Economics

Hong Kong chart book
Gradual improvement in the making

Group Research

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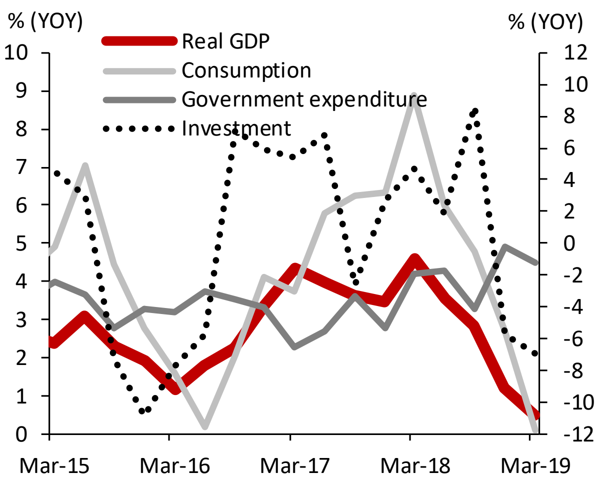
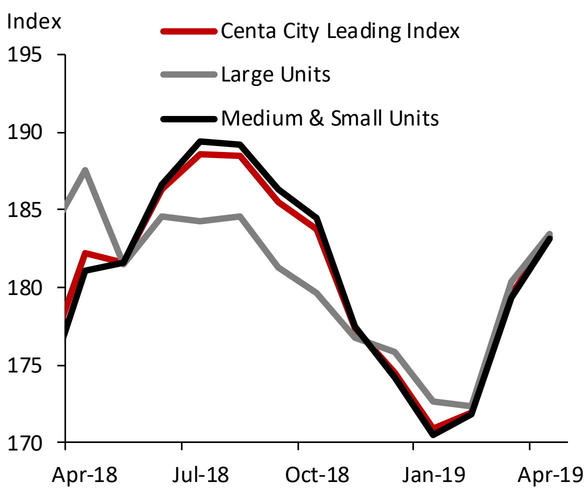
Charts of the month

- Hong Kong's real GDP grew by 0.5% YoY in 1Q19, the slowest growth since 3Q09. On the positive side, GDP advanced by 1.2% QoQ, from -0.5% in 4Q18.
- Private consumption (60% of GDP) saw a modest growth of 0.1% despite a strong equity market rally in 1Q19. Investment expenditure fell further by 7.0%, compared with the decrease of 5.8% in 4Q18, as cautious sentiment prevailed.
- Goods exports recorded the first decline since 1Q16 due to the ongoing China-US trade tension. Services export growth decelerated to 1.4% from 3.3% due to cautious investment sentiment, despite inbound tourism recovered somewhat.
- The property market appears to have bottomed out as a Dovish Fed will unlikely hike rates this year. A robust labor market with unemployment rate hovering at a 20 year low of 2.8% further buttress the market. As a result, home price went up by 5.0% since end-18 and 7.9% from the trough in 2019.
- The HK economy should continue to improve alongside gradual stabilization of the mainland economy.

GDP by component

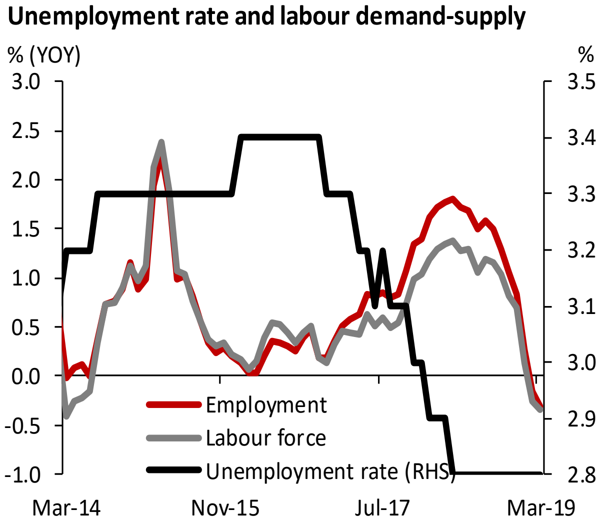


Property price by size

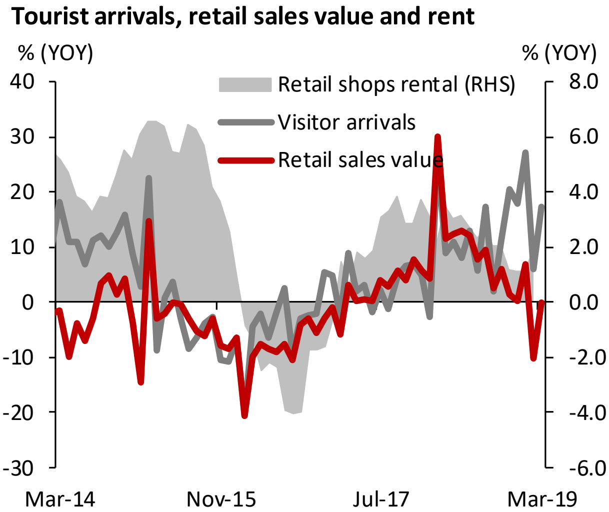


Consumption

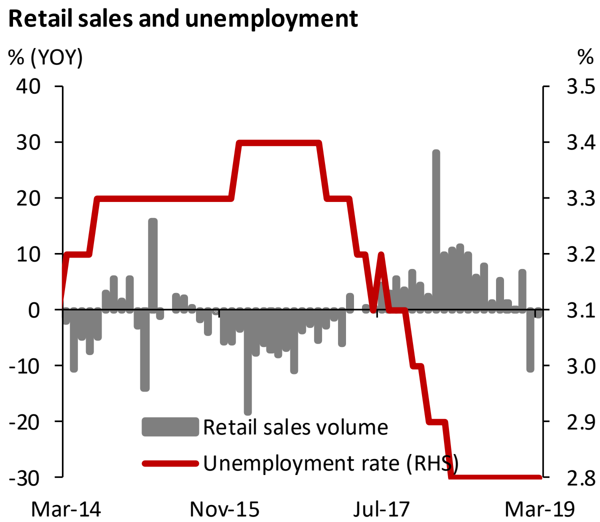
Labour market has remained tight; yet, both labour demand and supply recorded YoY decline.



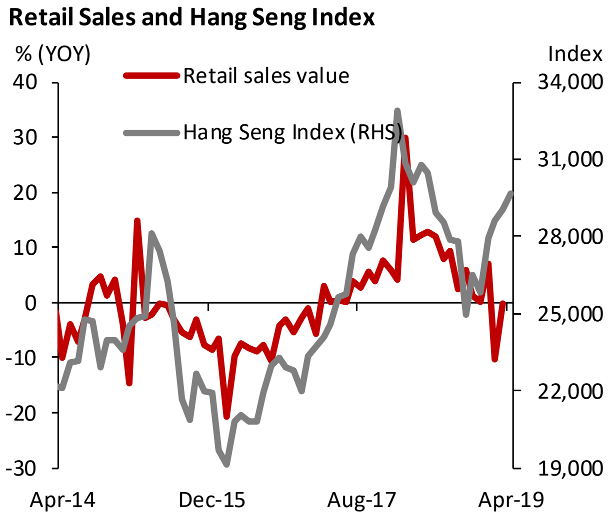
Retail sales recorded a modest YoY decline in 1Q; Consumption sentiment was cautious amid various external uncertainties.



Full employment supports private consumption.



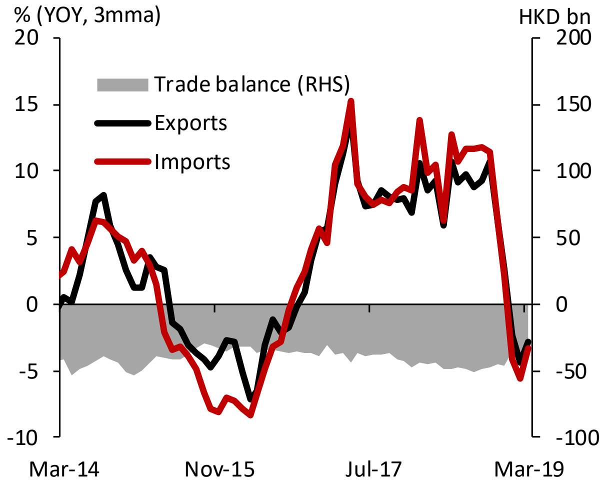
Positive wealth effect from a buoyant equity market should translate into strong spending ahead.



External trade figures

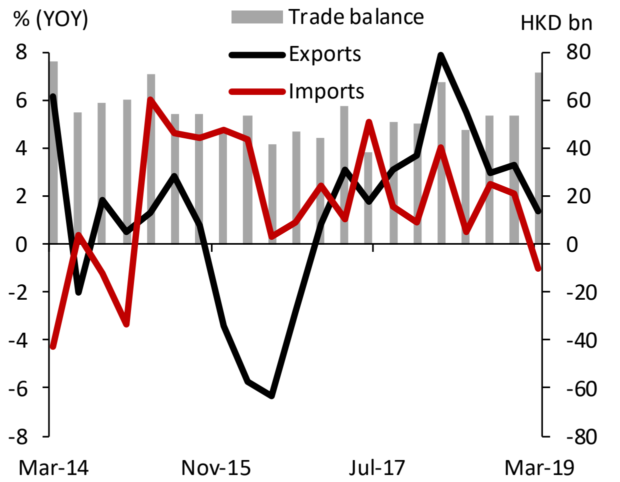
Trade performance turned sluggish after front-loading activities came to an end. Weakening global demand will continue to weigh on the export growth.

Merchandise trade statistics



Exports of services decelerated due to cautious investment sentiment, but inbound tourism has recovered somewhat.

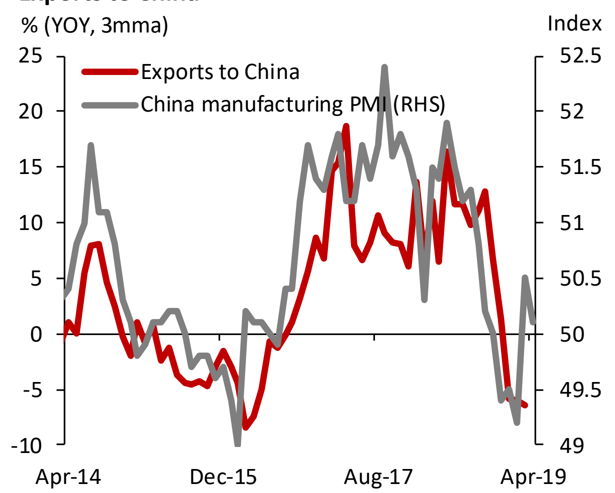
Exports and imports of services



Exports of goods by country

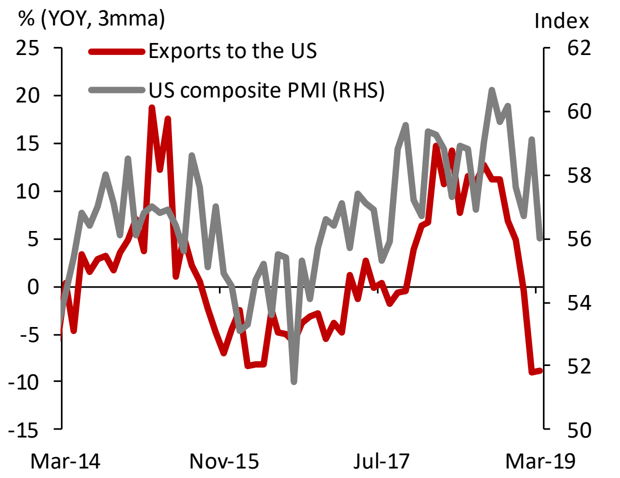
China dragged down the trade performance of the world.

Exports to China



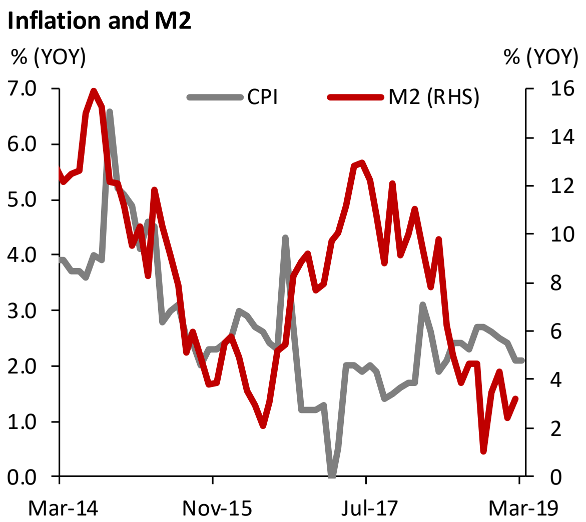
Exports to the US remain weak alongside the lingering China-US trade talk.

Exports to the US

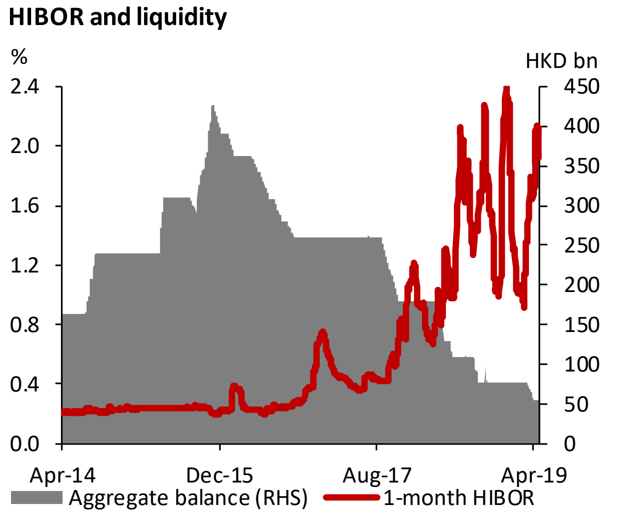


Property and monetary

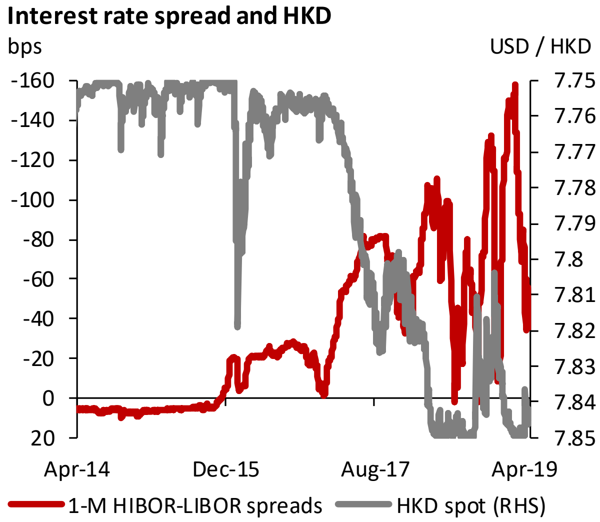
The correlation between M2 and CPI is weak; upside risks to inflation is limited due to earlier moderation in fresh-letting residential rentals.



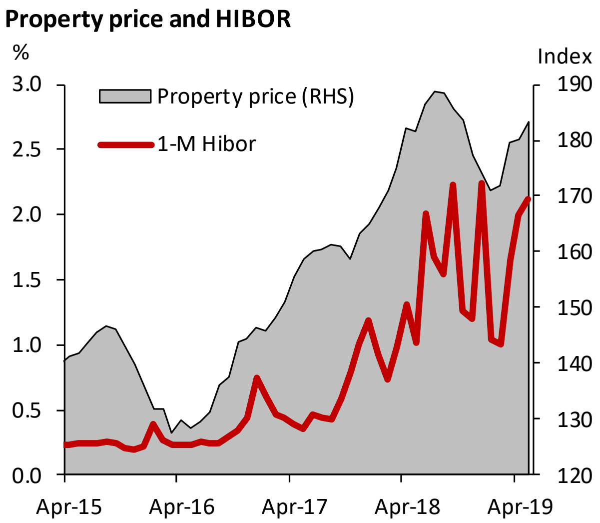
After 8 rounds of HKMA intervention in Mar, aggregate balance dropped 31% to HKD55bn; 1-M HIBOR bounced to 2%.



HKD strengthened from 7.85 to 7.84 in April alongside narrowing HIBOR-LIBOR spreads.

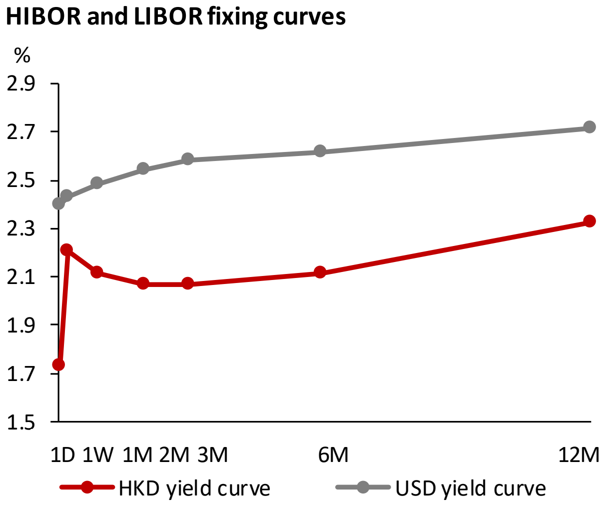


Home price went up by 5.0% since end-18 as concerns over Sino-US trade war subside.

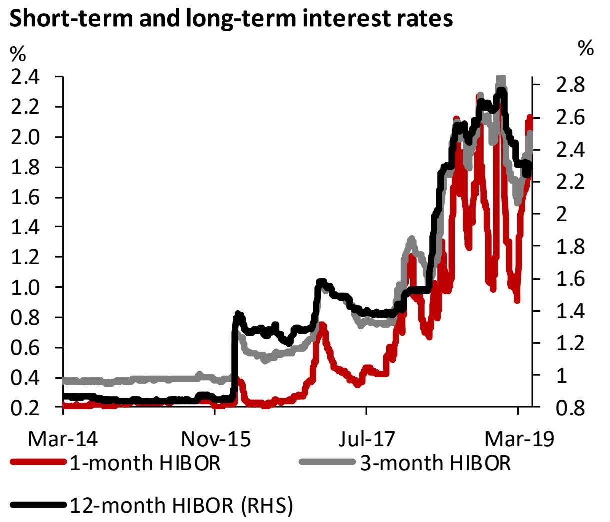


Property and monetary (cont'd)

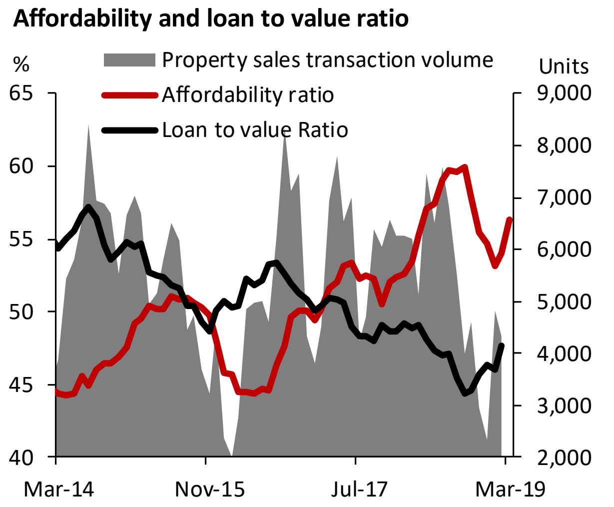
Short-end HIBOR-LIBOR spreads have narrowed amid dovish tone from the US Fed and HKMA intervention…



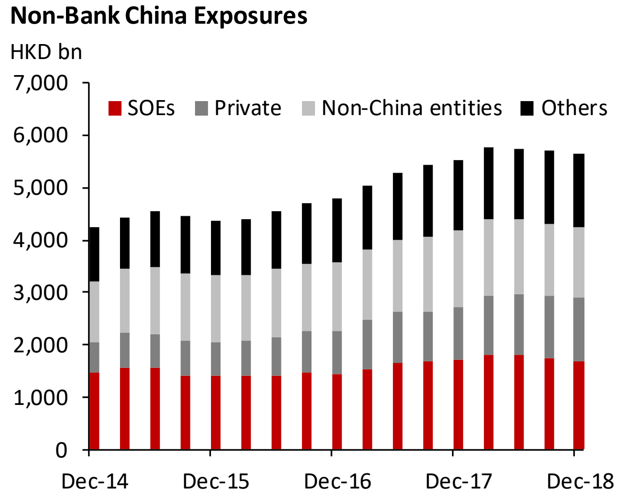
… Yet, long-end interbank rate fell in tandem of LIBOR.



Affordability worsened again due to rebound of property price; transaction volume also rebounded after Chinese New Year on the back of reviving sentiment.



Loan growth to China has slowed down.



Forecasts on major indicators:

	GDP				CPI inflation			
	2017	2018	2019f	2020f	2017	2018	2019f	2020f
Growth rate (%, YoY)	3.8	3.3	2.5	2.0	1.5	2.5	2.7	2.5

Exchange rate and interest rates forecasts									
		1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
USD/HKD	eop	7.85	7.85	7.85	7.84	7.83	7.82	7.81	7.80
Interbank rate	3-M	1.76	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Government bond yields	2Y	1.45	1.70	1.70	1.70	1.70	1.70	1.70	1.70
	10Y	1.47	1.85	1.90	1.95	2.00	2.00	2.00	2.00
	10Y-2Y (bps)	2	15	20	25	30	30	30	30

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).