-18.9
Exports of services	24.0	22.8	16.6
Imports of goods	-6.0	-15.8	-14.6
Imports of services	28.5	25.4	20.7

Note: Latest 3Q23 GDP release is advance estimate and may be subject to revision on 10 Nov.

Source: BofA Global Research, Bloomberg, Census and Statistics Department

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